International Strategic Management

Chapter: C

Prof. Dr. Christian Buer
Strategic management: Table of content

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A.</td>
<td>Fundamentals of strategic management</td>
</tr>
<tr>
<td>B.</td>
<td>Analysis and planning of business objectives and field of activities</td>
</tr>
<tr>
<td>C.</td>
<td>General Strategic Management Concepts</td>
</tr>
<tr>
<td>D.</td>
<td>Strategic Analysis and Planning Instruments</td>
</tr>
</tbody>
</table>
General Strategic Management Concepts

I. Overview
II. Porter’s Strategies and Competitive Advantage
III. Gilbert and Streibel
IV. Case Study Porter
V. Ansoff’s Product-Market Strategies
General Strategic Management Concepts

I. Overview
   1. Strategies in the business context
   2. Levels of strategies
   3. Strategic approaches

II. Porter’s Strategies and Competitive Advantage

III. Gilbert and Streibel

IV. Case Study Porter

V. Ansoff’s Product-Market Strategies
I.1 Strategies in the business context

*Strategies in the business context: 7-S concept.*

Source: Quoted after Bea/Haas (2005)
I.1 Strategies in the business context

Example: 7-S-concept for the corporation Matsushita.

Source: Quoted after Macharzina/Wolf (2005)
1.2 Levels of strategies

Levels and types of strategies.

Levels of the company as a source for the strategy level:

- Corporate level
- Business unit level
- Functional level

Source: Corsten (1998)
1.2 Levels of strategies

Levels and types of strategies.

Interaction of the three major strategy levels:

- Corporation
- Business unit 1
- Business unit 2

Functional level 1: Production
Functional level 2: Finance
Functional level 3: Distribution

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Source: Macharzina/Wolf (2005)
## 1.2 Levels of strategies

**Levels and types of strategies.**

<table>
<thead>
<tr>
<th>Levels</th>
<th>Types of strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Corporate level</strong></td>
<td>- Corporate strategy</td>
</tr>
<tr>
<td></td>
<td>- Growth strategy</td>
</tr>
<tr>
<td></td>
<td>- Stabilization strategy</td>
</tr>
<tr>
<td></td>
<td>- Contraction strategy</td>
</tr>
<tr>
<td></td>
<td>- Product-market strategies</td>
</tr>
<tr>
<td></td>
<td>- Local, national and global strategies</td>
</tr>
<tr>
<td></td>
<td>- Do-It-Yourself, cooperation and acquisition strategies</td>
</tr>
<tr>
<td><strong>Business unit level</strong></td>
<td>- Price leadership strategy</td>
</tr>
<tr>
<td></td>
<td>- Differentiation strategy</td>
</tr>
<tr>
<td></td>
<td>- Niche strategy</td>
</tr>
<tr>
<td><strong>Functional level</strong></td>
<td>- Supply strategy</td>
</tr>
<tr>
<td></td>
<td>- Production strategy</td>
</tr>
<tr>
<td></td>
<td>- Distribution strategy</td>
</tr>
<tr>
<td></td>
<td>- Finance strategy</td>
</tr>
<tr>
<td></td>
<td>- Personnel strategy</td>
</tr>
<tr>
<td></td>
<td>- Technology strategy</td>
</tr>
</tbody>
</table>

Source: Bea/Haas (2005)
### I.3 Strategic approaches

*Alternatives according to Ansoff – Product-Market-Matrix*

<table>
<thead>
<tr>
<th>Products</th>
<th>Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>P0</td>
<td>M0</td>
</tr>
<tr>
<td></td>
<td><strong>Market penetration</strong></td>
</tr>
<tr>
<td>P1, P2, P3… Pn</td>
<td>M1, M2, M3… Mpn</td>
</tr>
<tr>
<td></td>
<td><strong>Market development</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Product development</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Diversification</strong></td>
</tr>
</tbody>
</table>
1.3 Strategic approaches

**Ansoff – Diversification alternatives**

<table>
<thead>
<tr>
<th>Same area of operations</th>
<th>Different area of operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Same value chain level</td>
<td>Present business</td>
</tr>
<tr>
<td>Different value chain level</td>
<td>Vertical diversification</td>
</tr>
</tbody>
</table>
I.3 Strategic approaches

