

Business Policy and Strategy

CHAPTER 6

Strengthening a Company's Competitive Position

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LEARNING OBJECTIVES

- ◆ Whether and when to go on the offensive strategically
- ◆ Whether and when to employ defensive strategies
- ◆ When to undertake strategic moves—first mover, a fast follower, or a late mover
- ◆ Whether to merge with or acquire another firm
- ◆ Which value chain activities, if any, should be outsourced

Maximizing the Power of a Strategy

Making choices that complement a competitive approach and maximize the power of strategy includes:

1. Offensive and defensive competitive actions
2. Competitive dynamics and the timing of strategic moves
3. Scope of operations along the industry's value chain

"The best defense is a good offense"

Sometimes a company's best strategic option is to seize the initiative, go on the attack, and launch a strategic offensive to improve its market position.

CHOOSING THE BASIS FOR COMPETITIVE ATTACK

- ◆ Avoid directly challenging a targeted competitor where it is strongest.
- ◆ Use the firm's strongest strategic assets to attack a competitor's weaknesses.
- ◆ The offensive may not yield immediate results if market rivals are strong competitors.
- ◆ Be prepared for the threatened competitor's counter-response.

PRINCIPAL OFFENSIVE STRATEGY OPTIONS

1. Offering an equally good or better product at a lower price
2. Leapfrogging competitors by being first to market with next-generation products
3. Pursuing continuous product innovation to draw sales and market share away from less innovative rivals
4. Adopting and improving on the good ideas of other companies (rivals or otherwise)
5. Launching a preemptive strike to secure an industry's limited resources or capture a rare opportunity

CORE CONCEPT

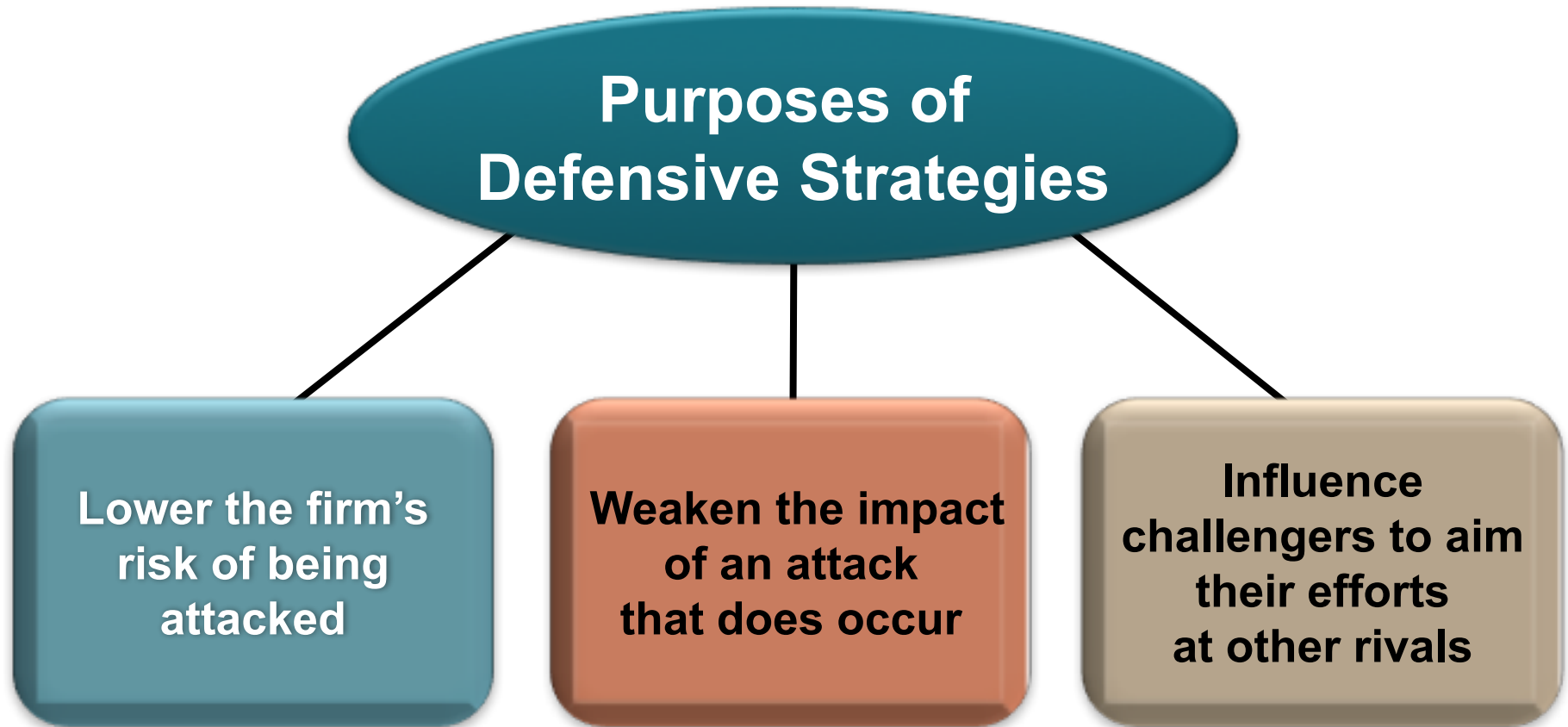
Blue-ocean Strategy—a Special Kind of Offensive

