Tailoring Strategy to Fit Specific Industry and Company Situations

Industry Situations:

An Introduction The best strategy always wins. A firm does the same thing in the marketplace as what the army do in the battle-field. The marketplace is similar to the war-field for a business organization. Doing business in a competitive market is just like a war in the battlefield. If the army commander fails to formulate and implement war-strategy most suitable to the particular situations in the battlefield, the army is doomed to defeat. Similarly, if the managers of a company are unable to develop strategy appropriate to market situations, they will survive simply to lament for their failures. That is why, after identification of generic strategies, managers need to develop suitable strategies reflecting the company's particular circumstances. The discussion will provide an answer to the following two questions:

• What basic type of industry environment does the company operate in?
• What strategic options are usually best suited to this generic type of environment?

Types of Industry Situations:

Every company operates its business in an industry. An industry consists of all units producing similar products and competing for the same buyers. Industry has been defined by Thompson and Strickland as "a group of firms whose products have so many of the same attributes that they compete for the same buyers." An industry may be viewed, based on its nature, as:

- Emerging Industries
- Maturing Industries
- Stagnant or Declining Industries
- Fragmented Industries
- Turbulent, High-Velocity Markets

These are the industry situations. From the very name it appears that industry situations widely differ. Every situation has its own unique character.

Emerging Industry

Introduction: It is very challenging to operate business firms in an emerging industry. *An emerging industry is an industry which is at its early stage of development.* In fact, it is an 'infant industry.' An emerging industry is characterized by a few number of competitors, high growth potential, uncertainty of demand, dominance of proprietary technology, wide differences in product quality, low entry barriers, difficulty in having ample supply of raw materials, and so on. The business models and strategies of companies in an emerging industry are unproved – what appears to be a promising business concept and strategy may never generate attractive bottom-line profitability.

Challenges When Competing in Emerging Industries

1. Competing in emerging industries presents managers with some unique strategy-making challenges:

a. Because the **market is new and unproved**, there may be much speculation about how it will function, how fast it will grow, and how big it will get. Doubts exist about the functioning, growth and size of the market. Managers cannot make useful projections of sales and profits due lack of historical data. Thus, they mostly depend on guesswork.

b. Much of the technological know-how underlying the products of emerging industries is proprietary and closely guarded, having been developed in-house by pioneering firms; **patents and unique technical expertise** are key factors in securing competitive advantage. The owners of the technology usually do not allow others to use it. Success mostly depends on patents and unique technical expertise.

c. Often there is no consensus regarding **which of several competing technologies will win** out or which product attributes will proves decisive in winning buyer favor. Uncertainty prevails regarding the product attributes that may win customer acceptance. Uniformity is difficult to find in product quality and product performance. Therefore, competition in the industry centers around each company's strategic approach to technology, product design and marketing.

d. **Entry barriers tend to be relatively low**, even for entrepreneurial start-up companies. As a result, resourceful and opportunity-seeking companies may enter into the industry if there is a high growth prospect.

e. Strong learning and **experience curve effects** may be present

f. Since in an emerging industry **all buyers are first-time users**, the marketing task is to induce initial purchase and to overcome customer concerns about product features, performance reliability, and conflicting claims of rival firms.

g. Many potential buyers expect first-generation products to be rapidly improved, so they **delay purchase until technology and product design mature**

h. Sometimes firms have **trouble securing ample supplies of raw materials** and components. Because of its immature stage, the emerging industry most often fails to attract the suppliers of raw materials to gear up their production. This creates hurdles in getting regular and adequate supply of raw materials.

i. **Undercapitalized companies** may end up merging with competitors or being acquired by financially strong outsiders looking to invest in a growth market

2. The two critical strategic issues confronting firms in an emerging industry are:

a. How to finance initial operations until sales and revenues take off

b. What market segments and competitive advantages to go after in trying to secure a front-runner position

3. A firm with solid resource capabilities, an appealing business model, and a good strategy has a golden opportunity to shape the rules and establish itself as the recognized industry front-runner.

Strategic Avenues for Competing in an Emerging Industry

1. Dealing with all the risks and opportunities of an emerging industry is one of the most challenging business strategy problems.

