

Chapter 3 – Industry analysis

**New Chapter- Chapter 5 of the book
By Grant (2011)**

Chapter 3 – Industry analysis

Analyzing resources and capabilities: internal assessment of an organization.

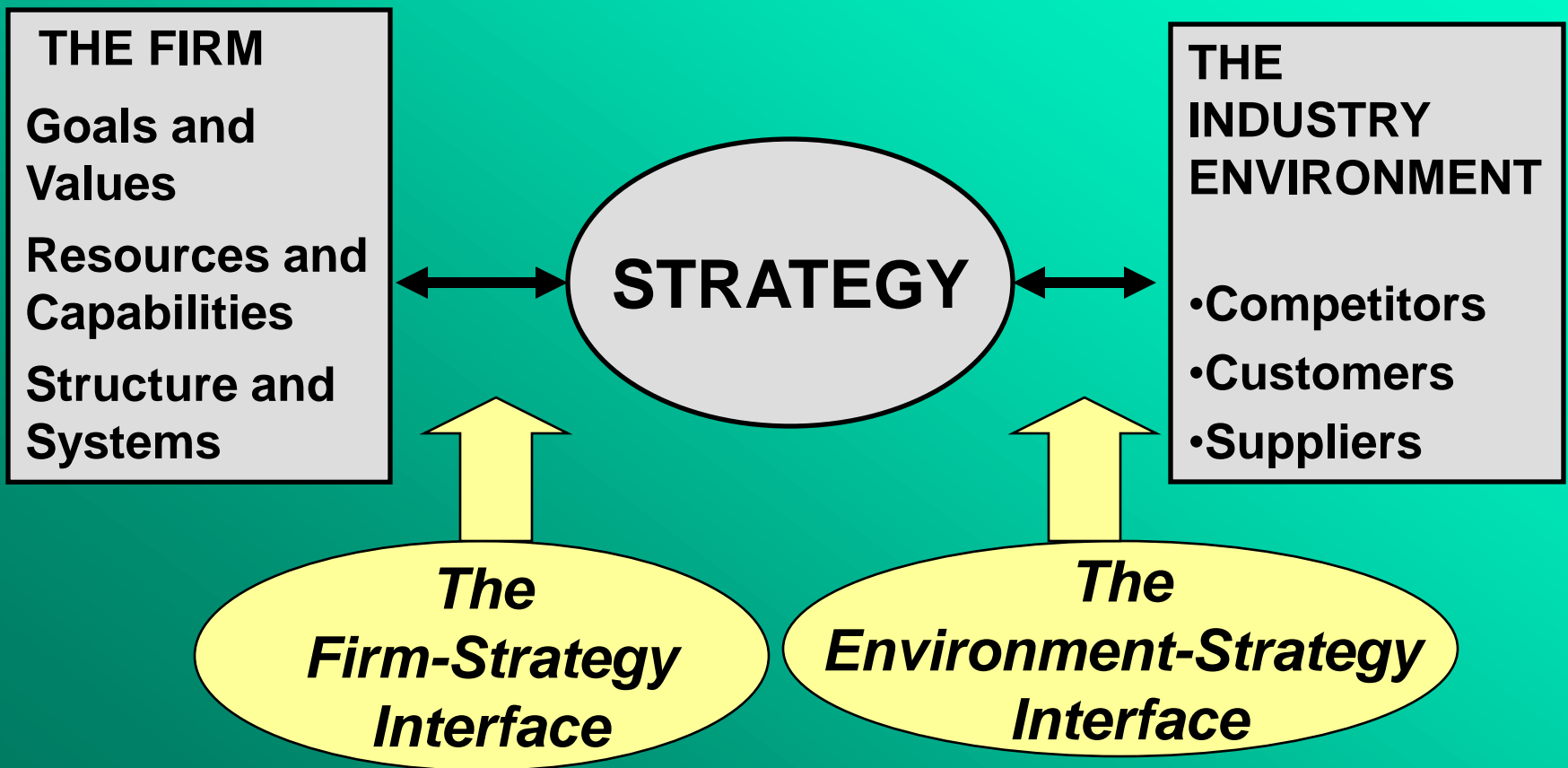
Until now, we have been dealing mostly with the **environment**. Now we focus **inside** the firm.

