Module 5

Competitive and Functional Strategies

Introduction

Organisations compete with each other in the context of given externalities. Organisations create value and customers pay for that value. If the value created by organisation 'A' is far superior to the one created by competitor 'B', the customer may be expected to pay a higher price or more customers may opt for the product of 'A' than would for 'B'. It is possible that 'A' has access to better quality resources or its operations capabilities are superior to those of 'B'. Whatever be the reason, it contributes to the competitive advantage of 'A' over 'B'. The competitive strategies are based on the competitive advantage that organisations create. The competitive strategies enable an organisation to have an advantage of lower cost over competitors or distinctiveness in many ways that makes the product better. Michael Porter's classification for competitive strategies is the generic classification used to define the competitive strategies. An organisation may have competitive advantage in terms of depth of its management pool that enables it to attract talent and serve disparate businesses. An organisation's adeptness to change can also be its advantage.

The functional strategies have to complement and align with the competitive strategies. For a diversified organisation at a given time there may be different sets of competitive strategies for different businesses to be pursued. Across these industries the flow of managerial talent and experience can be a common factor. Competitiveness is derived from the successful implementation of the business strategies. The business/competitive and the functional strategies realise the corporate strategy in the market place.

In real life the framework is more indicative and not specifically predictive. In this module we will learn about the different types of competitive strategies and the role the functional strategies play to support them.

Outcomes

Upon completion of this module you will be able to:

- *explain* the basis of competitive strategy.
- *describe* cost leadership strategy.
- *describe* differentiation strategy.
- *describe* focus strategy.
- *describe* the functional strategies in relation to competitive strategies.
- *analyse* the business situations using the competitive strategy.
- *apply* the competitive strategy framework to real life and case study situations.

Terminology

Business level strategies:	Competitive strategies n the basis of which the organisation competes in the chosen product market domain
Cost advantage:	Competitive strategy based on developing the lowest cost and consequently lowest prices in an industry.
Differentiation:	Competitive strategy based on creating an offering that is distinguishable from that of competitors in terms of quality, performance, features, technology or other similar attributes.
Digitisation:	Conversion of information in the digital form so that it is stored and retrieved easily
Focus:	Competitive strategy based on serving a narrow market segment on the basis of lower cost or highly differentiated offering
Functional strategy:	Functional strategies are those strategies that are developed within the domains of marketing, finance, human resources, operations, procurement and logistics to support the corporate and competitive strategies
Generic competitive strategy:	Those strategies that can be applied to explain the competitive behaviour of businesses in any industry
Structural analysis of industries:	The underlying economic and technical characteristic of an industry

The basis of competitive strategies

The overall corporate strategy defines the broad direction for the organisation and the resource allocation among the portfolio of businesses. The different businesses may compete in different industries. Each will develop its own set of strategies to compete in the market place based on the dynamics of its industry structure and strengths and weaknesses. For example an organisation may be in the business of construction of residential houses, commercial properties and infrastructure projects such as highways. There is a degree of commonality between the three but there are a large number of differences in the way the three different segments are structured, their competitive scenario, profitability, regulation, mode of financing and so on. The business models of the three businesses may be different. The three differ in terms of who they satisfy (customer segment) what they satisfy (need) and how they satisfy (competence base). This difference will determine their respective competitive strategies. **Figure 5.1** shows the structure of this organisation. The business level strategies will be formulated by the respective housing, commercial and infrastructure units or businesses.

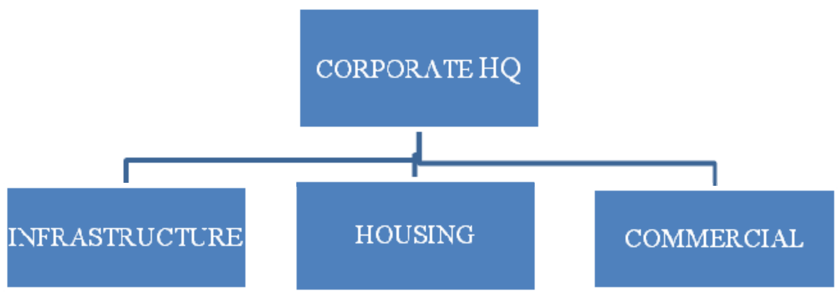

Figure 5.1: Basic organisation structure

One basis of the competitive strategies is the structural analysis of industry based on Michal Porter's Five Forces (1985). The five forces are one of the important determinants of the industry profitability. The five forces determine the investments to be made, price and cost of the product in the industry. Within a given industry the different organisations have their own 'space' based upon differences in the customer segment, need served and competence base. For example, let us consider the car industry. Within the industry there are different types of cars. On the basis of price and exclusivity we can in descending order cite examples such Lamborghini, followed by Mercedes, Honda, Hyundai and Suzuki. Competitive strategies defined on the basis of the Porter framework are based on the premise that a value for the customer can be created by either price advantage or the differentiation advantage within the space an organisation is in. Among the cars mentioned above Hyundai creates a cost advantage whereas Honda has a differentiation advantage and Lamborghini (exclusive sports) is focussed. Each of these has a very specific customer focus, needs served definition and competence base.

