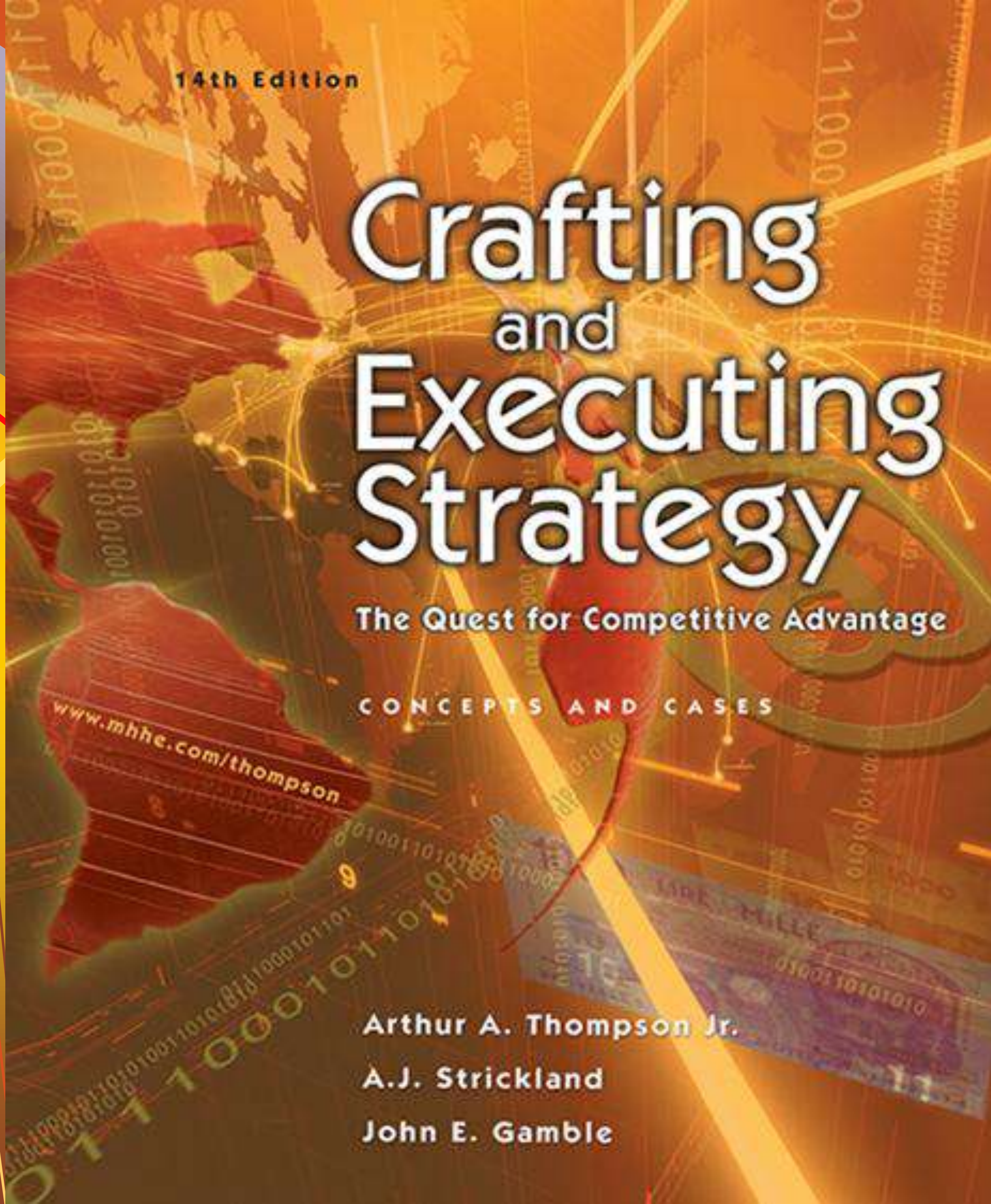
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Chapter

6

Beyond Competitive Strategy

Other Important Strategy Choices

Screen graphics created by:
Jana F. Kuzmicki, Ph.D.
Troy State University-Florida and Western Region

"Successful business strategy is about actively shaping the game you play, not just playing the game you find."

