... are known as the business-level strategies.

8.3 GENERIC BUSINESS STRATEGIES — 2

In the preceding section, we saw how business strategy is dependent on the industry structure and the positioning of the firm in the industry. Industry structure is dependent on the five forces operating in the marketplace. Positioning is based on competitive advantage and the competitive scope.

Competitive advantage is derived from the two approaches of lower cost and differentiation. Competitive scope could be a broad target or a narrow target. When competitive advantage and competitive scope are juxtaposed, what results is a matrix of the type as shown in Exhibit 8.2. Porter uses this matrix to suggest that there could be basically three types of competitive (or business) strategies.

Exhibit 8.2 Porter's generic business strategies ~~max~~ 2x2 matrix

scope - Area of coverage

COMPETITIVE SCOPE	Low-cost products/services	Differentiated products/services
Broad target	Cost leadership	Differentiation
Narrow target	Focussed cost leadership	Focussed differentiation

COMPETITIVE ADVANTAGE

Source: Adapted from M.E. Porter, *Competitive Advantage: Creating and Sustaining Superior Performance*, New York, Free Press, 1985, p. 12.

Relying on the typology suggested by Porter, we could classify business strategies into the following three types:

1. Cost leadership (lower cost/broad target)
2. Differentiation (differentiation/broad target)
3. Focus (lower cost or differentiation/narrow target)

A discussion of these three types of business strategies follows. We first attempt to understand what these strategies mean and how these can be put into action. Then we note the conditions under which these strategies work the best. Finally, we see the benefits and risks associated with each of these business strategies.

Cost Leadership Business Strategy

When the competitive advantage of an organisation lies in its lower cost of products or services relative to what the competitors have to offer, it is termed as cost leadership. The organisation outperforms its competitors by offering products or services at a lower cost then they can. Customers prefer a lower cost product, particularly if it offers the same utility to them as comparable products available in the market do. When all organisations offer products at a comparable price, the cost leader organisation earns higher profit owing to the low cost of its products. Cost leadership offers a margin of flexibility to the organisation to lower the price if the competition becomes stiff and yet earn more or less the same level of profit.

Observe how the following organisations use cost leadership business strategies.

- Gujarat Cooperative Milk Marketing Federation (GCMMF), the country's largest cooperative, probably known better by its brand name Amul, operates in the branded ice cream market on the lower-cost platform. It has the backing of a large cooperative dairy network, whose constituents are located across the country and an efficient supply-chain in place for procurement of high-quality milk. Besides these, it has developed a cold chain of supplying its refrigerated products through an efficient distribution network. In this way, Amul ice-cream can be found just about everywhere, including STD booths, *kirana* shops, chemists and bakers, who stock the ice-cream in deep freezers.
- Moser Baer India—a Noida, Uttar Pradesh-based world-class manufacturing company—manufactures compact disks, known as CD-Recordables (CD-Rs), for a one-time recording of data. Its platinum range of CD-Rs claims to store data for 200 years. The global market is dominated heavily by Taiwanese companies, who are acknowledged low-cost manufacturers of CD-Rs. Moser Baer is rated among the top three global companies in the data storage business. Its business strategy is a low-cost one, focussed on achieving economies of scale and leveraging the competitive advantages it has due to the lower raw material and labour costs.
- Tata Steel consistently benchmarks itself against global standards in terms of cost competitiveness. Its strategy is based on breaking up the steel value chain into primary steel making and finishing. The company strives to utilise its resource advantage in captive iron ore mines within India and then finishing steel close to the points of consumption anywhere in the world, thus saving on transportation costs that are substantial for an item such as steel. Its acquisitions under its internationalisation strategy are also aimed at creating economies of scale in this capital- and labour-intensive industry.
- In the burgeoning mobile telecommunications markets in India, handsets are a significant competitive sector where several companies vie to offer low-cost mobile phones. Reliance Communications (RComm) was the first mover in 2003, to offer ultra-low cost mobile phones at a price point of Rs. 501. Its Classic monochrome range of handsets at Rs. 777 was quite successful as the company claims to have sold 10 lakh sets within a week of its launch. These phones are manufactured for the company by several suppliers and are meant to serve as entry-level handsets in semi-urban and rural areas, operating on the CDMA platform.

