Chapter 5: Business-Level Strategy

CHAPTER SUMMARY

This chapter begins with a discussion of the economic logic and customer focus that drives the selection of a business-level strategy, which in turn determines who will be served, what needs will be satisfied, and how.

Organizational structures are related to business-level strategy, and each of the five basic business-level strategies is discussed. An analysis of each type of strategy describes how the strategy is used to favorably position the firm competitively, the organizational structures linked with successful use of the strategy, and different risks that may be encountered when using the strategy.

Also, the value chain is used to illustrate activities needed to implement each type of business-level strategy.

CHAPTER OUTLINE

Economic Logic and Business-Level Strategy
  Types of Business-Level Strategy
  Serving Customers
  Strategy and Structure
Cost Leadership Strategy
  Successful Execution of the Cost Leadership Strategy
  Using the Functional Structure to Implement the Cost Leadership Strategy
  Competitive Risks of the Cost Leadership Strategy
Differentiation Strategy
  Successful Execution of the Differentiation Strategy
  Using the Functional Structure to Implement the Differentiation Strategy
  Competitive Risks of the Differentiation Strategy
Focus Strategies
  Focused Cost Leadership Strategy
  Focused Differentiation Strategy
  Using the Functional Structure to Implement Focus Strategies
  Competitive Risks of Focus Strategies
Integrated Cost Leadership/Differentiation Strategy
  Successful Execution of the Integrated Cost Leadership/Differentiation Strategy
  Using a Flexible Structure to Implement the Integrated Cost Leadership/Differentiation Strategy
  Competitive Risks of the Integrated Cost Leadership/Differentiation Strategy
Summary

KNOWLEDGE OBJECTIVES

1. Define business-level strategies.
2. Discuss the relationship between customers and business-level strategies in terms of who, what, and how.
3. Explain the differences among business-level strategies.
4. Describe the relationship between strategy and structure.
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5. Discuss the simple and functional structures used to implement business-level strategies.
6. Use the five-forces model of competition to explain how value can be created through each business-level strategy.
7. Describe the risks of using each of the business-level strategies.

LECTURE NOTES

**Business-Level Strategy** - This opening section introduces the five basic approaches that combine the scope of an organization’s activities in the market (broad or narrow) with the primary source of its competitive advantage (low cost or uniqueness). The context for Chapters 5-10 is outlined here in terms of the five elements of strategy described in Chapter 2 (arenas, vehicles, differentiators, staging, and economic logic).

<table>
<thead>
<tr>
<th>See slides 1-3.</th>
<th><strong>Key Terms</strong></th>
</tr>
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<tbody>
<tr>
<td></td>
<td><strong>Business-Level Strategy</strong> - integrated and coordinated set of commitments and actions the firm uses to gain a competitive advantage by exploiting core competencies in specific product markets.</td>
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</tbody>
</table>

**Economic Logic and Business-Level Strategy** - This section maintains the idea that the firm’s business-level strategy is a deliberate choice about how it will perform the value chain’s primary and support activities in ways that create unique value. Sound strategic choices reduce uncertainty, facilitate success, and depend upon continuously-updated competitive advantages to achieve long-term success.

**Types of Business-Level Strategy** - This section introduces the five types of business-level strategies that firms choose among to establish and defend their desired strategic position against rivals.

<table>
<thead>
<tr>
<th>See slide 4. See Figure 5.1: Five Business-Level Strategies.</th>
<th>1. What five business-level strategic options are available to firms?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>a. Cost leadership</td>
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<tr>
<td></td>
<td>b. Differentiation</td>
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<tr>
<td></td>
<td>c. Focused cost leadership</td>
</tr>
<tr>
<td></td>
<td>d. Focused differentiation</td>
</tr>
<tr>
<td></td>
<td>e. Integrated cost leadership/differentiation</td>
</tr>
</tbody>
</table>
See slide 5.

<table>
<thead>
<tr>
<th>2.</th>
<th>What are some of the features of the five business-level strategies?</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>They are generic and can be used in any business, in any industry.</td>
</tr>
<tr>
<td>b.</td>
<td>They represent two distinct types of competitive advantage:</td>
</tr>
<tr>
<td>i.</td>
<td>Lower cost than rivals</td>
</tr>
<tr>
<td>ii.</td>
<td>Ability to differentiate and command a premium price relative to the additional cost of differentiating</td>
</tr>
<tr>
<td>c.</td>
<td>They represent a choice of scope (the nature and size of the customer group the firm will seek):</td>
</tr>
<tr>
<td>i.</td>
<td>Broad scope serving multiple customer segments in multiple geographic areas with multiple products.</td>
</tr>
<tr>
<td>ii.</td>
<td>Narrow scope (niche) serving one customer segment, geographic area, or product.</td>
</tr>
<tr>
<td>d.</td>
<td>The effectiveness of each strategy is contingent upon the opportunities and threats in a firm’s external environment and the possibilities provided by the firm’s unique resources, capabilities, and core competencies.</td>
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</tbody>
</table>

**Serving Customers** - This section presents the necessity of managing all aspects of the firm’s relationship with its customers to create superior value, secure customer loyalty, and increase returns.

