THE LOW COST, DIFFERENTIATION, AND FOCUS/NICHE STRATEGIES OF AMERICAN, JAPANESE, AND BRITISH COMPANIES OPERATING IN THE UNITED STATES: A COMPARATIVE STUDY

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ABSTRACT

This paper reports the findings of a study that investigates the differences between Japanese, British and American companies (that are operating in the United States) in how they use Porter's generic strategies of low cost, differentiation, and focus/niche. Specifically, the study addresses the following issues: (1) What constitutes the three different generic strategies of low cost, differentiation and focus/niche? (2) Do American, Japanese, and British companies use different generic strategies in order to gain competitive advantage?

Keywords: Japanese, British, U.S. companies, generic strategies.

INTRODUCTION

Researchers have typically studied differences between U.S. and Japanese companies on a number of business-related issues ranging from marketing to finance, production, export decisions, etc. However, researchers have ignored comparing British companies to Japanese or U.S. companies operating in the United States. This is intriguing given the history of the U.S. as a former British colony, and the fact that the U.K. is the largest investor in the U.S. First, this study attempts to identify the components of the

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three generic strategies of low cost, differentiation, and focus/niche, i.e., the activities by which companies achieve these strategies. Researchers have not empirically investigated this so far. Secondly, the study compares the generic strategies of British, U.S. and Japanese companies operating in the United States. This has also not been done thus far. The authors think that this comparison will shed some light on the modus operandi of the companies from the three different countries.

LITERATURE REVIEW

"Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition." (Porter 1985) A firm can gain competitive advantage if it is able to create value for its buyers. A firm can provide this superior value by offering products/services that are lower in prices than that of its competitors, or benefits that are so unique that consumers are willing to pay a higher price for it. The former generic strategy is called the strategy of cost leadership while the latter is labeled the strategy of differentiation. A third strategy of focus is when a firm chooses a narrow segment within its industry and tailors its offerings (strategy) to that segment. Firms that follow each generic strategy but do not achieve any of them are "stuck in the middle."

If a firm wishes to pursue the strategy of cost leadership, it has to be the low cost producer in its industry. The firm may gain cost advantage through economies of scale, proprietary technology, cheap raw material, etc. The strategy of differentiation can be used by offering a different product, a different delivery system, a different marketing approach, or by emphasizing different functional aspects within their respective organizations. Finally, the strategy of focus can be achieved by a firm that tailors its production or delivery system to the specific needs of the segment whose needs has not been satisfied by other firms in the industry.

Japanese companies have been very successful irrespective of the country they ventured into. This phenomenon can be explained through the international product cycle (IPC). The Japanese first concentrate their attention to their home market, secondly, they gain control of third-country markets, and lastly the original entrant's market (Kotabe 1990). The Japanese first target their domestic customers through economies of scale, quality improvement and lower costs, before penetrating foreign markets with quality products that were standardized, but at a lower cost (Abbeglen and Stalk 1985). Campbell (1985) observes that in the Japanese market, domestic competition is very severe and Japanese companies introduce new products just to maintain their market position. Japanese companies use very aggressive pricing strategies when penetrating foreign markets in order to build market share and ultimately establish a dominant position. This results in lower profits in the short run and higher profits in the long run (Smothers 1990).

During the 1950s and 1960s, Japanese companies relied very heavily on European and U.S. companies and bought the necessary technology from them, and invested heavily in manufacturing processes in order to gain competitive advantage over other lesser-developed competitors (Ozawa 1974, Peck 1976, Aoki and Itami 1985, Kotler, Fahey, and Jatusripitak 1985, and Nonaka 1988). Japanese companies also spend far more than their European and American counterparts in R&D activities, and this may explain their superiority over their counterparts in other countries on product and process innovation (Kotabe 1990).

In the engineering sector, European and Japanese companies are more competitive than American companies in markets where competencies were not product specific (Arora and Gambardella 1997). The Japanese have learned to cut product adaptation since it results in lower profitability and lower market share. Consequently, Japanese companies increasingly emphasize product standardization since it results in economies of scale both in marketing and production, and process innovation much more than U.S. companies in markets with rapidly changing technological requirements (Kotabe 1990). This has also resulted in a product line offering by the Japanese that is larger than others in the automobile industry (Kotler, Fahey, and Jatusripitak 1985).