What each of these organisations does is to rely on its inherent strengths to lower the cost of its product and emerge as a lower-cost producer vis a vis other rivals in the industry. The lower-cost capability is then leveraged to achieve competitive advantage.

Achieving Cost Leadership Central to the objective of achieving cost leadership is the understanding of the value chain for a product/service of an organisation. Costs are spread over the entire value chain, in activities that contribute to the making of the product. The basic objective in achieving cost leadership is to ensure that the cumulative costs across the value chain is lower than that of competitors. For doing this, it is essential to analyse the cost drivers and then identify the areas for optimisation of costs.

Several actions could be taken for achieving cost leadership. An illustrative list of such actions is given below:

1. Accurate demand forecasting and high capacity utilisation is essential to realise cost advantages.
2. Attaining economies of scale leads to lower per unit cost of product/service.
3. High level of standardisation of products and offering uniform service packages using mass production techniques, yield lower per unit costs.
4. Aiming at the average customer makes it possible to offer a generalised set of utilities in a product/service to cover greater number of customers.

5. Investments in cost-saving technologies can help an organisation to squeeze every extra paisa out of the cost, making the product/service competitive in the market.
6. Withholding differentiation till it becomes absolutely necessary is another way to realise cost-based competitiveness.

Read exhibit 8.3 to appreciate how a non-government organisation implements its low-cost strategy to realise better results.

Exhibit 8.3 Implementing low-cost strategy at an NGO

The Pratham Mumbai Education Initiative, led by Dr. Madhav Chavan, set up in 1994, is a non-government organisation serving the mission of ensuring that 'every child is in school and is learning well' to attain the vision of universalising primary education.

Its business definition comprises of:

- Customer groups who are poor children living in urban and semi-urban slums of India
- Customer need is of providing low-cost and effective pre-school education
- Technology is of 'capital-light' preschool programme in *balwadi* (lit. child's place)

The low-cost strategy of Pratham works on the basis of the following actions:

- Pratham does not own or invest in buildings or vehicles. It does not pay rent for any space, including its administrative offices. Instead, it relies on donated space in communities and municipal schools. This helps in reducing its costs by half on each *balwadi*. Classes are held in spare rooms in community centres, mosques and temples, municipal schools and the buildings of other organisations. When nothing else is available, classes are held in teachers' homes. The condition for providing rent-free space involves local organisations. Holding classes at public places enhances awareness and acceptance among parents.
- Computer-assisted learning is used. Donor companies provide computers and municipal schools provide space and utilities.
- Pratham recruits teachers and supervisors from outside the organised workforce. These are mostly unmarried young women with a fair amount of education, who traditionally do not work outside the home. They work part-time and remain in their local communities. Recruitment is not necessary as departing teachers find and train their replacements. Serving Pratham offers social stature in local community and enhances job satisfaction. Most teachers tend to stick to their jobs, reducing mobility and turnover.
- Teacher training constitutes the only high-cost expense, but is justified. Evaluation and monitoring are continual, ensuring good quality teaching.
- People are the main assets in developing a systematic and rigorous training and monitoring process. Teachers are also entrepreneurs who replicate the model learnt widely in slums situated in towns and cities other than Mumbai.
- Each balwadi teacher is an entrepreneur. She initiates and develops her class, charges a nominal fee depending on the parents' capacity to pay and accesses funds from local charities. The organisation is highly decentralised, with *Mahila mandals* (women groups) being the focus of action. Each *mandal* is a registered independent citizens' organisation. Decentralisation reduces bureaucratic costs.
- Corporate donors are involved actively through networking and partnerships by lending their staff and facilities and not just funds.

The outcomes of the low-cost strategy are satisfactory in terms of better learning, proficiency in science and languages and lower rate of school dropouts.

Sources: R. Banerji, M. Chavan, P.Vaish & A.Varadhachary; "A point of light in Mumbai", *McKinsey Quarterly* 1, 2001; "A movement to educate slum children", *Business Line*, Sept 9, 2003; Ashoka International website at *http://www.ashoka.org/node/2555*; Pratham's website at *http://www.pratham.org/*. Both websites accessed on June 21, 2007.

