

BARRIERS TO IMITATION

Introduction-

This mini-lecture focuses on the ways that companies can protect their resource and capability based competitive advantages from imitation. In other words, this mini-lecture focuses on the various barriers to imitation.

Stages for Imitation-

First of all, imitation is not an immediate occurrence. Companies don't just see what you have and then immediately hit the "copy" button on their resource copy machine. Imitation is multi-stage process that unfolds over time. At each stage of the process there are conditions that must be met in order for an imitation to be successful. So, I want to talk about those stages and the required conditions so that you can be more clear on how companies can erect barriers to imitation.

There are five stages that must occur for successful imitation to take place: recognition, incentives, diagnosis, resource acquisition and deployment.

Recognition-

The first and most fundamental stage is recognition. Your competitors must recognize that you have something that is worth imitating before imitation becomes a threat. They have to be able to see that you have superior performance, and they have to be able to recognize that there is something different about the way you do things that facilitates that performance. If they can't recognize that you have something worthwhile, then you don't need to invest much time worrying about imitation.

Incentives-

The second stage is incentives – i.e. your competitors must have some clear incentive for wanting to imitate what you have. The competitor may recognize that what you are doing is valuable for you, but if it won't be valuable for the competitor then there will be no imitation threat.

Diagnosis-

The third stage is diagnosis. Your competitors must be able to diagnose exactly what it is that you have or that you do differently that leads to your superior performance. If they can't figure out exactly why you are winning, then trying to copy you won't do much good. They may imitate the wrong thing, or they may waste money on unnecessary aspects of what you do.

Acquisition-

The fourth stage is resource acquisition. Even if competitors recognize your advantage, have incentive to imitate and know why you win, they still have to somehow acquire resources that will help them imitate your advantage. If competitors cannot acquire an identical resource, a similar resource or a substitute resource, then their imitation attempts will not get them very far.

Deployment-

The fifth stage is deployment. Even if a competitor has gone through all four prior stages, imitation may still be blocked if the competitor cannot effectively deploy the necessary resources. In other words, your competitor can have the resources but still be unable to put those resources to use to effectively imitate your advantage.

Barriers to Imitation-

So, if these are the five stages to imitation, then what are the barriers to imitation that may exist at each stage? As we talk through these barriers I will use the example of Southwest Airlines to illustrate because Southwest's advantages are very nicely protected from imitation.

Barriers at Recognition Stage-

First, at the recognition stage, a company may be able to hide its superior performance from competitors through any number of strategic tactics. If you **enter a market in a way that the main competitors don't notice you** or don't believe they need to pay attention to you, then you may be able to hide your early successes.

Southwest is a great example of this. While all major airlines at the time were competing aggressively through hub and spoke distribution systems, Southwest entered the market with direct point to point service between secondary cities. Note here one Delta's route map, for example, that if you want to fly from Tucson to San Diego you have to go through Salt Lake, a major Delta Hub. Tucson only connects to the three main Delta Hubs - Salt Lake, Minneapolis and Atlanta. In contrast, if we look at the Southwest Route map we can see that we can simply fly direct from Tucson to San Diego. Now, it may look here like Tucson is just a Southwest Hub, but if you notice Southwest will only show you routes from one city at a time because EVERY city looks like a HUB. Rather than having a few major hubs, they just have a TON of direct point to point routes.

So, when Southwest started their **business model was just so different** that the major players didn't really see them as a threat. As a consequence, they didn't recognize Southwest's potential early on. This certainly bought Southwest some time to build and grow.

Barriers at Incentive Stage-

Second, at the incentive stage, a company may erect two different kinds of barriers to imitation. The first barrier is **deterrence**, or a **threat to punish imitators**. You don't have to verbally threaten your competitors, but you could do other things like build excess capacity. Competitors know that with your excess capacity you could flood the market and drive down prices. If you are the competitor you think to yourself – "I am not interested in picking a fight with a company that has excess capacity, they have incentive to win that fight, and I can't afford to stay in that fight." Another form of deterrence is **limit pricing** – i.e. set your prices so low that competitors don't see any value in trying to compete with you.

Barriers at Incentive Stage #2-

A second barrier at the incentive stage is **preemption**, or locking up all profitable uses. You might lock up all the markets where the resource could be used through contracts, or you might acquire all the complementary resources that a company might need in order to realize your advantages, or you may acquire the rights to all of the raw materials. Ultimately, you are somehow locking up some part of the process that competitors would need to really imitate what you are doing.

