

Developing Profitable Strategies

Lecture 13

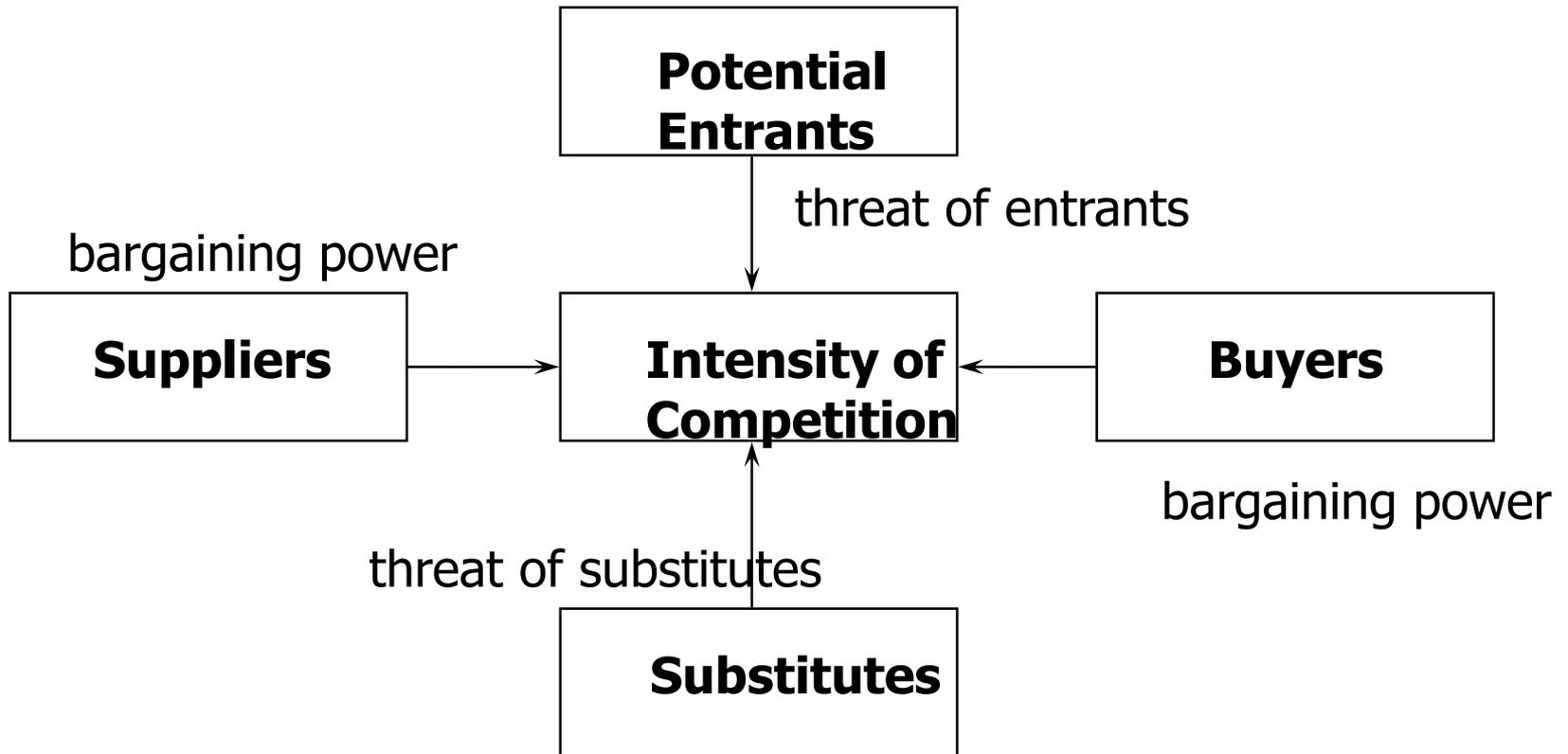
Today & Wednesday: From Descriptive to Normative Analysis of Business Decisions

1. NPV analysis v. strategy
2. Industry attractiveness v. niches
3. Types of competitive advantage & drivers
4. Husky: past strategy, current challenges
5. Wednesday: Strategic choices in innovative industries w/ Professor Lessard