The Koran

"Strategies for taking hill won't necessarily hold it."

John W. Teets

Chapter Roadmap

- Strategic Alliances and Collaborative Partnerships
- Merger and Acquisition Strategies
- Vertical Integration Strategies
- Outsourcing Strategies
- Using Offensive Strategies to Secure Competitive Advantage
- Using Defensive Strategies to Protect the Company's Position
- Strategies for Using the Internet as a Distribution Channel
- Choosing Appropriate Functional-Area Strategies
- First-Mover Advantages and Disadvantages

Fig. 6.1: A Company's Menu of Strategy Options

Basic Competitive Strategy Options
(A company's first strategic choice)

- Overall Low-Cost Provider?
- Broad Differentiation?
- Best-Cost Provider?
- Focused Differentiation?
- Focused Low-Cost Provider?

Complementary Strategic Options
(A company's second set of strategic choices)

- Employ strategic alliances and collaborative partnerships?
- Outsource selected value chain activities?
- Merge with or acquire other companies?
- Initiate offensive strategic moves?
- Integrate backward or forward?
- Employ defensive strategic moves?
- Use the Internet as a distribution channel and, if so, to what extent?

Functional-Area Strategies to Support the Above Strategic Choices

- R&D Engineering
- Production
- Marketing & Sales
- Human Resources
- Finance

(A company's third set of strategic choices)

Timing a Company's Strategic Moves in the Marketplace

First-Mover? Fast-Follower? Late-Mover?

(A company's fourth set of strategic choices)

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Strategic Alliances and Collaborative Partnerships

Companies sometimes use ***strategic alliances*** or ***collaborative partnerships*** to complement their own strategic initiatives and strengthen their competitiveness. Such cooperative strategies go beyond normal company-to-company dealings but fall short of merger or full joint venture partnership.

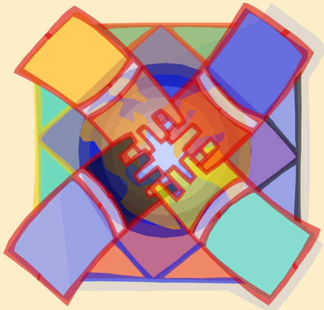
Alliances Can Enhance a Firm's Competitiveness

- Alliances and partnerships can help companies cope with two demanding ***competitive challenges***
  - ➔ Racing against rivals to build a market presence in many different national markets
  - ➔ Racing against rivals to seize opportunities on the frontiers of advancing technology

- ***Collaborative arrangements*** can help a company ***lower*** its ***costs*** and/or ***gain access*** to needed ***expertise*** and ***capabilities***

Capturing the Full Potential of a Strategic Alliance

- Capacity of partners to ***defuse organizational frictions***
- Ability to ***collaborate effectively over time*** and ***work through challenges***
  - Technological and competitive surprises
  - New market developments
  - Changes in their own priorities and competitive circumstances



- Collaborative partnerships nearly always ***entail*** an ***evolving relationship*** whose ***competitive value*** depends on
  - Mutual learning
  - Cooperation
  - Adaptation to changing industry conditions
- ***Competitive advantage*** emerges when a company acquires valuable capabilities via alliances it could not obtain on its own

Why Are Strategic Alliances Formed?

- To collaborate on technology development or new product development
- To fill gaps in technical or manufacturing expertise
- To acquire new competencies
- To improve supply chain efficiency
- To gain economies of scale in production and/or marketing
- To acquire or improve market access via joint marketing agreements

Potential Benefits of Alliances to Achieve Global and Industry Leadership

- Get into critical country markets quickly to accelerate process of building a global presence
- Gain inside knowledge about unfamiliar markets and cultures
- Access valuable skills and competencies concentrated in particular geographic locations
- Establish a beachhead to participate in target industry
- Master new technologies and build new expertise faster than would be possible internally
- Open up expanded opportunities in target industry by combining firm’s capabilities with resources of partners

