Determinants of the Profitability of Shared-Customer versus Shared-Resource Scope Advantages

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ABSTRACT
Scope-based competitive advantages are among the central explanations of firms’ choice of scope, yet differences in the performance implications of different types of scope advantages have remained under-theorized. We develop economic models to compare the profitability of shared-resource versus shared-customer scope advantages, and find three key differences. Unlike the shared-resource case, the profitability of deploying a shared-customer scope advantage: (1) depends on whether customers in the market are intrinsically loyal or disloyal to companies across their products, (2) differs according to whether the advantage is cost-decreasing or increasing customer willingness-to-pay, and (3) can sometimes be negative due to provoking a highly aggressive response from rivals.