Notes

1 The discussion presented here is intended to provide a basic background in strategy analysis. For a more complete discussion of the strategy concepts, see, for example, *Contemporary Strategy Analysis* by Robert M. Grant (Oxford: Blackwell Publishers, 2005); *Economics of Strategy* by David Besanko, David Dranove, and Mark Shanley (New York: John Wiley & Sons, 2004); *Strategy and the Business Landscape* by Pankaj Ghemawat (London: Pearson Education, 2005); and *Corporate Strategy: Resources and the Scope of the Firm* by David J. Collis and Cynthia Montgomery (Burr Ridge, IL: Irwin/McGraw-Hill, 1997).

2 The data to calculate these statistics come from S&P's Compustat Global database. The statistics apply to all companies that were listed between January 1998 and December 2017 on one of the primary European stock exchanges (see the appendix to Chapter 1 for more details about the sample of European companies).

3 For a summary of this research, see *Industrial Market Structure and Economic Performance,* 2nd ed., by F.M. Scherer (Chicago: Rand McNally College Publishing Co., 1980).

4 See *Competitive Strategy* by Michael E. Porter (New York: The Free Press, 1980) and Michael E. Porter, "The Five Competitive Forces That Shape Strategy," *Harvard Business Review* (January 2008).

5 The four-firm concentration ratio is a commonly used measure of industry concentration; it refers to the market share of the four largest firms in an industry.

6 While the discussion here uses the buyer to connote industrial buyers, the same concepts also apply to buyers of consumer products. Throughout this chapter we use the terms buyers and customers interchangeably.

7 The industry statistics in this section are drawn from the Association of European Airlines (AEA) yearbooks and STAR database.

8 The growth rates represent the (weighted) average annual growth rates in the number of passengers on flights from or to the airports of 31 European countries, as reported by Eurostat.

9 For a more detailed discussion of these two sources of competitive advantage, see Michael E. Porter, *Competitive Advantage: Creating and Sustaining Superior Performance* (New York: The Free Press, 1985).

10 Ibid.

11 See *Competing for the Future* by Gary Hammel and C.K. Prahalad (Boston: Harvard Business School Press, 1994) for a more detailed discussion of the concept of core competencies and their critical role in corporate strategy.

12 See Michael E. Porter, "What Is Strategy?" *Harvard Business Review* (November–December, 1996).

13 See Kenny Capell, "IKEA, How the Swedish Retailer Became a Global Cult Brand," *Business Week,* November 14, 2005; K. Kling and I. Goteman, "IKEA CEO Anders Dahlvig on International Growth and IKEA's Unique Corporate Culture and Brand Identity," *Academy of Management Executive* (2003): 31–37; R. Normann and R. Ramirez, "From Value Chain to Value Constellation: Designing Interactive Strategy," *Harvard Business Review* 71 (1993): 65–77; *Yearly Summary FY13*, IKEA Group; Capell, op. cit.

14 One of the strategic challenges faced by corporations is having to deal with competitors who achieve differentiation with low cost. For example, Japanese auto manufacturers have successfully demonstrated that there is no necessary trade-off between quality and cost. The example of IKEA also suggests that combining low cost and differentiation strategies is possible when a firm introduces a significant technical or business innovation. However, such cost advantage and differentiation will be sustainable only if there are significant barriers to imitation by competitors.

15 Business segment data come from Thomson Financial's Worldscope database.

16 The following works are seminal to transaction cost economics: Ronald Coase, "The Nature of the Firm," *Economica* 4 (1937): 386–405; Oliver Williamson, *Markets and Hierarchies: Analysis and Antitrust Implications* (New York: The Free Press, 1975); David Teece, "Toward an Economic Theory of the Multi-Product Firm," *Journal of Economic Behavior and Organization* 3 (1982): 39–63.

17 For a more complete discussion of these issues, see Krishna Palepu and Tarun Khanna, "Building Institutional Infrastructure in Emerging Markets," *Brown Journal of World Affairs* (Winter/Spring 1998); and Tarun Khanna and Krishna Palepu, "Why Focused Strategies May Be Wrong for Emerging Markets," *Harvard Business Review* (July/August 1997).

18 For an empirical study that illustrates this point, see Tarun Khanna and Krishna Palepu, "Is Group Affiliation Profitable in Emerging Markets? An Analysis of Diversified Indian Business Groups," *Journal of Finance* (April 2000): 867–891.

19 See Larry Lang and Rene Stulz, "Tobin's q, Diversification, and Firm Performance," *Journal of Political Economy* 102 (1994): 1248–1280; and Phillip Berger and Eli Ofek, "Diversification's Effect on Firm Value," *Journal of Financial Economics* 37 (1994): 39–65.

20 See Paul Healy, Krishna Palepu, and Richard Ruback, "Which Takeovers Are Profitable: Strategic or Financial?" *Sloan Management Review* 38 (Summer 1997): 45–57.

21 See Katherine Schipper and Abbie Smith, "Effects of Recontracting on Shareholder Wealth: The Case of Voluntary Spinoffs," *Journal of Financial Economics* 12 (December 1983): 437–467; L. Lang, A. Poulsen, and R. Stulz, "Asset Sales, Firm Performance, and the Agency Costs of Managerial Discretion," *Journal of Financial Economics* 37 (January 1995): 3–37.

22 "Stelios on Painting the World Orange," *Brand Strategy* (February 2005): 18–19.

23 Ibid.