

Sustainable Competitive Advantage

Sari Wahyuni, PhD.

What is Competitive advantage?

... a basis for the firm's long term success?

... a basis for value creation?

**Do we really know where it resides?
Can it be sustainable?**



WHAT IS COMPETITIVE ADVANTAGE?

“When two or more firms compete within the same market, one firm possesses a competitive advantage over its rivals when it earns a persistently higher rate of profit (or has the potential to earn a persistently higher rate of profit)”

R. M. Grant, 2000

HOW TO GAIN COMPETITIVE ADVANTAGE

1. Create a Corporate Culture that Attracts the Best Talent
2. Define Niches that are Under-serviced
3. Understand the DNA Footprint of Your Ideal Customer
4. Clarify Your Strengths
- 5. Establish** Your Unique Value Proposition
6. Reward Behaviors that Support Corporate Mission and Value.

ChapterCase 5 Google vs. Microsoft

- Google & Microsoft in multipoint competition

□ How to measure success of this competition?

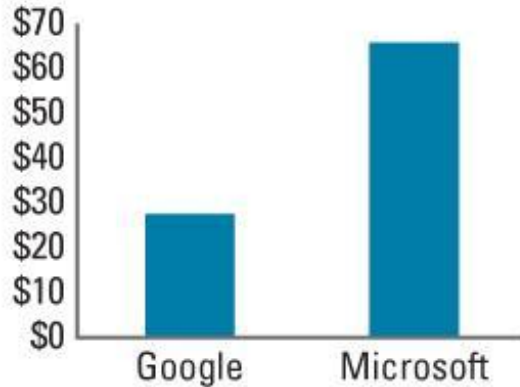
- ❖ Revenues & net income?
- ❖ Performance *per employee*?



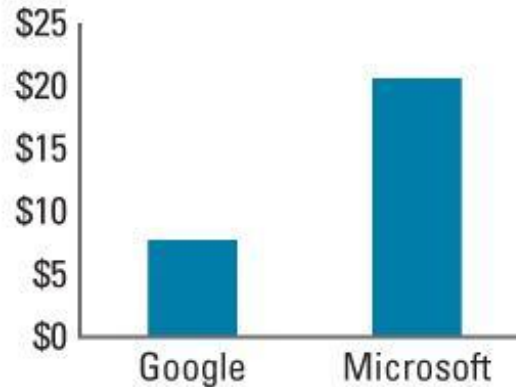
- There are several ways to measure firm performance. Which is best?

Comparing Google & Microsoft on Different Dimensions

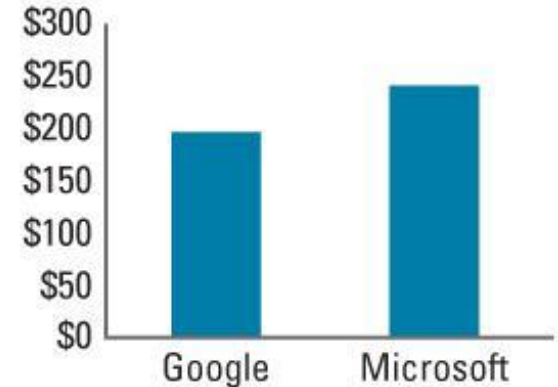
Revenue (\$bn)



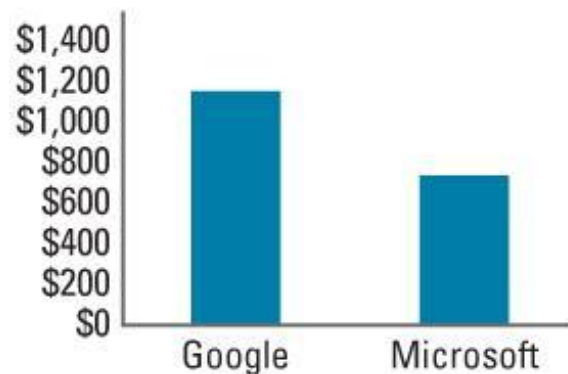
Net Income (\$bn)



