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**SWP 53/91 "MANAGERIAL PERCEPTIONS OF PORTER'S
GENERIC STRATEGIES"**

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MANAGERIAL PERCEPTIONS OF PORTER'S GENERIC STRATEGIES

1 INTRODUCTION

This paper begins with an appraisal of Porter's Generic Strategy (1980,1985) concepts. This appraisal includes a review of the attempts to test out these concepts empirically. This opening section concludes with a summary of the main issues raised by the discussion.

Then the results of a questionnaire survey into managers' perceptions of the competitive strategy of their firm are presented and analysed. The results of this analysis suggest that managers do not perceive of their firm's strategy in terms of Porter's Generic Strategies.

The final part of the paper outlines a "managerial" theory of competitive strategy derived from the analysis of the managers' responses.

2 ASSESSING THE GENERIC STRATEGY CONCEPTS: CONTRIBUTIONS FROM THE LITERATURE

Porter (1980;1985) suggests that there are three "Generic Strategies": Cost Leadership, Differentiation and Focus. The Focus strategy requires the firm to apply one or other (or both) of the other strategies to a narrow segment of the market, to gain advantage. Firms that do not pursue these strategies, or who flip unsuccessfully between them, run the risk of being "stuck-in-the-middle" and performing at or below the industry average.

Taken together empirical investigations into the generic strategies have been inconclusive (Dess and Davis 1982,1984; Hambrick 1983a, 1983b; Miller and Friesen 1986a, 1986b; Phillips, Chang and Buzzell 1983; White 1986). But some of the problems in researching these concepts result from the inconsistent way in which the strategies are interpreted.

2.1. COST LEADERSHIP

With respect to Porter's Cost Leadership strategy, it is evident from the literature that there are very important differences in the way in which researchers have interpreted this competitive strategy.

Porter argues that, for cost leadership to yield superior profits, the firm must combine lowest costs with average prices. However, successful cost leaders that he chooses to exemplify his theory could be regarded as competing on price (eg Hyundai: European Management Journal 1987; La Quinta: Harvard 1988; and Harnischfeger: Porter 1980:37). Or, by coincidence, the examples could merely be selected from price sensitive segments.

If this was the case, then Hyundai would be charging average prices for this particular segment (which might include Proton and Lada as direct competitors). The question would then be: are Hyundai the lowest cost of the car producers serving this segment? It is not clear from Porter's use of this example that this is the inference he is making. In the context of his exposition, he is arguing that Hyundai is a low **price** car producer, who is targeting a price sensitive segment of the market.

The means to achieving the lowest cost position (eg a "conveyorized assembly line", Porter 1980:37) often require a high degree of stability, and standardization in the product or service being offered. Again, these may well be requirements of particular segments who find a "standard, no frills product" acceptable (Porter 1985:13). Skivington and Daft (1991) suggest

that:

"Low cost strategic decisions are often found in markets where commodity-like products and price sensitive buyers collectively pressure firms to engage in price competition" (Skivington and Daft 1991:50)

And Miller (1988) makes a strong connection between the cost leadership strategy and low prices to satisfy price sensitive customers:

"User's of the [cost leadership] strategy are likely to confront the least environmental unpredictability and change. They seek out customers who care more about price than about image or novelty.." (Miller 1988:284-5)

If the low cost position is translated into, say, lower prices, then the firm should increase its market share, but it may well not improve the firm's relative profitability. For now, the cost leader is no longer charging average prices, and, therefore there is no guarantee that its low cost position would lead to above average profits.

The connection between cost leadership, serving price sensitive customers and competing on price is made in a number of studies into the generic strategy concepts. In Dess and Davis' (1984) study statements associated with the three generic strategies (cost leadership, differentiation and focus) were tested with two different groups: managers and "experts" in strategic management. The experts were required to read Porter (1980: Chapter 2) and then to rate a list of 21 statements of "competitive methods" according to its importance for each generic strategy. The experts rated "Competitive Pricing" as being strongly associated with cost leadership (a mean rating of 4.86, with 5 as the maximum).

McNamee and McHugh's (1989) attempt to test out Porter's concepts in the clothing industry refers to "low price" strategies rather than cost leadership. Karnani (1984) infers that, for cost leadership to be attained the firm must compete on price. And

Govindarajan (1986), citing Porter (1985), maintains that:

"a strategy of low cost signifies an attempt to sell an essentially undifferentiated product at lower-than-average market price." (Govindarajan 1986:848)

Throughout Govindarajan's article he refers to Porter's "low cost" strategy. This illustrates a lack of precision in the interpretation of Porter that contributes to the confusion surrounding the generic strategy concepts.

In Miller and Friesen's empirical investigation of the generic strategies (1986a; 1986b) they refer to cost leaders offering lower prices, and pricing "aggressively" to build market share. This study also illustrates some other difficulties of definition encountered in researching the generic strategies. They list a number of "strategic choice variables" extracted from the PIMS database, that they believe are associated with the generic strategies. For cost leadership these variables are as follows:

- * Price Difference
- * Vertical integration
- * Newness of plant and equipment
- * Capacity utilization
- * Relative direct costs
- * Process R&D/Value added

None of these variables, taken singly or in combination would necessarily lead to an SBU becoming a "cost leader" in its industry. Nevertheless, this does not prevent Miller and Friesen (1986a) from drawing conclusions about "cost leadership" SBUs, or indeed identifying "Differentiators" that are also "cost leaders"(Miller and Friesen 1986a:49). These interpretations are all the more surprising given that their study found a number of "cost leaders" within the same industry (consumer durables). In a

similar vein, Dess and Davis (1984) are prepared to conclude that a cluster of four firms in the same industry are "cost leaders".

These are not trivial points. They illustrate a lack of rigour that seems to be endemic to empirical studies of the generic strategies. It would be more appropriate if Miller and Friesen referred to SBUs that score highly on these variables as "cost control" SBUs, as there is no evidence that they have achieved THE lowest cost position in their industries, or that they were striving to achieve this position.

To conclude, there appears to be some confusion surrounding the strategy of cost leadership. It is not clear whether cost leadership is necessarily associated with competing on price, and there is evidence that some investigators are using the term loosely to imply a "cost control" orientation. Finally, a strong connection is made in the literature (by Porter and others) between cost leadership and serving price sensitive, commodity-like market segments. Thus the choice of generic competitive strategy is being confused with the selection of a target market segment.

2.2 DIFFERENTIATION

Similarly to cost leadership, Differentiation has been variously interpreted. Porter argues that differentiators achieve superior profits through their ability to premium price (Porter 1980:38). He states that:

"The ultimate test of differentiation is: do you command a premium price?" (European Management Journal 1987:6)

However, Hill (1988) suggests that an aim of differentiation is "to capture more of the market at the same price"; Hill does not, then, automatically associate differentiation with premium pricing.

Porter himself relaxes the connection between a differentiation strategy and premium pricing in his video case examples

(Harvard 1988). Citing American Airlines as his example of a broad scope differentiator, he suggests that their superior performance results not from the ability to premium price, but from their ability to increase market share.

Hill (1988) considers the connections between differentiation and demand:

"Investment expenditure aimed at differentiating a product has two effects upon demand. The first is to create brand loyalty, decreasing the price elasticity of demand for the firm's product. The second is to broaden the appeal of a product, enabling the firm to capture more of the market at a given price and to increase the volume sold.... The immediate effect of differentiation will be to increase unit costs. However, if costs fall with increasing volume, the long-run effect may be to reduce unit costs. Three sources of declining costs can be identified: learning effects, economies of scale, and economies of scope....Whether differentiation is consistent with establishing an overall low-cost position depends on the extent to which costs decline with increasing volume." (Hill 1988:402/3)

Thus, for Hill differentiation need not necessarily be associated with premium pricing (see also Bamberger 1989:80), nor does he perceive particular problems in pursuing both differentiation and cost leadership simultaneously.

He goes on to argue that "...efficiency is not so much a strategy as a function of the skill with which a firm manages the process of converting inputs into outputs." (Hill 1988:410). This leads us into the next contentious area: whether firms that try to achieve both sources of advantage run the risk of being "stuck-in-the-middle".

2.3 "STUCK-IN-THE-MIDDLE"

Porter maintains that:

"a firm that engages in each generic strategy but fails to achieve any of them is "stuck in the middle". It possesses no competitive advantage.....Becoming stuck in the middle is often a manifestation of a firm's unwillingness to make choices about how to compete. It tries for competitive advantage through every means and achieves none, because achieving different types of competitive advantage usually requires inconsistent actions" (Porter 1985:16-17)

In addressing the issue of achieving both sources of advantage Murray (1988) argues that:

"...the exogenous preconditions for a viable cost leadership strategy stem principally from the industry's structural characteristics [vertical integration confers benefits, process innovations can still be realised, learning effects can still be realised, optimal scale exceeds 50% of market]. The preconditions for product differentiation stem primarily from customer tastes. Because these two sets of exogenous factors are independent, the possibility of a firm pursuing cost leadership and product differentiation simultaneously is not precluded." (Murray 1988:395)

Karnani (1984) argues that "a firm cannot afford to emphasise one dimension at the cost of neglecting the other. Moreover, the relative contribution to successful performance of the two ways of gaining competitive advantage depends on certain characteristics of the specific industry one is considering" (1984:379)

Cronshaw, Davis and Kay (1990) point out some of the differing interpretations of the "stuck-in-the-middle" concept. It has been used, as in the discussion above, to refer to not making a choice between the two generic strategies. It has, however, also been used (by Porter and others) to refer to market positioning (opting for a "middle market" position), and to a general lack of clarity in strategy.

