

NON-GENERIC COMPETITIVE STRATEGIES

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In addition to the generic strategies, originally identified by Michael Porter, there are some other competitive strategies that many companies follow for achieving competitive advantages. This unit discusses these strategies under the categories of Cooperative Strategies, Merger and Acquisition Strategies, Vertical Integration, Unbundling and Outsourcing Strategies, Growth-Related Strategies, Offensive and Defensive Strategies, Timing of Strategic Moves in detail.

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Lesson-1: Cooperative Strategies: Strategic Alliance and Joint Venture

Learning Objectives:

After studying this lesson, you should be able to:

- Understand the cooperatives strategies such as strategic alliance and joint venture.
- Explain the need for cooperative strategies in the case of business organizations.
- Discuss the meaning of strategic alliance and find out the reasons for strategic alliance.
- Identify the reasons for the failure of strategic alliance.
- Define joint venture and identify the ideal situations for forming joint ventures.
- Detect the difficulties with joint venture strategy.

Introduction

The strategies that are undertaken by an organization for performing certain organizational functions in cooperation with other parties are called cooperative strategies. For cooperation to take place, two or more organizations (may be competitors or other firms) combine their efforts (usually some resources such as technology or physical resources or marketing channels or any other assets) for mutual gains. Successful cooperative strategies aim at ensuring a win-win gain for all the parties involved. Companies undertake cooperative strategies to build up their competitive strengths in the market. Cooperative strategies can take the form of (i) strategic alliance and (ii) joint venture.

Successful cooperative strategies aim at ensuring a win-win gain for all the parties involved.

Nature and Importance of Cooperative Strategies

The philosophy behind cooperative strategy is that a company cannot always stand or go alone. Rather it can strengthen its competitiveness through forming partnerships with other companies. In the recent years, the need for cooperative strategies has been heightened because of the following:

- Intensified competition in the domestic market;
- Opening up of a vast market in different parts of the world (especially in the Eastern Europe and South-East Asia);
- Advances in telecommunication and information technology;
- Development of transportation across the world by roads, air and sea;
- Globalization of business; and
- Trade liberalization in many countries since the emergence of the World Trade Organization (WTO).

Collaborative partnerships are now considered a necessity in competing against the rivals to build a strong presence in both the domestic and

international markets. They have ‘become so essential to the competitiveness of companies in many industries that they are a core element of today’s business strategies.’¹ Let’s cite some examples of cooperative partnerships of a few giant business conglomerates.

| Name of Companies | Number of collaborative partnerships |
|-------------------|--------------------------------------|
| General Electric | 100+ |
| IBM | 400 |
| Oracle | 15000+ |

Toyota Motor Company of Japan has built up a large network of partnerships with all of its suppliers of parts and components. The software giant of the world, Microsoft Corporation, has strategic partnerships with numerous software developers.

Cooperative alliances are prevalent in those industries where there are rapid changes in technology, business environment and customer needs. An example of such an industry is computer industry. The computer components and software are produced by a large number of companies. Producers are mostly different for microprocessors, motherboards, monitors, disk drives, memory chips, keyboards, mouse, sound cards, multimedia components, etc. Thus, there is a need for close collaboration among the producers of all these diverse products.

This Lesson would address the following two types of cooperative strategies:

- Strategic Alliance, and
- Joint Venture

Strategic Alliance:

Meaning of Strategic Alliance

Strategic alliances are formed by companies to achieve win-win outcomes.

Strategic alliances are cooperative agreements between two or more firms to help each other in business activities for mutual benefits. The strategic allies (i.e., partner firms) do not have formal ownership ties. They rather work cooperatively under an agreement. Strategic alliances are formed by companies to achieve win-win outcomes (none of the parties loose; rather all gain). Strategic alliances create a good ground for the allies to perform joint research, share technology and improve products. They cooperate on technological development, in sharing R&D information, in developing new products that complement each other in the marketplace and in building networks of dealers and distributors to handle their respective products. Examples of strategic alliances include HP and Intel, Microsoft, AT&T and UPS; Merck and J&J; IBM and Dell; Pfizer and Warner-Lambert, and Grameen Phone and other mobile phone operators.

