Chapter 5
Business Level Strategies

5.1 Introduction

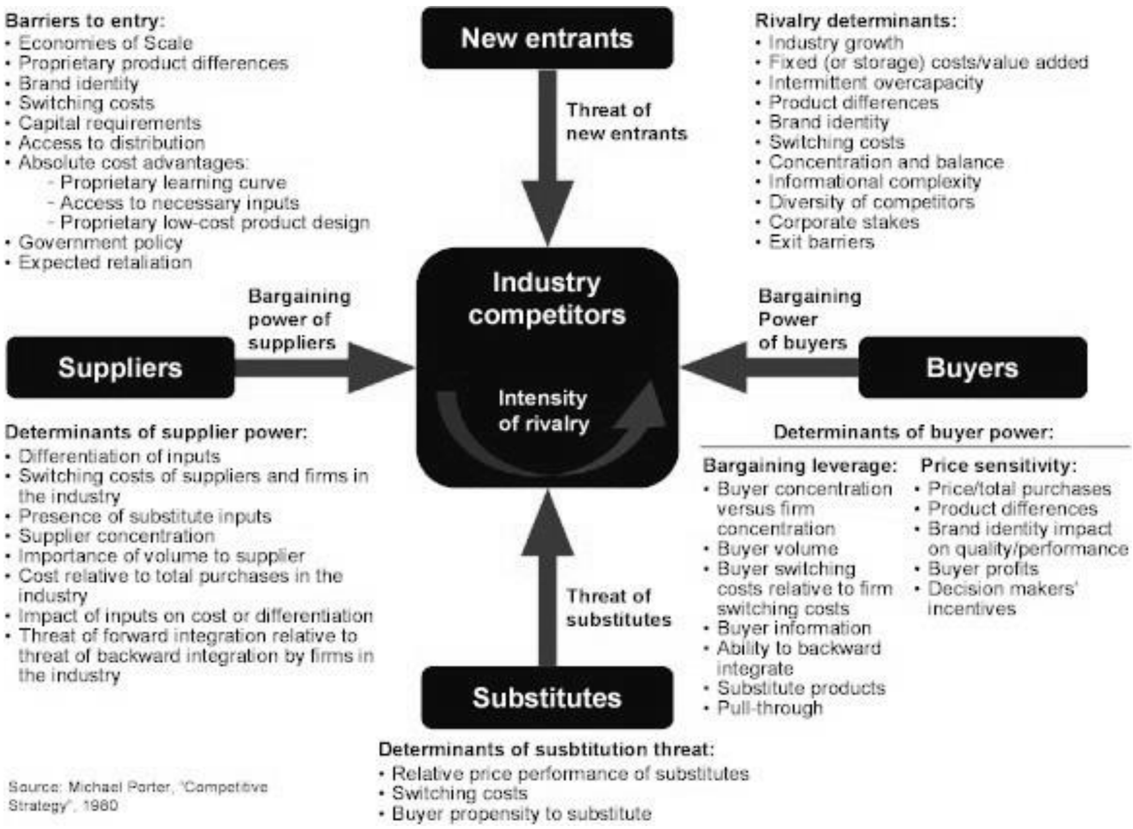
Business level strategies are the courses of action adopted by an organisation for each of its businesses separately, to serve identified customer groups and provide value to the customers by satisfaction of their needs. In the process, the organisation uses its competencies to gain, sustain and enhance its strategic or competitive advantage.

5.2 Porter’s Five Forces Model-Competitive Analysis

The relevant environment of business level strategy is industry. It is the industry where competitive advantage is ultimately won or lost. Porter’s Five Forces Model is a powerful and widely used tool for systematically diagnosing the significant competitive pressures in an industry. This model holds that the state of competition in an industry is a composite of competitive pressures operating in five areas of the overall market:

- Competitive pressures associated with the market maneuvering and jockeying for buyer patronage that goes on among rival sellers in the industry.
- Competitive pressures associated with the threat of new entrants into the market.
- Competitive pressures coming from the attempts of companies in other industries to win buyers over to their own substitute products.
- Competitive pressures stemming from supplier bargaining power and supplier-seller collaboration.
- Competitive pressures stemming from buyer bargaining power and seller-buyer Collaboration.

