

The Strategic Management Frameworks

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The Frameworks for Competitive Positioning

- Porter
- Resource-Based View of the Firm
- The Delta Model

Porter's Framework for Explaining the Profitability of a Business

Competitive Positioning

Achieving sustainable competitive advantage

Industry Structure

Factors affecting industry profitability

Strategy Formulation and Implementation

Defining and executing the managerial tasks



Elements of Industry Structure: Porter's Five-Forces

Barriers to Entry

- Economies of scale
- Product differentiation
- Brand identification
- Switching cost
- Access to distribution channels
- Capital requirements
- Access to latest technology
- Experience & learning effects

Government Action

- Industry protection
- Industry regulation
- Consistency of policies
- Capital movements among countries
- Custom duties
- Foreign exchange
- Foreign ownership
- Assistance provided to competitors

Suppliers

Bargaining Power of Suppliers

Power of Suppliers

- Number of important suppliers
- Availability of substitutes for the supplier's products
- Differentiation or switching cost of supplier's products
- Supplier's threat of forward integration
- Industry threat of backward integration
- Supplier's contribution to quality or service of the industry products
- Total industry cost contributed by suppliers
- Importance of the industry to supplier's profit

New Entrants

Threat of new entrants

Industry Competitors

Intensity of Rivalry

Rivalry Among Competitors

- Concentration & balance among competitors
- Industry growth
- Fixed (or storage) cost
- Product differentiation
- Intermittent capacity increasing
- Switching costs
- Corporate strategic stakes

Barriers to Exit

- Asset specialization
- One-time cost of exit
- Strategic interrelationships with other businesses
- Emotional barriers
- Government & social restrictions

Buyers

Bargaining Power of Buyers

Power of Buyers

- Number of important buyers
- Availability of substitutes for the industry products
- Buyer's switching costs
- Buyer's threat of backward integration
- Industry threat of forward integration
- Contribution to quality or service of buyer's products
- Total buyer's cost contributed by the industry
- Buyer's profitability

Threat of substitutes

Substitutes

Availability of Substitutes

- Availability of close substitutes
- User's switching costs
- Substitute producer's profitability & aggressiveness
- Substitute price-value

Figure by MIT OCW.

Porter's Five-Forces Model Applied to the Pharmaceutical Industry in the Early 1990s

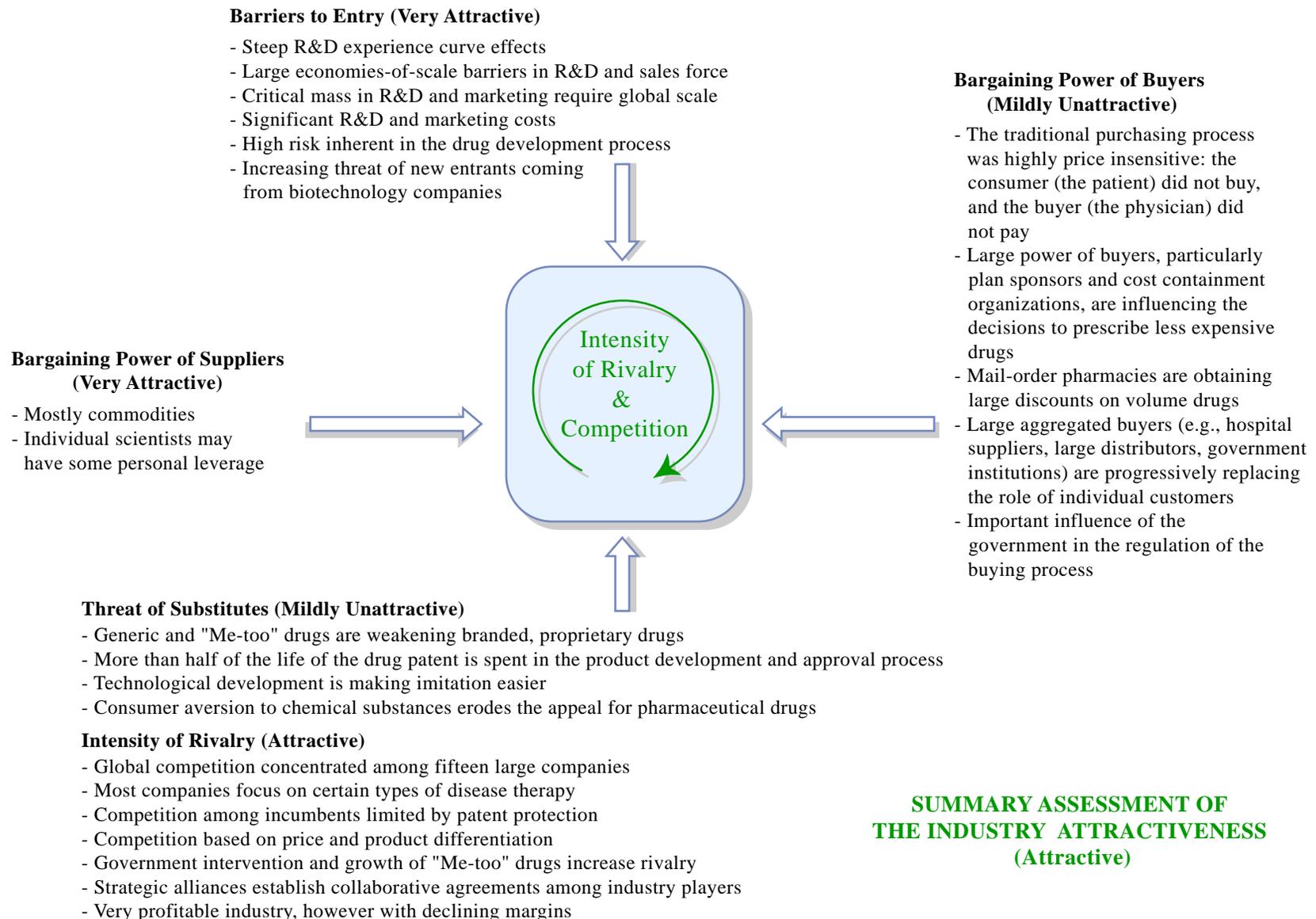


Figure by MIT OCW.

