

# Developing Non-Oil Exports through Porter Triple Strategies

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## ARTICLE INFO

## ABSTRACT

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According to remove energy and natural resources items from the list of countries export and the need to achieve economic growth in non-oil exports and independence into a monoculture economy, it seems that our country has no proper place. This analytical - descriptive study aimed to evaluate the importance of developing non-oil exports through Porter triple strategies has been done. On the findings of study, factors such as the quality of products, products price, raw materials, technology, management knowledge, competitive intensity, market research, sales promotion, market environment, are effective on development of export. The results shows, if Iranian companies and industries use Porter triple strategy including cost leadership, differentiation and focusing on each of the factors mentioned can achieve the competitive advantage in the desired industry and realize the development of non-oil exports.

**KEYWORDS:** *Non-oil export, Porter's triple strategy, cost leadership strategy, focus strategy, differentiation and export promotion strategy.*

## 1.Introduction

If be accepted the non-oil exports is the most effective and important way to reintegrate up the country's economic situation, must consistent with a systematic planning, pattern ability of countries have traveled path of development successfully, put the criterion for action(Karampoor et al, 2012).

Today's, the amount of goods export is not one of crucial indexes of development in developed countries. Iran as a developing country cannot play a significant role by relying only on one-production and vulnerable economy of oil in global trade and economy scenes. Thus, due to achieve economic development and making a reasonable and organic relationship with foreign trade and development of non- petroleum export, it should quickly coordinate its

economy with global changes. Exportation as the economic motor engine and the secret how countries survive in global markets has an important role on economic scenes, since improving production abilities and creating new capacities not only facilitates the way of exporting , but also maximizes the role of government as the guarantee of present investments and decreasing exclusivity (Nikookar et al, 2012).

How the companies compete between each other and which are the competitive strategies they use, are the most important questions raised during industry analysis and firms behavior explanation. Understanding the

behavior of the firm, serves as input to improve practices of competition (Ormanidhi& String, 2008) realizing a high performance and sustainable competitive advantage(Pulaj et al, 2015).

The industry needs a strategic approach to international recognition of the new situation and identify competitive priorities and structural changes pave the way for progress. The hierarchical approach strategy after strategy, business strategy has been proposed and each level has a supporting role for higher level and ultimately the goal and existential philosophy outlined in the strategy of realizing cover. Strategic importance in the survival of the organization has attracted the attention of many researchers. Among these strategies, Michael Porter's triple strategy is according to three dimension of cost leadership strategy, differentiation strategy and focus strategy (David, 2003) (Zarghamiand MahdaviMazdeh, 2005).

### **1.1 Statement of Problem**

According to remove energy and natural resources items from the list of countries export and the need to achieve economic growth in non-oil exports and independence into a monoculture economy, it seems that our country has no proper place(Tavakoli&DehghaniSanij, 2010).

### **1.2The Importance and Necessity of Research**

Export development describes tendencies to freedom in international trade. This policy shows that how much a nation concerns about foreign markets and follows its requirements. The policy of export development causes improvement in free foreign trade. The free foreign trade also leads to directing production and resources allocation to the way that according to Classics the state succeeded over outside partially. The resources allocation in most efficient production chains causes such an increase in internal production and export incomes that it seems except foreign trade it is impossible to provide. The growing process of global trade has been accelerated through use of active commercial strategies, information and commercial technology revolution and removing commercial barriers in international level. Therefore, being active in global trade needs no explanation (Nikookar et al, 2012).

### **1.3 The Main Objective of Research**

The main objective ofthis applied study was toinvestigate theimpact ofMichaelPorter'sbusiness strategy(cost leadership, differentiation, focus) on development ofnon-oil export.

### **1.4 Research Innovation**

In internal researchs is not provided a separate pattern for non-oil exports. Thus, extracting a distinct pattern using external research is the innovation of this research.

## **2. Theoretical Framework and literature**

### **2-1 The Configurations of Firms Exist In New Industries**

1. Generalists. Firms that have distinctive competences on many of the resource dimensions that characterize the resource space in their original industry.
2. Resource specialists. Firms that have distinctive competences on only a few selected resource dimensions characterizing the resource space in their original industry.
3. Start-ups. Firms that have been created specifically for a new industry with specific distinctive competences on all the resource dimensions characterizing the resource space in the new industry.