“You’ve got to do what you do well”

Or “concentration of strength against weakness”.

After 2000s: new philosophy “**resource-based view of the firm**” according to which resources and capabilities are the basis for firm strategy and the primary source of profitability.

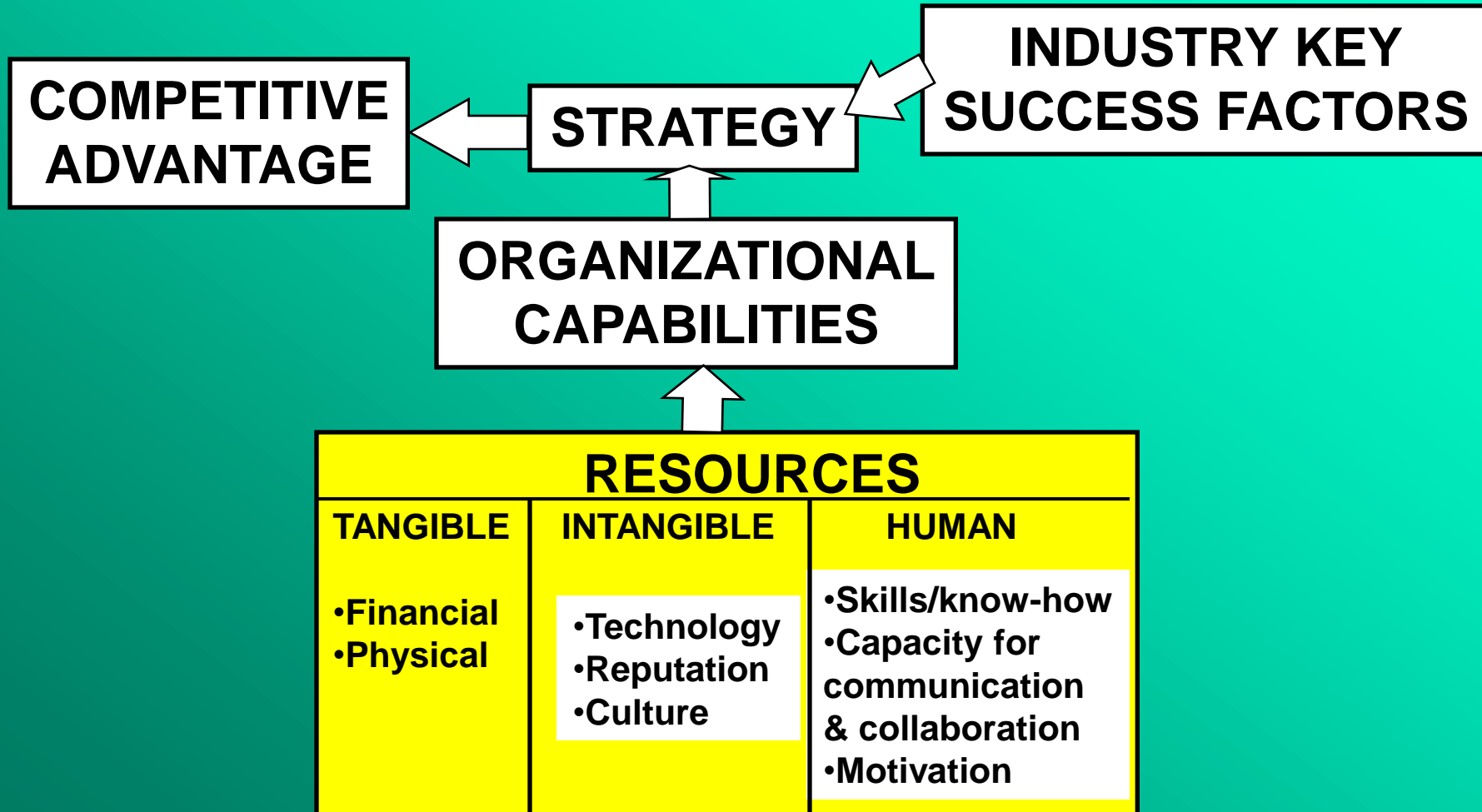
Shifting the Focus of Strategy Analysis: From the External to the Internal Environment