*Alternatives according to Porter*

<table>
<thead>
<tr>
<th>Target object</th>
<th>Strategic advantage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry wide</td>
<td>Singularity (Quality, design etc.)</td>
</tr>
<tr>
<td></td>
<td>Cost advantage</td>
</tr>
<tr>
<td></td>
<td>Differentiation</td>
</tr>
<tr>
<td></td>
<td>Price leadership</td>
</tr>
<tr>
<td>One segment</td>
<td>Concentration on core competencies</td>
</tr>
</tbody>
</table>
I.3 Strategic approaches

*Alternative strategies of internationalization.*
### I.3 Strategic approaches

**Alternative strategies of internationalization.**

<table>
<thead>
<tr>
<th>Strategies of the international corporation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market entry and market penetration strategies</strong></td>
</tr>
<tr>
<td>Export</td>
</tr>
<tr>
<td>Licensing</td>
</tr>
<tr>
<td>Franchising</td>
</tr>
<tr>
<td>Contract manufacturing</td>
</tr>
<tr>
<td>Joint Venture</td>
</tr>
<tr>
<td>Strategic Alliance ...</td>
</tr>
</tbody>
</table>

*Source: Kutschker/Schmid (2008)*
General Strategic Management Concepts

I. Overview
II. Porter’s Strategies and Competitive Advantage
III. Gilbert and Streibel
IV. Case Study Porter
V. Ansoff’s Product-Market Strategies
II. Porter’s strategies and competitive advantages

*Basic concept of competitive strategies according to Porter*

- **Cost advantage**
  - Strategy of aggressive cost leadership
- **Differentiation advantage**
  - Strategy of differentiation
  - Strategy of selective cost leadership
  - Strategy of selective quality leadership

- **Total market coverage**
  - Strategy of cost leadership
  - Strategy of quality leadership/differentiation

- **Submarket coverage**
  - Strategy of selective cost leadership
II. Porter’s strategies and competitive advantages

Examples of competitive strategies according to Porter

<table>
<thead>
<tr>
<th>Performance advantage</th>
<th>Cost advantage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality leadership</td>
<td>Cost leadership</td>
</tr>
<tr>
<td>• VW/Audi</td>
<td>• Toyota</td>
</tr>
<tr>
<td>• Ford</td>
<td>• Nissan</td>
</tr>
<tr>
<td>• Opel</td>
<td>• Honda</td>
</tr>
<tr>
<td>• Mercedes-Benz</td>
<td>• Mitsubishi</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Concentrated quality leadership</th>
<th>Concentrated cost leadership</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Porsche</td>
<td>• KIA</td>
</tr>
<tr>
<td>• Rolls-Royce</td>
<td>• Hyndai</td>
</tr>
<tr>
<td>• Volvo</td>
<td>• Suzuki</td>
</tr>
</tbody>
</table>

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Source: Bruhn, 2001
II. Porter’s strategies and competitive advantages

„Stuck in the middle“ problem according to Porter

Companies successful in the long-term

- **Small, specialized companies** (cover market niches)
- **Big companies with high market share** (cover nearly the entire market)

Companies with **mean market share** run the risk to gain not enough **profitability**.

Source: Porter, 1992
II. Porter’s strategies and competitive advantages

*Quality leadership (Differentiation)*

<table>
<thead>
<tr>
<th>Goal</th>
<th>Become the <strong>leading company</strong> within the selected strategic business area</th>
</tr>
</thead>
<tbody>
<tr>
<td>Measures</td>
<td></td>
</tr>
<tr>
<td>- Intensive <strong>market research</strong> to identify <strong>customer needs</strong></td>
<td></td>
</tr>
<tr>
<td>- Ensure <strong>product</strong> and <strong>service quality</strong></td>
<td></td>
</tr>
<tr>
<td>Characteristic</td>
<td></td>
</tr>
<tr>
<td>- <strong>Expansion</strong> of the price <strong>policy</strong> options</td>
<td></td>
</tr>
<tr>
<td>- Classical brand image strategy</td>
<td></td>
</tr>
<tr>
<td>- High quality, constant price, ubiquity</td>
<td></td>
</tr>
</tbody>
</table>

