

Welcome

Session Five: Resources & Capabilities

Please sit with your teams.

Thursday, September 19, 2019

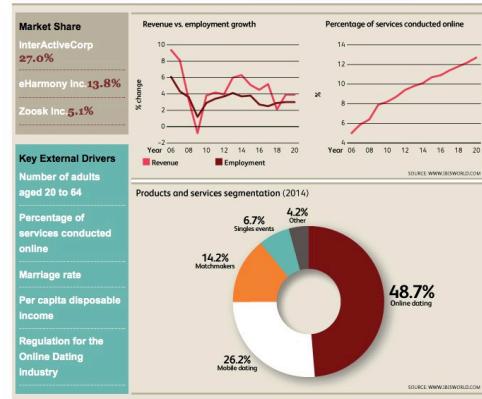
Online Dating Market Since the Case

Industry at a Glance

Key Statistics Snapshot	Revenue \$2.2bn	Annual Growth 09-14 4.8%	Annual Growth 14-19 4.2%
	Profit \$293.8m	Wages \$604.4m	Businesses 3,851



WHERE KNOWLEDGE IS POWER



eHarmony Since the Case

On Leadership

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August 14, 2017

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eHarmony Key Takeaways

- Importance of Market analysis
 - Moves beyond industry analysis
 - Market analysis is not just about the firm... it's about the people running the firm. (People aren't always rational.)
 - Complements the business model canvas
- Know how to perform a **market validation** and **segmentation**

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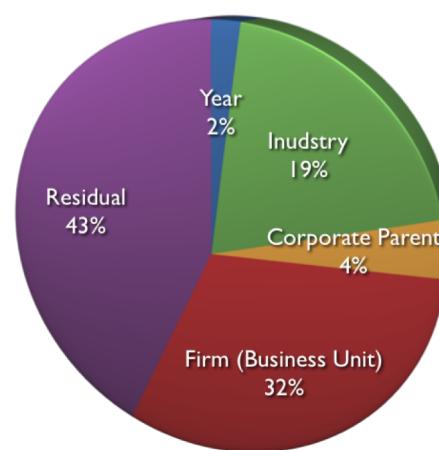
Shifting the Focus of Strategy

From Head-to-Head Competition to Creating New Market Space

<i>The Conventional Boundaries of Competition</i>	HEAD-TO-HEAD COMPETITION	CREATING NEW MARKET SPACE
<i>Industry</i>	focuses on rivals within its industry	→ <i>looks across substitute industries</i>
<i>Strategic group</i>	focuses on competitive position within strategic group	→ <i>looks across strategic groups within its industry</i>
<i>Buyer group</i>	focuses on better serving the buyer group	→ <i>redefines the buyer group of the industry</i>
<i>Scope of product and service offerings</i>	focuses on maximizing the value of product and service offerings within the bounds of its industry	→ <i>looks across to complementary product and service offerings that go beyond the bounds of its industry</i>
<i>Functional-emotional orientation of an industry</i>	focuses on improving price-performance in line with the functional-emotional orientation of its industry	→ <i>rethinks the functional-emotional orientation of its industry</i>
<i>Time</i>	focuses on adapting to external trends as they occur	→ <i>participates in shaping external trends over time</i>

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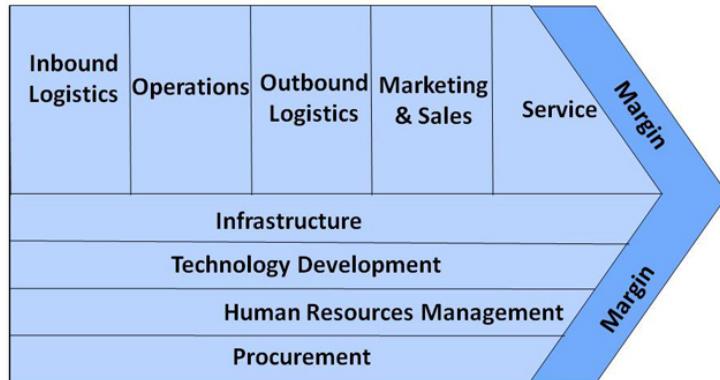
Sources of Firm Profitability



McGahan & Porter

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Porter's (Internal) Value chain



What is it?

Porter's attempt to tie internal characteristics of a firm to its ability to attain SCA.