Reasons for Strategic Alliances

In his ever-famous book Competitive Advantage of Nations, Michael Porter has outlined a number of reasons behind the formation of strategic alliances. These can be summarized as follows:

- To collaborate on technology
- To collaborate on developing new products
- To overcome deficits in technical and manufacturing expertise
- To acquire altogether new competences
- To improve supply chain efficiency
- To gain economies of scale in production and marketing
- To acquire or improve market access through joint marketing agreements.
- To gain efficiencies of better supply chain management
- To speed new products to markets
- To realize cost savings through joining forces in production of components or in final assembly of components.
- To learn much about how to improve quality control and production procedures by studying one another 's manufacturing methods
- To utilize common dealer networks
- To jointly promote complementary products, thereby mutually strengthening their partners' access to buyers and economizing on forward channel distribution costs
- To offset competitive disadvantages or create competitive advantages
- To direct all-partners' competitive energies toward mutual rivals
- To effectively neutralize potential competitors by bringing them under the umbrella of strategic alliance
- To enhance organizational capabilities.

Reasons for Failure of Strategic Alliances

A study in the USA reveals that a majority of the strategic alliances are either outright failure or not working up to expectations. The major reasons for the failure of strategic alliances are as follows:

1. Inability of the partners in working together effectively.
2. Inability of partners in responding and adapting to the changing internal and external conditions.
3. Partners' failure or unwillingness to negotiate further if circumstances so require.
4. Partners' inability or carelessness in giving value to the skills and resources brought to the alliance by all allies.
5. Inability of allies to ensure win-win outcomes from the cooperative agreements.
6. Undue rivalry in the marketplace between the allies.
7. Deliberate guards by allies against their most valuable skills and expertise.

In fact, strategic alliances are doomed to fail if the allies step back in ongoing commitment, mutual learning and continued close cooperation.

Joint Venture:

Meaning of Joint Venture

Joint venture involves an equity arrangement between two or more independent enterprises that results in the creation of a new organizational entity.

Unlike collaborative/strategic partnership or strategic alliances, joint ventures refer to creating a new organization by two or more companies. Joint venture involves an equity arrangement between two or more independent enterprises that results in the creation of a new organizational entity. The partner-companies own the newly created firm. To form a joint venture, at least two firms must agree to jointly establish a new firm.

Situations Suitable for Joint Venture

The following situations are suitable for joint venture:

1. All the situations suitable for strategic partnerships.
2. A business activity where pursuing an opportunity is complex or risky. If any business opportunity seems to be very complex or risky or even uneconomical for a single firm, a joint venture can be a good way to undertake that opportunity.
3. A situation where pursuing an opportunity requires unique competencies. Many business opportunities require unique types of competences of a broader range of know-how. When a firm does not have such competencies or know-how, it can go for joint venture with another firm having the same. Thus, they can jointly pool the resources and competencies to embark on pursuing the business opportunities.
4. Where entry to a foreign market needs local foreign partner. In some countries it may be difficult for multinational companies to enter for business purposes. The difficulty in entry may arise from restrictions by the government or local culture and socio-political situations. In such a situation, a firm must secure a local partner to gain entry into the desired local market.

Difficulties with Joint Venture

Several difficulties may arise when two or more firms form joint venture. Some possible difficulties are as follows:

1. Complications about dividing the efforts and management control among the partners. The partners in joint venture may have controversies over the role each would play in the organization and also over the extent of control in the organizational affairs.
2. Conflicts may arise between the domestic and foreign partners in the case of international joint venture. In foreign joint venture, conflicts usually arise over such issues as the use of local employees, local resources, local technology, quality of export,

- compliance with local standards and policies, use of intellectual property and technology, etc.
3. Disputes may stem when foreign partners start neglecting the local partner after the foreign partner has overcome the difficulties. In that case, foreign partners may consider the local partners' assistance unnecessary. Foreign partners may even think of dissolving the joint venture.
 4. Local partners may start own business by seceding their relationship with joint venture when they could master the technology and develop competitive skills. Capitalizing on their acquired know-how, they may launch their own products in separate brand names.

