« Strategic Capabilities »

M1 ‘14 – C4
Date 31<sup>st</sup> October
Give me some takeaway from the previous course!

Come on! Dare ... 😊
Structure of the Course today

- Competences
- Core competences
- Dynamic capabilities
- Organizational knowledge
- Profit pools
- Rare capabilities

- Resource-based view
- Resources
- Strategic capabilities
- SWOT
- Threshold capabilities
- Value environment
Learning Outcome?

After reading this chapter you should be able to:

• Identify what comprise “strategic capabilities” as organizational resources & competences and how these relate to the strategies & organizations → Opportunities / Threats?

• Analyze how strategic capabilities might provide sustainable competitive advantage (VRIN) → where / how to build a resource-based competitive advantage?

• Diagnose strategic capabilities by means of benchmarking, value chain analysis (to be seen next course), activity mapping and SWOT analysis → possibilities?

• Consider how managers can develop strategic capabilities for their organizations → what to improve to go where?
How are you doing?
Some definitions?

...the direction and scope of an organization over the long-term, which achieve advantage for the organization through its configuration of resources within a changing environment to the needs of markets and fulfill stakeholders expectations ...

Gerry Johnson & Kevan Scholes
Some definitions …

… the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals …

Alfred Chandler
SIR ALEX FERGUSON
MANCHESTER UNITED 1986-2013

38 TROPHIES
20 LEAGUE TITLES
2 CHAMPIONS LEAGUES
894 GAMES WON
1498 GAMES MANAGED
1 KNIGHTHOOD
Some Definitions

What is Strategy?

“...the purposeful creation of a favorable inequality in a landscape of changing conditions.”

Sir Alexander D. Ferguson
Summary of the issue

• Organizations are not identical and have different capabilities → heterogeneous

• Capabilities of an organization can not be (necessarily) easily copied (replicated) by another one

➢ Managers must understand how their organizations are different + how these differences are the base of superior performances / competitive advantages.
Strategic Capabilities Issues?

STRATEGIC CAPABILITIES

Definition?

The capabilities of an organization that contribute to its long-term survival or competitive advantage.
The Key Resources Building Block describes the most important assets required to make a business model work!

These resources allow an enterprise to create and offer a Value Proposition, reach markets, maintain relationships with Customer Segments, and earn revenues.

Key resources can be physical, financial, intellectual, or human. Key resources can be owned or leased by the company or acquired from key partners.

Different Key Resources are needed depending on the type of business model.
The strategy is not just a matter of positioning ...

Organizations can see a very "juicy" positioning on a market and may not have the ability to make this move ... (resources / competences not available)

Every company has expertise + general and specific resources, known or unknown ... tangible or non-tangible ... Leonidas?

Some come from traditions, corporate culture, ...

You can not build a strategy or seek a new positioning without knowing precisely these resources and skills ...

Even better, an organization should manage, grow, develop, evaluate, compare and therefore mostly know those assets.
The evolution of Honda

- Honda Technical Research Institute founded
- Competes in Isle of Man TT motorcycle races
- 4-cylinder 750cc motorcycle
- Portable generator
- 405cc motorcycle
- 1st gasoline-powered car to meet US Low Emission Vehicle Standard
- Power products: ground tillers, marine engines, generators, pumps, chainsaws, snowblowers
- Civic Hybrid (dual gasoline/electric)
- Civic GS (natural gas powered)
- Honda wins Indy Champi onship


- 1st motorcycle: 98cc, 2-cycle Dream D
- 4 cycle engine
- The 50cc Supercub
- N360 mini car
- Honda Civic
- 1000cc Goldwing touring motorcycle
- Acura Car division
- Home co-generation system
- Enters Indy car racing
- Begins production of diesel engines
- Enters Formula 1 Grand Prix racing

First product: Model A clip-on engine for bicycles

Courtesy of Pr Manuel HENSMANS
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- Honda wins Indy

Biggest motorcycle producer & leading automobile prod. Yet, never defined itself in industry or consumer terms (motorcycle or motor vehicle company)

But in terms of internal strategic capability

Innovative developer of engines

- First product: Model A clip-on engine for bicycles
- Enters Formula 1 Grand Prix racing
- Honda Civic
- Enters Indy car racing
- Begins production of diesel engines

Courtesy of Pr Manuel HENSMANS
Possible take away from Honda?
Possible take away from Honda?

