

Strategic Groups

Key Points:

- Strategic groups are sets of firms within an industry that share the same or highly similar competitive attributes.
- Strategic group maps provide a useful way to identify and assess strategic groups using selected competitive attributes.
- From most managers, significant value is resident in creating and analyzing strategic groups as an element of their strategy formulation activities.

Main Thoughts:

An insightful way to conduct industry specific analysis is through the identification and analysis of strategic groups. Strategic groups are sets of firms within an industry that share the same or highly similar competitive attributes. These attributes include but are not limited to: pricing practices, level of technology investment and leadership, product scope and scale capabilities, go-to-market strategy and product quality. By identifying strategic groups, analysts and managers are better able to understand the different types of strategies that multiple firms are adopting within the same industry.

Strategic Group Maps. A useful way to analyze strategic groups is through the creation of strategic group maps. Strategic group maps present the various competitive positions that similar firms occupy within an industry. Strategic group maps are not difficult to create; however, there are a few simple guidelines managers want to use when developing them.

Identify Key Competitive Attributes. As mentioned previously, many firms share similar competitive attributes such as pricing practices and product scope. The first step in developing a strategic group map is to identify key competitive attributes that logically differentiate firms in a competitive set. This is not always known in advance of creating the map so it is important to be ready to create multiple maps using different variables.

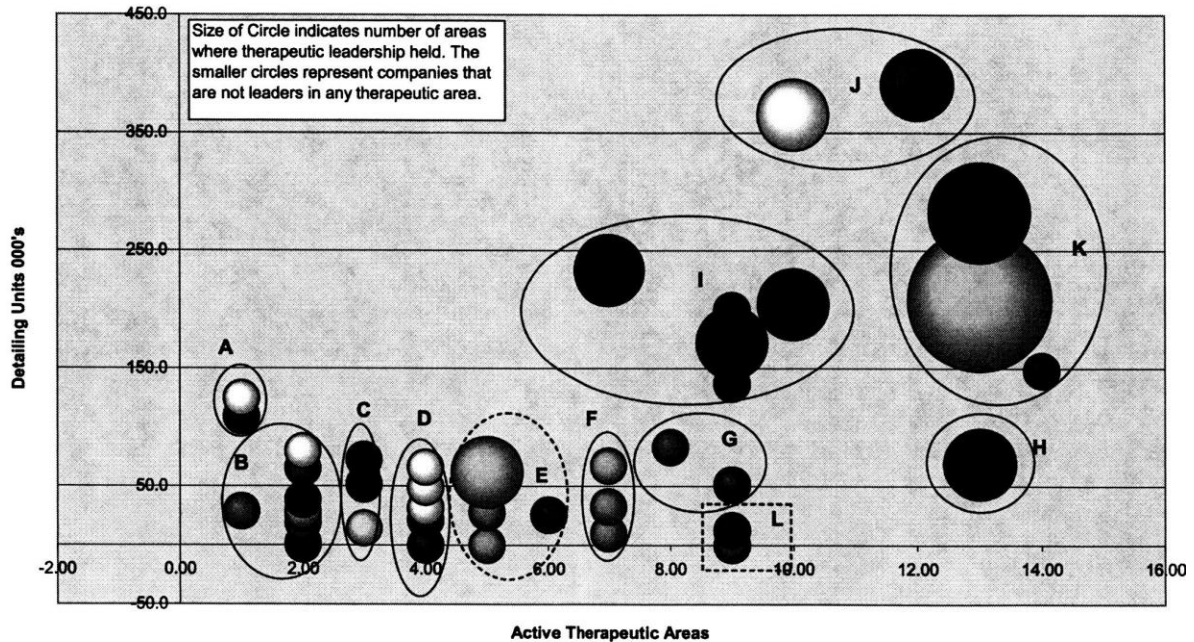
Create Map Based Upon Two Key Attribute Variables. For the variables selected, assign each variable to the X and Y axis, respectively. Also, select a logical gradation value for each axis so that differences will be readily observable. When complete, plot each firm's location on the map for the industry being analyzed. As each firm is plotted use a third variable—such as revenue—to represent the actual plot size of each firm. Using a variable like revenue helps the reader understand the relative performance of each firm in terms of the third variable.

Identify Strategic Groups. Once all of the firms have been plotted, enclose each group of firms that emerges in a shape that reflects the positioning on the strategic group. At this point, assess whether or not the differences between each group are meaningful or whether other variables must be selected from which another set of strategic groups can be drawn.

As an Example:

The following is an example of a strategic group map for the UK Pharmaceutical Industry. The lettered black shapes, both solid and dotted, represent the strategic groups. The size of the circle representing each firm indicates number of therapy areas where a leadership position is held.

Figure 1: Strategic Group Map of the UK Pharmaceutical Industry (Laesk and Parker, 2006)



Editorial

Strategic group creation and analysis provides an effective way to develop a clearer understanding of how firms within an industry compete. Since each strategic group depicts firms with similar—if not identical—competitive attributes within the industry, the map helps managers identify important differences among competitive positions. These differences can be subject to further analysis to help explain more subtle differences in performance.

Creating a useful strategic group map requires time and patience since several iterations may be required until a meaningful map is formed. It is important to keep in mind that the process of creating the maps is as useful as the final map itself since analysis is the process that leads to understanding. One further point to consider when creating a strategic group map: if the variables are too closely related, the resulting map will plot firms in an almost linear relationship. When this occurs, different variables should be selected and the map recast as the limited insight can be gleaned from the related variables.

For More Information See:

Web
n/a

Magazines & Journals
Long Range Planning
Harvard Business Review

Books

Hitt, M., Ireland, R., & Hoskisson, R. (2008). *Strategic Management* (8th ed.). Mason, OH: South-Western Cengage Learning.

References

Laesk, G., Parker, D., *Strategic group theory: review, examination and application in the UK pharmaceutical Industry*, *The Journal of Management Development*; 2006.