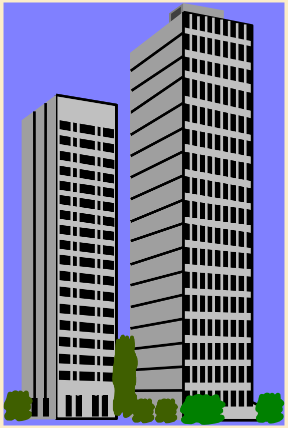
Why Alliances Fail

- Ability of an alliance to endure depends on
  - How well partners work together
  - Success of partners in responding and adapting to changing conditions
  - Willingness of partners to renegotiate the bargain

- Reasons for alliance failure
  - Diverging objectives and priorities of partners
  - Inability of partners to work well together
  - Changing conditions rendering purpose of alliance obsolete
  - Emergence of more attractive technological paths
  - Marketplace rivalry between one or more allies

Merger and Acquisition Strategies

- ***Merger*** – Combination and pooling of equals, with newly created firm often taking on a new name
- ***Acquisition*** – One firm, the acquirer, purchases and absorbs operations of another, the acquired
- Merger-acquisition
  - Much-used strategic option
  - Especially suited for situations where alliances do not provide a firm with needed capabilities or cost-reducing opportunities
  - Ownership allows for tightly integrated operations, creating more control and autonomy than alliances



Objectives of Mergers and Acquisitions

- To pave way for acquiring firm to gain more market share and create a more efficient operation

- To expand a firm's geographic coverage
- To extend a firm's business into new product categories or international markets
- To gain quick access to new technologies
- To invent a new industry and lead the convergence of industries whose boundaries are blurred by changing technologies and new market opportunities

Pitfalls of Mergers and Acquisitions

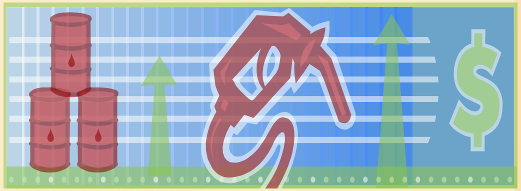
- Combining operations may result in
  - Resistance from rank-and-file employees
  - Hard-to-resolve conflicts in management styles and corporate cultures
  - Tough problems of integration
  - Greater-than-anticipated difficulties in
    - Achieving expected cost-savings
    - Sharing of expertise
    - Achieving enhanced competitive capabilities

Vertical Integration Strategies

- ***Extend*** a firm's ***competitive scope*** within ***same industry***
  - ➔ ***Backward*** into sources of supply
  - ➔ ***Forward*** toward end-users of final product
- Can aim at either ***full*** or ***partial integration***

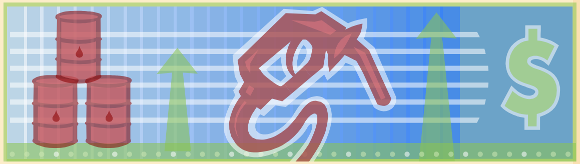
Strategic Advantages of Backward Integration

- Generates cost savings only if volume needed is big enough to capture efficiencies of suppliers
- Potential to reduce costs exists when
  - Suppliers have sizable profit margins
  - Item supplied is a major cost component
  - Resource requirements are easily met



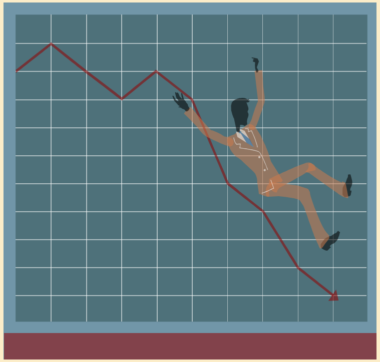
- Can produce a differentiation-based competitive advantage when it results in a better quality part
- Reduces risk of depending on suppliers of crucial raw materials / parts / components