What is better in fast-changing environment?
Possible take away from Honda?

In fast-changing environment:

• When the external environment is subject to rapid change, *internal resources and competences* offer a more secure basis for strategy than market or consumer focus.

• In that case, internal resources and competences are the *primary sources of sustainable competitive advantage*. 
Some definitions?

**Strategic capability?**
- is the resources and competences of an organization needed for it to survive and prosper

**Competences?**
- are the skills and abilities by which resources are deployed effectively through an organization's activities and processes

**Tangible resources?**
- are the physical assets of an organization such as plant, labor and finance

**Intangible resources?**
- are non-physical assets such as information, reputation and knowledge

**Threshold capabilities?**
- are those capabilities needed for an organization to meet the necessary requirements to compete in a given market
Strategic Capabilities Issues?

**STRATEGIC CAPABILITIES**

What are strategic capabilities?

How do strategic capabilities contribute to competitive advantage and superior performance?

How to diagnose strategic capabilities?

How to manage the development of strategic capabilities?

**Definition**?

The capabilities of an organization that contribute to its long-term survival or competitive advantage.
Strategic Capabilities issues?

• Identify what comprises strategic capabilities in terms of organizational resources and competences and how these relate to the strategies of organizations.

• Analyze how strategic capabilities might provide sustainable competitive advantage on the basis of their value, rarity, inimitability and non-substitutability (VRIN).

• Diagnose strategic capability by means of benchmarking, value chain analysis, activity mapping and SWOT analysis.

• Consider how managers can develop strategic capabilities for their organizations.

→ Not all the organizations have the same capabilities … Which are your Opportunities / Threats?

→ What are your non-imitable capabilities you could use to build a resource based advantage?

→ Where are your specific capabilities / possibilities?

→ How to build on those capabilities to create a competitive advantage?
Resources & Competences

Foundations of Strategic Capability
Resources & / or Competences?

- **Resources** are the assets that organizations have or can call upon (e.g. from partners or suppliers), that is, “What we have”

- **Competences** are the ways those assets are used or deployed effectively, that is (notion of “core-competences”), “What we do well”

(intangible asset)
Possible components of strategic capabilities

<table>
<thead>
<tr>
<th>Strategic capability</th>
<th>Resources: what we have, e.g.</th>
<th>Competences: what we do well, e.g.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Machines, buildings, raw materials, products, patents, data bases, computer systems</td>
<td>Physical Ways of achieving utilisation of plant, efficiency, productivity, flexibility, marketing</td>
</tr>
<tr>
<td></td>
<td>Balance sheet, cash flow, suppliers of funds</td>
<td>Financial Ability to raise funds and manage cash flows, debtors, creditors etc.</td>
</tr>
<tr>
<td></td>
<td>Managers, employees, partners, suppliers, customers</td>
<td>Human How people gain and use experience, skills, knowledge, build relationships, motivate others and innovate</td>
</tr>
</tbody>
</table>

Long-term survival and competitive advantage
The example of Google ?
Google’s resources?

User base?

• With about 60% of the world’s internet searches, the www.google.com website is the world’s most visited website in the world.

• Dominance of online advertising.

Financial resources?

• Huge market capitalization & cash reserves: able to broaden its product range through acquisition.
Google’s resources?

Strong culture?

• Innovation
• Creativity
• Initiative
• Result-driven
Google’s resources ?

Human resources ?

• Google’s technical staff : “best in the industry”.

• 3,000,000 job candidates per year !

• How many out of 100 of the brightest candidates that have been pre-selected through data crunching get a job @ Google ?
Google’s resources competences?

(Competences are ... the ways those resources are used or deployed effectively, that is, ‘what we do well’ : product design skill, cooperative relationships)

Software development

• Google’s search engine was based upon the technical brilliance of its founders in creating new search algorithms. Google continues to build depth and breadth to its software engineering capability.

