

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?
- How can we amalgamate the internal and external analysis of the firm?

above industry avg. profitability.

1

Sustainable competitive advantage

Du Pont Analysis

Measures	Wal-Mart	Target	Kmart
Profitability: Net Income/Sales	0.03	0.04	-0.07
Operating efficiency: Sales / Assets	2.60	1.54	2.24
Leverage: Assets/Equity	2.41	3.03	0.57
Return on Equity	0.20	0.18	0.04

Revenue 236

PAT

240 *241*

234

Rate at which sales is converted into profit

Rate at which assets are used to generate sales.

Extent to which the firm relies on debt.

ROE = Profitability × OP Eff × Lev.

Net Inc. / Sales × Sales / Asset × Asset / Equity

Equity Debt

- No liability - Interest

- Loss Control - Tax

2

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
- **Capabilities** are a subset of resources that enable a firm to take full advantage of other resources
 - marketing skill, cooperative relationships

Resources × Activities = Capability.

3

Resource Based View

Identifying resources and capabilities

Global Value Chain.

Secondary

PRIMARY

MARGIN

4

Resource Based View

Identifying resources and capabilities

VRIO

Distribution: Nos. of stores. (Outbound logistics)

Cold storage Warehousing (Inbound logistics)

Bulk purchase Vol. (Procurement)

Market Insight

Infrastructure
 ↳ store size
 ↳ technology

Collaborations.
 ↳ wide SKU range.

faster SKU movement
 ↳ no stock out.
 ↳ private label.
 ↳ better inventory mgmt.

Large Customer base / data

HRM strategies

5

Porters Five Forces

Industry Analysis for Franchise Owners

Higher Threat → Lower Average Profits

6

Porter's Value Chain

Identifying resources and capabilities

Enterprise Resources Planning

Customer Relationship Management

7

IT as a resource and capability

The productivity paradox

- Erik Brynjolfsson (1991) CACM, "The Productivity Paradox"
 - Studies on investment in IT and productivity showed that gains in productivity were not realized.
- Why?
 - Mismeasurement of outputs and inputs
 - Lags due to learning and adjustment
 - Redistribution and dissipation of profits
 - Mismanagement of information and technology

8

IT as a resource and capability

IT doesn't matter

- Nicholas Carr (2003), "IT Doesn't Matter", *Harvard Business Review*.
 - As IT becomes more ubiquitous, it also becomes less of a differentiator.
 - Technology is so readily available, and software is so easily copied, that new tools will not give companies sustained competitive advantage.
- Carr suggests:
 - Technology is a commodity and should be managed like one.
 - Low cost: Wait until it is cost effective to adopt.
 - Low risk: Adopt slowly so other companies can take the risks associated with new technologies.
 - IT should operate as a utility in a company. Good service with minimal downtime.

9

Resource Based View

Four category of resources

- Financial (cash, retained earnings) *Slack Resources*
- Physical (plant and equipment, geographic location)
- Human (skills and abilities of individuals)
- Organizational (reporting structures, relationships)

10

Resource Based View

Two Critical Assumptions

- A → B → C → D*
- 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.

*- Physical inimitability
- Path dependency (tacit know)
- Casual Ambiguity
- Economic deterrence*

11

Resource Based View

VRIO Framework

- 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**

12

Resource Based View

VRIO Framework

V	R	I	O	
VALUABLE	RARE	INIMITABLE	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

13

SWOT

Combining internal and external analysis of firm

- Brand loyalty
- Suppliers
- MNC entry
→ Online

	Opportunities (external, positive)	Threats (external, negative)
Strengths (internal, positive)	Strength-Opportunity strategies ① Which of the company's strengths can be used to maximize the opportunities you identified? <i>Market Penetration</i>	Strength-Threats strategies ② How can you use the company's strengths to minimize the threats you identified? <i>Talent Retention/Discomb / Pricing</i>
Weaknesses (internal, negative)	Weakness-Opportunity strategies ③ What action(s) can you take to minimize the company's weaknesses using the opportunities you identified? <i>AI, franchise, niche</i>	Weakness-Threats strategies ④ How can you minimize the company's weaknesses to avoid the threats you identified? <i>Inventory mgmt, Strategic M&A</i>

Market Insights Collaboration
Instant delivery
Timing Technology

14

Summary

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

15