Strategic Advantages of Forward Integration



- To gain better access to end users and better market visibility
- To compensate for undependable distribution channels which undermine steady operations
- To offset the lack of a broad product line, a firm may sell directly to end users
- To bypass regular distribution channels in favor of direct sales and Internet retailing which may
  - Lower distribution costs
  - Produce a relative cost advantage over rivals
  - Enable lower selling prices to end users

Strategic Disadvantages of Vertical Integration



- Boosts resource requirements
- Locks firm deeper into same industry
- Results in fixed sources of supply and less flexibility in accommodating buyer demands for product variety
- Poses all types of capacity-matching problems
- May require radically different skills / capabilities
- Reduces flexibility to make changes in component parts which may lengthen design time and ability to introduce new products

Pros and Cons of Integration vs. De-Integration

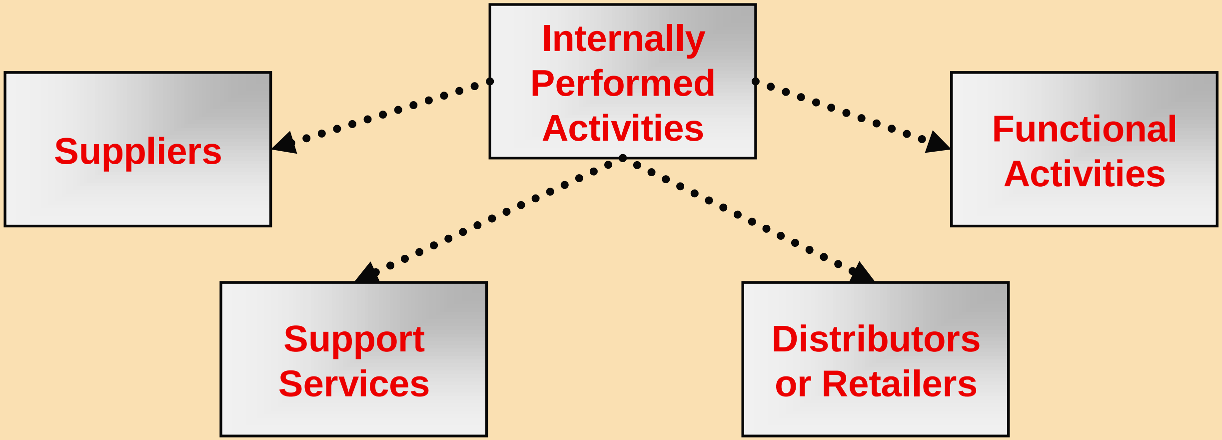
- ***Whether*** vertical integration is a ***viable strategic option*** depends on its
  - Ability to lower cost, build expertise, increase differentiation, or enhance performance of strategy-critical activities
  - Impact on investment cost, flexibility, and administrative overhead
  - Contribution to enhancing a firm's competitiveness

Many companies are finding that *de-integrating* value chain activities is a *more flexible, economic strategic option!*

Outsourcing Strategies

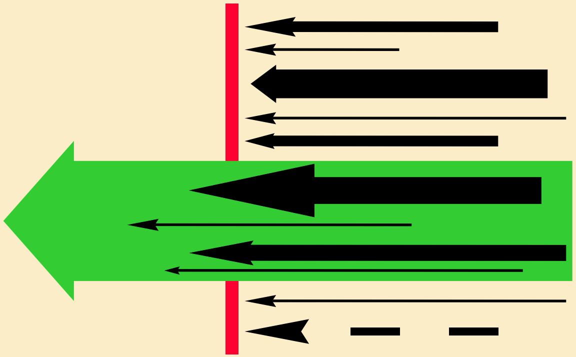
Concept

Outsourcing involves ***withdrawing*** from certain ***value chain activities*** and ***relying on outsiders*** to supply needed products, support services, or functional activities



When Does Outsourcing Make Strategic Sense?