Product design

• The dominance of the Google search engine over its early rival can be attributed primarily to its ease of use. Google continues to develop products that are easy to use even by the users with few computer skills.

Speed of innovation

• As a result of its culture, systems and people, Google shows a tremendous capacity to generate new product ideas and new business initiatives.
Resource-based view (M. Porter)

The resource-based view (RBV) of strategy asserts that the competitive advantage and superior performance of an organization is explained by the distinctiveness of its capabilities.

- RBV considers that the sources of CA (Competitive Advantage) are valuable resources (competences) that the firm possesses.

- The more unique, difficult to acquire, difficult to imitate, ... etc a competence is, the easier will be for a firm to sustain its CA. However, what makes a resource valuable in a specific context is still subject of much debate.

- Porter sees RBV as a complement, not a substitute of the industry/position approach.

- Porter sees resources as an intermediate position in the chain of causality (new resources make it possible to carry out new activities). In addition, that a resource becomes valuable is generally a consequence of managerial choice.

- RBV makes more sense in relatively stable contexts than in changing ones (Honda ?).
There are three key concepts that underpin the discussion.

1. The first is that organizations are not identical, but have different capabilities; they are “heterogeneous” in this respect.

2. The second is that it can be difficult for one organization to obtain or copy the capabilities of another. For example, Sainsbury’s cannot readily obtain the whole of Tesco’s retail sites, its management or its experience.

3. The third arises from these: if an organization is to achieve competitive advantage, it will do so on the basis of capabilities that its rivals do not have or have difficulty in obtaining.

In turn this helps explain how some organizations are able to achieve superior performance compared with others. They have capabilities that permit them to produce at lower cost or generate a superior product or service at standard cost in relation to other organizations with inferior capabilities.
Redundant, Dynamic, Threshold, Distinctive capabilities?

- **Redundant**: Capabilities, however effective in the past, can become less relevant as industries evolve and change. Such “capabilities” can even become “rigidities” that inhibit change and become a weakness (Kodak).

- **Dynamic**: Dynamic capability is the ability of an organization to renew and recreate its strategic capabilities to meet the needs of changing environments (DuPont).

- **Threshold**: Threshold capabilities are those needed for an organization to meet the necessary requirements to compete in a given market and achieve parity with competitors in that market – “qualifiers” → follow KSF!!

- **Distinctive**: Distinctive capabilities are those that critically underpin competitive advantage and that others cannot imitate or obtain – “winners”.
Core Competences

Core competences are the linked set of skills, activities and resources that, together:

- Deliver customer value
- Differentiate a business from its competitors
- Potentially, can be extended and developed as markets change or new opportunities arise.

Threshold / Distinctive Capabilities

Threshold: Threshold capabilities are those needed for an organization to meet the necessary requirements to compete in a given market and achieve parity with competitors in that market—“qualifiers” → follow KSF!!

<table>
<thead>
<tr>
<th></th>
<th>Resources</th>
<th>Competences</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Threshold capabilities</strong></td>
<td>Threshold resources</td>
<td>Threshold competences</td>
</tr>
<tr>
<td>Required to be able to</td>
<td></td>
<td></td>
</tr>
<tr>
<td>compete in a market</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Distinctive capabilities</strong></td>
<td>Distinctive resources</td>
<td>Distinctive competences</td>
</tr>
<tr>
<td>Required to achieve</td>
<td></td>
<td></td>
</tr>
<tr>
<td>competitive advantage</td>
<td></td>
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</tbody>
</table>
Strategic capabilities and competitive advantage?

The four key criteria by which capabilities can be assessed in terms of providing a basis for achieving sustainable CA (competitive advantage) are VRIN:

- **Value**
- **Rarity**
- **Inimitability**
- **Non-substitutability**

VRIN (1)

V – Value of strategic capabilities

• Strategic capabilities are of value when they:
  – Take advantage of opportunities and neutralize threats,
  – Provide value to customers
  – Provide potential competitive advantage
  – At a cost that allows an organization to realize acceptable levels of return
VRIN – Value Example of VW

Value of Strategic Capabilities?

• In theory: Does the resource or competence provide customer value?
  – Distinctive or threshold?

