Starting point

• Traditional view — **Sustainable competitive advantage (SCA)**

  *The “better mousetrap” theory*

• Paradox: Firms with strong SCAs losing money, while others with no apparent SCAs making money
  - Revlon vs. The Body Shop
  - United, AA vs. Southwest Airlines
  - Compaq, IBM (in PCs) vs. Dell Computer
  - Urban Outfitters vs. The Gap, other specialty retailers

• Five years ago, started to dig more deeply into this issue
Research results

• Monopoly has two dimensions — space and time
• Behind every successful company is a successful monopoly!
  • SCA is neither necessary nor sufficient
• You have a monopoly when you meet 5 tests
• Monopolies are either asset-based or situational
• Asset monopolies’ useful periods are shrinking
• Increasingly, key is situational monopolies
Two dimensions

• A monopoly is
  • An “ownable space” for a useful period of time
• Two dimensions — space and time

**Space**

<table>
<thead>
<tr>
<th>Tangible</th>
<th>Intangible</th>
</tr>
</thead>
<tbody>
<tr>
<td>Features</td>
<td>Positioning</td>
</tr>
<tr>
<td>Location</td>
<td>Mindshare</td>
</tr>
<tr>
<td>Price point</td>
<td>Reputation</td>
</tr>
<tr>
<td>Shelf space</td>
<td></td>
</tr>
</tbody>
</table>

• **Time**  Days, weeks, months, years, decades

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The monopoly spectrum

- We are familiar with the two extremes of monopoly:
  - Small, local: Movie popcorn, Stand, O’Hare Hilton
  - Large, “global”: The Bell System, Microsoft, Utilities

Thousands of legal, small & mid-sized monopolies
A few (<100) large, legal monopolies
iPod, IAMS, Honda Odyssey, Campbell’s Soups, Starbucks, Dell Computer, The Body Shop, Wal-Mart

Spaces where there is only one seller

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#1: Look for the monopoly

- Behind every successful company is a successful monopoly

  No monopoly, no profits

- For example:
  - Dell Computer: *How did Dell get from $10 MM to $1 B?*
  - Southwest Airlines: Low-cost player …or successful (legal) monopolist?
  - Starbucks: No SCA – no unique product, no traditional brand, no scale, no learning curve

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Enterprise Rent-A-Car

- Largest car rental fleet in North America!
  - From <5,000 cars in 1980 to 625,000 cars in 2002
- No brand, no scale, no unique technologies or products, no airport locations — no nothing!
- ERAC had a monopoly — replacement car in ’burbs
- Your choices
  - Ask spouse to drive you to (and from) Hertz et al
  - Take a cab to and from Hertz et al ($60+, time)
  - Walk or take bus (if there is one!)
  - Have Enterprise pick you up and drop you off!
- Enterprise has a “movie theater concession stand”-type of monopoly in 5,000+ suburbs!

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No monopoly, no profits

- Monopoly math:
  \[ \text{Monopoly} + \text{SCA} = \text{High profits} \]
  \[ \text{Monopoly} + \text{No SCA} = \text{High profits} \]
  \[ \text{SCA} + \text{No monopoly} = \text{No profits} \]
  \[ \text{No SCA} + \text{No Monopoly} = \text{No profits} \]

- Example:
  - Southwest Airlines vs. United Shuttle on West Coast

Brand, technology, scale etc. just the means, monopoly is the end.
#2: The five tests

- You have a monopoly when
  - Customers “see” only you
  - Competitors don’t “see” you
  - You don’t see competitors (only substitutes)
  - You can price like a monopolist
  - You make “monopoly rents”

#3 Assets vs. situations

- Traditionally, monopolies were based on assets
- **Historical**
  - Venice’s salt monopoly
  - East India Company’s monopoly of Indian market
  - Spain’s monopoly over New World’s gold
  - DeBeers’ diamond monopoly
- **1900 to Today**
  - Brands, e.g. Kellogg’s, Coca-Cola, Unilever
  - Technologies, e.g. Kodak, Xerox, Polaroid
  - Production capabilities, e.g. Alcoa/Alcan, Dow,
  - Patents & intellectual property, e.g. Xerox, pharmaceutical firms, bio-tech firms
Situational monopoly

- *Situational* monopolies do **not** depend on unique or proprietary assets
  - No *unique products, technologies, facilities etc.*
- Instead, the firm has a monopoly *situation* due to a combination of
  - *Latent or emerging (unmet) needs*
  - *New capabilities*
  - *Incumbent inertia*
- Situational monopolies are created by shifts in industry, customer & competitor dynamics

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Assets vs. situations

**Asset monopolies**
- IBM in mainframes, PCs
- Kodak, Xerox, Polaroid
- Branded packaged goods players e.g. P&G, Kellogg, Nestlé, Cadbury
- Product differentiation e.g. Mercedes, BMW, Boeing 747, Airbus 380

**Situational monopolies**
- Starbucks Coffee
- Enterprise Rent-A-Car
- The Body Shop
- Nokia (cellular handsets)
- Southwest Airlines, JetBlue
- IAMS pet foods
The monopoly kaleidoscope

- Industry Dynamics
- Monopoly
- Competitor Dynamics
- Customer Dynamics

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#4 Situational monopolies …the future

- Assets losing their effectiveness in creating monopoly
  - Rapid diffusion of technologies, product designs
  - Rapid emulation or outright copying
  - Price and cost transparency
  - Disaggregation of value chains
- Net result: Getting harder to maintain asset monopoly long enough to recover investments
- *Situational monopolies* more effective
  - Very hard to copy a situation
  - True source of profits often not understood
  - Incumbents often “locked” into prior investments, creating inertia, even extreme rigidity
  - Aided by continuing fragmentation of markets, needs
Monopoly Thinking™

- **Step #1:** Understand your current monopoly
  - What is our ‘ownable space’ today?
  - Why do we have this space? How long?
  - How can we extend or defend this space?
- **Key issues:**
  - Not understanding why you’re making money today
  - Investing monopoly profits in commodity areas
  - ‘Surrendering’ your monopolies
- **Step #2:** Decide how you’re going to play once monopoly period ends
  - Create our own ‘country club’ OR
  - Throw the bums out
- **Key issue:** Timing, pace
Monopoly Thinking (cont’d)

• Step #3: Find the next monopoly(s)
  • Understand the ‘core belief’
  • Identify the tidal forces
  • Think like an entrant
    • Turn the core belief “upside down”
    • Look for the pattern of unmet (emerging) needs, new capabilities and incumbent inertia
  • Validate your insights