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# Generic strategies after two decades: a reconceptualization of competitive strategy

Generic  
strategies after  
two decades

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## Abstract

**Purpose** – Current RBV-grounded research has provided keen and valuable insight into the business-strategy-performance relationship. However, the accompanying shift away from the continued refinement of generic business strategy typologies has left a number of research opportunities uncultivated. This paper seeks to demonstrate how the generic strategy approach to strategy formulation can be applied today, especially in the development of parsimonious, prescriptive, and relevant tools for strategic managers.

**Design/methodology/approach** – A new business strategy typology is developed and grounded in recent developments in the literature and in business practice.

**Findings** – Building on Porter's low cost-differentiation framework, this paper integrates research founded on the resource-based view of the firm, and proposes value and market control as the two prominent overarching factors in business strategies.

**Practical implications** – The framework proposed in this paper incorporates several research perspectives, but can also be applied by strategic managers when assessing firm and competitor strategies at the business level.

**Originality/value** – This paper builds on previous work in the field, but proposes an original framework for assessing and evaluating competitive strategies.

**Keywords** Strategic groups, Competitive strategy, Business performance

**Paper type** Conceptual paper

Much of our understanding of competitive strategy can be traced to Porter's (1985) seminal low-cost-differentiation-focus framework. His work has received considerable – although not universal – support in the literature and marked a key transition in the field by beginning to integrate organization-specific factors into a model of firm performance dominated by the industrial organization perspective. Recently, however, there have been two key developments – one in the literature and one in the business environment – that collectively evoke a reconceptualization of the Porter-based perspective on competitive strategy.

First, much of the prominent work in the business strategy literature has shifted from a typology orientation to a heightened role of organization-specific factors as characterized by the resource-based perspective (Foss and Knudsen, 2003; Ray *et al.*, 2004). This focus on firm resources has further defined the nature and complexities associated with variations across organizations (Barney, 2001; Barney *et al.*, 2001; Priem and Butler, 2001a, 2001b). The emphasis on resources combined with the accompanying decline in typology testing and refinement papers, however, suggests a growing view in the field that the low-cost-differentiation framework is incomplete and



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may not be completely compatible with the present resource-based view (RBV) of the firm (Kim *et al.*, 2004). However, this assertion does not necessarily suggest that strategy typologies are no longer useful or that integration of competing perspectives is not possible (Leiblein, 2003; Kumura and Mourdoukoutas, 2000; Pitelis and Pseiridis, 1999).

Second, the pace and intensity of change in the global business environment have become much more pronounced during the past two decades. As a result, speed – response time to competitors and customers – has become more valuable as a competitive weapon. In addition, the Internet has minimized the importance of physical boundaries and distance, and can enable firms to serve larger markets more efficiently (Kim *et al.*, 2004).

These changes have created challenges for simplistic and static strategy models, both in terms of empirical testing and application. Nonetheless, if these challenges can be addressed, a descriptive and prescriptive strategy framework can still have considerable utility to researchers and practitioners. Toward this end, this paper utilizes Porter's (1985) approach as a foundation, integrates recent literature, and proposes a new generic strategy typology. The following section lays the foundation by briefly outlining major developments in business strategy theory. Next, a new typology is presented. Implications and opportunities for further research are addressed in the final section of the paper.

### **Historical development of business strategy theory**

A key concern of business strategy research is the link between the competitive strategy adopted by an organization and its performance. Within traditional industrial organization (IO) economics, industry-level factors have the greatest influence on this relationship. Because individual firms tend to have little or no influence over industry structure, IO logic suggests that firms should adapt to the industry structure in order to maximize prospects for success. This view is built on Bain (1956) and Mason's (1939) IO framework of industry behavior and served as a foundation for many of the early contributions to the field. Porter's (1980) "five forces" model for analyzing industry structures is built on IO logic, with an eye on how an understanding of structure can enable an organization to position itself within an industry more effectively and thereby improve performance.