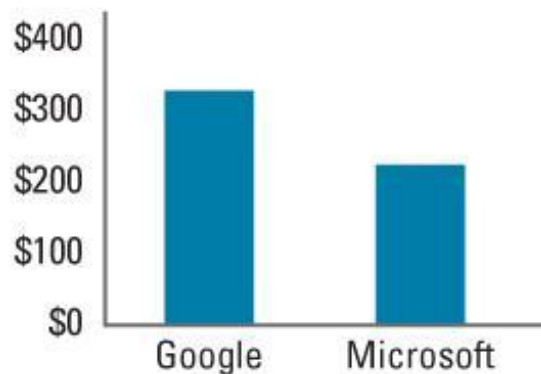
Market Cap (\$bn)



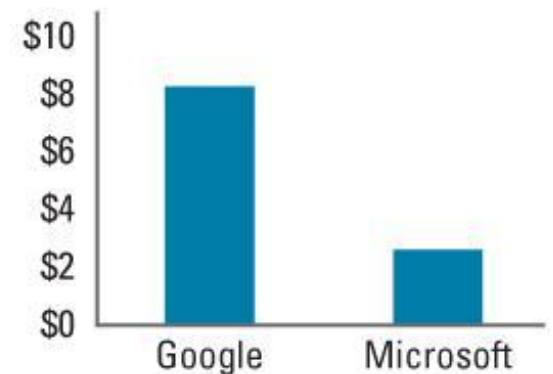
Revenue/Employee (\$K)



Net Income/Employee (\$K)



Market Cap/Employee (\$M)



Performance viewpoint changes significantly when the measurement changes from absolute to per-employee figures (on the bottom)

MEASURING COMPETITIVE ADVANTAGE

- Always measured *relative* to other firms
- Three standards are typical by asking:
 - 1. How much economic value does the firm generate?
 - 2. What is the firm's accounting profitability?
 - 3. How much shareholder value does the firm create?

Economic Value Creation (cont'd)

• Opportunity Costs

- The next best alternative use for resources

- Pizza entrepreneur

 - ◆ Wages \$40,000 employment salary

 - ◆ Capital invested \$25,000 interest on capital

- If the restaurant made \$60,000 in profits...

 - ◆ The owner actually had an economic LOSS of \$5,000



Economic Value as Competitive Advantage

- *If the economic value created is*
 - *greater than its rivals* □ *competitive advantage*
 - *equal to its rivals* □ *competitive parity*
 - *lower than its rivals* □ *competitive disadvantage*

Economic Value Creation (cont'd)

