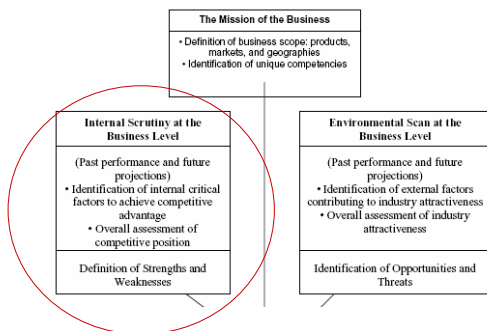




EVALUATING COMPANY RESOURCES AND COMPETITIVE CAPABILITIES



Internal assessment



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?





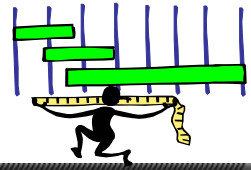
Question 1: How Well is the Present Strategy Working?

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



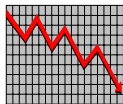
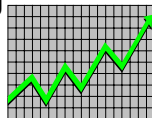
What is the Strategy?

- 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



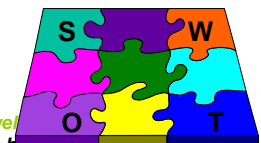
Key Indicators of How Well the Strategy is Working

- 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 ?

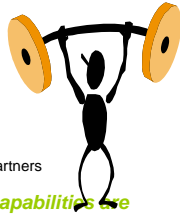
- **SWOT** represents the first letter in
 - **S**trengths
 - **W**eaknesses
 - **O**pportunities
 - **T**hreats
- **For a company's strategy to be well conceived, it must be matched to both**
 - **Resource strengths and weaknesses**
 - **Best market opportunities and external threats** to its well-being





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 !



Table 4.1: SWOT Analysis - What to Look For

Potential Resource Strengths	Potential Resource Weaknesses	Potential Company Opportunities	Potential External Threats
<ul style="list-style-type: none"> • Powerful strategy • Strong financial condition • Strong brand name image/reputation • Widely recognized market leader • Proprietary technology • Cost advantages • Strong advertising • Product innovation skills • Good customer service • Better product quality • Alliances or JVs 	<ul style="list-style-type: none"> • No clear strategic direction • Obsolete facilities • Weak balance sheet; excess debt • Higher overall costs than rivals • Missing some key skills/competencies • Subpar profits • Internal operating problems . . . • Falling behind in R&D • Too narrow product line • Weak marketing skills 	<ul style="list-style-type: none"> • Serving additional customer groups • Expanding to new geographic areas • Expanding product line • Transferring skills to new products • Vertical integration • Take market share from rivals • Acquisition of rivals • Alliances or JVs to expand coverage • Openings to exploit new technologies • Openings to extend brand name/image 	<ul style="list-style-type: none"> • Entry of potent new competitors • Loss of sales to substitutes • Slowing market growth • Adverse shifts in exchange rates & trade policies • Costly new regulations • Vulnerability to business cycle • Growing leverage of customers or suppliers • Reduced buyer needs for product • Demographic changes



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 **collaboration** among different organization
- **Typically, core competencies** company's **people**, not in sheet
- A **core competence** gives a company a potential... **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
- System to fill customer orders accurately and swiftly
- 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



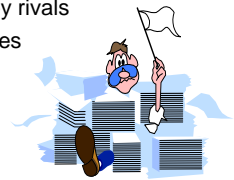
Strategic Management Principle

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



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





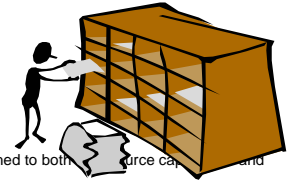
Strategic Management Principle

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



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 resource capabilities and market opportunities
 - Urgent it is for company to correct resource weaknesses and guard against external threats



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



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** source of cost advantage 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 customer.
- A company's value chain consists of **two** types of activities
 - **Primary activities** (where most of the value for customers is created)
 - **Support activities** that are undertaken to aid the individuals and groups engaged in doing the primary activities



