

# **Porter's Five Generic Strategies: A Case Study from Bicycle Companies during Covid-19 Pandemic**

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## **Abstract**

The Covid-19 pandemic has crippled the economy's most important sectors. People have been forced to stay at home due to the implementation of the Large-Scale Social Restriction (PSBB). Meanwhile, they were required to preserve their health and well-being to avoid becoming infected with the Corona Virus Disease (COVID 19). One of the numerous strategies to avoid a viral assault is to exercise; during the pandemic, the majority of the population chooses cycling as their form of exercise. As a result of this situation, demand for bicycles and their replacement parts is increasing, even though their prices are also rising. This phenomenon has the potential to boost the income of bicycle companies. This study observed which Porter's Strategy were used by bicycle companies and discovered the impact of the strategy during Covid-19 pandemic.

## **Keywords**

Covid-19, Cycling, Porter's Strategy, Brompton, Shimano

## **1. Introduction**

The Covid-19 pandemic that began in early 2020 shocked the world. In March 2020, Indonesia recorded its first Covid-19 patient in Depok, West Java. The Indonesian government implemented large-scale social restriction (PSBB) in late April 2020 as a precaution of transmission Covid-19 virus. Within this PSBB, there are health protocols applied to all Indonesians, such as washing hands regularly, maintaining the distances, and wearing face masks (Ramdani 2020). Many people tend to do a lot of activities at home such as studying, working, and even praying.

To prevent Covid-19, people need to increase their immune system. One of the activities to increase their immune system is by exercising (Hadi 2020). People began to improvise so that they could exercise even if they had to stay at home; nevertheless, people eventually reached a tedium phase and didn't have desire anymore to continue exercising at home, so they began exploring for sorts of sports that could be done outside while still adhering to the health protocols.

Exercise that still obeys health protocols is cycling. Many fitness-starved Indonesians turned to cycling for outdoor exercise when areas of the country were ordered to stay at home and health clubs were shuttered to help prevent the spread of the coronavirus, resulting in a rise in bike sales. In reaction to the epidemic, COVID-19 saw a significant surge in bicycle sales. Rapid changes in consumer needs and product diversity make market conditions more competitive (Wibowo and Nurcahyo 2020). Due to increased worry about public transit and an increase in activity, an increasing number of people are opting for one of the most basic modes of transportation.

Together with the high public interest in cycling activities, it also gives an impact to enhancement of bicycle manufacturing company performance. Corporate viability plays an important role in one firm strategy during pandemic (Nurcahyo, 2019), that makes bicycle companies need to develop appropriate strategies to deal with the increasing complexity of manufacturing (Saptioratri Budiono et al. 2021). This study will discuss the performance of several bicycle companies in the presence of the COVID-19 pandemic, and how that several companies implement Porter's strategy to maintain their existence.

The rest of this paper is organized as follows. Section 2 literature review about two major bicycle companies and Porter's generic strategies. Section 3 methodology stage for this paper. Section 4 data collection to support this study. Section 5 results from data analysis and discussion. Section 6 is the conclusion of this study.

### 1.1 Objectives

1. Identify Business strategy between bicycle companies; Brompton and Shimano.
2. Determine which Porter’s Generic Strategy used between bicycle companies; Brompton and Shimano.
3. Determine Porter’s generic strategy impact on Brompton and Shimano Performance during Covid-19 pandemic.

## 2. Literature Review

### 2.1 Brompton Bicycle Company

Brompton is one of bicycle manufacturer head-quartered in London, Great Britain. Established since June 3<sup>rd</sup>, 1976, Brompton has become one of the leading bicycle manufacturers. In this case, Brompton produce folding bicycle (bike with an ingenious 3-part fold) and accessories as their core product. About achievement, Brompton awarded the Prince Philips’s Designer Prize because it’s outstanding design.

