

Porter's Generic Competitive Strategies

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Abstract

Generic Competitive Strategy:

Basically, strategy is about two things: deciding where you want your business to go, and deciding how to get there. A more complete definition is based on competitive advantage, the object of most corporate strategy:

“Competitive advantage grows out of value a firm is able to create for its buyers that exceeds the firm's cost of creating it. Value is what buyers are willing to pay, and superior value stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price. There are two basic types of competitive advantage: cost leadership and differentiation.” Michael Porter

Competitive strategies involve taking offensive or defensive actions to create a defensible position in the industry. Generic strategies can help the organization to cope with the five competitive forces in the industry and do better than other organization in the industry. Generic strategies include 'overall cost leadership', 'differentiation', and 'focus'. Generally firms pursue only one of the above generic strategies. However some firms make an effort to pursue only one of the above generic strategies. However some firms make an effort to pursue more than one strategy at a time by bringing out a differentiated product at low cost. Though approaches like these are successful in short term, they are hardly sustainable in the long term. If firms try to maintain cost leadership as well as differentiation at the same time, they may fail to achieve either.

Keywords: Differentiated, Imitation, Innovation, Efficiency, Merchandising, and Sustainable.

I. Introduction

In this paper I have evaluated Michael Porter's generic competitive strategies and their pit-falls, exemplified these strategies by case studies. I have provided some recommendations also.

The bases on which an organization may seek to achieve a lasting position in its environment are known as generic strategies. According to Michael Porter, there are three fundamental ways in which firms might achieve sustainable competitive advantage. These are: i) cost leadership strategy, ii) differentiation strategy, and iii) focus strategy. It is in the context of the overall generic strategy which a firm may be pursuing that strategic options may be usefully considered. Let us examine the implications of each of the three generic strategies.

- i) Cost leadership Strategy- A firm which finds and exploits all sources of cost advantage and aims at becoming a low cost producer in the industry is said to pursue a sustainable cost leadership strategy.
- ii) Differentiation Strategy- A firm seeking to be unique in its industry along some dimensions of its product or service that are widely valued by customers is said to have adopted differentiation strategy.
- iii) Focus Strategy- When a firm seeks a narrow competitive scope, selects a segment or a group of segments in the industry and tailors its strategy to serving them to the exclusion of others, the strategy is termed focus strategy.

II. Porter's Generic Strategies

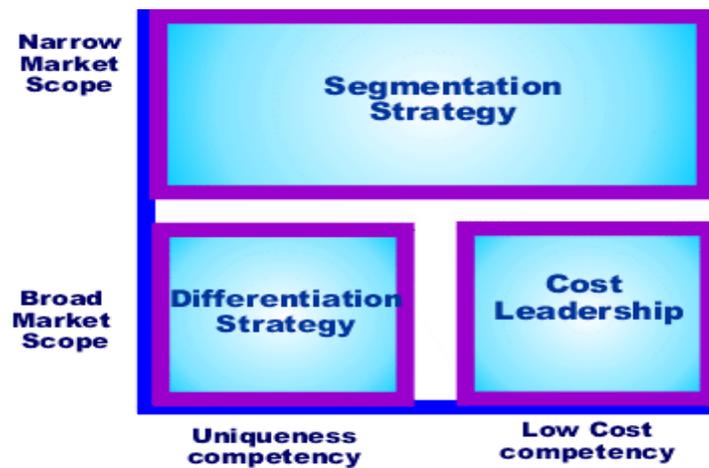
Michael Porter has described a category scheme consisting of three general types of strategies that are commonly used by businesses to achieve and maintain competitive advantage. These three generic strategies are defined along two dimensions: strategic scope and strategic strength. Strategic scope is a demand-side dimension (Porter was originally an engineer, then an economist before he specialized in strategy) and looks at the size and composition of the market you intend to target. Strategic strength is a supply-side dimension and looks at the strength or core competency of the firm. In particular he identified two competencies that he felt were most important: product differentiation and product cost (efficiency).