The link between industry, or segment situation and the choice

of generic strategy explored by Murray (1988) is shared by Hambrick (1983a):

"It is simply not accurate to say that all generic strategies are equally viable within an industry....any broadly 'generic' strategy is really a composite of numerous variations, not all of which are equally suited to a given situation." (Hambrick 1983a:702)

Porter's (1985) concepts of "parity" and "proximity" are relevant to this discussion:

"a cost leader must achieve parity or proximity in the bases of differentiation relative to its competitors to be an above average performer.." (Porter 1985:13), and "a differentiatoraims at cost parity or proximity relative to its competitors..." (Porter 1985:14)

Murray (1988) concludes from this that:

"This implies that a cost leader that competes against a product differentiator must also be a product differentiator, and vice versa." (Murray 1988:396)

3 ACHIEVING COMPETITIVE ADVANTAGE

Perhaps the most important question that must be asked of the generic strategies is "do they lead to competitive advantage?" Related to this basic question is the (usually implied) assumption that competitive advantage leads through to superior profitability. We shall now explore these two issues.

In Porter's "Competitive Advantage" (1985) the axes of his Three Generic Strategies diagram are labelled "Competitive Advantage" and "Competitive Scope" (see Figure 1). It is reasonable, then, to ask whether these generic strategies do in fact lead to competitive advantage.

		COMPETITIVE ADVANTAGE	
		LOWER COST	DIFFERENTIATION
COMPETITIVE SCOPE	BROAD TARGET	COST LEADERSHIP	DIFFERENTIATION
	NARROW TARGET	COST FOCUS	DIFFERENTIATION FOCUS

FIGURE 1 PORTER'S THREE GENERIC STRATEGIES (1985:12)

Mathur (1988) suggests that "competitive strategy is primarily concerned with the positioning of the firm's outputs (or offerings), not of inputs" (Mathur 1988:30). As far as the customer is concerned the cost leadership strategy is invisible; the cost leader may offer average quality products at average prices, there is no discernible advantage accruing to the customer from purchasing from the cost leader. In this sense, then, it is difficult to see how cost leadership, by itself, can convey any competitive advantage.

However, the **consequences** of being the lowest cost producer could enable the firm to pursue competitive advantages:

- * Low cost enables the firm to compete with lower prices
- * Low cost enables the firm to offer superior quality for the same (industry average) price

But, cost leadership per se does not confer a competitive advantage.

Does differentiation confer competitive advantage? Central to Porter's theoretical schema is the concept of the "industry". Indeed, the generic strategies are derived, and their advantages are explained in the context of a discernible industry structure (Porter 1980). However, there are problems in defining the boundaries of an industry.

For instance, Murray (1988) cites Southlands 7-11 stores as exemplifying product differentiation based on convenience,

"but this is only when they are compared with food retailers targeting other market segments (eg supermarkets). When they are compared with other firms competing in their own niche (ie other convenience stores), it becomes clear that 7-11 stores strive for cost leadership." (Murray 1988: 391).

So, as more than one firm in an industry can pursue differentiation, we may see several firms, all serving similar

customers, all "premium pricing". But how does a firm achieve superior performance if all its rivals are "premium pricing" to the same extent? Indeed, over whom are these firms charging premium prices?

Problems of industry definition and segmentation occur frequently in discussions of the generic strategy concepts. The definition of the industry (ie who are the firm's competitors) is clearly a key issue.

Day and Wensley (1988) distinguish between customer-focussed and competitor-centred approaches to competitive position. They conclude that:

"The appropriate unit of analysis to reveal [competitive] advantage is a market segment characterized by a distinct profile of benefits" (Day and Wensley 1988:16).

Dickson and Ginter (1987) define market segmentation as a

"state of demand heterogeneity such that the total market demand can be disaggregated into segments with distinct demand functions" (Dickson and Ginter 1987:5).

This problem has been acknowledged by Porter and others with the development of the the Strategic Groups concept (Porter 1985; McGee and Thomas 1986; Mascarenhas and Aaker 1989). Although, developing Day and Wensley's (1988) point, arranging firms into "strategic groups" may be neither a customer-focussed, nor a competitor-centred approach; the grouping could be imposed on an industry by an interested academic.

In an article based on a transcript of a TV programme (European Management Journal 1987) Porter explains the generic strategies with reference to the "auto" industry. He uses examples from the industry to illustrate each of the four cells of the generic strategy diagram (Figure 1). For the broad target cost leader he cites Toyota; for the broad target differentiator he suggests General Motors in the US; his narrow target cost focusser is Hyundai; Mercedes and BMW represent Differentiation focussers.

(Interestingly in "Competitive Strategy" (Porter 1980:43) he cites General Motors as an example of a cost leader).

Clearly, Porter is using a broad definition of the auto industry to make his points, but this example illustrates very well the problems with the generic strategy concept. Over whom have Mercedes (the successful focussed differentiators) gained a competitive advantage? It obviously is not, say Hyundai, or even Toyota, as it would be difficult to argue that these firms were targetting the same customers as Mercedes. In this sense, it is not particularly useful to regard Mercedes and Hyundai as being in the same "industry", if an industry is defined as firms in competition with each other; they would clearly not belong to the same "strategic group".

To see whether Mercedes have gained a competitive advantage we would need to take the consumer's perspective, and compare the consumer's perceptions of the alternatives that are available. It is very likely that the consumer would be comparing Mercedes with similarly priced cars, with similar specifications (eg Jaguar, BMW). To judge Mercedes competitive position we would need to know whether an increasing, or decreasing number of consumers in this target segment were buying Mercedes cars.

So Porter's test of the successful differentiation strategy (whether the firm can command a premium price: European Management Journal 1987) may not apply when the "industry" is defined from the customer's perspective, rather than from the firm's.

To take this argument further, if we take the view that the customer is interested not in the product or service per se, but the extent to which the product can satisfy his or her needs, then quite different industry definitions emerge. Take, for example, the Isle of Wight Zoo. A product/service based industry definition would pitch the zoo against all other zoos in the UK. A customer needs-based definition would have to start from an understanding of the needs of the existing and potential customers of the zoo.

For some segments the zoo would indeed be perceived to be in competition with other mainland zoos (the keen student of animal behaviour); but for most customers the competing suppliers of their needs would include theme parks, a waxwork museum, a craft centre. Here the needs of the customers are to pleasantly pass an afternoon when it is too cold to go to the beach. Taking these customer based definitions of the industry can result in radically different perceptions of the competition, and they also require a rethinking of the "Substitute" threat in Porter's Structural Analysis of Industries (Porter 1980).

To conclude this section, the confusion between competitive strategy and the targetting of different market segments is well exemplified in a discussion between Porter and David Sainsbury (European Management Journal 1987). It is worth examining in detail the exchanges between Porter and Sainsbury as they illustrate some of the difficulties with the generic strategy concepts.

Sainsbury: "The.. bit I don't agree with is the idea that if you are stuck in the middle, that's some great disadvantage, because it seems to me that you do have customers who are only interested in price. At the other end, you've got some people who are interested only in quality and will pay anything to get it. But the great majority of people are interested in both quality and price, which is summed up in the phrase "value for money". I think you can have a strategy which is focused, as we are, absolutely on that middle range."

Porter: "David said we're not interested in the part of the market that's only price sensitive. That part of the market is the province of cost. This would be typified by a company that was adopting a very stripped-down, warehouse operation, orienting on prices and sales. That's a focus strategy. David also said he was not interested in the sort of premium which I might pay if anything was the most exotic, individual, stylish, etc."

Sainsbury: "We're not a delicatessen."

Porter: "You're not a delicatessen. But what about the

differentiation approach that would go after that completely price insensitive customer, giving him all kinds of service and handholding?"

Here Porter is arguing that serving the very price sensitive segment is the province of a cost focusser, and serving the price insensitive consumer is the province of the differentiator. But it is not at all clear that the selection of either segment to target necessarily confers any competitive advantage. It would be entirely consistent with Porter's theory (Porter 1980) for a firm to pursue a cost leadership strategy in either of these segments. With respect to the price-insensitive segment, this would involve selling at average prices for firms serving that segment, but having the lowest costs (of firms serving that segment).

Similarly, it is conceivable that a firm could target the price sensitive segment and pursue a differentiation strategy: here the firm would be able to price marginally above the average prices of firms serving this segment.

But to be a "true" focussed cost leader serving the price sensitive segment would require the firm to charge average prices and achieve the lowest cost position of the firms serving this segment. And, again, to be a "true" focussed differentiator serving the delicatessen segment, the firm would have to premium price above other delicatessens. Figure 2 summarises this argument, using two segments of a market. In each case, the above average player in the segment outperforms its rivals serving this segment (the "average" players).

Thus comparing firms within a broad definition of the "grocery" industry, as Porter does in his discussion with Sainsbury, involves comparing firms who are not perceived, from the vantage point of an individual consumer, to be in competition with each other (whether the consumer is in the price sensitive segment, the price insensitive segment, or middle ground).

To summarise this review of the literature, a number of issues concerning the generic strategies have emerged:

		FIRM	
		Average Player	Above Average Player
SEGMENT	Price Sensitive	Average prices for the segment, with average costs.	Either: Average prices and lowest costs Or: Average costs and premium prices or both (lowest cost with premium prices)
	Price insensitive	Average prices for the segment with average costs.	Either: Average prices and lowest costs Or: Average costs and premium prices or both (lowest cost with premium prices)

FIGURE 2 Segments and Superior Performance

- * Is cost leadership associated with competing on price? If it is, then it is not clear that the combination of a low price/low cost strategy will lead to superior profit performance.

