

**Integrated Cost Leadership - Differentiation Strategy:  
Case Studies of Selected Firms in the Malaysian Food  
Industry**

**Mulkit Singh**

**Bachelor of Science (Honours)  
Putra University of Malaysia  
Serdang, Selangor D.E.  
Malaysia  
1992**

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## ABSTRACT

Michael Porter, a famous management guru developed Business Level Generic Strategies model aimed at building and sustaining competitive advantage by anticipating and exploiting business opportunities. The generic strategies, cost leadership and differentiation are widely applied at business-level strategy across various industries. Profits are improved in cost leadership strategy by having the lowest cost position, whilst in differentiation strategy by providing the customers with something they perceive to be unique, and will pay a premium price for it. According to Porter, to generate above average returns, a firm needs to make a choice either differentiation or cost leadership strategy. If the firm applies both strategies or as defined by Porter "stuck in the middle", it will generate below average performance. The skeptics however view a firm that is capable of successfully using an integrated cost leadership - differentiation strategy to be in a better position to quickly adapt to environment changes, learn new skills and technologies more quickly, and effectively leverage its core competencies across business units and product lines. This study assesses the extent of integrated cost leadership - differentiation strategy application in firms operating in the food industry. The selected firms are market leaders with well-known brands and currently generating above average returns. Results from this exploratory study revealed none of the investigated firms followed exclusively the generic strategies instead adopted the integrated strategy approach in their business. They have applied a combination of cost leadership and differentiation strategies throughout their business activities. The firms are strongly differentiated in sales and marketing while continuously innovating their process technology and generating volume to achieve economies of scale, a source of cost leadership strategy. These firms identified a combination of both strategies is required to generate above average returns in a challenging and dynamic global economy.

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## **LIST OF ABBREVIATIONS**

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<b>AFTA:</b>	<b>ASEAN Free Trade Area</b>
<b>ASEAN:</b>	<b>Association of South East Asia Countries</b>
<b>ERP:</b>	<b>Enterprise Resource Planning</b>
<b>FIFO:</b>	<b>First In First Out</b>
<b>JIT:</b>	<b>Just in Time</b>
<b>MRP:</b>	<b>Manufacturing Resources Planning</b>
<b>POP:</b>	<b>Point of Purchase</b>
<b>SME:</b>	<b>Small Medium Enterprise</b>
<b>SPC:</b>	<b>Statistical Process Control</b>
<b>TQM:</b>	<b>Total Quality Management</b>