

Foundations of Entrepreneurship

Competitive Advantage

Lecture Note # 14

10.02.2021

- ❑ Parameters determining competitive advantages.
- ❑ Porter's five forces model of competition.

- “Of course you can still battle it out in the marketplace, but you need something that can’t be duplicated, something they could never beat you on, then hang your hat on that and don’t look back.”
- Don’t despair if you don’t have an unfair advantage yet. You can build it eventually. You have to earn it.

Competitive Advantage

- Competitive advantage is the skill necessary to outpace your rivals.
- Most successful companies derive such advantages through knowledge, technology, information (data), and by adapting or restructuring their offerings as the market evolves.
- Companies come up with product-market-fit and customers love the product/service they offer.
- Create great brand with such narrative that customers fall in love with their story and the brand.

Drivers of Competitive Advantages of Business Model

01030405	Attractive market structure	0607080910	Easy product extension
	Growth potential		Core competency
	Entry barrier		Logistic advantage
	Scalability		Great brand - loyal followers
	Repeatability		Pricing power
	11		New experience/ meaning

Entry barrier

Technological edge

Intangible assets

Economies of Scale and cost advantage thereof

Geographical Barriers

Access to strategic resources

Product differentiation

- Access to distribution channels,
- Government policy and
- The degree of firm concentration

Capital requirements to enter a market

Customers' cost of switching

Access to distribution channels

Government policy and

The degree of firm concentration

Brand loyalty, core competency

Entry Barrier for You to Enter into a Market /Industry



Entry Barrier for Others to Enter into the Market You Serve



Entry barrier – Moat



Entry barrier – Moat



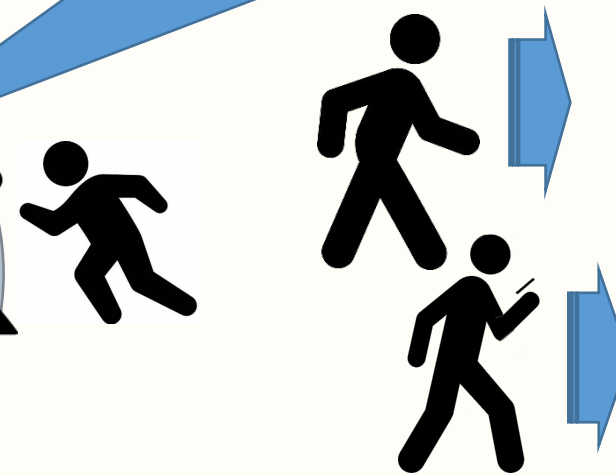
Entry barrier – Moat



If you can build a bridge, you may break the entry barrier and enter into the market place with your offering.

Example: Huggies

They build a bridge by connecting with the customer through unique story telling that empowered them with information. This method of reaching out is known as 'Content Marketing'



Scalability

- Scalability – how easily business can scale or grow. Software application is a classical example of scalable solution. Developing it is costly but can be cloned at very little marginal cost.
- Many of the E-commerce businesses are easily scalable.
- Good examples are Amazon, Flipkart, Practo
- In network based companies, scalability is a must for sustainability.

Pricing power

- Pricing power is the capacity to increase price without affecting the level of customers' demand for the product.
- Say you are the sole manufacturer of a life-saving drug. You can increase the price without much impact on the sales volume. Monopoly, brand loyalty, trust, superior value proposition give pricing power.
- The ability to raise prices is one of the most important characteristics that determines sustainability and profitability of a business.
- Whenever input costs go up, firms can pass it over to customer by increasing price without the fear of losing customers.

Example of Monopoly, Pricing Power, and Extreme Greed/ Notoriety

THE NEW YORK TIMES

HOME SEARCH

BUSINESS DAY

Drug Goes From \$13.50 a Tablet to \$750, Overnight

By ANDREW POLLACK SEPT. 20, 2015

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Specialists in infectious disease are protesting a gigantic overnight increase in the price of a 62-year-old drug that is the standard of care for treating a life-threatening parasitic infection.

The drug, called Daraprim, was acquired in August by Turing Pharmaceuticals, a start-up run by a former hedge fund manager. Turing immediately raised the price to \$750 a tablet from \$13.50, bringing the annual cost of treatment for some patients to hundreds of thousands of dollars.

Martin Shkreli



toxoplasmosis

The New York Times

Martin Shkreli Faces New Accusations Over High-Priced Drug

A lawsuit by the Federal Trade Commission and New York's attorney general says his company blocked generic rivals after sharply raising the cost of Daraprim.



By Cecilia Kang

Jan. 27, 2020





WASHINGTON — Martin Shkreli, a former pharmaceutical executive serving a seven-year prison sentence for defrauding investors, was accused on Monday of trying to maintain a monopoly over the lifesaving drug Daraprim through anticompetitive tactics.

The Federal Trade Commission and the office of the New York attorney general, Letitia James, [jointly sued](#) Vyera Pharmaceuticals and the company's owners, Mr. Shkreli and Kevin Mulleady, in a federal court in Manhattan. They say Vyera and its



Sustainability of Pricing Power

 HOME  SEARCH


The New York Times


BUSINESS DAY


Drug Goes From \$13.50 a Tablet to \$750, Overnight

July 27, 2016 :
Imprimis Pharmaceuticals waiting
FDA approval for **\$1** copycat of
Daraprim.

The same drug is already being made by
many generic drug companies in
India, where it can cost as little as **4 cents**.

 Tweet

 Save

 More

Australian high school students developed
process to make the drug at a cost of **\$1**

“What is it that they are doing differently that has led to this dramatic
increase?” said Dr. Judith Abernethy, the chief of the division of infectious

One has to always pay huge price for notoriety.

