**Session 03 BUSA 7800 - Strategic Management Chapter 03**

Learning Outcomes

At the end of this session you should be able to:

1. Explain the purpose of value-chain analysis.
2. Compare the resource-based (RBV) view to the five forces model.
3. Differentiate between tangible resources, intangible resources and organizational capabilities.
4. Relate the competitive power of a resource to the four tests that it must pass.
5. Explain how financial ratios are used to evaluate a firm’s performance.
6. Describe the purpose of the balanced scorecard.
7. Relate SWOT analysis to a firm’s strategy.

**Chapter 3 - Analysing the Internal Environment of the Firm**

**I. Introduction**

Why should you analyze the internal environment of the firm?  
  
Why should you assess your resources and put them on a database?

* Resources are scarce, never have as much as you would like
* To make the most out of what you have

**II. Value-Chain Analysis**

What is a company's value chain? (Exhibit 3.1)

* A value chain chart the path by which products are created and then sold to customer

Value chains contain both primary activities and support activities.

How do we know if an activity is a primary activity or a secondary activity?

1. Are actions that directly involved in creating & distributing goods
2. Actions that provide important under lying support for primary activity

What is the purpose of Value Chain Analysis (VCA)?

* To identify where low cost advantages & disadvantage exists

Why analyze the value chain system for an entire industry?

* A firms customers value proposition and cost competitiveness also depends on your suppliers value chain activities and your forward channel allies(wholesalers, retailers)

What are the three main areas of a firm’s overall value chain where cost differences occur?

Activities performed by your suppliers & firm & forward channel

**III. Resource-Based View (RBV) of the Firm**

Where does the RBV locate the source of competitive advantage?

* At the individual firm level based on your bundle of resources

What does the RBV explain that the five forces model cannot?

* This RBV can explain why firms, in the same industry, where some are making above avg profits while others are struggling

What are the two assumptions of the RBV model?

1. Resources bundle are different for each firm
2. Resources immobility explains the persistence of resource differences

How does the resource-based view (RBV) define resources?

* Tangible and intangible assets that firms use to produce and enhance output

What are the three types of resources?

1. *Tangible*
2. *Intangible*
3. *Organizational Capabilities*

How do we know if a resource is tangible or intangible?

* Tangible resources are assets that are easy to identify, measure & value (3 year old company value)
* Intangible assets that are harder to identify & measure (because of these attributes they are often over looked)

What are some examples of tangible resources?

* Physical resources eg laptop, company's van
* Financial resources
* Technological assets

What are some examples of intangible assets?

* Human assets and intellectual capital
* Brand, Image and reputation
* Relationships w/ customers & suppliers
* Companies culture

Why do sustainable competitive advantages rarely come from tangible resources?

* The advantages from tangible resources don’t last, copied and imitated by others
  + southwest airline all aspects of their business model have been copied except for their culture

What are organizational capabilities?

* The firm’s skill in using their resources to create goods & services
* A firm’s ability to exploit it’s resources

What are some examples of organizational capabilities?

* Learn manufacturing
* flexibility in manufacturing processes
* product development
* innovation processes

**IV. Firm Resources and Sustainable Competitive Advantages**

The competitive power of a resource is measured by how many of the following four tests it can pass.

1. *Is the resource really competitively valuable?*
2. *Is the resource rare - is it something rivals lack?*
3. *Is the resource hard to copy or imitate?*
4. *Can the resource be trumped by substitute resources?*
   1. Is the resource really competitively valuable?

How do we know if a resource is competitively valuable?

* If it has potential to contribute to a competitive advantage
  1. Is the resource rare - Why must a resource be rare?
* Hard for rivals to buy or develop
* If a resource is common then your competitive advantage will not be sustainable
  1. Is the resource hard to copy or imitate?

What makes resources difficult to copy?

* Unique – great location or patent protection
* Path Dependency – resources that must be built over time (reputation, trust & loyalty of employees)
* Causal Ambiguity – difficult fir outsiders to figure out how you are able to have your competitive advantage
* Social Complexity – interpersonal relationships between managers of the firm, it’s culture, or reputation w/ customers
  1. Can the resource be trumped by substitute resources?

How can a rival compete with another that has a large automated factory?

* Using a labour intensive production method in a low wage country

**V. Evaluating Firm Performance**

Two Approaches are used to evaluate a firm's performance

1. Financial Ratio Analysis
2. Broader stakeholder Perspective

**A. Financial Ratio Analysis**

What are some financial ratios that will show the financial position of the firm?

1. Liquidity Ratios – shows ability to meet short -term(within the year) financial obligations
2. Leverage Ratios – shows your long term ability to meet your financial obligation

What is the idea of liquidity?

* Liquid assets are easier to convert to cash w/o a large loss of value

What is the importance of a liquidity ratio such as the current ratio (page 390)?

* Current ratio = Current assets / current liability
* current liability = debt
* current assets = cash, account receivable

What is the main idea to keep in mind in any financial ratio?

* A financial ratio does not stand alone

What should we compare a financial ratio to?

* Past ratio – how are we doing compared to the best?
* Industry averages – How am i doing compared to the industry?
* Rivals that are public company's – How am i doing compared to the big players

**B. Stakeholder Perspective - Balanced Scorecard**

Four key perspectives with the balanced scorecard:

1. Customer Perspective
2. Internal business perspective
3. Innovation and learning perspective
4. Financial perspective

What is the idea behind the balanced scorecard?

* Helps see financial status and where it’s going

**VI. SWOT Analysis**

Are company resources and capabilities enough for it to seize market opportunities and nullify threats?

* The SWOT analysis should answer the above question

Why are identifying firm's strengths so important?

* Strategies that play to your firm’s strengths have a higher chance for success

What are some examples of potential internal strengths?

* Product innovation capabilities
* Proprietary technology/ Important patents
* Alliances with other firms that provide access to valuable resources
* Strong brand name

What are some examples of company resource weaknesses and competitive deficiencies?

* High debt loads
* Too narrow a product line relative to rivals
* Behind on product quality, R&D, and/or technological know-how. Dell was accused of falling behind on innovation

Why are market opportunities a big factor in shaping a company's strategy?

* Need to identify each opportunity and assess each opportunity on itès profit potential and growth
* Acquiring rival firms we attractive tech and/or different market

What are some examples of potential opportunities?

* Nintendo Wii – opened up a huge casual gamers market

What makes some opportunities more appealing than others?

* Estimated profit potential and growth rate
  + the opportunities matches up well w/ the firms resources & capabilities that

How do we know if an event is a potential external threat?

* To enter new product lines or new businesses – Microsoft
* If it’s going to reduce profit or eliminates the firm

What are some potential external threats to a company's future prospects?

* Shift in buyers needs and/or tastes
* slow downs in market mature product, most people already own it)
* Entry of a new rival

What are the next steps after a SWOT analysis is performed?

* Draw a conclusion on the firm’s overall direction
* makes sure that your strategy takes into acct your SWOT analysis