Competing with Dual Strategies

By

Constantinos Markides and Constantinos D. Charitou
London Business School
Sussex Place, Regent's Park
London NW1 4SA
England

Phone: (+44) 20 7262 5050
Fax: (+44) 20 7724 7875
E-mail: cmarkides@london.edu

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Abstract

Is it possible for a company to adopt two different and conflicting strategies, or business models, in the same market? This question—originally raised by Porter (1980)—has become particularly pressing for an increasing number of established companies that have recently come under attack from "strategic innovators"—companies that attack the established players by using radically different strategies. The success of these attackers in gaining market share has created a big dilemma for established companies. On the one hand, by embracing the new business models that the innovators had introduced in their markets, established companies could potentially take advantage of a great growth opportunity. On the other hand, because the new business models *conflicted* with the established ones, companies that tried to compete by adopting both strategies risked mismanaging both and destroying value. How, then, can established companies embrace the new business models without diluting and destroying their existing strategies? Our research explores this question and our results show **that contrary to the prevailing accepted wisdom, it *is* possible to manage conflicting strategies profitably and separating the two is neither necessary nor sufficient to do so successfully**.

Competing with Dual Strategies

Is it possible for a company to adopt two different and conflicting strategies (or business models) in the same market? Despite the simplicity of this question, there is no agreement as to what its answer is. Porter (1980 and 1996) has argued that managing two different strategies in the same market is nearly impossible and companies should not even try it, otherwise they will find themselves "stuck in the middle." On the other hand, Christensen (1997) has suggested that this is feasible but only if the two strategies are kept physically separate in two distinct organizations. Not necessarily so, argued Tushman and O'Reilly (1996). They have proposed that companies can manage two different strategies without having to separate them. They can do so by developing "ambidextrous" organizational infrastructures to support both strategies simultaneously.

Our failure to agree on an answer to this question is unfortunate because for many companies this is a real and pressing issue. Over the past decade, an increasing number of established companies has seen their market shares being eroded by relatively unknown competitors that invaded their markets on the back of radically different business models. The success of the newcomers in capturing a large share of the market has forced established players to confront this unpleasant challenge head on: *how could we manage our existing business model and at the same time embrace the new business model that has been introduced in our markets?*

Embracing the new business model successfully could certainly help a firm grow (by attracting a different set of customers). But such a move was not without risks. Compared to the traditional business, the new markets created by the innovators had different key success factors and as a result, required a different combination of tailored activities on the part of the established companies. Often, these new activities were incompatible (i.e. conflicted) with the company's existing set of activities because of various trade-offs that existed between the two ways of doing business. As a result, it was extremely difficult for an established firm to adopt the new business model and be effective. The danger was that by trying to manage two different and conflicting strategies at the same time, a firm would mismanage both and destroy value in the process. Certainly, the very visible failure of companies such as British Airways, Continental Airlines and Bank One to play two games simultaneously reinforced the belief that such an outcome was not unlikely.

The existence of conflicts has prompted academics to either argue that a company should not try to play two games at the same time (Porter, 1996), or if it does, to play the second game in a separate division or company (Christensen, 1997; Gilbert and Bower, 2002). Yet, even casual observation suggests that these two arguments cannot be entirely correct: there are firms that—contrary to Porter's position—seem able to play two games successfully (e.g. Gillette, Tesco); and there are firms that—contrary to Christensen's position—have tried to play the second game in a separate division but have failed (e.g. Barnes & Noble in 1998-2000, Continental Airlines and British Airways.)

The main reason why we still do not know the answer to this question is because we have failed to explore this issue using a large sample methodology. All the answers proposed so far are based on anecdotal evidence or examples of a limited number of companies. Yet, only a careful study of a large sample of companies could help us shed light on this question. It is with this thought in mind that we embarked on our research project to explore whether and how companies can manage two different and conflicting strategies at the same time, in the same market. We describe our research design in more detail in the Appendix. Below, we present the main findings of our research.

Why is it difficult to compete with dual strategies?

New business models invade a market by *emphasizing different product or service attributes to those emphasized by the traditional business models of the established competitors*. Consider, for example, online brokerage: whereas traditional brokers sell their services on the basis of their research and advice to customers, online brokers sell on the back of a different value proposition, namely price and speed of execution. This point is made vividly clear in table 1, which compares and contrasts the performance attributes emphasized by established firms versus those emphasized by innovators, in a number of industries.

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Since innovators emphasize different dimensions of a product or service, their products or services inevitably become attractive to a different customer than the one that desires what the traditional competitors offer. As a result, the markets that get created around the new competitors tend to be composed of different customers and have different key success factors than the established markets.