Conditions under which Cost Leadership Is Used Not every condition under which markets operate is conducive to using the cost leadership business strategies. There are certain conditions that make such usage meaningful. Some such conditions are mentioned below.

1. The markets for the product/service operate in such a way that price-based competition is vigorous, making costs an important factor.
2. The product/service is standardised and its consumption takes place in such a manner that differentiation is superfluous.
3. The buyers may be large and possess a significant bargaining power to negotiate a price reduction from the supplying organisation.
4. There is lesser customer loyalty and the cost of switching from one seller to another is low. This is often seen in the case of commodities or products that are highly standardised.
5. There might be few ways available for differentiation to take place. Alternatively, whatever ways for differentiation are possible, do not matter much to the customers.

All in all, cost leadership strategies work best when the product/service features are such that buyers are price-sensitive and base their purchase decision primarily on it.

Benefits Associated with Cost Leadership Strategy There are benefits as well as risks associated with a cost leadership business strategy. First, let us see the benefits that arise out of a cost leadership strategy. As you will note, the benefits are discussed in the context of the Porter's five-forces model.

1. Cost advantage is possibly the best insurance against industry competition. An organisation is protected against the ill effects of competition if it has a lower-cost structure for its products and services.
2. Powerful suppliers possess higher bargaining power to negotiate price increases for inputs. Organisations that possess a cost advantage are less affected in such a scenario as they can absorb the price increases to some extent.
3. Powerful buyers possess higher bargaining power to effect a price reduction. Organisations that possess a cost advantage can offer price reduction to some extent in such a case.
4. The threat of cheaper substitutes can be offset to some extent by lowering prices.
5. Cost advantage acts as an effective entry barrier for potential entrants, who cannot offer the product/service at a lower price.

Risks Faced under Cost Leadership Strategy The risks faced under the cost leadership business strategy are several. Some of these are:

1. Cost advantage is ephemeral. It does not remain for long as competitors can imitate the cost reduction techniques easily. Duplication of cost reduction techniques makes the position of the cost leader vulnerable from competitive threats.
2. Cost leadership is obviously not a market-friendly approach. Often, severe cost reduction can dilute customer focus and limit experimentation with product attributes. This may create a situation where cost reduction is done for its own sake and the interests of the customers are ignored.
3. Depending on the industry structure, sometimes less efficient producers may not choose to remain in the market owing to the competitive dominance of the cost leader. In such a situation, the scope for product/service may get reduced, affecting even the cost leader adversely.
4. Technological shifts are a great threat to the cost leader as these may change the ground rules on which an industry operates. For instance, a technological development may lead to the creation of a cheaper process or product, which is adopted by newer competitors. The older players in the industry may be left with an obsolete technology that now proves to be costlier. In this way, technological breakthroughs can upset cost leadership strategies.

As you will note, the cost leadership strategy is based on the premise that low price is an attractive proposition for a customer and she places great emphasis on it in her buying decision. But this is certainly not correct in every case. There might be product or service features that are considered essential by the customer and she might be willing to pay something extra for those features. Overemphasis on the cost leadership strategy may deprive an organisation of these customers. For example, in most consumer durables, after-sale service is considered an essential feature. A cost leader cannot afford to cut down on costs by diluting the after-sale features.

Another point to remember is that lower cost is always relative to what the competitors have to offer. Low cost by itself is not absolute. The cost advantage has to come essentially by operational effectiveness. Such cost advantage should also be sustainable, meaning thereby that it should not be easily duplicated by the rivals.

Differentiation Business Strategy

When the competitive advantage of an organisation lies in special features incorporated into the product/service which is demanded by the customers, who are willing to pay for it, then the strategy adopted is the differentiation business strategy. The organisation outperforms its competitors who are not able or willing to offer the special features that it can and does. Customers prefer a differentiated product/service when it offers them utility that they value and thus are willing to pay more for getting such a utility. A differentiated product or service stands apart in the market and is distinguishable by the customers for its special features and attributes.