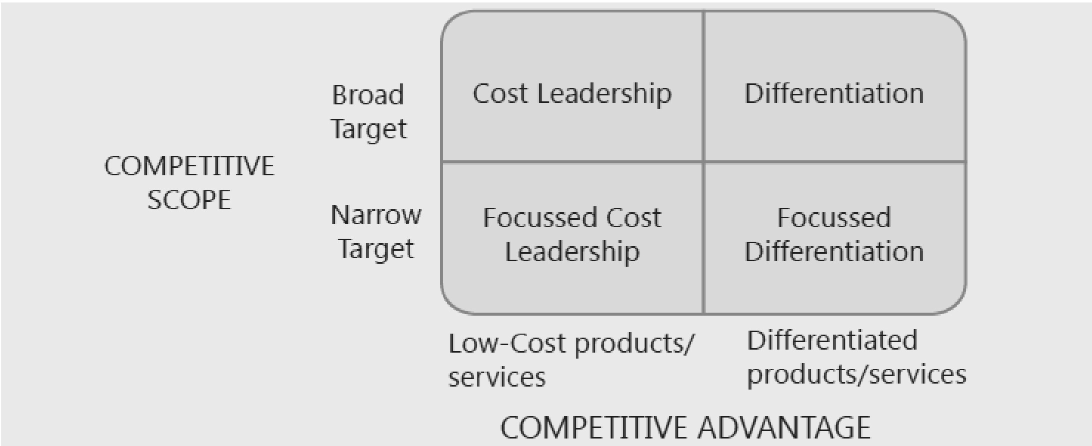
5.2.1 Threat of New Entrants | 5.2.2 Bargaining Power of Buyers | 5.2.3 Bargaining Power of Suppliers | 5.2.4 The Nature of Rivalry in the Industry | 5.2.5 Threat of Substitutes



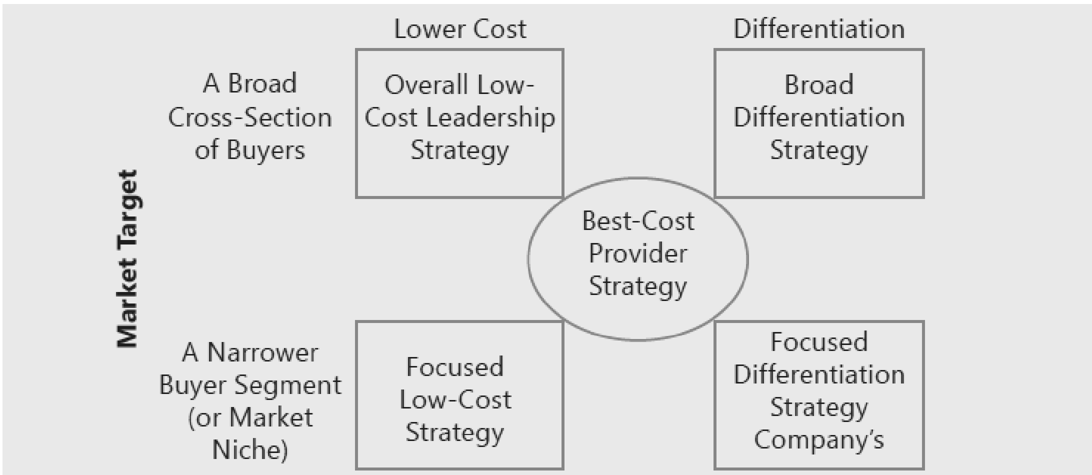
5.3 Business-Level Strategies

Business-level strategy is concerned with a firm's position in an industry, relative to competitors and to the five forces of competition discussed above.

5.4 Michael Porter's Generic Strategies
5.4.1 Cost Leadership Strategy | 5.4.2 Differentiation Strategy | 5.4.3 Focus Strategies

