Cost Leadership

- **Cost leadership** strategy offers products or services with acceptable quality and features to a broad set of customers at a low price.

- The ability to offer the industry’s lowest price is challenging – low cost competitors must be efficient!

- This normally requires economies of scale.
Real World Examples: Cost Leadership
Cost Focus (or “Focused Cost”)

- Cost focus strategy offers products or services with acceptable quality and features to a narrowly defined (or targeted) group of customers at a low price.

- The cost focus strategy is different from the cost leadership strategy because it is targeting a smaller, more narrowly defined, group of consumers.
Real World Examples: Cost Focus
Broad Differentiation

- Broad Differentiation strategies attempt to convince customers to pay a higher price for goods and/or services by providing unique and valuable features or benefits.

- Successful implementation requires investing in unique features/benefits and communicating the value of these features/benefits.

- This is by far the most common strategy used.
Real World Examples: Broad Differentiation

FedEx
Apple Inc.
Nike
Nordstrom
The Ritz-Carlton
Differentiation Focus

- Differentiation Focus strategies require offering unique features that fulfill the demands of a smaller market.

- The focus could be on a particular sales channel (e.g., internet only), particular demographic or geographic group (e.g., men only), and/or a particular type of buyer (e.g., high-end purchasers only).

- This is an excellent strategy for new firms.
Real World Examples: Differentiation Focus
Best Cost

- Best Cost (or “best value”) strategies require firms to invest in unique features/benefits while maintaining a lower cost structure.

- Can be very effective but is very difficult because creating unique features/benefits generally raises the cost of doing business!
Real World Examples:
Best Cost (or “Best Value”)

TOYOTA

TARGET

SOUTHWEST
Risks of Competitive Strategies

- **Risks of Broad Low Cost**: Losing market share to segmenters and lack of R&D spending may affect long-term planning/outlook and customer loyalty.

- **Risks of Broad Differentiation**: Customers may not value the uniqueness enough to pay extra for it and/or firm may lose its uniqueness (requires heavier R&D investments to maintain).

- **Best Cost (or “best value”)**: Business model is difficult to maintain due to price structure and investments required to maintain uniqueness.

- **Risks of Focused Strategies**: Business model may not work due to limited demand; limited growth opportunities; larger firms may take over niche.