Agenda for today

Internal analysis of a firm

External — Threats — opportunities — SWOT

- 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?

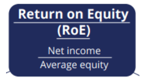
mkt share 5% ← Profits 3%

Above Average Industry Profitability

1

Sustainable competitive advantage

Du Pont Analysis



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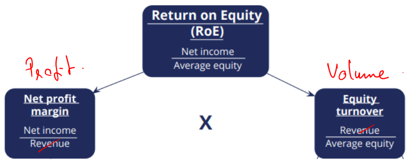
Sustainable competitive advantage

Du Pont Analysis

PAT / Sales

Profit



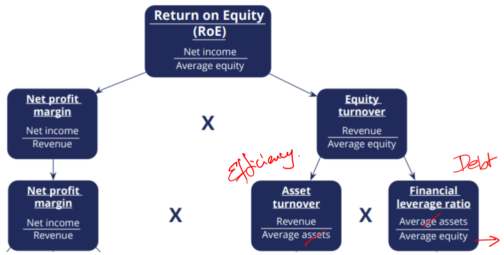
Volume

Sales / Equity

3

Sustainable competitive advantage

Du Pont Analysis



Efficiency

Debt

→ Adani

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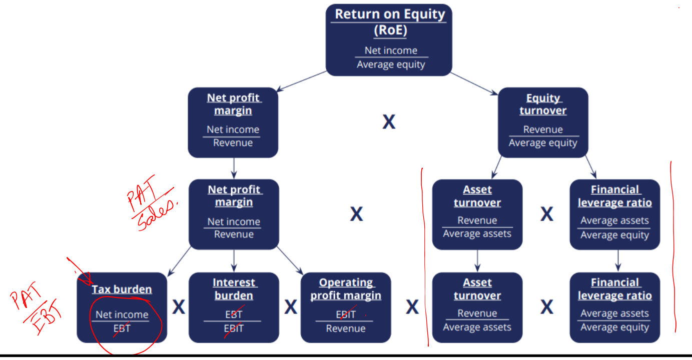
Sustainable competitive advantage

Du Pont Analysis



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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

Resources x Activities.
≈ Capabilities.

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

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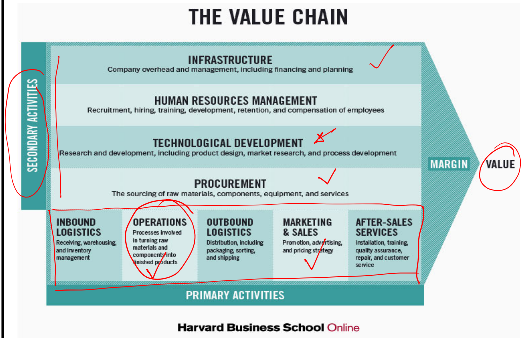
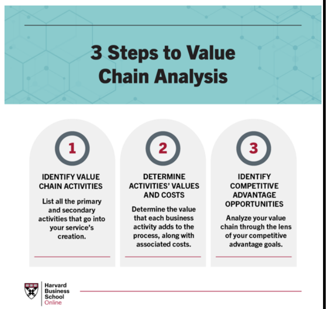
Resource Based View

Identifying resources and capabilities

Porter.





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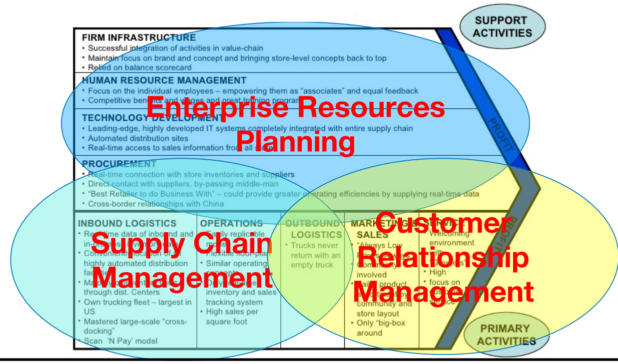
Porter's Value Chain

Identifying resources and capabilities



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IT as a resource and capability
The productivity paradox

- Erik Brynjolfsson (1991) *CACM*, “The Productivity Pardox”
  - 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

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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.

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Resource Based View
Four category of resources

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

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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 Cost
  - It may be costly for firms without certain resources to acquire or develop them.
  - Some resources may not spread from firm to firm easily. time.

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Resource Based View

VRIO Framework

- Physical - configuration. A
- Path dependency. B
- Causal ambiguity. C
- Economic deterrance.

- A resource is judged based on its:
  - V **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?
  - R **Rarity**: The resource must be scarce enough to avoid perfect competition dynamics and allow the firm to obtain above normal profits
  - I **Imitability**: Competitors must face a cost disadvantage in imitating the resource. The firm should get sufficient lead time before a duplicate or substitute emerges.
  - O **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

logistics
w mktg.
infra.