This, in turn, implies that since the new markets have different key success factors, they also require a different combination of tailored activities on the part of the firm. For example, the value chain, as well as the internal processes, structures and cultures that Amazon needs to put in place to compete successfully in the online distribution of books is demonstratively different from the one that Borders or Barnes & Noble need to compete in the same industry using *their* business model.

Not only are the new activities required different but, more often than not, they are also incompatible with a company's existing set of activities. This is because of various trade-offs that exist between the two ways of doing business which lead to conflicts (Porter, 1996). Table A2 in the Appendix provides a list of potential conflicts and tradeoffs that established players might face if they were to enter a new strategic position. The existence of conflicts makes it extremely difficult for an established firm to adopt the new business model and be effective. Because of these trade-offs and conflicts, a company that tries to compete in both positions simultaneously may eventually pay a huge straddling cost and degrade the value of its existing activities.

Making an assessment whether a new business model is really different from an established one or whether the conflicts between the two are serious enough is, obviously, a very subjective exercise. Nevertheless, we describe in the Appendix the procedures that we followed to measure in an objective way whether the business models in an industry were different and conflicting.

As long as the new markets being created by the innovators remain small and low-margin, it is easy for the established players to ignore them. However, many of them inevitably grow into big, mass markets. The way this growth happens is quite similar across industries and follows the following pattern (Christensen, 1997):

Once the disruptive innovations become established in their new markets, a series of improvements over time raise the performance of the new products or services along the dimensions that mainstream customers value. In fact, these performance attributes improve at such a rapid rate that the developers of disruptive innovation can soon enter the established market and sell their previously-inferior product or service to the mainstream customers. This is because they are able to deliver performance which is *good enough* in the old attributes that established competitors emphasize, and offer *superior* performance in the new attributes. According to Christensen (1997), this happens simply because companies often give customers more than they need or ultimately are willing to pay for, in their efforts to provide better products than their competitors and earn higher prices and margins. By accumulating experience and relevant expertise in the new market, the innovators can then use that commercial platform to attack the value networks of the established firms. In their constant effort to improve their products and services to beat the competition, these companies invest sufficient resources to the point where they can ultimately address the needs of mainstream customers. This is what ultimately leads to the growth of the disruptive innovation into a big enough business.

For example, consider again the US retail brokerage industry. Online brokers such as Charles Schwab, E*Trade, and DLJdirect are now able to offer high quality research and financial advice to their investors at much lower cost per trade compared to the established full-service brokerage houses. The online brokers are now able to offer access to real-time, personalised market information and financial data, market analysis, and other investment information services previously provided only by traditional full-service companies. Similarly, internet banks such are First Direct and Egg in the UK and Net.B@nk in the US, are now focusing on providing more customised personal services to their customers by expanding their range of products. In addition to offering online accounts, these banks are increasingly tailoring specific products for the Internet, like online bill presentment or credit cards with instant online approval. They are also enhancing their level of service through online content by providing investment research and personal financial advice to customers, services which were previously available only through a retail branch network.

Inevitably, the growth of the disruptive innovation attracts the attention of established players. As more customers (both existing and new ones) embrace the strategic innovation, the new business receives increasing attention from both the media and the established players. A point is reached where established players cannot afford to ignore this new way of doing business any more and they therefore begin to consider ways to respond to it.

But how can they adopt the new business models without damaging their existing strategies? The existence of conflicts has led different academics to provide different answers to this question. Our study is the first to utilize a large sample of firms to answer this question.

Insights from our research

The Appendix describes our research design and sample. Of the 98 established companies that completed our survey questionnaire, 30 companies decided *not* to embrace the new business model that invaded their industry—they chose instead to invest in improving their existing strategies. These firms were excluded from further analysis in this study. The remaining 68 companies decided to adopt the new model in one way or another. **These 68 companies are the ones that form the basis of our analysis in this paper**. Of these responders, 42 did so by forming a separate organizational unit while the rest used the existing organizational infrastructure to respond.

What is a successful response?

Trying to determine whether a firm was successful in embracing a second, conflicting strategy was not easy. For the purposes of this research, we used three approaches to make this assessment.

We first asked all responding firms to assess their own effectiveness in adopting the new business model along nine performance criteria. Specifically, we asked them to assess whether by embracing the new model, they: (i) prevented the new business from expanding into the traditional business and hurting existing operations; (ii) prevented existing customers from leaving the company; (iii) attracted new customers; (iv) increased revenues and improved profitability; (v) developed new skills and competencies; (vi) improved the quality of products and services; (vii) cut costs; (viii) became more competitive overall in the industry; and (ix) became part of the new, growing business. A six-point scale was used, ranging from "Very ineffective" (=1) to "Very effective" (=6). A mean score of the nine items was calculated as the measure for statistical analysis. The higher the score was, the higher the firm's effectiveness in adopting the new business model and competing in the two strategic positions simultaneously. Values ranged from 2.56 to 6, with an overall mean of 4.6 (Cronbach's alpha = 0.72).

