

Building Dynamic Capabilities: Resource Deployment and Development (A)

Resources, competencies, dynamic capabilities & competitive advantage

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Recapping yesterday

Capabilities: Building the Value Chain

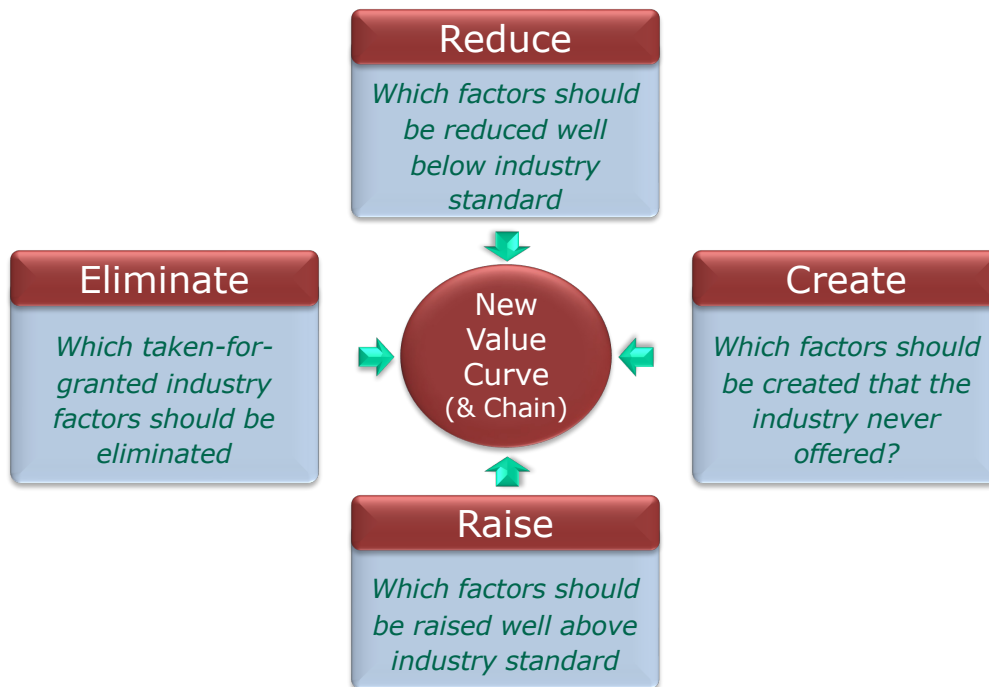
1. Competitive Positioning
 - ▶ competitive advantage, trade-offs, and “stuck in the middle”
 - ▶ tool: generic strategies (differentiation, low-cost, focus)
2. The Link(s) between Positioning and Organisation
 - ▶ optimising value chain activities for a certain strategic position
 - ▶ value chain as another reason for the need for trade-offs
 - ▶ Understanding when a “who” is coherent
 - ▶ tool: value chain analysis



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Recall from yesterday . . .

BLUE OCEAN STRATEGY ACTION FRAMEWORK



Peter Moran

Recall from earlier this afternoon . . .

Cirque Éloize brings Cirkopolis to China

A grand tour of 19 cities and 40 shows

Montreal, Wednesday, March 2, 2016 – Cirque Éloize announced its first major foray into China with its show *Cirkopolis* – an agreement between Cirque Éloize and Shanghai Fresh Vogur.

"China is still an under-exploited market in search of quality international productions. We want to introduce our brand, to move people with our creativity, and to establish a continuous presence in theaters through our touring shows over the next few years. **China could become an important market for Cirque Éloize** in collaboration with Shanghai Fresh Vogur," said Cirque Éloize President and Artistic Director, Jeannot Painchaud.



Is Cirque du Soleil's ocean turning Red?

Recall from yesterday . . .

Value Curves

- Force you to consider the “*what*” in detail
 - not as a product or service, but as the attributes that define the value proposition and collectively explain why the customer is willing to pay for it.
- Reveal the depth (or lack) of your thinking – about how specific value propositions differ and what trade-offs are implied
- Help focus attention on changes required
 - to better align the ‘*what*’ with the ‘*who*’ and the ‘*how*’.

