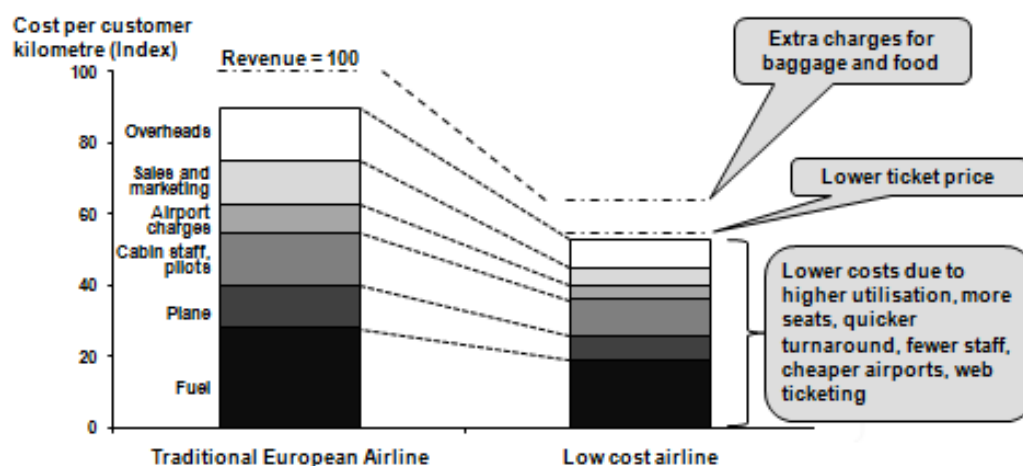


## Evaluating Competitive Advantage: Iberia case example

There are many techniques for analysing advantage – and we will not cover all in this example, but enough to give a sense of how to do it.

One is to think about whether you have a cost or differentiation advantage, or whether you might be “caught in the middle”. This could be an issue for Iberia as the low cost carriers are clearly cost leaders – with Ryanair being the clearest example. Other airlines are better positioned as differentiated, business class airlines such as BA, Lufthansa, etc. Iberia is a slightly downmarket version of these, as it has not got a very good business class. The book even contains an example of the type of analysis you could do to flesh this out:

### Example: Advantage of low cost airlines



Another approach is to think about the positions a company holds. The book suggests the following checklist, here illustrated with Iberia as an example:

- *Market positions arising from the benefits of market share, scale, experience and scope.* Iberia enjoys high market share in Spain and on all routes to and from Spain. There are some scale benefits from this e.g., in overhead costs and in capturing a higher share of the market (as passengers will disproportionately choose a provider who has a lot of flights from an airport).
- *Brand and reputation.* Brand helps a bit – but is based largely on the reality of the experience. For Iberia, the business class appears relatively unexciting – being quite undifferentiated from tourist class.

- *Value chain design and vertical integration.* A significant source of advantage. Ryanair has redesigned its value chain e.g., outsourcing, lean approach, to have a very different business model. Top end airlines have executive clubs and elaborate loyalty schemes. So, business model, or value chain, design is a big differentiator. This is where Iberia is somewhat caught in the middle.
- *Access to unique resources or relationships.* Iberia does probably have some significant advantages in Spain from its relationships – particularly with airports.
- *Input costs.* Staff costs may be higher than Ryanair but lower than other airlines – this is not clear from the case
- *Focus.* Being focused on flights to and from Spain provides a distinctive advantage within that segment of the total industry. But, it is not focused on business or leisure (the offerings are described as un differentiated) – thus having a disadvantage against some other competitors (such as Ryanair) more focused on one of these classes.

Capabilities can be analysed in a similar way:

- *IT and logistics systems.* Iberia seems somewhat behind on web-based ticketing
- *Processes.* Iberias seems somewhat behind e.g., in the speed with which it can turn planes around relative to low cost carriers
- *Skills.* Nothing distinctive indicated
- *People.* Nothing distinctive indicated
- *Organisational structure.* Nothing distinctive indicated
- *Organisational culture, style, values and behavioural norms.* Nothing distinctive indicated

In summary, Iberia seems to have no particular strength in it's capabilities – at least, relative to other major airline competitors. It has a strong position in Spain but is, in general, in danger of being caught in the middle – being neither a budget airline nor up with other airlines with respect to its business class offering. We could then summarise this in the competitive advantage matrix:

### Assignment: Competitive Advantage Matrix

Target market segment: Flights from Spain to Europe			Product characteristics that drive customer value: Price, Convenience of flight time, Convenience of airport location, Comfort of the seat, Ambience of the airport, Reliability, Friendliness of staff, Perks for frequent travellers				
Sources of advantage	% Weight now	% Weight 2015	Iberia	Ryanair	Lufthansa	Mgt. effort	Financial resources
Scale in Spain	30	20	5	5	2		
Brand experience	20	30	3	2	5	•	• • •
Value chain design (efficiency)	20	30	2	5	3	• • •	
Relationships e.g., Spanish airports	20	5	5	1	2		
Process efficiency	10	25	3	5	3	• • •	
		<b>TOTAL*</b>	3.6	3.6	3		

\* Should be weighted – for simplicity, not shown here

From this analysis we conclude that, while Iberia has a strong position in the current market – the sources of advantage are likely to change over time (more exposure to competition – so connections within Spain will matter less and quality of the brand experience and costs will matter more) and will need significant efforts by Iberia to deal with.

Note that, to do the analysis properly we would have to evaluate competitive advantage for each segment. To summarise what the outcome might be: advantage is probably highest in the domestic market, where there is limited competition, high in some intercontinental markets (remember, we are only looking at flights to and from Spain - not the global intercontinental market as a whole) and weakest in Europe – where the low cost carriers are particularly strong.

We do not have enough information to go deeper e.g., to do a value chain analysis of Iberia's activities, comparing each element of the value chain to its competitors.