Brompton is a unique bicycle manufacturer that led to their advantage. As folding bicycle manufacturer, their product can be folded up into a compact small for less than 20 seconds. Beside of that, signature Brompton’s frame is made by lightweight Titanium material that welded through Tungsten Inert Gas (TIG) method. As a result, from their fabrication method, Brompton could produce a bicycle by just 7.45 kg weight. In addition, Brompton sell product with unusual price. Based on model and weight, Brompton’s bicycle price ranging from £850 - £3,750, a quite expensive for a bicycle product (Brompton 2022).

### 2.2 Shimano Bicycle Company

Shimano Iron Works established in 1921 by Shozaburo Shimano in Higashi Minato in Sakai City, Japan. In 1951, Shimano Iron Works absorb Shimano Bicycle Company and the company name changed into Shimano Industrial Co., Ltd. In line with the company’s mission to promote health and happiness through the enjoyment of the nature, Shimano launch a fishing division in 1970. Since then, this company has produced many bicycle parts, fishing equipment, and expand their business worldwide.

Wealth experience of history and advanced technologies made Shimano constantly been at the forefront in their line of business. Latest Shimano’s product using cold-forging technology, so their components were lighter and stronger. Integrated with digital technology, high-precision machining and heat treatment made Shimano’s products steadier and give smoother rotation with minimum force. Beside the performance aspects, advanced surface treatment for Shimano’s product also plays a significant role to make product more durable with improved corrosion and abrasion resistance. With many types of bicycles, Shimano’s bicycle price varies from £241 - £1,735(Shimano 2022).

### 2.3 Porter’s Generic Strategies

Porter’s strategies supported by majority research to improve original strategic become more effective and efficient for corporate performance (Dess & Davis, 1984). Cost leadership, Differentiation, Focus Strategy “Strategy is about making choices, trade-offs; it’s about deliberately choosing to be different “– Michael Porter. Start from Three Generic Strategies shown on Figure 1, then become more complex to obtain efficient and overcome a kind of problem.

		Uniqueness Perceived by the Customer	Low-Cost Position
Strategic Target	Industry Wide	Differentiation	Overall Cost Leadership
	Segment Only	Focus	

Figure 1. Three Porter’s Generic Strategies

Helms et al. (1997) investigate when low cost with differentiation strategies are mutually related and have probability will automatically exclude each other, in fact that strategies are comply to each other and lead corporate obtain higher return of investment at under specific circumstances. In addition, deployments of the Three Generic Strategies discussed by Porter Explore further probabilities strategic approach used by corporation for expand market

penetration. Davis and Davis define five different strategies as shown on Figure 2, perhaps have connection to target market (Davis and Davis 2015).

		<b>Generic Strategies</b>		
		<b>Cost Leadership</b>	<b>Differentiation</b>	<b>Focus</b>
<b>Size of The Market</b>	Large	Type 1 Type 2	Type 3	
	Small		Type 3	Type 4 Type 5

Figure 2. Porter's Five Generic Strategies

**Type 1: Cost Leadership – Low Cost**

Implied only by large companies with a large market share. Based on economies of scales and on product standardization (Federica et al. 2017). As a fact large company production large quantity to reducing the price the product by adopting new technic in addition minimize expenditures of research and development, while reengineering the supply chain.

**Type 2: Cost Leadership – Best Value**

Want to deliver a low-cost product or service however may decide to differentiate their offer, nevertheless according to a budget price. Corporate obtain higher revenues by deployment a low cost strategy while offer the best service especially compare to other corporate on market (Federica et al. 2017).

**Type 3: Differentiation**

As in the differentiation strategy discussed by Porter, this third kind of strategy can be deployment by both for large and small market segments and by both large and small company.

**Type 4: Focus – Low Cost**

Combine focus and cost strategy and is pursued by corporate that aim to achieve operational efficiency while focusing also on specific niche aspects of the product or service provided to the market. Fundamental aspect for the company to make sure this niche market is large enough and has a growth potential, while other company have left out this market segment (Federica et al. 2017).