- * Do differentiators premium price? Or can they achieve superior performance by increasing market share?

- * How is competition to be defined? Over whom do the firm premium price, or achieve lowest costs? Indeed, is the selection of one of Porter's generic strategies more a decision about **where** to compete than about **how** to compete?

- * Can firms pursue cost leadership and differentiation simultaneously?

- * Do either of the generic strategies lead to competitive advantage defined in "output" terms (ie. increasing market share)?

To conclude this discussion it is useful to trace the origins of Porter's approach. The Generic Strategy concepts were derived from an economics perspective. Fundamental to Porter's theory is the concept of the industry (Porter 1980:1), and its "underlying economic structure" (Porter 1980:3). The industry is conceived of in "product" terms, and competition is defined by firms that offer products that are "close substitutes for each other" (Porter 1980:5). The generic strategies are presented as ways of "coping with the five competitive forces" (Porter 1980:35), and they are essentially tautologies (the lowest cost producer that charges average prices must, by definition, have above average profits; similarly, the differentiator that combines premium prices with average costs, must have above average profits). Porter supports his theory with numerous anecdotal examples of firms supposedly pursuing one or other of the generic strategies.

In order to answer some of the questions listed above, therefore, it may be appropriate to adopt a non-economics based perspective. The intention is to draw on the perceptions of

practising managers to inform our understanding of competitive strategy (previous studies adopting this approach include Dess and Davis (1984) and Aaker (1989)). In this way a "managerial theory" of competitive strategy can be constructed which addresses the ambiguities and inconsistencies in Porter's concepts.

4 MANAGERIAL PERCEPTIONS OF THE GENERIC STRATEGIES

To explore managerial perceptions of Porter's Generic Strategies a questionnaire was constructed using statements that pertain to either Cost Leadership or Differentiation. These statements were derived from Porter (1980, 1985), standard policy textbooks (Thompson and Strickland, Johnson and Scholes) and from research into the generic strategy concepts (Dess and Davis; Miller; Hill; Murray).

An original list of 40 statements was tested with a panel of experts in strategic management. They were asked to classify each statement as pertaining to either cost leadership, differentiation, both strategies, or neither strategy. From this evaluation the statements were reduced to 25 that were unanimously classified as relating to either cost leadership or differentiation.

The questionnaire was then extensively tested with practicing managers. (This is described at length in Bowman 1991). The result of the pilot testing and development was a 21 statement questionnaire (which includes some statements about organizational change). The questionnaire can be found in the appendix to this paper.

The questionnaire was then administered to 1100 managers from over 150 different Strategic Business Units (SBUs). The managers were largely from the top management teams of their SBU, or were from functions reporting directly to the top team. The managers' SBUs cover a very wide spectrum of business activity, including manufacturing and services, and with size

ranging from small partnerships to multinational enterprises.

As the statements were derived from Porter's Generic Strategies we would expect that, if managers conceive of the strategy of their SBU in line with Porter's concepts, their responses to the questionnaire would reflect this. Thus they would rate statements about cost leadership consistently high (or low) according to whether or not they saw their SBU pursuing this strategy. Similarly, the managers would rate the Differentiation statements consistently high or low.

To test this, the data was factor analysed. Factor analysis groups statements that correlate with each other. So, if managers perceive the strategy of their SBU in line with Porter's generic strategies, we would expect two Factors to emerge, which correspond to the generic strategies (because the questionnaire also includes statements about organizational change, we would expect a third factor, "Change" to emerge from the analysis)

If managers perceived the strategies of their SBUs in line with Porter, we would expect three factors to have Eigenvalues > 1 (corresponding to cost leadership, differentiation and change). This would indicate that each of the factors explains more of the variance in the data than an individual variable. This rule of thumb is frequently used when interpreting the underlying structure of a set of data (Dess and Davis:1984).

However, the factor analysis reveals that five factors have eigenvalues > 1.0 . This suggests that five factors reflect the structure of the data, rather than three (see Table 1).

The five factors have the following variables (statements) loading on them (loadings > 0.5):

Factor 1 : v1, v13, v5, v8, v6:

Factor 2 : v14, v2, v16, (v20), (v4):

Factor 3: v7, (v12), v10, v9 :

Table 1 Five Factor Solution: Rotated Loadings

Factor	1	2	3	4	5
V(1) Operating Costs	0.818	0.060	-0.012	0.097	0.002
V(13) Monitor Costs	0.797	0.083	-0.017	0.085	0.020
V(5) Cut Overheads	0.681	0.054	0.008	0.131	-0.146
V(8) Capacity Utilization	0.558	0.004	0.020	0.118	0.193
V(6) Low Cost Supply	0.538	-0.029	0.055	0.336	0.020
V(14) Different Operations	0.005	0.801	0.074	0.120	0.028
V(2) Changed Strategy	0.009	0.744	-0.022	0.074	-0.003
V(16) Changed Structure	0.013	0.731	0.109	0.136	0.048
V(20) Same Operations	-0.018	-0.705	-0.180	0.026	0.024
V(4) Little Org. Change	-0.175	-0.606	-0.062	0.122	-0.135
V(7) Regular NPD	-0.010	0.097	0.753	0.144	0.217
V(12) No Product Change	0.017	-0.234	-0.706	0.156	0.170
V(10) NPD Priority	0.041	0.110	0.675	0.199	0.249
V(9) Unique Products	0.046	-0.025	0.508	-0.188	0.542
V(21) Competitive Prices	0.142	0.084	-0.151	0.778	0.095
V(11) Emphasize Prices	0.101	-0.037	0.120	0.753	0.104
V(19) Lowest Cost	0.234	0.063	0.079	0.616	-0.084
V(15) Price Sensitive	0.426	0.157	0.073	0.538	0.165
V(18) Superior Products	0.146	0.137	0.185	0.153	0.660
V(17) Sales Information	-0.261	0.017	-0.206	0.080	0.652
V(3) Distinctive Products	0.147	0.027	0.288	0.044	0.626
Percentage of Total Variance					
Explained	13.25	13.05	9.73	10.51	8.67

Factor 4: v21, v11, v19, v15 :

Factor 5: v18, v17, v3, v9 :

(Variables in brackets indicate negative loadings)

4.1 DESCRIBING THE FIVE FACTOR SOLUTION

Factor 1: Cost Control

This factor is easily interpretable as "cost control". The statements that load on it are about monitoring and controlling operating costs (v1, v13), cutting overheads (v5), maintaining capacity utilization (v8), securing low cost supply (v6). Interestingly, V19 ("We aim to be the lowest cost producer in our industry") does not load strongly on this factor (a loading of only 0.234).

Factor 2: Change

This is the "Change" factor. Statements about changing operations (v14, v20), changing strategic direction (v2) and changing organizational structures and processes (v16) all load onto this factor. However, the statements about product change, and new product development do not load on this factor (v7, v12, v10). This suggests that managers do not perceive organizational change and product change as necessarily related.

Factor 3: New Product Development

The product change statements load on this factor (v7, v12, v10). But, in addition v9 ("We try to offer unique products/services enabling us to charge premium prices") also has a loading greater than 0.5 (0.508). This would suggest that new product

development is linked to the achievement of uniqueness, and to premium pricing.

Factor 4: Compete on Price

This factor embraces the statements to do with competing on price (v11), offering similar products/services to the competition (v21), and having price sensitive customers (v15). Statement 19 ("We aim to be the lowest cost producer in our industry") also loads on this factor (0.616). This would support the suggestion that some managers have interpreted this statement as aiming to be the lowest PRICED producer. However, we cannot exclude the explanation that other managers perceive that, to compete on price, an SBU needs to be very low cost.

Factor 5: Superior Products

This factor has statements about offering superior, and unique products (v18, v9), emphasizing distinctive products in marketing communications (v3). Sales performance information is considered to be more important than cost control information (v17). Factor 5, then is about offering superior products/services, and being sales, not cost orientated.

The four strategy-orientated factors (F1, F3, F4, F5) can be summarised as follows:

F1 Cost control

F3 New product development

F4 Compete on price

F5 Superior products

4.2 INTERPRETING FACTOR 1: "COST CONTROL"

The cost control factor (Factor 1) is focussed exclusively internally on priorities associated with cost reduction and efficiency.

Factor 1 (cost control) pursued alone by an SBU would not confer competitive advantage. Cost control per se is invisible to consumers. Cost advantages can be translated into either lower prices, or higher perceived value (by adding product features whilst not raising the price) which **would** confer competitive advantage. Cost control activities that were not converted into either of these forms of competitive advantage would lead to superior profits if the firm was able to achieve a lower than average cost level as a result. However, the risk of pursuing just cost control are that the firm may be out manoeuvred by a competitor. The profit advantages may prove to be short term if competitors move to cut price, and/or add perceived value.

4.3 INTERPRETING FACTOR 4: COMPETE ON PRICE

Factor 4 (Compete on price) includes the need to be the lowest cost producer. Firms may proactively opt for this strategy (to squeeze out competitors, for example), or firms may find themselves left with this as the only option. Miller and Friesen's (1986a) Cluster 3 and 4 SBUs could be regarded as pursuing a proactive price competitive strategy. These SBUs support their competitive prices with efforts to reduce costs.

However, if there has been little effort put into improving the perceived value of the products, a firm may find itself falling behind its competitors. Faced with falling market share the management may cut prices. However, unless the firm has a very low (relative) cost base the squeeze on margins that may result from price cutting could be crippling.