Second, we asked the responding firms to give us an overall assessment (on a scale of 1 to 6) on how effectively they thought they had adopted the new business model. Although self-assessment measures such as the ones used here are prone to bias, they have also been shown to be reliable (e.g. Dess and Robinson, 1984; Venkatraman & Ramanujam, 1986).

To reduce self-reporting bias, we also employed a third measure of success: sector (industry) analysts from seven fund management companies in the City of London and on Wall Street were asked to rate each of our responding firms on an "overall effectiveness" scale. The analysts rated only companies in the industries that they covered and they used the same 1-to-6 scale[1].

Those companies that rated themselves as 6 on the "overall effectiveness" scale or 5 and above on the scale calculated as the mean of the nine performance criteria and also received a rating of 6 from the analysts were selected as successful responders. This screening procedure produced a total of 17 firms that are deemed to have responded successfully to the new business model. Five of these firms were already the subject of the field based research undertaken before the survey questionnaire was sent out. Six more firms were selected at this stage for further study through field research.

What follows is our insights based on the questionnaire data and our field research on what differentiates those firms that were successful in managing two conflicting strategies versus those that were not.

(a) It *is* possible to manage two conflicting business models

Of the 68 companies that adopted the new business model, we rated 17 of them as successful. The fact that 25% of the sample firms—rather than a few outliers—were judged to have embraced a conflicting strategy successfully should not be underestimated. Figure 1 shows how the 17 successful firms scored on the nine performance criteria. There is no question that a statistically significant proportion of sample companies have succeeded in managing conflicting strategies along a number of dimensions.

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[1] The analysts were also asked to identify other firms (not necessarily sample firms) in the industries that they covered that, in their opinion, responded to the invasion of the new business

This result is important because it is the first time that it can be shown **empirically** that conflicting strategies could be managed. Up till now, the belief that a company cannot compete in two positions was based on argument rather than evidence. For example, Porter (1996) uses just one example—that of Continental Airlines—to argue that competing with two strategies is impossible. Even critics of this position have failed to provide anything but case examples to support their own point of view. We believe that our study is the first to show in a statistically meaningful way that competing in two conflicting positions can be managed in a successful way.

(b) Separation is neither necessary nor sufficient

Of the 17 firms rated as successful, 10 embraced the new business model by creating a separate organizational unit whereas the remaining 7 firms did not. This suggests that separation is not a necessary condition for success. Furthermore, of the 42 sample firms that created a separate unit to adopt the new model, 10 were successful and 32 were not. This implies that separation on its own is not enough to ensure success. All in all, these results suggest that contrary to the prevailing conventional wisdom that has it that an established company can compete with two conflicting strategies only by keeping them apart, *separation is neither necessary nor sufficient* for success.

In exploring this further through our field research, what we uncovered was that successful firms were not particularly concerned with the issue of separation. Rather, their primary concern was: "How can we manage the conflicts inherent in the new strategy?" In certain cases, separation was the best way to manage these conflicts but in many other cases, separation was not a superior strategy.

Consider, for example, the following comment from the person who created the UK's most successful telephone bank (First Direct) in the late 1980s, Graham Picken:

model in an effective way. Four additional firms were identified for further examination through field research.

> "The question is not whether conflicts exist between the traditional retail banking business and direct banking. They do exist and are important. The key question is how well the company manages these conflicts, which will ultimately determine its success in competing in the two different businesses. Our bank [HSBC Midland Bank] decided to form First Direct as a stand-alone company and gave it the freedom to set up its own processes, organizational structure, incentive and control mechanisms, and to create its own distinct culture… But this is an arrangement that worked for us—it does not mean it would work for others."

This suggests that the appropriate question to ask is not: "should we separate or not?" but rather: "when does it make sense to separate and when not to?" We found that two variables influenced enormously the answer to this question: how serious the conflicts between the two businesses were; and how strategically similar to the existing business the new market was perceived to be[2]. Figure 2 plots these two dimensions in a matrix.

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Separation is the preferred strategy when the new market is not only strategically different from the existing business but also when the two markets face serious tradeoffs and conflicts. On the other hand, no separation is necessary when the new market is very similar to the existing business and presents few conflicts that need managing. In such a case, embracing the model through the firm's existing organizational infrastructure is the superior strategy.

An interesting scenario emerges when the new market is strategically similar to the existing business but the two face serious conflicts. In such a case, it might be better to separate for a period of time and then slowly merge the two concepts so to minimize the disruption from the conflicts. This is the strategy that the Danish bank

[2] Strategic similarity between two markets was measured using eight different indicators. Conflicts between two markets were measured using nine indicators. Further details can be found in Charitou (2001).

