



Business Management Toolkit

10. PORTER'S GENERIC STRATEGIES (HL)

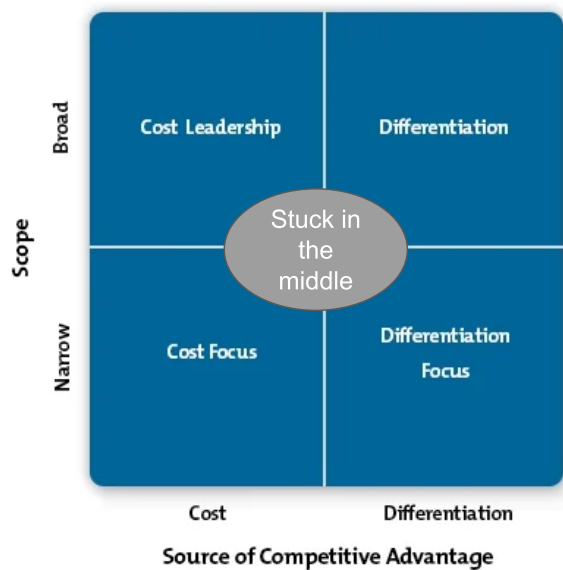
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Porter's Generic Strategies

Porter's generic strategies were first described by Michael Porter in 1985 in his book "Competitive Advantage: Creating and Sustaining Superior Performance."

Porter's generic strategies are ways of gaining competitive advantage.

Competitive advantage: an advantage a business has over its rivals, gained by offering consumers greater value, either with low prices or by providing greater benefits and service to justify a higher price



Porter's Generic Strategies

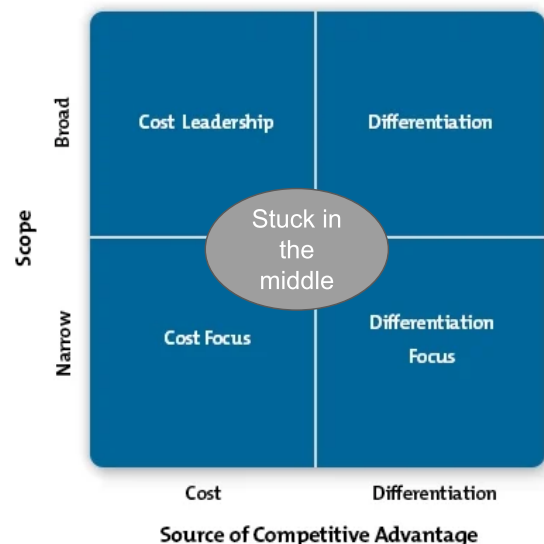
Cost Leadership - Minimizing the costs incurred in providing value to a customer

Differentiation - Making a product unique or special, compared to other competitors or substitute products in the market.

Focus:

Cost Focus - This does not mean a focus on cost. It means minimizing costs in a focused market.

Differentiation Focus - This does not mean a focus on differentiation. It means an orientation toward differentiation from other competitors/products within a focused market.



Porter's Generic Strategies

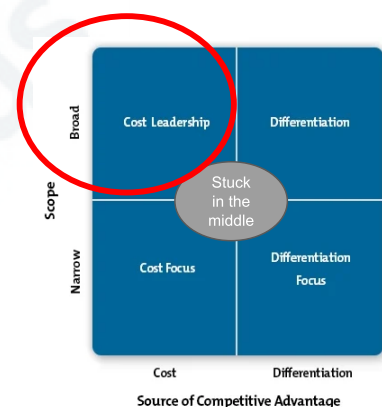
The Cost Leadership Strategy

There are two main ways of achieving competitive advantage within a Cost Leadership strategy:

- Increasing profits by reducing costs, while charging industry-average prices.

OR

- Increasing market share by charging lower prices, while still making a reasonable profit on each sale because the business has reduced costs.



