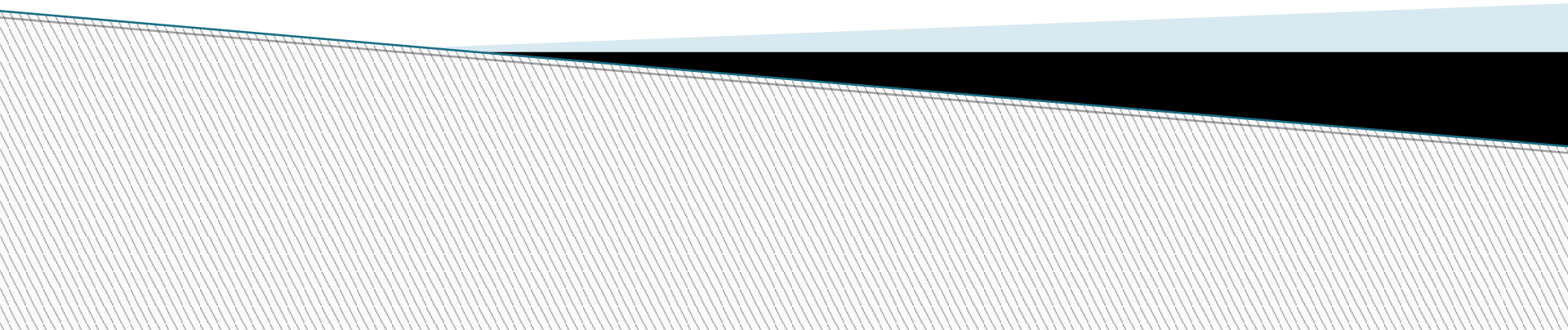


Module 3

Strategic Intent: Internal Environment Analysis



What we will cover

What is Competitive Advantage

Analysis of Company's Resources

Resource Based View of a Firm - VRIO Analysis

Other Tools for Internal Analysis

SWOT/ TOWS Analysis

Assessment of Core Competencies

ValueChain Analysis

What we will cover

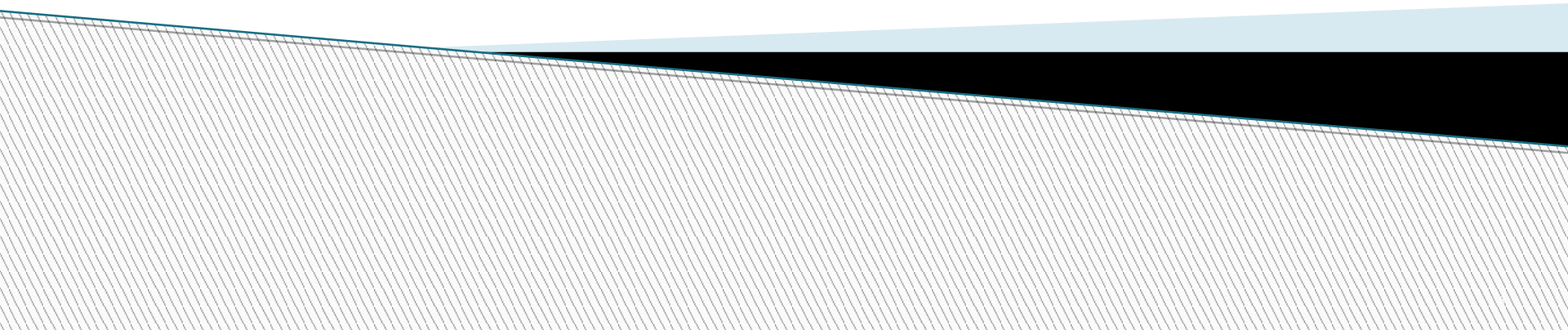
Benchmarking as a method of Comparative Analysis

Business Portfolio Analysis

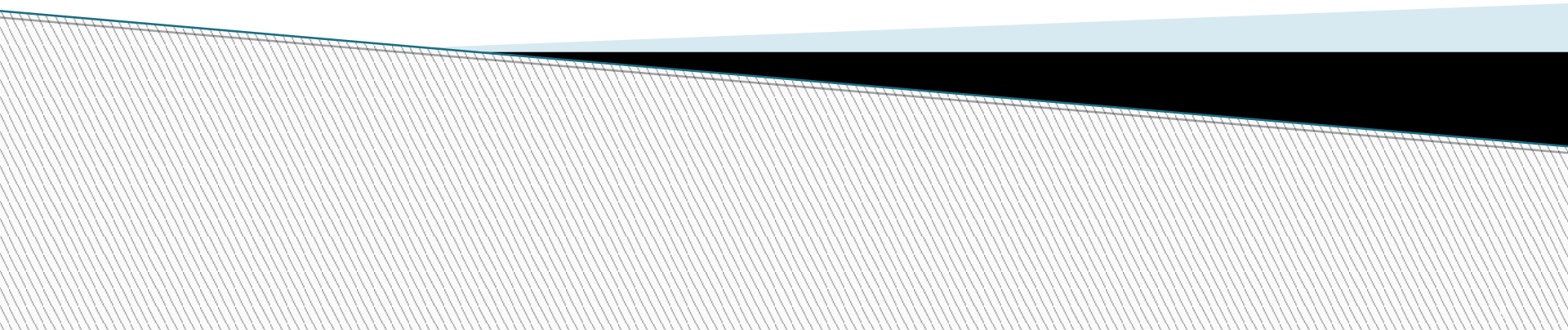
GE Nine Cell Matrix

BCG Matrix

Internal Analysis for Sustained Competitive Advantage



Competitive Advantage



What is Competitive Advantage?

Is it a basis for the firm's long term success?

Is it a basis for value creation?

Do we really know where it resides?

Can it be sustainable?

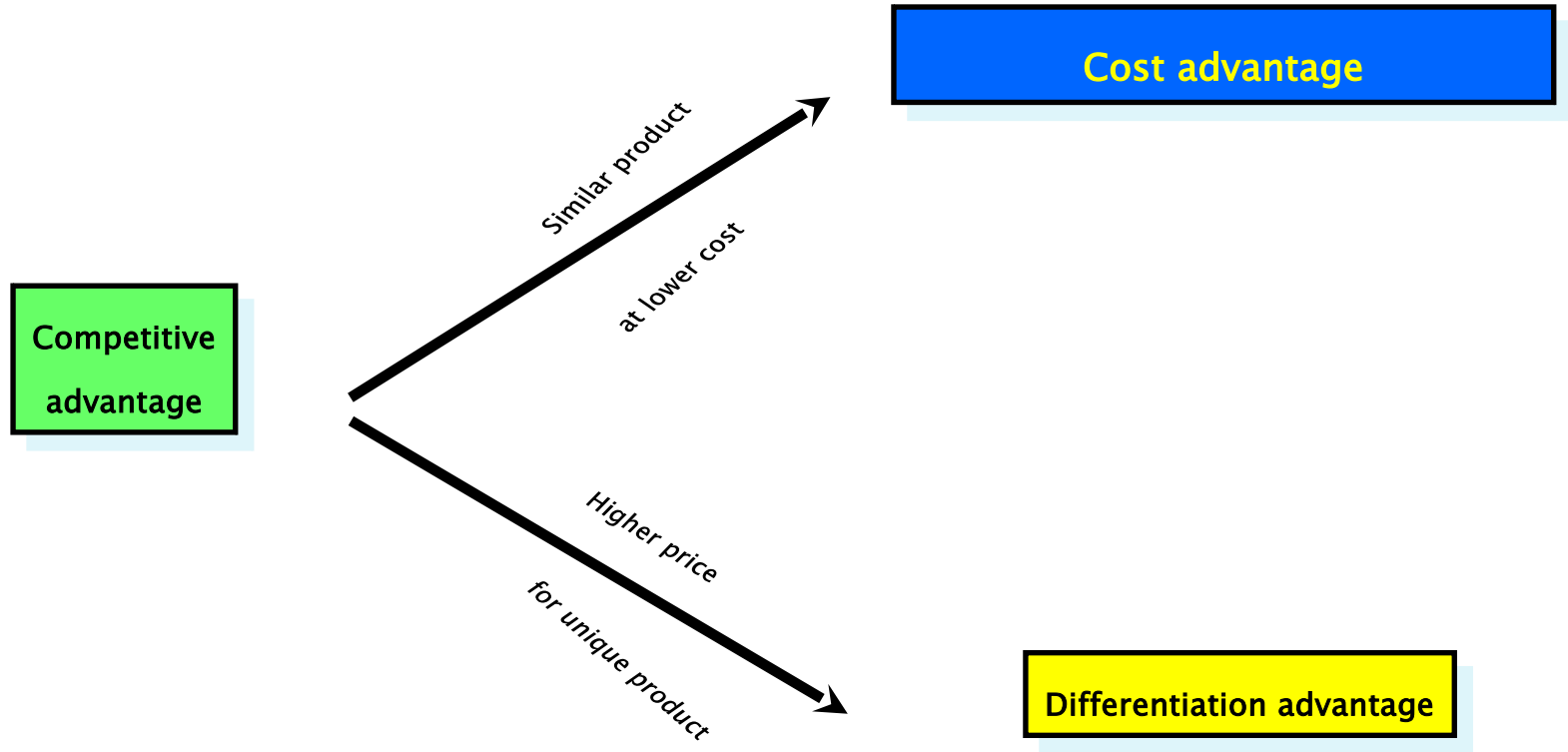
What is Competitive Advantage?