A comparative study of Japanese and British companies in the U.K. by Saunders and Wong (1986) found that Japanese companies tend to be more aggressive, and want to dominate the market. The Japanese also have a long-term perspective and short-term profits are considered to be not very important. They are much more interested in growth and long term strategies to capture market share (volume) at the expense of immediate short-term profits (Clark 1979, Kagono et al. 1984, Kono 1984, Pickens 1987). Subsequently, they report having lower profits than their American counterparts (Haar 1989, Johansson and Yip 1994). Japanese companies have also been known to pursue globally integrated strategies so that they can benefit from cost reductions (Kogut 1985), improved product quality (Yip 1989), and higher customer preference (Levitt 1983) in order to gain competitive advantage (Hout, Porter and Rudden 1982, Hamel and Prahalad 1985). In comparison to American and European companies, Japanese companies are becoming more customer-oriented (Deshpande, Farley, and Webster 1993). It has also been documented that Japanese companies are very flexible and quick to strategically adapt to changes (Kagono et al. 1984, Stalk 1988). The Japanese have also been known to use spin-offs in a changing environment and use it as an alternative way of diversification (Ito 1995).

Most of the expenditure on research by Japanese companies is in applied research rather than basic research (Johnson 1984). The Japanese also invest in new capacity to support their objective of market domination, and their R&D policy is to constantly upgrade today's existing technology in order to maintain their competitive advantage in the future through improvements in products and process innovation (Ito and

Puick 1993). Japanese firms have also been found to have a higher propensity to manufacture in the U.S., if their R&D expenditures are large (Hennart and Park 1994). The Japanese have consistently used productivity-base strategies by emphasizing continuous improvements and more productive use of capital and labor, by increasing information content and sophisticated production processes (Smothers 1990).

Japanese executives believe that profits in the long run come from a focus on volume, which result in economies of scale and consequently lower cost. The Japanese usually enter markets at the low price end (Doyle, Saunders and Wong 1992). It appears that the Japanese are very cost conscious and their goal of penetrating into a market, and increasing market share comes through lowering costs of their products. Consequently, the following hypothesis is proposed for Japanese companies.

H1: In the U.S. market, in comparison to British and U.S. companies, Japanese companies gain competitive advantage by using the generic strategy of low cost.

The strategic emphasis of U.S. companies has shifted from manufacturing to marketing and finance in the last decade (Buffa 1984). Findings by Doyle, Saunders, and Wright (1988), Doyle, Saunders and Wong (1986, 1992), suggest that in the UK market, British and American companies lack a long-term focus, and are more concerned with short-term profits than long-term market-share growth, and subsequently, are not as successful as their Japanese counterparts. The authors also report that the Japanese are very clear about their strategic objective. Twice as many American and British companies put their emphasis on short-term profits in comparison to Japanese companies. While 87% of the Japanese list "aggressive growth," or "market dominance" as their strategic objective, only 20% of the British companies have that same objective. On the other hand, American companies have strategic objectives of either wanting to maintain growth (47%), or have aggressive growth (53%).

American companies operating in the British market also have higher quality than their British counterparts, and they are viewed as being quite expensive, and probably over-engineered for the British market (Doyle, Saunders and Wong 1992). The following hypothesis is proposed for U.S. companies.

H2: In the U.S. market, in comparison to Japanese and British companies, U.S. companies use the generic strategy of differentiation in order to achieve competitive advantage.

In the U.K., when British companies are attacked by Japanese companies, they withdraw and pursue a defensive strategy. They protect their profit margin by focusing on cost cutting and reducing the range of products. British companies fail to see the importance of economies of scale in reducing their manufacturing cost. A large percentage of British companies are also unsure about the types of customers they are serving, and the needs of their customers. Their strategies fail to take into account the basic dynamics of the market (Doyle, Saunders and Wong 1992).

British companies are also found to be very weak in R&D, product design, large-scale manufacturing efficiency, and cost reduction. The only reason they are doing well in their domestic market is because there is a very strong "buy British" attitude in the country (Doyle, Saunders, and Wong 1992). Consequently, the following hypothesis is proposed for British companies operating in the United States.

H3: In the U.S. market, in comparison to Japanese and U.S. companies, British companies lack a strategic direction, and are "stuck-in-the-middle.

RESEARCH METHODOLOGY

Data Collection

This section presents the method used to investigate what constitutes the three different generic strategies of low cost, differentiation, and focus/niche, and to test the above three hypotheses regarding the differences in strategy formulation between the Japanese, U.S., and British companies operating in the US.

A mail survey is used to collect data for this study. Names of companies were selected from the directory of Foreign Owned Companies Operating in the United States, and Dun and Bradstreet's Million Dollar Directory. In the first mailing, five hundred questionnaires were mailed to CEOs of U.S., Japanese and British companies with operations in the United States. A second mailing was also done to all of the five hundred selected companies.

