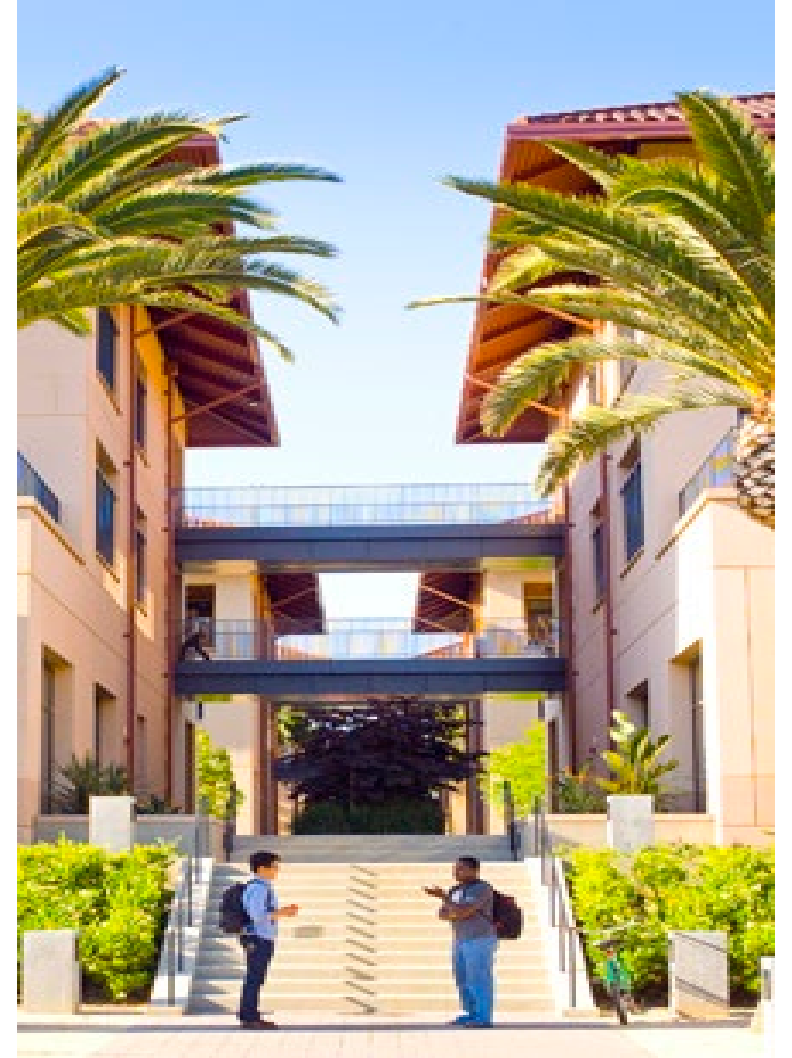


Competitive Advantages

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Professor of Economics

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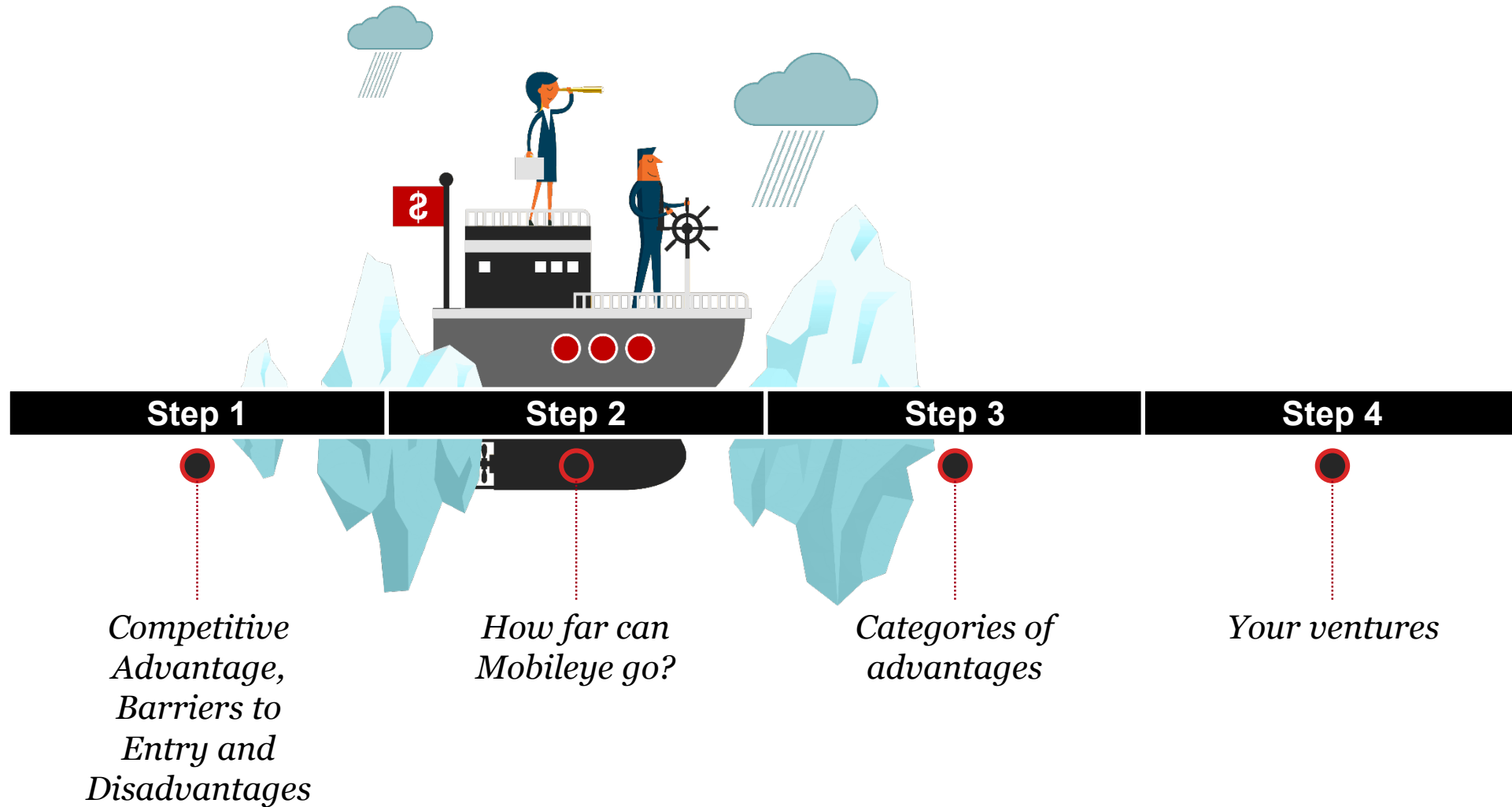
Change lives. Change organization. Change the world.

Competitive Advantage



Why do investors care so much about competitive advantage?

Agenda





competitive advantage

What is a competitive advantage?

A competitive advantage is a property of the business or the business environment that provides higher profitability, or increases the probability of achieving higher profitability with comparison to other existing or potential competitors.

This higher profitability may manifest itself in higher market share, higher prices and or lower costs.

Barriers to Entry

What is a barrier to entry and how is it different from a competitive advantage?

***A barrier to entry is a property that hinders (potential) competitors' ability to enter the market.** Hence a barrier is a particular kind of advantage, it is simply an advantage against **potential** entrants.*



Attributes of Advantages

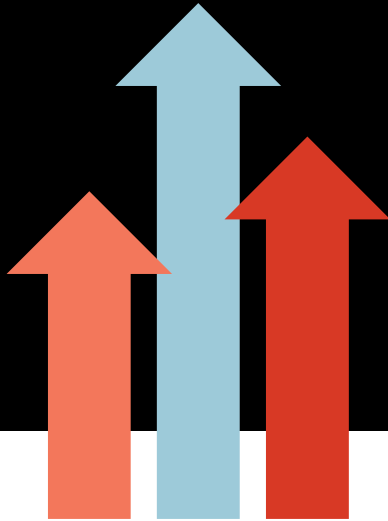
The first attribute we consider is **Competitive Scope**:

The set of competitors for which the advantage is effective.

Identifying the scope is useful since in many cases an advantage may only be effective against a subset of current competitors or future ones – potential entrants.

