

Business Policy and Strategy

CHAPTER 4 Evaluating a Company's Resources, Capabilities, and Competitiveness

Dr. Chi Zhang



LEARNING OBJECTIVES

THIS CHAPTER WILL HELP YOU UNDERSTAND:

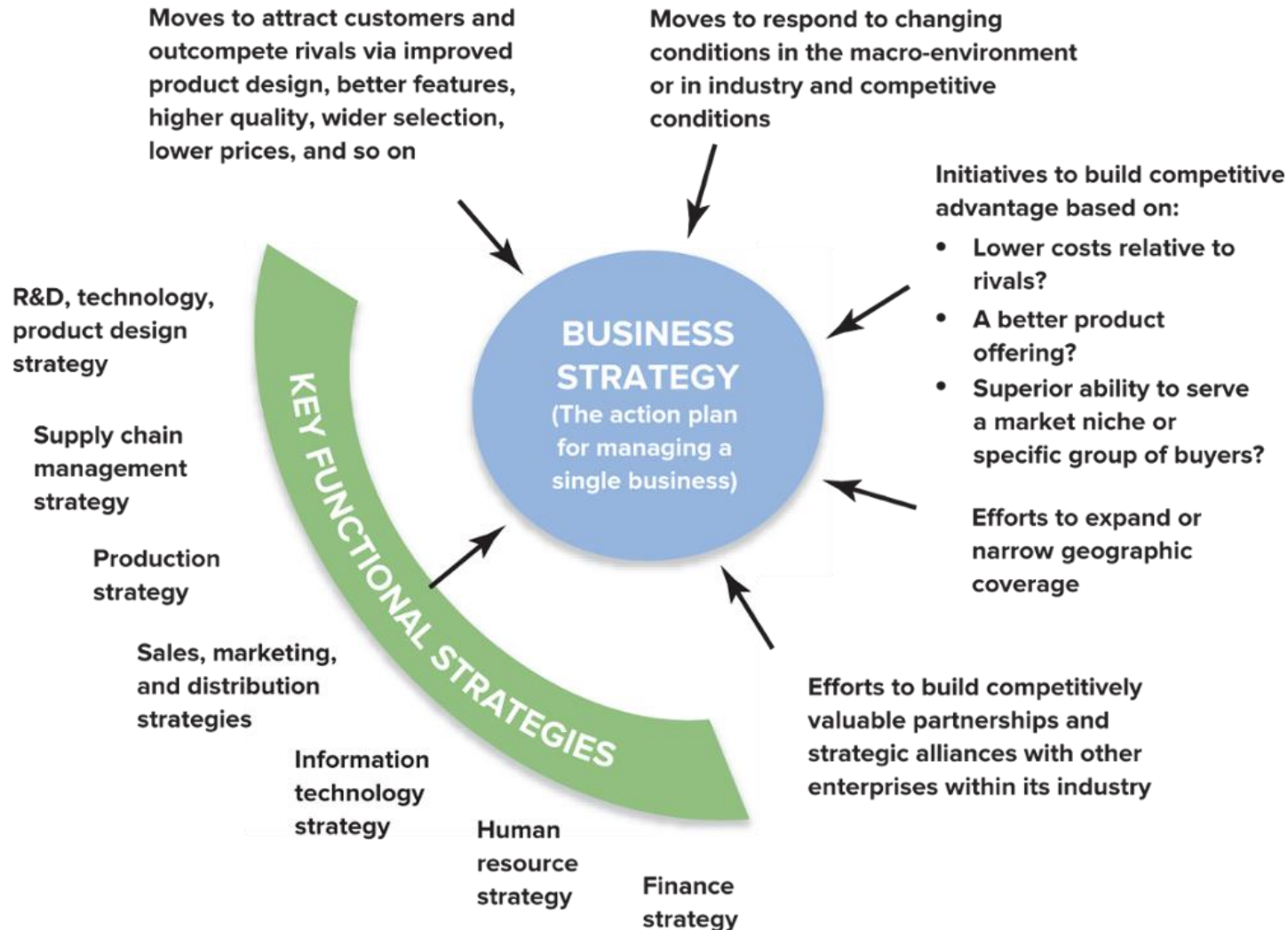
1. How to take stock of how well a company's strategy is working
2. Why a company's resources and capabilities are centrally important in giving the company a competitive edge over rivals
3. How to assess the company's strengths and weaknesses in light of market opportunities and external threats
4. How a company's value chain activities can affect the company's cost structure and customer value proposition

QUESTION 1: HOW WELL IS THE FIRM'S PRESENT STRATEGY WORKING?

