The role of strategic grouping in achieving competitive success

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Abstract: *This paper analyzes the critical function of strategic grouping in determining competitive dynamics within industries. Strategic grouping, which refers to clusters of firms in an industry that share similar qualities and tactics, provides insights into competitive challenges and opportunities. The notion grew out of Michael S. Hunt's PhD in 1972 and has become a basic paradigm in strategic management. According to Michael Porter's concept, strategic groupings are formed when organizations utilize comparable tactics across important dimensions. Various criteria, including product or service offering, distribution channels, market segmentation, technology, brand image, customer segments, and cost structure, are used to delineate strategic groups. Typical forms of strategic groups include industry-based, market-based, product-based, resource-based, and geographic-based groups. Strategic group mapping emerges as an effective tool for visualizing industry competitiveness and identifying market positioning and competitive advantages. The procedure entails identifying important rivals, key competitive traits, and charting firms on a map using relevant factors. Case studies of strategic group mapping in the automotive and European airline sectors demonstrate the need of implementation of strategic grouping ideas. The findings provide insight into the complex competition landscape and suggest possibilities for market positioning and strategic decision-making. Finally, strategic group mapping helps firms navigate competitive marketplaces, establish competitive advantages, and discover new prospects for development and differentiation.*

Key words: ***Strategic group, competition, mapping, automobiles, airlines.***

JEL: L10, M10, L22, L13.

1. Introduction

It is believed that a company's ability to compete is crucial to its success. To effectively acquire a competitive advantage, a company is motivated by competition to find creative ways to divert customers away from its competitors' products and services and toward its own. Feedback also plays an important role, as it leads to psychological security and a sense of belonging to the group, with the aim of improving the organization's performance (Matei & Veith, 2023). In this regard, managers must set clear objectives to eliminate the uncertainty that can arise within work teams (Veith, et al., 2021). Various analytical frameworks, such strategic grouping, make it easier to understand the rivalry. By using strategic grouping, businesses can categorize and understand the diverse array of competitors present in a certain market. This study explores the purpose that strategic groups play in making competitive dynamics and how they impact market positioning, strategic choices, and the overall direction of companies in a certain sector.

In the context of strategic management, a group of businesses within an industry that share comparable traits and approaches is referred to as a strategic group. These businesses may experience comparable opportunities and competitive pressures since they are thought to be more alike than they are to other businesses in the same industry. By examining a company's competitive strategies, product offerings, and market positioning, strategic groups can be discovered. Furthermore, cultural differences between the world's developed economies are the main causes leading to percentage differences in long-term development levels. A company's own strategic decision-making can be informed by its understanding of the dynamics of a strategic group and can aid in the identification of prospective competitors (CEOPEDIA MANAGEMENT, 2023). To put it simpler, a strategic group consists of those firms that are competing and that have comparable approaches and market positioning.

2. Literature review

In strategic management, the idea of strategic groups originated with a finding made by Michael S. Hunt (1972). Hunt used the phrase "strategic group" in 1972 to characterize the "symmetry of operations" he saw in the appliance sector. Hunt discovered that while many of the organizations in his study had similar strategies, there were also notable disparities between their characteristics and approaches. The industry's seemingly feasible strategic options we better understood by grouping the enterprises (REGER & HUFF, 1993).

"In competitive markets, firms need to develop competitive positioning strategies carefully relative to their competitors in order to achieve enduring competitive success." (PORTER, 1980) Despite not having a formal universal definition, Porter has provided the definition of strategic groups that is most frequently used: A cluster of businesses in a certain industry implementing the same perspective throughout the strategic plan.

Using the perspectives of experts and discussing the many kinds of strategic grouping, alongside a deeper look into the standards that can be applied to separate them, the process of strategic grouping is exemplified along the two samples of strategic group mapping of some of Europe's automobile manufacturers and airlines.

Ever since S. Hunt came first with the term in a 1972 report for his PhD thesis, in which he indicates that businesses in this kind of group can be compared to one another in terms of categories such as cost plans and systems of control, more and more specialists have taken his path, creating new criteria as the business world evolves too. Some of the strategic factors that are used to divide strategic groups are:

• Product or Service Offering. This examines the different categories of goods and services a business provides, including basic and specialized offerings.

• Distribution channels. It examines a company's methods of product or service distribution, including direct sales, e-commerce, and retail locations.

• Market segmentation. This dimension examines a company's product or service's positioning in relation to other market segments, such as luxury, budget, or mid-range.

• Technology. The degree of technology applied throughout the manufacturing process or in the final goods or services.

• Brand image/reputation. This criterion refers to the company's and the brand's image in the marketplace.

• Customer segments. This dimension examines the customer segments, such consumers or enterprises, that a business target.

• Cost structure. It focuses on the structure of the company's costs, including how high or low they are. (MCGEE, 2014)

Although there are many methods to categorize strategic groups, some typical forms are as follows:

• Strategic groups that are industry-based. Groups of businesses in the same sector with similar traits and practices (for example, a chain of fast-food restaurants with drive-thru layouts).