Note that several different resource specialists may enter the same new industry from different original industries and therefore be specialized on different types of resources (e.g. marketing or technology or manufacturing) (Furrer et al. 2008).

## **2-2 Business strategy**

Business strategy is the method that the company has taken in business activity and earns lead to preserve their stability.

This strategy, according to available resources and customer requirements, proposed to offer customer value provided and given the company's interest income and a way to introduce the organization and the enterprise using it can achieve the necessary stability and the income. Companies have their status determined three strategic objectives:

1. who is your customer.
2. What products and services can be offered to selected customers?
3. How can we offer the products or services to the customer as efficiently and effectively? (Clayton, 1998, 36-41) (Slater and Olson, 2005)

### **Two Common Framework Governing Business Strategies (Hambrick 2003) Include:**

Miles and Snow's typology that focuses on the rate of change you want to see - Market

2. Porter's typology that focuses on customers and competitors.

Walker & Ruekert (1987) showed although each of the two species have the strengths (Porter focused on the external environment and Miles and Snow have focused on the internal environment), but with limitations (the passive does not follow competitive strategies and defining strategies are not strictly specified) and despite the research that they have strengthened none of these methods alone are not perfect. For example, a single defensive activity can be competitive methods used to support and defend its market position, ways of minimizing costs or differentiate itself from competitors in terms of quality or service.

### **2.3 General Porter's Strategy:**

Porter's generic strategy matrix, which highlights cost leadership, differentiation and focus as the three basic choices for firms, has dominated corporate competitive strategy for the last 30 years (Pretorius, 2008). According to this model, a company can choose how it wants to compete, based on the match between its type of competitive advantage and the market target pursued, as the key determinants of choice (Akan et al, 2006). Porter's generic strategy typology remains one of the most notable in the strategic management literature (Parnell, 2006). A business can maximize performance either by striving to be the low cost producer in an industry or by differentiating its line of products or services from those of other businesses; either of these two approaches can be accompanied by a focus of organizational efforts on a given segment of the market. Any organization that fails to make a strategic decision to opt for one of these strategies is in danger of being "stuck in the middle". The organization in failing to decide, tries both to be the cost leader and differentiator and achieves neither, and in the process confuses consumers (Bordean et al, 2010).

From the perspective of Porter, strategies allow organizations to take advantage of three bases of competitive advantage. Porter calls three bases as generic strategies or public:

#### **Cost leadership strategy:**

Cost leadership or "low-cost" strategy put emphasis on organizational efficiency. This strategy involves the process through which the company is able to produce or distribute goods and services at a lower cost than competitors within the industry. Porter defines strategy of cost leadership as trading standard products (Porter 1985) combined with aggressive pricing (Porter 1980). The phenomenon of leadership in costs should be in line with the "distinguishing goods and services". Many of the cost factors influence the relative attraction of general strategies (generic). They include wage costs - taxes - cost of energy. In the company, in an industry producing products with lower cost: when the market is made up of the purchase show

sensitivity to price - for different products, the customer is not very large- business customers between products with names and different, do not make so much difference - a lot of potential buyer bargaining power in the market. The purpose is distribute products to market at a lower price than competitors, and thereby gained market share then with increasing sales, competitors tried to remove completely from the market. (Copeland and Ferdoston, 2006) (Porter, 1990)

**Differentiation Strategy:**

Differentiation refers to the development of a unique product or service (Porter, 1985). These products are seen as such when compared with competing products because of the distinguished features. There are many ways and dimensions by which firms can differentiate themselves and their product from rival companies (Thompson et al, 2008). The purpose of the offer is successful, differentiated products that the company can have more flexibility in terms of offerings product, to adapt the changing environment, has more power, lower costs to the consumer leads to lower maintenance costs, has more relax and have more features (Porter, 1990).

**Focus Strategy:**

Through focus strategy, the company aims to serve the customers in a narrow market segment (Davidson, 2001; Porter, 1980, 1985, 1987, Cross, 1999; Hlavacka et al., 2001) through low cost or differentiation (Porter, 1980). A strategy based on a specific group of customers is effective when that part of the industry size and growth potential is large enough finally, the success of the company's major competitor has not great importance. The second copy release by competitors - changing tastes of the customers, indifference to the product features. Example: MIDAS, Redlabster, FedEx, is the risks of this strategy (Porter, 1990) (David et al., 2003, 4-11).

