



# Core Strategy

Commodity vs. Specialization



# The Absolute First Step- Every Time

- The forced choice between commodity and specialized niche
- Drives major objectives of company
  - Reduce price
  - Innovate
- Drives manager responsibilities

# The question is often about marketing

- Help me design some advertising to increase sales
- Should I discount?
- Get me a marketing list



# The answer is usually about strategy



- An ounce of strategy is worth a pound of marketing
- When trying to get out of the woods, facing the right direction is more important than walking fast



# Profitable Business

- Profit margin
- Volume
- 10 units x \$10 profit  
= \$100





# Four Types of Businesses





# High Volume, High Margin





# Gold Rush Country

- The best of all worlds
- We are making a million dollars on each item and we are selling a million of them
- Draws competitors quickly
- Not a sustainable strategy



# Low Volume, Low Margin



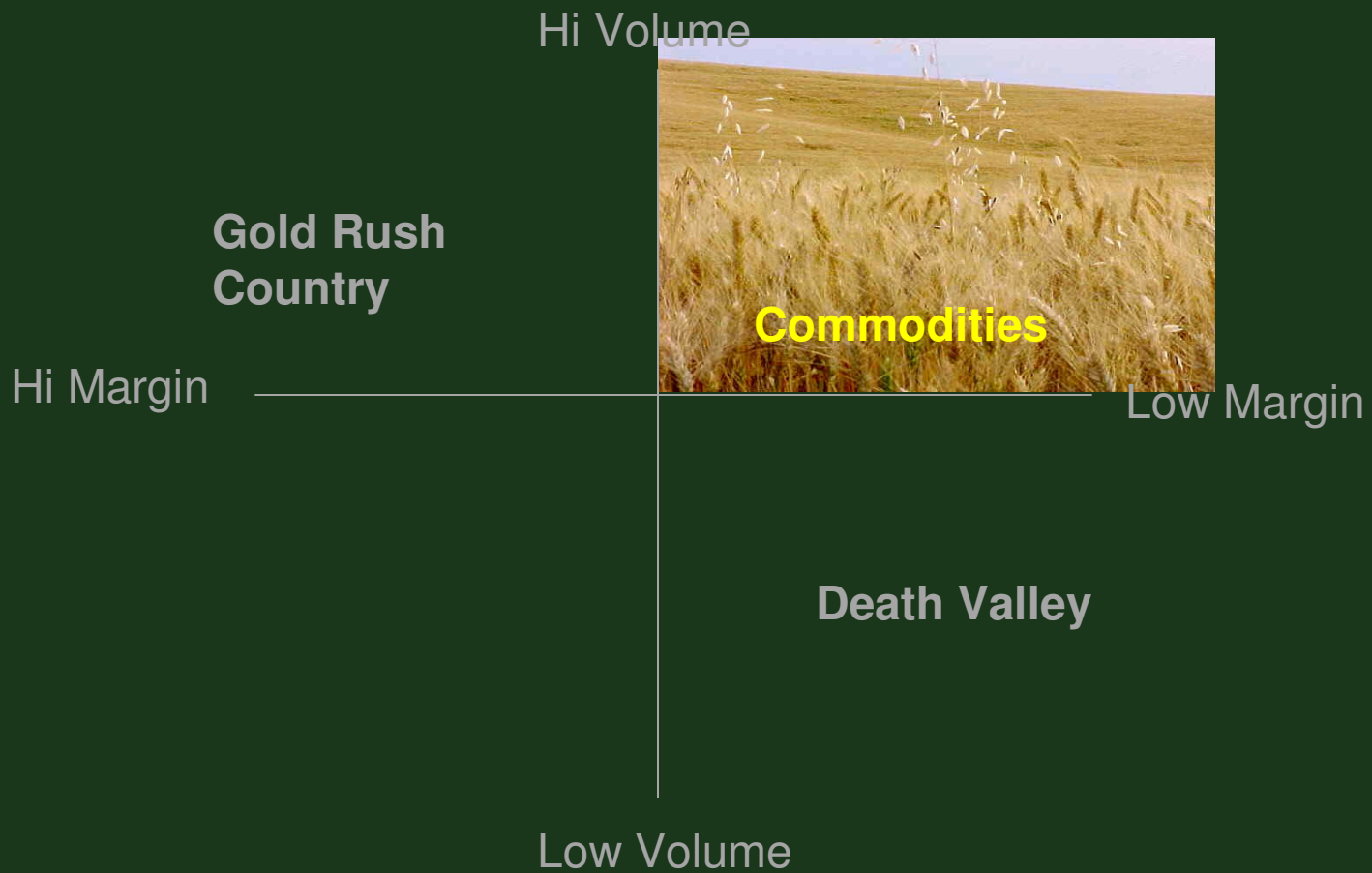


# Death Valley

- The worst of all worlds
- We aren't making very much on each item but don't worry about it because we aren't selling any of them anyway
- Not a sustainable strategy



# High Volume, Low Margin





# Commodities

- Commodities by definition cannot be differentiated
- Customers make a decision by price
- We don't make very much on each one but we sell a lot of them.