*“When two or more firms compete within the same market, one firm possesses a competitive advantage over its rivals when it earns a **persistently higher rate of profit** (or has the potential to earn a persistently higher rate of profit)”*

Competitive advantage grows out of the value a firm is able to create for its buyers (which exceeds the firm’s cost of creating that value.

Value is what buyers are willing to pay and superior value stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price

Types of Competitive Advantage



Porter's Two Basic Types of Competitive Advantage

Sustainable Competitive Advantage

- ▶ What is meant by sustainable competitive advantage?
 - Durable
 - Valuable to the firm
 - Exploiting weaknesses and neutralizing threats
 - Unique
 - Difficult for competitors to imitate
 - Not easily substitutable

Sources of Sustainable Competitive Advantage in Business

Strong Research and Development Capabilities

Access to Intellectual Properties

Exclusive Re-selling or Distribution Rights

Ownership of Capital Equipment

Superior product or customer support

Low cost or High Volume Production

Sources of Sustainable Competitive Advantage in Business

Superior Database Management and Data Processing Capabilities

Strong Marketing strategy

Access to Working Capital

Excellent Management team and operations

High Barriers to Entry or Monopoly

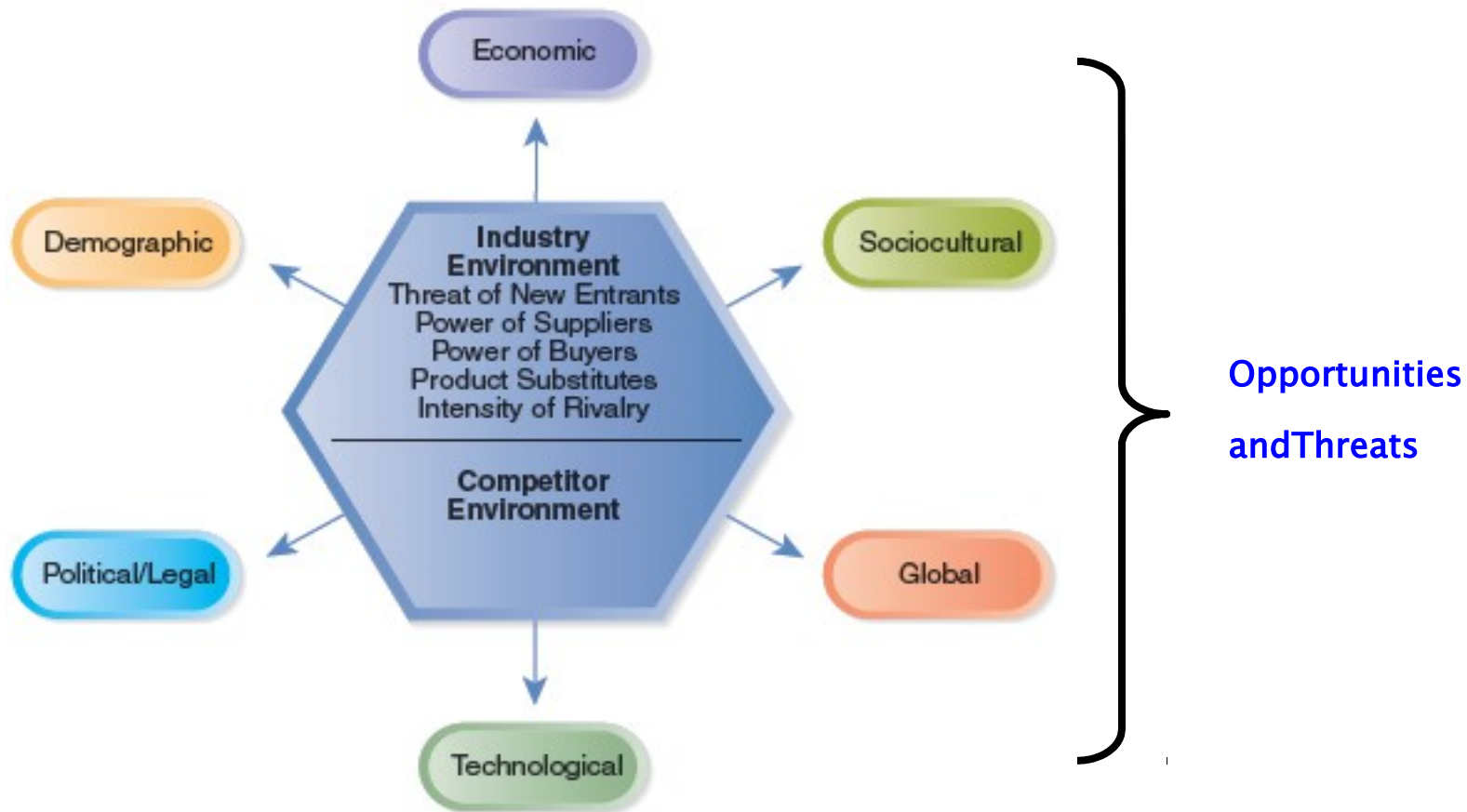
How is Competitive Advantage Created?

- ▶ At a fundamental level, firms create competitive advantage by perceiving and discovering new and better ways to compete in the industry
- ▶ **Innovation** plays a major role in creating competitive advantage
- ▶ **Innovations shift competitive advantage** when rivals either fail to perceive the new way of competing or are unwilling or unable to respond to changes in the environment
- ▶ Typical causes of innovation that shift competitive advantage are:
 - New Technologies
 - New or shifting buyer needs
 - Emergence of a new industry segment
 - Shifting input costs or availability
 - Changes in government regulations

How is Competitive Advantage Implemented?

- ▶ Competitive advantage grows out of the way firms perform their activities
 - Conceiving new ways to conduct activities
 - Employing new procedures and technologies
 - Using new inputs
- ▶ The “fit” of different strategic activities is vital to lock out imitators

Outcomes of the External Analysis



*By studying the external environment, firms identify what they **MIGHT CHOOSE TO DO***

Expected Outcome of Internal Analysis



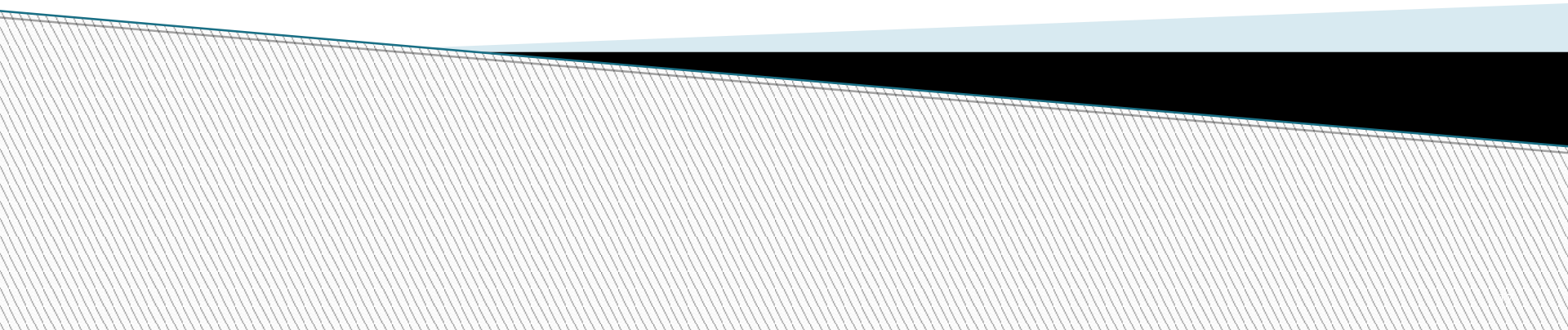
Unique Resources,
Capabilities, and
Competencies
(required for sustainable
competitive advantage)