CORE CONCEPT: Strategic success in an emerging industry calls for bold entrepreneurship, a willingness to pioneer and take risks, an intuitive feel for what buyers will like, quick responses to new developments, and opportunistic strategy making.

2. To be successful in an emerging industry, companies usually have to pursue one or more of the following strategic avenues:

a. Try to win the early race for industry leadership with risk-taking entrepreneurship and a bold creative strategy

b. Push to perfect the technology, improve product quality, and develop additional attractive performance features

c. As technological uncertainty clears and a dominant technology emerges, adopt it quickly

d. Form strategic alliances with key suppliers to gain access to specialized skills, technological capabilities, and critical materials or components

e. Acquire or form alliances with companies that have related or complementary technological expertise

f. Try to capture any first-mover advantages associated with early commitments to promising technologies

g. Pursue new customer groups, new user applications, and entry into new geographical areas

h. Make it easy and cheap for first-time buyers to try the industry's first-generation product

i. Use price cuts to attract the next layer of price-sensitive buyers into the market

3. The short-term value of winning the early race for growth and market share leadership has to be balanced against the longer-range need to build a durable competitive edge and a defendable market position.

CORE CONCEPT: The early leaders in an emerging industry cannot rest on their laurels; they must drive hard to strengthen their resource capabilities and build a position strong enough to ward off newcomers and compete successfully for the long haul.

4. Young companies in fast-growing markets face three strategic hurdles:

(1) managing their own rapid expansion,

(2) defending against competitors trying to horn in on their success, and

(3) building a competitive position extending beyond their initial product or market.

5. Up-and-coming companies can help their cause by:

(1) selecting knowledgeable members for their boards of directors,

(2) hiring entrepreneurial managers with experience in guiding young businesses through the start-up and takeoff stages,

(3) concentrating on out-innovating the competition, and

(4) merging with or acquiring another firm to gain added expertise and a stronger resource base.

Maturing Industries

As an industry grows rapidly, it reaches a point where further growth slackens significantly. The growth in the industry is halted due to saturation in the market demand. When an industry is in such a situation, As an industry grows rapidly, it reaches a point where further growth slackens significantly. The growth in the industry is halted due to saturation in the market demand. When an industry is in such a situation, it is called a maturing industry. According to Thompson and Strickland, a maturing industry is an industry that is moving from rapid growth to significantly lower growth. In a maturing industry at least three issues become dominant:
(i) nearly all potential buyers are already users of the industry's products;
(ii) market demand consists mainly of replacement sales to existing users; and
(iii) In a mature market, demand consists mainly of replacement sales to existing users with growth hinging on the industry's ability to attract the few remaining buyers and convince existing buyers to up their usage.

Industry Changes Resulting from Market Maturity

1. An industry's transition to maturity does not begin on an easily predicted schedule.

2. When growth rates do slacken, the onset of market maturity usually produces fundamental changes in the industry's competitive environment:

a. Slowing growth in buyer demand generates more head-to-head competition for market share

b. Buyers become more sophisticated, often driving a harder bargain on repeat purchases

c. Competition often produces a greater emphasis on cost and service. All competitors try to reduce costs and improve services to customers.

d. Firms have a topping-out problem in adding new facilities. The industry experiences a slowdown in capacity expansion because of slow growth.

e. Product innovation and new end-use applications are harder to come by. It becomes difficult for the producers to create new product innovations and eventually they may not be able to sustain buyer excitement.

f. International competition increases because growth-minded companies try to find out ways to enter into foreign markets.

g. Industry profitability falls temporarily or permanently. This happens due to slower growth, increased competition, and occasional periods of overcapacity.

h. Stiffening competition induces a number of mergers and acquisitions among former competitors, drives the weakest firms out of the industry, and produces industry consolidation in general.