See slide 6.

<table>
<thead>
<tr>
<th>3.</th>
<th>What decisions need to be made about relationships with customers?</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>Who (which customers) will be served - Market segmentation.</td>
</tr>
<tr>
<td>b.</td>
<td>What customer needs will be satisfied - Low cost vs. differentiation.</td>
</tr>
<tr>
<td>c.</td>
<td>How those needs will be satisfied - Core competencies.</td>
</tr>
</tbody>
</table>

See slide 7.

<table>
<thead>
<tr>
<th>4.</th>
<th>What factors aid in segmenting consumer markets?</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>Demographic factors</td>
</tr>
<tr>
<td>b.</td>
<td>Socioeconomic factors</td>
</tr>
<tr>
<td>c.</td>
<td>Geographic factors</td>
</tr>
</tbody>
</table>

See Table 5.1: Basis for Customer Segmentation (slide 8).
### Additional Discussion Notes for Managing Relationships with Customers

These notes include additional materials that cover *Reach*, *Richness*, and *Affiliation* in the transfer of information from the firm to its customers. An example of Automotive Information Systems illustrates the concept of *Affiliation*.

#### Reach, Richness and Affiliation (pp. 137–138)

Some view information as “the glue that holds value chains and supply chains together” (Evans and Wurster, 2000, p. 13) and argue that the transfer of information is a “trade-off between richness and reach” (Evans & Wurster, 2000, p. 23). “Newspaper advertisements reach a wide range of possible customers; but, have limited, static content. Direct mail or telemarketing are a bit richer in customization and interactivity, but are much more expensive, and therefore have to be targeted. A sales representative giving his or her pitch offers the highest level of customization, dialogue, and empathy, but only with one customer at a time” (Evans and Wurster, 2000, p. 37). However, with the advent of powerful information and communication technologies, this historic trade-off between *Rich* and *Reach*—in general the greater the reach, the less the richness, and vice-versa—may no longer apply. It is now possible to have the benefits of both *Reach* and *Rich*. This change in strategic possibilities has come through greater connectivity through electronic networks and, increasingly, the adherence to standards for transmitting and receiving information in a digital format. Connectivity and standards have led to the deconstruction of business structures and the disintermediation of traditional intermediaries (Evans and Wurster, 2000, p. 69). Thus, firms try to establish a competitive advantage through relationship with customers along *reach* (access and connection to customers.), *richness* (the depth and detail of the information between the firm and the customer), and *affiliation* (facilitating useful interactions with customers).

**Affiliation: Automotive Information Systems (AIS)**

While it is intuitively simple to grasp the meaning and applications of *Reach* and *Richness*, the notion of *Affiliation* is a bit more complex. Hence, what follows is an example of *Affiliation*.
Of the 45 million automobiles sold in the U.S. last year, 34 million of them were previously owned. Through pairing with Automotive Information Systems (AIS), Microsoft’s MSN Autos helps Internet users with all phases of their automotive research and shopping. To be more precise, determining vehicle reliability is an exacting task that requires skills, knowledge, and a wealth of information. That is why MSN Autos affiliates with AIS for reliability data on all listed automobiles. AIS’s Identifix™ is a large source of automotive repair data on vehicle parts that break, model lines affected, and how best to make repairs. AIS operates primarily as a technical support service for professional automotive technicians. Subscribers telephone AIS’s specialists for assistance when stumped by any automotive diagnostic or repair problem. Thirty-one automotive specialists make up the core AIS staff. Each is a factory-trained “Certified Master Technician” with years of professional field experience performing vehicle diagnostics and repairs.