By studying the internal environment, firms identify what they **CAN DO**

STRATEGIC COMPETITIVENESS AND ABOVE-AVERAGE RETURNS RESULT WHEN:

MATCHES

Analysis of a Company's Resources



Analysis of a Company's Resources

- ▶ Any good business strategy should be defined by Resource analysis
- ▶ Competitive advantage can be well supported by the correct acquisition and use of resources
 - Barriers to entry can be created by owning a strong brand or patent
 - Monopoly can be created by ownership of significant market share
 - Cost advantage can be created through process technology, size of plants and access to low cost inputs
 - Differentiation advantage comes from a brand, product technology, marketing, distribution and service capabilities

Types of Internal Resources

Financial Strength

- Very important internal resource of a firm
- Firm's capital structure can be a source of great strength – also can be a weakness in some situations
- A very high debt profile means the firm cannot raise more resources
- Firms should carry out a regular Ratio Analysis exercise to locate financial strengths and weaknesses

Manpower

- Committed and competent manpower is a great asset
- Appraisals can be used to understand manpower strengths and weakness
- Strengths to be deployed well whilst weaknesses to be addressed through training and other mechanisms
- Employee relations very important

Types of Internal Resources

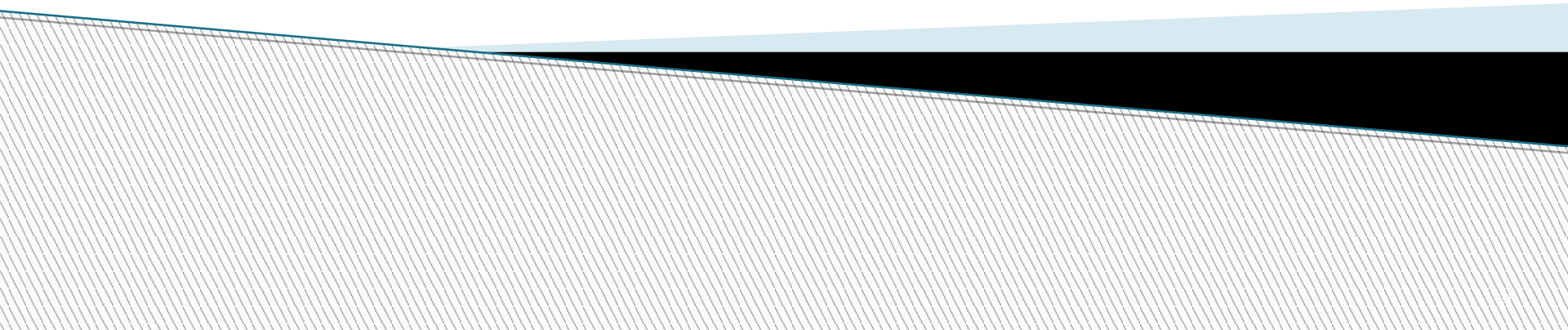
Infrastructure

- State of the art infrastructure would be a great strength for any firm
- Building structures
- Technological facilities
- IT infrastructure
- R & D infrastructure
- Regular Infrastructure audits need to be conducted

Marketing

- Firm's product lines, product mix
- Market share
- Marketing mix
- Pricing strategy and policy
- Promotional efforts and advertising strategy
- Strength of market research
- Stage in Product life cycle
- Effectiveness of After sales service
- Marketing information system
- Reputation of the firm and its products/ services

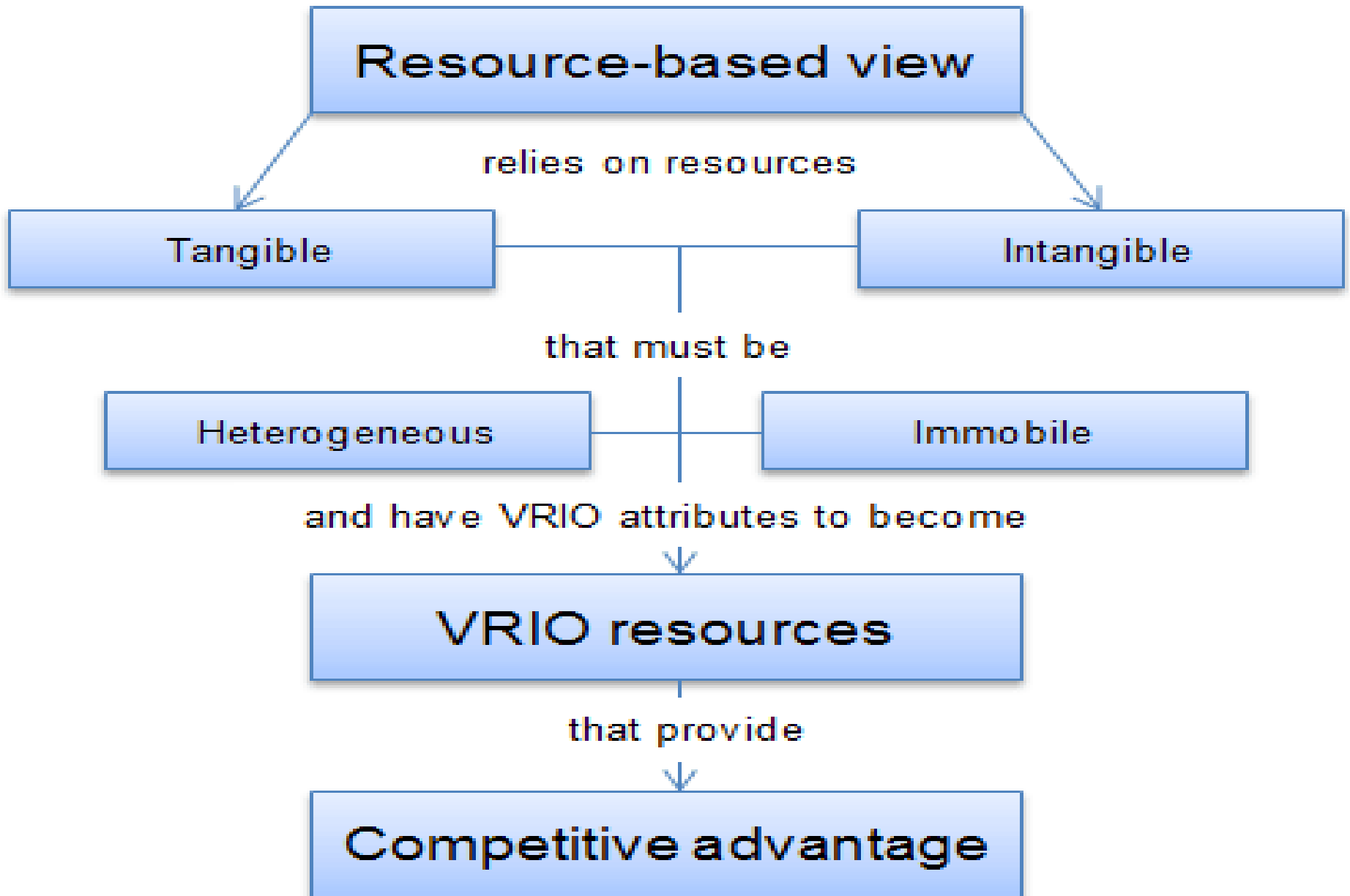
Resource Based View of a Firm – VRIO Analysis



Resource Based View of a Firm

- ▶ Developed to answer the question: **Why do some firms achieve better economic performance than others??**
- ▶ The analysis is used to help firms to achieve competitive advantage and superior economic performance
- ▶ The analysis assumes that the firm's resources and capabilities are the **primary drivers** of competitive advantage and economic performance

“The Resource Based View (RBV) is a model that sees resources as key to superior firm performance. If a resource exhibits VRIO attributes, the resource enables the firm to gain and sustain competitive advantage



Resource Based View

▶ Four categories of Resources

- Financial – Cash, Retained Earnings
- Physical – Plant & Equipment, Land and Building
- Human – Skills and abilities of individuals
- Organizational – Reporting Structures, Relationships etc

▶ Two Critical assumptions

- Resource Heterogeneity – Different firms may have different resources
- Resource Immobility – It may be costly for firms without certain resources to acquire or develop them

VRIO Analysis

VALUABLE

RARE

INIMITABLE

ORGANIZED FOR USAGE

VRIO Analysis – The Question of Value

- ▶ In Theory: Does the resource enable the firm to exploit an external opportunity or neutralize an external threat?
- ▶ In Practice : Does the resource result in an increase in revenues, a decrease in costs, or some combination of the two?
 - Eg., Levi's reputation allows it to charge a premium for its Dockers' range of trousers

VRIO Analysis – The Question of Rarity

- ▶ If a resource is not rare, then perfect competition dynamics are likely to be observed (i.e. no competitive advantage, no above normal profits)
- ▶ A resource must therefore be rare enough that perfect competition has not set in
- ▶ Examples of rarity in resources
 - Exemplary leadership
 - Extremely good market intelligence system

Applying the VRIO Analysis

▶ Valuable and Rare

If a Firm's Resources are	The Firm can expect
Not valuable	Competitive disadvantage
Valuable but not rare	Competitive Parity
Valuable and rare	Competitive advantage (at least temporarily)

VRIO Analysis – The Question of Imitability

- ▶ The temporary competitive advantage of valuable and rare resources can be sustained only if competitors face a cost disadvantage in imitating the resource
- ▶ Intangible resources are usually more costly to imitate than tangible resources (Harley-Davidson's styles may be easily imitated, but its reputation cannot)
- ▶ If there are high costs of imitation, then the firm may enjoy a period of sustained competitive advantage
- ▶ A sustained competitive advantage will last only till a duplicate or substitute emerges
- ▶ If a firm has a competitive advantage, others will attempt to imitate it.

