

# Hybrid Strategy: A New Strategy for Competitive Advantage

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## Abstract

Both strategic management researchers and practitioners have realized the importance of cost and differentiation strategies for effective organizational performance and excellence. Recently many large enterprises/corporations have been applying both strategies simultaneously, rather than applying a single strategy at one period of time. The implementations of the three strategies are commonly used by the big corporations involved in domestic, regional, international and global business. This article has three bases of data analyses; the first is a review of related literature, the second is case analysis and the third is the result of field interviews with a giant home appliance manufacturer in Malaysia. Thus, the principal aim of this article is to provide evidence that the hybrid strategy (both cost leadership and differentiation strategy) has been implemented by companies throughout the world.

**Keywords:** cost leadership strategy, differentiation strategy, single strategy, hybrid strategy

## 1. Introduction

In the current era of globalization, competition among rivals is inevitable regardless of whether they are domestic, international, or global, of which are depending upon products or services. In this paper, we use cost leadership and differentiation strategies, because they are the commonly used strategy dimensions in the literature (Dess & Davis, 1984; Nayyar, 1993). For a firm to earn superior profits and outperform its competitors, it must make a clear choice between a cost leadership or a differentiation strategy in order to avoid “the inherent contradictions of different strategies” (Porter, 1996, p. 67).

Many believe, in competitive industries, that the companies would not be able to survive unless they adopt two corporate strategies, of which are cost strategy, to process the value chain in the most efficient way, in order to produce products or services with the lowest price without jeopardizing the quality, and differentiation strategy, to produce unique products or services compared to its competitors, such as better quality, simpler way to operate, better looking, in other words, the company should have the ability to innovate.

According to Porter (1985), each of these three generic competitive strategies is a completely different way of creating a sustainable competitive advantage. A firm must, therefore, make a choice between cost-leadership and differentiation strategies or it will become stuck-in-the middle without coherent strategy (Acquaah & Ardekani, 2006).

Many evidences showed that companies have done very well in a single strategy. For example Wal-Mart and Air Asia are successful companies that have implemented a single strategy – a cost leadership strategy.

Meanwhile, according to Vista.com, 2010, a number of companies have implemented a single strategy – differentiation strategy can be described by some basis of differentiation strategy such as: differentiation by Brand (Harley Davidson, and Mercedes Benz); differentiation by design (Titan watches with gold studded gems, diamonds and precious metals), differentiation by positioning: Domino Pizza (“30 minutes delivery”); differentiation by technology (Apple Computers); and differentiation by innovation (3 M).

Furthermore, there are companies, such as IKEA, German’s Auto Industry, and Tesco that have been successful with the Hybrid-strategy (companies which are implementing both cost leadership and differentiation strategy simultaneously). The principal aim of this article, as a literature review paper, is to provide evidence that the hybrid strategy (both cost leadership and differentiation strategy) has been implemented by companies

throughout the world.

To achieve the aim of this paper, literature and data collection were presented by desktop/website document research and book library. The literature and data collection are written down in number 2. Aside from data collection, the literature is also enriched by case study on Differentiation strategy (Apple-iTunes Case), and Hybrid strategy (Wal-Mart Case). In addition to that, to strengthen the literature and the case study, field survey on one giant home appliance company in Malaysia had also been done. The data from the field survey is presented in section number 3. The data from the field survey, then, were collected by “a guided-interview”, for the interview with the company was conducted and guided by a prepared questionnaire.

The literature, data, case studies, and the field survey, then were reviewed or analyzed. The review is presented in section number 4. To analyze the literature and data, all significant information and data are tabulated, then analyzed. To analyze the case studies, case analysis method is used. Then, the result of the review that is “the Hybrid strategy has been implemented successfully” is written down in the conclusion section 5. Even though this paper may state that the Hybrid strategy has been implemented successfully, this literature review is having some limitation on data and analysis to make a sound conclusion. In order to have a solid conclusion of whether or not the Hybrid strategy has been successfully implemented world-wide, the suggestion is that the conclusion should be based on a comprehensive research.

## 2. Literature Review

### 2.1 Porter Three Generic Strategies

The Porter Three Generic Strategies has Strategic Target on its vertical axis which can be divided into two different segments: Industry wide multi – segment and particular segment. The horizontal axis is Strategic Advantage which is divided into two positions - Uniqueness perceived by Customer and Low-Cost Position.

The description of the Porter’s Generic Strategies, which consists of: Leadership Strategy, Differentiation, and Focus, is shown in Figure 1.

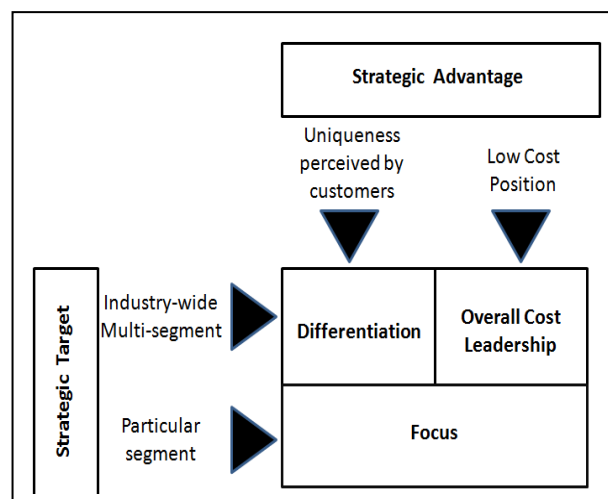


Figure 1. Porter’s three generic strategies

Source: B.V.P.M. (2005)

The differentiation Strategy is located in the Industry Wide multi-segment (Within the Strategic Target) and The Uniqueness Perceived by Customer (Within the Strategic Advantage). Thus, the Differentiation Strategy is implemented in large industry where products or services are perceived unique by the customer.

