

Where *Generic Strategies* can be a risk?



Management

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The Cost Leadership Strategy

A low-cost strategy can be a risk, for example, if other firms may be able to lower their costs as well. As technology improves, the competition may be able to leapfrog the production *capabilities*, thus eliminating the *competitive advantage*. Moreover, several firms following a *focus strategy* and targeting various narrow markets may be able to achieve as even lower cost within their segments and as a group gain significant *market share*. By another hand, low cost leadership when combined with low prices can bring about to a disadvantage which is less customer loyalty (Vokurka & Davis, 2004). Relatively low prices can result in creating a negative attitude towards the quality of the product in the mindset of the customers.

Customer's impression regarding such products will enhance the tendency to shift towards a product which might be higher in price but projects an image of quality. Considering analytical in depth view regarding the low cost strategy, it reflects capability to generate a competitive advantage but development and maintenance of a low cost base becomes a vital, decisive task.

Differentiation strategy

The risks related with a differentiation strategy comprise imitation by competitors and changes in customer tastes. Moreover, diverse firms pursuing focus strategies may be able to achieve even greater differentiation in their market segments.

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 probable, however, to generate increases in market share.

Focus

Some risks of focus strategies include imitation and changes in the target segments. There is a danger that the niche may disappear, as the business environment and customer preferences change over time. Moreover, it may be quite simple for a broad-market cost leader to adapt its product for competing directly and other focusers may be able to establish sub-segments that they can supply better as well.

Possibly one of the most risky elements to consider is whether the size of the market is appropriate from the revenue potential aspect, and if the company has the capability to provide the specialised products that the consumers in the niche market search for. The focus strategy always implies some limitations on the overall market share achievable and involves a trade-off between profitability and sales volume, but not necessarily a trade-off with overall cost position. The focus on costs can be difficult in industries where *economies of scale* play an important role.