Learning Objectives

1. Become acquainted with the various types of offensive and defensive strategies and when and why to use them.
2. Learn the strategic options for utilizing a company’s Web site.
3. Understand when and why to have certain value chain activities performed by outside vendors with specialized expertise.
4. Understand when a company should consider using a vertical integration strategy to extend its operations to more stages of the overall industry value chain.
5. Gain an understanding of how strategic alliances and collaborative partnerships can bolster a company’s competitive capabilities and resource strengths.
6. Learn when and why merger and acquisition strategies make good business sense.
7. Discover when being a first-mover or a fast-follower or a late-mover can lead to competitive advantage.
### Chapter 6 Roadmap

- A Company’s Menu of Strategic Choices
- Going on the Offensive—Strategic Options to Improve a Company’s Market Position
- Defensive Strategies—Protecting Market Position and Competitive Advantage
- Web Site Strategies
- Outsourcing Strategies
- Vertical Integration Strategies: Operating Across More Stages of the Industry Value Chain
- Strategic Alliances And Partnerships
- Merger and Acquisition Strategies
- Choosing Appropriate Functional-Area Strategies
- Timing a Company’s Strategic Moves

### Supplementing a Company’s Competitive Strategy: The Key Decisions

- Whether to go on the offensive and initiate aggressive strategic moves to improve the company’s market position
- Whether to employ defensive strategies to protect the company’s market position
- What role the company’s Web site should play in its overall strategy to be a successful performer
- Whether to integrate backward or forward into more stages of the industry value chain
- Whether to enter into strategic alliances or partnership arrangements with other enterprises
- Whether to bolster the firm’s market position via mergers or acquisitions
- When to undertake strategic moves—whether advantage or disadvantage lies in being a first-mover, a fast follower, or a late-mover

### Going On the Offensive—Strategic Options to Improve a Company’s Market Position

**Going on the offensive** to improve a firm’s market position and business performance is often necessary when:

- A firm has no choice but to try to whittle away at a strong rival’s competitive advantage
- It can reap the benefits of a competitive edge offers—a leading market share, excellent profit margins and rapid growth (as compared to rivals)
- It can gain the reputational rewards of being known as a firm on the move

**Strategy Principle**: Successful offensive strategies are needed to build competitive advantage, widen an existing advantage, or narrow the advantage held by a strong competitor.

### Core Concept

Sometimes a firm’s best strategic option is to seize the initiative, go on the attack, and launch a strategic offensive to improve its market position. It takes successful offensive strategies to build competitive advantage, widen an existing advantage, or narrow the advantage held by a strong competitor.

**Strategy Principle**: The best offensives use a firm’s resource strengths and most potent competitive assets to attack rivals in areas where they are competitively weak.

### Crafting a Potent Offensive Strategy: Things to Do

- Focus relentlessly on
  - Building competitive advantage and
  - Striving to convert it into decisive advantage
- Employ the element of surprise; do the unexpected, rather than what rivals may be prepared for
- Apply competitive resources where rivals are least able to defend themselves
- Be impatient with the status quo—take swift and decisive actions to try to overwhelm rivals
Deciding How to Attack Rival Companies

- Attack competitor weaknesses rather than challenging competitor strengths, especially if those weaknesses represent important vulnerabilities and weaker rivals can be caught by surprise with no ready defense.
- Base offensives on the company’s most potent competitive assets:
  - Its core competencies, competitive capabilities and valuable resource strengths, such as a better-known brand name, manufacturing or distribution cost advantages, superior technological capability, or a better product.

Failure to tie an offensive to competitive strengths and what the firm does best dims the prospects for success.