Unfortunately, if the firm has fallen behind the competition with respect to perceived value, it may well be lacking in a positive drive to control costs. In short, the firm may generally lack strategic direction. The absence of strategic purpose that led to

the the problem with relative perceived value may not be compensated by a strong sustained drive to cut costs. So we may find a poorly managed firm being forced to compete on price, recognising that they have to be lowest cost, but without the emphasis on cost control that would be required to achieve the lowest cost position (ie Factor 3 not combined with a strong Factor 1 thrust).

Miller and Friesen's empirical study (1986a;1986b) revealed four "failure" clusters of SBUs. In explaining some of these clusters they surmise a vicious circle of failure: "...poor product quality can erode market share, requiring a subsequent reduction in prices." (Miller and Friesen 1986b:258).

Thus we would expect that a strong cost control orientation would be associated with superior profit performance, provided that the firm was not reactively cutting price. A cost control orientation per se would not affect sales performance.

4.4 INTERPRETING FACTOR 3: "NEW PRODUCT DEVELOPMENT"

Factor 3 can be interpreted as:

"New product development/uniqueness/premium price"

This would suggest that managers who perceive their SBU's to be stressing new product development, are also aiming for uniqueness and the ability to premium price.

New product development may be undertaken for a variety of reasons, including the following:

- * it is a feature of the industry (new product development is one of the "rules of the game": Miller 1988:284)

- * it is to help achieve a superior competitive position in an industry that has not, traditionally, competed via product innovation

- * new product development meets management aspirations

New product development may be a continual priority where the industry "rules of the game" dictate this. A failure to innovate would lead to competitive disadvantage. Alternatively, where product innovation is used aggressively to gain a competitive advantage it would be linked to the pursuit of superior/unique/distinctive products or services.

Miller (1986) suggests a subdivision of Porter's Differentiation strategy into innovative differentiation, and marketing differentiation. He suggests that this distinction is necessary largely due to the different organizational requirements of these routes to competitive advantage. Innovative differentiation requires the firm to continually develop new products or services, whereas in the case of marketing differentiation the products or services may remain substantially unaltered, the differentiation effort is concentrated in marketing activities designed primarily to alter consumers' perceptions of the products. Innovative differentiation would require a flexible, decentralised structure, whereas marketing differentiation may be sustainable with a much more mechanistic organizational form (a machine bureaucracy: Mintzberg 1979). Only the marketing activity would require organic, adhocratic forms of structure; and in some cases this activity would be sub-contracted.

There are connections, therefore, between these forms of differentiation and the five factor solution presented here. Factor 3 could be interpreted as Miller's innovative differentiation. New product development, and uniqueness leading to premium pricing load on this factor.

In Miller and Friesen's study (1986a;1986b) Cluster 7 could be interpreted as a New Product Development cluster. These SBUs rate significantly above average on price premium, relative direct costs, product R&D/Value Added. They are also the only

cluster to have a positive rating on "percentage of new products".

4.5 INTERPRETING FACTOR 5: "SUPERIOR PRODUCTS"

Miller's "marketing differentiation" (1986) would correspond to Factor 5. Here new product development is **not** stressed as a means towards achieving uniqueness; distinctive products, or image conveyed through marketing communications loads strongly on to this factor.

Offering superior products or services to the competition should improve market share. Increases in share can lead through to improved profit performance if the firm takes advantage of, for example scale economies (eg spreading overheads), and/or experience curve benefits. Thus Factor 5 should be linked to relative sales performance (market share), and it may be linked to relative profit performance.

Miller and Friesen's (1986a) Cluster 1 and 2 SBUs correspond to the "Superior Products" strategy. Here the SBUs do not pursue product innovation, but they do emphasize product quality and the promotion of perceived product quality (through advertising and promotional expenditure).

5 COMPARING THE FIVE FACTOR SOLUTION WITH DESS AND DAVIS (1984)

Dess and Davis' (1984) study is directly comparable to the approach used here to investigate managerial perceptions of the generic strategies, therefore it is useful to compare their results with those presented here. Their factor analysis produced five factors with eigenvalues > 1 . However, they chose to eliminate two of the factors, leaving three which they interpreted as supporting the generic strategies: a differentiation factor (which explained 32% of the variance); a "low cost" factor (10.7% of the variance); and a "focus" factor (8.6%). "Competitive methods" that loaded on these three factors,

that had loadings greater than 0.50 were as follows:

Factor 1 "Differentiation"

Brand Identification; Innovation in marketing techniques and methods; Control of channels of distribution; Procurement of raw materials; Advertising; Forecasting market growth.

Factor 2 "Low Cost"

Operating efficiency; Product quality control; Experienced/trained personnel; Developing/refining existing products; Procurement of raw materials; Reputation within the industry; Forecasting market growth.

Factor 3 "Focus"

New product development; Capability to manufacture speciality products; Products in high price market segments.

These results could be interpreted as confirming the "five factor" solution derived here. Dess and Davis' Factor 1 is equivalent to the "Superior Products" factor; their Factor 2 is equivalent to the "Cost control" factor; and their Factor 3 is equivalent to the "New Product Development" factor. Moreover, one of their "competitive methods" statements refers to "Competitive Pricing". This method does not load on either of the three selected factors. We must assume, therefore, that the statement loads on one or other of the discarded factors. This, then, would corroborate further the similarities between the two studies.

In the second phase of their study, Dess and Davis compare the factors derived from the managers' responses with competitive methods identified by "experts" as pertaining to each of the generic strategies. The comparisons reveal a marked lack of agreement between the "experts" and the managers, although Dess and Davis do not interpret the results in this way. Of the 21 competitive methods used, only four are rated by both groups as being important to a differentiation strategy; four are commonly

rated as pertaining to "low cost"; and only one method is commonly rated as pertaining to "focus". Important differences between the experts and the managers include "competitive pricing" (rated by experts only as pertaining to cost leadership); and new product development (rated by experts as pertaining to differentiation, but not by managers).

This would support the view that managers' perceptions of competitive strategy are different from those of "academics", and it reinforces the usefulness of the approach adopted in the present study.

6 A MANAGERIAL THEORY OF COMPETITIVE STRATEGY

The challenge presented by these findings is to see if they can be interpreted in such a way as to provide a coherent managerial perspective of competitive strategy, which avoids the ambiguities and inconsistencies of Porter's approach.

Two of the factors are clearly associated with gaining competitive advantage: one route to advantage is through offering superior products or services (F5); the other is through competing on price (F4).

These two competitive thrusts can be represented on the chart in Figure 3. The vertical axis represents perceived use value. This is the value "in use" perceived by consumers; the tangible and intangible benefits perceived to accrue to the consumer through purchasing and consuming the products/services; to borrow a term from economics, this axis represents the perceived "utility" of the products/services on offer. The horizontal axis measures price.

Dickson and Ginter (1987) stress the importance of consumer perceptions in establishing their definition of product differentiation:

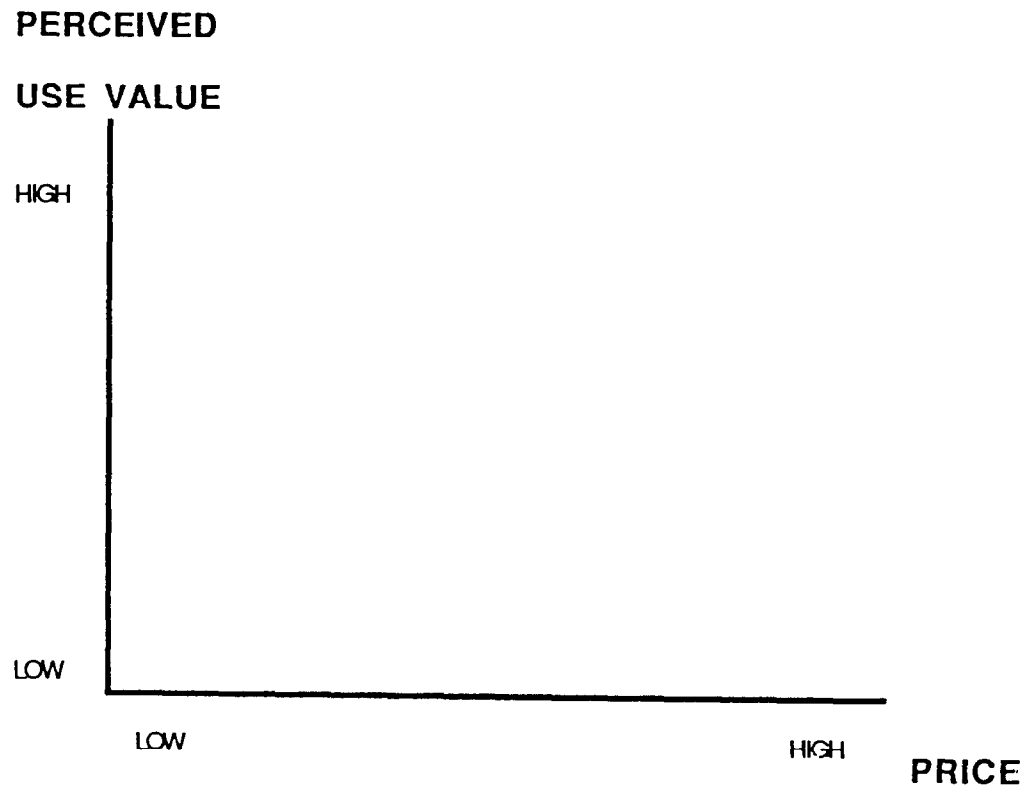


FIGURE 3 THE PERCEIVED USE-VALUE/PRICE CHART

"product differentiation is where a product offering is **perceived** by the consumer to differ from its competition on any physical or nonphysical product characteristic including price" (Dickson and Ginter 1987:4)

Day and Wensley (1988) take a similar line:

"...though advantages reside in superior skills and resources, they are revealed in competitive product markets. A point of advantage can be exploited profitably only when it offers significant benefits that are **perceived and valued** by customers....." (Day and Wensley 1988:16)

A position in the space defined by the two axes could be viewed as representing a particular "value for money" combination of perceived use value and price (European Management Journal 1987:5).