The Overall Cost Leadership Strategy is located in the Industry Wide multi-segment (Within the Strategic Target) – and The Low-Cost Position (In the Strategic Advantage). Thus the Overall Cost Leadership Strategy is implemented in large industry and perceived low-cost provider by the customer.

Focus strategy is located in the Particular segment (in the Strategic Target) and the Low-Cost Position (in the Strategic Advantage). Thus the Focus Strategy is only existence in the particular segment, and can be implemented in the customers’ perception of being unique and or being low cost provider.

## 2.2 Cost Leadership Strategy

The cost leadership strategy is an integrated set of action taken to produce goods or services with features that are acceptable to customers at the lowest cost, relative to that of competitors (Ireland, et. Al, 2011). The cost leadership strategy represents attempts by firms to generate competitive advantage by achieving the lowest cost in the industry. The focus of firms implementing a cost leadership strategy is on stringent cost control and efficiency in all areas of operation (Porter, 1980). A company that decides to follow a cost leadership strategy has the objective of being able to realise its offer at lowest possible cost. The competitive advantage of cost leadership is achieved by performing important value chain activities at lower cost than competitors (Porter, 1985).

Cost-leadership strategy strives to supply a standard, no-frills, high-volume product at the most competitive price to customers (Li & Li, 2008). Cost leadership strategies are preferred in developing countries such as Indonesia, Malaysia, India and China where they have lower labour cost, and hence, a lower production cost (Aulakh et al. 2000). A differentiation strategy is to create value to customers by providing superior quality, innovative products, brand image, and good services. This will differentiate the product which means the product will be more competitive than others (Hutchinson et al. 2007; Frambach et al. 2003; Porter, 1980).

Cost Leadership tends to be more competitors oriented rather than customer oriented (Frambach, et. al, 2003). Cost leadership requires a strong focus on the supply side as opposed to the demand side of the market, as this requires a high level of competitor orientation (Day & Wendley, 1988). Therefore, firms pursuing a cost leadership strategy must continuously benchmark themselves against other competing firms in order to assess their relative cost (and therefore profitability) position in market place. A firm that pursues cost leadership strategy achieves a low-cost position by emphasizing on “aggressive construction of efficient-scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimization in areas like research and development (R&D), services, sales force, advertising, etc” (Porter, 1980).

The cost leadership strategy has been successfully implemented in Japan. For example, the Toyota company system - Its superior competitiveness in cost reduction, quality and delivery time, has provided the impetus for a worldwide shift toward increasing efficiency through cost-cutting strategies (Schonberger, 1994). In Japan, customer service is defined somewhat differently than in the West, which may explain its presence in this cost leadership factor makeup (Allen & Helms, 2001).

## 2.3 Differentiation Strategy

The generic of differentiation strategy involves creating a market position that is perceived as being unique industry-wide and that is sustainable over the long run (Porter, 1980). Such differentiation can be based upon design or brand image, distribution, and so forth (Frambach et. al, 2003). In particular, differentiator firms create customer value by offering high-quality products supported by good service at premium prices (Walker & Ruekerts, 1987). The effectiveness of differentiation strategy depends on how well the firm can balance product benefits and product costs for the customer, relative to competitive offerings (Slater & Olson, 2001). Companies following a differentiation strategy strive to create and market unique products for varied customer groups. They aim to create a superior fulfilment of customer needs in one or several product attributes in order to develop customer satisfaction and loyalty, which can often in turn be used to charge a minimum price for the products (Morshett et al., 2006).

A firm that pursues a differentiation strategy seeks to create a perception in the minds of customers that their products or services possess superior characteristics that are unique from those of its competitors in terms of image and reputation, reliability, design features and quality (Dean & Evans, 1994; Sashi & Stern, 1995). A firm creates this perception by incorporating real qualitative difference in its products and services, engaging in advertising programs, marketing techniques, and charging premium prices (Miller, 1986).

According to Acquaah & Ardekani (2006), differentiation firms are able to achieve competitive advantage over their rivals because of the perceived uniqueness of their products and services. Porter (1980) stated that, competitive strategies deal with the development of attributes that characterise a company and differentiate the value it creates and offers in comparison to its competitors. In addition, “the core idea is about how the firm can best compete in the market place” (Pearce & Robinson, 1994, p. 220).

The differentiation strategy has been successfully implemented in companies of advanced countries and these companies are likely to go to the less developed countries as foreign companies (Aulakh et al, 2000). As foreign companies, they enjoy inherent advantage over domestic firms with regard to adopting a differentiation strategy.

The foreign companies having advantage in terms of financial and technological resources, trained human capital, new and modern management systems, innovative production methods better fulfil the conditions required to implement a differentiation strategy successfully (Aulakh et al., 2000).