Although the I/O framework contributes to our understanding competitive strategies, a number of limitations for direct applications have become apparent. Connections between industry structure and firm behavior are not always clear. Early strategy researchers noted the inability of the IO framework to explain large performance variances within a single industry. Case studies highlighted firm-level behaviors associated with performance that were not readily addressed in IO models. As a result, the strategic group level of analysis was proposed as a compromise between IO's deterministic, industry level of analysis and the organization level of analysis inherent to the strategic management discipline (Hergert, 1983; Porter, 1981).

Strategic groups describe apparent clusters of firms that exhibit similar or homogeneous behavior within a somewhat heterogeneous industry environment (Feigenbaum *et al.*, 1988). This perspective maintained a focus on groups of organizations, but acknowledged the existence of multiple groups within a single industry due to differences in factors such as organizational goals, strategies, and

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collections of resources. Early research identified relationships between strategic group membership and performance in a number of industries (Dess and Davis, 1984; Hambrick, 1983; Hatten and Schendel, 1977; Hatten *et al.*, 1978; Newman, 1973; Porter, 1973)[1]. Conceptually speaking, generic strategy typologies are logical extensions of strategic group research and at least historically represent a single broad perspective on the strategy-performance relationship, namely the notion that firm performance is a function of strategic factors that are common across some – but not necessarily all – rivals in a given industry.

Porter's (1985) generic strategy typology is most notable. According to Porter, a business can maximize performance either by striving to be the low cost producer in an industry or by differentiating its line of products or services from those of other businesses; either of these two approaches can be accompanied by a focus of organizational efforts on a given segment of the market. Further, a business attempting to combine emphases on low costs and differentiation invariably will end up "stuck in the middle" (Porter, 1980, p. 41), a notion that received considerable early support (Dess and Davis, 1984; Hambrick, 1981, 1982; Hawes and Crittendon, 1984) but was later challenged by a number of studies (Buzzell and Gale, 1987; Buzzell and Wiersema, 1981; Hall, 1983; Hill, 1988; Murray, 1988; Parnell, 1997; Phillips *et al.*, 1983; Proff, 2000; White, 1986; Wright, 1987)[2]. Whereas Porter contends that the assumptions associated with low costs and differentiation are incompatible, those in the "combination strategy school" have argued that businesses successfully combining low costs and differentiation may create synergies that overcome any tradeoffs that may be associated with the combination. Proponents of the combination strategy approach based their arguments not only on broad economic relationships but also on anecdotal evidence demonstrating how individual firms have identified such relationships unique to one or a small group of firms in an industry.

Following this logic, Bowman and Faulkner (1997); (see also Faulkner and Bowman, 1992) noted the importance of value activity competitive strategies. Because buyers see price and not cost, they argued that sustainable competitive advantage is achieved by offering products or services that are perceived by customers to be:

- (1) better than those of the competition regardless of price;
- (2) equal to the competition but at a lower price; or
- (3) better and cheaper.

Hence, Bowman and Faulkner introduced into the discussion the notion that prospective buyers examine both price and perceived quality in making purchasing decisions and that many will be a function of both. Other attempts to further develop or revise Porter's typologies have also been made (Miles and Snow, 1978; Miller, 1986; Miller and Friesen, 1984; Scherer, 1980).

Dissatisfaction with the limited emphasis placed on the role of organization-specific factors in strategic group analysis and typology extensions may have been the primary impetus for a renewed interest in firm resources, not strategic group membership, as the foundation for a firm's competitive strategy (Barney, 1986, 1991; Camerer and Vepsalainen, 1988; Collis, 1991; Grant, 1991; Hatch and Dyer, 2004; Lawless *et al.*, 1989; O'Regan and Ghobadian, 2004). The resulting paradigm, resource-based theory, drew from the earlier work of Penrose (1959) and Wernerfelt (1984) and emphasizes unique firm capabilities, competencies, and resources in strategy formulation, implementation,

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and performance (Dutta *et al.*, 2005; Kor and Mahoney, 2005; Mahoney and Pandian, 1992)[3]. A growing body of empirical literature supports link between organization-specific resources and firm performance (Ray *et al.*, 2004).

