# Primer on

# Profitability & Ethics



Dr. Nicholas Aristotle Demos

***A) Competencies***

***B) Ethics***

***C) Organizational Structures***

Intermediary Corporate Objective:

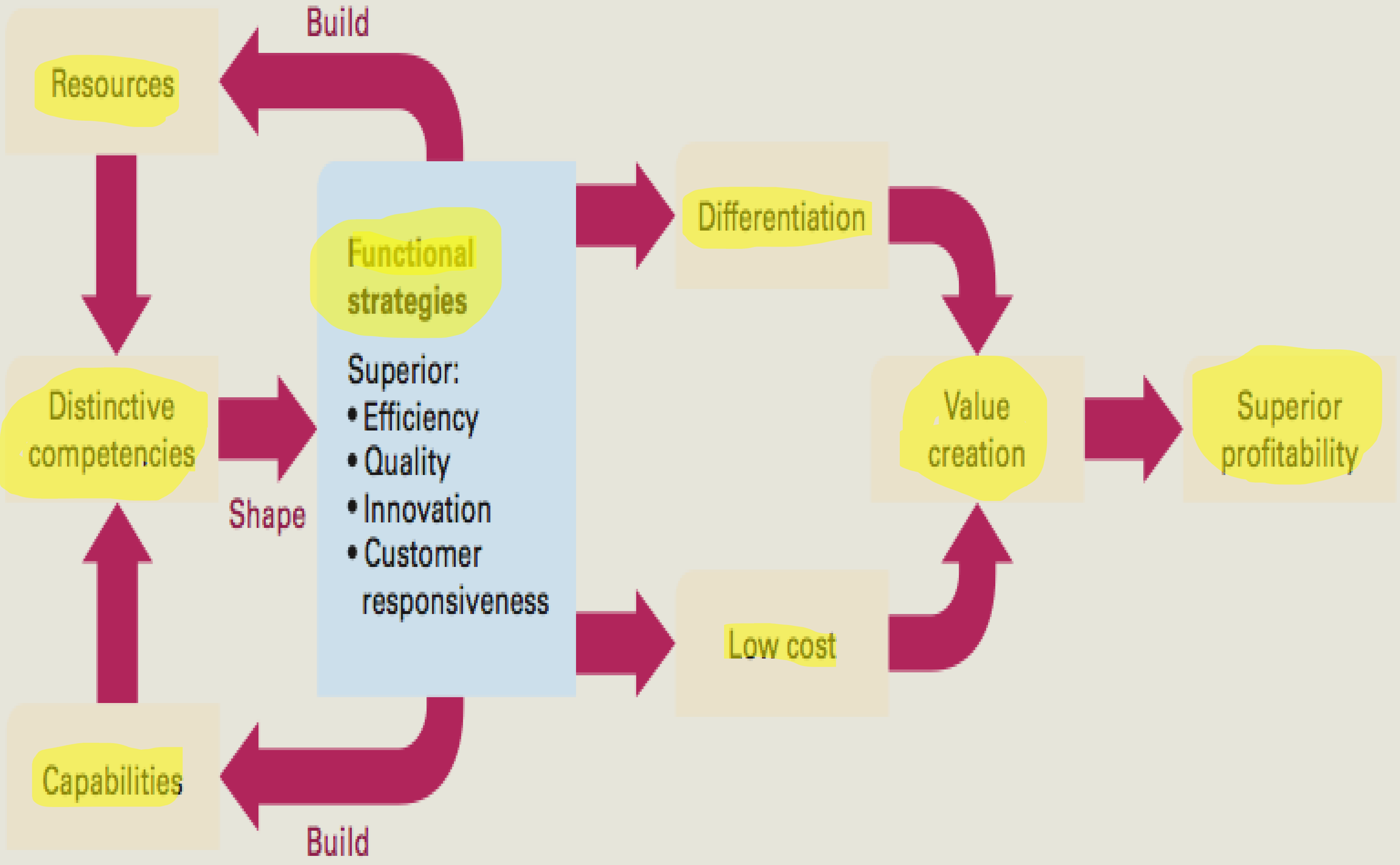
# Competitive Advantage

***Competitive Advantage***

***Vs***

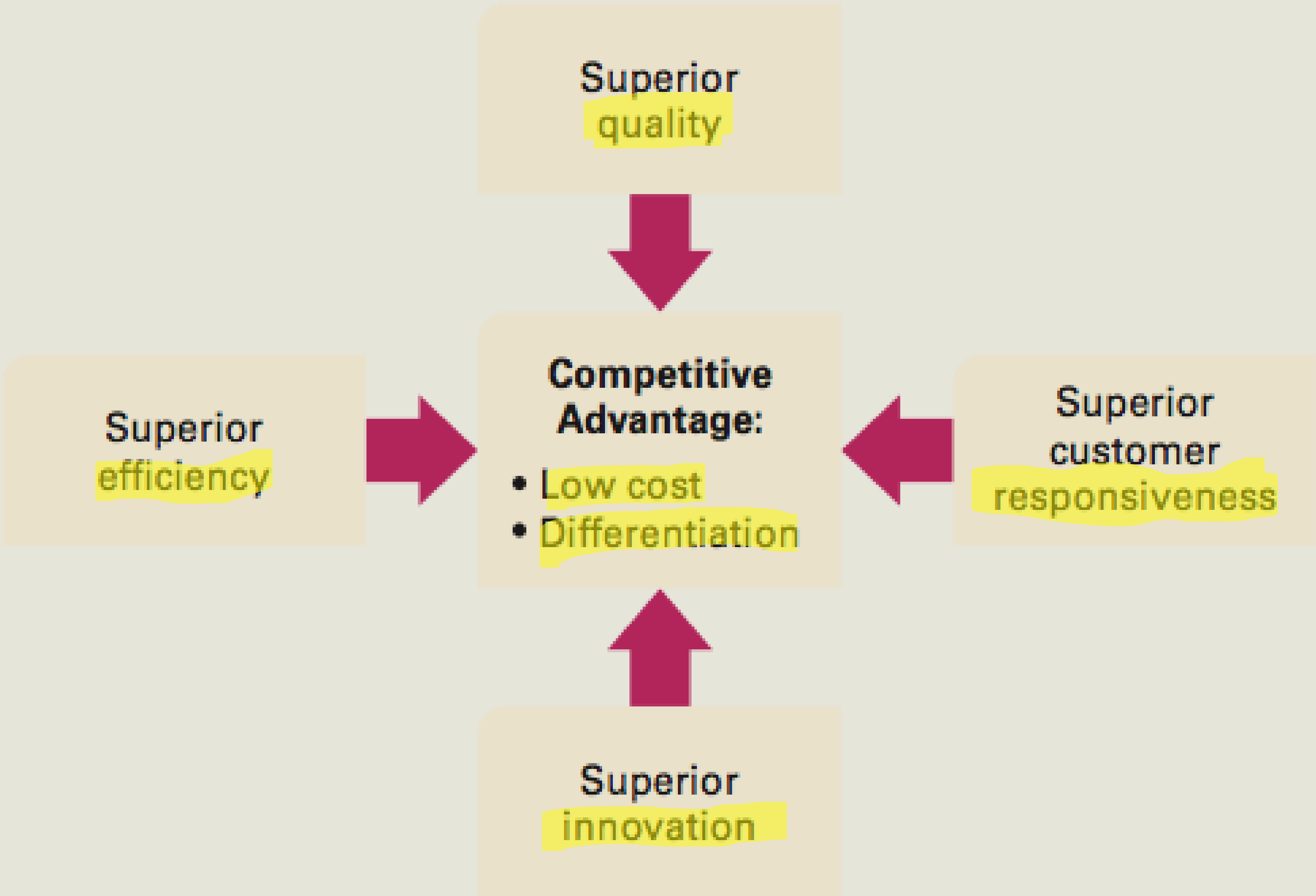
***Comparative Advantage***

## Figure 4.1 The Roots of Competitive Advantage

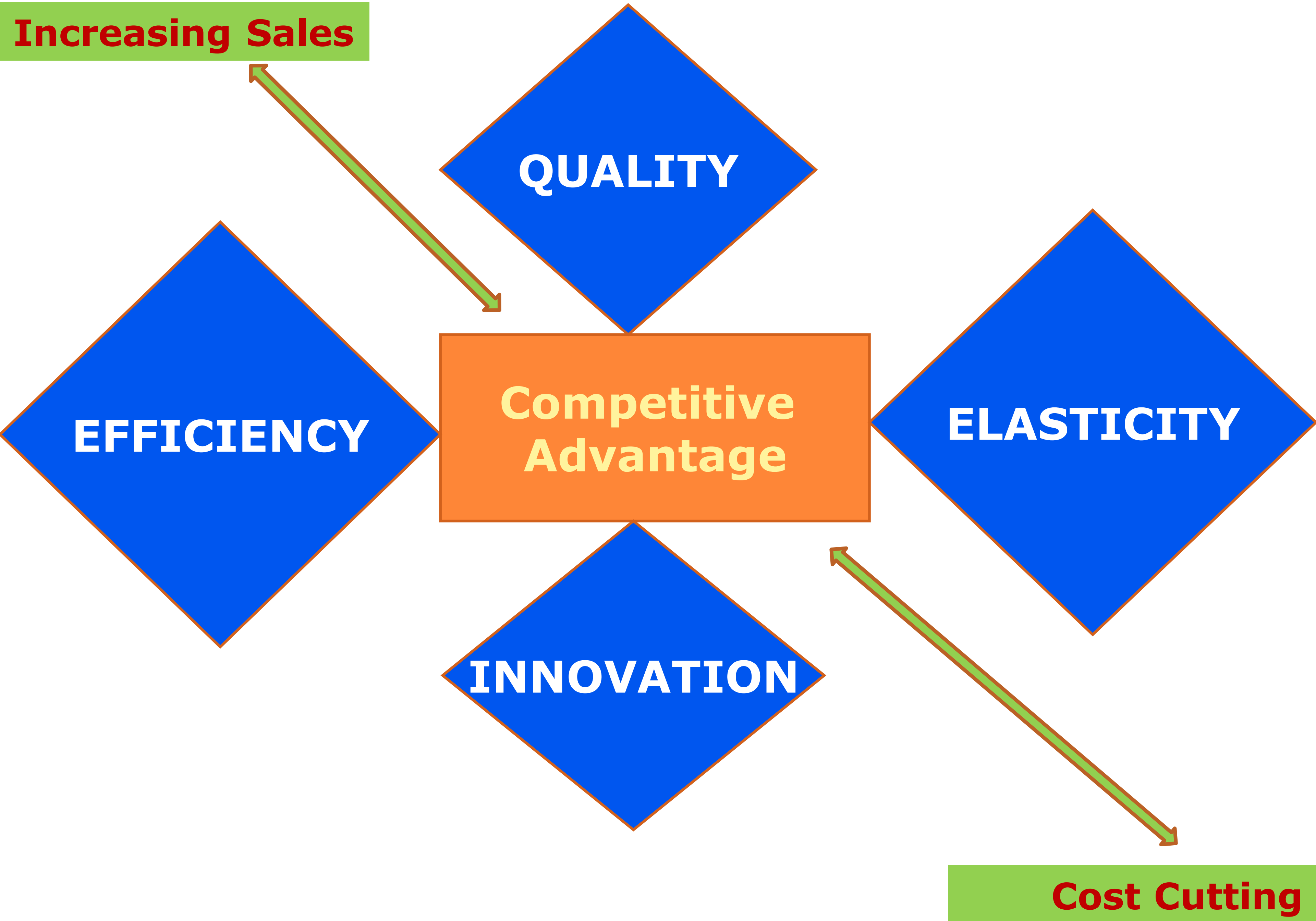


# Building blocks of Competitive Advantage

**Figure 3.6 Building Blocks of Competitive Advantage**



# Pillars of Competitive Advantage



# Building blocks of Competitive Advantage

| | |
|---|---|
| *EFFICIENCY* | ➢ **Quantity of inputs to produce a given output.**<br>➢ **Employee productivity.**<br>➢ **Lower cost structure.** |
| *QUALITY* | ✓ **Customers' perception: product provides higher utility.**<br>✓ **Product features, functions, reliability, dependability & consistency.**<br>✓ **Timely delivery and after sales service.** |
| *INNOVATION* | ○ **Developing new and innovative products.**<br>○ **These products have superior attributes to existing products.**<br>○ **Developing new and innovative processes and delivery.** |
| *CUSTOMER RESPONSIVENESS* | • **Identifying and satisfying customer needs better than rivals.**<br>• **Delivering and servicing better than competition.**<br>• **Improving design, after-sales service and support.** |

**…to formulate & implement**

**Strategies**

***in order to attain***

**Profitability**

***you rely on***

**Competitive Advantage**

***based on***

**Distinctive Competencies**

# Everything starts from .....

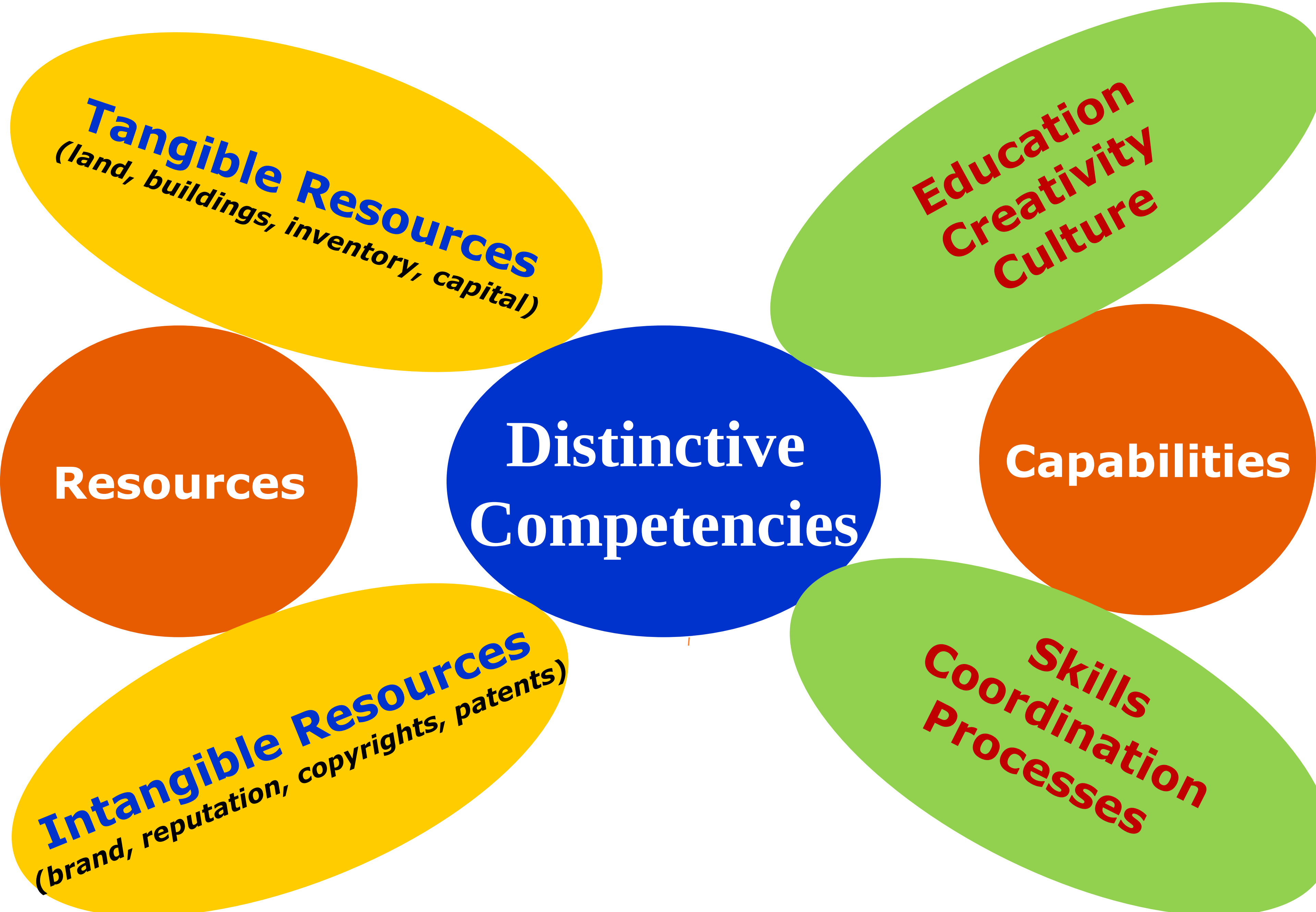
**Having/ Acquiring**

# **Distinctive Competencies (DC)**

- **DC are firm-specific strengths** that allow to
  - differentiate its products/services &
  - produce with lower costs than its rivals