6.1 REPRESENTING THE CONSUMER ON THE CHART

In order to represent the consumer in the diagram, in Figure 4 three "indifference curves" are displayed representing three different segments of consumer demand. In order to explain the relevance of the curves, we will use the example used by Porter (1987) to explore his generic strategy concepts: the "auto industry".

Segment A are price sensitive consumers, and are only able, or are only prepared to pay up to £5,000 for a new car. Segment B are less price sensitive, but their price range has an upper limit of £10,000. Segment C are prepared to pay up to £25,000 for a car that they perceive to offer high use value. Each indifference curve represents a set of combinations of price and perceived use-value that consumers view as equivalent: they are "indifferent" between these combinations. For each segment, the indifference curve represents the "boundary" of acceptable price/use value combinations. For example, the Segment A consumer cannot afford, or is not prepared, to pay more than £5,000.

PERCEIVED
USE VALUE

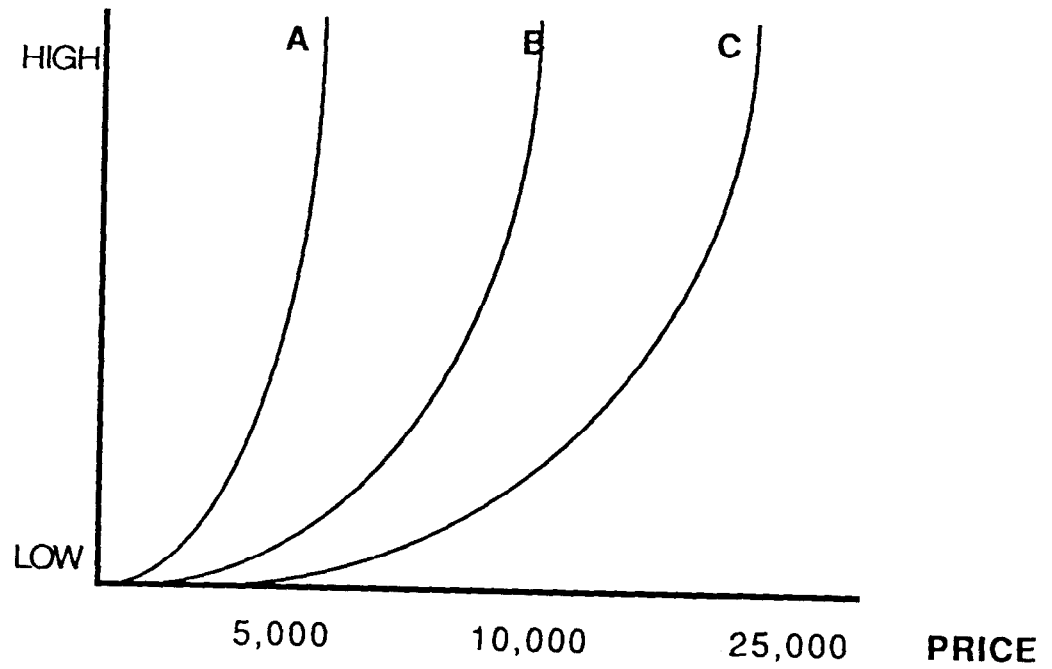


FIGURE 4 THREE SEGMENTS IN THE CAR MARKET

By plotting these three segments on the same chart we are assuming that all three segments value very similar attributes of cars, and, as such, the Segment A consumer can appreciate that a very expensive car could nevertheless represent "value-for-money" even though it is well outside his price range. We are assuming therefore, that adding perceived use-value means the same thing to all three segments. If this was not the case, then it would not be appropriate to draw all three segments on the same chart. So, for our example of the auto industry, we could assume that all three segments were interested in one class of cars, family saloons.

If a consumer moves along his or her indifference curve they do not perceive any change in the "value for money" combination of perceived use value and price. However, nested within each of the "boundary" indifference curves, are curves that represent higher "value for money" combinations. If consumers can move to higher indifference curves, they perceive themselves to be better off. (See Figure 5)

6.2 LOCATING FIRMS ON THE CHART

In the situation depicted in Figure 6 all firms are perceived to be offering very similar use values, and they all charge very similar prices. This approximates to a commodity industry, where there is no product differentiation. In our auto industry example, this would represent a situation where consumers were offered a standard type of car, for a fixed price. If this was the situation, then Segment A consumers would not be in the market at all, as the price of these standard cars is too high for them (about £10,000).

6.3 REPRESENTING PORTER'S GENERIC STRATEGIES ON THE CHART

How might Porter's generic strategy options be represented on this chart? As we have argued earlier, Porter's Cost Leadership