Applying the VRIO Analysis

▶ Value, Rarity and Imitability


If a Firm's Resources are	The Firm can expect
Valuable, Rare but not costly to imitate	Temporary competitive advantage
Valuable, Rare and Costly to imitate	Sustained competitive advantage (if organized appropriately)

VRIO Analysis – The Question of Organization

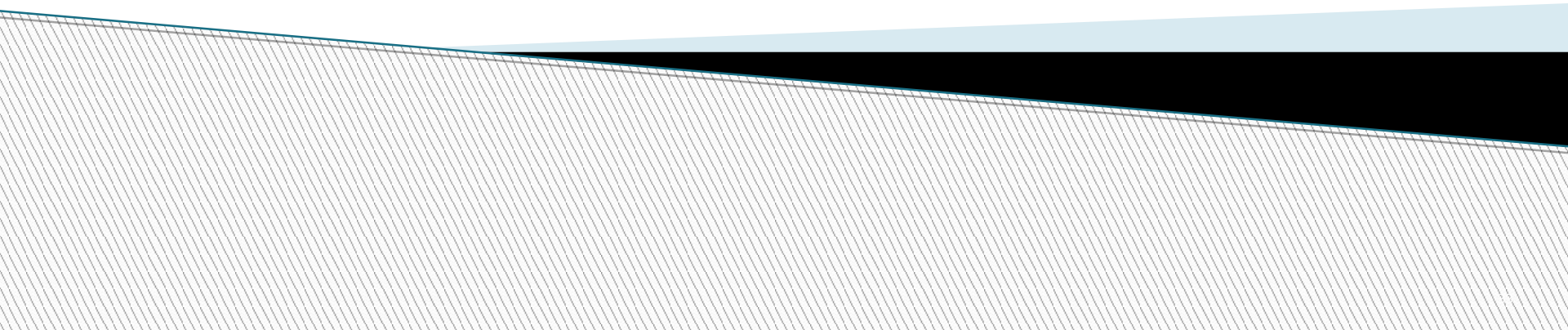
- ▶ A firm's structure and competitive mechanisms must be aligned so as to give people the ability and incentive to exploit the firm's resources
 - Examples – Formal and informal reporting structures, compensation policies etc
- ▶ These structures and control mechanisms together complement the other firm resources and help to achieve sustained competitive advantage

Applying the VRIO Analysis

Valuable?	Rare?	Costly to Imitate?	Exploited by Organization?	Competitive Implications	Economic Implications
No	No	No	No	Disadvantage	Below Normal
Yes	No	No		Parity	Normal
Yes	Yes	No		Temporary Advantage	Above Normal
Yes	Yes	Yes	Yes	Sustained Advantage	Above Normal



Other Tools for Internal Analysis



SWOT Analysis/ TOWS Matrix



SWOT Analysis



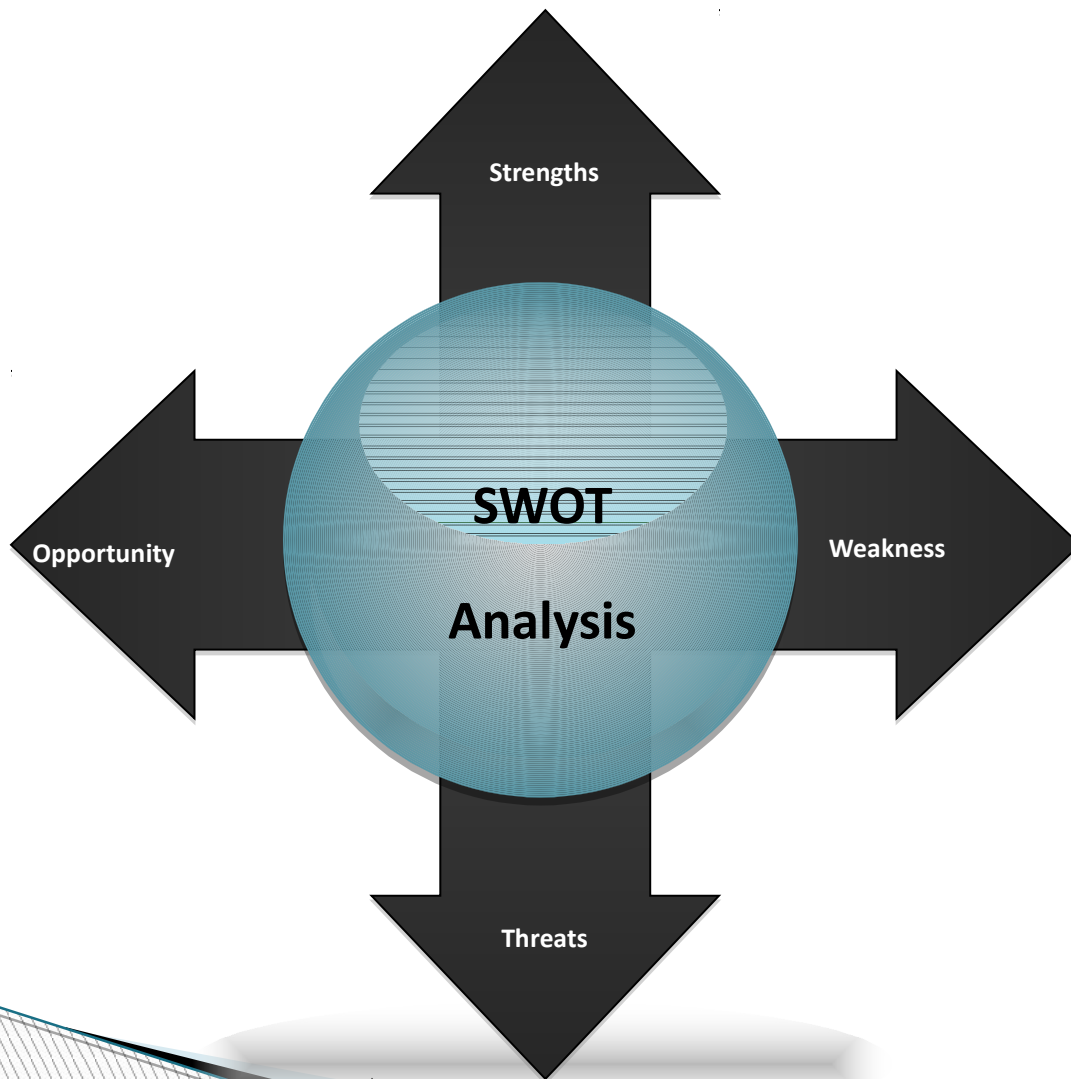
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W

O

T

What is SWOT Analysis

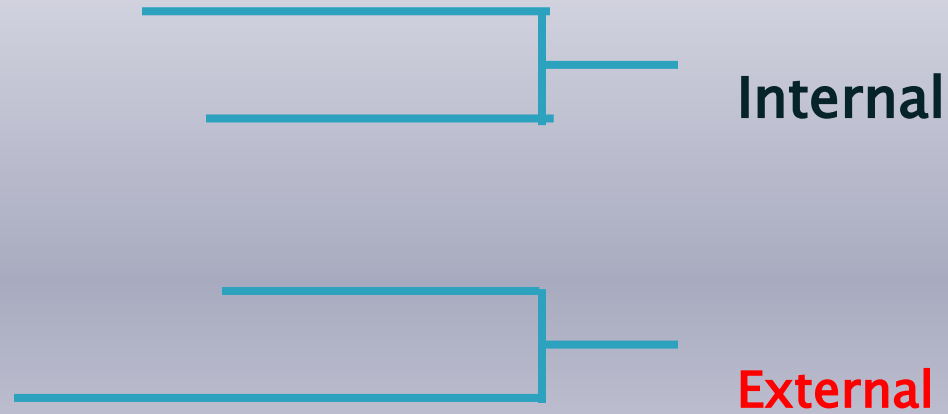


- ▶ Acronym for **Strengths, Weaknesses, Opportunities, and Threats**.
- ▶ Technique is credited to **Albert Humphrey** who led a research project at Stanford University in the 1960s and 1970s.
- ▶ **Planning** tool used to understand Strengths, Weaknesses, Opportunities, & Threats involved in a project / business.
- ▶ Technique that enables a group / individual to move from everyday problems / traditional strategies to a **fresh perspective**.