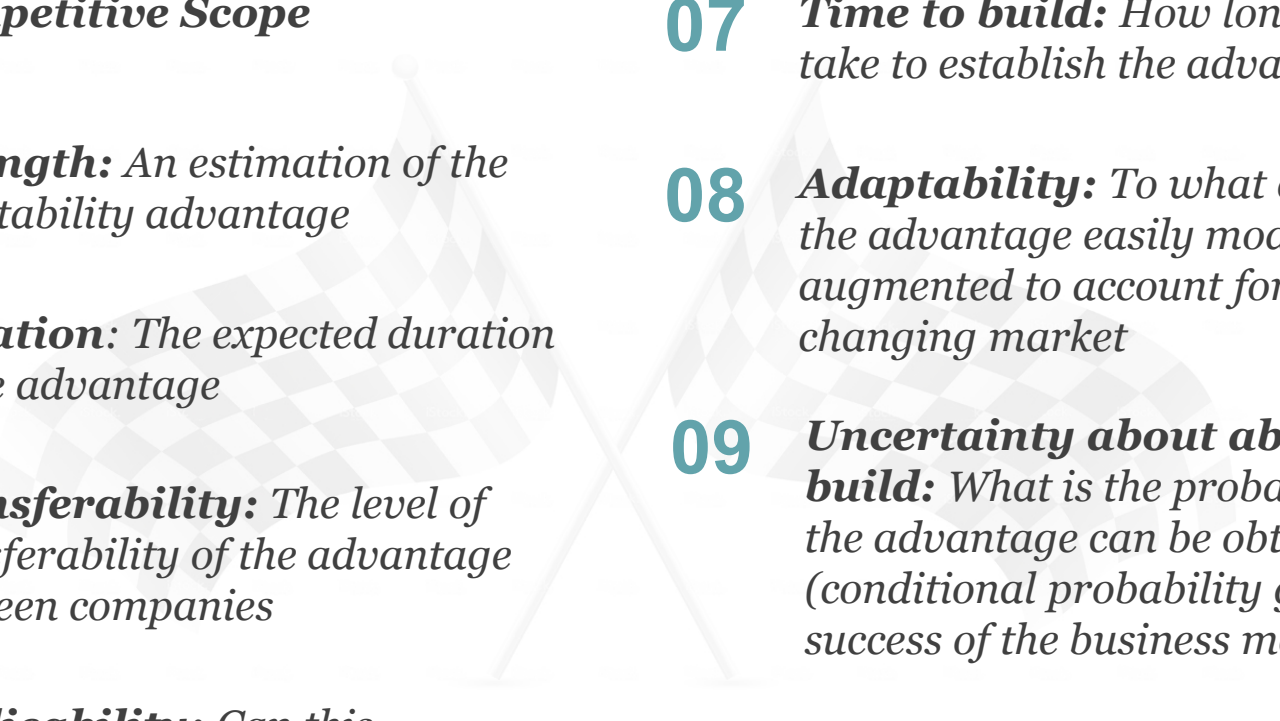
ATTRIBUTE

Duration: The expected duration of the advantage



Note: there might be an interplay between attributes. For example, if the advantage has different strengths vs. different competitors it interacts with your choice of relevant scope.

We can evaluate advantages along even more **Attributes**

- 
- 01 **Competitive Scope**
 - 02 **Strength:** *An estimation of the profitability advantage*
 - 03 **Duration:** *The expected duration of the advantage*
 - 04 **Transferability:** *The level of transferability of the advantage between companies*
 - 05 **Replicability:** *Can this advantage be replicated by others or the cost of replication*
 - 06 **Cost to build:** *Your added cost of building the advantage*
 - 07 **Time to build:** *How long would take to establish the advantage*
 - 08 **Adaptability:** *To what extent is the advantage easily modified and augmented to account for a changing market*
 - 09 **Uncertainty about ability to build:** *What is the probability that the advantage can be obtained (conditional probability given the success of the business model).*

More **Attributes** of Advantages

- 
- 10** **Volatility:** *How much variance is there in the sustainability of the advantage. This measure is a combination of the volatility of the industry/market and the sensitivity of particular characteristics of the advantage to changes in the industry/market*
- 11** **Dynamics of maintenance costs:** *Long term costs to maintain the advantage, are they decreasing/increasing.*
- 12** **Sustainability in the long run:** *A combination of long-run costs, probability of maintaining, threats to the advantage and the dynamics of the strength of the advantage*
- 13** **Path to build:** *A description of the plan or strategy designed to achieve the advantage*
- 14** **Complementarities:** *How does the advantage impact the effectiveness of other advantages and disadvantages*

Mobileye



01

What are Mobileye's competitive advantages?