Make a business in an attractive industry where you can excel;
then excel by achieving a low cost of differentiation through unique activities

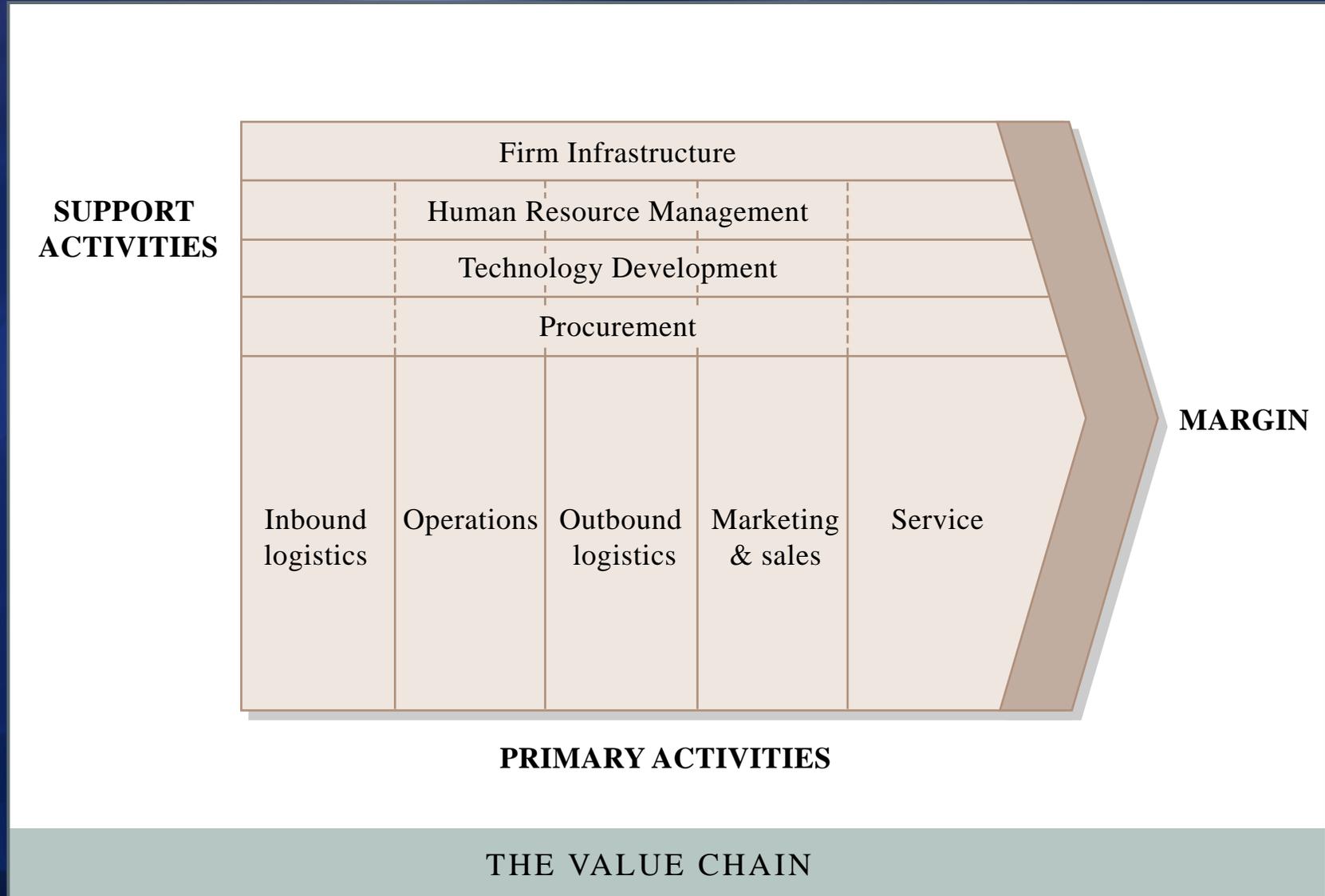
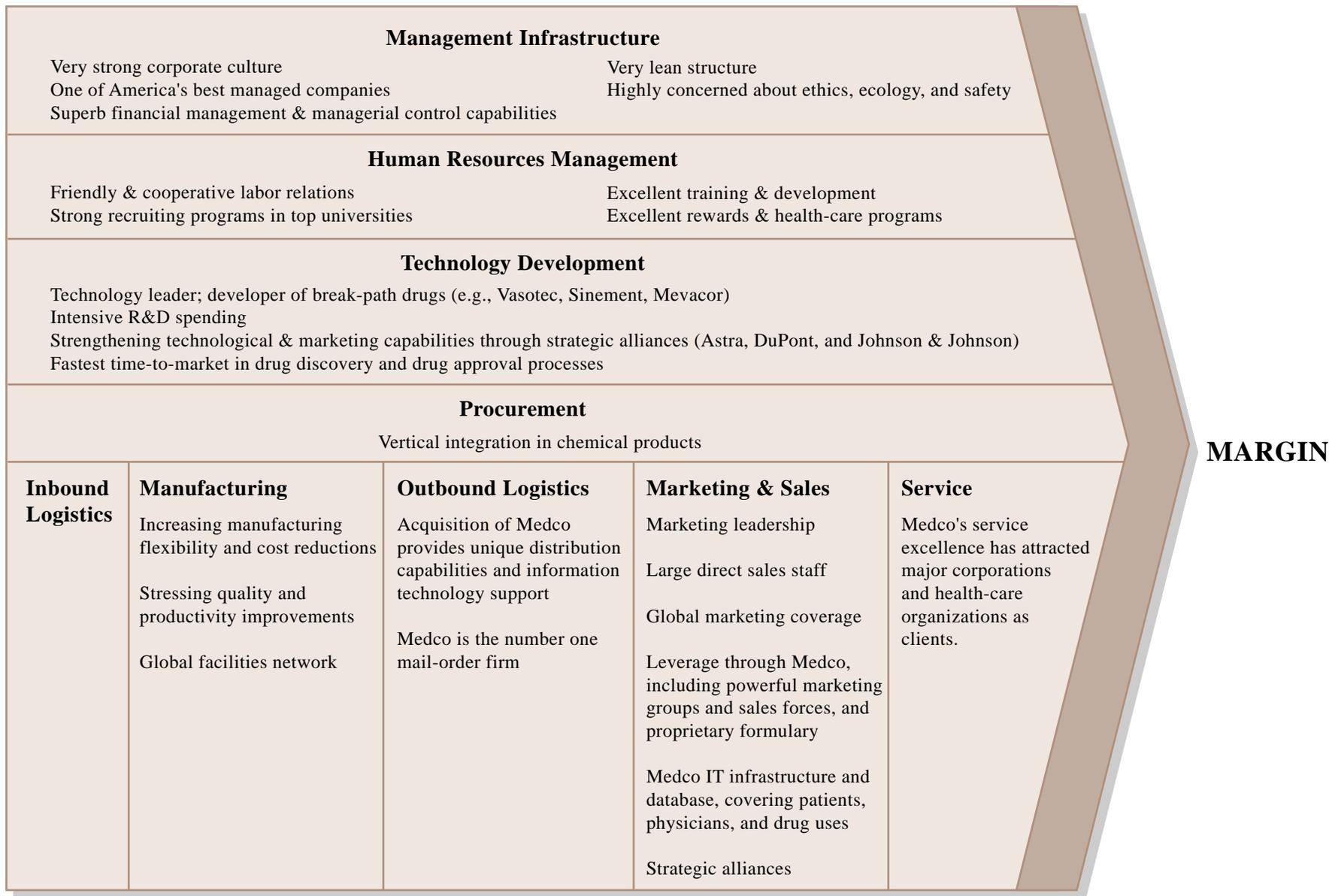


