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KNOWLEDGE FOR ACTION
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CREATING AND SUSTAINING COMPETITIVE ADVANTAGE

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Agenda

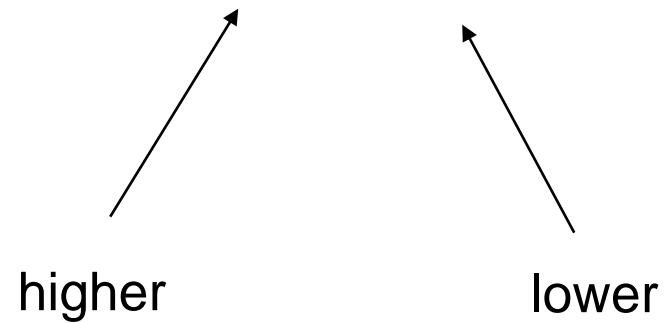
- **Brief overview of what we have learned about how firms create and sustain a competitive advantage**
- **Two short group exercises, followed by brief report-outs, asking you to apply some of the ideas to your own organizations**
- **Wrap-up with another short lecture on positioning**
- **Goals:**
 - **How to think in a more structured way about competition (esp. from disruptors)**
 - **Serve as a catalyst for what you should be thinking about, going forward in creating your own strategies**

The elements of a strategy

- **Strategy = Distinctive array of interdependent choices that address**
 - **A desired outcome**
 - **Where to compete (market positioning)**
 - **Product**
 - **Customers**
 - **Geography**
 - **Value proposition**
 - **Source of CA (strategic positioning)**
 - **High-level (cost vs. differentiation)**
 - **Detailed level (activities, resources, capabilities)**

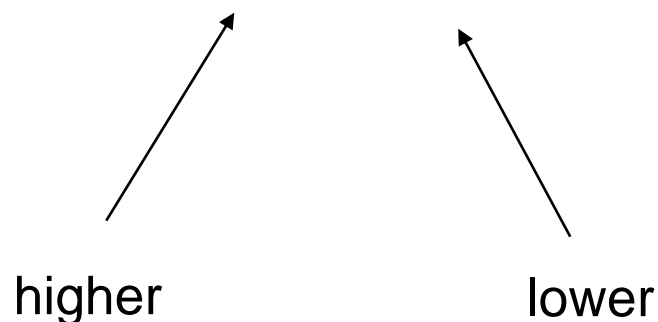
How to create a competitive advantage?

Competitive Advantage \propto (Price – Cost)



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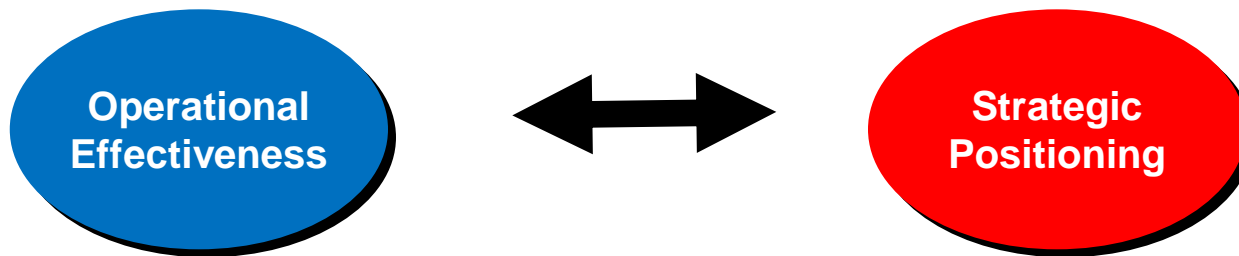


Can you achieve this by imitating what other firms do?

No, but....

- **What about**
 - **TQM (Total Quality Management)**
 - **JIT (Just-in-Time)**
 - **Six sigma**
 - **Benchmarking**
 - **Best practices ???????**

Operational Effectiveness \neq Strategy



- Achieving and extending best practice

- Creating a **unique** and sustainable competitive position

Source: Porter (1996)