A **blue-ocean strategy** offers growth in revenues and profits by discovering or inventing new industry segments that create altogether new demand.

BLUE-OCEAN STRATEGY—A SPECIAL KIND OF OFFENSIVE

- ◆ A “**blue ocean**” market space, where the industry has not yet taken shape, with no rivals and wide-open long-term growth and profit potential for a firm that can create demand for new types of products

DEFENSIVE STRATEGIES—PROTECTING MARKET POSITION AND COMPETITIVE ADVANTAGE



[Jump to Appendix 3 long image description](#)

FORMS OF DEFENSIVE STRATEGIES

Defensive strategies can take either of two forms

- Actions to block challengers
- Actions to signal the likelihood of strong retaliation

BLOCKING THE AVENUES OPEN TO CHALLENGERS

- ◆ Introduce new features and models to broaden product lines to close off gaps and vacant niches.
- ◆ Maintain economy-pricing to thwart lower price attacks.
- ◆ Discourage buyers from trying competitors' brands.
- ◆ Make early announcements about new products or price changes to induce buyers to postpone switching.
- ◆ Offer support and special inducements to current customers to reduce the attractiveness of switching.
- ◆ Challenge quality and safety of competitor's products.
- ◆ Grant discounts or better terms to intermediaries who handle the firm's product line exclusively.

SIGNALING CHALLENGERS THAT RETALIATION IS LIKELY

- ◆ Signaling is an effective defensive strategy when the firm follows through by:
 - Publicly announcing its commitment to maintaining the firm's present market share
 - Publicly committing to a policy of matching competitors' terms or prices
 - Making a strong counter-response to the moves of weaker rivals to enhance its tough defender image

TIMING A FIRM'S OFFENSIVE AND DEFENSIVE STRATEGIC MOVES

◆ Timing's importance:

- **Knowing *when* to make a strategic move is as crucial as knowing *what* move to make.**
- Moving first is no guarantee of success or competitive advantage.
- The risks of moving first to stake out a monopoly position versus being a fast follower or even a late mover must be carefully weighed.

CONDITIONS THAT LEAD TO FIRST-MOVER ADVANTAGES

1. When pioneering helps build a firm's reputation and creates strong **brand loyalty**
2. When a first mover's customers will thereafter face significant **switching costs**
3. When **property rights protections** thwart rapid imitation of the initial move
4. When an early lead enables **movement down the learning curve** ahead of rivals
5. When **a first mover can set the technical standard** for the industry

Uber's First-Mover Advantage in Mobile Ride-Hailing Services

- ◆ Which first-mover advantages contributed to Uber's domination of the on-demand transportation markets in its chosen cities?
- ◆ What first-mover advantages will Uber not have in entering overseas markets?