- Activity can be performed better or more cheaply by outside specialists
- Activity is not crucial to achieve a sustainable competitive advantage
- Risk exposure to changing technology and/or changing buyer preferences is reduced
- Operations are streamlined to
  - Cut cycle time
  - Speed decision-making
  - Reduce coordination costs



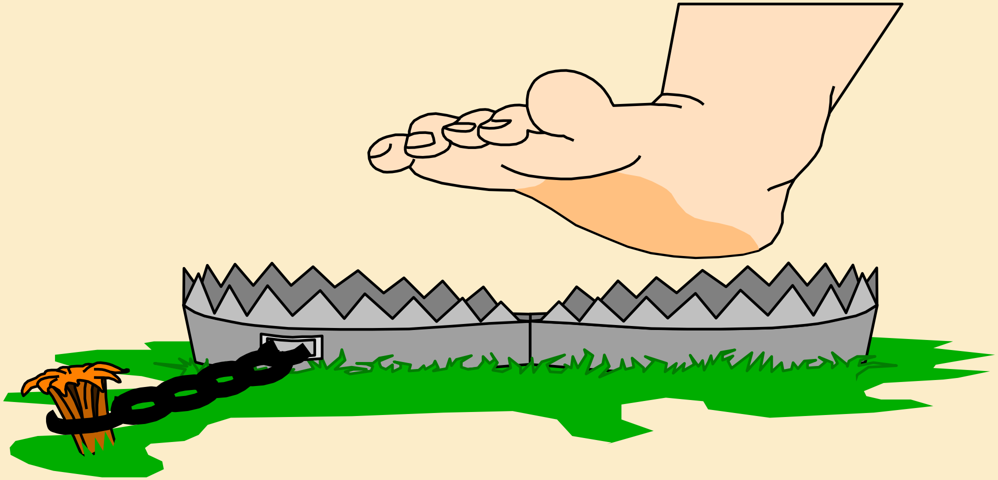
- Firm can concentrate on "core" value chain activities that best suit its resource strengths

Strategic Advantages of Outsourcing

- Improves firm's ability to obtain high quality and/or cheaper components or services
- Improves firm's ability to innovate by interacting with "best-in-world" suppliers
- Enhances firm's flexibility should customer needs and market conditions suddenly shift
- Increases firm's ability to assemble diverse kinds of expertise speedily and efficiently
- Allows firm to concentrate its resources on performing those activities internally which it can perform better than outsiders

Pitfalls of Outsourcing

- ***Farming*** out ***too many*** or the ***wrong activities,*** thus
  - ➔ ***Hollowing out*** capabilities
  - ➔ ***Losing touch*** with activities and expertise that determine overall long-term success



Offensive and Defensive Strategies

Offensive Strategies

Used to ***build new*** or ***stronger market position*** and/or ***create competitive advantage***

Defensive Strategies

Used to ***protect competitive advantage*** (rarely used to create advantage)

 McGraw-Hill/Irwin

Types of Offensive Strategies

1. Initiatives to match or exceed competitor strengths
2. Initiatives to capitalize on competitor weaknesses
3. Simultaneous initiatives on many fronts
4. End-run offensives
5. Guerrilla offensives
6. Preemptive strikes

Attacking Competitor Strengths

Objectives

- Whittle away at a rival's competitive advantage
- Gain market share by out-matching strengths of weaker rivals

Challenging strong competitors with a lower price is foolhardy unless the aggressor has a *cost advantage* or advantage of *greater financial strength!*

Options for Attacking a Competitor's Strengths

- Offer ***equally good product*** at a ***lower price***
- Develop ***low-cost edge,*** then use it to ***under-price rivals***
- ***Leapfrog*** into next-generation technologies
- Add appealing ***new features***
- Run ***comparison ads***
- Construct ***new plant capacity*** in rival's market strongholds
- Offer a ***wider product line***
- Develop ***better customer service*** capabilities

Attacking Competitor Weaknesses

Objective

Utilize company strengths to exploit a rival's weaknesses

Weaknesses to Attack

- ***Customers*** that a rival is least equipped to serve
- Rivals providing ***sub-par customer service***
- Rivals with ***weaker marketing skills***
- ***Geographic regions*** where rival is weak
- ***Market segments*** a rival is ***neglecting***

