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UNIVERSITY OF INTERNATIONAL BUSINESS AND ECONOMICS

Chapter 3

Analyzing a Company's Resources and Competitive Position

Learning Objectives

1. How well is the company's present strategy working?
2. What are the company's resource strengths and weaknesses and its external opportunities and threats?
3. Is the company competitively stronger or weaker than key rivals?
4. What strategic issues merit front-burner managerial attention?

Objective 1

How well is the company's
present strategy working?



Q #1: How Well Is the Company's Present Strategy Working?

- Identify ***competitive approach***
 - Low-cost leadership
 - Differentiation
 - Focus on a particular market niche
- Determine ***competitive scope***
 - Geographic market coverage
 - Operating stages in industry's production/distribution chain
- Examine ***recent strategic moves***
- Identify ***functional strategies***

Key Indicators of How Well the Strategy Is Working

- Trend in sales and market share
- Acquiring and/or retaining customers
- Trend in profit margins
- Trend in net profits, ROI, and EVA
- Overall financial strength and credit ranking
- Efforts at continuous improvement activities
- Trend in stock price and stockholder value
- Image and reputation with customers
- Leadership role(s) – Technology, quality, innovation, e-commerce, etc.

Objective 2

What are the company's resource strengths and weaknesses and its external opportunities and threats?



Q #2: What Are the Company's Strengths, Weaknesses, Opportunities and Threats ?

- **S W O T** represents the first letter in
 - **S**trengths
 - **W**eaknesses
 - **O**pportunities
 - **T**hreats
- For a company's **strategy** to be **well-conceived**, it must be
 - Matched to its resource strengths and weaknesses
 - Aimed at capturing its best market opportunities and erecting defenses against external threats to its well-being

Identifying Resource Strengths and Competitive Capabilities

- A **strength** is something a firm does well or an attribute that enhances its competitiveness
 - Valuable competencies or know-how
 - Valuable physical assets
 - Valuable human assets
 - Valuable organizational assets
 - Valuable intangible assets
 - Important competitive capabilities
 - An attribute that places a company in a position of market advantage
 - Alliances or cooperative ventures with partners

Competencies vs. Core Competencies vs. Distinctive Competencies

- A **competence** is the **product of organizational learning and experience** and represents real **proficiency** in performing an internal activity
- A **core competence** is a well-performed internal activity **central** to a company's **competitiveness and profitability**
- A **distinctive competence** is a **competitively valuable activity** a company **performs better than its rivals**



Company Competencies and Capabilities

- Stem from **skills, expertise, and experience** usually representing an
 - Accumulation of **learning** over time **and**
 - Gradual buildup of real **proficiency** in **performing an activity**
- Involve **deliberate efforts** to develop the ability to do something, often entailing
 - Selecting people with requisite knowledge and skills
 - Upgrading or expanding individual abilities
 - Molding work products of individuals into a cooperative effort to create organizational ability
 - A conscious effort to create intellectual capital

Determining the Competitive Value of a Company Resource

- To qualify as competitively valuable or to be the basis for *sustainable competitive advantage*, a “*resource*” must pass 4 tests:
 1. Is the resource *hard to copy*?
 2. Does the resource have *staying power* – is it *durable*?
 3. Is the resource really *competitively superior*?
 4. Can the resource be *trumped* by the different capabilities of rivals?

Identifying Resource Weaknesses and Competitive Deficiencies

- A **weakness** is something a firm lacks, does poorly, or a condition placing it at a disadvantage
- **Resource weaknesses** relate to
 - Inferior or unproven skills, expertise, or intellectual capital
 - Lack of important physical, organizational, or intangible assets
 - Missing capabilities in key areas

