

Cambridge Judge Business School

The Engineer in Business

Week 4 (Strategy Week 1)

Dr Chris Coleridge

13 Feb 2024



UNIVERSITY OF
CAMBRIDGE
Judge Business School



Welcome!



UNIVERSITY OF
CAMBRIDGE
Judge Business School

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

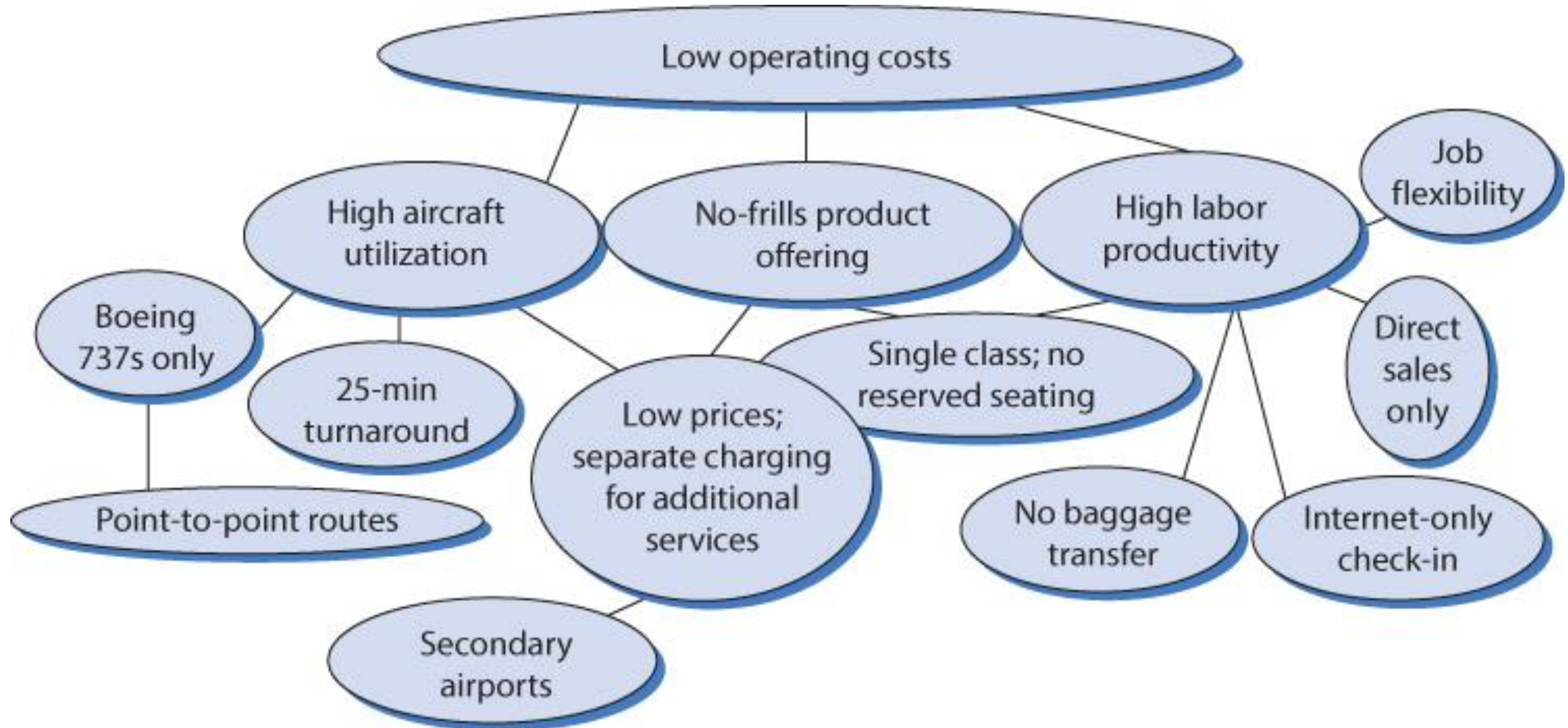
Failing to choose undermines Fit

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?



What do you use it for?