The rise of the digital age appears to have played a role in the renewed interest in firm resources (Malone and Laubaucher, 1998; Tapscott, 2001; Tapscott *et al.*, 2000). As physical boundaries declined in importance and transaction speed increased, the ability to delineate clear industry and strategic group lines as a basis for strategy formulation became more of a challenge. Sustaining competitive advantage became a key concern in an environment where competitive and customer information seemed to be freely available. Hence, a focus on organizational resources that would enable a firm to establish and sustain competitive advantage in a faster, more complex environment becomes germane.

The increase in research emphasis on the resource-based view of the firm during this time has been accompanied by a declining interest in the usefulness of generic strategy typologies. There are two reasons, however, while this decline is not a healthy one for the field. First, differences between resource-based and strategy typology perspectives are not as pronounced empirically as they are conceptually. From the resource-based perspective, determining which specific resources or resource combinations are directly associated with a firm's performance requires that researchers assume some degree of consistency of resource value across firms, an assumption in conflict with a strict interpretation of RBV (Priem and Butler, 2001a, 2001b). Interestingly, this assumption is inherent to the strategic group perspective and has been the basis for considerable criticism from RBV proponents. Broadly speaking, empirical testing necessitates that some degree of resource consistency across firms at least be acknowledged – if not embraced – regardless of the theoretical perspective of the researcher.

Second, there is ample evidence to suggest that firm performance is associated with both strategic factors that are consistent across firms and strategic factors that are unique to individual firms (Barney *et al.*, 2001; Kim *et al.*, 2004). A comprehensive understanding of the strategy-performance relationship requires the inclusion of both sets of strategic factors. Just as an emphasis in years past on strategic factors that are consistent across firms promoted an adaptation perspective in the literature, a focus on distinct resources controlled by individual firms may overemphasize a uniqueness perspective. Hence, continued refinement of strategic group approaches alongside or integrated with the development of the RBV is possible and can contribute to a balanced perspective of the strategy-performance relationship.

### **A reconceptualization of competitive strategy**

Broadly speaking, the predominant strategy literature has evolved from a view that industry factors were most instrumental in determining a firm's performance to one that heavily emphasizes organizational factors. The midpoint of this evolution is captured in the work of Porter and others on generic strategy typologies and at the strategic group level. Change in the field is inevitable, and the existence of multiple, maturing perspectives on organizational performance at a given time can be constructive. Hence, it is not beneficial to abandon the most previous perspective in a field when a new one emerges. Following this logic, this paper reconceptualizes work on generic strategies within a modern context.

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It is important, however, that efforts at refining strategy typologies should not merely report on tests of existing approaches. Rather, strategy typologies should be enhanced so that they feature a more significant role of individual firm behavior in organizational performance, thereby bridging the gap between the strategic group and resource-based perspectives.

Porter's low-cost-differentiation framework constitutes a major contribution to development of the strategic management literature and serves as an excellent starting point for the framework proposed herein. A key shortcoming of the low-cost-differentiation dichotomy, however, is that these two strategic imperatives are neither opposites in the purest sense, nor are they always mutually exclusive (Buzzell and Gale, 1987; Hill, 1988; Parnell, 1997). In general, all successful firms over the long term exhibit one or more forms of differentiation. These include not only those forms commonly associated with differentiation such as innovation and quality, but also forms directly associated with cost leadership and even Porter's focus orientation. Successful low cost businesses are usually positioned to capitalize on an attractive value proposition emanating directly from their low cost emphasis. As such, they typically concentrate their efforts on value-oriented customers (Wright, 1987). Hence, an emphasis on cost leadership can be viewed as another form of differentiation.