Strategic Moves in Maturing Industries

A firm operating in a maturing industry needs to adopt appropriate strategic moves to survive in the industry. Before it explores possible strategic moves, it must understand the dynamics of the industry environment. The maturing-industry dynamics include such elements as head-to-head competition among the competitors, strong bargaining by customers on product prices and attributes, a need for best combination of price and service, problem in capacity expansion, a hard struggle for further product innovation, increased international competition, falling profitability and industry consolidation due to merger and acquisition. Keeping all these in view, a firm in a maturing industry may adopt any of the following strategic moves:

1. As the new competitive character of industry maturity begins to hit full force, any of several strategic moves can strengthen a firm's competitive positions:

a. **Pruning Marginal Products and Models:** A firm hardly has competitive advantage in all areas of activities and in everything. Thus, it is not a business-wisdom to continue with such products in which the firm does not enjoy competitive advantage. This necessitates pruning (eliminating) unprofitable or very-less-profitable product items from the product line. Pruning marginal products from the line opens the door for cost savings and permits more concentration on items whose margins are highest and/or where a firm has a competitive advantage.

b. **More Emphasis on Value Chain Innovation:** In the industry value-chain the major parties involved are suppliers, producers, and distributors. Tripartite collaboration among these parties can produce excellent business results. In order to streamline the various value chain activities, they can collaborate on the use of Internet technology. Their collaboration on the implementation of cost-saving innovations can also lead to improving market competitiveness. Efforts to reinvent the industry value chain can have a fourfold payoff –

lower costs, better product or service quality, greater capability to turn out multiple or customized product versions, and shorter design-to-market cycles.

c. **Trimming Costs:** Stiffening price competition gives firms extra incentives to drive down unit costs. A firm may pursue a strategy of reducing costs in all activities of the firm. Driving down unit costs of products is an 'absolute must' in a maturing industry. Costs can be reduced through procuring raw materials and components at a cheaper price, eliminating low-value activities from the firm's value chain, reorganizing/reengineering business processes within the firm, dropping some of the intermediaries from the marketing channel, better supply chain management and using computerized systems instead of manual systems whenever feasible.

d. **Increasing Sales to Present Customers:** In a mature market, growing by taking customers away from rivals may not be as appealing as expanding sales to existing customers. So, strategy should be geared towards retaining the present customers and persuading them to increase their purchases. It is better for a firm to increase the average sales per existing customer than trying to 'snatch away' customers of the competitors.

e. **Acquiring Rival Firms at Bargain Prices:** If available, a firm in a mature market can acquire weak firms (usually managerially poor) to expand market share. Acquisition may also provide a firm opportunities for greater economies of scale in production and marketing.

f. **Expanding Internationally:** As its domestic market matures, a firm may seek to enter foreign markets where attractive growth potential still exists and competitive pressures are not so strong. Thus, a successful firm may opt for entering into foreign markets. However, before deciding for going international, a firm must look for those international markets where there is a potential for growth in the future.

g. **Building New or More Flexible Capabilities:** The stiffening pressures of competition in a maturing or already mature market can often be combated by strengthening the company's resource base and competitive capabilities. The firm can do it by adding new competencies making the competencies harder to initiate (by rivals), and making the firm's core competencies more adaptable to customers' requirements.

Strategic Pitfalls in Maturing Industries

1. Perhaps the biggest mistake a company can make as an industry matures is steering a middle course between low cost, differentiation, and focusing – blending efforts to achieve low cost with efforts to incorporate differentiating features and efforts to focus on a limited target market.

CORE CONCEPT: One of the greatest strategic mistakes a firm can make in a maturing industry is pursuing a compromise strategy that leaves it stuck in the middle.

2. Other strategic pitfalls include:

a. Being slow to mount a defense against stiffening competitive pressures

b. Concentrating on protecting short-term profitability than on building/maintaining long-term competitive position

c. Waiting too long to respond to price cutting by rivals

d. Over expanding in the face of slowing growth

e. Overspending on advertising and sales promotion efforts in a losing effort to combat growth slowdown

f. Failing to pursue cost reduction soon enough or aggressively enough

Stagnant or Declining Industries

An industry is said to be a declining industry where demand for products of the industry grows more slowly than the economy-wide average. In declining industry, the demand continues to go down. In a declining industry growth in demand and profitability goes down continuously. There are many reasons for continuous declining tendency in the demand for products. The major being changes in tastes and preferences of customers, emergence of sophisticated technology in the industry that ushers in new uses of products, or customers becoming tired of using the same types of products for a long period of time, or substitute products entering the market with high success. Profitability goes down mainly due to slackened demand for products and very high competition among the producers.