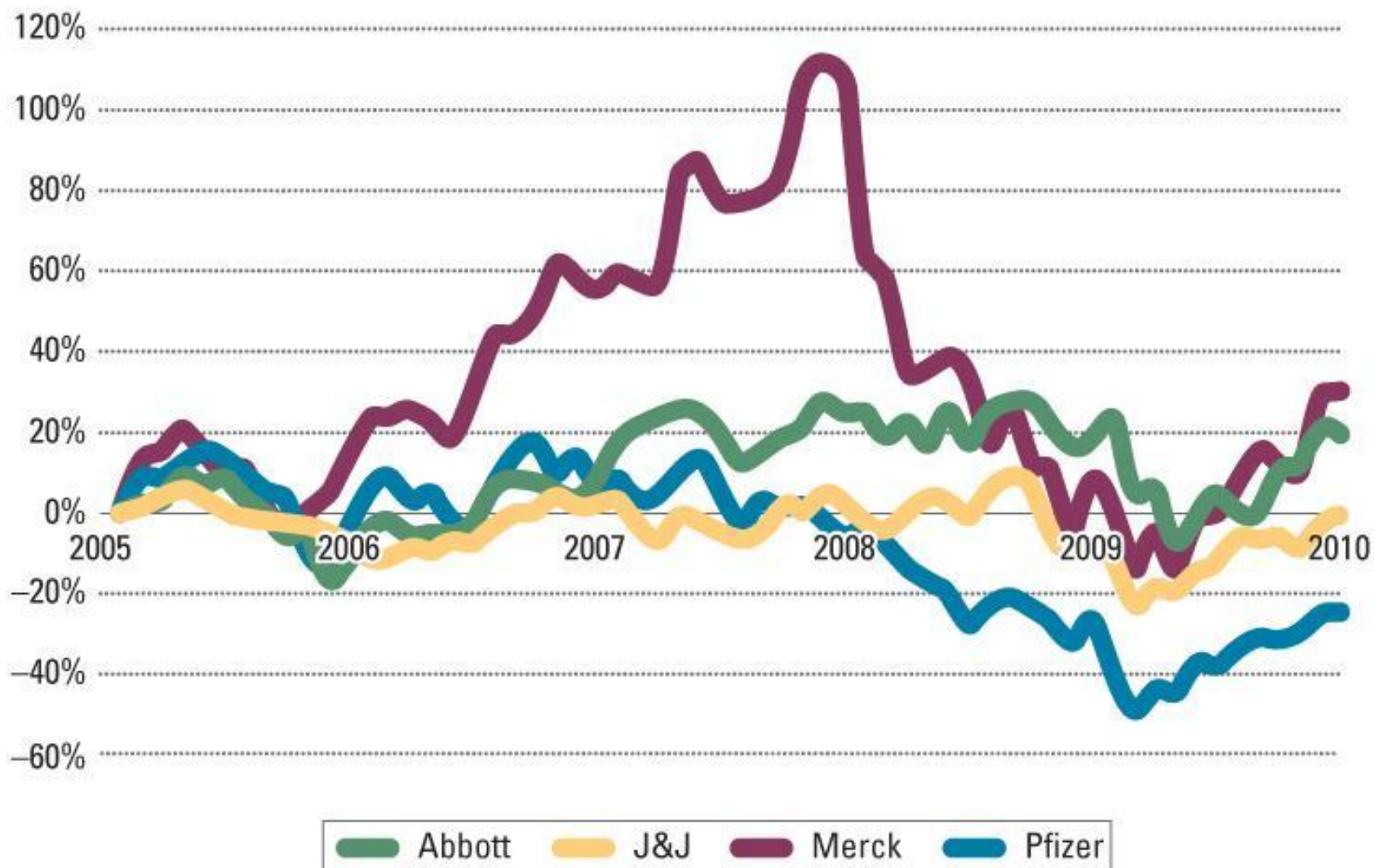
•Some *Drawbacks* to Consider....

- Determining *value* is often NOT easy
- Value may be widely varied
 - ◆ Income, preferences, time, etc.
- Firm level competitive advantage
 - ◆ We must have economic value for all goods and services
 - Fairly easy for small or focused firms
 - Quite difficult for conglomerates like GE or Tata

Shareholder Value Creation

- Shareholders – legal owners of public firms
 - Total return to shareholders
 - ❖ Return on risk capital + dividends
 - External performance metric
 - Efficient-market hypothesis
 - ❖ All available information is embedded in the stock price
- SEC requires all public firms to submit shareholder returns
- Stock price based on expectations of performance
 - Nucor (steel) slow growth
 - Dell (computer) faster growth

EXHIBIT 5.7 Normalized Stock Returns 2005–2010



Drawbacks to Shareholder Value as CA

- Stock prices can be highly volatile, which makes it difficult to assess firm performance (at least in the short term)
- Macro economic factors (e.g., unemployment rate, economic growth or contraction, interest rate and exchange rates...) all have a direct bearing on stock prices
- Stock prices frequently reflect the psychological mood of the investors, which can be at times irrational
 - “Irrational exuberance” Alan Greenspan, former Federal Reserve Chair