**Operations**  
The growing complexity of automobiles has created a niche for information companies like AIS. “Today’s vehicles require a technician to have access to over a million pages of manufacturers’ technical reference materials,” says Jeff Sweet, the company’s CEO. “In 1980, you would have needed 19 inches of shelf space for the shop manuals of a single GM model year. Today you’d need eleven feet!” Out of necessity, most automotive shops rely on repair manuals and CD-ROMs containing information consolidated from the vast amount available. But AIS works with the original source documents. That means over 5,200 factory service manuals totaling some 1.5 million pages—the most complete onsite library of automobile manufacturer’s service information in the nation. AIS also examines new cars in their own diagnostics garage. Moreover, since factory service manuals contain inaccuracies (modifications seldom find their way back to the manuals), AIS gathers information from its callers and corrects its manuals.

**Products and Services**  
The products and services AIS offers include technical hotlines serving 30,000 enrolled automotive shops; aftermarket technical service bulletins distributed through an automated voice retrieval system; documents containing over 40,000 automotive wiring diagrams; and consulting services to automotive equipment manufacturers. On average, AIS fields 250,000 calls per year, and since the company’s beginning, it has helped technicians perform over one million automotive repairs.

**Strategy and Structure** - This section describes the reciprocal and influential relationship between strategy and organizational structure. Three major types of organizational structures used to implement strategies are also defined.
### Key Terms
- **Organizational Structure** - specifies the firm’s formal reporting relationships, procedures, controls, and authority and decision-making processes.
- **Simple Structure** - structure in which the owner-manager makes all major decisions and monitors all activities while the staff serves as an extension of the manager’s supervisory authority.
- **Functional Structure** - structure consisting of a chief executive officer and a limited corporate staff, with functional line managers in dominant organizational areas.
- **Multi-divisional Structure** - structure consisting of operating divisions, each representing a separate business or profit center in which the top corporate officer delegates responsibilities for day-to-day operations and business-unit strategy to division managers.

### Cost Leadership Strategy
- This section introduces an analysis of the strategy of low cost leadership that seeks cost advantages while serving a broad customer segment.

### Key Terms
- **Cost Leadership Strategy** - integrated set of actions designed to produce or deliver goods or services with features that are acceptable to customers at the lowest cost relative to competitors.

### Successful Execution of the Cost Leadership Strategy
- This section discusses the activities and policies that have shown success in the use of the cost leadership strategy. The value chain analysis (presented in Chapter 4) proves to be a critical tool for firms implementing a low cost strategy. Each of the five forces of competition is then discussed as it relates to a cost leadership strategy.

### In what ways can firms successfully implement a cost leadership strategy?

- **a.** Sell no-frills, standardized goods that minimally offer qualities and features acceptable to customers.
- **b.** Use the value chain analysis to continuously identify ways of reducing the costs of activities in the value chain, while retaining important product/service features.
  - **i.** If a firm is unable to link the activities shown in Figure 5.2, it probably lacks the resources, capabilities, and core competencies needed to successfully use the cost leadership strategy.
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#### 7. Discuss the cost leadership strategy in terms of the five-forces model of competition.
   a. A low cost position is a valuable defense against rivals.
   b. Powerful customers can demand reduced prices, but only to the point of driving competitors out of the market, at which point they would lose their power.
   c. Costs leaders are in a position to absorb supplier price increases and relationship demands. Alternatively, due to volumes, cost leaders can often force suppliers to hold down their prices.
   d. Ever-improving levels of efficiency and cost reduction can be difficult to replicate and serve as a significant entry barrier to potential competitors unless they are willing to accept below-average returns.
   e. Cost leaders hold an attractive position in terms of product substitutes, with the flexibility to lower prices to retain customers. However, when the features and characteristics become attractive to the customers, lower prices may not be an incentive to stay with the lower-priced product.

#### 8. What are three important characteristics of organizational structure that help define a firm’s structure in terms of its competitive strategy?
   a. Specialization - type and number of jobs required to complete work.
   b. Centralization - degree to which decision-making authority is retained at higher managerial levels.
   c. Formalization - degree to which formal rules and procedures govern work.

#### 9. Describe the characteristics of a functional structure for a firm using the cost leadership strategy.
   a. Simple reporting relationships.
   b. Few layers in the decision-making and authority structure.
   c. Centralized corporate staff.
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d. Strong focus on process improvements through operational functions.
e. Establishes a low-cost culture.
f. Decision-making authority is centralized in a staff function to maintain a cost-reducing emphasis within each organizational function.
g. Jobs are highly specialized, with work divided into homogenous subgroups, to allow increased efficiencies.
h. Highly formalized rules and procedures emanate from a centralized staff to guide the work.

### Competitive Risks of the Cost Leadership Strategy
This section defines some of the risks faced by firms that select a cost leadership strategy.

