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The relationship between market focus strategy and performance

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ABSTRACT

The aim of this paper is to study the impact of Michael E Porter's one of the business level strategic type i.e Differentiation strategy on organizational performance within Indian telecom sector. In order to operationalize performance three non-financial variables have been used(company image, customer loyalty and customer satisfaction).

Keywords: Differentiation strategy, organizational performance, telecommunications

1. INTRODUCTION

Porter (1985, p. 12) pointed, that "both strategies can also be implemented within the confines of a narrow market segment." If these strategies i.e. cost leadership and differentiation are implemented within the narrow market segment the strategies are then known as cost focus and differentiation focus respectively. Porter (1985) goes onto suggest that 'Firms simultaneously pursuing both cost focus and differentiation focus strategies may find it difficult to sustain competitive advantage and be at risk of being branded as stuck in the middle'. A key suggestion by Porter (1980) is that firms adopting a dual strategy may potentially become "stuck in the middle" and thus perform poorly relative to firms that adopt or pursue a singular generic strategy. Many authors have criticized this clean strategy idea suggesting that external factors such as customer choices or internal factors inclusive of organizational learning allow a combination of both strategies (Fjeldstad&Haanaes 2001; Lubatkin et al. 2006; Parnell 2000). However, some studies lend support to Porter as they find evidence for the superiority of the single organizational strategy (Dess& Davis 1984; Hambrick 1983a). Supporters of the "pure" strategy concept suggest that strategy formulation cannot successfully cross typology lines of demarcation. Thus pure strategy followers tend to see generic strategies as being mutually exclusive. It is postulated that firm's success is inherently linked to competitive advantage which in turn is derived from either a position of low cost leadership or differentiation (Porter 1980).

Companies with focus strategies concentrate on a particular niche markets and by understanding the dynamics of those markets and the unique needs of customers. They must develop uniquely low cost or well differentiated products for those markets. They tend to shape strong brand loyalty among its customers as they serve customers in their market uniquely. This in turn makes the particular market segment less attractive to their competitors. It is vital to decide to follow cost leadership or differentiation as broad market strategies once a focus strategy is selected as the main approach. Focus is not typically enough on its own. Whether cost focus or differentiation focus the key to creating a success of a generic focus strategy is to ensure that "something extra" is added as a consequence of serving only that market niche. It's simply not enough to focus on only one market segment when the firm is too small to serve a broader market. The "something extra" can contribute to reducing costs or to increase differentiation though deep understanding of customer's needs.

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The focusers basis for competitive advantage is either lower costs than competitors serving that market segment or an ability to offer niche customers something different from competitors. Focusing is built on selecting a market niche where buyers have distinctive preferences. The niche is defined by specialized requirements, geographical uniqueness in using the product or by special attributes that appeal to members (Stone, 1995). A focus strategy based on low cost depends on there being a buyer segment whose needs are less costly to satisfy than the rest of the market. Whereas, a focused differentiation strategy depends on there being a customer segment that demands unique product dimensions. In the focus strategy, a firm targets a specific segment of the market (Porter, 1996). The firm can choose to focus on a select geographical area, customer group, product range or service line (Martin, 1999). For instance, some service organizations focus solely on the service customers (Stone, 1995).

Focus is also based on adopting a narrow competitive scope within an industry. Focus aims at growing market share through operating in a niche market or in markets either not attractive to, or overlooked by, larger competitors. These niches arise from a number of reasons including buyer characteristics, geography, and product requirements or specifications. An effective focus strategy (Porter, 1980) depends upon an industry segment large enough to have good growth potential but not of significant importance to other important competitors. Market penetration or market development can be an important focus strategy. Large firms use focus based strategies only in conjunction with differentiation or cost leadership generic strategies. But, focus strategies are most effective when customers have distinct preferences and when the niche has not been chased by rival firms (David, 2000).

2. OBJECTIVES OF THE STUDY

To study impact of focus strategy on organizational performance

3. DATA ANALYSIS

Statement wise analysis reported in table above shows the mean scores for all the statements measuring focus strategy of all the six mobile telecommunication service providers. The mean score of focus strategy for the six service providers is between 1.46 and 4.17 where the highest mean score of 4.17 relates to Idea cellular implying that the service provider lays a very high emphasis on focus strategy as can be seen from the mean values for the statements of focus strategy. All other telecommunication service providers viz Airtel, BSNL, Vodafone, Aircel and Reliance communications have a mean score ranging between 1.46 and 2.23 implying that none of these service providers lay any emphasis on focus strategy. Therefore from the above table it can be concluded that only Idea cellular uses focus business strategy to compete in the telecommunication industry.

Statement wise analysis of Focus strategy

State-ment Code	Airtel		BSNL		Vodafone		Aircel		RComm		Idea	
	Mean score	S.D	Mean score	S.D	Mean score	S.D	Mean score	S.D	Mean score	S.D	Mean score	S.D
F1	1.31	0.243	1.29	0.591	2.1	0.221	1.62	0.299	1.83	0.554	4.01	0.818
F2	1.55	0.518	1.41	0.797	2.37	0.811	1.84	0.391	2.03	0.748	4.15	0.965
F3	1.58	0.216	1.58	0.698	2.27	0.676	1.69	0.491	1.94	0.491	4.23	0.732
F4	1.47	0.341	1.59	0.771	2.21	0.751	1.59	0.716	1.93	0.396	4.28	0.692
F	**1.47**	. 385	**1.46**	.714	**2.23**	.615	**1.69**	. 476	**1.93**	. 547	**4.17**	.802

F= *Focus*

Focus and Organizational Performance; Regression Analysis

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.473[a]	.223	.219	.38403
a. Predictors: (Constant): **Focus**				

The ANOVA table indicates that the dependent variable (organizational performance) is statistically significantly predicted by the regression models ($p<.05$).

ANOVA[b]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	17.049	1	17.049	116.169	.000[a]
	Residual	30.656	90	.149		
	Total	47.705	91			
a. Predictors: (Constant): **FOCUS**						
b. Dependent Variable: **ORGANIZATIONAL PERFORMANCE**						

* *p<.01*

4. RESULTS

The ANOVA table indicates that the dependent variable (organizational performance) is statistically significantly predicted by the regression models ($p<.05$). The regression analysis for focus strategy indicates that the focus strategy adopted by the firm (independent variable) has a significant positive impact on their performance (dependent variable). The value of $R^2 = 0.375$ shows that 37.5% variance is explained by independent variable (focus strategy) in dependent variable (organizational performance), indicating that the customers of the sample organizations are fairly satisfied with their service providers.

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