- **DC arise from the combination of:**
  - "**physical" resources** &
  - "**human" capabilities**

# DC: Human & Non-Human Induced



# DC create Value

**DC properly managed and fully coordinated**

CREATE VALUE

But above all **INNOVATION** creates Value

- **The process of translating an IDEA or INVENTION into a good or service that creates VALUE or for which customers will pay.**

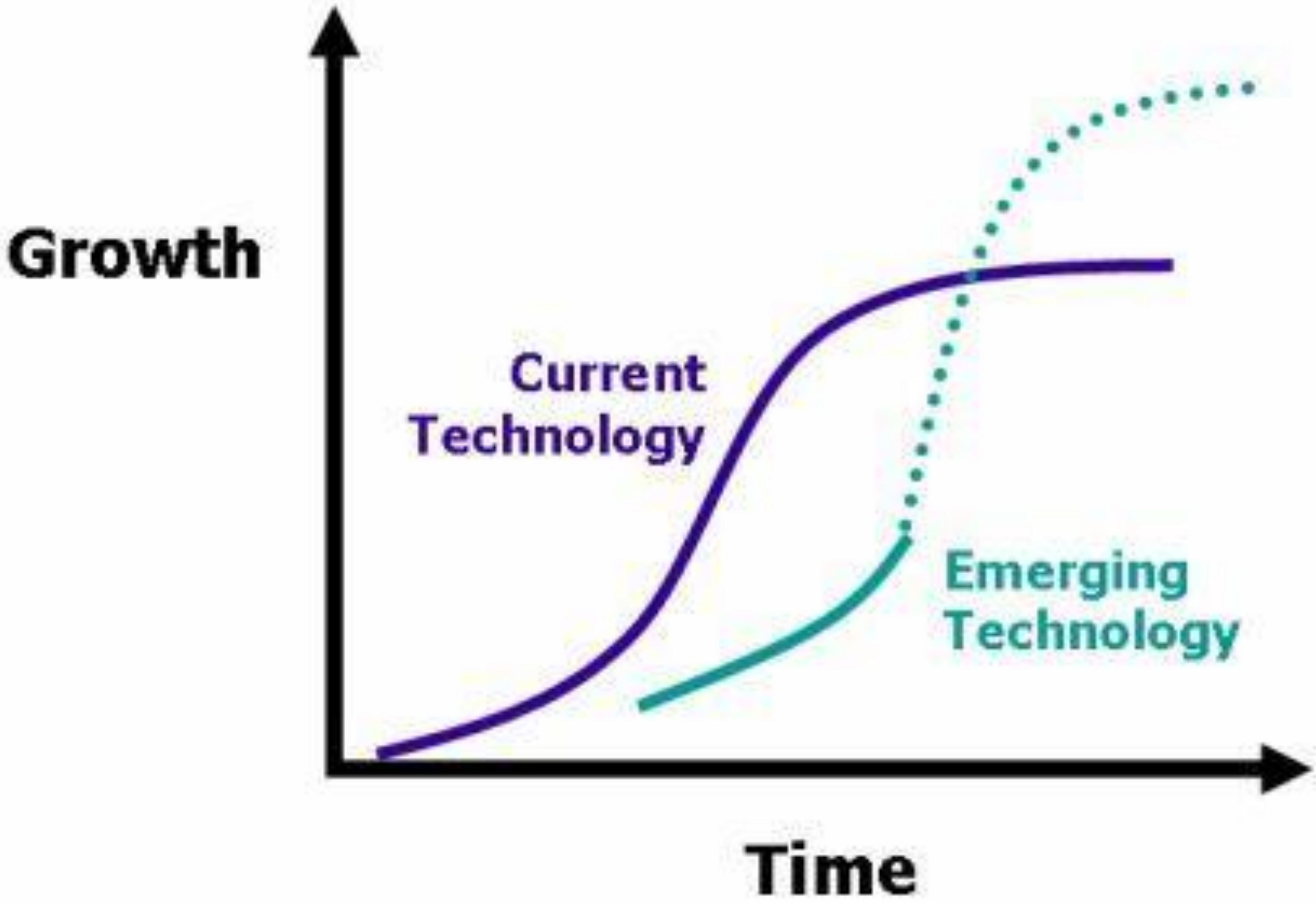
- **Innovation** involves deliberate application of
  - **information**,
  - **imagination** and
  - **initiative** in deriving greater or different values from resources, and includes all processes by which new ideas are generated and converted into useful products.

# INNOVATION

- Innovations are divided into two broad categories:
  - **Evolutionary innovations** (continuous or dynamic evolutionary innovation) that are brought about by many incremental advances in technology or processes &
  - **Revolutionary innovations** (also called discontinuous innovations) which are often disruptive and new.

- Innovation is synonymous with **risk-taking** and organizations that create revolutionary products or technologies take on the greatest risk because they create new markets.

# INNOVATION

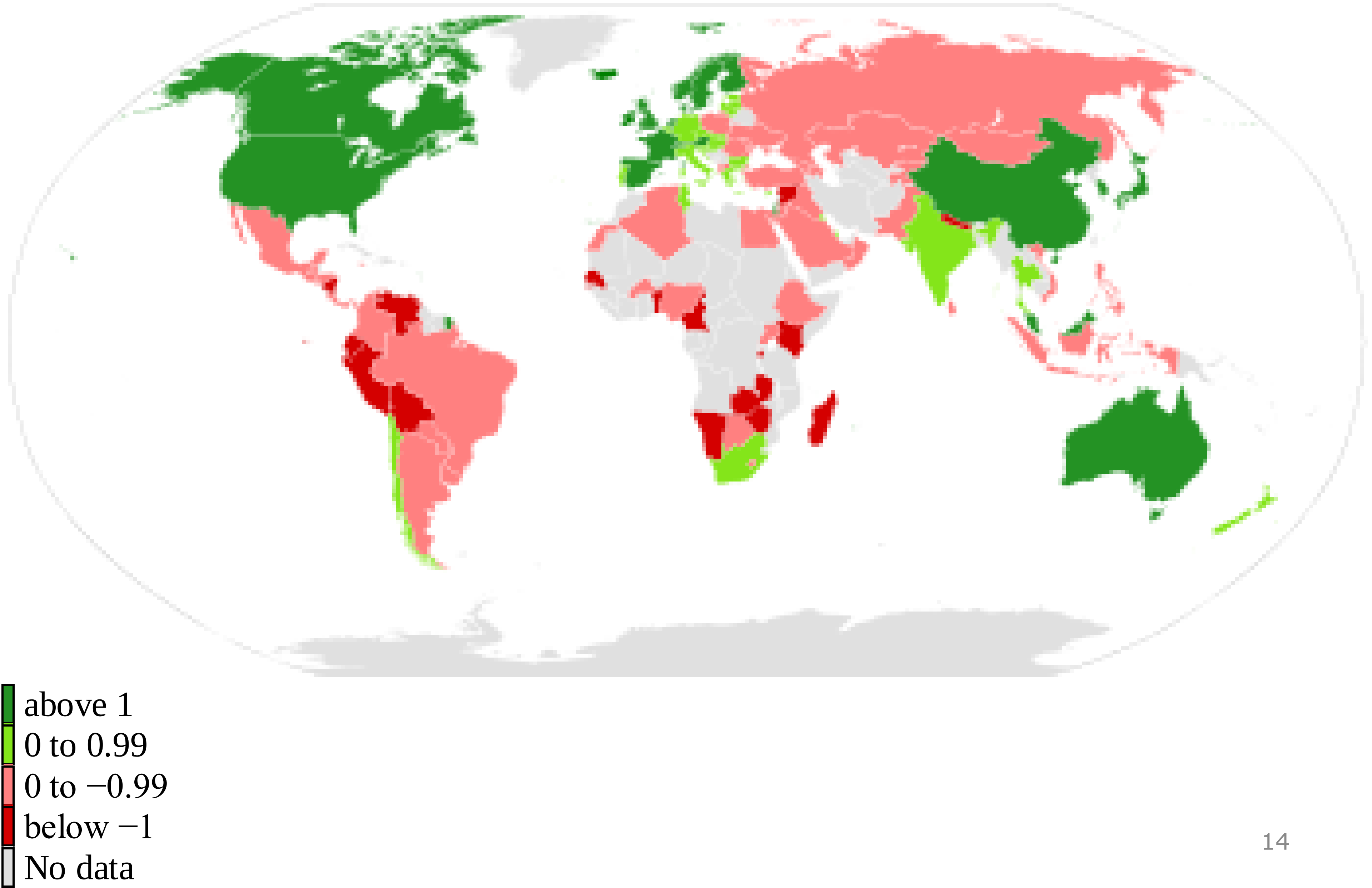


Large country ranking

| Rank | Country | Overall | Innovation Inputs | Innovation Performance |
|---|---|---|---|---|
| 1 | South Korea | 2.26 | 1.75 | 2.55 |
| 2 | United States | 1.80 | 1.28 | 2.16 |
| 3 | Japan | 1.79 | 1.16 | 2.25 |
| 4 | Sweden | 1.64 | 1.25 | 1.88 |
| 5 | Netherlands | 1.55 | 1.40 | 1.55 |
| 6 | Canada | 1.42 | 1.39 | 1.32 |
| 7 | United Kingdom | 1.42 | 1.33 | 1.37 |
| 8 | Germany | 1.12 | 1.05 | 1.09 |
| 9 | France | 1.12 | 1.17 | 0.96 |
| 10 | Australia | 1.02 | 0.89 | 1.05 |
| 11 | Spain | 0.93 | 0.83 | 0.95 |
| 12 | Belgium | 0.86 | 0.85 | 0.79 |
| 13 | China | 0.73 | 0.07 | 1.32 |
| 14 | Italy | 0.21 | 0.16 | 0.24 |
| 15 | India | 0.06 | 0.14 | -0.02 |
| 16 | Russia | -0.09 | -0.02 | -0.16 |
| 17 | Mexico | -0.16 | 0.11 | -0.42 |
| 18 | Turkey | -0.21 | 0.15 | -0.55 |
| 19 | Indonesia | -0.57 | -0.63 | -0.46 |
| 20 | Brazil | -0.59 | -0.62 | -0.51 |

# INNOVATION

## Innovation Globally



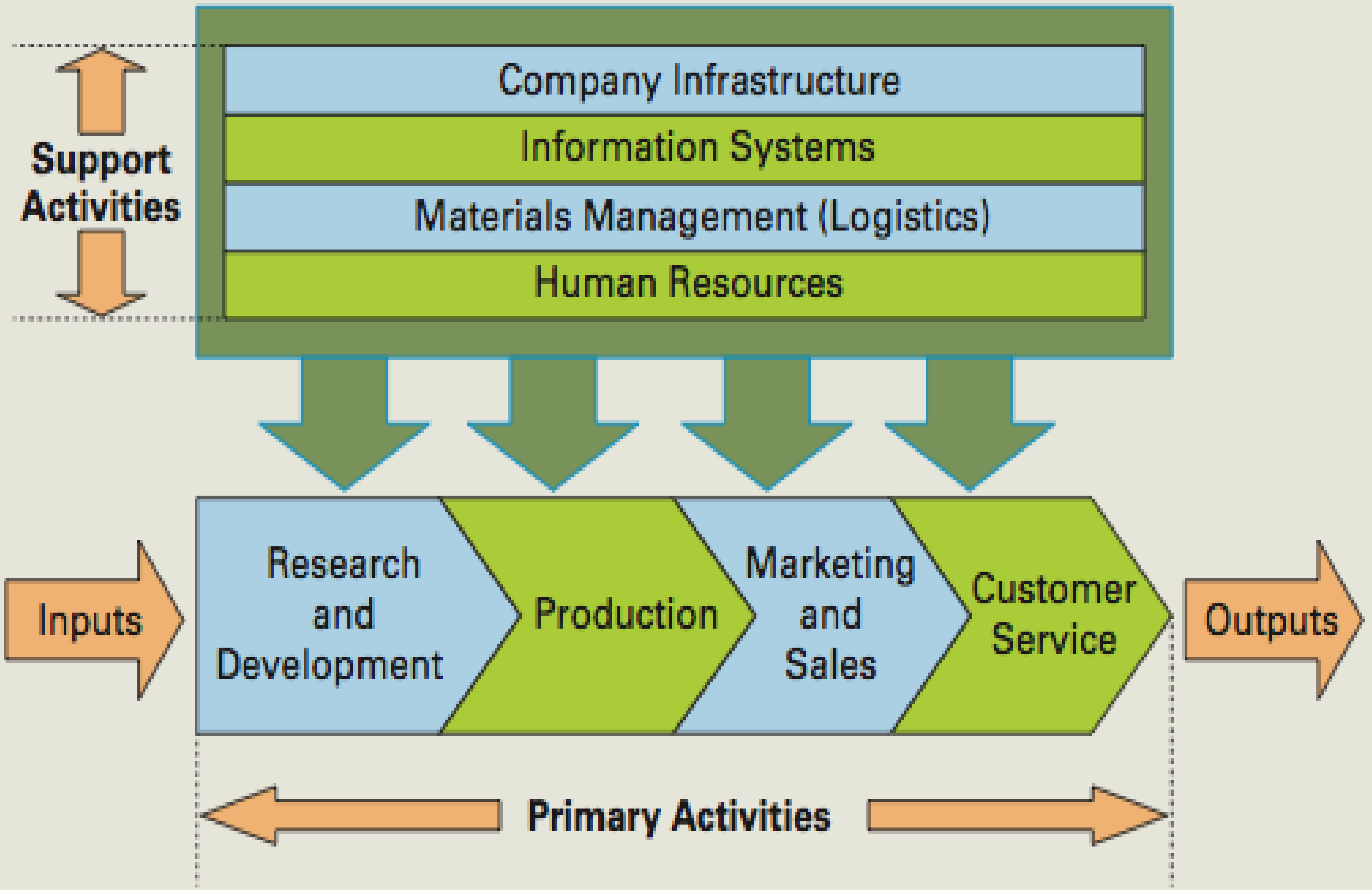
# Value Creation

by

Business Activities

# Value Creation

**Figure 3.5 Primary and Support Value-Chain Activities**



# Value added via…

- **Research and development (R&D)**
  - Design of products and production processes.
  - Superior product design increases a product’s functionality and add value.
- **Production**
  - Creation process of a good or service.
  - Helps lower cost structure and leads to differentiation.
- **Marketing and sales**
  - Brand positioning and advertising - increase customers’ perceived value of a product.
  - Help create value by discovering customers’ needs.
- **Customer service**
  - Provide after-sales service and support.
  - Create superior utility by solving customer problems and supporting customers after a purchase.