Project-by-Project NPV Analysis \neq Coherent Strategy

- Brealey et al: be skeptical of proposals with +NPV:
 - Advocates tend to skew analysis; ask for reasons
 - Worry about profits from disequilibria – e.g., being first when others can follow; these tend to vanish fast
- Porter: Strategy is (in part) what you **won't** do
 - If competition is intense & you're doing the same things as competitors, must be as efficient as possible just to cover cost of capital, but can do no more – perfect competition is no fun!
 - E.g., wheat farming, airlines, ...
 - Strategy is about creating & capturing value by doing things well that can't easily be imitated – **sustainable advantage**
 - Does MIT have a (sound) strategy? What is it?
 - Need to consider complementarities/fit among projects/activities, (Ikea, Southwest), avoid being distracted

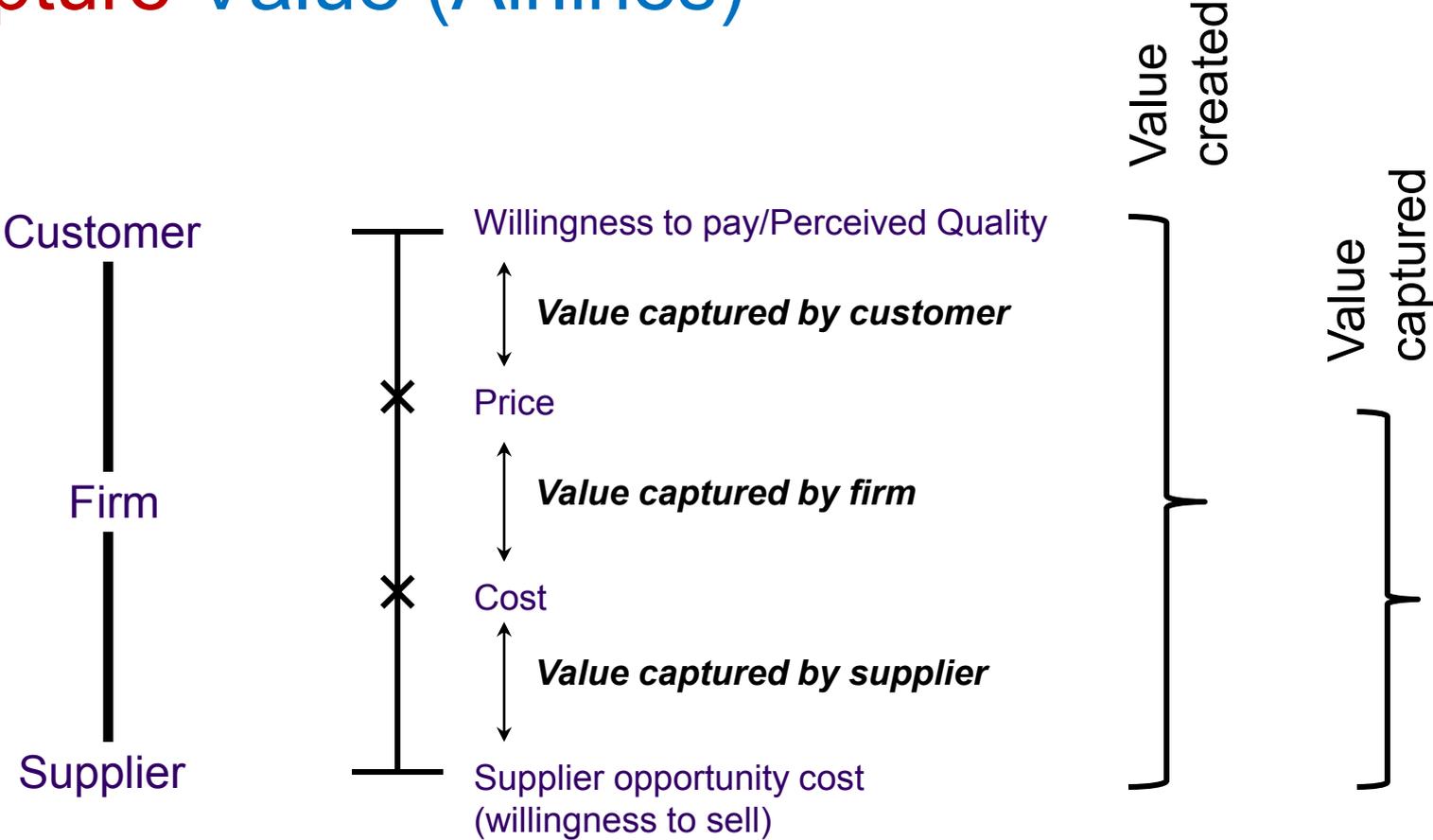
Industry Attractiveness: Five Forces



Source: Porter 1979

Is injection molding an attractive business in 1995?