Launching Simultaneous Offensives on Many Fronts

Objective

- Launch several major initiatives to
  - Throw rivals off-balance
  - Splinter their attention
  - Force them to use substantial resources to defend their position

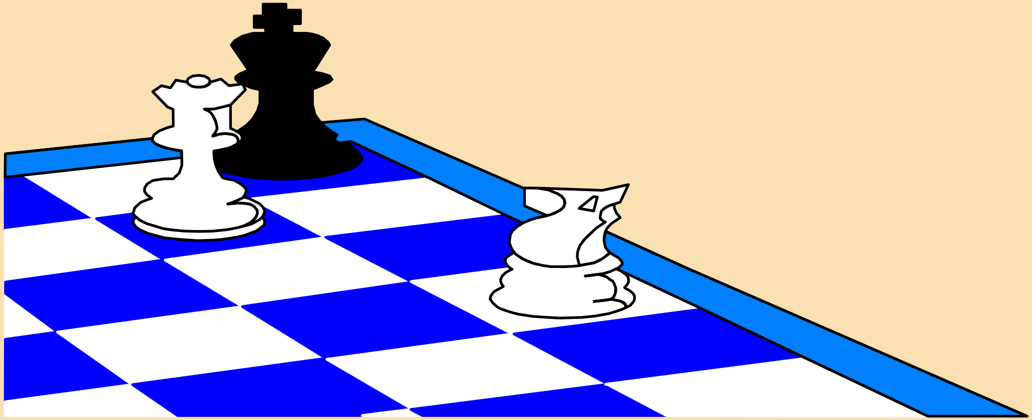
A *challenger* with *superior resources* can *overpower weaker rivals* by *out-competing them* across-the-board long enough to become a market leader!

 McGraw-Hill/Irwin

End-Run Offensives

Objectives

- ***Maneuver*** around strong competitors
- ***Capture*** unoccupied or less contested markets
- ***Change rules of competition*** in aggressor's favor



Approaches for End-Run Offensives

- Introduce new products that redefine market and terms of competition
- Build presence in geographic areas where rivals have little presence

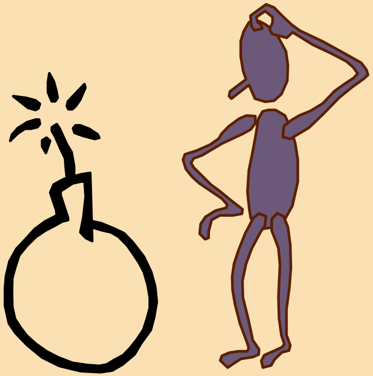
- Create new segments by introducing products with different features to better meet buyer needs
- Introduce next-generation technologies to leapfrog rivals

Guerrilla Offenses

Approach

Use ***principles*** of ***surprise*** and ***hit-and-run*** to attack in locations and at times where conditions are most favorable to initiator

Appeal



Well-suited to small challengers with limited resources and market visibility

Options for Guerrilla Offenses

- Make random, scattered raids on leaders' customers

  - Occasional low-balling on price
  - Intense bursts of promotional activity
  - Special campaigns to attract buyers from rivals plagued with a strike or delivery problems
- Challenge rivals encountering problems with quality or providing adequate technical support
- File legal actions charging antitrust violations, patent infringements, or unfair advertising

Preemptive Strikes

Approach

Involves moving ***first*** to secure an advantageous position that rivals are foreclosed or discouraged from duplicating!