Figure by MIT OCW.



MERCK'S VALUE CHAIN

Figure by MIT OCW.

There are two ways to compete: Low Cost or Differentiation

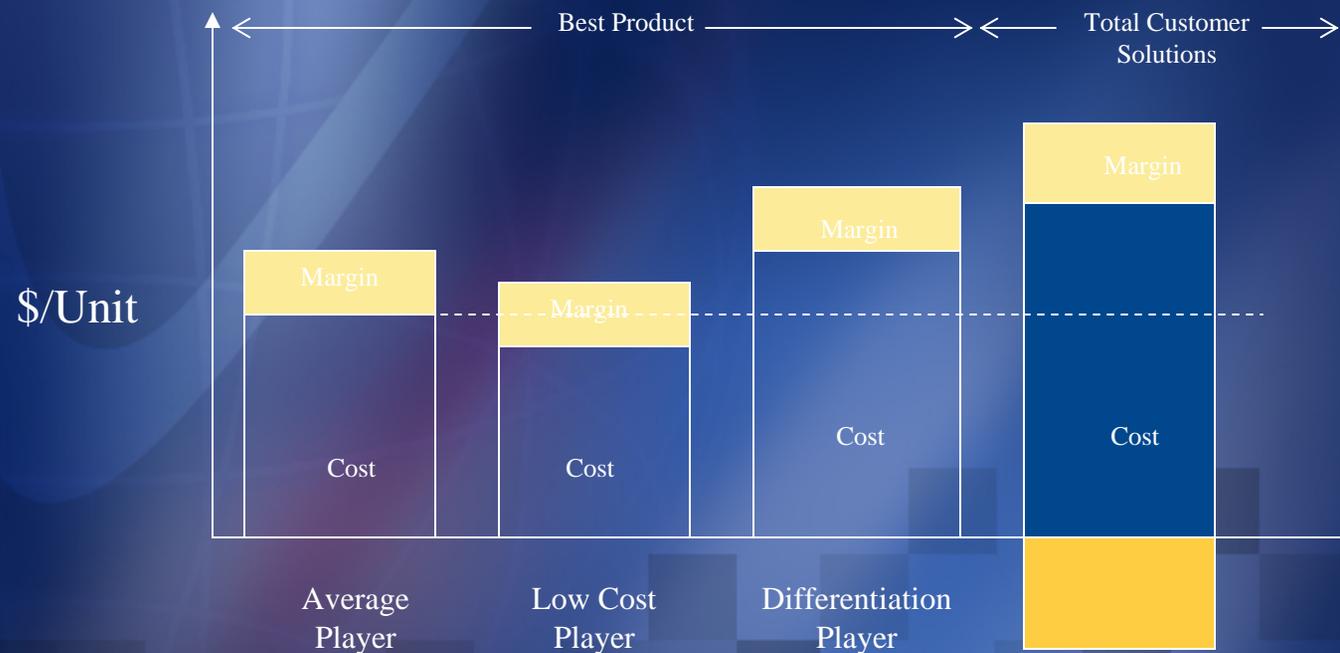
The efficiency of the low cost provider's cost structure allows pricing below the average competitor, which in the long run may put average competitors out of business.

This is why the alternative to low cost needs to be differentiation, offering unique product attributes that the customer values and will pay a premium for.

Best Product



However, the Total Customer Solutions positioning offers a possible preferred alternative by introducing significant cost savings (and/or revenue increases) to the customer.



