

INDEX

- Access:
to capital, 63
to distribution channels, 162–164
- Accommodated entry, 161
- Accounting data, 49–50
- Acquiring scarce assets, 56–57, 179–180
- Activity-based costing, 78
- Activity cost analysis, 78
- Adjustment costs, 159
- Advantages of firm:
documenting, 23
identifying, 9
leveraging, 22–23
- Advocate Healthcare, 221
- Airbus, 158
- Airline industry, *see also specific airlines*
cost jargon for, 205–207
fixed versus sunk costs in, 157–158
frequent flier programs of, 134–135
hub-and-spoke system of, 207, 211–212
market definition, 207–208
point-to-point travel of, 207, 212
preannouncement of price hikes in, 139
short-term focus and, 122
- Allegheny Hospital Education and Research
Foundation (AHERF), 7
- All-in costs, measuring, 83–85
- Amazon, 170–171, 184
- American Airlines, 28, 116, 122, 170
- Analysis:
activity cost, 78
conjoint, 91, 92
consonance, 17, 19–20
goal of strategic, 11
industry, 16–21, 23, 99–100
net present value (NPV), 156–157, 172,
174–175
principal questions (PQs) and, 9–10
SWOT (Strengths, Weaknesses,
Opportunities, and Threats), 20–21
value added, 74–78
- Anheuser-Busch, 62
- Antitrust laws:
conspiracy to fix prices and, 137–138
predatory pricing and, 141, 167
softening price competition and, 143–144
- Assets:
acquiring scarce, 56–57
brand names as, 66–67
cospecialized, 57–61, 180
mobile, 55–61
scopable, 61–64
- Asymmetries:
entry barrier and, 163, 165
sunk costs and, 157–159
- ATA (airline), 158–159, 207, 213
- Atari, 183, 184
- AT&T, 193
- Attrition, *see* War of attrition
- Auction game, 146–147
- Audio, high resolution, 195–196, 198
- Available seat-mile (ASM) cost, 206–207
- Avon Products, 49, 50
- Bain, Joseph, 161–162
- Barnes & Noble, 170–171
- B–C framework:
advantages of, 46–47
disruptive technologies and, 37–38
exploiting in differentiated goods markets,
45–46
flexibility of, 34
overview of, 15, 28, 31–33
price and, 42, 45
quantitative assessment of, 73–74
Southwest Airlines through, 208–211
stuck in middle strategy and, 35–37
suppliers, targeting, 41–42
target customer segment, identifying, 38–39
- Benefit advantage, quantifying, 82–85
- Benefits:
description of, 31
intangible, measuring, 85–86
Southwest Airlines, 210
targeted, 41–42
time-saving convenience, 93
- Bertelsman Group, 199
- Besanko, David, 12
- Betamax/VHS war, 197–198
- Black-Scholes model, 175
- Blockaded entry, 162
- BlueCat Network, 27

- Boeing, 158
- Boies, David, 56
- Boston Consulting Group growth/share paradigm, 186–188
- Box office revenues, 67–68
- Brand loyalty, 131
- Brand name as asset, 66–67
- Braniff Airlines, 170
- Breakfast cereal industry:
 - distribution channel access and, 162–163, 164
 - price leadership and, 123, 139
 - price war in, 109
- British satellite television business, 149
- Broadcast network industry, 54
- Building loyalty through switching costs, 133–137
- Business environment for firm, 9
- Buyer power, 17, 19
- Buyer uncertainty, 185
- Call options, 174–175
- Canon, 177–178
- Capabilities:
 - definition of, 50
 - resources compared to, 51
- Capital, access to, 63
- Centers of Excellence, 220–221
- Chance, element of, in competition, 199–200
- Chicago Bears, 200
- Chicago hospitals, *see* Hospitals
- Chodorow, Jeffrey, 170
- Christensen, Clay, 37
- Circuit City, 197
- Cisco Systems, 178
- Citadel, 27
- Cohen, Arthur, 170
- Cola Wars, 107–109, 111, 131
- Commitment to winning, 150–151
- Commonwealth Edison, 101, 103–104
- Community hospitals, *see* Hospitals
- Compaq, 183–184
- Competition, *see also* Price competition
 - cancer of, 100–101, 127–128
 - chance, element of, in, 199–200
 - dealing with, 23
 - destructive, 28–29
 - diagnosing, 100–102, 124