Preemptive Strike Options

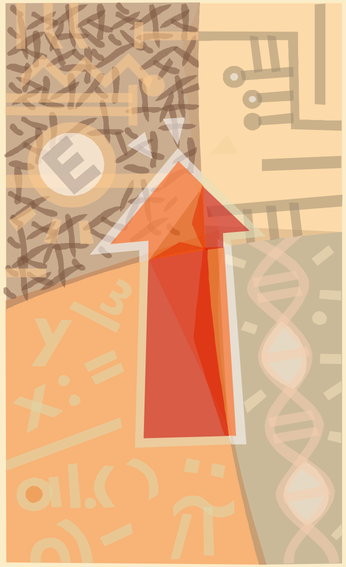
- Secure exclusive/dominant access to best distributors
- Secure best geographic locations
- Tie up best or most sources of essential raw materials
- Obtain business of prestigious customers
- Expand capacity ahead of demand in hopes of discouraging rivals from following suit
- Build an image in buyers' minds that is unique or hard to copy

Choosing Rivals to Attack

- Four types of firms can be the target of a fresh offensive
  - Vulnerable market leaders
  - Runner-up firms with weaknesses where challenger is strong
  - Struggling rivals on verge of going under
  - Small local or regional firms with limited capabilities

Using Offensive Strategy to Achieve Competitive Advantage

- ***Strategic offensives offering*** strongest basis for ***competitive advantage*** entail



  - An important core competence
  - A unique competitive capability
  - Much-improved performance features
  - An innovative new product
  - Technological superiority
  - A cost advantage in manufacturing or distribution
  - Some type of differentiation advantage

Defensive Strategy

Objectives

- Lessen risk of being attacked
- Blunt impact of any attack that occurs
- Influence challengers to aim attacks at other rivals

Approaches

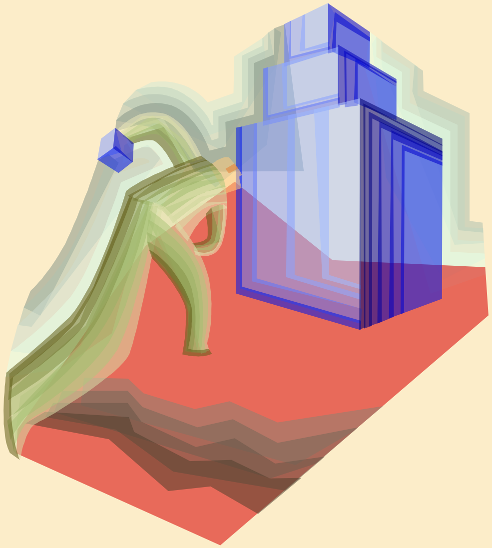
- Block avenues open to challengers
- Signal challengers vigorous retaliation is likely

Block Avenues Open to Challengers

- Participate in alternative technologies
- Introduce new features, add new models, or broaden product line to close gaps rivals may pursue
- Maintain economy-priced models
- Increase warranty coverage
- Offer free training and support services
- Reduce delivery times for spare parts
- Make early announcements about new products or price changes
- Challenge quality or safety of rivals' products using legal tactics
- Sign exclusive agreements with distributors

Signal Challengers Retaliation Is Likely

- Publicly announce management's strong commitment to maintain present market share
- Publicly commit firm to policy of matching rivals' terms or prices
- Maintain war chest of cash reserves
- Make occasional counterresponse to moves of weaker rivals



Strategies for Using the Internet

- ***Strategic Challenge*** – What use of the Internet should a company make in staking out its position in the marketplace?
- ***Five Approaches***
  - Use company web site solely to disseminate product information
  - Use company web site as a minor distribution channel for accessing customers and generating sales
  - Use company web site as one of several important distribution channels for accessing customers
  - Use company web site as primary distribution channel for accessing buyers and making sales
  - Use company web site as the exclusive channel for accessing buyers and conducting sales transactions

Using the Internet to Disseminate Product Information

- ***Approach*** – Website used to provide product information of manufacturers or wholesalers
  - Relies on click-throughs to websites of dealers for sales transactions
  - Informs end-users of location of retail stores

- ***Issues*** – Pursuing online sales may
  - Signal weak strategic commitment to dealers
  - Signal willingness to cannibalize dealers' sales
  - Prompt dealers to aggressively market rivals' brands
- ***Avoids channel conflict*** with dealers – Important where strong support of dealer networks is essential