02

What are the scope and duration of the top three?



03

Negotiations are coming to an end.

Should Mobileye lower their price point for the mass market model or take the chance and stick to the higher price and risk losing the deal?

The Strategy in Competitive Strategy

The logic of the business relies on the competitive advantages.



For every major decision we ask:



*How would the decision
we make impact our strategic
advantages?*



*Predicting the outcomes based
on our competitive advantages*

For some major decisions, the vision drives our choices based on our advantages

Other major decisions shape our advantages for the future

How About **Disadvantages**

These are advantages of existing or potential competitors



Mobileye pricing close to \$50

Mobileye was getting a solid \$40-\$50 range per unit, had some increase in revenue but also saw increased competition with new players and OEMs more willing to experiment

In September of 2016 Tesla and Mobileye publicly trade accusations following a high profile accident and conflict over Tesla's development of their own ADAS systems

In 2017 Mobileye announces roadmap to Level 5 (fully autonomous driving) by 2020, there is general agreement today implementation will take significantly longer

March 2017, Mobileye is acquired by intel for over \$15B (was trading ~\$10.5B market cap)

2019 Audi roles out Level 3 (distracted) but not in the US



2019: multiple actors provide chip/processing/camera/lidar/communications solutions

AdasWorks

Aisin Seiki

Ambarella

Autoliv

Bosch

Continental

Aptiv (Delphi)