Empirical research on the profit impact of marketing strategy indicated that firms with a high market share were often quite profitable, but so were many firms with low market share. The least profitable firms were those with moderate market share. This was sometimes referred to as the hole in the middle problem. Porter's explanation of this is that firms with high market share were successful because they pursued a cost leadership strategy and firms with low market share were successful because they used market segmentation to focus on a small but profitable market niche. Firms in the middle were less profitable because they did not have a viable generic strategy.

Combining multiple strategies is successful in only one case. Combining a market segmentation strategy with a product differentiation strategy is an effective way of matching your firm's product strategy (supply side) to the characteristics of your target market segments (demand side). But combinations like cost leadership with product differentiation are hard (but not impossible) to implement due to the potential for conflict between cost minimization and the additional cost of value-added differentiation.

Since that time, some commentators have made a distinction between cost leadership, that is, low cost strategies, and best cost strategies. They claim that a low cost strategy is rarely able to provide a sustainable competitive advantage. In most cases firms end up in price wars. Instead, they claim a best cost strategy is preferred. This involves providing the best value for a relatively low price.

The figure below defines the choices of "generic strategy" a firm can follow. A firm's relative position within an industry is given by its choice of competitive advantage (cost leadership vs. differentiation) and its choice of competitive scope. Competitive scope distinguishes between firms targeting broad industry segments and firms focusing on a narrow segment. Generic strategies are useful because they characterize strategic positions at the simplest and broadest level. Porter maintains that achieving competitive advantage requires a firm to make a choice about the type and scope of its competitive advantage. There are different risks inherent in each generic strategy, but being "all things to all people" is a sure recipe for mediocrity - getting "stuck in the middle".



III. Cost Leadership Strategy

This strategy emphasizes efficiency. By producing high volumes of standardized products, the firm hopes to take advantage of economies of scale and experience curve effects. The product is often a basic no-frills product that is produced at a relatively low cost and made available to a very large customer base. Maintaining this strategy requires a continuous search for cost reductions in all aspects of the business. The associated distribution strategy is to obtain the most extensive distribution possible. Promotional strategy often involves trying to make a virtue out of low cost product features.

To be successful, this strategy usually requires a considerable market share advantage or preferential access to raw materials, components, labor, or some other important input. Without one or more of these advantages, the strategy can easily be mimicked by competitors. Successful implementation also benefits from:

- process engineering skills
- products designed for ease of manufacture
- sustained access to inexpensive capital
- close supervision of labour
- tight cost control
- Incentives based on quantitative targets.
- Always ensure that the costs are kept at the minimum possible level.

Examples include low-cost airlines such as EasyJet and Southwest Airlines, and supermarkets such as KwikSave.

(CASE STUDY ON COST LEADERSHIP STRATEGY)

Wal-Mart's Cost Leadership Strategy

Introduction

For the financial year ending January 31, 2003, retailing giant Wal-Mart reported revenues of \$244.5 billion, making it the world's largest company. The company topped Fortune's list of the world's largest companies for the second year in succession.

Considering the modest beginning of this company four decades ago, nobody, including the company officials expected Wal-Mart to emerge such a dominant player in the retailing industry. Wal-Mart's success story is a classic example of a company, which became successful by rigorously pursuing its core philosophy of cost leadership, right from the day it began operations in 1962. Wal-Mart was founded by an ambitious entrepreneur, Sam Walton (Walton), who figured out early that retailing, was a volume-driven business, and his company could achieve success by offering consumers better value for their money. Wal-Mart's growth during the first two decades was propelled primarily by following the strategy of establishing discount stores in smaller towns and capturing significant market share.

The company was able to foster its growth in the 1980s by making heavy investments in information technology (IT) to manage its supply chain and by expanding business in bigger metropolitan cities. In the late 1980s, when Wal-Mart felt that the discount stores business was maturing, it ventured into food retailing by introducing Supercenters.

