

Fending-off commoditization and softening competition through strategic boundary design

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- Industry Architecture and Business Design
- The Case Study
- Findings and Discussion

Changing industry architectures

- Industry Architectures: From integration to dis-integration
 - Value chains evolve: dis-integrate, re-integrate, etc.
 - Baldwin & Clark, 2000; Fine 1998, Feenstra 1998, Jacobides 2005
- Both the *drivers* and the *consequences* need further study
 - Beyond outsourcing: understanding what's behind structural change
 - New landscape: New players, new sectors, new capabilities
- From the industry to the firm: Design of Boundaries
 - Principles (such as those laid out by Carliss) apply to the firm, too!
 - Analysis of the value of more or less integral structures promising

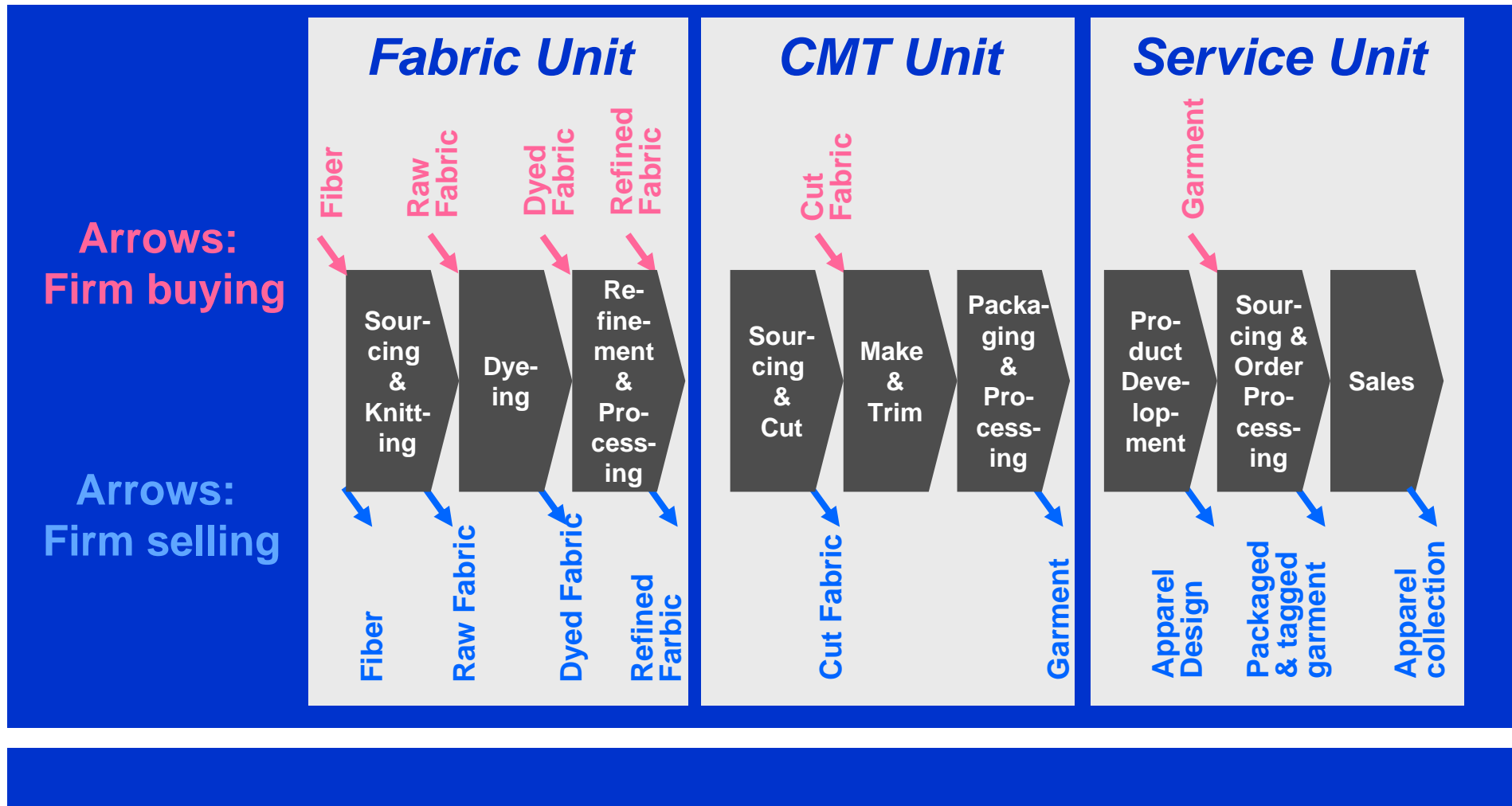
From industry architecture to business design