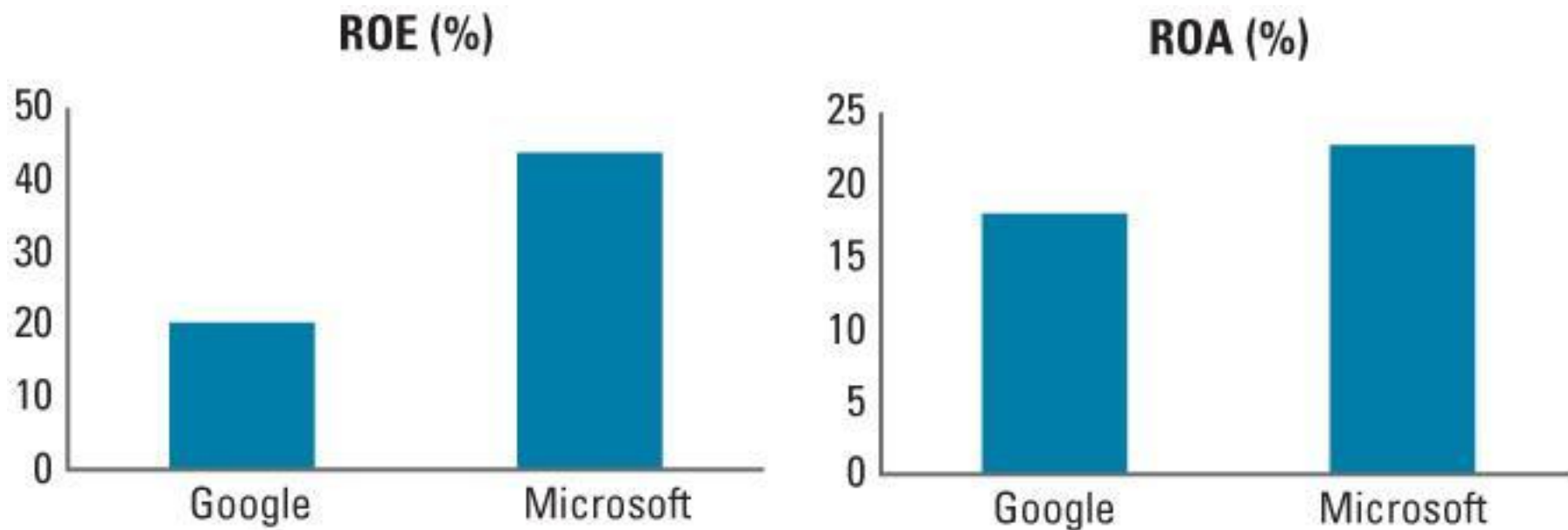
Google vs. Microsoft, Continued

GAINING &
SUSTAINING
COMPETITIVE
ADVANTAGE



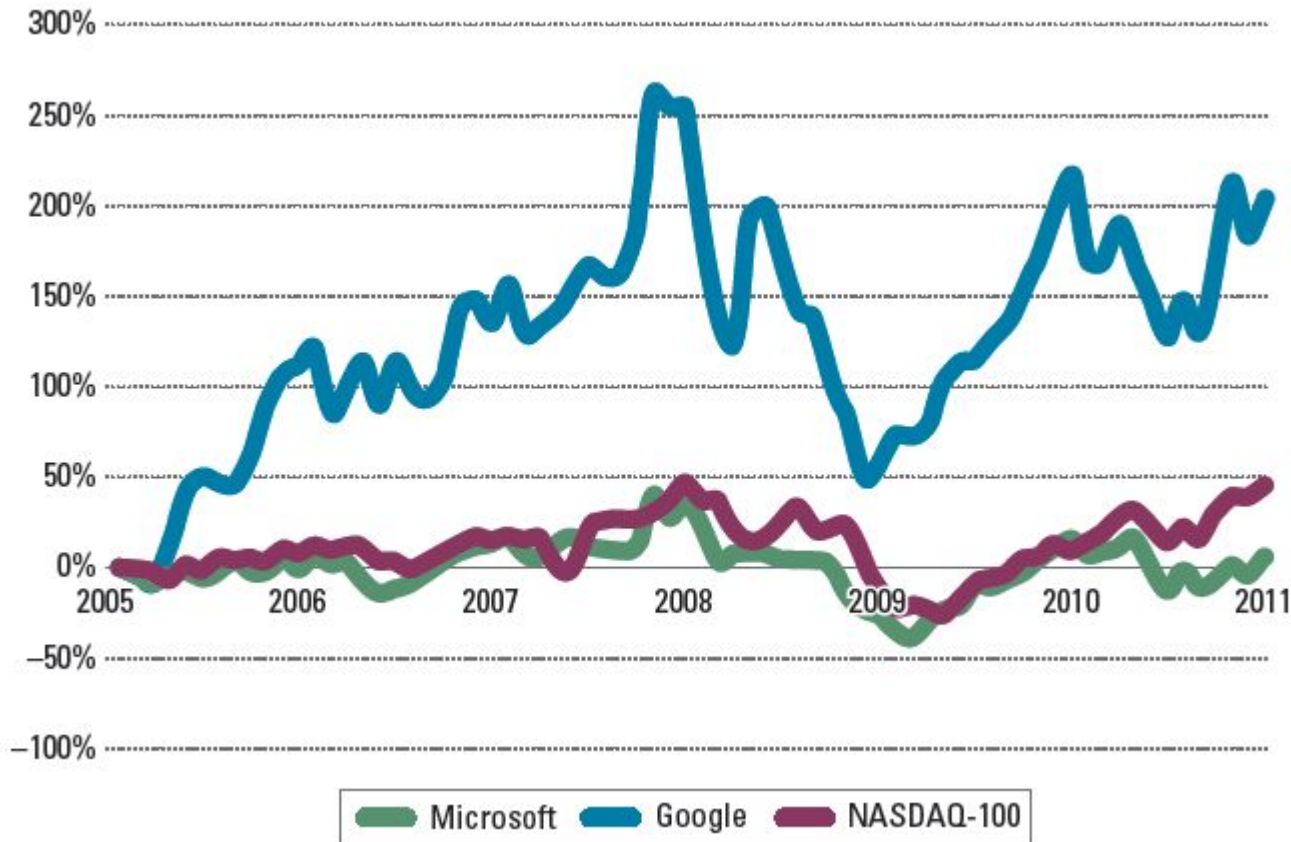
- Accounting perspective shows Microsoft with an advantage over Google.
 - But both firms have large intangible assets.
- BUT shareholder value favors Google over Microsoft!
 - Microsoft stock is flat while Google is up 200%.