<table>
<thead>
<tr>
<th>10. What are some of the risks faced by firms that select a cost leadership strategy?</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Processes can become obsolete.</td>
</tr>
<tr>
<td>b. Focus on cost reductions can be at the expense of understanding customer perceptions and needs.</td>
</tr>
<tr>
<td>c. Strategy could be imitated, requiring the firm to increase the value offered to retain customers.</td>
</tr>
</tbody>
</table>

### Differentiation Strategy
This section introduces an analysis of the strategy of differentiation that pursues a fairly broad competitive scope while serving a broad customer segment.

See slide 19.

**Key Terms**
- Differentiation Strategy - integrated set of actions designed by a firm to produce or deliver goods or services at an acceptable cost that customers perceive as being different in ways that are important to them.

### Successful Execution of the Differentiation Strategy
This section discusses the activities and policies that have shown success in the use of the differentiation strategy. The value chain analysis (presented in Chapter 4) proves to be a critical tool for firms implementing a differentiation strategy. Each of the five forces of competition is then discussed as it relates to a differentiation strategy.

See slide 20.

<table>
<thead>
<tr>
<th>11. In what ways can firms successfully implement a differentiation strategy?</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Target customers who perceive that value is added by the manner in which the firm’s products are</td>
</tr>
<tr>
<td>See slide 21.</td>
</tr>
<tr>
<td>See Figure 5.4: Examples of Value-Creating Activities Associated with the Differentiation Strategy (slide 22).</td>
</tr>
<tr>
<td>See slide 23.</td>
</tr>
<tr>
<td>See Additional Notes Below.</td>
</tr>
</tbody>
</table>

b. Be able to produce non-standardized products at competitive costs.

c. Have a thorough understanding of what their target customers’ value, the relative importance they attach to the satisfaction of different needs, and for what they are willing to pay a premium.

d. Be different from competitors on as many dimensions as possible. Examples of reducing product similarity to provide a buffer from rivals include:

   i. Unusual features
   ii. Responsive customer service
   iii. Rapid product innovations
   iv. Technological leadership
   v. Perceived prestige and status
   vi. Different tastes
   vii. Engineering design
   viii. Performance

e. Use the value chain analysis to determine if the firm is able to link the activities required to create value and implement a differentiation strategy.

   i. If a firm is unable to link the activities shown in Figure 5.4, it probably lacks the resources, capabilities, and core competencies needed to successfully use the differentiation strategy.

12. Discuss how firms using the differentiation strategy can position themselves in terms of the five-forces model of competition to create value.

   a. Customer loyalty (which reduces customer sensitivity to price) provides the most valuable defense against rivals.

   b. The uniqueness of differentiated products also reduces customer sensitivity to raised prices when a product continues to satisfy the customer’s perceived unique needs.

   c. High margins that can be charged for differentiated products provide insulation from the influence of suppliers. Higher supplier costs can be either absorbed into the margin or passed along to willing customers.

   d. Customer loyalty and a high level of product uniqueness serve as significant entry barriers to potential competitors unless they are willing to make significant investments while seeking customers’ loyalty.

   e. Again, firms with customers loyal to their products are positioned effectively against product substitutes.
### Using the Functional Structure to Implement the Differentiation Strategy

This section describes the characteristics and structural dimensions for a firm using a functional structure to execute a differentiation strategy.

See Figure 5.5: Functional Structure for Implementation of a Differentiation Strategy (slides 24-25).

<table>
<thead>
<tr>
<th>13.</th>
<th>Describe the characteristics of a functional structure for a firm using the differentiation strategy.</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>Relatively complex and flexible reporting relationships.</td>
</tr>
<tr>
<td>b.</td>
<td>Frequent use of cross-functional product development teams.</td>
</tr>
<tr>
<td>c.</td>
<td>Strong focus on marketing and product R&amp;D.</td>
</tr>
<tr>
<td>d.</td>
<td>Establishes a development-oriented culture which encourages frequent interaction to exchange ideas and create value.</td>
</tr>
<tr>
<td>e.</td>
<td>Decision-making responsibility is de-centralized to ensure rapid response to cues from the external environment.</td>
</tr>
<tr>
<td>f.</td>
<td>Jobs are not highly specialized and include a large number of tasks, to support creativity and the continuous pursuit of differentiation.</td>
</tr>
<tr>
<td>g.</td>
<td>Few formalized rules and procedures.</td>
</tr>
</tbody>
</table>

### Competitive Risks of the Differentiation Strategy

This section defines some of the risks faced by firms that select a differentiation strategy.

See slide 26.

