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15.963 Advanced Strategy
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15.963: Reviewing 15.900 Fundamentals of strategy

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How can I make \$\$?

- Create the context:
 - “Choose” or “Build” a great industry
- Keep margins high:
 - Avoid competing too aggressively on price unless that’s really what you have in mind
- Compete like crazy for your share of the profits
 - Build enduring competitive advantage

Create the context: Choose or build (!) a great industry

- One with lots of demand
 - Big PIE
- With buyers & suppliers you can live with
 - Multiple, weak buyers/suppliers or partners that help you build PIE
- And with highly differentiated preferences
 - I really want diamonds, emeralds won't do

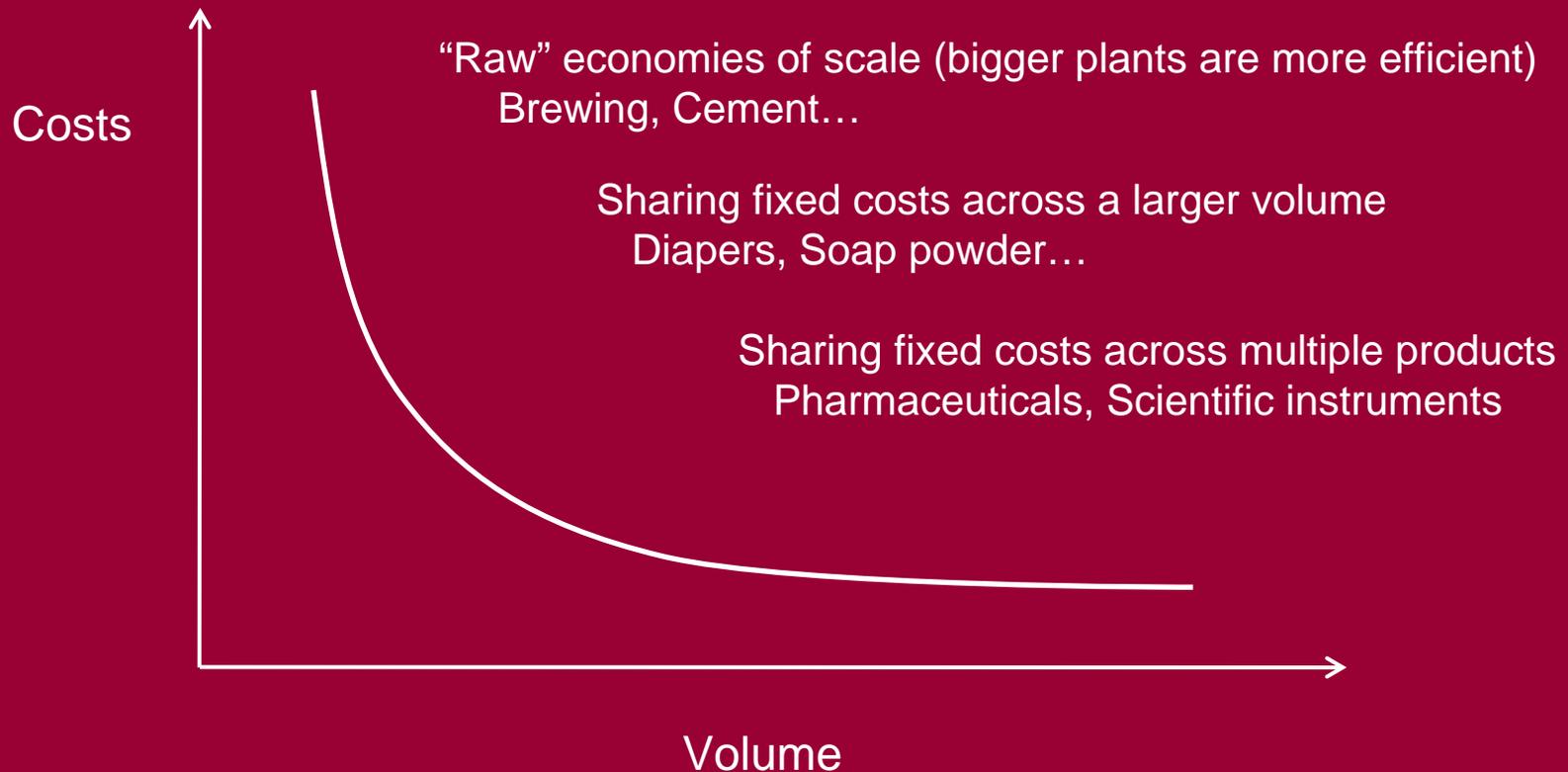
Keep margins high

- Remember the case of Compass Minerals!