Uber's First-Mover Advantage

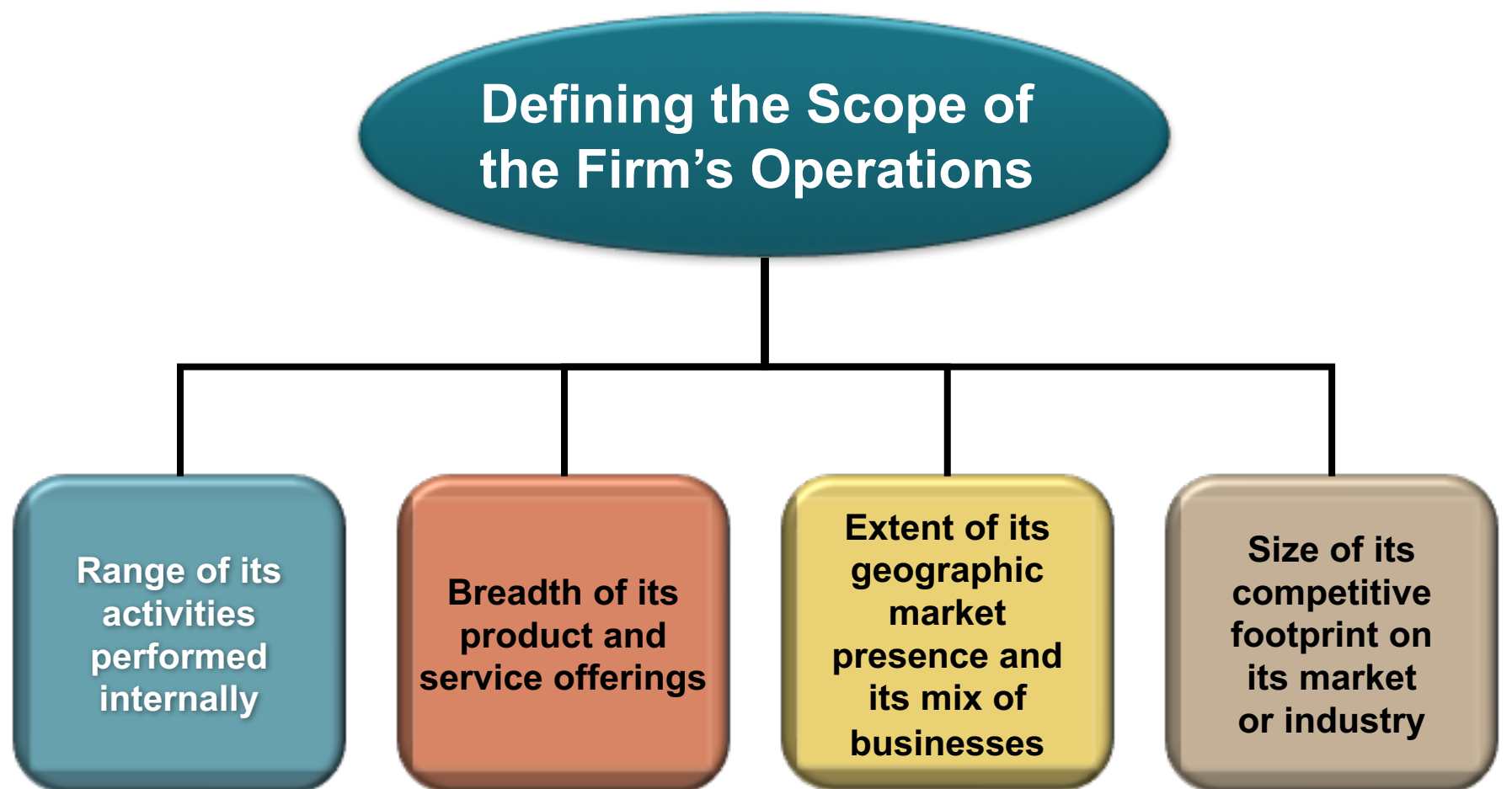
- ◆ Gain significant first mover advantage by aggressively moving into new geographic areas with this service package and then leverage that growth to build brand loyalty.
- ◆ Quickly move down the learning curve and make significant improvements in their service (e.G. Uberx and uberpool)

THE POTENTIAL FOR LATE-MOVER ADVANTAGES OR FIRST-MOVER DISADVANTAGES

- ◆ When pioneering is more costly than imitating and offers negligible experience or learning-curve benefits
- ◆ When the products of an innovator do not live up to buyer expectations
- ◆ When rapid market evolution allows fast followers to leapfrog a first mover's products with more attractive next-version products
- ◆ When market uncertainties make it difficult to ascertain what will eventually succeed
- ◆ When customer loyalty is low and first mover's skills, know-how, and actions are easily copied or surpassed

STRENGTHENING A FIRM'S MARKET POSITION VIA ITS SCOPE OF OPERATIONS

Defining the Scope of the Firm's Operations



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graph TD; A([Defining the Scope of the Firm's Operations]) --- B[Range of its activities performed internally]; A --- C[Breadth of its product and service offerings]; A --- D[Extent of its geographic market presence and its mix of businesses]; A --- E[Size of its competitive footprint on its market or industry];
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**Range of its
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**Extent of its
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**Size of its
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[Jump to Appendix 4 long image description](#)

CORE CONCEPT

The **scope** of the firm refers to the **range** of activities that the firm performs internally, the **breadth** of its product and service offerings, the **extent** of its geographic market presence, and its **mix** of businesses.