Rationale for the Resource-based Approach to Strategy

- When the external environment is subject to rapid change, internal resources and capabilities offer a more secure basis for strategy than market focus.
- Resources and capabilities are the primary sources of profitability

The Links between Resources, Capabilities and Competitive Advantage



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Resource-based view of the firm: a firm is essentially a pool of resources and capabilities and they determine our strategy and our performance.

When external environment is SO volatile, the firm itself is a more stable basis to define our identity. Lets not base our mission on “who are our customers” but on “**what are our capabilities**”.

Ex. of failure: Olivetti and Kodak.

3M: evolution of capabilities and products.

Perhaps the iPad is another good example?

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**No one can find shelter anymore:
perfect information, deregulation,
internationalisation,**

—————> competition is fierce
everywhere.

Therefore: empowerment of our own
resources.

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Resources: those **assets** that can be measured (plant, equipment) but also the intangible ones (a particular technology, relevant consumer information, brand name, reputation, corporate culture).

These invisible assets are the only source of competitive edge than can be sustained along time.



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Capabilities:

Capability is the **ability to perform actions**. As it applies to human capital, capability is the sum of expertise and capacity.

Human capital refers to the stock of competences, knowledge and personality attributes embodied in the ability to perform a work so as to produce value. Attributes gained by a worker through education and experience.

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Resources of the firm:

-Tangible: Financial, Physical. Easiest to identify and evaluate

-Intangible: Technology, Reputation, Culture

-Human: skills, know-how, capacity for communication and collaboration, motivation.

Analyse and see: what is the potential of each to create competitive advantage.

Table 5.1. Major companies book value vs market value (p.129)

5.2. The world's most valuable brands: p. 129. Interbrand.

The World's Most Valuable Brands, 2006

| <i>Rank</i> | <i>Company</i> | <i>Brand value (\$bn.)</i> | <i>Rank</i> | <i>Company</i> | <i>Brand value (\$bn.)</i> |
|-------------|----------------|----------------------------|-------------|------------------|----------------------------|
| 1 | Coca-Cola | 67.5 | 11 | Mercedes Benz | 20.0 |
| 2 | Microsoft | 59.9 | 12 | Citi | 20.0 |
| 3 | IBM | 53.4 | 13 | Hewlett-Packard | 18.9 |
| 4 | GE | 47.0 | 14 | American Express | 18.6 |
| 5 | Intel | 35.6 | 15 | Gillette | 17.5 |
| 6 | Nokia | 26.5 | 16 | BMW | 17.1 |
| 7 | Disney | 26.4 | 17 | Cisco | 16.6 |
| 8 | McDonald's | 26.0 | 18 | Louis Vuitton | 16.1 |
| 9 | Toyota | 24.8 | 19 | Honda | 15.8 |
| 10 | Marlboro | 21.2 | 20 | Samsung | 15.0 |

Source: Interbrand

The World's Most Valuable Brands, 2013

| <i>Rank</i> | <i>Company</i> | <i>Brand value (\$bn.)</i> |
|-------------|----------------|----------------------------|
| 1 | APPLE | 93 |
| 2 | Google | 93 |
| 3 | CocaCola | 79 |
| 4 | IBM | 78 |
| 5 | Microsoft | 59 |
| 6 | G. Electric | 47 |
| 7 | McDonald's | 42 |
| 8 | Samsung | 40 |
| 9 | Intel | 37 |
| 10 | Toyota | 35 |

Source: Interbrand

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Capabilities: the firm's capacity to undertake a particular productive activity. Some people use the word "competence" as well. p. 132.