Drucker's Five Deadly Sins in Business

- **Seeking high profit margins and premium pricing**
 - One should seek an optimum profit margin and high sales that will maximize profits.
- **Charging what the market will bear**
 - Analogy Xerox & Nylon of DuPont
- **Using cost-driven pricing**
 - Try price-driven costing instead
- **Focusing on past winners**
 - "slaughtering tomorrow's opportunity on the altar of yesterday"
- **Giving problems priority over opportunities**

Market Structure

Market structure provides a holistic view of the competitive landscape of the industry and market attractiveness of a new businesses.

- The present market-growth
- Likely growth in the future
- The number of firms
- The market share of the largest firms
- Market size
- The nature of costs
- The degree to which the industry is integrated
- The extent of product differentiation
- The customer turnover

Market Types

Most common types of markets	Number of companies	Product type	Barrier for new entrant	Pricing power
<u>Monopolistic</u>	Ideally single company	Simple	High	High
<u>Oligopolistic</u>	Small number of companies	Differentiated	High	High. Usually collude themselves.
<u>Perfect Competition</u>	Many	Homogenous	Nonexistent	Absent

Repeatability

- **Cost of acquiring a customer is huge. This cost includes cost of product, research, marketing, and accessibility.**
- **Firms incur such huge cost on customer acquisition with the understanding that the customers would make repeated transactions and the life time value would give considerable profit to the firm.**
- **Therefore, the business model should ensure that customers come repeatedly.**

Easy product extension

- **Creating awareness among customers requires valuable resources.**
- **Create impression among your target market segment through one product.**
- **Introduce new products targeting the same segment as a natural extension at low marketing cost.**

Core Competency

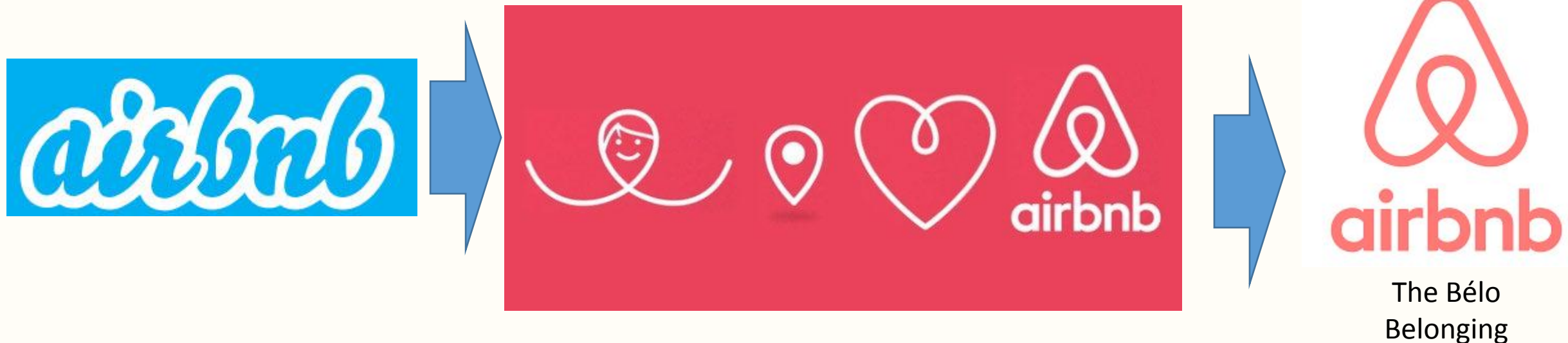
- A core competency is a concept in management theory propounded by C. K. Prahalad and Gary Hamel.
- *"A core competency is an area of specialized expertise that is the result of harmonizing complex streams of technology and work activity." ~ C. K. Prahalad*
- In other words, it is unique capability or efficiency gained through **harmonized combination of multiple resources and skills** giving a company unique competitive advantage.
- This advantage of the company is **invisible** and thus cannot be **copied**.
- It greatly and sustainably contributes to stakeholders' value.

Logistic Advantage

- Nearness to inputs.
- Closeness to markets.
- Availability of knowledge workers or cheap labor.
- Access to ready and efficient distribution network.
- Ready or presence of ecosystem.

Strong Brand Presence / Brand Loyalty

- Brand Storytelling can be a powerful and effective way to make emotional connection with customers & build lasting relations.
- Use the story to engage consumers and elicit emotion to foster loyalty, forging a meaningful relationship that goes far beyond product and service.
- Loyal customers will be ready to pay higher price for your product than that of similar competing products.
- Thus you gain huge competitive advantage and sustain above average profit.



More Strategies to Gain Competitive Advantages

- **Cost leadership strategy** – you may place yourselves ahead of the pack by offering attractive price. But must avoid a low-quality image.
- **Product differentiation and positioning strategy** - Nike
- **Operational effectiveness** – do what you do best or at least better than others.
- **Adaptability competitive advantage** – adapt to change in this age of unpredictability and rapid change.
- **The information advantage** – All other strategies can benefit from data and analysis to translate into information.

