

# The nature and source of competitive advantages marketing essay



IMAX operated at three different industries, and it had done successful in some part of its business, while there were also some weakness for its development. This assignment is going to assess the current situation of IMAX, including analysing the nature and source of its competitive advantage, its sustainable competitive advantage, and future development.

The first section will seek to present the nature and source of IMAX' s competitive advantage by using appropriate strategy, and the next section will introduce its sustainable competitive advantage. In the final section, some key issues of IMAX' s future development will be discussed, and some recommendations will be given as well, which may help IMAX to grow its business in the near future.

The next issue to be considered is which strategy should be selected to analyse the case based on corporate level strategy. There are two strategies which can be selected, the RBV (resource-based view) and the Positioning School. The RBV is more emphasis on the resources and capabilities controlled by a company as sources of competitive advantage, while the Positioning School is more focus on externally orientated and market driven (Barney, 2008). This case mentions a little about IMAX' s market driven, thus there is not enough evidence to use the positioning school strategy for analysing its competitive advantage. In contrast, the case introduce IMAX' s hardware, software, financial power, technologies and other special sources, which are helpful for using the RBV to analyse IMAX' s competitive advantage.

## 1. 2 The nature and source of Competitive advantages

Competitive advantage emerges from distinctive resources or capabilities that firms control, that is, something that firms do particularly well in comparison with their competitors (Peteraf, 1993). IMAX has its technology resource, brand image and organizational resource better than other film companies, which can conclude its core competence, therefore it is easy to get IMAX' s competitive advantages from its core competence.

### 1. 2. 1 Technology resource

IMAX has the technological capability to do R&D on both hardware and software rather than its competitors in the film industry, thereby its technological capability can be regarded as its core competence.

IMAX was founded as the only company in the world that was involved in all aspects of large format films, and its unique technological capability can lead to its first-mover advantage. It used its technique know-how to produce projectors with special features, to design large format films, to develop lightweight 3D camera and 3D directional sound technology, etc, and all the unique technology differentiate IMAX from other conventional movie technologies. IMAX could make its audiences enjoy its special IMAX experience which can not be replicated through DVDs or in conventional theatres, because of the unprecedented shock of the visual and auditory. Its advanced technology held 46 patents and had 7 patents pending in the U. S., also its technological prowess was the 1997 Oscar Award which received for Scientific and Technical Achievement. As the first-mover advantage, IMAX achieved the most advanced level of film technology, which can be considered as the competitive advantage so that IMAX can attract more

audiences to have different experiences from conventional movies, to keep its market presence.

IMAX kept innovation on its technology in order to maintain its growth. IMAX spent almost five per cent of its sales revenue on R&D in 2007, and about \$12.6 million in R&D was spent in the last three years. MPX technology was developed to allow IMAX and theatre-owners to convert existing multiplexes' screens to IMAX format, and a patented digital re-mastering (DMR) technology was designed to convert traditional 35 mm films into the large-screen format and even develop 3D versions. Those two technologies could help IMAX to launch more IMAX films, to expand the core audience and to make the box office revenue. Besides this, IMAX had solved the teething problems with DMR technology and the costs of conversion of Hollywood movies into IMAX format had come down. As a result, they led IMAX to have cost advantage.

### 1. 2. 2 Brand image

IMAX had the capability to use its brand image, which could be considered as its core competence and add more economic value to its corporation, and as a result, it could lead to brand effect within the film industry.

Since the first multi-screen theater system launched in 1967 and the first IMAX film premiered in 1970, as the first-mover advantage, IMAX had made a good reputation and also had its loyal audience base. Moreover, choosing prestigious venues to locate IMAX had created a unique brand image, which would result in its brand effect within the industry.