<table>
<thead>
<tr>
<th>14.</th>
<th>What are some of the risks faced by firms that select a differentiation strategy?</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>Price differential for the differentiated product may be perceived to be too large.</td>
</tr>
<tr>
<td>b.</td>
<td>Firm’s means of differentiation may cease to provide value for which customers are willing to pay, particularly if rivals have successfully imitated the firm’s strategy.</td>
</tr>
<tr>
<td>c.</td>
<td>Experience can narrow the customers’ perceptions of the value of a product’s differentiated features.</td>
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</table>

### Additional Discussion Notes for the Differentiation Strategy

These notes include additional materials that discuss the concept of differentiation, and the example of LVMH is used to illustrate these principles. In addition, examples from the retailing and airline industries are highlighted to demonstrate how to obtain a differentiation advantage. Finally, additional material on organizational structure for differentiation strategies uses General Motors as an illustration of
different ways firms in the automobile industry use different structures to support their differentiation strategies.

**Differentiation Strategy**

Rather than costs, a firm using the differentiation strategy tries to invest in and develop features that differentiate its goods or services in ways customers value. Commonly recognized differentiated goods include Toyota’s Lexus, Ralph Lauren clothing, and Caterpillar’s heavy-duty earthmoving equipment.

To give some concrete examples, think of a $58,000 watch, dresses that look like newspaper, or an eye-shadow called “Gangrene.” These are items no one really needs, yet millions of consumers worldwide line up to buy them. That’s because LVMH—the world’s largest, most successful purveyor of these and other luxury goods that no one needs—is a master of a differentiation strategy. LVMH has differentiated itself in industries ranging from retailing and cosmetics to jewelry, leather goods, and wines—and in 2000 generated $10 billion. What is the company’s secret? LVMH uses a differentiation strategy. LVMH’s brands are simultaneously:

- **Timeless, eternal.** Timelessness takes decades to develop. However, you can create the impression of it sooner through uncompromising quality—by hiring dedicated people with the brand “in their bones” and keeping them for a long time.
- **Modern, edgy, fashionable, sexy.** A modern brand is so new and unique that people feel they must buy it.
- **Fast growing.** To show shareholders you have struck the right balance between timelessness and fashion, and to allow you to charge premium prices.
- **Profitable.** Through disciplined, efficient, and rigorous manufacturing processes that contrast sharply with free-wheeling creativity.

To execute a differentiated strategy, LVMH suggests these counter-intuitive principles:

- **Free creative people from financial and commercial concerns.** Creative types freeze whenever calculator-clutching managers hover nearby. So hire innovative types who want to see their designs succeed “on the street” and then let them run wild. For example, Dior designer John Galliano shocked the fashion world when he clad runway models in newspaper dresses, yet LVMH never flinched. Blocking the plan would have crushed Galliano’s spirit. Later, when Dior manufactured dresses in newspaper-printed fabric, they sold briskly.
- **Don’t follow consumers.** You won’t generate breakthrough products, and people won’t pay premium prices for something they expect. Instead, let creators drive innovation, and listen to focus groups with only one ear. For example, focus groups responded lukewarmly to the new Kenzo perfume, *Flower,* with
its oddly shaped bottle and scentless signature flower, the poppy. LMVH launched Flower anyway because the design team believed in it. Kenzo’s sales rose 75% early in 2001, largely on Flower’s success.

- **Minimize risk.** Don’t put your company at risk by introducing all new products all the time. Let proven products carry you. LMVH made only several thousand innovative Dior handbags ($1,800/each). The rest of the product line was less radical in fabric and design, but the company made more of them and sold them for less, thus encouraging creativity while minimizing risk.

- **Give star brands time to grow.** Star brands need great talent and heritage. Use incubation time to learn. Although the highly creative Christian Lacroix fashion house hasn’t been profitable since its 1991 launch, LMVH uses it as a laboratory, learning how to start a brand from scratch and nurturing it until it has some history.