Strategic Options in a Declining Industry

1. Many firms operate in industries where demand is growing at a slower rate than the economy-wide average or is even declining.

2. Stagnant demand by itself is not enough to make an industry unattractive. Selling out may or may not be practical and closing operations is always a last resort.

3. Businesses competing in stagnant or declining industries must resign themselves to performance targets consistent with available market opportunities.

Strategic options in a Declining Industry.

Harvesting Strategy: A firm in a declining industry may choose to employ harvesting strategy to earn maximum possible amount of cash from the business. This strategy involves sacrificing market position in return for bigger near term cash flows or current profitability. When a firm adopts harvesting strategy, it cuts down the budget substantially, reinvestment is rarely made, new equipments are not purchased rather old ones are used as long as possible, and priority is given on the extensive use of existing facilities of the firm. To obtain greater cash flows, advertising expenses are cut down, quality is reduced carefully and less-essential customer services are curtailed.
Divestiture Strategy: Another strategic option to a firm in a declining industry is to sell it out. The firm may divest or sell off a portion of its assets like equipment, land, stock of materials, etc. the cash proceeds can be used for improving the core business. Or, the firm may dispose off the business entirely.
Niche or Focus Strategy: Any industry, whether emerging or maturing or declining, may have several niches (small segment of a market which remains generally unserved or inadequately served by competitors.). A firm in declining industry can look for niche markets where it can operate business profitably. Some of these niche markets may be growing in spite of stagnation in the industry as a whole.
Differentiation Strategy: A firm can place more emphasis on differentiation of products based on quality improvement and innovation. Differentiation can rejuvenate demand through alluring customers to the firm's products. Innovationbased differentiation is also helpful for a firm in a stagnant/declining industry to survive easy imitation by the competitors.
Low-Cost Strategy: A firm may also follow low-cost strategy by driving costs down. If the costs can be reduced on a continuous basis in an innovative way, it can help the firm improve the firm's profit margin and return-on-investment. Cost reductions may take form of dropping less-essential businessactivities, outsourcing some functions to outside companies who are able to perform those activities cheaply but in a better way, redesigning internal business processes, consolidating unutilized production facilities, closing down high-cost retail outlets, and pruning marginal products.

CORE CONCEPT: Achieving competitive advantage in stagnant or declining industries usually requires pursuing one of three competitive approaches: focusing on growing market segments within the industry, differentiating on the basis of better quality and frequent product innovation, or becoming a lower-cost producer. These three strategic themes are not mutually exclusive.

Strategic Pitfalls in Declining Industries

The most common strategic mistakes companies make in stagnating or declining markets are:

a. Getting trapped in a profitless war of attrition
b. Diverting too much cash out of the business too quickly
c. Being overly optimistic about the industry's future and spending too much on improvements in anticipation that things will get better

Fragmented Industries

A fragmented industry is related to an industry environment quite different from the other three types of industry environment. Thus, it cannot be included in the 'industry life cycle' that includes emerging, maturing and declining industry environments. A fragmented industry is one where the industrial or service units remain scattered all over the country or over a particular geographical region and none of the units has a substantial market share. As Thompson and Strickland observed: "A number of industries are populated by hundreds, even thousands, of small land medium-sized companies, many privately held and none with a substantial share of total industry sales." The notable features of a fragmented industry include:
(i) Absence of market leaders;
(ii) None of the units has king-sized market share;
(iii) No single unit has widespread buyer recognition.

Examples of fragmented industry are many e.g. health clinics, restaurants, hotels, automobile repairing, furniture making, garments, computer software development, boutiques, pottery, real estate, etc.