According to Pearce & Robinson (2011), differentiation strategy is a business strategy that seeks to build competitive advantage with its product or service by having it “different” from other available competitive products based on features, performance, or other factors not directly related to cost and price. The difference would be one that would be hard to create and/or difficult to copy or imitate.

Firms in most developing economies implementing the differentiation strategy do not focus on a single dimension but emphasize on several dimensions such as image, gain customer loyalty, quality, innovation and level of service, all at the same time (Kim et al., 2004). Thus, a differentiation strategy in a developing economic environment may be based on simultaneously creating customer loyalty by generating differences in product image through intensive marketing and image management (Miller, 1988), and creating products that are innovative, dependable, durable, and serviceable (Beal & Yasai-Ardekani, 2000).

As an alternative to price competition a retail business company can differentiate its products and services from its competitors. Davis (1992) demonstrates that the rise of efficient and professional chain store operation leads to lower cost differentials between them which simultaneously intensify the need to use non-price attributes to distinguish and characterise retail business company. Specifically in retail business, the uniformity of competition which resulted in a lack of profiled retail business companies with a clear image, is often criticised and blamed on a one-sided focus on price competition (Martineau, 1958, Wortzel, 1987, Walters & Knee, 1989; Corstjens & Corstjens, 1995).

Differentiation in retail business can be seen as a strategy with the objective of adapting certain store attributes more closely to the specific needs of chosen customers segments (Morshett, et al., 2006). In retail business, as for manufacturing companies, two main arguments against Porter’s framework have emerged (see for example Mintzberg, 1996; Wortzel, 1987; Zentes & Anderer, 1994): Strategies that combine several competitive advantages are not considered by Porter, and the reduction of possible competitive advantages to two basic types is simplistic, and especially differentiation advantages can be reached in many different ways.

The differentiation strategy may also be viable in transition economies like Ghana. Due to economic liberalization policies, customers have been exposed to imported products with greater variety and higher quality (Acquaah & Ardekani, 2006).

Other data show that the differentiation strategy has also been successfully implemented across the globe (i.e. in the developing, transition and developed economies) with evidence, among others: (Vista, 2010):

- Differentiation by Brand : Harley Davidson, and Mercedes Benz
- Differentiation by design: Titan watches with gold studded gems, diamonds and precious metals.
- Differentiation by positioning: Domino Pizza “30 minutes delivery”.
- Differentiation by technology: Apple Computers.
- Differentiation by innovation : 3 M

#### 2.4 The Combination (Hybrid) Strategy

The Porter Generic Competitive Strategies (1980, 1985) of overall cost-leadership, differentiation and focus on strategic management research cannot be overemphasized. Low cost and differentiation strategy may be compatible approaches in dealing with competitive forces (Allen & Helms, 2006; Miller, 1992; Spanos, et al., 2004), and postulated the pursuit of what has been termed ‘*hybrid*’, ‘*mixed*’, ‘*integrated*’, or ‘*combination*’ strategies (Kim et al., 2004; Spanos et al., 2004). These ‘*hybrid*’ strategies are the ones which combine low cost and differentiation elements (Gopalakrishna & Subramanian, 2001; Proff, 2000).

A combination competitive strategy involving high level of emphasis on both cost-leadership and differentiation strategies simultaneously should be distinguished from “stuck-in-the-middle” strategy where a firm fails to successfully pursue both cost-leadership and differentiation strategies (Acquaah & Ardekani, 2006). A combination strategy has been shown to be viable and profitable (Kim et al., 2004; Miller & Dess, 1993; Wright et al., 1991). Since cost-based and differentiation-based advantages are difficult to sustain, firms that pursue a combination strategy may achieve higher performance than those firms that pursue a singular strategy. Pursuit of a differentiation strategy for low-cost firms will help minimise their vulnerability due to reliance on cost-based advantages only (Yasai-Ardekani & Nystrom, 1996).

A hybrid strategy seeks simultaneously to achieve differentiation and low price relative to competitors. This success strategy depends on the ability to deliver enhanced benefits to the customers with low price while achieving sufficient margins for reinvestment to maintain and develop bases of differentiation. This is, in fact, the strategy Tesco is trying to follow (Explorer, 2010).

A best –cost provider strategy: giving customer more value for the money by offering upscale product attributes at a lower cost than rivals. Being the best cost producer of an upscale product allows a company to under-price rivals whose products have similar upscale attributes. This option is a hybrid strategy that blends elements of differentiation and low-cost in a unique way (Thompson et. al, 2012).

According to Ireland (2011), most consumers have high expectations when purchasing a good or service. In general, it seems that most consumers want to pay a low price for products with somewhat highly differentiated features. Because of these customer expectations, a number of firms engage in primary and support activities that allow them to simultaneously pursue low cost and differentiation. Firms seeking to use this use the integrated cost leadership/differentiation strategy (Ireland et.al, 2011).

