

Chapter 1.8

Strategic Positioning and Resource-Based Thinking: Cutting Through the Haze of Punditry to Understand Factors Behind Sustainable, Successful Internet Businesses

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ABSTRACT

This article synthesizes and leverages two strategic frameworks when analyzing the true nature of strategy and the Internet: (1) the concept of strategic positioning, and (2) the resource-based view of the firm. When considered together, these approaches create a powerful tool for understanding the factors determining the winners and losers among Internet businesses. Several examples of the applied framework are demonstrated. These frameworks also help challenge broken thought around many of the postbubble assertions regarding strategy and the Internet. This analysis is based on a series of case studies, with information drawn both from secondary sources as well as over 60 field visits with senior managers at

technology firms in Seattle, Silicon Valley, and Tokyo conducted from 2005-2006.

UNDERSTANDING COMPETITIVE ADVANTAGE

Strategic Positioning

To understand strategic positioning it is important to first recognize what it is not. Many firms claim to have crafted a sustainable strategy, only to realize that their competitive position is vulnerable and will be eroded over time. Vulnerable business models are often the result of relying on operational effectiveness. Operational effectiveness involves “performing *similar* activities *better* than rivals

perform them” (Porter, 1996). Being operationally effective is critical for sustained business. Firms must strive for improved quality and design, lower costs, and increased efficiency. However, operational effectiveness alone is almost never sufficient enough to determine winners over the long term. This is particularly true of Internet-based businesses where technologies are highly replicable (Shapiro & Varian, 1998).

Technology-based competition leveraging operational effectiveness often pushes firms to improve quality and lower cost. However, given that the steps taken are readily replicable, firms engaged in this sort of hyper competition often see profits decrease rather than increase (D’Aveni, 1994; Wiggins & Ruefli, 2005). There are many examples illustrating the challenges relating to the intensity of competition among Internet firms. For example, Gallagher and Downing (2000) demonstrated that among leading Web portal firms, leadership in feature innovation played no role in achieving market dominance. Rivals engaged in a rapid response feature war in which the average first competitive response matching a pioneering technical innovation was only 1.5 months. Forrester and Gomez rankings of the user experience among online brokerage firms reveal a similar pattern over time, with firms that have ranked last in one quarter’s reports subsequently moving up in less than a year to obtain top honors. Also consider the fate of many firms that are recipients of the Webby Awards. The Webbys, awarded by an international committee of 500, are considered by many to be the Oscars of user interface design. Yet despite being recognized for excellence, dozens of prior winners of the Webby Awards have gone bankrupt, had their stocks delisted, or dramatically scaled back operations (Wired, 2003). Design and feature innovation are vital and too many firms have failed in execution due to poorly conceived user experiences; however, design excellence alone is not enough to build a sustainable online winner.

So how do firms succeed? Proponents of strategic positioning suggest sustainable advantage is achieved through differences. Strategic positioning refers to “performing *different* activities from rivals’ or performing similar activities in *different ways*” (Porter, 1996). To return to the case of discount brokerages, while the various online discount brokerages have jockeyed for position in usability rankings, one firm, Schwab, has achieved consistent and sustainable competitive advantage, ranking #1 in market share leadership since first going online in the mid 1990s. Schwab’s differences are not attributable to easily matched advantages such as lower fees or superior interface, but rather to difficult-to-acquire assets including the nation’s largest branch network and the strong Schwab brand. A full 70% of new Schwab members open accounts through the branch network, while the vast majority of these new customers are immediately migrated to electronic trading channels for subsequent interactions (Myers, Pickersgill, & Van Metre, 2004).

Proponents of strategic positioning argue that organizational *differences* can help a firm avoid the self-inflicted wound of hyper competition by insulating a firm against competitive convergence enabled by the rapid diffusion of best practices (Porter, 2001). Firms are advised to choose strategies that confront competitors with tradeoffs that these rivals are unable or unwilling to efficiently undertake. Such trade-offs would result in competitors straddling markets, often resulting in rivals attempting to deploy business models with divergent capital structures, alternate margin and volume demands, and nonsynergistic assets (Porter, 1995). The classic nontech example of straddling is the response of major carriers to Southwest Airline’s position. By eschewing hub and spoke systems, tiered service classes, meals, travel agents, and flying one fleet of aircraft, Southwest has built a value chain that is so efficient that competing carriers would need to cut roughly 20% of their cost structure to attain comparable margins. Many firms, including Continental with

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