Scope issues are at the very heart of corporate-level strategy.

CORE CONCEPTS

Horizontal scope is the range of product and service segments that a firm serves within its focal market.

Vertical scope is the extent to which a firm's internal activities encompass one, some, many, or all of the activities that make up an industry's entire value chain system, ranging from raw-material production to final sales and service activities.

HORIZONTAL MERGER AND ACQUISITION STRATEGIES

◆ Merger:

- Is the combining of two or more firms into a single corporate entity that often takes on a new name

◆ Acquisition:

- Is a combination in which one firm, the "acquirer," purchases and absorbs the operations of another firm, the "acquired"

STRATEGIC OBJECTIVES FOR HORIZONTAL MERGERS AND ACQUISITIONS

- ◆ Creating a more cost-efficient operation out of the combined companies
- ◆ Expanding the firm's geographic coverage
- ◆ Extending the firm's business into new product categories
- ◆ Gaining quick access to new technologies or other resources and capabilities
- ◆ Leading the convergence of industries whose boundaries are being blurred by changing technologies and new market opportunities

Acquisition

- ◆ **Acquisition eliminate a direct competitor**

- ◆ **Google**

- ◆ **Facebook**

BENEFITS OF INCREASING HORIZONTAL SCOPE

- ◆ Increasing a firm's horizontal scope strengthens its business and increases its profitability by:
 - Improving the efficiency of its operations
 - Heightening its product differentiation
 - Reducing market rivalry
 - Increasing the firm's bargaining power over suppliers and buyers
 - Enhancing its flexibility and dynamic capabilities