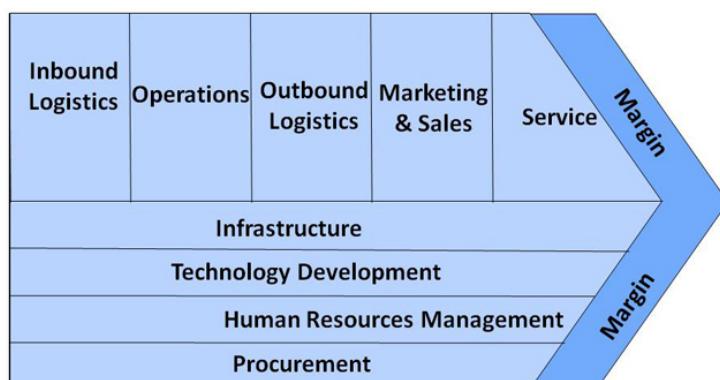
Rationale?

Value is achieved when a firm effectively carries out the critical activities it must perform

Is it useful?

Most useful in determining **comparative** advantage – how one firm have an advantage over its closest competitors.

Where does Netflix excel?



Where does Uber excel?



SAMSUNG

Examine Exhibits in Your teams

Teams	Members
1	Exhibit 1
2	Exhibit 3
3	Exhibit 4
4	Exhibit 6
5	
6	Exhibit 7 c, d, e
7	
8	Exhibit 8

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Exhibit 1 Financial Results (USD, millions)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	
Samsung*																				
Net Revenues	1903	2271	3006	4427	5895	6298	6871	7741	10091	14604	20988	18804	13048	16629	22802	27216	24418	33167	36385	
Cost of Goods Sold	1652	1954	2586	3735	4550	4836	4997	5634	6874	9150	12112	14123	8975	11571	15419	17459	18486	21910	24644	
R&D	11	14	22	36	136	23	371	443	678	1392	1454	1512	899	1378	1390	1603	1824	2451	2947	
Net Income	24	37	44	149	183	90	101	1198	1474	194	209	227	471	237	5875	5875	5875	5875	5875	
Cashflow from Operation	75	116	143	371	1115	1074	947	1177	2050	3825	6059	1978	1967	4426	6179	7506	4744	9325	8222	
Cash & Equivalent(s)	49	45	103	199	80	149	222	355	539	1149	1509	1141	966	983	1026	1534	2129	4734	6667	
Long&Short-term Debt(b)	435	467	598	1786	2019	3068	4028	4758	4040	4658	6054	9276	9171	8491	5018	3224	2040	1355	968	
Net Debt (b-a)	386	422	497	1589	1949	3812	3589	3509	3509	3509	6179	8339	7477	3039	1691	489	3079	8699	8699	
Interest Expense/Debt	48	51	61	194	302	414	445	433	394	482	480	536	924	630	273	155	84	80		
Total Assets	748	991	1383	3370	4334	5731	7565	8102	8296	11314	17589	19680	24251	14852	20774	23788	21629	27437	32692	
Motorola																				
Net Revenues	76	48	91	301	446	333	425	506	628	1639	2953	3654	3816	3912	3764	7336	3836	2389	3091	
Cost of Goods Sold	46	43	69	100	192	178	242	285	378	608	1130	1835	2078	2125	2107	2963	1984	1146	1895	
R&D	7	3	5	9	21	38	36	48	57	83	129	192	209	272	322	428	491	561	656	
Net Income	0	-34	-23	98	106	5	5	7	104	401	844	594	332	-234	-69	1548	-521	-907	-1280	
Cashflow from Operation	18	-13	-1	142	152	86	86	123	233	611	1063	1503	1503	562	2562	1526	856	847	847	