In the late 1990s, Wal-Mart launched exclusive groceries/drug stores known as "neighborhood markets" in the US for the various types of Wal-Mart stores). Though Wal-Mart had achieved huge success over the decades, the company drew severe criticism from industry analysts for its strategies that aimed at killing competition. At the speed at which Wal-Mart was growing, analysts feared that the company would soon face an anti-trust suit for its monopolistic practices. Christopher Hoyt, president of Scottsdale, an Arizona-based supermarket store, Hoyt & Company, said, "The only thing that could stop Wal-Mart is if the government gets involved, just as it did with Microsoft."

Achieving Cost Leadership

Offering products at EDLP, especially during its early years, when Wal-Mart was not an established retail player, was quite difficult. The company aggressively followed a cost leadership strategy that involved developing economies of scale and making consistent efforts to reduce costs.

The surplus generated was reinvested in building facilities of an efficient scale, purchasing modern business-related equipment and employing the latest technology. The reinvestments made by the company helped it to maintain its cost leadership position.

From the start, Wal-Mart imposed a strict control on its overhead costs. The stores were set up in large buildings, while ensuring that the rent paid was minimal. The company imposed an upper limit for its rent payment at \$1.00 per square foot during the late 1960s. Not much emphasis was laid on the interiors of the stores. The company did not invest on standardized ordering programs and on basic facilities to sort and replenish the stock...

IV. Differentiation Strategy

Differentiation is aimed at the broad market that involves the creation of a product or services that is perceived throughout its industry as unique. The company or business unit may then charge a premium for its product. This specialty can be associated with design, brand image, technology, features, dealers, network, or customer's service. Differentiation is a viable strategy for earning above average returns in a specific business because the resulting brand loyalty lowers customers' sensitivity to price. Increased costs can usually be passed on to the buyers. Buyer's loyalty can also serve as entry barrier-new firms must develop their own distinctive competence to differentiate their products in some way in order to compete successfully.

Examples of the successful use of a differentiation strategy are **Hero Honda, Asian Paints, HLL, Nike athletic shoes, Apple Computer, and Mercedes-Benz** automobiles. Research does suggest that a differentiation strategy is more likely to generate higher profits than is a low cost strategy because differentiation creates a better entry barrier. A low-cost strategy is more likely, however, to generate increases in market share.

(CASE STUDY ON DIFFERENTIATION STRATEGY)

Target Stores' Differentiation Strategies

INTRODUCTION

The first Target Store was opened by the Dayton Company in 1962, in Roseville, a suburb of the twin cities Minneapolis-St. Paul, Minnesota. The Dayton Company was started by George Dayton who opened his first store called Good fellows in Minneapolis in 1902. In 1903, he changed the corporate name to The Dayton Dry Goods Company and in 1910 he changed it to The Dayton Company (Dayton). By the 1940s, it was a thriving family business that operated department stores called Dayton's in the upper Midwest region of the U.S. In 1956, Dayton opened South dale, the world's first fully enclosed two-level shopping center, in Minneapolis.

In the 1950s, the discount store retail format was taking shape and the pioneers of this format were just establishing themselves. After the success of its department stores, Dayton began exploring the possibilities of starting its own chain of discount stores.

John Giesse (Giesse), who was a vice-president at Dayton, was extremely interested in the discount retail format and was even contemplating leaving Dayton had the capital, they said, and asked Giesse to submit a report on his observations and ideas for a chain of discount stores. Giesse, who studied the existing discount stores, was of the opinion that there was a place for an upscale discount store. Dayton decided to launch a discount store chain as a subsidiary and named it Target.

Dayton to open his own discount stores. Executives at Dayton, who knew about Giesse's ambitions, pointed out to him that he would need capital for the project.