#### *The value dimension*

Another way of considering concepts associated with low cost and differentiation is through the lens of value (see Faulkner and Bowman, 1992), defined herein as the relationship between a product or service's perceived worth and its price. Unlike value, a product or service's worth is independent of its price. The concept of worth, however, has both objective and subjective components. Much of a product or service's worth may be directly linked to physical and measurable characteristics such as size, materials used in manufacturing, or duration of a warranty. However, many products or services are constructed to meet the needs of one or more target groups of customers and would presumably be assigned a greater worth by members of the target groups.

Like worth, price also has objective and subjective components. From an objective standpoint, a product or service's price level is recognized by all potential customers alike, although real price differences may exist in certain situations, such as when the final purchase price is negotiated or when delivery charges vary with a customer's location. Subjectively speaking, however, a given difference in the prices of two products or services may be seen as trivial by two different buyers depending on income levels, involvement level with the product or service, previous experience, or even psychological factors. A low-income consumer, for example, may perceive a 25 percent price difference in laundry detergent brands to be substantial, whereas a consumer with a higher income level may perceive the same difference to be trivial.

Value represents the relationship between perceived worth and cost, and can be delivered in two ways. First, a product or service may exhibit a great worth to a particular group of customers or to the market in general. Even if high production costs are involved and must be recouped through a higher selling price, sophisticated buyers with higher incomes may assign a higher value to the product. Broadly speaking, this instance reflects Porter's notion of differentiation, either with or without focus.

Second, a product or service may exhibit a perceived worth below that of comparable offerings, but may be offered at a price more attractive to a particular

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group of customers or to the market in general. At one extreme, costs are minimized so long as worth does not fall below a base level, an instance analogous to Porter's notion of the low cost strategy. Costs may be reduced, however, but to a lesser extent. Generally speaking, such instances may reflect examples of the combination low-cost-differentiation strategy, either with or without focus.

These two means of delivering value – providing great worth only to a particular group of customers or seeking a compromise between worth and price – can be viewed as opposites on a continuum. A business can select any point along the continuum, and multiple value propositions may be possible for the same point. Within this context, the key to a successful competitive strategy is not low costs, differentiation, or focus per se, but how various strategic components are integrated into an effective overall value proposition. As such, the concept of value subsumes the notions of low cost, differentiation, and focus, and there is no mutual exclusivity involved. Certius perabus, organizations with more attractive value propositions are more likely to be successful than those with less attractive value propositions.

The ideal value proposition is one whereby buyers perceive a firm's products or services to be of higher quality and lower prices (Faulkner and Bownan, 1992; Wright, 1987). Whereas lower prices are often linked to a lower cost position associated with modest or low quality (e.g., Porter, 1985), some organizations are able to accomplish the ideal through such means as excellence in innovation or strong economies of scale (Hill, 1988; White, 1986). Hence, value can be delivered through perceived quality, lower prices, or optimally, both.

#### *The market control dimension*

Value is one key dimension of competitive strategy and is keenly associated with the products and services produced by an organization. A second dimension of competitive strategy, market control, refers to the application of organizational resources to configure the market space in terms most favorable to the firm. Organizations can exhibit three types of market control:

- (1) control over market access available to prospective competitors (i.e. entry barriers);
- (2) control over suppliers; and
- (3) control over customer access to competitors (i.e. switching costs).

Control is to some extent a deterministic variable because issues like buyer power, supplier power, and entry barriers are component parts of the industry structure (Porter, 1980). As such, it is often presumed that the typical firm has little choice other than to adapt to prevailing industry realities. There are two problems with this presumption. First, the existence of structural factors within an industry that generally affect all competitors in a like manner assumes that industry definitions are objective and consistent across all players within the industry. This is frequently not the case.

Consider Wal-Mart. From the giant retailer's perspective, the "industry" might consist primarily of other large chain discounters such as Target, Kmart, and Carrefour. Small hardware stores, toy shops, and the like might be considered as indirect competitors because of some similarities in product offerings, but would not likely retain prominence in Wal-Mart's conceptualizations of industry and market space. For these smaller competitors, however, Wal-Mart may be considered as a

major, perhaps even the most critical direct competitor. Hence, it is easy to debate the composition of the industry in this case (i.e. its definition is not entirely objective) and to conclude that it may be appropriate for some competitors in a firm's "industry" to include different sets of firms in their conceptualization.

