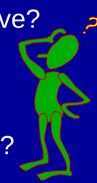
EVALUATING COMPANY RESOURCES AND COMPETITIVE CAPABILITIES

Company Situation Analysis: The Key Questions

1. How well is firm's present strategy working?
2. What are the firm's resource strengths and weaknesses and its external opportunities and threats?
3. Are firm's prices and costs competitive?
4. How strong is firm's competitive position relative to rivals?
5. What strategic issues does firm face?

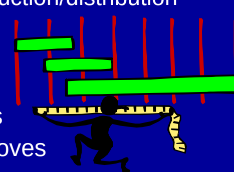


Question 1: How Well is the Present Strategy Working?

- Two steps involved
  - ➔ Determine ***current strategy*** of company
  - ➔ Examine key indicators of ***strategic*** and ***financial*** performance

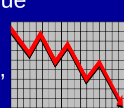
What is the Strategy?

- Identify competitive approach
  - ➔ Low-cost leadership
  - ➔ Differentiation
  - ➔ Focus on a particular market niche
- Determine competitive scope
  - ➔ Stages of industry's production/distribution chain
  - ➔ Geographic coverage
  - ➔ Customer base
- Identify functional strategies
- Examine recent strategic moves



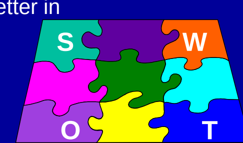
Key Indicators of How Well the Strategy is Working

- Trend in sales and market share
- Acquiring and/or retaining customers
- Trend in profit margins
- Trend in net profits, ROI, and EVA
- Overall financial strength and credit ranking
- Efforts at continuous improvement activities
- Trend in stock price and stockholder value
- Image and reputation with customers
- Leadership role(s) -- technology, quality, innovation, e-commerce, etc.



Question 2: What Are the Firm's Strengths, Weaknesses, Opportunities and Threats ?

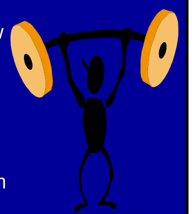
- S W O T represents the first letter in
  - ➔ *S* trengths
  - ➔ *W* eaknesses
  - ➔ *O* pportunities
  - ➔ *T* hreats



- ***For a company's strategy to be well-conceived, it must be matched to both***
  - ➔ ***Resource strengths and weaknesses***
  - ➔ ***Best market opportunities*** and ***external threats*** to its well-being

Identifying Resource Strengths and Competitive Capabilities

- A ***strength*** is something a firm does well or a characteristic that enhances its competitiveness
  - Valuable competencies or know-how
  - Valuable physical assets
  - Valuable human assets
  - Valuable organizational assets
  - Valuable intangible assets
  - Important competitive capabilities
  - An attribute that places a company in a position of market advantage
  - Alliances or cooperative ventures with capable partners

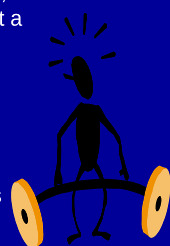


Resource strengths and competitive capabilities are competitive assets !

Figure 4.1: Mobilizing Company Resources to Produce Competitive Advantage

Identifying Resource Weaknesses and Competitive Deficiencies

- A ***weakness*** is something a firm lacks, does poorly, or a condition placing it at a disadvantage
- ***Resource weaknesses*** relate to
  - Deficiencies in know-how or expertise or competencies
  - Lack of important physical, organizational, or intangible assets
  - Missing capabilities in key areas



Resource weaknesses and deficiencies are competitive liabilities !