Determinants of company performance

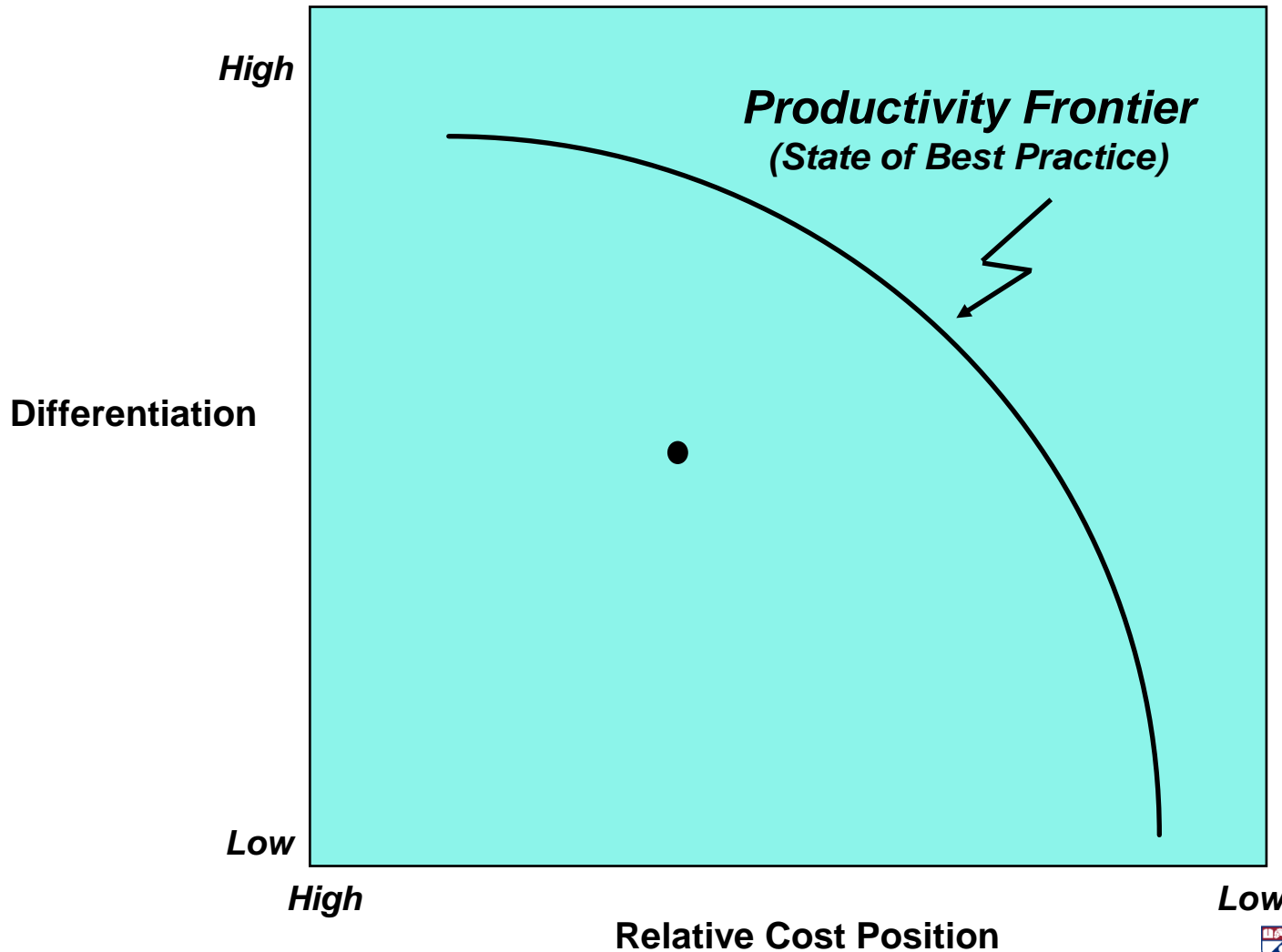


Operational
Effectiveness

- Improving operational effectiveness is necessary to achieving superior profitability, but it is **not sufficient**
 - Absolute but not relative improvement
 - Competitive convergence due to imitation

Source: Porter (1996)

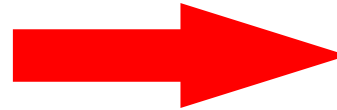
Operational Effectiveness vs. Strategic Positioning



Source: Porter (1996)

What is strategy?

Strategy is a race
to one ideal
position



Strategy is the
creation of a **unique**
and valuable
position, involving a
different set of
activities

OK, we need to do something different...

- **In order to make our competitive advantage sustainable, i.e., to make it more difficult for others to imitate us, should we do**
 - **one thing differently?**
 - **many things differently?**

“Many things” sounds intuitive, but....

- **What about**
 - **Core competence**
 - **Key success factors**
 - **Critical resources ?????**

In general

- **“Silver bullet” strategies tend to be very fragile**
 - **Everyone knows your source of competitive advantage, thereby focusing imitation attempts**
 - **Environmental shifts may make your key success factor not as important anymore**

Non-linearity

- **If competitors copy 70% of your activities**
 - and they get 70% of the benefits => bad news
 - and they get <70% of the benefits => better news
 - and they get -10% to 10% of the benefits => good news
- **Interactions among activities create such non-linearities**

US supermarket industry: not very attractive

- **Increasing rivalry:**
 - Whole Foods at the top end
 - WalMart at the low price end
 - “hard discounters” like Dollar General at the real low end
 - Costco, Sam’s Club
 - Walgreens, CVS
 - Disruptors: Amazon, Blue Apron (meal kits), Uber Eats
- **In the middle, hard to differentiate**
 - all sell the same brands
 - same store format
 - constant sales and coupons
- **Suppliers of brands become powerful**