Examples of capabilities:

- Financial control (Pepsi)
- Strategic innovation (BP)
- Fast cycle new product development (Canon)
- Flexibility and speed of response (Zara)
- Design capability (Apple)
- Responsiveness to market trends (L'Oreal)
- Speed of distribution (Amazon, Zara)
- Customer service (Singapore Airlines)

Appraising Resources

| RESOURCE | | CHARACTERISTICS | INDICATORS |
|----------------------|------------|--|---|
| Tangible Resources | Financial | Borrowing capacity Internal funds generation | Debt/ Equity ratio Credit rating Net cash flow |
| | Physical | Plant and equipment: size, location, technology flexibility. Land and buildings. Raw materials. | Market value of fixed assets. Scale of plants Alternative uses for fixed assets |
| Intangible Resources | Technology | Patents, copyrights, know how R&D facilities. Technical and scientific employees | No. of patents owned Royalty income R&D expenditure R&D staff |
| | Reputation | Brands. Customer loyalty. Company reputation (with suppliers, customers, government) | Brand equity Customer retention Supplier loyalty |
| Human Resources | | Training, experience, adaptability, commitment and loyalty of employees | Employee qualifications, pay rates, turnover. |

A practical guide

What are we talking about?

Putting resources and capability analysis to work:
a step by step approach.

How a company can appraise its resources and capabilities **and then use that appraisal to guide strategy formulation.**

A practical guide

Step 1. Identify which are the main R&C:

- a. From our customers' point of view.
- b. To be able to maintain our competitive advantage

A practical guide

Step 2. Evaluate those R&C

- a. Which are the main ones?
Which ones are valued as **best** by our customers?

- b. Where are we compared to our competitors?
Be realistic – not “wishful thinking”. Internal discussions needed. **Benchmarking**: the process of identifying, understanding and adapting **outstanding** practices from organizations elsewhere in the world to help your organization improve its performance.”

A practical guide

Step 2. Appraising resources and capabilities - cont.

c. Bringing together Importance and relative strength. 1 (very low) to 10 (very high)

My
strength

| | |
|--|----------------|
| Superfluous strengths | Key strengths |
| Gray area (<i>zona irrelevante</i>) | Key weaknesses |

Strategic
importance

A practical guide

Step 2. Appraising resources and capabilities - cont.

Remember HD example: take the key strength "*brand*", and work a whole strategy that goes around it.

A practical guide

Step 2. Appraising resources and capabilities - cont. Make a table:

| R&C | Importance | Strength | Comments |
|--------------------------|------------|----------|----------|
| Financial control | 6 | 4 | |
| New product development. | 9 | 8 | |
| Location | 7 | 6 | |
| Customer relations | 9 | 3 | |

A practical guide

Step 3. Developing Strategy Implications.

- **Exploiting key strengths**
- **Managing key weaknesses**
- **What about superfluous strengths (lower level of invest in those areas)**
- **Developing resources and capabilities (yes, but it is a long process!)**