This new, hybrid strategy, may become even more important--and more popular--as global competition increases. Compared to companies relying on a single generic strategy, companies that integrate the generic strategies may position themselves to improve their ability to adapt quickly to environmental changes and learn new skills and technologies. This would more effectively leverage core competencies across business units and product lines and would also help produce products with differentiated features or characteristics that customers' value and provide these differentiated products at a low cost, compared to competitors' products. This is because of the multiple, additive benefits of successfully pursuing the cost leadership and differentiation strategies simultaneously. *Differentiation* enables the company to charge premium prices and *cost leadership* enables the company to charge the lowest competitive price. Thus, the company is able to achieve a competitive advantage by delivering value to customers based on both product features and low price (Learning. O, 2009).

Acquaah & Ardekani (2006) justified that the implementation of a combined competitive strategy is not only feasible, but will also generate superior incremental performance over the implementation of single competitive strategies. The implementation of a combined competitive strategy results in multiple sources of competitive advantage (e.g., economies of scale and brand/customer loyalty) as compared to advantages gained through pursuit of single competitive strategies. Moreover, the pursuit of a combined competitive strategy, and each of the single competitive strategies will generate superior incremental performance over the inability to successfully pursue any of the singular competitive strategies (i.e., stuck in the middle).

Furthermore, firms that pursue a differentiation strategy may also be able to achieve a low-cost position by emphasizing efficiency in their value creating activities, thereby further strengthening their competitive position vis-a-vis their rivals. The success of Japanese companies such as Toyota, Canon, and Honda has been attributed to the simultaneous pursuit of cost leadership and differentiation strategies (Ishikura, 1983).

Successful organizations adopt a combination of competitive aspects to build a Hybrid Strategy. Examples are: IKEA (differentiate in design + low cost), Toyota (quality - although under pressure + price) and Ahold (quality + price). Just competing on price is not good enough anymore (Learning, D.A., 2010).

### **3. The Application of Single Strategy**

#### *3.1 Application of Cost Leadership Strategy*

The cost leadership strategy is the basis for the long-run, sustainable competitive strategy compared to the price competition strategy. The price competition strategy is easily duplicated (Porter, 1980; Ellis & Kelley, 1992). In the retail business industry, for example (Giant supermarket and Carrefour), companies strive for cost leadership strategy; all sources related to cost reduction must be exploited. A retail business company must minimize cost throughout its value chain (and possible intercompany chain) activities. Therefore, the most important issue for the retail business company is to pinpoint the sources which are related to the Cost of Goods Sold (COGS). Large retail business companies usually achieve cost leadership more easily than smaller retail companies, because large retail business companies usually have power over suppliers which enable them to secure low procurement prices for purchased goods (Ellis & Kelley, 1992; Anderer, 1997).

Datuk Tony Fernandez as CEO of AirAsia Berhad said his philosophy is very clear: before a business can grow, it needs to have its costs under control. It must be cost-efficient and profitable, and it must create value.

Based on what Datuk Tony Fernandez said, AirAsia can grow in the airline business if they can control their cost, efficient and reliable. AirAsia is currently a market leader in Low Cost Carrier (LCC) in Malaysia, Thailand, and Indonesia, but will face competition from both existing and new players. In order to sustain its competitive

advantage, AirAsia needs to leverage its competency in creating cost advantages across multiple value chains (Kho et al., 2005). Accordingly, AirAsia needs to stress more on being the lowest cost carrier in the airline industry. As the demand for low cost carrier is growing rapidly; it is an opportunity for AirAsia Company to enhance its business (Management, 2009).

### *3.2 Application of Differentiation Strategy*

One example of differentiation strategy implemented by a famous company, namely Apple-iTunes, is given below. This example is taken from the case study of “Apple Computer, Inc: Maintaining the Music Business While Introducing iPhone and Apple TV” (Ireland, et al., 2011).

Apple-iTunes: Apple ventured into the market of legal downloads with the introduction of its iTunes Music store. iTunes offers downloads at a specific price without requiring a subscription or monthly fees. Originally offered exclusively on Apple own Mac, iTunes can now be installed on PC as well. The idea behind iTunes was to provide a solution to the illegal printing of music and software from rival sources such as Kazaa. i-Tunes offers its users a selection of more than 6 million songs, with new songs continually added, titles are from just about every genre of music. Users can perform a search by type of music, artist name, or title of track or album. Each song available can be previewed without making a purchase. Purchasers have the option of purchasing entire album or single songs. Each song is \$0.99, and a complete album starts at \$9.99. Down loads can be made not only to Mac or PC, but also directly to iPod.

All new song additions are encoded in AAC format, which many say is superior to MP3 format on some of its older selections. Once songs are downloaded, they are stored as a digital music library. As this collection grows, this list of songs can be arranged in many different ways. Songs can be arranged by personal rating, artist, or genre. This feature allows for a customizable playlist for playback or burning to CD. In addition iTunes offers a collection of more than 10,000 audio-books ranging in price from \$2.95 to \$15.95, including many different language lessons. Also available are downloadable version of public radio shows. Gift certificates are also available in different denomination and can be sent electronically through e-mail.

Napster: In May 1999, 19 year-old Shawn Fanning created Napster while studying in North Eastern University. The name of Napster came from the Internet “handle” he had used as a programmer. He created a type of software that allowed music fans anywhere to “share” MP3s in one forum. During the first year of service, Napster was obtaining more than 250,000 new users a week while maintaining a free service. This software creation led to the ever-growing controversy of the availability of MP3s on the Internet. Music sharing exploded in the late 1990s, and Napster’s servers were overloaded with millions of requests a day for media downloads. Music artists considered this new “sharing” forum to be a continuous- copy-right violation. Fanning soon became the target of their animosity and became one of the most disliked people in the music industry.