# Value added via…

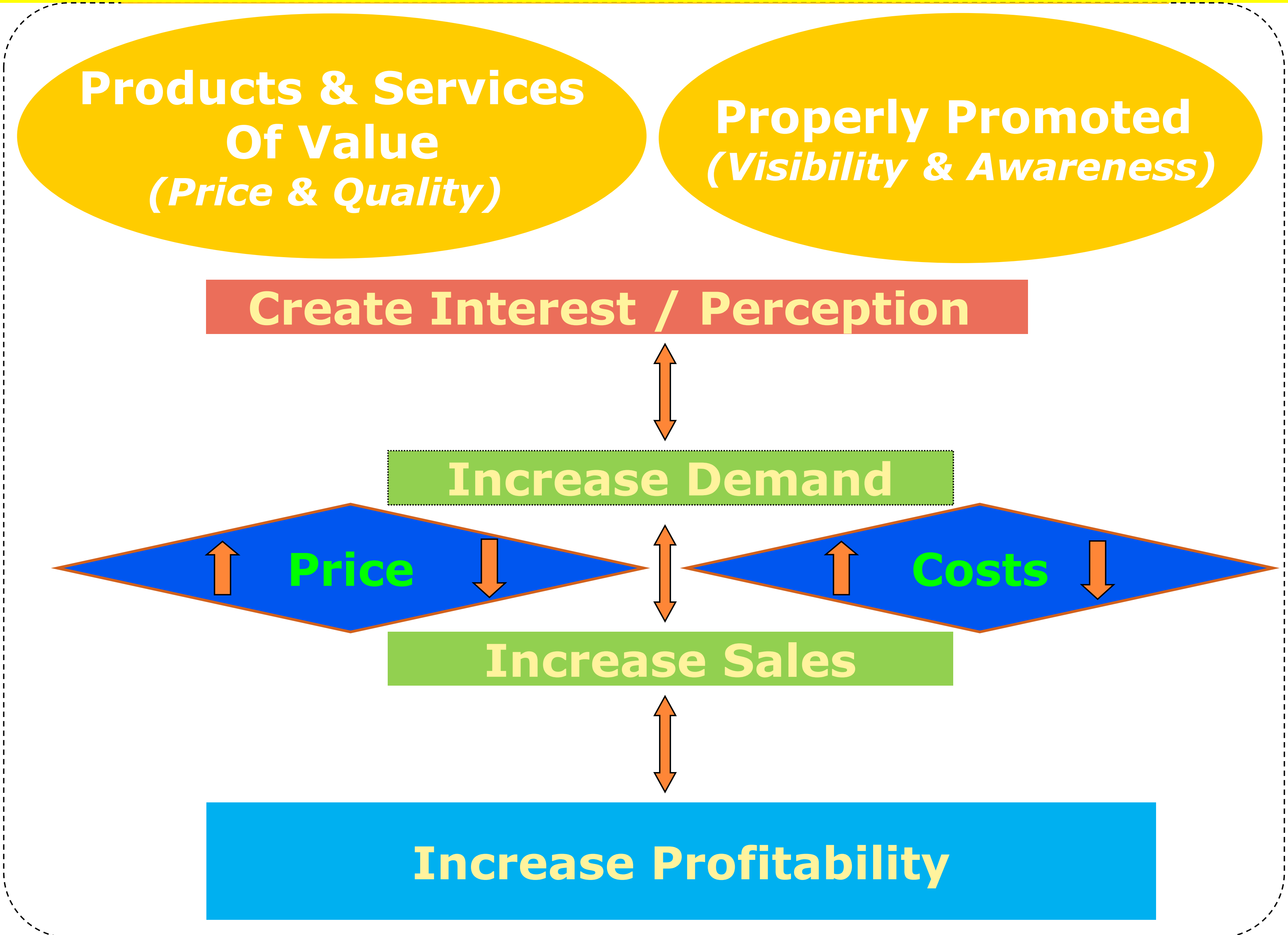
- **Materials management**
  - Controls the transmission of physical materials through the value chain.
  - Lowers cost and creates more profit
- **Human resources**
  - Ensures value creation by making sure that the company has the right combination of skilled people
- **Information systems**
  - Electronic systems to improve efficiency and effectiveness of a company's value creation activities
- **Company infrastructure**
  - Companywide context within which all the other value creation activities occur
  - Organizational structure
  - control system
  - company culture

**Ultimate Objective:**

# Profitability

# (Π)

# Profitability Paradigm



# Superior Profitability

- **Profitability of a company depends on the:**
  - **value** customers place on its products.
  - **price** it charges for its products.
  - **costs** of creating those products.

- **Managers must understand:**
  - dynamic relationships among:
    - value, selling price, demand, and costs.
  - how value creation and pricing decisions affect demand.
  - how **unit costs** change with increases in volume.

# *Extras….* Superior Profitability

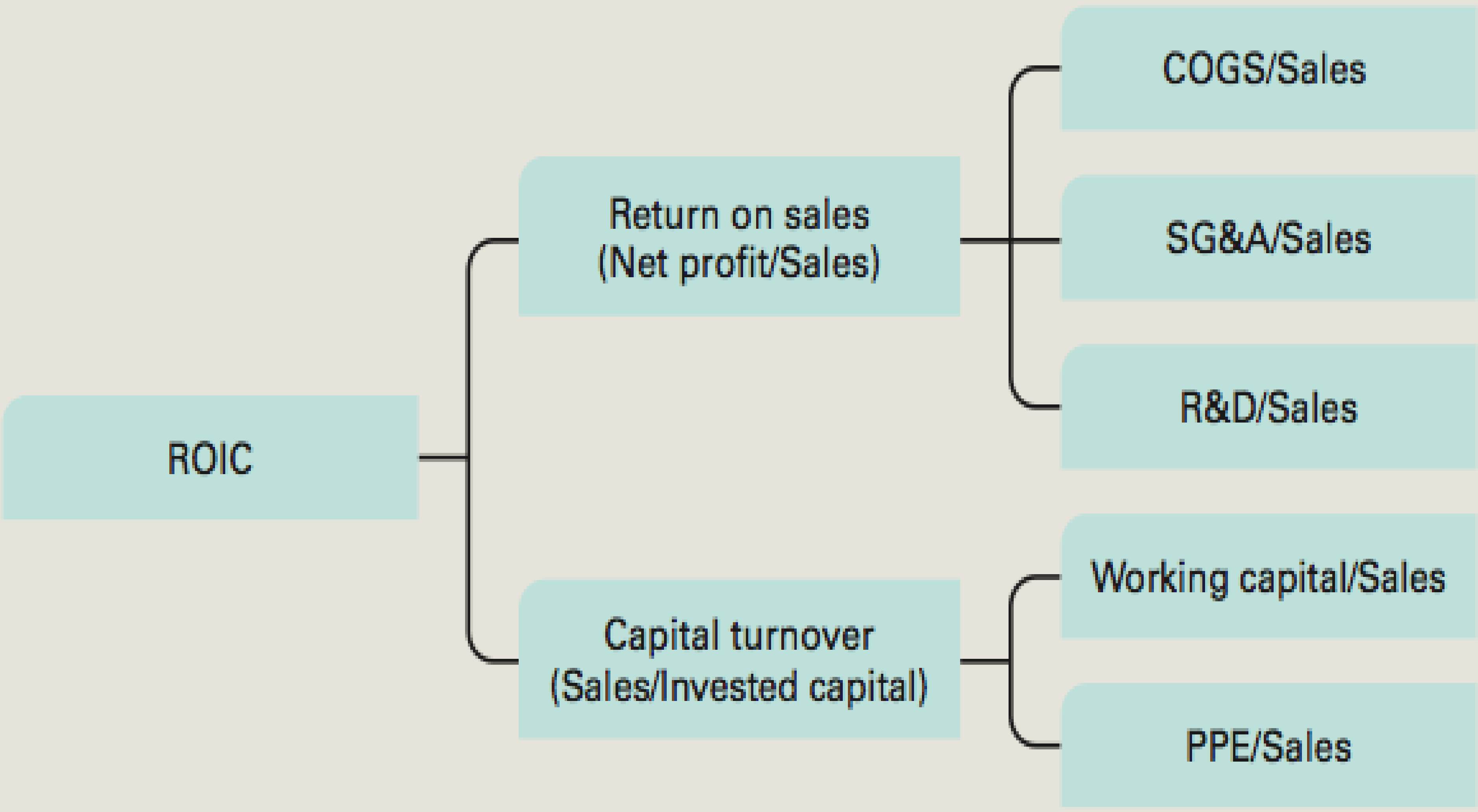
| Term | Definition | Source |
|---|---|---|
| Cost of Goods Sold (COGS) | • Total costs of producing products | Income statement |
| Sales, General, and Administrative Expenses ( SG&A) | • Costs associated with selling products and administering the company | Income statement |
| R&D Expenses (R&D) | • Research and development expenditure | Income statement |
| Working Capital | • Amount of money the company has to work with in the short term: Current assets – current liabilities | Balance sheet |
| Property, Plant, and Equipment (PPE) | • Value of investments in the property, plant, and equipment that the company uses to manufacture and sell its products<br>• Also known as fixed capital | Balance sheet |

# Superior Profitability

| Term | Definition | Source |
|---|---|---|
| Return on Sales (ROS) | • Net profit expressed as a percentage of sales<br>• Measures how effectively the company converts revenue into profits | Ratio |
| Capital Turnover | • Revenues divided by invested capital<br>• Measures how effectively the company uses its capitals to generate revenue | Ratio |
| Return on Invested Capital (ROIC) | • Net profit divided by invested capital | Ratio |
| Net Profit | • Total revenues minus total costs before tax | Income statement |
| Invested Capital | • Interest-bearing debt plus shareholders' equity | Balance sheet |

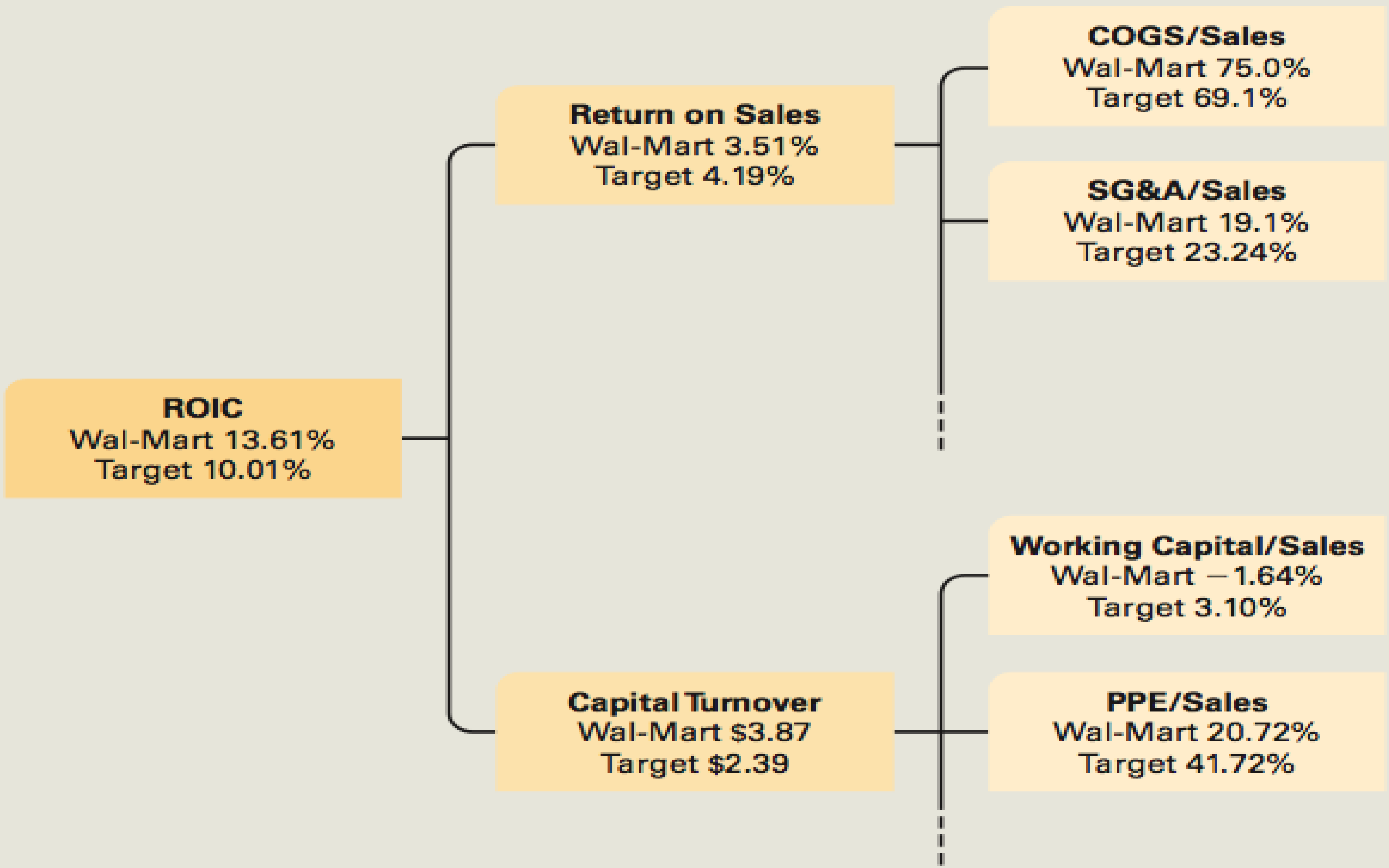
# Superior Profitability

Figure 3.8 Drivers of Profitability (ROIC)



# Case: Superior Profitability

**Figure 3.9 Comparing Wal-Mart and Target, 2012**



*A) Competencies*

## *B) Ethics*

*C) Organizational Structures*

# Ethics

- How mostly **endogenous internal variables** affect
  *strategic formation, competitive advantage and profitability?*

- Will examine the **triple relationship**: **insiders-owners-government.**

- **Government induced**
  **Regulations & Corporate Governance** can help/break a corporation….
- **Company initiated & applied**
  **Rules & Social Responsibility** improves public image/product selling….