Review Questions

1. What are the various forms of cooperative strategies? Discuss them with their relative merits and demerits.
2. What are the reasons for which the need for cooperative strategies has been heightened in the recent years?
3. 'Cooperative strategies are prevalent in those industries where there are rapid changes in technology, business environment and customer needs.' Explain the significance of this statement with an example of a relevant industry in Bangladesh.
4. What are the reasons for the formation of strategic alliances?
5. Discuss the major reasons for the failure of strategic alliances.
6. What do you mean by joint venture? Discuss the situations that are suitable for joint venture business.
7. What are the difficulties that may arise when two or more firms form joint venture?

Application Discussion Questions

1. All the mobile phone operators in Bangladesh such as Grameen Phone, AKTEL, CityCell, BanglaLink and TeleTalk have entered into an agreement to allow each other to use their own network. What kind of cooperative strategy is it?

Lesson-2: Merger, Acquisition and Vertical Integration Strategies

Learning Objectives:

After studying this lesson, you should be able to:

- Understand why companies undertake merger and acquisition strategies.
- List down the purposes of both merger and acquisition strategies, in addition to defining them.
- Define vertical integration strategy.
- Distinguish between forward and backward integration.
- Explain the advantages of vertical integration.
- State the strategic disadvantages of vertical integration

Introduction

The purposes of both merger and acquisition are primarily similar. They can –

- (i) dramatically strengthen a company's market position;
- (ii) open new opportunities for competitive advantages;
- (iii) fill resource gaps and allow the new company to do things which the prior companies could not do alone;
- (iv) combine the skills and competitive capabilities of the merged companies;
- (v) achieve wider geographical coverage and greater financial resources;
- (vi) add production capacity and expand into new areas; and
- (vii) ensure considerable cost –saving through combining operations of a number of companies.

Merger:

Merger takes place when two or more organizations merge together and their operations are absorbed by a new company. A merger is a strategy through which two firms agree to integrate their operations on a relatively co-equal basis because they have resources and capabilities that together may create a stronger competitive advantage.¹ Conceptually, a merger is a combination of two or more companies. When combined together, a new company is created. After having been merged, the companies lose their independent identities. Both the companies are dissolved. The assets and liabilities of both companies are combined. New shares/stocks are issued for the new company created after merger. Thenceforth, they can never operate business with their previous names independently. Merger can take place within the same country or across the national borders. A recent example of merger is the deal between Reckitt & Coleman of the U.K. and Benckiser of the Netherlands.

Conceptually, a merger is a combination of two or more companies.

Acquisition:

An acquisition occurs when one company purchases (or acquires) another company.

An acquisition occurs when one company purchases (or acquires) another company. It is a strategy through which one firm buys a controlling or 100 percent interest in another firm by making the acquired firm a subsidiary business within its portfolio. The first company (acquirer), after purchasing the company, absorbs the operations of the second company (the acquired). The acquired company is merged with the first company. The acquired company's legal identity is lost. The acquirer company remains independent and operates its business as it is. When the Standard Chartered Bank absorbed the operations of the Grindlays Bank in the South Asia and South-East Asian region, it was Standard Chartered's acquisition strategy.

The major reasons for acquisition are to: (i) increase market power, (ii) overcome entry barriers, (iii) reduce cost of new product development, (iv) increase speedy access to market, (v) reduce risk compared to developing new products, (vi) increase diversification of businesses, and (vii) avoid excessive competition.

Mergers and acquisitions allow the partnering firms to have ownership relations, rather than partnership relations.