The Principal Offensive Strategy Options

- Offer an equally good or better product at a lower price
- Leapfrog competitors by being:
  - A first adopter of next-generation technologies
  - First to market with next-generation products
- Pursue continuous product innovation to draw sales and market share away from less innovative rivals
- Adopt and improve on good ideas of other firms (rivals or otherwise)
- Deliberately attack a key rival in those market segments where it makes big profits

Choosing Which Rivals to Attack

The Principal Offensive Strategy Options (cont’d)

- Attack the competitive weaknesses of rivals
- Maneuver around competitors to capture unoccupied or less-contested market territory
- Use hit-and-run or guerrilla warfare tactics to grab sales and market share from complacent or distracted rivals
- Launch a preemptive strike to secure an advantageous position that rivals are prevented or discouraged from duplicating

Blue Ocean Strategy—A Special Kind of Offensive

- Seeks to gain a dramatic, durable competitive advantage by:
  - Abandoning efforts to defeat competitors in existing markets and
  - Inventing a new industry or distinctive market segment that renders existing competitors largely irrelevant and
  - Allowing a company to create and capture altogether new demand

What Is Different About a Blue Ocean?

- Typical Market Space
  - Industry boundaries are defined and accepted
  - Competitive rules of the game are well understood and accepted by rivals
  - Companies try to outperform rivals by capturing a bigger share of existing demand
  - Lively competition constrains a firm’s prospects for rapid growth and superior profitability

- Blue Ocean Market Space
  - Does not exist yet
  - Is untainted by competition
  - Offers wide-open opportunities if a firm has a product and strategy allowing it to:
    - Create new demand
    - Avoid fighting over existing demand
Defensive Strategies—Protecting Market Position and Competitive Advantage

Objectives
- Lower the risk of being attacked
- Weaken the impact of any attack that occurs
- Influence challengers to aim attacks at other rivals

Approaches
- Block the avenues open to challengers
- Signal challengers that retaliation is likely

Core Concept
Good defensive strategies can help protect competitive advantage but rarely are the basis for creating it.

Using Defensive Strategies to Block the Avenues Attack Open to Challengers
- Participate in alternative technologies
- Introduce new features, add new models, or broaden the product line to close gaps and niches rivals may pursue
- Maintain economy-priced models and options
- Lengthen warranties
- Offer free training and support services
- Reduce delivery times for spare parts
- Provide coupons and free samples
- Make early announcements about new products or price changes
- Challenge quality or safety of rivals’ products
- Offer volume discounts, better financing terms, and exclusive agreements with distributors

Signaling Challengers that Retaliation Is Likely
- There are four ways to signal potential challengers of probable retaliation if they launch an offensive attack to grab a bigger market share:
  - Publicly announce management’s commitment to maintain the firm’s present market share
  - Publicly commit the firm to a policy of matching rivals’ prices or terms
  - Maintain a war chest (reserves) of cash and marketable securities
  - Make occasional strong counter-responses to moves of weaker rivals

Web Site Strategies
- Strategic Question: What role should a firm’s Web site play in its strategy?
- Strategic Approaches to Using the Web Site
  - Only to disseminate product information
  - As secondary or minor distribution channel to sell directly to customers
  - As one of several distribution channels to access customers
  - As the primary distribution channel for assessing customers
  - As the company’s exclusive channel for transacting sales with customers

Product Information-Only Strategies: Avoiding Channel Conflict
- At manufacturer’s web site, provide extensive product information and links for network dealer and wholesaler websites
- Avoiding channel conflict when the support and goodwill of dealers is essential—an information-only site partners with dealers rather than competes with them
- Avoid channel conflict by relying on dealer Web sites to finalize sales and inform end-user consumers of retail store location
Web Site e-Stores as a Minor Distribution Channel

- Approach–Use online sales to:
  - Achieve incremental sales
  - Gain online sales experience
  - Conduct marketing research
    - Learn more about buyer tastes and preferences
    - Test reactions to new products
    - Create added market buzz about products
- Unlikely to provoke much outcry from dealers as long as sales volume remains quite low

Brick-and-Click Strategies: An Appealing Middle Ground Approach

- Two-Pronged Approach
  - Selling to consumers at firm-owned retail store locations (brick)
  - Selling directly to consumers at the firm’s Web site (click)
- The strategic appeal of brick-and-click strategies for wholesalers and retailers:
  - Sales at the firm’s Web site are a low-cost means of expanding its geographic market reach
  - Customers have a choice of how to:
    - Communicate with the firm
    - Shop for product information
    - Make and pick up purchases
    - Resolve customer service problems

Strategies for Online Enterprises

- Approach: Use the Internet as the exclusive channel for all buyer-seller contact and transactions
- Strategic issues for an online firm:
  - How to deliver unique value to buyers
  - Whether to pursue competitive advantage based on lower costs, differentiation, or better value for the money
  - Whether to have a broad or narrow product offering
  - Whether to perform order fulfillment activities internally or to outsource them
  - How to draw traffic to its Web site and then convert page views into revenues

Outsourcing Strategies

- Outsourcing strategies involve a conscious decision to not perform certain value chain activities internally and to instead farm them out to outside specialists and strategic allies.