Bordean et al (2010), suggested the Use of michael Porter’s generic strategies in the Romanian hotel industry. Using a survey a sample of 69 hotel managers from the Nord-West part of Romania was questioned about their current strategic practices. A factor analysis revealed that hotels are pursuing only two strategies that can be identified as those of Porter. The regression analysis was used in order to test if there are certain practices that correlate with the strategies identified earlier in the study. The ANOVA results indicate between two and five strategic practices were significant for each of the four strategies. The results of the study are important as they support much of the literature and discussions about aligning strategic practices with the chosen strategy. These factors are listed in Table 1.

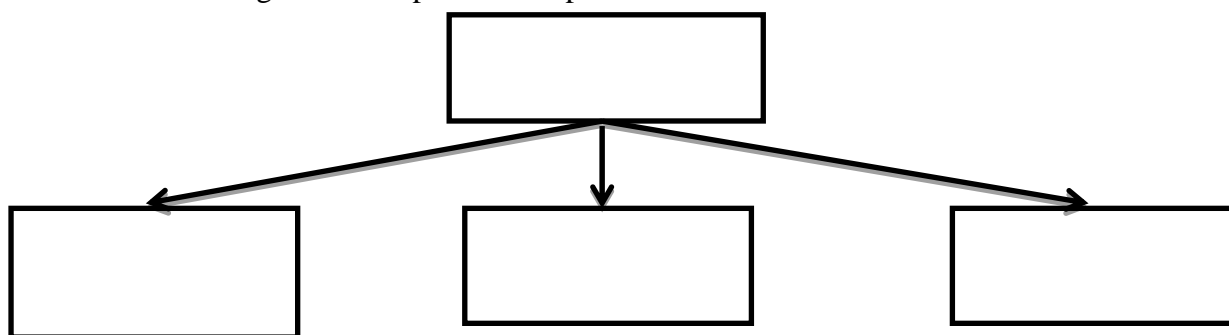
**Table 1.**Effective factors of ROMANIAN hotels strategies.

Differentiation strategy	Focus differentiation strategy	Training strategy	Hybrid strategy
Developing brand identification	Extensive training of marketing Personnel	Building high market share	Innovation in marketing
Refining existing products/services	Building a positive reputation within the industry	Providing outstanding customer Service	technology and methods
Developing a broad range of new products/services	Providing specialty products/services	Intense supervision of front-line Personnel	Dropping unprofitable clients
Forecasting new market growth	Producing products/services for	Extensive training of front-line	Minimizing distribution costs

Forecasting existing market Growth	high price markets	Personnel	
Controlling the quality of products/services	Intensive training of marketing Personnel	Extensive training of back-line Personnel	
Improving operational efficiency	Targeting a specific market		
Partnering with suppliers			
Utilizing advertising			

Tavakoli&DehghaniSanij (2010) in study the main factors on export development in textile industry (The Case of Yazd Province Textile Industry), mentioned in recent decades, the textile industry, one of the major industries in Iran, has faced increasing challenges. These challenges are mainly due to unequal competition of internal firms with imported products, obsolescent machineries, lack of sufficient investment and etc. Use of advanced countries' experiences in this regard as well as providing required facilities has been the major solutions for solving such a problem. In this research, the factors influencing export activities in textile industry was identified. Then, the opinions of Yazd textile industry managers have been gathered using questionnaires and analyzed through t-student test. The results show that all identified factors are influential. Next, pair-wise comparison questionnaires of both main and secondary factors have been distributed among managers. Analyzing the gathered data with AHP technique resulted in the weighting of main factor. The secondary factors were ranked using TOPSIS technique. The findings indicate that the qualities of products as well as strategic direction of firms for developing in global markets are among the most important factors affecting on textile industry exports. These factors were brought in chart 1. Also Rating each one of these factors are presented in Table 2.