**How to Obtain a Differentiation Advantage: Retailing and Airlines**

- **Retailing: Discount**
  - Wal-Mart says: “Always low prices”—Cost
  - K-Mart says: “Martha Stewart & low prices”—Mixed?
  - Target/Kohl’s say: “Style,” “name brands” (e.g., Mossimo, Liz Lang, etc.), and “not the warehouse ambiance”—Differentiation on “value”; the “feel-good” factor
  - JC Penney / Sears / Belks / Dillard’s say: “We have been here forever” (What is their message?)—Mixed?
  - Nordstrom’s/Saks 5th Avenue say: “style,” “exceptional service”—Differentiation: service, upscale mystique, high-end products

**Ask**

If you parachuted into the cosmetics section of a major department store, could you immediately tell whether you were in Macy’s, Saks Fifth Avenue, Bloomingdale’s, or one of their competitors? If the product names were disguised, could you immediately distinguish the Estée Lauder counter from a dedicated Lancôme counter? Put another way, when was the last time you caught your breath as you walked past the cosmetics counter in some big department store? When was the last time you stopped, looked around, and thought, “This is so cool”? Never? Well, that’s no surprise. The way cosmetics are merchandised and sold has hardly changed over the past couple of decades. It seems, therefore, that many cosmetics companies are happy with the status quo of mostly imitating each others’ incremental strategies.

**Airlines**

- Southwest Airline says: “low prices lead to freedom,” “airline with personality,” “Click’n Save,” the “fun factor”—
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**Differentiate on cost and fun ambiance**
- Midwest Express Airline says: “the best care in the air,” “high-quality travel experience,” “The best airline in the U.S.” (7 consecutive years), “Most comfortable coach seat” (10 consecutive years); typical meal: filet mignon with lobster, a roll with butter, spinach, mandarin salad, and chocolate banana-split cake—*Differentiate on prestige, comfort*
- United, US Airways, Delta, American Airlines, etc. says: “more flights to . . .”, “more schedule flexibility”, and, “if you want low cost, you will need to be flexible on your schedule”—*Mixed*
  (For example, Delta’s Fan Fares offer travel bargains to cities hosting special sports events, concerts, exhibitions, etc., but travel is restricted to this coming weekend. United offers various “specials” from E-Fares, last minute fares, priced-to-go, etc. Finally, American Airlines offers AAdvantage Net SAAver Awards. Like their rivals, these are next weekend travel for either fewer miles than normally required or for lower fare and must be purchased by Friday.)

**Ask**
Assume that you were placed in one of the above airlines’ jets, but all company logos and emblems were removed. Would be able to tell whether you were seated in a United, American, or Delta Airlines aircraft?

**Structure for Differentiation Strategy - General Motors**

**Structure and Product Differentiation**
Which structure is most efficient for a multi-product line company like GM? Which structure is most effective? Consider the automobile industry.

GM uses an M-Form Structure, which includes 12 automobile divisions.

- **Buick**
  a. Geographic reach: U.S., Canada, Israel, and China
  b. Six models: mid-sized, luxury cars, and SUVs emphasizing style and substance
  c. Logo/Slogan: The Spirit of American Style

- **Chevrolet**
  a. Geographic reach: U.S., Canada, Mexico, Europe, Middle East (Israel, Saudi Arabia, etc.), and Far East (Japan, Taiwan, and China)—*Most global brand*
  b. 22 models: small to mid-sized cars, trucks, vans, and SUVs emphasizing style and substance
  c. Logo/Slogan: Full Throttle—Charging Ahead

- **Cadillac**
  a. Geographic reach: U.S., Canada, Mexico, Europe, Middle East (Israel, Saudi Arabia, etc.), and Far East (Japan, Taiwan, and China)
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<table>
<thead>
<tr>
<th>Model</th>
<th>Geographic Reach</th>
<th>Models Description</th>
<th>Logo/Slogan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EV1</strong></td>
<td>U.S., (California and Arizona only)</td>
<td>One model: Electric car emphasizing fuel efficiency and environment</td>
<td>An exceptional car; A different driving experience</td>
</tr>
<tr>
<td><strong>GMC Trucks</strong></td>
<td>U.S., Canada, and Brazil</td>
<td>Eight models: Trucks, vans, and SUVs emphasizing engineering strength</td>
<td>Discover the Advantages of Professional Grade Engineering</td>
</tr>
<tr>
<td><strong>Holden / Isuzu</strong></td>
<td>Australia</td>
<td>26 Models: small to mid-sized cars, trucks, vans, and SUVs, emphasizing ...?</td>
<td>What is their logo/slogan?</td>
</tr>
<tr>
<td><strong>Hummer</strong></td>
<td>U.S.</td>
<td>Two models: SUVs, emphasizing uniqueness of rugged style</td>
<td>Like nothing else</td>
</tr>
<tr>
<td><strong>Oldsmobile</strong></td>
<td>U.S. and Canada</td>
<td>Five models: Range of midsize cars and SUVs, emphasizing driving performance</td>
<td>No logo, brand being phased out</td>
</tr>
<tr>
<td><strong>Opel</strong></td>
<td>Europe, Middle East (Israel, Saudi Arabia, etc.), Far East (Japan, Taiwan &amp; China)</td>
<td>10 Models: Range from small to midsize cars, trucks, vans, and SUVs emphasizing performance</td>
<td>Fresh Thinking—Better Cars</td>
</tr>
<tr>
<td><strong>Pontiac</strong></td>
<td>U.S., Canada, and Mexico</td>
<td>Seven models: Range of small to midsize cars, vans, and SUVs emphasizing the one-of-a-kind experience</td>
<td>Fuel for the Soul</td>
</tr>
<tr>
<td><strong>Saab</strong></td>
<td>U.S., Canada, Mexico, Europe, Middle East (Israel, Saudi Arabia, etc.), Far East (Japan, Taiwan &amp; China)—Most global brand</td>
<td>15 Models: Range of small and midsize cars, wagons, and vans emphasizing safety and driving performance</td>
<td>What is their logo/slogan?</td>
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<tr>
<td><strong>Saturn</strong></td>
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</tbody>
</table>
### Geographic reach: U.S., Canada
- Five Models: Range small and midsize cars and wagons emphasizing customer satisfaction and reliability
- Logo/Slogan: What is their logo/slogan?