Critical Elements in Porter's Frameworks

Focus of Strategic
Attention

Porter
Industry/ Business

Types of
Competitive
Advantage

Low cost or
Differentiation

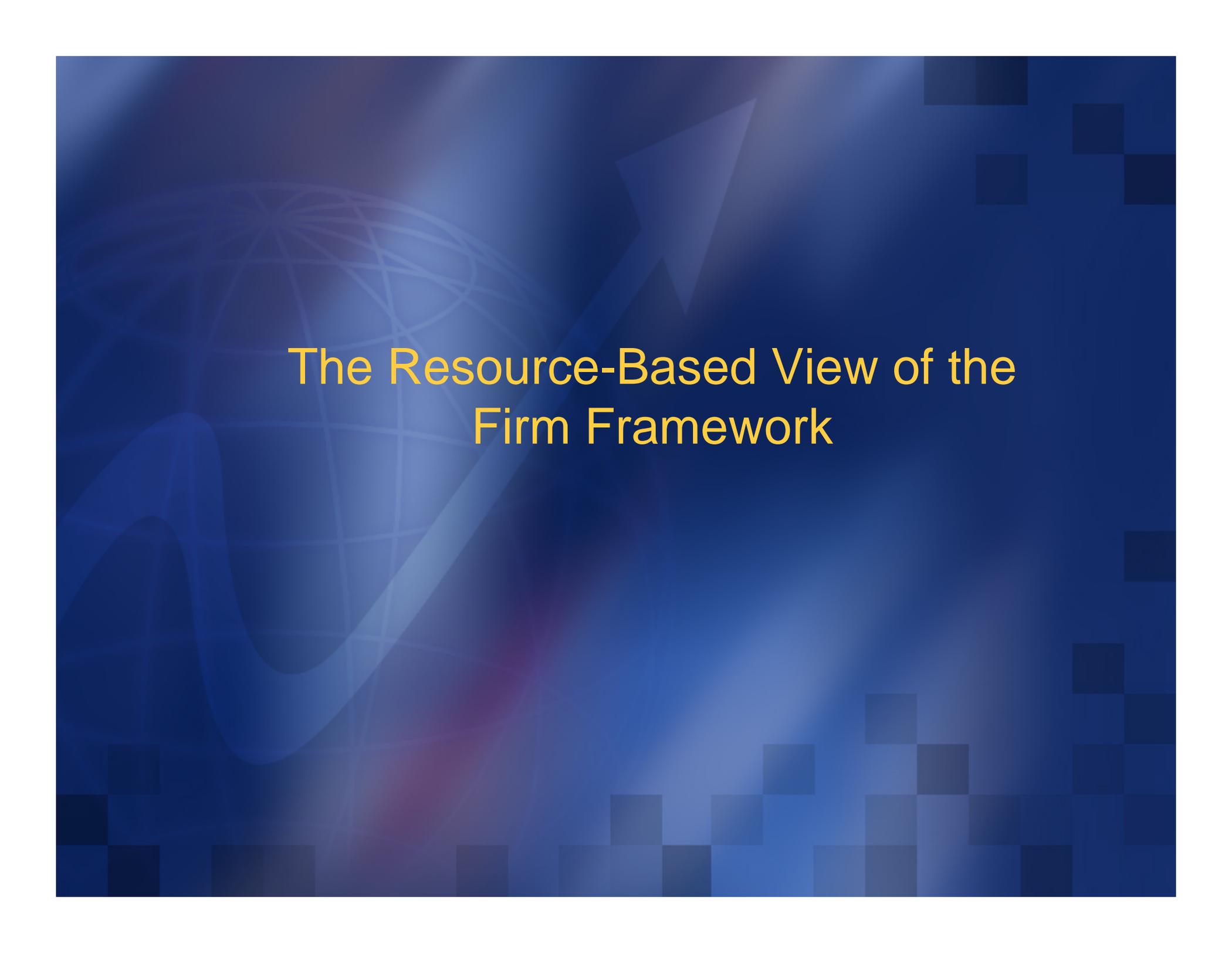
Basic Unit of
Competitive
Advantage

Activities

Porter's winning Formula

Pick a business in an attractive industry in which you can excel. Notice that Porter's Framework stressed rivalry and competition. Therefore, an attractive industry is one in which we can achieve as close to a monopolistic position as possible. In turn, the message of the value chain is to achieve sustainable advantage by beating your competitors, if not in all, at least in those activities that are most crucial to competition.

Strategy is War!



The Resource-Based View of the Firm Framework

Resources can be classified into three broad categories

- Tangible assets are the easiest to value, and often are the only resources that appear on a firm's balance sheet. They include real estate, production facilities, and raw materials, among others. Although tangible resources may be essential to a firm's strategy, due to their standard nature, they rarely are a source of competitive advantage. There are, of course, notable exceptions.

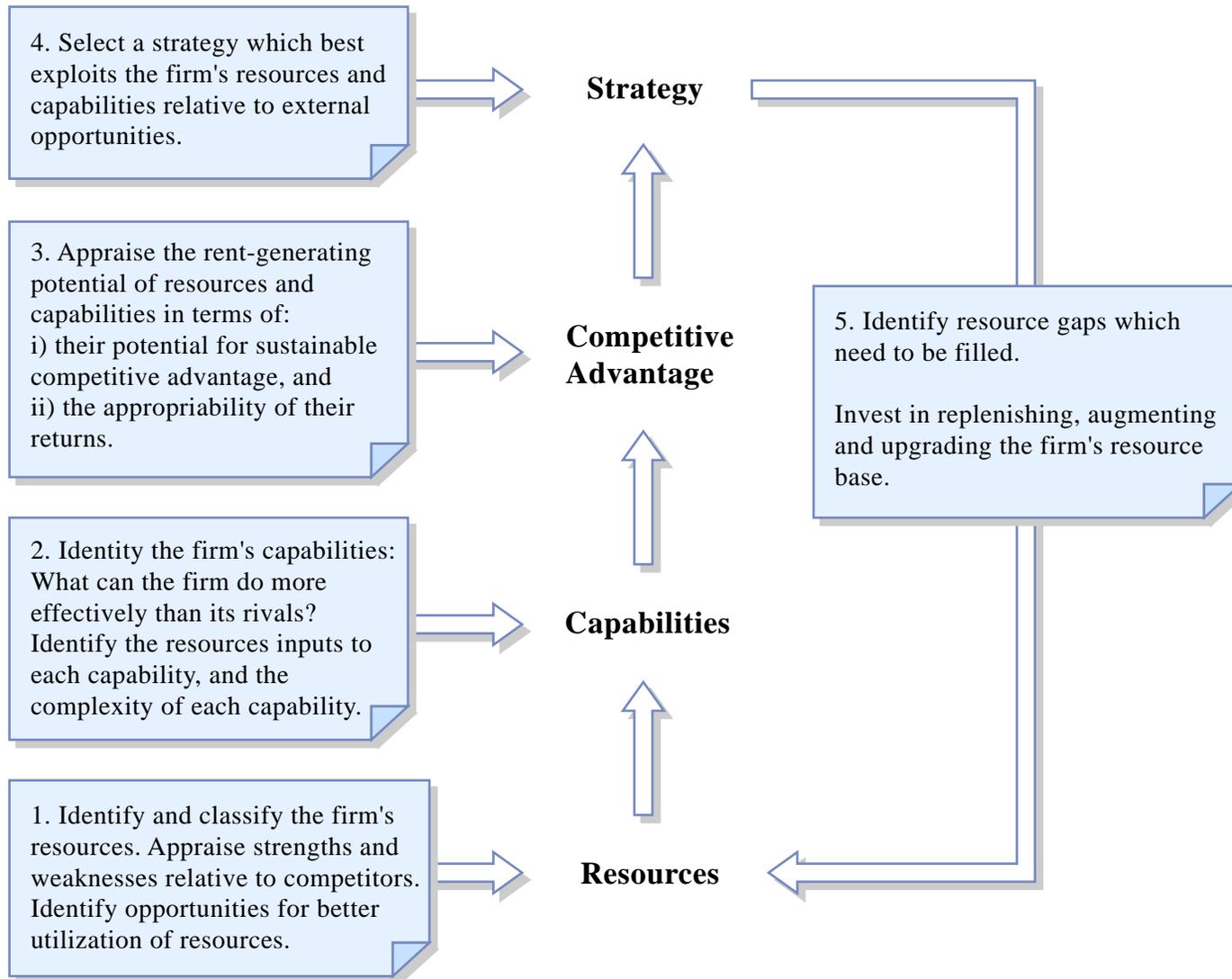
Resources can be classified into three broad categories (Cont'd)

- Intangible assets include such things as company reputations, brand names, cultures, technological knowledge, patents and trademarks, and accumulated learning and experience. These assets often lay an important role in competitive advantage (or disadvantage), and firm value.