Characteristics of Fragmented Industries

1. ***Any of several reasons can account for why the supply side of an industry is fragmented:***
    a. Market demand is so extensive and so diverse that very large numbers of firms can easily coexist trying to accommodate the range and variety of buyer preferences and requirements and to cover all the needed geographic locations
    b. Low entry barriers allow small firms to enter quickly and cheaply
    c. An absence of scale economies permits small companies to compete on an equal cost footing with larger firms
    d. Buyers require relatively small quantities of customized products
    e. The market for the industry's product or service is becoming more global, putting companies in more and more countries in the same competitive market
    f. The technologies embodied in the industry's value chain are exploding into so many new areas and along so many different paths that specialization is essential just to keep abreast in any one area of expertise
    g. The industry is young and crowded with aspiring contenders, with no firm having yet developed the resource base, competitive capabilities, and market recognition to command a significant market share
2. ***Some fragmented industries consolidate over time as growth slows and the market matures.***
3. ***Competitive rivalry in fragmented industries can vary from moderately strong to fierce.***

    CORE CONCEPT: In fragmented industries competitors usually have wide enough strategic latitude (1) to either compete broadly or focus and (2) to pursue a low-cost, differentiation-based or best-cost competitive advantage.
4. ***Competitive strategies based on either low cost or product differentiation are viable unless the industry's product is highly standardized or a commodity.***
5. ***Focusing on a well-defined market niche or buyer segment usually offers more competitive advantage potential than striving for broader market appeal.***

Strategy Options for a Fragmented Industry

The type of strategic options that a firm can employ would vary depending on the extent of competition. Before finalizing on the options, a firm should take into consideration the basic characteristic features of fragmented industry such as low-entry barriers, competition from substitutes, weak bargaining power of firms due to their relatively small size, and the like. Such an industry environment may call for niche strategy rather than mass-market strategy. Differentiation strategy may also be suitable for firms. We can summarize the strategy options of a firm in a fragmented industry as follows:

Focus/market niche strategy: For a firm in a fragmented industry niche strategy to operate business in a well-defined small segment of a big market may be better suited. This is expected to offer better competitive advantage. A firm may either focus on one product category or it may focus on specific types of customers. Product-category-based niche strategy enables a firm to specialize by product type. Thus, it can concentrate on the production or distribution of specific product. When a firm adopts a niche strategy based on customer type, the firm can specifically cater to the needs of specific types of customers who want products with unique need-satisfying features, such as those interested in low prices, unique product attributes, customized features, carefree service, or other extras.

Constructing and operating "formula" facilities i.e. Operating Standardized Outlets: Some firms in a fragmented industry follow the strategy of operating standardized outlets in different locations. However, these outlets (or operational shops/stores/sales centers) must be operated very efficiently. This strategy is successfully pursued by two international giant fast-food chains - Pizza Hut and Kentucky Fried Chicken (KFC). This strategic approach is also frequently employed in restaurant and retailing businesses operating at multiple locations.

Becoming a low-cost operator: When price competition is intense and profit margins are under constant pressure, companies can stress no-frills operations featuring low overhead, high productivity/low-cost labor.

Focusing on a limited geographic area: Even though a firm in a fragmented industry cannot win a big share of total industry wide sales. It can still try to dominate a local or regional geographic area. Supermarkets, convenience stores, or repair shops often undertake this strategy.

Thus, in a fragmented industries, firms generally have the strategic freedom to pursue broad or narrow market targets and low-cost or differentiation-based competitive advantages. Many different strategic approaches can exist side-by-side.

Turbulent, High-Velocity Markets

More and more companies are finding themselves in industry situations characterized by rapid technological change, short product life cycles because of entry of important new rivals into the marketplace, frequent launches of new competitive moves by rivals, and fast-evolving customer requirements and expectations – all occurring at once.

Strategic Postures for Coping with Rapid Change

1. The central strategy-making challenge in a turbulent market environment is managing change.
2. A company can assume any of three strategic postures in dealing with high-velocity change:
    a. It can react to change
    b. It can anticipate change, make plans for dealing with expected changes, and follow plans as changes occur
    c. It can lead change

Reacting to change and anticipating change are basically defensive postures; leading change is an offensive posture.

3. As a practical matter, a company's approach to managing change should ideally incorporate all three postures, though not in the same proportion.

CORE CONCEPT: Industry leaders are proactive agents of change, not reactive followers and analyzers. Moreover, they improvise, experiment, and adapt rapidly.

