Competitive advantage and generic strategies

MODULE 3 | 3.3.2 | STUDENT COMPANION

Porter (1980): competitive advantage comes from **lower cost** or **differentiation**, pursued across the whole industry or in a **focused** segment. Trying to do everything leaves an organisation **stuck in the middle**. A few firms combine low cost and differentiation through superior technology or processes, but most need a clear choice.

Porter's generic strategies

	SOURCE OF ADVANTAGE: Lower cost	SOURCE OF ADVANTAGE: Differentiation
Broad scope The whole industry	**Cost leadership** Lowest costs in the industry	**Differentiation** Distinctive offer customers pay more for
Narrow scope One segment	**Cost focus** Lowest cost within a niche	**Differentiation focus** Distinctive offer for a niche

Stuck in the middle? No clear advantage

Decide how to compete: an organisation can't be all things to all people

Nine ways to differentiate

Quality Performance, durability, image	**Reliability** Guarantees customers can count on	**Innovation** A new way of presenting the product
Range Everything in one place	**Service levels** Round-the-clock help, or fast self-service	**Features** Useful extras
Brand name Built through decades of consistency	**Distribution** Exclusive channels	**Flexibility** Customised to order

It only pays if customers will pay more for the difference than it costs to create

Worked examples (imagined)

Situation	Working	Result
Differentiation premium: dishwasher costs $120 more to make, sells for $300 more	$300 - $120	+$180 a unit: worth it
Same dishwasher if customers pay only $100 more	$100 - $120	-$20 a unit: not worth it
Price war: price $50, costs $38 (low-cost firm) and $44 (rival)	50 - 38; 50 - 44	$12 and $6 a unit
After the price falls to $45	45 - 38; 45 - 44	$7 and $1 a unit

Case note: Aesop, differentiation

Aesop, founded in Melbourne in 1987, built its brand on plant-based formulations, plain amber bottles with simple labels, and stores each designed differently to suit their neighbourhood. It relied far less on conventional advertising than most rivals. In 2023 L'Oreal bought Aesop for about US$2.5 billion. Every element supports the same distinctive position.

Sources: L'Oreal releases, 3 April and 30 August 2023; Natura &Co release, 30 August 2023.

Ten sources of low cost

Scale and scope
Spread fixed costs

Experience
Learning lowers costs

Technology
Automation and better processes

No frills
Strip out what customers won't pay for

Simple design
Fewer parts and materials

Cost control
Materials, labour, overheads

Location
Cheap premises; near transport

Production innovation
Cheaper ways to make it

Cheap assets
Second-hand or liquidation buys

Subsidies
Government incentives

The reward: higher margins at similar prices, or more market share at lower prices

Case note: Primark, cost leadership

Primark, owned by Associated British Foods, sells clothing at very low prices. It keeps them low through huge volumes, thin margins on each item, large stores in busy locations and, traditionally, little conventional advertising. For decades it sold only in its stores, because delivering low-priced clothes to individual homes would have eaten the margin; it now offers click and collect across Great Britain and has announced plans for home delivery. In the year to September 2025 its sales were about £9.5 billion from 473 stores in 17 markets.

Sources: Associated British Foods results, 4 November 2025, and trading statement, 10 September 2026.

Four types of focus (imagined examples)

Type	Example
Narrow product line	A workshop that only restores vintage motorcycles
Customer segment	A gym designed for people over sixty
Geographic segment	A bakery serving one suburb
Focused functional capability	A laboratory specialising in rare soil contaminants

Innovation as a basis for differentiation needs the right resources and capabilities (internal, acquired or through alliances), flat structures, loose controls, flexible planning, rewards such as autonomy and recognition, and creative, technically strong people. Protect innovations through secrecy, patents or lead time.

Practice questions

MODULE 3 | 3.3.2 | TRY THESE BEFORE THE WORKED ANSWERS

Question 1 - Which generic strategy?

Imagined business	Generic strategy and why
(a) A national discount pharmacy chain that buys in huge volumes and keeps stores basic	
(b) A premium electric bicycle brand known for design and after-sales service, sold nationwide	
(c) A cafe serving only the staff and visitors of one large hospital	
(d) A 24-hour gym chain with minimal staff and no classes, in every capital city	
(e) A vegan dog food maker selling online to a small group of devoted owners	

Question 2 - Low-cost measures for a budget hotel

Imagine **Stayright Hotels**, a new budget hotel chain planning 30 hotels near Australian airports. Suggest one practical measure for each basis.

Basis of low cost	Practical measure for Stayright Hotels
Economies of scale	
No-frills product	
Technology	
Location	
Simple design	
Cost control	

Question 3 - Stuck in the middle

Imagine **Hearthwood Furniture**, a mid-priced chain of 25 stores. Discount retailers undercut its prices, boutique designers outclass its style, and its sales and margins have fallen for three years. Explain why it may be stuck in the middle, and recommend a way out.

Worked answers

MODULE 3 | 3.3.2 | WORKED ANSWERS - ATTEMPT THE QUESTIONS FIRST

Question 1 - Generic strategies

Business	Answer
(a) Discount pharmacy	Cost leadership: scale buying power, basic stores, broad market
(b) Premium e-bikes	Differentiation: design and service across the broad market
(c) Hospital cafe	Focus (geographic and customer segment): one site's staff and visitors
(d) 24-hour gyms	Cost leadership: no frills, minimal staff, national scale
(e) Vegan dog food	Differentiation focus: a distinctive product for a small, committed segment

Question 2 - Stayright Hotels

Basis	Possible measure
Economies of scale	Standard designs and central buying of beds, linen and fittings for all 30 hotels
No-frills product	No restaurant or room service; vending and partnerships with nearby food outlets
Technology	Self check-in kiosks and digital keys, reducing front-desk staff
Location	Cheaper land near airports rather than city centres
Simple design	Compact, identical rooms that are quick to clean
Cost control	Energy-efficient systems; housekeeping only on request for longer stays

Question 3 - Hearthwood Furniture

Diagnosis: Hearthwood is neither the cheapest nor the most distinctive, so customers have no clear reason to choose it. Falling sales and margins over three years are the classic symptom.

A way out: choose a basis to compete. One option is differentiation focus: target a specific segment, such as apartment dwellers, with compact, well-designed, customisable furniture and strong service, and close stores that don't fit. A low-cost route is likely unrealistic against the discounters' scale. Whatever the choice, every element (range, price, stores, marketing) must support it.