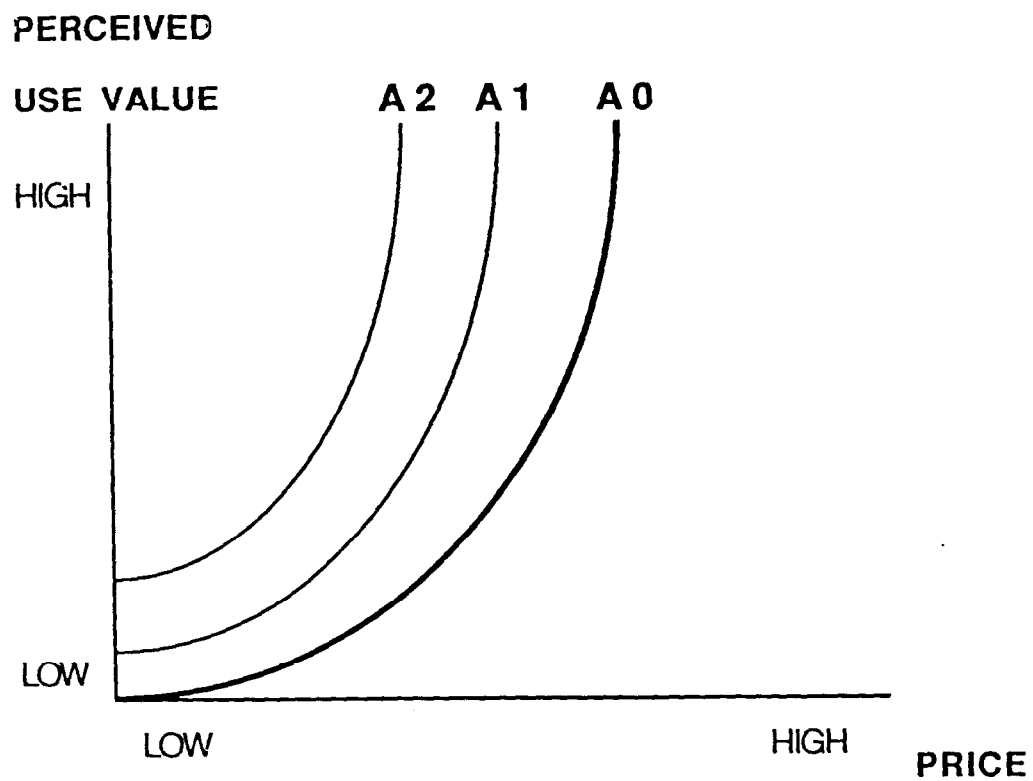


FIGURE 5 HIGHER INDIFFERENCE CURVES FOR SEGMENT A

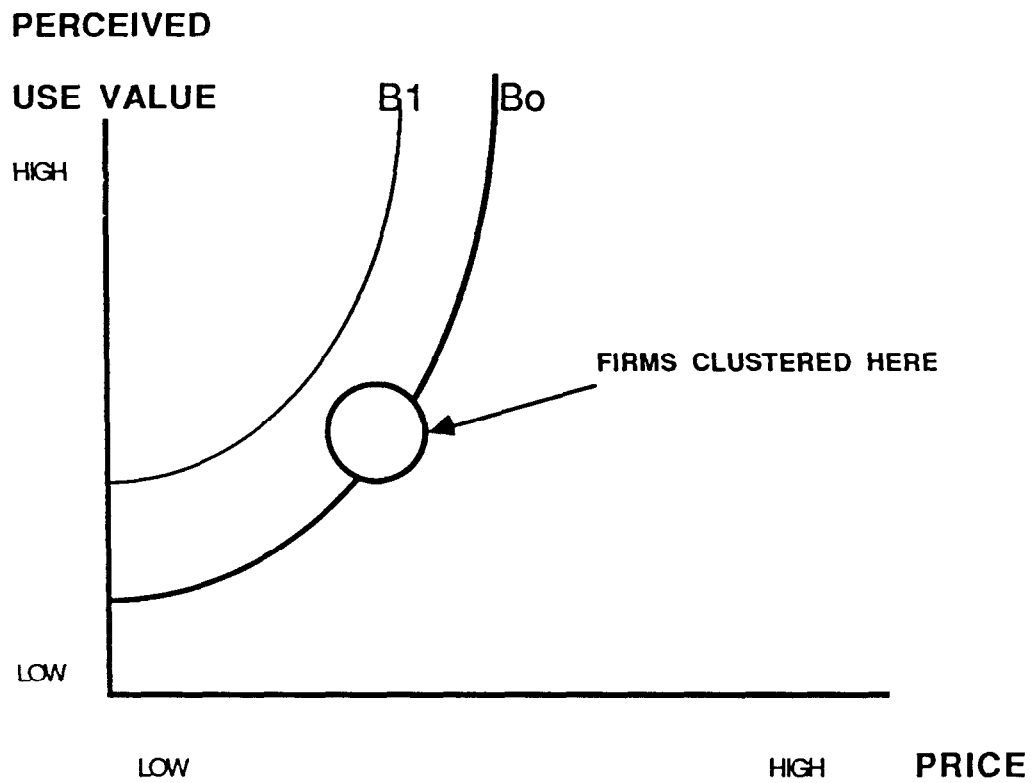


FIGURE 6 LOCATING FIRMS ON THE CHART:
A "COMMODITY" INDUSTRY

strategy, strictly interpreted, would mean that one of the cluster of firms has achieved the lowest cost position. As a result, that firm will be earning superior profits. But because, by definition, the cost leader offers average prices and average quality, in the eyes of the consumer the firm is identical to the others. In this case it is difficult to argue that the cost leadership strategy has enabled the firm to gain a **competitive** advantage over the other firms. This strategy, per se, would not affect relative market shares at all. The cost leader does, however, have the **potential** to behave in ways that would be perceived to be valuable to the consumer: its low cost position could enable it to cut price, or to add more perceived use value than the competition. In this sense, then, the cost leader has the potential capacity to gain market share through moving west (cutting price) or north (adding perceived use value), or doing both simultaneously (moving northwest).

How, then would Porter's Differentiation strategy be represented on the chart? Porter argues that the successful differentiator offers superior value, and can, as a result charge premium prices. This would move a firm away from the cluster of other firms towards the north east part of the chart (higher perceived use value, combined with higher prices, depicted in Figure 7). Note that this combination would not attract any Segment B consumers. The offerings of the differentiator are now outside their price range. However, the Segment C consumer would find this combination attractive, as it enables him or her to move to a higher indifference curve (Figure 7).

Thus, Porter's differentiation strategy represents a competitive strategy that, for it to be viable, requires the existence of less price sensitive segments in the market place. Therefore Porter's differentiation is really to do with identifying and serving relatively price insensitive segments. It is, therefore, primarily about choosing the ground on which to compete.

In order to explain the bases of the theory, we have assumed that all the firms were initially clustered together. This is clearly not the case in the auto industry cited by Porter. Porter suggests that, in the auto industry, Mercedes and BMW are successful

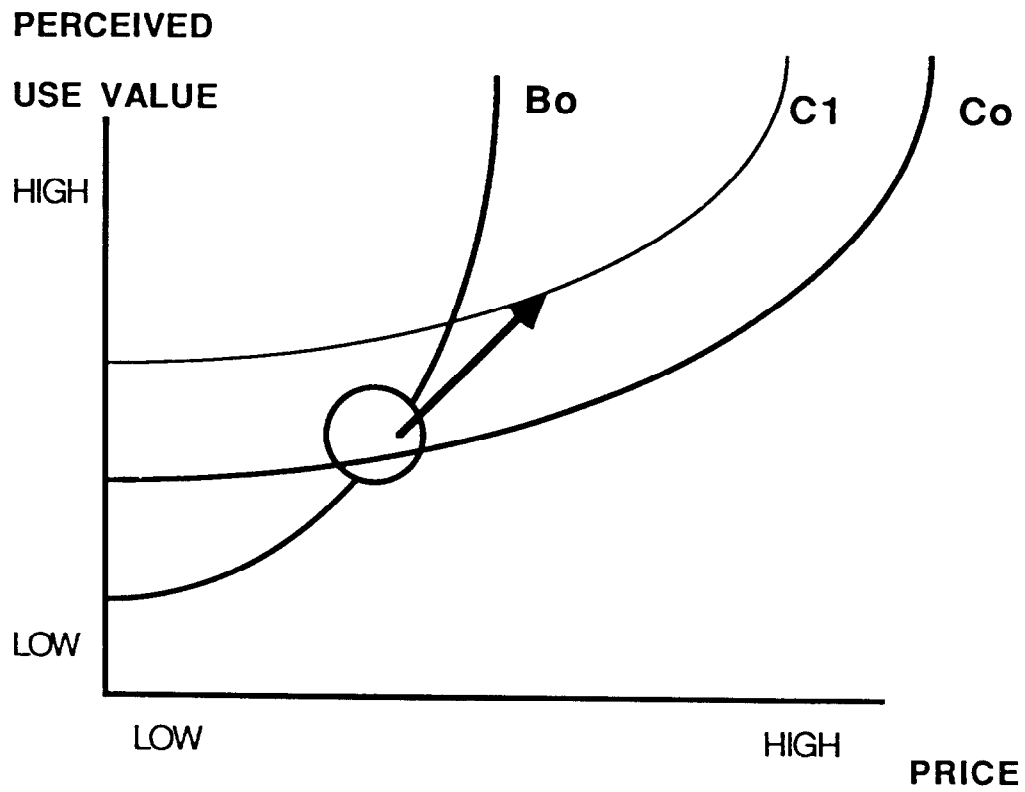


FIGURE 7 PORTER'S DIFFERENTIATION STRATEGY

differentiators. These firms offer products targeted at the relatively price insensitive consumer (our Segment C consumers).

If a firm serving Segment B decided to become a "differentiator", it would, presumably increase the perceived use value it offered and increase the price of its cars. Would this firm gain competitive advantage? This begs the question: over whom would this firm be looking to gain competitive advantage? From our chart (Figure 7) the Segment B consumer would only tolerate a very marginal price increase (maybe 5% ?), even if the perceived use value associated with it were high. If the differentiator were looking to premium price above this level he would be moving away from one group of competitors, those who are staying to serve Segment B.

If the differentiator is moving to serve a different segment, then the relevant question is whether the firm has gained advantage over the existing servers of this different segment (those currently serving Segment C), rather than those left serving Segment B. Simply trying to move from Segment B to serving Segment C does not confer any competitive advantage. In the auto industry example, this would be a firm like Nissan (serving Segment B), moving up to compete with Mercedes and BMW (who are the incumbents serving Segment C). We could only judge whether Nissan had gained competitive advantage by comparing them to Mercedes and BMW, not Ford or Fiat.

To conclude, plotting the generic strategies on this chart highlights that:

- * cost leadership, per se, does not confer competitive advantage

- * differentiation is essentially to do with choosing the ground on which to compete, it is not about gaining competitive advantage

6.4 REPRESENTING THE MANAGERIAL STRATEGIC THRUSTS ON THE CHART

To recap, the factor analysis revealed four strategic thrusts:

F1 Cost control

F3 New product development

F4 Compete on price

F5 Superior product

F4 Compete on Price

We will examine, first, the F4 thrust which is about competing on price.

The F4 thrust moves the firm to the west on the chart (Figure 8): here the firm is offering the same perceived use value as the competition, but is charging lower prices. Note that this assumes that the consumers do not use price as an indicator of perceived use value. If some of them do, then the move west becomes a shift southwest: in the consumers eyes the firm is not offering equivalent use value to the competition.

If all the competitors remained where they were, this price cut would lead to a dramatic increase in market share, as the Segment B consumers could all now access a higher indifference curve by moving to the price cutter's products. Because of this it is inevitable that the other firms will be forced to cut prices to, at least, match those of the first mover. The net result would be a new, lower, average price ruling in the industry, and with shares probably remaining unchanged. The likelihood, therefore, that firms will imitate this competitive strategy is high, in the short term.

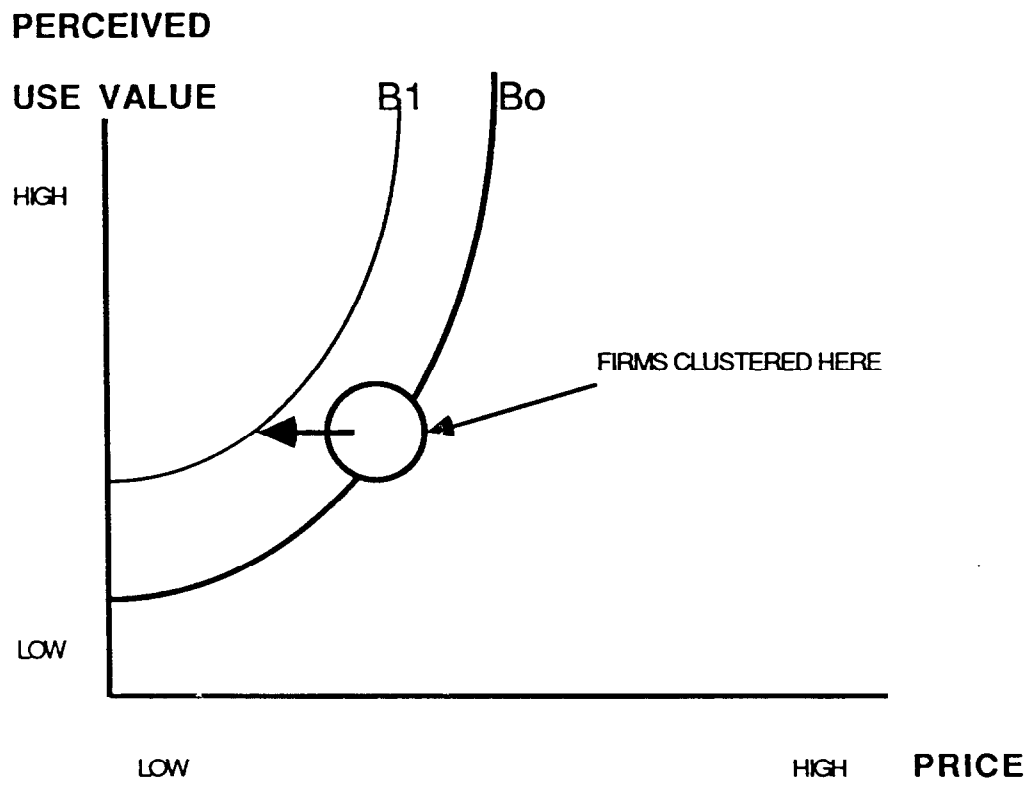


FIGURE 8 COMPETING ON PRICE

There may be, however, frictions that may make it difficult or costly for consumers to immediately switch to the lower priced offering (tangible switching costs), or the product may be an infrequent purchase. These factors may reduce the need of the higher priced firms to immediately cut prices to match the first mover.