  ✓ **How an artistic combination of the CG and SR benefits everybody….**

# Who gets the profits?

- Conventionally,

  Increase of profits /stock price

  comes from:

  - A growing market *(i.e. Toronto real estate,..)*
  - Taking market share from competition *(bigger MKT slice)*

  - Horizontal integration → *(synergies)*
  - Vertical integration → *(efficiency)*
  - Diversification → *(barriers to competition)*

  - International expansion *(power, diversification, challenges)*

# Who is in control?

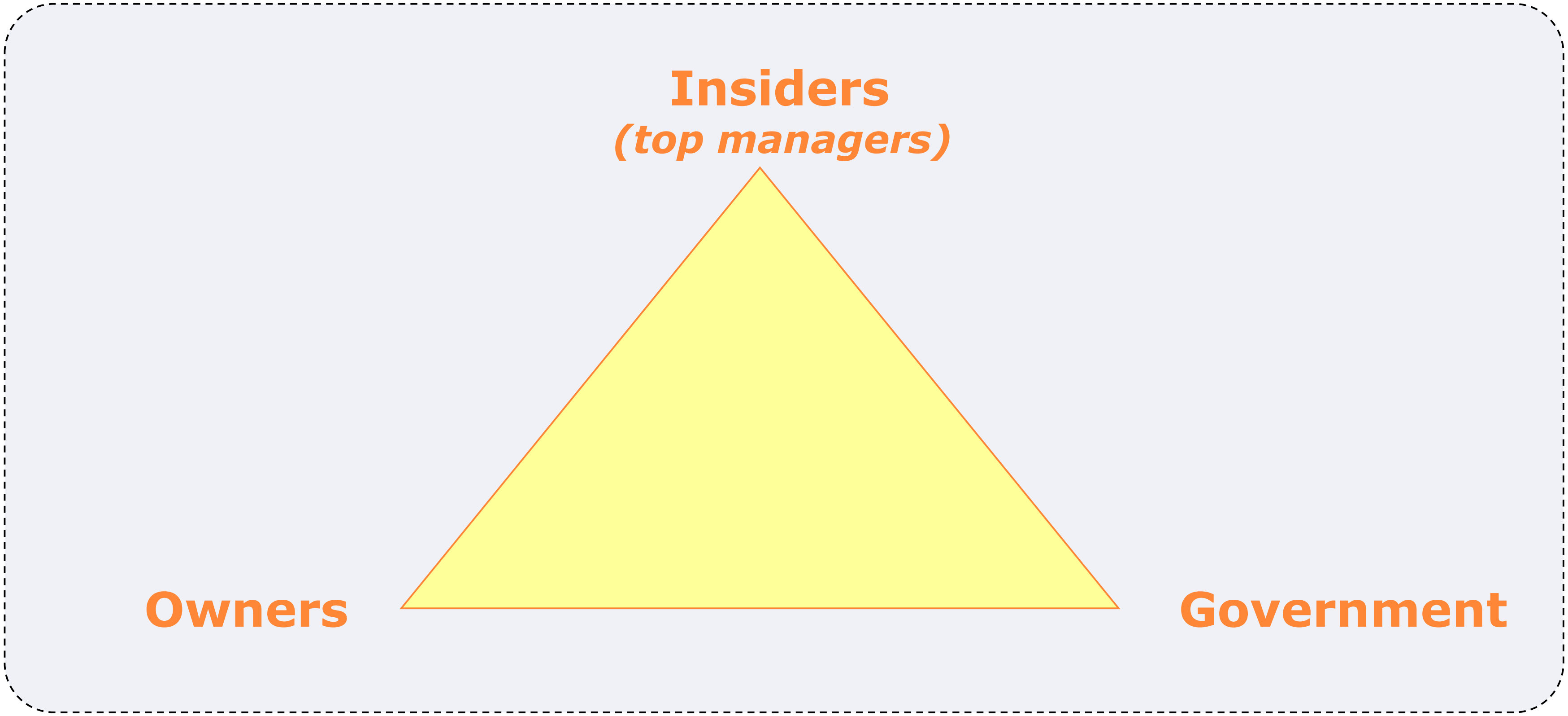
## Control, Power and Ethical Behaviour…

## Balance and Continuous fighting…

## Among Stakeholders:

*Individuals or groups with an interest, claim, or stake in the company*

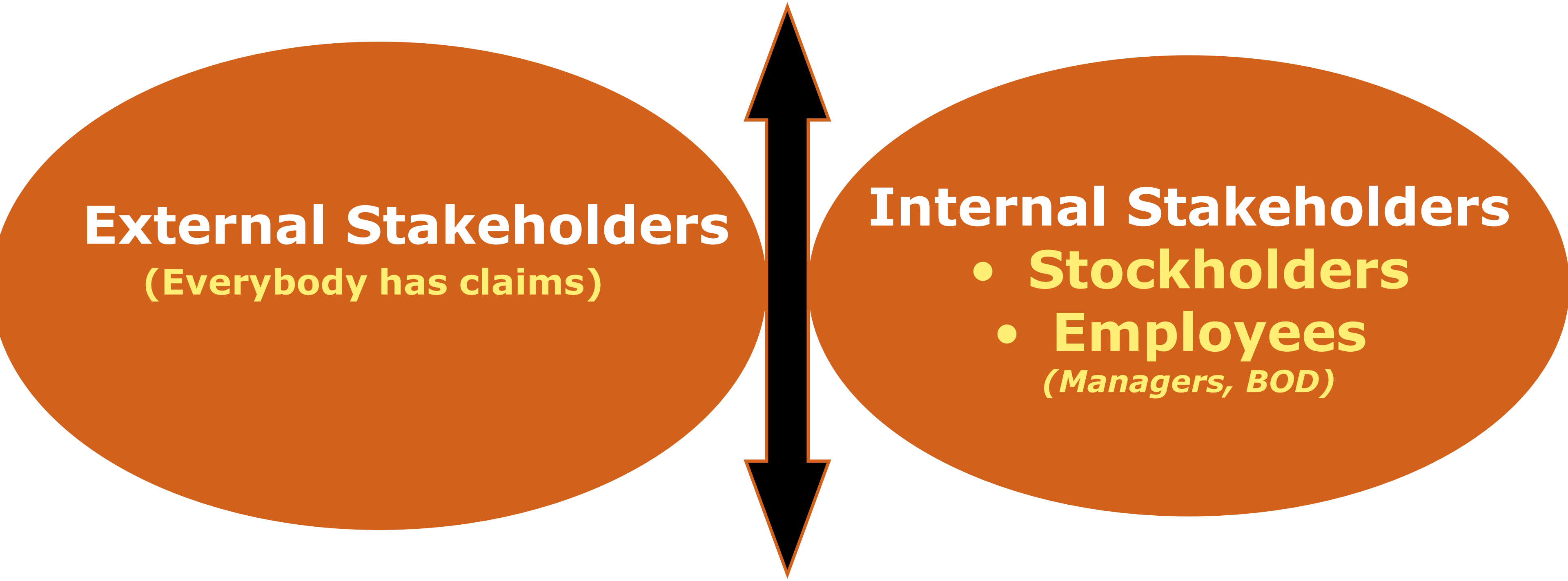
*But let's take a closer look at the major three……*



# Stakeholders

**Internal Equilibrium**

(Corporate Responsibility)

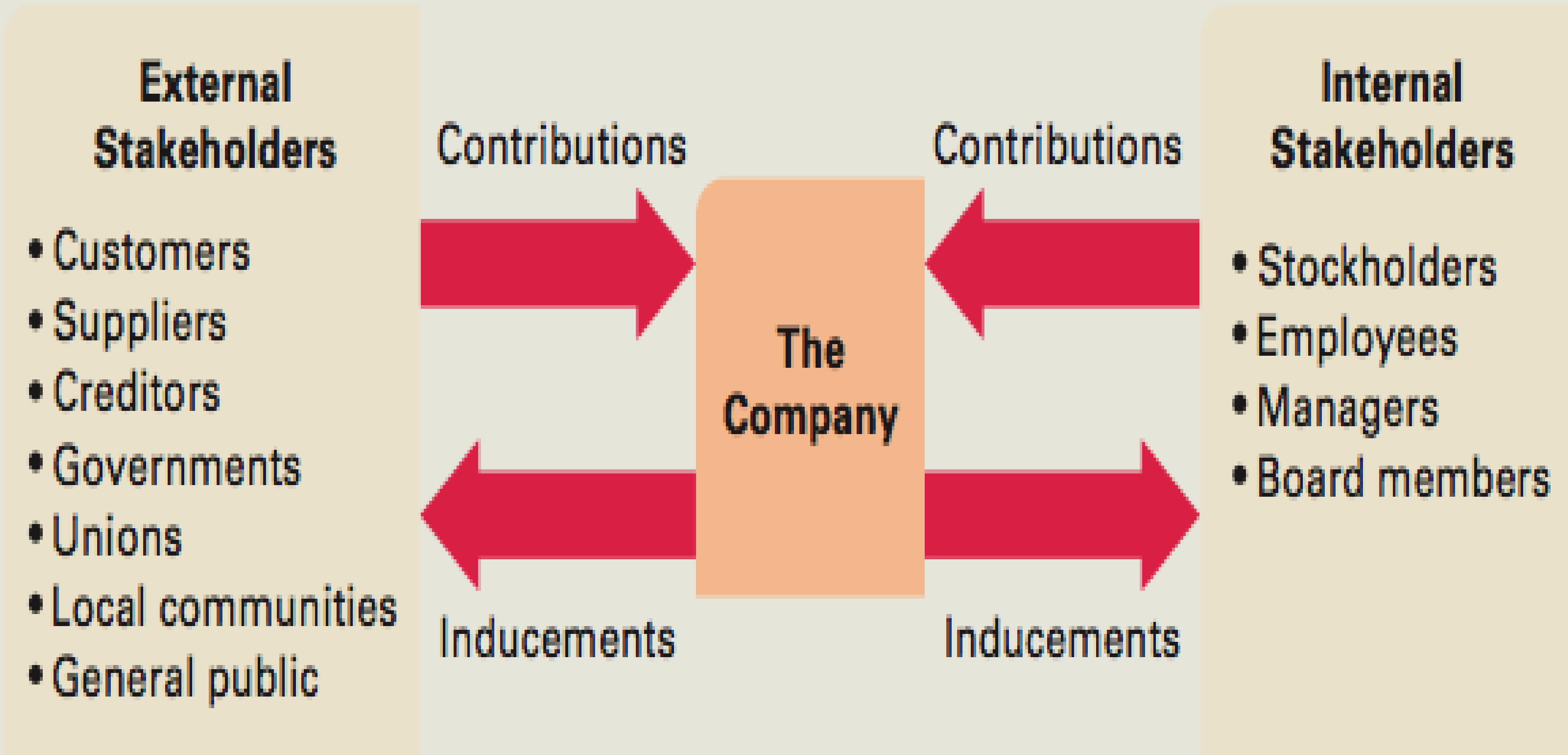



**Government Intervention**

(Corporate Governance)

# Stakeholders

Figure 11.1 Stakeholders and the Enterprise



# Rights of stakeholders

| Stakeholders | Rights |
|---|---|
| Stockholders | • Timely and accurate information about their investments |
| Customers | • Be fully informed about the products and services they purchase |
| Employees | • Safe working conditions<br>• Fair compensation for the work they perform<br>• Just treatment by managers |
| Suppliers | • Expect contracts to be respected |
| Competitors | • Expect that the firm will abide by the rules of competition and not violate the basic principles of antitrust laws |
| Communities and the general public | • Expect that a firm will not violate the basic expectations that society places on enterprises |

# Shareholders

- **Stockholders** are the underlying owners of the company
  - Active & Passive shareholders
  - Both receive a return on their investment
    - Either as dividend and/or
    - Capital appreciation (stock increase)
- *Compare todays real estate vs stock returns*

- **Hidden shareholder?**
- **Who controls it?**
- **Can it be audited?**
- **Any proposals?????**

# Strategist's Questions & Challenges

***Based on Statistics, Attitudes, Opinions, Perceptions, Motivations,...***

- **Who are the stakeholders and stockholders?**
  - Their interests and concerns
  - Their obvious and hidden claims on the organization
  - The resulting strategic challenges

- Motivating the agents' behaviour to act in accordance with the goals set
- Reducing the information asymmetry
- Developing mechanisms for removing agents who do not act in accordance with the goals

# Agency Problem

- **Relationship between**
  - owners & managers
  - insiders *(decision-makers)* and investors *(shareholders)*
    - funds
    - Individuals (even papa and mama)
  - stockholders and senior managers
    - ✓ Stockholder - Principal
    - ✓ Senior managers - Agent

# Agency problems & Unethical behaviour

## Self-dealing

- Managers using company funds for personal use

## Information manipulation

- Managers use their control over corporate data to distort or hide information
  - To enhance their own financial situation or the competitive position of the firm

## Anticompetitive behavior

- Aimed at harming actual or potential competitors to enhance the long-run prospects of the firm

## Opportunistic exploitation

- Managers rewriting the terms of a contract to make it favorable to the firm

# Information Asymmetry

- Business:
  - The essence of business life
  - The essence of making money
  - The essence of winning

- Countries:
  - Intelligence agencies *(CIA, etc.)*

- **Insiders (Agents) have more and better information than the owners (principals)**

- **Corporations-internally & Governments-externally** try to:
  - Align motivations, incentives, actions and benefits
  - Monitor and control moves & practices

- Some applied measures & regulations:
  - Securities and Exchange Commission (SEC)
  - Generally agreed-upon accounting principles (GAAP)
  - Codetermination law (Mitbestimmungsgesetz in German law)
  - Equivalent Information

# Information Symmetry

| | |
|---|---|
| *Agency Issues* | ***Conflicting Roles***<br>■ Shareholders vs. Managers<br>■ Owners vs. Shareholders<br>■ Institutional vs. Retail Investors |
| *Noise Issues* | ■ How insiders use information?<br>■ How informed market players are being informed?<br>■ How Journalists set the communication agenda? |

# Government induced:

## *Regulations & Corporate Governance*

| | |
|---|---|
| **Board of Directors** | ♦ Inside directors: Senior employees of the company<br>♦ Outside directors: Not full-time employees of the company<br>*To provide objectivity to the monitoring and evaluation of processes.* |
| **Stock-based Compensation** | ◆ Stock options: Right to purchase company stock at a predetermined price at some point in the future<br>■ Strike price - Stock's trading price when the option was originally granted<br>■ Motivate managers to adopt strategies that increase the share price of the company<br>To align management and stockholder interests but these regulations have become increasingly controversial. |

# Government induced:

## *Regulations & Corporate Governance*

| | |
|---|---|
| **Financial Statements & Auditors** | ► Quarterly and annual reports of publicly traded companies are filed with the SEC:<br>■ to give accurate information about the way the agents run the company.<br><br>► SEC requires that the accounts be audited by an independent and accredited accounting firm:<br>■ to make sure managers do not misrepresent the financial information. |
| **Takeover Constraint** | ▲ Risk of being acquired by another company<br><br>▲ Corporate raiders - Purchase large blocks of shares in companies that appear to be pursuing strategies inconsistent with maximizing stockholder wealth<br><br>▲ Greenmail: Pushing companies to either change their strategy to benefit stockholders, or charging a premium for the stocks when the company wants to buy them back |

# Company applied:

## *Rules & Social Responsibility*

### Strategic Control Systems

Targets & Feedback

- Establish standards and targets against which performance can be measured
- Create systems for measuring and monitoring performance on a regular basis
- Compare actual performance against the established targets
- Evaluate results and take corrective action if necessary

### Employee Incentives

- Motivate employees to work toward goals central to maximizing long-term profitability