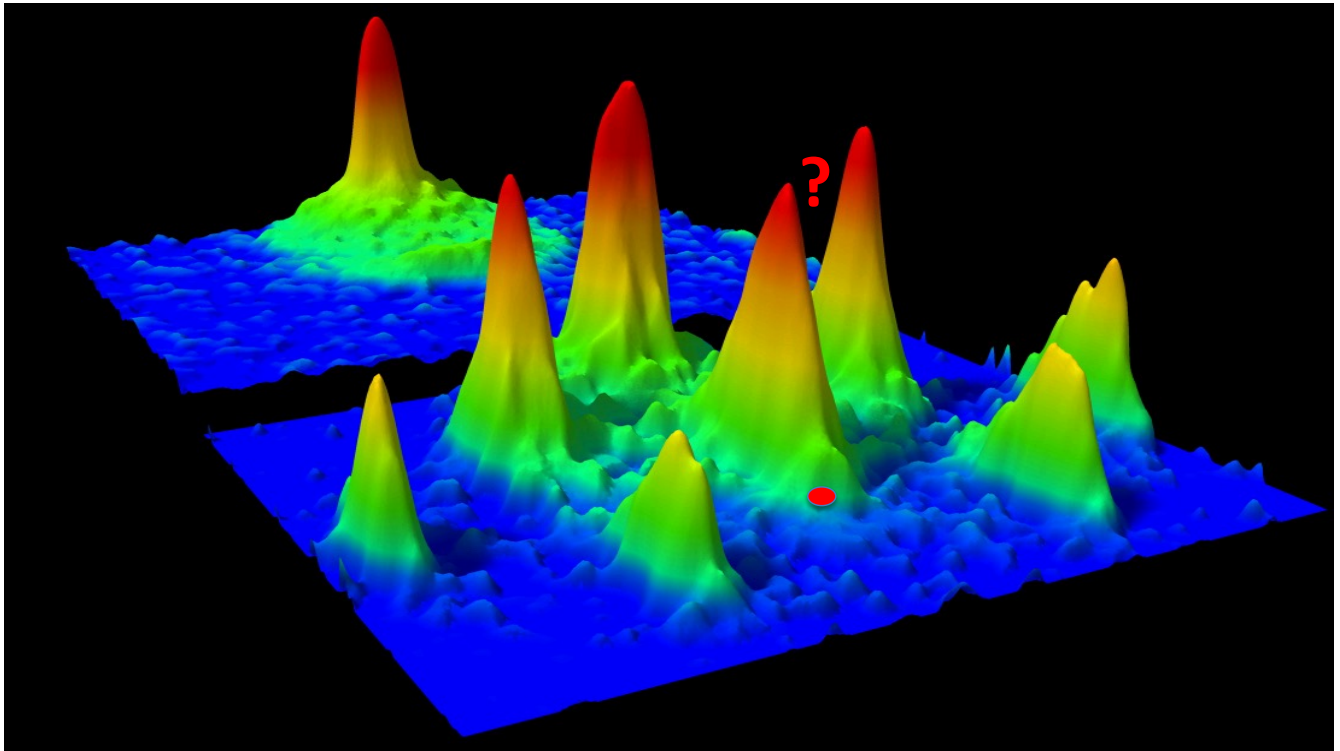
Strategy 5a.7

Next, we continue examining “*resources*” and consider how their interdependence affects their development

Questions to guide our discussion . . .

- How attractive is the market for low price airlines?
- What does it take to succeed in this sector?
- What competitive threats might you face and how would you address them?

Now what? – this is the challenge of interdependence!



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THE HEAD-HUNTER'S CALL

“We were wondering if you know anyone who'd like to head-up a new European airline start-up.”

How do you react?

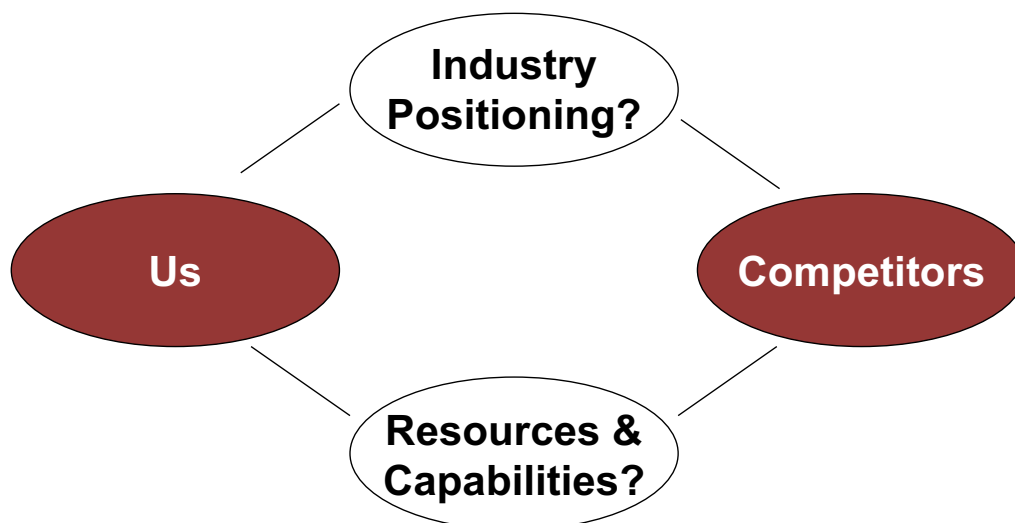
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JUDGING THE OPPORTUNITY