The three best indicators of how well a company's strategy is working are:

1. Whether the company is achieving its stated financial and strategic objectives
2. Whether its financial performance is above the industry average
3. Whether it is gaining customers and increasing its market share

FIGURE 4.1 Identifying the Components of a Single-Business Company's Strategy



[Jump to Appendix 1 long image description](#)

QUESTION 2: WHAT ARE THE FIRM'S MOST IMPORTANT RESOURCES AND CAPABILITIES, AND WILL THEY GIVE THE FIRM A LASTING COMPETITIVE ADVANTAGE OVER RIVAL COMPANIES?

◆ Competitive assets

- Are the firm's resources and capabilities
- Are the determinants of its competitiveness and ability to succeed in the marketplace
- Are what a firm's strategy depends on to develop sustainable competitive advantage over its rivals

CORE CONCEPTS

A **resource** is a competitive asset that is owned or controlled by a firm.

A **capability** or **competence** is the capacity of a firm to perform an internal activity competently through deployment of a firm's resources.

A firm's resources and capabilities represent its **competitive assets** and are determinants of its competitiveness and ability to succeed in the marketplace.

IDENTIFYING THE FIRM'S RESOURCES AND CAPABILITIES

◆ A resource:

- A productive input or competitive asset that is owned or controlled by a firm (e.g., a fleet of oil tankers)

◆ A capability:

- The capacity of a firm to perform some activity proficiently (e.g., superior skills in marketing)

STRATEGIC MANAGEMENT PRINCIPLE

Resource and capability analysis is a powerful tool for sizing up a firm's competitive assets and determining if they can support a sustainable competitive advantage over market rivals.

TABLE 4.2 Types of Company Resources (1 of 2)

Tangible resources

- **Physical resources:** land and real estate; manufacturing plants, equipment, or distribution facilities; the locations of stores, plants, or distribution centers, including the overall pattern of their physical locations; ownership of or access rights to natural resources (such as mineral deposits)
- **Financial resources:** cash and cash equivalents; marketable securities; other financial assets such as a company's credit rating and borrowing capacity
- **Technological assets:** patents, copyrights, production technology, innovation technologies, technological processes
- **Organizational resources:** IT and communication systems (satellites, servers, workstations, etc.); other planning, coordination, and control systems; the company's organizational design and reporting structure

TABLE 4.2 Types of Resources (2 of 2)

Intangible resources

- **Human assets and intellectual capital:** the education, experience, knowledge, and talent of the workforce, cumulative learning, and tacit knowledge of employees; collective learning embedded in the organization, the intellectual capital and know-how of specialized teams and work groups; the knowledge of key personnel concerning important business functions; managerial talent and leadership skill; the creativity and innovativeness of certain personnel
- **Brands, company image, and reputational assets:** brand names, trademarks, product or company image, buyer loyalty and goodwill; company reputation for quality, service, and reliability; reputation with suppliers and partners for fair dealing
- **Relationships:** alliances, joint ventures, or partnerships that provide access to technologies, specialized know-how, or geographic markets; networks of dealers or distributors; the trust established with various partners
- **Company culture and incentive system:** the norms of behavior, business principles, and ingrained beliefs within the company; the attachment of personnel to the company's ideals; the compensation system and the motivation level of company personnel

CORE CONCEPTS

Social complexity and casual ambiguity are two factors that inhibit the ability of rivals to imitate a firm's most valuable resources and capabilities.

CORE CONCEPTS

Social complexity: company culture, interpersonal relationships among managers or R&D teams, trust-based relations with customers or suppliers.

Causal ambiguity makes it very hard to figure out how a complex resource contributes to competitive advantage and therefore exactly what to imitate.

