**Cambridge Judge Business School** 

**The Engineer in Business** 

# Week 4 (Strategy Week 1)

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# Welcome!



# Why are some firms more successful than others?



# What is Porter's answer?

# 1. Operational Effectiveness is not Strategy

# The problem:

- "hypercompetition"
- Rapid diffusion of best practice
- Benchmarking = lack of distinctiveness

- Emphasis on sustainable advantage
  - Different not better

### 2. Strategy Rests on Unique Activities

Customer offerings should rest on capabilities, not marketing slogans Porter calls this the 'Strategic Position' Emerges from one or more of:

- Variety-based
  - Scope of activities to secure efficiency
- Needs-based
  - Value chain tailored to needs of target customers
- Access-based
  - Geography, Scale

### **Strategic Position should...**

Require choice

Take priority over growth—deepen not deviate

Derive from auditing:

- Where are we most distinctive
- Where are we most profitable
- Where are our customers the most satisfied
- Which customers/channels/purchase occasions are the most profitable?
- Which activities in the value chain are different and effective?

# 3. Sustainable Strategic Position Rests on Trade-offs

If your differentiated strategy works, you will be imitated So you have to be *more* ...

# Barriers include:

- Brand image
- Commitments
- Tight co-ordination and control

# Avoid 'straddling'

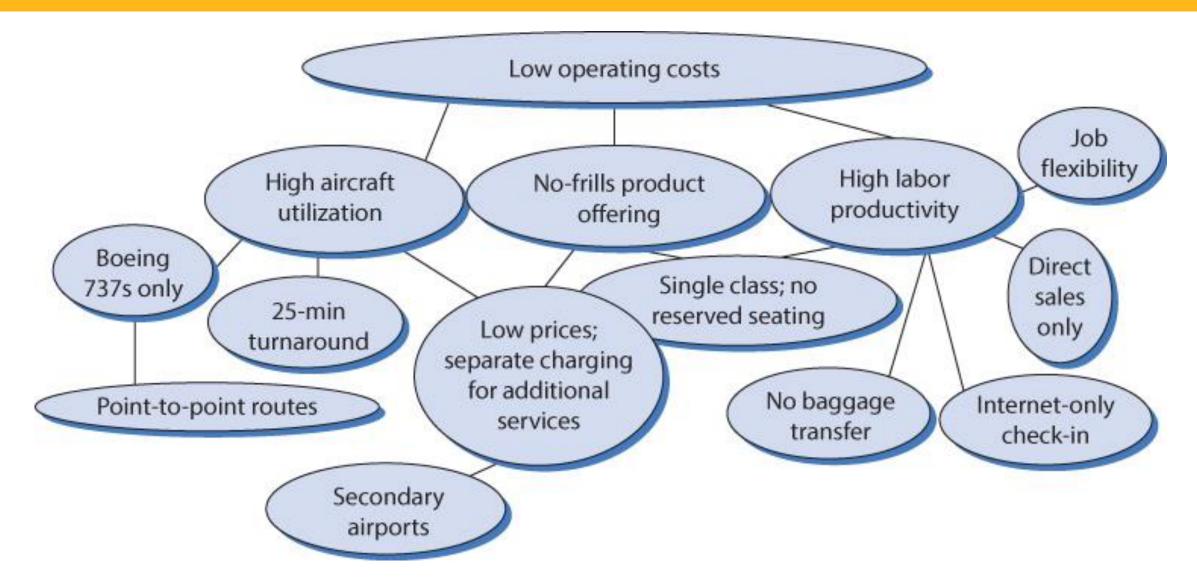
# 4. Fit Drives Advantage and Sustainability

No weakest link
Failing to choose undermines Fit
Types of Fit:

- Simple consistency between activity and strategy
- Reinforcing activities
- Optimization of effort

One way of thinking about this is to think in terms of 'systems thinking'— the whole needs to be greater than the sum of the parts, avoid bottlenecks, seek synergies

# From Grant, Fig 1.3- Ryanair's Activity System



### What is this for?

# RIVALRY AMONG EXISTING COMPETITORS:

- Number of competitors
- Diversity of competitors
- Industry concentration
- Industry growth
- Quality differences
- Brand loyalty
- Barriers to exit
- Switching costs

### BARGAINING POWER OF SUPPLIERS

#### BARGAINING POWER OF SUPPLIERS:

- Number and size of suppliers
- Uniqueness of each supplier's product
- Focal company's ability to substitute

