



PORTER'S GENERIC STRATEGY- A REVIEW

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Introduction

The term strategy means

- a. The plan of action or a course of action, or ways & means to achieve the long term objective in a dynamic or changing environment.
- b. A strategy clearly defines vision, mission, objective, & operational plans.
- c. Spell out the allocation of resources,
- d. Co ordination of different divisions, and
- e. Explains how to control the different activities, to attain the goals.

According to Random House Dictionary, the term 'Generic' refers to many connotations and many meanings like 'pertaining to' or 'making a genus', 'applicable to', or 'referring to', 'all the members of a genus' .Class, group, or kind, general' Taking a leaf from the above, the connotation of class or group or kind' is taken for understanding the term 'Generic' in the context or 'Generic Strategies'.

Generic Strategies may be defined as a means of generating basic strategy options in an organization. They are based on seeking competitive advantage in the market place.

Features of Generic Strategies

Three generic strategies have been developed by Porter viz.

- Cost Leadership
- Differentiation, and
- Focus

Every business needs to choose one of these in order to compete in the market place and gain sustainable competitive advantages.

Generic Strategy Options

Cost Leadership is a strategy built on offering a customer a low prices than competitors and maintaining an advantage by ensuring costs are lower than those of competitors. This strategy works particularly well in a large market where customers want a standardised, hard to differentiate product - a commodity.

Costs are managed down by using economics of scale and following the experiences curve which is the tendency for costs to fall as experience in producing a particular product is gained. Capacity utilization, and good supplier relationships also contribute for cost leadership. Where the organization has high fixed costs on plant and machinery, there may be cost reductions to be obtained by running production as close to capacity as possible.

Similarly if a supplier is willing and able to maintain quality, and reduce costs, then the firm will get cost advantage,

Cost Leadership

Differentiation

Focus

Low cost leadership gives the firm profit advantage. It means low cost leaders (organizations) should be able to sell their products in the market place at around the average price of the market. If such products are not perceived as comparable or their performance is not acceptable to buyers, a cost leader will be forced to discount prices below competition in order to gain sales.

Differentiation

Differentiation is a strategy that involves offering a product which is different to; is differentiated from those of competitors. Differentiation occurs when the products of an organization meet the needs of some customers in the market place better than others.



When the organization is able to differentiate its products, it is able to charge a price that is higher than the average price in the market place. Underlying differentiation strategy is the concept of market segmentation.

They are:

- It is difficult to estimate whether the extra costs incurred in differentiation can be recovered from the customer.
- The successful differentiation strategies may encourage competitors to copy the differentiated product and enter the market segment.

Focus Strategy or Niche Strategy

Focus is a strategy that works through concentrating the firm's efforts on the interests of a narrow group of customers rather than the market as a whole.

Focus strategy is chosen when neither the low-cost leadership strategy nor a differentiation strategy is possible for an organization across the broad range of the market.

For example,

the costs of achieving low cost leadership may require substantial funds, which may not be available. So, the costs of differentiation, while serving the mass-market of customers, may be too high, if the differentiation involves quality it may not be credible to offer high quality and cheap products under the same brand name. So a new brand name has to be developed and supported.

The essence of focus is the exploitation of a narrow target's differences from the balance of the industry. By targeting a small specialized group of buyers it should be possible to earn higher than average profits, either by charging a price premium for exceptional quality or by a cheap and cheerful low price product.

Problems with the Focus Strategy

- By definition the niche is small and may have limited long term growth.
- Cost focus may be difficult if economies of scale are important in an industry such as the car industry.
- The niche is clearly specialist in nature and may disappear over time.

Stuck in the Middle

Prof. Porter has observed that his above analysis of the main generic strategies face some real dangers for the firm that engages in each generic strategy, but fails to achieve any of them. It is stuck in the middle. According to him, a firm in this position will compete at a disadvantage because the cost leader, differentiator, or focuser will be better positioned to compete in any segment. Such a firm will be much less profitable than rivals achieving one of the generic strategies.

Criticism on Porter's Generic Strategies

I rule out this aspect - i.e. - 'stuck in the middle.' - of the above analysis.

Low-Cost Leadership

Competitors also have the option of reducing their costs in the long term;

So how can one company claim to maintain its competitive advantage without risk?

It is assumed that technology is relatively predictable, if changing. Radical change can so alter the cost positions of actual and potential competitors that the concept may only have limited relevance in fast changing high technology markets.

This means that the low cost leader must also lead price reductions or competitors will be able to catch up. Permanent of its product or service that will limit its usefulness.

Differentiation

Differentiated products are assumed to be higher priced, the form of differentiation may not lend itself to higher prices.

The real problem for strategy options is not to identify the need for differentiation but to work out what form this should take to be attractive to the customer. Generic Strategy options throw no light on this issue whatsoever.

Focus

Sometimes the distinction between broad and narrow targets is not clear - whether distinguished by the size of the market or customer type.



While for many companies it is more useful and productive to pursue niche strategy, the difficulty is to identify which niche is likely to prove worthwhile.

Generic Strategic have not provided any useful guidance in this regard.

Above all to-day markets get fragmented and products both differentiation and low-cost strategies at the same time and get competitive advantage.

Conclusion

The above arguments show, it may be concluded that the concept of generic strategies has no merit. And it loses as a useful tool for generating basic options in strategic analysis.

References

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