One exception



Trader Joe's strategy

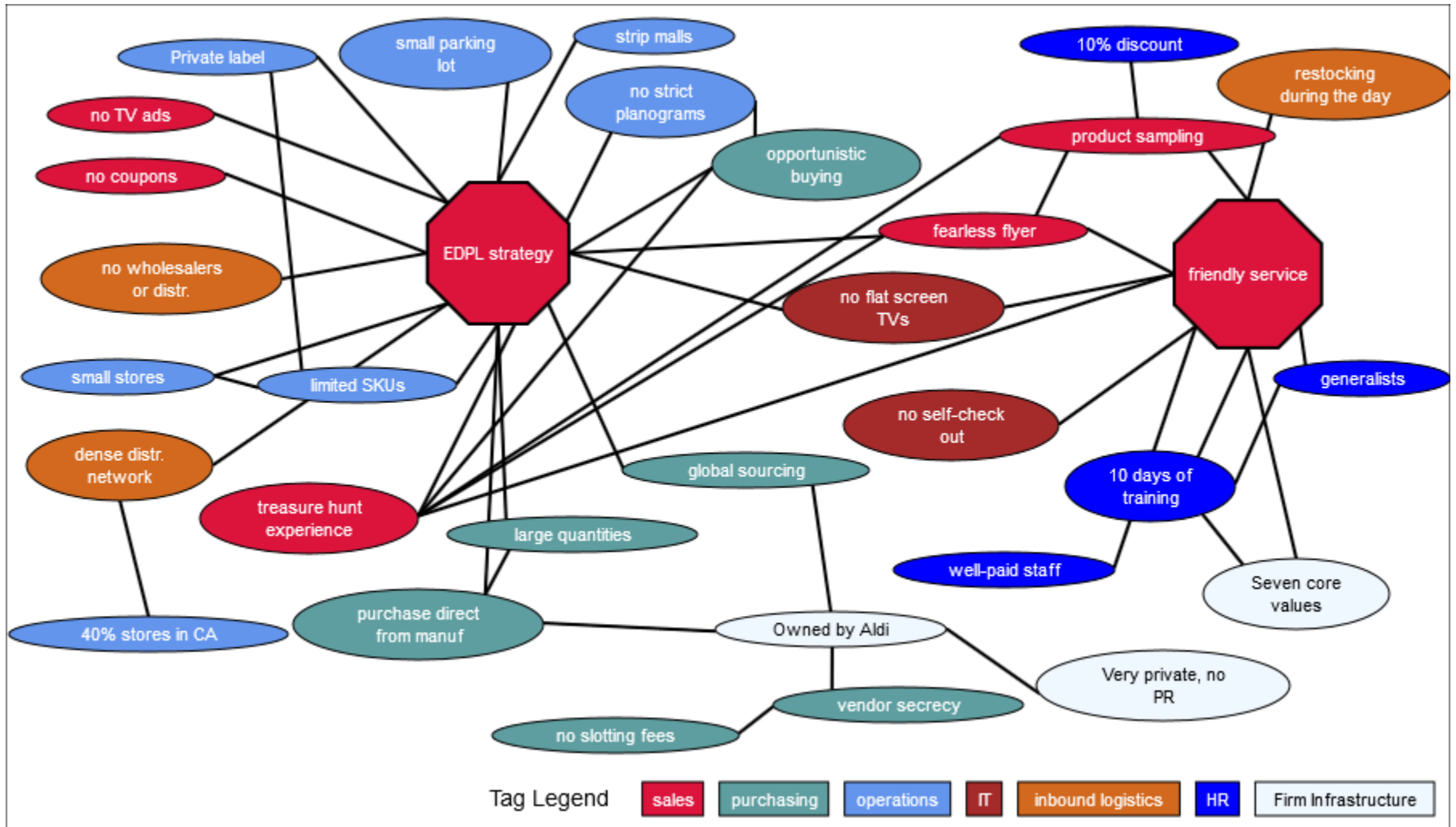
- Low cost
- Narrower product scope, mainly own brand
- Certain set of customers (“overeducated and underpaid”)
- Started in CA, but now increasingly wide-spread

What does Trader Joe's do (differently)?