Resources can be classified into three broad categories (Cont'd)

- Organizational capabilities are not factor inputs like tangible and intangible assets; they are complex combinations of assets, people, and processes that organizations use to transform inputs into outputs. The list of organizational capabilities includes a set of abilities describing efficiency and effectiveness: low cost structure, “lean” manufacturing, high quality production, fast product development.

Source: David Collis and Cynthia Montgomery



A RESOURCE-BASED APPROACH TO STRATEGY ANALYSIS: A PRACTICAL FRAMEWORK

Figure by MIT OCW.

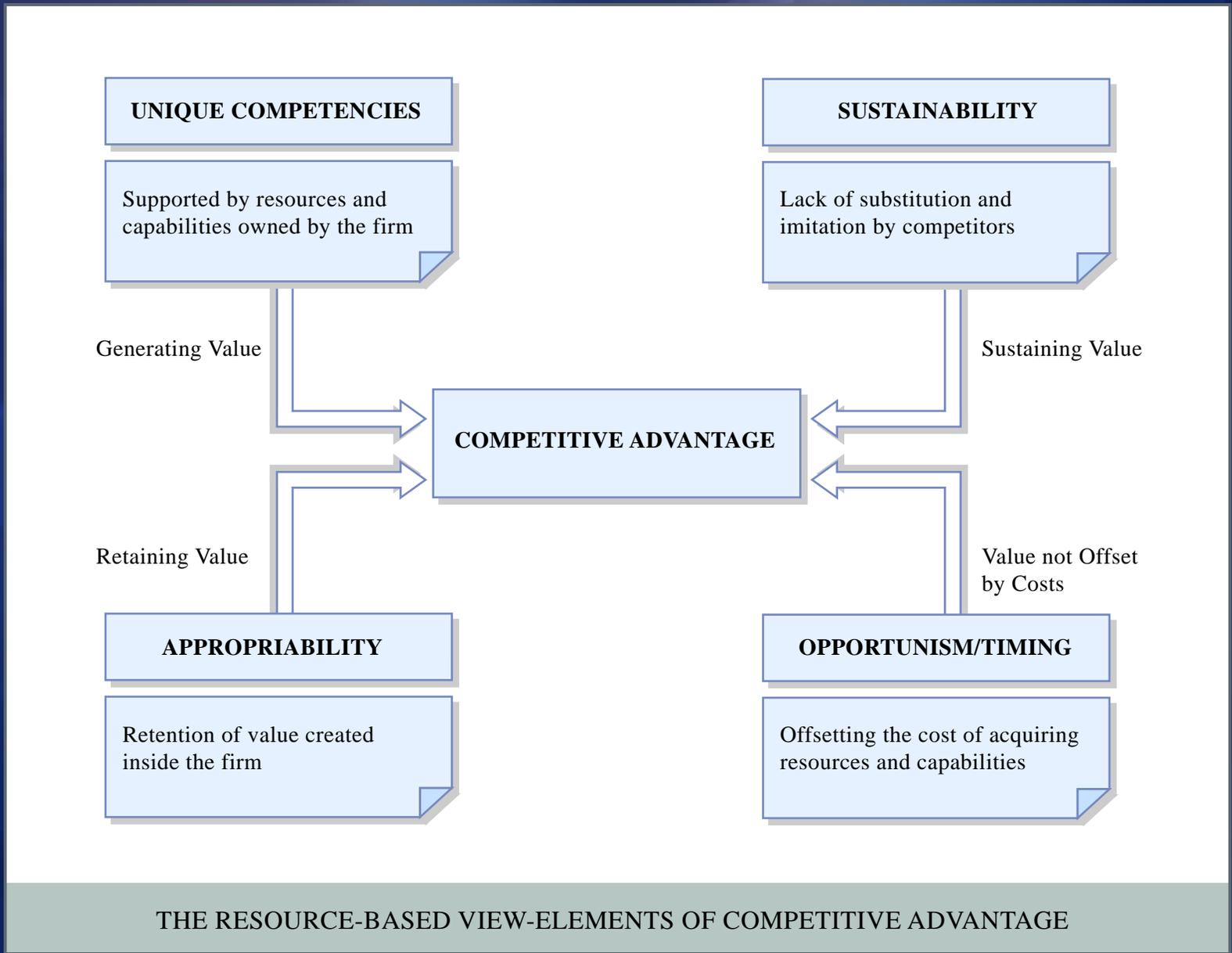


Figure by MIT OCW.

The Resource-Based View of the Firm Winning Formula

Develop resources and capabilities which are rare, valuable, non-tradeable, that form the basis of the core competencies of the firm; make those resulting advantages sustainable by precluding imitation or substitution from competitors; appropriate the resulting economic rent by preventing negative hold-up and slack conditions; and make sure that the implementation process is done in such a way that its associated costs do not upset the resulting benefits.

It is Strategy by Real Estate!