# Commodities

- Think of Wal-Mart
  - 1-2% profit margin
  - Huge volume
- Any undifferentiated product
  - Grocery stores
  - Gasoline
  - Printers





# Management Focus

- Get prices down
- Get expenses down
  - quantity purchases
  - more efficient systems
  - reduce labor costs



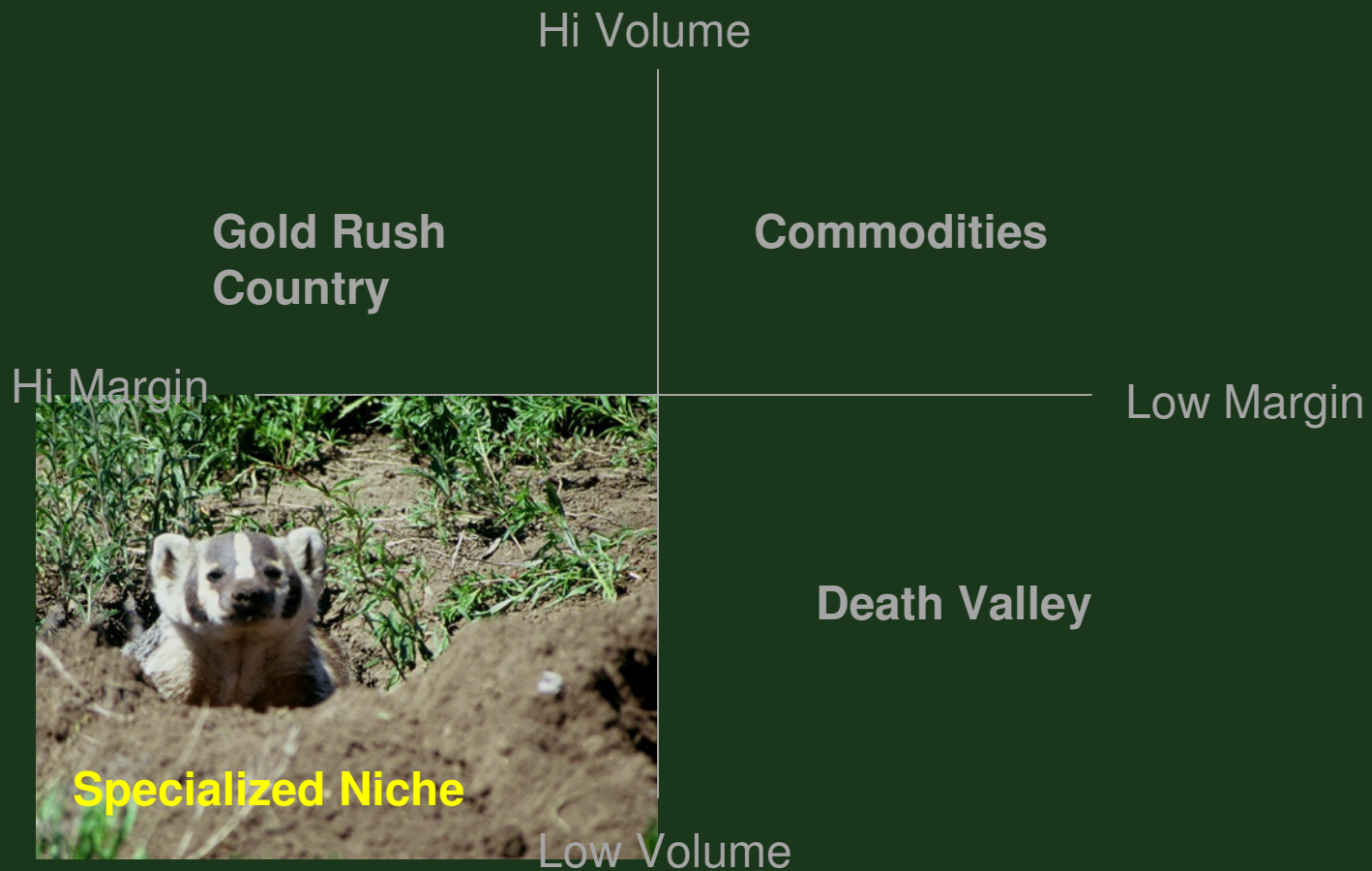
# Case Study Commodity Strategies



- Southwest Airlines
  - Single type of plane
    - Universal maintenance
    - Universal pilot availability
    - Universal substitution
  - Highly fuel efficient, new fleet
  - Fast gate turn



# Low Volume, High Margin



# A Retail Niche Train Store

- Deep and specialized in trains and paraphernalia
  - Less volume/higher margins
  - Carries exactly what the customer wants, and preferably the only one in town
  - Must be in short supply before the customer will pay a higher price





## Train Store Example (cont.)

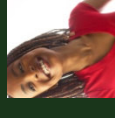
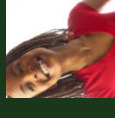
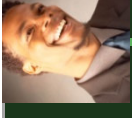
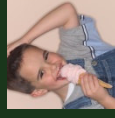
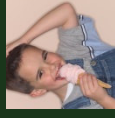
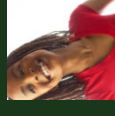


- Wal-Mart - only the basic train sets
- For which they will have the lowest price
- Not going to specialize in trains
- Not going to follow down that deep niche



## Specialization Requires Bigger Trade Areas

- Let's say it takes a minimum of 100 people to support a business...
- ...and we live in a town of 100 people
- I decide to open a clothing store because every one needs clothes
- Our town of 100 people can support one clothing store



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