Competencies vs. Core Competencies vs. Distinctive Competencies

- A company ***competence*** is the ***product of organizational learning and experience*** and represents real ***proficiency*** in performing an ***internal activity***
- A ***core competence*** is a well-performed internal activity that is ***central*** (not peripheral or incidental) to a company's ***competitiveness and profitability***
- A ***distinctive competence*** is a ***competitively valuable activity*** that a company ***performs better than its rivals***

Company Competencies and Capabilities

- Stem from ***skills, expertise, and experience*** usually representing an
  - Accumulation of ***learning*** over time and
  - Gradual buildup of ***real proficiency in performing an activity***

- Involve ***deliberate efforts*** to develop the ability to do something, often entailing
  - Selection of people with requisite knowledge and expertise
  - Upgrading or expanding individual abilities
  - Molding work products of individuals into a cooperative effort to create organizational ability
  - A conscious effort to create ***intellectual capital***

Core Competencies: A Valuable Company Resource

- A ***competence*** becomes a ***core competence*** when the well-performed activity is ***central*** to the company's competitiveness and profitability
- Often, a core competence results from ***collaboration*** among different parts of an organization
- ***Typically, core competencies*** reside in a company's ***people***, not in assets on the balance sheet

- A ***core competence*** gives a company a potentially valuable ***competitive capability*** and represents a definite ***competitive asset***

Types of Core Competencies

- Expertise in building networks and systems to enable e-commerce
- Speeding new/next-generation products to market
- Better after-sale service capability
- Skills in manufacturing a high quality product
- Innovativeness in developing popular product features
- Speed/agility in responding to new market trends
- Expertise in integrating multiple technologies to create families of new products

Distinctive Competence -- A Competitively Superior Resource

- A ***distinctive competence*** is a competitively significant activity that a company ***performs better than its competitors***
- A distinctive competence
  - → Represents a ***competitively valuable capability*** rivals do not have
  - → Presents attractive potential for being a ***cornerstone of strategy***
  - → Can provide a ***competitive edge*** in the marketplace—because it represents a competitively ***superior*** resource strength

Strategic Management Principle

A distinctive competence empowers a company to build competitive advantage!

Examples: Distinctive Competencies

- Sharp Corporation
  - → Expertise in flat-panel display technology

- Toyota, Honda, Nissan
  - → Low-cost, high-quality manufacturing capability and short design-to-market cycles

- Intel
  - → Ability to design and manufacture ever more powerful microprocessors for PCs

- Motorola
  - → Defect-free manufacture (six-sigma quality) of cell phones

Determining the Competitive Value of a Company Resource

- To qualify as the basis for ***sustainable competitive advantage,*** a ***"resource"*** must pass 4 tests

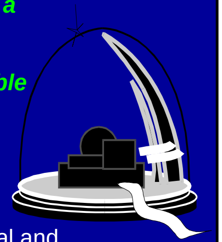
1. Is the resource ***hard to copy*** ?
2. Does the resource have ***staying power*** -- is it ***durable*** ?
3. Is the resource really ***competitively superior*** ?
4. Can the resource be ***trumped*** by the different capabilities of rivals ?

Strategic Management Principle

Successful strategists seek to capitalize on and leverage a company's resource strengths—its expertise, core competencies, and strongest competitive capabilities—*by molding the strategy around the resource strengths* !

Identifying a Company's Market Opportunities

- Opportunities ***most relevant to a company*** are those offering
  - ***Best prospects for profitable long-term growth***
  - ***Potential for competitive advantage***
  - ***Good match*** with its financial and organizational resource capabilities



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Strategic Management Principle

A company is well-advised to pass on a particular market opportunity unless it has or can build the resource capabilities to capture it!

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Identifying External Threats

- Emergence of cheaper/better technologies
- Introduction of better products by rivals
- Intensifying competitive pressures
- Onerous regulations
- Rise in interest rates
- Potential of a hostile takeover
- Unfavorable demographic shifts
- Adverse shifts in foreign exchange rates
- Political upheaval in a country

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Strategic Management Principle

Successful strategists aim at capturing a company's best growth opportunities and creating defenses against external threats to its competitive position and future performance!