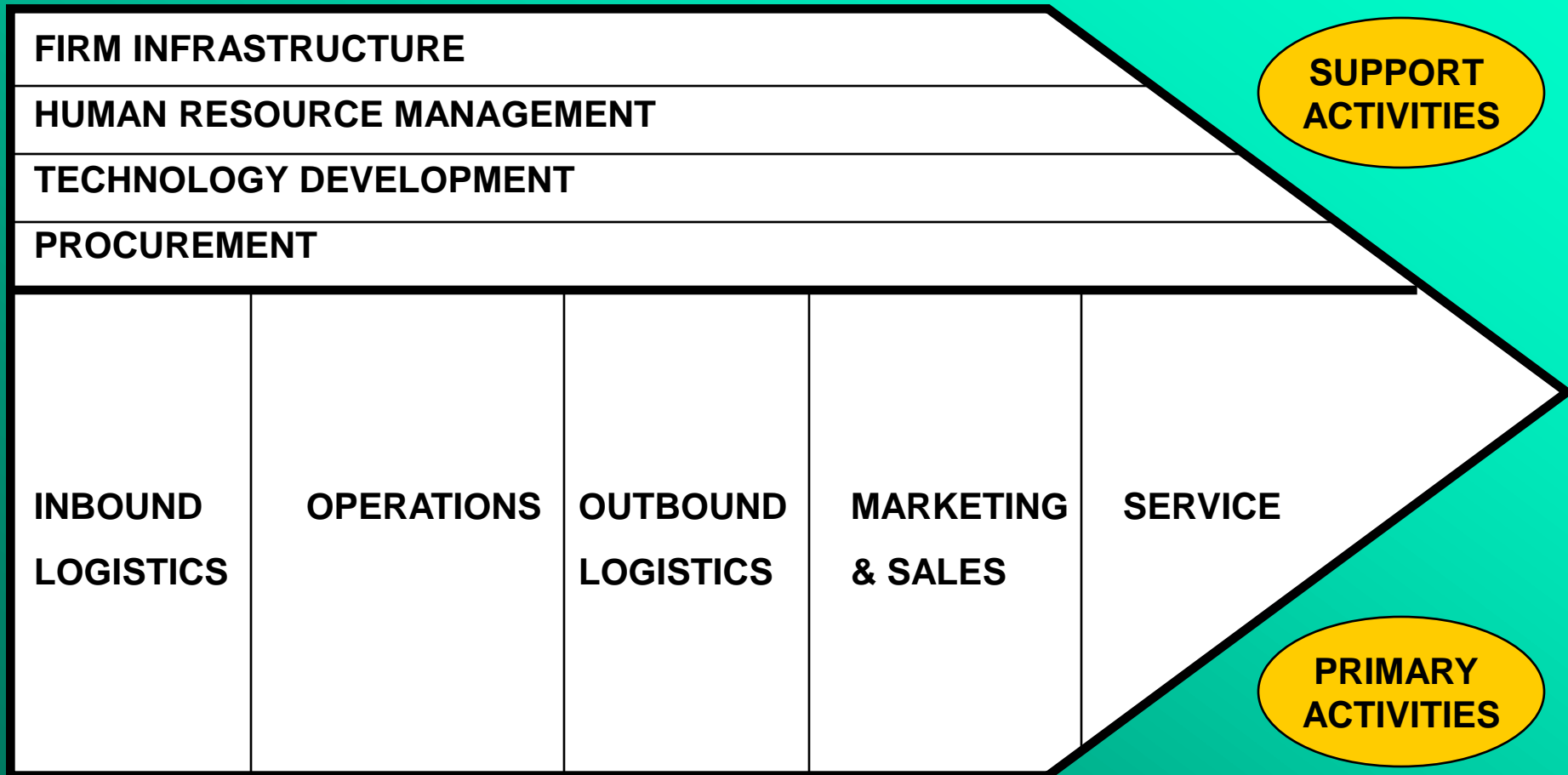
Identifying Organizational Capabilities: A Functional Classification

| FUNCTION | CAPABILITY | EXEMPLARS |
|--|---|---|
| Corporate Management | Financial management Strategic control Coordinating business units Managing acquisitions | ExxonMobil, GE IBM, Samsung BP, P&G Citigroup, Cisco |
| MIS | Speed and responsiveness through rapid information transfer | Wal-Mart, Dell Capital One |
| R&D | Research capability Development of innovative new products | Merck, IBM Apple, 3M |
| Manufacturing | Efficient volume manufacturing Continuous Improvement Flexibility | Briggs & Stratton Nucor, Harley-D Zara, Four Seasons |
| Design | Design Capability | Apple, Nokia |
| Marketing | Brand Management Quality reputation Responsiveness to market trends | P&G, LVMH Johnson & Johnson MTV, L'Oreal |
| Sales, Distribution & Service | Sales Responsiveness Efficiency and speed of distribution Customer Service | PepsiCo, Pfizer LL Bean, Dell Singapore Airlines Caterpillar |

