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In some companies, managers pay great attention to cost management. Although they do not neglect the problems of quality, service and other necessary things, the main thing in the strategy of these companies is to reduce costs compared to the costs of competitors in the industry. Low costs provide these companies protection from the five competitive forces in several ways. Porter explains: “The position that such a company has in terms of costs provides it with protection from competition from competitors, since lower costs mean that the company can generate revenue even after its competitors have already exhausted their profits in the course of competition.

Main part

The benefits of this strategy: Low costs protect this company from powerful buyers, as buyers can use their capabilities only to bring down its prices to the level of prices offered by a competitor, which follows this company in terms of efficiency. Low costs protect the company from suppliers, providing greater flexibility to counter them as the costs of input resources increase. Factors leading to low costs usually also create high barriers to entry of competitors in the industry - this is economies of scale or cost advantages. Finally, low costs usually put the company in a favorable position in relation to substitute products. Thus, the position of low costs protects the company from all five competitive forces, because the struggle for favorable terms of the transaction can reduce its profits only until the profits of the competitor following it are destroyed. Less efficient firms in the face of increased competition will be the first to suffer. Of course, the strategy of minimum costs is not suitable for every company. Companies wishing to pursue such a strategy must control large market shares compared to competitors or have other advantages, for example, the most favorable access to raw materials. Products need to be designed to be easy to produce; in addition, it is reasonable to produce a wide range of interconnected products in order to evenly distribute costs and reduce them to each individual product. Further, low cost companies need to gain a wide consumer base. Such a company cannot be content with small market niches. As soon as a company becomes a leader in minimizing costs, it gains the ability to maintain a high level of profitability, and if it intelligently reinvests its profits in the modernization of equipment and enterprises, it will be able to maintain leadership for some time. As examples of companies that did just that, Porter mentions Briggs & Stratton, Lincoln Electric, Texas

Instruments, Black & Decker, and Du Font. As you can expect, Porter warns, leadership in minimizing costs entails some losses, inconveniences, and dangers. Although increased production often leads to lower costs, economies of scale are not automatic, and low-cost executives must be constantly on their guard to ensure that they can actually receive the potential savings. Managers should immediately respond to the need to dismantle obsolete assets, invest in technology - in short, not to lose sight of the costs. Finally, there is a danger that some new or old competitor will use the technologies or methods of cost management used by the leader and win. Leadership in minimizing costs can be an effective response to the actions of competitive forces, but it does not give any guarantee against defeat. The lower the cost, the lower the cost of production, and ultimately the profit from its sale. According to porter, companies that have adopted a strategy of minimizing costs compared to the costs of competitors, ensure their leadership in the market by protecting themselves from the negative impact of all five competitive forces, because low costs

Conclusion

Porter's model of cost leadership strategies is used by large companies that produce mass products. The main sources of these advantages are an economical attitude to resources and scale, the highest possible access to raw materials, technologies that are ahead of progress, and distribution through channels tested for reliability. But this does not negate the fact that concessions to competitors regarding the quality of this product are unacceptable. When costs are low the cost of production decreases, and then profitability. But the company becomes well protected from competitors, and profit decreases only when the depletion of profit of a less effective competitor has not yet occurred. Such competitors are the fastest to leave this game in the “cost war”. The company has protection against countermeasures that both buyers and suppliers are trying to provide. Competitors have to face a high threshold before entering this industry. The company using the strategy is in the most favorable position among companies producing similar products.