Second, much of the market control dimension can be manipulated by the organization. Barriers to entry, buyer power, and supplier power, for example, are not simply characteristics inherent to a product or service, or how it is produced or distributed. This paints only part of the picture, as many firms influence these factors considerably, as illustrated in the remainder of this section.

Control over market access, or barriers to entry, is most readily influenced by large firms. Entry barriers can take many forms (Porter, 1980). For example, substantial economies of scale deter new entrants by forcing them either to enter an industry at a large scale – a costly course of action that risks a strong reaction from existing firms – or to suffer substantial cost disadvantages associated with a small-scale operation. Established firms may enjoy strong brand identification and customer loyalties that are based on actual or perceived product or service differences, requiring new entrants to incur substantial marketing and other costs over an extended period of time to overcome the barrier. Large initial financial expenditures may be necessary for production, facility construction, research and development, advertising, customer credit, and inventories (Pietz, 2002). Patents, proprietary technology, and established brand loyalty can also make it more difficult for prospective competitors to enter an industry.

Barriers to entry are not always manifested in "obstacles" that prospective competitors must overcome to enter an industry or market space. A business may choose to serve the needs of only a small market niche, thereby making it less attractive to larger competitors. Many restaurant chains, for example, create self-imposed barriers by considering new locations only where certain population, income, or traffic requirements are met. Other restaurants, aware of these requirements, may choose to establish locations in smaller markets where they are not met so as to maintain a less competitive environment.

Whereas barriers to entry concern competitor access and are usually difficult for small firms to construct, switching costs concern customer access and can be readily erected by firms regardless of size. Switching costs include financial or non-financial outlays that customers must incur when they switch from one seller to another. Firms often seek to create switching costs in efforts to encourage customer loyalty. These costs exist when a firm attaches a future benefit or obligation to its products or services. Hence, switching costs can be positive or negative factors that encourage a buyer to continue to purchase products or services from the same seller.

Many airlines, for example, attach future benefits to their tickets by erecting frequent flier programs to reward customers who fly with one or a limited number of airlines. Southwest Airlines' generous program rewards only customers who complete a given number of flights within a 12-month period, thereby effectively raising the costs of switching to another airline.

Some Internet service providers create future obligations for their customers by providing customized e-mail and other services. America Online (AOL), for example, attaches a future obligation to its Internet access by encouraging users to obtain and use its e-mail accounts, even during a free trial period. Customers enjoy the benefit of



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the service as long as they stay with AOL. If they select a different provider in the future, however, e-mail accounts are eliminated, in which case former customers are obliged to advise their advise friends, colleagues, and business contacts of the change to ensure that they receive all of the e-mail intended for them.

As with entry barriers, switching costs can be unique to a single firm or may also be enjoyed by all firms within a particular industry, such as when players the cellular telephone industry in the United States controlled their own telephone numbers. Until regulations changed in late 2003, consumers who switched providers were not able to keep their telephone numbers. Hence, many consumers were reluctant to change due to the hassle associated with alerting friends and business associates of the new number. Today, however, “number portability” has all but eliminated this switching cost, allowing consumers to retain their original telephone number when they switch providers (Drucker, 2003).

In general, organizations should seek to create and maintain barriers that restrict potential competitors from entering the industry, or at least entering the segment of the industry in which the organization competes. They should also strive to retain customers by making it less attractive for them to switch to competitors. The extent to which an organization is able to accomplish these objectives comprises its market control dimension and is a function of a number of factors, including characteristics of the industry, firm size, and stage in the organizational life cycle.