Figures 5.2, 5.3 and 5.4 explain this difference among the three different cars. To illustrate the difference, let us consider one aspect of the product the tyre as an integral part of a car. Cars meeting differing customer requirements and catering to different segments have different types of tyres. The avant-garde cars have Formula One specification tyres made of special rubber and higher end cars have special rubber but may not be Formula One specification and tyres in the low price segment are made of lower grade rubber. The suppliers/vendors for each segment too are different and would ideally want to configure their value chain with respect to the value chain of their respective buyer. This chain of buyer/seller relationship shows that the choice of the competitive strategies embodies many functional level decisions and the success of the strategy lies in the extent to which those decisions can support the strategy.

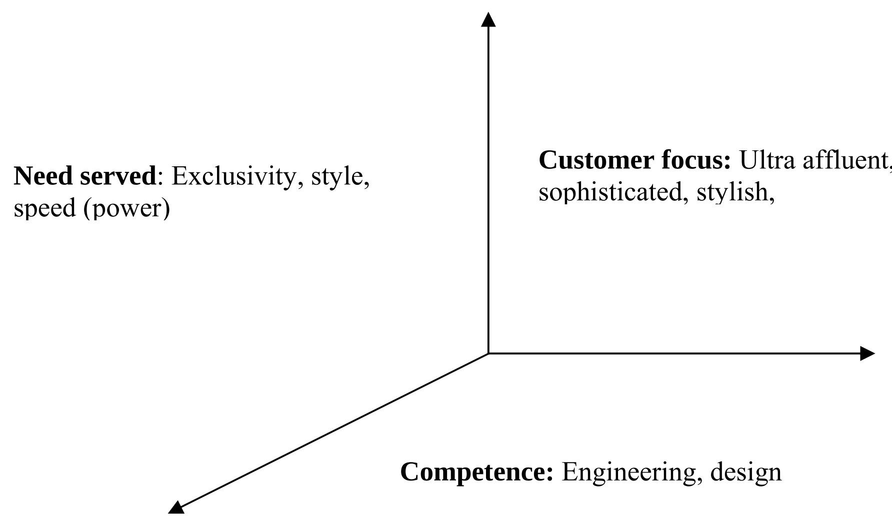

Figure 5.2: Lamborghini (Strategy Focus)

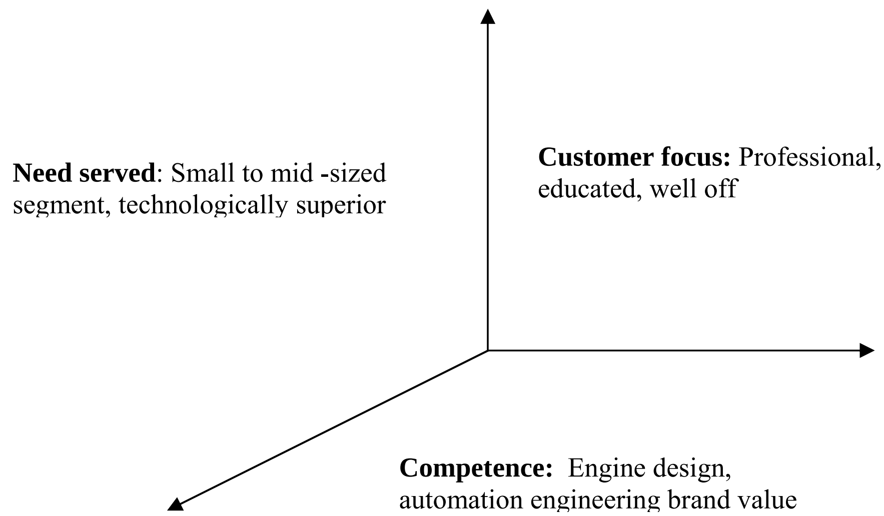

Figure 5.3: Honda (Strategy Differentiation)

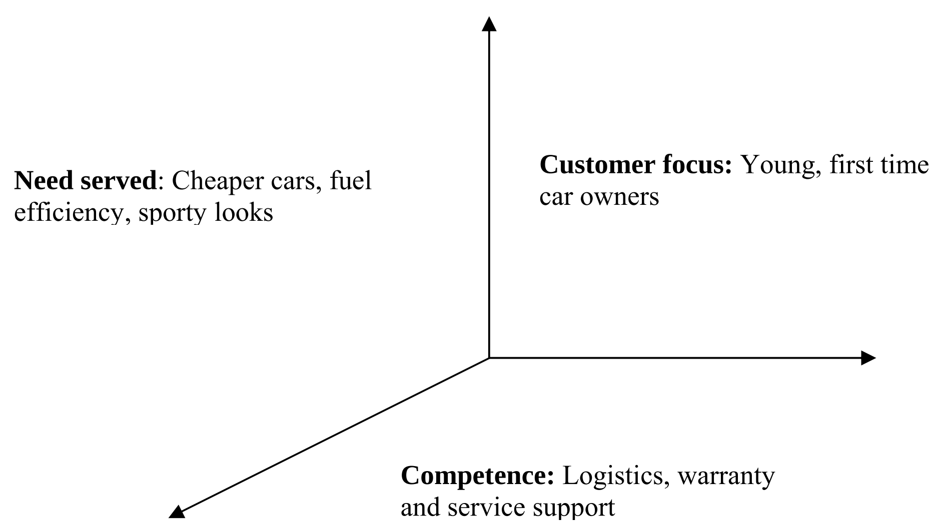

Figure 5.4: Hyundai (Strategy Cost Advantage)

Organisations compete on different bases. They choose to serve different segments and build their functional capabilities/ competences in marketing, engineering, operations research and development, human resources and logistics to fine-tune that strategy and outwit competition.

