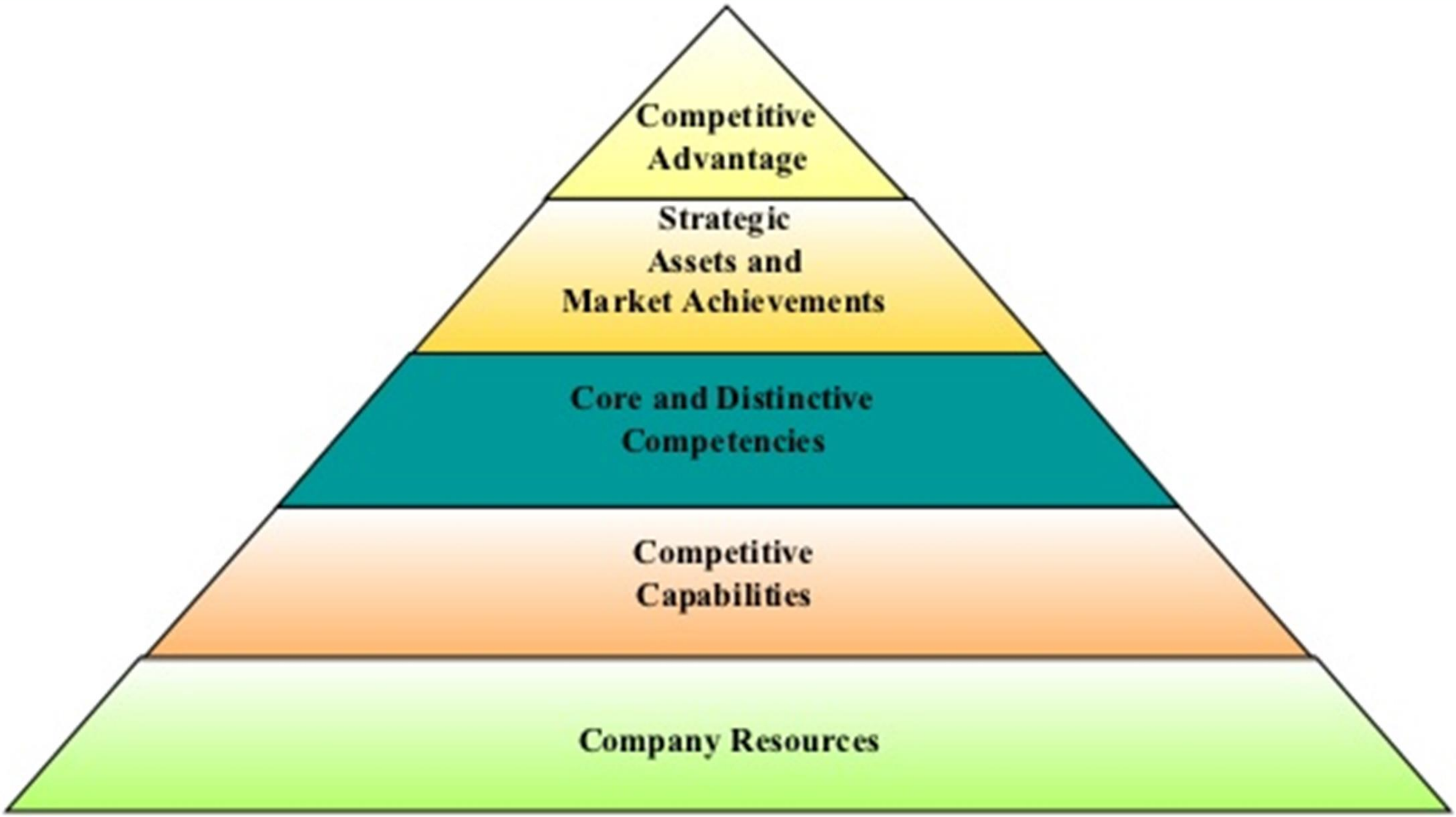
Unit: IV

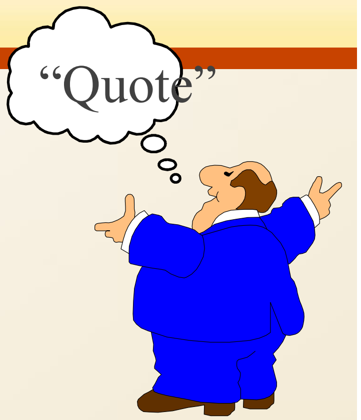
Internal Analysis

- Resource to competitive advantages pyramid
- Internal analysis approaches -value chains,
- Functional analysis,
- Resource based view (RBV),
- Benchmarking

Resource to competitive advantages pyramid



“Understand what really makes a company ‘tick’.”