 - division of value and, 128
 - facets of, 102
 - facilitating practices and, 123, 137–144
 - identifying, 103–106, 214–217
 - industry analysis and, 99–100
 - laughing last and, 146–151
 - market structure and, 106–107
 - nature of demand and, 113–116
 - nonprice, 110–111
 - price wars, 109–110, 128–137
 - substitutes and, 103
 - throwing stones and, 144–146
 - who of, identifying, 103–106
- Competitive advantage, theory of, 70. *See also* Sustaining competitive advantage
- Competitive Advantage* (Porter), 33
- Competitive levers, 107–109, 217
- Competitive Strategy* (Porter), 4, 33
- Complementarities, 63–64, 182–183
- Complementary goods markets, 198
- Conjoint analysis, 91, 92
- Consonance analysis, 17, 19–20
- Conspiracy to fix prices, 137–138
- Consulting firms, 57–59
- Coopetition* (Brandenberger and Nalebuff), 128
- Core competencies, 27–30
- Cospecialized assets, 57–61, 180
- Cost advantage, 33, 78–82
- Cost drivers, 78–79
- Costs:
 - adjustment, 159
 - airline industry, 205–207
 - all-in, measuring, 83–85
 - description of, 31
 - fixed-overhead, 206
 - hospitals and, 220
 - Southwest Airlines, 208–209
 - sunk, 156–161
 - switching, 133–137, 159, 193–194
 - user, 32
- Crandall, Robert, 122, 137–138, 144
- Cravath, Swaine & Moore, 56
- Customer price sensitivity, 114, 129
- Customers:
 - superior access to, 180
 - target segment, 38–39, 41, 129–130
- Davis, Al, 110
- Deep pockets theory, 149–150
- Dell, Michael, 184
- Dell Computer, 2–3, 49, 50
- Deterring entry:
 - access to distribution channels, 162–164
 - checklist for, 173
 - excess capacity and, 168–169
 - limit pricing, 164–166
 - overview of, 161–162
 - predatory pricing, 167–168
- Differentiated goods markets, 45–46
- Differentiation:
 - diverse, and willingness to pay, 91–97
 - horizontal, 86
 - vertical, 85
- Differentiation advantage, 33–34
- Discipline, 39, 41
- Discontinuities, 36
- Disney, 65–70
- Disruptive technologies, 37–38
- Distribution channels, access to, 162–164
- Diverse differentiation and willingness to pay (WTP), 91–97
- Diversification into new markets, 61–62

- Diversified firms and limit pricing, 165–166
 Dreamworks SKG, 68, 69
 DVD/DIVX war, 197
- Early adopters, appealing to, 196–197
 Early mover advantages:
 building market share and, 24
 defense of, 184–185
 learning curve, 185–193
 overview of, 183–184
 seller reputation and buyer uncertainty, 185
 sustainability and, 21
 switching costs and, 193–194
- eBay, 49, 50, 194
- Economic approach to cost comparisons, 78–79
- Economic profit:
 calculating, 11–13
 maximizing, 23
 in situations of high risk, 24
- The Economics of Strategy* (Besanko, Dranove, Shanley, and Schaefer), 4, 17
- Edward Jones, 180
- Eisner, Michael, 67–68
- Emerging technology markets, 115
- Emulating winners, 3–4
- Enterprise (car rental), 130
- Entry, *see also* Real options theory
 Chicago hospitals and, 218
 description of, 17
 detering, 161–169, 173
 sunk costs, asymmetries, and, 156–161
 threat of, 155–156
- Evanston Hospital, 80–82
- Examples of strategies, 8
- Excess capacity, 168–169
- Execution: The Discipline of Getting Things Done* (Bossidy, Charan, and Burck), 2
- Execution as complementary to strategy, 2
- Expected postentry earnings, 157
- Experience, *see* Learning curve
- Experience goods, 131–133
- Facilitating practices, 123, 137–144
- Firm map, creating, 13–14
- Five forces framework, 16–17
- Fixed compared to sunk costs, 157–158
- Fixed-overhead costs, 206
- Flight-sensitive costs, 205, 206
- Focus strategy, 34
- Football leagues, 109–110, 148–149
- Foot Locker, 55–56
- Forrest, Nathan Bedford, 183
- Four-firm concentration ratio, 106
- Frequent customer programs, 134–136
