

**CONVENTIONAL STRATEGY FRAMEWORKS  
AND THEIR APPLICABILITY TO SMEs:  
LESSONS FROM A CASE STUDY**

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**ABSTRACT**

*Two of the most popular strategy frameworks in the literature are the portfolio approach in strategy decision-making and Porter's (1980) framework of 3 generic strategies. This paper examines in depth the applicability of these strategy approaches to small and medium size enterprises (SMEs) and complements this with a diagnosis of an actual case study of a SME competing against a bigger firm. SMEs are generally defined as businesses having not more than 500 employees (Cox, Hooley and Lynch, 1994). In our diagnosis, we highlight the hidden assumptions and flaws of these popular strategy approaches, which made them unsuitable for SMEs, who faced resource constraints and disadvantages. In doing so, we demonstrate the importance of adopting a different perspective in SME strategy formulation, one that could explicitly consider the impact of SMEs' resource constraints and competitive reactions of bigger firms in the market. Lee, Lim and Tan's (1999) model is then extended and used to show that there are alternative strategies to niching for SMEs.*

**INTRODUCTION**

An extensive literature can be found that provides guidance to small and medium size enterprises (SMEs) in their strategy formulation. SMEs are generally defined as businesses having not more than 500 employees (Cox, Hooley & Lynch, 1994). In the literature on SMEs' strategy decision-making, the studies can be categorised into three areas. The first category involves studies such as Moore and Longenecker (1987) and Cook (1992) which set out to identify the factors that make SMEs successful. The other two categories are the prescription of strategic planning processes (e.g., Waterworth, 1987; Scarborough & Zimmer, 1991; Bhide, 1994), and the derivation of heuristics for day-to-day operations of SMEs (e.g., Bennett, 1989; Tarkenton & Boyett, 1991).

In the marketing literature, studies have looked into the marketing mix strategy formulation of SMEs. For instance, Waterworth (1987) and Paley (1989) discussed how the 4 P's of marketing and the product life cycle concept, respectively, should be adapted for SMEs. In addition, Williams (1990) and Gerson (1994) identified a set of new "P's" to assist SMEs in their marketing planning efforts.

However, there are two critical limitations that are common to the current literature on SMEs' strategies. First of all, although the focus of this literature is on the SMEs, in their prescriptions to SMEs on strategy decision-making most of these works fail to take into account explicitly the resource limitations faced by SMEs. Instead, strategy frameworks implicitly designed for bigger firms with plentiful resources are liberally borrowed and sold as solutions to SMEs, with little regards that resource constraint affects the latter's competitive strategy formulation.

Another limitation is that the existing literature on SMEs contains strategy recommendations that do not take into explicit account competitive reactions, especially those from the bigger firms, although it generally acknowledges that this is an important consideration. Competitive reactions from bigger firms are crucial in determining the survival of SMEs in the market place. This is because the SMEs' margin of error is narrow by virtue of their resource limitations, and the fact remains that the bigger firms with their deep pockets can easily launch aggressive attacks on the SMEs market niches. In short, the extant literature does not adequately address the issue of how resource-strapped SMEs can anticipate and react to competition from the bigger firms. Given this lack of literature on competitive strategy for SMEs, and in the face of competition from bigger firms, most SMEs have turned to popular strategy approaches for directions, without realising the hidden dangers in doing so.

Two of the more popular strategy frameworks in the literature are the portfolio approach in strategy decision-making (e.g., Kotler, 1996) and Porter's (1980) framework of 3 generic strategies. In this paper, we shall examine in depth the applicability of these conventional strategy approaches to SMEs. We study an actual case of a SME (Chun King which was under the ownership of Yeo Hiap Seng – a medium-sized Singapore-based company) competing against a bigger firm (La Choy which was owned by Con-Agra – a large American-based multinational corporation). The case is adapted from one written by Kerrin and Peterson (1993). By doing so, we hope to uncover and highlight the hidden assumptions and flaws of the popular strategy approaches, which made them unsuitable for SMEs with resource constraints. We will also extend Lee, Lim and Tan's (1999) game theoretic model on generic strategies for resource-strapped SMEs and apply it to the case of Chun King.

### THE CASE STUDY

Chun King had been a household name associated with Chinese shelf-stable foods since Jeno Paulucci, who started and incorporated the company, single-handedly introduced chow mein to Americans in the early 1960's. Sales increased every year, bolstered by award-winning consumer advertisements, and exceeded \$50 million in 1965. The following year, the company was sold to RJ Reynolds Industries. In 1984, Nabisco assumed control over the company.

Nabisco followed the portfolio approach, specifically the BCG approach, in managing its businesses. Under this approach, the business strategy and objectives of Nabisco's various business units (of which Chun King was one) were designed to complement each other and to provide an acceptable mix of profit and risk for the entire corporation. In the BCG approach, each business unit was classified into one of 4 categories, namely question marks, stars, cows, and dogs, depending on its relative market share and growth rate. In the case of Chun King, it was the market leader in its field, while the market was a mature one with little growth potential. Hence, Chun King was regarded as a typical cash cow by Nabisco's management. It was therefore managed for short-term profits, while sacrificing market share and sales volume. In fact, its line of frozen food marketed under the Chun King's brand was sold to a major competitor Con-Agra, when it was decided that Chun King should not be in frozen foods, as its market growth rate appeared to be in decline.

