Zig Zag Education

Business

A Level | AQA | 7132

A Level AQA Business Course Companion

3.8: Choosing Strategic Direction

2nd Edition – August 2023

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Contents

Teacher's Introduction

This resource supports the teaching of Section 3.8: Choosing Strategic Direction, which is part of the AQA Advanced Level GCE in Business (7132). It provides a detailed and accessible overview of the areas of study stated within the specification.

Each topic is explained in full and accompanied by a series of questions and extended learning opportunities, which are designed to consolidate student understanding and hone their application, analytical and evaluation skills.

Mathematical practice opportunities are included where appropriate. Answers are provided for each question.

The practice activities can be used to support the delivery of a lesson, be set as homework and/or be used by the student during independent learning.

It is hoped that this resource, as well as offering support for teaching the essential elements of the AQA examination, will help students build on their research and dissemination skills. The business world is a constantly changing one full of fascinating stories. This resource attempts to utilise some of these stories as a basis for teaching in the most interesting way possible, meanwhile encouraging further study from the next generation of business analysts!

August 2023

2nd edition – August 2023

- p.11 – references to Bowman's strategic clock removed
- pp.14–15 – section removed: 'Bowman's strategic clock'
- p.15 – Questions 3–5 removed and answers
- p.16 – Point 4 removed from research task
- p.17 – Removed references to Bowman's strategies

A web page containing all the research task links listed in this resource is conveniently provided on ZigZag Education's website at ***zzed.uk/12322***

You may find this helpful for accessing the websites rather than typing in each URL.

3.8. Choosing Strategic Directio

3.8.1. Strategic direction: choosing which market what products to offer

Key Points Covered

- Factors influencing which markets [illegible] pete in and which products to off and the value of market [illegible] market development, new product de
- The reasons for [illegible] the value of different options for strategic di

What is s[illegible]egic direction?

In order to understand strategic direction, it is important to appreciate the differ strategy, strategic decisions and tactical decisions.

Strategic direction refers to where the business wants to be in the medium to lo achieve over the coming years. For example, as the John Lewis Partnership appr

- stronger brands and new growth
- better jobs, better performing partners (employees) and better pay
- financial sustainability

The **strategy** is closely linked to the strategic direction, as it is a plan that sets ou to where it wants to be. In order for the John Lewis Partnership to work toward stronger brands and new growth, its strategy is to:

- improve its offering and experience for customers
- build new business in high growth areas
- continue to grow market share[1]

As a business does not operate [illegible], it is imperative it considers the effe factors could have on t[illegible] formed, otherwise its success could be hind

Internal fac[illegible]hich can influence the strategy include:

- does th[illegible]usiness have the **finances** available or does it need to source the latter, it will still need to have sufficient financial strength to attract new inv institutions to lend;
- does it have **employees** with the right knowledge, skills and experience? If staff recruited who fulfil these requirements?; and
- does the business have the correct **organisational structure**? How will emp strategy? Will they embrace it and give their best efforts?

External factors which can influence the strategy include:

- what are **competitors** currently doing and what might they do in the future competitive; therefore, it must consider the current and anticipated actions dominating the mobile phone market, Nokia's market share significantly de threat of Apple seriously due to possibly thinking su[illegible] was always a give
- **economic conditions** can have such a substa[illegible] impact on demand. The r resulted in greater demand for bud[illegible] markets such as Aldi and Lidl, a price-conscious. Both ope[illegible] branches during this period to capitalis demand for groce[illegible] reasonable prices. They were both ready for they h[illegible] of retaining new customers and attracting more w quality[illegible]t ranges; and
- **demog**[illegible]**c changes**, changes in the structure of the population, can lead marketing mix. For example, as the West Indian community increased in so stock haircare products suitable for use by this group.

1 Source: ***http://www.johnlewispartnership.co.uk/about/our-strategy.html***

Achieving a strategy requires the business to make **strategic decisions**. These ar made by senior management. These can influence whether the business is succe direction intended. Such decisions are taken at senior management level, as the overall direction and policies. Examples of strategic decisions include whether to relocate production to Eastern Europe and either focus on one segment of a ma order to build on new business in high-growth areas, the John Lewis Partnership would open an outlet in Dubai to capitalise on the growing Middle East retail ma be high risk and made in uncertain times, along with involving a large resource co

Tactical decisions affect the day-to-day implementation of actions required to ac example, should the price of a product be reduced or not? These are based on uncertainty and few resources. The tactical decisions related to the new John deciding which methods to use to recruit new staff and how much store space to

3.8.1 Questions – Part 1

Please write your answers on a separate piece of paper or in an exercise book.

1. Explain the difference between strategic direction and strategy, with exam

2. Explain the difference between strategic decisions and tactical decisions, w

3. In July 2016 it was announced that Samsung posted its best quarterly resu years. Its second quarterly operating profits increased by 18% to $1.7bn. Galaxy S7 and S7 Edge were significant contributors. The business also rep with its electronics division, which sells a range of products including wash fridge-freezers and air conditioning units. The business expected market c as competitors released new electronic devices. Samsung set up a new te market by developing new self-drive technologies. It was anticipated the la Galaxy Note 7 would boost Samsung's performance, when it was released However, this expectation was shattered when the production of the pro stopped in October 2016 due to numerous reports of the battery continui fire, despite a product recall in September 2016, which failed to resolve th

   a) Identify and explain Samsung's likely strategic direction.
   b) Identify and explain one strategy which could relate to Samsung.
   c) Identify and explain an internal factor which could influence the strategie
   d) Identify and explain an external factor which could influence the strategie

3.8.1 Research Task 1

The strategic direction of a business and the strategic decisions it implements or in a range of accessible documents, including financial reports and newspaper art programmes, such as *World Business Report* (BBC News Channel) will also report

Research the strategic direction of a firm of your choice or use the links below f summary of your research, which includes the following:

- a brief description of the business in terms of who it is, what it does, who competitors are;
- an explanation of the firm's **strategic direction**;
- an overview of the **strategies** used or to be used by the firm to achieve
- an explanation of the **strategic decisions** made by the firm to achieve the
- an overview of the **tactical decisions** made by the business to accomplish

Tesco PLC

- *https://www.tescoplc.com/media/264150/strategic_report_15.pdf*
- *https://www.tescoplc.com/files/pdf/reports/ar15/download_annual_report.pdf*
- *http://www.igd.com/Research/Retail/Tesco-new-strategy-shows-signs-of-progres*
- *https://www.theguardian.com/business/2016/mar/08/tesco-recovery-sales-superma*

Ansoff's Matrix

Ansoff's Matrix is a strategic planning tool developed by Igor Ansoff in 1957, which strategic direction with regards to the products it chooses to provide and the mark

Strategies could include:

- **market penetration** – a business may attempt to sell more of its existing pro may be used when the business believes there is still growth available in the have not reached saturation. This can be achieved through adapting any pa decreasing the price, a promotions campaign, repackaging the product and distribution channel. Beauty... which specialises in selling online well-k will send customers registered on its website a weekly newsletter and regul keep them informed about its product mix and offers, which could help the business foster a positive relationship with them, which could lead to customer loyalty. Car manufacturers routinely modify a car range every three to four years to encourage continued sales, e.g. Ford Fiesta. This has the **lowest risk**, as the business is already selling a product accepted by consumers in a market it knows and understands. However, if the market is saturated further growth is unlikely, resulting in the business needing to consider a different strategic direction;
- **market development** – a business sells existing products in new markets; fo region or a new market segment. This may be favoured if existing products scope for further growth. This is deemed to be a higher risk than market pe might lack experience within the new market. Competitors are already esta customer base; therefore, attracting these may not be so straightforward. A delivery service, was launched in 2007 within a few states in the USA. It dec it in Boston, USA and the UK. In 2015 Amazon Fresh supplied 22% of the UK However, this equated to 1% of the overall grocery market, indicating purch is more popular with consumers than purchasing online.[2] Although Amazon the UK it faces strong competition from supermarkets such as Sainsbury's a providing such a service are well established in the market.[3] Burger Kin countries in the ... 2015, in order to capitalise on the growth potential region. As the Burger King strategies are relatively recent, it is not possible have been a success or not[4];
- **product development** – new products are introduced into existing markets. of reasons, including to differentiate the business further in an increasingly products have reached the saturation or decline stage of the product life cy new ones. Product development is a high-risk strategy even though the bus market, as there is no guarantee the product will be accepted; therefore, th In October 2016 Ryanair will be offering low-cost accommodation in destina network with the launch of 'Ryanair Accommodation'. Travellers will be abl hotels, hostels, villas, homestays or B&Bs. This broadens its product mix, w airline travel, but also car hire and insurance. There is speculation the busin the inclusion of a full holiday service.[5] A business such as Ryanair will have s the necessary research to ensure moving into the holiday accommodation m that it is developed to match the target audience's wants. However, the bus positive image in the market; therefore it may need to work on enhancing i product development is to have the best chance of success, otherwise comp its failings;