Denso

Freescale Semiconductors

Gentex

Green Hills Software

Harman

Hella

*Hitachi Automotive
Systems*

Hyundai Mobis

Infineon Technologies

Magna

Mobileye

NVIDIA

OmniVision

Panasonic

QNX

Renesas Electronics

Takata

Texas Instruments

Toshiba

Valeo

Vector

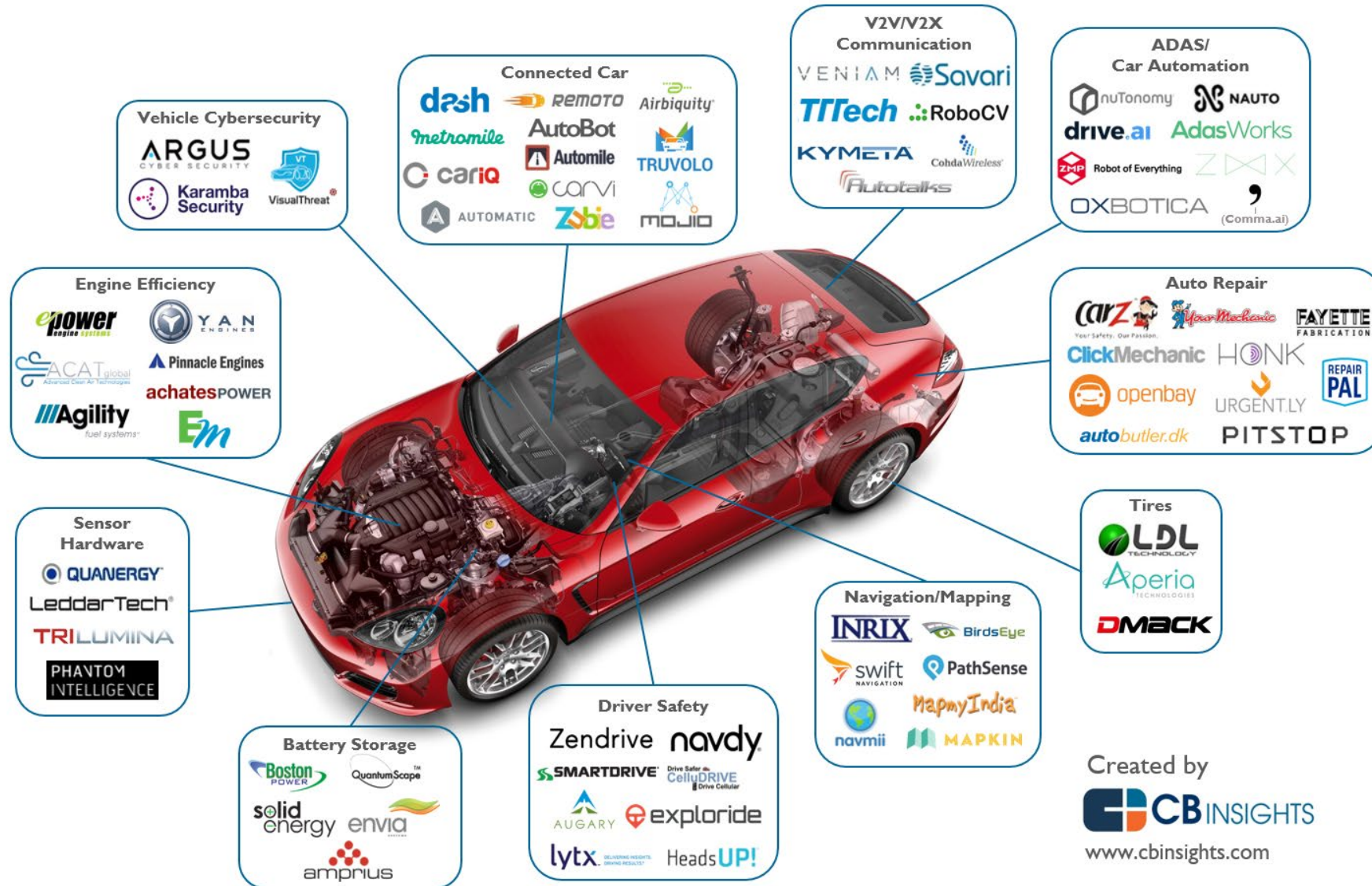
Velodyne LiDar

Wabco

ZF Group (ZF TRW)

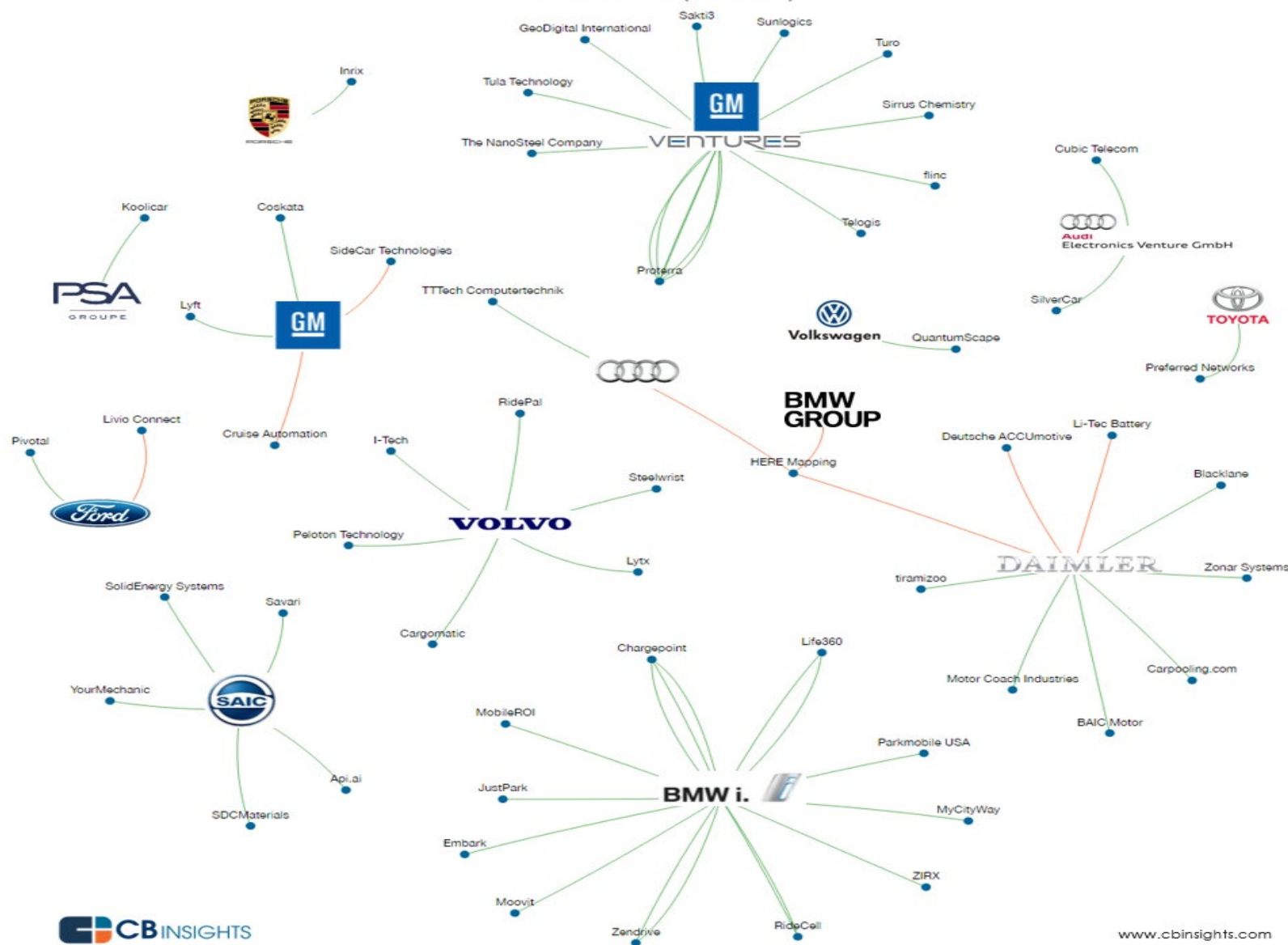
If you build it they will come...