In 1988 RJR Nabisco, Chun King's parent company became private through a leveraged buy-out (LBO), Chun King was sold to Yeo Hiap Seng for about \$52 million, to satisfy antitrust regulations. Yeo Hiap Seng, a Singapore based company, was relatively new to the U.S. market. Financially, it was also not as strong as Con-Agra who owned La Choy, the major competitor of Chun King.

Con-Agra paid US\$1.36 billion in cash and stock for Beatrice Company, which owned La Choy, in 1990. At the time of its sale to Yeo Hiap Seng, Chun King was making profits of between US\$2-3 million on the back of sales estimated at some US\$45 million. Sales and before tax profits for Yeo Hiap Seng in 1989 were S\$248 million and S\$13 million respectively. In comparison, Con-Agra was much bigger. Its 1989 sales reached US\$11,340 million.

During the period of uncertainty created by the LBO, La Choy mounted an aggressive campaign to increase its market share. Bolstered by the resources of its rich parent, Con-Agra, La Choy was able to erode Chun King's distribution base with its intense marketing efforts. Chun King estimated that it lost about 230,000 cases in sales to La Choy during this period.

Besides La Choy, Chun King faced competition from other competitors. These included Kikkoman in sauces, General Mills in packaged dinners, China Boy in noodles, and Geisha in vegetables. Together, La Choy, Kikkoman and Chun King accounted for 85% of the Chinese shelf-stable foods market in the U.S.

The new owner, Yeo Hiap Seng, not wanting to rock the boat, left the operations of Chun King to the existing management (at least in the initial stage), which was inherited from Nabisco's days. When faced with the challenge of providing strategic directions to guide Chun King into the future, Chun King's management proposed two alternatives: (a) the conservative strategy, and (b) the aggressive strategy. The conservative strategy entailed maintaining the status quo, which was basically to continue managing Chun King as before: to generate some cash and profits while making some incremental adjustments to its operations in the process. However, this might not be consistent with the objectives and goals that the new owner Yeo Hiap Seng might have for the newly acquired business. The aggressive strategy called for heavy investments, and attempted to gain some lost grounds from La Choy, through increased efforts in promotions, new product developments, and other marketing support. This would also mean that short-term profits would suffer, but with the hope that long-term profitability would be improved. Chun King's management was unsure as to which of these two alternatives was the best one to follow.

### ANALYSIS

In this section, we shall evaluate the effectiveness and appropriateness of the strategy alternatives identified by Chun King's management, taking into explicit account the fact that Yeo Hiap Seng is a much smaller firm, and hence is resource disadvantaged, compared to Con Agra. Yeo Hiap Seng's sales, for example, in 1989 was a mere \$248 million compared to US\$11,340 million in sales for Con Agra. In addition, we explicitly consider the competitive reactions from Chun King's key competitor La Choy, in evaluating the proposed strategy alternatives for Chun King.

#### **Chun King's Portfolio Strategy**

To understand Chun King's current position, we need to examine how it was managed previously. As stated in the case, Nabisco followed the "portfolio approach" to strategy formation, which was made famous by the Boston Consulting Group (BCG approach) and General Electric (GE multifactor portfolio approach). Thus, Chun King was managed as a typical

cash cow by Nabisco's management. In accordance with standard BCG prescriptions, there were two possible strategies for a cow type portfolio — to "maintain" the status quo, or to "harvest." Nabisco chose to harvest, perhaps in anticipation that the Chun King portfolio would move from the mature to the decline stage of its life cycle, hence becoming a dog portfolio, as the BCG approach suggested. Chun King was thus milked for short-term profits and cash, with little attention being paid to its market share and sales volume. In addition, advertising expenditures were reduced and Chun King was maintained to be "lean."

In this case, there were two fatal problems with following such a harvest strategy. First, harvesting led to a self-fulfilling prophecy that the cow portfolio eventually became a dog. Second, harvesting weakened Chun King, which created opportunities for its main competitor, La Choy.

As a result of reduced advertising and marketing support for Chun King, its sales fell and its brand equity suffered. These in turn reinforced Nabisco's prior beliefs that Chun King was moving from a mature to a decline stage. In response, harvesting activities were further accelerated to maximize short term profits, which in turn aggravated the situation, until Chun King truly became a "dog." Hence, the suggestion based on the BCG approach that a portfolio would evolve from a cow to a dog was seemingly confirmed, and the prescription for the harvesting strategy appeared validated.

We contend that the transformation of Chun King from a cow to a dog portfolio was not due to some "natural forces" like the life cycle phenomenon as suggested by the BCG approach. Instead, it was due to the adherence to the harvest strategy, which led to a self-fulfilling prophecy.

Harvesting weakened Chun King, making it vulnerable to competitors' assaults. For a sunset industry this would not be a serious problem, as there would be few, if any, competitors who would be prepared to invest heavily into such markets. Nor would it be an issue in an industry where there were no competitors at all. However, this was not the case for Chun King, as the market still had some growth potential and a few major competitors existed such as La Choy, Kikkoman, and China Boy. Chun King's weakened state thus created opportunities for these existing competitors. This was especially so for its key competitor La Choy, who exploited the situation to transform its supposedly dog portfolio into a cow. Our analysis here thus raised serious questions about the validity of portfolio type strategy prescriptions in competitive situations, and the applicability of the portfolio approach in general, as tools for competitive strategy formulation. In particular, strategy prescriptions based on portfolio type approaches are simplistic in that they do not take into explicit account competitors' reactions.