### 1. 2. 3 Organisational resource

Lado and Wilson (1994) proposed a widely accepted definition of organisational capabilities: managerial, input-based, transformational, output-based. IMAX used its unique organisational resources to achieve the operational process effectively. IMAX maintained long-term relationships with the vendors who supplied the components, produced movies and systems, and then distributed them to the theaters. IMAX also had its wholly-owned subsidiary, in which IMAX had 51 per cent ownership, and its subsidiary could help IMAX perform the post-production work. The talent organizational capability which was well used in the organization made its production, post-production, distribution link well and led to its operation efficiency.

### 2 IMAX' s sustainable competitive advantage' s sources

There is competition from Pixar/Disney which have the same target customers with IMAX, the only rival within the large format film segment, and the potential new independent firms to enter the industry with the increasingly development of new technology. On the other hand, many alternative sources of entertainment such as live plays, TV programs, the Internet, sport events attract viewers as well. Therefore, there is no doubt that IMAX has increasingly pressure come from the competitors within the industry.

The resource-based view (RBV) of the firm holds that certain assets with certain characteristics will lead to sustainable competitive advantage (Black, 1994). The sources of IMAX' s competitive advantages are going to analysed using the VRIO framework, sequentially to evaluate which one is sustainable. <https://assignbuster.com/the-nature-and-source-of-competitive-advantages-marketing-essay/>

## 2. 1 VRIO analysis

It is necessary to make the assumption that the firm resources may be heterogeneous and immobile in order to know the sources of sustainable competitive advantage, and a firm source must have four attributes to hold the potential of sustained competitive advantages, that the firm source must be valuable, rare, imperfectly imitable and substitutable (Barney, 1991). Appendix shows whether IMAX' s competitive advantages' sources are sustainable using the VRIO framework.

The sources of competitive advantages of IMAX could add value. Economic value could be added to a corporation through either increasing its total revenue, or lowering its costs. Innovating through its high level of technology resource allowed the conversion costs down and saved the costs, and developing MPX technology and DMR technology would expand the core audience and increase the box office revenue, both of them added more economic value to IMAX..

Most sources of the competitive advantages of IMAX were rare in the film industry. IMAX mastered a high level of technology resources in the film industry, and it only had one rival within the large format film segment. Besides, IMAX hold its unquie brand image and also operated at a unique business model by using its organisational resources, which was also rare in the film industry. The particular capabilities were not controlled by numerous competitors, therefore IMAX' s competitive advantages were likely to be rare.

“ Competitive advantage is more likely to be created and sustained if the organisation has distinctive or unique capabilities that competitors cannot imitate.”( Johnson, 2005) Most resources of IMAX’ s competitive advantages are difficult for its competitors to imitate. The conversion technology such as MPX technology and DMR technology and its designed projectors are hard for competitors to copy, because IMAX invested a large amount of money and time and also hire the talent employee on R&D, innovation, marketing, which would be considered as sunk costs within the film industry. Besides this, IMAX’ technology held 46 patents and had 7 patents pending in the U. S., therefore IMAX’ s high level of technological breakthroughs which were carefully patented could be considered the unique capability in the film industry. In addition, IMAX made a good reputation and had its loyal audience base through the years, therefore it had its own brand image, which could make barriers for entrants to copy.

The competitive advantages of IMAX were explored by organisation. IMAX had fully explored and used of its technology resources, organisational resources and unique brand image, then organised and took full advantages of its sources and capabilities.

Given the VRIO framework analysis, it is not difficult to conclude that most sources of IMAX’ s competitive advantages are sustainable, as they are based on the core competences of IMAX.

### 3 Recommendations for IMAX’ s future development

As the competitors are increasingly strong and the movie technology and film industry are changing everyday, IMAX may face some unprecedented

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challenges in the future. Based on the RBV and VRIO analysis, IMAX should sustain its competitive advantages and also gain some new competitive advantages to respond in the future.

### 3. 1 Two larger issues to be discussed

IMAX faced two critical issues, which were whether or not to exhibit too many Hollywood movies, and whether or not sold itself to a larger studio such as Sony, Disney or Time-Warner. The two problems will be addressed firstly, and then some certain recommendations will be provided.