Unbundling The Automobile



If you build it they will come...

Where Major Auto Manufacturers Are Making Private Market Bets 2011 - 2016 YTD (5/10/2016)



Creating and sustaining advantages

A list of potential advantages (barriers, disadvantages...)



| Production scale cost advantage



| Production scope operational or cost advantage



| Human capital efficiency advantage



| Human capital alignment advantage



| Human capital cost advantage



| Human capital learning curve advantage

Creating and sustaining advantages

A list of potential advantages (barriers, disadvantages...)



| Human capital selection advantage



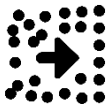
| Human capital training advantage



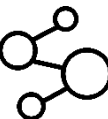
| Human capital development advantage



| Culture advantage



| Organizational efficiency advantage



| Processes advantage (org learning curve)

Creating and sustaining advantages

A list of potential advantages (barriers, disadvantages...)



| Internal complementarities advantage (the alignment of people, culture, org. structure and processes)



| Advantaged access to inputs (cost)



| Advantaged access to resources (contractual)



| Advantaged access to resources (relational)



| Customer perceived value advantage (including perceived brand value, uniqueness and so on)



| Customer measurable value advantage

Creating and sustaining advantages

A list of potential advantages (barriers, disadvantages...)



| Customer specialization (focus)



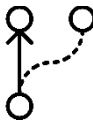
| Customer understanding and prediction advantage



| Customer loyalty advantage



| Customer switching costs advantage



| Customer perception of indirect aspects (some examples: green company for a non-green related product, or perceptions of value via other products/service complementarity)

Creating and sustaining advantages

A list of potential advantages (barriers, disadvantages...)



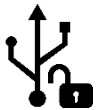
Network externalities (in product/service value)



Network externalities (indirect or multi-sided such as platform, search/advertising)



Proprietary distribution channels



Advantaged access to distribution channels



Vertically integrated value advantage



Scope customer advantage (including complimentary goods and services)

Creating and sustaining advantages

A list of potential advantages (barriers, disadvantages...)



| Adaptation speed to market demand advantage



| Customer service



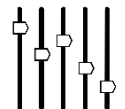
| Customer relationships



| Legal protection, IP, Trade secrets



| Government support



| Industry equilibrium advantage

Creating and sustaining advantages

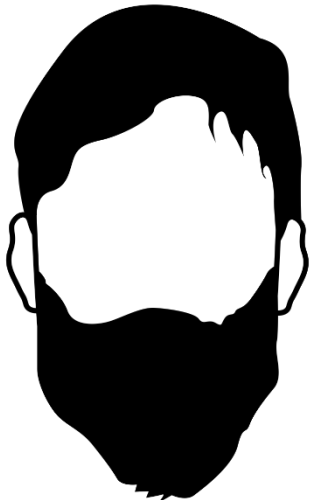
A list of potential advantages (barriers, disadvantages...)



Strategic threat and punishment advantage (reputation)



Management strategic sophistication advantage



*Ask yourself:
Can I **create** a new
advantage for my
venture?*

Your venture competitive advantages



What do you have?

What can you build?

Why these will help you win?



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Netflix: Strategic Advantages Pivoting

Yossi Feinberg

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Agenda

COMPETITIVE ADVANTAGES

01

**CHANGING
TIMES**

Business
model and
advantages by
era

02

**CHANGE
HOW?**

How does
Netflix decide
on pivots

03

**PATTERN OF
PIVOTS**

A common
thread in
pivoting?