### **Strategic Reactions by La Choy**

La Choy, Chun King's key competitor, was a late entrant to the market. Therefore according to the BCG approach, the La Choy business unit would be classified as a dog type portfolio. This was because, being new, its market share was small, and the market was mature, with little growth expected. If the reasoning based on the BCG approach were correct, then La Choy's management would be irrational for investing in a dog. In the views of the portfolio advocates, La Choy's market entry was certainly doomed to fail. However, against conventional wisdom as advanced by the advocates of the portfolio approach, La Choy not only entered the market, it also invested heavily to aggressively penetrate the market. It eventually succeeded in becoming the market leader in the Chinese shelf-stable foods market. Therefore, the obvious question was how did La Choy manage to transform a supposedly dog portfolio into a cow, or even better, into

a star? One thing was certain, they did not follow the portfolio approach. Instead, they seemed to have defied it, and had done the opposite to what was prescribed by the portfolio approach.

La Choy's success could be attributed to a number of reasons. First and foremost, they recognized the opportunities presented by a weakened Chun King, as a result of the latter's adherence to the harvest strategy. Hence, as Nabisco milked Chun King, La Choy embarked on aggressive marketing actions to make inroads into the market, financing such aggressive campaigns by exploiting the deep pockets of its parent, Con-Agra. In doing so, La Choy effectively accelerated Chun King's decline, and strengthened Nabisco's prior beliefs that Chun King would become a dog over time. Given such beliefs, Nabisco would also not have contemplated countering La Choy's offensive. In addition, La Choy also took advantage of Chun King's internal problems created by the leveraged buy out by RJR-Nabisco in 1988. With the management of Chun King thus distracted, La Choy mounted an aggressive campaign that successfully gained distribution and shelf space at Chun King's expense.

In short, La Choy's management was much more adept in devising competitive strategies against Chun King, as exhibited by their readiness to seize the opportunities created by Chun King's own actions. While Chun King planned to exit, La Choy planned to increase its hold on the market. Their competence in devising competitive strategies is also reflected by their use of Con-Agra's deep pockets to maximize its market gains against Chun King by investing aggressively, while Chun King harvested. Finally, the timing of their marketing actions is excellent. When Chun King was weak and distracted, La Choy seized the opportunity to attack.

These actions suggested that La Choy's management understood the importance of incorporating the competitor's actions/reactions into their competitive strategies. Unlike the case of Chun King's management, whose adherence to the portfolio approach in strategy decision making, led it to overlook this fundamental perspective. A critical limitation of the portfolio approach is thus the ignorance of competitive interactions in its strategy prescriptions, which calls into question its relevance in the real world where markets are becoming increasingly competitive.

### **Consequences of Ignoring Resource Disadvantages**

When Yeo Hiap Seng bought over Chun King, it was probable that they thought they had bought a cash cow, as suggested by the premium they paid for the purchase of the company. To the new owner, Chun King's management (which was the same as that under Nabisco) proposed two alternatives: (a) the conservative strategy, and (b) the aggressive strategy, in their attempt to provide future strategic directions for Chun King. It appeared that these alternatives suggested were taken directly from the menu of standard portfolio strategy prescriptions, which were namely to maintain (or the conservative strategy), to invest (or the aggressive strategy), to harvest, and to divest. One thus wonders if these portfolio type strategy prescriptions would work this time around, given that they had failed the last time.

We contend that both the strategy alternatives proposed were doomed to fail, if adopted. Following the conservative strategy, which was essentially status quo, would only lead to further erosion of Chun King's fast declining market share by La Choy. The ultimate outcome would therefore be the eventual demise of Chun King. On the other hand, following the aggressive strategy to compete head-on with La Choy would be equally disastrous, if not even worse. This is because it would provoke an equally or even more aggressive counter response from La Choy which would accelerate profits erosion. An aggressive strategy would also require vast financial resources to sustain. This was where La Choy would have the upper hand, given the deep pockets of its parent Con-Agra. Chun King, backed by Yeo Hiap Seng, which was a much

smaller firm compared to Con-Agra, would be disadvantaged, and hence it would be suicidal for it to follow the aggressive strategy.

Obviously the strategy alternatives suggested by Chun King's management had failed to take into consideration La Choy's likely reactions. This was of no surprise, as they seemed to have been adopted directly from the menu of standard portfolio strategy prescriptions. Equally critical was the fact that these suggestions also failed to recognize the resource disadvantage faced by Chun King under its new owner, and how this would impact competitive strategy formulation. While an aggressive strategy might be suitable for a firm with resources comparable to that of Con-Agra's, it would be suicidal for a much smaller firm like Yeo Hiap Seng. As such, for Chun King to take on La Choy in this manner would be tantamount to one wearing a hat much too big for one's head. It is, therefore, our contention that it is purely wishful thinking that by following such portfolio type strategy prescriptions, Chun King could have survived the competitive assaults from La Choy.