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Role of SWOT Analysis in Crafting a Better Strategy

- Developing a clear understanding of a company's
  - Resource strengths
  - Resource weaknesses
  - Best opportunities
  - External threats
- Drawing conclusions about how
  - Company's strategy can be matched to both its resource capabilities and market opportunities
  - Urgent it is for company to correct resource weaknesses and guard against external threats

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Question 3: Are the Company's Prices and Costs Competitive?

- Assessing whether a firm's costs are competitive with those of rivals is a crucial part of company analysis
- Key analytical tools
  - Strategic cost analysis
  - Value chain analysis
  - Benchmarking

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Why Rival Companies Have Different Costs

- Companies do not have the same costs because of differences in
  - Prices paid for raw materials, component parts, energy, and other supplier resources
  - Basic technology and age of plant & equipment
  - Economies of scale and experience curve effects
  - Wage rates and productivity levels
  - Marketing, promotion, and administration costs
  - Inbound and outbound shipping costs
  - Forward channel distribution costs

Principle of Competitive Markets

The higher a company's costs are above those of close rivals, the more competitively vulnerable it becomes!

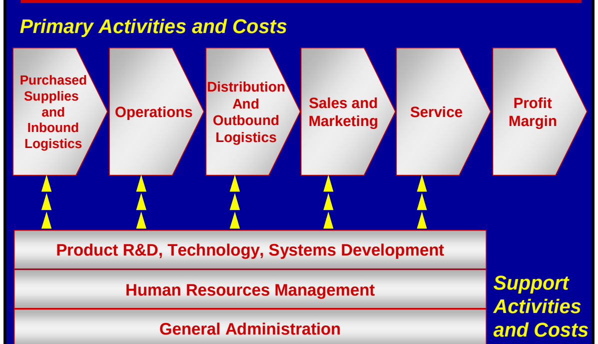
What is Strategic Cost Analysis?

- Focuses on a firm's costs ***relative to its rivals***
- Compares a firm's costs ***activity by activity*** against costs of key rivals
  - From raw materials purchase ***to***
  - Price paid by ultimate customer
- Pinpoints which ***internal activities*** are a source of cost advantage or disadvantage

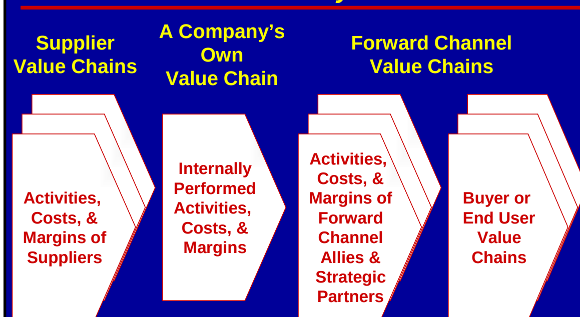
The Concept of a Company Value Chain

- A company consists of all the activities and functions
  it performs in trying to deliver value to its customers.
- A company's ***value chain*** shows the linked set of activities, functions, and business processes that it performs in the course of designing, producing,
  marketing, delivering, and supporting its product / service and thereby creating value for its customers.

Figure 4.2: Typical Company Value Chain



The Value Chain System for an Entire Industry

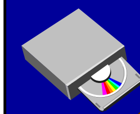


The Value Chain System for an Entire Industry

- Assessing a company's ***cost competitiveness*** involves comparing costs all along the industry's value chain
- ***Suppliers'*** value chains are relevant because
  - Costs, quality, and performance of inputs provided by suppliers influence a firm's own costs and product performance
- ***Forward channel allies'*** value chains are relevant because
  - Forward channel allies' costs and margins are part of price paid by ultimate end-user
  - Activities performed affect end-user satisfaction