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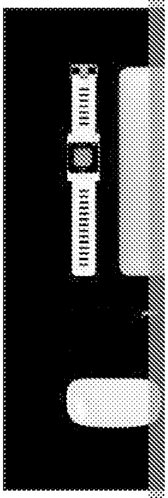
2 Sources: *https://www.theguardian.com/technology/2016/jun/11/amazon-fresh-launches-in-uk-can-i* *https://www.bloomberg.com/gadfly/articles/2016-04-08/amazon-fresh-prime-now-aim-to-kill-your-l*
3 Source: *http://www.recode.net/2016/5/24/11750670/amazonfresh-fresh-grocery-boston-uk-expansi*
4 Source: *http://www.africanbusinesscentral.com/2015/03/09/burger-king-to-expand-to-six-new-afric*
5 Source: *http://www.telegraph.co.uk/travel/news/ryanair-launches-package-holidays-rooms/*

- **diversification** – new products are launched in new markets. This is the riskiest strategy, as how consumers will respond to the product is unknown and also the business is unfamiliar with the new market. This inexperience could lead to errors being made, which could compromise the product's success; therefore, effective market research is imperative. Although this is high risk, the business may find itself in a dominant market position if it is the first mover in the market. However, diversification may not be so risky for some firms with an established brand, which makes ownership of products related to it a must have. Consider how Apple has been able to enter new markets with new products and still have success. Its brand image has been an important contributor to this, e.g. Apple watch range.



The Tata Group, an Indian multinational, is a perfect example of a business w diversification. It operates in numerous industries, including steel, car manu defence and aerospace. It has over 100 companies. Sometimes it has divers times it has been achieved through mergers and acquisitions, which reduces associated with it.

Products

Markets	Existing (products)	New (products)
Existing	Market penetration	Product develop
New	Market development	Diversificatio

One benefit of Ansoff's Matrix is that it indicates the level of risk associated with encouraging management to carefully consider the impact of any decision made for being too simplistic, as it doesn't take into consideration the external environ

3.8.1 Questions – Part 2

Please write your answers on a separate piece of paper or in an exercise book.

1. Explain the difference between market penetration and product developm
2. Explain the difference between market development and diversification.
3. According to Ansoff's Matrix, which strategy has the lowest risk and why?
4. According to Ansoff's Matrix, which strategy has the highest risk and why?
5. Explain one benefit and one drawback of Ansoff's Matrix.
6. a) Pepsi is a cola-based carbonated drink, which is manufactured by Pep the cola carbonated market is Coca-Cola. Review the information on products below and identify and explain which part(s) of Ansoff's Matrix
   i) ***Pepsi*** – the cola carbonated drink was first launched in the US in 18
   ii) ***Diet Pepsi*** was initially launched in the US market in the 1960s. the 1980s.
   iii) ***Lipton Ice Tea*** – in 1991 Lipton Ice Tea, a ready-to-drink iced tea was launched in a joint venture with Unilever.
   iv) ***Aquafina*** – PepsiCo entered the US bottled water market in 199 launched a new range of sparkling water, Aquafina Sparkling, in lemon lime and orange grapefruit flavours.
   v) ***KFC*** – in 1986, PepsiCo entered the fast food chicken market with th reasons behind the acquisition was superior performance, only sec also because of its significant increase in revenues and profits betw

   b) Analyse the risk associated with PepsiCo entering the chicken-based f with KFC.

   c) Analyse the factors which would influence the success of Aquafina wh US market.

   d) Comment on the strategic direction taken by the business.[6]

3.8.1 Research Task 2

Research a business's product range of your choice, including the type of product was launched, or use the links below for Procter & Gamble. You should then pro

1. a brief description of the business in terms of who it is, what it does, who i its competitors are;
2. an analysis of its product strategy using Ansoff's Matrix; and
3. an evaluation of the effectiveness of the strategic direction taken.

Procter and Gamble Links

- *https://www.pg.com/translations/history_pdf/english_history.pdf*
- *http://www.pginvestor.com/Company-Strategy/Index?KeyGenPage=208821*
- *http://us.pg.com/our-brands*
- *http://www.pginvestor.com/PG-at-a-Glance/Index?KeyGenPage=1073748355*
- *http://www.referenceforbusiness.com/businesses/M-Z/Procter-Gamble-Comp*

3.8.1 Mathematical teaser

In 2013, BT had 31% share of the UK fixed broadband market with Sky providin this had changed to 32% for BT and 23% for Sky. In 2015, there were 24.7m fix

1. a) In 2015, how many fixed broadband lines were supplied by BT?
   b) In 2015, how many fixed broadband lines were supplied by Sky?
2. Assuming both businesses embarked on a period of market penetration, w successful between 2013 and 2015? Explain your answer.
3. Hypothetically, if BT's price elasticity of demand coefficient is –0.6 and Sky to achieve market penetration success by reducing the broadband service

[6] Sources: ***https://www.pepsicobeveragefacts.com/home/timeline*** and ***http://www.pepsico.com/Comp***
[7] Source: ***http://media.ofcom.org.uk/facts/***

The reasons for choosing and the value of different options

Market penetration

Reasons for using market penetration

A business might use market penetration because:

- the market is not saturated and has room for further growth;
- existing customers can be encouraged to use the product more often throug marketing mix, such as the introduction of a loyalty scheme, e.g. ASOS A-Lis
- consumers can be persuaded to switch from a competitor to the business th mix, such as a discount for new customers, e.g. broadband market.

Value of market penetration

The value of market penetration to the business is:

- it is a low-risk strategy as the business is selling an existing product in an exi
- the business revenues and profits should increase by it selling more of its pr
- increasing the sales of the business's product in an existing market should le reduce the unit cost of production or the unit cost of providing the service, margin per unit; and
- implementation of any marketing strategy to encourage further sales shoul and market remain unchanged.

Product development

Reasons for using product development

A business might use product development because:

- an existing product is towards the end of its product life cycle, so a new one Cadbury's Time Out bar, which is replaced by the Time Out Wafer. Failure t resources being inefficiently used, as the obsolete product is unlikely to crea costs, and it therefore becomes a loss maker. These resources would be be the development and support of a new product;
- rather than developing a completely new product a business might slightly m market, which is a common strategy in the car industry, which launche years. This helps retain its core customer base, but also possibly attract customers from rivals, as the modifications might be deemed superior to competitors' product features; and
- a business with an innovative culture will routinely focus on product development, as it is a core aspect of what it does. Dyson normally concentrates on developing its products, including vacuum cleaners, fans and hand dryers, so consumers have a better experience using them due to greater efficiencies. It is always striving to solve problems and do things better than the market offers.

Value of product development

The value of product development to the business is:

- continued competitiveness and success. Without it a business can easily fai business models become preferable to consumers, e.g. BHS's failure in 2016
- an innovative business can be highly differentiated in the market and becom with a high price, e.g. Apple; and
- first mover advantage. If the business is the first to the market with a new p unique in the market, it can command a higher price, as alternative command a high market share even when substitutes start to emerge due Prius first hybrid car.

Market development

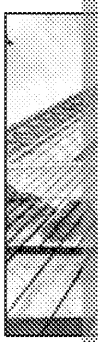
Reasons for using market development

A business might use market development because:

- an existing market has reached maturity or is saturated and offers no furthe
- demand exists in a market which is not currently provided for;
- the business has spare capacity, so selling to additional market segments m unit costs being nearer to their minimum optimum level;
- the brand image precedes the product; therefore, launching the product in a ne chance of success, e.g. McDonald's opening its first restaurant in China in 19

Value of market development

The value of market development to the business is:



- the product life cycle can be extended by launching into a new market, but this assumes the product and its marketing mix are adapted accordingly for any cultural differences. For example, when Pepsi changed the colour of its vending machines from deep blue to light blue it lost market share in south-east Asia, where light blue is a sign of death and mourning[8]; and
- it allows the business to capitalise on new markets; if it has such a strong national and/or global brand image, this can help it to launch into new markets with success even though it has not been available before, e.g. Primark launching its first US store in Boston in 2015.