- Employee Stock Ownership Plans (ESOPs)
- Stock-option grants
- Bonus pay

# Normative & Ethical behaviour

- **Encourage** hiring and promotion with a well-grounded sense of personal ethics
- **Build** an organizational culture that places a high value on ethical behavior
  - **Code of ethics**: Formal statement of the ethical priorities to which a business adheres
- **Ensure** that managers practice and preach ethical behavior

- **Ensure** employees and stakeholders consider the ethical dimension of business decisions
- **Use** ethics officers
- **Put** strong governance processes in place
- **Act** with moral courage

**How an artistic combination of the CG and SR benefits ALL stakeholders….**

# Synthesis: Ethics and Strategy

## Ethics

- Accepted principles of right or wrong that govern the conduct of a person, the members of a profession, or the actions of an organization

## Business ethics

- Accepted principles of right or wrong governing the conduct of businesspeople

## Ethical dilemmas

- Situations where there is no agreement over exactly what the accepted principles of right and wrong are

# Ethical Issues in Strategy

- Due to potential conflict between:
  - Goals of the enterprise
  - Goals of individual managers
  - Fundamental rights of important stakeholders
- Noblesse oblige
  - Responsibility of people of high birth to give something back to the society that made their success possible

# Roots of Unethical Behavior

- **Personal ethics**: Generally accepted principles of right and wrong governing the conduct of individuals
- Failing to ask oneself if a decision is ethical
- Some organizational cultures de-emphasize business ethics
- Pressure to meet unrealistic performance goals
- Unethical leadership

*A) Competencies*
*B) Ethics*

## *C) Organizational Structures*

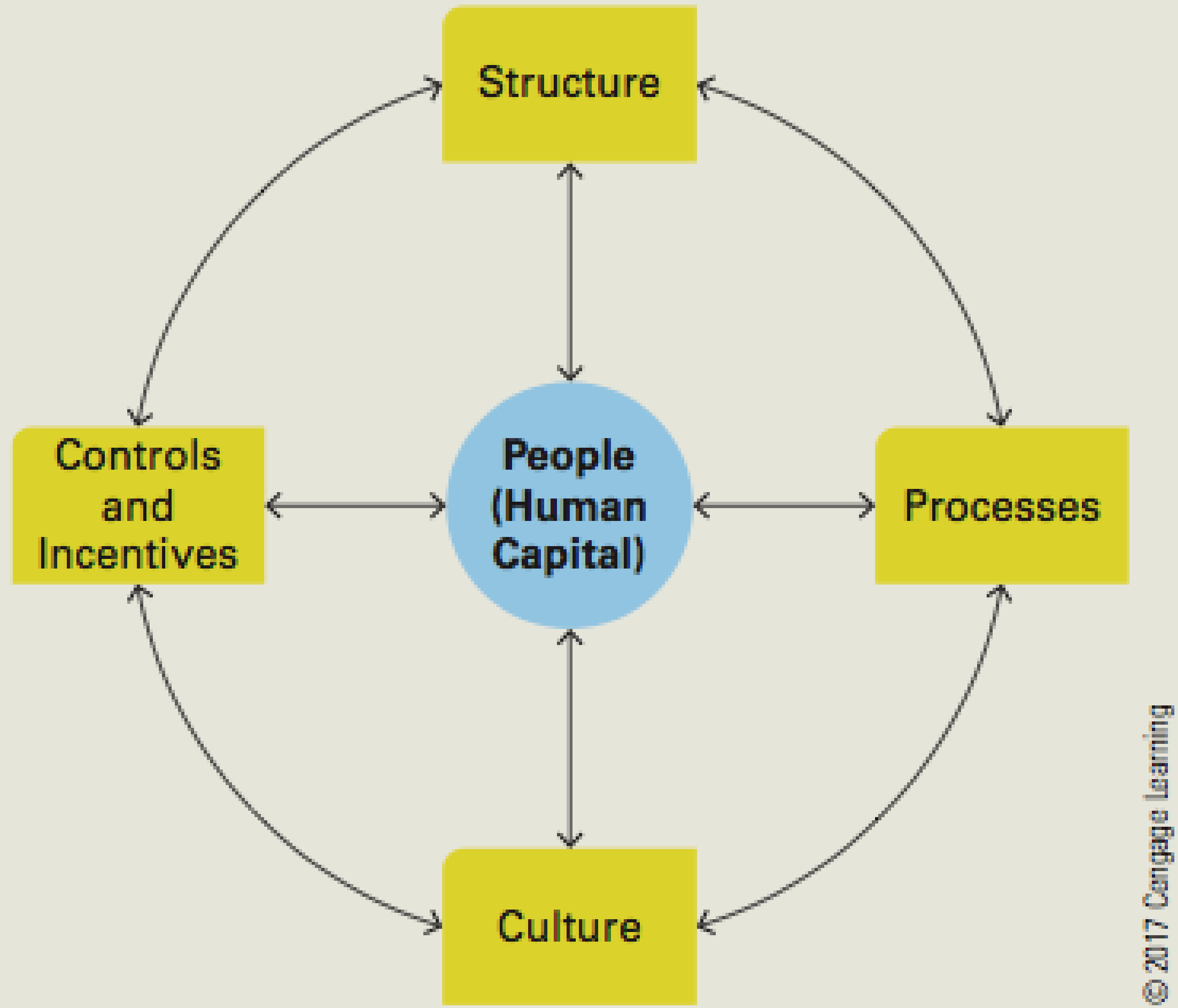
# Organizational Issues

- How Organizational factors **CCSP (Culture-Controls-Structure-Processes)** affect Strategic Formation, Competitive Advantage and Profitability?

- **Culture**
- **Controls & Incentives**
- **Structure**
- **Processes**

# Organizational factors CCSP

**Figure 12.1 Organizational Architecture**



# a) Culture

- **Organization culture**:
  - **Norms and value systems**
  - shared among the employees of an organization

- **People**:
  - The employees of an organization
  - Companies recruit, compensate, motivate and retain
    - individuals that **fit and add value**
      - via skills and capabilities

# Values & Norms

- **Convergence of values and norms**, shared by people and groups in an organization
  - **Values:** The ideas or shared assumptions about what a group believes to be good, right and desirable
  - **Norms:** Social rules and guidelines that prescribe the appropriate behavior in particular situations
- **Culture** can exert a profound influence
  - on the way people behave within an organization
  - on the decisions that are made
  - on the things that the organization pays attention to and
  - on the strategy and performance of the firm.

# b) Controls & Incentives

- **Controls**: Simple or complicated **Metrics** that
  - **Measure the performance** of divisions & units and
  - Evaluate how well managers are running them

- **Incentives**:
  – The **devices used to encourage** employee behavior.

**Mechanism** is used to monitor and evaluate the business model:

– Is the model working *(as intended)*

– How we can improve it?

**Types of Mechanisms:**

1. **Formal Integrating Mechanisms**
2. **Informal Integrating Mechanisms**

# 1. Formal Integrating Mechanisms (FIM)

- **Coordinate the activities**
  - of functions and divisions
  - to achieve the defined strategic objectives

- **Formal integrating mechanisms** utilize
  - direct contact
  - liaison people
  - teams
  - matrix structure

- The complexity of the FIM raises questions of effectiveness

# 2) Informal Integrating Mechanisms

- **Knowledge network:**
  - transmitting information within an organization
  - Formally and/or informally

- **Knowledge networks**
  - Thrive in “soft” organizational cultures
  - DNA formations
  - Excites & coincides with efficient teamwork
  - Avoid politics & disruptions
  - Promotes cross-unit cooperation…..

# Methods of Control

- **Personal control**:
  - by personal contact
  - direct supervision of subordinates
- **Bureaucratic control**:
  - a formal system of written rules and procedures
- **Output control:**
  - set for units or individuals to achieve and
  - monitor performance *(against those goals)*
- **Market control:**
  - regulation of the behavior of individuals and units
  - by setting up an *internal market* for some valuable resources *(i.e. capital)*

# Control via Incentives

- **Incentives**:
  - The devices used to encourage and reward appropriate employee behavior
- When incentives are tied to team performance they have the added benefit of
  - encouraging cooperation between team members and
  - fostering a degree of peer control.

➢ **Peer control:** The pressure that employees exert on others within their team or work group to perform up to or in excess of the expectations of the organization

# c) Structure

- **Organizational structure**:
  - the combination of the location of **decision-making responsibilities**
  - the formal division of the organization into subunits and
  - the establishment of integrating mechanisms to **coordinate the activities of the subunits**.

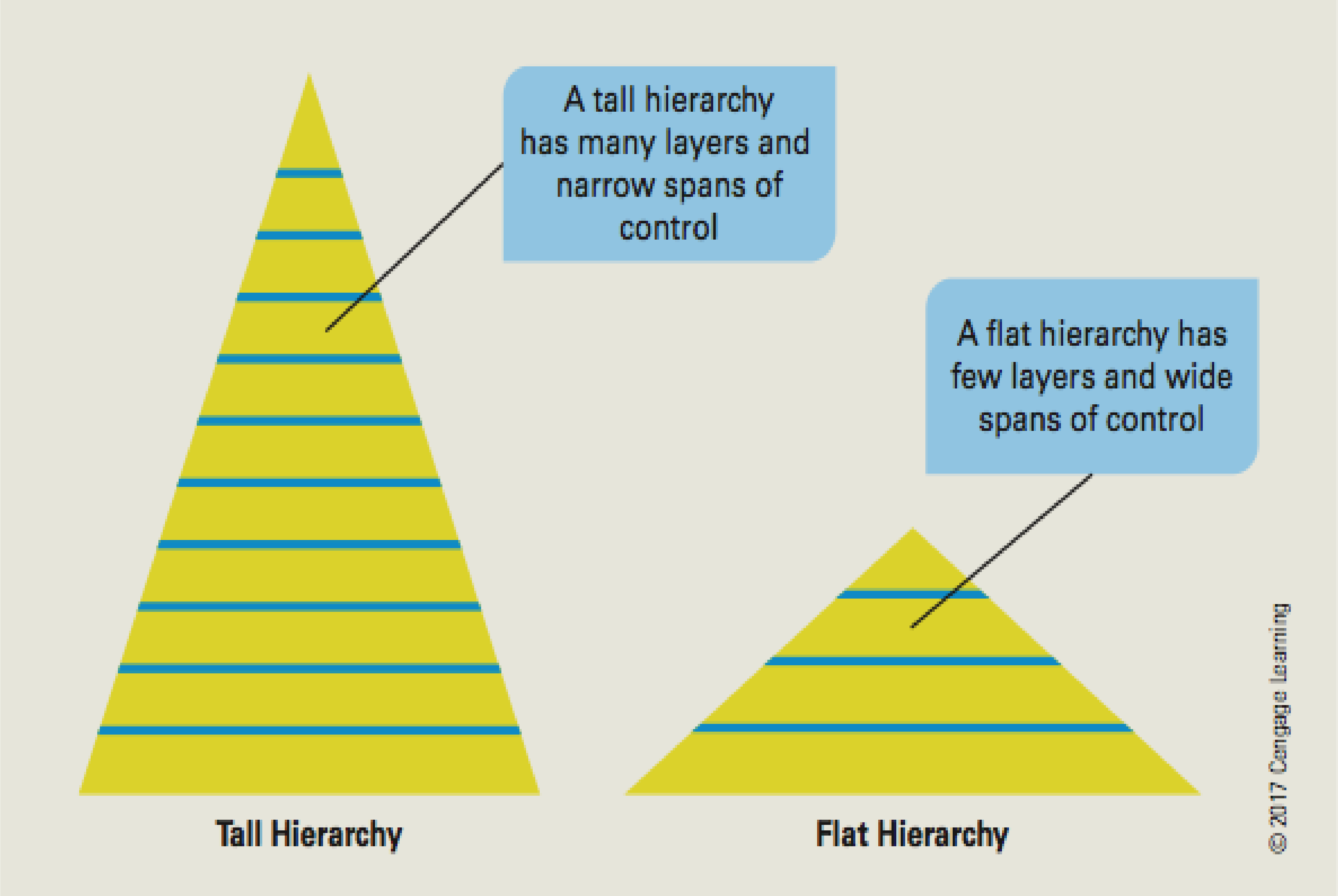
# Organizational Structure

- **Organizational structure** can be thought of in terms of three dimensions:
  a) **Vertical differentiation**: The location of decision making responsibilities within a structure, referring to centralization or decentralization, and number of layers in a hierarchy, referring to whether to organizational structure is tall or flat.
  b) **Horizontal differentiation**: The formal division of the organization into subunits.
  c) **Integrating mechanisms**: Processes and procedures used for coordination subunits.

# Example: Vertical Differentiation

- A firm's vertical differentiation determines where in its hierarchy the decision-making power is concentrated.
  - **Centralization**: Structure in which the decision making authority is concentrated at a high level in the management hierarchy
  - **Decentralization**: Structure in which the decision making authority is distributed to lower level managers or other employees
    - **Autonomous sub-unit**: A sub-unit that has all the resources and decision-making power required to run the operation on a day-to-day basis

## Figure 12.2 Tall Versus Flat Hierarchies



# Tall Organizations

## Limitations

- Communication problems
  - Long time taken in decision-making and adherence
  - Distortion of commands and orders
- Increases expenses

## Solution

- **Delayering**: The process of reducing the number of levels in a management hierarchy

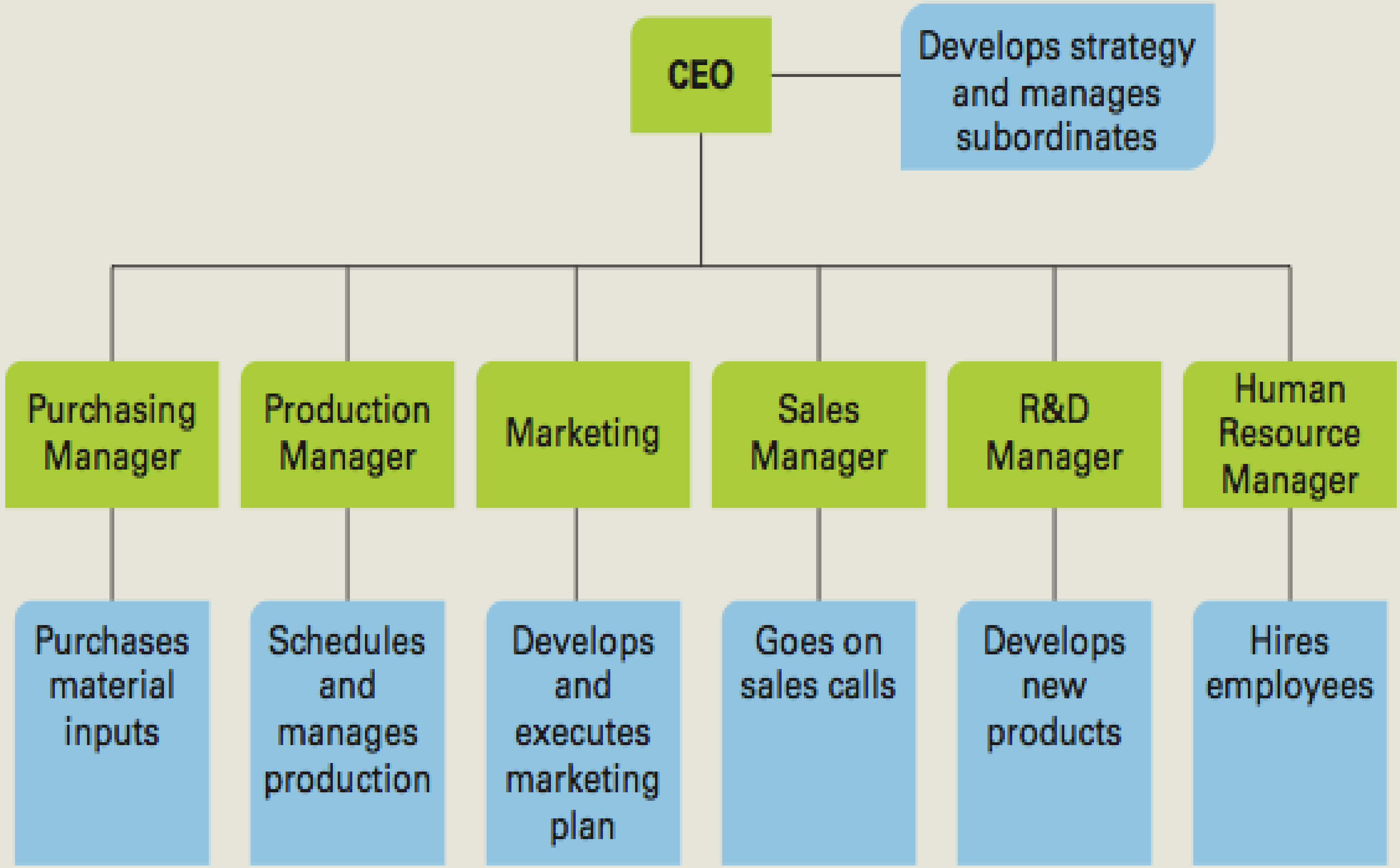
# i) Functional Structure

- **Functional structure**: The organizational structure is built upon the division of labor within the firm with different functions focusing on different tasks

  - Thus, there might be a production function, and R&D function, a marketing function, a sales function, and so on.