Comparison of Critical Elements in Porter's and Resource-Based View Frameworks

	<u>Porter</u>	<u>Resource-Based View</u>
Focus of Strategic Attention	Industry/Business	Corporation
Types of Competitive Advantage	Low cost or Differentiation	Resources, Capabilities, Core Competencies
Basic Unit of Competitive Advantage	Activities	Core Products, Strategic Architecture

Comparison Among Strategy Frameworks

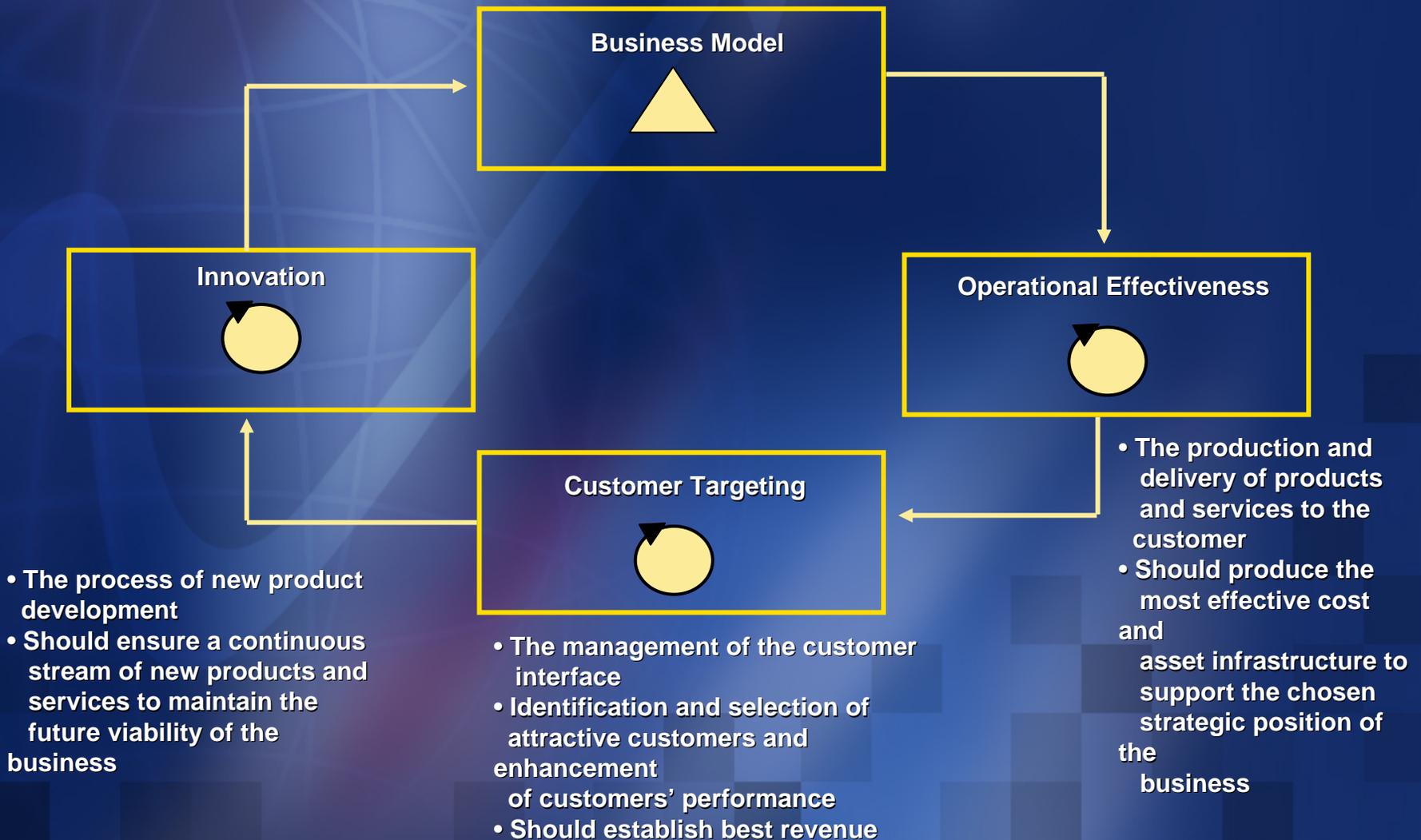
	<u>Porter</u>	<u>Resource-Based View</u>	<u>Delta Model</u>
Focus of Strategic Attention	Industry/ Business	Corporation	Extended Enterprise (The Firm, The Customer, The Suppliers , The Complementors)
Types of Competitive Advantage	Low cost or Differentiation	Resources, Capabilities, Core Competencies	Best Product, Total Customer Solutions, System Lock-In
Basic Unit of Competitive Advantage	Activities	Core Products, Strategic Architecture	Adaptive Processes: Operational Effectiveness, Customer Targeting, Innovation
Strategy As	Rivalry	Real Estate	Bonding

The Delta Model - An integrative strategic framework



The Adaptive Processes:

Linking Strategy with Execution



- **Operational Effectiveness:** This process is responsible for the delivery of products and services to the customer. In a traditional sense, this includes all the elements of the internal supply chain. Its primary focus is on producing the most effective cost and asset infrastructure to support the desired strategic position of the business. In a more comprehensive sense, operational effectiveness should expand its external scope to include suppliers, customer, and key complementors, thus establishing an extended supply chain. This process is the heart of a company's productive engine as well as its source of capacity and efficiency.

• **Customer Targeting:** This process addresses the business-to-customer interface. It encompasses the activities intended to attract, satisfy, and retain customers, and ensures that customer relationships are managed effectively. Its primary objectives are to identify and select attractive customers and to enhance their performance, either by helping to reduce their costs or increase their revenues. The ultimate goal of this process is to establish the best revenue infrastructure for the business.

- **Innovation**: This process ensures a continuous stream of new products and services to maintain the future viability of the business. It mobilizes all the creative resources of the firm- including its technical, production, and marketing capabilities- to develop an innovative infrastructure for the business. It should not limit itself to the pursuit of internal product development, but should extend the sources of Innovation to include suppliers, customers, and key complementors. The heart of this process is the renewal of the business in order to sustain its competitive advantage and its superior financial performance.

The Role of Adaptive Processes

In supporting the Strategic Positioning of the Business

Strategic Positioning

Best Product

Total Customer Solutions

System Lock-In

<p>•<u>Best Product Cost</u></p> <ul style="list-style-type: none"> • Identify product cost drivers • Improve stand alone product cost 	<p>•<u>Best Customer Benefits</u></p> <ul style="list-style-type: none"> • Improve customer economics • drivers • Improve horizontal linkages in the • components of total solutions 	<p>•<u>Best System Performance</u></p> <ul style="list-style-type: none"> • Improve system performance • drivers • Integrate complementors in • improving system performance
<p>•<u>Target Distribution Channels</u></p> <ul style="list-style-type: none"> • Maximize coverage through • multiple channels • Obtain low cost distribution • Identify and enhance the • profitability of each product by • channel 	<p>•<u>Target Customer Bundles</u></p> <ul style="list-style-type: none"> • Identify and exploit opportunities to • add value to key customers by • bundling solutions and customization • Increase customer value and possible • alliances to bundle solutions • Select key vertical markets • Examine Channel ownership options 	<p>•<u>Target System Architecture</u></p> <ul style="list-style-type: none"> • Identify leading complementors • in the system • Consolidate a lock-in position • with complementors • Expand number and variety of • complementors
<p>•<u>Product Innovation</u></p> <ul style="list-style-type: none"> • Develop family of products • based on common platform • First to market, or follow rapidly- • stream of products 	<p>•<u>Customer Service Innovation</u></p> <ul style="list-style-type: none"> • Identify and exploit joint development • linked to the customer value chain • Expand your offer into the customer value • chain to improve customer economics • Integrate and innovate customer care • functions • Increase customer lock-in through • customization and learning 	<p>•<u>System Innovation</u></p> <ul style="list-style-type: none"> • Create customer and system lock- • in, and competitive lock-out • Design propriety standard within • open architecture ❖ - Complex interfaces ❖ - Rapid evolution ❖ - Backward compatibility