Lan & Spar adopted when it decided to set up a Direct Bank alongside its branch network. The CEO, Peter Schou, explained their strategy as follows:

> "It was a difficult situation to have two concepts at the same time. We couldn't really afford to merge the two concepts from the very beginning because we would have suffered a huge cannibalization cost. Our interest margin at the branch was 10 per cent a year whereas at the direct bank it was only 3 per cent a year. If we had allowed all of our customers to switch overnight from traditional banking to direct banking, we would have lost a lot of money. We had to manage the transition carefully."

Another interesting scenario arises when the new market is fundamentally different from the existing business but the two are not conflicting in a serious way. In such a case, it might be better to first build the new business inside the organization so as to leverage the firm's existing assets and experience (and learn about the dynamics of the new market) before separating it into an independent unit. A variant of this strategy was adopted by Borders—they first developed the capability to sell books online internally before subcontracting the whole operation to Amazon.

(c) Separation is not enough

Proponents of the separation strategy have justified their position by pointing out the benefits of keeping the two conflicting strategies apart. The biggest of these benefits is that the new unit can develop its own culture, processes and strategy without interference from the parent company. It can also manage its business as it sees fit without being suffocated by the managers of the established company who see cannibalization threats and channel conflicts at every turn. While nobody disputes the existence of these benefits, few seem to appreciate that separation is not cost-free. Perhaps the biggest cost to keeping the two businesses separate is failure to exploit synergies between the two.

Similarly, proponents of the "keep it inside" strategy have justified their position by pointing out the benefits of integrating the established business with the new. The biggest benefit is the potential to exploit synergies between the two. In particular, it is argued that the parent has a number of existing strengths (such as a strong brand name, customer relationships, resources and an established distribution network) that it could leverage to help the new unit get a head start in its competitive battles. But again, while nobody disputes the potential for such benefits to integration, few seem to appreciate that this strategy, too, has costs and risks. The biggest of them all is that by keeping it inside, the new unit gets suffocated by the parent's existing policies and mindsets.

Given that both strategies have benefits and costs, the trick is to first do a cost-benefit analysis to decide which strategy to adopt. Once a strategy is chosen, the key to success is to (a) find ways to maximize the benefits of the chosen strategy while (b) minimizing its costs. This is exactly what differentiated the successful firms in our sample from the unsuccessful ones. By this we mean that those firms that decided to separate the new business model into an independent unit made sure that their policies gave it enough autonomy to function in a truly independent manner, while at the same time taking care to identify and exploit any synergies between the traditional business and the new. Similarly, those firms that decided to manage the new model internally made sure that the strengths of the traditional business were leveraged while taking care not to suffocate the new business with the existing policies of the firm.

To highlight what we mean, consider the 42 sample firms that separated the new business model into an independent unit. Of these, 10 were classified as successful and 32 as not successful. Table 2 compares the two groups along the following dimensions[3]: (1) how much strategic, financial and operational autonomy was given to the unit (measured on a scale of 1 to 5, with high scores implying that decision-making autonomy was granted to the unit); (2) how different the culture, budgetary and investment policies, evaluation systems and rewards of the unit were relative to the parent (measured on a scale of 1 to 6 with high scores implying that these policies were very different); (3) whether the new unit was assigned a new CEO to manage it; and (4) whether the new CEO was hired from outside the firm or transferred internally.

[3] Only the dimensions that were statistically significant are shown in the table.

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It is obvious from this comparison that successful firms gave much more operational and financial autonomy to the units than unsuccessful firms. They also allowed the units to develop their own cultures and budgetary systems and to have their own CEO. These are all policies consistent with the notion that the new units need freedom to operate as they see fit in their own environment. Note, however, that this autonomy did not come at the expense of synergies: the parent still kept close watch over the strategy of the unit (as shown by the low score on strategic autonomy); cooperation between the unit and the parent was encouraged through common incentive and reward systems; and the CEO of the units was transferred from inside the organization so as to facilitate closer cooperation and active exploitation of synergies.

The survey results found strong support in our field research. For example, a senior executive at a major U.S. office supplies firm commented as follows:

> I refused to have a P&L for the dot.com operation and a different P&L for the main business. This could only have created frictions and political infighting. All the VPs are measured on our consolidated sales, not the sales of the parent versus the unit. And no matter what method the customer uses to place an order [phone, internet, store], the salesperson responsible for the region will get the credit for it.

Similarly, the Strategy Director of a major European airline company suggested the following:

> It makes absolutely no sense to create a separate low-cost subsidiary and not give it the freedom to decide what to do in its market. But it is equally silly to ignore that we have been in the airline business for more than half a century. Surely our subsidiary can learn something from us!