What questions would you need to ask to gain confidence in a start-up airline?

Strategic Choices You Will Need to Make

- Who are your target customers (market segments)?
- What products/services to offer using what value proposition?



How to achieve cost and/or differentiation advantages?

The Market:

WHAT DO YOU WANT FROM AN AIRLINE?

(When others are paying)

- ✓ Schedule
- ✓ Airport
- ✓ Punctuality
- ✓ Speed
- ✓ Service
- ✓ Quality
- ✓ Air Miles (bribes)

(But probably not price)

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The Market:

WHAT DO YOU WANT FROM AN AIRLINE?

(When you are paying)

✓ Price

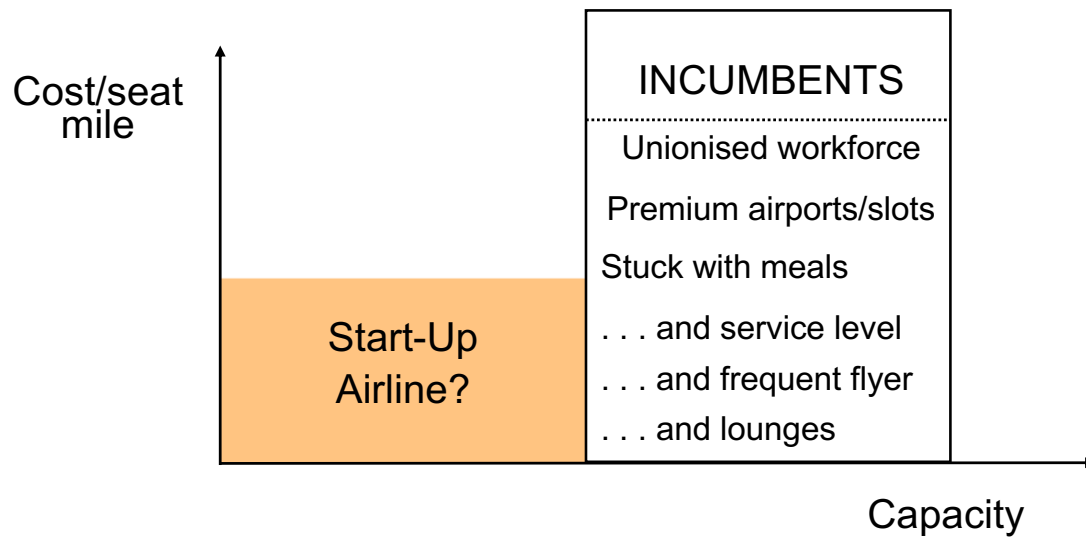
. . . And perhaps some concern
for a certain level of . . .

- Safety
- Time and route flexibility
- Low service threshold

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COMPETITIVE PROPOSITION

Segment from rivals



How could you exploit this?

