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 ≠ 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

Is injection molding an attractive business in 1995?

Source: Porter 1979
To Earn Economic Profits, Must Create & Capture Value (Airlines)

First Basic Strategy: Low-cost

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

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<th>Industry average</th>
<th>Cost leader</th>
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<td>WTP</td>
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<td>Consumer Surplus</td>
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Second Basic Strategy: Quality/Differentiation

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

- Industry average
  - WTP
  - Consumer Surplus
  - P
  - Firm Profit
  - C

- Quality leader
  - WTP
  - Consumer Surplus
  - P
  - Firm Profit
  - C
Basic Capture models

- Integration/system
- Efficiency/Cost (if sustainable)
- Innovation (IP, Speed)
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

Husky P
Rival’s Imputed P*

Rival’s P

Husky
Rival

Extra Productivity Costs
Extra Energy Costs
Extra Raw Materials Costs
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