Examples of The Role of Adaptive Processes in Supporting the Strategic Options of the Triangle

		•STRATEGIC POSITIONING		
		•Best Product	•Total Customer Solutions	•System Lock-In
ADAPTIVE PROCESSES	Operational Effectiveness	<ul style="list-style-type: none"> •<u>Superlative Low Cost Infrastructure</u> •Southwest Airlines •Nucor 	<ul style="list-style-type: none"> •<u>Integrating the Customer Infrastructure</u> •EDS •Castrol •Nucor client 	<ul style="list-style-type: none"> •<u>Uniqueness of Facilities with Dominant 1st Mover</u> •Rural Wal-Mart
	Customer Targeting	<ul style="list-style-type: none"> •<u>Effective Arm-Length Treatment of Customer</u> •Dell-Transactional Customer 	<ul style="list-style-type: none"> •<u>Closest Customer Interaction</u> •Dell-Relationship Customer 	<ul style="list-style-type: none"> •<u>Owning the Seller & Buyer Interface</u> •Ebay •Yellow Pages
	Innovation	<ul style="list-style-type: none"> •<u>Endless Chain of Internal Innovation</u> •Early Digital Equipment Corp. •3M 	<ul style="list-style-type: none"> •<u>Superior Joint Innovation with Customer</u> •National Starch 	<ul style="list-style-type: none"> •<u>Owning the Complementors</u> •Microsoft-Intel

The Elements of the Delta Model

The Triangle

- The source of the strategic options

Business Mission

- Product scope
- Market scope (customer, consumer, channel)
- Complementor scope
- Geographical scope
- Core competencies

Industry Structure

- Relevant industry focus

Competitive Positioning

- Relevant value chain
- Focus

Business Strategic Agenda

Adaptive Process Priorities

- OE
- CT
- I

Aggregate/Granular Metrics

Experimentation & Feedback

The Three Strategic Options

Best Product

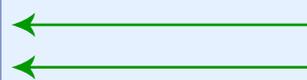
Total Customer Solution

System Lock-In

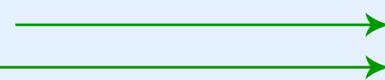
Driver

Driver

Driver



(Either Local-Regional-Global)
Align with Strategic Option



Business Industry

+

Customer Industry

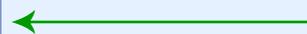
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Complementor Industry

