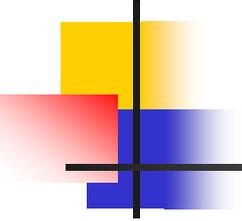


Strategic Choices:

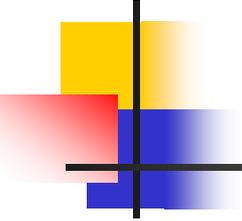
Business-Level Strategy

- **Strategic Management (5 ECTS)**
- **Ismo Vuorinen**
- **Principal Lecturer**
- **Autumn 2010**



Strategic Choices





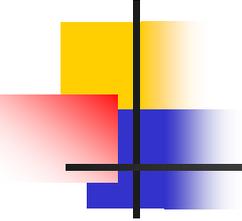
The TOWS Matrix

| | | Internal factors | |
|------------------|-------------------|--|--|
| | | Strengths (S) | Weaknesses (W) |
| External factors | Opportunities (O) | SO Strategic options Generate options here that use strengths to take advantage of opportunities | WO Strategic options Generate options here that take advantage of opportunities by overcoming weaknesses |
| | Threats (T) | ST Strategic options Generate options here that use strengths to avoid threats | WT Strategic options Generate options here that minimise weaknesses and avoid threats |

Business-Level Strategies



What is a Strategic Business Area?



- Demand

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

- Customers

- Customer potential customer structure, buying motives and criteria)

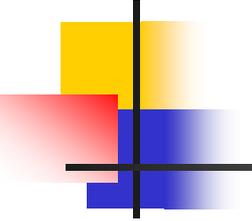
- Competition

- 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)

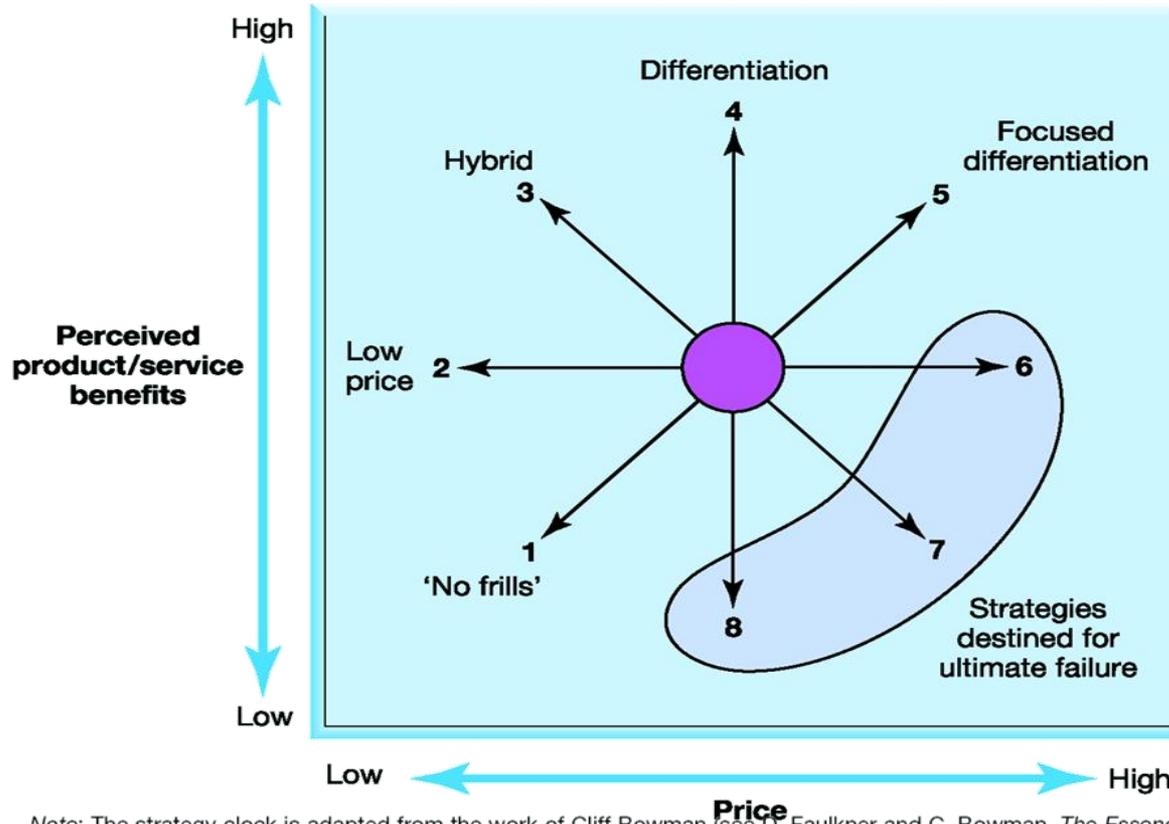


What is a Strategic Business Unit?

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'.