### Strategic Alliances and Joint Ventures
- Fiat
- Subaru
- Suzuki
- Daewoo

### Facts
- GM has multiple divisions beyond its auto division, including Hughes, GMAC (financing), etc.
- GM currently supports 17 global brands in 4 geographic arenas: (GMNA, GME, GMLAAM, GMAP) Sales breakdown for automobile division: GMNA—76.7%, GME—17.7, GMLAAM—3.5%, GMAP—3.1%
- GM does plan to phase out Oldsmobile brand
- GM is branded around a product, company structured around a product line

### Ask
Is GM’s structure a hindrance to a customer-centric perspective? Are GM’s customers brand loyal (i.e., to Buick or Cadillac) or company loyal (i.e., to GM)? How does that impact structure and strategy?

Assume that you were running Buick or another division of GM, what is your incentive to “share your customer” with the other product lines. For example, moving a current Buick Regal customer to a say, Cadillac El Dorado? Where is the customer in this equation?


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### Focus Strategies
This section introduces an analysis of the focus strategy that seeks to serve a market niche through the core competencies of an organization.

### Key Terms
- **Focus Strategy** - integrated set of actions designed to produce or deliver goods or services to a narrow target consumer based on specific differences in the market.

### Examples of Specific Market Segments
- A particular buyer group, such as youths or senior citizens.
- A particular product line segment, such as professional
16. What are some of the reasons that firms choose a focus strategy?
   a. Large firms may overlook small niches.
   b. Firms may lack resources to compete in the broader market.
   c. Firms may be able to serve a narrow market segment more effectively than larger, industry-wide competitors.
   d. Focus may allow the firm to direct resources to certain value chain activities to build competitive advantage.

17. What are two types of focus strategies?
   a. Focused cost leadership strategy
   b. Focused differentiation strategy

18. Describe the use of the value chain analysis to identify activities that the firm must perform in a competitively superior manner to achieve and sustain a competitive advantage and create value with a focus strategy.
   a. Activities required to use the focused cost leadership strategy are identical to those shown in Figure 5.2.
   b. Activities required to use the focused differentiation strategy are identical to those shown in Figure 5.4.

19. Discuss the focus strategy in terms of the five-forces model of competition.
   a. The manner in which each of the focus strategies allows a firm to successfully position itself within the five competitive forces model parallels the approaches outlined above in the cost leadership and differentiation strategy sections.

**Focused Cost Leadership Strategy** - This section provides examples of Ikea and Morgan Lynch using focused cost leadership product and service strategies respectively.

**Focused Differentiation Strategy** - This section provides examples of Harley-Davidson and LiveNation, Inc. (a spin off from Clear Channel Communications) using focused differentiation product and service strategies respectively.
### Using the Simple or Functional Structures to Implement Focus Strategies

This section describes the characteristics and structural dimensions for a firm using simple or functional structures to execute a focus strategy.

See slides 33-34. Refer to Figures 5.3 and 5.5 (slides 16 and 24).

<table>
<thead>
<tr>
<th>20. When will a firm using a focus strategy choose a simple organizational structure? A functional organizational structure?</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. A simple structure is matched with focus strategies when firms offer a single product line in a single geographic market.</td>
</tr>
<tr>
<td>b. As businesses grow and expand, a functional structure is required. Depending on their focused cost leadership or focused differentiation strategy, the functional structures presented in Figures 5.3 and 5.5 apply.</td>
</tr>
</tbody>
</table>

### Competitive Risks of Focus Strategies

This section defines some of the risks faced by firms that select a focus strategy.