BENEFITS OF INCREASING VERTICAL SCOPE

- ◆ **Costco's \$5 Rotisserie Chickens**

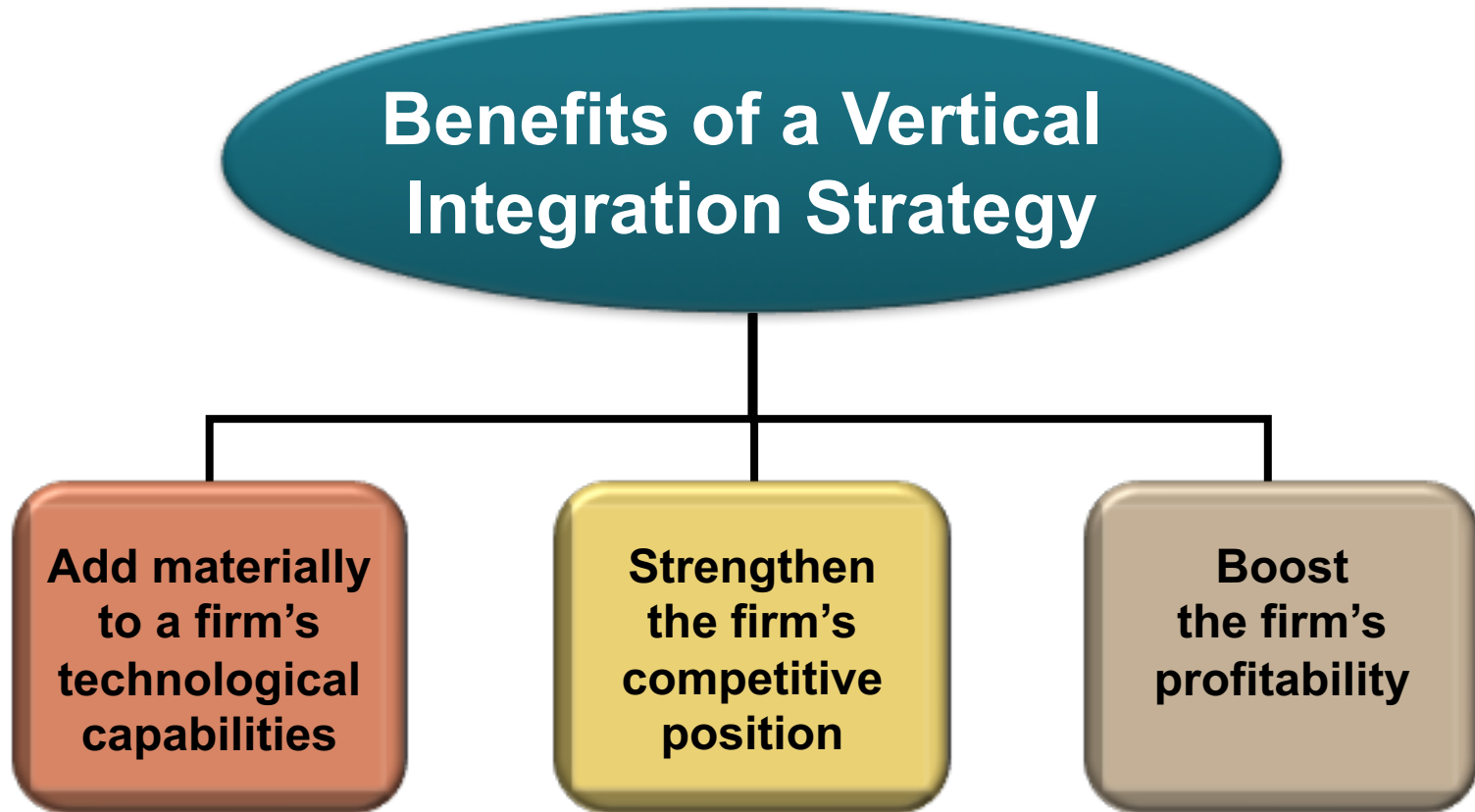


- ◆ **<https://www.foodandwine.com/news/costco-rotisserie-chicken-production-facility-nebraska>**

BENEFITS OF INCREASING VERTICAL SCOPE

- ◆ <https://www.foodandwine.com/news/costco-rotisserie-chicken-production-facility-nebraska>

THE ADVANTAGES OF A VERTICAL INTEGRATION STRATEGY



CORE CONCEPTS

Backward integration involves entry into activities previously performed by suppliers or other enterprises positioned along earlier stages of the industry value chain system.

Forward integration involves entry into value chain system activities closer to the end user.

CORE CONCEPT

Outsourcing involves contracting out certain value chain activities that are normally performed in-house to outside vendors.

OUTSOURCING STRATEGIES: NARROWING THE SCOPE OF OPERATIONS

◆ Outsource an activity if it:

- Can be performed better or more cheaply by outside specialists
- Is not crucial to achieving sustainable competitive advantage
- Improves organizational flexibility and speeds time to market
- Reduces risk exposure due to new technology or buyer preferences
- Allows the firm to concentrate on its core business, leverage key resources, and do even better what it already does best

THE BIG RISKS OF OUTSOURCING VALUE CHAIN ACTIVITIES

- ◆ Hollowing out resources and capabilities that the firm needs to be a master of its own destiny
- ◆ Loss of direct control when monitoring, controlling, and coordinating activities of outside parties by means of contracts and arm's-length transactions
- ◆ Lack of incentives for outside parties to make investments specific to the needs of the outsourcing firm's value chain

STRATEGIC MANAGEMENT PRINCIPLE

The best alliances are highly selective, focusing on particular value chain activities and on obtaining a specific competitive benefit.

Alliances enable a firm to learn and to build on its strengths.

ACHIEVING LONG-LASTING STRATEGIC ALLIANCE RELATIONSHIPS

Factors Influencing the Longevity of Alliances

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graph TD; A([Factors Influencing the Longevity of Alliances]) --- B[Collaborating with partners that do not compete directly]; A --- C[Establishing a permanent trusting relationship]; A --- D[Continuing to collaborate is in the parties' mutual interest];
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**Collaborating
with partners that
do not compete
directly**

**Establishing
a permanent
trusting
relationship**

**Continuing to
collaborate is
in the parties'
mutual interest**

Example

- ◆ Costco and American Express
- ◆ announced in 2015 that they would be ending their exclusive partnership of 16 years.

SUMMARY



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