- Game theory, 142–143
- Gap stores, 56
- Garan Inc., 136–137
- Gates, Bill, 61
- Gateway, 2–3
- Genentech, 94–95
- General Electric (GE), 139–140, 160–161
- General Motors (GM), 115
- Generic strategies:
 disruptive technologies and, 37–38
 overview of, 33–34
 stuck in middle, 34–37
- GlaxoSmithKline, 53
- Goal of strategic analysis, 11
- Good to Great* (Collins), 3
- Growth/share matrix, 186–188
- Health insurance, *see also* Managed care organizations (MCOs)
 hospital competition and, 217
 secret pricing and, 117–118
- Hedonic pricing, 91, 93–94
- Hedonic value of life, 94–95
- Herfindahl index, 106–107
- Hewlett-Packard (HP), 2–3
- Hicks, Tom, 100–101
- High-risk situations, evaluation during, 24
- Horizontal differentiation, 86
- Hospitals:
 in Chicago, 214
 competition in 1990s, 218–219
 competition prior to 1990, 217–218
 competitive levers in, 108–109, 217
 competitor identification, 214–217
 cost drivers for, 79, 80–81
 elasticity of demand for, 111
 entry barriers, 218
 future and, 227–228
 horizontal mergers of, 221–222
 information technology and, 226–227
 managed care backlash and, 224–225
 market structure and, 216
 physician partnerships and, 222–223, 225, 226
 ratings of, 227
 responses to competitive pressures, 219–224
 risk contracting and, 223–224
 value creation and, 225
- Hub-and-spoke system of airline industry, 207, 211–212
- IBM, 185
- Identifying:
 advantages of firm, 9
 competition, 103–106, 214–217
 core competencies, 27–28
 target customer segment, 38–39
- Immobility, 54–57
- Impediments to imitation:
 description of, 178, 179–180
 intangible, 181–182
 strategic fit and, 182–183

- Industry analysis:
 competition and, 99–100
 key question of, 23
 overview of, 16–21
- Input markets and competition, 100–101, 104
- Inputs, superior access to, 180
- In Search of Excellence* (Peters and Waterman), 3
- Institutional knowledge, 11
- Intangible benefits, measuring, 85–86
- Integrated delivery system (IDS), 221, 226
- Internal rivalry, 16, 17. *See also* Competition
- Investment under Uncertainty* (Dixit and Pindyck), 175
- Isolating mechanisms, 178, 201
- Jauron, Dick, 200
- Judo economics, 169–171
- Katzenberg, Jeffrey, 68–69
- Kelleher, Herb, 213–214
- Kellogg's, 109, 139
- Krazy Glue approach, 131–133
- Kroc, Ray, 61, 62, 63
- Labor costs and utilization of labor force, 209
- Lake Wobegon Syndrome, 73
- Learning by observation, 3
- Learning curve:
 Boston Consulting Group growth/share paradigm, 186–188
 firm-specific versus task-specific learning, 189
 organizations and, 191–193
 overview of, 185–186
 stability of technology and market demand, 189–190
 steepness of, 188–189
- Lego solution, 136–137
- Leveraging advantages, 22–23
- Levi's jeans, 56
- Lewent, Judy, 175
- Library, books for, 2–4
- Limit pricing, 164–166
- Load factor, 206, 212
- Lockheed, 192
- Loyalty switching, 114–115
- Lucent Technologies, 121
- Luck, element of, in competition, 199–200
- Lumpy contracts, 118
- Magnetic resonance imaging (MRI) market, 159–161
- Mail order pharmacies, 118, 188–189
- Malone, Karl, 60
- Managed care organizations (MCOs), 96–97, 215, 218–219, 224
- Market definition for airline industry, 207–208
- Marketing and sales, 190
- Market share growth, 121
- Market structure and competition, 106–107, 216
- Martin-Brower Company, 34
- McDonald's, 61–62
- McGinn, Richard, 121
- Mean regression, 200
- Measuring, *see* Quantifying
- Medical Arms Race, 218
- Medical underwriting, 223
- Merck, 20, 28, 175
- Merger implementation, 53–54, 181–182
- Mergers of hospitals, 221–222
- Microsoft, 61, 115, 166, 171
- Misreads and misjudgments, 119–120, 144–145
- Mobile assets:
 description of, 55–56