All in all, our results explain why we argued above that separation is neither necessary nor sufficient to ensure success. Even if a firm decides to separate the new business model, it must still find ways to exploit its existing strengths (such as its brand name, financial resources and industry experience) in the new unit. In this sense, the question that needs to be asked is not: "should we separate or not?" but rather: "what activities in our value chain do we separate and what activities do we keep integrated?"

A similar logic applies to the firms that decide to manage the new business model within the existing organizational infrastructure: even though this solution allows the firm to exploit the benefits of integration (i.e. synergies), it has a potentially lethal cost—the parent might suffocate the new business by using its existing (inappropriate) policies and mindsets to manage it. To successfully manage such a strategy, a firm must exploit the synergies while giving the new business enough freedom to grow on its own.

Of the 26 firms in our sample that chose this strategy, 7 were deemed successful. We will describe later in this article what allowed these firms to be successful but for the purposes of our discussion here, we'd like to highlight the one major differentiating element between these firms and the other 19 (rated as unsuccessful). All seven firms had a high-ranking executive who acted as the "idea champion" within the organization. This executive was influential in pushing the idea forward and more importantly, in "protecting" the new business from interference by the parent. The presence of a senior and respected "protector" allowed the new business to win time, resources and freedom to grow.

(d) <u>Treat it as an opportunity</u>

According to Gilbert and Bower (2002), when an organization first confronts a conflicting business model, it's better to look at it as a threat rather than as an opportunity. Framing it as a threat will generate serious commitment in the organization to respond to the threat aggressively. However, when the organization is ready to actually create a new business model to exploit the new market, it's better to look at it as an opportunity. This way, old models and assumptions will be set aside and the new model will be evaluated on its own merits. According to Gilbert and Bower (2002), recognizing the need to simultaneously manage competing frames is the key to effective response.

Our own findings provide only partial support for this. Of the 68 firms that embraced the new business model in their industries, only 5% said that the *main* reason for doing so was because they saw the new business model as a threat to their existing business. About 40% said that they saw it primarily as an opportunity to attract new customers and the remaining 55% said that they saw it as both a threat and an opportunity. In this sense, our results are in agreement with Gilbert and Bower's proposition. However, of the 17 firms classified as successful, 12 claimed to have approached the new model as an opportunity and 5 saw it as both a threat and an opportunity. Thus, our findings suggest that approaching the new business model as an opportunity is the key to effective response.

Consider, for example, the following two quotes from senior managers at two US firms. The first is VP at a major office supplies firm, whose company was rated as very *successful* in adopting internet distribution:

> We got onto the internet long before anybody else knew what the internet was. In fact, our biggest problem for the first two years was persuading our *customers* to use it! But we persisted because I knew in my bones that the internet was *it*. This new technology was going to be the future. It would be the medium that would allow us to do great new things.

The second quote is from the CEO of a major US bookseller whose company was rated as *unsuccessful* in adopting online distribution of books:

> We were late in implementing [it] but not in evaluating it. And our evaluation was that this thing did not make sense. Yet, every time I tried to explain our reasons why we wouldn't do it to Wall Street, my share price went down! Even in 1997 when online distribution of books went from zero to 6%, superstores increased their share

> from 10% to 22%--yet our stock price dropped by 40%. So in the end, we decided we had to do something.

In our field research, we tried to understand why framing the decision as an opportunity is so important. The rationale given to us is that by looking at it as an opportunity, the firm approaches the task in a proactive, strategic manner (rather than as a hasty knee-jerk reaction to a problem). The new market is evaluated in a reasoned and deliberate way and necessary resources are allocated to exploit (and grow) the opportunity. More importantly, the most respected managers in the organization are assigned to the task and the project receives high-level attention and care. Finally, looking at it as an opportunity, encourages the firm to take a long-term view of the investment. This ensures resources and long-term commitment even when the initial results are not encouraging.

(e) Build upon your strengths, not theirs

The new business models create markets that have much lower margins than the traditional markets. This suggests that even in the best-case scenario when an established company is *successful* in embracing the new model, the end result will be cannibalization of existing sales and much lower margins! Consider, for example, the following comment from a VP at a major fast-moving consumer goods company:

> The issue is not whether we can respond to the private label threat successfully. I believe we can do it, either internally or through a separate unit. But what is the purpose of doing this if the end result is to destroy the industry? I don't want to play *their* game. What we need to do is to find a response that builds on our competences and restores the margins in this business.

The logic of this argument was echoed in another comment that an SMH executive made to us to explain the reasoning behind the development of the Swatch back in the early 1980s:

> We had to defend the low-end of the market against cheap Japanese watches. But we did not want to simply compete on price… We had to find a way of producing something that was *cheap enough* [emphasis added] but was still Swiss quality.