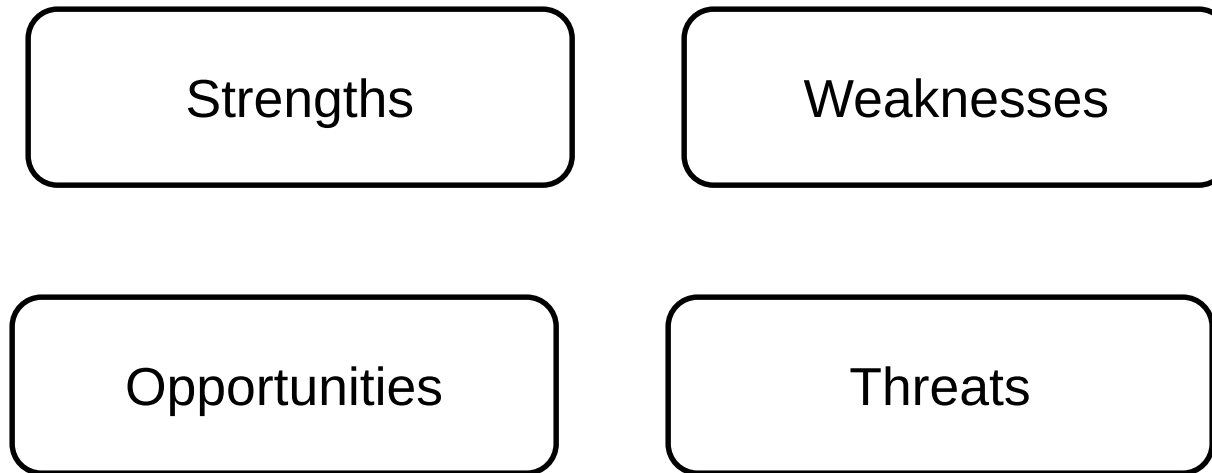
A firm requires a dynamically evolving portfolio of resources and capabilities to sustain its competitiveness and help drive improvements in its performance.

QUESTION 3: WHAT ARE THE FIRM'S STRENGTHS AND WEAKNESSES IN RELATION TO MARKET OPPORTUNITIES AND EXTERNAL THREATS?

◆ SWOT Analysis

- is a simple but powerful tool for sizing up a company's resource
- capabilities and deficiencies, its market opportunities, and the external threats to its
- future well-being.

SWOT Analysis



- ◆ The overall evaluation of a company's strengths, weaknesses, opportunities, and threats is called SWOT analysis. It's a way of monitoring the external and internal marketing environment.

External environment

Marketing opportunity: an area of buyer need and interest that a company has a high probability of profitably satisfying.

Three Main Sources Of Marketing Opportunities:

- ◆ To offer something that is in short supply (fairly obvious).
- ◆ to supply an existing product or service in a new or superior way(problem detection method)
- ◆ lead to a totally new product or service (the ideal method)

External environment

- ◆ **Environmental threat:** challenge posed by an unfavorable trend or development that, in the absence of defensive marketing action, would lead to lower sales or profit. (e.g. paper manufactures)

Internal Environment

- ◆ It's one thing to find attractive opportunities and another to be able to take advantage of them. Each business needs to evaluate its internal strengths and weaknesses.
- ◆ Strengths
- ◆ Weaknesses

