



Sustaining Competitive Advantage



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The Sustainability of Competitive Advantage

- Competitive advantage has the potential of sustainability, comparative advantage does not
- What are the characteristics of sustainable competitive advantage?
 - * Creates **flexibility** and **adaptability** so that your products change with the customers
 - This is the Microsoft approach:
 - ✗ Create consumer dependence on your bundle of products
 - ✗ Build on the strength of the existing bundle
 - Product development and/or horizontal integration
 - ✗ We see both of these in AT&T's move into computers (NCR) and cellular communications (McCaw)

The Sustainability of Competitive Advantage

- ✿ Creates **flexibility** and **alternatives** in the sources and means of production
 - Mixed production systems
 - ✗ This is seen in Nissan's production structure. Examining Nissan's operations in Japan, the US and Mexico, we see it operating systems that rely heavily on robotics in Japan, moderately on robotics in the US, and mainly labor in Mexico. Nissan gains the ability to shift production based on factor costs while also maintaining knowledge of different production systems.
 - Vertical integration
 - ✗ Procter and Gamble is vertically integrated into pulp paper and plastic production. This protects its diaper production from resource price fluctuations and assures quality and availability

The Sustainability of Competitive Advantage

- ▶ How does one gain and maintain sustainable competitive advantages?
 - * Maintain systems that **monitor the environment** for change
 - The number one factor associated with the loss of competitive advantage is change
 - ✗ *Competitor-induced change*—e.g. new products and technologies
 - ✗ *Environment-induced change*—e.g. demographic changes or random events
 - ✗ *Evolutionary vs spontaneous* erosion of competitive advantage
 - **Nissan** uses as scenario planning model that links demographic trends to specific generic automobile model types. This allows it to plan for necessary model changes across time and between countries

The Sustainability of Competitive Advantage

- ✿ Develop **internal systems** that adapt to change quickly and effectively
 - Management is generally adverse to change and most management systems reward consistency. This tends to lead to the slow erosion of competitive advantage
 - ✗ IBM is perhaps the classic example of how complacency led to failure to change with the PC revolution it helped to foster
 - This requires the development of an internal reward structure that values new ideas and rewards experimentation (whether it succeeds or fails)

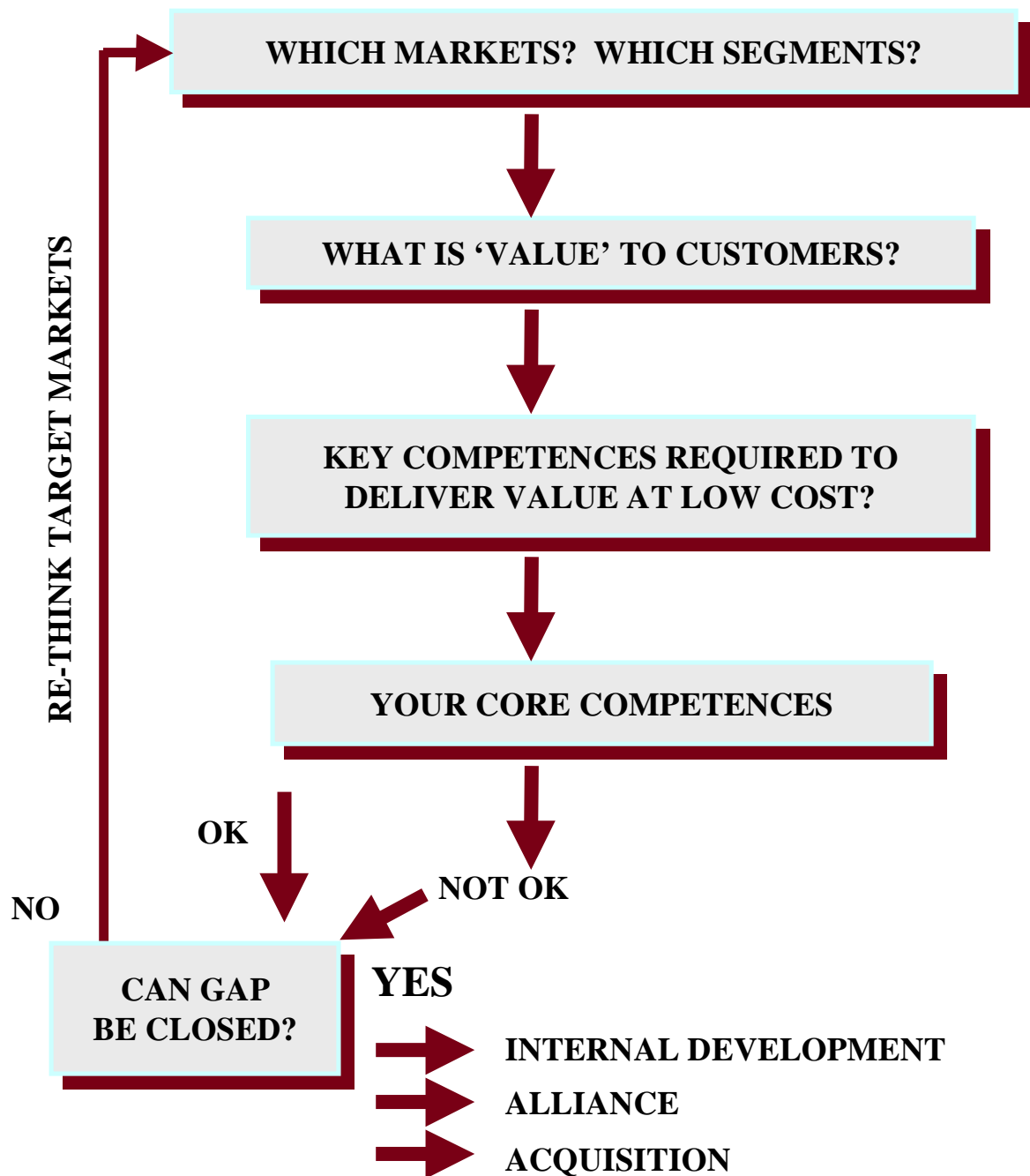
The Sustainability of Competitive Advantage