### **Limitations of the Portfolio Approach as a Strategy Prescription Tool**

Our analyses thus far have raised serious questions about the applicability of the portfolio approach as a strategy tool for SMEs. We shall now examine in-depth the various limitations of the portfolio approach in general, and when applied to SMEs in particular. Conceptually, the portfolio approach (both the BCG and the GE approaches) prescribes strategies based on two constructs, namely the market's attractiveness (of which market growth rate is one factor) and one's business strengths (of which relative market share is one factor). Any strategy prescription based merely on these two constructs is overly simplistic and questionable.

In the BCG approach, the implicit assumptions are that high growth markets are more profitable than low growth ones, and that profits increase with increasing market shares. Both these assumptions become highly questionable in a competitive environment. That La Choy succeeded in turning a supposedly dog portfolio into a cow, refutes the assumption that high growth markets are surely more profitable than low growth ones. Cases of successful businesses following the niching strategy (such as Kikkoman, General Mills, China Boy, and Geisha in the case), which implies that the market shares of these businesses will be small, refute the other assumption that profits increase with increasing market shares.

An alternative portfolio approach to the BCG is the GE approach, which is more sophisticated, as it requires a multi-factor analysis of the market attractiveness and one's business strengths. However, the multi-factor analysis itself is subjective, as the process requires one to collapse the multitude of factors identified into two main constructs by assigning the appropriate weights and ratings. It is also not clear what the appropriate weights and ratings ought to be, given that there is no objective criteria for their assignment.

Both the BCG and GE approaches also suffer from subjectivity of another sort. In the BCG (GE) approach, each portfolio is to be classified into one of 4 (6) types, which results from dividing the portfolio matrix into 2x2 (3x3) cells. This presumes that one can objectively define what constitute high or low relative market shares and market growth rates in the case of the BCG approach, and what constitute high, medium, or low market attractiveness and business strengths in the case of the GE approach. An accurate determination of the type of portfolio is important in these approaches precisely because the strategy prescriptions are portfolio type-specific. Imagine the consequences of a dog portfolio wrongly classified as a cow, and hence milked or harvested as prescribed by the portfolio approach. Thus, it was probable that Chun King, which was regarded as a cow portfolio by Nabisco, was a dog under Yeo Hiap Seng.

Even if one is able to determine correctly and objectively the type of portfolio for the business unit of interest, one quickly encounters yet another problem, that is, the vagueness of the portfolio strategy prescriptions. These consist of a set menu of four standard prescriptions, namely to maintain, to invest, to harvest, and to divest, depending on the type of portfolio identified. Although these provide a guide to resource allocations among portfolios, they do not provide details as to how the resources ought to be utilized in competing for markets. For instance, it is one thing to say one needs to invest to create star portfolios, but yet another to be precise as to how one goes about doing it. A scrutiny of the strategy proposals put forth by Chun King's management revealed that they were expenditures-driven. The proposals essentially call for either to hold expenditures (as in the conservative strategy) or to increase expenditures (as in the aggressive strategy), without regards as to how these actions could succeed in competing against La Choy. In short, the portfolio type strategy prescriptions merely directs one to invest more (or less) in a particular portfolio, given its type, instead of providing strategic directions as to how one should compete for markets, given one's resource position.

Underlying the portfolio prescriptions on resource allocations is the implicit assumption that funds for investments in the various portfolios of a corporation are internally generated. Hence, the portfolio approach focuses solely on seeking a balance in the internally generated cash flows in its prescriptions. This is overly restrictive and is unrealistic. A firm could optimally be in a short cash position if it has many stars, but this should not pose a problem if these business units are financed with funds raised through new external equity, new debt, and/or bank borrowings. As long as the financing is long term and there is no debt maturity mismatch, there is no reason why a firm should restrict itself to making use of only internally generated funds to support new ventures. We acknowledge that firms sometimes intentionally under invest fearing that the release of proprietary information needed to secure external financing may undermine their competitive positions. However, such problems can be minimized through appropriate controls using incentive and monitoring contracts (Jensen & Meckling, 1976).

As a tool for strategy decision making, the most severe limitation of the portfolio approach is its lack of explicit consideration of competitive interactions. This greatly restricts its applicability, as it either suggests that businesses operate in environments devoid of competition, or that competitors are naïve in that they do not react to actions taken against them. In real life, this is clearly not true for most markets. In fact, markets are becoming increasingly interactive and competitive. The dangers of ignoring competitors' reactions are sufficiently clear and evident from the analysis of the case on Chun King.

Finally, given that the portfolio approach lacks explicit consideration of competitive interactions, it therefore also overlooks the importance of resources, or the lack of it, in its strategy prescriptions. In the case of Chun King, whose management appeared to be adherents of the portfolio approach, competitive interactions were completely overlooked in its competitive strategy formulation. Hence, when its management proposed the two portfolio type strategy alternatives, little did they realize that these alternatives were not appropriate, given that Yeo Hiap Seng was a firm with much smaller resources than Con-Agra. For several years after Yeo Hiap Seng bought over Chun King, they tried desperately to turn around Chun King, incurring severe losses in the process. Finally, unable to sustain further losses, Yeo Hiap Seng decided to sell Chun King. Initially, Yeo Hiap Seng tried to sell Chun King as an on-going concern, however there were no takers. Eventually, Chun King was salvaged for its assets. Most of Chun King's assets were bought by a subsidiary of Con-Agra.