In 1962, Dayton launched the first Target in Roseville, Minnesota, and three more in Crystal, St. Louis Park, and Duluth, Minnesota, the same year. The first four stores made about \$11 million in sales but did not make any profits in 1962. Slowly, sales began increasing and in 1965, sales were worth about \$39 million. In the same year, another Target was opened in Minneapolis. In 1966, Target decided it was time to open stores outside Minneapolis. It opened two stores in Denver. In 1967, Target's parent company Dayton, went public. The same year, two stores were opened in Minnesota, bringing the total number of stores to nine, and by 1968, Target opened two more stores in St. Louis.

A major change occurred at Dayton in 1969 - Dayton merged with the J. L. Hudson Company to form the Dayton Hudson Corporation (DHC). The J. L. Hudson Company operated a chain of department stores called Hudson's in Detroit. Also in 1969, Target decided to open stores without supermarkets. Even though Target believed that providing discount groceries was essential to providing a one-stop shopping experience to the customer, it decided to open its new stores with only general merchandise.

By the end of the 1960s, Target had opened stores in Texas and Oklahoma, and a Northern Distribution Center in Fridley, Minnesota, which had a computerized distribution system. In 1970, it expanded into Wisconsin and the next year into Colorado and Iowa. For its expansion in Colorado, Iowa, and Oklahoma, it acquired 16 Arlans stores and converted them into Target Stores. In addition, it opened six new stores in these states. In 1972, Target started testing electronic point-of-sale terminals with two Minneapolis stores and four stores in Dallas the next year. However, in 1972, the operating income and profits of the Target Stores started declining. Target's top executives had limited experience in the discount retail business and they found the rapid expansion to 46 stores by 1973 difficult to manage...

Differentiation Strategies

From the very beginning, Dayton's strategy was to position Target as an upscale discount chain at which the prices would be just above the lowest prices. To achieve this upscale image, it offered trendy and stylish goods in an environment that was bright and attractive, unlike other discount stores of the time.

To be able to offer the most up to date styles and trends to the customers Target focused on merchandising. Recognizing that just having the goods in the stores was not enough, Target also worked on conveying this image to the customer through its store layouts and displays, and through marketing and promotions. It consistently used its famous Bulls eye logo and tag line, 'Expect more. Pay less.' in its marketing and promotions. According to an article in Advertising Age in 2003, its logo was recognized by 96% of Americans. Unlike other discounters, Target itself had become a brand because of its successful merchandising strategies, marketing, and advertising.

Target's positioning as an upscale discount chain was reflected in its merchandising strategy as well. Target managers felt that they needed to be constantly in tune with what the customers wanted and anticipate trends and demands. Warren Feldberg, Target's executive vice president of merchandising, tried "looking at the world as our shopping basket and finding ways to bring that basket to the average customer".

Target developed an image and displayed products that matched its customers' lifestyles and created enhanced merchandise displays. It offered a mix of private labels and national brands in creative and innovative layouts and displays. In the early 1990s, Target had several private labels with merchandise at all price points.

'Favorites' was its opening price point label offering basics and its 'Honors' label was priced just above that. The label 'So stanza' was a better quality, more European look for the younger customer, and was all predominantly ladies' ready-to-wear lines. Target also had 'Pro Spirit', which was an active wear label. Its 'Greatland' label was positioned as an outdoor wear label.

V. Focus Strategy

In this strategy the firm concentrates on a select few target markets. It is also called a focus strategy or niche strategy. It is hoped that by focusing your marketing efforts on one or two narrow market segments and tailoring your marketing mix to these specialized markets, you can better meet the needs of that target market. The firm typically looks to gain a competitive advantage through effectiveness rather than efficiency. It is most

suitable for relatively small firms but can be used by any company. As a focus strategy it may be used to select targets that are less vulnerable to substitutes or where a competition is weakest to earn above-average return on investment.

The focus strategy has two variants.