Example: SWOT Analysis

marketing
Memo

Checklist for Performing Strengths/Weaknesses Analysis

	Performance				Importance			
	Major Strength	Minor Strength	Neutral	Minor Weakness	Major Weakness	High	Med.	Low
Marketing								
1. Company reputation	_____	_____	_____	_____	_____	_____	_____	_____
2. Market share	_____	_____	_____	_____	_____	_____	_____	_____
3. Customer satisfaction	_____	_____	_____	_____	_____	_____	_____	_____
4. Customer retention	_____	_____	_____	_____	_____	_____	_____	_____
5. Product quality	_____	_____	_____	_____	_____	_____	_____	_____
6. Service quality	_____	_____	_____	_____	_____	_____	_____	_____
7. Pricing effectiveness	_____	_____	_____	_____	_____	_____	_____	_____
8. Distribution effectiveness	_____	_____	_____	_____	_____	_____	_____	_____
9. Promotion effectiveness	_____	_____	_____	_____	_____	_____	_____	_____
10. Sales force effectiveness	_____	_____	_____	_____	_____	_____	_____	_____
11. Innovation effectiveness	_____	_____	_____	_____	_____	_____	_____	_____
12. Geographical coverage	_____	_____	_____	_____	_____	_____	_____	_____
Finance								
13. Cost or availability of capital	_____	_____	_____	_____	_____	_____	_____	_____
14. Cash flow	_____	_____	_____	_____	_____	_____	_____	_____
15. Financial stability	_____	_____	_____	_____	_____	_____	_____	_____
Manufacturing								
16. Facilities	_____	_____	_____	_____	_____	_____	_____	_____
17. Economies of scale	_____	_____	_____	_____	_____	_____	_____	_____
18. Capacity	_____	_____	_____	_____	_____	_____	_____	_____
19. Able, dedicated workforce	_____	_____	_____	_____	_____	_____	_____	_____
20. Ability to produce on time	_____	_____	_____	_____	_____	_____	_____	_____
21. Technical manufacturing skill	_____	_____	_____	_____	_____	_____	_____	_____
Organization								
22. Visionary, capable leadership	_____	_____	_____	_____	_____	_____	_____	_____
23. Dedicated employees	_____	_____	_____	_____	_____	_____	_____	_____
24. Entrepreneurial orientation	_____	_____	_____	_____	_____	_____	_____	_____
25. Flexible or responsive	_____	_____	_____	_____	_____	_____	_____	_____

SWOT Analysis

Strengths (internal, positive factors)

Example:

- 1) Company Reputation, Quality, Sales force Effectiveness
- 2) NIKE has a long tradition of staying ahead of the technology curve, which has helped it attract loyal followers and influential endorsements from elite professional athletes, from Michael Jordan to Tiger Woods.
- 3) \$2 billion advertising budget
- 4) Brand recognition valued at \$40 billion

SWOT Analysis

Opportunities (external, positive factors)

Example:

- 1) Growing number of mobile internet users. Google has an opportunity to create a platform that could be used to better display ads for mobile device users and increase firm's income.
- 2) The rise of coffee consumptions
- 3) Growth of tablet and Smartphone markets
- 4) Consumers are becoming health conscious, so company can capitalize on the opportunity by offering healthy food items.

SWOT Analysis

Weaknesses (internal, negative factors)

Example:

- 1) Poor public image
- 2) Lack of adaption to the local culture.
- 3) High employee turn over
- 4) Only offers chicken fast food which limits customer options.

SWOT Analysis

Threats (external, negative factors)

Example:

- 1) Rapid technological change
- 2) Samsung Galaxy phone growth
- 3) EU antitrust laws. Google is currently accused by EU of using its dominating position in internet search engine market.
- 4) Older Customer Base. As these customers age, they tend to spend less.

Class Exercise

- ◆ List a business you are familiar with (e.g. a restaurant, bookstore, clothing store)
- ◆ Complete a SWOT analysis based on your impression of its internal and external environments.
- ◆ List at least two items for each of the four categories (2 min).
- ◆ Share your thoughts with your neighbor or me (3 min).