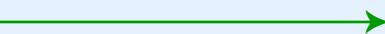
Internal value chain:
- Business

Integrated value chain:
- Business & customer

Systems value chain
- Business complementor and customer



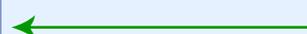
Align with strategic option



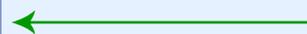
1st
3rd
2nd

2nd
1st
3rd

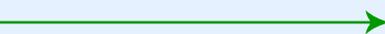
3rd
2nd
1st



Align with strategic option

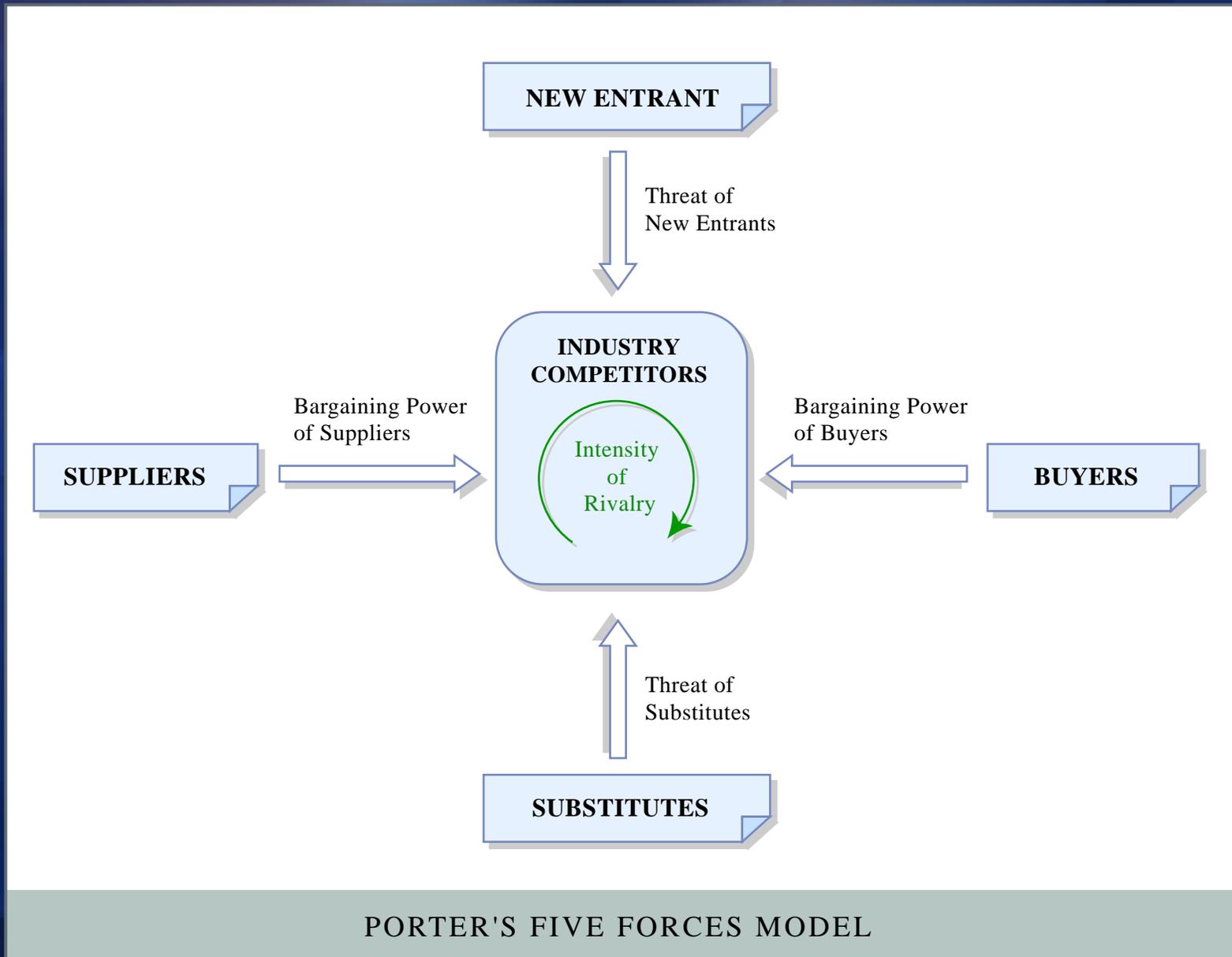


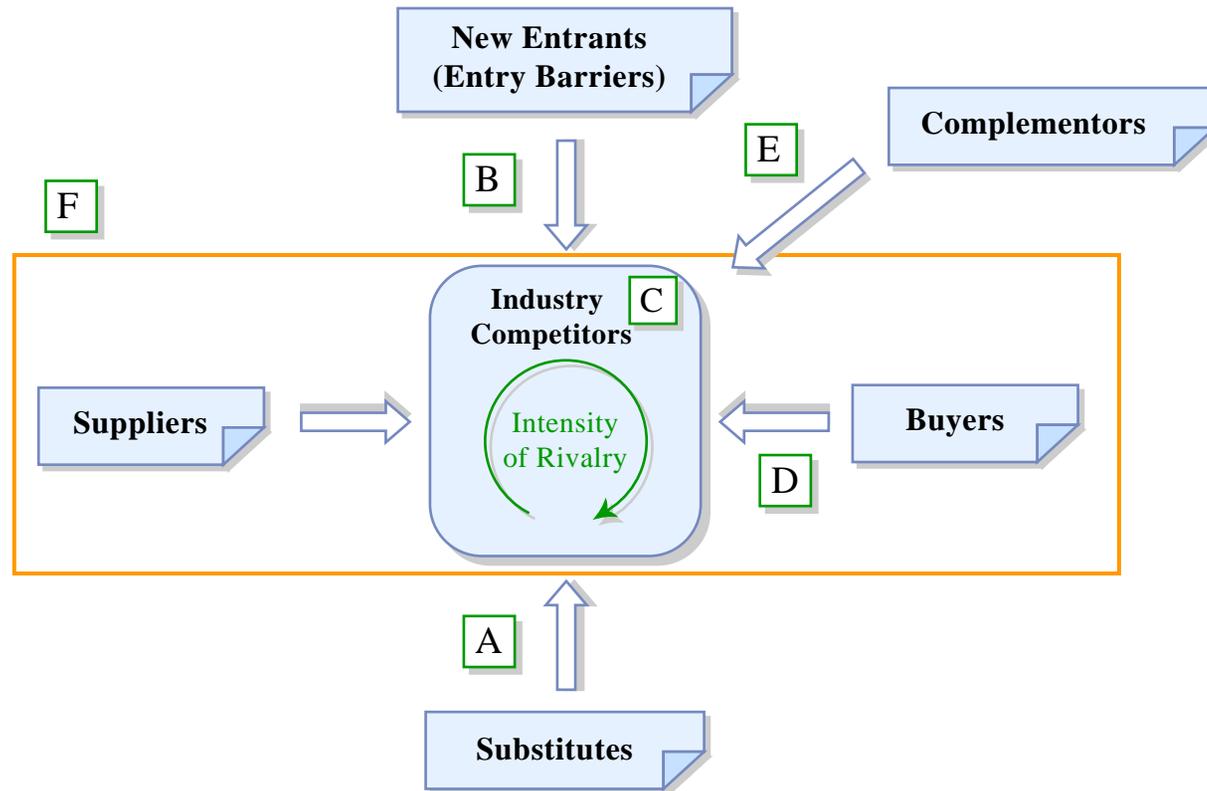
Align with strategic option



THE DELTA MODEL AND THE THREE STRATEGIC OPTIONS

Porter's Five Forces Model





- A) Create a powerful 10x force to change the rules of the game. Reject imitation of competitors, a product-centric mentality, & a commoditization mindset.
- B) Generate significant barriers around the customer through a unique customer value proposition based on deep customer segmentation, & customer and consumer understanding.
- C) Do not use competitors as a central benchmark to guide your strategic actions. The key industries to concentrate on are those of your customers, suppliers and complementors. Strategy is not war with your competitors; it is love with your customers, suppliers, consumers, & complementors.
- D) Develop & nurture the integrated value chain with your key suppliers and customers. Being in all the power of B2B and B2C to accomplish this objective. This is critical for customer lock-in.
- E) Add a new player: the complementors. Seek complementor support and investment in your business. Make them key partners in seeking the delivery of Total Customer Solutions. Extend the unique value proposition to include complementors, as well as suppliers. This is the key for obtaining complementor lock-in, competitor lock-out, and ultimately, System Lock-In.
- F) If your customers, suppliers, and complementors are numerous and fragmented you could also provide them with state-of-the-art management practices and a wealth of information and intelligence that they could never acquire otherwise. Your lock-in will be admirably enhanced.

The Required Resources and Capabilities for the Delta Model

1. First and foremost, you need a deep customer and consumer understanding obtained via a detailed segmentation and supported by aggregated and granular metrics.
2. This understanding should also be extended to critical suppliers and complementors. Do not get trapped in your industry trends alone.
3. The implementation of the new business model is realizable mostly because the opportunities and potentials offered by the Internet and its associated technologies: e-business, e-commerce, e-systems. The appropriation of this skill is essential.

The Required Resources and Capabilities for the Delta Model (Cont'd.)

4. Create the dynamic and entrepreneurial environment of risk-taking and reward-sharing originated by the professional challenges associated with the “new technologies.”
5. The ultimate output is the development and implementation of unique and exciting value propositions for all the key players: customers, consumers, suppliers, and complementors. The first mover advantage is overwhelming. You have to be fast.