During 2000, Napster was in and out of the court and was finally to shut down on July 26, 2000. The decision was reversed two days later on July 28, 2000. In 2001, Konrad Hilbers, a 38 year-old German, became CEO of the rapidly declining music file sharing site. In June 2001, Napster had more than 26 million users, but growth was declining fast, going from 6.3 billion to 2.2 billion minutes used a day. On March 7, 2002, Napster closed its servers while opting to implement a fee-based service to comply with the federal judge’s decision. On June 3, 2002, Napster filed for Chapter 11 bankruptcy in an effort to secure court-ordered protection from creditors.

Kazaa: Sharman Networks Limited was founded in January 2002 as a private limited company. Sharman Networks develops markets world-class Internet applications. Kazaa Media desktop and Kazaa Plus are products of Sharman networks. Sharman Networks earns revenue by soliciting companies to advertise on its software. Users that prefer ad-free use of software can purchase an upgrade, Kazaa Plus for \$29.95. This upgrade will also allow for greater search capabilities and more download sources.

Being Australian-based, the company avoided legal intervention in allowing the file sharing, but in 2005, the federal court of Australia ruled that Kazaa had knowingly allowed users to illegally download copyrighted songs. The company was charged to change its software to prohibit copyrighted music or videos from being shared.

RealNetworks, Inc: RealNetworks, through its RealPlayer music store, sought a price war with apple by dropping the price to \$0.49 per song and \$4.99 per album compared to Apple’s price \$0.99 and \$9.99 respectively. Analysts indicated that RealNetworks was pricing below the cost of purchasing the music from the record companies, and eventually it did increase its price to \$0.99 per song; however it still offers, select songs for \$0.49 a track. As part of its battle to reduce Apple’s market share, RealNetworks launched technology called Harmony, which allows RealNetworks users to translate songs purchased from RealPlayer Music Store into a format that can be played on an iPod. It also allows RealNetworks music to be played on Microsoft formats.

RealPlayer is a RealNetworks medium through which it competes in the video-on-demand market. Video can be downloaded from the Web to an iPod, PC, CD, and DVD. RealPlayer customers can subscribe to its SuperPass Membership, which combines the benefits of RealPlayer and the RealPlayer Music Store. The \$14.99 monthly fee provides subscribers with \$10.00 worth of music downloads and full-length movies per month.

Virgin Media: Virgin offers more than 15,000 record labels in addition to computer games and videos and Blockbuster movies. Similar to iTunes, customers can listen to a 30-second sample before purchase and download exclusive tracks through Virgin's V2 music label before the tracks are released to the general public.

Wal-Mart: Wal-Mart launches its own online music store. It is currently the number-one music retailer in the nation, followed by iTunes. Initially Wal-Mart offered music in MP3 format for \$0.88 per song, \$0.11 cheaper than Apple, but currently it offers songs for \$ 0.94 and albums starting at \$7.88

Yahoo! Music Unlimited: Subscribers to Yahoo! Music Jukebox have access to more than 2 million songs. Users can listen to 150 LAUNCHcast radio stations or download song to any PC. After paying a monthly \$6.00 fee, subscribers pay only \$0.79 per song. Nonsubscribers can also download songs for \$0.99 each. At this time, Yahoo! offers only music on its site; video and TV shows are not available.

### *3.3 The Application of Combination (Hybrid) of Cost Leadership and Differentiation Strategy*

One example of hybrid strategy implemented by a famous company, namely Wal-Mart, is given below. This example is taken from the case study of "Wal-Mart Stores, Inc – 2009" (David, F., 2011).

Some case facts of Wal-Mart:

- 1) The stated purpose of Wal-Mart's pricing policy is to "meet or beat" the retail prices contemporaneously charged by competitors for highly competitive, price-sensitive merchandise; to maintain "low price leadership" in the local marketplace; and to "attract a disproportionate number of customers into a store to increase traffic."
- 2) And, it is Wal-Mart policy that its store managers monitor the retail prices charged by competitors in their respective market areas and lower prices for highly competitive merchandise without regard to the cost of individual items. This price is frequently below Wal-Mart's cost of acquiring some of these products in highly competitive markets.
- 3) The Wal-Mart case also states that the company's broad assortments and everyday low prices are very compelling. And for fiscal 2009, Wal-Mart operated internationally in 13 countries and Puerto Rico, with 762 discount stores and 436 Supercenters.
- 4) In addition to Discover Card, Sam's have also recently started accepting Master-Cards for payments.
- 5) The advantage plus program offers additional benefits and services such as automotive extended service contracts, roadside assistance, home improvement, auto brokering, and pharmacy discounts.
- 6) Wal-Mart moved into the Internet arena in 1996 with the introduction of Wal-Mart On-line, and then it re-launched the site on January 1, 2000, as Walmart.com.
- 7) Wal-Mart is developing new services such as music downloads and 1-hour photos.