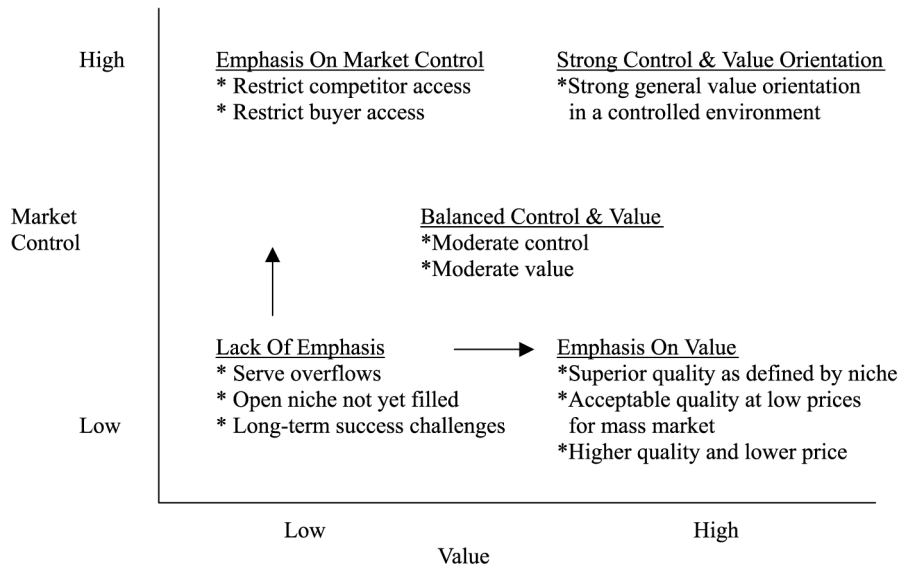
### **A refined conceptualization**

The refined conceptualization presented herein in build on the fundamental concepts of market control and value. An organization’s strategy may emphasize any level of either market control or value. Because both are functions of a firm’s resources, the RBV can be a useful means of assessing them. For illustration purposes, however, Figure 1 presents only low and high levels for each and one middle position, resulting in five conceptual anchors in the typology. It is important to note that “high” and “low” are relative terms and describe how a business would be characterized vis-à-vis its competitors.

#### *Emphasis on value*

The first anchor is characterized by an emphasis on value. A business implementing such a strategy acknowledges the fact that competitors and customers can move freely within the organization’s space, but seeks to offer a high degree of value relative to that which is offered by competitors. The delivery of value is fundamentally linked to the RBV. Organizations possessing rare, valuable, and inimitable resources possess a greater ability to execute a strong value proposition than those without such resources.

German-owned grocer Aldi is an example of such an organization. Recognizing that market control in the grocery industry is difficult to assert, Aldi places its emphasis on delivering a value proposition to a particular market niche that cannot be easily mimicked by rivals. Consider that most products at Aldi are private label, allowing the firm to negotiate rock-bottom prices from its suppliers. Stores are modest in size, much smaller than that of a typical chain grocer. Aldi only stocks common food and related products, maximizing inventory turnover. The retailer does not accept credit cards, eliminating the 2-4 percent fee typically charged by banks to process the transaction. Customers bag their own groceries and must either bring their own bags or purchase



**Figure 1.**  
A market control-value framework for competitive strategy

them from Aldi for a nominal charge. Aldi even takes an innovate approach to the use of its shopping carts. In the United States, customers insert a quarter to unlock a cart from the interlocked row of carts located outside the store entrance. The quarter is returned with the cart is locked back into the group. As a result, Aldi does not need to hire employees to collect shopping carts in their parking lots.

The key shortcoming associated with emphasizing value instead of market control is that the business is challenged to succeed in a highly competitive, dynamic market. Competitors can move freely and easily into the firm’s market space. If resources associated with delivering value can be readily duplicated, the organization must improve aggressively and constantly to remain successful.

*Emphasis on market control*

The second anchor is characterized by an emphasis on market control. A business implementing such a strategy does not offer a relatively strong value proposition but is able to exert considerable control over its market by restricting the entry of new competitors and/or preventing customers from easily switching to existing competitors. Market control is conceptually based in IO logic. Although firm resources are utilized to exert control, the ability to do so is inherently linked to factors in the environment.