Diversification

Reasons for using diversification

A business might use diversification because:

- the business does not want to be reliant on one particular product in a speci it could leave itself exposed to risk if the product's demand declines or th Tata Group, Unilever and Procter & Gamble are renowned for employing a d
- both the product and market have reached saturation or are in decline. N does, it may not be able to revive either of these; therefore, it is left with no develop a new product and sell it in a new market.

Value of diversification

The value of diversification to the business is:

- it spreads the risk of failure, as the business is not reliant on one product an diversified business suffers a decline in sales in one of its markets, it is unlike in different markets to rely on for sales;
- it allows the business to capitalise on growth opportunities; and
- an effective diversification strategy makes it easier to secure a distribution c range of products for the same genre, e.g. Unilever's personal care product Simple and Timotei. The business is likely to be able to secure shelf space in chains far more easily than others, as it has a multitude of successful produc will appeal to a broad range of consumers and create high levels of demand

[8] Source: ***http://socialnomics.net/2011/03/29/13-marketing-translations-gone-wrong/***

Other factors influencing the strategic direction taken

The influences on the strategic direction include:

- the **risk** associated with a decision will have a significant influence on wheth
  not. A high-risk strategy will not be implemented immediately, if at all, as m
  further analysis into its pros and cons before reaching a final decision. A low
  implemented far more quickly than a high-risk one, as there could be less at
  certain of the potential outcome;
- the **attitude to risk** can influence whether a strategy is implemented or not.
  risk is unlikely to implement a high-risk strategy. However, if its culture is b
  will not be so hesitant;
- **past successes** can influence the strategy. A decision-maker who has had su
  strategy will continue to adopt this approach. However, one who has been
  style will look to use a different method. For example, if a strategic decision
  involvement of particular individuals who would usually be involved, the bus
  adopt this approach. One who has not had such successes with this method
  process, in order to improve the chances of it working, but also to reduce th
  unsuccessful;
- the **nature of the industry** will influence the strategy. A highly competitive i
  on thorough market research influencing the strategy, otherwise consumers
  businesses if the wrong one is selected. Hotels are well known for carrying o
  bringing in or adapting a particular product or facility. They will amend it in
- **stakeholder power** can influence significantly the strategy. If a powerful gro
  particular decision the business is likely to abandon it, if the impact is to be s
  example, Netflix, the DVD rental and online film/TV streaming business, aba
  separate companies, due to customer pressure. If the strategy had gone ahe
  use two different companies to access the products. Furthermore, their det
  each website. Rather than posting it on one company website and it
  be required to produce it on each ... customer-preferred film lists would
  website. Consumers were unhappy as the planned change would increase t
  accessing the services, if both DVD and online streaming services were to be s
- the **ethical values** of the business will influence the strategy, as one which c
  probably be rejected, even if highly profitable. For example, The Co-operati
  with businesses which are known for not implementing basic labour rights; a
- the **resources available** will influence the decisions made. For example, the
  available could determine whether a strategy is feasible or not, or whether i

3.8.1 Questions – Part 3

Please write your answers on a separate piece of paper or in an exercise book.

1. Explain one reason why a business might choose market penetration and e this strategy.
2. Explain one reason why a business might choose product development an this strategy.
3. Explain one reason why a business might choo rk t development and this strategy.
4. Explain one reason why a bu m t choose diversification and explain o
5. Explain two othe ich could influence the strategic direction tak
6. Di a ational US alcoholic beverage producer with a range of Jo Walker, Smirnoff, Captain Morgan, Baileys and Guinness. Innovat bu ss culture and is considered vital to its growth.

   Since 2009, innovation has accounted for at least half of Diageo's sales gro launch of six new products related to existing brands, including Smirnoff, G part included launching new flavours related to these.

   Diageo's Performance Ambition is to create one of the best performing, m consumer products companies in the world. In part it intends to achieve t

   - strengthening and accelerating growth of its premium core brands;
   - innovating at scale to meet new consumer needs;
   - increasing productivity and efficiency to improve profitability and inv
   - ensuring it has the talent to deliver its Performance Ambition.

   The global beverage alcohol market's annual size is six billion equivalent u £300 billion of net sales (sales after the deduction of returns).[9]

   a) Analyse Diageo's strategy of launching si pr ducts linked to exis flavours in relation to Ansoff's M ri
   b) Comment on the reaso D choosing this type of strategy.
   c) Comment on th ef f choosing this type of strategy for Diageo

3.8.1 R arch Task 3

Research a business of your choice or research BT using the links below and prod analysis which addresses the following with full explanations and examples to su

1. a brief description of the business in terms of who it is, what it does, who its competitors are;
2. an overview of the strategic direction of the business;
3. an analysis of the strategy used by the business or considered for use by the strategic direction in relation to Ansoff's Matrix;
4. the reasons behind the business selecting the strategies discussed in Q3;
5. the value of the selected strategies discussed in Q3 for the business; and
6. an evaluation of the appropriateness of the strategies discussed in Q3 for fu the business.

BT Links

- http://www.btplc.com/Thegroup/Ourcompan rv es/index.htm
- https://www.btplc.com/Sharesandper nualreportandreview/pdf/201
- http://www.telegraph.co.uk sbysector/epic/btdota/
- http://www.btplc.c aperformance/Annualreportandreview/pdf/20

3.8.1 y question

One of Diageo's strategic directions is to become the best performing company i approach this through product development or diversification? Discuss.

[9] Source: ***http://www.diageo.com/en-us/investor/Pages/resource.aspx?resourceid=2814***

3.8.2. Strategic positioning: choosing how to com

! ***Key Points Covered***

- How to compete in terms of benefits and price, which address strategic po **low-cost, differentiation and focus strategies**.
- Influences on the choice of a positioning strategy.
- The value of different strategic positioning strategies.
- The benefits of having a competitive advantage.
- The difficulties of maintaining a competitive advantage.

What is strategic positioning?

Strategic positioning refers to how a business is perceived in the market in comp example, Ryanair is viewed as a budget airline in comparison to Virgin Airlines, a to be of a superior quality to a Timex watch. Strategic positioning is not somethi developed through the strategies implemented by the business. The business ca of each of its products, but both internal and external factors will determine the remains favourable. BHS's failing strategic position was influenced by both inter department store market fundamentally changed, but BHS did not change with i Debenhams recognised the need to keep up to date and achieved this through b party brands, thereby reducing their own brand products and making their store BHS failed to respond to the changing external environment, but internally it cle management team to recognise the need for such change.

The strategic positioning of a business is only likely to provide a competitive adva its strengths to such an extent that rivals find it difficult to imitate, replicate or ex able to do any of these, the competitive advantage is not threatened. Apple do for many years, as each version of the iPhone appeared revolutionary and uniqu Samsung's Galaxy smartphone range was developed with features considered of iPhone, the strong position held by the US business became weakened. How remain so will depend on the extent to which it can capitalise on Samsung's Gala Korean company permanently ceased production of this product in October 201 launched in the previous month, due to a fault which resulted in some of the bat fire. Despite an international recall in September 2016 to fix the problems, they c company's ultimate decision to permanently withdraw the product from the ma

How a business attempts to position itself in the market does not always mean c

Porter's generic strategies model

Michael Porter argues that there are **broad generic strategies** for sustaining com

- cost-leadership
- differentiation
- focus – focused cost leadership or focused differentiation

Strategic advantag

S... target		
Mainstream market	Cost Leadership	Di
Niche market	Focused cost leadership	Focuse

A business utilising a differentiation leadership or cost leadership strategy aims t
advantage across the majority of the market or across a wide range of segments
concentrates on a niche market rather than the market as a whole will utilise eit
cost focus strategy.

Cost leadership

A business pursuing a cost leadership strategy aims to have the lowest productio businesses operating in its market, thereby allowing it to be the lowest-cost prod achieved through producing on a large scale, which enables the business to bene thereby allowing the unit costs to be as low as possible.

High levels of productivity, high levels of capacity utilisation, selling directly to th position with suppliers can all assist with allowing the business to be the lowest-

A cost-leader business tends to provide products which are not usually differenti scale. If any differentiation is provided it is minimal, otherwise keeping costs as l

The cost leader gains a competitive advantage by producing its products at the lo allows it to have the highest profits if its products are priced in line or below the

Asda and Easy Group are examples of businesses which apply a cost leadership a

Focused cost leadership

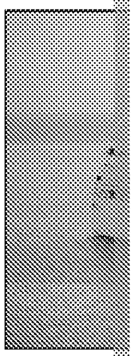
A business seeks lowest-cost advantage in a niche market, which is usually a sma product might be similar to a higher-priced market leader, but enough consume to meet its needs, thus making it viable for the business to provide it.