Mergers and acquisitions are best suitable in situations where strategic alliances do not yield desired results because of the lack of 'sense of ownership.' Mergers and acquisitions allow the partnering firms to have ownership relations, rather than partnership relations. They are very effective in international business, too. Through merger and acquisitions, companies can build a good market presence in other countries. Companies may merge or make acquisition to fill in resource-and/or technology-gaps. Nestle, Kraft, Procter and Gamble have made several acquisitions to establish stronger global presence. There are hundreds and thousands of examples of mergers and acquisitions all over the world.

Vertical Integration Strategy

Meaning and Nature of Vertical Integration

Vertical integration is popularly known as vertical linkage in our country.

Vertical integration strategy involves extending present business in two possible directions – (a) *Forward Integration* moves the organization into distributing its own products; and (b) *Backward Integration* moves an organization into supplying some or all of the products used in producing its present products. Vertical integration is popularly known as vertical linkage in our country. There may be backward linkage (backward integration) and/or forward linkage (forward integration). Vertical integration occurs within the same industry. For a company, vertical integration involves engaging into producing raw materials or components that it purchased from other firms and selling products to the end-users directly. When the company engages into producing the raw materials or components backward integration/linkage takes place. When it engages in direct selling of products to end-users, forward integration or linkage takes place. Thus, vertical integration takes the form of expanding business backward into the sources of supply and forward toward the users of the products. For example, if Berger Paints Company starts producing raw materials for paints and also establishes 200 retail stores all over the country to sell its paints to the consumers, we can say

Vertical integration takes the form of expanding business backward into the sources of supply and forward toward the users of the products.

that Berger Paints is a vertically integrated company. Sadhana Oushadhalaya, Shakti Oushadhalaya and BATA Shoe Company are examples of vertically integrated companies. A firm can accomplish vertical integration by starting its own operations in other stages in the industry's activity chain or by acquiring a company already performing the activities it wants to bring in-house. A company may integrate toward into wholesaling or retailing via company-owned distributorships, purchased dealer networks, or a chain of retail stores.²

Strategic Advantages of Vertical Integration

Companies involve themselves in vertical integration basically for gaining competitive position in the market. Vertical integration becomes attractive when it can strengthen a company's competitive position. Either profitwise or strategywise, vertical integration is likely to be a flop if it fails to produce sufficient cost savings and /or substantially improve company's technological and competitive strengths. Let us discuss the strategic advantages of vertical integration first for backward integration and then for forward integration.

Advantages of Backward Integration

- a. It can achieve greater competitiveness through generating cost-savings. This is possible if the volume of production can result in economics of scale better than the suppliers.
- b. It can improve a company's technological capabilities.
- c. It can produce a differentiation-based competitive advantage. This comes true when the company is able to produce quality products better than those of the suppliers.
- d. Competitive advantage may also be gained if vertical integration improves quality of customer service and enhances performance of final products.
- e. It can add to a company's differentiating capabilities through creating core competencies.
- f. It reduces the dependence of a company on suppliers of crucial raw materials or components.
- g. It minimizes/eliminates the risk of becoming vulnerable at the hands of suppliers who raise prices of raw materials and components without valid reasons. Thus, a company may escape itself from the clutches of such opportunistic suppliers.

Advantages of Forward Integration

- a. The main spirit of forward integration is to enhance a company's competitiveness.
- b. A company achieves greater control over distribution of products. It may at least partially lose control over distribution when products are sold through intermediaries.
- c. A company can increase sales by avoiding dealers, wholesalers, and retailers who may not wholeheartedly push the sales of the

company's products. These intermediaries may be more interested to sell the products of the competitors who offer better commissions.

- d. When a company integrates forward and directly sells products to end-users, it can reduce distribution costs and even lower selling prices.
- e. Because of lower distribution costs, the company can produce a relative cost advantage over certain competitors.