A differentiator organisation can charge a premium price for its products/services, gain additional customers who value the differentiation and command customer loyalty. Profits for the differentiator organisation come from the difference in the premium price charged and the additional cost incurred in providing the differentiation. To the extent the organisation is able to offer differentiation by maintaining a balance between its price and costs, it succeeds. But it may fail if the customers are no longer interested in the differentiated features or are not willing to pay extra for such features.

Observe how the following organisations use differentiation business strategies:

- Orient Fans, a company within the Calcutta-based C. K. Birla group, offers premium ceiling fans based on superior technology and product innovation and is a major exporter to many global buyers including Wal-Mart of the USA. The technology differentiators are the core benefits of air delivery, reach of air and electricity consumption. The product attributes for differentiation are extra-wide blades, heavy duty motor, low wattage, high velocity and maximum area coverage. Rivals in the fan market include market leader Crompton and other like Usha, Khaitan and Bajaj. A large proportion of the fan market is dominated by fragmented, low cost suppliers in the unorganised sector and cheap imports from China.
- DCW Home Products, in the branded salt industry, aimed its brand Captain Cook (now with Hindustan Unilever) at the quality conscious salt users. Product attributes such as free-flow, iodine content etc. have been highlighted, along with utility packaging. The price is premium category and differentiated from the unbranded salt that is much cheaper. There is tough competition from the first-mover in branded salt, Tata Salt and the specialised salt sold on a health platform from Dabur and Marico.
- Gati, a multimodal transport company in the express cargo delivery business positions itself as a technology-driven company, delivering premium value to customers. It differentiates its services in a highly competitive and uniform market with tangibles like risk insurance offer for shipments, refund on failure to deliver on time, door-to-door pick up and delivery, time bound operations, online tracking and safer transportation. The company offers not one but several service features to differentiate itself from the run-of-the-mill transporters in the unorganised sector. Naturally, it charges a higher price for its services.

- In an interesting case, packaging became the differentiator for Parle Agro when, in 1985, it launched Frooti, a non-aerated natural fruit-based drink, in tetrapack. The customer perceived glass bottled drinks to be synthetic. Frooti went on to become generic to the category of tetrapacked fruit drinks, especially since it maintained price parity with the popular aerated drinks.

What each of these organisations does is to rely on its inherent strengths to offer special product/service features and attributes that are valued by the customers and for which she is willing to pay a premium price. This differentiation creation capability is then leveraged to achieve competitive advantage.

Achieving Differentiation The key to achieving differentiation is to create value for the customer that is unmatched by the competitors at the price at which the differentiator organisation offers its products/services. This is done through incorporating features and attributes in the products/services valued by the customers. These features and attributes could be created at any point on the value chain. For instance, an organisation could use high-quality raw material inputs, superior process technology, speedy and reliable distribution or better after-sale support. It may offer the backing of a solid reputation of the producer or the strength of a brand name. By whatever means the differentiation is offered, the organisation's product/service should be distinguishable even in a cluttered market place.

An illustrative list of measures that a differentiator organisation can adopt is given below:

1. An organisation can incorporate features that offer utility for the customer and match her tastes and preferences.
2. An organisation can incorporate features that lower the overall cost for the buyer in using the product/service.
3. An organisation can incorporate features that raise the performance of the product.
4. An organisation can incorporate features that increase the buyer satisfaction in tangible or non-tangible ways.
5. An organisation can incorporate features that can offer the promise of a high quality of product/service.
6. An organisation can incorporate features that enable the customer to claim distinctiveness from other customers and enhance her status and prestige among the buyer community.
7. An organisation can offer the full range of product and/or service that a customer requires for her need satisfaction.

There could be several product attributes and service features that create differentiation. Apart from special product attributes and service features, there could be the promise of more value-for-money, superior after-sale service, engineering design and performance capability, quality manufacturing, technological leadership, reputation of the business group, complete range of product/service, catering to different tastes and preferences, customisation to individual needs, etc. The list of what these features and attributes could be is endless. Much depends on the innovative ability of the organisation to find newer bases for differentiation.