It is important to note a cost-focused approach will provide a competitive advan providers do not specifically cater for such niche markets in the manner desired the competitive advantage may be eroded. Ryanair traditionally launched into t focus approach, but as consumers became more receptive to budget airlines its s producer, and it moved to a broader target market. However, some of this com it faced increased competition from mainstream airlines, which entered this typ growth potential.

Focused differentiation

A business applying a differentiated focus distinguishes its product within just on market segments rather than trying to aim at the whole market. This allows the needs of the consumers within the niche market, which are not being satisfied b market as a whole, thereby gaining it a competitive advantage, e.g. Planet Organ branches in London.

Such a specialised approach can allow the business to achieve a higher price than the market average, as consumers are more willing to pay more for a product or service that specifically meets their wants.



It is important to note a differentiated focused approach will provide a competitive advantage as long as mainstream providers do not specifically cater for such niche markets. Once they do so, the competitive advantage may be eroded.

Saga, which aims a range of services at people who are aged 50 and over, and Solo Holidays, which aims at people holidaying alone, apply a differentiated focused approach.

Differentiation leadership

A business pursuing a differentiated leadership strategy will aim at larger market are not being specifically satisfied by the majority of firms within it. This creates allows it to gain a competitive advantage as its goods or services are deemed by different to others available. To do this successfully a business will target at leas consumers' purchase choices and look to provide this in a different way to altern targeted an audience who wanted handmade cosmetics, fr ances and toiletrie Although its ethical values are very much in line w h ody Shop, it stands ou of its products, being handmade. This all si charge a premium price for sufficiently unique to alternatives additional price acceptable to its t strategy usually covers th s associated with producing differentiated differentiate vi , it also reinforces the consumers' perceptions of re greater adc e than the substitutes available from other businesses.

Bose, the German audio equipment manufacturer which sells headphones, spea radios, etc., would not be able to sell its items at a premium price unless consum its products worth it. Its products are innovative; therefore, the business may in in research and development to maintain this competitive advantage. Guinness approximately £1.25 more for four cans of stout in comparison to one its main ri form of advertising has built an image within the mind of some of its consumers buying something which is different and superior to alternatives. Other firms wh promotion to create the USP are more likely to focus on emphasising what make stand out from others. Differentiation can be achieved through a number of ele

- quality – Mercedes
- performance – BMW
- brand image – Nike
- design – Apple iPhone
- customer service – John Lewis

Stuck in the middle

Porter pointed to the danger of 'stuck in the m d e' tegies where a firm trie costs and better quality. He believe m uld apply one or the other, but sh Porter believed Sainsbury's o ed this position with its slogan 'good food was a cornerstone ing strategy from the 1950s to 1990s. Porter was cannot atte b things to all markets, as ultimately it will be its undoing. choose its m ategy and to whom it is aimed and not shift from this approac fall from market leader within the supermarket sector is due to implementing st mainstream market. Sainsbury's' marketing strategy should be emphasising qua

3.8.2 Questions – Part 1

Please write your answers on a separate piece of paper or in an exercise book.

1. Explain what is meant by strategic positioning.
2. Explain the difference between cost leadership and focused cost leadershi
3. Explain the difference between differentiated leadership and focused diffe
4. Choose two strategies associated with Porter's generic strategies and expl provide a competitive advantage.
5. Explain why Porter believes that a business which ts a 'stuck in the mi ultimately fail.
6. For each of the following busine nti and explain which of Porter's strategies apply:
   a) Dacia's S odel – the cheapest UK small car aimed at peop ll vehicles or cheap Asian imports.
   b) diand
   c) arbucks
   d) Adaptawear.com – an e-commerce business selling adaptable clothin and disabled.

[10] Source: ***http://cws.cengage.co.uk/thompson5/students/sainscase.pdf***

Influences on strategic positioning

The strategic position taken by a business and its effectiveness are influenced by

- **consumer perceptions** – the strategic positioning must fit with the percepti business and/or product. If each component is not correctly aligned the co purchase the product. For example, if the product is low quality, but has a p considered value for money. If the product is of high quality, but has a low think something is wrong with it. Both would lead to low demand;
- **changes in consumer tastes** – the strategic position must consider whether and respond to this. HMV responded slowly to consumers choosing to strea devices, rather than buying in a CD format, resulting in it struggling to surv years;
- **competitor actions** – the strategic position can be weakened by a competito in the market, which differentiates it further and gives it a competitive adva remain alert to such competitor activities even before they are launched in degree to which it will be affected by it and how. This will determine wheth strategic positioning;
- **human resources** – the expertise and knowledge of the workforce will influe the business have the right personnel who can identify the key strategies to innovative staff, if it is one operating in a highly innovative market, such as t the business have inspired and creative staff? Without the correct staff em identify and implement the correct strategic direction efficiently;
- **financial resources** – if the strategic positioning requires a new injection of or can it access it? Without it the business is unlikely to remain current and
- **production capability** – without the correct production facilities and withou intended strategic position can be difficult to achieve. A business which reli profits, but suffers from frequent production stoppages, will not achieve the be the lowest-cost producer. If the business is not able to produce products expected by consumers, it will struggle to be a differentiation leader;
- **economic conditions** – is the business immune to changes in the economy? products such as water and electricity, will be to some extent, but consume believe a better deal can be obtained elsewhere. The strategic position can economic growth, recessions, etc. The business has to consider how its stra response to such changes. At the height of the last UK recession, budget su capitalised by embarking on an extensive expansion programme. However, for when the market improved by having a range of luxurious products at re retain the consumers they attracted during the recession who may no longe their purchase choices, as the economy improved;
- **political environment** – government policies in terms of taxes and new laws strategic position. Some financial and pharmaceutical businesses are consid UK locations in light of the Brexit vote; and
- **stakeholders** – the influence of significant stakeholders can determine the s greater their influence the more likely the position will reflect their wants.

3.8.2 Questions – Part 2

Greggs is the largest UK bakery food on-the-go retailer with nearly 1,700 shops and 20,000 employees. It freshly prepares food and drinks in its shops each day, to ensure consumers receive high-quality products which are great value for money. It prices below its competitors, therefore relying on high customer numbers rather than high profit margins to achieve its remarkable pro... 7... m pre-tax profit in 2015 – a 25% increase on the previous year). It provides sandwiches, savouries (e.g. sausage rolls and pasties), sweet items (e.g. cakes and doughnuts) and beverages.

The business considers quality a priority, along with having friendly staff within each store. Its sandwiches are made in store daily, using its own freshly baked bread produced at its regional bakery. Its sausage rolls and pasties are baked in each store in small quantities throughout the day, to ensure they correspond with its philosophy of maximum freshness.

Greggs' strategic review identified the food-on-the-go market was still grow expansion by its competitors, in particular convenience supermarkets, coffe outlets. It believed that such rivals had better met the needs of customers.

Convenience is a vital element within the food-on-the-go market; therefore, opened and relocated shops to fulfil this consumer want. The majority of its away from the high street, at service stations, retail parks and industrial par

The business has attributed its recent success to:

- reinforcing the freshness and value of its products; and
- adding a 'Balanced Choice' range which provide customers with health

The business plans to continue innovating throughout 2016 by introducin including own-brand crisps and fruit and nut packets, as well as introducing the latter half of the stated year. Each of these new products will be sold in principles of freshness, quality, range and value.[12]

Please write your answers on a separate piece of paper or in an exercise book.

1. Analyse Greggs' strategic positioning in relation to Porter's generic strateg
2. Analyse whether Ansoff would approve of Greggs' strategic position.
3. Analyse the influences on Greggs' strategic positioning.
4. To what extent will Greggs' strategic position provide it with a competitive

[11] Source: ***https://corporate.greggs.co.uk/business-strategy/business-strategy***
[12] Source: ***http://www.bbc.co.uk/news/business-36950732***

3.8.2 Research Task 1

Research the strategic positioning of a business of your choice or use the links to review the strategic position of the charity Oxfam. Once this is completed, you should be able to produce a strategic position report on your chosen business or Oxfam which covers the following:

1. a brief description of the business in terms of what it is, what it does, who its customers are and who its competitors are;
2. an overview of its strategi…
3. an analysis of its … position in relation to Porter's ge… m…;
4. an… is of the influences on its strategic position;
5. an evaluation of its competitiveness; and
6. an evaluation regarding whether the strategic position needs repositioning.