Figure 4.2: Typical Company Value Chain

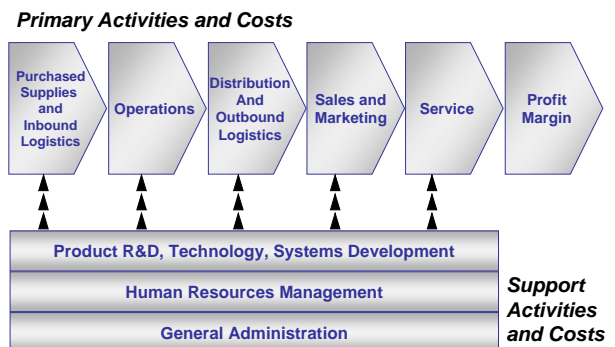
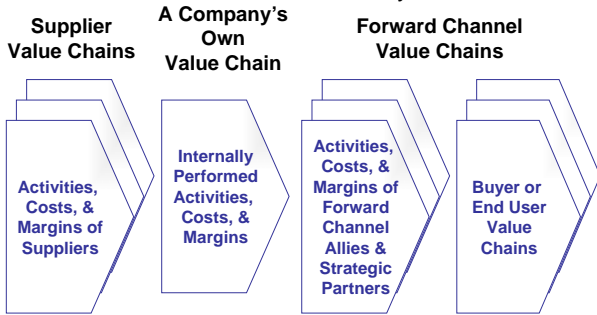




Figure 4.3: The Value Chain System for an Entire Industry



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

HOME APPLIANCE INDUSTRY

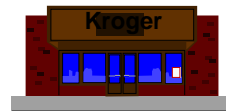
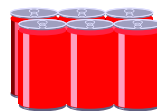
- Parts and components manufacture
- Assembly
- Wholesale distribution
- Retail sales



Example: Key Value Chain Activities

SOFT DRINK INDUSTRY

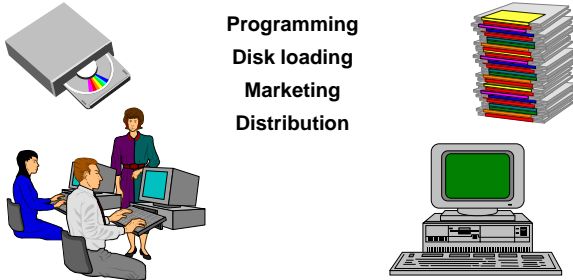
- Processing of basic ingredients
- Syrup manufacture
- Bottling and can filling
- Wholesale distribution
- Retailing





Example: Key Value Chain Activities

COMPUTER SOFTWARE INDUSTRY



Activity-Based Costing: A Key Tool in Strategic Cost Analysis

- Determining whether a company's costs are in line with those of rivals requires measuring how a company's costs compare with those of rivals **activity-by-activity** from one end of the value chain to the other
- Requires having accounting data that measures the cost of each value chain activity
- **Activity-based accounting systems** provide the data for determining the costs for each relevant value chain activity



Table 4.2: Traditional Cost Accounting vs. Activity-Based Costing

Traditional Cost Accounting Categories in Department Budget		Departmental Activities Using Activity-Based Cost Accounting	
Wages & Salaries	\$350,000	Evaluate Suppliers	\$135,750
Employee Benefits	115,000	Process Purchase Orders	82,100
Supplies	6,500	Expedite Deliveries	23,500
Travel	2,400	Expedite Internal Process	15,840
Depreciation	17,000	Check Item Quality	94,300
Other Fixed Charges	124,000	Check Deliveries Against Purchase Orders	48,450
Miscellaneous		Resolve Problems	110,000
Operating Expenses	25,520	Internal Administration	130,210
	\$640,150		\$640,150



Benchmarking Costs of Key Value Chain Activities

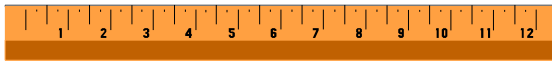
- Focuses on **cross-company** comparisons of **how** certain activities are performed and the costs associated with these activities
 - Purchase of materials
 - Payment of suppliers
 - Management of inventories
 - Training of employees
 - Processing of payrolls
 - Getting new products to market
 - Performance of quality control
 - Filling and shipping of customer orders





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 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



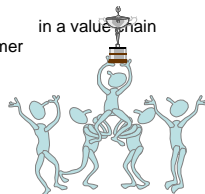
Correcting Internal Cost Disadvantages: Options

- Reengineer how the high-cost activities or business processes are performed
- 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** 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!**



Question 4: How Strong is the Company's Competitive Position?

