Module Five: Strengthening Competitive Position

Michael Porter described three generic strategies a company can pursue: seeking cost leadership, differentiating, or focusing on a target market that ranges from narrow to broad (Porter, 1996). However, there are different ways to combine the market focus (focused or broad) with cost leadership versus differentiation to create a four-way matrix with market focus on one axis and cost leader versus differentiation on the other (Campbell-Hunt, 2000). Add to that the hybrid for a differentiation strategy at a lower cost (Sumer & Bayraktar, 2010). So a company may choose from five variations of Porter's three original generic strategies to pursue.

A company cannot expect to select and statically pursue its generic strategy year after year while hoping to remain competitive. Most of the time there is too much going on in the macro environment and in the immediate industry and competitive environment for that to happen. Rivals come and go. Regulations and technological innovation may alter the industry. And the company may be more or less profitable than forecasted.

Especially in today's rapidly changing world, companies continuously review the market conditions, competitive landscape, and their own strengths and weaknesses to revise or extend their strategies, including the overall generic strategy they pursue. While the company can periodically revise its strategy, other options include strategic moves to augment the generic strategy.

"Keep moving. Stasis is death. If you are not constantly exploring, you'll never find new peaks. Even if you are fortunate enough to be on a high peak, at some point, that peak will collapse as the environment changes or competitors' actions deform the landscape" (Beinhocker, 1999).

Timing of a strategic move is one of the decisions the company must make. Schilling (2010) discussed first movers, or the pioneers of a new product or service. They could reap the rewards of higher prices, but they may also be the first to fail. A late follower enters the fray after the product or service hits the mass market, while the early follower is early in the market but not the first mover.

Facebook has surpassed MySpace in members, but in 2007, Facebook opened its social networking platform up for outside developers so that they could create applications to run on Facebook. Facebook had over 500,000 apps by 2010 including games that keep members using the social networking site (Reeves, Love, & Tillman, 2012). Faster than crops grow on Farmville, Facebook pioneered a new market for these apps.

Timing is not everything in strategic moves. There are a number of different strategic options from which to choose. So we look beyond the generic, basic strategies for additional strategic maneuvers to help a company strengthen its position in its industry and markets. To extend its strategy, a company can pursue options like strategic alliances, mergers and acquisitions, horizontal and vertical integration, and outsourcing.

Strategic alliances involve collaboration with companies that bring together one or more value chain activities. A marketing alliance, combining one value chain activity of several airlines, is common in the airline industry (Reuer, Zolla, & Singh, 2002). Airlines like American and British Airways are members of the OneWorld alliance and allow passengers to book through one airline but secure convenient flights from any OneWorld member to their destinations (Maynard & Brothers, 2008).

So why would a company not seek alliances to create networks and synergies by combining their own skills, knowledge, processes, products, services, and other aspects with those of another company?

Kale and Singh (2009) believed that the key to a successful alliance between companies depends on 1) their compatibility, for example, between workforces; 2) their complementarities, where "one partner brings value chain resources or capabilities the other lacks" (p. 47); and 3) the degree of their commitment to making the alliance work. They also distinguish between alliances through contractual obligation and those alliances where the companies have an equity stake in the collaboration, like a joint venture.

Alliances are popular, too. Most of the CEOs in the Fortune 1000 believed that over a quarter of their company's revenues were derived from strategic alliances (Kale & Singh, 2009, p. 45).

That is enough revenue to keep any company looking for partners for strategic alliances. But there are other ways to interact with another company to further your own strategy. Alliances, acquisitions, and mergers imply different interactions between the companies involved. A strategic alliance involves collaboration for mutual benefit and is different from a **merger**, which involves more shared ownership and can be used either to consolidate what the merging companies have (mainly for overall cost savings) or provide the companies with additional diversification, especially into a new industry for the acquirer (Swaminathan, Murshed, & Hulland, 2008).

While some people do not distinguish between mergers and acquisitions, others do. An **acquisition** occurs where one company buys out the other firm. When two companies merge, they share ownership of the combined companies, which has inherent blending problems. An acquisition can make it easier to combine the two separate businesses because the acquirer owns and manages this now blended company (Brusco, Lopomo, Robinson, & Viswanathan, 2007).

In 2011, Comcast and GE entered a joint venture called NBCUniversal Media, which Comcast then acquired outright in 2013 (Huston, 2013). Mergers and acquisitions today are very popular.

The Law firm of Fenwick & West (n.d.) reported a number of mergers and acquisitions in 2011. Just a small subset of acquisitions alone includes:

ACQUIRING COMPANY	ACQUIRED COMPANY/COMPANIES
eBay	Zong
Facebook	Snaptu, Sofa, Friend.ly, Beluga
Research in Motion	Gist
Skype	Qik
Twitter	AdGrok, BackType, Bagcheck, TweetDeck
Wal-Mart Stores	Kosmix
Yahoo	IntoNow

Vertical integration is another approach to further a company's existing strategy. Vertical integration means expanding upstream from the value chain activities to take *control* of the supplies the company needs for its supply chain management or expanding downstream to take *control* of the distribution the product. The opposite of vertically integrating these activities is disintegrating them. Both are strategic maneuvers (Dietl, Royer, & Stratmann, 2009).

For example, in the 80s, PC manufacturer IBM moved primary activities in its own value chain from internal manufacturing and gave those rights away to other companies. So while it previously had vertically integrated these activities, it began to loosen its control over many of the value chain primary activities. When it found that it could not gain control back, it ultimately sold PC manufacturing completely to China's Olivetti, which then produced IBM PCs for the world. IBM saw a disintegration of PC's value chain primary activities. On the other hand, companies like Apple have maintained tight control and integration of the manufacture and distribution of their PCs for more vertical integration of these activities (Dietl, Royer, & Stratmann, 2009).

Outsourcing helps the company to create value by saving costs and going outside the company to procure a good or service from another company. A cost-benefit analysis should precede the decision to outsource. Included in that decision is whether or not to offshore, or locate a contractor in another country to perform the service or produce the good. Offshoring adds additional dimensions to the cost-benefit analysis including foreign labor costs, both foreign and domestic regulations, management issues, and global strategy (Tadelis, 2007).

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