  - A top manager, such as the CEO, or a small top management team, oversees these functions. Most single businesses of any scale are organized along functional lines.

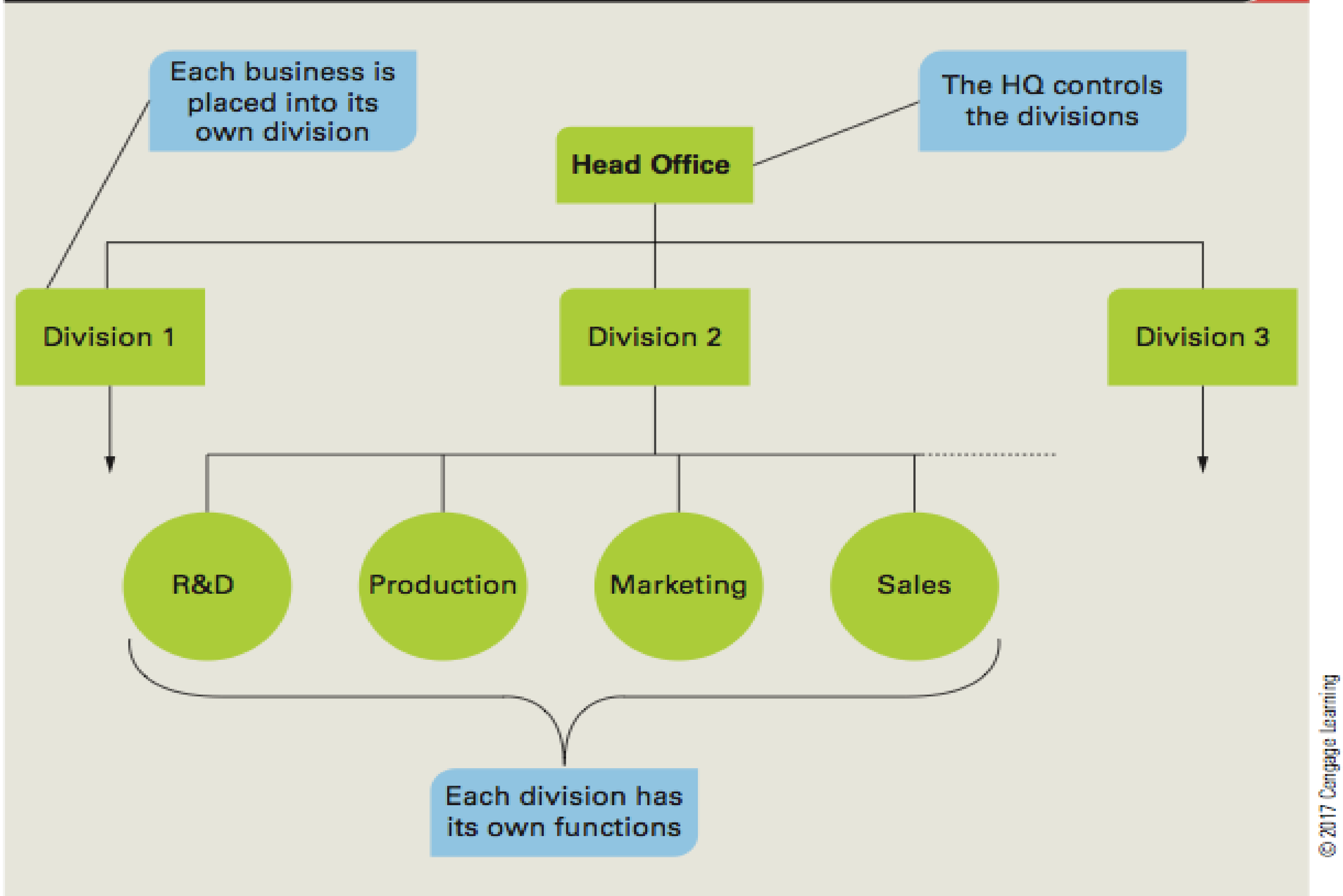
## Figure 12.3 A Typical Functional Structure



# ii) Multi-divisional structure

- **Multidivisional structure**: An organizational structure in which a firm is divided into divisions, each of which is responsible for a distinct business area.
  - Allows a company to grow and diversify while reducing coordination and control problems
  - Uses self-contained divisions and has a separate corporate headquarters staff

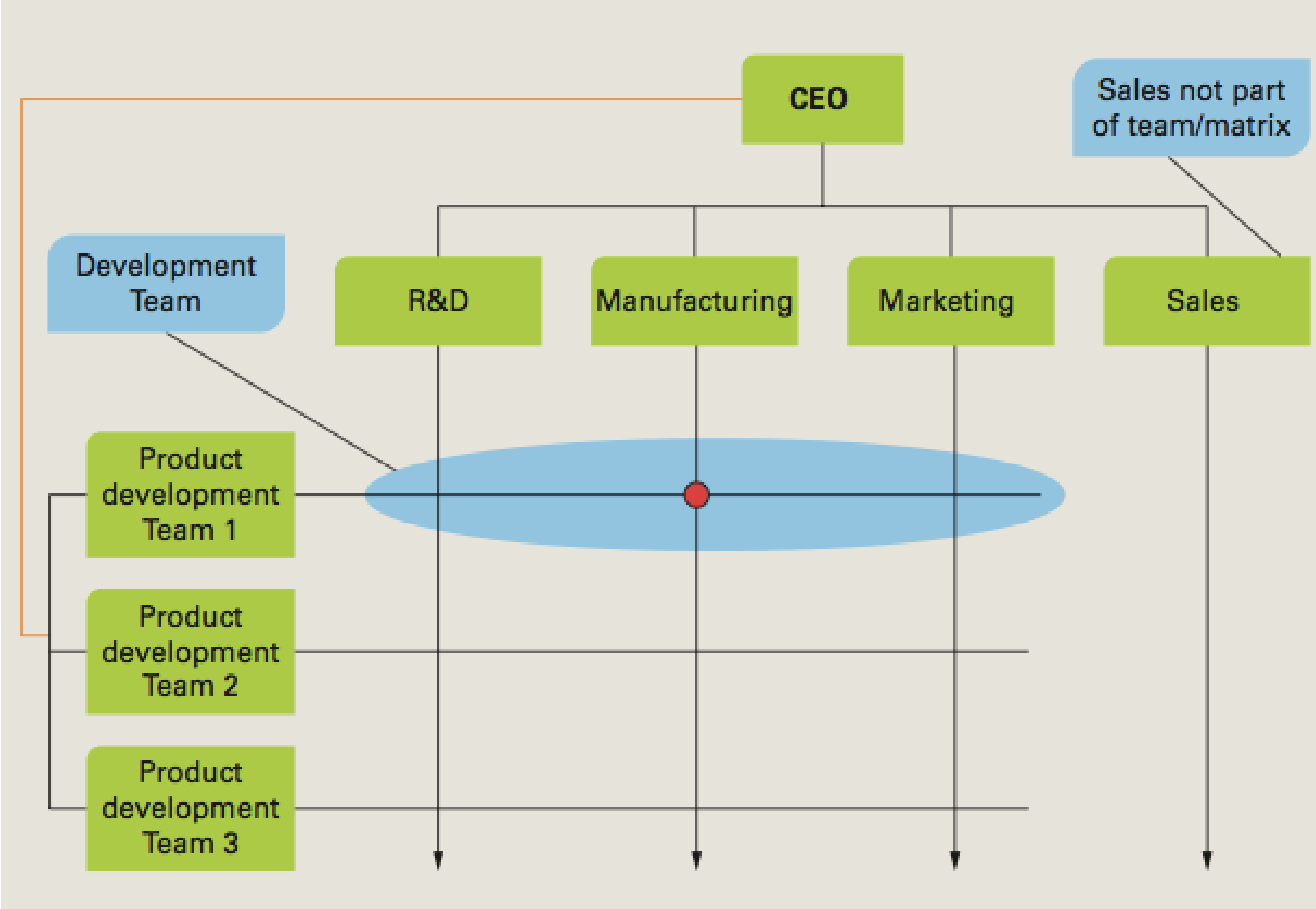
**Figure 12.4 A Multidivisional Structure**



# iii) Matrix Structure

- **Matrix structure**: An organizational structure in which managers try to achieve tight coordination between functions, particularly R&D, production, and marketing
  - High technology firms based in rapidly changing environments will sometimes adopt a matrix structure.

Figure 12.5 Matrix Structure in a High-Tech Firm



# d) Processes

- **Organization processes:** The manner in which decisions are made and work is performed within the organization.

# Technology

- How **Technology (exogenous) factors** affect Strategic Formation, Competitive Advantage and Profitability?

- **Technology & Technical Standards - Format wars (Differentiation)**
- **Technology & Cost Structures**
- **Technology & First mover strategies and rebuff**
- **Technology & Macro Technological Paradigm Sifts**

# 1) Technology & Technical Standards - Format Wars

**Technical standards**

- Set of technical specifications of products.

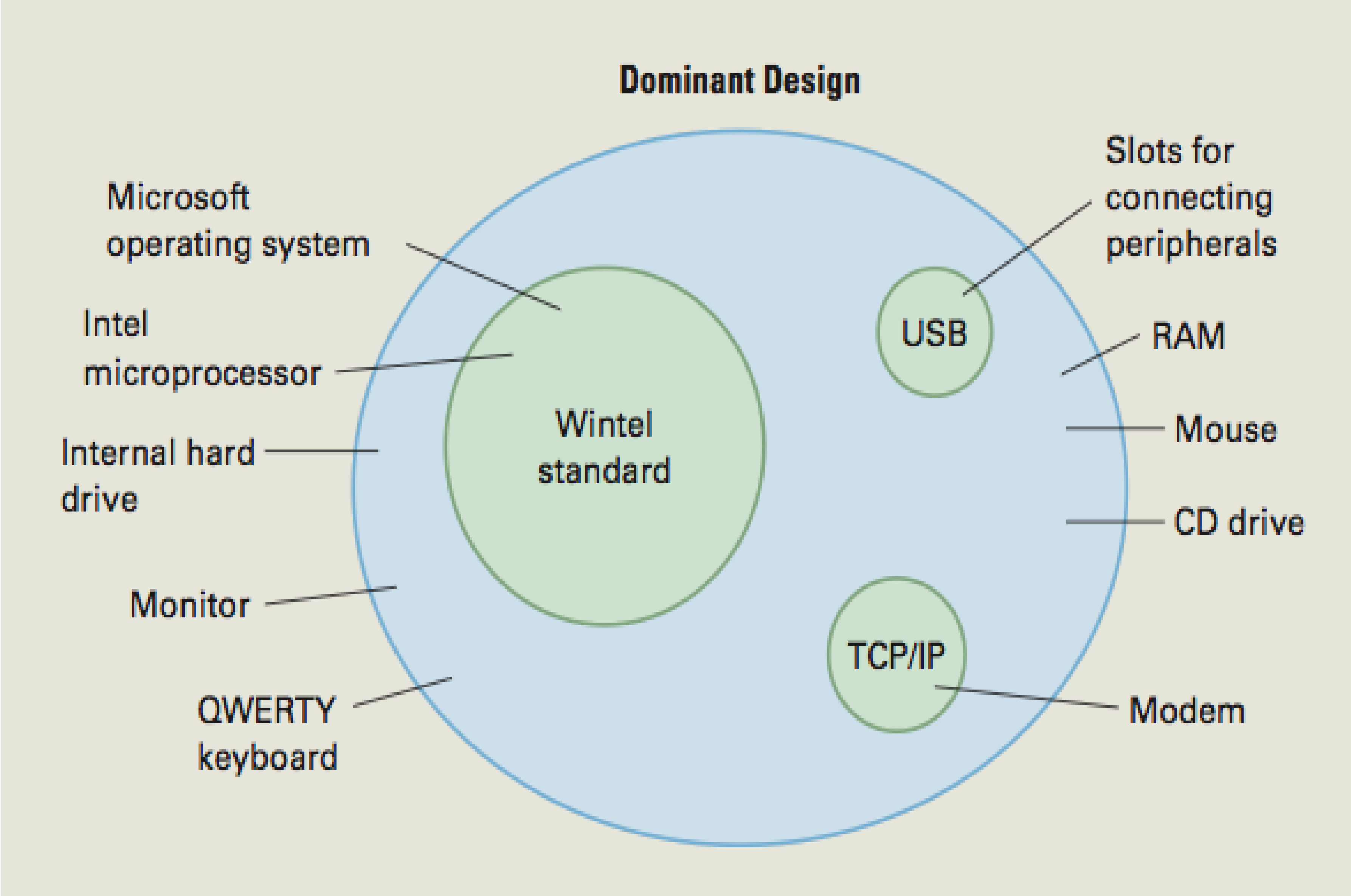
**Format wars**

- To control the source of differentiation
- To control the value adding to customers.

**Dominant design**

- Common set of features
- Most accepted design characteristics by market forces….

## Figure 7.3 Technical Standards for Personal Computers



# (+ve side effects)…. of Technical Standards

- Guarantees compatibility between products and their complements.
- Reduces production costs and risks associated with supplying complementary products. *(i.e. IPhone vs Android)*
- **Reduces confusion** in the minds of consumers.
- Leads to low-cost and differentiation advantages for companies.
- Helps raise the level of industry profitability.