Both of these comments point to what we believe is the key to the success of at least 7 of the 17 companies we studied: embracing the new business model in a creative way that builds upon the competences of the established competitors **and** restores the margins in the business to a higher level than what the attacking companies have. In the process of doing this, established companies counter-attack their own attackers.

Consider, for example, the SMH story again. In the early 1960s, the Swiss dominated the global watch industry. This dominance all but evaporated in the 1970s when companies such as Seiko (from Japan) and Timex (from the US) introduced cheap watches that used quartz technology and provided added functionality and features (such as the alarm function, date indication, etc). Swiss share of global world production declined from 48% in 1965 to 15% by 1980. In response, the Swiss introduced the Swatch. Not only did the new watch introduce style as a competitive dimension but more importantly, it was sold at a price that was on average three times higher than the average Seiko price. Since its launch in 1983, Swatch has become the world's most popular time piece with more than 100 million sold in over 30 countries.

The secret of this success lies in two areas. First, note that the established competitors (the Swiss) were selling their product on the basis of performance when they suddenly came under attack. The attack took the form of: "our watches are good enough in performance and superior to the Swiss in price." What the Swiss did was to turn this rationale on its head. They sold their Swatch on the following premise: "our watches are good enough in price and superior to the Japanese in performance (i.e. style)." This sounds easy but it requires a fundamental (dare we say revolutionary) change in mindset! Instead of adopting the attackers' mindset that said: "minimize price subject to a performance which is good enough," the new mindset needed is one that says: "maximize performance subject to a price that is good enough."

Second, it's one thing to say this and another to do it. In effect, what the Swiss did was to produce something that delivered low cost <u>and</u> differentiation at the same time—managing two conflicting strategies simultaneously. They achieved this by eliminating many of the product attributes that they thought were unnecessary (thus cutting costs) while enhancing certain other product features like style and design (thus building differentiation). They also found ways to cut other costs (in manufacturing and in materials used) and to build differentiation in other ways (for example, through the Swatch Club). The end result was a strategy that embraced the key features of the new business model in such a creative way that the original attackers had to find their own response to the Swiss counter-attack!

Another example of the same strategy is Gillette's response to the disposable razor threat in its business. Disposables entered the razor market on the premise that: "our products are good enough in performance and superior to Gillette in price." How did Gillette respond to this threat? By building upon the premise that: "our disposables are good enough in price and superior to other disposables in performance."

Rather that debate whether to manufacture a cheaper disposable or not and rather than argue whether to do so internally or in a separate unit, Gillette chose to tackle the threat in a creative manner. By adopting the mindset: "we need to maximize performance subject to a price that is good enough," they developed a number of innovative disposable products that competed not on price but on performance. For example, in 1994 they introduced the Custom Plus line that was a disposable with a lubricating strip. In late 2002, they announced the introduction of a new line of disposable razors with proprietary technology (rumoured to be a disposable version of a triple-blade razor, its premier product in refillables.) By successfully adopting the low-cost <u>and</u> differentiation strategies at the same time, Gillette has managed to maintain a 45% market share in disposables.

The lesson from these success stories is simple: it *is* possible to manage two conflicting strategies without keeping them apart. But to do so requires creativity and a willingness to go beyond simply imitating a new business model. By focusing only on finding ways to accommodate a new model so as to minimize potential conflicts, established companies may be missing an opportunity to exploit the new model in ways that leverages their unique competences and restores their markets to higher levels of profitability.

Conclusion

A prevalent view in the strategic positioning literature is that a firm should not try to compete in two different and conflicting strategic positions in the same industry simultaneously. The main reason proposed to support this argument is the existence of conflicts between the two alternative ways of competing. Because of these positioning trade-offs, firms that try to compete in both positions simultaneously will eventually pay a huge straddling cost and degrade the value of their existing activities.

Our research carried the debate on whether a company should adopt two strategies or not beyond the simplistic view *'do it'* versus *'don't do it'* by identifying and empirically testing the major factors influencing the successful implementation of such a strategy. Our research findings provide empirical evidence to show that <u>it is possible</u> to compete effectively in two conflicting strategic positions in the same industry simultaneously. The results further suggest that separating the two is neither necessary nor sufficient to do so successfully.

The empirical evidence suggests that we need to re-think exactly how conflicts affect a firm's ability to compete with two different business models in operation and how these conflicts can be managed. Specifically, we have shown that the key question that companies need to ask is not: "should we separate or not?" but rather: "if our goal is to manage these conflicts, when does it make sense to separate and what exactly should we separate?"