Conditions under which Differentiation is Used A differentiation business strategy is suitable for special conditions primarily related to the markets and customers. Generally, one would expect customers to go for a product/service that has a lower price and offer comparable utility. But normally, markets and customers are not homogenous; there are several market niches and customer groups that demand special treatment by the organisations. Products/services cannot always be uniform. If they were, they would be commodities needing no special brand names.

The major conditions under which differentiation business strategies could be employed are given below:

1. The market is too large to be catered to by a few organisations offering a standardised product/service.
2. The customer needs and preferences are too diversified to be satisfied by a standardised product/service.
3. It is possible for the organisation to charge a premium price for differentiation that is valued by the customer.

4. The nature of the product/service is such that brand loyalty is possible to generate and sustain.
5. There is ample scope for increasing the sale of the product/service on the basis of differentiated features and premium pricing.

Benefits Associated with Differentiation Strategy There are benefits as well as risks associated with a differentiation business strategy. First, let us see the benefits that arise out of differentiation. As you will note, the benefits are discussed in the context of the Porter's five-forces model.

1. Organisations distinguish themselves successfully on the basis of differentiation, thereby lessening competitive rivalry. Customer brand loyalty too acts as a safeguard against competitors. Brand loyal customers are also generally less price-sensitive.
2. Powerful suppliers can negotiate price increases that the organisation can absorb to some extent as it has brand loyal customers, who are typically less sensitive to price increases.
3. Powerful buyers do not usually negotiate price decrease as they have fewer options with regard to suppliers and generally have no cause for complaint, as they get the special features and attributes demanded. Owing to its nature, differentiation is a market- and customer-focussed strategy.
4. Differentiation is an expensive proposition. Newer entrants are not normally in a position to offer similar differentiation at a comparable price. In this manner, differentiation acts as a formidable entry barrier to new entrants.
5. For similar reasons, as in the case of newer entrants, substitutes product/service suppliers too pose a negligible threat to established differentiator organisations.

Risks Faced under Differentiation Strategy The risks faced under the differentiation business strategy are several. Some of these are:

1. In a growing market, as is the case with the markets of most industries in India, products tend to become commodities. Long-term perceived uniqueness—the basis for differentiation—is difficult to sustain. There is an imminent threat from competitors who can imitate the differentiation strategy. In this sense, the first-mover advantages associated with the differentiation strategy are limited.
2. In the case of several differentiators adopting similar differentiation strategies, the basis for distinctiveness is gradually lessened and ultimately lost.
3. Differentiation fails to work if its basis is something that is not valued by the customer. This often happens in case where unnecessary features are added for differentiation. Such things also occur when over-differentiation is done, carrying little tangible benefit for the customer.
4. Price premiums too have a limit. Charging too high a price for differentiated features may cause the customer to forego the additional advantage from a product/service on the basis of her own cost-benefit analysis.
5. Failure on the part of the organisation to communicate adequately the benefit arising out of differentiation or over-relying on the intrinsic product attributes not readily apparent to a customer, may cause the differentiation strategy to fail.

The ultimate success of a differentiation strategy lies in its ability to identify a tangible basis for customers to latch on to the product/service an organisation offers. Yet, there is a paradox here that the more tangible the basis, the greater are the chances that a competitor is able to copy it. So, an organisation has to rely on its core or distinctive competencies to offer a not-so tangible differentiation, which a customer could easily relate to and that could be sustained at a price that she is willing to pay.

Focus Business Strategy

Focus business strategies essentially rely on either cost leadership or differentiation, but cater to a narrow segment of the total market. In terms of the market, therefore, focus strategies are niche strategies. The more commonly used bases for identifying customer groups are the demographic characteristics (age, gender, income, occupation, etc.), geographic segmentation (rural/urban or Northern India/Southern India) or life-style (traditional/modern). For the identified market segment, a focussed organisation uses either the lower-cost or differentiation strategy.

Observe how these organisations adopt the focus strategies either on the basis of lower-cost or differentiation.