See slide 35.

<table>
<thead>
<tr>
<th>21. In addition to the cost leadership and differentiation strategy risks, what are some of the risks faced by firms that select a differentiation strategy?</th>
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<tbody>
<tr>
<td>a. A competitor may be able to focus on a more narrowly defined competitive segment and “outfocus” the focuser.</td>
</tr>
<tr>
<td>b. A company competing on an industry-wide basis may decide that the market segment served by the focus strategy firm is attractive and worthy of competitive pursuit.</td>
</tr>
<tr>
<td>c. The needs of customers within a narrow competitive segment may become more similar to those of industry-wide customers as a whole.</td>
</tr>
</tbody>
</table>

### Integrated Cost Leadership/Differentiation Strategy

This section introduces an analysis of an integrated strategy rather than one dominant business-level strategy.

See slide 36.

<table>
<thead>
<tr>
<th><strong>Key Terms</strong></th>
</tr>
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<tbody>
<tr>
<td>- Integrated Cost Leadership/Differentiation Strategy - integrated set of actions designed by a firm to produce or deliver goods or services at an acceptable cost that customers perceive as being different in ways that are important to them.</td>
</tr>
</tbody>
</table>
### Chapter 5—Business-Level Strategy

#### 22. What advantages does an integrated strategy provide for a firm?
- Improved speed of adapting to environmental changes.
- Improved speed for learning new skills and technologies.
- Improved leverage of core competencies while competing against rivals.

#### Successful Execution of the Integrated Cost Leadership/Differentiation Strategy
- This section discusses the value and difficulty of implementing an integrated strategy. The value chain analysis (presented in Chapter 4) is used to explain this difficulty.

#### 23. What are some of the benefits of implementing an integrated strategy?
- Evidence suggests a relationship between use of an integrated strategy and achieving above-average returns.
- Businesses that combine multiple forms of competitive advantage in low-profit-potential industries are shown to outperform businesses that compete with a single form.

#### 24. What does the value chain analysis explain about the difficulties of successfully implementing an integrated strategy?
- Cost leadership and differentiation strategies emphasize different primary and support activities. Achieving a successful balance when selecting the activities to perform is a difficult challenge and requires a flexible organizational structure.

#### Using a Flexible Structure to Implement the Integrated Cost Leadership/Differentiation Strategy
- This section describes the characteristics and structural dimensions for a firm using a flexible structure to execute an integration strategy. Additionally, three useful tools for balancing the conflicting objectives of continuous cost reductions and differentiation enhancements are presented.

#### 25. Describe the characteristics of a flexible structure for a firm using an integrated strategy.
- A commitment to strategic flexibility (see Chapter 1) is necessary to effectively use the integrated strategy.
- Decision-making patterns need to be flexible, partly centralized and partly decentralized.
- Jobs are less specialized than in a traditionally functional structure so that workers are more sensitive to the need for balance between low cost and differentiation.
Chapter 5—Business-Level Strategy

| See slide 41. | d. Some use of modular structures to produce modular goods creates differentiation and simultaneously holds down costs. |
| | 26. What three system processes can facilitate strategic flexibility for implementation of an integrated strategy? |
| | a. Flexible manufacturing system - computer controlled process used to produce a variety of products in moderate, flexible quantities with a minimum of manual intervention. |
| | b. Information networks - links to suppliers, distributors, and customers and a tool for establishing enterprise resource planning (ERP) linking value-chain activities. |
| | c. Total quality management (TQM) systems - working quality (as defined by the customer) and accuracy into processes throughout the value chain to eliminate the costs of poor quality at their sources. |

**Competitive Risks of the Integrated Cost Leadership/Differentiation Strategy** - This section defines some of the risks faced by firms that select an integrated strategy.

| See slide 42. | 27. What are some of the risks faced by firms that select an integrated strategy? |
| | a. Failure to establish a leadership position can result in a firm being “stuck in the middle” and unable to create value, and unable to earn above-average returns. |

**Ethical Questions** - Recognizing the need for firms to effectively interact with stakeholders during the strategic management process, all strategic management topics have an ethical dimension. A list of ethical questions appears after the Summary section of each chapter in the textbook. The topic of ethics is best covered throughout the course to emphasize its prevalence and importance. We recommend posing at least one of these questions during your class time to stimulate discussion of ethical issues relevant to the chapter material that you are covering. (See slides 43-47.)