SWOT Analysis

SWOT is a summary of your

- ▶ Strengths
- ▶ Weaknesses
- ▶ Opportunities
- ▶ Threats



Internal vs. External

- ▶ **Strengths and Weaknesses** are considered *internal* factors---meaning you as the business owner can control them.
- ▶ **Opportunities and Threats** are considered *external* factors---meaning you have little control over them. It is your job as a business owner to respond appropriately .

STRENGTHS



Characteristics of the business or a team that give it an advantage over others in the industry.



Positive tangible and intangible attributes, internal to an organization.



Beneficial aspects of the organization or the capabilities of an organization, which includes human competencies, process capabilities, financial resources, products and services, customer goodwill and brand loyalty.



Examples-, Well-known brand name, Lower costs [raw materials or processes], Superior management talent, Better marketing skills, Good distribution skills, Committed employees.



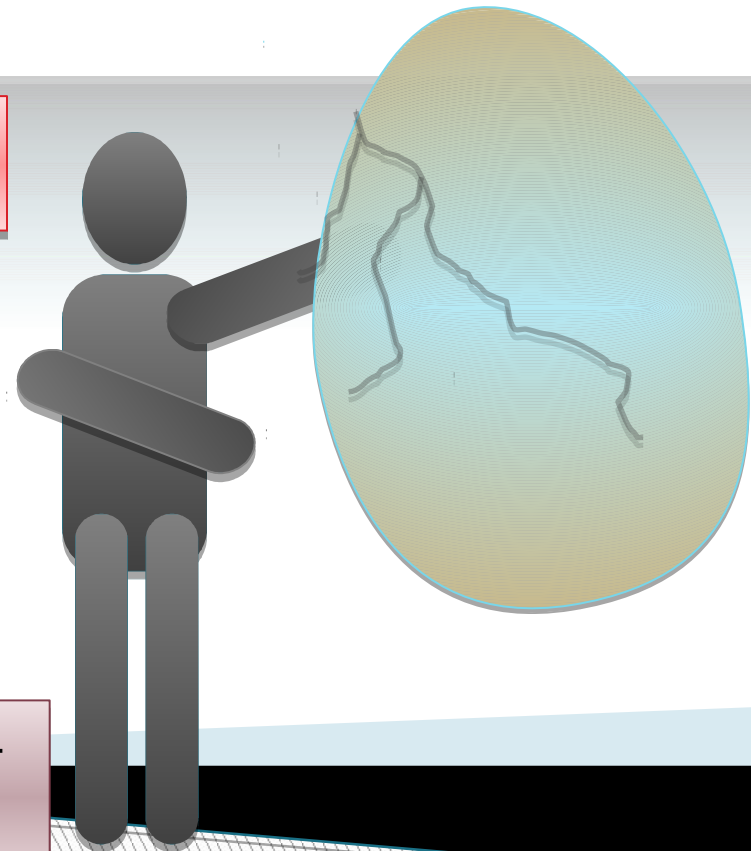
WEAKNESSES

▶ **Characteristics that place the firm at a disadvantage relative to others.**

▶ **Detract the organization from its ability to attain the core goal and influence its growth.**

▶ **Weaknesses are the factors which do not meet the standards we feel they should meet. However, sometimes weaknesses are controllable. They must be minimized and eliminated.**

▶ **Examples- Limited financial resources, Limited distribution, Higher costs, Out-of-date products / technology, Weak market image, Poor marketing skills, Limited management skills.**



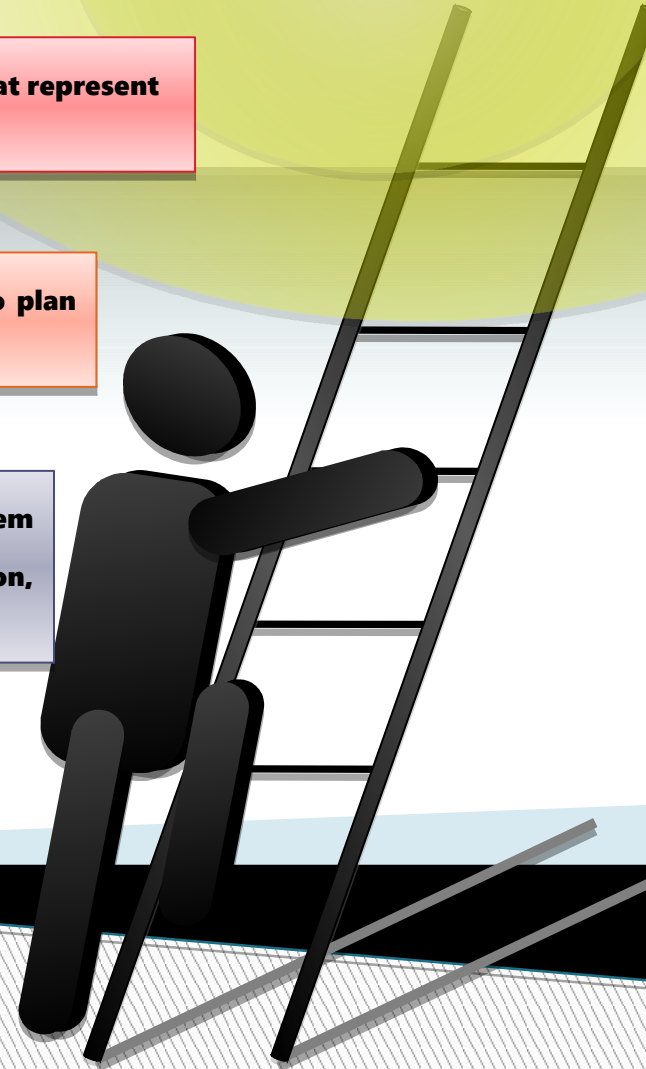
OPPORTUNITIES

▶ **Chances to make greater profits in the environment - External attractive factors that represent the reason for an organization to exist & develop.**

▶ **Arise when an organization can take benefit of conditions in its environment to plan and execute strategies that enable it to become more profitable.**

▶ **Organization should be careful and recognize the opportunities and grasp them whenever they arise. Opportunities may arise from market, competition, industry/government and technology.**

▶ **Examples - Rapid market growth, Changing customer needs/tastes, New uses for product discovered, Economic boom, Sales decline for a substitute product .**



THREATS

▶ **External elements in the environment that could cause trouble for the business - External factors, beyond an organization's control, which could place the organization's mission or operation at risk.**

▶ **Arise when conditions in external environment jeopardize the reliability and profitability of the organization's business.**

▶ **Examples - Entry of foreign competitors, Changing customer needs/tastes, Rival firms, adopt new strategies, Increased government regulation, Economic downturn.**



How to conduct SWOT Analysis?

Carry your findings forward –Make sure that the SWOT analysis is used in subsequent planning. Revisit your findings at suitable time intervals.

Evaluate listed ideas against Objectives –With the lists compiled, sort and group facts and ideas in relation to the objectives.

