Get Your Family Firm Ready:

Enter the Age of Temporary Competitive Advantage

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Rewind your memory to 80s or 90s and reflect having to evaluate your decision to buy a scooter. Many would remember no other brand than Bajaj. For over 25 years, Bajaj was the undisputed leader in the regulated Indian market. It was not uncommon for customers to pay premium to avoid the ten-year waiting list and secure the prized-'Hamara Bajaj'. However by 1997-98, Bajaj's fortunes had reversed and the sustainable competitive advantage, which it took for granted, was no longer existent. In 1998, though India's market for two-wheelers grew 3%, unit sales at Bajaj Auto fell 6.4%. Bajaj was losing market share in every sector. In scooters, where the market contracted 3%, it lost 10.7%; in motorcycles, which grew 16%, Bajaj gained 3.4%; the moped market fell 0.5%, but Bajaj's share fell 25.9%.

By late 2009, though scooter sales- primarily of brands owned by Honda and Suzuki, rose by 15% to 891,303 vehicles, Bajaj's scooter sales had slumped to a meager 3,356 units. In early 2010, Bajaj halted scooter production and made a complete exit from scooter industry. Though over the past decade, Rahul Bajaj, grandson of Jamnalal Bajaj along with his son Sanjiv and Rajiv Bajaj has engineered a successful turnaround plan, this required him to reinvent the closely held family firm as a motorcycle player than his father- Kamalnayan Bajaj would have ever envisaged.

What lessons do Bajaj Auto's exit from an industry where its competitors were still enjoying double-digit growth hold for your family firm?

Photograph: Manish Swarup

- *First, no longer should firms trust that their current resource base equips them to build a sustainable market position. Today most firms live in the age of temporary competitive advantage.*[1] *In particular, Indian family firms now are entering into in high-velocity, high-tech industry environments.*

A recent research study validates the pressure your family firm could be facing in sustaining its market position. It shows that domestic firms in emerging economies find it more difficult to remain in the superior economic performance stratum[2] than subsidiaries of multinational corporations. Diminishing industry barriers and globalization have resulted in emergence of high volatility and high-tech market shifts. Your firm may be a market leader today but this may not last next year. Today competitors emerge from within or outside your industry. Consider Nokia – a market leader in mobile telephone industry for over 15 years, which lost its market position rapidly when Apple – a computer hardware manufacturer- entered the industry with its iPhone in late 2007. Over the past three years, Apple has focused on building temporary competitive advantage by releasing new features such as App Store and updating its distinct device, while traditional industry players such as Nokia, Motorola and Sony Ericson scrambled to update their products. In three years since entering the market, Apple has over 25% market share of the highly coveted smartphone market.

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[1] D'Aveni, R.A et al. 2010. The Age of Temporary Advantage. *Strategic Management Journal*, 31: 1371-1385.
[2] Hermelo, F.D., and Vassolo, R. 2010. Institutional Development and Hypercompetition in Emerging Economies. *Strategic Management Journal*, 31: 1457-1473.

You may want to think about the positions occupied by other firms by picking industry 'reference targets' both within and outside your industry and then make strategic adjustments to your business model[3] to create a temporal competitive position. Let your competitors spend most of their time second guessing what are your true strategic capabilities.

- *Second, do not get drawn to the allure of your current market position.*

Research has shown that successful firms often fall prey to their own success. Termed as 'The Icarus Paradox'[4], the legendary Icarus of Greek mythology was able to fly so high, so close to the sun, that his wax wings melted and he plunged into the sea, this same paradox can apply to outstanding firms - their very success seduces them into the excesses that cause their downfall. This poses a question for you. Have you evaluated your resource base, and do you have the ability to recognize when it is time to abandon or renew your strategic assets? Bajaj Auto retained its leadership as long as regulatory market forces prevented other market players to enter the Indian market. Soon these barriers faded it fell in its 'strategic capability trap'. A conservative family firm by nature-Bajaj had invested a fraction of amount, compared to its rivals in creating sustainable strategic assets such as R&D, and relied on sourcing technology from elsewhere than building in-house capability, which would later become vital to success in rapidly launching new models.

You must focus on creating dynamic capabilities, which enable your firm to embrace strategic change, which has critical to operate in hypercompetitive Indian market. You may also need to have a multiplicity of strategies[5]- each strategy taking on rivals one at a time. Your firm may thus have as many strategies or business models as it has competitors. Consider Tata Motors, which by acquiring premium auto manufacturers Jaguar and Land Rover and simultaneously launching Nano- a people's car has equipped the firm to compete in multiple strategic spaces. Though it is difficult to measure the success of Tata's moves, it does enable the firm to develop dynamic capabilities and benefit from inter-business unit learning to create temporal competitive advantages in new market sectors in India.

Temporary competitive advantage – attractive as may it sound- is tough to acquire. Why?

(a) First, because securing temporary competitive advantage requires you to regularly evaluate your strategic assets to determine if you have any capabilities, which are on the cusp of being your strategic liabilities. For instance, a technology capability, which may be central to your advantage today, may emerge as your strategic liability in a fast-moving Indian market. Remind yourself of Bajaj's exit from growing scooter industry.

(b) Second, you need to shed your strategic liabilities and build or buy new strategic assets to renew your capabilities. That may require buy-in within the family and call for strong attachment to make choices, which may take the family in to an uncomfortable zone. Bajaj's successful turnaround from a scooter manufacturer to India's leading motorcycle player required the firm to reinvigorate its capabilities- from R&D to manufacturing. It also required absolute commitment from the tightly knit Bajaj family.

To conclude, many Indian family firms today operate in high-velocity, fast moving market. This volatility will continue to multiply with the entering of new market players attempting to tap into growing Indian market.

You are likely to be faced with a predicament to balance the conservatism - central to retaining family stability, cohesion and reputation - with pursuing strategic change and creating dynamic strategic assets to build temporal

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[3] Giachetti, C and Lampel, J. (2010). Keeping both eyes on the competition: Strategic adjustment to multiple targets in the UK mobile phone industry. *Strategic Organization*, 8(4), 1-30.

[4] Danny Miller (1992) The Icarus Paradox: How Exceptional Companies Bring About Their Own Downfall. Harper Collins: New York.

[5] D' Aveni, RA. 2010. Beating the Commodity Trap. Harvard Business School Press: Boston MA.

competitive advantage in constantly evolving market.

To examine your case you may want to consider the example of Mahindra & Mahindra (M&M) and its entry into fast developing travel industry. Run by family patriarch, Mr. Keshub Mahindra and his son Anand, M&M is identified as an auto and farm equipment manufacturer. Over the past 15 years, M&M has built presence in sectors ranging from travel to IT outsourcing to financial services. It does not hold an ambition to stick to its core knitting and is not a leader in most of the thirty plus industry sectors it operates in.

As it moves into a new industry it aims to build temporal competitive advantage. Club Mahindra is such an example, where M&M is trying to bring a new business model by avoiding making large capital investments in real estate and tying up with providers ranging from B&Bs to local hotels. The volatility in Indian hotel market means M&M has not tied its precious resources in what one would term as long-term investment program. The nimbleness enables M&M to be responsive to industry shits and adjust its business model as it evaluates its success.