The Value Chain: The McKinsey Business System

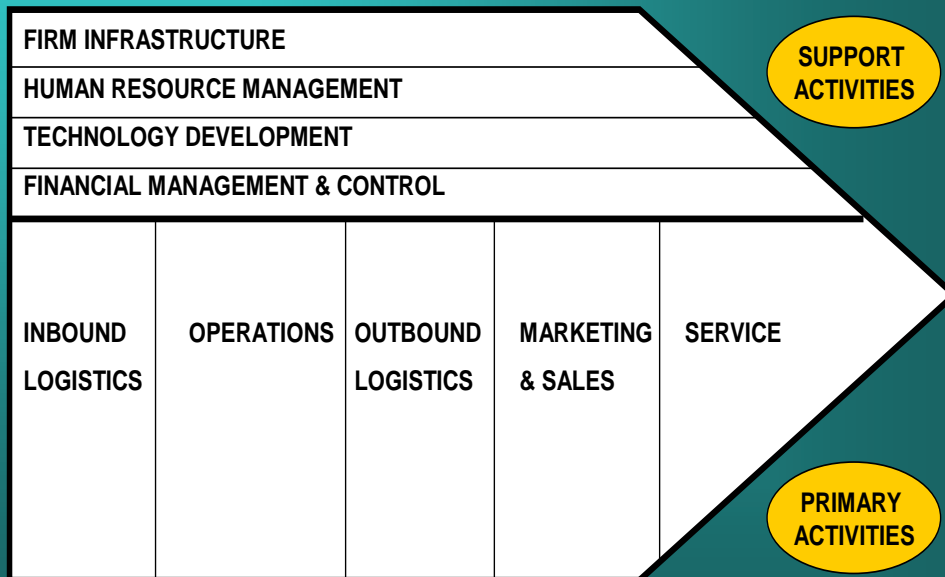


The Porter Value Chain



Two approaches to identifying an organization's resources and capabilities

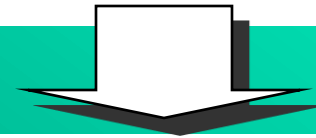
Starting from the inside



Starting from the outside

Key Success Factors

- How do customers choose?
- What do we need to survive competition?