Core Concept

Outsourcing involves farming out the performance of certain value chain activities to outside vendors.

| Strategy Principle | While outsourcing can result in appealing benefits, a company must guard against outsourcing activities that hollow out the competitive capabilities and resource strengths it needs to be a master of its own destiny. |
When Is Outsourcing Advantageous?

Outsourcing is appealing when a outsourcing a particular value chain activity:

- Results in the activity being performed better or more cheaply
- Does not hinder or impair the firm’s ability to achieve a sustainable competitive advantage
- Reduces the firm’s risk exposure to changing technology or shifting buyer preferences
- Helps streamline operations, improves internal operating flexibility, or reduces time-to-market for new products
- Helps improve the firm’s ability to innovate
- Facilitates assembling diverse kinds of expertise speedily and efficiently
- Allows the company to concentrate its energies on its core business, better leverage its resource strengths, and do even better what it already does best

The Big Risk of Outsourcing Value Chain Activities

- When a firm outsources too many or the wrong activities, it risks:
  - Hollowing out capabilities and being held hostage by outside suppliers
  - Losing touch with activities and expertise that determine overall long-term success
  - Undermining its ability to lead the development of innovative new products (because cutting-edge ideas and technologies for next-generation products now come from outsiders)

Vertical Integration Strategies: Operating Across More Stages of the Value Chain

- Vertical integration extends a firm’s competitive and operating scope within the same industry.
  - Backward into sources of inputs/supply
  - Forward toward end-users of the final product
- A vertical integration strategy can entail either partial or full integration across the industry value chain

Integrating Backward to Achieve Greater Competitiveness

- Integrating backward successfully requires a firm to:
  1. Achieve the same scale economies as outside suppliers
  2. Match or beat suppliers’ efficiencies with no drop-off in quality
- Backward integration can lead to lower costs and/or reduced competitive risk when:
  - Suppliers have outsized profit margins
  - The item supplied is a major cost component
  - The requisite technological skills are easily mastered or acquired
  - There is a competitive necessity to keep proprietary know-how in-house

The Potential Benefits of Integrating Backward

- Can produce a differentiation-based competitive advantage when performing activities internally:
  - Yields a better quality product/service offering
  - Improves the caliber of its customer service
  - Enhances the performance of its final product
  - Reduced risk of depending on suppliers for crucial raw materials, parts, components, and/or support services
  - Can add to a firm’s differentiation capabilities by building or strengthening its core competencies

The Potential Benefits of Integrating Backward (cont’d)

- Can enable better mastery of key skills or strategy-critical technologies formerly performed by outsiders
- Can facilitate adding product features/attributes that deliver greater customer value
- Lessens a firm’s vulnerability to powerful suppliers inclined to raise prices at every opportunity
To gain better access to end users and build stronger brand awareness

To reduce dependence on the marketing and sales efforts of independent distributors/retailers that stock multiple brands and often steer customers to the brands on which they earn the highest profit margins

To offset the lack of a broad product line, a firm may sell directly to end users

To bypass independent distributors/retailers in favor of direct sales at company-owned stores and/or the company's Web site which may

Lower distribution costs

Produce a relative cost advantage over rivals

Enable lower selling prices to end users

Increases a firm's capital investment in its industry, increasing business risk if industry demand, growth and profitability should decline

Locks a firm into relying on its own in-house activities (which later may prove more costly than purchasing from best-in-class suppliers or using the services of independent distributors and retail dealers)

Can impair a firm's flexibility to accommodate shifting buyer preferences or a product design that requires parts and components not made in-house

A strategic alliance is a formal agreement between two or more separate firms in which there is:

Strategically relevant collaboration of some sort

Joint contribution of resources

Shared risk

Shared control

Mutual dependence

Collaborative relationships between partners may entail a contractual agreement but commonly stop short of formal ownership ties between the partners

The purpose of a strategic alliance or collaborative partnership is to join forces to achieve mutually beneficial outcomes.
Core Concept

**Strategic alliances** are collaborative arrangements where two or more companies join forces to achieve mutually beneficial outcomes. The best alliances are highly selective, focusing on particular value chain activities and on obtaining a specific competitive benefit. They tend to enable a firm to build on its strengths and learn.