• In practice: Does the resource result in?
  – an increase in revenues?
  – a decrease in costs?
  – or some combination of the two?
VRIN – Value Example of VW

Volkswagen

Audi
SEAT
Škoda
Bentley
Bugatti
Lamborghini
Porsche
Ducati
Commercial Vehicles
Scania
MAN

Volkswagen Financial Services
### Assessing a Company's Resources and Capabilities: The Case of Volkswagen

<table>
<thead>
<tr>
<th>RESOURCES</th>
<th>Importance industry</th>
<th>VW's relative strength</th>
</tr>
</thead>
<tbody>
<tr>
<td>R1. Finance</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>R2. (Green) Technology</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>R3. Plant and equipment</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>R4. Location</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>R5. Distribution</td>
<td>8</td>
<td>6</td>
</tr>
<tr>
<td>R6. Brands</td>
<td>6</td>
<td>5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>COMPETENCES</th>
<th>Importance industry</th>
<th>VW's Relative Strength</th>
</tr>
</thead>
<tbody>
<tr>
<td>C1. Product Development</td>
<td>8</td>
<td>5</td>
</tr>
<tr>
<td>C2. Purchasing</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>C3. Engineering</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>C4. Manufacturing efficiency</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td>C5. Financial Management</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>C6. R&amp;D</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>C7. Marketing and Sales</td>
<td>9</td>
<td>7</td>
</tr>
<tr>
<td>C8. Government Relations</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>C9. Strategic Management</td>
<td>7</td>
<td>5</td>
</tr>
</tbody>
</table>

Both scales range from 1 to 10 (1 = very low, 10 = very high)
Principal strengths:

Deep financial pockets + Quality of plant & equipment + Engineering

- Compete on quality and engineering excellence rather than cost!
  - Focus marketing of all brands on these commonalities
  - Common production platforms Golf, Audi & Skoda
- Use deep financial pockets when rivals are struggling!
  - E.g. acquire
- Electric mobility at core of strategy, together with clean diesel –
  - Especially in , where diesel is less popular
VRIN – Value Example of VW

Key Weaknesses:

Manufacturing costs (location) & management capabilities lacking clear strategic focus

– Turn German location into reputational advantage
  • Reinforced by acquisition of home-grown quality label

– Put in place top management team with strategic acumen
  • Able to steer all brands in a common long-term, strategic direction
VRIN – Value Example of VW

Superfluous Strength:

Government relation & lobbying

– Foster this competence in emerging economies

– 2012-03 : VW most profitable car manufacturer in the world thanks to China
VRIN (2)

\textit{R – Rarity}

- Rare capabilities are those possessed uniquely by one organisation or by a few others only:
  - Patented products?
  - Talented people?
  - Powerful brand?

- Rarity could be temporary.
  (Eg: Patents expire, key individuals can leave or brands can be devalued by adverse publicity.)
VRIN – Rarity Example

Rare capabilities are those **possessed uniquely** by one organization **or by a few others only**.

– E.g. a company may have patented products, have supremely talented people or a powerful brand

Rarity can be temporary …

– E.g. patents expire, key individuals can leave or brands can be devalued by adverse publicity
VRIN – Rarity Example Coca-Cola

<table>
<thead>
<tr>
<th>Resource or Capability</th>
<th>Valuable (exploits opportunities and neutralises threats)</th>
<th>Rare (possessed by one of a few firms in the industry)</th>
<th>Inimitable (costly to imitate)</th>
<th>Non-substitutable (there is no equivalent resource or capability that could be used by a competitor)</th>
<th>Core competency that provides a Sustained competitive advantage?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Worldwide distribution network</td>
<td>Yes – Coca-Cola exploits this network effectively for entering global markets</td>
<td>Yes – forever worldwide</td>
<td>Maybe – Coca-Cola can shut out Pepsi with exclusive agreements</td>
<td>Yes – hard for Pepsi to use another capability to replace Coca-Cola’s advantage in this aspect</td>
<td>No – only a temporary advantage at best since Pepsi may imitate it without bearing too much cost</td>
</tr>
<tr>
<td>Secret Formula</td>
<td>Yes – Coca-Cola has made it work to its advantage in many markets around the global</td>
<td>Yes – only Coca-Cola has it</td>
<td>Yes – only handful know the formula and it has a long history of keeping it so, ~ 120 years</td>
<td>Yes – hard for Pepsi to use another resource or capability to beat Coca-Cola in this case</td>
<td>Yes – who has to copy it yet after 120 years?</td>
</tr>
<tr>
<td>Consumer Marketing Skills</td>
<td>Yes – effective use of advertising to differing demographics in many locations around the world</td>
<td>Yes</td>
<td>Yes – it is hard for Pepsi to exactly copy this skill and in any case the Coca-Cola brand name is well-known globally and fairly well respected</td>
<td>Yes – it is unclear if Pepsi could use another resource or capability to counteract this core competency</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Etc...
VRIN (3)