Strategic Disadvantages of Vertical Integration

1. It increases business risk because of diversification and more investments in the other stages of business activities.
2. It may block scarce financial resources in some value chain activities of the industry and thus prevents the firm from investing in otherwise profitable ventures.
3. As the vertically integrated firms have the tendency to jealously protect their present investments in the backward and forward activities they slow down investing in research and development.
4. Even if there is scope to procure materials at a cheaper cost from outside vendors, vertically integrated firms cannot avail of this opportunity. Because they have already locked themselves into in-house activities.
5. As the vertically integrated firms become less flexible due to reliance on in-house activities and own sources of supply, they may eventually face problems in responding to buyer demand for a variety of products.
6. When a firm goes for forward or backward integration or both, they require different skills and capabilities to manage the integrated business activities. Fulfillment of this requirement is always costly and may not finally be worthwhile.
7. Backward integration into the production of components and parts may reduce the flexibility of a firm in its manufacturing activity. In technologically sophisticated industries (such as computers) outsourcing component production. Is often cheaper than producing by a firm itself.

Review Questions

1. Discuss the purposes of both merger and acquisition strategies.
2. Distinguish between merger and acquisition.
3. What is vertical integration? Why is it important for some manufacturing companies?
4. Discuss the strategic advantages and disadvantages of vertical integration.
5. Why do some companies follow backward integration strategy?
6. What are your arguments in favor of forward integration strategy for a company that produces perishable products?

Application Discussion Questions

1. A few years back, Standard Chartered Bank purchased the operations of the Grindlays Bank in the South Asia and South-East Asia. Is it merger or acquisition? Give your arguments.
2. Glaxo was an independent company and SmithCline was another independent company. Both these companies do not now exist with their independent status, and so we see the existence of GlaxoSmithCline. Is GlaxoSmithCline an instance of merger or acquisition?
3. Visit the web site of Motorola (www.motorola.com). Review the various business activities of Motorola. Using the information, answer the following questions:
 - a. To what extent is Motorola vertically integrated?
 - b. Does vertical integration help Motorola establish a competitive advantage or does it put the company at a competitive disadvantage?

Lesson-3: Unbundling, Outsourcing, Growth and Harvesting Strategies

Learning Objectives:

After studying this lesson, you should be able to:

- Define unbundling strategy.
- Explain the meaning of outsourcing strategy and discuss the issues that make outsourcing a good strategic sense.
- Understand the implications of growth and stable-growth strategies.

Introduction

Once a company becomes vertically integrated (backward) through engaging itself in the production of raw materials, it may subsequently decide to get rid of backward integration due to losses or for some other reasons. In that case, it can de-integrate. When de-integration occurs, we call it unbundling. When a company is unbundled and does not produce raw materials by itself, it then buys the raw materials from the vendors who can supply them on time at a reasonable price. This act of buying raw materials (or allowing other parties to perform any other business functions on its behalf) is known as outsourcing. In this lesson, we would throw light on these issues and finally, we would give ideas about the growth strategies that a company may follow.

*De-integration is
Known as unbundling.*

Unbundling Strategy

When vertical integration does not pay, a company may decide to abandon the strategy of vertical integration and adopt the strategy of de-integration. That is, the company withdraws from the backward or forward integration – it stops producing parts and components or stops selling directly to consumers through own stores. This action of de-integration is known as unbundling strategy. According to Thompson and Strickland, a number of US companies over the past decade have found vertical integration so competitively burdensome that they have adopted vertical de-integration or unbundling strategies.

Outsourcing Strategy

Outsourcing strategy refers to a strategy of procuring raw materials or parts and components from vendor/suppliers or having any value chain activities performed by outsiders. When a firm adopts outsourcing strategy, it relies on outside vendors to supply products, support services or functional activities. A firm may outsource production, assembling, marketing, delivery, accounting and finance, warehousing or any other function to other business firms who can do them cost effectively or better than the firm itself.

The Instances that make Outsourcing a Good Strategic Sense

Outsourcing strategy is useful under the following circumstances:

- ✓ When an activity can be performed better or more cheaply by outside specialist.

