

# Value and Strategy

## Competitive Strategy, Lecture 3

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# Overview of Today

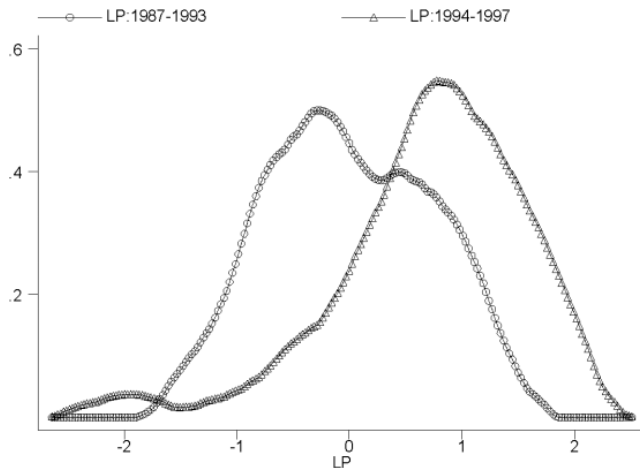
- Firm Profits
- Value Creation and Value Capture
- Positioning and Strategy Evaluation

# Firm Strategy > Industry Forces

- Example: US manufacturing plants
- Almost 500 industries (e.g. Chewing Gum, Luggage, Saw Blades)

Outcome—Growth Rate of:	Fraction of Variance Accounted for by Industry
Employment	5.7%
Capital equipment	6.2%
Capital structures	5.2%
Revenue	8.9%
Labor productivity (output/hr)	8.6%
<i>Total-factor productivity</i>	9.5%

## Another Example: Turkish Meat Processing Plants



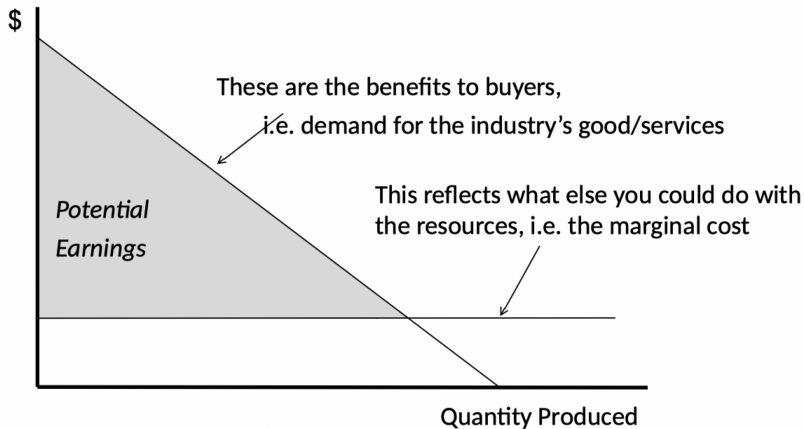
# Literature Summary

- Huge differences in performance across firms within an industry
  - Holds across industries, years, countries
  - Persistent, and the dispersion is possibly even growing
- Big determinant for a lot of other business phenomena
  - Finance: Stock valuation, executive compensation
  - Micro: Management consulting, strategy consulting

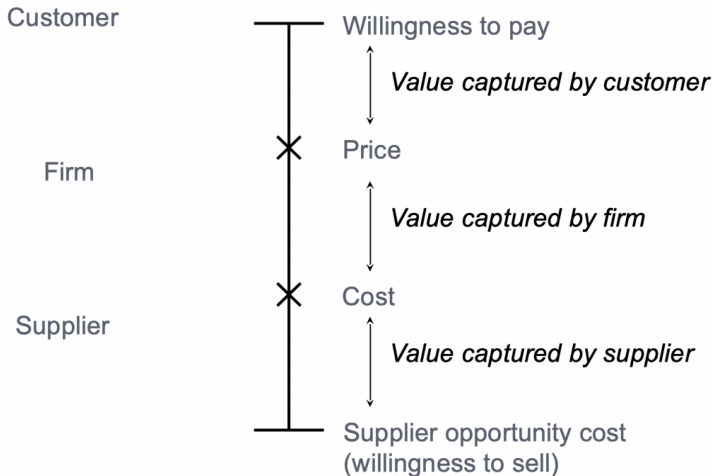
# Competitive Advantage: How to Be in the Right Tail

- Test 1: Value Creation
  - Is your product valuable?
- Test 2: Value Capture
  - Is the value being dissipated by competition?
  - (Are you unique?)