At times a radical change may be in the offing and the organisation may revise the basis of its competitive position. That may not be an easy action to accomplish but may be the only option and its accomplishment may yield better results. In India, Bajaj Scooters was an iconic brand. It was regarded as the being synonymous with the country's development. As the motor vehicle sector changed in India and availability of cars and two wheelers increased and the market shifted from being a seller's market to a buyer's market customer preferences also changed. The younger generation shifted to motorcycles and the older middle class shifted towards compact cars. The scooter wasn't a vehicle of choice it offered neither the mileage of the motorcycle nor the comfort of the car. Bajaj Scooters found itself neither here nor there despite having invested resources on quality management, lean manufacturing and so on. Bajaj Scooters eventually had to stop the manufacture of scooters and focus on motorcycles a segment that has potential but was secondary to the scooter Bajaj Auto.

Being caught in the middle of the road situation is not good strategically for any organisation. Bajaj Auto realised that in the fast growing motorcycle segment it was at best following the leader Hero Honda. The temptation at Bajaj to continue with scooters was very strong even though the product had outlived its mass market days. With scooters being its mainstay the company's motorcycle segment wasn't getting the attention and resources needed to compete with a formidable competitor such as Hero Honda. The alliance between Hero Motors and Honda of Japan came to an end in 2012 and it was an opportune time for Bajaj to concentrate on the motorcycle segment as the industry boundaries were likely to be redrawn between the three players: Honda, Hero Motocorp, and Bajaj.

Organisations such as Bajaj are stuck in the middle and their decisions entail choosing either segment A or segment B. At other times organisations drift towards a neither here nor there strategy even within their singular product service group. In the airlines industry the business model and competence requirement for being either a low-cost player or a full-fare airline are significant as are the value chains. Despite this, it is not uncommon to find low-fare airlines that drift towards the full-fare model without analysing the differences, competencies and the costs of the shift. This leads to erosion of competitiveness. Laker Airlines in the U.S. and Kingfisher Airlines in India exemplify this drift. Over time both the airlines wanted to be both low-cost and full-fare. They tampered with a few frills here and there. The results were not good for their respective profitability.

Michael Porter developed a simple classification for competitive strategies as shown in **Figure 5.5.** The three generic strategies of cost leadership, differentiation and focus are based on the kind of competitive advantage created.

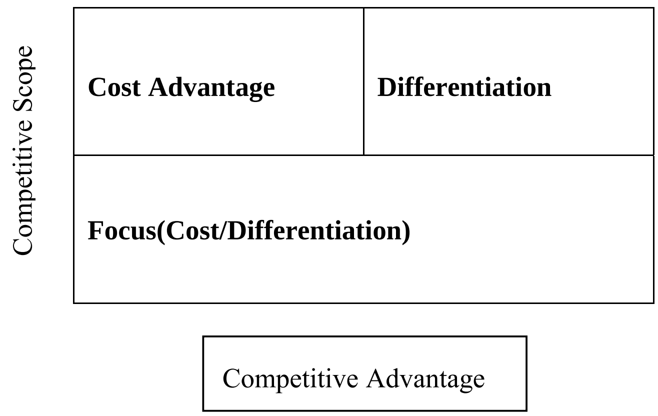

Figure 5.5

Cost Leadership Strategy

Cost leadership implies that the organisation has a lower cost structure than a competitor and therefore it is in a position to offer the cost advantage to customers by offering lower prices. The sources of the cost advantage can be rare and inimitable. The organisation designs the cost advantage. Walmart, Air Asia, McDonald’s Timex and Calvin Care are some examples of organisations competing on the basis of costs lower than competitors. Organisations have a low cost structure because they design to leverage:

- **Size**. Size implies the volume of production .As the volume of production increases per unit cost of production is lowered till an optimum volume is reached. **Figure 5.6** shows the relationship between cost and the volume of production.

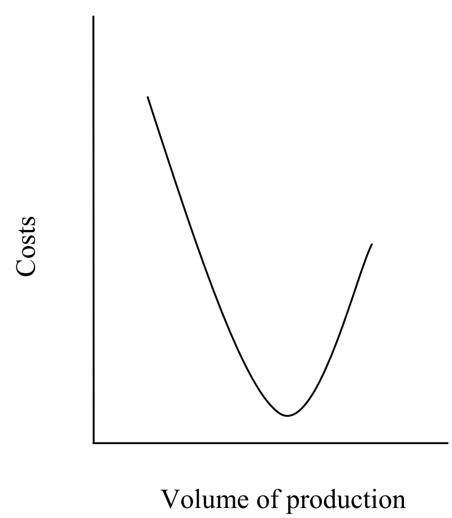

Figure 5.6

A higher volume of production implies cost reductions across some of the key functions. The reduction in the cost of production is seen in operations such as production, marketing and servicing. Further, a higher volume of production enables an organisation to use equipment and machines whose use is not possible in smaller production volumes. For example, in a readymade garment workshop there are many types of machine for finishing that one cannot afford to buy and use in a boutique stitching shop. These machines reduce the cycle time, further lowering costs. Overhead costs are also apportioned over a larger volume.