- Price is an important consideration in a piracy-ridden industry in India, such as recorded music. Nearly 70 per cent of the music cassettes sold in India are Hindi film songs, a category that is highly price-sensitive. T-Series created a low-end revolution in the 1980s by offering cheap cassettes of Hindi film songs. HMV, Sony, Polygram, Tips, BMG, Venus and Magnasound are the other major players. Niches in the recorded music market exist in the segments of Indipop, international and Indian classical music. Mobile music market is another big emerging segment. While Sony Music and Magnasound cater to the upper-end niche Indipop lovers, with recorded cassettes, Channel [V] and MTV offer videos. Times Music and Music Today cater to the urban, upwardly-mobile, sophisticated listeners of Indian classical music. Both these companies operate on the basis of differentiation on the basis of niche products and premium pricing.
- The branded jewellery business of Titan Industries operates in a highly fragmented industry. India typically, has had a tradition of highly skilled craftsmen in the jewellery trade. Designs of jewellery vary across regions. Jewellery is considered as an investment in gold. Tanishq, the jewellery brand of Titan, adopts a differentiation strategy offering a range of gold, pearl and diamond jewellery for women and men treating jewellery as fashionable items rather than an investment. Designs are made on the basis of continual feedback from its extensive retail network of showrooms. New designs are introduced every quarter. The brand projects itself as a reputed (Titan is a Tata group company) organisation with a guarantee of purity.
- In the bleak scenario of healthcare in India, where most primary health centres and government hospitals are starved of resources and are able to offer low-quality service, there are premium, differentiated hospitals such as the Mumbai-based Asian Heart Hospital and Global Hospitals and Care Hospitals in Hyderabad that operate in niche areas such as cardiac care, eye care orthodontics and laparoscopy, serving niche markets of rich Indians and foreigners looking for relatively cheaper healthcare. Private healthcare is a capital-intensive business with a long gestation period and the cost of real estate, construction, medical equipment, medicines and professional medical skills are very high. The patients are charged a high price not only to cover the high cost of providing services and increasing trend of using sophisticated diagnostics, but also for providing five-star standard patient care.
- Pustak Mahal's Rapidex series of books, particularly aimed at the niche market of Indians seeking to learn the English language, is a low-priced publication, keeping in view the highly price-sensitive target audience and book piracy by smaller players in the unorganised sector. It provides various vernacular speakers in the Indian languages, an opportunity to learn English through the self-learning mode.
- Kolkata-based Baidyanath Ayurved's GoodCare Pharma, a healthcare products firm, operates on the platform of nature cure, offering over-the-counter products for lifestyle ailments such as stress and diabetes. Its product differentiation is based on two factors: good quality with minimum side-effects and premium pricing for the discerning upper-middle class customer. Its close competitors are Dabur and Himalaya Drugs that offer similar products.
- Zensar Technologies is among the top software services and business outsourcing providers from India. It is a joint venture of RPG Group and Fujitsu Services of UK. It adopts a focused differentiation strategy and delivers exclusive services in mission critical applications, enterprise applications, e-businesses, BPO and knowledge services to big clients in the banking, finance, insurance, telecommunications, utilities and manufacturing industries.

- Philips India Ltd. launched the flat TV with the plasma technology that enables distortion-free pictures and bright, accurate colours, fitted with an integrated Dolby pro-logic sound system. The premium-priced TV with differentiation on technology basis was targeted at the niche market of selective, sophisticated, technology-driven audience.
- Harvest Gold Foods India Ltd. differentiates its bread by the same brand name on the basis of geographical focus (posh localities of New Delhi) supported by competitive pricing, product attributes like freshness and high quality, efficient distribution and transparent packaging.

Achieving Focus Focus is essentially concerned with identifying a narrow target in terms of markets and customers. The organisation seeking to adopt a focus strategy has to locate a niche in the market where the cost leaders and differentiators are not operating.

There might be several reasons why niches exist. One of the major reasons is that cost leaders and differentiators, in an attempt to cover a broad target, tend to leave out segments of the market which require very special attention. In doing so, cost leaders and differentiators may not be able to generalise their product/service to serve a broader segment. So they feel it is more profitable to neglect niches. For example, in the tyre market, replacement for truck tyres constitutes the largest segment of the market while that of tyres for aircraft would be miniscule. Not all tyre companies may feel that it is worthwhile to consider this niche. Some tyre companies however, may feel that they have the necessary expertise to do so and they could afford to do it. What emerges is a focussed differentiation strategy for specialised tyres for aircraft.