EXHIBIT 5.8 Comparing Google and Microsoft Using ROE & ROA



Microsoft outperforms Google in 2010 based on this accounting data

Normalized Stock Returns 2005–2010



Google is enjoying a sustained competitive advantage over Microsoft based on shareholder value.

THE BALANCED SCORECARD

- Multiple internal & external metrics

- Considers both financial & strategic

- ❖ Customer perspective
 - Linked to revenues & profits
 - ❖ Future processes to create value
 - 3M 30% revenues from products less than 4 years old
 - ❖ Internal core competencies
 - Honda engine design and manufacture
 - ❖ Shareholder perspective
 - A variety of financial measures



THE BALANCED SCORECARD

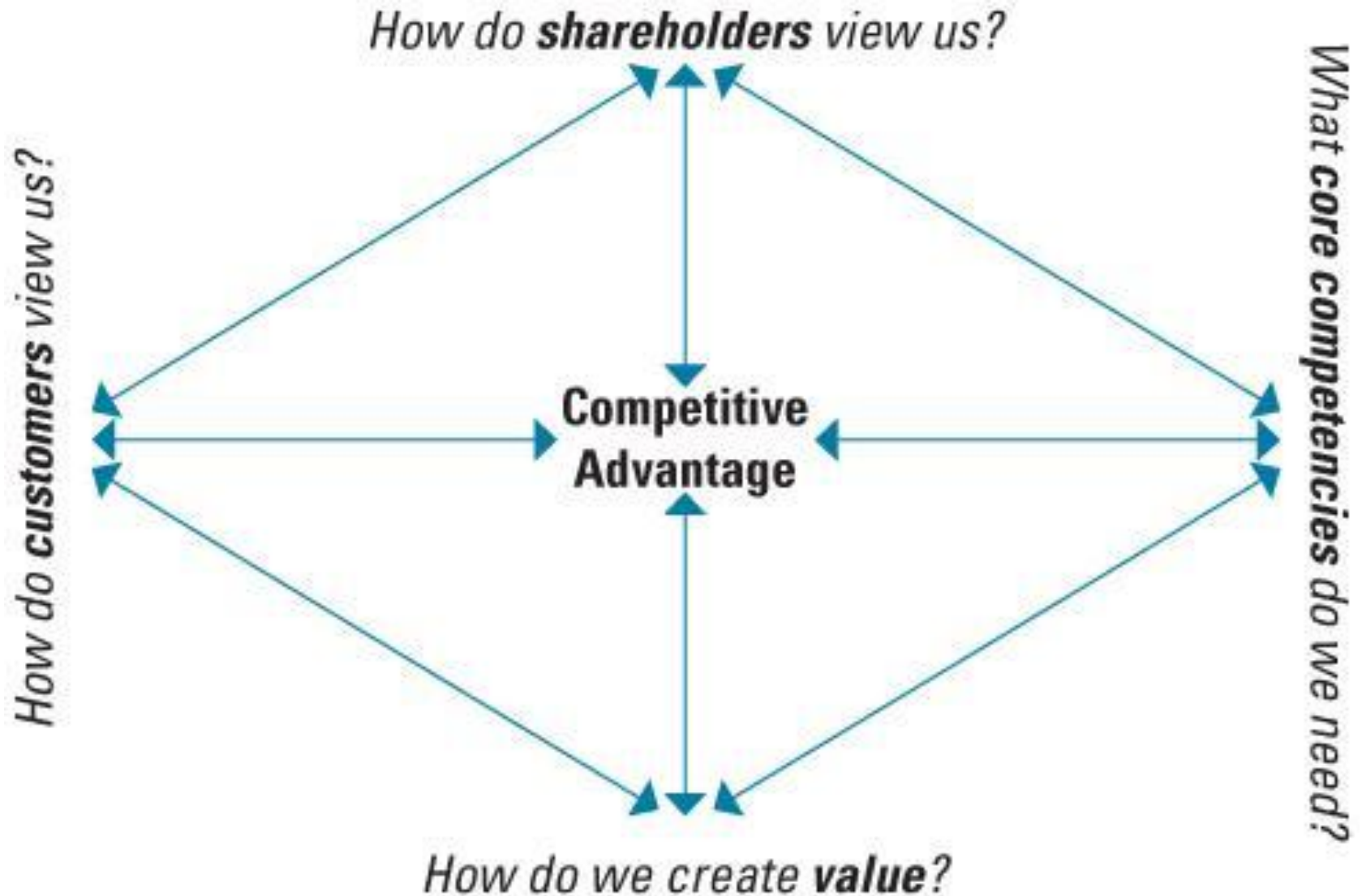
• Advantages

- Communicate vision thru the organization
- Translate vision into measureable goals
- Design business processes
- Implement organizational learning

• Disadvantages

- Tool for strategy *implementation* NOT formulation.
- Limited guidance on selecting metrics
- Limited insight on how to get back on track to meet goals
 - ❖ Can be viewed as just a tracking tool for metrics

A Balanced-Scorecard Approach to Competitive Advantage



BALANCED-SCORECARD EXAMPLE

STRATEGIC DIRECTION		PERFORMANCE MEASUREMENT	
Strategies & Objectives	Current-Year Initiatives	Business Results	Process Assessments
Overriding Purpose: Strategies & Objectives		Financial •Annual revenue - \$X •Profit before tax - \$X •ROA - X% •Revenue per employee - \$X	Leadership •Make improvement in work environment as measured by employee survey •Gain recognition for community relations
		Customer/Consumer •Improve customer delivery •Increase sales to Europe •Meet customer loyalty goals •Reduce defects	Strategic Planning •Establish an effective strategy-based M&A process.
		Partner/Supplier/Operations •Develop strategy and plan to have suppliers own material inventory •Supplier contribution to cost reduction •Achieve inventory turns goal	Customer & Mkt Focus •Complete market segment analysis •Tie sales plan & budgets to group regional goals
		Human Resources •Balance the Human Resource availability with initiative requirements, establish plans, & execute •Implement diversity plan •Plan and execute strategic staffing plan	Information/Analysis •Provide IT support for decentralized operations
		SBU-Specific •Develop rapid prototyping processes and match prototype capacity to business needs •Software process improvement to goal •Acquire new services customers to meet plans •Meet on-time product launch goal	Human Resources •Develop a comprehensive college recruiting strategy •Implement an employee feedback process
			Process Mgmt •Complete ISO 9000 tasks as planned •Improve overall new product introduction process

IMPORTANCE OF VRIO

A product differentiation strategy must meet the
VRIO criteria...

Is it **V**aluable?

Is it **R**are?

