

## **Cost Leadership Strategy**

**While all businesses strive to attain profitability, there are those market and industry factors that force organizations and businesses into cost leadership strategies. The intent of this analysis is to explain which businesses are best attuned to this type of business model. Typically organizations with a very broad scope and where the differentiating element of their strategies is value excel with a cost leadership strategy (Voola, O'Cass, 2010).**

### ***Products and Services Businesses That Excel with Cost Leadership Strategies***

**Products that often rely on rapid product lifecycles where price has become one of the primary differentiators do the best when relying on Dr. Michael Porter's low price leadership strategy. This is because of the scope of their product strategy, which is often very broad, and the unique value proposition of high tech products which is often quite fast relative to substitute products. Manufacturers who rely on low price and cost leadership often look to create incentives for their channel partners to further accelerate the velocity of sales – as often low cost leadership strategies rely on inventory turns and current ratio performance to attain their financial objectives.**

**Where cost leadership strategies have their greatest effect is when the unique value proposition of an organization is reflected in the alignment of their value chains to the cost savings passed on to customers. This is specifically the strategy at Wal-Mart, where the Low price Everyday (LPED) strategy is predicated and supported by extensive investments in supply chain optimization, value chain coordination to the retail level, and extensive use of analytics and business intelligence (Allentuck, 2005). Wal-Mart has been successful in integrating into their unique value proposition and messaging a core value of their entire organization, and therefore the cost leadership strategy is seen as credible (Allentuck, 2005).**

**In the services industries, the cost leadership strategies of Southwest Airlines, and Ryanair whose CEO Michael O'Leary visited and studied the business model of Southwest, further illustrate how cost leadership strategies can lead to profitability over the long-term (Box, Byus, 2007). For Southwest Airlines, their cost leadership strategy is predicated on creating a competitive enough price point so that customers will consider them a viable alternative to driving (Box, Byus, 2007). Given the purchasing strategies Southwest has relied on consistently for oil futures contracts, the challenging yet achievable goal has been realized.**

### ***Conclusion***

**Organizations that achieve the greatest possible results from cost leadership strategies concentrate on broad markets where their price leadership can be translated into a significant competitive advantage. This often involves defining their market position as one of being a lower-priced substitute to another product or service. For Wal-Mart the position of low**

**price leader is undercutting higher-end retailers and for Southwest, making air travel as affordable as driving.**

***References***

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