4. Best performing companies in high-velocity markets consistently seek to lead change with proactive strategies.

Strategic Moves for Fast-Changing Markets

1. Competitive success in fast-changing markets tends to hinge on a company's ability to improvise, experiment, adapt, reinvent, and regenerate as market and competitive conditions shift rapidly and sometimes unpredictably.
2. The following five strategic moves seem to offer the best payoffs:
    a. Invest aggressively in R&D to stay on the leading edge of technological know-how
    b. Develop quick response capability
    c. Rely on strategic partnerships with outside suppliers and with companies making tie-in products
    d. Initiate fresh actions every few months not just when a competitive response is needed
    e. Keep the company's products and services fresh and exciting enough to stand out in the midst of all the change that is taking place
3. Cutting-edge know-how and first-to-market capabilities are very valuable competitive assets in fast-evolving markets.

CORE CONCEPT: In fast paced markets, in-depth expertise, speed, agility, innovativeness, opportunism, and resource flexibility are critical organizational capabilities.

Matching Strategy to Company Situations

Companies need to match strategy to industry situations. Strategy has to be matched to a company's own strengths, weaknesses, opportunities, threats, competitive capabilities and market position. Matching of strategy to industry situations and company situations helps managers customize its strategy. Market positions to be considered are:

Sustaining Rapid Company Growth
Industry Leaders
Runner-up Firms
Weak and Crisis Ridden Businesses

Strategies for Sustaining Rapid Company Growth

1. Companies that are focused on growing their revenues and earnings at a rapid or above-average pace year after year generally have to craft a portfolio of strategic initiatives covering three horizons:
    a. Horizon 1: "Short-jump" strategic initiatives to fortify and extend the company's position in existing businesses
    b. Horizon 2: "Medium-jump" strategic initiatives to leverage existing resources and capabilities by entering new businesses with promising growth potential
    c. Horizon 3: "Long-jump" strategic initiatives to plant the seeds for ventures in businesses that do not yet exist

The Risks of Pursuing Multiple Strategy Horizons

1. There are risks to pursuing a diverse strategy portfolio aimed at sustained growth:

a. A company cannot place bets on every opportunity that appears lest it stretch its resources too thin

b. Medium-jump and long-jump initiatives can cause a company to stray far from its core competencies and end up trying to compete in businesses for which it is ill suited

c. It can be difficult to achieve competitive advantage in medium- and long-jump product families and businesses that prove not to mesh well with a company's present businesses and resource strengths

Strategies for Industry Leaders

1. The competitive positions of industry leaders normally range from "stronger than average" to "powerful."
2. Leaders are typically well known and strongly entrenched leaders have proven strategies.
3. The main strategic concern for a leader revolves around how to defend and strengthen its leadership position, perhaps becoming the dominant leader as opposed to just a leader.
4. The pursuit of industry leadership and large market share is primarily important because of the competitive advantage and profitability that accrue to being the industry's biggest company.

CORE CONCEPT: The two best tests of success of a stay-on-the-defensive strategy are (1) the extent to which it keeps rivals in a reactive mode, struggling to keep up and (2) whether the leader is growing faster than the industry as a whole and wresting market share from rivals.

5. Three contrasting strategic postures are open to industry leaders:

a. **Stay-on-the-defensive strategy:** The central goal of a stay-on-the-defensive strategy is to be a first-mover. It rests on the principle that staying a step ahead and forcing rivals into a catch-up mode is the surest path to industry prominence and potential market dominance. Being the industry standard setter entails relentless pursuit of continuous improvement and innovation. The array of options for a potent stay-on-the-defensive strategy can include initiatives to expand overall industry demand.