Measurement Issues

The questionnaire contains items that ask potential respondents to identify how important certain items are to their company when developing strategies in order to gain competitive advantage. The questionnaire also has items relating to company background, their strategic goal, and problem areas, and a short letter explaining the purpose of the study. A self addressed stamped envelope was also included in the mailer. To encourage response, if respondents desired, they were promised a summary of the findings of the study.

The questionnaire is divided into three parts. The first part contains eleven questions relating to the company's background, e.g., the location of their headquarters, their total sales, number of employees, profits, etc. The second part contains twenty questions that solicit information about the company's focus on marketing, finance, and other related items. Finally, the third part contains twenty-five questions relating to strategic issues, and how successful the company was when implementing these.

RESULTS

The Response Rate

Out of the five hundred questionnaires that were mailed, one hundred and seventy eight were returned because the companies had either moved or closed down, and had not left any forwarding address. The number of returned questionnaires totaled 69, out of which only 60 were usable. This resulted in a response rate of approximately 18.6%. This may seem like a low number, however, recent studies using CEOs as respondents report response rates between 5-8%. Shaw's (1994) study of British and German companies operating in the U.K. uses responses from only 40 companies. Given the length of the questionnaire and the person (CEO) it was sent to, this should be regarded as an acceptable number. Out of the 60 returned questionnaires, 24 were from U.S. companies, 16 from British companies, and 20 from Japanese companies.

Data Analysis

Respondent Characteristics. Table 1 contains information on the characteristics of the companies who responded from the three different countries.

As can be seen from Table 1, the average Japanese company is smaller than the average American or British company. This is so because the Japanese have been recent entrants to the American market (2-10 years) in comparison to the American (>21 years) and the British (10-21 years). The Japanese and the British tend to have lower sales than the average American company. The Japanese report that their profits have fallen in the last five years in comparison to the American and the British. This is supported by the fact that the Japanese sacrifice short term profits for long term market share.

In contrast to the American and British companies, Japanese companies think that their strongest competitors are other Japanese companies. This is true because all Japanese companies seem to be using similar objectives of gaining market share at the expense of short-term profits. This may tie in with their response to the next question regarding their position in the U.S., i.e., the Japanese report having a follower strategy in comparison to the American and the British, both of whom report to be highly competitive. Maybe the Japanese have not been as aggressive as the British and the U.S. companies and thus may have seen falling market share. Surprisingly, the Japanese tend to have a shorter planning horizon than the U.S., and the British companies. This may be because the Japanese are recent entrants to the U.S. market and may still be learning, reacting and adjusting their plans to the new volatile market. Finally, companies from all the three countries report that they have a participative management style. The participative type of management style seems to be a common trend in most corporations.

Table 1. Company Characteristics (based on mean response)

Company Background	Japanese Cos. (N=20)	U.S. Cos. (N=24)	U.K. Cos (N=16)
No. of employees in US.	100-499	500-999	500-999
Time in US.	2-10 years	>21 years	11-20 years
Sales in US. (in million $s)	51-100	101-500	51-100
Profits in the last 5 years	Decreased	Increased	Increased
Strongest competitor	Japanese Companies	U.S. Companies	U.S. Companies
Market share in last 5 years	Decreased	Increased	Increased
Company position in US.	Follower	Highly competitive	Highly competitive
Planning horizon	1-3 years	3-5 years	3-5 years
Management style	Participative	Participative	Participative

Strategic Focus

Factor analysis is used to reduce the 25 items that were used to measure the strategic focus items into a smaller number of items without the loss of significant information. This has been used by such scholars like Churchill (1979) and Harrigan (1985). Varimax rotation was used, providing maximally uncorrelated factors. This resulted in seven factors that accounted for 74% of the variation. Each has given values grater than one. Table 2 shows the results. The reliability test scores using Cronbach's Alpha for the seven factors were 0.82 for factor one, 0.79 for factor two, 0.84 for factor three, 0.81 for factor four, 0.73 for factor five, 0.48 for factor six, and 0.53 for factor seven.

Based on Porter's three generic strategies, one would have expected to see only three factors. However, these findings do not contradict Porter's implications, but support it. Porter has laid down activities by which companies can lower cost, differentiate themselves from other, and the activities by which they can achieve the strategy of focus/niche. The seven factors generated through factor analysis are nothing more than the activities by which companies in the study are pursuing the three generic strategies. It seems that respondents are making fine distinctions between how the strategy of low cost is achieved, and how the strategy of focus/niche is achieved. Even though Porter has suggested companies' activities by which they gain competitive advantage through the three generic strategies, there is no study to date that has investigated the different components of the three generic strategies.