Tip! Cost Leadership is about minimizing the product's cost to the organization. The price paid by the customer is a separate issue



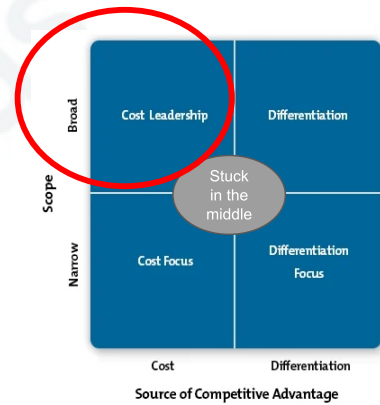


Porter's Generic Strategies

The Cost Leadership Strategy

Activity:

1. Discuss ways that a company can implement in order to reduce costs.
2. Discuss possible risks when a company follows a cost leadership strategy



Tip! Cost Leadership is about minimizing the product's cost to the organization. The price paid by the customer is a separate issue

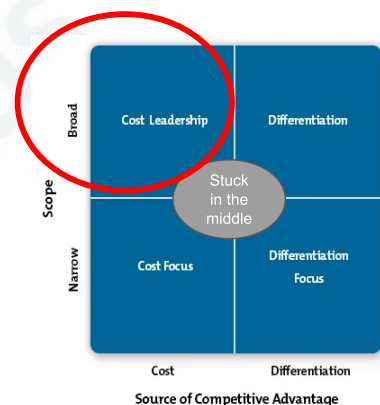


Porter's Generic Strategies

The Cost Leadership Strategy

Activity:

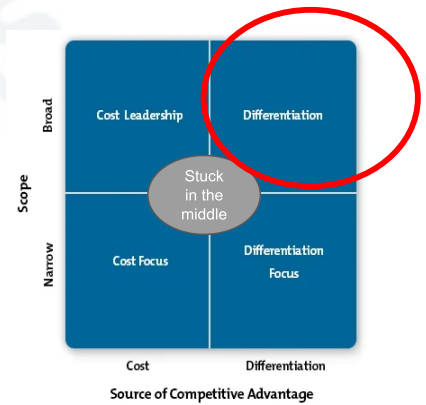
1. Discuss ways that a company can implement in order to reduce costs. **e.g. economies of scale, outsourcing, new technology**
2. Discuss possible risks when a company follows a cost leadership strategy **e.g. increase in raw material costs, low-cost competitors that undercut prices**



Porter's Generic Strategies

The Differentiation Strategy

Differentiation strategy is a business making products different from and more attractive than those of its competitors.



Porter's Generic Strategies

The Differentiation Strategy

Activity:

1. Discuss ways that a company can differentiate its products from competitors.
2. Discuss possible risks when a company follows a differentiation strategy.



Porter's Generic Strategies

The Differentiation Strategy

Activity:

1. Discuss ways that a company can differentiate its products from competitors. e.g. it depends on the nature of the product but it could be product features, functions, durability, customer support, brand image
2. Discuss possible risks that a company follows a differentiation strategy. e.g. the company needs to invest in research & development, to be agile and innovative, competitors may develop specialised products for niche markets, needs good marketing strategy to show differentiation, increased costs, if higher prices charged consumers may turn to cheaper alternatives



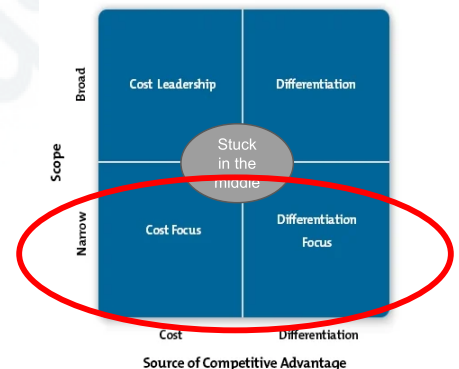
Porter's Generic Strategies

The Focus Strategy

Companies that follow either of the two focus strategies concentrate on particular niche markets either by developing unique low-cost products (Cost Focus) or well-specified and differentiated products for a specific niche market (Differentiation Focus).

Companies that use Focus strategies tend to build strong brand loyalty amongst their customers.

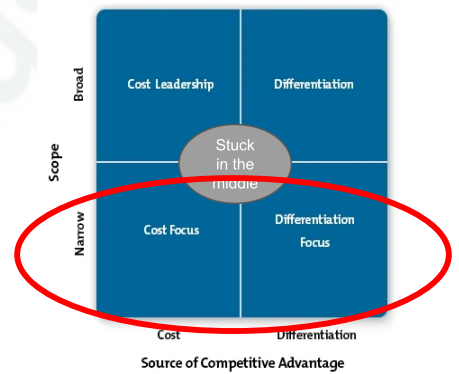
It is essential that the company chooses one of the two focus strategies.



Porter's Generic Strategies

The Focus Strategy

Exam Tip! The terms "Cost Focus" and "Differentiation Focus" do not mean "a focus on cost" or "a focus on differentiation." Remember that Cost Focus means cost-minimization within a focused (niche) market, and Differentiation Focus means differentiation within a focused (niche) market. In other words the focus strategies are the same with the broad strategies but towards a niche market.