Oxfam Links

- https://www.theguardian.com/world/2015/aug/10/oxfam-looks-to-discountin… struggle-with-competition
- http://www.thedrum.com/news/2015/08/11/can-oxfam-s-mobile-donation-s… retail-sales
- http://www.bbc.co.uk/programmes/p042pprq
- https://www.oxfam.org/en/countries/oxfam-strategic-plan-2013-2019-power…
- http://www.oxfam.org.uk/what-we-do/about-us/plans-reports-and-policies/a…

The value of different strategic positioning strategies

The value of each one is:

1. **Low price / low value** – although the product has the lowest price in the mark way; therefore, consumers are choosing it solely based on price. To remain co continue to remain the lowest priced provider, otherwise consumers will switc offering. As long as the business is profitable with this approach, it could attra unless it is able to respond by lowering its price, its co tive advantage will
2. **Low price** – a business is usually relying on b ing th cost leader within the low prices near the industry aver ming at the whole market it relie revenues, rather than hig margins, as this strategy does not permit t competitors are al ue their goods or services at a similar cost, the can pr si or lower level. This approach can result in a price war;
3. **Hybrid** onable prices and differentiation can result in high sales in a m associated with differentiating the product can result in reasonable prices n
4. **Differentiation** – a successfully differentiated product can intensify competi attempt to capture some of the other business's success by providing simila the business is first into the market regarding the area of uniqueness, this c the competitors are playing catch-up. Assuming a strong customer relations consumers may be less inclined to switch their allegiance to such rivals. A s can be fundamental elements for fighting off such threats and providing suc
5. **Focused differentiation** – this can generate high profit margins, as the busin by aiming at a niche market with a product which matches consumers' wan market. However, overall profits can be lower than the mass market, as the significantly lower. The corporate objectives of the business and the nature influence whether a niche market is pursued in this way;
6. **Increased price / standard product** – this is a risky s gy as a business is or pricing above the market average without offering any further product va effective in the short term, if cons e unaware of alternatives at lowe equipped with full market owl this strategy is doomed to failure, as t or services;
7. **Increa ce ow value** – a monopoly may be able to apply such an app operat e market. Up to the early 1980s, this created significant prof consumers did not have alternative firms to choose from, so had to pay the regardless of the product quality or quality of service offered. However, as become deregulated in the 1980s, so that other firms could enter the marke improve their pricing and quality as consumers now had alternatives availab decade, as markets with no or few firms tend to be heavily regulated, so the 1980s would not be acceptable now; and
8. **Low value / standard price** – providing a product which is perceived by consu alternatives, but choosing a pricing strategy which does not reflect this, will re A business will not generate sufficient demand to break even; therefore, it is

3.8.2 Questions – Part 3

Please write your answers on a separate pie f r or in an exercise book.

1. Analyse the value of str gy price / low value to a business.
2. Analyse the va st tegy 4 – differentiation to a business.
3. A 1 le black ballpoint pens retails for approximately £1.50. What to siness of applying strategy 6 – increased price / standard value?
4. Couture clothing designers such as Armani rely on strategy 5 – focused diff To what extent does this provide value for such firms?

Competitive advantage

Competitive advantage is a superiority a business has over its competitors throu consumers. This can possibly be achieved by providing a similar standard produc by differentiating its product to such an extent it can charge a higher price than c advantage distinguishes the business's products from others in the market, so co preferable to the alternatives available. This is the reason behind brand loyalty a product over another; for example, why some consumers prefer Coca-Cola to Pe

Creating a competitive advantage

A competitive advantage can be created in many ways, including:

- if a business has a **cost advantage** it is able to produce its products or provid rivals, this allows it to set its prices below the market average, e.g. Ryana the product to be of a similar quality to alternatives available, the lower pric consumers. This cost advantage can be achieved in numerous ways, includi outsourcing, improving the product design (e.g. Intel's microchip processor) layout, so the production process is more efficient;
- establishing a **strong customer relationship** can allow a business to stand o such as John Lewis are renowned for providing customer care at the highes significantly to their brand image and competitive advantage;
- the **brand image** itself can be a competitive advantage. This influences the something which is created overnight, as it takes time to nurture. A strong stand out from competitors, allowing it to attract more customers than riva share. For example, in 2014, McDonald's' share of the global fast food mark had just 4.6%[13];
- an **innovative business** which is able to provide unique product designs on choice among consumers who desire a product that is different, but also up renowned for being innovative across their product range, but the former d with its smartphones;
- operating in a **niche market** can provide a competitive advantage as consum to pay more for a product which specifically meets their wants and needs, u mass market, e.g. Theraposture Ltd – supplier of adjustable beds for elderly mobility needs.

Influences on competitive advantage

A number of factors can influence whether a business has a competitive advanta or not:

- **intellectual property laws** – a registered patent, trademark, etc. makes it more difficult for a business to take and use the ideas of another without any consequences. However, these laws are not universal across the globe, so in one country a business will be afforded stringent protection, but it may not find it is the same in another. Dyson found this to be a particular problem within China, as Chinese businesses were able to copy its designs and produce lower-priced products without being in breach of any laws.[14] They do not have to cover the costs associated with research and developm Dyson has endured this; therefore, they can charge a lower price;
- control over the **supply chain** helps a business to manage its costs and quali
- **business culture** – without the correct attitudes and norms prevailing withi difficult for a business to acquire and sustain a competitive advantage;

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13 Source: ***http://www.investopedia.com/articles/markets/111015/mcdonalds-vs-burger-king-comparin***

14 Source: ***http://www.telegraph.co.uk/finance/yourbusiness/8936685/Sir-James-Dyson-attacks-China-a***

- **employee skills and understanding** – a business is reliant on its staff to crea and also to sustain it. The right staff can adapt to changes, foresee opportu implement these effectively. A business which lacks such employees can fin difficult to acquire. Education and training to some extent could fill any gap relies on the human resources management function to be efficient in arran the right staff at the right time;
- the **marketing function** can be fundamental in creating a competitive advan Coca-Cola and Guinness allow them to stand out from others. John Lewis h benefit of innovative promotions, such as Christmas television adverts;
- a **high quality standard** can result in consumers choosing one business over renowned for such high-quality vehicles. If the business fails to maintain t advantage can be lost, as witnessed with the 2015 Volkswagen CO_2 emissio vehicles sold in the USA and Europe[15]; and
- **operational efficiencies** can create a competitive advantage, as they help to production, thus allowing a more competitive pricing strategy or higher pro layout, operating at capacity and effective stock control can all contribute to

Benefits and drawbacks of a competitive advantage

Regardless of whether a business is able to charge a higher price due to having a which can command a high price, or whether it has lower pricing due to a cost a contribute to healthy business revenues and profits. However, a competitive ad beneficial as long as the business is perceived to be the only one providing it. O approach, assuming it can, the competitive advantage can soon be eroded if the build on and enhance it. Consumers may perceive the product as no longer havi therefore, switch to an alternative offered by competitors.

3.8.2 Questions – Part ...

Please write your answers on a separate piece of paper or in an exercise book.

1. Explain what is meant by competitive advantage.
2. Explain a benefit and drawback of a business having a competitive advanta
3. Explain two factors which can influence a firm's competitive advantage.
4. R W Smith Watches is an exclusive watchmaker based in the Isle of Man. T exquisite handmade watches. One watch takes approximately 11 months £100,000 to £250,000. There is a waiting list of four years for its timepiece 10 watches a year.

   Its buyers are truly global, with the business supplying customers in the U China, for example. The British origins of the timepieces adds to its attract

   The business employs a small team of highly skilled employees.

   The business prides itself on perfection and nothing less will do.[16]

   a) Identify and explain R W Smith Watches' competitive advantage.
   b) Analyse the main influences on the competitive advantage of R W Sm
   c) To what extent will R W Smith Watches' competitive advantage be of

[15] Source: ***http://www.bbc.co.uk/news/business-34324772***
[16] Source: ***http://www.telegraph.co.uk/finance/businessclub/11307795/Meet-Britains-most-exclusive-w for-up-to-250000.html***

3.8.2 Mathematical teaser – UK grocery market

Families are better off by £400 a year due to the initial price war triggered b the discount supermarkets.