 reducing, 57–61
- Monopoly profits, lure of, 197–198
- MRI (magnetic resonance imaging) market, 159–161
- Multinomial choice modeling, 91, 95–97
- Multiplier effect for price reductions, 112
- Murdoch, Rupert, 109, 149
- National Collegiate Athletic Association (NCAA), 59–60
- National Football League (NFL), 109–110, 148–149
- National Opinion Research Center, 87
- Nestlé, 115
- Net operating profits after tax (NOPAT), 12
- Net present value (NPV) analysis, 156–157, 172, 174–175
- Netscape, 171
- Network effects:
 competing in, 196–198
 overview of, 194
 standards and, 194–196
- The New Market Leaders* (Wiersema), 3
- Nike, 55–56
- Nintendo, 183, 184
- Nonprice competition, 110–111
- Nordstrom, 3
- North American Industrial Classification System (NAICS), 106
- Nucor, 191–192
- Objectives, clarity of, 36
- Omidyar, Pierre, 194
- OPEC, 141
- Organizational practices as scorable assets, 63–64
- Organizing information for strategy analysis:
 economic profit, calculating, 11–13
 firm map, creating, 13–14
- Output markets and competition, 100–101, 104, 105
- Patents, 179
- Personnel practices and learning curve, 191–192

- Pharmaceutical industry, 20, 52–54, 108–109, 111. *See also specific firms*
- Pharmacia, 53–54
- Philip Morris, 167
- Physician partnerships, 222–223
- Pixar Studios, 69–70
- Point-to-point travel of airline industry, 207, 212
- Porter, Michael, 33, 74, 182
- Positioning firm:
 - core competencies, 27–28
 - overview of, 15–16, 24
- Predatory pricing, 141, 167–168
- Price:
 - airline industry and, 206
 - B–C and, 32, 42, 45
 - exploiting competitive advantage through, 45–46
 - measuring benefits in dollars and, 82
 - transfer type, 75
- Price competition:
 - misreads and misjudgments, 119–120, 144–145
 - motives for, 120–121
 - nature of transaction and, 116–118
 - overview of, 111–112
 - short-term view and, 121–122
 - softening, 143–144, 152
 - triggering, 113
- Price leadership, 123, 138–139
- Price wars:
 - effects of, 109–110
 - entry and, 167–168
 - preventing, 128–129
 - unilateral action—building loyalty through switching costs, 133–137
 - unilateral action—Krazy Glue approach, 131–133
 - unilateral action—targeting approach, 129–131
 - as wars of attrition, 147
- Principal questions (PQs) and analysis, 9–10
- Prisoner's dilemma game, 142–143
- Product, identifying competition at level of, 104
- Production process, 62–63, 190
- Profits, *see also* Economic profit
 - core competencies and, 28–30
 - industry performance and, 99–100
 - total, computing, 76
 - value added analysis and, 74–78
- Qualitative approach to cost comparisons, 79–82
- Quality improvement at hospitals, 220–221
- Quantifying:
 - benefit advantage, 82–85
 - cost advantage, 78–82
 - intangible benefits, 85–86
 - willingness to pay, 86–88
- Quantitative assessment of B–C, 73–74
- QWERTY keyboard, 195
- Railroad industry, 194–195
- Rankings, qualitative, 82
- Ratings of hospitals, 227
- RBV, *see* Resource-based view (RBV) of firm
- Real options theory:
 - key finding from, 156–157
 - net present value (NPV) analysis compared to, 172, 174–175
 - overview of, 172
- Reducing asset mobility, 57–61
- Reputation:
 - of seller, 185
 - for toughness, 166
- Research and development, 190
- Resource-based view (RBV) of firm:
 - immobility and, 54–57
 - overview of, 15–16, 50–51
 - scarcity and, 51–54
 - scopable assets and, 61–64
- Resources:
 - capabilities compared to, 51
 - definition of, 50
- Resources and capabilities (R&C) audit:
 - application of, 65–70
 - overview of, 64–65
 - for Southwest Airlines, 210–211
- Revenue-passenger mile (RPM) cost, 206–207
- Risk contracting, 223–224
- Rivalry, *see also* Competition
 - avoiding, 23