Most product and service categories offer scope for niche marketing. Indeed, there will always be a small number of buyers willing to pay a higher price for getting some type of special treatment. At the other end of the spectrum, there will always be buyers willing to forego perceived frills and additional attributes and features so long as the price paid is lower. The examples provided above serve as illustrations of how and where an organisation could locate a niche and endeavour to serve it. Other examples could be: automobiles for physically-challenged persons, exclusive retail outlets for the elite customers, specialised medical treatment for well-to-do patients, luxury items for discerning customers, hotels catering to the budget tourists, no-frills products and bare minimum services.

An illustrative list of measures that a focussed organisation can adopt is as below.

1. Choosing specific niches by identifying gaps not covered by cost leaders and differentiators.
2. Creating superior skills for catering to such niche markets.
3. Creating superior efficiency for serving such niche markets.
4. Achieving lower cost/differentiation as compared to competitors in serving such niche markets.
5. Developing innovative ways in managing the value chain, which is different from the prevalent ways in an industry.

Conditions under which Focus Strategies are Used Ingenuity to look for something out of the ordinary and a sharp eye for identifying niches are central to focus strategies. Focussed organisations have been able to not only identify but create niches for themselves. Market research often throws up some data that would be considered unimportant in the normal course. For instance, when researching customer needs and wants, an organisation may stumble upon a hidden niche that may not have attracted the attention of existing organisations in the industry. It is for the company to build upon the idea and tailor its product and service attributes and features to this niche and come up with a focussed strategy. Keeping in view the love of Indians for movies, Rudra Entertainment focuses on the niche market segment of home videos for the serious film viewer who looks for something else than the typical Bollywood *masala* films. For the discerning viewers, it offers award-winning documentaries, regional and Hindi art films and modern classics. Its business model is based on offering full-service marketing and distribution for the film producers. In this manner, it serves a segment that would normally be of low interest to the big-budget production, marketing and distribution companies such as AVM Productions, Mukta Arts or Yash Raj Films.

Certain conditions are ripe for the adoption of a focus strategy either in terms of lower cost or differentiation. Some of the major conditions are mentioned below.

1. There is some type of uniqueness in the segment which could either be geographical, demographic or based on lifestyle. Only specialised attributes and features could satisfy the requirements of such a segment.
2. There are specialised requirements for using the products or services that the common customers cannot be expected to fulfil.
3. The niche market is big enough to be profitable for the focussed organisation.
4. There is a promising potential for growth in the niche segment.
5. The major players in the industry are not interested in the niche as it may not be crucial to their own success.
6. The focussing organisation has the necessary skill and expertise to serve the niche segment.
7. The focussing organisation can guard its turf from other predator organisations on the basis of customer relations and loyalty it has developed and its acknowledged superiority in serving the niche segments.

Benefits Associated with Focus Strategies Here again, as we did in the case of focus and differentiation strategies, we will look at the benefits and risks associated with focus strategies in terms of the Porter's five-forces model.

1. The focussed organisation is protected from competition to the extent that the other organisations having a broader target, do not possess the competitive ability to cater to the niche markets. In other words, a focussed organisation provides products/services that the other organisations cannot provide or would not find it profitable to provide.
2. The focussed organisations buy in small quantities and so powerful suppliers may not evince much interest. But price increments to a certain limit can be absorbed and passed on to the loyal customers.
3. Powerful buyers are less likely to shift loyalties as they might not find others willing to cater to the niche markets as the focussed organisations do.
4. The specialisation that focussed organisations is able to achieve in serving a niche market acts as a powerful barrier to substitute products/services that might be available in the market.
5. For the same reason as above, the competence of the focussed organisation acts as an effective entry barrier to potential entrants to the niche markets.

Risks Associated with Focus Strategies There are several risks associated with the focus strategies. Basically, these arise from the small size of the focussed organisations and their dependence on the niche markets.