The main four UK grocery retailers: Asda, Morrisons, Sainsbury's and Tesco, market pressure from their German rivals, Aldi and Lidl, whose no-frills, but products, have had a detrimental impact on their UK competitors' market sh

Although Aldi and Lidl's product range might seem quite limited in compar the market, their quality is deemed to be comparable. This has helped them who wish to shop [illegible] purchase in small quantities.

The competitiveness of both German businesses has also been helped by pr popular high street products, but at much lower prices. In addition, adding tails and Belgian chocolates to their product range has assisted in attracting traditionally shop at their main rivals, in addition to Waitrose and Marks an developed, and continue to develop, a business model which appeals to a v the expense of their UK competitors.

The myth that Aldi and Lidl consumers try to hide that they have shopped a that, a myth.

The big four supermarkets had to rethink how to improve their competitive aggressive pricing towards the end of 2015, which did not reap the benefits the first to announce it was dispensing with its multibuy offers, such as buy Consumers considered them misleading and confusing, along with some ha would not use. Now the main UK supermarkets are looking for ways to rati constantly receive lower everyday prices. In fact, they hope this will assist t

Supermarket	Market share %	
	2015	2010
Tesco	28.4	30.6
Asda	16.9	16.9
Sainsbury's	16.3	16.6
Morrisons	11.0	12.0
Co-op	6.1	6.5
Aldi	5.3	3.1
Waitrose	5.1	4.2
Lidl	3.7	2.4

1. Using only the table above, which supermarket could be judged to have th competitive advantage?
2. Using only the table above, which supermarket could be judged to have th competitive advantage?
3. Analyse the competitive advantage of Sainsbury's using the table above.
4. Analyse the competitive advantage of Lidl using the table above.
5. Analyse the [illegible] on the change in competitive advantage of both Te
6. To what extent could Waitrose have the highest market share in the next f current strategy?

17 Source: *https://www.theguardian.com/business/2016/feb/11/sainsburys-axe-two-for-one-offers-spe*

18 Source: *http://www.fooddeserts.org/images/supshare.htm*

3.8.2 Essay question

To what extent does Coca-Cola's continued competitive advantage depend on it

3.8.2 Research Task 2

Research the competitive advantage of a business of your choice or use the links Reebok (owned by Adidas). Produce a competitive advantage summary which i

1. a brief description of the business in terms of who it is, what it does, who competitors are;
2. an analysis of its competitive advantage in comparison to competitors;
3. an evaluation of its current strategies, with substantiated proposals for ch

Reebok Links

- http://www.bbc.co.uk/news/business-21696689
- http://www.adidas-group.com/media/filer_public/e9/73/e973acf3-f889-43e5-b3c0-bc
- http://www.adweek.com/news/advertising-branding/reebok-quietly-emerging-challen
- http://www.campaignlive.co.uk/article/1357867/reebok-finally-sharpen-up#

Answers

Marks for questions are to be allocated as follows:

3 marks available
1 mark – some knowledge and understanding with limited explanation and applicat
reasonable explanation using knowledge and understanding with some application, a
response using knowledge and understanding with application to the context.

4 marks available
1 mark – some knowledge and understanding with limited explanation and applicat
reasonable explanation using knowledge and understanding with some application, a
response using knowledge and understanding with application to the context.

6 marks available
1 to 2 marks – some knowledge and understanding with limited explanation and ap
marks – reasonable explanation using knowledge and understanding with some app
well-explained response using knowledge and understanding with application to the

9 marks available
1 to 3 marks – a limited response overall with little focus on the demands of the que
response overall that focuses on some of the demands of the question, and **7 to 9 ma**
focuses on many of the demands of the question.

16 marks available
1 to 4 marks – a limited response overall with little focus on the demands of the que
response overall that focuses on some of the demands of the question, **9 to 12 marks**
focuses on many of the demands of the question, and **13 to 16 marks** – an excellent
focused on the key demands of the question.

25 marks available
1 to 5 marks – a weak response overall lacking focus on the demands of the questio
response overall with little focus on the demands of the question, **11 to 15 marks** - a
focuses on some of the demands of the question, **16 to 20 marks** – a good response o
demands of the question, and **21 to 25 marks** – an excellent response overall that is
of the question

Most questions will fit into one of the above marking criteria, but where it does not, p

3.8.1 Questions – Part 1

1. The strategic direction is where a business wants to be in the medium to long te
   business plans to fulfil this. A business's strategy might be to become market le
   fulfil this might be to become more innovative. (4)

2. Strategic decisions, which are set by the senior management, influence the over
   business. They have a long-term focus, such as whether to enter a new market o
   on the day-to-day running of the business and is usually at management level, s
   sale of a product. (4)

3. a) *Accept any reasonable response.* Samsung's strategic direction might be to
   enhance its innovative processes, so that it can maintain its market share a
   improve it for the long term.
   b) *Accept any reasonable response.* Samsung's strategy is to diversify, so that
   the smartphone market, especially when they might experience periods of
   a key chance of remaining successful. (3)
   c) *Accept any reasonable response.* The funds available will influence the stra
   it plans to innovate further by the development of self-drive technologies i
   commitment. (3)
   d) *Accept any reasonable response.* External factors which could influence Sa
   competitor actions. If competition is envisaged to become more intense th
   strengthen the brand image or to diversify (self-drive technologies). (3)

3.8.1 Questions – Part 2

1. Product development involves a business selling a new product to an existing m involves a business trying to sell more of an existing product in an existing mark packaging of a product. (4)

2. Market development is selling an existing product to a new market, possibly ge segment. Diversification is the selling of a new product in a new market. (4)

3. Market penetration is considered to be the least risky strategy as the business is available in the market and known by customers. The business also should kno principle, there should be no problem with quantities. (4)

4. Diversification is considered to be the highest risk strategy, as the business is se unknown customers; therefore, it cannot be certain whether they will accept number. In addition, it is selling the new product in a new market; therefore, t including how competitors might respond. (4)

5. A benefit of Ansoff's Matrix is that it indicates the level of risk associated with e management to carefully consider the impact of any decision made. However, i simplistic, as it doesn't take into consideration the external environment. (6)

6. a) i) ***Pepsi*** – diversification due to a new product entering a new market. (
   ii) ***Diet Pepsi*** – its initial US launch was product development, as it was a existing market. When it was launched in the 1980s within the UK, th was the same product but being sold to a new market. (3)
   iii) ***Lipton Ice Tea*** – diversification, as it is a new product being sold in a
   iv) ***Aquafina*** – the launch of Aquafina in 1994 was diversification, as it w However, Aquafina Sparkling could be considered product developme being sold in an existing market. (3)
   v) ***KFC*** – as the business has entered a new market with a new product t

   b) In principle, any diversification is considered to be a high-risk strategy, as i market with a new product. However, as PepsiCo purchased an establishe one from scratch, the risk is significantly reduced. Although the product is PepsiCo, the brand KFC is not new. It is an established global brand; theref diversification strategy are reduced, as KFC is known to the market. It is n just the business's ownership has changed hands. It should continue to be su be managed effectively. (6)

   c) Aquafina's success when first launched in the US market could be influence factors: (6)
   - **internal** – funding available, expertise of staff, understanding of the m (ability to produce to the correct standard and in the quantity require campaign, getting the price right, choosing the right distribution chan
   - **external** – level of competitiveness in the market, the degree of loyalt established brands, response of competitors, willingness of retailers t climate, political policy changes, etc.

   d) PepsiCo's strategic direction appears to have several elements: (9)
   - increased market share – launch of Diet Pepsi and Aquafina Sparkling
   - increased geographical reach and increased global sales – launch of P
   - broader product range and less reliance on core brands – KFC

3.8.1 Mathematical teaser

1. a) BT supplied 31%
   24.7 X $\frac{31}{100}$ = ***7.7m fixed broadband lines were supplied by BT in 2015***

   b) Sky supplied 23%
   24.7 X $\frac{23}{100}$ = ***5.7m fixed broadband lines were supplied by Sky in 2015***

2. Although BT's market share in 2015 was 9% hi... th... Sky's, it is Sky who wo... market penetration strategy. Betwee... an... 015, BT's market share incre... by 2%. Although BT attracted ... more customers during this period, Sky ... 494,000; therefore, ind... latter provider was more successful at marke...