- **Learning advantages**. As the volume of production increases so does the experience of the employees of doing the task repeatedly. Increase in experience means fewer mistakes. Organisations that may have the highest accumulated volume of production are likely to have the lowest cost based on the learning curve. With the increase in the cumulative volume of production, greater efficiency is obtained as production methods are fine-tuned and improved.
- **Differential access to resources.** Organisations may have better access to resources than their competitors. It could be access to a natural resource, location advantage or better work force by virtue of proximity to an educational hub. Consider a fictional example of an organisation sourcing its oil supply from Saudi Arabia versus another from the North Sea. The one sourcing from Saudi Arabia has a distinctive cost advantage over the one sourcing from North Sea where the cost of drilling and transportation is much higher. The cost of gaining a differential advantage must be lower than the cost savings from using that advantage.
- **Reconfiguration of the value chain.** Organisations can either alter the value chain incrementally or reconfigure it afresh by restating their competitive posture and strategy. At times an organisation is caught in cost traps serving no particular segment fully. Let us consider the case of a fictional airline which serves neither the full-fare segment totally nor the low-cost segment. It offers something for everybody and its profitability is lower than that of rivals who either serve the full segment or the no frills segment. To improve its profitability it reconfigure routes, has more flying hours per day, operates early morning in and late night out flights to business destinations so that flyers can do a day trip, charges for food, seats on the basis of first-come, first-served and focuses on being punctual. This reconfiguration of the value chain creates cost advantages which weren't realised earlier. If, however, the organisation is not caught up in the cost trap as the airline was, incremental changes are possible.
- **Technology related cost advantages**. Technology related cost advantages may be independent of scale economies. An organisation may have the ability to use computers, robots,

information technology in a more efficient manner than its competitors. It may use the same technology as is available to others to create for itself some distinction such as a more comprehensive data base.

- **The organisation's culture of sharing information and knowledge** is an important aspect in creating the cost advantage. Organisations that compete on the cost basis integrate the cost reduction thinking across all functions and activities not only in the key areas. Cost advantage does not result from a few activities; it is the outcome of the cumulative activities an organisation performs to be in a cost-competitive position.

There is an asymmetry in the cost advantages yielded by some functional areas over others but overall cost advantage is not achieved by a focus on a few areas. Cost-consciousness is built across the entire organisation. Costs deemed unnecessary are curtailed across the organisation. The functional strategies have to be articulated to deliver in consonance with the cost focus strategy.

Figure 5.7 shows the relationship of different aspects in creating the cost advantage.

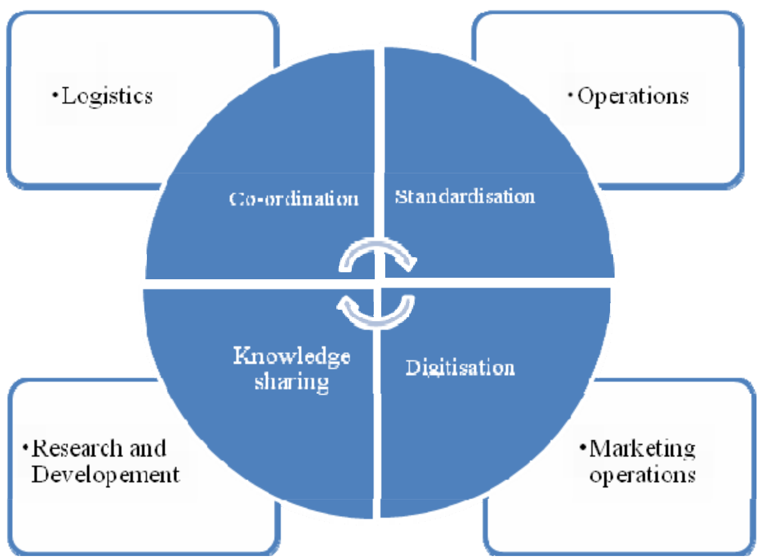

Figure 5.7

The functional strategies support the cost-based strategy.

Cost leadership and Supply Chain.

The cost leadership strategy is realised by developing a highly efficient cost-responsive supply chain. Low inventory levels are maintained, the inventory turnover is high, the plant lead time is less, the buyers are low-cost and match their value chain with the customer, they enable time-definite deliveries with low variability and orders are generally standardised. Manufacturing avoids waste, error and use of unnecessary assets. Tasks that can be done at a cost advantage are sourced outside. Maintenance for smooth functioning is done routinely as the cost of a breakdown may be high. Employees are trained to carry out standardised tasks and follow cost-efficient methods. The suppliers are smaller organisations for whom the organisation may be a major or a dominant buyer.

Cost Leadership and Research and Development

Research and development in a cost-focussed environment aims to reduce the costs. Technology sourcing and adaptation are the preferred routes over product or process-specific research. The research and development efforts are more inclined towards adaptation of the best practices leading to cost and efficiency advantages than fresh research. A cost-focussed strategy implies that the research and development focus is more on slower product releases and lesser investment in the R&D.