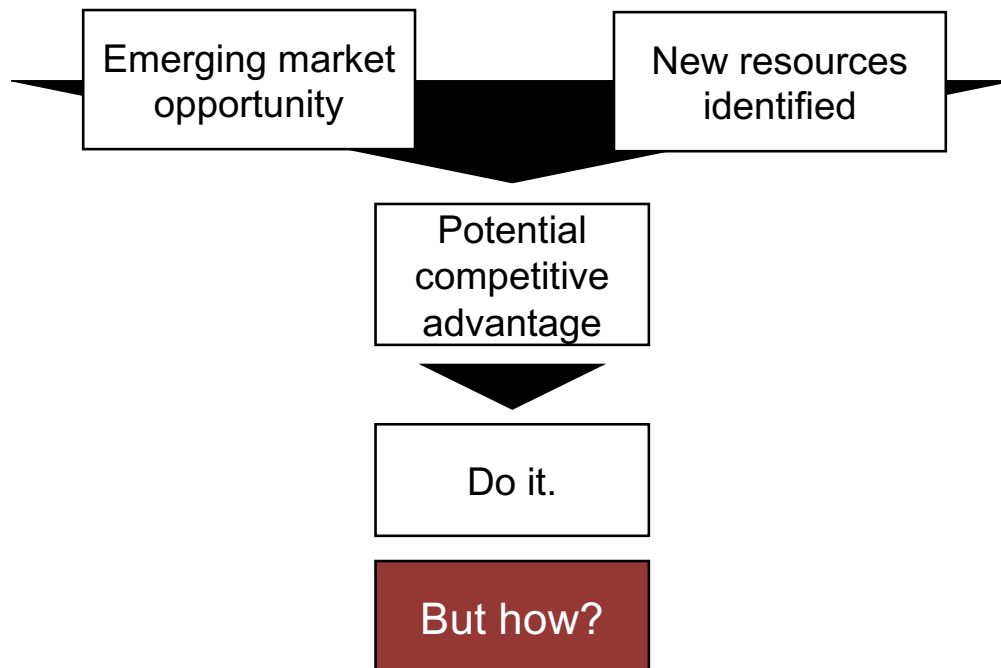
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WHAT RESOURCES WILL YOU CHOOSE TO PUT IN PLACE?

Infrastructure	Operations	Distribution	Marketing etc

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YOUR AIRLINE



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THE CHALLENGE OF TIME

Do it *too slow*

- Existing competitors will retaliate
- New competitors will seek to fill the empty space

Do it *too fast*: you'll go bust!



What do we do when?

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WHAT CAN WE LEARN FROM THE EXPERIENCES OF OTHERS?

U.S airline industry de-regulation: 1979

1980's

- 200 significant new entrants
- Nearly all went bankrupt, along with some incumbents

1989 — 93 U.S. airline industry lost all the money
it had ever made



But some succeeded

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*PEOPLE*Express

STAGGERINGLY SUCCESSFUL . . .

- 1st airline formed after US airline deregulation in 1978
- Prices less than half competitors'
- Full planes (high load factors)
- 10th largest airline in the world in just four years!
 - 100 planes and 4000 employees
 - International service
 - Market value of \$500 million



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PEOPLEExpress



SPECTACULAR FAILURE

Bankruptcy

What went wrong?



With almost identical
strategy, Southwest Airlines
continues to succeed

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PEOPLE EXPRESS MICROWORLD

Simplified to five decisions

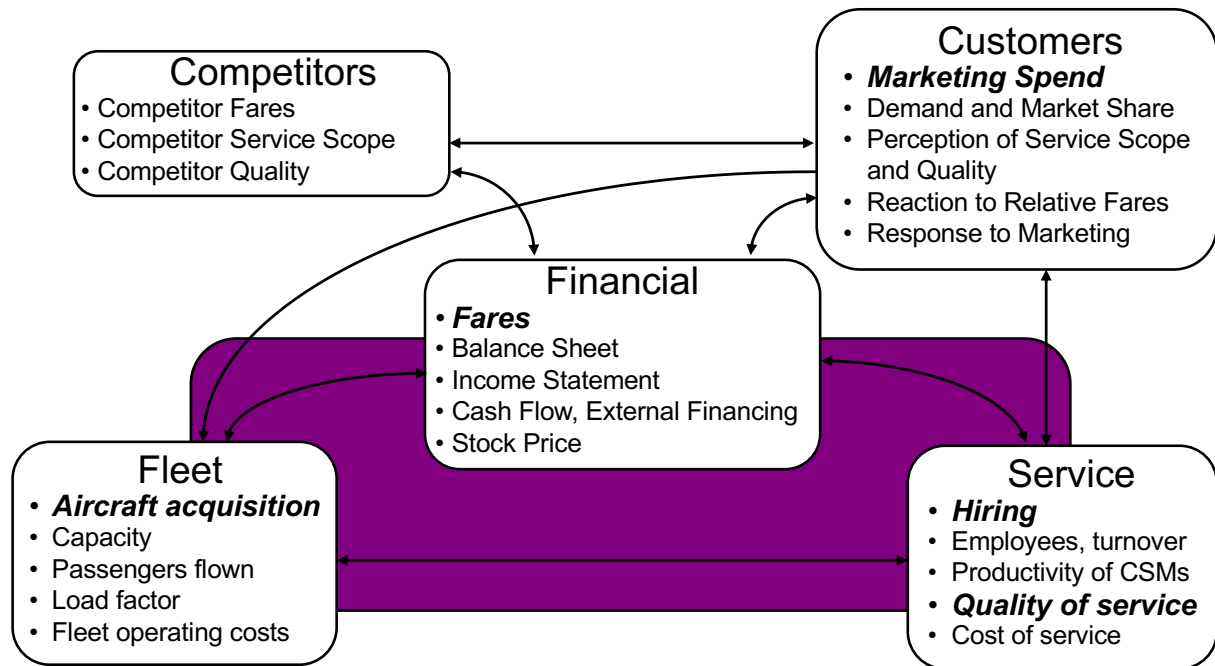
- Fare
- Marketing spend
- Planes
- Hiring
- Service level