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

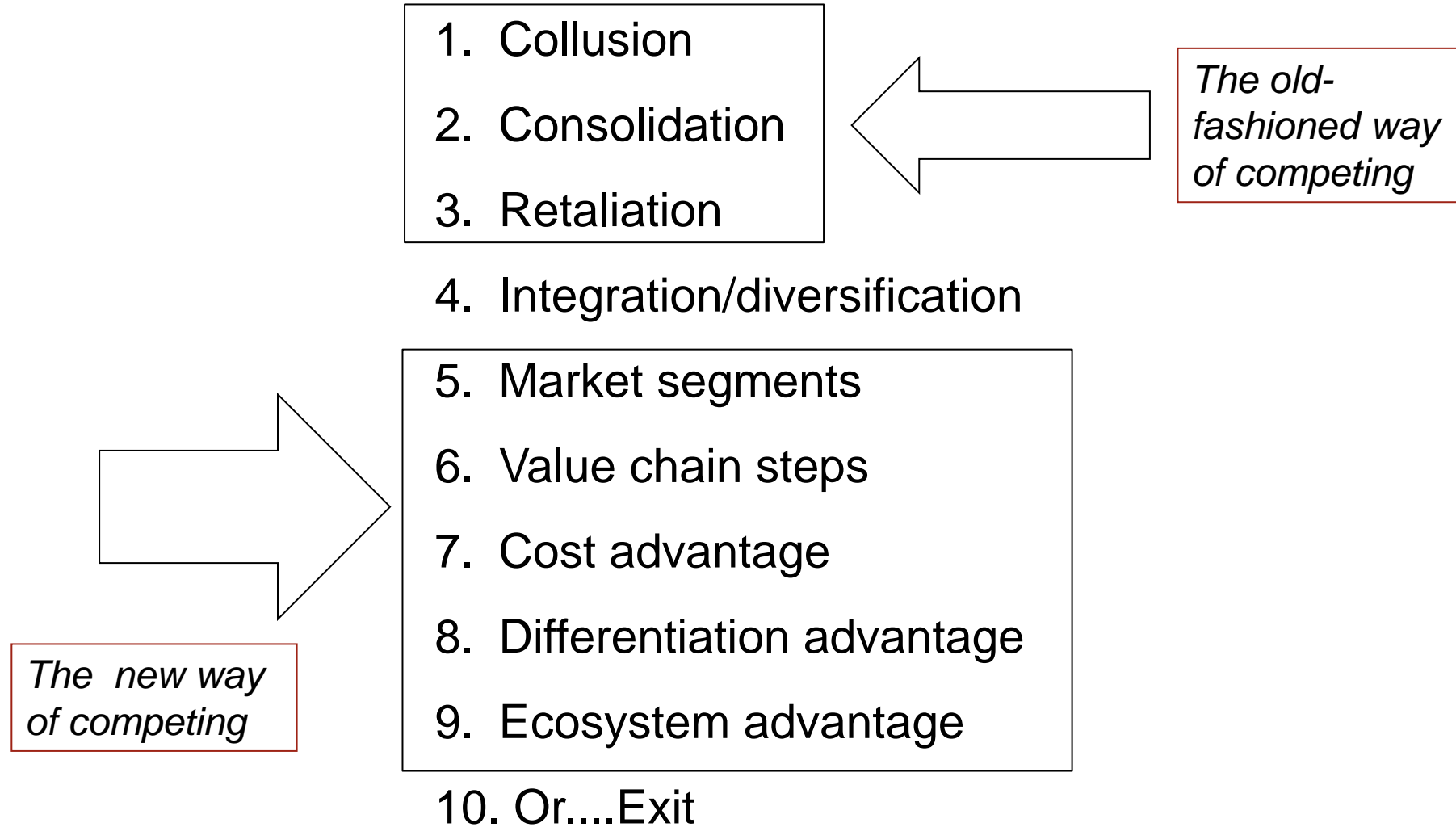
Strong forces = pain points for someone— which in turn gives rise to innovations (by you, or to be used against you...)

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...

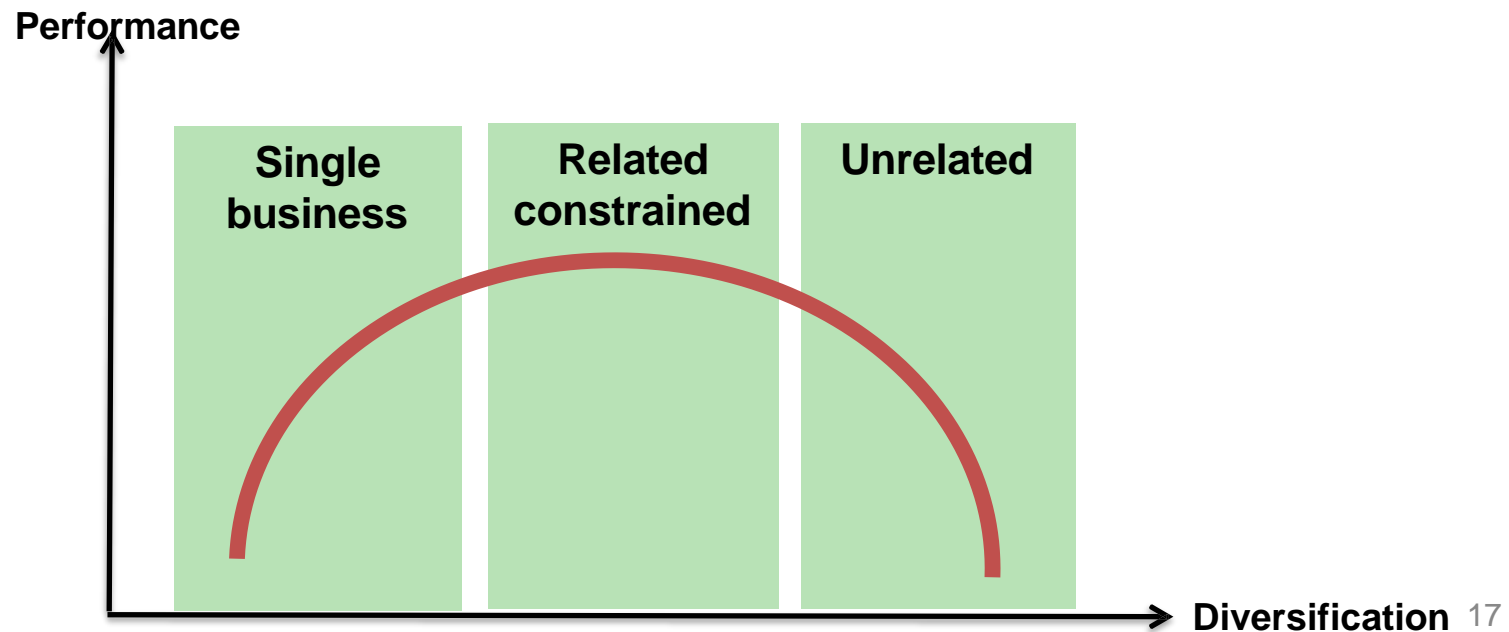


Addressing the Five Forces



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 Comes From	Sustainable Advantage 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 Ecosystem	Collaboration/Pattern of relationships	Superior flow of information	You don't "own" your advantage, relies on trust
Keystone Ecosystem	Locking everyone in	Switching costs	Getting too greedy