**Porter’s generic strategies activity**

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| --- | --- | --- | --- |
|  | Competitive advantage | | |
| Competitive scope |  | Lower cost | Differentiation |
| Broad target | Cost leadership | Differentiation |
| Narrow target | Cost focus | Differentiation focus |

**Task 1**

Complete the table below to state whether you believe the firms are pursuing a cost leadership strategy or differentiation strategy.

|  |  |
| --- | --- |
| Company | Porter’s generic strategy used |
| Avon Cosmetics |  |
| Nike |  |
| Amazon |  |
| Ryanair |  |
| Primark |  |
| Apple |  |
| B&Q |  |
| Burberry |  |

**Task 2**

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| **Case study: The Big Four facing tough times in the supermarket industry** |
| In the wake of the recession and with consumer’s income still squeezed the big four supermarkets have faced increasingly tough competition. Consumers have been switching to low priced discount supermarkets and more upmarket brands, such as Waitrose and M&S. Sainsbury's, Tesco and Morrisons have all seen sales fall and their market shares eroded. Between July 2013 and 2014, Aldi’s market share rose 32.2 per cent, while Lidl’s grew 19.5 per cent. So what are their plans to combat these difficult market conditions?  In 2014 after reporting losses of £176m and performing worst of the top four, struggling Morrisons announced plans to cut 2,600 jobs and offer price discounts worth £1bn over three years to stop its falling sales and market share. This strategy is aimed at streamlining its organisation structure through delayering levels of in-store management to cut costs and have more staff focussed on customer service. They hope with the price cuts and improved customer experience it will give consumers more of a reason to shop there. Morrisons has been very slow to start selling groceries online and has much fewer convenience store formats compared with its rivals such as Tesco.  Tesco has been accused of losing focus on its UK business in recent years with failed attempts to expand into the US costing over £1bn and its exit from a range of other countries. It brought in a new Chief Executive, David Lewis, earlier than planned after falling share prices and profit warnings. As a result the company lost £10bn in value in the space of a year. Tesco had invested £1bn on revamping stores but decided to cut that back as it had had no major impact and cut its dividend payments to fund significant price cuts. It has also been encouraged to break up its store formats into high priced more premium ‘Finest’ stores in those areas of the country that can afford it and then other stores based on its Value and ordinary brands in lower income parts of the UK. Bruno Monteyne, the market analyst who suggested the idea, believes that this would allow them to focus on different market segments and better focus its offering to compete with the discount and premium brands it is losing market share to.  Sainsbury's decided to combat the low price rivals Aldi and Lidl in the rapidly-growing UK discount sector by entering a joint venture with Danish discount grocery chain Netto at a cost of £12.5m each. The joint venture will see the launch of 15 Netto stores by the end of 2015 in the north of England. The stores will offer a limited range of branded products but mostly Netto’s cheap own brands. Sainsbury's finds most success in the south and south-east with the affluent middle classes.  Of the big four supermarkets only Asda did not lose market share and has continued its strategy of low prices and ‘price locks’ on essential items. |

**Questions**

Use real examples from the case study above and your own knowledge to support your answers.

1. What is sustainable competitive advantage?
2. What benefits do you expect Netto to gain from their joint venture deal with Sainsbury’s?
3. Why are Sainsbury’s taking the risk of partnering with a supermarket rival such as Netto and helping them to re-enter the UK market?
4. What do Morrisons hope to gain from their strategy of delayering?
5. What do you believe are the key determinants of success in the supermarket industry? Support your answer with examples.
6. Analyse the supermarket industry using Porter’s Five Forces.
7. With reference to the Porter’s generic strategies and the supermarket industry from the articles above discuss whether it is better to pursue a strategy of cost leadership or differentiation.
8. Explain why Porter suggests that being ‘stuck in the middle’ of the generic strategies model is likely to lead to failure. What are the dangers of being caught in the middle?

**Further research**

Look at how the supermarket industry has developed more recently. What strategies have each of the big chains pursued? Have they seen any success? Relate your answers to Porter’s generic strategy theory.