**Chart 1.** Factors affecting the development of export

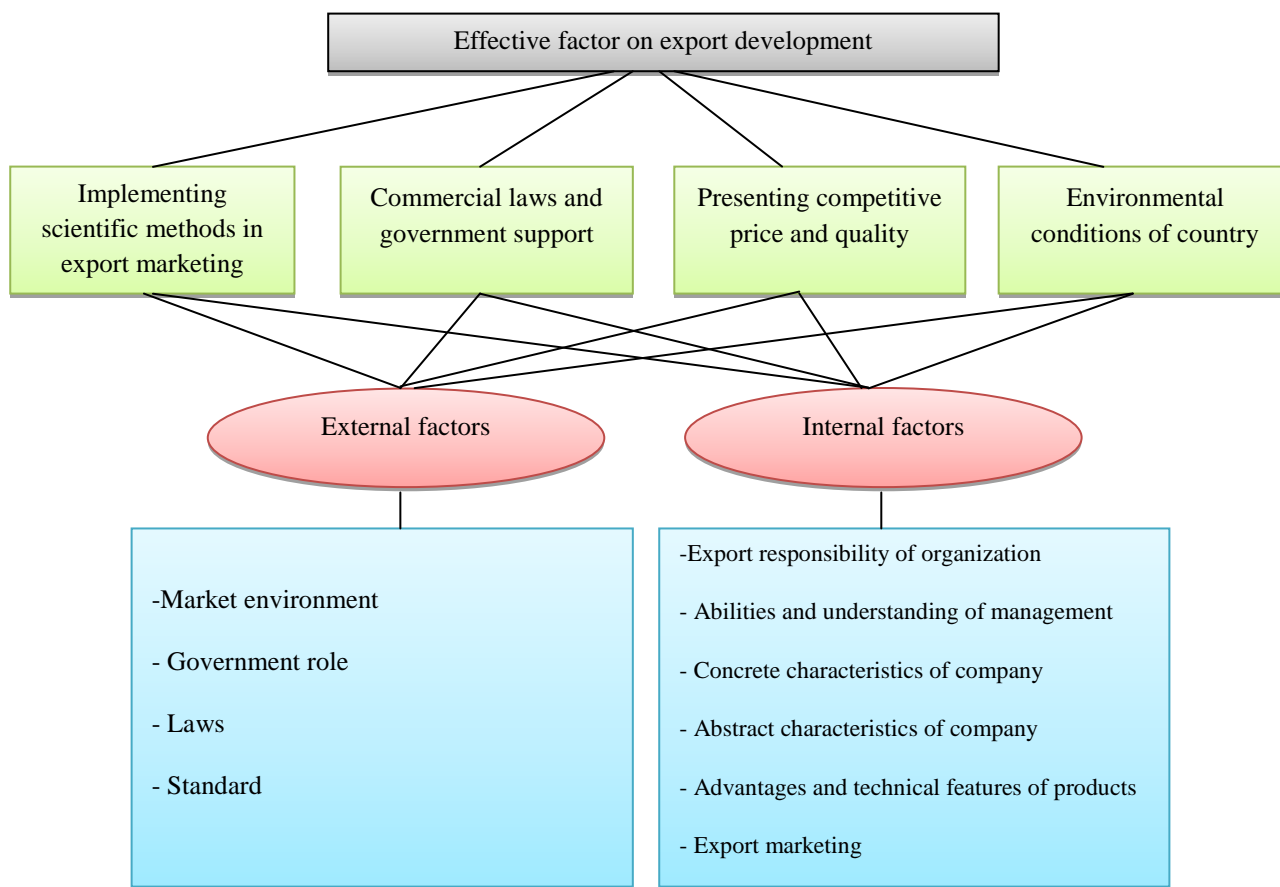


**Table 2.** Rank in terms of impact for factors affecting the development of export

Factor	Rank	Factor	Rank	Factor	Rank
Quality of Products	1	competitive intensity	6	Related Industries	11
strategic vision	2	market research	7	Infrastructures	12
raw materials	3	sales promotion	8	Financial resources	13
technology	4	Unexpected fluctuations	9	government role	14
management knowledge	5	Advertisements	10	Technical knowledge	15

Nikookar et al (2012) in study Identifying and Prioritizing the Effective Factors on Export Development (Textile Industry), studied textile industry as one of the mother industries has been studied in this paper and through analytical hierarchy process method the main factors in its export development are identified and classified. Ten main factors on export development,(6 internal and 4 external) are recognized and the indexes for each factor were found respectively. Then, by use of analytical hierarchy process method, we have weighted and ranked the indexes and strategies of each factor. The resulted findings indicate that the internal factors affecting on export are: Responsibility of organization to export, Export marketing , Proficiency and concrete characteristics of company, Abilities and management understanding, Advantages and technical features of products, Efficiency and abstract characteristics of company. The external factors include: Market conditions (first priority), Government role, Laws, Standard. The conceptual framework has been shown in chart 2.