Cash & Equivalent(s)	1	5	9	164	161	77	68	73	186	433	556	287	988	649	1614	2466	1678	986	922	
Long&Short-term Debt(b)	38	44	45	24	51	99	93	89	86	155	156	480	889	865	1639	982	531	454	1086	
Net Debt (b-a)	34	39	35	-141	-110	22	26	16	-106	-279	-400	193	-99	215	212	-1185	-1147	-532	164	
Interest Expense/Debt	2	0	5	1	-15	11	11	9	8	8	7	9	31	65	132	111	27	40		
Total Assets	103	132	129	388	525	697	706	724	966	1500	2775	3752	4851	4688	6965	9032	8363	7431	7075	
Infinion																				
Net Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	2885	3175	4208	7757	6371	4966	
Cost of Goods Sold	0	0	0	0	0	0	0	0	0	0	0	0	0	1629	2121	2421	3492	4236	3086	
R&D	0	0	0	0	0	0	0	0	0	0	0	0	0	457	637	731	1336	1011	654	
Net Income	0	0	0	0	0	0	0	0	0	0	0	0	0	-95	-775	60	1199	-663	-974	
Cashflow from Operation	0	0	0	0	0	0	0	0	0	0	0	0	0	0	615	-232	613	2077	267	757
Cash & Equivalent(s)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	340	906	878	1074	955	1847
Long&Short-term Debt(b)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	119	1559	2092	411	1745	179
Net Debt (b-a)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	799	347	118	-791	-541	-102
Interest Expense/Debt	0	0	0	0	0	0	0	0	0	0	0	0	0	0	22	94	22	0	1	41
Total Assets	0	0	0	0	0	0	0	0	0	0	0	0	0	0	3205	3078	3861	6368	8093	7735
Total Equity	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	10483	9662	8018		
Motorola																				
Net Revenues	0	0	0	0	0	0	0	0	0	0	0	4537	6201	6288	8035	9489	4097	3739	4030	
Cost of Goods Sold	0	0	0	0	0	0	0	0	0	0	0	0	2721	3599	4739	6584	4648	3011	2015	2272
R&D	0	0	0	0	0	0	0	0	0	0	0	0	0	21	69	246	338	336	336	
Net Income	0	0	0	0	0	0	0	0	0	0	0	0	0	-474	-699	-129	167	-2280	-3844	-1560
Cashflow from Operation	0	0	0	0	0	0	0	0	0	0	0	0	0	966	1192	338	1607	2788	-69	933
Cash & Equivalent(s)	0	0	0	0	0	0	0	0	0	0	0	0	0	346	611	578	811	290	452	529
Long&Short-term Debt(b)	0	0	0	0	0	0	0	0	0	0	0	0	0	606	1365	8388	9569	10265	4458	3159
Net Debt (b-a)	0	0	0	0	0	0	0	0	0	0	0	0	0	5689	13165	8388	9569	10265	4458	3159
Interest Expense/Debt	0	0	0	0	0	0	0	0	0	0	0	0	0	411	651	941	1055	1222	846	434
Total Equity	0	0	0	0	0	0	0	0	0	0	0	0	0	1449	-1662	1096	9204	7097	7892	24813
Total Assets	0	0	0	0	0	0	0	0	0	0	0	0	0	9910	14768	11742	20911	18217	11165	8891

