**Porter’s low cost, differentiation and focus strategies**

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| **Meet the author** |
| Michael Porter is the Bishop William Lawrence University Professor at Harvard Business School. He is a director of the HBS Institute for Strategy and Competitiveness, which was founded in 2001 to continue his research work. He is a leading authority on competitive strategy. Porter gained a degree in Aerospace and Mechanical Engineering from Princeton University in 1969 and then studied for an MBA at the Harvard Business School. He continued at HBS, gaining his PhD in Business Economics in 1973.  |
|  | Competitive advantage |
| Competitive scope |  | Lower cost | Differentiation |
| Broad target | 1. Cost leadership | 2. Differentiation |
| Narrow target | 3a. Cost focus | 3b. Differentiation focus |

Porter argues that a firm’s profitability will depend upon its ability to sustain a competitive advantage in the long run. He argued that there are essentially two main types of competitive advantage that a firm can possess: low cost and differentiation. He then argued that each of these two types of competitive advantage can be applied to a narrow or broad target market, resulting in three types of competitive strategy:

* Cost leadership
* Differentiated leadership
* Focus. The focus strategy has two elements: cost focus and differentiation focus
1. Cost leadership. This is where the firm aims to be the lowest cost producer in the market. This then translates into lower prices and hence attracts additional customers to the product. Firms adopting this form of competitive advantage need to ensure that productivity levels remain high in order to lower unit costs of production. Often production is highly mechanised. Although customers are attracted to lower prices, they also expect a certain level of quality and therefore the firm cannot cut costs by simply reducing quality.
2. Differentiation. A firm that adopts a differentiation strategy will aim to provide a product or service which offers the customer a unique experience that they are willing to pay a premium price for. The firm must ensure that the product’s unique features match the desires of the market. Of course, providing a unique product adds to the unit cost and therefore the firm must ensure that the higher price compensates for this.
3. Focus. This is where the firm uses either the cost leadership or differentiation strategy, but adopts it for a narrow segment of the market. This is also called a niche market. Most firms embarking on a Focus strategy will adopt the differentiated focus, where they provide a product or service for a segment of a market at a premium price.