- ✓ When the activity is not crucial to the firm's ability to achieve sustainable competitive advantage. For example, because of relatively less crucial importance of them, maintenance activities, cleaning activities, accounting, data processing and some other administrative support activities can be safely and cheaply outsourced.
- ✓ When it reduces the firm's risk exposure to changing technology and changing buyer preferences.
- ✓ When it allows a company to concentrate on its core business and do what it does best.

Growth Strategy

A company may adopt a growth strategy when it wants to expand its market and thereby profitability. Usually this strategy is undertaken when a company has enough resources to expand business and is capable to manage the new complications and risks involved with expansion.

Vehicles for Implementing Growth Strategy

Growth strategy can be implemented in various ways. It can usually be implemented through:

- Internal Growth (using own resources)
- Acquisition [one company purchases assets of another company and absorbs them into its own operations]
- Merger [two or more companies combine into one company]
- Joint Ventures [Two or more organizations pool their resources for a given project or business product, on temporary or permanent basis].
- Horizontal Integration [Adding one or more businesses that produce similar products, usually buying another organization in the same business.]

Stable Growth Strategy

A stable growth strategy is characterized as follows:

- Organization is satisfied with its past performance and decides to continue to pursue the same or similar objectives.
- Organization continues to serve its customers with basically same products or services.

Reasons for Using Stable Growth Strategy

- Management may not wish to take the risk of greatly modifying present strategy.
- Changes in strategy require changes in resource allocations.
- Too-rapid growth can lead to situations in which organization's scale of operations outpaces its administrative resources. Inefficiencies can quickly occur.
- Organization may not keep up with changes that may affect products.

Harvesting Strategy

When future growth appears doubtful or not cost-effective, companies want to 'harvest' as much they can from the product. It limits additional investment and expenses and maximizes short-term profit and cash flow. When a company adopts harvesting strategy, it deliberately sacrifices its market position 'in return for near-term cash flows or current profitability.' The intention of the company in such strategy is to earn immediate cash from the existing business and use the cash in other more profitable business activities. Usually, a diversified company having various lines of businesses deploys harvesting strategy (also known as end-game strategy) for non-core business units in weak competitive positions.

Review Questions

1. What do you mean by unbundling strategy? Has it any relationship with outsourcing strategy?
2. What is outsourcing strategy? State the instances that make outsourcing a good strategic sense.
3. When does a company adopt growth strategy?
4. Growth strategies can be implemented in various ways. What are those ways? Discuss.
5. What are the differences between growth strategy and stable-growth strategy? Discuss the reasons for a company's using stable-growth strategy.
6. Some companies follow 'stable-growth strategy' to address specific issues of strategic interest. Discuss the issues that warrant adoption of stable-growth strategy.
7. As a manager of your company, if you are asked to undertake and execute 'growth strategy' in your company, how would you implement it?
8. Explain the significance of harvesting strategy. When does a company follow harvesting strategy?

Application Discussion Questions

1. Mrs Naila Seraji is working as Marketing Manager at 5M Corporation which produces computer parts and hardware. She has very recently identified some unique issues while she was working as marketing consultant just before she took up the position of Marketing Manager. Based on her information she suggested the higher management to go for stable-growth strategy rather than growth strategy. Can you guess what issues did she identify?

Lesson-4: Offensive and Defensive Strategies, and Timing of Strategic Moves

Learning Objectives:

After studying this lesson, you should be able to:

- Explain the implications of offensive strategy.
- Understand how offensive strategy yields competitive advantage over a relatively longer period of time.
- Discuss the conditions that need to be fulfilled for successful offensive strategy.
- Explore the reasons for undertaking defensive strategy.
- Identify the various types of defensive strategies.
- Understand the first-mover advantages as well as first-mover disadvantages.