Charles R. Scott

“If a company is not ‘best in world’ at a critical activity, it is sacrificing competitive advantage by performing that activity with its existing technique.”

James Brian Quinn

Identifying Company Resource Strengths and Competitive Capabilities

A strength is something a company is good at doing or an attribute that enhances its competitiveness. A strength can take any of several forms:

a. A skill or important expertise
b. Valuable physical assets
c. Valuable human assets
d. Valuable organizational assets
e. Valuable intangible assets
f. Competitive capabilities
g. An achievement or attribute that puts the company in a position of market advantage
h. Competitively valuable alliances or cooperative ventures

Taken together, a company's strengths determine the complement of competitively valuable resources with which it competes – a company's resource strengths represent competitive assets.

Competence ?

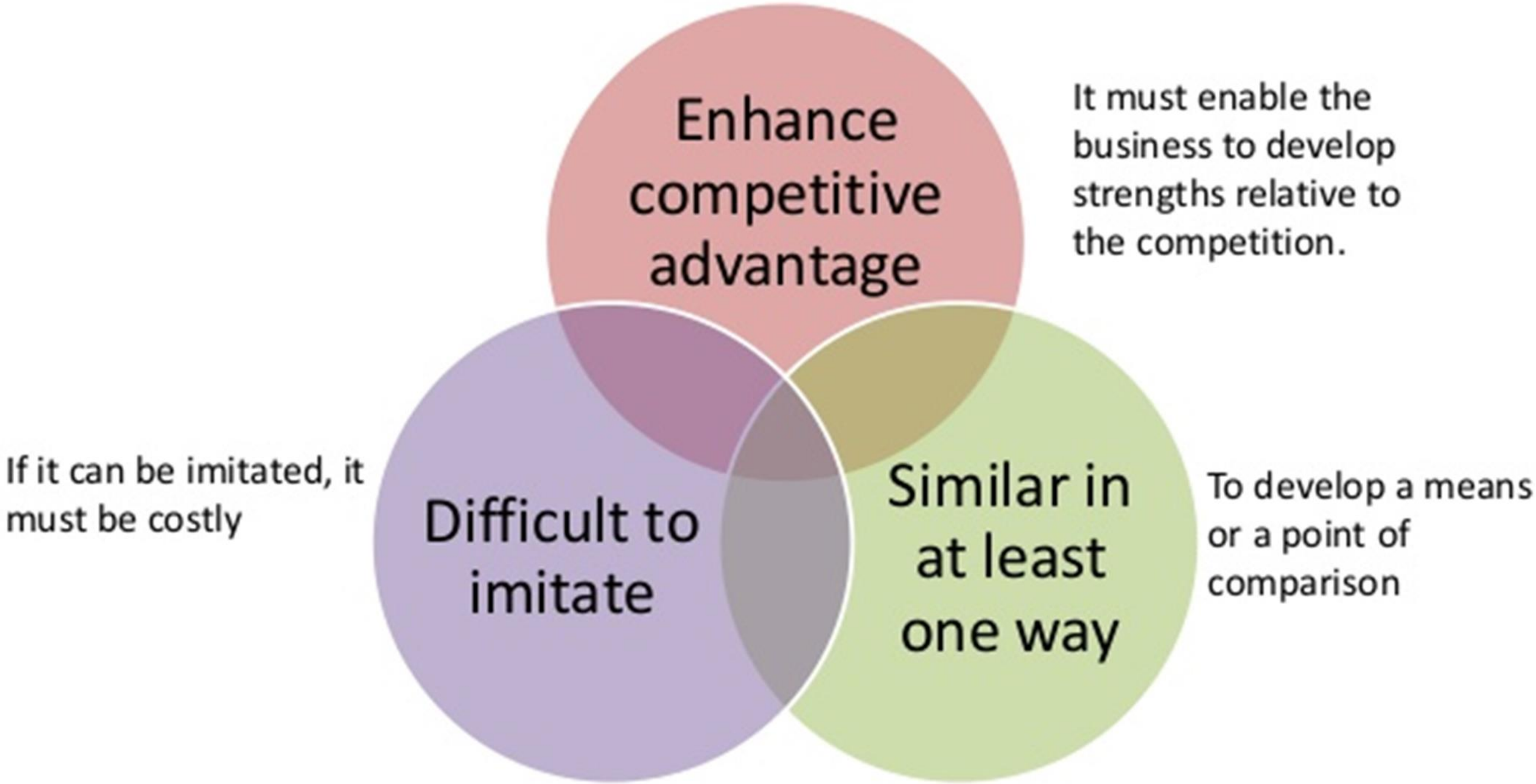
- **Company competencies can range from merely a competence in performing an activity to a core competence to a distinctive (unique) competence.**
- **A competence is something an organization is good at doing. It is nearly always the product of experience, representing an accumulation of learning and the buildup of proficiency in performing an internal activity.**