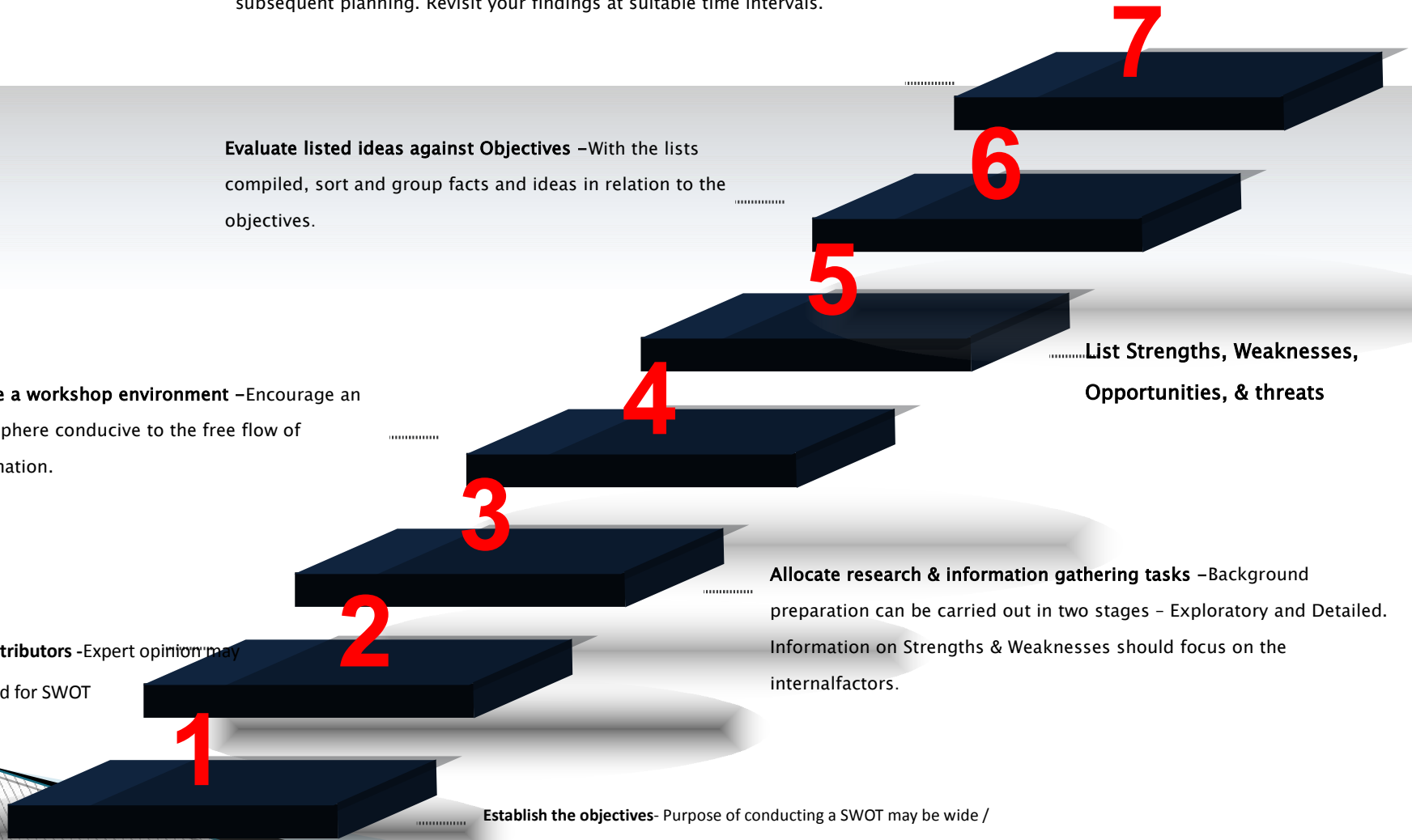
Create a workshop environment –Encourage an atmosphere conducive to the free flow of information.

Select contributors -Expert opinion may be required for SWOT

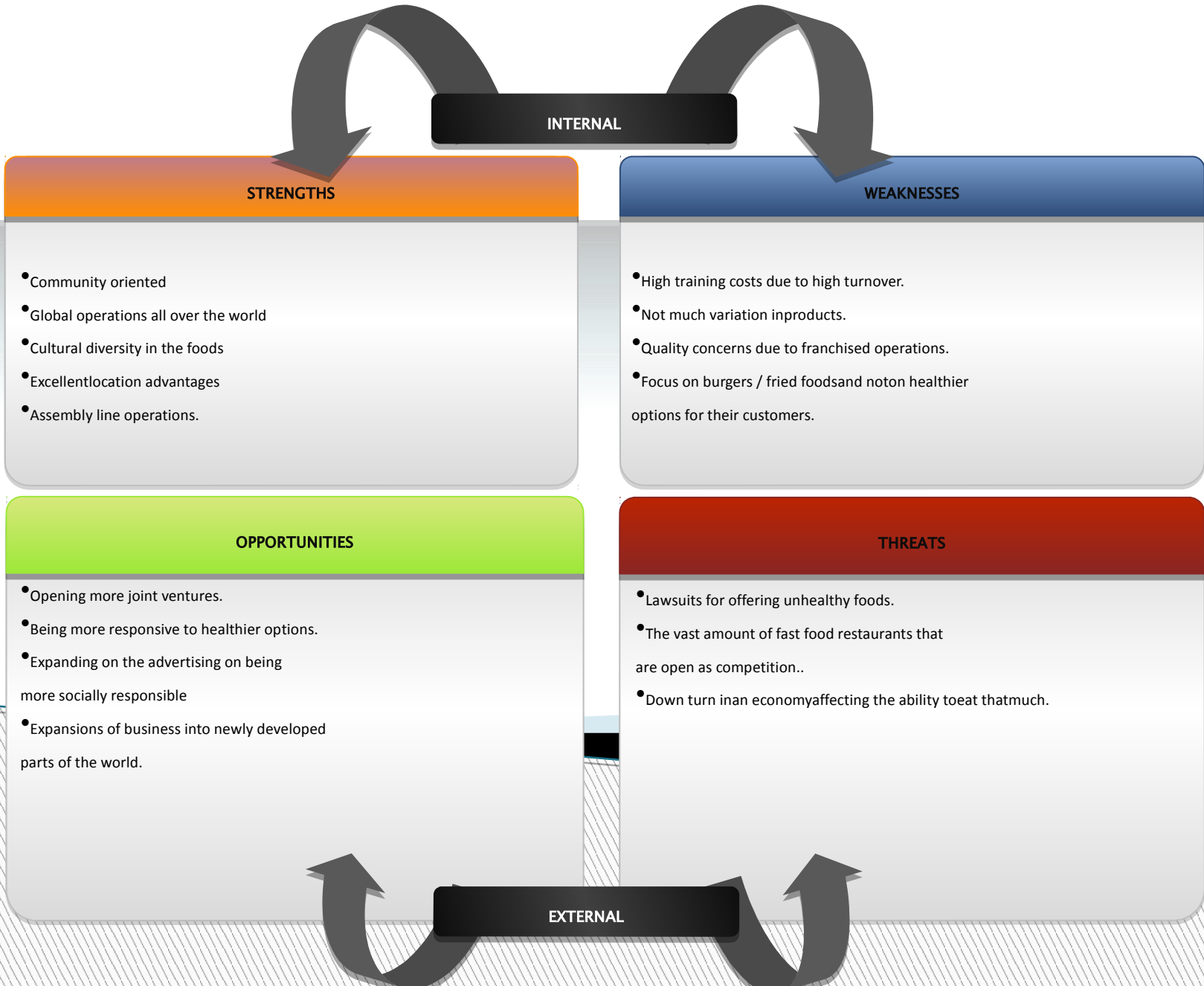
Establish the objectives- Purpose of conducting a SWOT may be wide / narrow, general / specific.

Allocate research & information gathering tasks –Background preparation can be carried out in two stages – Exploratory and Detailed. Information on Strengths & Weaknesses should focus on the internal factors.

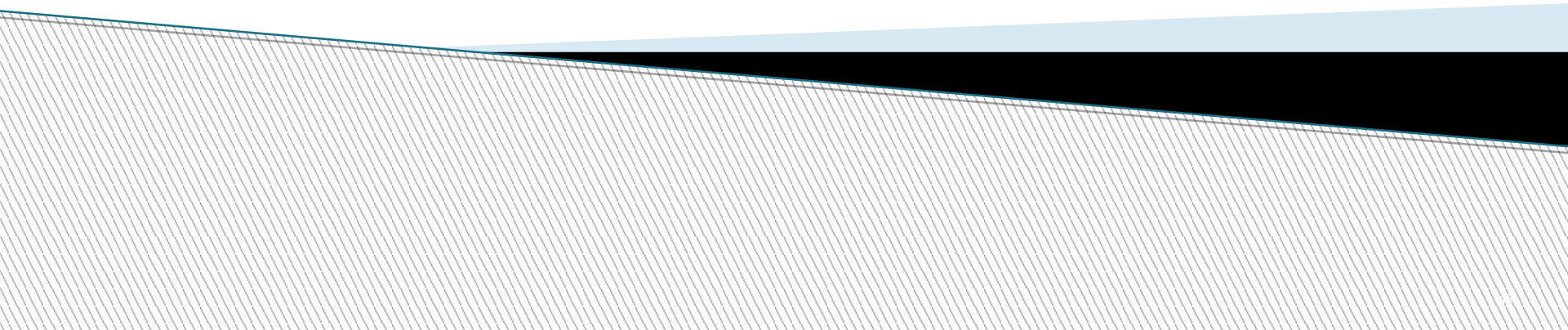
List Strengths, Weaknesses, Opportunities, & threats



Mc Donald's SWOT Analysis



The TOWS Matrix



TOWS Matrix

- ▶ Relatively simple tool for developing strategic options
- ▶ Used to extend the SWOT analysis by trying to understand how the firm can best take advantage of the opportunities available to it
- ▶ Helps the firm to understand how to use the External Environment to its strategic advantage and to identify some of the strategic options available to the firm.

