

Strategy: Core Concepts and Analytical Approaches

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Chapter 5

The Five Generic Competitive Strategy Options: Which One to Employ?

Competitive strategy is about being different. It means deliberately choosing to perform activities differently or to perform different activities than rivals to deliver a unique mix of value.

—Michael E. Porter

Strategy is all about combining choices of what to do and what not to do into a system that creates the requisite fit between what the environment needs and what the company does.

—Costas Markides

The essence of strategy lies in creating tomorrow's competitive advantages faster than competitors mimic the ones you possess today.

—Gary Hamel and C. K. Prahalad

Competing in the marketplace is like war. You have injuries and casualties, and the best strategy wins.

—John Collins

A company can employ any of several basic approaches to competing successfully and gaining a competitive advantage over rivals, but they all involve striving to deliver superior value to customers compared to the offerings of rival sellers. Superior customer value can mean a good product at a lower price, a superior product that is worth paying more for, or a best-value offering that represents an attractive combination of price, features, quality, service, and other appealing attributes. Delivering superior value—whatever form it takes—nearly always requires performing value chain activities differently from rivals and developing competitively potent resources and capabilities that rivals cannot readily match or trump.

This chapter describes the five *generic competitive strategy options*. Each of the five strategy options represents a distinctly different approach to competing in the marketplace. Which of the five options to employ is a company's first and foremost choice in crafting an overall strategy and beginning its quest for competitive advantage.

The Five Generic Competitive Strategies

A company's **competitive strategy** deals exclusively with the specifics of management's game plan for competing successfully—how it intends to please customers, offensive and defensive moves to counter the maneuvers of rivals, responses to shifting market conditions, and initiatives to strengthen the company's market position

and achieve a particular kind of competitive advantage. Chances are remote that any two companies—even companies in the same industry—will employ competitive strategies that are exactly alike in every detail. Why? Because the differing external and internal circumstances of different companies vary too widely for the managers of different companies to arrive at precisely the same conclusion about what strategy to employ, down to each and every detail.

However, when one strips away the details to get at the real substance, the two biggest factors that distinguish one competitive strategy from another boil down to (1) whether a company's market target is broad or narrow, and (2) whether the company is pursuing a competitive advantage linked to lower costs or differentiation. As shown in Figure 5.1, these two factors give rise to five competitive strategy options for staking out a market position, operating the business, and delivering superior value to buyers:¹

1. *A broad low-cost provider strategy*—striving to achieve lower overall costs than rivals in offering a product or service with attributes sufficient to attract a *broad* spectrum of buyers. Gaining a low-cost advantage over rivals offering comparable products/services enables a company to either boost sales and market share by underpricing rivals or else earn bigger profits by simply matching whatever prices its higher-cost rivals are charging.
2. *A broad differentiation strategy*—seeking to differentiate the company's product offering from rivals' offerings with attributes that will appeal to a *broad* spectrum of buyers.
3. *A focused low-cost strategy*—concentrating on a narrow buyer segment (or market niche) and striving to meet the specific needs and requirements of niche members at lower costs than rivals, thus being in a position to win buyer favor and outcompete rivals with a lower-priced product offering.
4. *A focused differentiation strategy*—concentrating on a narrow buyer segment (or market niche) and striving to outcompete rivals by offering niche members customized attributes that meet their tastes and requirements better than the product offerings of rivals.
5. *A best-cost provider strategy*—striving to incorporate upscale product attributes at a lower cost than rivals. Being the “best-cost” producer of an upscale, multi-featured product allows a company to *give customers more value for their money* by underpricing rivals whose products have similar upscale, multi-featured attributes. This competitive approach is a *hybrid* strategy that *blends elements of the previous four options* in a unique and often effective way.

The remainder of this chapter explores the ins and outs of these five generic competitive strategy options.