Our research also adds to the existing literature on how conflicting strategic positions can be managed beyond the notion of separation, by exploring in detail how the two business models can peacefully coexist. Specifically, the research findings suggest that creating a separate unit will not guarantee long-term success in the new business unless established firms also employ the appropriate managerial policies that will support the simultaneous coexistence of both business models.

Finally, our research has shown that academics have so far been focusing their attention on the wrong debate. The issue is not whether a firm can successfully embrace a new business model and minimize potential conflicts. Rather, companies must be searching for opportunities to exploit the new model in ways that leverages their unique competences and restores their markets to higher levels of profitability.

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Table 1

Critical Performance Attributes Emphasized by Established and New Business Models

Industry	**Performance Attributes Emphasized by Established business models**	**Performance Attributes Emphasized by new business models**
Banking	Extensive, nationwide branch network and personal service	24-hour access, convenience, price
Insurance	Personal, face-to-face advice through an extensive agent network	Convenience and low commission rates
Airlines	Hub-and-spoke system, premium service, meals, baggage checking	Price, no frills
Brokerage	Research and advice	Speed of execution and price
Photocopying	Speed of copying	Price, size and quality
Watches	Accuracy and functionality	Design
Steel	Quality	Price
Motorcycles	Speed and Power	Size and price
Bookstores	Chain of superstores offering nice environment and service	Wide selection, speed, price, convenience
Car Rental	Location (i.e airports) and quality of cars	Location and price (Downtown)
Computer	Speed, memory capacity, power	Design and user-friendliness

Table 2

Administrative mechanisms in the firms that created a separate unit

Administrative Mechanism	**Successful firms (10)**	**Unsuccessful firms (32)**
Strategic autonomy (1-5)	3.0	3.2
Financial autonomy (1-5)	4.1	2.9
Operational autonomy (1-5)	4.4	3.1
Different culture (1-6)	4.6	4.0
Different budgetary policies (1-6)	4.5	3.9
Different incentive systems (1-6)	3.2	3.6
Different Rewards (1-6)	3.2	3.2
Appointed CEO (0-1)	0.8	0.6
CEO from inside (0-1)	0.8	0.6