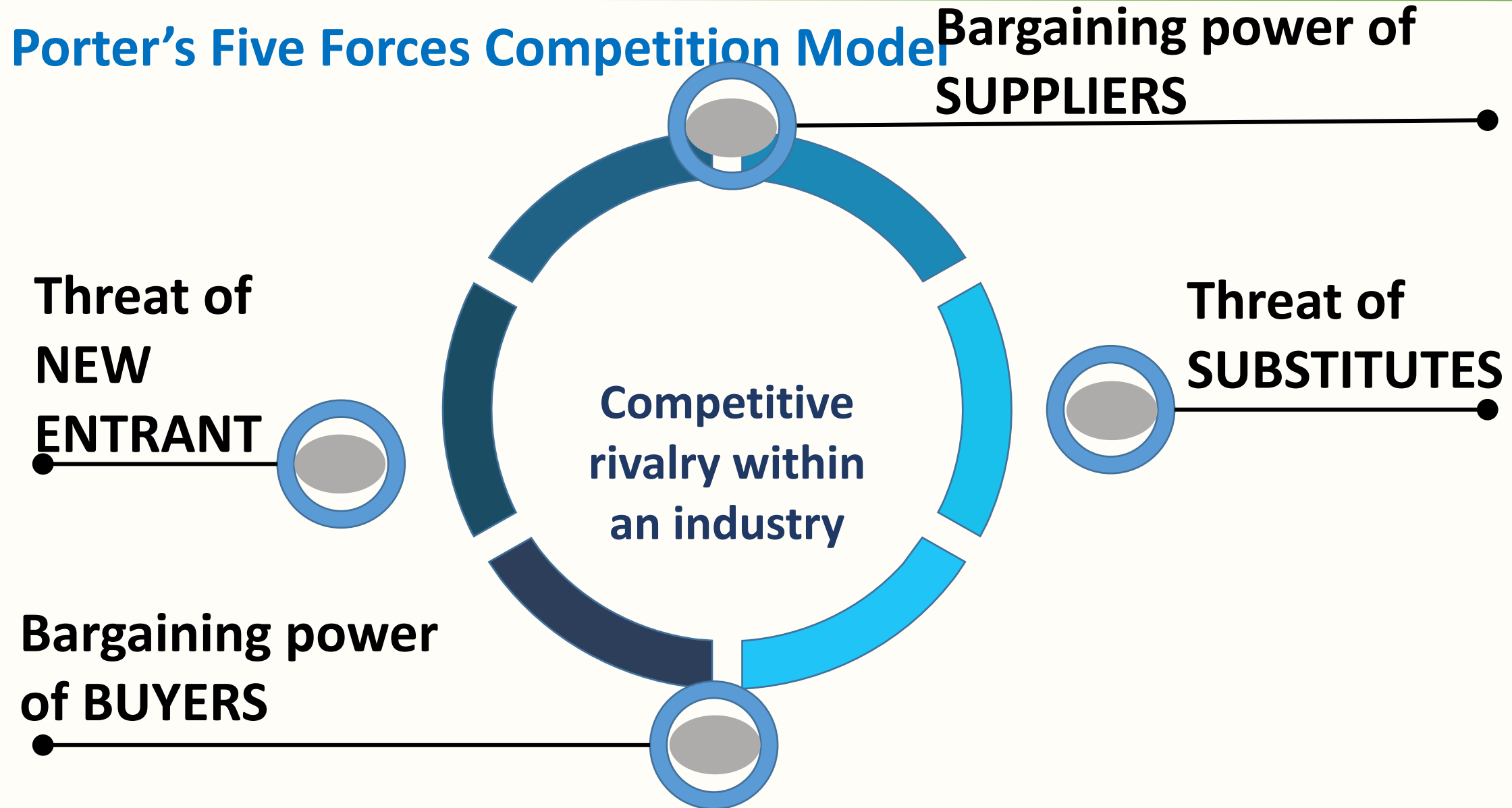
Product Differentiation

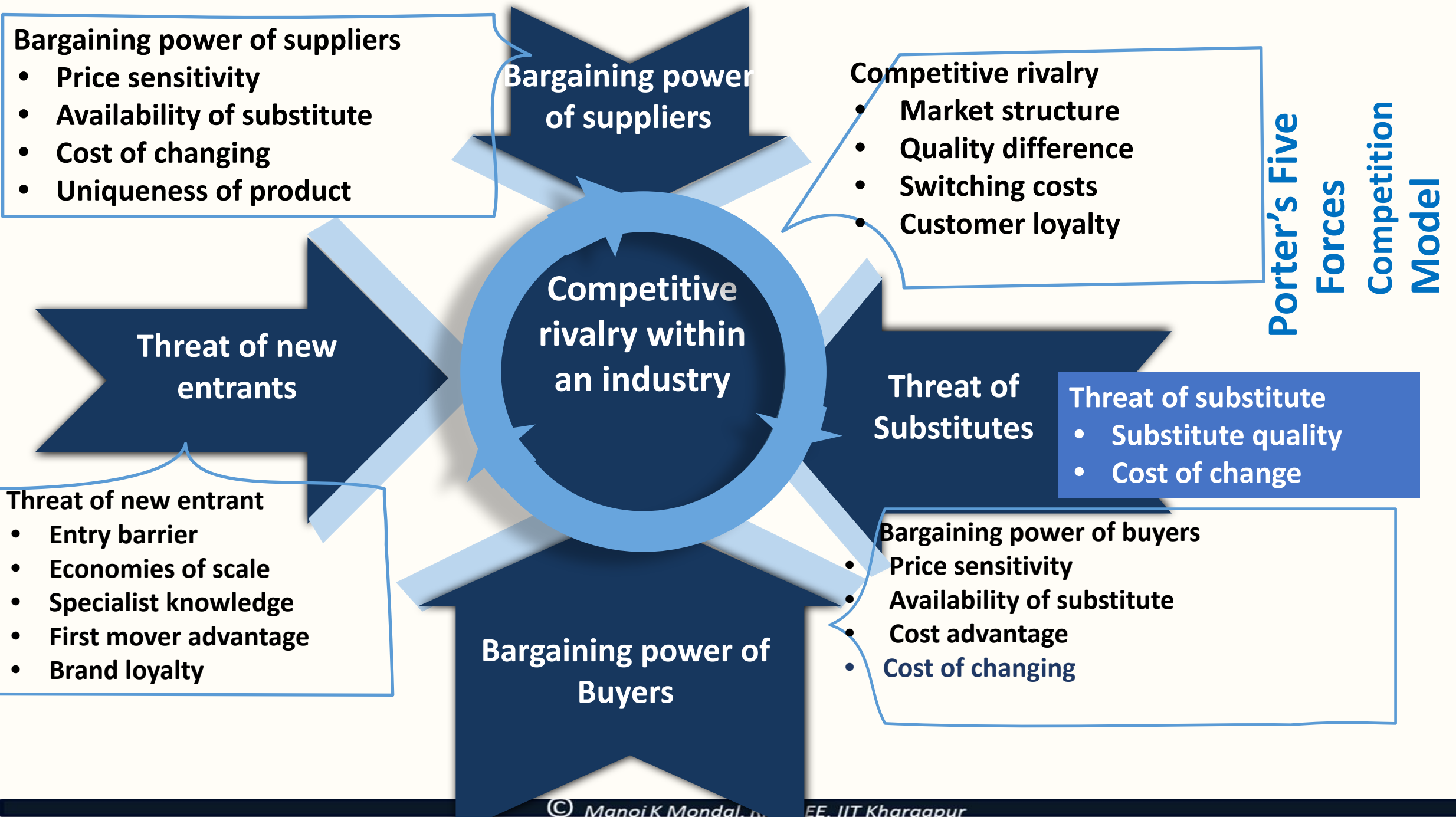
- Quality (low, average, high, best)
- Features
- Forms
- Shapes
- Style
- Packaging
- Size
- Price
- Variety
- Composition
- Availability
- Durability