- ✿ **Work at protecting, expanding, and building** upon the unique assets and strengths of the company
 - This requires using the environmental monitors to look for opportunities to expand the company's expertise or bring new expertise into the company
 - ✗ Heineken built up its world-wide operations by continually engaging in small equity participations with local brewing companies. It transferred its expertise while testing the market for new opportunities
 - ✗ Qantas purchased Australian Airlines not only for capacity but to protect its home market from back door entry by hostile competitors.
 - ✗ Time Warner is attempting to pre-empt the growing integration between television and multimedia with an alliance with Microsoft. Microsoft, alternatively, is protecting itself from all possible incursions from the media giants

Creating and Sustaining Advantage Using Customer Value

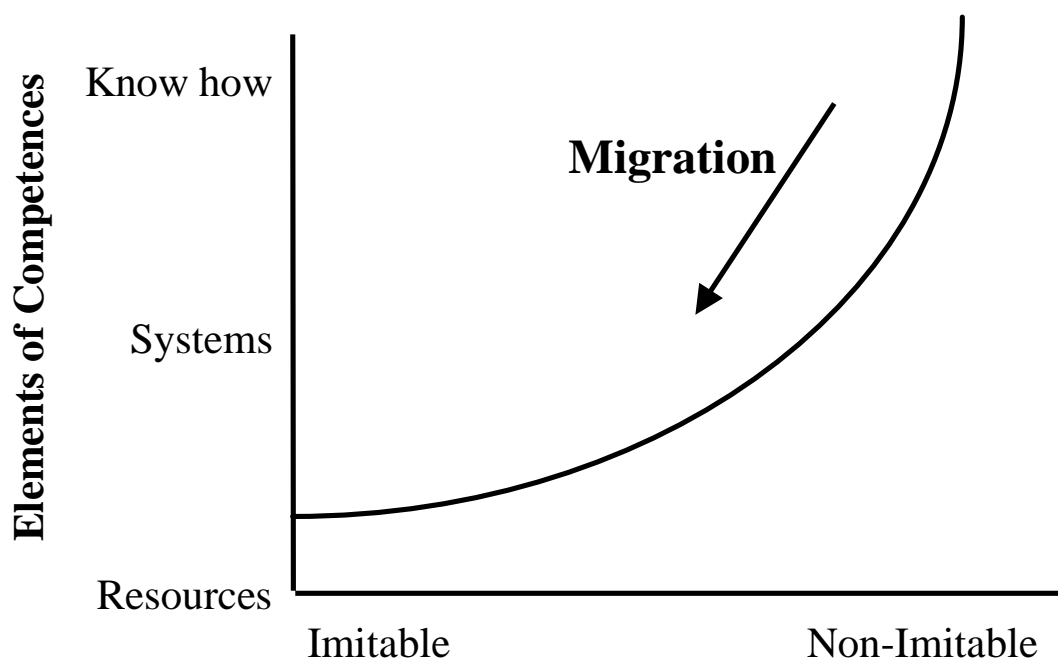
- Creating the Gap between you and your competitors
 - * Add value by:
 - clarify target customers
 - knowing what target customers value
 - delivering the value efficiently
- Sustaining that Gap
 - * Innovation or “First Follower”?
 - * Keep learning
 - * Continuous Valued Innovation (“Dynamic Gap”)
- Defend the Bases of Differentiation (“Static Gap”)
 - * Create switching costs
 - * Promote brand/reputation
 - * Prevent imitation (proprietary knowledge, processes, products/patents)
 - * Discourage imitation (tailored organisation)
 - * Lock in customers
 - * Control channels of distribution/supply
 - * Control the many dimensions of added value
 - * **ACHIEVE LOW(EST) COSTS**