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**When Does an Alliance Become “Strategic”?**

- An alliance becomes “strategic” when it:
  - Facilitates achievement of an important business objective such as lowering costs or delivering more value to customers
  - Helps build, strengthen, or sustain resources, competencies, and competitive capabilities
  - Remedies a key resource deficiency or competitive weakness
  - Speeds development of technologies and/or product innovations
  - Facilitates entry into new geographic markets or pursuit of important market opportunities
  - Blocks or defends against a competitive threat or mitigates a significant risk to a firm’s business

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**Why and How Strategic Alliances Are Advantageous**

- Firms commonly enter into strategic alliances to:
  - Expedite development of promising new technologies or products
  - Overcome deficits in their own expertise and capabilities
  - Bring together the personnel and expertise needed to create desirable new skill sets and capabilities
  - Improve supply chain efficiency
  - Gain economies of scale in production and/or marketing
  - Acquire or improve market access through joint marketing agreements
  - Open up learning opportunities that help partner firms better leverage their own resource strengths

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**Why Many Alliances Are Short-Lived or Break Apart**

- Most alliances based on technology-sharing or providing market access turn out to be temporary because:
  - The benefits of mutual learning have occurred
  - Both partners have developed to the point where they are ready to go their own ways
- Alliances are more likely to be long-lasting when:
  1. They involve collaboration with suppliers or distribution allies
  2. Each party’s contribution involves activities in different portions of the industry value chain
  3. Continued collaboration is in the mutual interest of the partners

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A firm that is racing for global market leadership needs alliances to:

- Get into critical country markets quickly and accelerate the building of its global market presence
- Gain inside knowledge about unfamiliar markets and cultures through alliances with local partners
- Access valuable skills and competencies that are concentrated in particular geographic locations

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A firm that is staking out a strong position in an industry of the future needs alliances to:

- Establish a stronger initial competitive position for participating in the target industry
- Master new technologies, new expertise and competencies faster than through internal efforts alone
- Open up broader opportunities in the target industry by melding the firm’s own capabilities with the expertise and resources of partners
### Why Many Alliances Fail

- **50-70%** of alliances are unsuccessful because:
  - The objectives and priorities of allies conflict or diverge
  - Allies discover they are unable to work well together
  - Changing conditions render the alliance obsolete
  - More attractive technological paths have emerged
  - One or more allies find they are becoming increasingly strong market rivals with other allies

> **Alliances can help a firm reduce a competitive disadvantage but rarely help secure a durable competitive edge over rivals**

### Merger and Acquisition Strategies

- **A merger** is the combining of two or more firms into a single entity, with the newly created firm often taking on a new name.
- **An acquisition** is a combination in which one firm, the acquirer, purchases and absorbs the operations of another, the acquired.

> **The difference between a merger and an acquisition** is in the details of ownership, management control, and financial arrangements—the resources, competencies, and competitive capabilities of the newly created enterprise end up much the same.

### When Does a Merger or an Acquisition Make Strategic Sense?

- Mergers and acquisitions are best for situations in which alliances or partnerships do not go far enough in providing access to needed resources and competitive capabilities.
- Combining two firms, via **merger or acquisition**, is an attractive means of achieving operating economies, strengthening competencies and competitiveness in important ways, and opening up new market opportunities.