#### THREAT OF SUBSTITUTE PRODUCTS:

- Number of substitute products available
- Buyer propensity to substitute
- Relative price performance of substitute
- Perceived level of product differentiation
- Switching costs

# THREAT OF NEW ENTRANTS



RIVALRY
AMONG
EXISTING
COMPETITORS



#### THREAT OF NEW ENTRANTS:

- Barriers to entry
- Economies of scale
- Brand loyalty
- Capital requirements
- Cumulative experience
- Government policies
- Access to distribution channels
- Switching costs

# POWER OF BUYERS

#### **BARGAINING POWER OF BUYERS:**

- Number of customers
- Size of each customer order
- Differences between competitors
- Price sensitivity
- Buyer's ability to substitute
- Buyer's information availability
- Switching costs

# What do you use it for?

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# What do you use it for?

Strategies (or tactics) that "mute" the force's effect on your firm compared to others help you win

Weak forces = "headroom"/opportunities to increase profits

Strong forces = pain points for someone— which in turn gives rise to innovations (by you, or to be used against you...)

Adjacent spaces to yours where the forces are collectively weaker might be good "moves"

Adjacent spaces where the forces are stronger might be value destroying...



### Addressing the Five Forces



2. Consolidation

3. Retaliation

The oldfashioned way of competing

4. Integration/diversification

5. Market segments

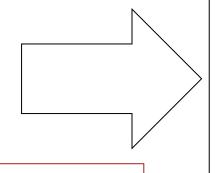
6. Value chain steps

7. Cost advantage

8. Differentiation advantage

9. Ecosystem advantage

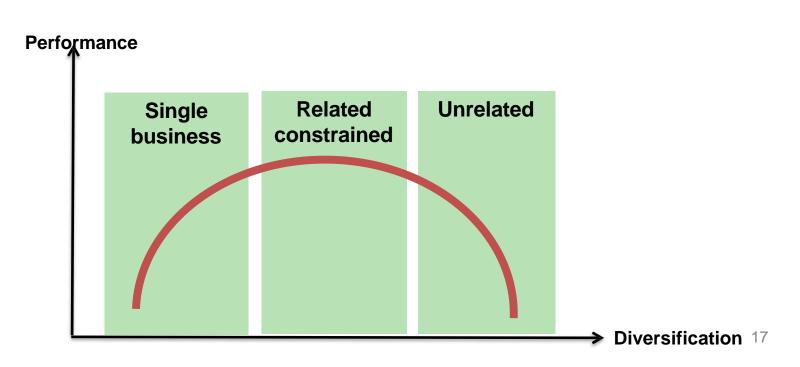
10. Or....Exit



The new way of competing

# Integration/diversification and performance

- Linear relationship has dominated research for 40 years...
  - Sharing activities and resources leads to unit cost savings...
  - But generates costs of coordination, compromise, inflexibility
- Consensus over the inverted U shape:
  - Some diversification (moderate level or related-constrained diversification) is better than none (single business) and than too much (especially unrelated diversification)



# **Defining Competitive Advantage**

**Porter (1980):** a unique configuration of activities allowing differentiated meeting of customer needs and defensible position vis a vis competitors

• Decision principle: reinforce uniqueness, maintain differentiation

**Barney (1991):** a rare and hard-to-imitate resource or capability underlying the firm's ability to compete

Decision principle: protect/reinforce the core and spin it into growth opportunities

Adner (2012): the ability to orchestrate a unique set of stakeholder relationships to achieve superior information flow

• Decision principle: build a unique ecosystem and leverage it

McGrath (2013): the ability to spot and execute a series of temporary advantages

Decision principle: be fast to enter, be ready to exit

| Strategy School          | Advantage<br>Comes From                            | Sustainable<br>Advantage<br>Comes From     | Possible negative effect                              |
|--------------------------|--|--|---|
| Positional               | Industry Structure and mitigating Forces           | Trade-offs, single-mindedness, fit         | Focus on competitors and 'winning' not value creation |
| Core Competence          | Capabilities                                       | Ability to repeatedly repurpose capability | Lock-in to dominant capability                        |
| Agility                  | Creating Options/Ability to create options rapidly | Capability to adapt, experiment and exit   | Diffuse efforts                                       |
| Cooperative<br>Ecosystem | Collaboration/Pattern of relationships             | Superior flow of information               | You don't "own" your advantage, relies on trust       |
| Keystone<br>Ecosystem    | Locking everyone in                                | Switching costs                            | Getting too greedy                                    |