TOWS Matrix

EXTERNAL FACTORS (EFAS) INTERNAL FACTORS (IFAS)	Strengths (S) List 5 – 10 <i>internal</i> strengths here	Weaknesses (W) List 5 – 10 <i>internal</i> weaknesses here
Opportunities (O) List 5 – 10 <i>external</i> opportunities here	SO Strategies Generate strategies here that use strengths to take advantage of opportunities	WO Strategies Generate strategies here that take advantage of opportunities by overcoming weaknesses
Threats (T) List 5 – 10 <i>external</i> threats here	ST Strategies Generate strategies here that use strengths to avoid threats	WT Strategies Generate strategies here that minimize weaknesses and avoid threats

TOWS Matrix

EXTERNAL FACTORS (EFAS) \	INTERNAL FACTORS (IFAS) Strengths (S) List 5 – 10 <i>internal</i> strengths here	Weaknesses (W) List 5 – 10 <i>internal</i> weaknesses here
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Threats (T) List 5 – 10 <i>external</i> threats here	ST Strategies Generate strategies here that use strengths to avoid threats	WT Strategies Generate strategies here that minimize weaknesses and avoid threats

SO Strategies

- Strategies that enable competitive advantage
- Match external opportunities well with internal strengths
- Allow for competitive advantage to be built and maintained.

ST Strategies

- Mitigation Strategies
- Firm possesses internal strengths that facilitates neutralization of external threats

TOWS Matrix

<p>INTERNAL FACTORS (IFAS)</p> <p>EXTERNAL FACTORS (EFAS)</p>	<p>Strengths (S) List 5 – 10 <i>internal</i> strengths here</p>	<p>Weaknesses (W) List 5 – 10 <i>internal</i> weaknesses here</p>
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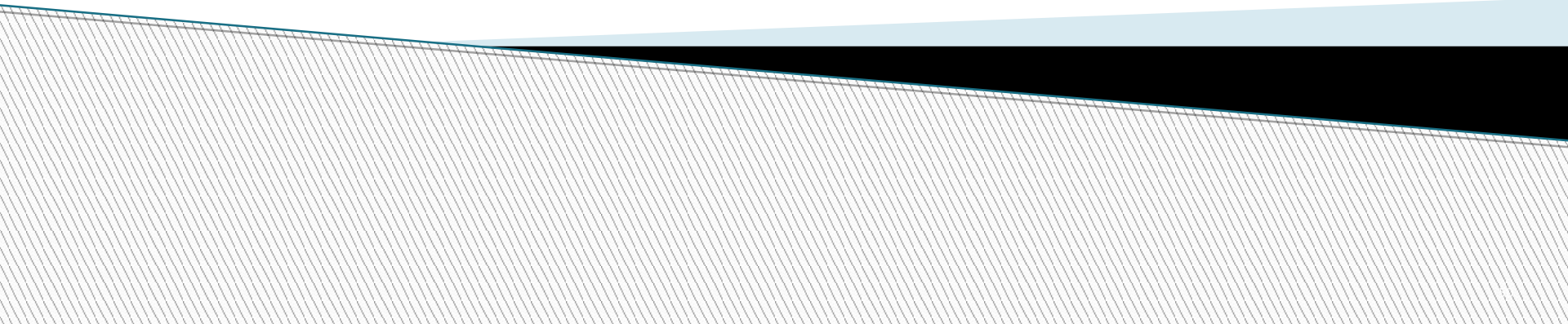
WO Strategies

- Acquisition/Development Strategies
- Situation where strategies are formulated to acquire or develop new resources/capabilities to take advantage of external opportunities.
- Eg., Acquiring technology through tieups, hiring and training personnel

WT Strategies

- Consolidation/Exit Strategies
- If firms can't find ways to convert weaknesses to strengths exit from market may be recommended.
- Other options could be to enter into a merger, cut back operations etc

Assessment of Core Competencies



Why do we need to assess Core Competencies?

Internal Analysis

Core Competencies

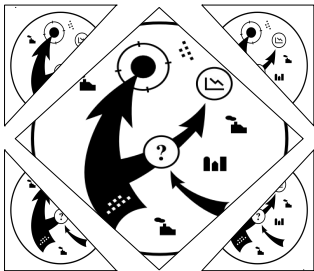
**Strategic
Intent**

Analysis of the internal environment of the firm by identifying its strengths and weaknesses

?

Long-term goal that is ambitious & draws from all levels of the organization.

What are Core Competencies



✓ *a bundle of skills integrated to make a company unique*

✓ *The engine for new business development, underlying component of a company's competitive advantage*

✓ *Created from the coordination, integration and harmonization of diverse skills and multiple streams of technologies*



How to Identify Core Competencies

- ▶ At least three tests can be applied to identify core competencies in a company.
 - make a significant contribution to perceived customer benefits of the end product
 - should be difficult for competitors to imitate
 - core competencies provide potential access to a variety of markets

Consumer Benefits



Well-organized supply system

Everyday low prices to customer

Hard to Imitate

SONY'S MINIATURIZATION

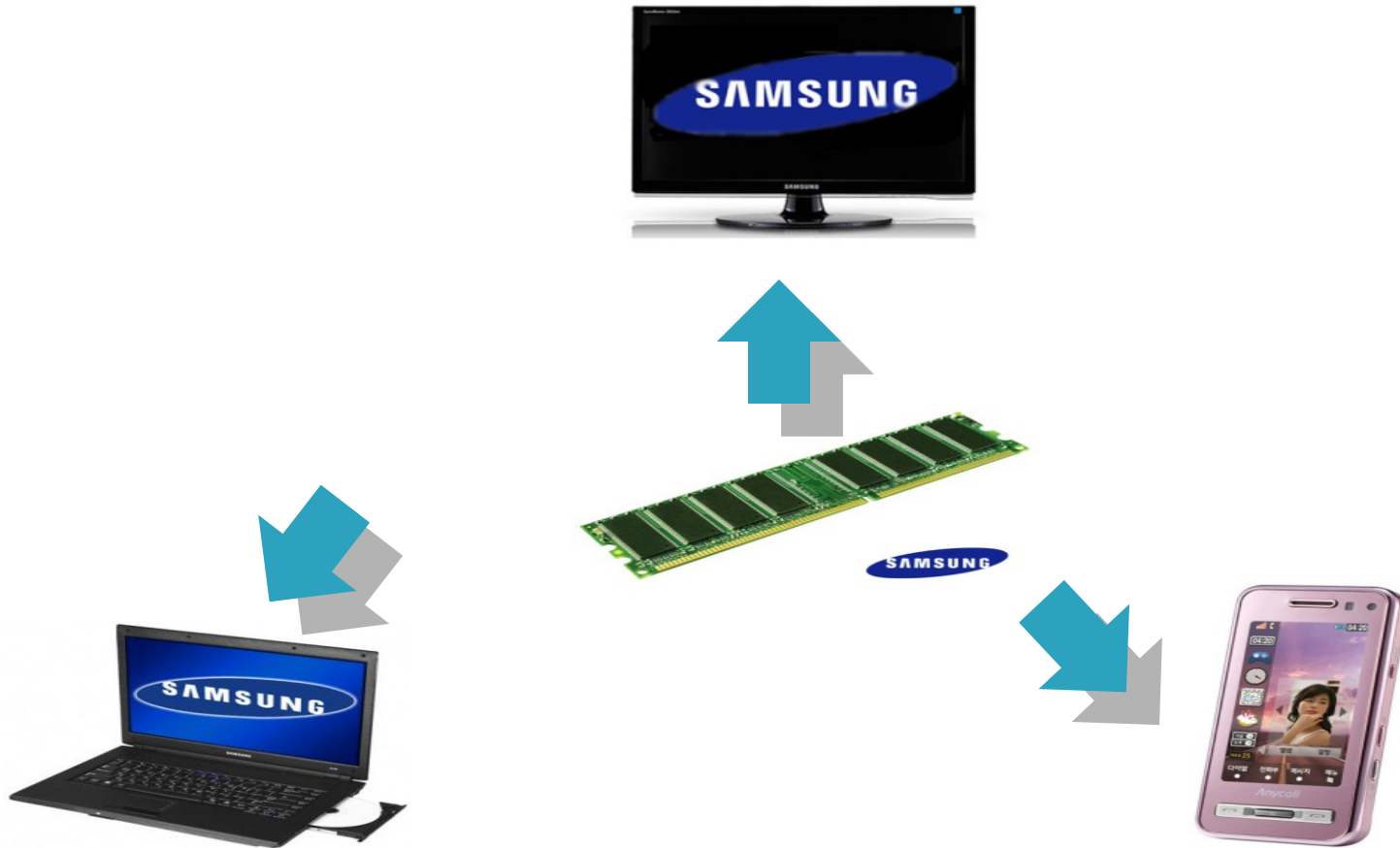
GOOGLE'S FASTEST & LARGEST SEARCH

SONY

Google

Makescore competencies difficult to imitate.