Source: Bruhn, 2001
### II. Porter’s strategies and competitive advantages

**Cost leadership**

<table>
<thead>
<tr>
<th>Goal</th>
<th>Become <strong>biggest</strong> and <strong>most efficient</strong> company within selected strategic business area (<strong>market share</strong> as dominant objective)</th>
</tr>
</thead>
</table>
| Measures | Thrown up **market entry barriers** (e.g. investment barrier)  
| | **Control of distribution system**  
| | Control of **costs** to achieve **economies of scale** |
| Characteristic | **Aggressive price** competition  
| | **Lower product preferences** of consumers  
| | **Small product range** |

Source: Bruhn, 2001
### II. Porter’s strategies and competitive advantages

**Precondition to implement Porters strategy recommendation**

<table>
<thead>
<tr>
<th>Differentiation strategy</th>
<th>Cost strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Precondition:</strong></td>
<td><strong>Precondition:</strong></td>
</tr>
<tr>
<td>- Exclusive <strong>reputation</strong> of the company</td>
<td>- High <strong>market share</strong> (Learning curve effect)</td>
</tr>
<tr>
<td>- <strong>High-cost measures</strong></td>
<td>- <strong>Cost advantages</strong> over the competition (e.g. raw material)</td>
</tr>
<tr>
<td>- R&amp;D</td>
<td>- Strong <strong>cost evaluation</strong></td>
</tr>
<tr>
<td>- Product <strong>design</strong></td>
<td>- <strong>Efficient production</strong> plants (size)</td>
</tr>
<tr>
<td>- High <strong>quality of materials</strong></td>
<td>- Exploit every possibility to <strong>reduce costs</strong>:</td>
</tr>
<tr>
<td>- Intensive <strong>customer care</strong></td>
<td>- Reduce spending level of <strong>R&amp;D, service, sales representatives, communication</strong></td>
</tr>
<tr>
<td>- <strong>Cost orientation</strong></td>
<td></td>
</tr>
<tr>
<td>- Updating the <strong>brand management</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Trommsdorff
## II. Porter’s strategies and competitive advantages

### Concentration on market niche

<table>
<thead>
<tr>
<th><strong>Goal</strong></th>
<th>Focus on <strong>profitable</strong> and <strong>special market niche</strong></th>
</tr>
</thead>
</table>
| **Measures** | **Focused innovation** policy  
Invest into **human capital** and flexibility  
Strategic **cooperation** |
| **Characteristic** | **Strategic market segmentation**  
**Individual** offering  
Comprehensive **expertise** |
| **Precondition** | Decide whether to concentrate on **market niche** as **cost or quality** leader |

Source: Bruhn, 2001
II. Porter's strategies and competitive advantages

*Implications of Porter to retail*

- Upper market (preference-buyer)
  - Boutiques
- Mid-range market
  - Specialized shop
  - Department store
- Lower market (price-buyer)
  - Discounter

Preference strategy: up trading down

Price-quantity strategy

Source: Trommsdorff
II. Porter’s strategies and competitive advantages

*Porters alternative strategies in marketing mix*

<table>
<thead>
<tr>
<th>Differentiation strategy</th>
<th>Cost strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Competitive advantage</strong> through uniqueness and fulfillment of additional needs</td>
<td><strong>Competitive advantage</strong> through cost orientation (Minimum of quality and service)</td>
</tr>
<tr>
<td>Polishing an <em>image</em> despite higher prices</td>
<td>Aggressive price competition</td>
</tr>
</tbody>
</table>

**Brand-buyer**
- Above-average *product quality*
- Attractive *packaging*
- Image-oriented *brand profiling*
- *Personal sale* / service
- High price

**Price-buyer**
- *Average product quality*
- *Efficiently* packaging
- *No brand*
- *Less* communication
- *Cheap sales* channels
- Low price