### Merger and Acquisition Strategies: The Typical Objectives

- **Merger/acquisition strategies typically aim at achieving any of four objectives:**
  1. Creating a more cost-efficient operation out of the combined firms
  2. Expanding a firm’s geographic coverage
  3. Extending the firm’s business into new product categories
  4. Gaining quick access to new technologies or other resources and competitive capabilities

### Why Mergers and Acquisitions Often Result in Disappointing Outcomes

- The managers overseeing the integration of operations make mistakes in melding the activities of the acquiring and acquired firms.
- Cost savings prove smaller than expected while gains in competitive capabilities take longer to realize, or never materialize at all.
- Efforts to mesh the corporate cultures stall out due to resistance from organization members as differences in management styles and operating procedures prove hard to resolve.
- Key employees at the acquired firm become disenchanted with newly instituted changes and leave.
- Personnel at the acquired firm stonewall changes, arguing forcefully for doing things the way they were done prior to the acquisition.
Choosing Appropriate Functional-Area Strategies

- Choosing involves making strategic choices about how various functional parts of the business (R&D, production, marketing, finance, etc.) will be managed to support competitive strategy and other strategic moves.
- The nature of functional strategies is dictated by the choice of competitive strategy and other business-level strategy elements.
  - Functional managers must tailor the firm’s functional-area strategies to support higher-level strategies.

When Being a First-Mover Pays Off

Being first to make a strategic move has appeal when:
- Pioneering the market helps build the first mover’s image and reputation.
- Early commitments to new technologies, new-style components, new or emerging distribution channels, and so on produce an absolute cost advantage over rivals.
- First-time customers face significant costs in later switching to the product offerings of follower firms.
- Moving first constitutes a preemptive strike (like securing an especially favorable location or acquiring an appealing company with uniquely valuable resources or capabilities)
- Actions are protected by patents, copyrights, or other forms of property rights, thus thwarting a response by would-be followers.
- Actions prove so overwhelmingly popular that its product sets the technical standards for the industry.

The Potential for Late-Mover Advantages or First-Mover Disadvantages

- Moving first is more costly than imitating followership when few experience or learning-curve benefits accrue to the first mover, thereby enabling a follower to end up with lower costs than the first-mover (because the follower escapes the added costs of pioneering).
- When the products of an innovator are primitive and do not live up to buyer expectations, thus allowing a clever follower with better-performing products to win disenchanted buyers away from the leader.
- When the demand side of the marketplace is skeptical about the benefits of a new technology or product pioneered by a first-mover.
- When rapid market evolution (due to fast-paced changes in either technology or buyer needs and expectations) allows fast-followers and cautious late-movers the opening to leapfrog a first-mover’s products with more attractive next-version products.

Timing a Company’s Strategic Moves

- Timing is especially important when there are significant first-mover advantages.
- Timing is a powerful weapon that gives the pioneer a durable reputational head-start advantage because early adopters/buyers remain loyal to the pioneer’s product offering.
- First-movers and fast-followers tend to win sprints. Followers and late-movers often win marathons.
- With sprints, being a first-mover is competitively important because the firm that ends up dominating new-to-the-world markets is almost never the pioneers that gave birth to brand-new markets.
- When the race is a marathon:
  - The firms that end up dominating new-to-the-world markets are almost never the pioneers that gave birth to brand-new markets.
  - First-mover advantages are fleeting if its skills, know-how, and actions are easily copied or even surpassed; in such cases, followers and even late-movers can catch or overtake the first-mover in a relatively short period.

Key Issue: Is the race to industry leadership a sprint or a marathon?
- Some firms and industries never reach a sustainable competitive advantage.
- Some technologies and markets can still be leaders, and some markets are still in their infancy.
- Some industries are just plain competitive, and some aren’t.

Core Concept

Because of first-mover advantages and disadvantages, competitive advantage can spring from when a move is made as well as from what move is made.

To sustain any advantage that initially accrues to a pioneer, a first-mover must be a fast learner and continue to move aggressively to capitalize on any initial pioneering advantage. It helps immensely if the first-mover has deep financial pockets, important competencies and competitive capabilities, and astute managers.

A first-mover’s advantages are fleeting if its skills, know-how, and actions are easily copied or even surpassed; in such cases, followers and even late-movers can catch or overtake the first-mover in a relatively short period.

To Be a First-Mover or Not

- The firms that end up dominating new-to-the-world markets are almost never the pioneers that gave birth to brand-new markets.
- First-mover advantages are fleeting and there is time for resourceful fast-followers and even late-movers to overtake the early leaders.