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

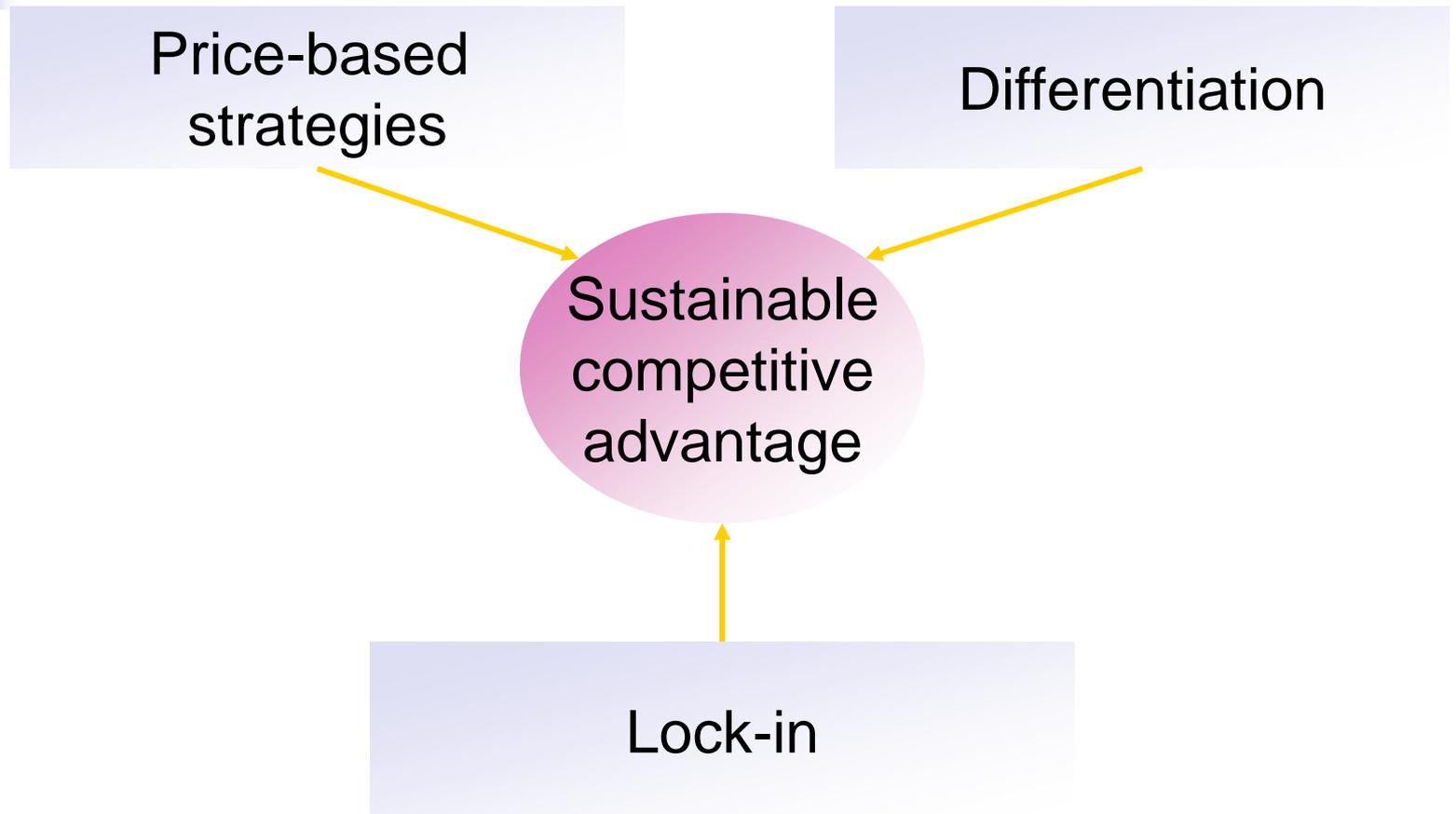
- Seeks to provide high perceived product benefits, justifying price premiums
- Key issues
 - Choice between focus strategy and broad differentiation
 - Tensions between focus strategy and other strategies
 - Market changes



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





Achieving Low Prices

Operate with lower margins

Develop a unique cost structure

Create efficiency in organisational capabilities

Focus on market segments with low expectations

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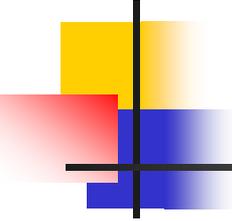
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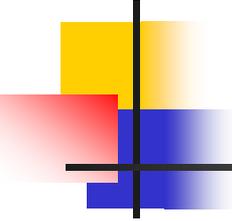
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Dangers of Low Price Strategies

- Competitors might follow suit
- Customers associate low price with low benefits
- Cost reductions may result in inability to pursue differentiation strategy

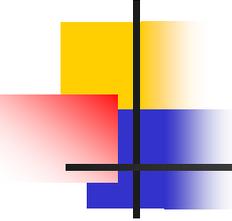


Ways of attempting to Sustain Advantage through Differentiation

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

Competitive strategies in hypercompetitive conditions

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