Using the Internet as a Minor Distribution Channel

- ***Approach*** – Use online sales to
  - Achieve incremental sales
  - Gain online sales experience
  - Conduct marketing research
    - Learn more about buyer tastes and preferences
    - Test reactions to new products
    - Create added market buzz about products
- Unlikely to provoke much outcry from dealers

Brick-and-Click Strategies: An Appealing Middle Ground Approach

- ***Approach***
  - ➔ Sell directly to consumers and
  - ➔ Use traditional wholesale/retail channels

- ***Reasons*** to ***pursue*** a ***brick-and-click strategy***
  - ➔ Manufacturer's profit margin from online sales is bigger than that from sales through traditional channels
  - ➔ Encouraging buyers to visit a firm's website educates them to the ease and convenience of purchasing online
  - ➔ Selling directly to end users allows a manufacturer to make greater use of build-to-order manufacturing and assembly

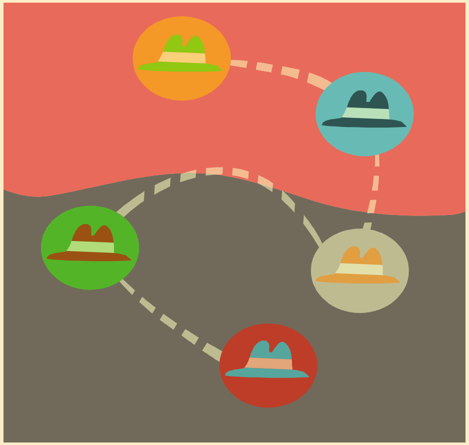
Strategies for Online Enterprises

- ***Approach*** – Use Internet as the exclusive channel for all buyer-seller contact and transactions

- ***Success*** depends on a firm's ability to incorporate following features
  - Capability to deliver unique value to buyers
  - Deliberate efforts to engineer a value chain that enables differentiation, lower costs, or better value for the money
  - Innovative, fresh, and entertaining website
  - Clear focus on a limited number of competencies and a relatively specialized number of value chain activities
  - Innovative marketing techniques
  - Minimal reliance on ancillary revenues

Choosing Appropriate Functional-Area Strategies

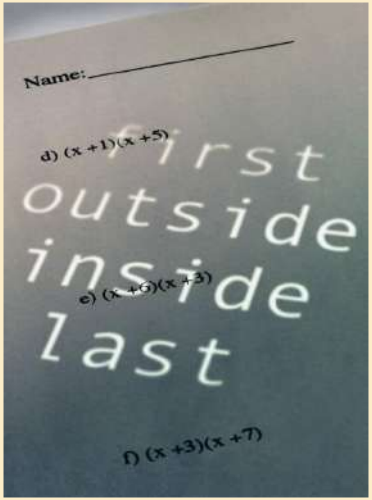
- Involves ***strategic choices*** about ***how functional areas*** are ***managed*** to ***support competitive strategy*** and other strategic moves
- ***Functional strategies*** include
  - Research and development
  - Production
  - Human resources
  - Sales and marketing
  - Finance



Tailoring ***functional-area strategies*** to ***support key business-level strategies*** is critical!

First-Mover Advantages

- ***When*** to make a ***strategic move*** is often as crucial as ***what*** move to make
- ***First-mover advantages*** arise when
  - Pioneering helps build firm's image and reputation
  - Early commitments to new technologies, new-style components, and distribution channels can produce cost advantage
  - Loyalty of first time buyers is high
  - Moving first can be a preemptive strike



First-Mover Disadvantages

- ***Moving early*** can be a ***disadvantage*** (or fail to produce an advantage) ***when***

  - Costs of pioneering are sizable and loyalty of first time buyers is weak
  - Innovator's products are primitive, not living up to buyer expectations
  - Rapid technological change allows followers to leapfrog pioneers

Timing and Competitive Advantage

Principle 1

Being a fast follower can sometimes yield as good a result as being a first mover

Principle 2

Being a fast follower can sometimes yield as good a result as being a first mover

Principle 3

Being a late-mover may or may not be fatal -- it varies with the situation