Porter's Generic Strategies

The Focus Strategy

Activity:

1. Discuss possible risks when a company follows a focus strategy.



Porter's Generic Strategies

The Focus Strategy

Activity:

1. Discuss possible risks when a company follows a focus strategy.

Possible answers: Only focusing in a niche market is not enough as a competitive advantage, or if the company is small may not have the size for economies of scale and therefore decrease cost, the niche market may be too small, the competitors may offer more specialised products, see also disadvantages of niche markets 4.2

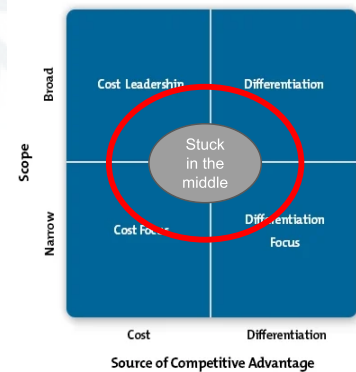


Porter's Generic Strategies

Stuck in the middle

A firm is said to be stuck in the middle if it does not offer features that are unique enough to convince customers to buy its offerings, and its prices are too high to compete effectively based on price.

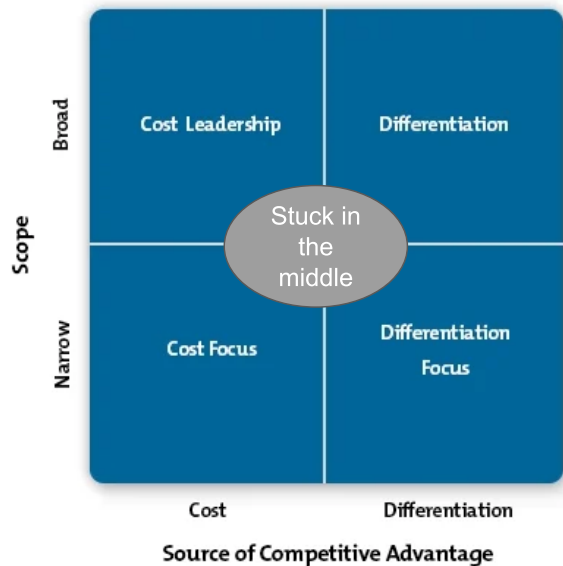
Often a business will be stuck in the middle not because executives fail to arrive at a well-defined strategy but because the business has been outmaneuvered by its rivals. These could happen based on the risks of each strategy.



Porter's Generic Strategies

EXAM TIP FOR PAPER 3

Porter's generic strategies are suitable to be applied for social enterprises and non-profit organisations.

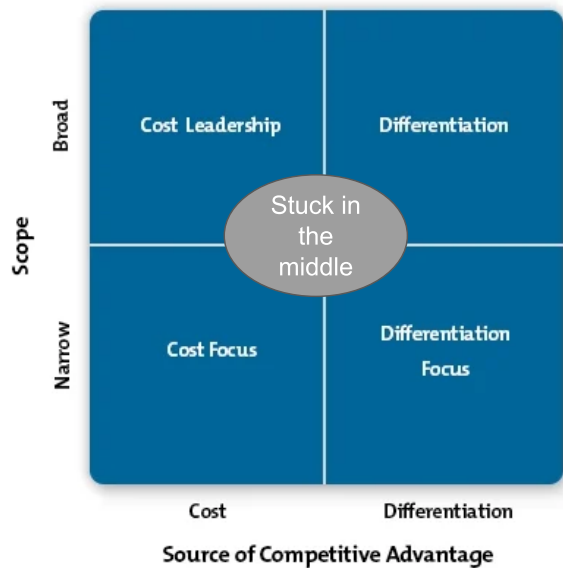


Porter's Generic Strategies

CLASS ACTIVITY - EXAM PRACTICE:

In groups choose 4-5 companies from the same industry (e.g. airlines)

Then classify them according to Porter's Generic Strategies and explain your answer based on examples.



Summary and examples

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Summary and examples

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Summary and examples



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Porter's Generic Strategies

https://www.mindtools.com/pages/article/newSTR_82.htm

<http://businessdevelopmentadvice.com/blog/stuck-in-the-middle-of-porters-generic-strategies/>

https://thebusinessprofessor.com/en_US/business-management-amp-operations-strategy-entrepreneurship-amp-innovation/porters-generic-strategies