- **Small stores**
- **Limited SKUs**
- **Private label**
- **No strict planograms**
- **Employee art**
- **Small parking lots**
- **Strip malls**
- **Every-day-low-pricing (never a sale)**
- **Purchase directly from manufacturers**
- **Vendor secrecy**
- **Change product mix frequently**
- **“treasure hunt experience”**
- **Well-paid staff**
- **Friendly & knowledgeable service**
- **Generalists not specialists**
- **10 days of training for new employees**

Consequences

- **Private label reduces competition**
- **Distinctive shopping experience reduces competition and threat from substitutes**
- **Supplier secrecy reduces supplier power**
- **Frequently changing product mix reduces supplier power**
- **Few SKU's bought at high volume creates even more power over suppliers**
- **Location in strip malls reduces power of real estate suppliers**



Two mechanisms underlying sustainable advantage

- Interactions drive both complexity and tradeoffs
- The role of complexity
 - Increases the difficulty of wholesale imitation
 - Decreases the value of partial imitation
- The role of tradeoffs
 - Decreases the desirability of imitation
 - Deters straddling, because straddling is costly
 - Inconsistencies in reputation
 - Different set of optimal activities
 - Limits on internal coordination and control

What does TJ not do?


- TJ does not sell many branded items
- They do not accept coupons, nor do they have items on sale
- They don't have a broad product offering
- They don't do TV advertising
- They don't have a loyalty card
- They don't have self-check out lanes.
- They don't have ample parking.
- They don't have wide aisles.

Tradeoffs

- **Can't do all my shopping there (product breadth)**
- **Can't get all my desired items (I want some branded products. Diet Coke!)**
- **It's quite a hassle at times to shop (no parking etc.)**
- **Limits growth**

- **Clearly they are not trying to be all things to all people.**
- **It's exactly these tradeoffs, and the things they don't do that makes it unattractive for others to partially copy them.**
- **If you want to succeed against Kroger and WalMart and aren't as big, you need to find a different way of positioning. What things can you eliminate or reduce? What new things can you add, that will give you a competitive advantage for a certain segment of the market?**

In sum

- Positions built on activity systems are **far more sustainable** than those built on individual activities
 - Harder for a rival to match the whole system than to imitate one feature, product or service
 - Difficult to discern relevant parts from outside the company (but sometimes also within)
- 
- Incompatible activity systems, because of tradeoffs, are what underlie the most viable strategic positions
 - The choice of what **not** to do is a central part of strategy
 - This is not easy to do; “Failure to choose”
 - Most common problem: Growth trap

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COMPETITIVE STRATEGY TRADEOFF EXERCISE 1

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Who are our competitors and potential disruptors?

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What do we do differently?

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COMPETITIVE STRATEGY TRADEOFF EXERCISE 2

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What have we chosen NOT to do? What should we perhaps stop doing?

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What are the tradeoffs arising from our choices?

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CREATING AND SUSTAINING COMPETITIVE ADVANTAGE (CONT'D)

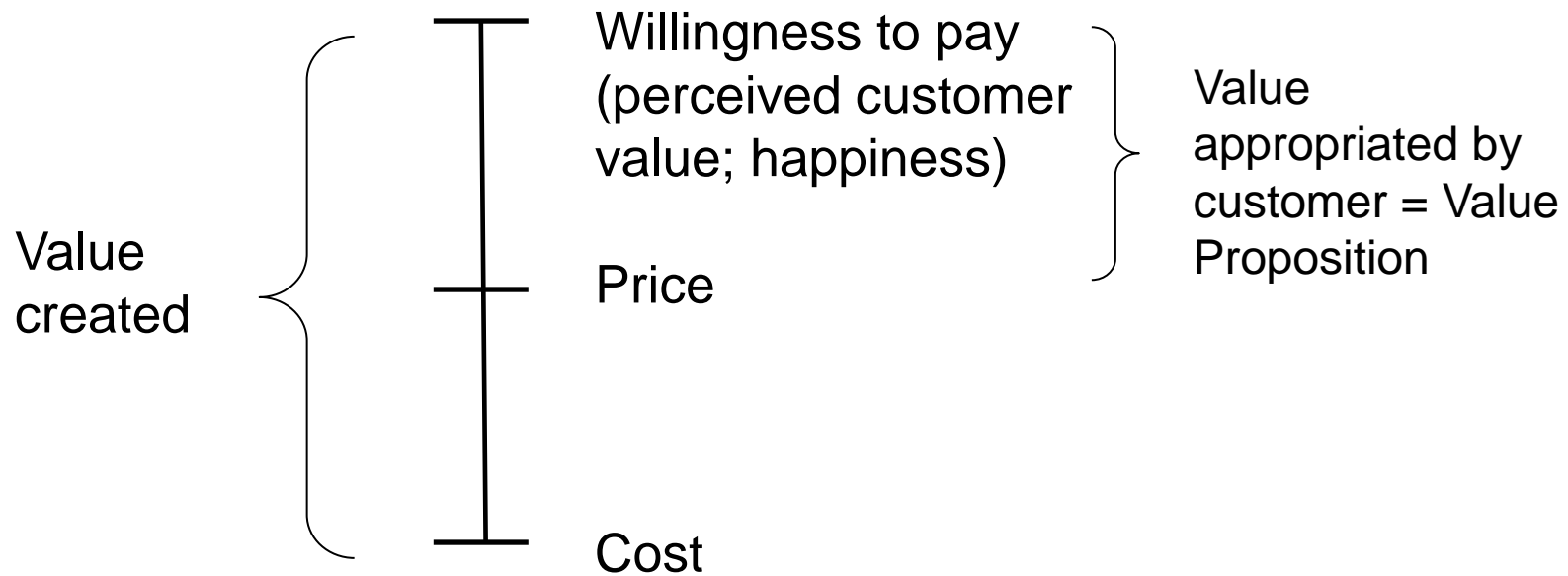
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Value Proposition