Competitors of Wal-Mart:

Target has now become a fierce competitor of Wal-Mart and is ranked second among discount retailers with sales nearly \$65 billion with 366,000 employees. As of February 2, 2009, Target had 1,681 domestic Target stores including 239 Super Targets and ranks 28<sup>th</sup> on the Fortune 500 list. Target has created a niche for itself by offering more upscale, fashionable merchandise than that of Wal-Mart and has earned a reputation for inexpensive, chic merchandise.

Kmart used to be the main competitor for Wal-Mart, but in 2001 it declared bankruptcy. During 2002 Kmart shut down 600 stores in the United States, Guam, Puerto Rico, and the U.S. Virgin Islands. However, under the new management, Kmart's stock increased dramatically in 2004, which allowed it to buy Sears for \$11 billion. Now Kmart operates as a subsidiary of Sears Holding and follows Target in third place among discount retailers with sales of \$17 billion.

Costco Wholesale Corporation is also a competitor of Wal-Mart. Costco competes with Sam's club segment. They are the largest wholesale club operator in the United States, just ahead of Sam's. Costco currently has 550 warehouses, 403 in the United States and the rest dispersed from Canada to Japan. Most recent comparisons show that while the Sam's Club division of Wal-Mart brought in over \$44 billion in net sales, Costco finished the year at just over \$72 billion.

From the literature review above, all of the types of strategy have been implemented world-wide. Table 1 gives different perspective of the above literature review.

Table 1. The application of cost leadership, differentiation and hybrid strategy

No	Strategy	Where has the strategy been applied	Products/Services that the strategy has been applied (Example)
1	Cost Leadership	Developing, transition and developed economies (Worldwide)	Cars industry (Toyota), Airline business (Air Asia), Retail business (Giant and Carrefour Supermarket)
2	Differentiation	Developing, transition and developed economies (Worldwide)	Cars and Motor cycle (Mercedes Benz and Harley Davidson - by Brand) Watches (Titan Watches - by design) Domino Pizza (by positioning) Apple Computers (by technology) 3M (by Innovation)
3	Hybrid	Developing, transition and developed economies (Worldwide)	Car Industry (Toyota, Honda) Furniture Industry (IKEA)

#### 4. Field Survey Research

To strengthen the theory and the above findings, we decided to make confirmation whether or not the Hybrid Strategy has been implemented in the industry. Then, on October 7, 2011, we went to a giant Home Appliances the producer in Malaysia, which operates globally. And, the home appliances producer confirmed to implementing hybrid (both Cost Leadership and Differentiation strategy) globally. The home appliances producer, later, will be called "the company".

The method to collect all of the information from the company was using an interview method, guided by a set of pre-prepared questions. During the interview, the General Manager of the company, accompanied by marketing manager, were interviewed. All data were recorded during interview, then after the data were analyzed and processed. The result of the process and analysis were then written down as can be seen in the following points:

##### 4.1 *The Type of Markets Served by the Company*

Since the company operates in a global market, the company serves different types of market. The types of market, according to the company are: saturated market, stable market and emergent market.

##### 4.1.1 Saturated Market (Developed Economies)

The Company defines market in highly developed countries as saturated market. The indicators of saturated market are among others: very high purchasing power of customers, sophisticated needs of customers (much more than the basic functionalities of home appliances product), and strong competitive rivalry among competitors. Examples of saturated markets are: North America, Europe, South Korea and Australia.

##### 4.1.2 Stable Market (Transition Economies)

The Company defines market in developed countries as stable market. The indicators of stable market are among others: high purchasing power of customers, customers' demand for high quality products (more than the basic functionalities of home appliances product) and high level quality products offered by competitors. Examples of stable markets are: Malaysia, China and Taiwan.

##### 4.1.3 Emergent Market (Developing Economies)

The Company defines market in developing countries as emergent market. The indicators of emergent market are among others: low purchasing power of customers, customers' need basic functionalities home appliances product, and stiff competitive rivalry. Examples of emergent markets are: Indonesia, Philippines, India, Brazil, and some countries in Africa.

##### 4.2 *The Implementation of Strategies by the Company*

The company implements differentiation strategy in the following markets:

- a) Saturated markets: In order to compete with its competitors, the company implements the differentiation



strategy. With the differentiation strategy in the saturated markets, the company offers very high quality home appliances products with many features to differentiate from its competitors, and to enhance customer value.

- b) Stable Markets: In order to compete with its competitors, the company implements differentiation strategy. With the differentiation strategy in the stable markets, the company offers high quality home appliances products with some features to differentiate from its competitors, and to enhance customer value.

The principle of production: the company produces home appliances with one strategy that is Cost Leadership strategy. The pressure from the market or industry has been very heavy, resulting in reducing price of the home appliances in the market. A good example is that the price of electronic products keeping on reducing from time to time. To face the reducing price, the company could only survive if the company is able to reduce the cost of production, without jeopardizing quality and profit. Thus the company implements Cost Leadership Strategy, but according to the general manager of the company, more precisely, the company implements Cost Leadership Best Value.

Therefore, the company implements cost leadership strategy in the following markets:

- a) Emergent Markets: The Company has only recently penetrated the emergent markets. When the company entered the emergent market, it implemented the cost leadership strategy to compete with its competitors. With the cost leadership strategy, the company keeps maintaining the quality of the home appliances products while reducing the features offered, hence, maintaining an affordable price. With this cost leadership strategy, the company is able to serve the lower income customers within the emergent markets.
- b) Saturated and Stable markets: Because the basic principle of the company production is to reduce production cost to be able to compete with its competitors, the company also implements the Cost leadership in the saturated and stable market. Again, the company implements Cost Leadership Best Value, which means that the company's product price is not the lowest price in the market.