I – Inimitability

Inimitable capabilities are those that competitors find difficult to imitate or obtain.

• Competitive advantage can be built on unique resources (a key individual or IT system) but these may not be sustainable (key people leave or others acquire the same systems).

• Sustainable advantage is more often found in competences (the way resources are managed, developed and deployed) and the way competences are linked together and integrated.
The core competences of an organization may be difficult to imitate because they are complex.

Competitors find it difficult to discern the causes and effects underpinning an organization's advantage.

Core competences may become embedded in an organization's culture and managers within may not understand them *explicitly* themselves.

When an organization is building an adaptive competitive advantage to the evolution of the market.

**VRIN (3)**

**Criteria for the inimitability of strategic capabilities**

- **Complexity**
  - internal linkages
  - external linkages

- **Causal ambiguity**
  - characteristic ambiguity
  - linkage ambiguity

- **Culture and history**
  - taken-for-granted activities
  - path dependency

- **Change**
  - to innovate
  - and keep ahead of competitors
VRIN (4)

N – Non-Substitutability

Competitive advantage may not be sustainable if there is a threat of substitution.

• Product or service substitution from a different industry/market. For example, postal services partly substituted by e-mail.

• Competence substitution. For example, a skill substituted by expert systems or IT solutions.
Criteria for the inimitability of Strategic Capabilities

<table>
<thead>
<tr>
<th>V</th>
<th><strong>Value:</strong> Do capabilities exist that are valued by customers and provide potential competitive advantage?</th>
</tr>
</thead>
<tbody>
<tr>
<td>R</td>
<td><strong>Rarity:</strong> Do capabilities exist that no (or few) competitors possess?</td>
</tr>
<tr>
<td>I</td>
<td><strong>Inimitability:</strong> Are capabilities difficult for competitors to imitate?</td>
</tr>
<tr>
<td>N</td>
<td><strong>Non-substitutability:</strong> Is the risk of capability substitution low?</td>
</tr>
</tbody>
</table>

Increasing bases of sustainable competitive advantage
How Marks & Spencer’s Resources give it Competitive Advantage

Sources: HBR Competing on Resources by David J. Collis and Cynthia A. Montgomery

<table>
<thead>
<tr>
<th>Resource</th>
<th>Competitive Advantage in Great Britain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tangible</td>
<td></td>
</tr>
<tr>
<td>Freehold locations</td>
<td>1% occupancy costs versus 3% to 9% industry average</td>
</tr>
<tr>
<td>Brand reputation</td>
<td>Customer recognition with minimal advertising</td>
</tr>
<tr>
<td></td>
<td>No promotional sales</td>
</tr>
<tr>
<td>Intangible</td>
<td></td>
</tr>
<tr>
<td>Employee loyalty</td>
<td>Lower labor turnover</td>
</tr>
<tr>
<td></td>
<td>8.7% labor costs versus 10% to 20% industry average</td>
</tr>
<tr>
<td>Capabilities</td>
<td></td>
</tr>
<tr>
<td>Supplier chain</td>
<td>Lower costs and higher quality of goods sold</td>
</tr>
<tr>
<td>Managerial judgment</td>
<td>Fewer layers of hierarchy</td>
</tr>
</tbody>
</table>
VRIN’ 5 Tests?