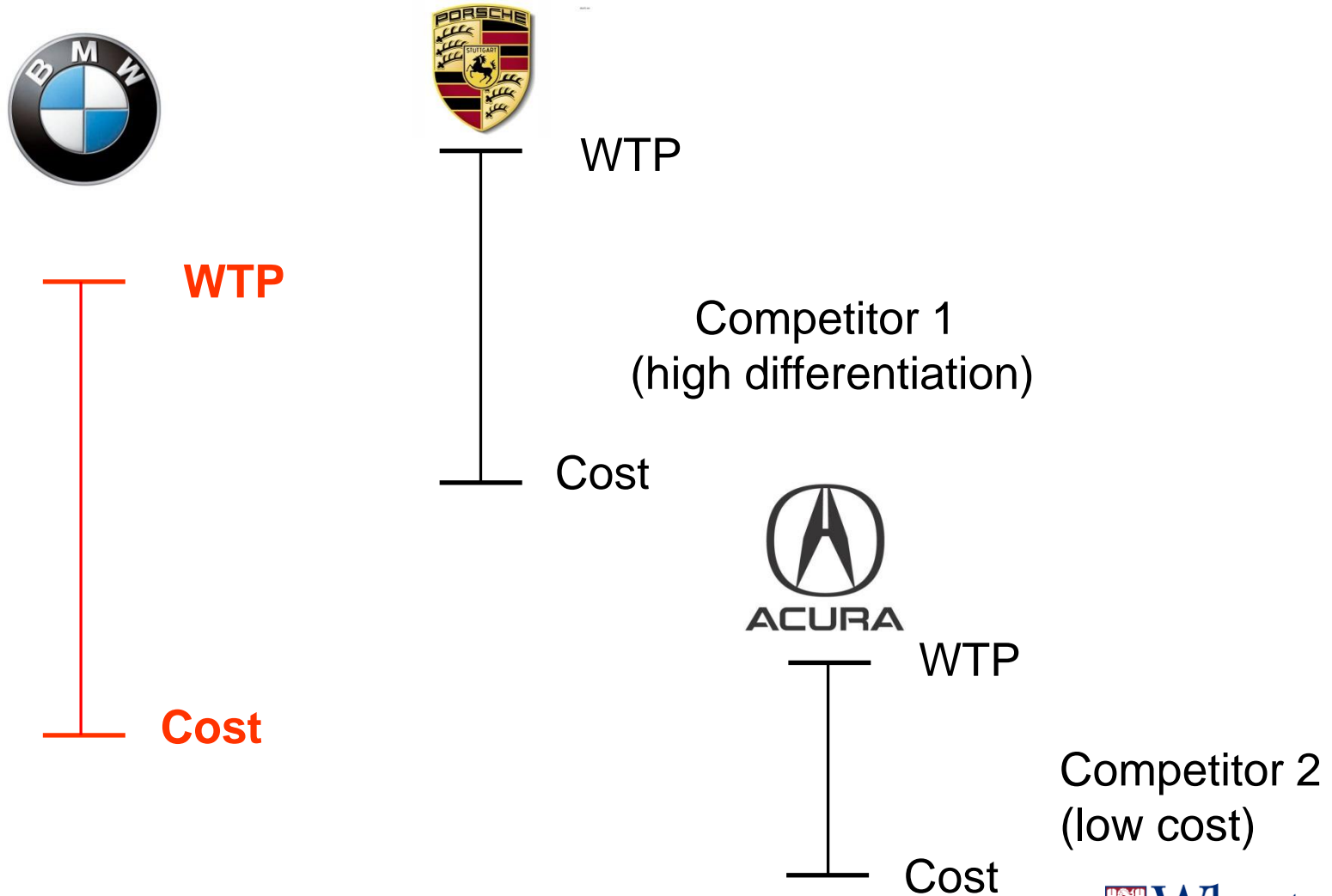


Customers care about (WTP – Price), not just one or the other

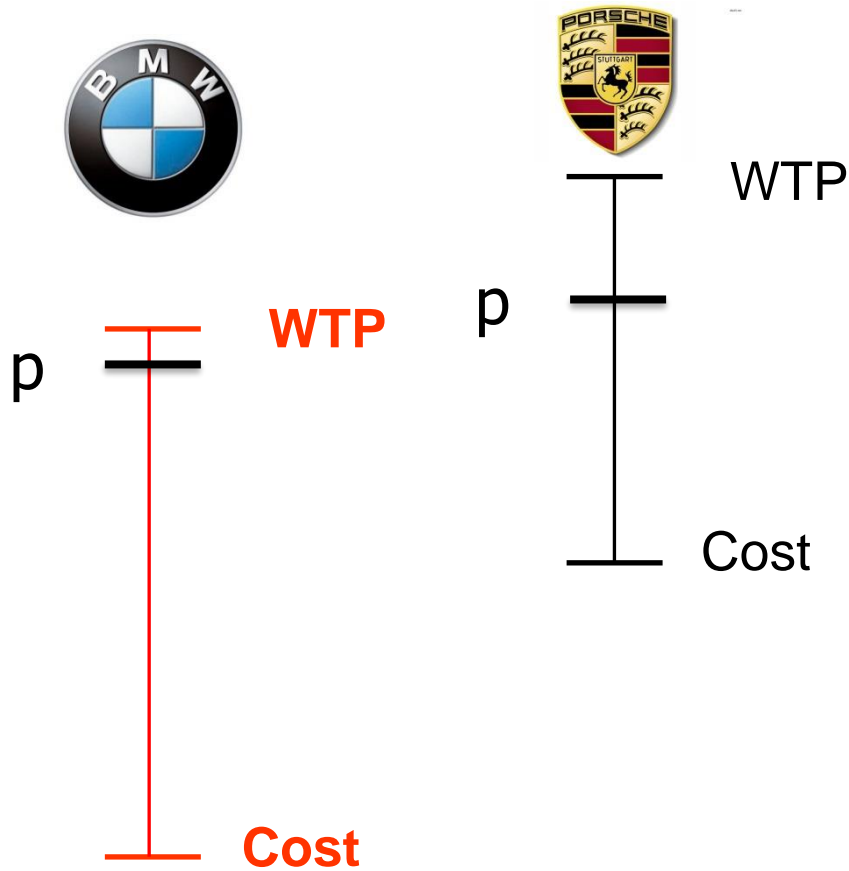
What is the size of your competitive advantage?