 - internal, 16, 17
- Sam's Club, 148
- Samsung Corporation, 7
- Scarcity, 51–54, 60–61
- Schering Plough, 53
- Scopable assets:
 - access to capital and, 63
 - new markets and, 61–62
 - organizational practices as, 63–64
 - overview of, 61
 - production process and, 62–63
- Sears, 178
- Secret pricing, 116–117
- Seller reputation, 185
- Shareholder wealth, creating, 22
- Short-term view, focus on, 121–122
- Siemens, 160–161
- Size asymmetry and wars of attrition, 148–149
- Sky Television, 149
- Soft competition, 100, 132–133
- Soft drink industry, 107–109, 111, 131
- Sony, 197–198, 199
- Southwest Airlines (SWA):
 - B–C framework and, 208–211
 - competitive strategy of, 130
 - evidence of excellent performance relative to peers, 204
 - price cuts and, 122

- Southwest Airlines (*Continued*)
 scarcity and, 51–52
 scopability and, 63, 64
 strategy evaluation of, 203–205
 sustainability, evaluation of, 211–214
- Spears, Britney, 199
- Standards and network effects, 194–196, 198
- Stealth technologies, 37–38
- Stockton, John, 60
- Strategic fit, 63–64, 182–183
- Strategy:
 coming up with, 7–8
 description of, 8
 Top 10 concepts, 22–24
- Stuck in middle strategy, 34–37
- Substitutes, 17, 18, 103
- Success and luck, 199–200
- Sunk costs:
 asymmetries and, 157–159
 entry into MRI market and, 159–161
 net present value (NPV) analysis and, 156–157
- Supplier power, 17, 18
- Suppliers, targeting, 41–42
- Sustainability, evaluating, 21–22, 211–214
- Sustaining competitive advantage:
 early mover advantages, 183–185
 impediments to imitation, 179–183
 learning curve, 185–193
 luck and, 199–200
 network effects and, 194–198
 overview of, 177–178
 seller reputation and buyer uncertainty, 185
 switching costs and, 193–194
- Switching costs:
 building loyalty through, 133–137
 cellular phones and, 159
 sustaining competitive advantage and, 193–194
- SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis, 20–21
- Tangible benefits, measuring, 82–85
- Target customer segment:
 as competitive strategy, 129–130
 identifying, 38–39
 swinging only at, 39, 41
- Technology markets, 183–184
- Testing waters argument, 184
- Texas Rangers, 100–101
- Time-saving convenience benefits, 93
- Tit-for-tat pricing, 140–143, 145–146
- Tobacco industry, 107, 163–164
- Tools, adapting to situation, 11
- Topps trading cards, 179–180
- Traffic-sensitive costs, 205–206
- Transfer price, 75
- Trek, 3
- Turnaround time, 208
- Uncertainty of buyer, 185
- United Airlines, 64, 158–159, 182–183, 207
- United Healthcare, 117–118
- Upjohn, 53–54
- U.S. Environmental Protection Agency, 87–88
- User costs, 32
- Usiminas, 3
- Value:
 definition of, 30
 target customer segment and, 39
- Value added analysis, 74–78
- Value creation proposition, *see also* B–C
 framework
 description of, 15
 importance of, 22
 overview of, 30–31
 tactics for, 42, 43–44
- Value net, 196
- Vertical differentiation, 85
- Wal-Mart:
 blockaded entry and, 162
 competitive strategy of, 129–130
 door greeters, 52
 emulating success of, 3
 Levi's jeans and, 56
 predatory pricing and, 167
 vendors of, 29
- Walt Disney Studios, 65–70
- WarGames* (movie), 119, 147
- War of attrition:
 deep pockets and commitment, 149–151
 description of, 147
 losing, 151
 losing least as winning most, 148–149
- Washington National Bank, 115
- Waterfall chart, 83–85
- Weighted average cost of capital (WACC), 12
- Westinghouse, 139–140
- Who of competition, identifying, 103–106
- Williams, Ted, 39, 40
- Willingness to pay (WTP):
 for diversely differentiated products, 91–97
 improving survey methods, 88–90
 quantifying, 86–88
- Winner's Curse, 56–57
- Xerox, 166, 177–178
- Zabriskie, John, 53–54