A resource is **strategically valuable** if it passes **five tests**:

1. **It’s hard to copy.**

   Some resources are hard for rivals to copy because they’re physically unique; for example, a desirable real estate location.

   Others must be built over time, such as Gerber’s brand name for baby food.
A resource is **strategically valuable** if it passes **five tests**: 

2. **It depreciates slowly.**

Disney’s brand name was so strong that it survived almost two decades of benign neglect between Walt Disney’s death in 1966 and the installation of Michael D. Eisner and his management team in 1984.
A resource is strategically valuable if it passes five tests:

3. Its value is controlled by your company.
   Your firm — not individual employees, suppliers, distributors, or customers — keeps the lion’s share of profits generated by the resource.
   Your company does not lose a critical resource when a key employee leaves.
VRIN’ 5 Tests

A resource is **strategically valuable** if it passes **five tests**: 

4 **It’s not easily substituted.**

Because of easy substitution, the steel industry lost a major market in beer cans to aluminum-can makers.
VRIN’ 5 Tests?

A resource is **strategically valuable** if it passes **five tests**:

5. **It’s better than competitors’ similar resources.**

A maker of medical-diagnostics test equipment bested rivals at designing an easy interface between its machines and people who use them.

Armed with this capability, it expanded into doctors’ offices, a fast-growing segment of its market. There, its equipment could be operated by office personnel, not just technicians.
Summary VRIN?

From a resource-based view of organization's, managers need to consider whether their organization has strategic capabilities to achieve and sustain competitive advantage.

To do so they need to consider how and to what extent it has capabilities which are:

(i) valuable to buyers,
(ii) rare,
(iii) inimitable and
(iv) non-substitutable.

If such capabilities for competitive advantage do not exist, then managers need to consider if they can be developed.
Cost Efficiency?

- Customers can benefit from cost efficiencies in terms of lower prices or more product features for the same price. The management of the cost base of an organization could also be a basis for achieving competitive advantage.

- If cost is to be managed effectively, attention has to be paid to 4 key cost drivers:
  - Economies of scale,
  - Experience,
  - Supply costs,
  - Product & process design.
What about VRIO?

Same model but with one element added …

“Organization”

… as the ability to exploit the resource or capability

Once you have realized the value, rarity and imitability of your company’s resources and capabilities, the next step is to organize your company in a way to exploit these resources.

If done successfully, your company could enjoy a period of sustained competitive advantage.
Conclusions

Robert Grant
California Management Review
Conclusions?

Robert Grant
California Management Review
Summary

HBR – Competing on resources (David J. Collis and Cynthia A. Montgomery)

• What gives your company a competitive edge? Your strategically valuable resources—the ones enabling your enterprise to perform activities better or more cheaply than rivals. These can be physical assets (a prime location), intangible assets (a strong brand), or capabilities (a brilliant manufacturing process). For example, Japanese auto companies have consistently excelled through their capabilities in lean manufacturing.

• Strategically valuable resources have five characteristics, say Collis and Montgomery: 1) They’re difficult for rivals to copy. 2) They depreciate slowly. 3) Your company—not employees, suppliers, or customers—controls their value. 4) They can’t be easily substituted for. 5) They’re superior to similar resources your competitors own.

• To keep your edge sharp, build your strategies on resources that pass these five tests. Regularly invest in those resources. And acquire new ones as needed, as Intel did by adding a brand name—Intel Inside—to its technological resource base.
2 Recommendations?

1. Continually invest in building and maintaining your strategically valuable resources.

Example: Eisner revived Disney’s commitment to animation, a capability at which it excelled. He invested $50 million in *Who Framed Roger Rabbit* to create the company’s first animated feature-film hit in many years.

Disney then quadrupled its output of animated feature films, bringing out successive hits, including *The Lion King*. 
2 Recommendations?

2. To stave off the inevitable decay in your resources’ value, move beyond what your company is already good at.

Example: Diversified manufacturer Cooper Industries realized it lacked global management capabilities. It addressed the problem by acquiring Champion Spark Plug. Champion had numerous overseas plants and could provide the skills Cooper needed to manage international manufacturing.
And what about the (famous) SWOT?