- The strength of a company's competitive position in the marketplace hinges on
 - Whether firm's position can be expected to **improve or deteriorate** if present strategy is continued
 - How firm ranks **relative to key rivals** on each industry **KSF** and relevant measure of competitive strength
 - Whether firm has a sustainable **competitive advantage** or finds itself at **disadvantage** relative to certain rivals
 - Ability of firm to **defend its position** in light of
 - Industry driving forces
 - Competitive pressures
 - Anticipated moves of rivals



Assessing a Company's Competitive Strength versus Key Rivals

- List industry key success factors and other relevant measures of competitive strength
- Rate firm and key rivals on each factor using rating scale of 1 to 10 (1 = very weak; 5 = average; 10 = very strong)
- Decide whether to use a **weighted or unweighted** rating system (a weighted system is usually superior because the chosen strength measures are unlikely to be equally important)
- Sum individual ratings to get an overall measure of competitive strength for each rival
- Determine whether firm enjoys a competitive advantage or suffers from a competitive disadvantage based on the overall strength ratings



Table 4.4 (A): An Unweighted Competitive Strength Assessment

KSF/Strength Measure	ABC Co.	Rival 1	Rival 2	Rival 3	Rival 4
Quality/product performance	8	5	10	1	6
Reputation/image	8	7	10	1	6
Manufacturing capability	2	10	4	5	1
Technological skills	10	1	7	3	8
Dealer network/distribution	9	4	10	5	1
New product innovation	9	4	10	5	1
Financial resources	5	10	7	3	1
Relative cost position	5	10	3	1	4
Customer service capability	5	7	10	1	4
Overall strength rating	61	58	71	25	32

Rating Scale: 1 = very weak; 5 = average; 10 = very strong



Table 4-4 (B): A Weighted Competitive Strength Assessment

KSF/Strength Measure	Weight	ABC Co.	Rival 1	Rival 2	Rival 3	Rival 4
Quality/product performance	0.10	8/0.80	5/0.50	10/1.00	1/0.10	6/0.60
Reputation/image	0.10	8/0.80	7/0.70	10/1.00	1/0.10	6/0.60
Manufacturing capability	0.10	2/0.20	10/1.00	4/0.40	5/0.50	1/0.10
Technological skills	0.05	10/0.50	1/0.05	7/0.35	3/0.15	8/0.40
Dealer network/distribution	0.05	9/0.45	4/0.20	10/0.50	5/0.25	1/0.05
New product innovation	0.05	9/0.45	4/0.20	10/0.50	5/0.25	1/0.05
Financial resources	0.10	5/0.50	10/1.00	7/0.70	3/0.30	1/0.10
Relative cost position	0.35	5/1.75	10/3.50	3/1.05	1/0.35	4/1.40
Customer service capability	0.15	5/0.75	7/1.05	10/1.50	1/0.15	4/0.60
Sum of weights	1.00					
Overall strength rating		6.20	8.20	7.00	2.10	2.90

Rating Scale: 1 = very weak; 5 = average; 10 = very strong



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 or disadvantage against each rival
- Identifies possible offensive attacks (pit company strengths against rivals' weaknesses)
- Identifies possible defensive actions (a need to correct competitive weaknesses)



Question 5: What Strategic Issues Does the Company Need to Address?

- Based on the answers to the preceding 4 questions and the 7 questions posed in conducting industry and competitive analysis, what items should be on the company's "worry list" ?
- Requires thinking strategically about
 - Pluses and minuses in the industry and competitive situation
 - Company's resource strengths and weaknesses and attractiveness of its competitive position

A "good" strategy must address "what to do" about each and every strategic issue!



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?