• Strategic groups that are market-based. Companies that serve similar industries or clientele (for example, a collection of outdoor gear-focused retail establishments).

• Strategic groups that are product-based. Producing companies of the same services or products (for example, a group of automobile manufacturers who all create luxury or premium vehicles).

• Strategic groups that are resource-based. Businesses that have similar competencies and resources (for example, a cluster of airlines that are globally recognized).

• Strategic groups that are geographic-based. Businesses working in the same region (for example, some technological businesses operating in Silicon Valley). (MCGEE, 2014)

3. Research methodology

In order to successfully understand the dynamics of industry competitiveness, especially to recognize opportunities and threats, specialists have created different techniques utilized in strategic management. Changes occurring within organizations can be influenced by a multitude of factors, which must be organized and analyzed in order to reach viable conclusions (Voica, et al., 2021). One of those techniques is strategic group mapping, which represents an industry rival's data that shares similar traits and market share with your own company is incorporated into a strategic group map. A map like this could include target market information, retailers or platforms, company product or service characteristics, pricing, size, and features. According to Porter, strategic group mapping is the most effective method for revealing the market positioning of industry participants.

Generally, choosing businesses with similar strategic attributes that are in the identical local geographic coverage region and having similar external environment characteristics and range of services or products offerings is the best way to give the proper comparison in a strategic group map (MASTERCLASS, 2022). To put it simpler, it is better to make sure that the companies in question share many strategic similarities.

As already mentioned, Porter claimed that this method is the most effective method for revealing the market positioning of industry participants because it can be advantageous for a business. Illustrating the competitive market can easily be denoted from a strategic group map. A business can create better strategies by starting with an understanding of the competition: through its strengths and weaknesses. Another outcome is the disclosure of a competitive advantage, which is how a company differentiates itself from the competition by comparing its strategic template to other business models through such an analysis. And in the end, to discover unexplored opportunities by finding areas where a company can diversify its offerings after creating a strategic group map to examine the competition in the respective sector (MASTERCLASS, 2022).

4. Results and discussions

In conclusion, the strategic group map method is a method that brings benefits and opportunities to a business, such as having a better understanding of the competitive market, discovering a competitive advantage that the business holds, and of course new opportunities.

Based on the following steps, a strategic group map can be easily done:

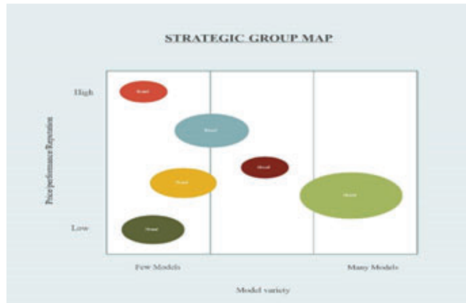
1. Identify main competitors: Even though it should be logical to identify the competitors, it should be mentioned (HARAPPA, 2021). Analyzing and having a better understanding of their goals, future strategies, offerings (products and services), weaknesses and strengths, and market impact. Focusing on the top direct competitors would be the most adequate method.

2. Identify key competitive characteristics: Similar competitive features, like price strategies and product offerings, are shared by numerous businesses. Finding the primary competitive characteristics that logically set companies apart in a competitive set is the first stage in creating a strategic group map (MBA KNOWLEDGE BASE, 2021). These can be product quality and features, distribution channels, brand image, company size, price, cost position and even number of market segments served (CREATELY, 2022).

3. Plot the companies on the map: Give each organization a place on the map (Fig. 1) and indicate the two variables of the axes. The organizations that are closest will be included in the same strategic group. Market share will determine a group's size.

4. Interpret the map: Analyzing the map will aid in strategy improvement and help locate other market positions that can offer a competitive advantage.

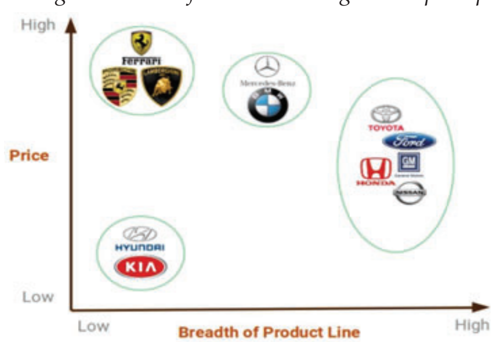
Figure 1: Strategic Group Map Structure.



Source: Creately Templates

As seen in Fig. 1, we were able to successfully create a template for a strategic group map by following the instructions. The brands stand in for the rivals that need to be recognised. Then, in order to categorise the competition, we add the criteria—such as price, reputation, and model variety—that we discovered with the aid of the second phase to the graph. With the help of the information acquired, we are able to calculate the competitors' standing in the market for the first category of criteria, which goes from low to high, and the second category of criteria, which goes from few models to many models. Lastly, by highlighting the advantages and disadvantages of the participating brands, we may gain a deeper comprehension of the state of competition within the sector.