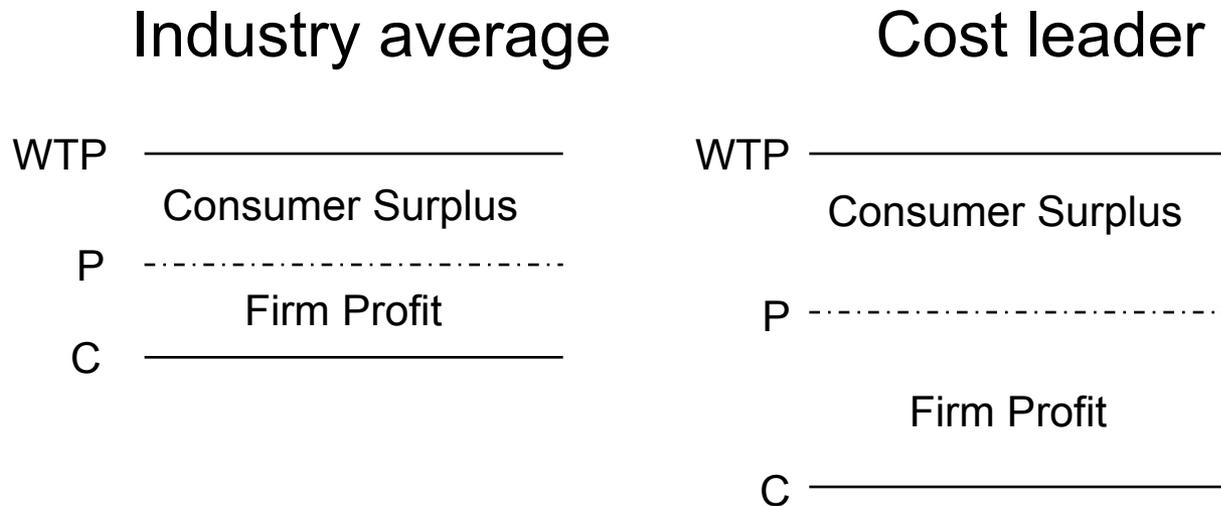
To Earn Economic Profits, Must Create & Capture Value (Airlines)



"Value-based Business Strategy," Brandenburger and Stuart, Journal of Economics & Management Strategy 5:1, 1996, 5-24.

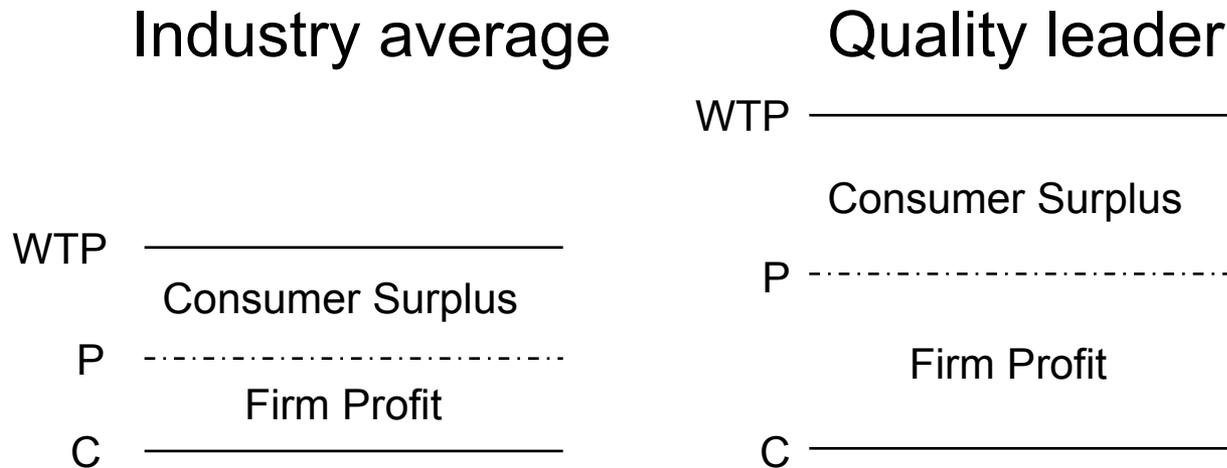
First Basic Strategy: Low-cost

Give equivalent value (WTP) to (some?) consumers at a lower price
(Southwest, Ikea)