Introduction

This lesson focuses on three issues: (a) nature and use of offensive strategy, (b) nature and applicability of defensive strategy, and (c) the issue of when a company should take strategic moves. A company may follow offensive strategy for one product and it may follow defensive strategy for another product. Or, for the same product, the company may follow offensive strategy at one time but defensive strategy at another time, as the situation demands. A company may be either first-mover or late-mover in the execution of strategy. The management has to decide what the company should do and when.

Offensive Strategy:

What is an Offensive Strategy?

An offensive strategy consists of a company's actions directed against the market leaders to secure competitive advantage.

An offensive strategy consists of a company's actions directed against the market leaders to secure competitive advantage. Competitive advantage may be achieved as cost advantage or differentiation advantage or resource advantage. An offensive strategy must be creative so that competitors cannot easily thwart it. Offensive strategies include dramatic reduction of price, a highly creative and imaginative advertising campaign, or a uniquely designed new product that suddenly attracts customers substantially.

How Does Offensive Strategy Yield Competitive Advantage?

A successful offensive strategy yields competitive advantage over a relatively longer period of time. According to Thompson and Strickland, three distinct periods are involved: (i) build up period; (ii) benefit period; and (iii) erosion period. If the company has in its possession all the resources for immediate deployment for the implementation of offensive moves, the *buildup period* can be short. However, the buildup period may be longer if necessary resources are not readily available, customer acceptance of the new product would take some time or technology

development is likely to require longer time. The *benefit period* is the time-span during which the company enjoys the benefits of competitive advantage. Depending on how much time it takes the competitors to wage counter-offensive moves, the benefit period may be short or long. The *erosion period* starts when the competitors undertake counter-offensive moves. The earlier and stronger the counter-attack, the early is the beginning of erosion of competitive advantage.

The benefit period is the time-span during which the company enjoys the benefits of competitive advantage.

Companies use offensive strategies to *create* competitive advantage. They adopt such strategies to achieve cost advantage or differentiation advantage or resource advantage. Offensive strategy can be undertaken by dramatically price-cut or an imaginative and unbelievably attractive advertising campaign or a smash-hit new product.

The erosion period starts when the competitors undertake counter-offensive moves.

Preconditions for successful offensive strategy

In order to be successful with offensive strategies a company must ensure that it has been able to –

- (a) Win customer acceptance of its product with a reasonably short period of time (if it is not a highly innovative or first-time-in-the-world product).
- (b) Accumulate requisite resources and capabilities for deployment;
- (c) Discourage the competitors through offensive actions to launch counter-offensives;
- (d) Come up with follow-on offensive and defensive moves one after another to protect its market position.

A company should take note that the ‘benefit period’ of competitive advantage may not last long. At a certain point of time, the competitors would spot the strategic moves and begin counter-response. For example, if the offensive strategy leads to a differentiation advantage, competitors may imitate the differentiation attribute quickly. Resourceful competitors are likely to launch counterattack through undertaking initiatives to overcome their market disadvantages. As a result, the company’s competitive advantage will start eroding.

Offensive strategies are successfully launched if they are tied to company’s core competencies or resource strengths and competitive capabilities. Good candidates for strategic offensive attacks are market leaders having some ‘market weaknesses’ (such as outdated technology, unhappy customers, inferior product line), runner-up firms having some specific competitive disadvantages, and small local companies. The market challengers with offensive moves may come from new entrants in the industry as well as from resourceful established companies that intend to improve their market position.

Defensive Strategy:

What is a Defensive Strategy?

A defensive strategy consists of a company’s actions directed for protecting its competitive advantage. A company pursues defensive strategies to protect competitive advantage through protecting existing

A defensive strategy consists of a company’s actions directed for protecting its competitive advantage.

market share. However, they can hardly create any competitive advantage. But they fortify competitive position of the company. They also protect resources and capabilities of the company. Furthermore, they sustain the company's competitive position. Companies usually follow defensive strategies primarily to 'lower the risk of being attacked' and influence the competitors to aim their efforts at other competitors.