Played over

- 9 years
- Decisions each quarter

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PEOPLE EXPRESS MICROWORLD



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Our Fundamental Objective*

- Spend 15-20 minutes getting familiar with the simulation. Explore a range of different strategies for growing your fleet beyond the initial 3 planes that you have at the start.
- Spend the remaining time on at least 2 Rounds, trying to achieve our Fundamental Objective in each Round.*
 - After each round is complete, refine your strategy and start again
 - Play more simulation rounds if you have time
 - Keep track of your team's final performance across all of your rounds after the practice period.

* Each Group should try to maximize both its share price (see next slide) and its fleet size.

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Our Fundamental Objective: Maximum Share Price & Fleet Size

Report lowest quarter's share price
in final year of best round

Quarter	Q33	Q34	Q35	Q36
Round 1	22.85	23.63	24.41	25.20
Round 2	15.00	14.50	15.50	16.00
Round 3	34.75	35.00	36.25	38.75
Round n	25	24.75	23.25	38.00

Demo of People Express Simulation

Beware!

- Decisions do not reset after you advance the simulation
 - Do not advance multiple times without changing decisions, unless you want to keep buying planes & hiring employees at the same levels
- Watch out for decimal places in your decisions
 - Fare is expressed in \$ per seat-mile; initial value is \$ 0.09 (the competition initially charges \$ 0.16). Setting fare to 0.9 translates into a price over 5 times what the competition charges!
 - Marketing spend is expressed as a fraction of revenue; initial value is 0.10 (10% of revenue). Setting marketing spend to 0.80 results in changing the cost structure dramatically with 80% of revenue spent on marketing (when you may have meant 0.08).

Troubleshooting

- My computer crashed.
 - Don't panic! → Restart, and play that trial again.
- I made a typographical error.
 - Don't panic! → Use the 'go back' feature.
- I forgot to record my results at the end of the last game.
 - Don't panic! → Use your best recollection.
- I went bankrupt and lost billions and billions of dollars.
 - Don't panic! → A simulation enables you to crash and burn and fly again – and learn from the experience!
- I went bankrupt and lost billions again!

Panic!

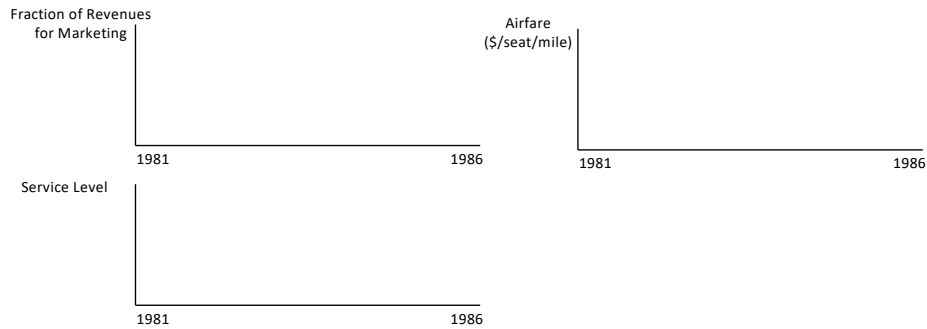
Overall Statement of Objectives

Initial Product Positioning	Our Airline	Competitors
Fares	_____	0.16
Scope of Service	_____	1.00
Target Quality	_____	0.70

5-Year Plan (sketch planned decisions)



Note: You will make *Aircraft Purchase* and hiring decisions to achieve the fleet size and staffing levels you sketch above



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SIMULATION SCHEDULE

Launch (Lecture Theatre)	9:00
Simulation round 1 (in assigned group rooms)	9:45*
Debrief of round 1 (Lecture Theatre)	11:15
Lunch	12:00
Strategy Session for round 2 (in groups)	13:00
Simulation round 2 (group rooms)	13:30*
Final debrief (Lecture Theatre)	15:00
Close	15:45

* Note: Take a break when convenient but before debrief session

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