Core competence

- A <u>core competence</u> is a proficiently performed internal activity that is central to a company's strategy and competitiveness. A core competence is a more valuable resource strength than a competence because of the well-performed activity's core role in the company's strategy and the contributions it makes to the company's success in the marketplace.

- CORE CONCEPT: A core competence is a competitively important activity that a company performs <u>better than other internal activities</u>.

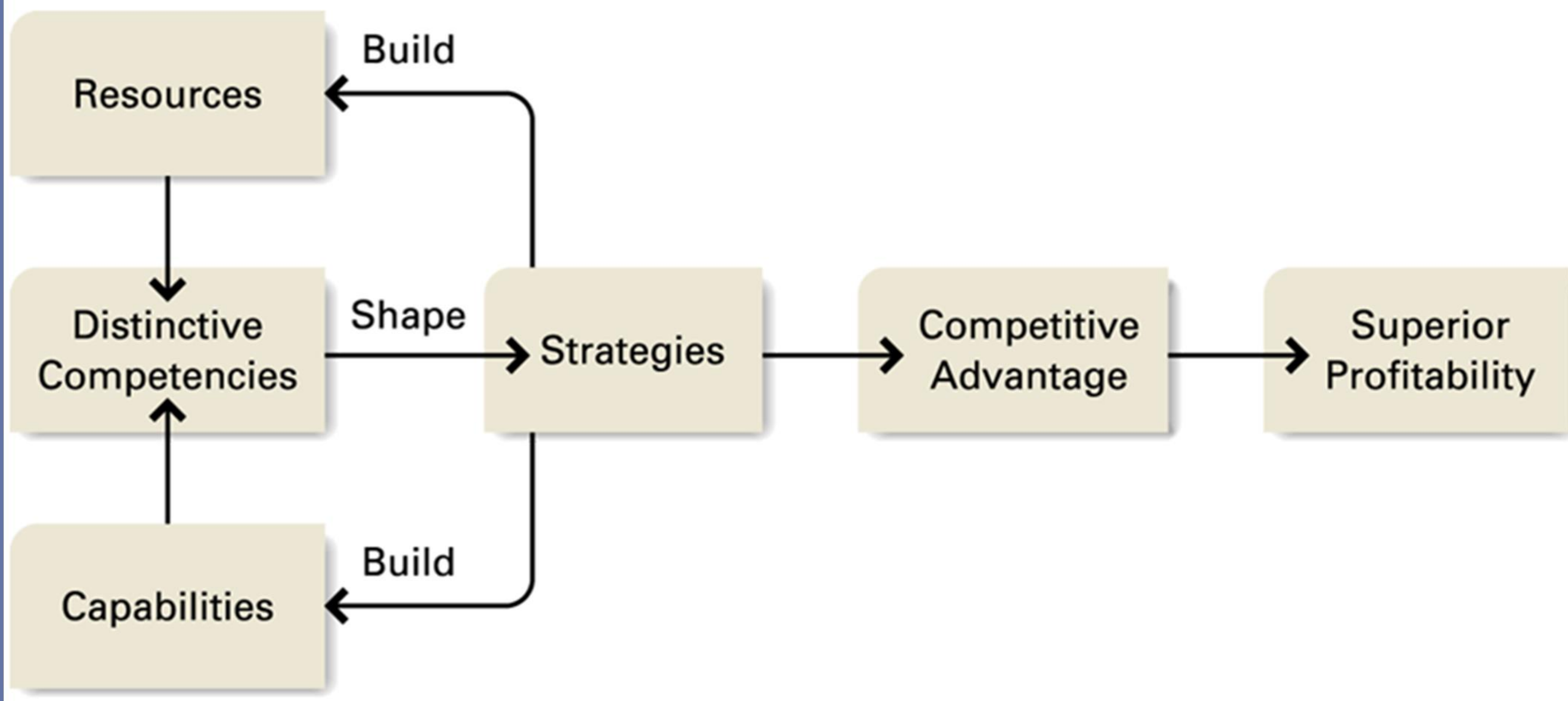
Core Competencies



Distinctive competence

- **A <u>distinctive competence</u> is a competitively valuable activity that a company performs <u>better than its rivals</u>. A distinctive competence represents a competitively superior resource strength.**

How Exactly Distinctive Competencies Work?



What is the Competitive Power of Resource Strength?

The competitive power of a company strength is measured by how many of the following tests it can pass:

a. **Is the resource strength <u>hard to copy</u>?**
b. **Is the resource strength durable – <u>does it have staying power?</u>**
c. **Is the resource really <u>competitively superior?</u>**

Identifying Company Resource Weaknesses and Competitive Deficiencies

A weakness or competitive deficiency is something a company lacks or does poorly in comparison to others or a condition that puts it at a disadvantage in the marketplace.

A company's weaknesses can relate to:

a. Inferior or unproven skills or expertise or intellectual capital in competitively important areas of the business
b. Deficiencies in competitively important physical, organizational, or intangible assets
c. Missing or competitively inferior capabilities in key areas

Internal weaknesses are shortcomings in a company's complement of resources and represent competitive liabilities.

CORE CONCEPT: A company's resource strengths represent competitive assets; its resource weaknesses represent competitive liabilities.

Are the Company's Prices and Costs Competitive?

<u>Two analytical tools</u> are particularly useful in determining whether a company's prices and costs are competitive and thus conducive to winning in the marketplace: value chain analysis and benchmarking.

- **A company's *cost competitiveness* depends on how well it manages its *value chain* relative to how well competitors manage their value chains**
- **<u>Where in the value chain</u> should a company look to reduce its costs?**