Cost leadership and Manufacturing/Operations

The manufacturing or the operations strategy has a significant implication on costs. The manufacturing system that is adapted to the cost focus will be configured to fit it so well that it may immediately be possible to configure it for any other focus. Operations strategy is based on the extent of the product and process complexity. The low product complexity is more conducive to mass production as would be required to attain the desired cost position. The production process may be complex to handle the large volume of standardised products. A low-cost strategy is not synonymous with low quality and therefore the production process may be complex, as on a large volume base many different specifications have to be handled. Production is continuous and generally with a high degree of automation. Maximum capacity utilisation is the target to attain economies of scale.

Cost leadership and the Marketing Strategy

Cost leadership is based on the premise that the market is price sensitive. Marketing is aggressive and promotions and discounts are widely used. The distribution channels have to be efficient and may be configured to the value chain of the manufacturer. The focus is on 'push the product'.

The Cost Leadership and Human Resources Strategy

Ideally the human resource strategy is aimed at recruiting and retaining the best human resources within an organisation. The pursuit of a specific strategy determines the skill profile of the people who are required within the organisation and development of performance measures commensurate with the strategy. The cost leadership strategy requires a high degree of coordination among the key areas. To be able to reap the benefits of scale advantage timing is another crucial determinant. Employees who exhibit a high degree of focus energy, capacity to deliver sooner and focus on measurable results will be greater assets for such a strategy.

Cost Leadership and Finance Strategy

Corporate strategy has a greater bearing on the finance function than the functional strategy. The finance and accounting strategy at business level is concerned with apportioning cost to key activities, creating measures of financial control, managing the cash flows and short term fund requirements of the organisation. In the competitive domain the responsibilities of the finance function remain the same. The choice of the competitive strategy determines the type and extent of financial control measures to be used. The cost focus strategy uses key financial ratios to measure performance and as controls. Acquisitions to enhance capacity may be made on more rigid appraisal of capacity and efficiency benefits.

Cost Leadership and Digitisation

Digitisation is an important source of creating efficiency and effectiveness in the organisation. For cost control the synergy between the digitisation and the information system of the organisation is important. The information system enables it to have a connected supplier network and work towards zero inventory goals. For cost advantage the supply chain systems are linked with an automated manufacturing system to reduce inventory and remove duplication of effort. The organisation uses enterprise-wide systems to facilitate standardisation. However, in future this might have to be linked with robotics for fully automated manufacturing.

Activity 5.1

Activity

In the previous modules you have read about corporate strategies of vertical integration and diversification. Are there any cost advantages for an organisation that follows the path of diversification or vertical integration? If there are any advantages than what is the source of those advantages?

Examine at least two organisations each for diversification and vertical integration to prepare your reasoned answer. In your answer you may consider incorporating data from factual situations such as increase in capacity, reduction in operating expenses, reduction in waste etc.

Differentiation strategy

There is a legendary story about Henry Ford, the founder of the Ford Motor Co. After having established the Ford Motor Co.'s Model T in the market place, and smug with success, he is supposed to have asked his managers to sell cars to customers in "any colour so long it was black". The statement is recalled here from hearsay to bring home the point that a dominant market position does not insulate an organisation from customer demand for products that are different in terms of colour, style, aesthetics or design. Ford lost customers to General Motors who provided better styled and designed products to customers. Differentiation must embody the perspective of the customer. A product or service is differentiated if it offers increased convenience, improved quality, greater features, continuity of availability, and support for different stages of the product such as installation, repair, upgrades and so on. In fact there are infinite numbers of ways of creating a differentiation, provided the customer sees the value in that. If the customer doesn't perceive any value in the differentiation created by the organisation it has no appeal for the customer. The buyer will pay for differentiation if it is of value, relevance and importance to him/her.

Differentiation enables an organisation to command a higher price, gain customer loyalty. Differentiation is a deliberate choice brought about by superior quality product, branding, packaging, appearance, after-sales service, product performance, and efficiency of distribution channels design, style, features novelty and uniqueness. The differentiation requirements of individual and business buyers would differ. The differentiation advantage is expected to lead to higher profitability if the differentiation advantage meets customer requirements and the cost of creating it is less than the differentiation premium. Benetton commands a higher price for its clothing because of the colour-based differentiation advantage. The colours are distinctive and do not run under any conditions. Mercedes, Marks and Spencer, Audi, Singapore Airlines have differentiated their products or services. Differentiation can lead to:

- Lowering of buyer costs. For example the manufacturer of medical equipment offers free maintenance for two years for its equipment and thereafter provides on-site servicing and repair of equipment by positioning the service engineers in the vicinity of a cluster of hospitals. Buyer costs can be also lowered by lowering the delivery installation costs, or direct cost of using the product or risk of product failure or indirect cost of using the product.
- Enhancing product/service performance. For example, computer software that enables one to draw with a mouse like pencil without moving onto different drawing or picture options will ease the work of professionals who have to frequently use diagrams/sketches**.** Sony television sets use technology to fine-tune the contrast for picture quality and good viewing experience.
- Greater convenience of use. For example, digital cameras are an easier option over film cameras. The Sony Walkman gave the

user the advantage of keeping hands free and being mobile when listening to music.