A network television station operating in a small city would represent an example of the market control strategy. Competition exists with stations in nearby communities, networks available through cable television or satellite offerings, and other forms of entertainment. The station, however, can garner an “inside track” on the community if regulations make it very difficult for another station to open across town. The organization is in an enviable position because success is based more on market characteristics associated with control than on its value proposition relative to stations in other communities.

The shortcoming of this strategic approach is clear. If a time comes when barriers fall and switching costs are minimized, value-oriented rivals become threats and a business relying on a control emphasis may fail. However, some businesses may be more able to maintain their market control positions over a period of time than others.

*Moderate market control and value emphasis*

The third anchor reflects a balance between market control and value. This can be an attractive position for startup businesses. Although strong market or value orientations might represent viable options, seeking a balance between the two might be more realistic, especially early in an organization's existence. Specifically, a new enterprise can seek to occupy an industry segment with preexisting control characteristics. In this instance, the fledgling organization can survive with only a modest value proposition by functioning in a space with limited competitors and/or alternatives for customers, at least for a while. This approach gives the organization time to develop and strengthen while operating relatively unchallenged for a period of time.

This approach can also be attractive to ongoing, stable organizations. Most IGA supermarkets, for example, follow this strategic approach. With more than 4400 independently-owned supermarkets in the world, IGA stores tend to locate in rural locations that are less attractive to large chain stores. Although a typical IGA outlet may be less than half the size of a Kroger store or one of the supercenters, it is often the only or the largest supermarket in its limited locale. The key barrier to entry is the small market size, and the primary switching costs are time and convenience, as many customers would have to travel a considerable distance to shop at another grocery store.

Although securing valuable resources can foster control over the market, organizations need not possess them to occupy this category. Rather, a business can simply offer modest value in an environment where barriers and switching costs already exist. By choosing to emphasize "hometowns" (i.e. rural areas), IGA is offering a modest value proposition superior to that of convenience stores while utilizing the control characteristics that already exist within a key segment of the grocery market.

Seeking a balance between market control and value is not necessarily an optimal strategic approach. Businesses that do so are vulnerable on multiple fronts to competitors able to scale the modest entry barriers or those that offer superior or even modest value, as well as customers able to overcome the switching costs inherent in the position. Following the IGA example, a store can face difficulties when a community grows and attracts a large chain supermarket, when a store of similar size competes for the same market space, or when customers who live in the community are attracted to the chain stores located in larger cities where they work.

*Strong market control and value emphasis*

The fourth anchor is characterized by high levels of market control and value. A business implementing this strategy is dominant within its organizational space. A high value proposition is offered, while the business is also able to restrict access of new competitors and/or prevent customers from easily switching to existing competitors. "Big boxers" like retailing giant Wal-Mart represents an example of such a firm. Wal-Mart is known for value by delivering products of moderate quality at low

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prices. The retailer has created switching costs for many consumers by opening stores in small cities where customers would have to drive elsewhere to shop at a major competitor. Wal-Mart has erected barriers to entry by translating massive economies of scale into everyday low prices (Quinn, 2000).

Wal-Mart also exhibits considerable control over many of its suppliers. Consider the firm's encounter with Vlasic pickles. In 2003 Wal-Mart priced a gallon of Vlasic pickles at \$2.97, thereby selling a gallon of the nation's top selling brand for less than most other retailers sell a quart. The move strengthened the retailer's image as a deliverer of value, but also undermined efforts Vlasic has made for years to establish its position as a producer synonymous with the pickle itself. Ultimately, Vlasic had little choice but to allow Wal-Mart to sell its pickles however the retailer sees fit (Fishman, 2003).

Interestingly, exerting high market control and delivering high value does not eliminate all of the firm's strategic challenges. As the world's largest retailer, Wal-Mart is a lightning rod for attention, negative publicity, and legal confrontations. The company was sued 4,851 times in 2004 (Willing, 2003). Nonetheless, firms like Wal-Mart occupy the most enviable anchor in the framework.

