

# Developing an aaa strategy

[Technology](#), [Development](#)



There are serious constraints on the ability of any one company to use all three "A"s simultaneously with great effectiveness. Such attempts stretch a firm's managerial bandwidth, force a company to operate with multiple corporate cultures, and can present competitors with opportunities to undercut a company's overall competitiveness.

Thus, to even contemplate an "AAA" strategy, a company must be operating in an environment in which the tensions among adaptation, aggregation, and arbitrage are weak or can be overridden by large-scale economies or structural advantages, or in which competitors are otherwise constrained. Somewhat cites the case of GE Healthcare (GEE). The diagnostic Imaging Industry has been growing rapidly and has concentrated globally in the hands of three large firms, which together command an estimated 75% of revenues in the business worldwide: GEE, with 30%; Siemens Medical Solutions (SMS), with 25%; and Philips Medical Systems (MS), with 20%.

This high degree of concentration is probably related to the fact that the Industry ranks in the 90th percentile in terms of R intensity. These statistics suggest that the aggregation-related challenge of building global scale has proven particularly important in the industry in recent years. GEE, the largest of the three firms, has consistently been the most profitable, reflecting its success at aggregation through (a) economies of scale (e. . , GEE has higher total R spending than its competitors, but its R-to-sales ratio is lower), (b) acquisition prowess (GEE has made nearly 100 acquisitions under Jeffrey Melt before he became Gee's CEO), and c) economies of scope the company strives to integrate its biochemistry skills with its traditional base of physics and engineering skills; It finances equipment purchases through GE Capital).

GEE has even more clearly outpaced its competitors through arbitrage. It has recently become a global product company by rapidly migrating to low-cost production bases. By 2005, GEE was reportedly more than halfway to its goals of purchasing 50% of its materials directly from low-cost countries and locating 60% of its manufacturing in such countries.