Porter's Five Forces Competition Model

Michael E. Porter of Harvard Business School placed the competitive landscape or the micro environment of any industry in the form of five forces.

The five forces that determine the competitive intensity and therefore attractiveness of a market.





Porter's Five Forces: The Horizontal Forces

- Competitive Rivalry – strengths and weaknesses of your competitors vis-à-vis your advantages. Intense rivalry may lead to aggressive price cut and more power to suppliers and buyers. Moderate competitive rivalry may lead to healthy profit.
- Threat of New Entrants – If you are making good profit, others will start doing the same business. If there is barriers for new entrant, you may maintain your advantages.
- Threat of Substitution – there may not be many sellers of the product that you sell. But if buyers can manage with a substitute product and that is available at attractive terms, they may switch to that putting pressure on you to reduce price.

Porter's Five Forces: The Vertical Forces

- **Supplier Power** – how dependent is the suppliers on your business and vice versa. If you have many suppliers, you may command terms of supply and control price. Else, you are in a sellers' market (sellers can dictate terms).
- **Buyer Power** – are there many buyers? Does it cost them much to switch to new sellers? If they can dictate terms you may have to price vary competitively? Else you may make healthy profit.

- ❑ Life span of companies are shrinking, so is the life span of products and services.
- ❑ It may not bode well to target sustainable competitive advantage on a past winning product since the product itself may not sustain.
- ❑ Those who are nimble enough to constantly build or refine products and meet the changing needs and taste of the customers are likely to create great companies.

Business Model & Business Model Innovation (BMI)

- *“A business model describes the rationale of how an organization creates, delivers, and captures value, in economic, social, cultural or other contexts. The process of business model construction and modification is also called business model innovation and forms a part of business strategy.” - Wikipedia*

Business Model

- Business model is core aspect as to how a business creates and profitably delivers value to a group of satisfying customers.
- It is imperative that a business creates social, environmental, and cultural values for sustainability in the long run.
- Business model includes the purpose, vision, target customers, offerings, the value proposition, organizational structures, business process, infrastructure requirement, values and culture.

Innovation

- Innovation is the process of turning new ideas and knowledge into value, in the form of new products, services, or ways of doing things.
- It is deceptively complex, and goes beyond mere creativity and invention to include the steps necessary for benefiting people.
- Very few innovations are groundbreaking. Majority are value addition to on earlier versions.
- Evidently, innovative firms significantly outperform others.
- Innovations fuel the majority of the world's long-term productivity and economic growth.

Necessity Is the Mother of All Innovations

- If you are wondering which direction new technologies will emerge,
- Perhaps the best place to look at is the severest of pains the society is facing or likely to face in the immediate future.
- Pipping into research laboratories may not be much help.
- Go out and do something. You may encounter problems and start building solutions to that.
- Many entrepreneurs built solutions to problems they faced themselves. Phanindra Sama of redBus, Mahendra Pratap of Integra Micro Systems and many more.

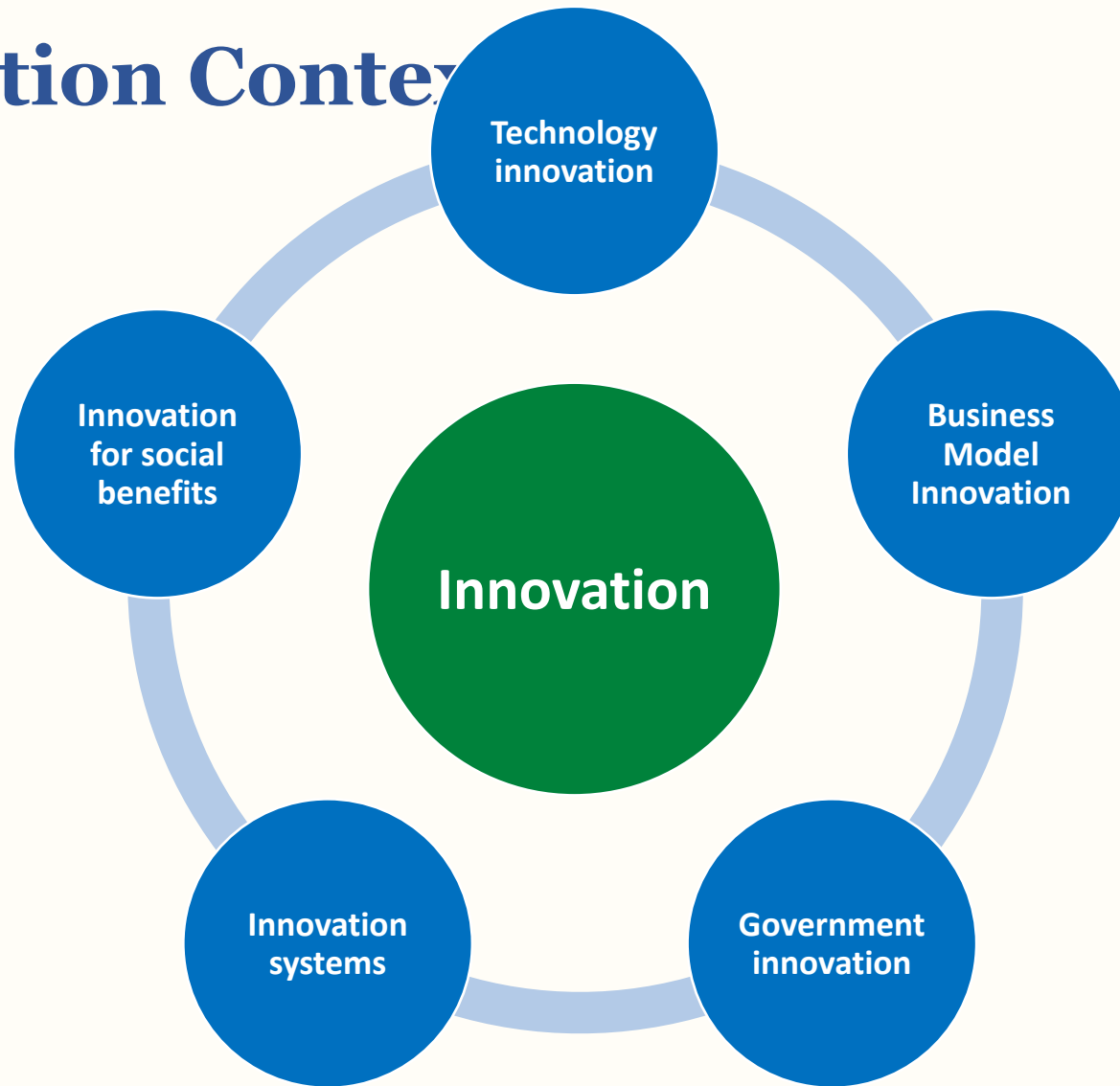
Business Model Innovation (BMI)