**Chart 2.**Effective factor on export development



Hlavacka, et al (2001) study the effect of Porter’s general strategies on the performance of hospitals in Slovakia, concluded that the business strategy in three areas of cost leadership, differentiation and focus divided according to Porter and the ability to maintain its performance under the criteria of the customer, the ability to control the cost of operations, and the total profit growth has been studied and the results show that the business strategy of hospitals has a significant impact on their performance and hospitals median follow their strategy, which is a combination of these strategies; compared to hospitals that are focused only on one of the three strategies, will have better performance.

### **3. Research Methodology**

This analytical - descriptive study aimed to evaluate the importance of developing non-oil exports through Porter triple strategies has been done.

With review the internal and external of the studies in this field bring different models and patterns. Then, according to this patterns, extracted a suitable pattern for Iranian industries.

### **4- Findings**

#### **4-1 Export performance based on competitive strategy**

Export will form one of the most vital sectors of the economy of each country. Exports of goods and services are the main source of foreign exchange earnings of the country that holds the live and active pulse of the world economy. If it is accepted that non-oil exports is most effective way to fix up the country's economic situation to be in line with a comprehensive plan, pattern of developing countries that have successfully passed the standard practice. Due to limited oil resources, economic development and employment has any solution except to develop and improve the performance of non-oil exports with no interaction with global markets. Therefore, we must understand the factors affecting the supervisors would need in an effort to improve and strengthen it.

#### **4-2 Successful export features**

No doubt that no country has so much money that expands its exports to all markets of the world. So logic dictates that limited resources should be used only for exporting goods to the markets that we have a better chance of attracting producer or the future, we expect them to be more promising. There are markets where there is already a large scale exported goods and new programs can be further developed and expanded sales into these markets. So, the features of successful export can be below:

1. Appropriate funds
2. Identify the goals completely and clearly
3. Advertising and Information
4. Effective communication and relations between the issuer and the customer
5. Adequate supply of goods
6. Quality of facilities and services
7. Security asked buyers and chosen the appropriate market. (Mehrsa, 1995, 88) (Elmi, 1995, 59)

#### **4-3 Porter model in international trade and competitive advantage**

Antitrust policy plays an important role in strengthening domestic competition, but should not be an obstacle to the growth of innovation in vertical mergers. On the other hand, the rules of competition to the detriment of the development of new entrepreneurs hip and deregulation of privatization and competition sometimes help national advantage (Elmi, 1995, 59).

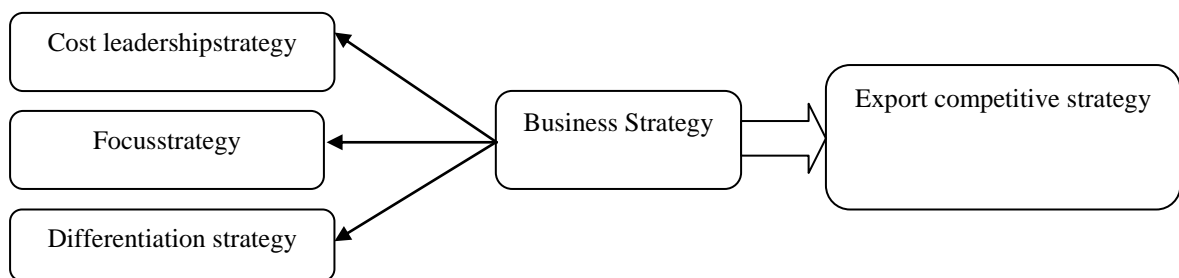
#### **2-5 Recommendations on export and competition**

The most important policy issues that can be derived from Porter's view are as follows:

1. The firms that compete in global industries and countries then should not the government programs with government agencies and economic actors, and should be replaced by firms or limiting competition.
2. Competitive advantage of a country in the industries is relative and should always be considered the dynamics of the advantages and seek new advantages.