Table 1 on this page summarizes the limitations of the portfolio approach, which we have discussed thus far.

**Table 1**  
**Limitations of the Portfolio Approach as a Strategy Tool**

Limitations	Issues
1 Questionable Premise	<ul style="list-style-type: none"> <li>• Do profits increase with increasing market shares?</li> <li>• Are high growth markets more profitable than low growth ones?</li> <li>• Need funds for investments be wholly internally generated?</li> </ul>
2 Subjective Analysis	<ul style="list-style-type: none"> <li>• What constitutes high or low market shares and growth rates?</li> <li>• What constitutes high, medium, or low market attractiveness and business strengths?</li> <li>• What are the appropriate weights and ratings to apply in the multi-factor analysis?</li> </ul>
3 Vague Prescriptions	<ul style="list-style-type: none"> <li>• How to create stars?</li> <li>• How to transform dogs into cows and question marks into stars?</li> </ul>
4 Ignores Competitive Interactions	<ul style="list-style-type: none"> <li>• How do competitors' reactions impact strategy formulation?</li> </ul>
5 Ignores Impact of Resource Constraints	<ul style="list-style-type: none"> <li>• How do resource constraints impact strategy formulation?</li> </ul>

#### Applicability of Porter's Three Generic Strategies to SMEs

Returning to the case of Chun King, an obvious question was how should it have competed against La Choy and its other competitors, given that Yeo Hiap Seng was much smaller than Con-Agra? More generally, how can a SME who is disadvantaged in resources compete against its bigger rivals? Following Porter's framework of three generic strategies (namely differentiation, cost leadership, and focus strategies), it appears that only the focus strategy - concentrating on select market segment(s), is applicable for SMEs, given their lack of resources. What is known as the focus strategy is also commonly referred to as the niching strategy. SMEs have been advised to market niche by identifying an unmet need in markets where big firms find it unsuitable to cater to (Perry, 1987). In the marketing literature, niching also seems to be the only strategy recommended by researchers for SMEs (e.g., Waterworth, 1987; Paley, 1989; & Kotler, 1996). Hence, a question that arises is whether the niching strategy is the only option available to SMEs.

In fact, Lauenstein (1986) did raise the possibility that niching may not be the only strategy option available to the SMEs. Recognizing this, Greenfield (1989) suggested the use of Porter's (1980) three generic strategies by SMEs in competing for markets. However, the wholesale adoption of Porter's framework for SMEs fails to recognise that SMEs have their own unique characteristics and are not mere miniature versions of bigger firms. Thus, the liberal borrowing by SMEs of strategy prescriptions meant for bigger firms may be inappropriate, if not flawed. As Table 2 shows, the SMEs' resource disadvantages make it difficult or even infeasible for them to follow an industry-wide differentiation strategy, and the cost leadership strategy, as prescribed by Porter. Even the SMEs' ability to niche successfully is questionable, as it is uncertain if the niching strategy is sustainable against aggressive assaults by bigger firms. This is because the focus strategy as prescribed by Porter requires SMEs to acquire differential advantages and/or cost advantages over the bigger firms in the market niches served. We thus need to examine the ease with which such advantages can be acquired, and the feasibility of doing so, by SMEs.

**Table 2**  
**Limitations of the Porter's 3 Generic Strategies When Applied to SMEs**

Generic Strategy	Limitations
1 Cost Leadership Strategy	<ul style="list-style-type: none"> <li>• Ability of SMEs to achieve economies of scale and scope?</li> <li>• Wouldn't bigger rivals be better positioned to acquire economies of scale and scope, and to sustain a low price strategy, using their deep pockets?</li> </ul>
2 Differentiation Strategy	<ul style="list-style-type: none"> <li>• Ability of SMEs to gain industry wide differential advantages over bigger rivals?</li> <li>• Wouldn't bigger rivals be better positioned to acquire differential advantages, using its deep pockets to finance R&amp;D and market promotions?</li> </ul>
3 Focus Strategy (Niching)	<ul style="list-style-type: none"> <li>• Ability of SMEs to fend off aggressive entries by bigger firms?</li> <li>• What prevents the bigger firms from adopting aggressive entry strategies into niches shown to be profitable?</li> </ul>

In order to carry out Porter's cost leadership strategy, a firm needs to enjoy cost advantages over others in the industry. However, it is doubtful how SMEs can achieve cost advantages as these are often based on economies of scale or scope, given the SMEs' mostly limited scale of operations (Pelham & Wilson, 1996). Hence, a SME's cost advantages can only accrue from either the lowering of operating costs and/or having better cost control because of its size. This means that, for the SMEs, the sustainability of the low cost strategy over time is suspect, as it becomes vulnerable to technological obsolescence and price competition. In the face of aggressive assaults by bigger firms with deeper pockets and superior resource efficiency, the bigger firms are most likely to outlast the SMEs pursuing a low cost strategy. This seemed to be the case in the competition between LaChoy and Chun King. LaChoy seized the opportunity to expand aggressively, using its deep pockets, upon the take over of Chun King by Yeo Hiap Seng. By doing so, LaChoy could benefit from even greater economies of scale, which made it a serious threat to Chun King.