- A business model is a business context explaining how an organization creates and delivers values in economic, social, cultural or other forms.
- The process of **reconstruction** of various aspects of the business for meeting changing market behaviour and delivering **increasingly superior value** to customers is business model innovation.
- **Execution** of the plan is an integral part of BMI and thus, management is inextricable part of BMI. **Management innovation** is a continuous process.

- **When the game gets tough, change the game.**

Example: Dhirubhai

Innovation Context



Source

<https://intelligence.weforum.org>

Technology Innovation – Emerging Areas

- Fourth industrial revolution
- Biotechnology
- 3D printing
- Virtual and augmented reality
- Artificial Intelligence & Robotics
- Human enhancement

Business Model Innovation: Industrial Revolution - 4.0

- Disrupts status quo to provide better comforts to people or alleviate pain.
- The future of economic progress
- Shape corporate governance
- Next generation information technology
- Will promote new multinationals

Is Technology Innovation Different from BMI?

- All technology innovations are part of BMI
- Some BMIs are through technology innovation

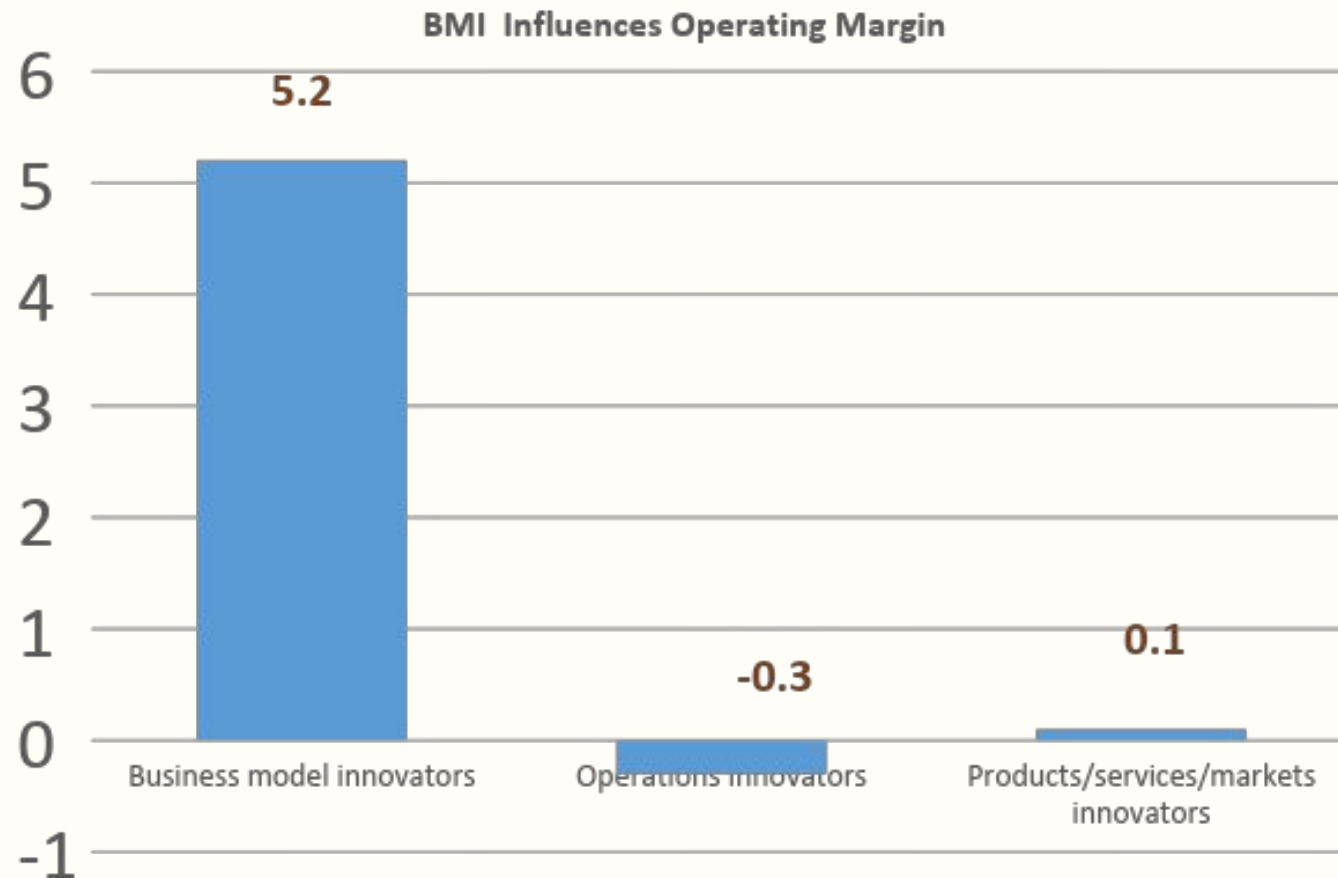
“Get the business model wrong and there is no business” – Prof. David Teece, University of California, Berkeley