Stating the Issues Clearly and Precisely

- A well-stated issue involves such phrases as
 - "What should be done about"?
 - "How to"?
 - "Whether to"?
 - "Should we"?"
- Issues need to be precise, specific, and "cut straight to the chase"
- *Issues on the "the worry list" raise questions* about
 - What actions need to be considered
 - What to think about doing





summary



SWOT

- Strengths
 - Skill or important expertise
 - Valuable physical assets
 - Valuable human assets
 - Valuable organizational assets
 - Valuable intangible assets
 - Competitive capabilities
 - Position of market advantage
 - Alliances and cooperative ventures



SWOT

- Weaknesses
 - Deficiencies in skills or needed expertise
 - Lack of physical, organizational or intangible assets
 - Missing competitive capabilities in key areas



Strategic performance measure

Indicators	Relevant Competitor				
	Very Weak	Weak	Even	Strong	Very Strong
1. Market share					
2. Attraction and retention of customers					
3. Profit margins					
4. Net profit and ROI					
5. Credit rating					
6. Sales growth					
7. Trends in stock price					
8. Image and reputation					
9. Measures of continuous improvement					



Company Competencies

- Company competence
 - Product of experience and learning
 - Real proficiency
 - Consciously built and developed
- Competitive capability
 - Valuable and beneficial to customers
 - Differentiate company from competitors
 - Enhances competitiveness



Company Competencies

- Core competence
 - Internal activities performed well
 - Central to competitiveness and profitability
 - Resides in people, not assets
- Distinctive competence
 - Activities performed well compared to competitors
 - Basis for competitive advantage



Strength & weakness

REGARDING THE MAJOR DECISION MAKING CATEGORIES

Decision Category	Description of Policy	Strengths	Weaknesses
•Market share			

Note: In the assessment of strengths and weaknesses try to have relevant competitors in mind and use proper strategic performance measurement.



Support / others



Distinctive Competence and Strategy

- Importance
 - Competitive capability provided
 - Cornerstone of strategy
- Sustainable competitive advantage
 - Resource is hard to copy
 - Longevity of resource
 - Resource is competitively superior
 - Not easily trumped



Differences in Costs

- Items purchased from suppliers
- Basic technology and age of plants
- Economies of scale
- Exposure to inflation and FX rates
- Marketing, sales and promotion
- Transportation and shipping
- Forward channel distribution



Value Chains

- Activities that create value for the customer
- Strategy critical
- Based on core competencies



Value Chains

- Primary activities
 - Purchases and inbound logistics
 - Operations
 - Outbound logistics
 - Sales and marketing
 - Service
- Support activities
 - R & D, technology and systems development
 - Human resources management
 - General administration



Value Chains

- Systems
 - Upstream
 - Company
 - Downstream
 - End user
- Benchmarking costs of key activities



Strategic Options

- Upstream
 - Negotiate
 - Integrate
 - Train suppliers
 - Use substitutes
 - Make up the difference elsewhere
- Downstream
 - Push to reduce markup
 - Train distributors
 - Develop more economical distribution strategy
 - Make up the difference elsewhere



Strategic Options

- Company
 - Streamline Operations
 - Reengineer processes and practices
 - Eliminate cost activities
 - Relocate activities geographically
- Outsourcing
- Technological improvements
- Innovation
- Simplify product design (Value Engineering)
- Achieve backward and forward savings



Company's Competitive Position

- Competitive strength assessment
 - List industry's key success factors
 - Rate firm and rivals on each factor
 - Sum individual ratings
 - Determine net advantage or disadvantage
- Weighted vs. unweighted



Company's Strategic Issues

- Whether current strategy is adequate to meet trends in competitive forces
- Adjust to respond to driving forces of industry
- Industry's future key success factors
- Vulnerability to efforts of rivals
- Capitalize on strengths
- Prioritize opportunities
- Protection against threats and weaknesses



Company's Strategic Issues

- Competitive advantage or disadvantage
- Strong and weak spots in current strategy
- Additional actions needed
 - Improve cost position
 - Capitalize on emerging opportunities
 - Strengthen competitive position