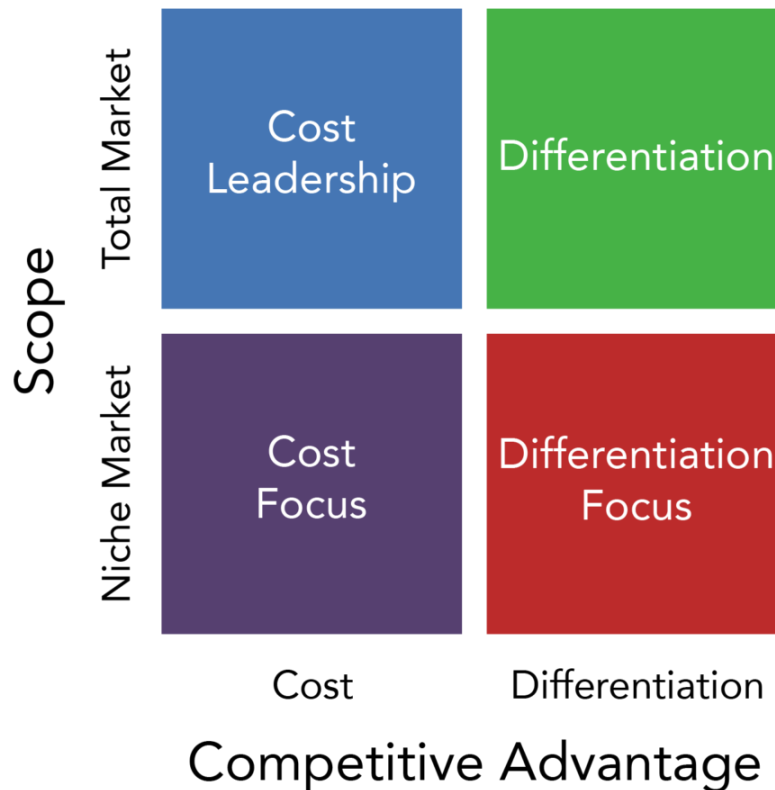


## 2.16: Strategy Formulation

### Learning Outcomes

- Describe strategy formulation

Strategy formulation involves converting the inputs from the strategic analysis stage into a business plan. Specifically, the plan involves developing a competitive strategy that best reflects the organization's strengths and weaknesses and market realities and is consistent with its mission and values. Management consultant and Harvard Business School professor Michael Porter developed the classic strategy formulation model, referred to as Porter's Generic Competitive Strategies, illustrated in Figure 1.<sup>[1]</sup>



Source: Porter. (2008). *Competitive Strategy: Techniques for Analyzing Industries and Competitors*. In M. E. Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors*. New York: Simon and Schuster Inc.

Figure 1. Porter's Generic Competitive Strategies. Alternative text for Porter's Generic Competitive Strategies can be accessed [here](#).



This model holds that there are two potential sources of competitive advantage: cost (price) or differentiation. The two options, combined with the organization's desired scope—industry or niche market—determine the appropriate strategy: cost leadership,

differentiation or focus. Briefly, the goal of an organization pursuing a cost leadership strategy is to become the lowest cost producer in the industry. The goal of an organization pursuing a differentiation strategy is to differentiate the firm and its products or services based on one or more attributes that consumers value and that it is uniquely capable of delivering. Differentiation is associated with a premium price point.

A focus strategy, which is appropriate for organizations pursuing a niche market, has two variants: cost and differentiation. An organization pursuing a cost focus strategy will seek to become the lowest cost producer in the market segment(s) it is targeting. A differentiation focus strategy involves differentiation based on the specific requirements of consumers in that market segment(s)—think Harley-Davidson motorcycles or Lululemon athletic clothes. In either case, there must be some element that distinguishes the focus target segments—a pricing, product, production or distribution requirement that is best served by a niche producer. Cost focus exploits differences in cost behavior in a niche market, while differentiation focus exploits the special needs (think dietary restrictions or generational preference differences) of buyers in a niche market.

### ? Practice Question

<https://assessments.lumenlearning.co...essments/18108>

1. "Porter's Generic Competitive Strategies (ways of competing)." Institute for Manufacturing, University of Cambridge. Accessed July 29, 2019. ↵

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