**Type 5: Focus – Best Value**

The significant strategic practices for a focus – best value strategy include producing products or services for high price market segments and providing specialty products and services (Allen & Helms, 2006). The purpose of differentiation is developing a large share of a broad market, the focus – best value pretty much targeted. The tactics of these strategies:

1. Provide inimitable service or products able to target high price market segments.
2. Producing exquisite products or high-quality services.

**3. Method**

This research consists of three stages as shown at Figure 3. In the first stage, we chose Brompton and Shimano as two bicycle companies that already been known by customers and bicycle enthusiast. In the second stage, we collect quantitative data from that two companies about their performance during Covid-19 in period 2020 and 2021. These data were taken from financial (annual) statement. In the third stage, we investigate what Porter's strategy in both Brompton and Shimano follow and how that strategy reacts during Covid-19 pandemic. The flow process in each stage will be as below.

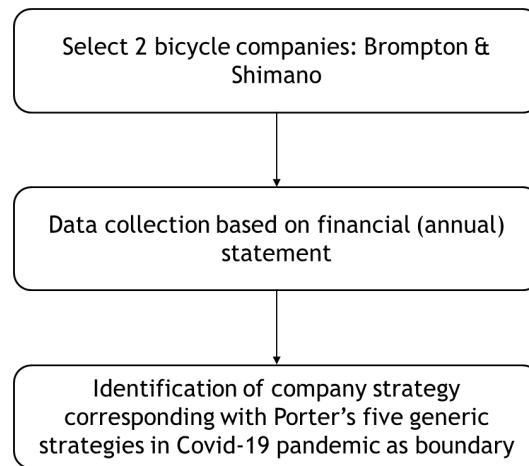


Figure 3. Research Methodology

## 4. Data Collection

### 4.1 Brompton Net Sales

During Covid-19 pandemic, Brompton could still maintain their performance, even get better result in 2021 comparing with 2020 year. As we can see from below figure, Brompton have £9,021,303 increase in gross profit in the same period. The detail of Brompton's summary revenue performance could be seen on Table 1.

Table1. Brompton Net Sales

	2020	2021
	£	£
Turnover	57,043,741	76,123,912
Cost of sales	(28,716,663)	(38,775,531)
<b>Gross profit</b>	<b>28,327,078</b>	<b>37,348,381</b>
Administrative expenses	(22,349,728)	(27,999,372)
Grant income	-	285,472
<b>Operating profit</b>	<b>5,977,350</b>	<b>9,634,481</b>
Interest receivable and similar income	62,553	15,585
<b>Profit before tax</b>	<b>6,039,903</b>	<b>9,650,066</b>
Tax on profit	(619,086)	(803,143)
<b>Profit before Minority Interest</b>	<b>5,420,817</b>	<b>8,846,923</b>
Minority interest	(137,155)	(410,192)
<b>Net Profit</b>	<b>5,283,662</b>	<b>8,436,731</b>

#### 4.2 Shimano Net Sales

During Covid-19 pandemic, Shimano could still maintain their performance, even get better result in 2021 comparing with 2020 year. As we can see from below table, Shimano have ¥78,334 increase in gross profit in the same period. The detail of Shimano’s summary revenue performance could be seen on Table 2.

Table 2. Shimano Net Sales

	<b>2020</b>	<b>2021</b>
	Millions of ¥	Millions of ¥
Net Sales	378,040	546,515
Cost of sales	(224,956)	(315,097)
<b>Gross Profit</b>	<b>153,083</b>	<b>231,417</b>
Selling, general, and administrative expenses	(70,382)	(83,129)
<b>Operating Profit</b>	<b>82,701</b>	<b>148,287</b>
Total Non-Operating Profit	3,247	6,294
Total Non-Operating Expenses	(4,476)	(2,020)
<b>Ordinary Profit</b>	<b>81,471</b>	<b>152,562</b>
Extraordinary Profit	3,619	1,627
Extraordinary Loses	(271)	(461)
<b>Profit before tax</b>	<b>84,820</b>	<b>153,728</b>
Total Tax for Profit	(21,294)	(37,596)
<b>Profit before Minority Interest</b>	<b>63,525</b>	<b>116,132</b>
Minority Interest	(52)	(194)
<b>Net Profit</b>	<b>63,472</b>	<b>115,937</b>