STRATEGIC MANAGEMENT PRINCIPLE

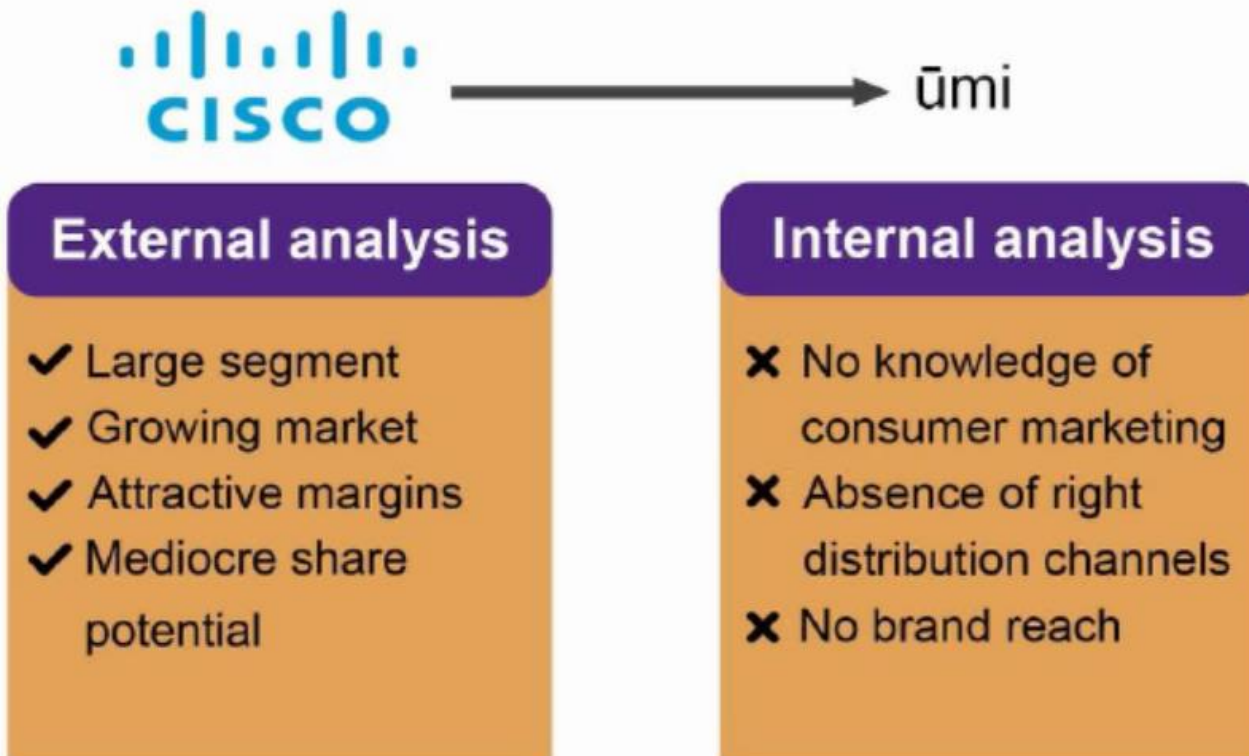
Basing a company's strategy on its most competitively valuable strengths gives the company its best chance for market success.

STRATEGIC MANAGEMENT PRINCIPLE

A company is well advised to pass on a particular market opportunity unless it has or can acquire the competencies needed to capture it.

Case Study

Cisco wanted to enter the video conferencing market with a product called Ūmi



Ūmi failed in video-conferencing market

STRATEGIC MANAGEMENT PRINCIPLE

Simply making lists of a company's strengths, weaknesses, opportunities, and threats is not enough.

The payoff from SWOT analysis comes from the conclusions about a company's situation and the implications for strategy improvement that flow from the four lists.

WHAT DO SWOT LISTINGS REVEAL?

SWOT analysis involves:

- Drawing conclusions from the SWOT listings about the firm's overall situation
- Translating these conclusions into strategic actions by the firm that:
 - ▶ Match its strategy to its internal strengths and to market opportunities
 - ▶ Correct important weaknesses and defend it against external threats

QUESTION 4: HOW DO A FIRM'S VALUE CHAIN ACTIVITIES IMPACT ITS COST STRUCTURE AND CUSTOMER VALUE PROPOSITION?