#### 4.3 Factors Affecting on the Strategy (Case Analysis)

##### 4.3.1 Differentiation Strategy: Apple-iTunes Case Analysis

The Apple – iTunes Case stated in number 3.2 are analyzed from 4 different factors such as its legal status, subscription, song availability to be accessed and price. The case was analyzed by comparing the factors throughout the companies within the industry.

##### 1) The first factor: Legal Status

When this factor is assessed to Apple-iTunes, is assessed to every company within the industry, the result of Apple-iTunes for this factor (legal status) is “legal”, as stated in the case facts that Apple-iTunes was built to be the solution of the illegal music download industry (The idea behind iTunes was to provide a solution to the illegal printing of music and software from rival sources such as Kazaa).

When this factor is assessed to rest of the companies operate in the industry, the result is : “illegal” for Napster, “illegal” for Kazaa, “ legal” for RealNetworks, “legal” for Virgin Media, “legal” for Wal-Mart, and “legal” for Yahoo!. Another way to look at the analysis can be seen in the Table-2.

The result of the analysis is that *Apple-iTunes implements differentiation strategy*.

##### 2) The second factor: Subscription

When this factor is assessed to all of the companies within the industry, the result is: “No subscription needed” for Apple-iTunes, “Data is not available” for Napster, “ Data is not available” for Kazaa, “Can subscribe to SuperPass” for RealNetworks, “Data is not available” for Virgin Media, “Data is not available” for Wal-Mart, and “Need monthly subscription” for Yahoo!.

The result for this analysis is that *Apple-iTunes implements differentiation strategy*.

##### 3) The third factor: Song available

When this factor is assessed to all of the companies within the industry, the result is: ”More than 6 million songs, with new songs continually added” for Apple-iTunes, “Data is not available” for Napster, “ Data is not available” for Kazaa, “Data is not available” for RealNetworks, “15,000 record labels” for Virgin Media, “Data is not available “ for Wal-Mart, and “ “More than 2 million songs” for Yahoo!.

The result for this analysis is that *Apple-iTunes implements differentiation strategy*.

##### 4) The forth factor: Price

When this factor is assessed to all of the companies within the industry, the result is: “\$.99 each song; complete

album starts at \$9.99” for Apple-iTunes, “Data is not available for Napster, “Data is not available” for Kazaa, “\$0.49 for each song; and \$4.99 per album” for RealNetworks, “Data is not available” for Virgin Media, “\$0.94 each song; and per album starting from \$7.88, “For subscribers: \$0.79 per song; for non subscriber \$0.99 per song” for Yahoo!.

The result for this analysis is that *Apple-iTunes implements differentiation strategy*.

Since Apple computer is a global company, then we can conclude from the case analysis above that the differentiation strategy has been implemented world - wide. Table 2 gives different perspective of the above case analysis.

Table 2. Apple – itunes case analysis

No	Items	Case Facts							Strategy implemented by iTunes
		Apple-iTunes	Napster	Kazaa	Real Networks	Virgin Media	Wal-Mart	Yahoo!	
1	Subscription	No Subscription	Data not available	Data not available	Can subscribe to SuperPass	Data not available	Data not available	Monthly subscription	Differentiation
2	Legal status	Legal	Illegal	Illegal	Legal	Legal	Legal	Legal	Differentiation
3	Songs available	>6 million, with new songs continually added	Data not available	Data not available	Data not available	15000 record labels	Data not available	>2 million songs	Differentiation
4	Price	\$0.99 each song; complete albums starts at \$9.99	Data not available	Data not available	\$0.49 each song; and \$4.99 per album	Data not available	\$0.49 each song; and per album starting from \$7.88	For subscriber: \$0.79 per song; for non subscriber \$0.99 per song	Differentiation

#### 4.3.2 Hybrid strategy: Wal-Mart Case Analysis

The Wal-Mart case stated in number 3.3 are analyzed from 7 different factors such as nature of business, pricing policy, operational characteristic, Customer payment method, market development, product development, and marketing strategy. As the previous case analysis, this case was analyzed by comparing the factors throughout the companies within the industry.

1) The first factor: Nature of business.

When this factor is assessed to all of the companies within the industry, the result is: “Low price leadership” for Wal-Mart, “Low Price” for Target, “Low Price” for Kmart, “Low price” for Costco.

The result for this analysis is that *Wal-Mart implements Cost Leadership Strategy*.

2) The second factor: Pricing policy

When this factor is assessed to all of the companies within the industry, the result is: “Lower than rival” for Wal-Mart, “Data is not available” for Target, “Data is not available” for Kmart, “Data is not available” for Costco.

The result for this analysis is that *Wal-Mart implements Cost Leadership Strategy*.

3) The third factor: Operational characteristic

When this factor is assessed to all of the companies within the industry, the result is: “Low cost retailer” for Target, “Low cost retailer” for Target, “Low cost retailer” for Kmart, “Low cost retailer” for Costco.