- Creation of unique advantage for the buyer. For example, a jeweller offers hallmarked and certified jewellery over non-hallmarked items giving the buyer an exact idea of the present and future worth of his/her investment.
- Catering to an unmet emerging need. There is a small customer segment which wants ecologically sustainable products, be they "green" or "organic". These are the products that a customer wants as a part of lifestyle choice not because they are legally mandated to be so. Products that fit well with such a choice would include organically grown tea/coffee/herbs. Fair practice certified handicrafts are also lifestyle choices and fit in similar category of products. Organisations which cater to this need can develop a sustainable differentiation advantage. The broad differentiation paradigms are shown in **Figure 5.8**. There are four indicative bases of differentiation in the circle and some of the differentiating advantages that result from them.

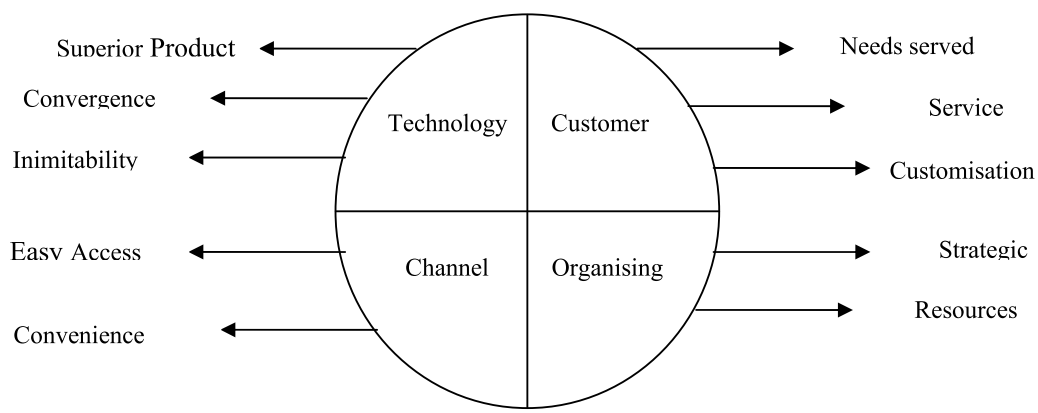

Figure 5.8

In **Figure 5.8** the organisations that distinguish themselves on the basis of the *customer* are Singapore Airlines, Marks and Spencer, on *Channel* basis are Dell Computers, on the basis of *organising* are consultancies such as McKinsey and Co, and on the basis of *technology* Apple Co.

Differentiation can be a counterproductive strategy when:

- The differentiation created is not valued by the buyer.
- The cost of differentiation exceeds the value created by differentiation.
- The differentiation is far in excess it the customer's needs and creates more problems in use than it sorts.
- Generic differentiation which also not consider different segments having different requirements.

The functional strategies must support the differentiation effort of the organisation. The role of the different functional strategies to support the differentiation initiative is explained below.

Differentiation and Supply Chain

Differentiation is based on the premise creating something unique for the satisfaction of the customer. The quality distinctiveness of the materials used in the operations determines the uniqueness**.** For example Michelin uses a specific grade of rubber for its tyres. There may be a need to develop or modify the product with some supply side changes the supply chain should be supple enough to enable it.

Differentiation and Research and Development

Many of the differentiation features grow out of research and development. Smart phones are an example of a differentiated product developed by the convergence of technologies which enables the user to do many things. Such products are either the outcome of an organisation's research or its ability to copy and perhaps improvise the product. Mechanical improvements, cost reducing improvements or performance improvements are rooted in research. It may be basic or advanced. An organisation which follows the differentiation route sets up a research agenda and focus as well. Nissan Leaf, the electric car from Nissan is also an example of differentiation.

Differentiation and Operations

Differentiated products may have more features, add-ons, styling finesse and so on. This entails greater product complexity at the time of manufacturing. The inventories are also greater and the quality and specifications too may be different, may not be continuous and automated fully. Capacity, equipment, processes are designed to fit the differentiation requirements and may not be too generic. What is important is to be clear about the distinctiveness factors.

Differentiation and the Marketing Strategy

All the marketing mix elements must support the differentiation. For example, the product differentiation may need back up from a well-designed brochure and information booklet but the budget for such printing has been exhausted and instead a booklet with ordinary print quality and content is appended with the product. This detracts value and indicates a lack of coordination and understanding within the organisation about the necessity of backing the differentiation initiative. The role of marketing is strategic rather than tactical to build and sustain the competitive advantage.

Further, Caves and Williamson (1985) empirically derived the following basis of product differentiation:

- Products customised to specific customers, for example robots customised to fit in with a particular manufacturing system. The customisation can be industry-based or process-based.
- Product Complexity The more complex product may be perceived to be superior by the customer. Hand-wound Swiss

watches are more complex than the battery-based ones and command premier prices.

- Emphasis on consumer marketing. A category of products perform the same function but one set of products receives greater support from advertising than another creating a distinct image in the mind of the consumer. There are many sun block creams but some are advertised more heavily than others. The consumer is more inclined to buy what he/she sees on television than the product which may have attributes but he/she is not aware of. How many of us know about industrial soaps or disinfectants even though they perform the same function as household ones.
- Distribution Channels. Distribution channels can be a differentiating factor. Cosmetics sold through women have an appeal because of their channel. Customers open up sooner and are willing to ask more questions and try different products. Amway and Tupperware use different channels than their counterparts.
- Service and Support. Service support is a differentiator for consumer products such as cars and industrial products. The extent to which the service support is provided can be one of the key features. Nordstrom in apparel retail offers very attractive return and exchange policies to augment its service appeal to target customers. The local grocery stores in India offer a better service than organised retailers in terms of exchange, convenience packaging, credit facilities and home delivery.