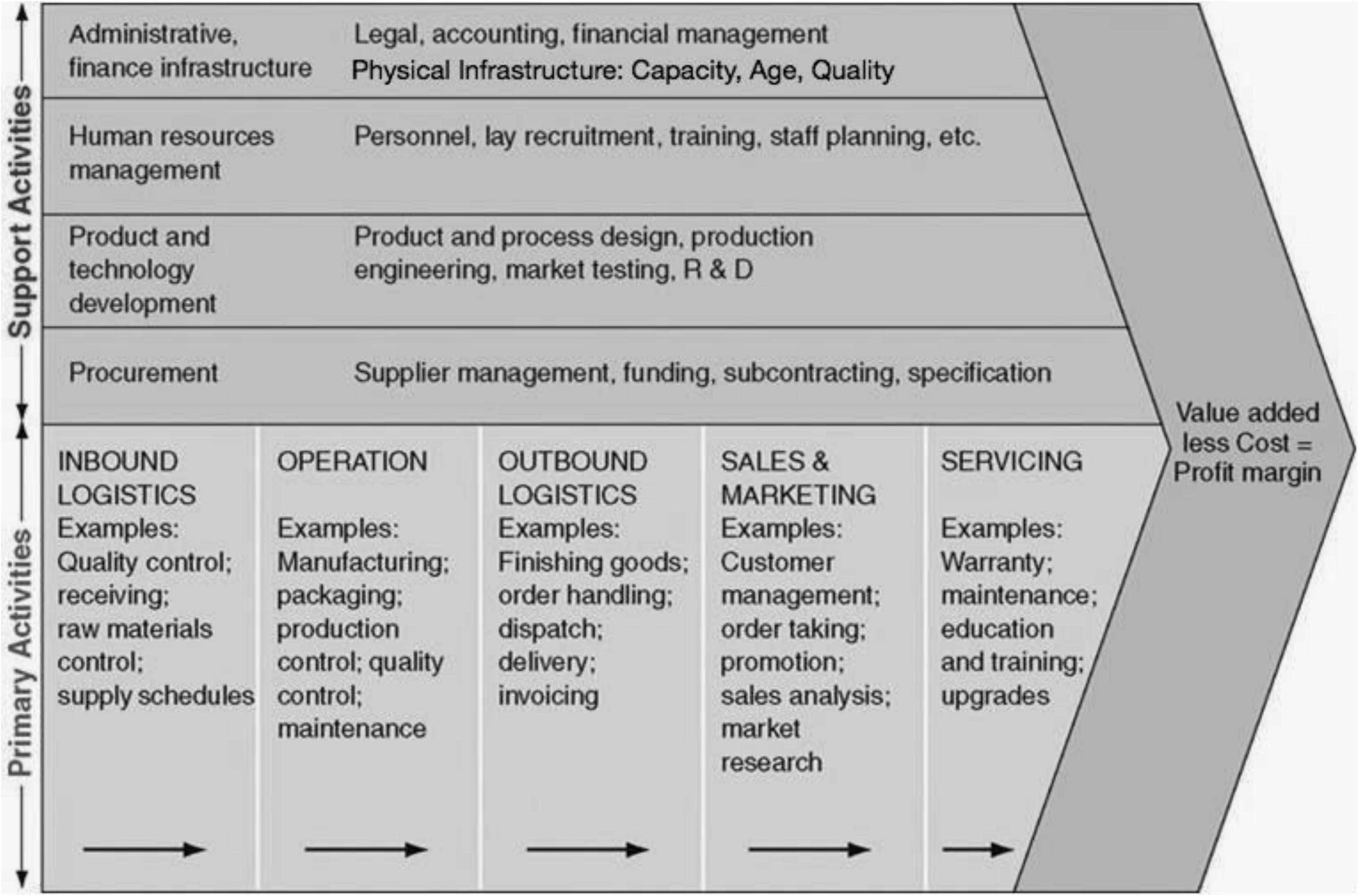


5.5 Best-Cost Provider Strategy



Value Chain Analysis
The Missing Link in the Chapter
(Albeit discussed in Chapter 2)

In sync with the fundamental ideation of strategy as a link between the firm's internal and external environment it would be advisable to evaluate firm's strengths and weaknesses within Value Chain framework. Five Forces provide a framework for assessing the competitive /industry structure.


Support Activities
Primary Activities
Administrative, finance infrastructure
Legal, accounting, financial management
Physical Infrastructure: Capacity, Age, Quality
Human resources management
Personnel, lay recruitment, training, staff planning, etc.
Product and technology development
Product and process design, production engineering, market testing, R & D
Procurement
Supplier management, funding, subcontracting, specification
INBOUND LOGISTICS
Examples: Quality control; receiving; raw materials control; supply schedules
OPERATION
Examples: Manufacturing; packaging; production control; quality control; maintenance
OUTBOUND LOGISTICS
Examples: Finishing goods; order handling; dispatch; delivery; invoicing
SALES & MARKETING
Examples: Customer management; order taking; promotion; sales analysis; market research
SERVICING
Examples: Warranty; maintenance; education and training; upgrades
Value added less Cost = Profit margin

TEST DRIVE

1. **Which one of the following is NOT included in the Porter's Five Forces model:**
a. Potential development of substitute products
b. Bargaining power of suppliers
c. Rivalry among stockholders
d. Rivalry among competing firms

2. Which of the following is an example of competing on quick response?
a. a firm produces its product with less raw material waste than its competitors
b. a firm offers more reliable products than its competitors
c. a firm's products are introduced into the market faster than its competitors'
d. a firm's research and development department generates many ideas for new products

3. Product differentiation refers to the:
a. ability of the buyers of a product to negotiate a lower price.
b. response of incumbent firms to new entrants.
c. belief by customers that a product is unique.
d. fact that as more of a product is produced the cheaper it becomes per unit.

4. Switching costs refer to the:
a. cost to a producer to exchange equipment in a facility when new technologies emerge.
b. cost of changing the firm's strategic group.
c. one-time costs suppliers incur when selling to a different customer.
d. one-time costs customers incur when buying from a different supplier.

5. New entrants to an industry are more likely when (i.e., entry barriers are low when…)
a. it is difficult to gain access to distribution channels.
b. economies of scale in the industry are high.
c. product differentiation in the industry is low.
d. capital requirements in the industry are high.

6. All of the following are forces that create high rivalry within an industry EXCEPT
a. numerous or equally balanced competitors.
b. high fixed costs.
c. fast industry growth.
d. high storage costs.

7. Do you find a missing force in the Porter's original forces shaping the competition?