

Exhibit 7–21: External Risks Associated with Positioning Strategies

Generic Strategy	External Risks
Cost Leadership	<ul style="list-style-type: none">• Technological change that nullifies past investments or learning• Low-cost learning by industry newcomers or followers, through imitation or through their ability to invest in state-of-the-art facilities• Inability to see required product or marketing change because of the attention placed on cost• Inflation in costs that narrow the organization's ability to maintain sufficient price differential to offset competitors' brand images or other approaches to differentiation
Differentiation	<ul style="list-style-type: none">• The cost differential between low-cost competitors and the differentiated firm is too great for differentiation to hold brand loyalty; buyers therefore sacrifice some of the features, services, or image possessed by the differentiated organization for large cost savings• Buyers' need for the differentiating factor diminishes, which can occur as buyers become more sophisticated• Imitation narrows perceived differentiation, a common occurrence as the industry matures
Focus	<ul style="list-style-type: none">• Cost differential between broad-range competitors and the focused organization widens to eliminate the cost advantages of serving a narrow target or to offset the differentiation achieved by focus• Differences in desired products or services between the strategic target and the market as a whole narrows• Competitors find submarkets within the strategic target and outfocus the focuser• Focuser grows the market to a sufficient size that it becomes attractive to competitors that previously ignored it

Source: Adapted from Michael E. Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors* (1980), pp. 40–41. Copyright © 1980, 1998 by The Free Press. All rights reserved. Adapted by permission of Simon & Schuster Adult Publishing Group.