#### *Lack of emphasis on either value or market control*

The final anchor is characterized by low levels of both market control and value. Broadly speaking, businesses in this category perform poorly. They may survive under certain conditions, however, such as when an industry is growing rapidly and it does not contain enough firms to meet existing demand, or when a stronger competitor simply has not chosen to enter the firm's competitive space.

Prominent examples of businesses in this category are difficult to identify because such a position is generally not conducive to long-term success. Many personal computer manufacturers occupied this space in the late 1980s when demand exceeded supply. Most of those that were not able to escape this category, however, did not survive well into the 1990s. Today, small, noncompetitive service stations located in business intersections may survive – at least temporarily – by securing overflow business from rivals in the area that occupy the other categories.

### **Conclusions and further research**

This paper proposes a new framework for conceptualizing business strategies, one that incorporates Porter's original framework, follows the logic of the RBV, and is sensitive to recent changes in the competitive environment. The approach herein represents a balance between the generalizability and parsimony typically associated with strategic group models and the specificity and completeness sought by proponents of the RBV.

The typology developed in this paper is consistent with and incorporates many of the concepts within Porter's original framework. However, cost leadership, differentiation, and focus are viewed as competitive strategies per se. Rather, they are seen as component parts of an organization's value proposition.

The typology presented herein is consistent with the key tenets of the resource-based perspective. Unique, valuable, and inimitable resources are fundamental to most successful business strategies, especially those emphasizing value. This typology also incorporates aspects of industry structure, but from a firm choice perspective, not a deterministic approach. The organization's ability to erect

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barriers to entry, institute switching costs, and exert control over supplier relationships are viewed as a proactive part of the business strategy.

Regardless of strategic position, it should be recognized that the two key dimensions of strategy – value and market control – are not mutually exclusive. Although emphasis on a single orientation can be effective, organizations should constantly seek to enhance both market control and value orientations, as depicted by the arrows in Figure 1. Improved strategic positioning is defined in part by movement of an organization toward the top and/or the right categories in Figure 1. A business with a strong value emphasis can still benefit from increased control, while one with a strong control orientation can benefit by enhancing its value orientations.

Practitioners should consider two key questions when evaluating the strategies of their own organizations. First, from an IO perspective, what limitations do industry structure and other factors place on strategic options, most notably the level of market control an organization can exhibit? Strategic managers should understand the ability of their firms to exert market control, recognizing that control is desirable for all organizations and essential for those unable to deliver strong value propositions. Second, following the RBV, what valuable resources possessed by the organization can foster an improved strategic position, and how do such resources influence the success or failure of the strategy pursued by the firm? A firm's collection of resources creates the context for the value proposition it can deliver.

The presentation of the typology herein creates a number of research prospects, the primary of which involves empirical testing to validate or refine the typology. One would expect business performance to be positively associated with value and market control orientations, with businesses emphasizing both value and control performing the best. Because the typology presented herein views strategy as a composite reflection of multiple tactics and orientations, categorization of businesses may present challenges to researchers.

Additional opportunities for research also exist. Development and testing of strategy measurement scales and procedures, and replications within various manufacturing and service industries and essential components to building theory to further develop the underlying theory associated with the typology. From the practitioner's perspective, prescriptive research identifying optimal strategies for firms with similarities in resources, environmental characteristics, or even stage in the organizational life cycle would be appropriate.

### Notes

1. See Hunt (1972), Newman (1973) and McGee and Thomas (1986) for a thorough discussion of the development of strategic group research. Miles and Snow's (1978) typology also received significant attention in the literature but was not as widely cited as Porter's approach. Various other typologies are also referenced in the marketing and operations literature (see Blankson and Kalafatis, 2004; Devaraj *et al.*, 2001; Wong and Merrilees, 2005).
2. Although the theoretical differences are clear, membership in one school or the other is not always easy to classify. Most researchers acknowledge limitations of both schools to some degree. Miller and Dess' (1993) assessment of Porter's model, for example, is difficult to classify.
3. See Mahoney and Pandian (1992) for an excellent overview of the utility of resource-based theory in strategic management.

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