(a) In cost focus a firm seeks a cost advantage in its target segment

(b) Differentiation focus a firm seeks differentiation in its target segment.

Both variants of the focus strategy rest on differences between a focuser's target segment and other segments in the industry. The target segments must either have buyers with unusual needs or else the production and delivery system that best serves the target segment must differ from that of other industry segments. Cost focus exploits differences in cost behavior in some segments, while differentiation focus exploits the special needs of buyers in certain segments.

(CASE STUDY ON FOCUS STRATEGY)

Pepsico's 'Focus' Strategy

Introduction

In early 1997, US based PepsiCo,³ one of the largest packaged food companies in the world, announced a dismal financial performance for the fiscal year 1996. Although the company's revenues had increased marginally (4%) from \$30.421 billion (bn) in 1995 to \$31.645 bn in the fiscal 1996, the net income had witnessed a major decline (28.45%) from \$1.606 bn to \$1.149 bn in the same period.

Analysts pointed at PepsiCo's lack of focus on its core operations as one of the major reasons for its poor financial performance. In its efforts to sharpen focus on its core beverage (Pepsi-Cola), and snack food businesses (Frito-Lay), PepsiCo underwent a major restructuring by spinning-off its restaurant businesses as an independent publicly traded company. The spin-off was completed in October 1997. In July 1998, PepsiCo acquired Tropicana, the world leader in the marketing and production of branded juices, in its efforts to strengthen its position in the non-carbonated beverages segment. Despite its restructuring efforts, analysts felt that PepsiCo still had a lot of distance to cover to catch up with its about a century old archrival, Coke.

In 1998, PepsiCo accounted for 31.4% of the US soft-drinks market as compared to Coca-Cola's 44.5%. In the same year, Coca Cola generated 63% of its sales as compared to PepsiCo's 31% from its overseas operations. In its attempt to catch up with Coke, PepsiCo took several initiatives throughout the late 1990s and early 2000s.

One of the major initiatives undertaken to focus on its core businesses was hiving-off its bottling operations into a separate new company called Pepsi Bottling Group (PBG), in September 1998. In January 1999, PepsiCo sold its 65% equity stake in PBG to the public and raised \$2.3 bn in cash. PepsiCo's restructuring efforts paid off handsomely as its operating profits rose from \$2.584 bn in the financial year 1998 to \$3.225 bn in the fiscal 2000 (Refer Exhibit I & II). The company made further attempts to strengthen its market position in the non-carbonated beverages segment. This was achieved through the acquisitions of South Beach Beverage Company (SBBC)⁴ in October 2000, and Quaker Oats, a leading food and drinks company in December 2000.

Background Note

PepsiCo was formed in 1965 by the merger of Pepsi-Cola and Frito-Lay⁵ (#1 maker of snack chips in the world). The company's popular drink, Pepsi-Cola⁶ had been invented in 1898. In a bid to generate faster growth for the company, PepsiCo diversified into the restaurant business through a series of takeovers. It purchased Pizza Hut in 1977, Taco Bell in 1978 and Kentucky Fried Chicken in 1986. Soon, PepsiCo emerged as a world leader in the restaurant business.

In 1986, PepsiCo was reorganized and decentralized by combining its beverage operations under PepsiCo Worldwide Beverages and snack food operations under PepsiCo Worldwide Foods. In 1986, PepsiCo purchased 7-Up International, the third largest franchise soft drink outside the US. In 1988, the company reorganized along geographic lines - East, West, South and Central regions - each with its own president and senior management staff. Over the years, PepsiCo took several steps to bring its three restaurant chains together into a single division so that they could grow rapidly. The company brought all operations under a single senior manager and combined many back office operations like payroll, accounts payable and data processing, purchasing real estate, construction, and information technology.