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Exhibit 3 DRAM Average Selling Price (ASP), Operating Cost, and Operating Margin (256Mbit equivalent)

	1Q00	2Q00	3Q00	4Q00	1Q01	2Q01	3Q01	4Q01	1Q02	2Q02	3Q02	4Q02	1Q03	2Q03	3Q03	4Q03	1Q04	Average
Samsung																		
Average Selling Price(\$)	39.08	38.44	43.79	33.42	20.82	13.24	4.86	5.16	9.31	7.75	6.86	7.58	5.76	5.27	5.79	6.90	6.15	15.25
Operating Cost(\$)	16.95	13.64	14.41	15.70	12.38	12.02	9.53	7.46	5.72	5.33	4.92	5.33	4.77	4.60	4.00	3.82	3.92	8.50
Operating Margin	57%	65%	67%	53%	41%	9%	-96%	-45%	39%	31%	28%	30%	17%	13%	31%	35%	36%	44%
Micron																		
Average Selling Price(\$)	32.49	25.13	30.83	25.65	12.59	8.30	3.76	2.85	5.01	7.48	5.25	4.99	5.10	4.33	4.97	5.32	4.51	11.09
Operating Cost(\$)	34.75	24.00	20.31	19.65	15.81	15.96	12.01	6.67	8.28	8.98	7.97	7.25	7.96	6.65	6.06	5.57	4.75	12.51
Operating Margin	-7%	4%	34%	23%	-26%	-92%	-21%	-134%	-65%	-20%	-52%	-45%	-56%	-53%	-22%	-5%	-5%	-13%
Infineon																		
Average Selling Price(\$)	26.62	26.50	30.93	16.01	10.58	7.98	4.20	4.38	8.90	7.20	5.50	5.90	4.89	4.69	5.41	5.21	4.95	10.58
Operating Cost(\$)	18.11	16.68	10.88	14.14	13.46	13.76	12.00	11.00	9.80	8.20	7.50	7.96	5.62	5.10	4.69	4.75	9.90	
Operating Margin	32%	37%	65%	12%	-27%	-73%	-186%	-151%	-10%	-14%	-36%	-35%	-15%	-9%	13%	10%	4%	6%
Hynix																		
Average Selling Price(\$)	28.72	29.82	37.76	20.95	12.42	7.35	3.86	3.73	8.56	6.30	4.71	4.92	4.57	4.50	5.46	5.36	5.16	11.42
Operating Cost(\$)	22.21	24.68	23.94	17.40	11.82	8.73	9.33	9.38	6.08	9.15	7.47	6.56	6.16	5.61	4.82	4.37	3.89	10.68
Operating Margin	23%	17%	37%	17%	5%	-19%	-142%	-152%	29%	-45%	-59%	-33%	-35%	-24%	12%	18%	25%	6%
Worldwide																		
Average Selling Price(\$)	36	33.8	36.5	22.9	14.30	9.02	4.80	3.49	8.58	7.36	6.21	6.14	5.12	4.62	5.47	5.37	5.06	12.63
ASP Quarterly Change	-6%	8%	-37%	-37%	-37%	-47%	-27%	146%	-14%	-16%	-1%	-17%	-10%	19%	-2%	-6%	-5%	
Price Premium of Samsung ASP over Competitors' ASP	33%	42%	32%	60%	75%	68%	23%	41%	24%	11%	33%	44%	19%	17%	10%	11%	26%	34%
Operating Margin of (Samsung - Competitors' Average)	41%	45%	22%	36%	57%	70%	86%	101%	54%	57%	77%	68%	53%	42%	30%	27%	28%	53%

Source: Merrill Lynch.

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The Learning Curve

- Originated in WWII
 - Everyone estimated poorly
 - Henry Kaiser: Built a ship in four days
- Bruce Henderson
 - Founder of Boston Consulting Group
 - Found the same phenomena existed in multiple industries
- The Experience Curve – adds consideration of technological improvements.



Henry Kaiser



Bruce Henderson

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Exhibit 4 DRAM Production Volume by Density in 2003

	Production Volume (million unit, 256Mbit equiv.)						SMIC
	Samsung	Micron	Infineon	Hynix			
4Mbit	--	--	--	--	--	--	-
16Mbit	1.3	0.1%	1.0	0.2%	0.0	0.0%	10.0
64Mbit	16.4	1.8%	29.7	4.4%	0.0	0.0%	33.6
128Mbit	151.6	16.9%	88.1	13.1%	43.7	8.2%	96.8
256Mbit	695.8	77.6%	540.1	80.3%	479.5	89.6%	374.2
512Mbit	30.4	3.4%	13.7	2.0%	11.5	2.1%	6.8
1Gbit	1.0	0.1%	0.1	0.0%	0.6	0.1%	0.0
Total	896.4	100.0%	672.8	100.0%	535.3	100.0%	521.5
							100.0%
							68.2
							100.0%

Source: "DRAM Supply and Demand Quarterly Statistics: Worldwide, 2003-2005," Gartner, Inc. As the research is over 12 months old, Gartner deems it to be a historical perspective.

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Exhibit 6 Worldwide DRAM Average Selling Price History and Forecast, 2000-2010 (Dollars)

	2000	2001	2002	2003	2004	2005(E)	2006(E)	2007(E)	2008(E)	2009(E)	2010(E)
1Mbit	1.51	1.06	1.10	-	-	-	-	-	-	-	-
4Mbit	1.90	1.34	1.28	0.97	0.79	0.51	0.40	-	-	-	-
16Mbit	3.42	1.88	1.61	1.19	0.90	0.62	0.50	0.50	-	-	-
64Mbit	7.18	1.88	1.55	1.88	2.13	1.39	0.74	0.70	0.62	-	-
128Mbit	14.41	2.99	3.30	2.75	3.48	2.41	1.28	1.01	0.90	0.66	-
256Mbit	48.59	6.73	6.22	4.68	4.88	3.67	1.64	1.21	1.10	0.84	0.68
512Mbit	-	150.00	42.11	21.70	12.76	6.75	3.12	2.79	2.53	1.78	1.25
1Gbit	-	-	-	83.57	40.76	18.04	7.29	5.54	4.81	2.22	1.55
2Gbit	-	-	-	-	-	82.93	21.29	11.70	9.68	3.99	3.08
4Gbit	-	-	-	-	-	-	-	125.15	47.00	13.02	7.50
8Gbit	-	-	-	-	-	-	-	-	-	-	93.18
ASP per Megabyte	0.99	0.22	0.21	0.16	0.17	0.11	0.05	0.04	0.04	0.02	0.01
ASP per 256Mbit Equiv.	31.63	7.08	6.76	5.19	5.49	3.66	1.65	1.42	1.28	0.58	0.42
Annual ASP growth	-17.3%	-77.6%	-4.5%	-23.3%	5.8%	-33.3%	-55.1%	-13.7%	-9.9%	-54.4%	-28.3%