Diversification



Diversification of business based on core competence.

Losing Core Competencies

▶ Getting dependent on Outsourcing

- Outsourcing may be a good shortcut for a competitive product, but may ruin the core competencies to sustain product leadership.

▶ By Giving up the opportunities to establish competencies in existing business.

- Eg., Thinking of Color TVs as a Mature Business

From Core Competencies – Core Products – End Products

SONY
make.believe

Ability to miniaturizedelectronics

Portable music player, laptops
etc

Sony Walkman, SonyVaiotc

Google

Indexing technologies & large-
scale hardware

Internet based productivity tools

Google doc, mail, search
engine,etc

Coca-Cola

Strong brand & distinct taste

“Secret” Coke concentrate

Coca-Cola

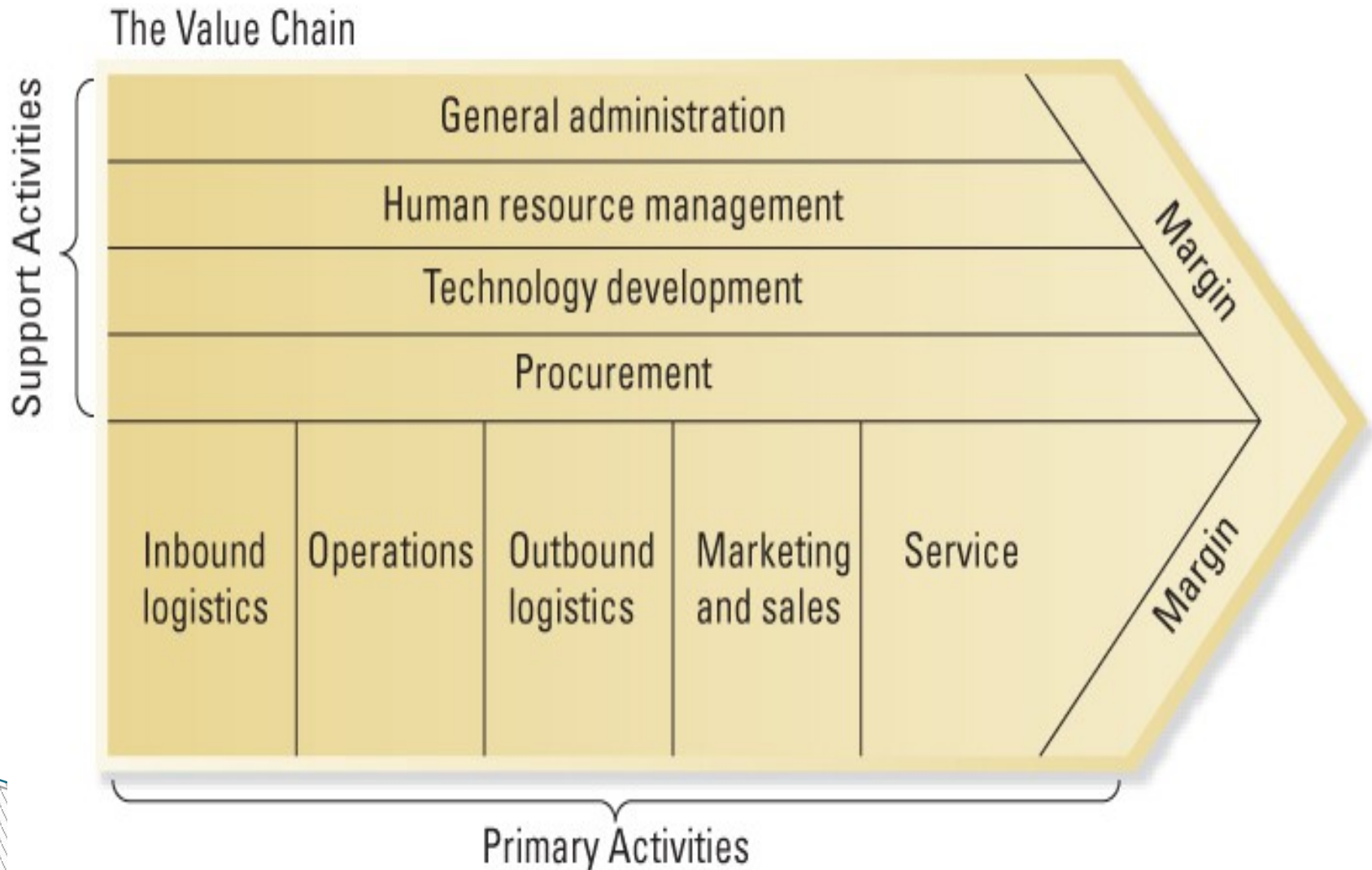
Value Chain Analysis



Value Chain Analysis

- ▶ Value is the amount that buyers are willing to pay for what a firm provides them
- ▶ The Value Chain is a representation of a firm as a set of value creating activities
- ▶ Companies can use the value chain to examine all their activities and see how they are connected.
- ▶ The way in which Value Chain activities are performed determines costs and affects profits
- ▶ Value Created and captured – Cost of creating that value = Margin
- ▶ Activities in the value chain include primary activities like production and marketing as well as support activities such as human resource management and finance

The Value Chain



Primary Activity: Inbound Logistics

- ▶ Associated with **receiving, storing and distributing** inputs to the product
 - Location of distribution facilities
 - Warehouse layout and designs

Primary Activity: Operations

- ▶ Associated with **transforming** inputs into the final product form
 - Efficient plant operations
 - Incorporation of appropriate process technology
 - Efficient plant layout and workflow design

Primary Activity: Outbound Logistics

- ▶ Associated with **collecting, storing, and distributing** the product or service to buyers
 - Effective shipping processes to provide quick delivery and minimize damages
 - Shipping of goods in large lot sizes to minimize transportation costs.

Primary Activity: Marketing and Sales

- ▶ Associated with **purchases** of products and services by end users and the inducements used to get them to make purchases
 - Highly motivated and competent sales force
 - Innovative approaches to promotion and advertising
 - Proper identification of customer segments and needs
 - Selection of appropriate distribution channels
 - Effective pricing strategy

Primary Activity: Service

- ▶ Associated with **providing service** to enhance or maintain the value of the product
 - Effective use of procedures to solicit customer feedback and to act on information
 - Quick response to customer needs and emergencies
 - Ability to furnish replacement parts
 - Effective management of parts and equipment inventory
 - Quality of service personnel and ongoing training
 - Warranty and guarantee policies

Support Activity: Procurement

- ▶ Function of purchasing inputs used in the firm's value chain
 - Procurement of raw material inputs
 - Development of collaborative “win-win” relationships with suppliers
 - Effective procedures to purchase advertising and media services
 - Analysis and selection of alternate sources of inputs to minimize dependence on one supplier

Support Activity: Human Resource Management

- ▶ Activities involved in the recruiting, hiring, training, development, and compensation of all types of personnel
 - Effective recruiting, development, and retention mechanisms for employees
 - Quality relations with trade unions
 - Reward and incentive programs to motivate all employees

Support Activity: Technology Development

- ▶ Related to a wide range of activities and those embodied in processes and equipment and the product itself
 - Effective R&D activities for process and product initiatives
 - Positive collaborative relationships between R&D and other departments
 - State of the art facilities and equipment
 - Culture to enhance creativity and innovation
 - Excellent professional qualifications of personnel

Support Activity: General Administration

- ▶ Typically supports the entire value chain and not individual activities
 - Effective planning systems
 - Excellent relationships with diverse stakeholder groups
 - Ability to obtain low cost funds for capital expenditures and working capital
 - Effective information technology to integrate value-creating activities