1. Netflix' business model and advantages by Era

1997



202?

I. 1997-2001 Pre-IPO

Building the DVD Rental Business



Some commonly mentioned advantages:

Data – customer preferences

Different pricing model – subscription

Online – no physical stores

Partnerships and good deals with (and for) library owners (content collection owners)

New format only – DVD, no need to support older tech VHS (which is difficult to ship)

II. 2002-2006 The Growth of the DVD Rental Business



Some commonly mentioned advantages:

Improving envelopes – patents on envelope design and material for glue

Shipping ops

Warehousing optimization

Inventory management optimization

Scale – returns to scales

Partnerships with DVD manufacturers, joint marketing

Increased customer base

Loyalty

Netflix and chill - brand

Some market power

III. 2007-2011

The Introduction of Streaming



Some commonly mentioned advantages:

Instant access

Physical asset light – lucrative, more valuation

No shipping costs

Customer base tends to be already tech savvy – also will adopt streaming early

New customer experience: try, switch, binge,...

Tech leveraging SDN prioritization loophole

IV. 2012-2015

Netflix and Content



VI. 2021- Video Gaming

Bloomberg

ScreenTime

Netflix Plans to Offer Video Games in Push Beyond Films, TV

By Lucas Shaw and Mark Gurman

July 14, 2021, 3:05 PM PDT Updated on July 15, 2021, 4:33 AM PDT

- ▶ Company hires veteran of Facebook and EA to lead gaming effort
- ▶ Service will add games to streaming platform in the next year



US006966484B2

(12) **United States Patent**
Calonje et al.

(10) **Patent No.: US 6,966,484 B2**
(45) **Date of Patent: Nov. 22, 2005**

(54) **MAILING AND RESPONSE ENVELOPE**

(75) Inventors: **Ligia S. Calonje**, Los Gatos, CA (US);
Roy Carrillo, Los Gatos, CA (US);
Thomas R. Dillon, Los Gatos, CA (US); **W. Reed Hastings**, Los Gatos, CA (US); **Gregory K. Stahl**, Los Gatos, CA (US); **W. Douglas Strabel**, Los Gatos, CA (US); **Gordon P. Rosete**, Los Gatos, CA (US)

(73) Assignee: **Netflix, Inc.**, Los Gatos, CA (US)

(*) Notice: Subject to any disclaimer, the term of this patent is extended or adjusted under 35 U.S.C. 154(b) by 213 days.

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Envelope Patent

(21) Filed: May 24, 2004
(22) Filed: May 24, 2004
(5) Priority: US 2004/0050919 A1 Mar. 18, 2004

(51) Int. Cl.⁷ **B65D 27/06**
(52) U.S. Cl. **229/305**
(58) Field of Search **229/305**

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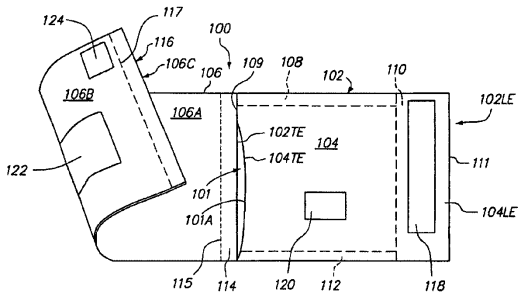
OTHER PUBLICATIONS

Digital Versatile Disk (DVD) Prepared by Applicants disclosing a method of using a certain type of envelope, each mail envelope wherein is limited to have a certain size, and the size of the application; video recorded in 2003.

ABSTRACT

Providing an envelope for conveying an item from a sender to a recipient and back is disclosed. The envelope comprises a base panel, a sender address panel, and a recipient address panel. The sender address panel is affixed to the base panel by an adhesive region. The sender address panel and adhesive region define a pocket sized to accept an item. The adhesive region extends laterally on the base panel in an amount selected to ensure that a postal cancellation is not applied to an area overlying the item. The recipient address panel is joined to the base panel by a detachable joint. In this configuration, a fragile item may be conveyed from the sender to the recipient and from the recipient back to the sender without damage to the item.

