Gaining a sustainable advantage

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The economic environment has led several companies to focus on their domestic market. As mentioned in a previous article, "Leading in Highly Challenging Times: New Answers for New Threats," the priorities for many have become survival and the restoration of their balance sheets. Continuing uncertainty about their businesses prospects has further produced a higher aversion to risk and all but removed the inclination to seek opportunities abroad, go global or be international. Complexity, price volatility, competition, and fears of revival in protectionism (as many states have overruled their markets) are real issues that have been reinforced by the economic crisis.

Current conditions, however, are not expected to pose long-term barriers to further globalization and internationalization. Some decision makers, in fact, argue that going global continues to shield them from ups and downs within the local economy as well as from competitive activity.

In this article we will briefly investigate whether or not a new roadmap now exists for competing on a global basis. Some big market makers - including Apple - have, indeed, changed the game by implementing a business model innovation.

Is the timing right to gain a competitive advantage from such a model? Also, what are the implications?

To begin, we cannot ignore the fact that rapidly developing markets are located overseas, and they will likely continue to outpace our "developed" economy growth rate. This is true for two main reasons: a) a cost advantage primarily fueled by lower-cost labor and b) their market needs. Nowadays, however, capturing market share overseas implies a different strategy than off-shoring operations to China, for example. The rapidly developing economies are built on multiple facets, requiring many sorts of products and services. In addition, businesses can leverage local resources at all level of operations as well as with many systems to create a competitive edge. Adjusting the business model per market segment - targeting local customers while integrating companies systems, knowledge, and proprietary systems - would lead to a sustainable global advantage and achieve synergies with the "business model" at home.

Research from Boston Group Consulting has indicated four key drivers:

a) Market access to new market segments – more appropriate products at more appropriate prices
b) Leverage the local resources and integrate them as much as valuable: benefits – costs (dual shoring integrating best practices)
c) Internationalize the business culture too vs. only globalizing it
d) Network coordination – achieving economy of scale and scope, and sharing best processes

Success in following this path would lead to several competitive advantages: a) deeper penetration of markets both overseas and at home; b) the "core knowledge" of adapting to local various market segments and customers while leveraging the company's systems through the global network; c) creation of wealth.

Another strong strategy in gaining an advantage is in adopting a *business model innovation* that helps to revive a competitive advantage and accelerates growth rate in this slow motion environment. Before talking about the innovation part of it, let's say that a *business model* is sometimes memorized by '*how do we make money, attract, retain and serve our customers*', or defined as *an operating model/ processes/ systems and a* value proposition.

The *value proposition* answers *what* we offer to *whom:* a) segments targeted and reasons why; customers' needs and the value we want to capture; b) the offer; c) the exchange of wealth, revenues stream, and compensation. The *operating model* addresses how we make profits while delivering the offer based on the processes implemented and choices we made (off-shoring, outsourcing, in-house, costs and organization).

An innovation model is specifically valuable in times of uncertainty. In a highly competitive market where a new product or process is quickly copied, or where several competitors are following a "me too" strategy; building an advantage can be challenging. However, it will bring higher returns than cutting cost, prices and reducing risks would alone.

What does the *innovation model* mean? Of course, it is always based on the same framework, but the *solutions are customized*. Some success stories are as follows:

Fighting Back, Displacing the Competition: Jetstar (low-cost carrier from legacy carrier Quantas) was formed when Virgin Blue came to the market offering the typical low-cost fare and premium coach. Not following a "me too" strategy trying to beat their competitor on their own turf, Jetstar offered a different customer experience with a unique bundle of services a la carte with options for food, comfort and entertainment in addition to new planes and low fares. They soon offered international routes cannibalizing some market shares from Quantas. A few years after, Virgin Blue shifted its market positioning to business travelers.

"VELIB" Extending the Business Model with Current Customers: JC Decaux is the worldwide leader in on-street furniture (that includes some exclusive agreement for outdoor advertising, signage, public restrooms, etc.) They secured a 10-year contract with Paris (France) to build and maintain the world's largest free (or almost free) citywide network of bicycles and bicycles racks (stationed every 1000 ft) that are used by residents and tourists for point to point transit. The value proposition has been duplicated and purchased by many cities.

Extracting More from the Brand: IKEA stores are popular in many areas of the world. In some countries, building a new store IKEA sharply increased nearby real estate value. IKEA, therefore, developed a new model capturing the appreciation in real estate values through large mall development.

I agree not easy tasks!

But, generally speaking, it is easy to get traction in your organization.

How do you build such capabilities on a smaller scale while avoiding a lot of drawbacks—like not really vetting the ideas, failing to scale up, failing to build a business model from the concept or sticking to the technical part of it or the product and not building Business etc.?

In fact, this is like assessing any other opportunity: following a vetting process; classifying priorities based on highest strategic impact and best ROI, budget; building a pilot; fine-tuning and scaling up; then going the extra mile to build the platform, process, systems and skills to repeat it as needed.

You first have to build it to take advantage of the system that yields the benefits for any other qualified opportunities later on.

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