The Cost Leadership and Human Resources Strategy

The human resource strategy overall remains the same. However each generic strategy requires people with some unique blend of skills. The job of human resources is to recruit, develop and retain people with the requisite mind and skill sets to service the strategy. The basis of differentiation may be based on the factors elucidated by Caves and Williamson that the key question would be, do we recruit and train people who can be outstanding salespersons and deliver the level of customer service we intend to offer. HR in a modern organisation is a function whose job is to get the right person for the right job.

Differentiation and Finance Strategy

Some activities that support differentiation would be different from those that support cost leadership. The finance function has to be adaptable to develop its controls and monitoring to suit the requirement of the competitive strategy. For example an organisation may differentiate by offering the full line of products where half are star performers. The decision to be a full line one is strategic. Finance and accounts should support it and encourage those policies that do not allow an accumulation of those products that are not good performers. The point is the inherent rigidity of the finance and accounts function has to be modified.

Differentiation and digitisation

Digitisation and the information systems strategy can play an important role in the delivery of value and service as a part of differentiation. As the popularity of e-commerce digital platforms increases, the kind of interface created between the buyer and the seller will be an important distinguishing feature. An organisation has the option to fully and only use e-commerce for transactions with customers or to do so partially or to just give information about the products. Digitisation will create new platforms for differentiation in the e retail space, health care delivery and education. The challenge here would be to integrate with the overall competitive strategy.

Focus strategy

The focus strategy is very different in terms of the segment the pursuing organisation decides to serve. A limited segment to the complete exclusion of others is served. It is specific to a very narrow group of buyers. Let us take the case of a travel company that has chosen to serve a specific segment of women travellers. The profile of its target travellers is between 30 and 60 years of age, economically independent, having diverse interests and attitudinally geared to travel and explore on their own. The entire value chain is configured to serve this segment. The offering of destination, boarding, lodging, travel, entertainment and shopping after hours are designed specific to this segment. The destination will be offbeat; service will be marked by precision, punctuality and efficiency. Each year a few destinations are developed according to the requirements of the select target and at a time only ten women travel together. The focus is on creating a unique travel experience for the patrons. Word of mouth and referencing is the basis of publicity and entry into the travel group.

Most travel operators cannot serve the segment as their strategic choice tends towards larger groups going to destinations that have been tested and tried. At times the opportunity for focus is created because conventional business models are not able to cater to the needs of some segments.

In a nutshell it can be said that the focus strategy:

- Serves a limited segment by choice.
- The segment is understood and targeted.
- The organisation has the resources, skill and competence to serve the segment.

The organisation can opt to offer a low cost or a high differentiation advantage to the served segment. (for example, Net Jets/DC Designs) as shown in the **Figure 5.9** below.

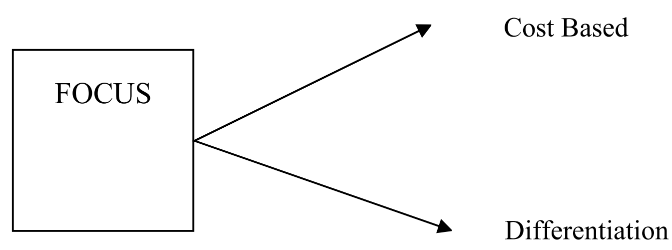

Figure 5.9

Let us consider two examples here, NetJets (USA, Europe and China) and another of DC designs (India.) to understand the nuances of the focus strategy.

NetJets is a company which buys aircraft and allows corporate clients to buy part-ownership of that aircraft. It has middle-sized and small aircraft and the buying organisation buys a share depending on its need, budget in either or both types of aircraft. The aircraft have been refurbished for corporate clients. Its unique feature is that "it provides fractional jet ownership giving individuals and businesses the benefits of aircraft ownership and more at a fraction of cost." (www.netjets.com). Before the organisations or individuals buy a share their needs are assessed and options rolled out. In 1998 NetJets was bought by Warren Buffet.

NetJets serves a very narrow segment of the business travel market. The segment it serves is between full ownership of a corporate jet or commercial travel. The former is an expensive preposition with all the attendant problems of maintaining an aircraft. NetJets owners do not have to be involved with that. NetJets takes care of all the operational details such as maintenance, fuelling, licences, hangers, pilots, cabin crew and so on. Commercial flying is restrictive and NetJets is customised to the flyer saving time and money. NetJets positions itself as a cost-saving company and at the same time providing a highly differentiated service.

The second example is of DC Design, a car design company started by Dileep Chabaria in 1983. Initially, the company was set up to provide car accessories. The car market in India had just opened up and there was a craze for car accessories. Chabaria, who was trained at General Motors in the U.S., had an insight about car design and engineering and his accessories business was doing very well. At this time he diversified in refurbishing cars. He set up a design company by the name of DC Design to redesign, refurbish and modify cars. Today DC Design do aircraft design and are associated with design processes of major car makers. The designs are meant for the discerning car buyer who may often spend more on refurbishing than they did on the original car. The DC Design studio caters to custom car buyers. Customisation of a car at a plant is very expensive. Rolls Royce did so for the Indian Maharajas. The company has focused on the niche segment for differentiation. Select customers get their cars refurbished to meet their different needs, be they swanky interiors, additions of amenities such as a fridge, television, more leg space, convert a sedan to a coupe, or change the internal configuration.