Example: Key Value Chain Activities

COMPUTER SOFTWARE INDUSTRY

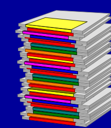


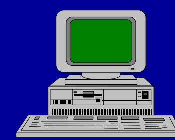
Programming

Disk loading

Marketing

Distribution

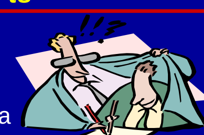




Objectives of Benchmarking

- Determine whether a company is performing particular value chain activities efficiently by studying the practices and procedures used by other companies
- Understand the ***best practices*** in performing an activity—learn what is the "best" way to do a particular activity from those who have demonstrated they are "best-in-industry" or "best-in-world"
- Assess if company's costs of performing particular value chain activities are in line with competitors
- Learn how other firms achieve lower costs
- Take action to improve company's cost competitiveness

Ethical Standards in Benchmarking: Do's and Don'ts



- Avoid talk about pricing or competitively sensitive costs
- Don't ask rivals for sensitive data
- Don't share proprietary data without clearance
- Have impartial third party assemble and present competitively sensitive cost data with no names attached
- Don't disparage a rival's business to outsiders based on data obtained

What Determines Whether a Company is Cost Competitive?

- A company's ***cost competitiveness*** depends on how well it manages its ***value chain*** relative to how well competitors manage their value chains
- When a company's costs are "out-of-line", the "high-cost" activities can exist in any of three areas in the industry value chain
  1. ***Suppliers' activities***
  2. The company's own ***internal activities***
  3. ***Forward channel activities***

Correcting Supplier-Related Cost Disadvantages: Options

- Negotiate more favorable prices with suppliers
- Work with suppliers to help them achieve lower costs
- Use lower-priced substitute inputs
- Collaborate closely with suppliers to identify mutual cost-saving opportunities
- Integrate backwards
- Make up difference by initiating cost savings in other areas of value chain

Correcting Forward Channel Cost Disadvantages: Options

- Push for more favorable terms with distributors and other forward channel allies
- Work closely with forward channel allies and customers to identify win-win opportunities to reduce costs
- Change to a more economical distribution strategy
- Make up difference by initiating cost savings earlier in value chain

Correcting Internal Cost Disadvantages: Options

- Eliminate some cost-producing activities altogether by revamping value chain system
- Relocate high-cost activities to lower-cost geographic areas
- See if high-cost activities can be performed cheaper by outside vendors/suppliers
- Invest in cost-saving technology
- Simplify product design
- Make up difference by achieving savings in backward or forward portions of value chain system

From Value Chain Analysis to Competitive Advantage

- A company can create ***competitive advantage*** by managing its value chain to
  - ***Integrate*** knowledge and skills of employees in competitively valuable ways
  - ***Leverage*** economies of learning / experience
  - ***Coordinate*** related activities in ways that build valuable capabilities
  - ***Build dominating expertise*** in a value chain activity critical to customer satisfaction or market success

From Value Chain Analysis to Competitive Advantage

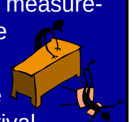
Strategy-Making Lesson of Value Chain Analysis

Sustainable competitive advantage can be created by

1. **Managing value chain activities better than rivals and/or**
2. **Developing distinctive value chain capabilities to serve customers!**

Why Do a Competitive Strength Assessment ?

- Reveals strength of firm's competitive position vis-à-vis key rivals
- Shows how firm stacks up against rivals, measure-by-measure—pinpoints firm's competitive strengths and competitive weaknesses
- Indicates whether firm is at a competitive advantage / disadvantage against each rival
- Identifies possible offensive attacks (pit company strengths against rivals' weaknesses)
- Identifies possible defensive actions (a need to correct competitive weaknesses)



Identifying the Strategic Issues

- Is the present strategy adequate in light of competitive pressures and driving forces?
- Is the strategy well-matched to the industry's future key success factors?
- Does the company need new or different resource strengths and competitive capabilities?
- Does present strategy adequately protect against external threats and resource deficiencies?
- Is firm vulnerable to competitive attack by rivals?
- Where are strong/weak spots in present strategy?