*Source: Trommsdorff*
# II. Porter’s strategies and competitive advantages

**Pros and cons of Porters strategy alternatives**

<table>
<thead>
<tr>
<th>Differentiation strategy</th>
<th>Cost strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pros</strong></td>
<td><strong>Pros</strong></td>
</tr>
<tr>
<td>- Customer commitment to the brand</td>
<td>- Late market entry at price reduction (with cost advantages)</td>
</tr>
<tr>
<td>- Low price sensitivity of the customers</td>
<td>- Protection from buying-power customers</td>
</tr>
<tr>
<td>- Market entry barriers due to customer loyalty</td>
<td>- Protection from powerful suppliers</td>
</tr>
<tr>
<td>- Dealing with suppliers</td>
<td>- High market entry barriers</td>
</tr>
<tr>
<td>- Low buying power of key customers (cause of unique position)</td>
<td>- Necessary scope at the appearance of substitutes</td>
</tr>
<tr>
<td><strong>Cons</strong></td>
<td><strong>Cons</strong></td>
</tr>
<tr>
<td>- High pre-investment within product and brand development</td>
<td>- Cost reduction potential can be “learned” also by competitors</td>
</tr>
<tr>
<td>- Substantial price advantages of cost leader (financial savings for customers more important than brand)</td>
<td>- Neglect of adaptation on market requirements with strong concentration on costs</td>
</tr>
<tr>
<td>- Above average profit margins attract competitors</td>
<td>- Compensation of price advantage with effortless cost increase</td>
</tr>
<tr>
<td>- Imitations decrease the visible advantage</td>
<td></td>
</tr>
</tbody>
</table>
II. Porter’s strategies and competitive advantages

Critic on strategy concept of Porter

- The strategy concept of porter basically includes a directed consumer strategy oriented on competitive advantages.
- The strategy concept is too limited for the wide range of competitive advantages.
- Companies can do on the one hand a cost oriented approach and on the other hand a quality oriented approach without being torn between two sides in this respect (outpacing strategy).
- Dynamic aspects of strategy adaptation are not focused by Porter.
General Strategic Management Concepts

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V. Ansoff’s Produkt-Marktstrategien
III. Gilbert and Streibel

The outpacing strategy approach by Gilbert and Streibel

- High product benefit
- Improve the manufacturing process
- Overtake
- Introduce a standard
- First supplier
- Product differentiation
- Second supplier (Follower)
- Low production costs

Source: Gilbert/ Streibel, 1987
General Strategic Management Concepts

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IV. Case Study Porter
V. Ansoff’s Produkt-Marktstrategien
IV. Case study Porter

Case study cost leadership 1: Aldi

1. company
2. philosophy & implementation of cost leadership
3. key figures
4. conclusion
5. sources
Case study cost leadership 1: Aldi

ALDI – NORD and ALDI SÜD

- 1913: Foundation of the family company
- 1960: Foundation of the both legally independent companies ALDI - NORD and ALDI – SÜD
## Case study cost leadership 1: Aldi

### ALDI – NORD and ALDI SÜD

<table>
<thead>
<tr>
<th>Field of business</th>
<th>Food trade</th>
<th>Discount principal</th>
<th>700 articles in product range</th>
<th>Focus on label products</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Market position</th>
<th>International leading brand within the area of food trade</th>
<th>Three out of four households in Germany buy at ALDI</th>
<th>Number 1 of the ten top-brands in Germany</th>
</tr>
</thead>
</table>

(Markenwertstudie Young & Rubicam, 2000)

<table>
<thead>
<tr>
<th>International presence</th>
<th>Around 6000 stores world-wide</th>
<th>ALDI Nord runs stores in Belgium, Netherland, Luxemburg, France, Spain, Portugal and Denmark</th>
<th>ALDI Süd runs stores in Austria, Great Britain, Ireland, USA, Australia, Switzerland and Slovenia</th>
</tr>
</thead>
</table>

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Case study cost leadership 1: Aldi

The philosophy of ALDI & implementation of cost leadership

Focus on the essentials!