# Establishment of Technical Standards

## Technical Standards

- **Emerge** and established in an industry when the benefits are recogn
- **Set**
  - *by cooperation among businesses, through the medium of an industry associatio*
  - *by the government (as public domain)*

***(Public domain:***

*Any company can freely utilize the knowledge and technology for its products).*

# ...Technical Standards

- **Network effects**:
  - Promoting **complementary products** →
    - Product demand (due to technical standards connectivity)

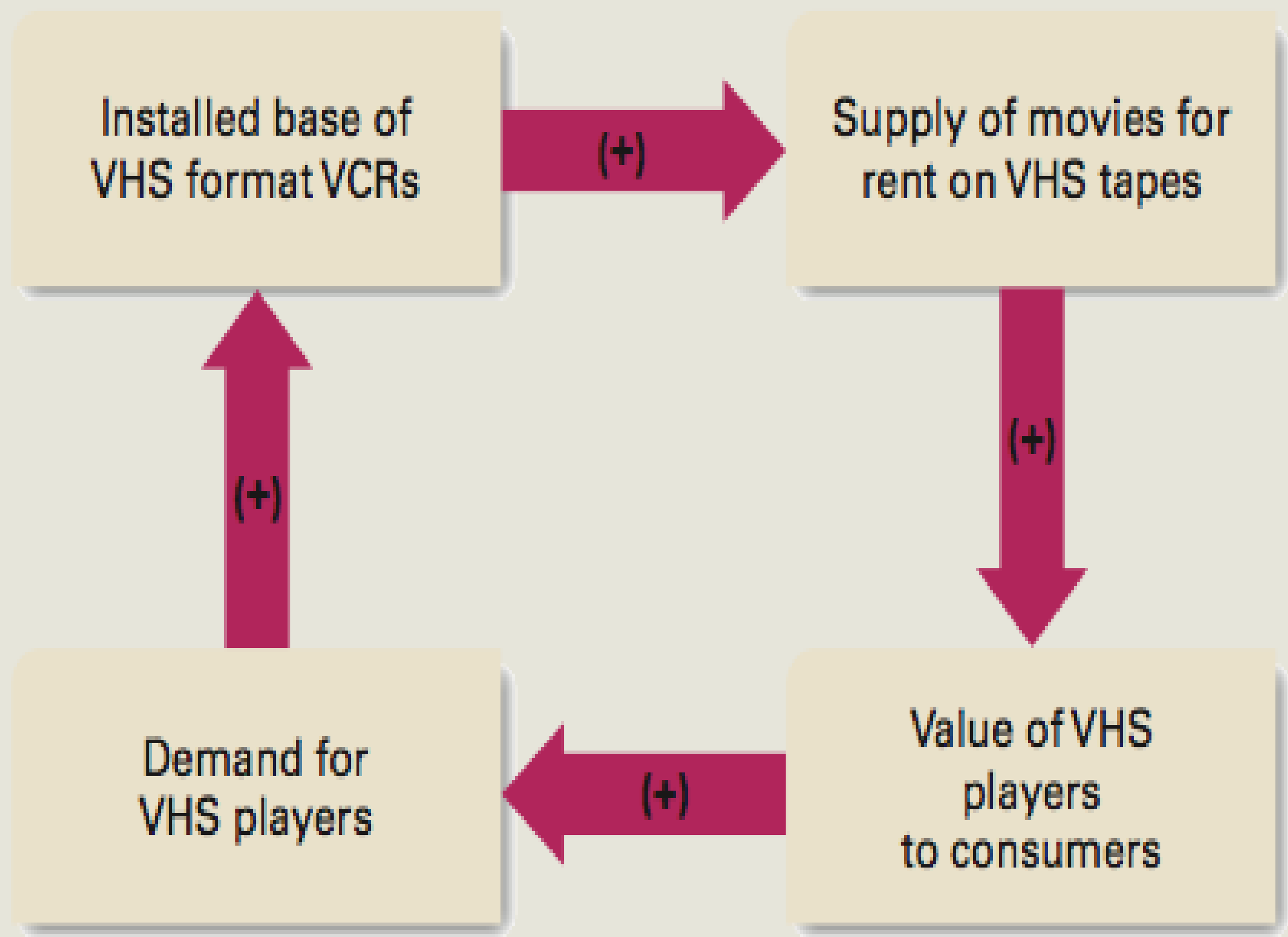
➢ **Positive feedback loops:**

↑ technology demand ↑ product demand

➢ Consumers can be **locked into** a technical standard

Alternative standards then are **locked out**

**Figure 7.4** Positive Feedback in the Market for VCRs



# Strategies for Winning a Format War

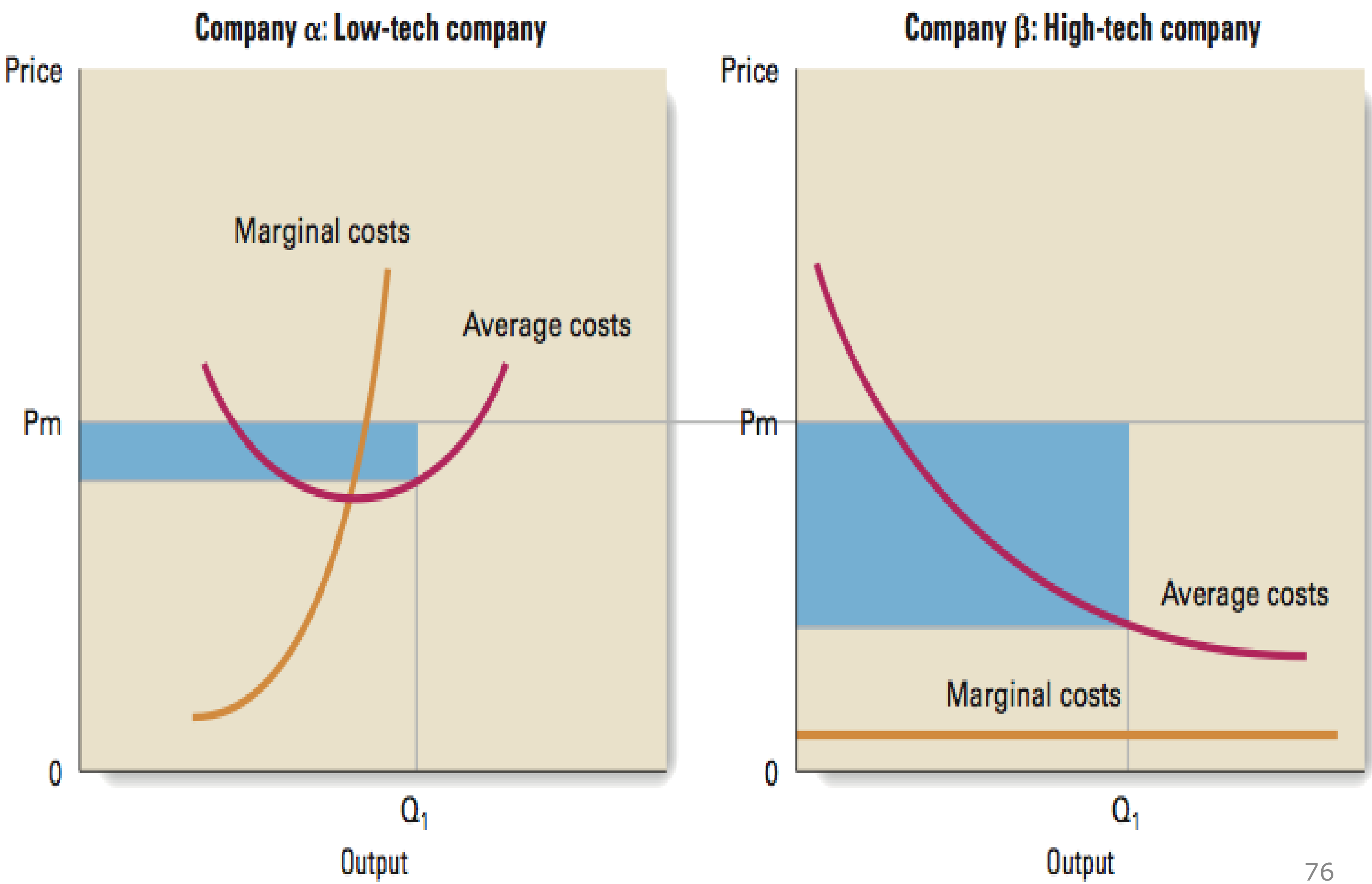
- Make network effects work in one's favor and against competitors.
- Build the installed base for the standard as rapidly as possible.
- Ensure a supply of complements.
- Leverage killer applications.
  - **Killer applications**: Applications or uses of a new technology or product so compelling that customers adopt them in droves, killing competing formats.
- Pursue aggressive pricing and marketing.
  - **Razor and blade strategy**: Pricing the product low to stimulate demand, and pricing complements high.
- Cooperate with competitors.
- License the format.

# 2) Technology & Cost Structures

- Very High Fixed Costs
- Very Low Marginal Costs
- Law of diminishing returns
  - Marginal costs rise as production increases

- Profitability increases when a company
  - *shifts from a cost structure*
    - *with increasing marginal costs to higher fixed costs with lower marginal costs.*

## Figure 7.5 Cost Structures in High-Technology Industries



# 3) First Mover strategies due to Technology

- **Pioneering Company**
  - Introduces first a product or service
  - Being first to offer it to the market.
  - A revolutionary product results in a monopoly position

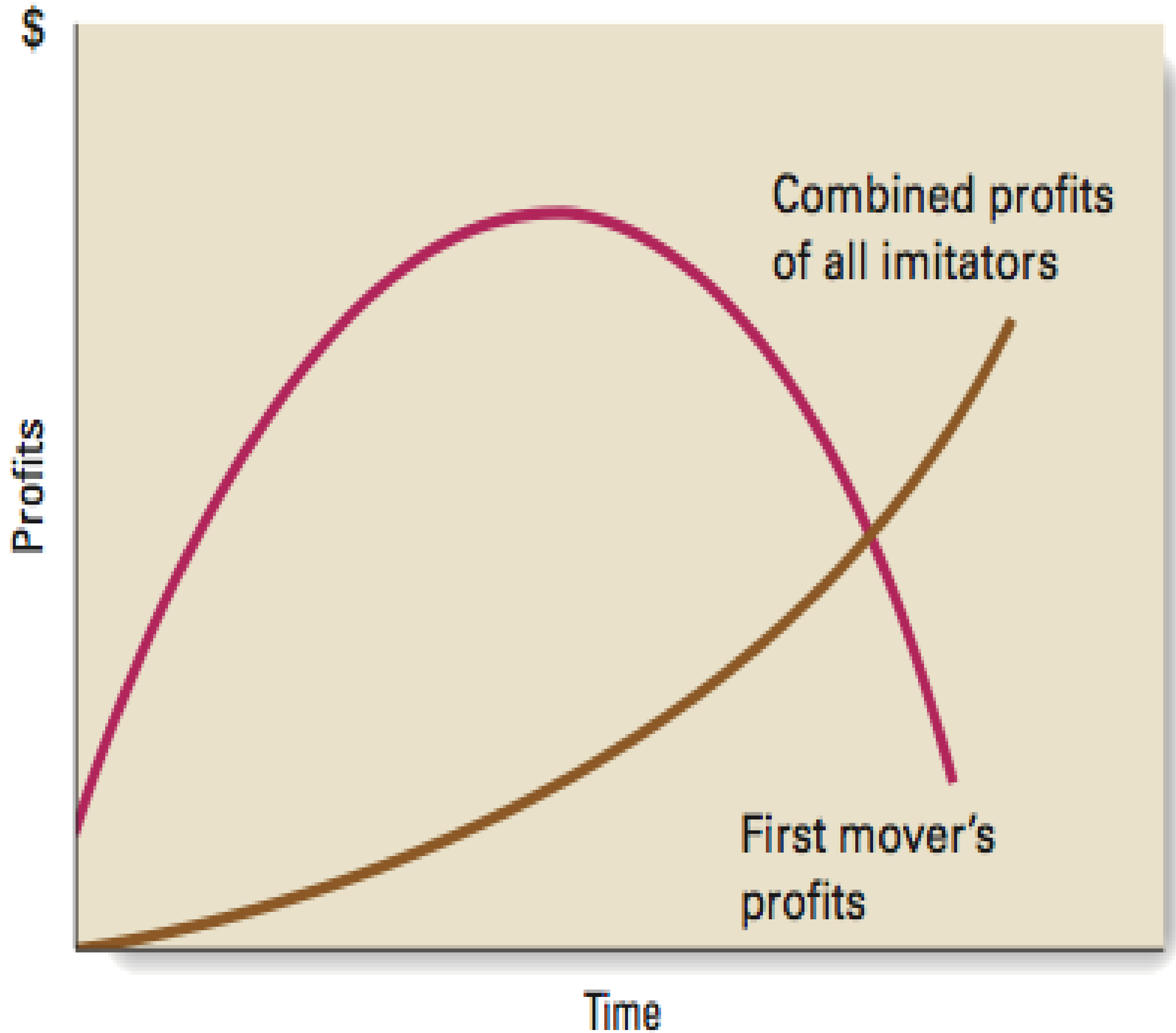
## First-mover advantage

- Once pioneering easily followed
- Continuous pioneering induce slow rate of copying/imitation

## First-mover disadvantage

- Bearing most of the cost
- FAST & FURIOUS.........