Compete like crazy – build:

- Institutional connections
 - Actually we're the only company allowed to...
- Tightly held IP/unique assets
 - EMI, Blockbuster drugs, Tiger Woods...
- Economies of scope and scale
 - We're larger, so we're better/cheaper/faster, have more network externalities...
- Great organizational competencies (!)

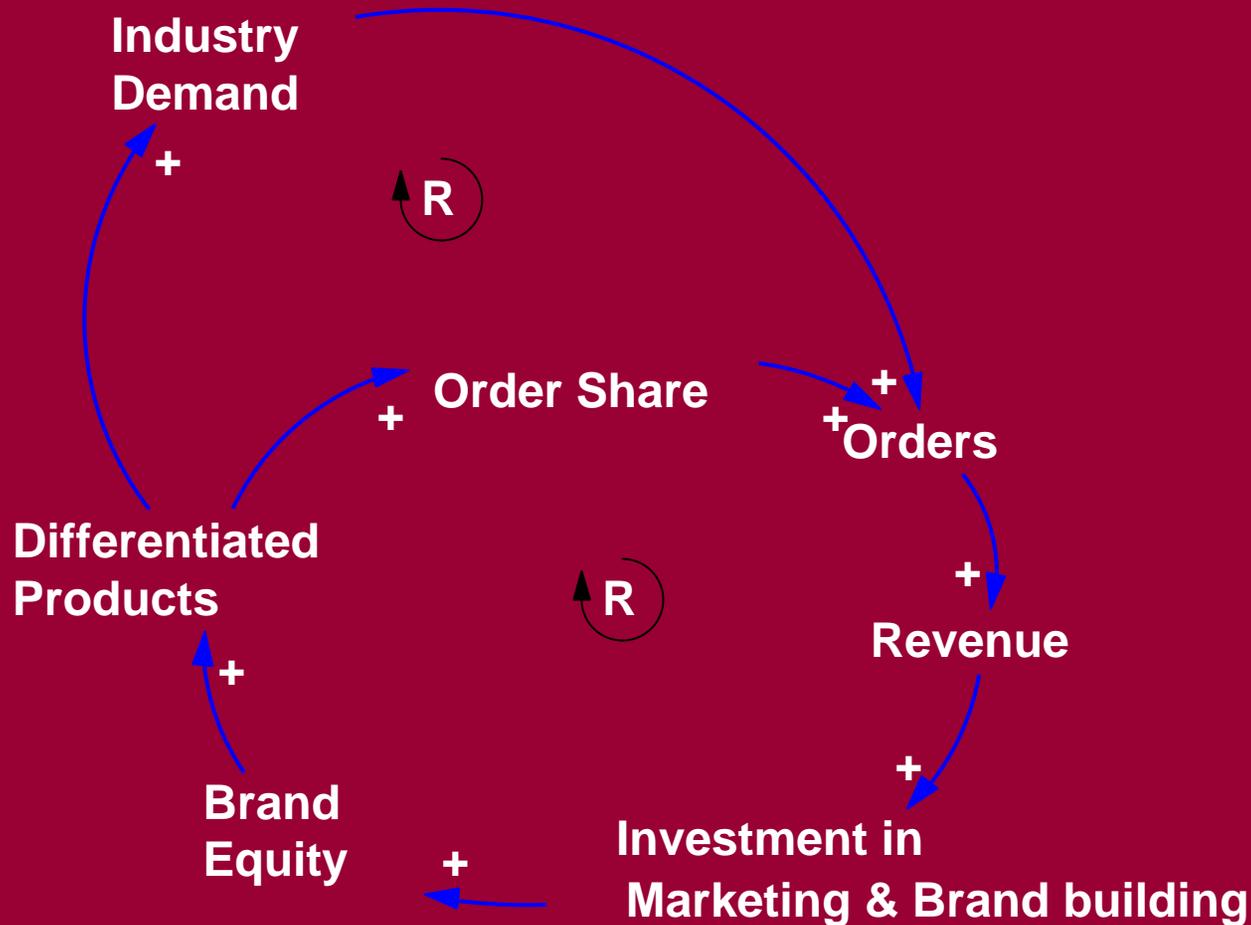
Economies of Scope & Scale



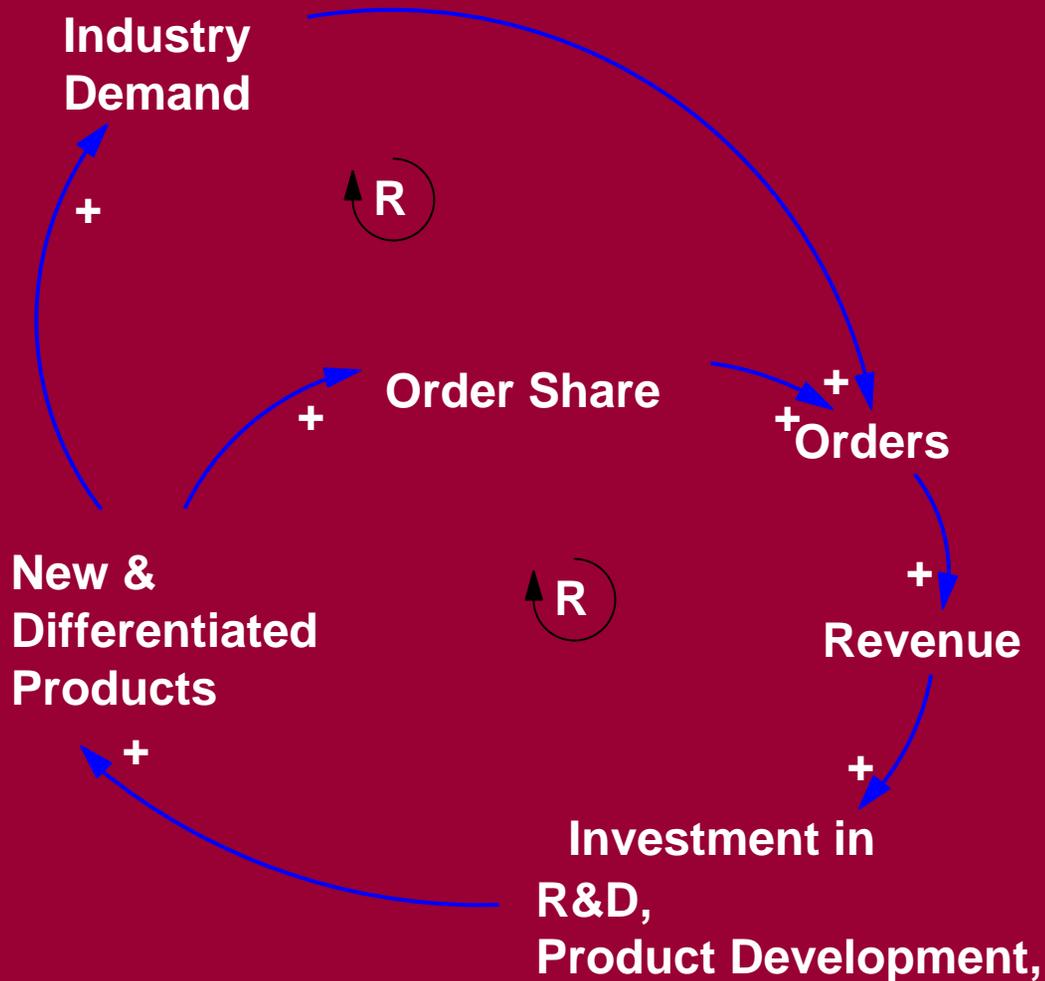
Economies of scale and scope can demonstrate self reinforcing effects:

- As I get bigger, my costs go down – which leads me to get a larger share of the market, which drives down my costs...
- As I get bigger, I can spread my fixed costs out over more units – so that I can afford to spend more on marketing – or R&D – or training – or service and support -- so that my products become increasingly differentiated, so my sales go up, so I can spread my fixed costs....
- As I get bigger, there is more software available for my platform, and more people to exchange ideas with...