Table 2. Factor Analysis for Generic Strategies of Low Cost Differentiation, and Focus/Niche

Strategy Measures	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5	Factor 6	Factor 7
	Low cost	Low cost	Differentiation	Niche/Focus	Low cost	Niche/Focus	Low cost
	(production)	(marketing)		(product)	(process)	(service)	(integration)
	Factor Loadings						
Cost reduction through production efficiency	0.776						
Cost reduction through Raw materials and other inputs	0.823						
Cost reduction through low cost suppliers	0.788						
Cost reduction through lower wages		0.775					
Cost reduction by providing no-frill (basic) products		0.667					
Cost reduction by providing ltd. Service		0.733					
Cost reduction through low cost distributors		0.810					
Products that have different features than competitors			0.875				
Product variation that are different than competitors			0.874				
Products with superior quality and reliability		0.497					
Focus on distribution to provide customer service/benefits			0.545				
Using technology to meet customer expectations				0.470			
Focus on meeting specialized needs of a narrow market segment				0.917			
Customizing the product for a narrow market segment				0.843			
Focusing on a low volume market			0.643				
Cost reduction through economies of scale					0.650		

Strategy Measures	Factor 1	Factor 2	Factor 3	Factor 4	Factor 5	Factor 6	Factor 7
	Low cost	Low cost		Niche/Focus	Low cost	Niche/Focus	
			Differentiation				Low cost
	(production)	(marketing)		(product)	(process)	(service)	(integration)
	Factor Loadings						
Cost reduction through R&D					0.839		
Cost reduction through process development				0.665			
Newer and different products through R&D					0.540		
Price differentiation					0.475		
Focus on customer service						0.529	
Focus on a high profit market segment						0.798	
Advertise to distinguish from competitors							0.522
Focus on backward integration to create efficiency							0.845
Focus on forward integration to create efficiency							0.626

Factor 1 is a combination of three different items, and appears to be the strategy of achieving low cost through production. It is labeled "low cost – production." As stated earlier, it appears that respondents are making distinction in terms of how the strategy of low cost is achieved. In that vein, the second factor is a combination of four different items, which are related to the low cost related to the marketing of the products. It is labeled "low cost – marketing." The third factor consists of four different items and has been labeled "differentiation" since the factor contains items that differentiate the company's offerings from its competitors.

The fourth factor is labeled "niche/focus-product" and it contains four different items that have been used by Porter to define the focus/niche strategy. Factor 5 has also been labeled "low cost – process," and it appears that respondents are distinguishing between the low cost achieved through production and the low cost achieved through process. Factor 6 is the "focus/niche-service" factor, and it appears that respondents are distinguishing between focus/niche through service and focus/niche through specialized products. Finally, factor seven has three items, and two of them relate to creating efficiency through integration. This factor has also been labeled "low cost – integration," since it seeks to bring efficiency through integration.

Next, the average score for each factor for companies from the different countries was calculated. For example, the average score for factor one is a combination of the three items for that factor divided by three. Similarly, for factor two, it is the addition of the four items divided by four, etc.

Table 3. Mean Scores of Companies from the Three Countries on Strategic Dimensions

Strategic Dimensions	U.S. Cos.	British Cos.	Japanese Cos.	F-Ratio	Significance
	N=24	N=16	N=20		
Low Cost – Production	3.58	3.21	4.02	2.77	0.71
Low Cost – Marketing	2.66	2.31	2.73	0.99	0.38
Low Cost – Process	3.73	3.68	3.40	1.14	0.33
Low Cost – Integration	3.14	3.02	3.27	0.43	0.65
Differentiation	3.87	3.66	3.60	0.52	0.60

Table 3 shows the mean scores and the F-Ratio of the companies from the three countries on the seven different factors. As can be seen from Table 3, there is no statistically significant difference between companies from the three countries on the seven factors. Thus, the study fails to support hypothesis 1, 2, and 3. The lack of statistically significant difference among the companies from the three different countries on strategic dimensions is disappointing. However, there are a number of reasons why this is happening. The discussion section of this paper elaborates on that issue.

The final analysis is done on issues that are thought to have an impact on the success of the company, and on items that create problems for the company. Table 4 shows the results.

As can be seen from Table 4, the goal of Japanese companies is to maintain their market share, while the British and the American companies pursue aggressive growth. Companies from the three countries think that they were equally effective in attaining their market share goal. The lack of clear goals and lack of marketing support seem to create more problems for the Japanese than the British or the American companies.