## Figure 7.6 The Impact of Imitation on Profits of a First Mover



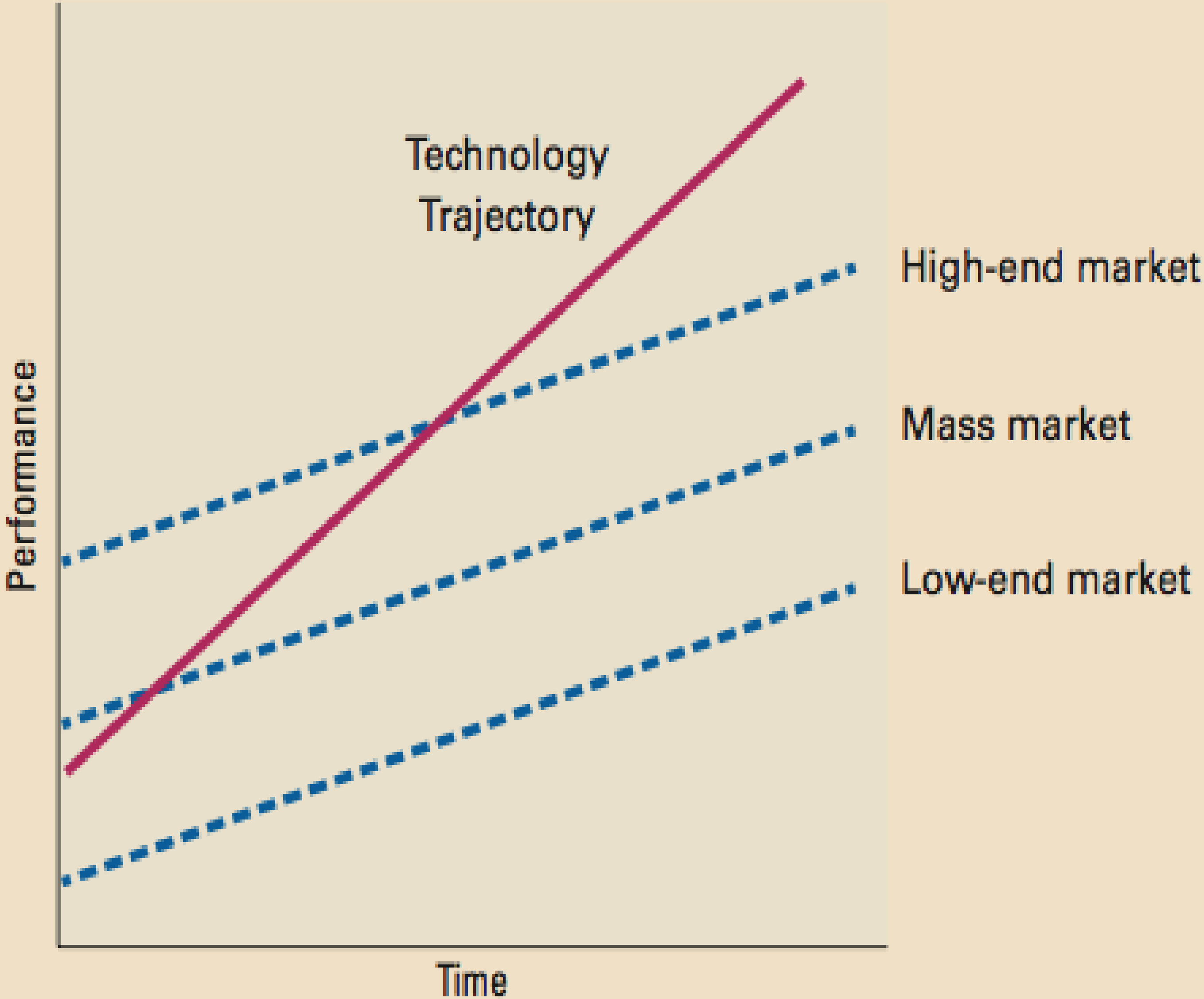
# Pioneering Pros & Cons

| *Advantages* | *Disadvantages* |
| --- | --- |
| ➢ Opportunity to exploit network effects and positive feedback loops.<br>➢ Ability to establish brand loyalty and increase sales volume ahead of rivals.<br>➢ Ability to create switching costs for customers and accumulate knowledge. | ○ Bear significant pioneering costs.<br>○ More prone to making mistakes.<br>○ Risk of building the wrong resources and capabilities.<br>○ Risk of investing in inferior or obsolete technology |

# Formulating a pioneering strategy

- **Utilize complementary assets to**
  - Exploit a new innovation
  - Gain a competitive advantage
  - Help build brand loyalty
  - Achieve rapid market penetration
- **Build high barriers to imitation/copy**
  - Defensive higher barriers confuse and discourage rivals to imitate
  - Offensive barriers by constantly innovating & creating an enduring advantage
- **Watch carefully for capable competitors**
  - Who can quickly imitate
  - Who has the capability
  - Who has the R&D skills
  - Who has access to complementary assets

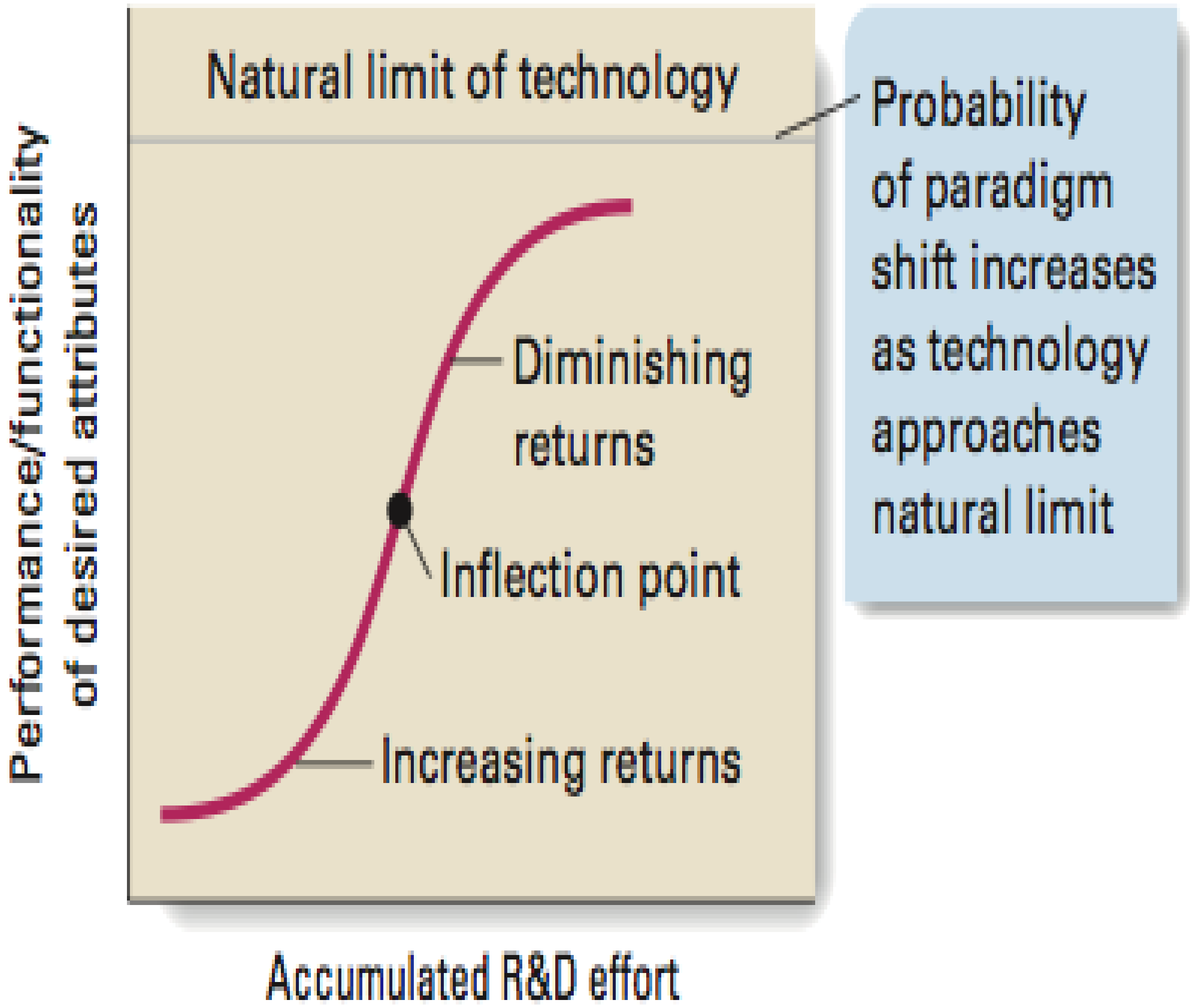
## Figure 7.1 Trajectories of Technology Improvement and Customer Requirements



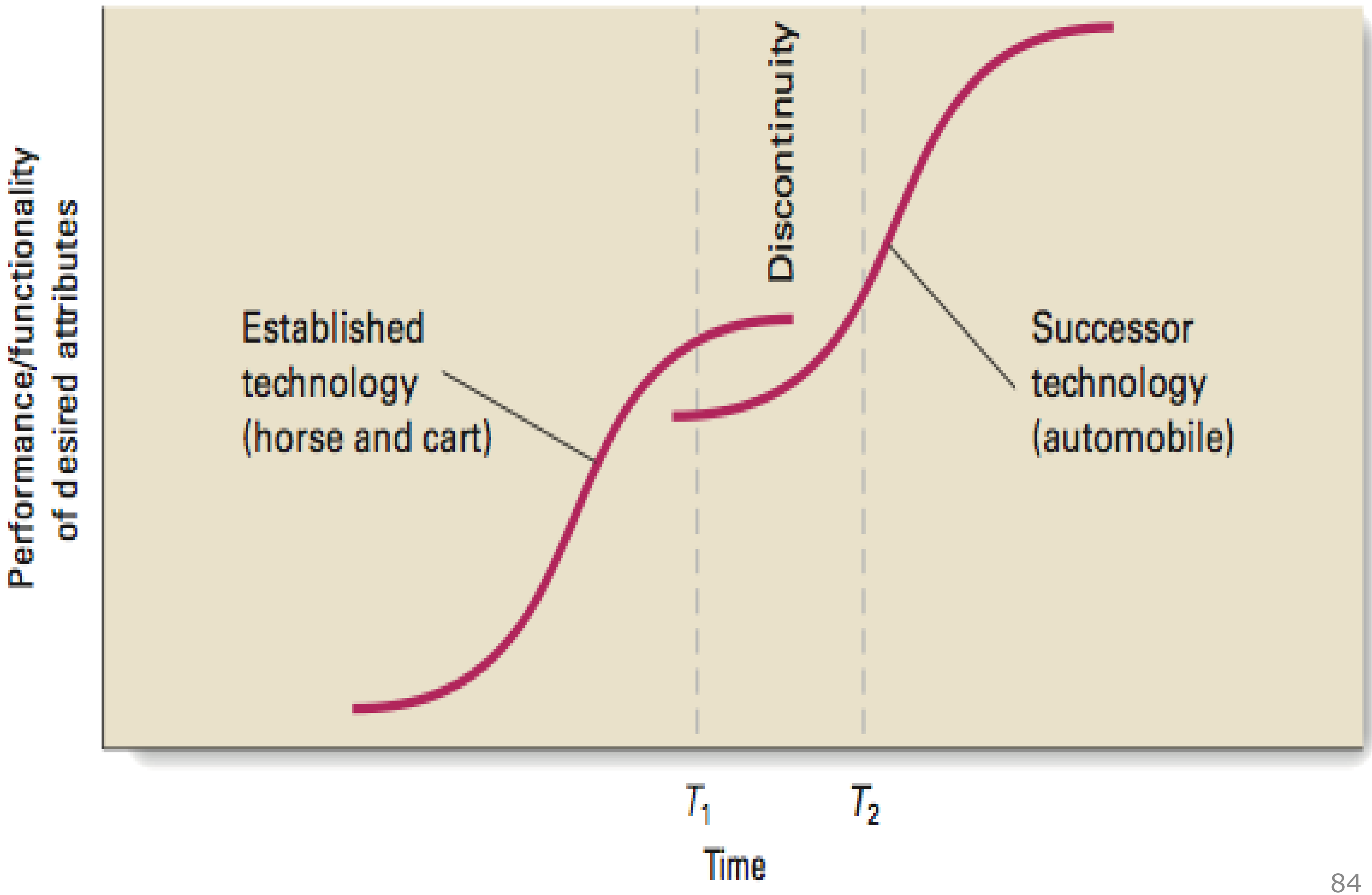
# 4) Macro-Technological Paradigm Shifts

- **Shifts in new technologies that:**
  - revolutionize the structure of the industry.
  - dramatically alter the nature of competition.
  - require companies to adopt new strategies for survival.
- **Occur in an industry when**:
  - established technology is approaching or is at its natural limit.
  - new disruptive technology has entered the marketplace and is invading the main market.

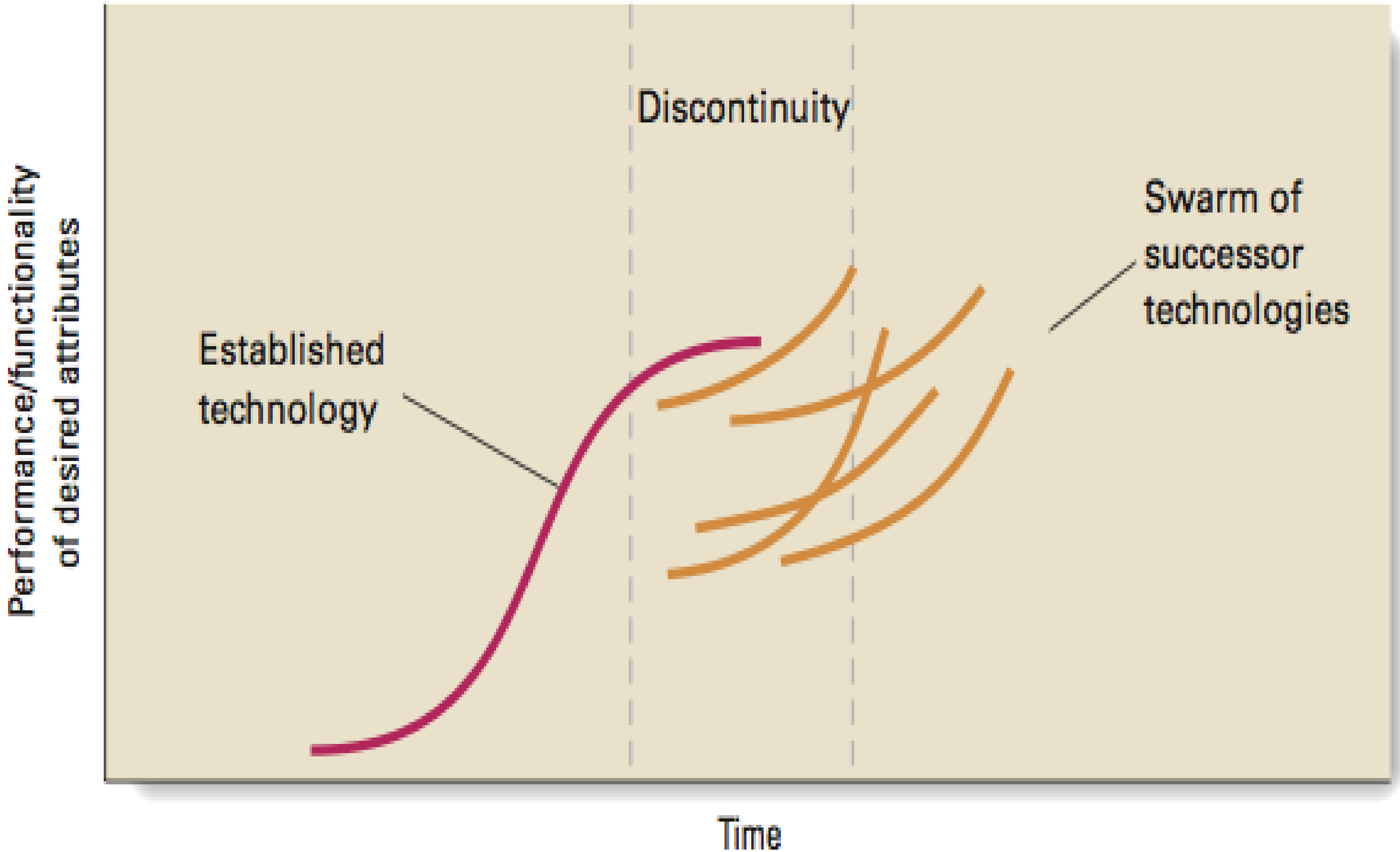
# Figure 7.7 The Technology S-Curve



## Figure 7.8 Established and Successor Technologies



## Figure 7.9 Swarm of Successor Technologies



# Strategic Implications for Established companies

- Being aware of how **disruptive technologies** can revolutionize markets is a valuable strategic asset.
- Investing in new technologies that may become disruptive technologies.
- Creating an autonomous operating division solely for the disruptive technology.

# Strategic Implications for New Entrants

- Do not face pressures to continue the existing out-of-date business model.
- Do not have to worry about established:
  - customer base.
  - relationships with suppliers and distributors.
- Can focus their energies on the opportunities offered by the new disruptive technology.
- Must decide whether to partner with an established company or go solo.