- **SWOT** summarizes the strengths, weaknesses, opportunities and threats likely to impact on strategy development.

<table>
<thead>
<tr>
<th>Internal Analysis</th>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>External Analysis</td>
<td>Opportunities</td>
<td>Threats</td>
</tr>
</tbody>
</table>

Easy to understand, easy to apply, and encourage the brainstorming of issues … BUT It does NOT suggest in which direction to proceed in order to find an answer!
And what about the (famous) SWOT?

- **SWOT** summarizes the strengths, weaknesses, opportunities and threats likely to impact on strategy development.

<table>
<thead>
<tr>
<th>Internal Analysis</th>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
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And what about the (famous) SWOT?

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Uses of SWOT analysis

• Key environmental impacts are identified using the analytical tools explained in Chapter 2.

• Major strengths and weaknesses are identified using the analytic tools explained in Chapter 3.

• Scoring (e.g. + 5 to - 5) can be used to assess the interrelationship between environmental impacts and the strengths and weaknesses.

• SWOT can be used to examine strengths, weaknesses, opportunities and threats in relation to competitors.

• SWOT can be used to generate strategic options– using a TOWS matrix.
SWOT for Apple iPhone?
<table>
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<td><strong>Strengths</strong></td>
<td><strong>Opportunities</strong></td>
</tr>
<tr>
<td>Most credible promise of best customer experience; Robust margins/finances OS platform effects; Focus on design (outsource rest)</td>
<td>Strong growth in smart mobile devices for global wealthy; Mobile: apps rather than search provide advertising gateway</td>
</tr>
<tr>
<td><strong>Weaknesses</strong></td>
<td><strong>Threats</strong></td>
</tr>
<tr>
<td>”Great man” dependence (?) ; Reputation of “mature innovator”: iNext (?) ; Outsourcing means no control working conditions</td>
<td>Android: open innovation always wins (?) ; Dependence on suppliers that are competitors too (Samsung …) ; Too high-end for a large market ?</td>
</tr>
</tbody>
</table>
The TOWS Matrix

<table>
<thead>
<tr>
<th>External factors</th>
<th>Strengths (S)</th>
<th>Weaknesses (W)</th>
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</thead>
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<tr>
<td>Opportunities (O)</td>
<td><strong>SO Strategic options</strong>&lt;br&gt;Generate options here that use strengths to take advantage of opportunities</td>
<td><strong>WO Strategic options</strong>&lt;br&gt;Generate options here that take advantage of opportunities by overcoming weaknesses</td>
</tr>
<tr>
<td>Threats (T)</td>
<td><strong>ST Strategic options</strong>&lt;br&gt;Generate options here that use strengths to avoid threats</td>
<td><strong>WT Strategic options</strong>&lt;br&gt;Generate options here that minimise weaknesses and avoid threats</td>
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The TOWS Matrix for Apple iPhone

**TOWS Matrix**

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<td><strong>S0 Strategic options</strong></td>
<td><strong>W0 Strategic options</strong></td>
</tr>
<tr>
<td>- Launch « iNext » soon to lock in more users on iOS platform</td>
<td>- Build reputation of other Apple leaders retrospectively (Tim Cook)</td>
</tr>
<tr>
<td>- Become the leading advertising gateway through app-store</td>
<td>- Build Apple University reputation for future iNext generations</td>
</tr>
<tr>
<td><strong>ST Strategic options</strong></td>
<td><strong>WT Strategic options</strong></td>
</tr>
<tr>
<td>- Work with telecom providers in emerging economies to provide package entry deal</td>
<td>- Upgrade supply chain integration</td>
</tr>
<tr>
<td>- Try more open innovation &amp; more subsidising of application development in emerging economies</td>
<td></td>
</tr>
</tbody>
</table>
SWOT: When to be wary?

• Long lists with no attempt at prioritization: users tend to dump their ideas, often the output of offsite brainstorming sessions.

• It is too general, insufficiently specific in terms of the impact of key product/market segments over time of trends in market demand.

• Sweeping statements often based on biased and unsupported opinions.
SWOT : When to be wary?

