

## **Distinctive Competency: Wash, Rinse, and Repeat**

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**October 1, 2007**

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### **Abstract**

Identifying distinctive competencies (a.k.a. competitive advantages or capabilities) is a sense-making process that varies depending on a dynamic interaction of cycles: economic, industry, firm, and product.

Strategists need to have clear representations of what internal competencies bring value to consumers in the competitive market. Mizik and Jacobson (2003) discuss these strategic representations from a trade-off point of view—fluctuating dichotomies that influence financial performance: a value-creation *agent-driven* cycle to disrupt and a value-appropriation cycle to *rinse out* economic profits. This cyclical shifting of strategic emphasis between creation and appropriation creates positive financial returns: that is, there is a time to spend money on R&D to innovate and disrupt and then, just as importantly, there is a time to spend on advertisement to extract the value of the innovation. Together, the harmony of these forces needs to be balanced, a balance between creation and harvest.

Day and Negungadi (1994), from a cognitive perspective, discuss how the strategists formulate strategy based on their interpretations of internal competencies. A strategist needs to make sense of the environmental variables, and create a mental model to identify and understand the firm's "state of advantage." Day and Negungadi offer two consistent dimensions to contrast mental models: a customer focus that would relate to a differentiation strategy and a competitor focus that would relate to a low-cost strategy. A cluster of managerial representations suggest that strategy may depend on several contexts: stage of product in life cycle, industry concentration, capital requirements, and product type. Locus of strategic interest is a relationship (LO-HI) of customer and competitor focus: the biggest winners (HI-HI) are market driven, and the biggest losers (LO-LO) are self-centered, attempting to drive the market.

Jayachandran and Varadarajan (2006) discuss the implications of past strategic success on the next cycle of strategy as it relates to organizational responsiveness; specifically competitive responsiveness in the retail industry. Past research raises potentially *conflicting*

perspectives: on one hand, if performance was poor, the next cycle would result in increased responsiveness to the winning competitors (reevaluate their positions and initiate actions); on the other hand, if performance was good, the next cycle would also result in increased responsiveness to the losing competitors (beat them while they are down). Jayachandran and Varadarajan (2006) address elements of these different perspectives based on available resources, complacency, ego, hubris and how these differences influence responsiveness. In their model, past performance is the antecedent to competitive responsiveness with three intermediate effects: ability to respond (stage 1), motivation to respond (stage 1), and awareness of competitor (stage 2). Only one of their hypotheses in this model was rejected, with six considered statistically significant; all causal relationships accepted were positive except for the inverse relationship between past performance and current motivation to respond. None of the hypotheses were related directly to the conflicting perspectives (reason it was published in JAMS)—how does past performance and competitive responsiveness relate as an isolated hypothesis? Both perspectives would suggest that **regardless of past performance**, strategists in the next cycle would increase responsiveness to its competitors.

Vorhies and Morgan (2005) describe benchmarking as a tool to help strategists learn about firm performance in relation to its peers and its competitors. The research conducted amplifies the importance of continual organization learning: an organization defines its competitive advantage in the market place based on its surveillance and awareness of the market place. Using capabilities measured along marketing eight dimensions, firms were compared using Euclidean distances to an *ideal* firm's performance (Vorhies and Morgan indeed like this method). Results were normative, meaning that benchmarking in three stages (search, gap-

assessment, and capability enhancement) could help any firm improve its performance; however, there are limitations (Vorhies and Morgan 2005, p. 91): “Although our study provides insights into the benchmarking of marketing capabilities, it does not address how firms should develop, deploy, and enhance their higher-order benchmarking capability.” As such, practical benchmarking needs to be context-bound to the industry and the relative ideal, based on data available to create such a benchmark.

Slater and colleagues (2007) try to extend previous representations of strategic fit in the high-tech industry by overlapping the strategic typology with the appropriate innovative-diffused target. As someone who has tried to overlap the innovation diffusion with Wegner’s periphery of participation (communities of practice), I felt this overlap technique to be conceptually irrelevant: product diffusion inherently changes strategic fit over time. For example, *crossing the chasm* is an important marketing function, but is relevant to any firm that has had early success with a product—they are trying to penetrate the market (e.g., extend the target). Boundary spanners, as communicators to connect adjacent peripheries of participation, seem much more relevant to explain the critical mass necessary to reach the mass market.

The argument presented by Slater and colleagues, however, would suggest that firms change strategic behavior dependent on the product’s stage in its life cycle. In high-tech, certain products, like hard drives, are mature and have reached the major targets; as such, firms in the hard drive business, who at one time could be considered Prospectors, now need to compete on cost, and could be called Low Cost Defenders. This would suggest that typological considerations need to be a mix at the firm and SBU level, and specific in the context of a specific offering. Western Digital, a hard drive firm, today would probably have diversified

strategic fit depending on the product offering: maybe 10% Prospector, 20% Analyzer, and 70% Defender (Low cost and Differentiated). The context of firm dynamics (size, structure, and performance), industry dynamics (size, structure, performance) and the product (life-cycle stage, category, economy, saturation, and brand) as well as sourcing dynamics would determine the strategic typology of a firm at a given point in time.

In conclusion, it is evident that strategy is a harmonizing orchestration of cycles. At the industry level, these cycles create competition. Within the firm, the cyclical trade-off between value creation and appropriation define distinctive competencies. An integration of these cycles creates a manager's representation of strategy: a balance between understanding how an offering will impact a customer and being responsive to competitors in the market place. The offering itself has a life cycle that compounds the dynamics of strategic thought. As such, benchmarking tools can be helpful to improve upon market-based learning—as they help strategists search, close gaps, and enhance capabilities.

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