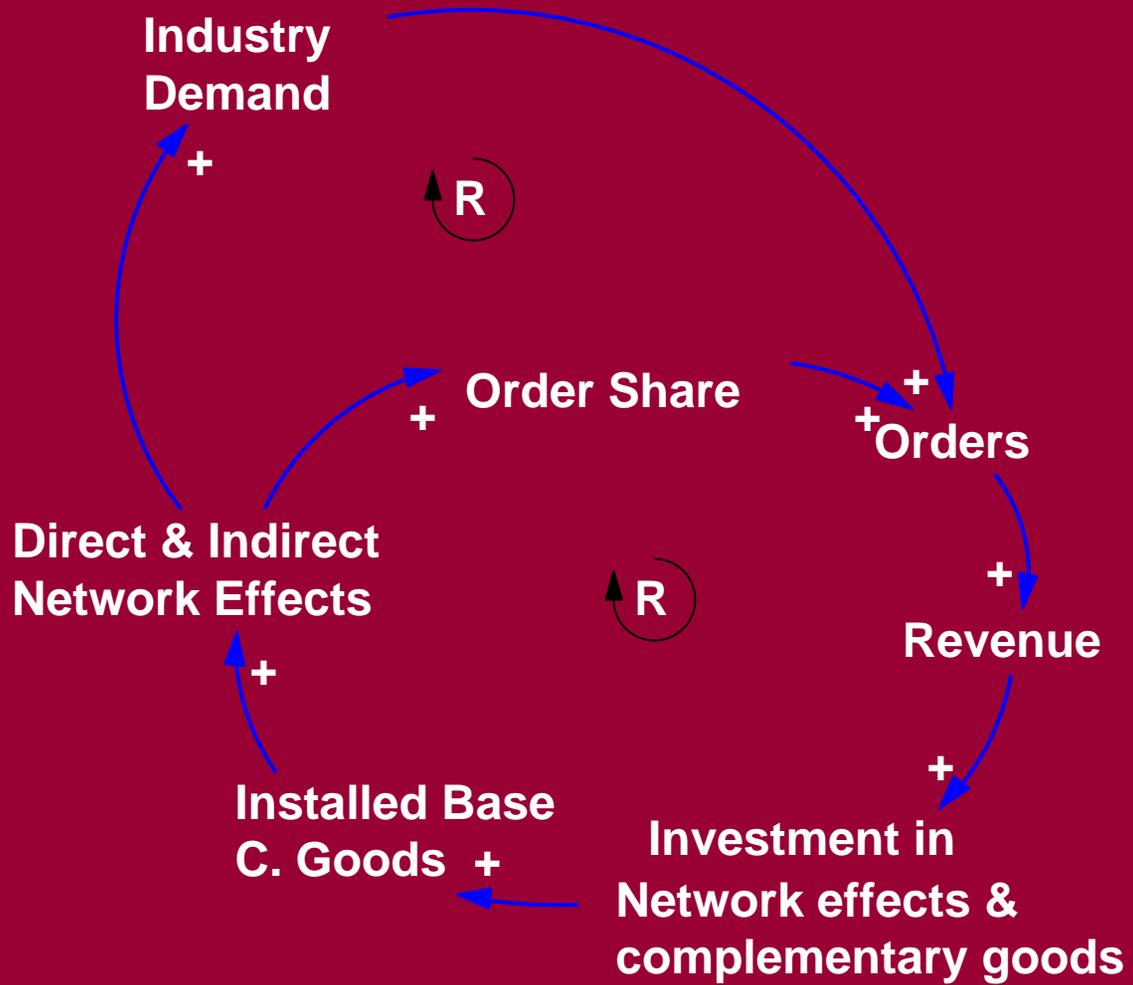
Self reinforcing dynamics in Marketing, Brand & Customer Awareness



Self reinforcing effects in R&D and Product Development



Self reinforcing effects with Network Effects & Complementary Goods



Sterman identifies more than ten potential self reinforcing effects, including:

- Production costs
- Product awareness – brand, sales, advertising
- New product development
- Network effects, complementary goods
- Product differentiation – e.g. service and support, quality, reliability
- Workforce quality and loyalty – more profits, more growth, attract better people...

- &
- Mergers and acquisitions
 - The ability to acquire reinforces all the other loops
- The cost of capital
 - Higher market value, stock price, lower cost of capital...
- The rules of the game
 - The bigger I am, the more I can shape the environment

In successful firms, these effects
often reinforce each other....

Diagram of self-reinforcing effects removed due to copyright restrictions.

Please see: Sterman, John. *Business Dynamics: Systems Thinking and Modeling for a Complex World*.
New York, NY: McGraw-Hill, 2000, chapter 10. ISBN: 9780072389159.

**WHAT'S GOING ON IN THE
COMPANIES WHOSE
STRATEGIES I ASKED YOU TO
REVIEW?**