3. BT's b... d ...vice has price inelastic demand as its price elasticity of dema... Deman... tively insensitive to a price change; therefore, a reduction in pric... falling, as the proportional change in price will be greater than the percentage c... elasticity of demand coefficient is greater than 1.0, its service has price elastic d... lead to revenues increasing, as the proportional change in price will be smaller ... demand. Sky's market penetration strategy via a reduction in price will be succ...

3.8.1 Questions – Part 3

1. (6)
   - **Reasons for market penetration** – market has room for growth, existing ... buy more of the product and customers of rival companies can be persuad...
   - **Value of market penetration** – low-risk strategy, business revenues and ... of scale and an excessive market strategy should not be required.

2. (6)
   - **Reasons for using product development** – an existing product is toward... (decline phase), continued loss on a product with ... ing sales, modifyin... and maintain customer demand and a nat... i... ovative business will in... meet its strategic direction.
   - **Benefit of the product d...** – continued competitiveness, the be... first mover advan...

3. (6)
   - **Re... for using market development** – existing market has reached m... present in a market which is not provided for, moves the business nearer t... unit cost of product or service provision and the business or its products h... gives it a good chance of success as it is already known.
   - **Value of market development** – product's life can be extended and allow... markets.

4. (6)
   - **Reasons for using diversification** – to spread the risk of failure and both ... reached saturation or decline; therefore, the business is left with little choi...
   - **Benefit of diversification** – spreads the risk, capitalise on growth opport... can be easier to secure a distribution channel.

5. Other factors which can influence the strategy – risks ass...ated with the strate... the business's past successes, the dynamics of the ... s...akeholder power, t... resources available. (6)

6. a) Diageo appears to em... **product development** strategy. It is m... introducing ne... these are presumed to be sold within existin... it i... op... a market it knows and is using established brands wh... a... w... This should result in consumers being more willing to try t... un... brand. In principle, the business is extending the brand, which s... existing customers still continue to purchase the core brand. In addition, i... **market development** strategy if it appeals to a new market segment whic... type of product, but likes to purchase fruit-flavoured alcohol. This is a hig... but once again the image associated with the brand can help to attract such... to meet their expectations if there is to be repeat business. (6)

b) Diageo has possibly chosen **product development** as it is traditionally an such developments it will launch in existing markets if it believes there is s addition, the business can capitalise on the image associated with its brand products, which will help it to fulfil its strategic direction of becoming the b Whether **market development** was Diageo's primary goal or not is unclea business less reliant on its core markets for success, along with increasing potential. (6)

c) **Product development** helps Diageo to remain co tive by updating its new customers. This can strengthen its br by differentiating it fu business is innovative, at some po n through first mover advan the business to extend the its work towards global dominance, a enhanced. In addit alising on markets it has operated in befor increasing g potential. (6)

3.8.1 Essa stion

(25)

Product development

Reasons for:

- known brand which is already accepted in the existing market, therefore, it doe in a new market with a new product;
- less risky than diversification, as at least the market is known;
- the strength of the brand can encourage new customers to purchase a new prod
- as a global brand it has a lot of existing international markets it could try to cap
- it can make an existing product seem new and invigorated by updating it.

Reasons against:

- there is no guarantee that existing customers and even new ones will accept the
- if the market shows little scope for growth, Diageo will find it difficult to achieve best performing company.

Diversification

Reasons for:

- the business can exploit a market ot present in, thereby allowing it
- the business has a greater ce ecoming a market leader through develop new markets, as it veral sales revenues; and
- as the ss ished it should be able to secure a distribution channel market

Reasons against:

- high risk;
- unknown markets; and
- unclear how competitors and consumers will respond.

Depends on:

- the level of risk the business is willing to take;
- the level of expertise in the business; and
- its corporate objectives – does it want to completely move into new markets wi

Overall

Either strategy is applicable, but the student must substantiate the one they finally d it will fulfil Diageo's strategic direction.

3.8.2 Questions – Part 1

1. Strategic positioning refers to how a business is perceived in the market in com
can be influenced by both internal and external factors. The strategies impleme
how consumers perceive its products. For example, Apple is renowned for bein
of new products it launches into the market. (4)

2. A business using a cost-leadership approach will aim at a broad market, but aim
within it. The business focuses on volume rather than high profit margins, as pr
strategy tend to have a low price. A business using a focused cost-leadership st
aims to do so while using a low-cost strategy. (4)

3. A business pursuing a differentiated leadership strategy will target larger mark
to be different in such a way that it has a competitive advantage, thus allowing a
business using focused differentiation will aim at a particular segment within th
being specifically catered for and provide for these. Consumers are willing to pa

4. (6)
   - **Cost leadership** – being the lowest-cost producer allows the business to b
   rivals, thereby allowing it to have the most attractive prices. It generates g
   volumes rather than having high profit margins, as in reality these are like
   - **Focused cost leadership** – the business is offering a more affordable prod
   market, but not quite the same, due to its low-cost approach. It gains a com
   small market segment which is willing to sacrifice some of the established
   favourable price.
   - **Differentiated leadership** – the business's product is perceived to be uni
   possibly due to its features, method of selling, brand, etc. This creates a co
   will choose this over rivals. Due to this uniqueness the business can charg
   average.
   - **Focused differentiation** – the business gains a competitive advantage, as
   the market are not providing for the wants and needs of a particular segme
   this, its consumers are willing to pay a higher price.

5. Porter believes a business cannot compete on both lower costs and better quali
other. Ultimately, the strategy applied will fail, as better quality is not always as
costs. This can result in consumers not relating to the product and choosing a d

6. For each of the following businesses, identify and explain which of Porter's gen
   a) **Dacia's Sandero car model** – focused cost leadership (3)
   b) **Poundland** – cost leadership (3)
   c) **Starbucks** – differentiation leadership (3)
   d) **Adaptawear.com** – focused differentiation (3)

3.8.2 Questions – Part 2

1. Greggs is focused on providing food-on-the-go, which is value for money and of
would consider its strategic position as cost-leadership. Its products prices are
indication costs have to be at their lowest for the business to provide such a pri
and their locations indicate the business is aiming at a broad market. Taking in
shops and their locations, which generate a high-footfall (high streets, retail and
service stations), suggests the business is focusing on a high volume of custome
rather than high profit margins. As the business is also differentiated it would s
focusing on differentiation leadership, as it is standing out in the market due to
low price does not fit this type of strategic position, as a higher price than th
assumed for this type of strategic position. (6)

2. Ansoff is unlikely to agree with Greggs' strategy, as a business should focus on c
as he would consider it as being stuck in the middle. Consumers are unlikely to
quality as the price is so low, which will eventually lead to declining sales. H
date indicates possibly that Ansoff could be viewed as wrong in relation to this
generated significant annual profits producing a quality product at low prices.

3. Influences on Greggs' strategic position include: (6)
   - **changing market trends** – healthier eating, gluten-free products and incr
     have all been incorporated into Greggs' strategies, in order to fulfil its strat
   - **competitors** – the business is not trying to mirror competitors, as it consid
     factor of success. Its differentiation cannot remain relevant without being
     and future tactical strategies
   - **consumer perceptions** – the business prides itself on providing fresh pro
     in shops throughout the day helps to support this consumer perception
   - **financial resources** – the business would not be able to implement its stra
     fitting in with having stores in convenient locations, without appropriate fu
     business it should have the resources available to fund such an activity.

4. Greggs' low price strategic positioning will provide it with a competitive advant
   products of value but at lower prices. Consumers are more likely to choose thi
   product if not too dissimilar to the alternatives available, but is cheaper. This sh
   customers, resulting in high demand and revenue, assuming the products have

   However, this is only a competitive advantage for as long as the business model
   If there is any change in these and the business fails to respond accordingly, it wi
   competitive advantage being eroded.