Various Defensive Strategies

A company's defensive strategies may include:

- Offering dealers/distributors special discount or better financing terms just to discourage them not to carry competitors' products.
- Entering into agreement (or strategic alliance) with dealers/distributors to work as the company's *exclusive* dealers/distributors.
- Extending the warranty period or offering training force of cost to the customers to discourage them from buying competitors' products.
- Making sustainable arrangement for delivery of spare parts or after-sales service faster than the competitors.
- Making early announcement about launching a new product so that potential customers postpone buying from competitors.
- Introducing new features of products or new version or new model and enter into niche markets, which would create obstacles to competitors to enter the niches.

Timing of Strategic Moves

For an organization the timing of strategic moves is important. A firm may be the first-mover in launching a strategy to gain competitive advantage in the marketplace. Or, the firm may wait and be a late-mover to avoid risk. There are both advantages and disadvantages of becoming first-mover or late-mover. Thus, to be the first-mover or not is a crucial decision for a firm. Being the first-mover means the firm is the first to initiate a strategic move. Similarly, being the late-mover means the firm is not interested to take a strategic move first, rather it waits to see what happens in the marketplace after the competitors have implemented their strategies.

There are both advantages and disadvantages of becoming first-mover or late-mover.

First-Mover Advantages:

Several advantages emerge when a firm takes a strategic move as the first-mover. The first-mover becomes the pioneer, and thus pioneering helps the firm to:

- a. build reputation in the marketplace;
- b. attract buyers to the products and the firm;
- c. produce an absolute cost advantage over the competitors because of its early commitments to supplies of raw materials, new technologies and distribution channels'
- d. create a pool of loyal customers who are likely to repeat purchasers of products of the firm; and

- e. discourage potential new entrants to refrain from entering into the market.

First-Mover Disadvantages/Late-Mover Advantages:

Making a first-move has mixed blessings. It may be very risky to initiate a strategic move first. The following are some of the disadvantages of first-mover disadvantages (or, advantages of being late-mover):

- a. It is highly costly to become the first-mover, because the firm has to create demand in the market for the product and so it needs to spend huge amount of money for promotion.
- b. It may invite serious adverse effects on operations of the firm if the industry is such that there are frequent changes in technology, such as in the software industry or in the communications industry. In such a situation, the late-movers gain the advantage of using latest technology.
- c. The late-movers can copy/imitate the technical-how easily and eventually may be able to oust the first-mover from the market.
- d. The late-movers may become so powerful because of their ability to bypass the first-mover in developing skills and technology that they can snatch-away the customers of the first-mover.

Finally, we can conclude by saying that although first-movers can sometimes gain strategic advantage, it may also be more gainful to be a follower (late-mover). Therefore, a firm must be prudent in deciding whether it would be first-mover or late-mover.

A firm must be a firm must be prudent in deciding whether it would be first-mover or late-mover.

Review Questions

1. What are the purposes of offensive and defensive strategies? Should a company follow offensive strategy when it is obvious from its financial position that it is a weak company? Give arguments for your answer.
2. What are the preconditions for success with offensive strategy?
3. What is meant by defensive strategy? What kind of strategies can be considered as defensive strategies?
4. Discuss the possible benefits that would accrue to a company if it implements its competitive strategies as the late-mover.
5. Compare and contrast between first-mover strategy and late-mover strategy.
6. Discuss the advantages of first-mover strategy.

Application Discussion Questions

1. The Partex Particles Board Mills Limited introduced veneer board in Bangladesh market for the first time. For a very long time, there was no competitor of this product. The veneer board was introduced with the brand name of 'Partex Board' and over the years the veneer board manufactured and marketed by other companies has come to be known as 'partex'. It is a glaring example of how the first-mover can become the market champion. What first-mover advantages did Partex Particles Mills Limited enjoy?

NOTES

1. Michael A. Hit, R. Duane Ireland and Robert E. Hoskisson, *Strategic Management: Competitiveness and Globalization* (Australia: South-Western, 2001), p.276.
2. Thompson and Strickland, *Strategic Management*, op.cit. pp. 180-181