Identifying a Company's Market Opportunities

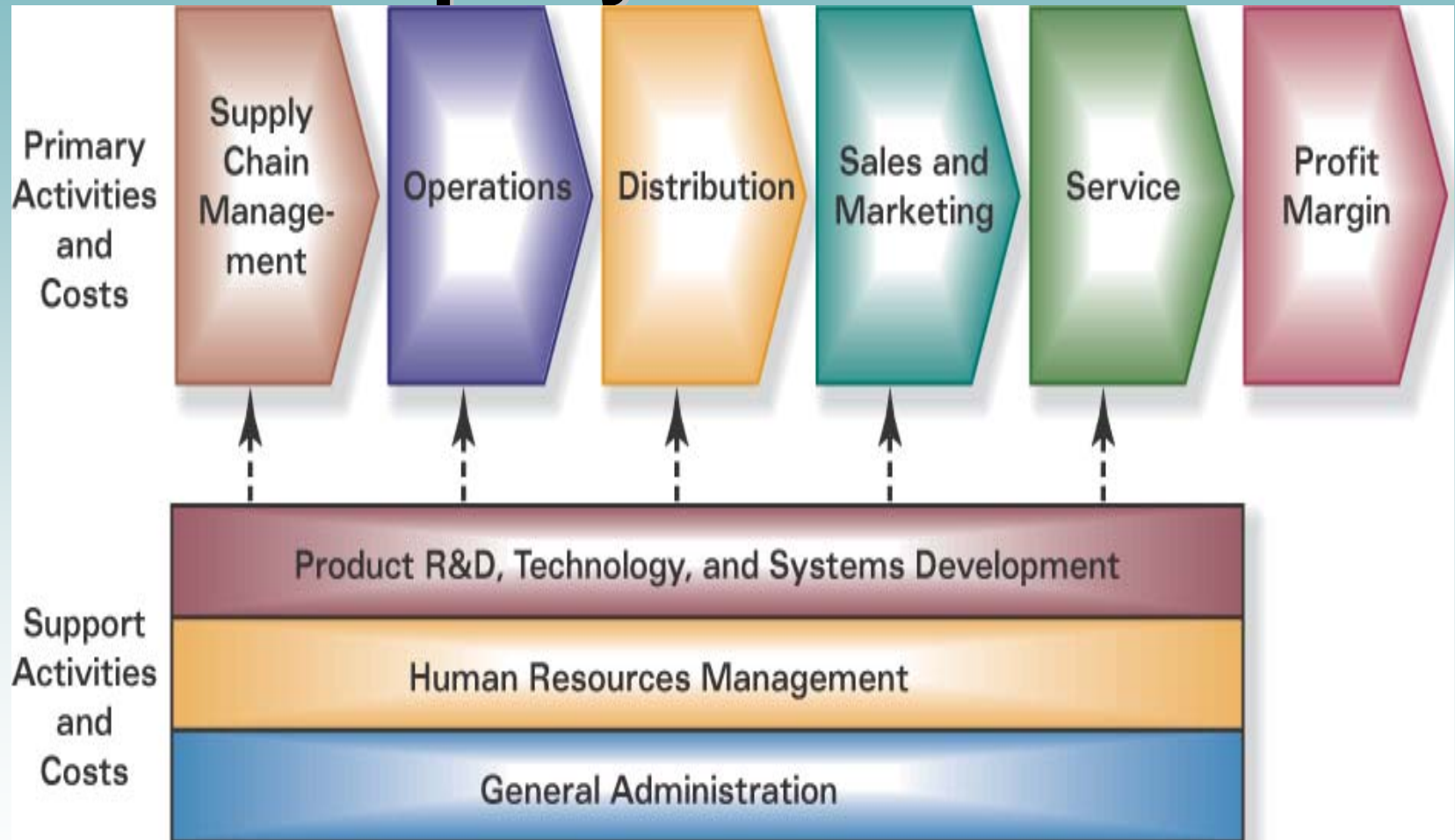
- Opportunities *most relevant* to a company are those offering
 - ***Good match*** with its financial and organizational resource capabilities
 - ***Best prospects*** for ***profitable long-term growth***
 - ***Potential*** for ***competitive advantage***



Identifying External Threats

- Emergence of cheaper/better technologies
- Introduction of better products by rivals
- Entry of lower-cost foreign competitors
- Onerous regulations
- Rise in interest rates
- Potential of a hostile takeover
- Unfavorable demographic shifts
- Adverse shifts in foreign exchange rates
- Political upheaval in a country