Focus is a strategy based on a set of unique attributes in skill, talent, and thinking, resources that an organisation will use to serve and profit from a very limited segment. In case an organisation serves a limited segment without attendant uniqueness it may not be pursuing focus strategy by choice. It may be an outcome of positioning error.

Linking business level and functional strategies

Competitive strategies are based on and acted on through the functional strategies. Functional strategies are rooted in the main functional areas of business such as marketing, finance, operations, research and development, human resources, supply chain management and so on. In the foundational courses you have also studied these functions in depth. The marketing, finance, HR, operations and other functions embody what the organisation has: its key resources, competences and capabilities. Competitive strategies lay out the plan for the reconfiguration of these in a manner that best serves the long-term interests of the organisation. The clarity of strategy has to be matched by the clarity about what and who is the lynchpin of the strategy and to build that up. Functional strategies have to be developed to ensure they are compatible with the main competitive strategy. The cross functionality, too, should be complementary. For example, if the organisation aims to be differentiated on the basis of the quality of its products then there must be complementarities between its marketing and production strategies.

Let us see how differentiation on the basis of quality would entail quality control of a superior level for procurement, work in progress and emphasis on good housekeeping, hiring of more skilled manpower and constant training. Within marketing, the advertising would pull the customers towards a better product at well-designed outlets serviced by competent salespeople and quality-centric policies. These functional strategies will be at variance from the strategies that would be pursued if the organisation competed on the basis of cost. All the functional policies of procurement, production and human resources would then be designed to service that strategy. Similarly, if the organisation seeks to grow on the basis of technological superiority and being able to serve the un-served markets then the technology engineering, marketing, finance and operations functions would be reconfigured, manned, evaluated and led differently.

The scope of functional strategies has enlarged to include the extent and scope of digitisation and automation within the organisations. Digitisation is not just about computers and the Internet and customers placing orders online. It entails a responsibility for quick response together with transparency. To be able to live up to this requirement the entire organisation has to change not just technology but the entire spectrum of processes and systems to integrate the changes for the long-term survival of the organisation. Stand-alone changes in any one area can be a source of tactical advantage but not sustained competitive advantage. All the functional strategies must support the competitive posture adopted by the organisation. The problems organisations encounters are because some of their functional strategies support one competitive stance and some another. This leads to confusion among the line operatives and organisation spends many unproductive hours in resolving the dilemmas brought about by this confusion. Many successful organisations have been able to bring out the required degree of cohesiveness among their functional strategies to support the strategic path. General Electric and Asea-Brown Boveri are some examples of such organisations that balance their competitive and functional strategies.

Module summary

Summary

In this module you learned about the different competitive strategies and the role the functional level strategies play in the success of competitive strategies. Competitive strategies have been based on the work of Michael Porter and include the strategies of cost advantage, differentiation and focus. An organisation may choose different strategies to compete across its different businesses. Competitive strategies can also vary from market to market. For example, Huawei may compete in some Asian markets on the basis of cost advantage but in the American market for some products may be a differentiator .An organisation may not always choose to serve a large market; it may deliberately choose to serve a small segment either through exclusive products or by creating an advantage in cost which existing options don't provide.

Each of these strategies is distinct and requires the support of functional strategies aligned with its ethos and competitive focus. Supporting a cost-based strategy with differentiation-focussed marketing or production strategies does not lead to sustainability.

The articulation of the competitive strategy and the alignment of the functional strategies require coordination between the senior and the functional managers. The main managerial responsibility is to avoid incompatibility between the competitive strategy and the functional strategy.

Assignment

Assignment

You have studied the three generic strategies. In the context of your country, choose one organisation for each cost, differentiation and focus strategy. From their official website and reports in the print media collect material about the different functional strategies they pursue to realise the competitive strategy.

You will present your assignment under the following headings introduction about the organisation and industry (two A4 size pages, single spacing, 14 font, Times New Roman), the competitive strategy (the market focus advantage and competence are elaborated here; three pages; format as indicated above). The functional strategies for each of the three generic strategies. The functional strategies of marketing, procurement, research and development, finance and accounts, human resources, and operations as well as general management capability will be studied and noted (five to six pages). Finally you will draw a comparative table to see how the functional strategies vary amongst generic strategies and on that basis summarise your observations.

Assessment

Assessment

Comment on the strengths and weaknesses of the Porter model of competitive strategy and its appropriateness for planning strategy in an industry of your choice.

References

Reading

Caves, R.E. & Williamson, P. (1985). “What is Product Differentiation Really? *Journal of Industrial Economics*, Vol 34, pp 113-132.

Porter, M. (1985.) *Competitive Advantage: Creating and Sustaining Superior Performance*. New York: The Free Press.

Wheelan, T. L. & Hunger, J. D. (2010). *Concepts in Strategic Management and Business Policy* (12th ed). Upper Saddle River, NJ: Pearson Education.

www.netjets.com

Further Reading

Reading

Rumelt, R. P. (2003). *What in the World is Competitive Advantage*. Policy Working Paper, The Anderson School at UCLA. www.anderson.ucla.edu/faculty _pages/dick.../WhatisCA_03.pdf

www.dcdesign.co.in