- Concentrated range of goods
- strong, responsible management
- Rationalized sales system
- high quality label products in case of brand products
- uncompromising quality

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Case study cost leadership 1: Aldi

Objectives

- Lowest price
- Lowest costs
- High quality
Case study cost leadership 1: Aldi

Position in strategy matrix of Porter

- Performance advantage
- Cost advantage

- Total market coverage
  - Strategy of quality leadership
  - Strategy of aggressive cost leadership

- Submarket coverage
  - Strategy of selective quality leadership
  - Strategy of selective cost leadership

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Case study cost leadership 1: Aldi

_realization of cost leadership_

- World wide purchase
- Long term contracts with suppliers
- Cost-effective transportation
- Tightened product ranges
- Cost-effective location and decoration of sales area
Case study cost leadership 1: Aldi

Market share food trade Germany
Conclude

- Simplicity
- Detailed quality checks
- Decentralization
- Waive
Case study cost leadership 1: Aldi

Sources

www.wikipedia.de
www.aldi.de
www.sueddeutsche.de
www.zeit.de
IV. Case study Porter

Case study cost leadership 2: Ryanair

1. company
2. philosophy & implementation of cost leadership
3. key figures
4. conclusion
5. sources
Case study cost leadership 2: Ryanair

**Ryanair**

**History**
- 1985 founded by the Irish business man Dr. Tony Ryan
- Since 1993 Michael O'Leary leads the company with a „No-Frills“-strategy
- 1997 expansion to continental Europe
- 2003 takeover of BUZZ

**Facts**
- Stock company out of Ireland
- Main base: Airport London Stansted
- 320 routes between 19 European countries
Case study cost leadership 2: Ryanair

The Ryanair philosophy & implementation of cost leadership

„No-Frills“-strategy

Low price + low additional value
## Case study cost leadership 2: Ryanair

### Realization of cost leadership

<table>
<thead>
<tr>
<th>Category</th>
<th>Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airplane</td>
<td>- Minimized comfort</td>
</tr>
<tr>
<td></td>
<td>- Fast cleaning and time savings</td>
</tr>
<tr>
<td>Aircraft fleet</td>
<td>- Almost only Boing 737-800</td>
</tr>
<tr>
<td></td>
<td>- Discounts with Boeing</td>
</tr>
<tr>
<td>Air fields</td>
<td>- Not at main airports</td>
</tr>
<tr>
<td></td>
<td>- Fast reloading speed</td>
</tr>
<tr>
<td>Service</td>
<td>- Snacks and drinks for additional money</td>
</tr>
<tr>
<td></td>
<td>- Additional profit</td>
</tr>
<tr>
<td>Personal</td>
<td>- Out of countries with lower employee on-costs</td>
</tr>
<tr>
<td></td>
<td>- Outsourcing of several services</td>
</tr>
<tr>
<td></td>
<td>- Reduction of personal costs</td>
</tr>
</tbody>
</table>
Case study cost leadership 2: Ryanair

Realization of cost leadership

- **Pricing**
  - Strictly to demand situation
  - Average: 38 €/ticket

- **Sales**
  - No tourist offices
  - Main sales channel: Internet

- **Communication**
  - Aggressive advertising
Case study cost leadership 2: Ryanair

Micheal O‘Leary
Case study cost leadership 2: Ryanair

Key figures

- Sales volume: 1,07 bill. Euro
- Employees: 2,300
- Travel: 23 mill. passengers
- Fleet: >100 jets of type Boeing
- Main competitors:
  - Easy Jet
  - Air Berlin
- Market share: 27,3%
Case study cost leadership 2: Ryanair

*Conclusion*

- **LCC meets customers requirements**
- **On time, few flight cancellations**
- **Compete on the European flight market**
- **Annual growth of approx. 25 %**

Cost leadership strategy successful
Case study cost leadership 2: Ryanair

Trends in prices and profit margins

easyJet and Ryanair

Average price

<table>
<thead>
<tr>
<th>Year</th>
<th>easyJet</th>
<th>Ryanair</th>
<th>Net profit Ryanair</th>
<th>Net profit easyJet</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000/2001</td>
<td>76€</td>
<td>57€</td>
<td>8,4%</td>
<td>10,6%</td>
</tr>
<tr>
<td>2001/2002</td>
<td>74€</td>
<td>24,1%</td>
<td>10,6%</td>
<td>21,4%</td>
</tr>
<tr>
<td>2002/2003</td>
<td>69€</td>
<td>49€</td>
<td>8,9%</td>
<td>8,9%</td>
</tr>
<tr>
<td>2003/2004</td>
<td>61€</td>
<td>41€</td>
<td>3,5%</td>
<td>10,6%</td>
</tr>
</tbody>
</table>
Case study cost leadership 2: Ryanair