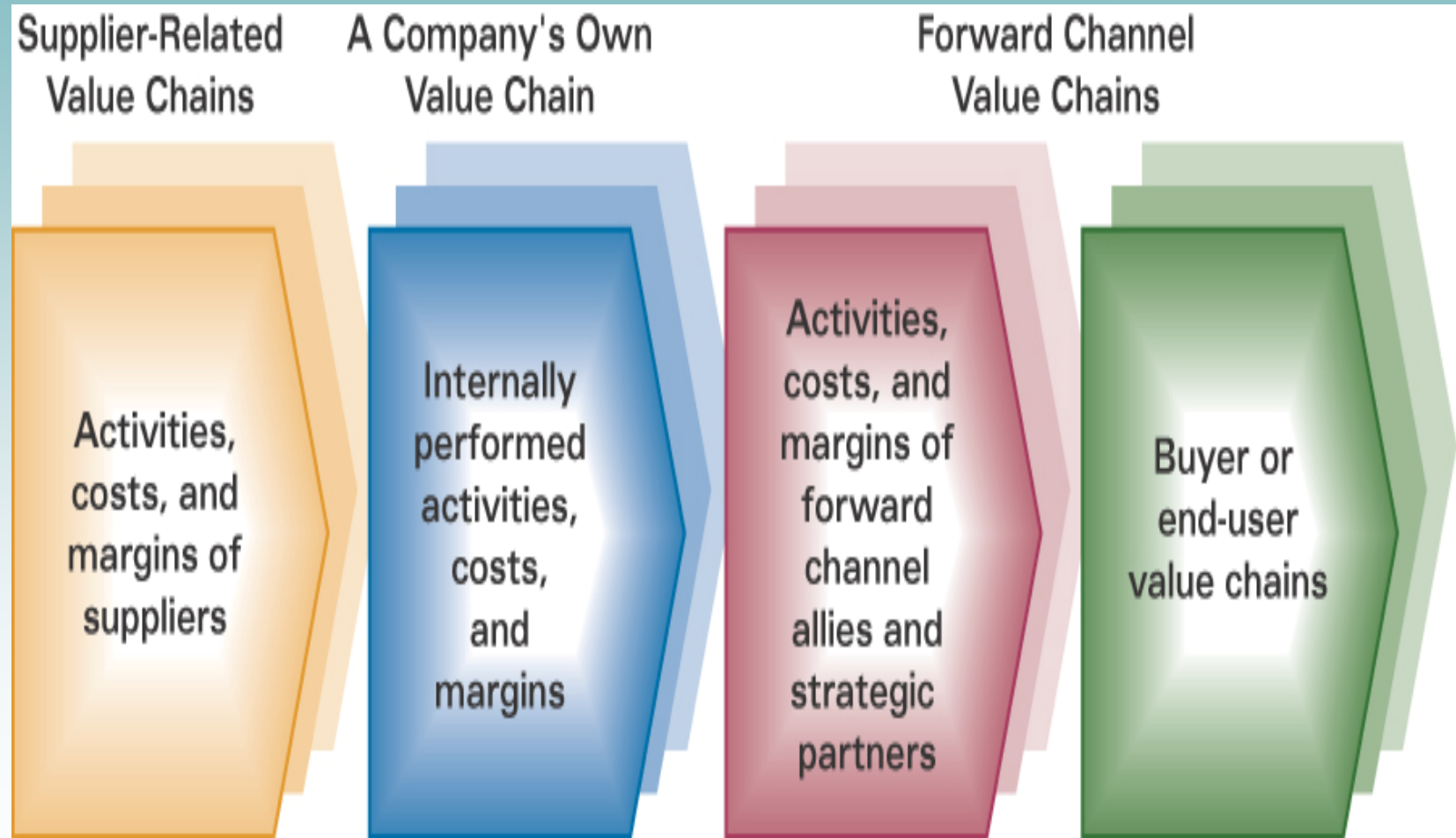
Fig. 3.3: Representative Company Value Chain



The Value Chain System for an Entire Industry

- Assessing a company's **cost competitiveness** involves **comparing costs** all along the industry's value chain
- **Suppliers' value chains** are relevant because
 - Costs, performance features, and quality of inputs provided by suppliers influence a firm's own costs and product performance
- **Forward channel allies' value chains** are relevant because
 - Costs and margins are part of price paid by ultimate end-user
 - Activities performed affect end-user satisfaction

Fig. 3.4: Representative Value Chain for an Entire Industry



Objective 3

Is the company competitively
stronger
or weaker than key rivals?



Q. #4: Is the Company Stronger or Weaker than Key Rivals?

- Overall ***competitive position*** involves answering two questions
 - How does a ***company rank relative to competitors*** on each important factor that determines market success?
 - Does a company have a net ***competitive advantage*** or ***disadvantage*** vis-à-vis major competitors?

Assessing a Company's Competitive Strength vs. Key Rivals

- 1.** List industry key success factors and other relevant measures of competitive strength
- 2.** Rate firm and key rivals on each factor using rating scale of 1 to 10 (1 = very weak; 5 = average; 10 = very strong)
- 3.** Decide whether to use a weighted or unweighted rating system (a weighted system is superior because chosen strength measures are unlikely to be equally important)
- 4.** Sum individual ratings to get an overall measure of competitive strength for each rival
- 5.** Based on overall strength ratings, determine overall competitive position of firm

Objective 4

What strategic issues merit front-burner managerial attention?



Identifying the Strategic Issues

- How to stave off market challenges from new foreign competitors?
- How to combat price discounting of rivals?
- How to reduce a company's high costs?
- How to sustain a company's present growth in light of slowing buyer demand?
- Whether to expand a company's product line?
- Whether to acquire a rival firm?
- Whether to expand into foreign markets rapidly or cautiously?
- What to do about aging demographics of a company's customer base?

Summary

There are five key questions to consider in analyzing a company's own particular competitive circumstances and its competitive position. Good company situation analysis, like good industry and competitive analysis, is a valuable precondition for good strategy-making.