#### 5. Results and Discussion

Looking from Brompton’s financial report, known that this company could get better performance even in the problem of Covid-19 pandemic. This condition is understandable because based on Porter’s strategy, Brompton follow Focus – Best Value as their strategy. In this case, Brompton still produce special folding bicycle that handed made with special material. Brompton didn’t change his business by reducing properties or specification of product they made, but still focus on basic value with great design and manufacture process.

In customer perspective, Brompton still maintain their existence even in Covid-19 pandemic. With their unusual price, Brompton realize that their product is focused on certain group of customers. This certain group of customers is the people who need folding bicycle with special specification. Brompton even have slogan ‘You don’t get Brompton until you get a Brompton’. That is a statement that shows special bond between Brompton’s bicycle and their customer who satisfy with the product. Without any price consideration, this customer still wants to buy that bicycle, this characteristic is same with Porter’s focus strategy because Brompton’s target market is in small range of customers but with the best price-value available. With that kind of strategy and effort, Brompton could achieve growth in their overall business that represented by annual report in 2021.

Along with Shimano’s mission “To promote health and happiness through enjoyment of nature and the world around us”, Shimano not only focus on their bicycle business, but also on fishing and rowing equipment. With many other products were made by Shimano and technological advantages, their strategy categorized as Differentiation based on Five Porter’s Generic Strategy.

Relating to their strategy, in this case Shimano produce various model of bicycle that classified as unique product. Some series of mountain and ride bike already produced by Shimano and distributed to customer across the world.

Not only produce a bicycle, but Shimano also provide bicycle's gear and brake as service components. To make customer satisfy with their product, Shimano put some technology in their product, named Digital Integrated Intelligence (Di2), Shimano Wheel Technology, and Shimano E-Bike Technology. With that kind of technologies, it makes Shimano's product become different with their competitor, and could gain more advantage. As a result of their unique (different) products, and promotion (marketing) effort, Shimano could achieve growth in their overall business that represented by annual report in 2021.

Relating to their performance, Shimano and Brompton have similarity in positive profit during Covid-19 pandemic. As we can see from each of their annual report, known that Shimano and Brompton could achieve better result of gross profit in 2021 compared by 2020. In this case, their strategy make Shimano and Brompton could still exist even get better result in Covid-19 pandemic.

Also, there is interesting fact between Shimano and Brompton performance during 2021. In this case, Brompton's gross profit in 2021 is £37,348,381, meanwhile Shimano's gross profit in 2021 is ¥ 231,417,000,000 (conversion to pound sterling same with £1,422,278,742. This value of gross profit could be different because Shimano's product not only bicycle and its components, but also fishing and rowing equipment, meanwhile on the other side Brompton only produce special folding bicycle and its accessories. In total Shimano got better profit in 2021 if compared with Brompton.

## **6. Conclusion**

Two major bicycle companies, Brompton and Shimano adopt two different Porter's Strategies. Without lowering their prices and quality of their products, Brompton using Focus – Best Value strategy. Meanwhile, Shimano with their variations of their products is using Differentiation strategy. During the Covid-19 pandemic, even using two different strategies, both companies' net sales still increasing. However, the investigation of this study is based on secondary data that collected from both companies' annual report during Covid-19 pandemic (2020-2021).

This study is limited to two major bicycle companies and the data collection is from annual report. To obtain more detailed data in further research, primary data is needed and may also require opinions from decision makers in the company and experts.

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