Deriving A Competitive Strategy



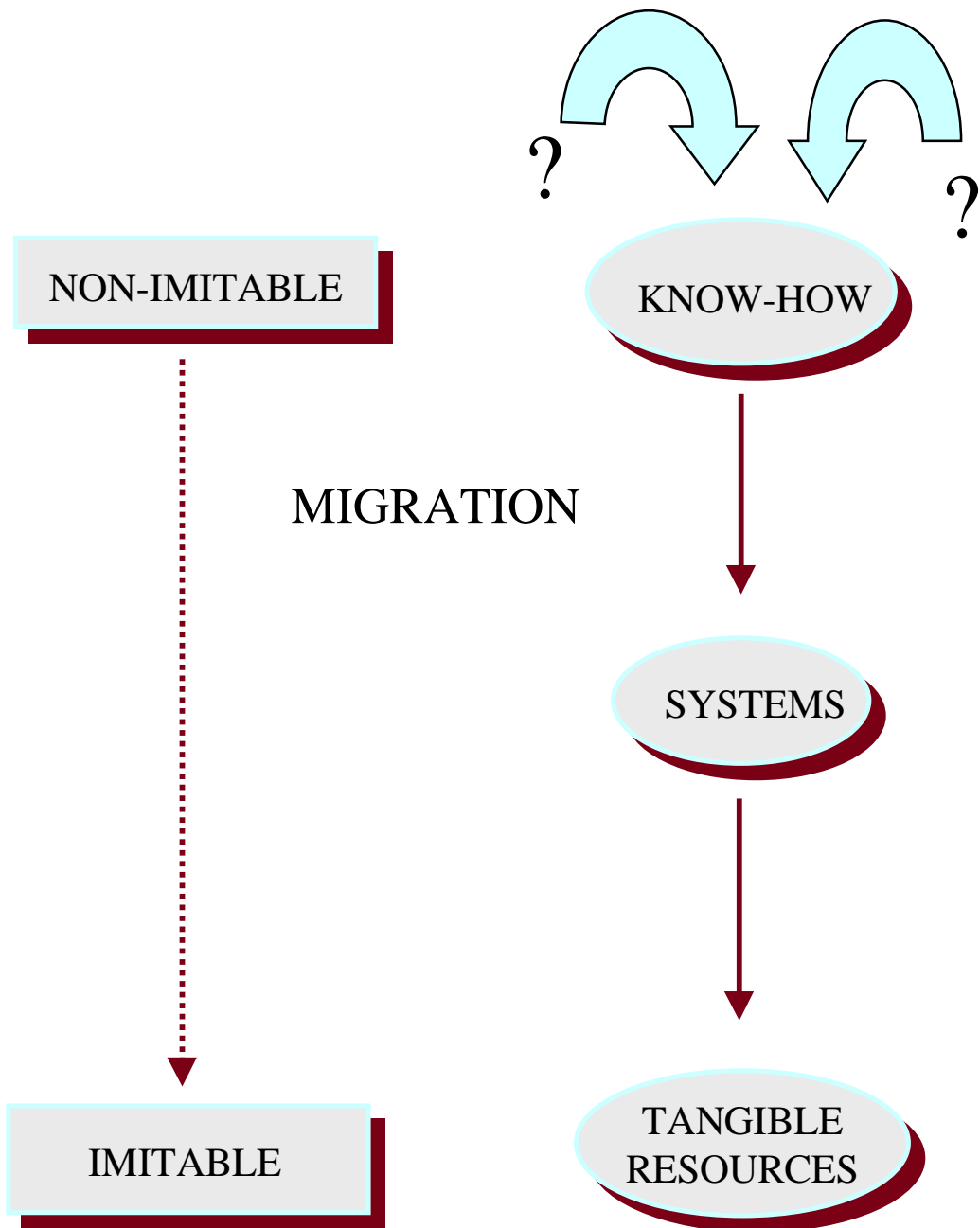
The 'University' And Core Competences

- 'Know-how' as a source of competitive advantage (not easily imitated)
 - * But 'know-how' gets systematised:

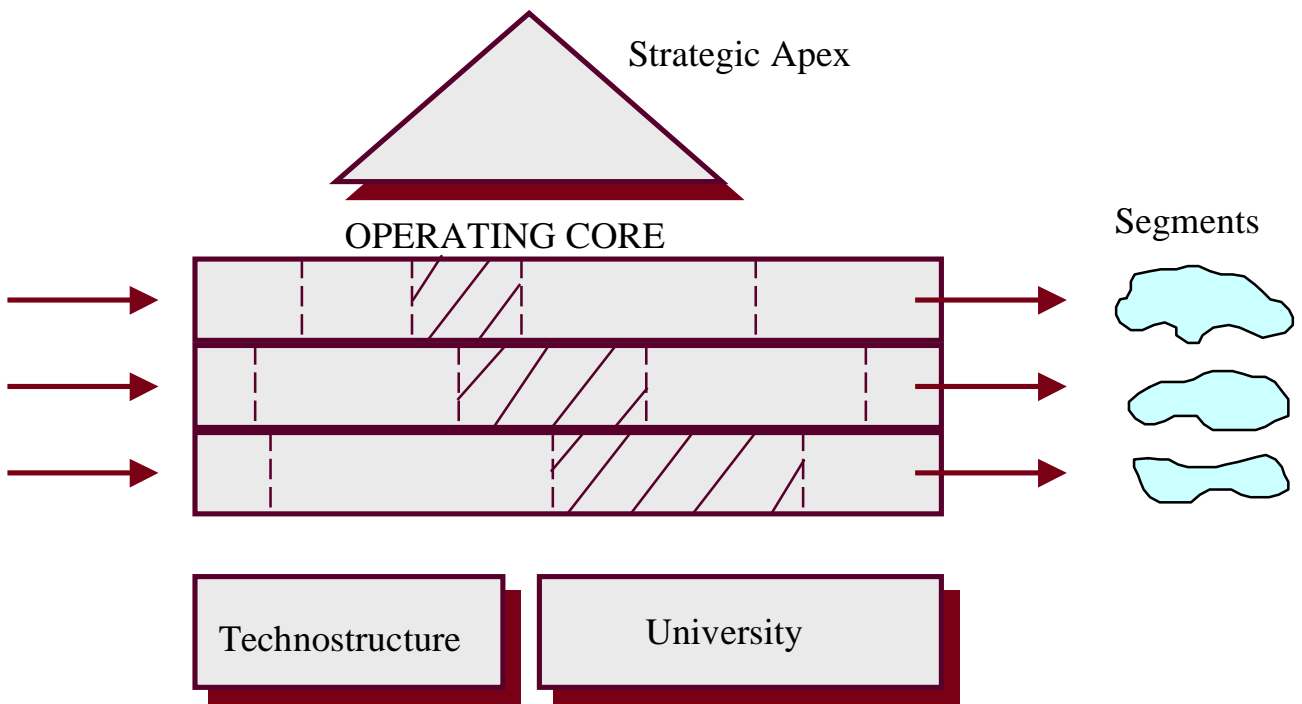


- Therefore firms need to continually restock the business with 'know-how'
 - * this is the primary role of the university: 'the engine of know-how development'

Elements Of Competence And Competence Advantage



The Machine Adhocracy





The University

- A new staff grouping? (cf. “support staff”)
- Key to the future development of the business
 - * Performs 3 vital roles in support of the rest of the organisation:
 - * It engages in research (both fundamental and applied) into new products, new processes, new systems
 - * It helps others to learn new skills, knowledge
 - * It gathers, stores, analyses and disseminates vital information (eg. on customers, competitors, trends etc.)
- It contributes to generic competences of
 - * Continual cost reduction
 - * Fast-paced innovation
 - * Flexibility