The What, Why, How, and Whom of BMI

- ☐ **What – What innovations are you executing?**
- ☐ **Why** to innovate business model – will it create more value to your customers and bring advantages to your organization?
- ☐ **How – how are you going to create and deliver economic, social, cultural and environmental values?**
- ☐ **For whom – Whose problems are you aiming to alleviate?**

Add to this, the when of BMI?

Business Model Innovators Outperform Competition in Terms of Operating Margin, Shareholders' Return



Business Model Innovation is Possible in Several Forms

Value Proposition	The product as service and outcome <i>General Electric SaaS</i>	The products as an experience <i>Apple – iPod</i> <i>Candle with aroma</i>	Trust premium <i>Whole Foods</i> <i>TATA</i>	Free (or nearly free)/ Freemium <i>Google</i> <i>Gaana</i> <i>Spotify</i>
Operating Model	Deconstruction <i>Li & Fung Ltd.</i> <i>Adani</i>	Integration/ acceleration of the supply chain <i>Zara</i> <i>Reliance</i>	Low cost <i>Aravind</i> <i>Tata Motors</i>	Direct distribution <i>Google</i> <i>CCD</i> <i>Nestle Nespresso</i>
Business System Architecture	Open <i>Apple</i> <i>Facebook</i>	Person to person <i>PayPal</i> <i>PayTM</i>	Adjacency <i>Ikea's Mega Mall</i> <i>Division</i>	Serial <i>Virgin Group</i>

Recreated from BCG Research

Management Innovation

- General Electric.
- DuPont.

- Procter & Gamble

- What makes them stand out?
- Great products? Yes.
- Great people? Sure.
- Great leaders? Usually.

- But if you dig deeper, you will find that the fundamental reason for their success: management innovation.

Management Innovation

Example of Focused R&D

- **In the early 1900s, General Electric of Thomas Edison disciplined the chaotic process of scientific discovery into a systematic process of innovation.**
- **Results: over the next 70 years, won more patents than any other company in the US.**
- **Much of GE's competitive prowess during the century following it can be traced to that extraordinary accomplishment.**

Management Innovation

Example: Accounting & Finance - DuPont

- In 1903, DuPont systematized capital-budgeting techniques. A few years later, the company also developed a standardized way of estimating return on investment.
- They used it in comparing the performance of its numerous product departments.
- These innovations and more helped DuPont become one of America's industrial giants.

BMI

Example: Brand management - Procter & Gamble

- Procter & Gamble pioneered to formalize brand management since 1930s.
- In the decades since, P&G has steadily built brands with loyal customer followings.
- Brand and other intangible assets have been driving the success of the company ever since.
- Today, P&G owns some 16 brands that have been producing more than \$1 billion in sales every year.
- P&G is pioneer in 'Corporate Entrepreneurship', and is an aggressive promoter (and beneficiary) of 'Open Innovation'.

Business Management Innovation

Virtual office - Visa Inc.

- **Visa's success is attributed to organizational innovation.**
- **Visa is almost a virtual company and their main asset is their brand (intellectual property) with global visibility.**
- **Starting in the 1970s, Visa has created a global network that links more than 21,000 financial institutions and 1.3 billion+ cardholders.**

Open source: Linux

- Linux – the open source computer operating system.
- Linux is the initiative that extended the concept of other innovations like the general public license and online collaboration tools.
- Open source development has proven to be a highly effective mechanism for engaging people without geographical or cultural boundary.

Aggregator Uber

- Uber could really define the pain points and applied latest technologies to solve it. In urban places of high mobility -
- It is very difficult to get a taxi.
- One that would come and pick you up
- One with some identity for reliability and safety
- To know when a taxi will arrive.
- Ease of paying for the tip.
- They innovated the solution based on the pains.

Netflix

- Netflix has specialized in online on-demand video streaming.
- Starting in 1999, the company now has over 117 million subscribers in 190 countries.
- The company constantly innovates to give new experience to customers.
- In 2018, Netflix innovated 'choose-your-own-adventure' programming, that presents a vision for interactive television.

iPod

- A single invention of iPod has affected many markets at once
 - – the music industry,
 - hardware vendors,
 - the labor market,
 - artists and
 - consumers themselves.
- In a quest to make music more portable and on-demand designers, engineers and marketers at Apple got together to create the iPod and achieved huge success.

- They all expand the market. There are customers and there are producers. But there always is a gap that separates the two and brings in huge inefficiencies.
- Entrepreneurs come up with new business model to bridge the gap that multiplies the demand and supply.
- Netflix, Uber, all aggregators, etc.

Innovation Lessons from Steve Jobs: The story of iPod

- Explore the customer experience and work backwards to technology.
- Know the competitors' value proposition and offer superior value.
- Recruit a balanced and excellent team.
- Connect the dots.
- Obtain feedback and simplify constantly.