In order to sustain competitive advantage from this thrust the firm would have to continually drive down prices. This could only be possible if the firm had lower costs than the competition (it might ultimately have to be **the** lowest cost producer), or if it were funded by other, profitable, parts of its parent corporation. The risks associated with this strategy are high: unless a firm can be confident that it can ultimately benefit from price cutting, the probability is that this manoeuvre merely reduces industry profitability. However, if a firm can achieve low prices and lowest costs (by, for instance, translating market share gains into experience, and scale, cost advantages) it may be able to drive out higher cost competitors. Having achieved this, and having set up some additional entry barriers in the process, the firm may then begin to raise prices.

In order to sustain this route to competitive advantage, therefore, the firm must be able to sustain lower prices for longer than the competition. This would suggest a need to be the lowest cost producer in the industry. Therefore, despite the reservations expressed about the interpretation of Statement 19 ("We aim to be the lowest cost producer in the industry"), its loading on Factor 4 (compete on price) may in fact reflect both interpretations: the firm needs to be lowest price, AND lowest cost if it is to successfully pursue this option

F5 Superior Products

The F5 thrust moves the firm North, away from the other competitors, by offering higher perceived value for the same price. The new offering combines higher perceived use value with the same prices as the competition, a combination that places

consumers on a higher indifference curve (see Figure 9). In order to achieve this the firm must know what it is that customers value, and communicate to consumers that they can deliver this. It should be noted that a firm's efforts to add value may not be appreciated by customers (for example, the case of P&G "potato chips" cited by Aaker (1989:99)). In other words, the management may perceive that they have shifted their SBU north, but, in the eyes of consumers the firm may still be seen to be offering equivalent products/services to the competition.

Moving north by adding perceived use value may offer more opportunities to achieve sustainable advantages than the price cutting strategy (F4), particularly if the firm can add many dimensions of perceived use value. In addition, the source of higher perceived use value may be difficult for other firms to imitate: brand identity, physical location, proprietary expertise, patents.

Both of these thrusts, F4 and F5, will lead to competitive advantage: the firm will increase its market share by either of these moves, and will sustain this advantage as long as no other firms follow suit and imitate the move; or until consumers change their preferences. The moves west (cutting price) would not appear to offer the same opportunities to achieve sustainable competitive advantage as moves north. Price cuts can be quickly matched (indeed competitors may have no option but to follow the price cutter downwards).

F3 New Product Development

F3 (New Product Development) is linked with the pursuit of uniqueness and premium pricing (Statement 9). Firms pursuing this thrust would be moving northeast in Figure 10. This move could still be regarded as a competitive strategy as long as the price premium was not so great as to move the firm away from its existing segment. If the price premium is large enough to move the firm away from its existing customer base, then the chart should be redrawn. Now the firm should be positioned along with other firms who are perceived by this less price sensitive

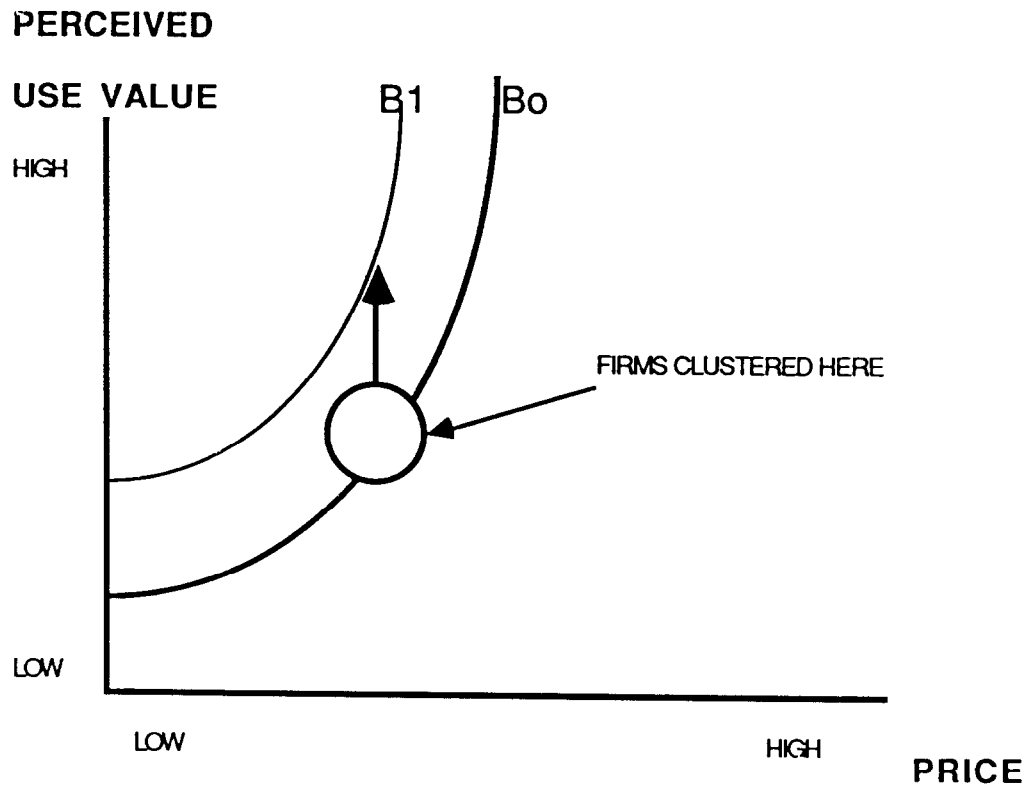


FIGURE 9 SEGMENT B: OFFERING HIGHER PERCEIVED
USE VALUE

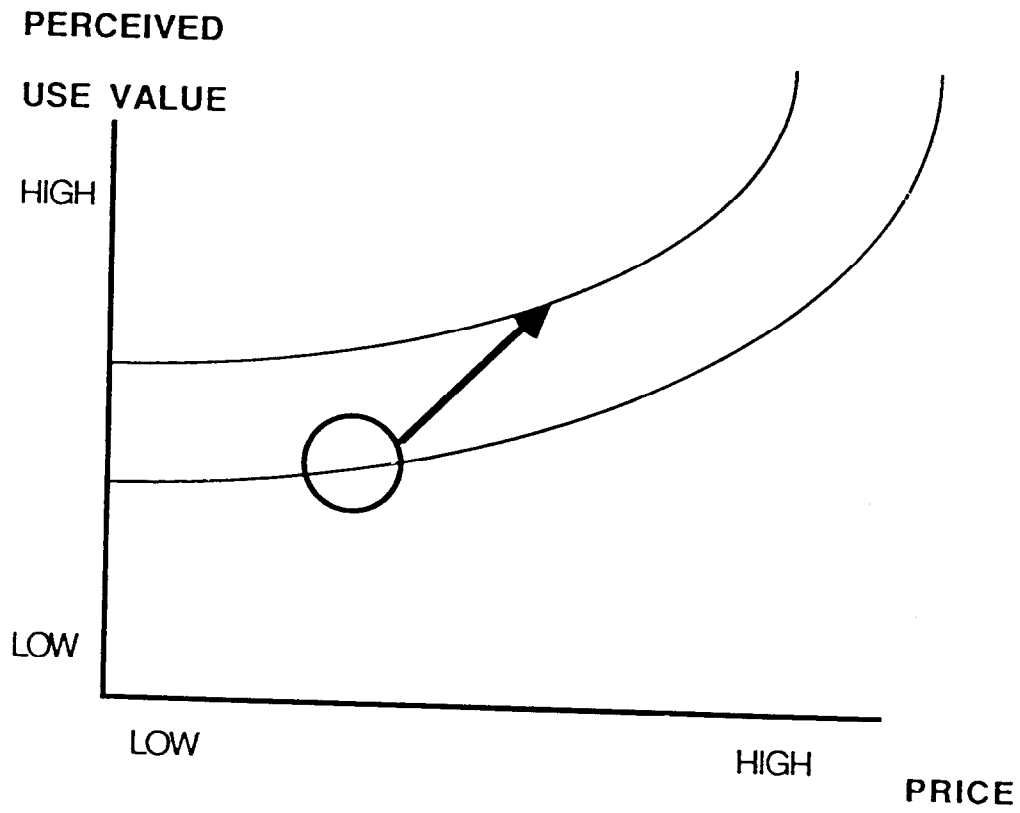


FIGURE 10 OFFERING HIGHER PERCEIVED VALUE THROUGH PRODUCT INNOVATION

segment as offering competing products.

