Competitive Strategy

Week 3: Organization and Competitive Advantage
Bombardier Enterprise

Competitive Advantage and Strategy

- BBD: Assessing the sources of your own competitive advantage and that of your competitor is important to formulate response to a rival:
  - Why is MK undercutting? Cost advantage? Different objectives?
  - Want to be careful about throwing away/diluting your own competitive advantage.

Sustainability of Advantage

- Two broad reasons for sustainability of a competitive advantage:
  - Positional
  - Capabilities

Sustainability of BBD’s Advantage

- Competitive Advantages of Bombardier hard to duplicate
  - Learning curve advantages
    - Important in design
  - Organizational capabilities
    - orchestrating a complex production process
    - crucial for reworking/reengineering
    - could MK “steal” this by hiring key personnel?
Organizational Capability as Competitive Advantage

- Analogy to individual skill:
  - Just as human beings differ in their skills (due to initial endowments and their histories), so do organizations.
- Key difference: capability must be more than a simple summation of employees’ skills.
  - Skilled employees have bargaining power!
  - So, to be the basis for an organizational capability, the same individuals must be more valuable in the firm than in another.
  - E.g., Would Bombardier’s engineers be as productive at MK?

Complementarity

- Two features that influence performance are complements if doing (more of) one increases the performance effect of doing (more of) the other.
  - Example: breadth of product line and flexibility of the manufacturing process (inverse of cost of changeovers), given total volume. Having a broader product line increases the frequency with which you want to shift production from one product to another, so the lower costs of changeovers is of greater value.
- With complements, the optimal solution tends to involve doing both at a high level or neither. Thus coherent patterns emerge. “Fit”

Complementarities

- Complementarities are at the base of what makes BBD and Enterprise successful and its strategy hard to replicate
  - Key issue behind idea of internal consistency of a capability-based advantage
  - Moving just one lever (e.g. outsourcing) does not work if other levers cannot be moved
    - In fact, changing any one variable may hurt performance, although changing them all could be highly advantageous.
Implications of Complementarity

- You need to think very deeply about the interaction among features of your strategy and organization.
- “Best practice” must be treated very carefully, because performance depends on the whole system, not the individual pieces.

Analyzing Organization Capability -- PARC

- The organizational designer must think about all aspects
  - **People**
  - **Architecture** (formal and informal organization, incentive systems)
  - **Routines** (regularized ways of performing activities and coordinating),
  - **Culture** (shared understandings and beliefs)
- and should deal with these challenges in a manner that highly consistent, both internally and externally.

Complementarities and Capabilities

- The insight is that capabilities reside in *interacting systems* of multiple features of the organization’s PARC that *work together* such that the combination of features complement another:
  - E.g., CC&S’s **routine** of keeping inventory on-hand complements its decentralized **structure** and **culture** that emphasizes attention to customer needs → distinctive capability in flexibility and customization.
  - Each of these features is more (less) valuable in the presence (absence) of the others.

Complementarities: Other Examples

- Example: Southwest. All activities tailored to deliver low-cost, convenient service
  - Fast (15 min) turnaround → Planes flying longer
  - No meals, no assigned seats,
  - Automated ticketing at gate → Convenient/cut costs
  - Standardized fleet of 737 → Low maintenance
- Example: Ikea. All activities aim to target young furniture buyers who want style at low cost
  - No sales associates; clear in-store displays
  - Design low-cost, ready to assemble furniture
  - Displays in room-like settings, no decorators
  - Customers do own pick-up and delivery on room adjacent to showroom
Sustainability of Capability-Based Competitive Advantage

• “Causal ambiguity” plays a role in sustaining the competitive advantage
  – Difficult for an outsider to appreciate how the elements of the organization’s ARC combine in which proportions to produce the capability.
  – Two main reasons:
    • *Complexity:* the system of complementarities is too complex to fully appreciate and copy.
    • *Tacit knowledge:* much of the system is not codified but embedded in largely unstated routines and shared, but implicit, understandings by insiders.
      – It may even be hard for insiders to really grasp what makes the system work (hence Intel’s approach to constructing new fabs.)

• History is clearly important too.
  – Organizational capabilities can rarely be created from scratch but typically result from a long process of trial-and-error experimentation (experience curve).
    • One of the reasons for the “liability of newness” that plagues all start-ups.
  – History has its down side too: can lead to “liability of obsolescence” whereby older organizations are “trapped” in areas of established competence.

Positional Advantages and Enterprise

• Spatial preemption as a FMA
  – Makes market “too small” for two players.
  – Would Enterprise have so many offices if entry were impossible?
• Relationships with insurers, garages.
  – Why hasn’t Enterprise formalized these?

Positional Advantages: Gaining first mover status

• Enterprise first movers in sub-industries.
• Why are good market positions not taken?
  – Limited knowledge about what is demand in a particular segment
  – If you wait until a segment is clearly big enough to support demand, you’ve waited too long.
  – Mismatch between the segment’s particular success factors and incumbent’s assets.
An added difficulty for entrant:

**Incumbent response**

- Predicting incumbent’s response
  - How does Hertz know how much “room” Enterprise has to lower prices?
  - Will Enterprise find it cheaper to accommodate? or will it fight by lowering prices?