JOHNSON
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# Sustaining Competitive Advantage through Trade-offs, Fit, and Resources

AEM 2601 – Strategy

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# IKEA's Tradeoffs

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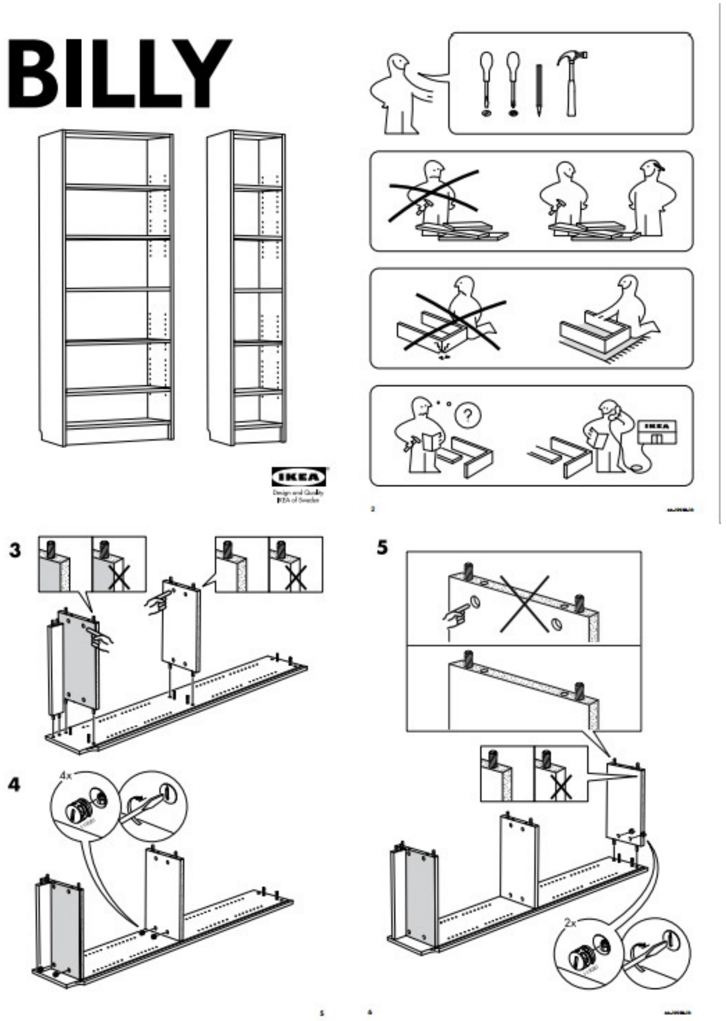


- ❑ Offering low prices requires cutting down on service
- ❑ Since furniture must be easy to assemble, it is lighter and less sturdy
- ❑ Having every product on display and ready for pick-up requires limiting overall variety

- ❑ "The sign of a successful product are unhappy customers."

# Walmart



- Large store network
- Large selection across categories drives traffic and volume
- Large volume allows to bypass wholesalers and squeeze suppliers
- Passing on these savings → explosive demand → better economies of scale
- One-stop shopping advantage

1) How can other grocers co-exist with Walmart and make profits?
2) If they have a competitive advantage , is it sustainable? Why?

# Aldi & Lidl's Positioning Strategy



Aldi and Lidle are "limited assortment" stores

- ❑ Offer a limited range of products
- ❑ Many private-label products
- ❑ Products stocked efficiently in small stores
- ❑ Stores have simplified layout and fresh foods
- ❑ have smaller footprint (lower investment)

What about Wegman's then?

# Keeping Walmart at Bay

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- ❑ Each grocery store has unique advantages over Walmart
  - ▪ Wegmans:
    - ✓ Cleanness, Full Service
    - ✓ wider within-category selection
  - ▪ Aldi/ Lidl:
    - ✓ limited selection leads to high turnover and even lower cost than Walmart
    - ✓ limited selection allows for smaller stores, which have a lower break-even point
- ❑ Walmart cannot mimic those benefits with its existing activities (which is what its current shoppers like!)
- ❑ Strategic Tradeoffs render each chain's competitive advantage sustainable

I'd like to pretend to have
your attention for just
a few moments.