The company also took up aggressive re-franchising to improve financial returns and restaurant operations. With revenues of \$17.80 bn, in 1990, PepsiCo was ranked among the top 25 of the Fortune 500 companies. By 1995, PepsiCo's sales had crossed \$30.42 bn, and with 480,000 employees, Pepsi had become the third largest employer in the world after Wal-Mart and GM.

Roger Enrico (Enrico) became the CEO of PepsiCo in 1996. Immediately afterwards, PepsiCo's performance deteriorated as it faced intense competition from Coca-Cola in both the domestic and overseas markets. For the fiscal year 1996, PepsiCo's beverages division reported an operating profit of just \$582 mn on \$10.5 bn in revenues as compared to Coca-Cola, which reported an operating profit of \$3.9 bn on \$18.5 bn revenues. In the

same year, Pepsi Cola's market share lagged behind Coca Cola by the maximum margin in over two decades. According to Beverage Digest, an industry newsletter, Coca-Cola's Sprite brand had replaced Diet Pepsi as the fourth-largest selling soft drink in the US while Diet Pepsi had dropped to seventh...

The Restructuring & Acquisition

PepsiCo announced plans, in early 1997, to restructure its business. As a first step, the company decided to spin-off its restaurant business as an independent publicly traded company. PepsiCo also decided to sell-off its food distribution company.

Justifying his decision to spin-off the restaurant business, Enrico said that when the company acquired the restaurant business in the 1970s, the company had many reasons to do so. PepsiCo had enough cash, quality people, and the ability to build restaurant brands. When PepsiCo bought them, the brands like Pizza Hut and Taco Bell were very small businesses. The company allocated its resources to them and soon became the leader in the restaurant business. According to the executives of PepsiCo, the restaurant business had sufficient cash and quality personnel working for it. However, the restaurant culture and processes did not align with PepsiCo's organizational culture. Another reason for the spin-off was the management's efforts to make PepsiCo a focused packaged foods company, to compete with its archrival Coca-Cola...

The Spin-Off

In September 1998, in continuation of its restructuring efforts, PepsiCo decided to separate its bottling operations from the company. PepsiCo's Pepsi-Cola business included two units - a bottling company and a concentrate company. The bottling operations, which were called Pepsi Bottling Group (PBG) after the spin-off, consisted of certain North American, Canadian, Russian, and other selected overseas bottling operations.

With sales of more than \$7 bn, PBG was the world's largest Pepsi Cola bottler accounting for more than half of Pepsi Cola's North American volume. The concentrate company focused on product innovations and marketing Pepsi Cola's brands. It manufactured and sold beverage concentrate syrup to PBG and other Pepsi-Cola bottlers. The company also supported PBG and other bottlers in advertising, marketing, sales, and promotion programs. Analysts felt that PepsiCo's decision to spin-off its bottling operations would help the company compete more effectively in the beverage business and serve its retail customers better. PepsiCo was also expected to improve margins on its beverage operations, as bottling operations were less profitable than the supplying of beverage concentrate...

Aftermath

Through the spin-off of the restaurant business and bottling operations, PepsiCo aimed to bring consistency in financial performance and improve market performance. In the fiscal 1998, Pepsi Cola's volume grew by 7% worldwide with a growth of 10% in North America.

This growth was attributed to the strong sales of Pepsi One, Mountain Dew, Brand Pepsi, Aquafina, and Lipton Brisk. The volume growth of Frito-Lay was 5%, in the same year. Although the restructuring resulted in lower sales for the first year it led to higher profits. The margins and return on investment were also high. After spinning-off the bottling business, PepsiCo's return on equity increased from 17% in the fiscal 1996 to 30% in the fiscal 1998. According to the executives of the company, the company had strengthened its financials and wanted to concentrate on innovations and productivity improvements. PepsiCo seemed to have strengthened its position in the 'cola wars,' in the late 1990s. In 1998, the company witnessed soft-drink volume gains of 6%, which was the biggest gain since the fiscal 1994...