1. First of all, serving niche markets requires the development of distinctive competencies to serve those markets. The development of such distinctive competencies may be a long-drawn and difficult process.
2. Being focussed means commitment to a narrow market segment. Once committed, it may be difficult for the focussed organisation to move to other segments of the markets.
3. A major risk lies in the cost configuration for the focussed organisation. Typically, the costs for the focussed organisation are higher as the markets are limited and the volume of production and sales small.
4. Niches are often transient. They may disappear owing to technology or market factors. For instance, a new technology may make the process of making the niche products easier. Or there might be shift in the customers' needs and preferences causing them to move to other products. Sometimes, the rising costs of niche products may cause the customers to move to the lower-priced products of cost leaders.

5. Niches may sometimes become attractive enough for the bigger players to shift attention to them. The rising competition in the markets for cost leaders and differentiator organisations may cause them to look at niche markets with greater interest, thereby posing a threat to the focussed organisations.
6. Finally, rivals in the market may sometimes out-focus the focussed organisations by devising ways to serve the niche markets in a better manner.

That the risks to a focussed organisation are real can be seen from the fact that several organisations in competitive industries find it worthwhile to focus on narrower segments. A wider choice of products, greater variety in services, the rising trend to customise products/services to cater to niche markets are evident today in the Indian markets. Take the case of the Indian automobile market. For years, the Indian car buyer had a severely restricted choice of the type of car that he could buy. Now, there are several models to suit the tastes and pockets of different types of buyers.

Besides the organisations that clearly are cost leaders, differentiators or focusers, there are some who are not clear about their positioning. These are the organisations that are 'stuck in the middle'. Clearly, such organisations do not possess a competitive advantage and are doomed to below-average performance. Such organisations exist in most industries. These organisations have to strive to achieve competitive advantage either through a low-cost or a differentiation approach. Or they have to look for niche markets where they can adopt a focussed approach on the basis of either low-cost or differentiation. Another approach is to adopt a clear approach to integrate cost leadership and differentiation. If these approaches cannot be adopted, it is better for the organisation to move out to their areas of core competence.

Integrating Cost Leadership and Differentiation

In our discussion till here, we have assumed that low cost and differentiation strategies are mutually exclusive; if a company uses one, it cannot adopt the other strategy. But this is not always true. Neither is the assumption that lower costs are possible in only larger volumes or that differentiation would necessarily be costlier is always correct. It is possible sometimes to adopt both low-cost and differentiation simultaneously.

Integrating cost leadership and differentiation is possible through providing the product/service at low cost through technologies that enable differentiation through focus on niche segments. Developments in process technology have made it possible to offer a wider variety of products and yet keep the cost low. An organisation that produces through mass production, but can use technological means to create variety in the product/service can sometimes combine the benefits of low-cost and differentiation. The use of Computer-Assisted (or - Aided) Design (CAD) and Computer-Assisted (or - Aided) Manufacturing (CAM) and robot technology, results in manufacturing of small batch of products at low cost. This process is called mass customisation.

Flexible manufacturing systems and using mass customisation allow low-volume production at relatively lower costs. Economies of scope result in mass production of parts, components and sub-assemblies that can then be used to make small batches of customised products. Flexible manufacturing technology makes it possible to reduce production costs of differentiator organisations to match those of the cost leaders. This is done through the use of robots and flexible manufacturing cells that reduce considerably, the cost of retooling the production line and making shorter production runs cheaper. The traditional classification of mass production and intermittent manufacturing is blurred owing to the flexibility with which organisations can use both these production systems. This way, it is possible to offer customised low cost products, thereby achieving differentiation. Then, some differentiator organisations produce a larger number of standardised parts and use them as modules to create a wider variety of products, thereby reducing the production costs.

All in all, the strategic positioning the organisations adopt by being primarily cost leaders, differentiators or focusers is open to risks. No organisation can make the assumption that the benefits derived out of any one business strategies are for all times to come. It is necessary to continually evaluate one's positioning and take appropriate strategic actions to protect one from threats that may arise. Indeed, the purpose of managing an organisation strategically is to be alive to the changes taking place in the environment.

Digitalisation as we have seen in section 6.3, is a major factor in the contemporary business environment. In the next section, we revert to the issue of digitalisation, this time in the context of business-level strategies.