- The dynamics of business design
 - Design as a means of dynamically managing a firms' capabilities, activities and opportunities
 - E.g. Gawer & Cusumano, Baldwin & Clark, Jacobides etc.
- Managers become business designers
 - What tools are they using? How do they achieve flexibility?
 - E.g. Eisenhardt & Brown 1999, Zott & Amit 2006, etc.
- Critical for research: Better understand boundary design
 - How do firms design their scope, i.e. their overall boundaries?
 - How do firms use their boundary design *strategically*?

- Strategizing vs. Economizing
 - TCE: Williamson 1991, Nickerson 2000, Argyres & Bigelow 2004
- Dynamic capabilities and modularity
 - Teece et al 1997, Eisenhardt 2000
 - Baldwin & Clark 2000, 2006; Schilling 2000
- Strategic Boundary Design
 - Santos & Eisenhardt 2005, 2006; Jacobides & Billinger 2006
- Q: How do firms change their boundaries? And how do they *strategize* in choosing their scope? (extending J&B, 2006)

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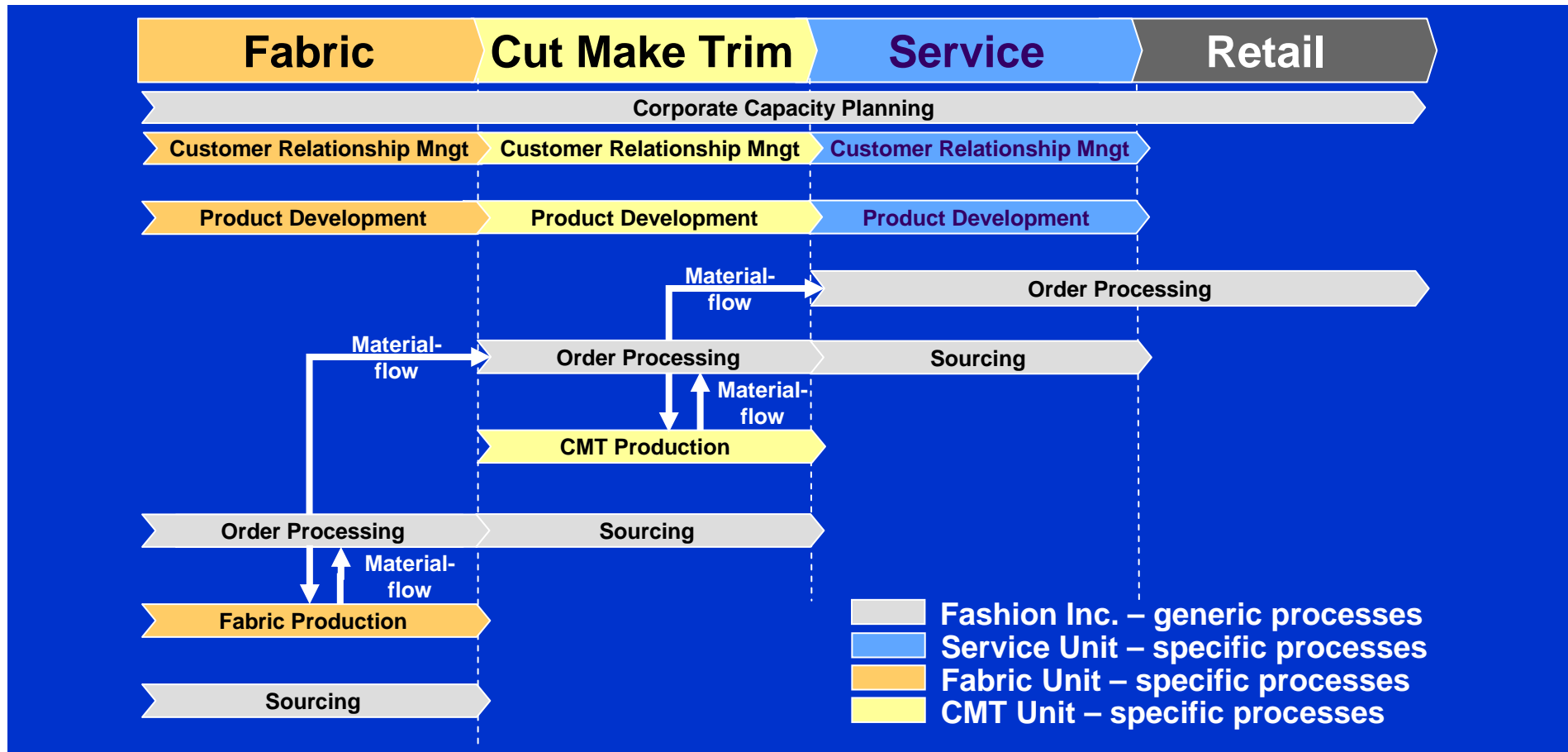
New business design: How Fashion Inc. opened its value chain