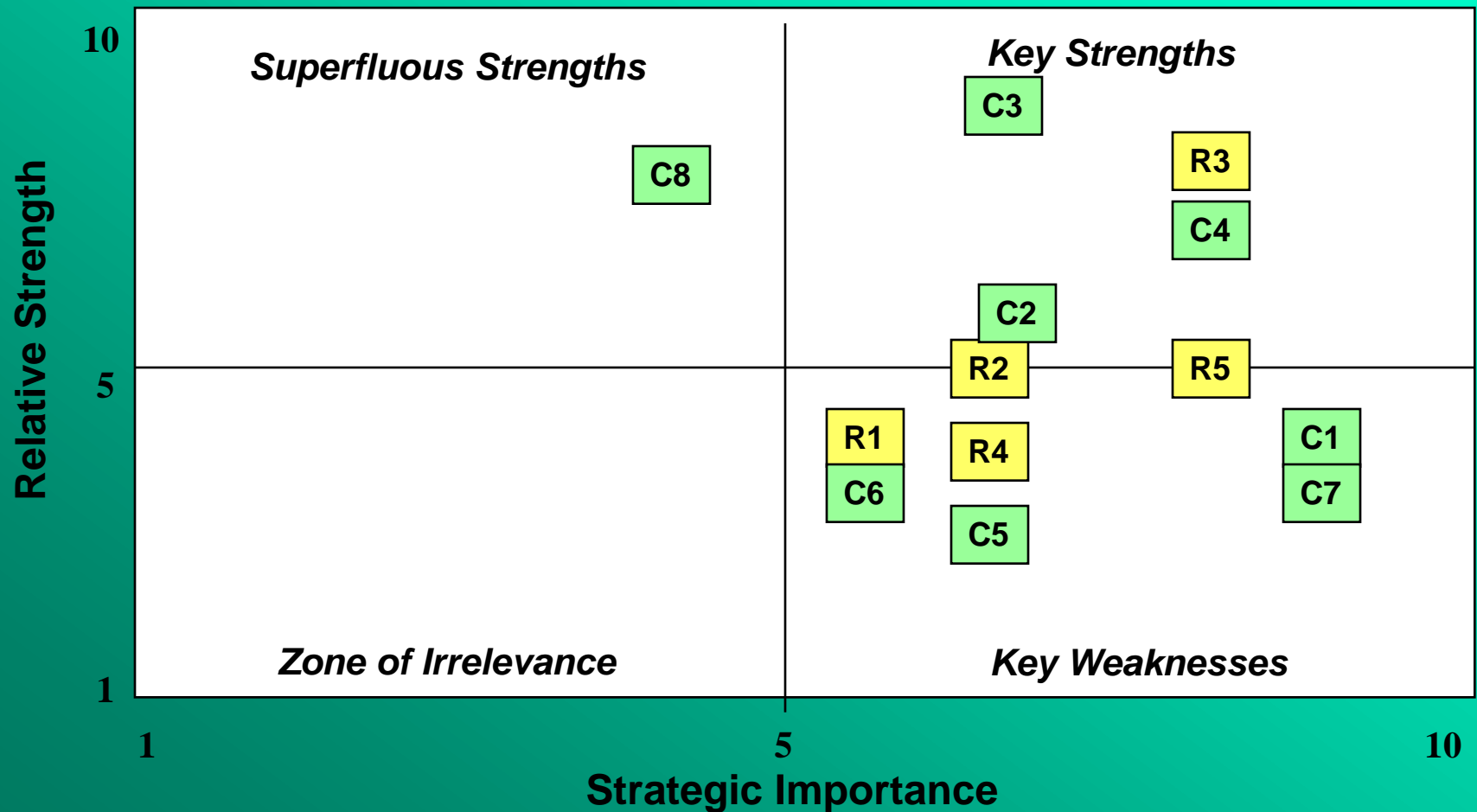
What resources & capabilities do we need to deliver these KSFs?

Assessing a Companies Resources and Capabilities: The Case of VW

| RESOURCES | <i>Importance</i> | <i>VW's Relative Strength</i> | CAPABILITIES | <i>Importance</i> | <i>VW's Relative Strength</i> |
|-------------------------|-------------------|-------------------------------|--------------------------|-------------------|-------------------------------|
| R1. Finance | 6 | 4 | C1. Product development | 9 | 4 |
| R2. Technology | 7 | 5 | C2. Purchasing | 7 | 5 |
| R3. Plant and equipment | 8 | 8 | C3. Engineering | 7 | 9 |
| | | | C4. Manufacturing | 8 | 7 |
| R4. Location | 7 | 4 | C5. Financial management | 6 | 3 |
| R5. Distribution | 8 | 5 | C6. R&D | 6 | 4 |
| | | | C7. Marketing & sales | 9 | 4 |
| | | | C8. Government relations | 4 | 8 |