b. **Fortify-and-defend strategy:** The essence of "fortify-and defend" is to make it harder for challengers to gain ground and for new firms to enter. Specific defensive actions can include:
(1) attempting to raise the competitive ante for challengers and new entrants via increased spending for advertising, higher levels of customer service, and bigger R&D outlays,
(2) introducing more product versions or brands to match the product attributes that challenger brands have or to fill vacant niches that competitors could slip into,
(3) adding personalized services and other extras that boost customer loyalty and make it harder and more costly for customers to switch to rival products,
(4) keeping prices reasonable and quality attractive,
(5) building new capacity ahead of market demand to discourage smaller competitors from adding capacity of their own,
(6) investing enough to remain cost-competitive and technologically progressive,
(7) patenting the feasible alternative technologies, and
(8) signing exclusive contracts with the best suppliers and dealer distributors. A fortify-and-defend strategy best suits firms that have already achieved industry dominance and do not wish to risk antitrust action. A fortify-and-defend strategy always entails trying to grow as fast as the market as a whole and requires reinvesting enough capital in the business to protect the leader's ability to compete.

c. **Muscle-flexing strategy:** Here a dominant leader plays a competitive hardball when smaller rivals rock the boat with price cuts or mount any new market offensives that directly threaten its position. Specific responses can include quickly matching or exceeding challengers' price cuts, using large promotional campaigns to counter challengers' moves to gain market share, and offering better deals to their major customers. The leader may also use various arm-twisting tactics to pressure present customers not to use the products of rivals. The obvious risks of a muscle-flexing strategy are running afoul of the antitrust laws, alienating customers with bullying tactics, and arousing adverse public opinion.

CORE CONCEPT: Industry leaders can strengthen their long-term competitive positions with strategies keyed to aggressive offense, aggressive defense, or muscling smaller rivals and customers into behaviors that bolster its own market standing.

Strategies for Runner-Up Firms

1. Runner-up or second-tier firms have smaller market shares than first-tier industry leaders.

2. Runner-up firms can be:
   a. Market challengers – employing offensive strategies to gain market share and build a stronger market position
   b. Focusers – seeking to improve their lot by concentrating their attention on serving a limited portion of the market
   c. Perennial runner-ups – lacking the resources and competitive strengths to do more than continue in trailing positions and/or content to follow the trendsetting moves of the market leaders

Obstacles for Firms with Small Market Shares

1. In industries where big size is definitely a key success factor, firms with small market shares have some obstacles to overcome:
   a. Less access to economies of scale in manufacturing, distribution, or marketing and sales promotion
   b. Difficulty in gaining customer recognition
   c. Weaker ability to use mass media advertising
   d. Difficulty in funding capital requirements
2. Competitive strategies used by Runner-up to build market share & achieve critical scale economies are based on:
   a. Using lower prices to win customers from weak higher-cost rivals
   b. Merging with or acquiring rival firms to achieve the size needed to capture greater scale economies
   c. Investing in new cost-saving facilities and equipment, perhaps relocating operations to countries where costs are significantly lower
   d. Pursuing technological innovations or radical value chain revamping to achieve dramatic cost savings
3. However, it is erroneous to view runner-up firms as inherently less profitable or unable to hold their own against the biggest firms.

Strategic Approaches for Runner-Up Companies

1. Runner-up companies can have considerable strategic flexibility and can consider any of the following seven approaches:
   a. **Offensive Strategies to Build Market Share:** A challenger firm needs a strategy aimed at building a competitive advantage of its own. The best "mover-and-shaker" offensives usually involve one of the following approaches:
   (1) pioneering a leapfrog technological breakthrough,
   (2) getting new or better products into the market consistently ahead of rivals and building a reputation for product leadership,
   (3) being more agile and innovative in adapting to evolving market conditions and customer expectations than slower-to-change market leaders,
   (4) forging attractive strategic alliances with key distributors, dealers, or marketers of complementary products,
   (5) finding innovative ways to dramatically drive down costs and then using the attraction of lower prices to win customers from higher-cost, higher-priced rivals, and
   (6) crafting an attractive differentiation strategy based on premium quality, technological superiority, outstanding customer service, rapid product innovation, or convenient online shopping options.
   b. **Growth-via-Acquisition Strategy:** One of the most frequently used strategies employed by ambitious runner-up companies is merging with or acquiring rivals to form an enterprise that has greater competitive strength and a larger share of the overall market.
   c. **Vacant-Niche Strategy:** This version of a focused strategy involves concentrating on specific customer groups or end-user applications that market leaders have bypassed or neglected.
   d. **Specialist Strategy:** A specialist firm trains its competitive effort on one technology, product or product family, end use, or market segment. The aim is to train the company's resource strengths and capabilities on building competitive advantage through leadership in a specific area.
   e. **Superior Product Strategy:** The approach here is to use a differentiation-based focused strategy keyed to superior product quality or unique attributes.
   f. **Distinctive Image Strategy:** Some runner-up companies build their strategies around ways to make themselves stand out from competitors. A variety of distinctive strategies can be used.