Southwest applied both types of incentive barriers. First of all, Southwest has locked up service at just about all of the secondary cities you can imagine – small cities or large cities with small airports. These are small markets with just enough business to support only one non-stop flight service between cities. So, they have basically preempted all the possible secondary city routes.

Closely related to locking up these markets, Southwest also uses a form of deterrence by keeping prices very low for these routes. Nobody is going to follow Southwest into these markets because the margins are already so slim. Thus, Southwest effectively locked up the potential cities that support their business models while setting prices low enough to deter competition.

Barriers at Diagnostic Phase-

Third, at the diagnostic phase, firms can leverage **causal ambiguity** to make it difficult for competitors to diagnose the source of their advantage. Causal ambiguity simply means that the underlying source of your advantage is somehow unclear. If you cannot easily determine which resource is driving the advantage and/or exactly how a specific resource is driving an advantage, then your advantage is shrouded in causal ambiguity.

Causal ambiguity is clearly at play at Southwest. Southwest does a lot of things differently from competitors, but what differences are really driving superior

performance? Is it the direct route model, the organizational culture, the quick turnaround time or all of the above? Many have tried to replicate Southwest, most have failed... in large part because they are just not sure exactly what parts of Southwest's model to imitate.

Barriers at Acquisition Stage-

Fourth, at the resource acquisition stage, firms can **make their resources less mobile** by embedding them into the firm's culture and processes. If a resource is deeply embedded in a firm's culture and processes then it will be very difficult for competitors to try to hire that resource away, or extract it from the firm. Similarly, it will be very difficult for competitors to make that resource on their own because it depends on the complex processes and social relationships inside your firm.

In the Southwest example, the competitive advantage is not just due to a few people, it is due to the company's culture, systems and processes that are deeply engrained in how they do what they do. Even after Southwest insiders have come out and PUBLISHED books on how to do what Southwest does, competitors still can't seem to get it right. Many of the key competitive resources are just too embedded in the unique and complex organizational context inside Southwest Airlines.

Barriers at Deployment Stage-

Finally, at the deployment stage, firms can make their resources difficult to imitate by making sure that they are only **valuable in combination** with other resources and activities, especially when these other resources and activities run counter to competitors' prior commitments. The interdependence between resources means that competitors must also imitate these other resources in order to imitate your advantage. When these other resources are contrary to what your competitors already do, then sometimes they simply cannot acquire them without ruining their own businesses.

And here again, the example of Southwest Airlines is brilliant. Continental Airlines made a valiant effort to imitate Southwest through a no-frills offering called "Continental Light." They tried to pick a few parts of the Southwest system, but they ignored some of the other complementary resources that were essential for successful deployment of the Southwest strategy.

For example, one of the centerpieces of the Southwest strategy was using these secondary airports and cities because they could achieve quick turnaround. They know they can't compete in the big congested HUB airports, so they don't and they don't have to. They are successful without those airports. But when continental tried to imitate Southwest with Continental Light, they ignored this part of the

business model. As a result, they couldn't get the fast gate turnaround that Southwest has and, therefore, could not be competitive on costs.

Another example is that Southwest did not sell through travel agents. They save a few bucks by refusing to pay the agent fees. Well, Continental couldn't do that. They needed the agents to sell services to their bread and butter business customers. But keeping the agents meant that they couldn't compete on price with Southwest. So, again, they chose not to imitate this part of the strategy and it cost them.

Southwest also did not have a frequent flier program because such programs are very costly. Continental couldn't let this go because they were so deeply committed to their customer base through their existing frequent flier program. Continental light could not afford the traditional miles program because it was so costly, but could not afford NOT to have the program because it would alienate their customer base. What did they do? They ultimately watered down the whole program and ticked off their customers.

This is a great example of dealing with barriers at the deployment stage because Continental made it through recognition, incentives, diagnosis and even resource acquisition. But, they really failed at the task of effectively deploying the resources because they could not (or would not) adjust their systems and practices to effectively deploy those resources like Southwest does.

Conclusion-

Hopefully now you have a better idea of the stages competitors need to go through to imitate your resources as well as the competitive barriers you can erect to make it very difficult for them to do so.