The result for this analysis is that *Wal-Mart implements Cost Leadership Strategy*.

4) The forth factor: Customer payment method

When this factor is assessed to all of the companies within the industry, the result is: “Sam’s Club are membership only, cash and carry operation, Discover Card is available. (Wal-Mart) Recently started accepting Master-Card” for Wal-Mart, “Data is not available” for Target, “Data is not available” for KMart, and “Data is not available” for Costco.

The result for this analysis is that *Wal-Mart implements Differentiation Strategy*.

5) The fifth factor: Market development

When this factor is assessed to all of the companies within the industry, the result is: “1996 started introducing *Wal-Mart online*” for Wal-Mart, “Data is not available” for Target, “Data is not available” for Kmart, “Data is not available” for Costco.

The result for this analysis is that *Wal-Mart implements Differentiation Strategy*.

6) The sixth factor: Product development.

When this factor is assessed to all of the companies within the industry, the result is: “Introducing new service such as music download” for Wal-Mart, “Data is not available” for Target, “Data is not available” for Kmart, “Data is not available” for Costco.

The result for this analysis is that *Wal-Mart implements Differentiation Strategy*.

7) The seventh factor: Marketing strategy.

When this factor is assessed to all of the companies within the industry, the result is: “Plus Program offers additional benefits and services” for Wal-Mart, “Data is not available” for Target, “Data is not available” for Kmart, “Data is not available” for Costco.

The result for this analysis is that *Wal-Mart implements Differentiation Strategy*

From the above case analysis we can conclude that Wal-Mart implements both Cost Leadership Strategy and Differentiation Strategy at the same time. In other word, Wal-Mart implements the Hybrid strategy to compete with its rivals in the industry. Table – 3 gives different perspective of the above case analysis.

Table 3. Wal-Mart case analysis

No	Items	Competing Companies within Industry				Strategy Implmented by Wal-Mart
		Wal-Mart	Target	Kmart	Costco	
1	Nature of Business	Low Price Leadership	Low Price	Low Price	Low Price	Cost Leadership
2	Pricing Policy	Lower than rivals	Data not available	Data not available	Data not available	Cost Leadership
3	Operational Characteristic	Low Cost retailer	Low Cost retailer	Low Cost retailer	Low Cost retailer	Cost Leadership
4	Payment	Sam's Club are membership only, cash-and-carry operation, Discover Card is available. Recently started accepting Master-Card	Data not available	Data not available	Data not available	Diffrentiation
5	Market Development	1996 started introducing Wal-Mart Online	Data not available	Data not available	Data not available	Diffrentiation
6	Product Development	Introducing new service such as music download.	Data not available	Data not available	Data not available	Diffrentiation
7	Marketing Strategy	Plus Program offers additional benefits and services.	Data not available	Data not available	Data not available	Diffrentiation

#### 4.4 Field Survey Analysis

The research result shows the following data:

Since the company operates globally, the implementation of strategy is based on where the company is operating:

- 1) In a saturated market, the company implements both Differentiation Strategy and Cost Leadership Best Value at the same time.
- 2) In a stable market, the company implements both Differentiation Strategy and Cost Leadership Best Value at the same time.
- 3) In an emergent market (market with price sensitive buyers), the company implements Cost Leadership - best

value. Cost leadership – best value is that a company offers products or services to a wide range of customers at the best price-value on the market. (David, 2011). It means that the company offers products or services but the price-value is not necessarily the lowest price in the industry.

Thus the result of the field survey analysis is: the company implements Cost leadership and Differentiation strategy at the same time in Saturated and Stable markets. Or, in other word, *the company implements Hybrid strategy*.

## 5. Conclusion

The Cost Leadership, Differentiation and the Hybrid strategies have been implemented world-wide. And the Case analysis above gives the result as the following:

1) The Apple-iTunes case analysis has the result that Apple-iTunes implements differentiation strategy. Since Apple-iTunes operates globally, then, this result contributes to strengthen the result of the Literature Review stated “The Differentiation strategy has been implemented world-wide”.

2) The Wal-Mart case analysis has the result that Wal-Mart implements both Cost Leadership strategy and strategy at the same time. In other word, Wal-Mart implements Hybrid strategy (a combination of Cost Leadership and Differentiation strategy).

Since Wal-Mart operates globally, then, this result contributes to strengthen the result of the Literature Review stated “The Hybrid strategy (the combination of Cost Leadership and Differentiation strategy) has been implemented world-wide”.

3) The Field survey analysis stated above gives the result the company implements Cost leadership strategy and Differentiation strategy at the same time in the saturated and stable markets. In other word, the company implements Hybrid strategy (a combination of Cost Leadership and Differentiation strategy).

This result contributes to strengthen the result of the Literature Review stated “The Hybrid strategy (the combination of Cost Leadership and Differentiation strategy) has been implemented world-wide”.

4) The result of all of the review and analysis stated above 1), 2), 3) give a clear indication that the Cost Leadership strategy, Differentiation strategy and the Hybrid strategy have been implemented successfully world-wide. The Cost Leadership strategy and Differentiation strategy have been proven implemented successfully for some times. But the Hybrid strategy, has only been recently implemented successfully, is a new trend for a company to compete in the industry. The remaining question is that: Will the Hybrid strategy become a new strategy for competitive advantage?

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