Sources

http://www.ryanair.com/site/DE/about.php

http://de.wikipedia.org/wiki/Ryanair
IV. Case study Porter

Case study Differentiation 1: Lufthansa

1. Lufthansa's strategic business units
2. Philosophy & Implementation of differentiation strategy of Lufthansa
3. Key figures
4. Conclusion
5. Sources
Case study Differentiation 1: Lufthansa

Strategic business units

- Lufthansa Systems
- LSG Sky Chefs
- Lufthansa Cargo
- Formerly Thomas Cook AG
- Lufthansa Technik

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Case study Differentiation 1: Lufthansa

Philosophy & implementation of differentiation strategy of Lufthansa

Source of competition

Costs
Uniqueness

Market coverage

Broad target market

Narrow target market

Konzentration Schwerpunkte

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Case study Differentiation 1: Lufthansa

Philosophy & implementation of differentiation strategy of Lufthansa

Tailor-made products for the customers

- **First Class**
  - First Class Terminal
  - Jet

- **Business Class**
  - seating comfort

- **Economy Class**
  - Flights for 99€
## Case study Differentiation 1: Lufthansa

### Key figures

<table>
<thead>
<tr>
<th></th>
<th>2006 in Mill €</th>
<th>2005 in Mill €</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>18,065</td>
<td>16,965</td>
<td>+6,5</td>
</tr>
<tr>
<td>Operating profit</td>
<td>577</td>
<td>383</td>
<td>+50,7</td>
</tr>
<tr>
<td>Investments</td>
<td>1,829</td>
<td>1,783</td>
<td>+2,6</td>
</tr>
<tr>
<td>Employees (end of the year)</td>
<td>92,303</td>
<td>90,673</td>
<td>+1,8</td>
</tr>
<tr>
<td>Earnings per share</td>
<td>0,99</td>
<td>0,94</td>
<td>+5,3</td>
</tr>
</tbody>
</table>
## Case study Differentiation 1: Lufthansa

### Key figures

<table>
<thead>
<tr>
<th>Rank</th>
<th>Airlines</th>
<th>Customers (in thousand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>American Airlines</td>
<td>91.570</td>
</tr>
<tr>
<td>2</td>
<td>Delta Airlines</td>
<td>86.783</td>
</tr>
<tr>
<td>3</td>
<td>United Airlines</td>
<td>71.236</td>
</tr>
<tr>
<td>4</td>
<td>Northwest Airlines</td>
<td>56.429</td>
</tr>
<tr>
<td>5</td>
<td>Japan Airlines</td>
<td>51.736</td>
</tr>
<tr>
<td>6</td>
<td>Lufthansa</td>
<td>48.268</td>
</tr>
<tr>
<td>7</td>
<td>All Nippon Airways</td>
<td>46.450</td>
</tr>
<tr>
<td>8</td>
<td>Air France</td>
<td>45.393</td>
</tr>
<tr>
<td>9</td>
<td>US Airways</td>
<td>42.400</td>
</tr>
<tr>
<td>10</td>
<td>Continental</td>
<td>40.584</td>
</tr>
</tbody>
</table>
Case study Differentiation 1: Lufthansa

Sources

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http://www.stern.de
http://www.iata.de
IV. Case study Porter

Case study Differentiation 2: Apple

1. The company „Apple“
2. Philosophy and implementation of differentiation strategy
3. Facts
4. Sources
Case study Differentiation 2: Apple

Apple

- Apple Computer Inc. – computer company with headquarter in USA
- Products: Computer, consumer electronics, operating systems and user software
- Around 14,800 full-time employees
- Revenue: 3,7 Bill USD (4. Quarter 2005 world-wide)
- Profit: 430 Mill USD (4. Quarter 2005 world-wide)
Case study Differentiation 2: Apple

Milestones

- iPod classic
  - 1G
  - 2G
  - 3G
  - 4G
  - 5G
  - 6G

- iPod mini/nano
  - 1G
  - 2G
  - 1G
  - 2G
  - 3G

- iPod shuffle
  - 1G
  - 2G

- iPod touch
  - 1G

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Case study Differentiation 2: Apple

Sales

Mill. Units sold

1G

1st iPod launched in October 2001

2001 2002 2003 2004 2005 2006 2007
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**Positioning**