The Concept of a Company's Value Chain

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

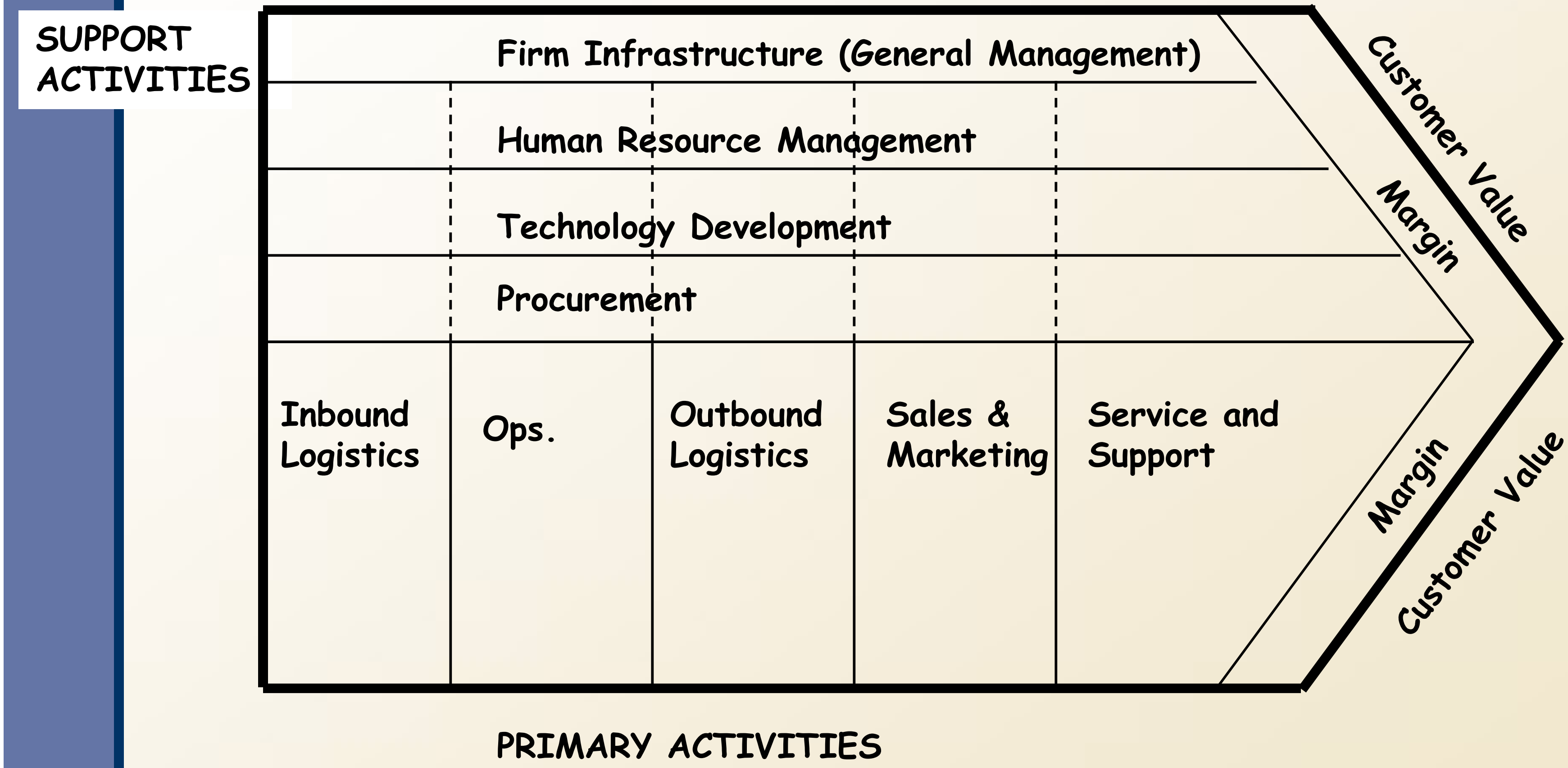
The value chain consists of two broad categories of activities:

a. <u>Primary activities:</u> foremost in creating value for customers

b. <u>Support activities:</u> facilitate and enhance the performance of primary activities

Value Chain Model

from Michael E. Porter's Competitive Advantage



In Bound Logistics: warehousing, logistics, supply chain management, transportation

Outbound logistics is the process related to the storage and movement of the final product and the related information flows from the end of the production line

Benchmarking the Costs of Key Value Chain Activities

Benchmarking is a tool that allows a company to determine whether the manner in which it performs particular functions and activities represent industry "best practices" when both cost and effectiveness are taken into account.

CORE CONCEPT: Benchmarking has proved to be a potent (strong) **tool for learning which companies are best at performing particular activities and then using their techniques or "best practices" to improve the cost and effectiveness of a company's own internal activities.**

Benchmarking types

- **Historical benchmarking:** Comparing results with past performance
- **Industry/sector benchmarking**: Comparing the performance of the competitors in the same industry or sector
- **Best-in-class benchmarking**: Comparing with the best practices, wherever found

Strategic implications of establishing benchmarking

1. Identify the performance gap based on benchmark level and improve the deviation (if any)
2. Monitor company's performance and manage efficiently.
3. Able to know the company's standing position (market share, product portfolio position,…) that will support to strengthen short and long term goals.
4. Enhancing overall efficiencies of the company
5. Establishing the mindset 'Continuous improvement'
6. Setting performance expectations based on benchmark level
7. Enhancing existing performance measuring the performance of rival companies (benchmark-based companies)

Benchmarking the Costs of Key Value Chain Activities

Benchmarking entails comparing how different companies perform various value chain activities.