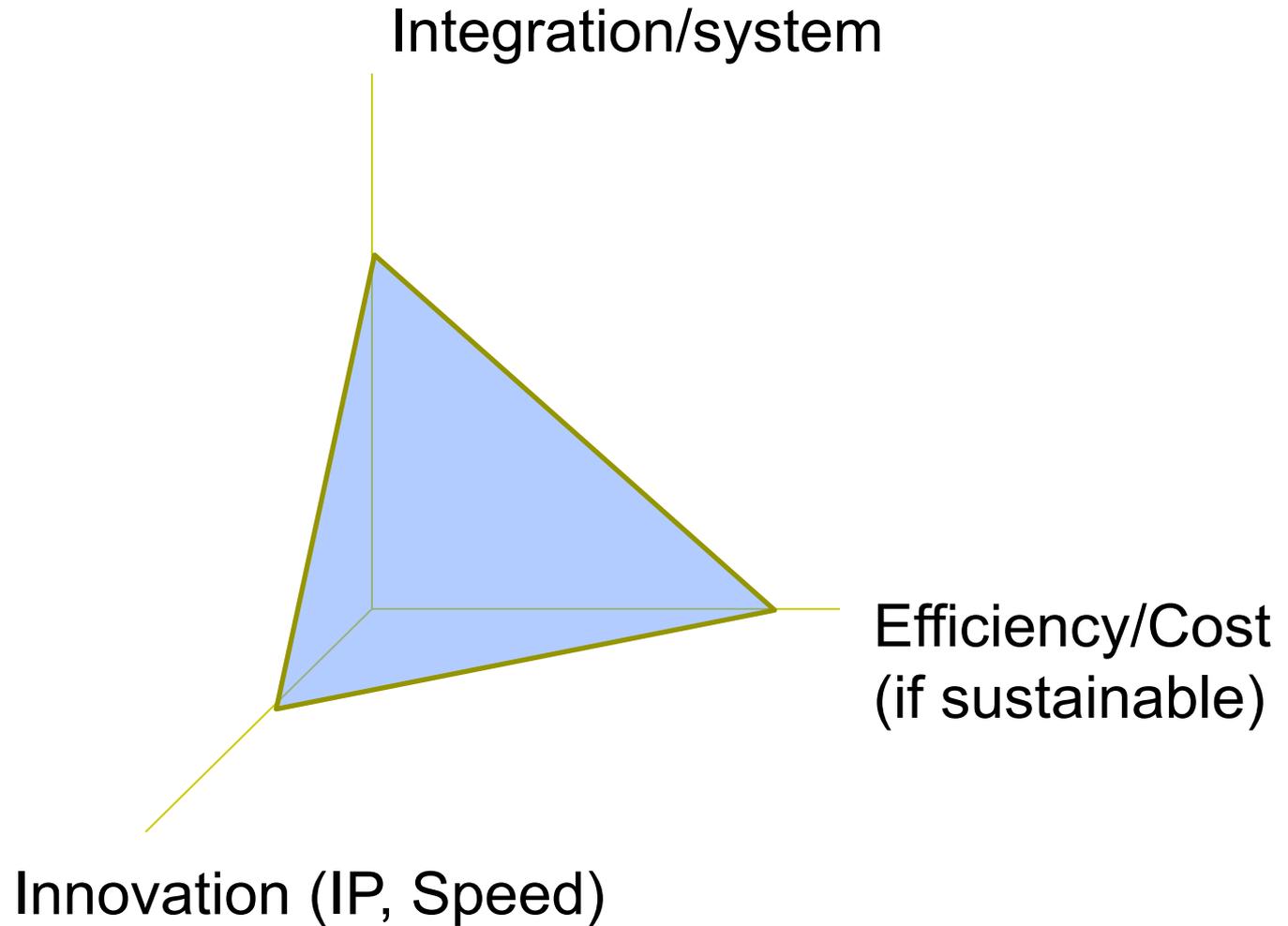


Second Basic Strategy: Quality/Differentiation

Increase perceived quality (PQ, WTP) to (some?) buyers to justify higher prices



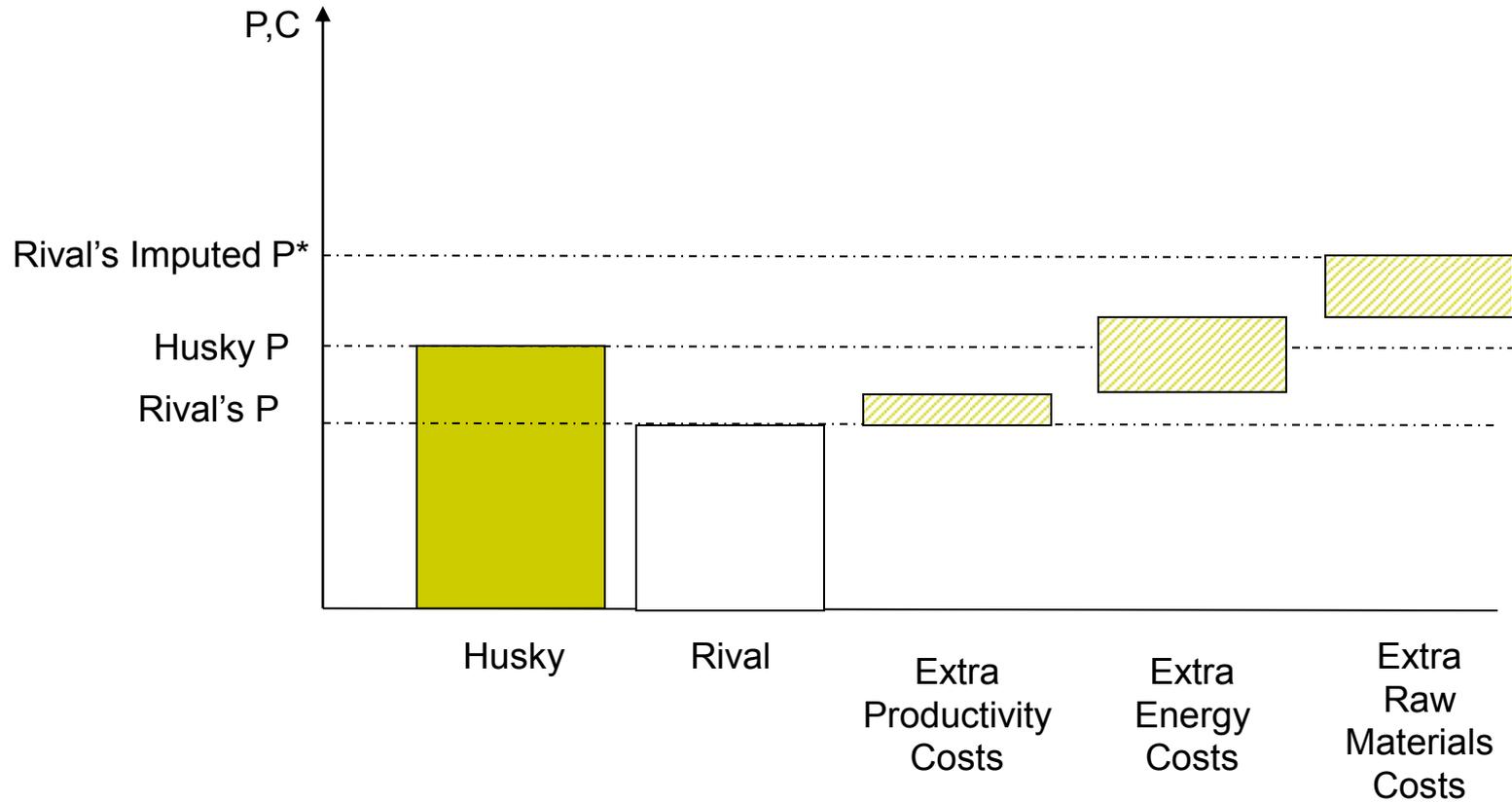
Basic Capture models



Husky Injection Molding Systems: History

- What has been Husky's strategy?
 - Does it target all segments of the injection molding systems market?
 - What distinguishes the segments it serves?
 - Why does it make fewer inputs than competitors?
 - Why does it offer unusually full lines of machines, molds, etc.?
- Why has it been so successful until the recent problems?
 - Why hasn't Husky's strategy been copied? Why does it have the only AMC?
 - Do you think it has higher or lower than average costs?
 - Are the firm's culture & values, with focus on neatness & order important?
 - Would you like to work there?
- Are Husky's systems worth their premium prices?
 - For industrial products, can often do a WTP analysis – like smart buyers!
 - Sometimes hard to get WTP for intangibles – e.g., reducing carbon emissions
 - How important is their energy efficiency in warranting a premium price?