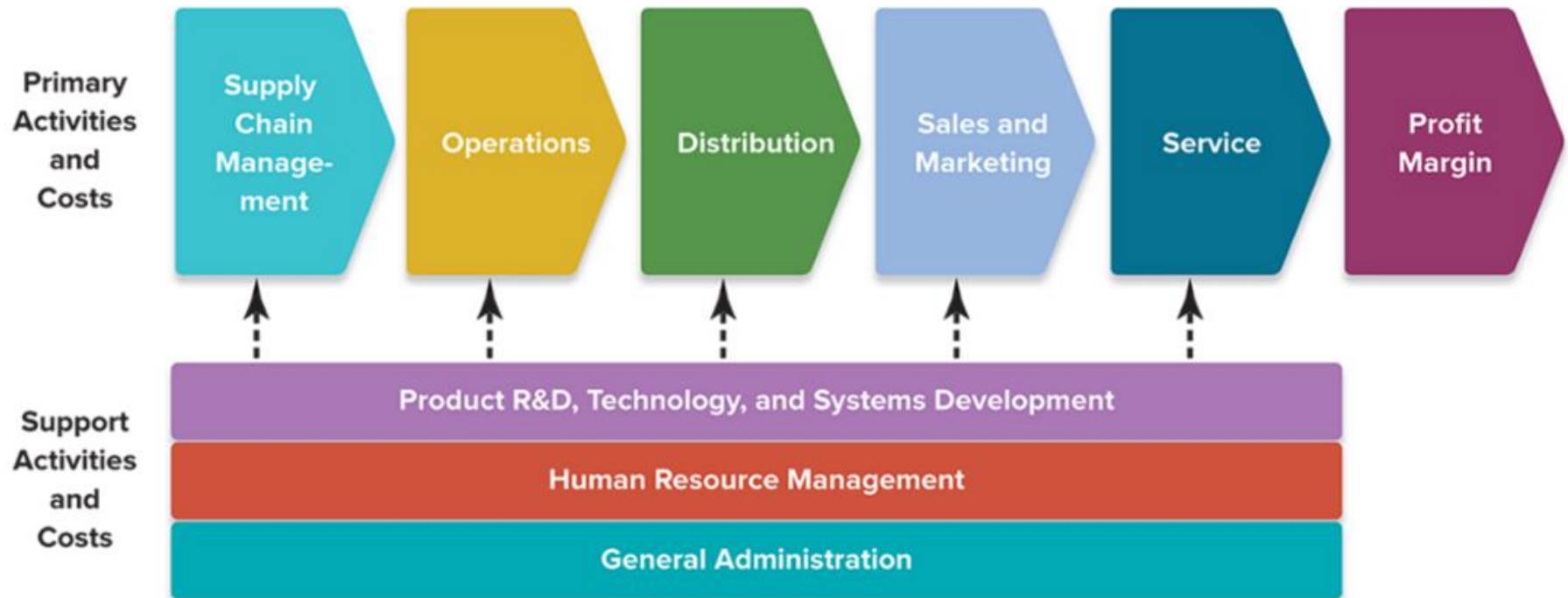
A company's **value chain** identifies the primary activities and related support activities that create customer value.

THE CONCEPT OF A COMPANY VALUE CHAIN

The value chain:

- Identifies the inner workings of the firm's customer value proposition and business model
- Permits a deep look at the firm's **cost structure** and its ability to profitably offer low prices
- Reveals the emphasis that a firm places on activities that enhance differentiation and support higher prices

FIGURE 4.3 A Representative Company Value Chain



[Jump to Appendix 9 long image description](#)

STRATEGIC MANAGEMENT PRINCIPLE

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

Conversely, the greater the amount of customer value that a firm can offer profitably relative to close rivals, the less competitively vulnerable the firm becomes.

COMPARING THE VALUE CHAINS OF RIVAL FIRMS

- ◆ Value chain analysis
 - Facilitates a comparison, activity-by-activity, of how effectively and efficiently a firm delivers value to its customers, **relative to its competitors**
- ◆ The value chain analysis process:
 - Segregates the firm's operations into different types of primary and secondary activities to identify the major components of its internal cost structure
 - Uses *activity-based costing* to evaluate the activities
 - Does the same for significant competitors

CORE CONCEPT

Benchmarking is a potent tool for improving a company's own internal activities that is based on learning how other companies perform them and borrowing their “best practices.”

USING BENCHMARKING TO ASSESS A FIRM'S VALUE CHAIN ACTIVITIES

◆ Benchmarking:

- Involves improving a firm's internal activities based on learning from other firms' "best practices"
- Assesses whether the cost competitiveness and effectiveness of a firm's value chain activities are in line with its competitors' activities

◆ Sources of benchmarking information

- Reports, trade groups, analysts, and customers
- Visits to benchmark companies
- Data from consulting firms

STRATEGIC MANAGEMENT PRINCIPLE

Benchmarking the costs of a firm's activities against those of rivals provides hard evidence of whether the firm is cost-competitive.

In Class Simulation Exercise