Why Fashion Inc. changed: Dynamic benefits of new business design

- Operational Efficiency and Effectiveness
 - Efficiency: Benchmarking; monitoring; replicating generic processes
 - Effectiveness: Capacity and capability matching
- Strategic Capabilities and Propensity to Innovate
 - Partial integration sustains systemic adaptation (a la ZARA)
 - Partial use of the market prompts open innovation: Avoid NIH
- Use of the Market Benchmark supports Corporate Resource Allocation
 - Capacity utilization a benchmark for resource / capital allocation
 - Firm boundary design linked to divisional / managerial incentives

The basis for new business design: Fashion Inc.'s modular organization



What modularity allows: Managers think in terms of “capability bundles”

- “When we receive an unexpected call from a customer who asks for a particular product, we first see if we have the product in our warehouse.... If yes, we just ship it..... If no, we see whether we have the fabric for the product in stock..... If yes, we can very easily produce it..... If no, we need to see where to get the fabric, internally or externally...”

A manager of the CMT Unit

Capability Bundle I

Shipping

Capability Bundle II

Manufacturing

Shipping

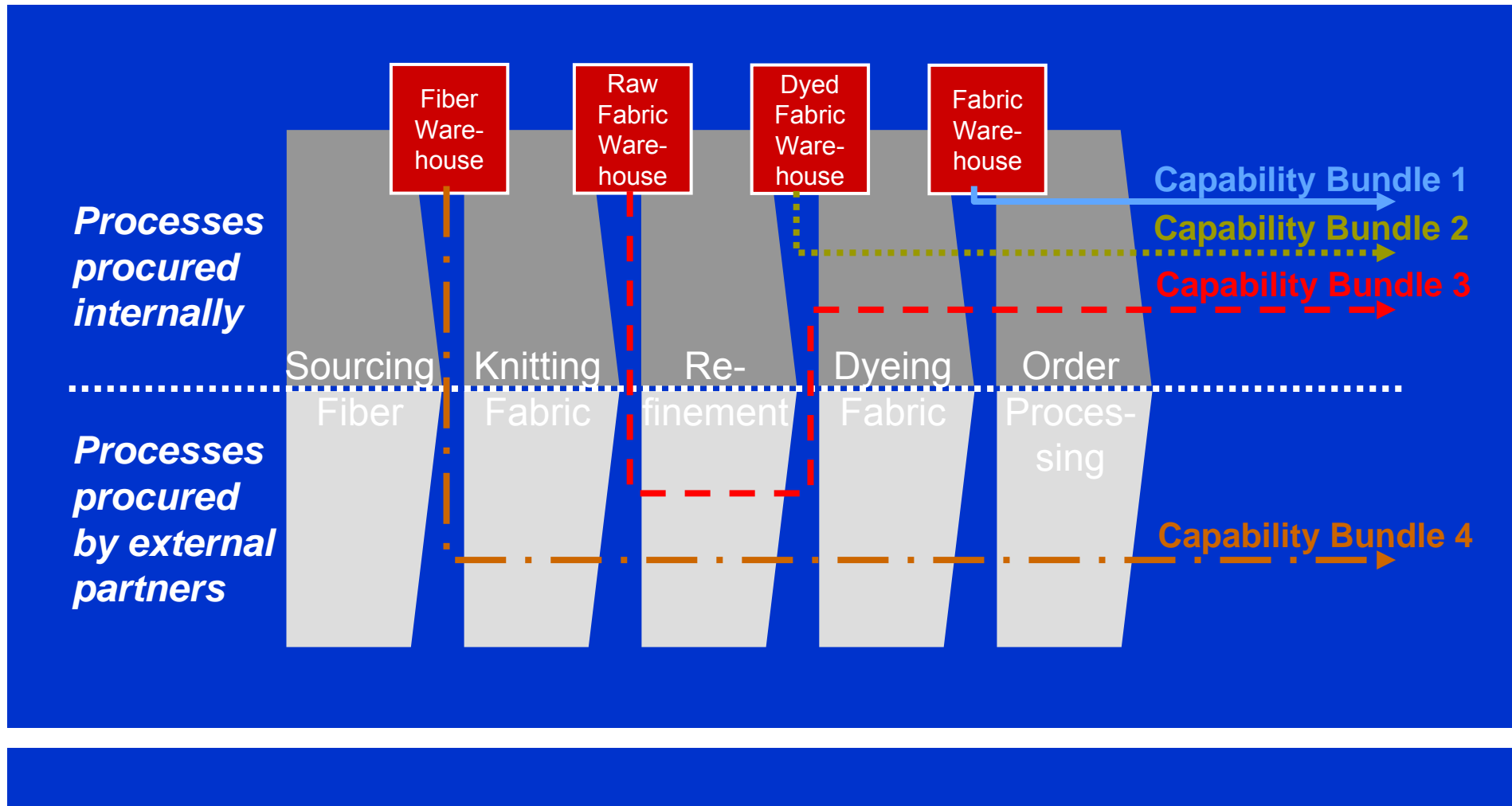
Capability Bundle III

Sourcing

Manufacturing

Shipping

“We can now optimize these scenarios!”