Husky's Delivered Value Relative to Rivals



The Differentiation Strategy

- Select one or more needs that are valued by some buyers
- Achieve and sustain superior performance by meeting these needs uniquely & communicating this clearly
- Selectively add costs if necessary to do so
- Successful differentiation leads to premium prices

BUT

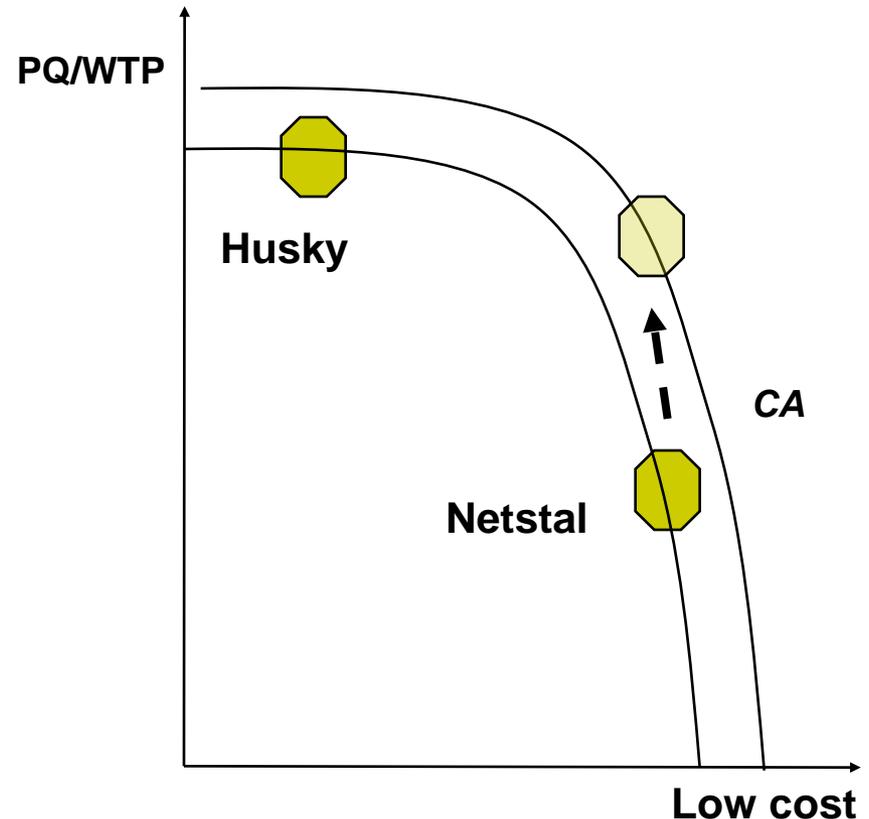
- ***Differentiators must pick cost-effective forms of differentiation***
- ***Differentiation leads to above-average profitability provided the firm's costs increase less than price premium***
- ***Profits can only be sustained if imitation is difficult***

Husky Injection Molding Systems: 1995

- What has caused Husky's current difficulties?
 - Resin shortage & high prices (temporary)
 - Lower-cost competitors targeting Husky's segments (serious?)
- You're an entrant, what would you *expect* Husky to do?
 - Probably try to replay the 70s: double down on technology
- What *should* Schad do (not everything?):
 - Cut prices? Generally or selectively?
 - Enter competitors' segments (counter-attack)?
 - Cut costs? Risk values/culture?
 - Raise/lower spending on service, AMC, technology, etc.?
 - Focus on communicating advantages to customers?
 - Build inputs instead of buying them?
 - Other changes?

Basic Competitive Options

- Further increase buyer WTP
 - R&D, service, etc.
 - How much more room?
- Improve cost position
 - Cut perks, salesforce, etc.
 - Implications for delivering on high WTP?
 - Cut margins/prices
- Go after other segments
 - Consistent with cost structure, culture, etc.?
- Big challenge: package of changes should fit with each other, existing activities



What happened to Husky? Radical Change!

- Moved beyond PET & thinwall into other niches
- Increased manufacturing capacity
- Cut prices dramatically; worked to cut costs
- But increased R&D, AMC, sales & service force
- Started to build more components in-house
- IPO in late 1998 (Shad was 70)
- Growth but erratic profitability though 1999
- Still in Bolton; taken private last year

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