- There is no assessment of the importance or relevance of the SWOT issues identified … no weighting in the SW issues and no ranking by probability or impact in the OS issues.

- SWOT is used as a substitute for analysis – it should result from detailed analysis using the frameworks in Chapters 2 and 3 of the Book.

- SWOT is not used to guide strategy – it is seen as an end in itself.
SWOT : conclusion at best

• The main problem with SWOT is:
  – “Great, but SO WHAT ?”
  – What conclusion can be drawn from the matrix ?

• At best, it is considered assessment of issues key to strategy development, grouped by whether these issues are internal or external to the firm and whether they are beneficial or detrimental to the firm.
Benchmarking

Benchmarking is a means of understanding how an organisation compares with others – typically competitors.

Two approaches to benchmarking:

1. Industry/sector benchmarking - comparing performance against other organisations in the same industry/sector against a set of performance indicators.

2. Best-in-class benchmarking - comparing an organisation’s performance or capabilities against ‘best-in-class’ performance – wherever that is found even in a very different industry. (E.g. BA benchmarked its refuelling operations against Formula 1).
Developing strategic capabilities (1)

Internal capability development:

• Leveraging capabilities – identifying capabilities in one part of the organization and transferring them to other parts (sharing best practice).

• Stretching capabilities - building new products or services out of existing capabilities.
Developing strategic capabilities (2)

• External capability development – adding capabilities through mergers, acquisitions or alliances.

• Ceasing activities – non-core activities can be stopped, outsourced or reduced in cost.

• Monitor outputs and benefits – to understand sources of consumer benefit and enhance anything that contributes to this.

• Managing the capabilities of people – training, development and organization learning.
The competitive advantage of an organization is likely to be based on the strategic capabilities it has that are valuable to customers and that its rivals do not have (yet?) or have difficulties to obtain.

Strategic capabilities comprise both resources and competences.

The concept of dynamic capabilities highlights that strategic capabilities need to change as the market and environmental context of an organization changes.

Sustainability of this competitive advantage is likely to depend on organization’s capabilities being of at least threshold value in a market but also being valuable, relatively rare, inimitable and non-substitutable.
Summary of this chapter

✓ Ways of **diagnosing** organizational capabilities includes:
  
  ✓ *Benchmarking* to understand relative performances

  ✓ Analyzing organization *Value Chain / Value Network* and Activity Mapping (next session)

  ✓ *SWOT* analysis

✓ Managers need to think about how and to what extent they can **manage the development of their strategic capabilities**, by internal & external capability development and by the way the organization is managed.
Read the Illustration 3.6 in the book – page 107:

**SWOT Analysis of PHARMCARE**

Answer the 3 questions:

1. What does the SWOT analysis tell us about the competitive position of Pharmcare with the industry as a whole?

2. How readily do you think executives of Pharmacare identify the strengths and weaknesses of competitors?

3. Identify the benefits and dangers (other than those identified in the text) of a SWOT analysis such as that in the illustration.
Read the Key Debate in the book – page 110:

*The resource-based view of competitive advantage: is it useful to managers? The view that the management of strategic capability is central for achieving competitive advantage has been questioned.*

Answer the 3 questions:

1. How specific would the identification of strategic capabilities need to be to permit them to be managed to achieve competitive advantage?
2. Do you agree that if it were possible to identify and manage such capabilities they would be imitated?
3. Is the RBV useful?
Readings … 3

Harvard Business Review:

“Competing on Resources: the 5 characteristics of Strategically valuable resources” by David J. Collis and Cynthia A. Montgomery.
Assignment Next Course

Dyson Case page 115 of the book - Read and answer the 4 questions for next session:

1. Analyze the strategic capabilities of Dyson in terms of most distinctive resources and competences?

2. To what extend do you think any of this capabilities can be replicated by competitors?

3. Apply a VRIN analysis to Dyson?

4. What if Sir Dyson leaving the company?
Integrative Case

Elements to identify and think about ?

1.

2.

3.

What do you think ? What are the strategic capabilities of the firm you have chosen ?
5 Potential Exam Questions
Relevant book sections

• From page 83 to 117