   In addition, it will only remain a competitive advantage for as long as the busine
   itself from rivals. If at any time a competitor is able to imitate or better the Greg
   realistic chance its competitive advantage will be weakened. The extent of this w
   has with consumers. If its brand is strong, consumers may deem this the first-ch
   advantage may remain relatively unchanged, as consumers will continue to buy

3.8.2 Questions – Part 3

1. The low price / low value strategy has low profit margins, but the high sales cre
   consumers result in profits being achieved. As long as the business can maintai
   maintains its competitive advantage, but once a competitor comes along and be
   is gone if it is not able to react accordingly as consumers will switch to the rival

2. Differentiation can result in consumers perceiving the product has much better
   market, which allows the business to charge a higher price. As long as this com
   the business is in a competitive position. However, if a rival is able to replicate
   competitive advantage could be weakened. However, this will depend on the ex
   establish a brand loyalty with its customer base. With a highly differentiated p
   achieve; therefore, even if a rival does come along with an alternative product t
   lost to it. (6)

3. A ballpoint pen is a standard product. There is not anything particularly unique
   increases the price, there is a real risk consumers could switch to a rival, such a
   standard product but at a lower price. This could result in a significant decline
   lower demand anticipated. The business would, in theory, have to offer some ad
   increase in price. However, the value could be based on the BIC name itself, so
   not lead to a fall in demand as customers may have some loyalty to it. Furtherm
   small the consumer may judge the time and effort involved in sourcing an alter
   time, and, therefore, choose to stick with the BIC product after all, although the
   result in no change in demand, but higher revenue and greater profits, assumin
   unchanged. (16)

4. Firms such as Armani, which specialise in producing couture garments which a
   specific requirements of the customer, can achieve high profit margins on each
   aiming at a mass market with designs as the specific and unique tailoring s
   such a large audience. However, a niche market of consumers with high levels o
   afford a bespoke service and item, can afford to pay the high prices charged
   garments specific to them. Assuming the designs remain in line with custom
   retain their loyalty. However, if another couture designer produces garments w
   Armani's target audience's wants, there is a real possibility its demand could de
   allegiance to another designer. This can provide immense value to such firms, a
   choose to differentiate themselves remains popular with their target markets. (

3.8.2 Questions – Part 4

1. Competitive advantage is what makes a business and/or product stand out fron consumers consider it unique in comparison to the alternatives available from c allow a business to possibly have a higher sales volume, charge higher prices, et

2. Benefits of a business having a competitive advantage include higher profit mar Drawbacks include competitors could imitate the advantage in their own produ and revenue for the firm which initiated the particular advantage. Increased co revenue and profit. If the advantage is based on a cost advantage, the business respond if it is not able to lower its costs further and, therefore, cannot reduce rivals' prices. (6)

3. Influences on competitive advantage include intellectual property laws, the deg chain, business culture, employee skills and understanding, the effectiveness of function, the standard of product and the firm's ability to keep it at the sta *any other suitable ones can be explained.* (6)

4. **a)** R W Smith Watches' competitive advantage is based on each watch being 1 exceptional standard. The watches are of such a high quality and in limite each year, such that an image of exclusivity and luxury is created. (4)

   b) Although the competitive advantage is based on the watches being handm quantities, the influence on this advantage fundamentally lies with the skil make the watches. Clearly the owner R W Smith is a fundamental compon being an integral part in the production of the watches. The brand image a added to the competitive advantage, as consumers perceive them to be of s that they are willing to wait for up to four years to obtain one. The craftsm will prove difficult to replicate by competitors without the same time and e watch. To some extent, this allows the business to differentiate itself from such as its name being registered as a trademark and any designs which ca difficult for a rival to take the business's ideas and use them for their bene applied. Furthermore, the watches are not distributed in the usual locatio the direct contact consumers have with the business through the creation It is attentiveness and luxury throughout each stage of the purchasing process

   c) R W Smith Watches' competitive advantage is of benefit, as consumers are waiting up to four years to obtain the completed watch. Due to the timepi perfection throughout every aspect, the business can charge an extremely £1 to £250,000 for the watches. The business is not under any und increase the number of watches produced, as it is aware it will generate su premium prices charged. Furthermore, this permits it to be able to produc than focusing on volume. The business can continue to focus on creating u level of quality. The success of such a business might encourage others to imitate this business model may not be appealing to many high-end watch into producing such a timepiece. They would possibly want a higher level business can maintain this competitive advantage will depend on its ability watches, its ability to maintain its extremely high quality standards, etc. E may not affect its competitiveness, as the type of customer to which it sells economic changes. (16)

3.8.2 Essay question

To what extent does R W Smith Watches' continued competitive advantage depend o

Employees

- ability to maintain quality standards expected
- innovation – create new Coca-Cola related products
- innovation – promotion strategy
- all of the above contribute to how consumers perce[illegible] business and its Coca the preferred choice over competitors' produc[illegible]

Other factors

- brand – see above
- the bra[illegible]n it has a high recognition factor, which helps it to be t consu[illegible]hin the cola carbonated market
- secret r[illegible] adds to the brand image, which helps to differentiate it
- production processes – the process is so efficient unit costs are kept to a minim profit margin on each Coca-Cola related product sold
- innovative marketing campaigns, especially with popular songs
- supplier power – as the business has such a successful product the business is i it can command where and how its products are sold by other businesses. It ca brands are placed by the retailers in their stores, if at all.
- efficient distribution network – the products are everywhere, from large to sma restaurants, petrol stations, etc. This makes the product easily accessible.
- global sponsorship of sporting events (e.g. FIFA World Cup, Olympics) – remind and captures the attention of potentially new customers
- funding – to invest in R&D
- franchised bottling network – Coca-Cola and its subsidiaries produce the conce franchised bottling network which purchases it from the company. This is used also have a responsibility to sell and merchandise it.

Overall

Employees will directly and indirectly infl[illegible]e competitive advantage of Coca-C come up with new products linke[illegible]d, which helps to enhance it, but their Each of these contribute t[illegible] perceiving the brand to be superior to alterna perform thei[illegible] within them.

However, it i[illegible]st employees who influence this, but also such stakeholders as th they do not produce the product to its exacting standards, the brand can potentially damaged to such an extent it could fail? Going back many years it was felt that some including Woolworths and MFI; therefore, even a brand as strong as Coca-Cola could Employees are fundamental to ensuring all aspects of the business related to this bra possible, with the correct decisions being made at all times.

3.8.2 Mathematical teaser – UK grocery market

1. Aldi could be judged to have the best competitive advantage, as it had the best i 2010 and 2015 (2.2%), which was 0.9% more than Lidl, who had the second-be However, it depends on how this is measured, as Tesco might be judged as havi as its still supplier to the majority of the market. The data on its own is insuffic strategy pursued by the business should also be considered in reaching this jud

2. Tesco could be judged to have the worst compet[illegible]age, as it had the la between 2010 and 2015 at 2.2%, which w[illegible] than Morrisons, which this period at 1.0%. However, it [illegible] on how this is measured, as Lidl c worst competitive advant[illegible]pplies the least amount of the market. The make a final decisi[illegible]ategy pursued by the business should also be co judgem[illegible])

3. Sainsbu[illegible] competitive advantage could be deemed reasonably strong, as it is grocery market with a 16.3% market share in 2015. However, its competitive p its market share declined by 0.3% between 2010 and 2015. As the level of com market it has not suffered to the same extent as Tesco with its 2.2% decline in m suggesting it was better placed to deal with increased competition than the ma

4. Lidl's competitive advantage may be considered as reasonably weak, as it only s market in 2015, which was 24.7% lower than the market leader Tesco. This sug of the majority of the market. However, unlike the market leader, its market sh 2010 and 2015 while Tesco's fell by 2.2%, therefore suggesting the smaller sup was more effective. In addition, Lidl is not aiming at the mass market like Tesc share when aiming at a much smaller target audience is a remarkable achievem advantage is firmly in place. (9)

5. Tesco, along with the other three leading super[illegible] has identified that pro that consumers are after. Clearly a lar[illegible] of consumers are now more p groceries. In order to provide [illegible]titive pricing, Tesco has had to ratio so the savings can be pa[illegible] consumers. Not only will cost savings be sou through supplier[illegible] not have a strong bargaining power with the retailer. its low[illegible] lo[illegible] value strategy, which has created profits, it is inevitable that to mirr[illegible] within some of their product ranges in order to win back custome Lidl loses such customers to the main market leaders will very much depend on established with them and the success of its low-priced strategy it currently uti

6. Although Waitrose aims at the mass market it supplies to only a small percenta expecting to sell to the majority of the market, as its current strategy would not differentiates itself by providing high-quality goods and services, which affords higher price than the main market leaders. The extent to which it will become m will very much depend on whether it moves away from a differentiation strateg strategy. The danger with making any changes to a successful business model i alienated, thus resulting in them being lost to rivals. In addition, the response o by Waitrose has to be considered, along with whether the market leaders have e so, Waitrose could find it difficult to attract its rivals' consumers. Lastly, Waitro corporate objectives. Is its goal to be market leader or to improve its market sh the five years? Based on the highly competitive structure of the market current become market leader, as any shift in strategy is likely to confuse how custome its market share is more likely to be realistic. (16)