14 Claims, 8 Drawing Sheets



2. How does Netflix decide to change directions?



3. Does a Pattern Emerge?

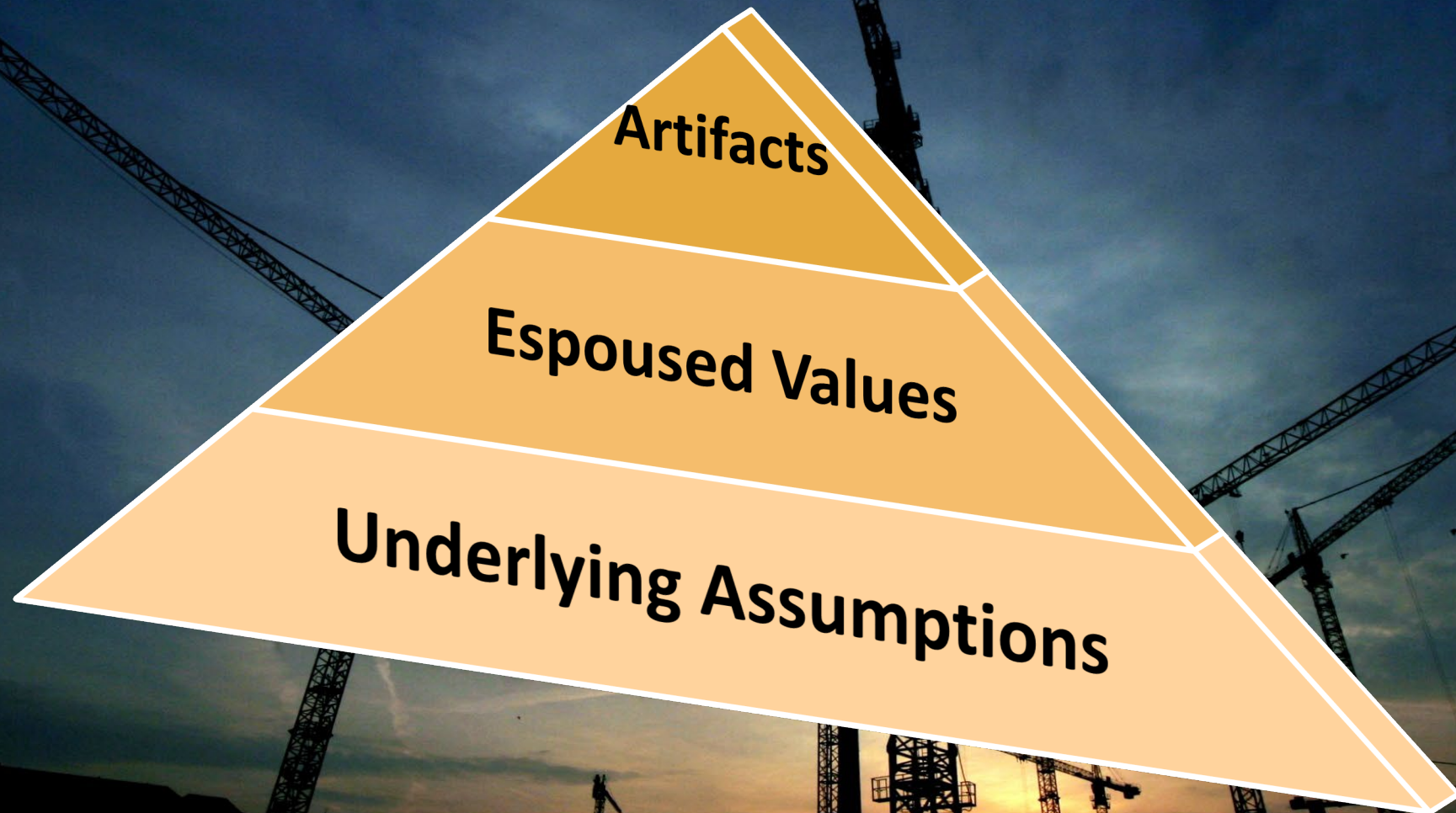
How does Netflix succeed in repeatedly creating new business models?



The norms and values that are shared by the people in the organization, together with the observed behaviors, rules, and processes, form the foundation for organizing for innovation.



Culture, Climate and People



If you build it, they will come...

Culture

The relationship between culture and people preferences and expectations

This relationship impacts selection.

Align: Incentives, monitoring, promotions, reviews, hiring, firing, communications, processes.