Similarly, the ability of SMEs to follow an industry-wide differentiation strategy is questionable. Some of the commonly required skills and resources for the use of Porter's "Differentiation" strategy are not easily satisfied by SMEs. For instance, the SMEs may not have the corporate reputation for quality or technological leadership, a long tradition in the industry, or enjoy strong cooperation from channel-members. These were the problems faced by Yeo Hiap Seng in its attempt to enter the U.S. market through the acquisition of Chun King.

In addition, an industry-wide differentiation strategy often requires heavy investments in research and development in product innovation or adaptation. Substantial investments in marketing support and promotions are also required to communicate successfully to the whole market the uniqueness of the products developed. Only then can the SME achieve the industry-wide competitive advantage of creating a unique consumer perception of its product. It is precisely the lack of resources faced by the SME that this industry-wide differentiation strategy is beyond its reach. Here again we question the ability of Yeo Hiap Seng to bear such heavy investments to achieve meaningful differentiation in the U.S. market.

Based on Porter's framework, it does appear that the focus strategy is the only strategy option left for SMEs. More specifically, SMEs have often been advised to focus on market niche by offering differentiated products. This is because by focusing on a few select market segments, the investment demands in terms of marketing support and promotions can be significantly reduced to the extent that they are within the SMEs' resource capabilities. In following a niching strategy, SMEs could adopt a marketing orientation to build brand equity (Pelham & Wilson, 1996).

In the case of Chun King, it had a unique product in the form of shelf-stable authentic Chinese foods, which was also the competitive advantage of its parent company Yeo Hiap Seng. The company's unique product and its size disadvantage would therefore suggest that Chun King follow the niching strategy by targeting at select segments and supplying a differentiated product.

#### **Limitations of the Niching Strategy**

Even if we concede that niching is the only strategy option for SMEs, it is by no means a strategy exclusive to SMEs. In a Fortune magazine survey, more than 75% of the 500 firms surveyed were found to practice market niching for at least some of their products (Linneman & Stanton, 1991). This implies that the success of SMEs in following the niching strategy must be contingent upon the bigger firms' continued neglect or ignorance of certain segments of the market that are targeted by the SMEs. However, this begs the question of why would the bigger firms choose to ignore these segments if the latter could be served profitably by the SMEs? Several explanations have been advanced by various researchers as to why some market segments are ignored by the bigger firms (e.g., Cooper & Kleinschmidt, 1987; Waterman, 1987; and Ghemawat, 1991), as Table 3 on the next page shows.

What the above popular explanations have in common is a reliance on an irrational or naive behavior on the part of the bigger firms. For example, if being small is advantageous, then why do bigger firms not decentralize to form smaller business units, so as to compete more effectively in the market niches of interest? Some may argue that bigger firms would not want to decentralize because they are locked into inefficient practices and hence, find it difficult to adapt and change. However, this implicitly assumes that the bigger firms are irrational in that they do not learn to overcome such inefficiencies in the long run.

**Table 3**  
**Common Explanations of Why Some Market Segments Are Ignored By Bigger Firms**

Reason	Rationale
1 Segment Too Small	<ul style="list-style-type: none"> <li>• Advantages of smallness: flexibility and ability to respond promptly.</li> </ul>
2 Ignorance of Niche Profitability	<ul style="list-style-type: none"> <li>• Bigger firms make mistakes in investments, not realising the profitability of some market segments.</li> <li>• Bigger firms uncertain about the profitability of some market segments, hence take a "wait and see" attitude.</li> </ul>
3 Fear of Self-Cannibalisation	<ul style="list-style-type: none"> <li>• Bigger firms intentionally avoid serving some market segments for fear of self-cannibalisation on current market segments served.</li> </ul>

In addition, if the smallness of the market niches is the reason for the bigger firms' neglect, then what happens when these markets eventually grow to a substantial size? Would not the growth of these segments attract the entry of the bigger firms, given the increasing attractiveness of these markets? Similarly, although the bigger firms may be ignorant or uncertain about the profitability of the market niches initially, once these niches are seen to be profitable, would not the bigger firms be attracted to enter these markets?

The suggestion that the bigger firms' fear of self-cannibalization is one reason why bigger firms ignore certain market segments (Ghemawat, 1991) also lacks credibility. This is because the extent of self-cannibalization depends on whether there is sufficient product differentiation in the market niches served or to be served. When one compares the extent of losses due to self-cannibalization with that due to conceding of an entire market segment to the SME, surely it makes more sense for the bigger firm to pre-empt the SME's entry by entering these previously ignored market segments?

In conclusion, if all the explanations given in Table 3 are adequate, then it can be inferred that, short of mistakes and irrational responses by bigger firms, the survival of SMEs' is solely dependent on the altruism of the bigger firms. All the questions and issues raised in this paper, including the sustainability of the niching strategy when adopted by SMEs, have not been satisfactorily addressed in the extant marketing and SME literature. Neither has the issue of whether there are other alternative strategies available to SMEs, besides niche marketing, been examined.