Figure 2: Manufacturers Strategic Group Map



Source: 12Manage

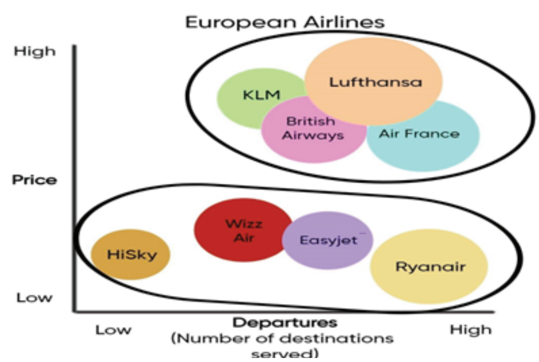
Some of the largest automakers in the world are represented in the above figure. The luxury strategic group is represented by the manufacturers in the top-left, who make vehicles that fetch thousands of euros at auction. Adjacent to them lies the premium strategic group, which offers a wider range of products than the preceding group (Mercedes-Benz, for instance, also manufactures trucks), and with most of their vehicle's prices starting at an average between €30,000-€40,000. (CARGURUS, 2024). Hyundai and Kia are at the bottom of that mass-market strategy category; they make automobiles that try to be available to as many people as possible, not just the rich or those with needs or hobbies. The last set of producers is the full-line strategic group, meaning they create a much wider range of products.

The map shows how strong the competition is in the market. We can notice the presence of direct competition (for example, Hyundai and Kia), and the cross-group rivalry between the luxury and premium groups, which is noticeable because of the closeness on the map between the two groups. (SHAFAT, n.d.) In the blank spots on the map, we can find strategic business opportunities.

Strategic Group Mapping of European Airlines

For this example (Fig. 3), I have decided to speak about European airlines and have chosen some of the most popular and some of the top airlines in Europe. And a newer airline such as HiSky. They represent most of the competition in Europe's aviation industry.

Figure 3: European Airlines Strategic Group Map



Source: Authors' own research.

The airlines at the top of the graph, which are British Airways, Air France, Lufthansa and KLM Royal Dutch Airlines (KLM), comprise a strategic group of full-service airlines based on their service offering: generally, this kind of an airline includes checked baggage, in-flight entertainment, beverages, food, blankets and more things in order to offer people's comfort; all included in the price of the ticket. (AIRLINE RATINGS, 2024) They also sell their services in the same price range, from a few hundred euros up to around a few thousand euros, depending on the class and destination. This group also provides more destinations, being able to fly all over the world. For example, Lufthansa has 211 destinations (FLIGHTCONNECTIONS, n.d.), Air France 230 (AIRFRANCE, n.d.), British Airways 206 (WIKIPEDIA, n.d.) and KLM over 170 (WIKIPEDIA, n.d.).

The second strategic group of competitors is comprised of low-cost carriers: Ryanair, Wizz Air, easyJet and HiSky. Compared to full-service airlines, low-cost carriers are the opposite, by providing passengers with lower ticket pricing, but making up the difference by charging extra for things such as the ones mentioned for full-service carriers in the full price. Prices can start from a couple of euros, up to a few hundred, depending on the destination.

When it comes to destinations, the low-cost carrier group provides a substantial number of destinations as well (Ryanair with 229 (FLIGHTCONNECTIONS, n.d.), Wizz Air with 148 (KIWI, 2024) and easyJet with 155 (EASYJET, 2024)), excluding HiSky, which has only 17 destinations. The only difference is that most of the destinations of this group are mostly in Europe, with some exceptions in the northern part of Africa and the western part of Asia, compared to the full-service group that provides destinations all over the world.

The two groups are also divided based on similar product range, quality and performance levels and strategies. The closer to each other the strategic groupings are on the map, the more intense the cross-group competitive rivalry. But we can say, that, for example, Wizz Air would be more concerned with British Airways since their prices went up, not necessarily close to British Airways', but this may have an impact on, for example, Romanian customers' decision. Customers might want the full-service experience because it might end up costing almost the same as the low-cost price with all its extras.

5. Conclusions

Strategic group analysis is a critical technique for analyzing competitive dynamics and influencing strategic decisions within sectors. This paper illustrates the practical use of strategic group mapping by reviewing literature and using case studies from the automobile manufacturing and European airline sectors. From luxury to low-cost airlines, strategic group maps reveal the competitive environment, showing cross-group rivalry and strategic gaps. The findings from these analyses have important consequences for market positioning, competitive advantage, and strategic decision making.

Looking ahead, new research projects might look into a variety of routes to improve our understanding of strategic groupings and their ramifications (IMPACT, 2019). Empirical studies might look at the success of strategic group mapping in various sectors and geographic regions, providing information about its usefulness and limits in different circumstances. Furthermore, research might analyze the impact of digital transformation and disruptive technologies in changing strategic groupings and competitive dynamics, thereby providing insights into how businesses can use innovation to obtain a competitive advantage.

Finally, strategic group analysis provides a significant tool for firms to negotiate complicated competitive environments, uncover strategic opportunities, and develop successful long-term growth plans. By continuing to investigate and develop our knowledge of strategic groups, scholars and practitioners alike may help to advance strategic management theory and improve strategic decision-making procedures in today's changing business landscape.

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