3. The dynamic of the production and competition, will lead to substantial competitive advantage and cost advantage, such as the devaluation of the national currency or cheap labor, short-term solutions.
4. Facilitate the continuation of the productivity growth in industrial production, the key to success in competition and international trade.
5. In most cases, a country's competitive advantage in the industry, is in line with a geographic concentration in every industry and requires the formation of industrial clusters.
6. A country's competitive advantage in the industry over a decade and more of a process and the preparation of competitiveness in the short term is not possible.
7. Countries create their advantage because of the differences and not as a result of the simulation.
8. The process of maintaining the benefit of firms and workers in the industry are likely to be difficult and require sustained attention and support of the government's policies are complementary. (Kharazmi, 2005) Therefore, based on studies, and operating model to show the effect of business strategy on export competitiveness strategy using Porter's model (1990) as Chart 3.

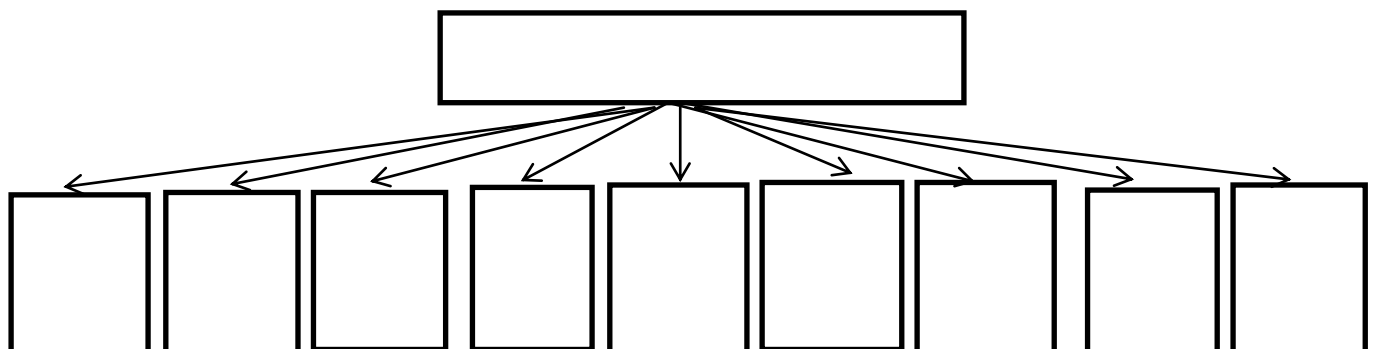
**Chart 3.** Conceptual model: business strategy (Porter, 1990)



On the findings of study, factors such as the quality of products, products price, raw materials, technology, management knowledge, competitive intensity, market research, sales promotion, market environment, are effective on development of export.

By reviewing studies and considering the patterns, extracted suitable pattern for Iranian industries according to internal and external environmental conditions can be as chart 4:

**Chart 4.** Effective factor on non-oil export development in iran.



## 5. Conclusion

The studies shows, if Iranian companies and industries use Porter triple strategy including cost leadership, differentiation and focusing on each of the factors mentioned (quality of products, products price, raw materials, technology, management knowledge, competitive intensity, market research, sales promotion,



market environment) can achieve the competitive advantage in the desired industry and realize the development of non-oil exports.

Porter's business strategies in organizations and companies achieve a competitive advantage; over the years has been an effective and efficient strategy.

The impact of this strategy on the development of non-oil export products, shows these industries to maintain the competition and create a competitive advantage in an environment that is always uncertainty, complexity, increased globalization and technological change have faced due to this strategy, export development strategies adjusted.

As a result, Porter functional strategy has managed only in the companies as a strategy and roadmap used and today it can be used only as a means of differentiation strategy, what today can be defined as a strategy for industries is creativity and innovation for the development of the export market. The following suggestions are given for each dimension.

#### **- Cost leadership strategy:**

1. Company managers' attention to choose cheap and affordable practices in the production and restoration and improvement of processes and production lines for wear and the traditional low efficiency.
2. Select the expertise of manufacturing procedures, target market selection, selection of suppliers and raw material suppliers. Strategic focus: 1. Check the running costs of the company and plan to focus on managing costs 2. Participate in the planning and setting strategic mission and strategy in the market,
3. Select a region and area of focus to provide products needed in that area with a reduced cost.

#### **- Differentiation strategy:**

1. investigating the need for differentiated customer target market and develop a framework for distinguishing between the productions companies from manufacturing to other companies.
2. Workers union between food production and the need for legislation and regulations in order to differentiate products between the companies.

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