Is it costly to **I**mitate?

Is the firm **O**rganized to exploit it?

...if it is to create competitive advantage.

Differentiation Strategy

A product differentiation strategy must meet the
VRIO criteria...

Is it **V**aluable?

Is it **R**are?

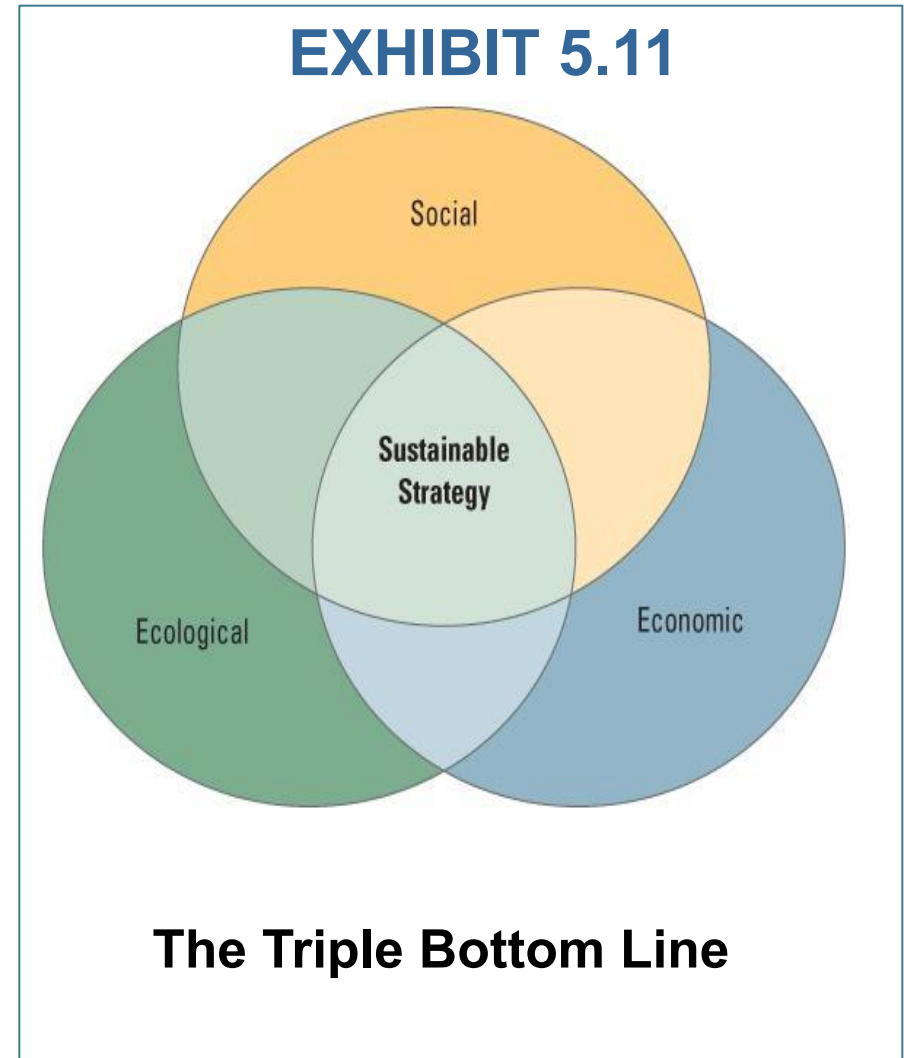
Is it costly to **I**mitate?

Is the firm **O**rganized to exploit it?

...if it is to create competitive advantage.

THE TRIPLE BOTTOM LINE

- Financial, Social, & Ecological Considerations
 - Also known as "People, Planet, & Profits"
 - BP oil spill had many major effects
 - BMW changed car designs to enhance recycling
 - Integrative approach for sustainable strategy



Implications for the Strategist

- Both quantitative AND qualitative performance dimensions matter.
 - Managers need to have a holistic view
- Competitive advantage is best by criteria, reflecting overall company performance
 - Metrics aggregate upward, useful to gauge firm's strategy
- Only better strategy is our goal.
 - No best strategy exists
 - Strategic performance metrics must be relative

*Welcome now to the
Transient Competitive
Advantage*