Movements on the diagonal (Northeast, or Southwest) should properly be regarded, then, as movements to different segments of demand. For example, if a firm moved northeast it would clearly be offering higher perceived value, and charging higher prices. To return to Porter's example of the "auto" industry, this would be moving "up market". The middle ground (serving Segment B) would be occupied by Ford, Nissan and Fiat, the North East segment (Segment C) would be addressed by Mercedes and BMW. The appropriate analysis of Mercedes position would be to compare it to those firms whom their potential customers perceive as viable alternative suppliers of their needs.

Similarly, a move "down market" from serving Segment B, would pitch the firm alongside Hyundai, Lada, Proton, and Skoda. Again, the chart should be redrawn.

Thus for each segment of demand the consumers will perceive a set of possible suppliers of their needs. In addressing issues of competitive advantage, it is a firm's positioning relative to the consumers' perceptions of alternative suppliers that is important. Within each segment firms have to gain competitive advantage through either offering the same perceived use value at lower prices (the F4 thrust), or by offering higher perceived use value for the same (or only slightly higher) prices.

6.5 COMPETITIVE STRATEGY AND PROFITABILITY: F1 "Cost Control"

On their own, neither the move north (achieved through adding perceived use value), nor the move west (by offering equivalent use value at a lower price) will improve firm profitability. Delivering higher perceived value may increase costs (added features, more brand advertising); and price cutting may merely lead to eroded margins. For either thrust to lead through to improved profitability the firm must control costs. Without close cost control margins will be eroded (by price cuts in the

case of F4; or by cost increases in the case of F5). Hence, in order to translate the higher market shares potentially available through competitive strategies F4 and F5 into superior profits, the firm must address cost control (the F1 thrust).

Clearly, efficient control of costs is essential for the F4 (compete on price) thrust. It has been argued above that, for this strategy to succeed the firm may well need to be the lowest cost producer in the industry, to enable it to sustain lower prices longer than the competition. However, cost control is nevertheless important to the firm pursuing the F5 thrust (adding higher perceived use value). Without vigorous control of costs the firm may be unable to convert market share gains into profits.

We have argued that the F5 (superior products) thrust does not involve premium pricing. We have also pointed out that examples Porter uses of successful differentiators are really examples of firms competing for particular, less price sensitive consumers. So a firm has to decide, firstly, what ground it wishes to compete on: ie. what is the target segment (Aaker 1989:91)? Having determined this, the firm then needs to decide how to compete in serving this segment: to compete on price, or through adding higher perceived use value. Either of these strategic thrusts will lead to increased share of this segment's consumers. The increased shares could be translated (indeed, should be translated) into lower costs than **the other firms serving this segment**. Thus it is quite conceivable that firms pursuing the F5 (superior products) thrust could also be the lowest cost producer of the firms serving this segment (Hill 1988). (Share gains should be translatable into scale and experience-based cost advantages). The connection between higher perceived use value and lower cost positions is supported by empirical research (Phillips, Chang and Buzzell 1983; Fine 1983; Buzzell and Gale 1987).

The combination of higher perceived use value and low costs would place the firm in a powerful competitive position, for, if the other firms were able to imitate their added perceived use

value offerings, the first mover would be in a position to add yet more perceived use values, or, indeed, to cut prices. Either way, the competition would be placed at a competitive disadvantage.

In order to achieve sustainable competitive advantage through the F5 (superior products) thrust the firm must maintain a positive gap between itself and its competitors (as perceived by the consumer). Moves north that can be readily imitated confer only temporary competitive advantages. Indeed, if competitors are able to imitate at lower cost than the innovator, the innovator may end up with a relatively lower profitability. Once the move north has been copied, it becomes the new "norm", or average perceived use-value, in the industry; the improvement in service or quality ceases to confer competitive advantage:

"A skill that all competitors have will not be the basis for a sustainable competitive advantage." (Aaker 1989:98)

To sustain the gap between its position and the positions of competitors, the firm must either delivered sources of perceived use value that are very difficult or costly to imitate (thus preserving a "static" gap), or the firm must continually add perceived use value to keep one jump ahead of the competition (preserving a "dynamic" gap). The pace and frequency of innovation will vary between industries (Miller 1988:284) But, clearly, if two or more firms are aggressively pursuing the F5 strategy, then there is likely to be a continual "ratcheting" upwards of the average acceptable perceived use value in the industry, as each firm attempts to leap-frog its rivals.

F1 (Cost Control) by itself would not lead to any perceived shift (from the consumers' perspective) in the firm's position in Figure 6. Firms in this position may achieve good profit performance so long as other firms locate around the same space (ie offer similar perceived use value, and charge similar prices). Firms pursuing cost control alone are vulnerable to competitors moving west (through price cuts), or north (through improvements in perceived use value). The cost control orientated firm may be better able to respond to price cuts than to value improvements. This could result from an excessively

internally focussed management team, and through rigidities in the organization that have resulted from the development of a cost efficient structure (de-skilling, automation, proceduralisation, centralisation of decision making, elaborate hierarchies).

Hence, it may well be the case that the pursuit of cost control to excess may detract from the firm's ability to add perceived use value. Thus, when a competitor moves north the cost control orientated firm may be unable to respond. As other competitors move north to match the superior perceived use value offerings of the innovator, the cost control firm is left behind. It is now offering lower perceived use value at the same prices as the competition. This is not a sustainable market position. If moves north are too difficult, the firm may find itself cutting price just to stay in the market. This reactive price cutting strategy may be viable (if there is a segment, as yet unserved, that values this combination of lower than average value combined with lower prices). But the dangers are that this move merely temporarily postpones the decline of the firm (Miller and Friesen 1986b).

APPENDIX

THE "PERCEPTIONS OF STRATEGIC PRIORITIES"

QUESTIONNAIRE

PERCEPTIONS OF STRATEGY

Company:

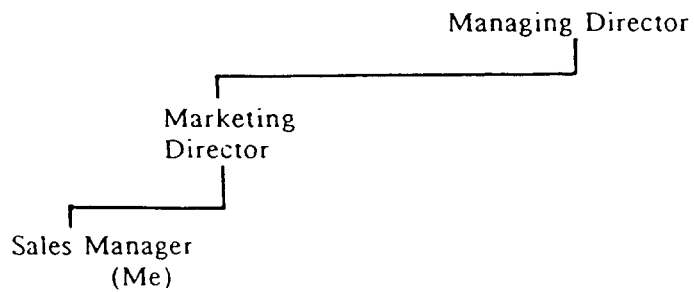
Division/Business Unit:
(if appropriate)

Name:

Function/Department:

Position in Organisation:

Indicate your position in
relation to the Managing
Director of firm - e.g.



PERCEPTIONS OF STRATEGY

INTRODUCTION

This brief questionnaire is designed to help discover your perceptions of your firm's strategy. In answering the questionnaire assume each statement applies to the most logical 'unit' in the firm. For example, in a diversified organisation, these statements would apply to a single business unit or division. If the statement does not apply at all to your firm/division/unit then circle (1). If the statement accurately describes the situation in the firm, circle (5). The numbers (2) to (4) enable you to indicate intermediate positions in between these two extremes.

Please note that we are interested in your firm's CURRENT STRATEGY; the statements refer to what your firm is doing NOW, not what you think it might be doing some time in the future.

Thank you for your help.

Cliff Bowman

		This statement does not apply to our firm			This statement accurately describes the situation in our firm	
		1	2	3	4	5
1.	We place considerable emphasis on the control of operating costs	1	2	3	4	5
2.	The strategic direction we are now pursuing represents a significant change from that pursued in the past	1	2	3	4	5
3.	We emphasise our distinctive products or image in our marketing communications	1	2	3	4	5
4.	Our organisation, and the way things get done within it, have changed little in recent times	1	2	3	4	5
5.	There is constant pressure here to cut overhead costs	1	2	3	4	5
6.	We make extensive efforts to secure the lowest cost sources of supply	1	2	3	4	5
7.	We regularly develop new products/ services, or significantly change the line of products/services we offer	1	2	3	4	5
8.	We try hard to maintain the maximum feasible utilisation of our capacity/ resources	1	2	3	4	5
9.	We try to offer unique products/ services enabling us to charge premium prices	1	2	3	4	5
10.	We give new product/service development top priority	1	2	3	4	5
11.	We emphasise competitive prices in our marketing communications	1	2	3	4	5
12.	Our line of products/services seldom change in a substantive manner	1	2	3	4	5
13.	We carefully monitor operations to help us keep costs under control	1	2	3	4	5
14.	Currently, we are trying to operate this business in significantly different ways to those we have in the past	1	2	3	4	5

		This statement does not apply to our firm			This statement accurately describes the situation in our firm	
		1	2	3	4	5
15.	As our customers are very price sensitive, we devote considerable time and effort into improving efficiency	1	2	3	4	5
16.	The organisational structure and/or processes we are now using represent a noticeable change from our recent past	1	2	3	4	5
17.	Information about sales performance is considered to be more important than cost control information	1	2	3	4	5
18.	We aim to offer superior products/ services to those of our competitors	1	2	3	4	5
19.	We aim to be the lowest cost producer in our industry	1	2	3	4	5
20.	We try to operate this business in much the same way today as we have in the past	1	2	3	4	5
21.	Because we offer very similar products/ services to the competition, we try to maintain competitive prices	1	2	3	4	5

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