

## Agenda for today

### Internal analysis of a firm

- How to identify the firms' strengths and weaknesses?
- How do they compare with that of competitors?
- How can a firm obtain sustainable competitive advantage? *→ Super normal profits*
- How can we amalgamate the internal and external analysis of the firm?

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## Sustainable competitive advantage

### Du Pont Analysis

Measures
Profitability (Net income / Sales)
Operating Efficiency (Sales / Assets)
Leverage (Asset / Equity)
ROE

*net income / sales* × *sales / Assets* × *Assets / Equity*

*margin* (gross fixed asset, salaries)

*asset utilisation*

*Debt* → *interest*

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## Theoretical Underpinnings

### Resource Based View *Jay Barney*

- Assumes that a firm's resources and capabilities are the primary drivers of competitive advantage and economic performance
- **Resources** can be either tangible and intangible assets of a firm
  - **tangible**: factories, products
  - **intangible**: reputation *Brand skills, R&D*
- **Capabilities** are a subset of resources that enable a firm to take full advantage of other resources
  - marketing skill, cooperative relationships *JVs* *Resources × Activities = Capabilities*

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## Resource Based View

### Identifying resources and capabilities

**Secondary**

- Firm Infrastructure *HQ cost ↓*
- Human Resource Management *incentives Profit sharing*
- Technology Development *standardization*

**Primary**

- Procurement *Put labels*
- Inbound Logistics *low material sourcing, labor*
- Operations *outsourced automate, Value Eng, new tech, customer gain*
- Outbound Logistics *distribution to online, inventory input, stock out, lost sale*
- Marketing and Sales *Positioning, strong presence, digital referral*
- Service *new product different price range, offer sales service, online, warranty, customer feedback*

**MARGIN** (top)

**MARGIN** (bottom)

*loyalty touch points, Bidding*

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## Resource Based View

### Two Critical Assumptions

- Resource Heterogeneity
  - Different firms may have different resources.
  - Heterogeneity of resources typically occurs as the result of "bundling" the resources and capabilities of a firm.
- Resource Immobility
  - It may be costly for firms without certain resources to acquire or develop them.
  - Some resources may not spread from firm to firm easily.

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## Resource Based View

### VRIO Framework

*Imitability:  
↳ Physical.  
↳ Path dependency.  
↳ Casual ambiguity.  
↳ Economic deterrence*

- A resource is judged based on its:
  - Value:** Does the resource enable the firm to exploit an opportunity or neutralize a threat? Does it lead to increase in revenues or decrease in costs?
  - Rarity:** The resource must be scarce enough to avoid perfect competition dynamics and allow the firm to obtain above normal profits
  - Imitability:** Competitors must face a cost disadvantage in imitating the resource. The firm should get sufficient lead time before a duplicate or substitute emerges.
  - Organization:** The structure and control systems of the firm must be aligned to take advantage of the resource.
- If a firm has resources meeting all the above criterion, then it can expect to enjoy **sustained competitive advantage**

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## Resource Based View

### VRIO Framework

V VALUABLE	R RARE	I INIMITABLE	O ORGANIZED	
NO	NO	NO	NO	COMPETITIVE DISADVANTAGE
YES	NO	NO	NO	COMPETITIVE PARITY
YES	YES	NO	NO	TEMPORARY COMPETITIVE ADVANTAGE
YES	YES	YES	NO	UNUSED COMPETITIVE ADVANTAGE
YES	YES	YES	YES	SUSTAINABLE COMPETITIVE ADVANTAGE

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## SWOT

### Combining internal and external analysis of firm

*New Entrant - Supplier - Buyer - Subs.*

	Opportunities (external, positive)	Threats (external, negative)
Strengths (internal, positive)	<b>Strength-Opportunity strategies</b> Which of the company's strengths can be used to maximize the opportunities you identified? <i>Brand, Premium</i>	<b>Strength-Threats strategies</b> How can you use the company's strengths to minimize the threats you identified? <i>Brand, Outsourcing</i>
Weaknesses (internal, negative)	<b>Weakness-Opportunity strategies</b> What action(s) can you take to minimize the company's weaknesses using the opportunities you identified? <i>Online, IT, Premium, Low sig ↓, logistic cost ↓</i>	<b>Weakness-Threats strategies</b> How can you minimize the company's weaknesses to avoid the threats you identified? <i>discount, inventory input</i>

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## Summary

- Resource Based View
- Difference between resources and capabilities
- Porters Value Chain
- Four categories of resources
- Assumptions of RBV
- VRIO framework
- SWOT based Strategies