- *“You can’t connect the dots looking forward; you can only connect them looking backwards. So you have to trust that the dots will somehow connect in your future. You have to trust in something – your gut, destiny, life, karma, whatever. This approach has never let me down and it has made all the difference in my life.” – Steve Jobs*

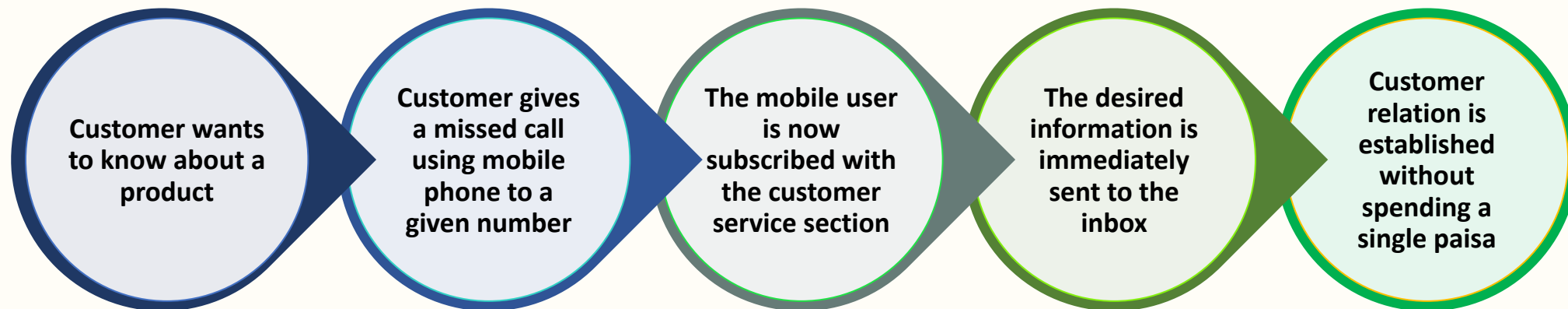
Hindustan Unilever: BMI

- Fast moving consumer goods (FMCG) companies were focused mainly to the urban markets.
- In the face of steep competition, Hindustan Unilever in 2004, shifted the focus to rural India.
- Smaller sachets of personal care products were made available.
- Distribution and warehousing were redesigned.
- New products were launched.

Business Model Innovation in India

ZIPDIAL (zipdial)

The business model



Novelty

- No unsolicited push message.
- Only the interested gives a missed call to get information about some offer.
- No cost on the part of the company and the customer (missed call does not cost).
- One of the cheapest process of building customer awareness and relationship.
- Times of India's initiative Against Corruption campaign received 4.6 million unique missed call.
- Its clients include Coca-Cola, Disney, P&G, Dove and many more.
- Founded in 2010, Twitter acquired zipdial for about US \$ 50 million in 2014.
- Facebook uses the same idea in its Click-to-Missed-Call Ad that helps advertisers in customer acquisition.

Covered up to this slide. Ignore the rest

Goonj: A non-government organization (NGO)

- **Goonj collects used cloths in donation**
- **Distributes them among the poor in exchange of some work.**
- **Founder: Anshu Gupta**
- **Revenue: \$ 9.2 M (old data: 2011-12)**
- **Employees: 75**
- **Goonj has partnered with Puma to promote circular economy.**
- **Facebook for its Click-to-Missed-Call Ad product that helps advertisers in customer acquisition.**

Interview Street

- **Key People:** Vivek Ravishankar, Harishnkaran K
- It has been started by two alumni of NIT Trichy, a premier institution in India.
- They conduct real programming tests to help companies to screen candidates using their web-based tools.
- If you can write brilliant codes, you will be hired, no matter what your qualification is.
- They provide services to companies such as Amazon, Facebook, Morgan Stanley and Walmart.

Mitra Biotech

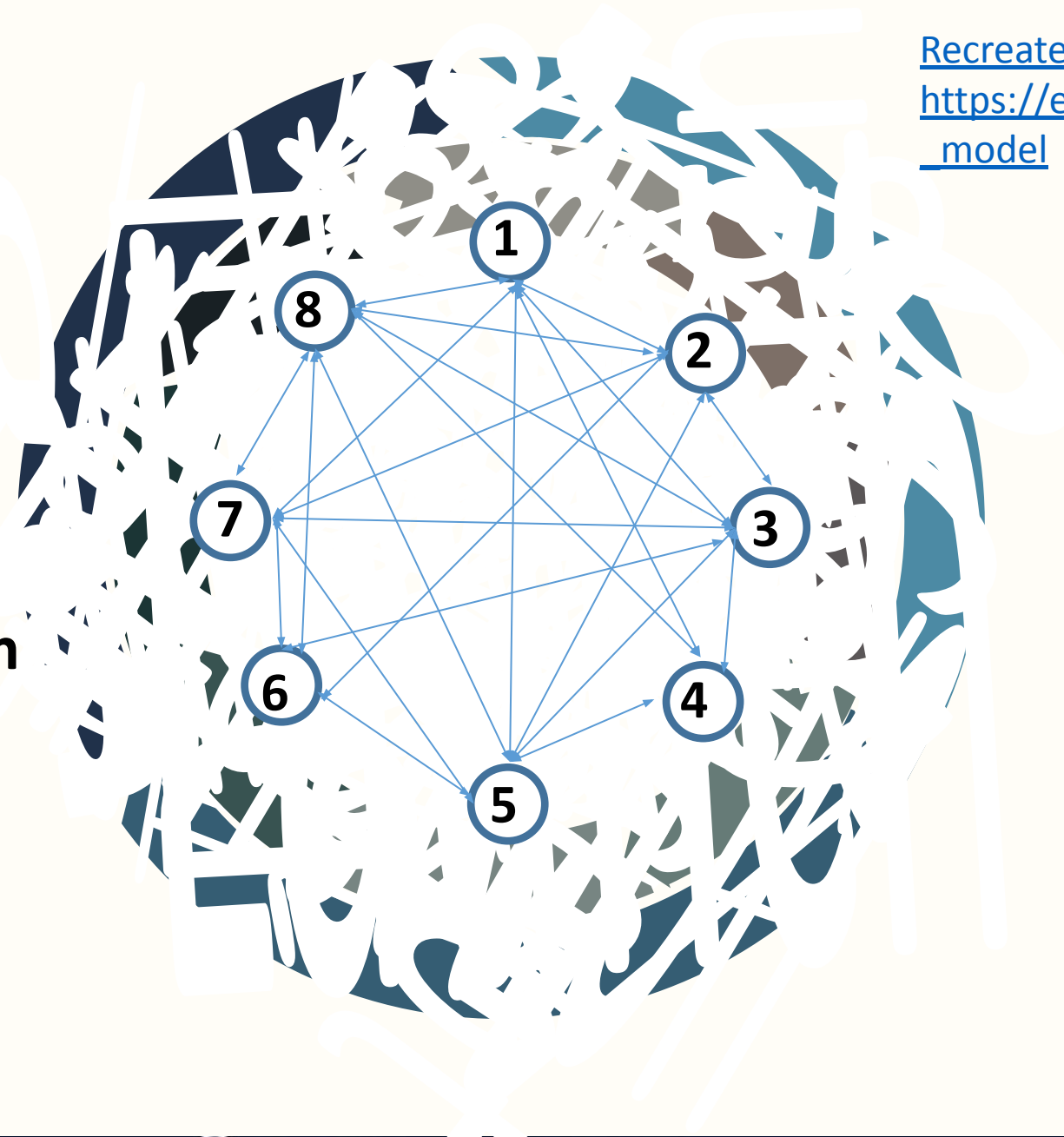
- Key people: Mallikarjun Sundaram
- Boston and Bengaluru
- Mitra Biotech develops and provides novel technologies that personalize cancer treatment.
- Founded by a group of researchers from Harvard and MIT, Mitra Biotech tries to lessen the risk of chemotherapy.
- They have developed a technology CANScript to create an artificial tumor of the patient outside the patient's body.