Source: "Forecast: DRAM Market Statistics, Worldwide, 2000-2010 (1Q05 Update)," Gartner, Inc.

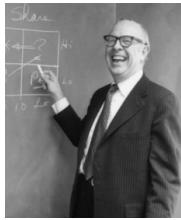
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Exhibit 7a Comparison of Operating Profit of DRAM in 2003 (256Mbit equivalent^a)

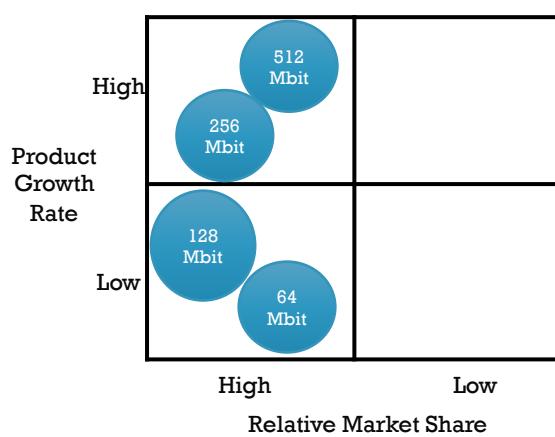
	Samsung	Micron	Infineon	Hynix	SMIC	Competitors' Weighted Average	Samsung -Competitors' Weighted Average	Competitors' Weighted Average/Samsung
Average Selling Price	\$5.68	\$4.93	\$5.05	\$4.97	\$4.43	\$4.96	\$0.72	87.3%
Fully loaded costs	\$4.31	\$6.61	\$5.02	\$5.33	\$4.84	\$5.70	-\$1.39	132.2%
Raw materials	1.18	1.93	1.58	1.93	1.84	1.83	-0.65	155.1%
Labor	0.54	0.94	0.76	0.51	0.23	0.74	-0.19	137.0%
Depreciation	1.35	1.88	1.50	1.48	1.63	1.64	-0.29	121.5%
R&D	0.60	0.57	0.71	0.58	0.80	0.62	-0.02	103.3%
SG&A	0.65	1.28	0.46	0.83	0.34	0.87	-0.22	133.8%
Operating Profit (a)	\$1.37	-\$1.68	\$0.02	-\$0.36	-\$0.41	-\$0.74		
Operating Margin	24.1%	-34.1%	0.5%	-7.3%	-9.3%	-15.0%		
Production Volume in 256Mbit equiv. (b) (millions)	896.4	672.8	535.3	521.5	68.2			
Operating Profit in \$Million (a x b)	\$1,224.3	-\$1,129.5	\$12.9	-\$188.1	-\$28.1			