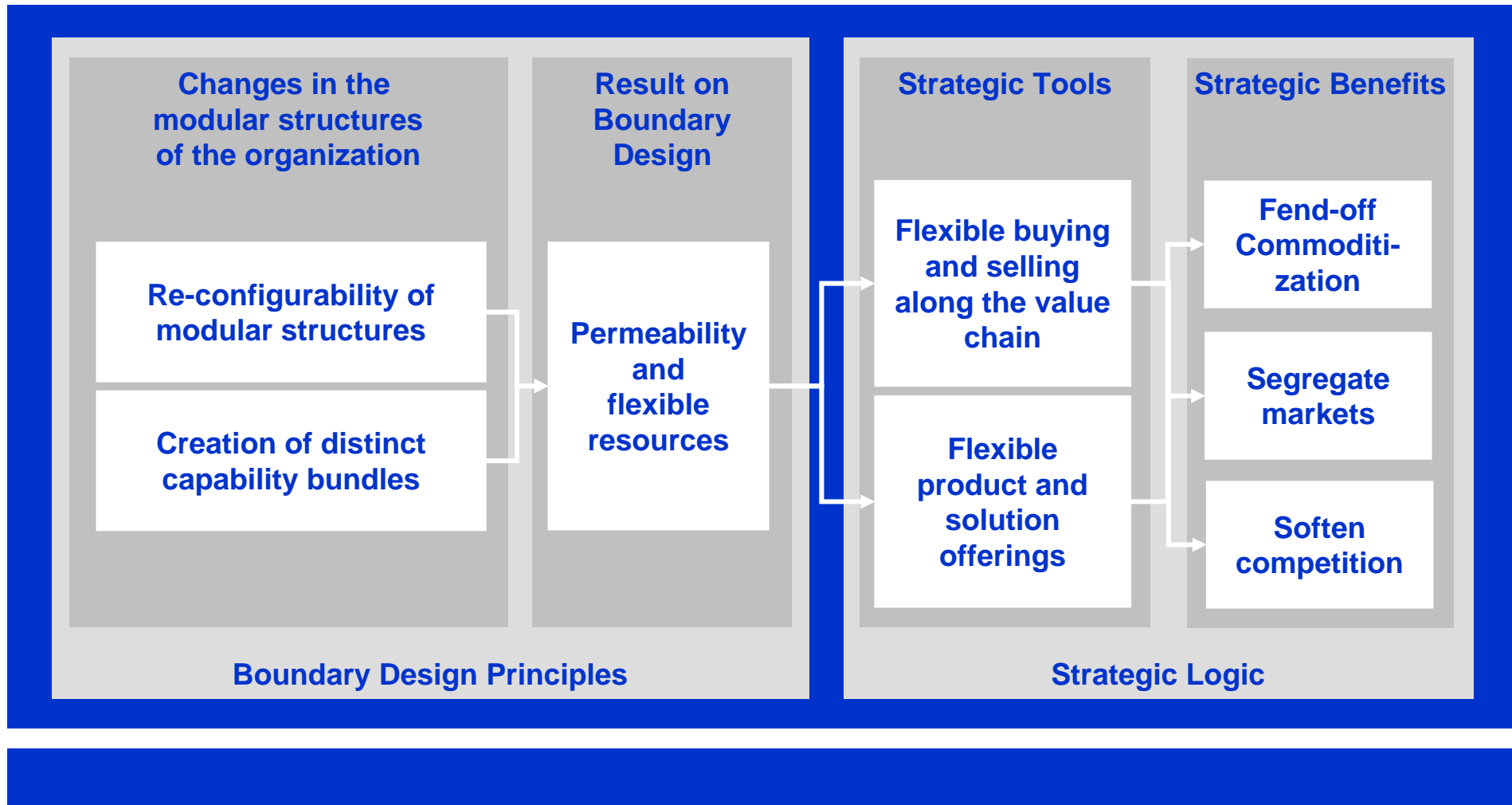


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The What and the Why: Beyond organizational regeneration

- Firms strategize capability bundles *and* strategize (overall) boundaries
- Boundary design principles and their strategic logic
 - **Reconfigurability** as a critical tool to become more flexible
 - Innovation based on designing **multiple “plug & play” business templates**
- From products to services to active business designers
 - Escaping the commodity trap
 - Segregating and actively creating new markets

Drivers and Implications of Boundary Design



Implications for Research

- Transaction Cost Economics: Reality bites back
 - Vertical scope of a firm \neq scope of transaction: A firm can have multiple capability bundles and change its scope dynamically (and drastically)
 - Reconfigurability a new aspect that helps better understand “hybrids”
- Strategic Benefits that go beyond individual offerings
 - Designers use reconfigurability to create business templates
 - Strategic benefits transcending individual benefits: Business design revisited
- Dynamic capabilities and modularity: Process & micro-motivations
 - Understand how and why firms adopt these segregated structures
 - Consider reconfigurability in terms of the *strategic* effect on markets-focusing on the overall responses of the organization

Questions?

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