$$CA = (WTP - Cost)_{\text{you}} - (WTP - Cost)_{\text{strongest competitor}}$$

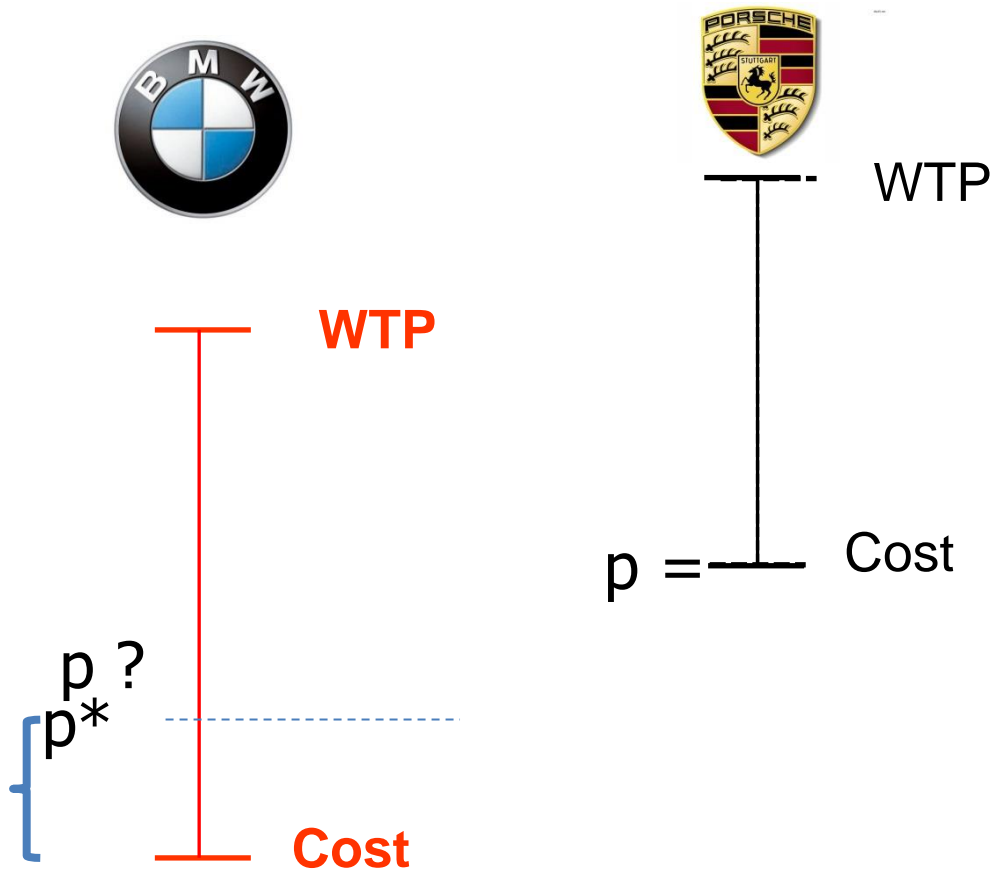
From which firm is a customer going to buy?