Figure 1

The Effectiveness of the Response by 17 Successful Companies

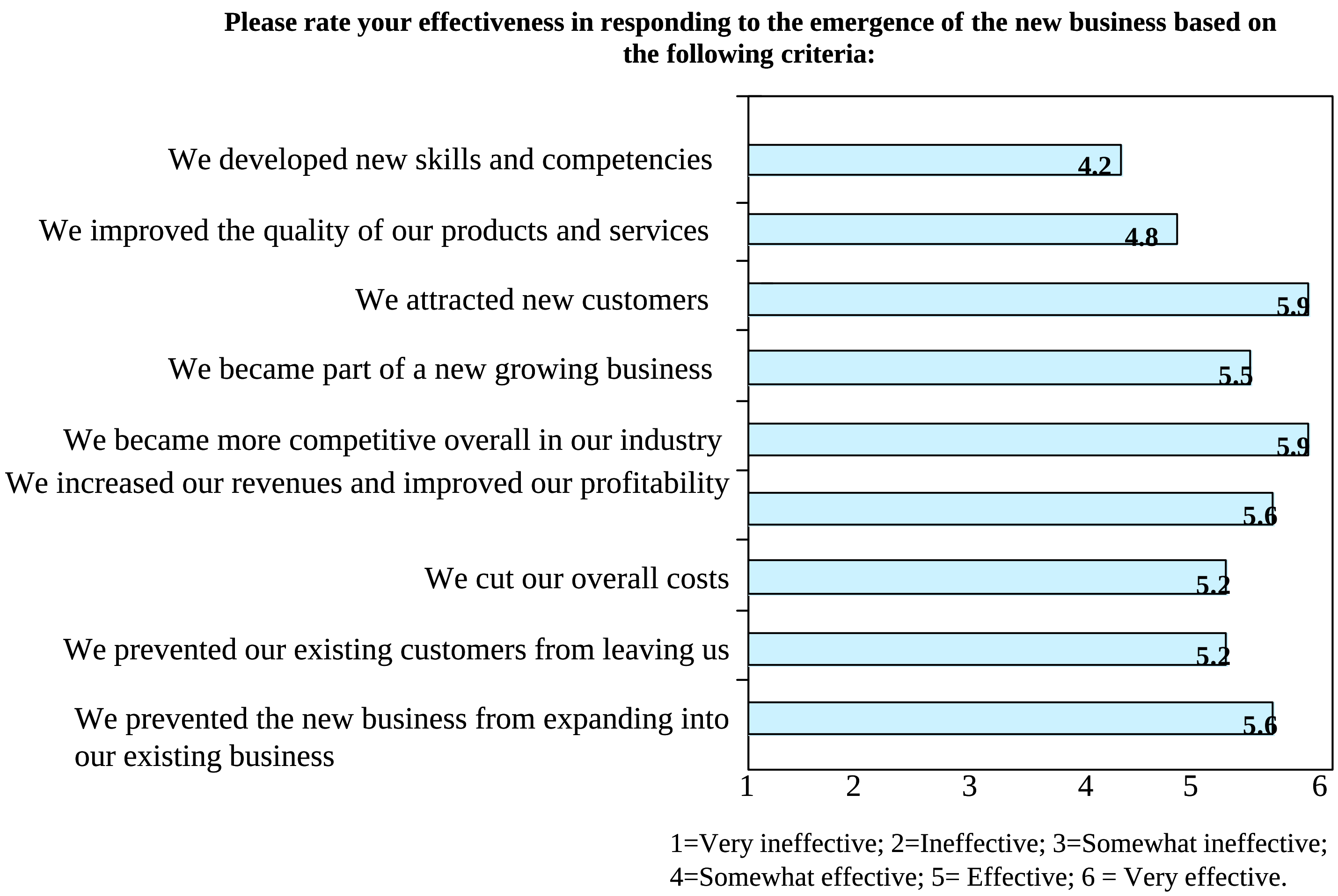

Figure 2

When to Separate the Innovation

Nature of conflicts between the established business and the innovation	Low Strategic relatedness (different markets)	High strategic relatedness (similar markets)
Serious	Separate	Separate at first and then gradually bring inside
Minor	Build it inside and then separate	Keep Inside

Similarity between the established business and the innovation

Appendix: Our Research

We examined the introduction of new business models in a number of European and US industries and studied how established companies responded to them. The new business models that we examined are: direct (telephone or internet) banking; direct general insurance; direct life & health insurance; online brokerage trading; home ordering and delivery of groceries; low-cost, no frills airline service; private label in FMCGs; online distribution of books; online distribution of office supplies; and screen-based electronic trading systems.

We measured whether these business models were different from the established business models along a number of dimensions, as proposed by Slywotzky (1996). Table A1 lists these dimensions. We compared the established business model to the new business model that the innovators had introduced in the industry along these dimensions and assessed whether the two were substantially different. We also measured the strategic similarity between the two markets along eight different indicators to determine whether they were different or not (see Charitou, 2001).

Table A1: Competitive dimensions for new business models (Slywotzky, 1996)

Competitive Dimension	Key Questions
Fundamental Assumptions	Compared to the existing business, does the new strategic position aim to satisfy a different set of customers' priorities? Are the profit drivers for the new business different from those of the existing business?
Customer Selection	Compared to the existing business, does the new strategic position aim to serve a different type of customers?
Scope	Compared to the existing business, does the new strategic position involve a different product or service? Does the new position require a different set of activities?
Differentiation	Compared to the existing business, does the new strategic position have a different basis for differentiation? Is the value proposition for the new business different than that offered by the incumbent firms in the existing business?
Manufacturing/Operating System	Compared to the existing business, does the new strategic position involve a different kind of manufacturing or service delivery economics and methods?
Organisational Configuration	Compared to the existing business, does the new strategic position involve a different organisational structure?
Go-to-Market Mechanism	Compared to the existing business, does the new strategic position use a different distribution method to deliver the products or services to the market?

We also measured whether the newly identified strategic position conflicted with the established way along a number of dimensions (such as distribution, culture and customer conflicts). Table A2 lists the conflicts that responding firms were asked to rate in their businesses.

Table A2: Potential conflicts between two different strategic positions (or business models)

Risk of cannibalising the existing customer base
Risk of destroying or undermining the value of the existing distribution network
Risk of compromising the quality of service offered to customers
Risk of undermining the company's image or reputation and the value associated with it
Risk of destroying the overall culture of the organisation
Risk of adding activities that may confuse the employees and customers regarding the company's incentives and priorities
Risk of defocusing the organisation by trying to do everything for everybody
Risk of shifting customers from high-value activities to low-margin ones
Risk of legitimising the new business, thus creating an incentive for other companies to also enter this market

We collected our data in two ways: through field research and through a questionnaire survey. We first interviewed ten companies in Europe and the US. The interviews were conducted in person (mainly at the company's Head Office), and usually lasted between two and four hours depending on the number of people interviewed in each company. Following the interviews, we prepared several short case studies describing the various insights that were generated.

In the second phase of the research, we used the ideas developed from the fieldwork and the relevant streams of literature to prepare a detailed questionnaire addressing our research questions. A thirteen-page questionnaire specific for each industry was sent to 740 established companies in the eleven sample industries. We received 115 completed questionnaires from 98 different companies.

In the third phase of the research, eleven companies that were deemed to have responded to the new business model successfully were selected for in-depth field research.