Traditional IMAX films were often educational and entertaining, and involved documentaries of natural and scientific wonders which were mostly located in museums, aquariums, zoos and other institutions, and IMAX had engaged in alliances with commercial movie theatre owners. However, IMAX could not escape the crisis that hit the theatre industry in the late 1990s, and it began to have financial problems. IMAX had long-term debt through the years, and both its net income and cash flows were negative in 2006 and 2007.

In order to solve the financial problem and survive in the future, IMAX has to change its strategy to maintain its growth. At that time, acquisition by a larger studio such as Sony, Disney or Time-Warner is a good idea and developing trend for IMAX in the future. Two firms which both had trustworthy brand effect combined will be greater than their economic value as separate entities. Through acquisition, large studio can not only address IMAX' s financial problem and help IMAX to pay off its debt, but also can get more economic returns and add more value through IMAX. Besides, IMAX can ensure its survival and make more business opportunities in the future.

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After acquisition, the studio can install more IMAX digital theatres systems, and invested more money on marketing, to attract more audiences to watch its IMAX films and increase its box office revenue. Furthermore, the studio can convert its own films into IMAX large format films with lower costs or create new films combined with both studio and IMAX' s brand, hence it will expand their core audience, therefore it will create more economic value to both studio and IMAX.

On the other hand, to solve the same problem facing to IMAX, exhibiting Hollywood movies is a good idea for IMAX to increase its box office revenue. IMAX can sustain its competitive advantages, use its strong R&D team developing DMR technology that allows converting traditional 35 mm films into the large-screen format Hollywood films. It keeps innovation and worked out the teething problems, as a result the costs of conversion had come down, consequently more IMAX screens will be open to launch Hollywood films. The IMAX strategy of moving into Hollywood films will increase its box office revenue and expand the core audience. IMAX can continue making educational films for families, students and tourists, while Hollywood films can also be launched during the evening. This will not make IMAX lose its differentiation, in contrast, it will create more IMAX' s brand effect, because most of which come from the entertainment experiences.

### 3. 2 Other recommendations

#### 3. 2. 1 Compete among rivals

Some studios such as Pixar/Disney produced the films for the same targeted group, and within the large format film segment, IMAX faced only rival <https://assignbuster.com/the-nature-and-source-of-competitive-advantages-marketing-essay/>

Iwerks, which was merged with SimEx, a ride simulation and animation production company. One possible solution to compete this rival is that IMAX is acquired by a larger studio, therefore overcomes its financial problems and also has the equivalent strengths to compete with it. There was also another film, Pollavison, which was engaged in consulting services for large format film theatres. IMAX could develop its technology and hold its core innovation capability to keep its leadership.

### 3. 2. 2 Technology development

### 3. 2. 3 “ Edutainment” market

### 3. 2. 1 Internationalisation

Although IMAX did have marketing staff at its office in Canada, the United States, Europe, Japan and China to market its theatre systems and IMAX movies were showed in 40 countries, almost 60 per cent of the theatres were in North America. The film industry is now increasingly becoming international, and Asia-Pacific market is becoming the largest part of the global market, therefore IMAX can expand its market internationally and attract more international audiences instead of American audiences. IMAX can install a large number of its theatre systems annually across different countries especially Asia-Pacific market, and also market and advertise its film to help maximise its theatre attendance and increase its box office revenue.

## Conclusion

Based on the RBV, it is clear that IMAX has its high technology, unique organizational methods and human resource better than other film companies, which can be treated as its competitive advantages. Using the RVIO model, it is not difficult to conclude that most of its competitive advantages are sustainable. However, as the movie technology and film industry are developing everyday, IMAX may face some unprecedented challenges. Therefore, IMAX should develop its sustainable competitive advantages and also ..... to address the problems in the future.