From which firm is a customer going to buy?



From which firm is a customer going to buy?



$$CA = (WTP - Cost)_{you} - (WTP - Cost)_{strongest\ competitor}$$

Implications

$$CA = \underbrace{(WTP - Cost)}_{\text{Operational Effectiveness}}_{\text{you}} - (WTP - Cost)_{\text{strongest competitor}}$$

**Operational
Effectiveness**

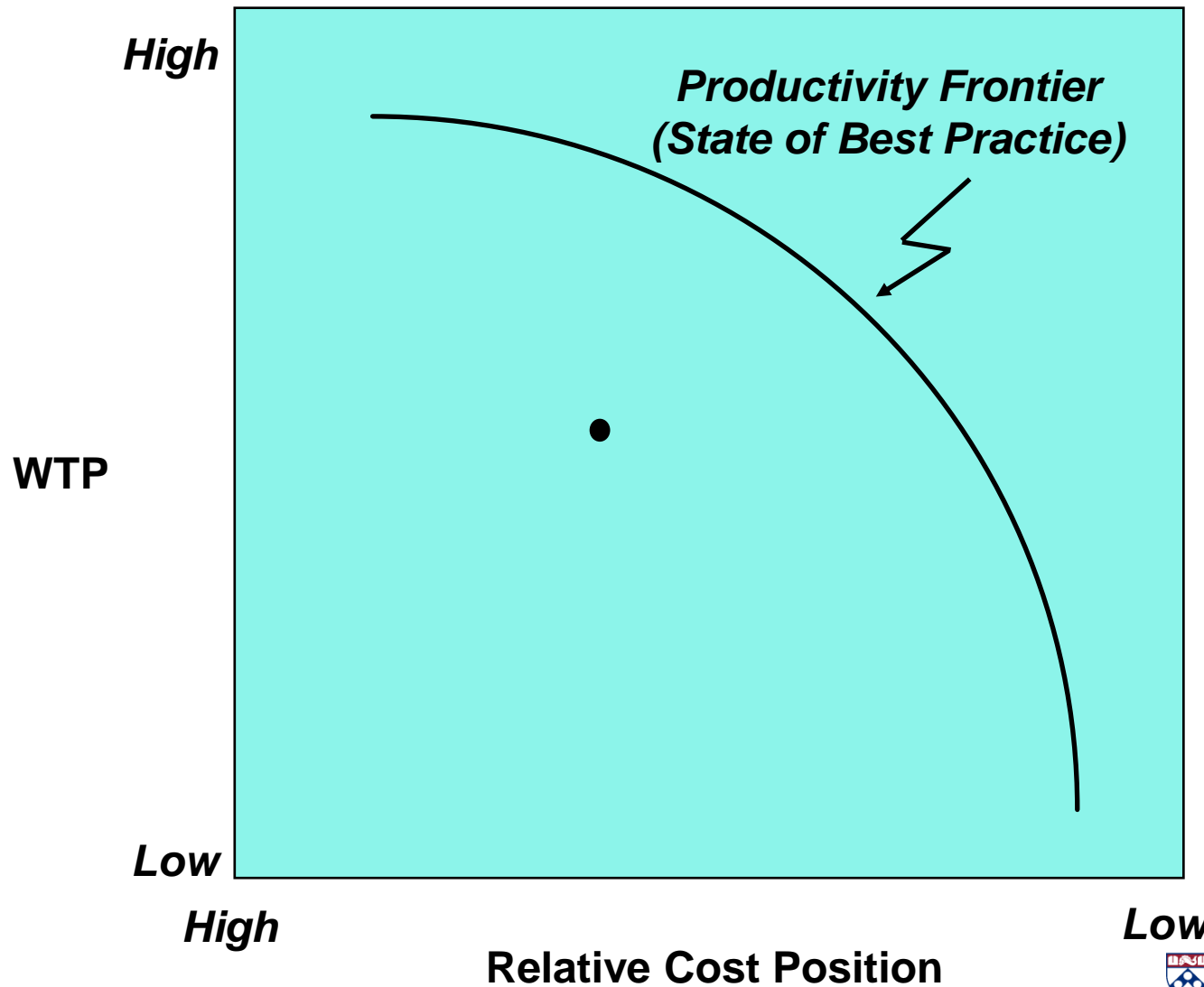
Strategic Positioning

Implications

$$CA = (WTP - Cost)_{\text{you}} - (WTP - Cost)_{\text{strongest competitor}}$$

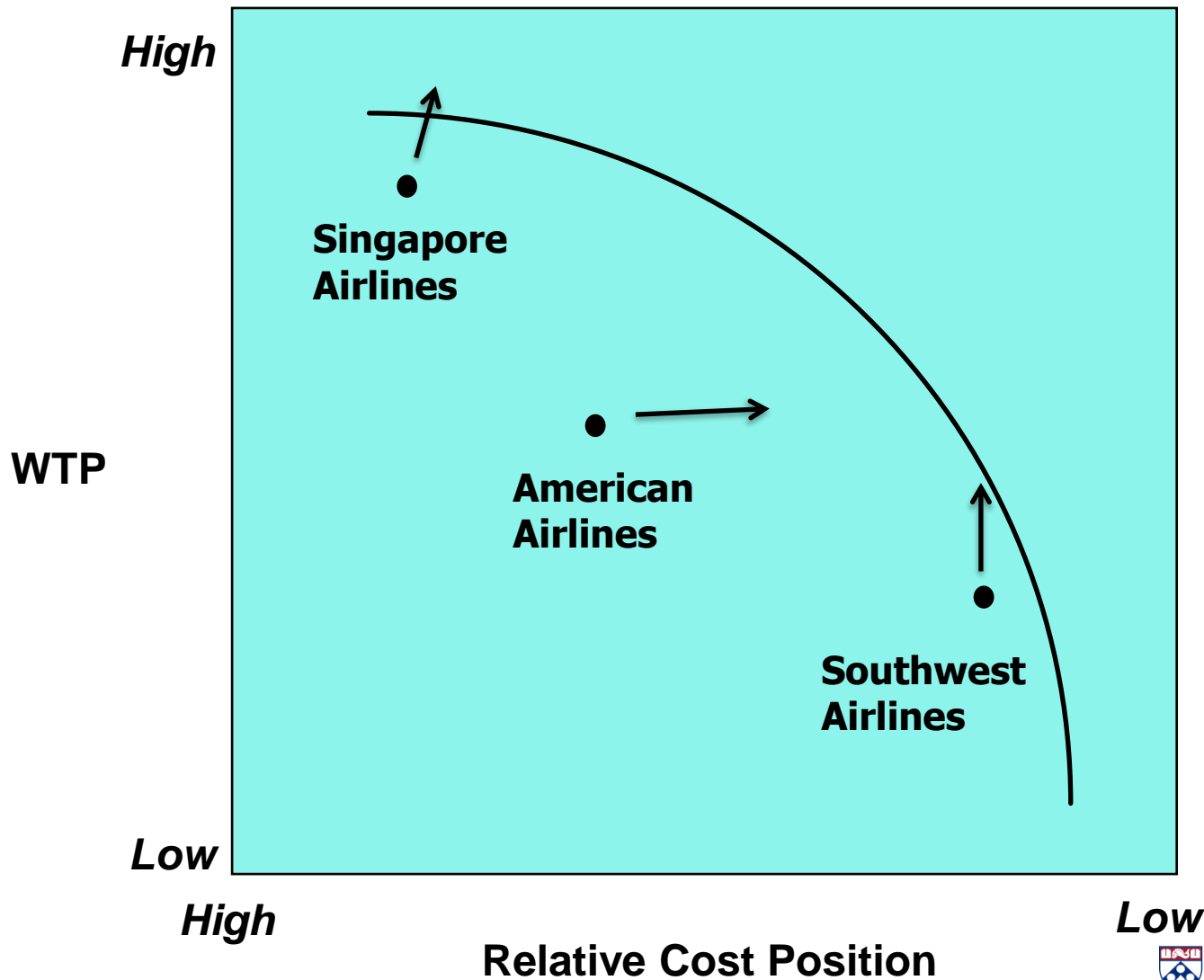
- To appropriate value, you need to create more value than your competitors
- You need to create some asymmetry in WTP and/or in Cost
- Being different, i.e., doing different things, is what is at the heart of strategy.

Strategic Positioning



Source: Porter (1996)

Strategic Positioning



Source: Porter (1996)

Strategy Summary

- **How are we driving a larger gap between WTP and cost than our competitors? For what segments?**
- **What activities create this gap? Are they best practices, or are they particularly valuable to us?**
- **What are the WTP and cost drivers for different segments?**
- **Where are we positioned? Where are our competitors positioned?**
- **Where are our competitors moving? How can we slow down strategic convergence?**
- **What have we chosen NOT to do?**