Some Recent Disruption for BMI

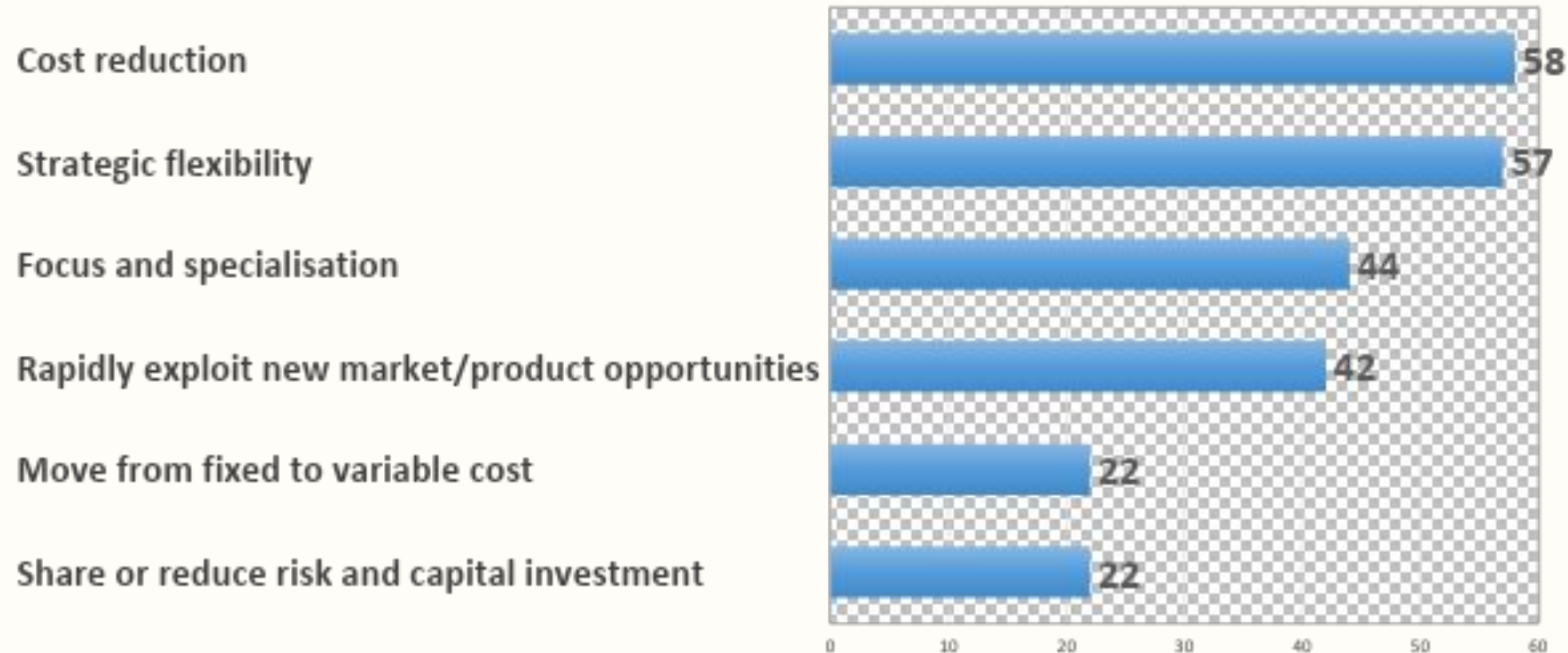
- Thomas Cook, Cox & Kings. Company blamed surge of online booking for its failure.
- Kodak – started in 1841 and failed in 2019.
- Borders (were selling books in physical stores)

Recreated from
https://en.wikipedia.org/wiki/Business_model

Business model innovation is a dynamic, iterative, and continuous process that seemingly moves in circle



Why Do Companies Engage in BMI



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- <https://www.cbinsights.com/research/startup-failure-lessons/>
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- <https://businessmodelgallery.com/models/amazon-retail/>

Thank you