Strategic Choices:

Business-Level Strategy

- Strategic Management (5 ECTS)
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Strategic Choices

- **Bases of competitive strategy**: The choices as to how an organisation positions itself in relation to competitors.
- **Strategy directions**: The choices of products and markets available to an organisation.
- **Methods for pursuing strategies**: The choices about how strategies are to be pursued.
The TOWS Matrix

<table>
<thead>
<tr>
<th>External factors</th>
<th>Internal factors</th>
<th>Strengths (S)</th>
<th>Weaknesses (W)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opportunities (O)</td>
<td></td>
<td><strong>SO Strategic options</strong>&lt;br&gt;Generate options here that use strengths to take advantage of opportunities</td>
<td><strong>WO Strategic options</strong>&lt;br&gt;Generate options here that take advantage of opportunities by overcoming weaknesses</td>
</tr>
<tr>
<td>Threats (T)</td>
<td></td>
<td><strong>ST Strategic options</strong>&lt;br&gt;Generate options here that use strengths to avoid threats</td>
<td><strong>WT Strategic options</strong>&lt;br&gt;Generate options here that minimise weaknesses and avoid threats</td>
</tr>
</tbody>
</table>
Business-Level Strategies

SBU strategies

Bases of competitive strategy
- Price
- Differentiation
- Hybrid
- Focus

Achieving competitive advantage
- Sustainability
- Hypercompetitive strategies
- Collaboration
- Game theory
What is a Strategic Business Area?

- **Demand**
  - Demand potential (size, growth rate, market share)

- **Customers**
  - Customer potential (customer structure, buying motives and criteria)

- **Competition**
  - Structure of the competition, the competitors' objectives and strategies, competitive position

- **Specific resources and competences (the strategic capabilities)**
  - Organisation structure, control systems, technology, resources, know-how, management method, organisational culture

- **Success factors (on the basis of the previous factors)**
What is a Strategic Business Unit?

A **strategic business unit (SBU)** is a part of an organisation for which there is a distinct external market for goods or services that is different from another SBU.

- Each SBU has its own business strategy.
The Strategy Clock

Note: The strategy clock is adapted from the work of Cliff Bowman (see D. Faulkner and C. Bowman, *The Essence of Competitive Strategy*, Prentice Hall, 1995). However, Bowman uses the dimension 'Perceived Use Value'.

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Route 1: No Frills Strategy

- Low price combined with low perceived product benefits focusing on price-sensitive market segments
  - Commodity markets
  - Price-sensitive customers
  - High power, low switching costs among buyers
  - Opportunity to avoid major competitors
Route 2: Low-Price Strategy

- Lower price than competitors while offering similar product benefits

Pitfalls

- Margin reductions
- Inability to reinvest
Route 3: Hybrid Strategy

- Seeks to simultaneously achieve differentiation and low price relative to competitors

- Advantageous when
  - Greater volumes can be achieved
  - Cost reductions outside differentiated activities are available
  - Used as an entry strategy
Route 4: Differentiation Strategy

- Seeks to provide products that offer benefits that differ from those offered by competitors
- Dependent upon
  - Identifying and understanding strategic customer needs
  - Identifying key competitors’ strategies
Route 5: Focused Differentiation

- Seeks to provide high perceived product benefits, justifying price premiums
- Key issues
  - Choice between focus strategy and broad differentiation
  - Tensions between focus strategy and other strategies
  - Market changes
Routes 6-8: Failure Strategies

- **6** – Increase prices without increasing service/product benefits
- **7** – Reduction in product/service benefits with increase in relative price
- **8** – Reduction in benefits whilst maintaining price
Sustaining Competitive Advantage

Price-based strategies

Sustainable competitive advantage

Differentiation

Lock-in

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Achieving Low Prices

- Operate with lower margins
- Develop a unique cost structure
- Create efficiency in organisational capabilities
- Focus on market segments with low expectations
Dangers of Low Price Strategies

- Competitors might follow suit
- Customers associate low price with low benefits
- Cost reductions may result in inability to pursue differentiation strategy
Ways of attempting to Sustain Advantage through Differentiation

- Create difficulties of imitation
- Create a situation of imperfect mobility
- Establish a lower cost position
Establishing Strategic Lock-In

- Size or market dominance
- First-mover dominance
- Self-reinforcing commitment
- Insistence on preservation of position
Competitive Strategies in Hypercompetitive Conditions

Overcoming bases of competitive advantage by:
- Imitation
- Strategic (re)positioning
- Blocking first-mover advantage
- Overcoming barriers to entry

Characteristics of successful hypercompetitive strategies:
- Cannibalise bases of success
- Smaller moves may be more effective than bigger ones
- Disruption of the status quo
- Be unpredictable
- Mislead the competition
Competition and Collaboration

Increased selling power

Stakeholder expectations

Increased buying power

Competitiveness might be improved by collaboration to achieve

Shared work with customers

Increased barriers to entry

Entry to new markets

Decreased risk of substitution