### ALTERNATIVE FRAMEWORK TO SME STRATEGY FORMULATION

Chun King should have taken into account both its resource limitations and the possible competitive reactions when formulating its strategies. In this regard, it could apply Lee, Lim and Tan's (1999) model in formulating its strategy. Lee et al. (1999) used a game theoretic approach to derive three generic competitive strategies for SMEs, taking into specific consideration that they often face competitors who are well endowed with resources in the markets of entry. We

extend Lee et al.'s (1999) model here and use it to show that there are alternative strategies (other than niching) that Chun King could have adopted. The revised and extended model is discussed below.

In Lee et al.'s framework of generic strategies for SMEs, the SME's choice of strategy depends on two key dimensions (Table 4), the market targeted and the anticipated behavior of these bigger rivals. In particular, the SME has to consider whether the market targeted is an initially ignored market segment or one that is currently being served by the bigger firms, and whether the incumbents will react aggressively against or accommodate its entry. If the SME chooses to target an initially ignored market segment, by following the niching strategy of supplying a differentiated product, then it is important that the SME is able to acquire sustainable competitive advantages. This is important for the SME in order to deter and/or defend against market entry by bigger firms who may be tempted to follow suit. However, given the difficulties faced by many SMEs in acquiring sustainable competitive advantages against the bigger firms, other strategy options that depend on the anticipated reactions of the bigger firms may be more appropriate for such SMEs.

**Table 4**  
**Generic Competitive Strategies for**  
**SMEs to Successfully Penetrate Markets**

The SME's Strategic Target & Degree of Product Substitutability		The Bigger Firm's Reactions		The Bigger Firm	
				Accommodates	Fights
The SME	New Market Segments Ignored by Bigger Firm	Differentiated	[1] Niching Strategy		
	Established Market Served by Bigger Firm	Substitutable	[2] Substitution Strategy	[4] Deterrence Strategy	
		Identical	[3] Free-Riding Strategy		

We expand Lee et al.'s (1999) model to include also the substitution strategy in addition to the free-riding strategy. In contrast to the niching strategy, in which firms are advised to differentiate their products away from their competitors', in the substitution strategy, firms are advised to position their products as close substitutes of their competitors'. Hence, at the limit of substitutability, the firms' products become identical to that of their competitors', which is what Lee et al. referred to as the free-riding strategy.

Including the substitution strategy in Lee et al.'s framework, SMEs should therefore apply a substitution and/or a free-riding strategy and target the market served by the bigger firm, if it is anticipated that the latter is accommodating in that it will not react aggressively to fight the SME's entry. However, if it is anticipated that the bigger firm will be aggressive (in that it will "act crazy" by choosing to compete aggressively despite the high costs of doing so), then the SME should adopt a deterrence strategy in entering the market that is served by the bigger firm. In using the deterrence strategy, the SME pre-empts the anticipated aggression from the incumbent bigger firm by credibly signaling to the latter its commitment to stay in the market. Lee et al. (1999) suggested that this commitment could be credibly conveyed by the SME via the formation of a strategic alliance. We propose here that a strategic move of committing to high sunk-investments in the market can also serve as a signal of credible commitment and hence deters the bigger firm from undertaking aggressive actions. Given that both the formation of strategic alliances and the use of strategic moves share the common objective of deterring the bigger firm from reacting aggressively, we therefore generalize these strategies as a deterrence strategy as shown in Table 3.

The substitution and the free-riding strategies are effective in forcing the bigger firm to accommodate because the latter finds aggressive actions against the SME too costly in terms of reduced profits in the other segments served by the former. The deterrence strategy is effective because of the threat of costly protracted competition. The successful use of the substitution, free-riding, and deterrence strategies proposed for SMEs thus results in the accommodation of SMEs' market entry by the bigger firms.

This suggests that whether SMEs can penetrate markets dominated by bigger firms and compete successfully against the latter, depending on their ability to devise strategies that force the bigger firms to accommodate their market entry. This applies even if SMEs lack resources and sustainable competitive advantages compared to their bigger rivals. It is, therefore, not essential for the SME to have a cost advantage in order to apply any of the three generic strategies proposed. Hence, given the SME's lack of resources to embark on market developmental efforts and its difficulty in acquiring competitive advantages, it is also proposed that the SME is better off exploiting marketing development efforts by the bigger incumbent firms and avoid being the first-mover in developing new markets.

It has been suggested that SMEs should always follow a niche strategy beginning with market development first before product development, the reason being that it is less risky to develop new customers than new products (Perry, 1987). However, even if the SMEs succeed in developing the market targeted, they may not be able to keep it. SMEs risk losing the market that they have developed, especially to bigger firms who may be attracted by the SMEs' initial successes and therefore decide to enter the market aggressively by exploiting their deep pockets against the SMEs. This is because to market niche successfully, it is important that SMEs possess sustainable competitive advantages. Given the SMEs' lack of resources and difficulty in acquiring competitive advantages against the bigger firms, the niching strategy in which SMEs target new market niches, may not always be suitable to SMEs. In fact, given the feasibility of SMEs successfully penetrating markets dominated by incumbent bigger firms even though they lack resources and are disadvantaged, SMEs should avoid being the first movers into new markets niches that require substantial market development efforts. The exception is when SMEs can acquire sustainable competitive advantages against bigger firms who may enter the market, and if the cost of entry can be kept small such that it is within the means of the SMEs without impacting the latter's chances of success in market entry (Mascarenhas, 1997). Short of these conditions, SMEs may be better off targeting markets that are already well developed by larger firms, aiming to take a small slice of the developed market.

