



PORTER COMPETITIVE STRATEGIES

When can the method be used?

The Competitive Strategy is defined by the top management and should not be easily modified over time. The Competitive Strategy affects several subsequent decisions and actions, including branding, production, innovation, portfolio management and marketing strategy, as well as shapes the design and development of new products and services accordingly. Choosing the right Competitive Strategy will align marketing activities and design activities with company objectives, improve the coherence of product portfolios and enhance the effectiveness of the marketing mix and innovation.

How to use the method?

The CEO of a company chooses the Competitive Strategy based on two main criteria: the size and composition of the market the company intends to target (*market scope*), and whether the company is better in product differentiation or in reducing the cost of products (*source of competitive advantage*).

As a result, three Competitive Strategies are possible:

- *Cost leadership*: a company makes profits by appealing to cost-conscious or price-sensitive customers in the market, and by producing and operating at a lower cost than its competitors.
- *Differentiation*: a company makes profits by leveraging its unique resources and capabilities to offer products that satisfy customer needs in a way that is distinctive and difficult to imitate.
- *Focus or niche strategy*: a company focuses effort and resources on a narrow, defined segment of the market. Products or services are developed specifically for this niche, by using either a differentiation or a cost leadership approach.

The Competitive Strategies framework helps companies to characterise their Competitive Strategy and define guidelines for achieving competitive advantage.

Porter proposed three Competitive Strategies: focus, differentiation and cost leadership.

Possible procedure

- STEP 1 Identify your company's core competences by looking at strengths and weaknesses and by comparing them with your main competitors.
- STEP 2 Choose the market scope depending on the size of your company in terms of resources and production capacity as well as the nature and geographical scope of the business.
- STEP 3 Select the most appropriate Competitive Strategy.
- STEP 4 Develop new products or services according to the selected Competitive Strategy.
- STEP 5 Monitor the appropriateness of your Competitive Strategy over time.

Limitations of the method

- The Porter Competitive Strategies framework has been criticised for

its lack of specificity and flexibility. Current turbulent market conditions might require the adoption of hybrid Competitive Strategies and/or a more pragmatic approach where the Competitive Strategy is modified depending on the circumstances.

Tips & Concerns

- The choice of a Competitive Strategy should be clear. Do not get 'stuck in the middle' if you want to be profitable and achieve competitive advantage.
- This choice is a long-term decision and should be thought out well. If you are a product manager or a designer, work consistently with the chosen strategy and do not try to change it.
- Choosing a Competitive Strategy should consider the external environment: Industry structure and competitors' strategies might mean that one or more Competitive Strategies are simply not possible - see Porter Five Forces.



Representation of Porter's Competitive Strategies

REFERENCES & FURTHER READING: Porter, M.E., 1985. *Competitive Advantage: Creating and Sustaining Superior Performance*. New York, NY: The Free Press. / Porter, M.E., 1996. *What is Strategy?* Harvard Business Review, November-December, 74(6), pp. 61-78.