

Paper –Strategic Management

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## **Topic- Cost Leadership & Differential Strategy**

Cost leadership is a term used when a company projects itself as the cheapest manufacturer or provider of a particular product or commodity in a competition. It is difficult to deploy the strategy because the management must constantly work on reducing cost at every level to remain competitive.

Description: Cost leadership is a part of marketing strategy. Although, it is highly effective in gaining market share as well as drawing the customers' attention, it is difficult to deploy. The management team of the company has to constantly work towards reducing the cost of not just one product, but the entire range of products in the company's portfolio. Cost leadership does not mean that a company produces goods which are of inferior quality at comparatively cheap rates. That strategy will ultimately lead to failure. To deploy this strategy, a company has to produce goods which are of acceptable quality and specific to a set of customers at a price which is much lower or competitive than other companies producing the same product. The most famous cost leader in India is Big Bazaar, followed by Vishal Mega Mart.

Cost Leadership  $\neq$  Price Leadership

Although the two often go together, cost leadership is not necessarily price leadership. A company could be the lowest cost producer yet not offer the lowest-priced products or services, thus possessing higher profitability. A cost leader will be more profitable than a competitor at the same price point.

## How To Achieve Cost Leadership

A unique and effective cost leadership strategy which is better than the competitors is the key!

A cost leadership strategy works on the basic principle that more the number of units produced, lower will be the unitary cost. It exploits the scale of production, by producing highly standardized products using advanced technology. In short, a successful cost leadership strategy enables companies to sell more units sold at a lower margin per unit.

Here are a few cost leadership strategies through which one can establish and maintain an upper hand:

**Economies of scale:** Efficient production decreases the costs of production. Size of the company matters a lot when we talk about economies of scale. In short, larger the business, lower the costs.

**Advantages of size:** Increased purchasing power is a major outcome of the advantages of size. In short, more the money given to the suppliers, more the likeliness of extracting unique deals that become advantages.

**Technology:** Better and innovative technologies and methods of production are a major deal in cutting costs. In short, better the technology used by a business, more are its chances of staying a cost leader in the long run.

**Focus:** A company needs not to be huge to be a cost leader in the market. Even if a company manages to produce just one product, but with full focus and efficiency, it can manage to become the cost leader in that field of the market. In short, more the focus that a company renders to its good, more are its chances of becoming a cost leader in that domain.

**Raw materials:** Costs can be greatly reduced depending upon the amount of access a company has over the basic raw materials required for production. A company might pay huge sums for a

particular resource, while another may not have to do so. In short, more the access of a company to potential raw materials, more are its chances of cutting costs as compared to competitors.

**Operating efficiency:** Getting more tasks done in comparatively lesser time and costs emerge as a golden way of increasing efficiency and also, cutting costs. In short, the lesser the amount of money and time that a company spends on getting a task done, more are its chances of coming out as an effective and cost-advantaged company.

## **Differentiation Strategy**

A differentiation strategy is an approach business develop by providing customers with something unique, different and distinct from items their competitors may offer in the marketplace. The main objective of implementing a differentiation strategy is to increase competitive advantage. A business will usually accomplish this by analysing its strengths and weaknesses, the needs of its customers and the overall value they can provide.

### **Benefits of creating a differentiation strategy**

Differentiation strategies have several advantages that may help you develop a unique niche within your industry. Here are the possible benefits of creating a differentiation strategy:

#### **1. Reduced price competition**

Differentiation strategy allows a company to compete in the market with something other than lower prices. For example, a candy company may differentiate their candy by improving the taste or using healthier ingredients. Although its competitors have cheaper candy, they can't provide the taste that consumers may want from that specific candy company.

## 2. Unique products

This benefit of a differentiation strategy is that it builds on the unique qualities of a product. Your company may create a list of characteristics its products contain that your competitors lack. Those characteristics will differentiate your product, and you may communicate this through effective marketing and advertising.

## 3. Better profit margins

When products are differentiated and turned into higher-quality products, it offers more opportunity for larger profit margins. For example, if your target market is willing to pay a higher price for top quality or better value, you may generate more revenue with fewer sales.

## 4. Consumer brand loyalty

Effective differentiation may create brand loyalty in customers if a business maintains the perceived quality of your products. For example, if you have a brand that is marketed by a sports figure, it will likely increase brand loyalty because it enhances the value of your brand.

## 5. No perceived substitutes

A strategy that successfully differentiates may present the idea that there is no other product available on the market to substitute it with. A business may gain an advantage in the market even when there are similar products available because customers will not be willing to replace your product with another one. Companies try to differentiate themselves by providing consumers with unique products that are frequently revolutionized.