

PTS Coating Symposium 2009 in Baden-Baden

**How to Sustain Competitive Advantage?  
Economies of Scope instead of  
Economies of Scale?**

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## How to achieve and sustain competitive advantage (CA) within a company?

- Competitive advantage means an ability to generate extra profits i.e. rate on investment above the industry average
- Competitive advantage can be achieved only by means of **valuable, rare, inimitable and non-substitutable** (VRIN) resources and capabilities
- Sustainable CA can be achieved only when a company is able to reconfigure and modify its VRIN resource base when technologies, consumers preferences and institutional regulations change (**dynamic capabilities**)
- Ability to **recognize weak signals** and ability to **seize the opportunities** are badly needed

# Economies of scale vs. economies of scope

- **Economies of scale** are based on decreasing average total costs due to improved efficiency when producing the same “stuff” more
- **Economies of scope** are based on the ability to use specialized knowledge and other resources and related capabilities for creating new products and processes. It is about exploiting your VRIN resources in the new context.



## Main challenges to be faced:

- Traditional sources of competitive advantage based on **economies of scale** are rapidly **decreasing**
- The existing resource base is **not** valuable, rare or inimitable either
- Forest industry companies are forced either to search for new value by creating new business opportunities and/or focusing strictly on their genuine VRIN resources and capabilities (Kimberly Clark)

# CONCLUSIONS

- Special challenge comes from understanding the role of **intangible resources** as well as using **collaboration and markets** for obtaining the needed resources and capabilities
- **But, are there real VRIN resources in this field at all?**
- If the answer is **yes**, can they be protected? If **Yes**, ok go on
- If the answer is **no**, can they be re-organized in order to utilize economies of scope? If **yes**, let's do it but it will take a lot of time
- If the answer is **no**, then continue the old business to the “bitter end” by exploiting further **the economies of scale.**
- **Thank you!**

# MANUFACTURING ORIENTATIONS

	<b>Traditional economies of scale</b>	<b>Future economies of scope</b>
<b>Main source of competitive advantage</b>	Large investments in tangible assets and effective control over physical capital and markets.	Ability to flexibly extend, modify and reconfigure internal and external (intangible) VRIN resources with dynamic capabilities.
<b>Role of forests</b>	Raw material to be used efficiently for large-scale pulp, paper and mechanical production.	Sustainable use of forests to both traditional and innovative end uses.
<b>Processes</b>	<p>Large-scale, cost efficient processes making bulk products.</p> <p>Incremental innovations that spread fast across the industry.</p>	<p>Sound knowledge of manufacturing processes is adjusted for innovative and customized products.</p> <p>Appropriability is built around innovations.</p>

# MANUFACTURING ORIENTATIONS

	<b>Traditional economies of scale</b>	<b>Future economies of scope</b>
<b>Products</b>	Mass products (pulp, paper, mechanical) for industrial buyers.	Traditional fiber-based products and innovative products (e.g., energy, information delivery, intelligent packaging, intangible forests, medical, polymers) for customized industry and consumer markets.
<b>Required resources</b>	Forest industry specific assets with reliance on process efficiency.	Specialized resources according to the strategic focus.
<b>Representative type of an organization</b>	Large, vertically integrated conglomerates.	Focused and potentially networked organization using also outsourcing.