SMEs should always exploit the larger firms' dilemma in deciding whether to fight or accommodate the SMEs' market entry. The larger firm must weigh the cost of fighting versus the benefit of accommodating the SME's entry. Hence, it is not necessarily true that each market entry attempt by the SME will always be met with retaliatory actions by the bigger incumbent firm. Cooper, Willard, and Woo (1984) have also observed that bigger firms do not always compete aggressively against the entry of SMEs into their markets, and have challenged the conventional thinking that SMEs should not meet their larger competitors head-on. They therefore raised the possibility of successful direct competition by SMEs against the bigger firms. Complementing their study, Lee et al. (1999) provided an economic rationale for the behavior of the bigger firms when faced with entry by SMEs into their markets, and identified the conditions for successful market penetration by SMEs. The authors showed that, when incumbents are faced with entry into their markets by SME entrants following the substitution, free-riding, and/or deterrence strategies, the incumbents' rational response is to accommodate entry.

The dominant firm chooses not to react because it is in its best interest to accommodate the entry of the new venture. This is because the cost of accommodation is much lower than that of aggressive counter-actions. In fact, the cost of aggressive actions to the dominant incumbent is higher the larger its market share. Hence, a dominant firm with a larger market share is less likely to react aggressively to entry into its market. It is also important for SMEs to explicitly consider the competitive reactions of the bigger firms in market entry. It is through accommodation, however reluctant, by the bigger rivals that SMEs can profitably penetrate an existing market despite the latter's lack of resources and competitive advantages.

How do the strategies for SMEs identified here compare with Porter's (1980) three generic strategies? The most important difference is that our analyses explicitly take into account the resource limitations faced by SMEs while this issue is not addressed in Porter's (1980) prescriptions. Based on Porter's (1980) framework, it would appear that the only strategy option for SMEs is to focus or to market niche. However, by explicitly taking into account the resource limitations faced by a SME and the competitive interactions between a SME and a bigger firm, we are able to identify several strategy options (other than the niching strategy) for SMEs. As implied by our framework of generic strategies for SME (Table 3), SMEs need not always focus on ignored market niches for successful market entry. Nor do they always need to possess sustainable competitive advantages for successful market entry. This is important given the difficulties often faced by SMEs in acquiring competitive advantages against the bigger firms. Lee et al. (1999) illustrated the feasibility to SMEs of targeting markets already well established and served by bigger firms by following the substitution, free-riding, and/or deterrence strategies. In addition, the authors also showed that in order for the substitution and free-riding strategies to work, the SME does not necessarily need to possess any of the two strategic advantages – low cost position and uniqueness perceived by the customer, identified by Porter (1980).

### WHAT CHUN KING COULD HAVE DONE

In the case of Chun King, it had a unique product in the form of shelf-stable authentic Chinese foods, which was also the competitive advantage of its parent company Yeo Hiap Seng. The company's unique product and its size disadvantage would suggest that Chun King should follow the niching strategy by targeting at select segments and supplying a differentiated product. The marketing mix strategies should then be tailored accordingly to support the niching strategy thus adopted. Chun King's competitive advantage in its authentic Chinese foods was sustainable, as it could not be easily imitated by its bigger competitors due to their lack of technological know-how and experience. Continuous innovations by Yeo Hiap Seng would further ensure that its competitive advantage in authentic Chinese foods would be sustained.

However, in following the niching strategy described, Chun King might still need to incur substantial investments even if it targeted select segments only, as its operations extended across the whole of U.S. The investments were required to re-position its products and to undertake a major restructuring of its existing distribution structure. This was because of the resulting inconsistency between its new positioning based on authentic Chinese foods, which appealed to select market segments, and its existing distribution structure, which reached out to the masses.

If it was not feasible or too costly for Chun King to undertake a major change in its positioning and distribution strategy, then the niching strategy would not be suitable for Chun King. Alternatively then, Chun King should look into the possibility of using one or a combination of the generic strategies proposed. Given that La Choy was known for its aggression, this immediately ruled out the possibility of Chun King following the substitution and the free-riding strategies. Hence, the only viable option left for Chun King was the deterrence strategy to force La Choy to accommodate. This could be achieved if Chun King was able to identify and strike a strategic alliance with a party who was comparable in strength to Con-Agra. This would not only neutralize Con-Agra's competitive advantage in its size, but also signaled Chun King's commitment and ability to defend its market share. These strategy prescriptions are made taking into explicit account Chun King's resource disadvantage and the competitive reactions of La Choy, and are in contrast to the BGC-type strategy alternatives considered by Chun King's management at that time.

### CONCLUSIONS

In this paper we examined the applicability of the two more popular strategy frameworks in the literature — the portfolio approach in strategy decision-making and Porter's (1980) framework of three generic strategies, to SMEs. This was complemented with a diagnosis of an actual case study of a SME competing against a bigger firm. In doing so, we uncover and highlight the hidden assumptions and flaws of these popular strategy approaches, which made them unsuitable for resource-constrained SMEs. In addition, we show the importance of explicitly considering the competitive reactions of bigger firms to SMEs' market entries. We further propose an extension of Lee, Lim and Tan's (1999) model and illustrate its application to the case examined.

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