# Value Creation (Pie Economics 1)



# Value Capture (Pie Economics 2)





# What Car Is This?



## Yugo - Not Valuable, But Unique



# “You might have a value problem if...”

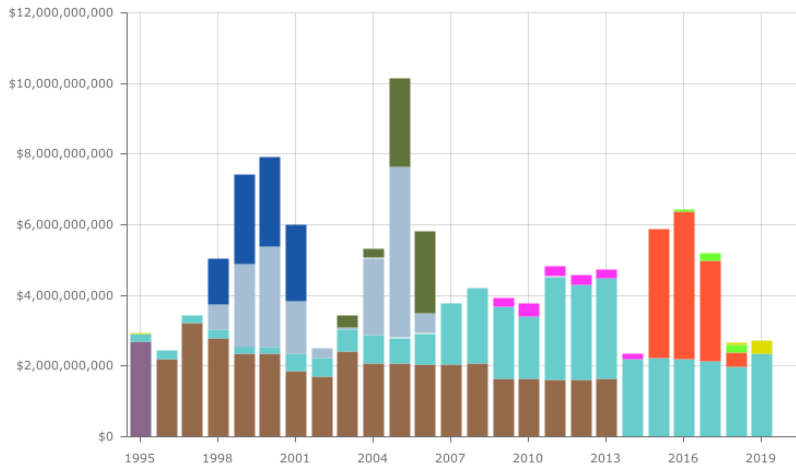
- ... your product becomes the widespread subject of jokes...
  - What do you call a Yugo's shock absorbers?
  - How do you double the value of a Yugo?
  - What do you call a Yugo at the top of a hill?

# Corn - Valuable, But Not Unique

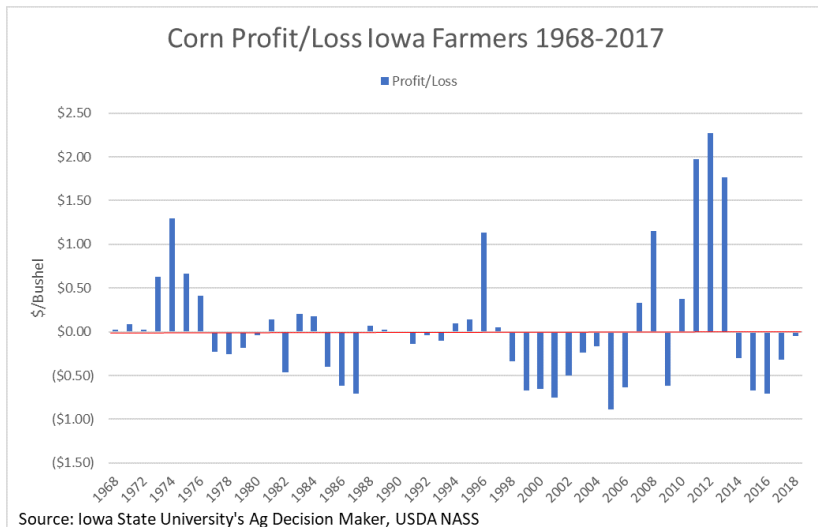


# Absurdly High Subsidies...

Corn Subsidies in the United States totaled \$116.6 billion from 1995-2020†.



# ...But No Profits!



# Key is Positioning: The 3 Questions

- ① On what dimension are you positioned?
  - ① Vertical (Quality), Horizontal (Product Characteristics)
- ② Where on that dimension do you locate?
  - ① e.g. high quality vs low quality
- ③ What are key tradeoffs for you to position yourself there?
  - ① How can you do it better than your rivals?

# Strategy Evaluation Tool

- Outline

- Scope: **What** products, markets, and activities will we participate?
- Approach: **How** will we produce better products / more efficiently?

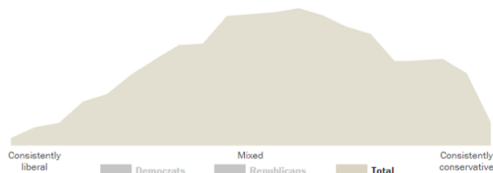
- Logic

- Internal: **Why** do the organizational practices fit the strategy?
- External: **Why** does the market environment fit the strategy?

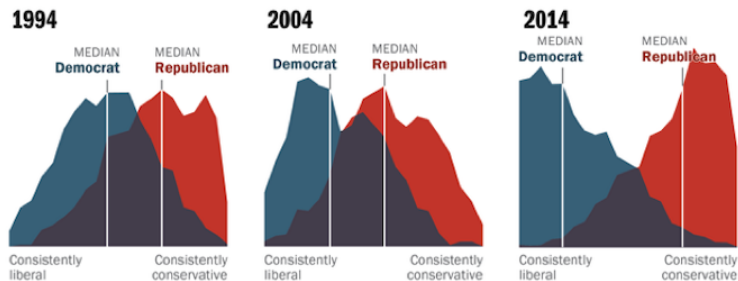


# Extended Example: Politics 1

- Consider the positioning problem for candidates in the 1996 US Presidential election
- Clinton vs Gore
  - How are candidates oriented?
  - What does the distribution of consumers look like?
  - As a result, where did the candidates position?



# Extended Example: Politics 2



## Extended Example: Politics 3

- In 2010s, we observe
  - Emergence of Occupy Wall Street
  - Emergence of the Tea Party
  - Rise in anti-business sentiment
  - Rise in anti-immigration sentiment
- Ethics aside\*\*, what opportunity does this present?

# Next Week: Introduction to Game Theory

- Part 1: Price Theory
  - Competitors actions are mostly fixed
- Part 2: Game Theory
  - Competitor actions depend on your actions (and vice versa!)