Pepsico - Gaining Ground

Even though PepsiCo had spun off its unrelated businesses, a few analysts argued that PepsiCo needed to further strengthen its competitive position in the beverages business, which made up about one-third of the company's total revenues in the fiscal year 1998-1999.

In its efforts to enhance the revenues from its beverages business, PepsiCo acquired a majority equity stake in SBBC in October 2000. SBBC had emerged as one of the successful companies in the non-carbonated beverages industry after the launch of its brand SoBe. SBBC offered a variety of drinks with herbal ingredients and SoBe was one of the fastest growing brands in the non-carbonated beverages market. PepsiCo, in December 2000, acquired Quaker Oats, a leading food and drinks company, in a deal worth \$13.4 bn. In an all-stock deal, one share of Quaker was swapped for 2.3 shares of PepsiCo, up to a value of \$105 for each Quaker share. According to analysts, this acquisition was expected to increase PepsiCo's beverages revenues significantly...

PITFALLS OF GENERIC STRATEGIES

The pitfalls of each generic strategy are:

Risk of cost leadership- Positioning a firm as a low cost manufacturer or service provider places a severe burden on the firm. Cost leadership is vulnerable to risks such as:

Technological change that erases past investments and outdates past learning.

Risk of imitation by late entrants who have advantage of low cost learning.

Lack of attention to the needs and preferences of customer due to excessive concerns for cost minimization.

Unexpected inflation in costs that reduces the firm's ability to offset product differentiation through cost leadership.

Risk of differentiation – A differentiation strategy is vulnerable to the following risks:

Increased cost differential between low cost producers and the differentiating firm will motivate brand loyalty customers to switch brands. Thus, buyers would sacrifice some additional features and image for huge savings in cost.

Imitation might narrow down the perceived difference.

If a differentiating firm lags behind too much, a low cost firm may take over the market of the differentiating firm.

Example, the Japanese motor cycle producer Kawasaki, made inroads into the territory of differentiated players such as Harley-Davidson and Triumph by offering big cost savings to buyers.

Risk of focus-A focus strategy is vulnerable to the following risks:

Increasing cost differential between broad-range competitors and the focus firm might offset the differentiation achieved through focus and turn the customers towards firms that offer a broad range of products.

Perceived or actual differences between products and services might disappear.

Other firms might find submarkets within the target market of the focus firm and out focus the focuser.

VI. Conclusions:

Generic strategies can help the organization to cope with the five competitive forces in the industry and do better than other organization in the industry.

By producing high volumes of standardized products, the firm hopes to take advantage of economies of scale and experience curve effects. Maintaining cost leadership strategy, requires a continuous search for cost reductions in all aspects of the business. The associated distribution strategy is to obtain the most extensive distribution possible.

Differentiation is a viable strategy for earning above average returns in a specific business because the resulting brand loyalty lowers customers' sensitivity to price. Research does suggest that a differentiation strategy is more likely to generate higher profits than is a low cost strategy because differentiation creates a better entry barrier. A low-cost strategy is more likely, however, to generate increases in market share.

Focus strategy is most suitable for relatively small firms but can be used by any company. As a focus strategy it may be used to select targets that are less vulnerable to substitutes or where a competition is weakest to earn above-average return on investment.

Generally firms pursue only one of the above generic strategies. However some firms make an effort to pursue only one of the above generic strategies. However some firms make an effort to pursue more than one strategy at a time by bringing out a differentiated product at low cost. Though approaches like these are successful in short term, they are hardly sustainable in the long term. If firms try to maintain cost leadership as well as differentiation at the same time, they may fail to achieve either. Combining multiple strategies is successful in only one case. Combining a market segmentation strategy with a product differentiation strategy is an effective way of matching your firm's product strategy (supply side) to the characteristics of your target market segments (demand side). But combinations like cost leadership with product differentiation are hard (but not impossible) to implement due to the potential for conflict between cost minimization and the additional cost of value-added differentiation.

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