V VALUABLE	R RARE	I INIMITABLE	O ORGANIZED	
NO				COMPETITIVE DISADVANTAGE
YES	NO			COMPETITIVE PARITY
YES	YES	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

Supp
New Entrant - Comp - Sub
buyers

Buyers. WILLS. Substitutes - Health

	Opportunities (external, positive)	Threats (external, negative)
Mktg. **Strengths** (internal, positive)	**Strength-Opportunity strategies** 1 Which of the company's strengths can be used to maximize the opportunities you identified? Easiest	**Strength-Threats strategies** 2 How can you use the company's strengths to minimize the threats you identified?
Operational. **Weaknesses** (internal, negative)	**Weakness-Opportunity strategies** 3 What action(s) can you take to minimize the company's weaknesses using the opportunities you identified?	**Weakness-Threats strategies** 4 How can you minimize the company's weaknesses to avoid the threats you identified?

SO - Give discounts to Retailers
ST - Benchmarking
Innovation.

WO - SoP, Sustainability, Empower Suppliers
WT - Consumption patterns.
Alternative sources to ground water.
Desalination plant;

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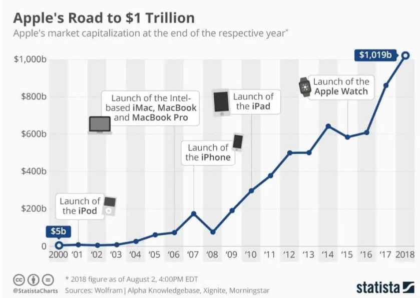
Facilitating Strategic Change

Apple Inc.

- **Resource**: Design and Innovation Expertise
- **Capability**: Product Development and Design
- **Strategic Change**: Transition from traditional PCs to mobile devices (iPhone, iPad).
- **Impact**: Apple's focus on design and innovation facilitated its successful entry into new markets and redefined the consumer electronics industry.



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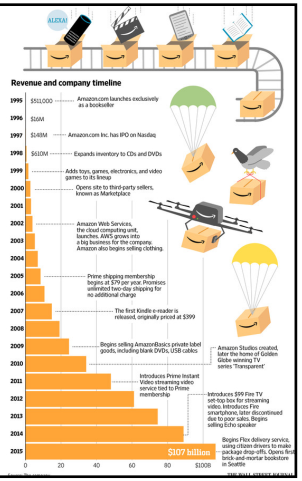
Facilitating Strategic Change

Amazon

- **Resource**: Information Technology Infrastructure
- **Capability**: Logistics and Supply Chain Management
- **Strategic Change**: Diversification into cloud computing services (Amazon Web Services).
- **Impact**: Amazon leveraged its robust IT infrastructure and logistics capabilities to drive innovation and expand its business beyond e-commerce.



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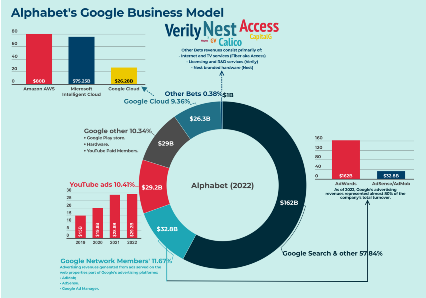
Facilitating Strategic Change: Corporate Examples

Google (Alphabet Inc.)

- **Resource**: Data and Analytics
- **Capability**: Search Engine Algorithms and Machine Learning
- **Strategic Change**: Expansion into various industries (e.g., autonomous vehicles, healthcare, AI).
- **Impact**: Google's data-driven approach and expertise in algorithms enabled it to explore new business opportunities and diversify its revenue streams.



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Hindering Strategic Change

Kodak

- **Resource**: Brand Legacy and Intellectual Property
- **Capability**: Film Photography Expertise
- **Strategic Change**: Transition to digital photography.
- **Challenge**: Kodak's strong focus on traditional film photography hindered its ability to adapt to the digital revolution, leading to missed opportunities and eventual decline.

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Hindering Strategic Change

Blockbuster

- **Resource**: Established Retail Presence
- **Capability**: Movie Rental Operations
- **Strategic Change**: Shift to digital streaming services.
- **Challenge**: Blockbuster's reliance on physical rental stores limited its ability to compete with emerging digital streaming platforms like Netflix, leading to bankruptcy.

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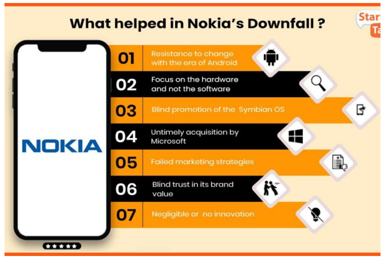
Hindering Strategic Change

Nokia

- **Resource**: Strong Brand Presence and Market Share
- **Capability**: Mobile Phone Manufacturing and Innovation
- **Strategic Change**: Transition to smartphones and touchscreen technology.
- **Challenge**: Nokia's slow response to changing consumer preferences and technological advancements led to its decline in the smartphone market, losing ground to competitors like Apple and Samsung.



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Summary

Strategic Agility

- The resources and capabilities of a firm play a critical role in facilitating or hindering strategic change.
- Importance of strategic agility VRIO.
  - Organizations must continuously assess and adapt their resources and capabilities to respond to changing market dynamics and seize new opportunities.
  - By leveraging their unique strengths and addressing potential constraints, firms can navigate strategic change effectively and drive sustainable growth in today's dynamic business environment.

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Summary

Internal Analysis

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

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