<u>The objectives of benchmarking are:</u>

a. To identify the best practices in performing an activity

b. To learn how other companies have actually achieved lower costs or better results in performing benchmarked activities

c. To take action to improve a company's competitiveness whenever benchmarking reveals that its costs and results of performing an activity do not match those of other companies

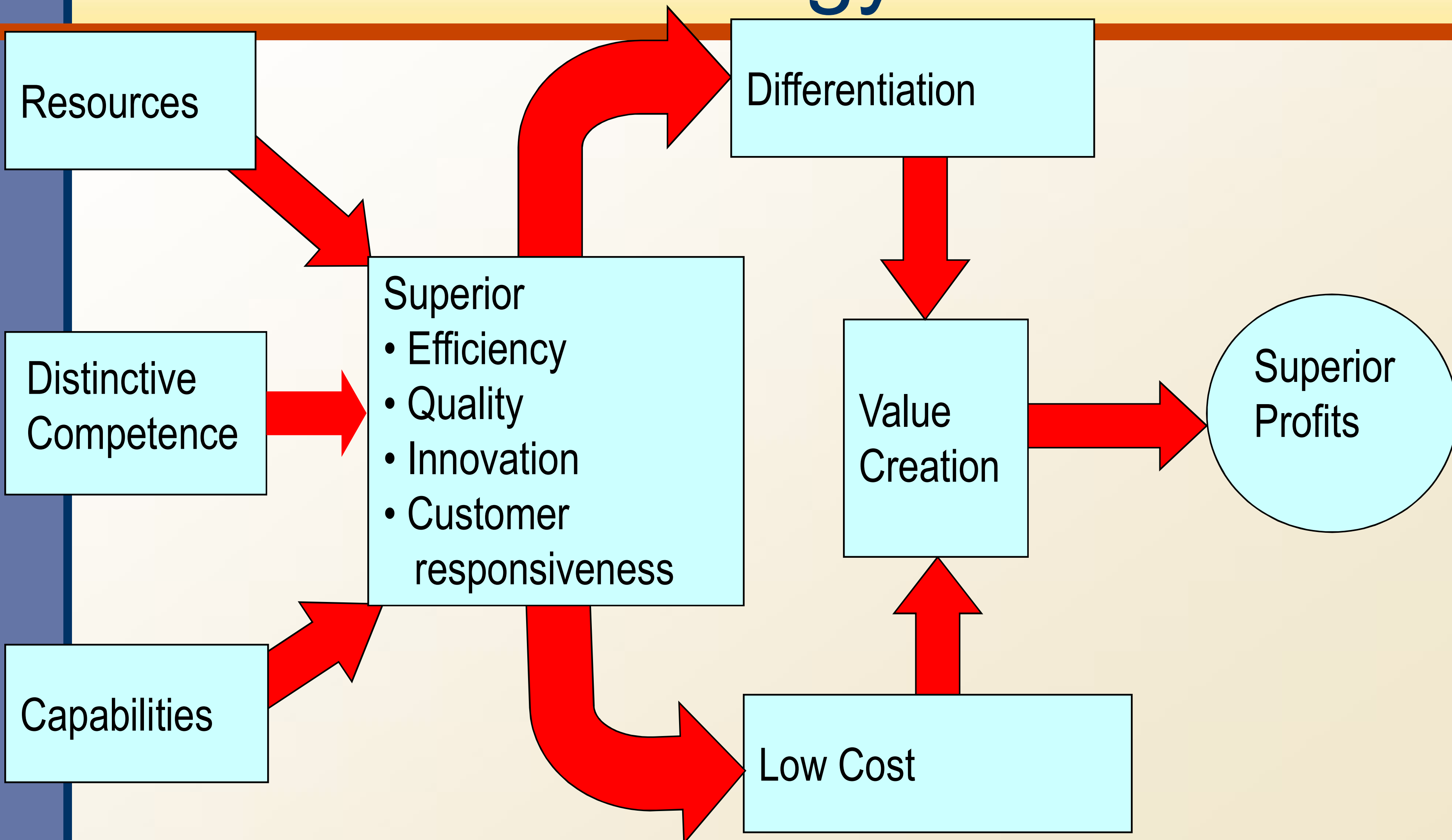
Benchmarking has quickly come to be a tool for comparing a company against rivals not only on cost but also on most any relevant activity or competitively important measure.

CORE CONCEPT: Benchmarking the costs of company activities against rivals provides hard evidence of a company's cost-competitiveness.