g. **Content Follower Strategy:** Content followers deliberately refrain from initiating trendsetting strategic moves and from aggressive attempts to steal customers away from the leaders. Followers prefer approaches that will not provoke competitive retaliation, often opting for focus and differentiation strategies that keep them out of the leader's path.

CORE CONCEPT: Rarely can a runner-up firm successfully challenge an industry leader with a copycat strategy.

Weak and Crisis-Ridden Businesses

A firm in an also-ran or declining competitive position has four basic strategic options:

a. **Offensive turnaround strategy** – If it can come up with the financial resources, it can launch an offensive turnaround strategy keyed either to low cost or new differentiation themes

b. **Fortify-and-defend strategy** – Using variations of its present strategy and fighting hard to keep sales, market share, profitability, and competitive position at current levels

c. **Fast-exit strategy** – Get out of the business either by selling out to another firm or by closing down operations if a buyer cannot be found

d. **End-game or slow-exit strategy** – Keeping reinvestment to a bare bones minimum and taking actions to maximize short-term cash flows in preparation for an orderly market exit

CORE CONCEPT: Strategic options for a competitively weak company include waging a modest offensive to improve its position, defending its present position, being acquired by another company, or employing an end-game strategy.

Turnaround Strategies for Businesses in Crisis

1. Turnaround strategies are needed when a business worth rescuing goes into crisis; the objective is to arrest and reverse the sources of competitive and financial weakness as quickly as possible.
2. Management's first task in formulating a suitable turnaround strategy is to diagnose what lies at the root of poor performance. The next task is to decide whether the business can be saved or whether the situation is hopeless.
3. Some common causes of business trouble are: (1) taking on too much debt, (2) overestimating the potential for sales growth, (3) ignoring the profit-depressing effects of an overly aggressive effort to buy market share with deep cost cuts, (4) being burdened with heavy fixed costs, (5) betting on R&D efforts but failing to come up with effective innovations, (6) betting on technological long-shots, (7) being too optimistic about the ability to penetrate new markets, (8) making frequent changes in strategy, and (9) being overpowered by more successful rivals.
4. Curing these problems and achieving a successful business turnaround can involve any of the following actions:

a. **Selling Off Assets:** Asset-reduction strategies are essential when cash flow is a critical consideration and when most practical ways to generate cash are through sale of some of firm's assets or through retrenchment.

b. **Strategy Revision:** When weak performance is caused by bad strategy, the task of strategy overhaul can proceed along any of several paths: (1) shifting to a new competitive approach to rebuild the firm's market position, (2) overhauling internal operations and functional area strategies to better support the same overall business strategy, (3) merging with another firm in the industry and forging a new strategy keyed to the newly merged firm's strengths, and (4) retrenching into a reduced core of products and customers more closely matched to the firm's strengths.

c. **Boosting Revenues:** Revenue increasing turnaround efforts aim at generating increased sales volume. Attempts to increase revenues and sales volume are necessary (1) when there is little or no room in the operating budget to cut expenses and still break even and (2) when the key to restoring profitability is increased use of existing capacity.

d. **Cutting Costs:** Cost-reducing turnaround strategies work best when an ailing firm's value chain and cost structure are flexible enough to permit radical surgery, when operating insufficiencies are identifiable and readily correctable, when the firm's costs are obviously bloated, and when the firm is relatively close to its break-even point.

e. **Combination Efforts:** Combination turnaround strategies are usually essential in grim situations that require fast action on a broad front. Combination actions frequently come into play when new managers are brought in and given a free hand to make whatever changes they see fit. Turnaround efforts tend to be high-risk undertakings and they often fail.