The British and the Japanese also identify the lack of communication and coordination with other functional areas to be more of a problem than the American companies. Companies from all three countries identify that the first and the second most important factors for the success of their strategy are their product quality and their relation with their suppliers. The Americans identify marketing as the third most important factor for the success of their strategy, while the British and the Japanese identify manufacturing support as the third most important factor. Finally, both the British and the American companies say that their strategy is somewhat successful while the Japanese say that their strategy is neither successful nor unsuccessful.

Table 4. Success and Problem Areas in Attaining Goal (based on mean response)

Items	Japanese Companies	U.S. Companies	British Companies
	(N=20)	(N=24)	(N=16)
Market share goal	maintain position	aggressive growth	aggressive growth
Success in attaining market share goal	somewhat effective	somewhat effective	somewhat effective
Problem areas lack of clear goals	some problem	little problem	little problem
lack of management support from head office	little problem	little problem	little problem
lack of manufacturing support	little problem	little problem	little problem
lack of financial support	little problem	little problem	little problem
lack of marketing support	some problem	little problem	little problem
lack of inform system support	some problem	some problem	some problem
lack of communication and coordination with other functional areas	some problem	little problem	some problem
lack of clear definitions of responsibilities and policies	some problem	some problem	little problem
Three Factors most Important for success of strategy			
First	product quality	product quality	product quality
Second	supplier relation	supplier relation	supplier relation
Third	manufacturing support	marketing	manufacturing support
Success in implementation of strategy	somewhat successful	somewhat successful	neither successful nor unsuccessful

SUMMARY AND DISCUSSION

This study is the first to investigate the components of Porter's generic strategies of low cost, differentiation and focus/niche. The study conducts factor analysis and is successful in finding seven factors (activities) by which responding companies achieve Porter's three generic strategies. The authors of this paper think that because Porter's generic strategies encompass a very wide range of activities by which a company can achieve competitive advantage, companies are identifying these activities piece meal to show how they gain competitive advantage. Respondents are very specific on how they achieve the low cost strategy, and how they achieve the strategy of niche/focus. For instance, respondents are distinguishing between achieving low cost through production, or through process, or through their offerings in the marketplace. Respondents are also distinguishing between how they are achieving the focus/niche strategy, i.e., either through product or service. As stated earlier, even though Porter has listed the activities by which companies gain competitive advantage through the three generic strategies, there is no study to date that has empirically identified those activities. Further research may be needed in this direction to find an exhaustive list of activities used by companies to gain competitive advantage through the three different generic strategies.

The study also investigates the differences between U.S., British, and Japanese companies operating in the U.S. in how they address certain issues related to strategy formulation. The authors are disappointed that the study did not find any significant differences in the generic strategies used by companies from the three countries. However, the authors think that there are some very valid explanations for this. It is very likely that due to the length of the questionnaire (4 pages long, with 56 items), respondents were discouraged, leading to a response rate that may have been too small for analysis of variance. The authors think that a higher response rate could have shown more significant results.

A second explanation is that the companies from the three different countries may be operating in very mature markets, and due to the nature of the market, companies are beginning to use similar strategies. Typically, strategies in mature markets where products tend to become perceived commodity-like business strategies also become very similar.

A third explanation is that the Japanese have traditionally entered markets as low cost providers, however, lately have ventured into the higher price and the upscale markets. For instance, Japanese camera manufacturers like Nikon, Minolta, Canon, Olympus, and Pentax, which had dominated the mid price segment in the camera industry have moved upscale and have taken huge chunks of market share away from the upscale German camera manufacturers like Hasselblad, Leica, Contax, Rollei, etc. Similarly, in the auto industry, Lexus (a division of Toyota), displaced Mercedes Benz, and became the market leader in the luxury segment within four years of its introduction into the U.S., market. Infiniti (a division of Nissan), and Acura (a division of Honda), have also become key players in the luxury segment in the auto industry. And Sony, as the undisputed market leader in the electronics industry is considered the high price provider. This is also supported by the findings of Doyle, Saunders and Wong (1992) who state that the Japanese enter markets with lower price and later move upwards to the higher value added segments, and also by Kotabe, Duhan, Smith and Wilson (1991) who report that Japanese corporations think that strategies relating to product are more successful than those employing price, promotion or organizational synergy.

Yet another explanation is that since this study is not industry specific, and respondents are from a wide variety of industries, it is difficult to find difference in strategies at this level of aggregation. This is supported by the findings of a study of the consumer, industrial and service industries by Deshpande and Farley (1998), who conclude that there is little or no effect of strategies on performance at that level of aggregation.

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