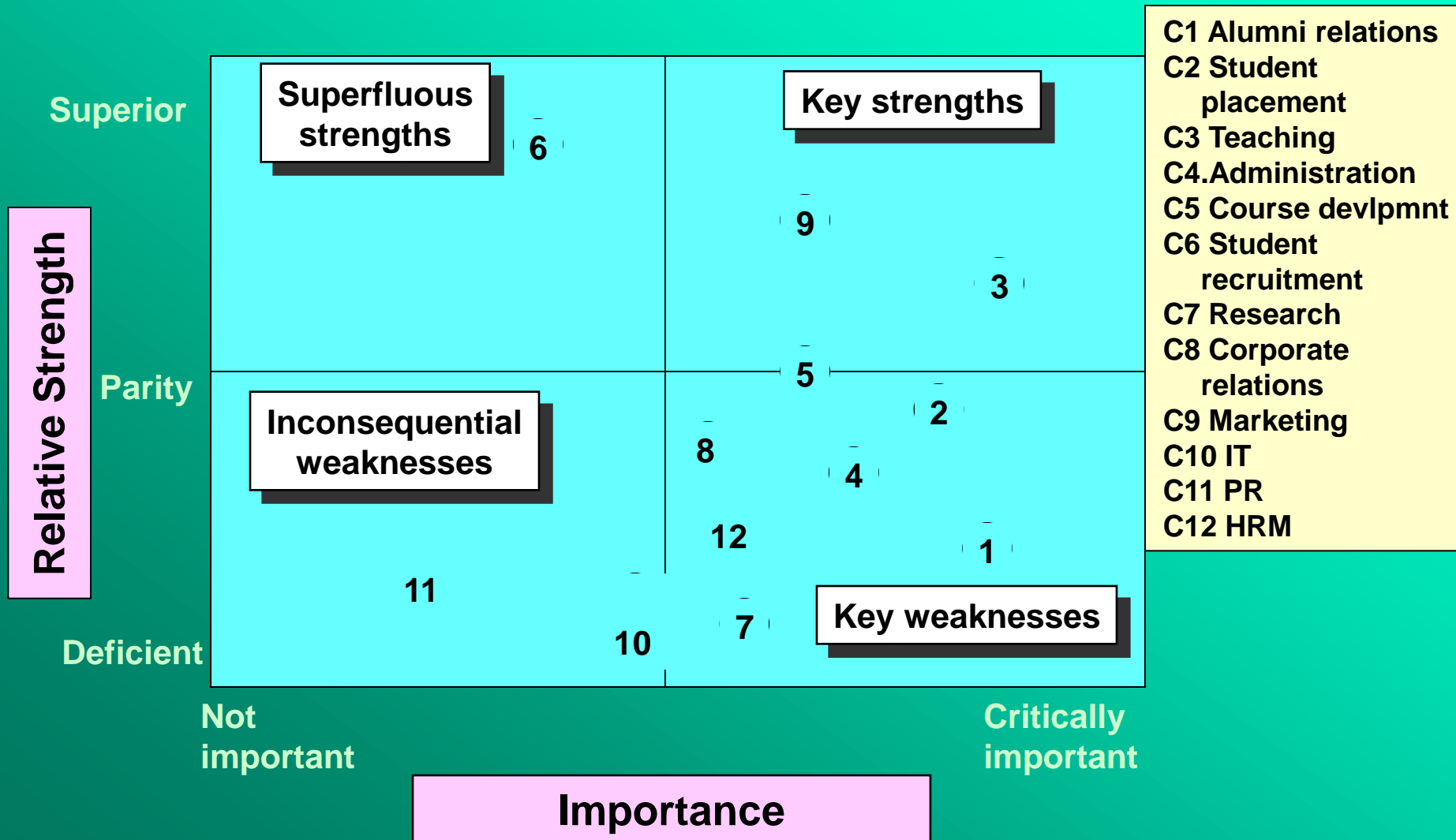
Appraising VW's Resources and Capabilities

(Hypothetical only)



Appraising the Capabilities of a Business School

(Positive only)



Additional contents:

Southwest:

<http://www.southwest.com/html/about-southwest/index.html?int=GFOOTER-ABOUT-ABOUT>

Interview Jim Collins:

<http://www.youtube.com/watch?v=CfF1YM091Nc>

Interview Schultz, President Starbucks:

<https://www.youtube.com/watch?v=83yInyY1KLs>

CODORNIU

What is Codorniu biggest challenge?

BODEGAS Y VIÑEDOS
CODORNIU RAVENTÓS
DESDE 1551

Nuestras marcas | Les nostres marques | Our brands