Competitive capabilities to competitive advantage

- **A company that does a first-rate job of managing its value chain activities relative to competitors stands a good chance of leveraging its competitively valuable competencies and capabilities into sustainable competitive advantage.**
- **CORE CONCEPT: Performing value chain activities in ways that give a company the capabilities to outmatch (better than) rivals is a source of competitive advantage.**
- **Translating Company Performance of Value Chain Activities into Competitive Advantage, shows the process of translating proficient company performance into competitive advantage.**

Competency and Business Strategy



Is the Company Competitively Stronger or Weaker Than Key Rivals?

Using value chain analysis and benchmarking to determine a company's competitiveness on price and cost is necessary but not sufficient. The answers to two questions are of particular interest:

a. How does the company rank relative to competitors on each of the important factors that determine market success?
b. Does the company have a net competitive advantage or disadvantage vis-à-vis major competitors?

An easy method for answering the questions posed above involves developing quantitative strength ratings for the company and its key competitors on each industry key success factor and each competitively decisive resource capability.

The followings are steps for compiling a competitive strength assessment:

a. Step 1: make a list of the industry's key success factors and most telling measures of competitive strength or weakness
b. Step 2: rate the firm and its rivals on each factor
c. Step 3: sum the strength ratings on each factor to get an overall measure of competitive strength for each company being rated
d. Step 4: use the overall strength ratings to draw conclusions about the size and extent of the company's net competitive advantage or disadvantage and to take specific note of areas of strengths and weaknesses

Company Resources

Tangible assets

- Easiest to identify and often found on a firm's balance sheet
- Include physical and financial assets
- Examples: Production facilities, raw materials, financial resources, real estate, computers

Intangible assets

- Cannot be seen or touched
- Often very critical in creating competitive advantage
- Examples: Brand names, company reputation, company morale, patents and trademarks, accumulated experience

Organizational capabilities

- Involve skills - ability to combine assets, people, and processes - used to transform inputs into outputs

Functional Analysis
Key Resources Across Functional Areas

Marketing

- Firm's products/services
- Concentration of sales in a few products or to a few customers
- Ability to gather needed information about markets
- Market share
- Product-service mix and expansion potential
- Channels of distribution
- Effective sales organization
- Product-service image, reputation, and quality'
- Imaginativeness, efficiency, effectiveness of sales promotion
- Pricing strategy and flexibility
- After-sale service and follow-up
- Goodwill - brand loyalty

Financial and Accounting

- Ability to raise short-term and long-term capital; debt-equity
- Corporate-level resources
- Cost of capital relative to competitors
- Tax considerations
- Relations with owners, investors, and stockholders
- Leverage position
- Cost of entry and barriers to entry
- Price-earnings ration
- Working capital
- Effective cost control
- Financial size
- Efficiency and effectiveness of accounting system

Functional Analysis
Key Resources Across Functional Areas

Production, Operations, Technical

- Raw materials cost and availability, supplier relationships
- Inventory control systems
- Location, layout, and use of facilities
- Economies of scale
- Technical efficiency of facilities
- Effectiveness of subcontracting use
- Degree of vertical integration
- Efficiency and cost-benefit of equipment
- Effectiveness of operation control procedures
- Costs and technological competencies relative to competitors
- Research and development
- Patents and trademarks

Personnel

- Management personnel
- Employees' skills and morale
- Labor relations costs compared to competitors
- Efficiency and effectiveness of personnel policies
- Effectiveness of incentives used to motivate performance
- Ability to level peaks and valleys of employment
- Employee turnover and absenteeism
- Specialized skills
- Experience

Functional Analysis
Key Resources Across Functional Areas

Quality Management

- Relationship with suppliers, customers
- Internal practices to enhance quality of products and services
- Procedures for monitoring quality

Information Systems

- Timeliness and accuracy of information about sales, operations, cash, and suppliers
- Relevance of information for tactical decisions
- Information to manage quality issues: customer service
- Ability of people to use information provided

RBV: Resource based view

- **RBV** of strategy means the competitive advantage of an organization is explained by the distinctiveness of capabilities.
- **Physical resource:** Plant, equipment, technology,..
- **HR**
- **Organizational Resources:** Structure, IT, patents, copyrights, database

Do they give competitive advantage:

Value: Does it provide customer value?

Rareness: Do no other competitors possess it ?

Imitability: Is it costly for others to imitate ?

Organization: Is the firm organized to exploit the resources ?