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Samsung's Product Mix

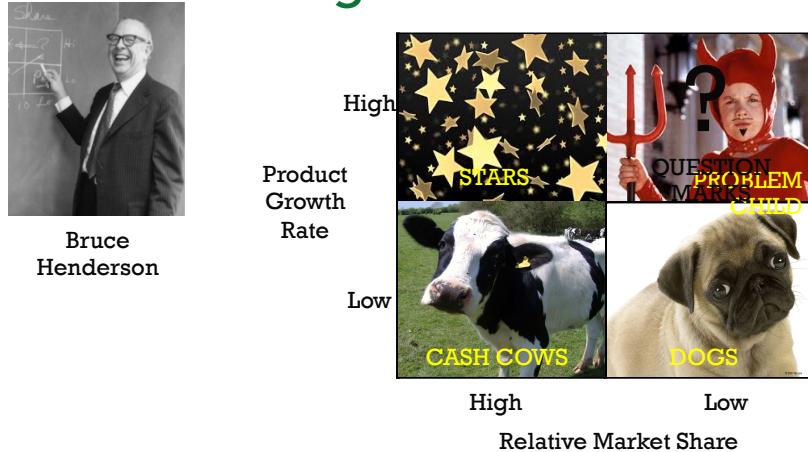


Bruce Henderson



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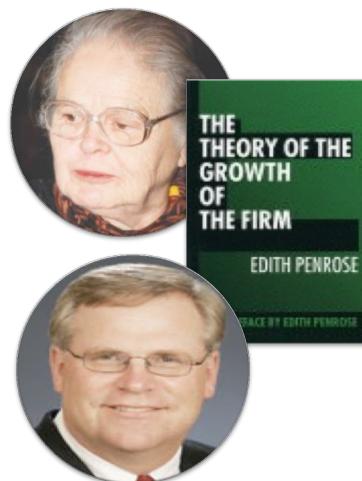
Samsung's Product Mix



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The Resource-based View

- When do resources and capabilities produce competencies?
 - Valuable
 - Rare
 - Inimitable
 - Organized to Capture Value
- Remember V.R.I.O.



Reading: “Corporate Strategy: Resources”

- Resource are tangible, intangible, and organizational capabilities
- They are **valuable**
 - In Demand
 - Scarce
 - Can lead to profits (appropriability)
- A resource-based strategy:
 - Identify
 - Invest
 - Upgrade
 - Leverage

Human Capital: Capabilities

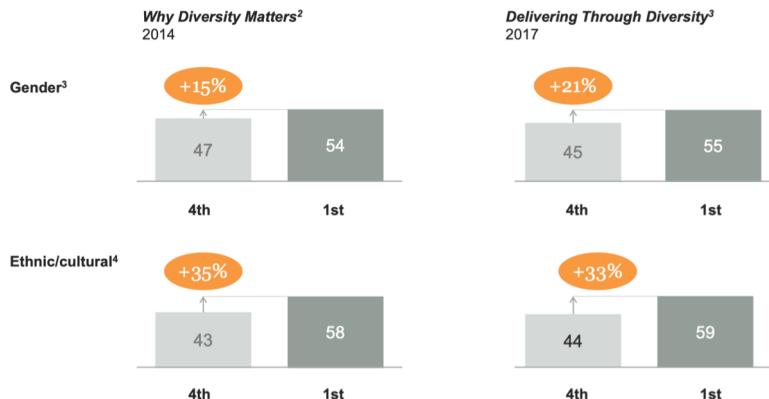
How to Perform a Capabilities Audit

A capabilities audit will help you gauge—and ultimately boost—your organization's intangible value. First, select a business unit (plant, division, region, zone, industry). Then, using the following questions as a guide—and keeping in mind your overall business strategy—assess the unit's performance in each organizational capability (0=worst; 10=best), and rank the capabilities in terms of improvement needed (1=highest priority, 2=next highest, and so on).

Organizational Capabilities	Questions	Assessments	Rankings
Talent	Do our employees have the competencies and the commitment required to deliver the business strategy in question?		
Speed	Can we move quickly to make important things happen fast?		
Shared mind-set and coherent brand identity	Do we have a culture or identity that reflects what we stand for and how we work? Is it shared by both customers and employees?		
Accountability	Does high performance matter to the extent that we can ensure execution of strategy?		
Collaboration	How well do we collaborate to gain both efficiency and leverage?		
Learning	Are we good at generating new ideas via impact and generalizing those ideas across boundaries?		
Leadership	Do we have a leadership brand that directs managers on which results to deliver and how to deliver them?		
Customer connectivity	Do we form enduring relationships of trust with targeted customers?		
Strategic unity	Do our employees share an intellectual, behavioral, and procedural agenda for our strategy?		
Innovation	How well do we innovate in product, strategy, channel, service, and administration?		
Efficiency	Do we reduce costs by closely managing processes, people, and projects?		

Human Capital and Performance: The Importance of Diversity

Likelihood of financial performance¹ above national industry median by diversity quartile
Percent



Strategy Frameworks Recap

1. SCEQ
2. Decision Traps
3. SWOT*
4. Porter's 5 Forces
5. Ecosystem analysis
6. PESTLE
7. Internal Value Chain
8. Resources and Capabilities that are VIRO

* Overly simplistic, rely upon at your own risk!