# Southwest Airlines (in the 90s)



- A sketch of Southwest's offering
  - Affordable short-haul flights with point-to-point service
  - Service from/to midsize cities or secondary airports in large cities.
  - Target: businesspeople seeking frequent/direct flights and budget travelers

- Distinctive practices of Southwest
  - No lounges → lower cost
  - Simple fares → no travel agents needed → lower cost
  - Mostly direct connections → less delays/ fewer complaints → lower costs
  - Single aircraft type (Boeing 737) → lower procurement and training costs

# FIT at Southwest Airlines



- Southwest's activities support position of cost leadership.
- But even more so, they are internally consistent and FIT together
  - Many activities contribute to shorter turnaround times indirectly:
    - ✓ Direct connections means no wait for connecting passengers
    - ✓ Single aircraft means standardized boarding process
    - ✓ If incoming plane is delayed, crew has flexibility to use any available 737
    - ✓ If plane needs small repair, mechanic is always available
    - ✓ No catering = no waiting for restocking of meals
    - ✓ Small secondary airports are not only cheaper but also have less traffic
    - ✓ No lounges = no waiting for travelers who always stay in the lounge too long
  - All these activities maximize efficiency and lead to frequent and reliable departures
- Southwest's competitive advantage is the combination of all these activities
  - Rival must get a long list of activities right to be able to compete with Southwest

# Take-aways

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- Positioning strategies must involve trade-offs for the CA to be sustainable!
  - Requires deliberately choosing what not to do, or you will not create the most value for anyone (and be “caught in the middle”)
- Think about your and your rivals’ trade-offs to sustain a CA
  - Trade-offs imply inefficiencies for rivals that try to copy you
- FIT: Strategies involving internally consistent activities yield more profits and are harder to replicate

# The Resource-Based View



- The Resource-Based View of the firm
  - Sustainable competitive advantage stems from asymmetry of resources between a firm's resources and its competitors
  - Resources (= assets and capabilities) need to be scarce and relevant
    - ✓ Scarce, or rare, resources are difficult to quickly acquire, making competition harder
      - – DeBeers signed a deal with Botswana's government for exclusive rights to mine the country's diamonds
    - ✓ Relevant, valuable, or useful resources are better at preventing competition than unique, but irrelevant resources.
      - – Hewlett Packard was adept at manufacturing CD burners, but this skill was useless when music sales moved online.

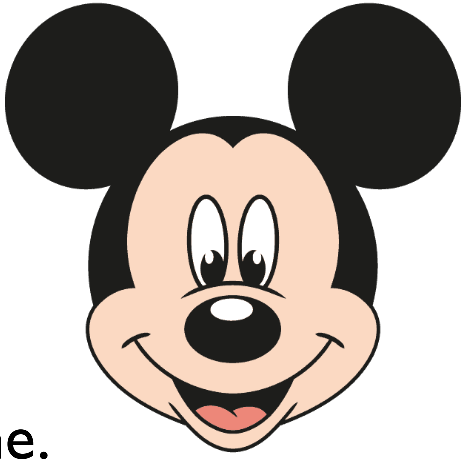
# Sample Firm: Mc Donalds



- What are the key resources that form the basis of Mc Donald's CA?


# Sustainable CA via Resources





**1. Inimitability – hard to copy. (= inimitable)**

- CA is more sustainable when resources are hard to copy
  1. Physical uniqueness = Cannot physically be reproduced.
  2. Path dependence = Accumulated value over long periods of time. (trust, for example, or data)
  3. Economic deterrence = Large investments may only be possible by one firm in an industry.

**2. Durability – slow to depreciate.**

- CAis more sustainable when resources do not depreciate
- "Many resources have a limited life and will earn only temporary profits."

# Collis and Montgomery's Valuable Criteria

3. **Appropriability – firm captures value.**
   - CA is more sustainable when the resource is tied to the firm.
     - ✓ Employees, patents, and other resources not directly bound or owned by the firm risks that the CA is less sustainable
4. **Substitutability – hard to substitute. (=non-substitutable)**
   - CA is more sustainable when the resource cannot be replaced.
     - ✓ When a superior alternative can be easily developed a resource is less valuable (satellite frequencies, Sirius XM)

# Enterprise Rent-A-Car

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- ❑ What is the competitive advantage of Enterprise?

- ❑ Why has Hertz' not been able to replicate Enterprise' success (and undermine Enterprise' competitive advantage?)

# Why Hertz could not catch up

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- Enterprise has historically gone after small, fragmented, non-uniform markets
  - Established branches in these locations constitute a valuable resource that is hard to imitate: because often, the market is too small to support more than one player
  - Another valuable resource that is hard to acquire for rivals: talented workforce
    - ✓ Enterprise recruits successfully from colleges, promising a steep career path for those that excel at sales and customer service
    - ✓ As Hertz' business was mainly at airport locations, it was harder for them to recruit the same talent pool. But without access to the same talent pool, it was harder for Hertz to enter downtown markets
- Enterprise's activities, capabilities and resources complement each other, making replication even harder

# Take-aways

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- ❑ Successful positioning strategies lead to CA
- ❑ To achieve a sustainable CA, a firm's activities must
  - involve trade-offs
    - ✓so that aggressive rivals would have to undermine their existing positions to poach buyers
  - complement each other/ be internally consistent/ FIT
    - ✓so that successful imitation is less likely
  - Rely on unique resources that are hard to replicate
    - ✓Be specific about why the unique resource is fundamental

# Preview for Tuesday



Case Discussion

“Dogfight over Europe: Ryanair (A)”