Uniqueness on customers point of view

Cost advantage

Cost leadership

Across the industry

Focus

One segment

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Objectives of differentiation strategy

- **Offering**
  - **Mp3**
  - **PC**

- **Target group**
  - **Private customers**
  - **Business customers**

**Market leader**
Case study Differentiation 2: Apple

Market share

- Extraordinary market share (1/2)

Absolute amount (2005) world-wide: 40 %
Case study Differentiation 2: Apple

Features for differentiation

- **Unique design**
  - *User interface* is patented
  - *Design* makes the iPod to the iPod

- **Continuous adaptation at competitors**
  - *iPod continued* to develop
  - *Handy* with iPod design
Case study Differentiation 2: Apple

*Features for differentiation*

- High quality
- Company image
- Brand image
- Design

![Diagram showing features for differentiation with categories like Accessories, Equipment, Memory, Design, Price, and Brand. Competitors and iPod are highlighted in different colors.]

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Case study Differentiation 2: Apple

Measures for differentiation

- Customer loyalty
- Design
- Ease of use
Case study Differentiation 2: Apple

*Pros and cons of differentiation*

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer loyalty</td>
<td>Imitation</td>
</tr>
<tr>
<td>Low price sensitivity</td>
<td>Price advantage of other providers</td>
</tr>
<tr>
<td>Uniqueness</td>
<td></td>
</tr>
</tbody>
</table>
Case study Differentiation 2: Apple

**Outlook**

- Product within the maturity phase – Relaunch?
- Challenge Mobile phone market – iPhones?
Case study Differentiation 2: Apple

Revenue

![Revenue Chart](image)

**Revenue in Mill US-$**

- **first iPod 10/2001**
Case study Differentiation 2: Apple

Sources

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http://www.heise.de
http://ipodlife.de/
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http://de.wikipedia.org/wiki/IPod#Geschichte
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General Strategic Management Concepts

I. Overview
II. Porter’s Strategies and Competitive Advantage
III. Gilbert und Streibel
IV. Case Study Porter
V. Ansoff’s Product-Market Strategies
V. Ansoff’s product-market strategies

Ansoff’s product-market-matrix

<table>
<thead>
<tr>
<th>Product</th>
<th>Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>old</td>
<td>old penetration</td>
</tr>
<tr>
<td>new</td>
<td>new product development</td>
</tr>
</tbody>
</table>

Source: Ansoff, 1966
V. Ansoff’s product-market strategies

Ansoff – market penetration

Raise the product usage of existing customers

- Improvement/Adaptation of product quality
- Additional benefit/value (Service, emotional positioning)
- Improvement of distribution
- Intensify the communication
- Price differentiation

Gain new customers in existing markets

- Poach customers of competitors
- Recruit customers out of not yet targeted segments e.g:
  - Enhance the product
  - New sales arguments/better information
  - Price adjustment on level of competitors

Evaluation

- Low opportunities to expand (expect in other markets)
- High degree of safety
- No enlargement of resources needed

Source: Trommsdorff

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V. Ansoff’s product-market strategies

**Ansoff – Product development / diversification**

### Product modification
- **Additional value** due to service extension
- **Extend products** with individual functions
- **Adjustment** of the product to changing **needs** of existing customers
  - E.g. design, packaging, compatibility

### Product innovation
- **Technical product** innovation
  - Application of **new technologies**
  - **Systems** instead of components
  - Diverse innovation strategy decisions
- **Mental product** innovation
  - Repositioning
  - New positioning (relaunch)

### Evaluation
- **Greatest possible expansion**
- **High risk: Uncertainty** in evaluation of market chances, especially with new consumer segments
- **High investments** in new product development, launch and acquisitions needed

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Source: Trommsdorff
V. Ansoff's product-market strategies

Ansoff – market development

New purposes

- Solving new problems with existing product
  - Enhancement of product suitability
  - Creation of new application fields
  - Positioning of product to solve other problems

New users

- New market areas
  - regional
  - national
  - international
- Open new market segments (market segmentation)
  - Cultivation of currently neglected market segments

Evaluation

- Extended expansion possibilities
- Aggravated risk, uncertainty in market chances within new segments
- Investments into enhanced capacities for market cultivation, product adaptation needed

Source: Trommsdorff

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