



Strategic Thinking and Competitive Advantage

Session 3

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Who is your lecturer?



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PhD (Management); Louisiana State University

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Burapha University

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Agenda

- ◆ Review of last session
- ◆ Resource Based Perspective-Inside Factors are more important (S&W)
- ◆ Analyzing a Company's Resources and Competitive Position-Resources, Capabilities, & Core competencies
- ◆ Test for Sustainable Competitive Advantage
- ◆ Value Chain Analysis
- ◆ Strategy formulation using SWOT analysis-TOWS

Resource-Based Model of Above-Average Returns

- ◆ Each organization is a collection of unique resources and capabilities that provides the basis for its strategy and that is the primary source of its returns
- ◆ Capabilities evolve and must be managed dynamically
- ◆ Differences in firms' performances are due primarily to their unique resources and capabilities rather than structural characteristics of the industry
- ◆ Firms acquire different resources and develop unique capabilities (creating unique value to stakeholders)

Components of Internal Analysis

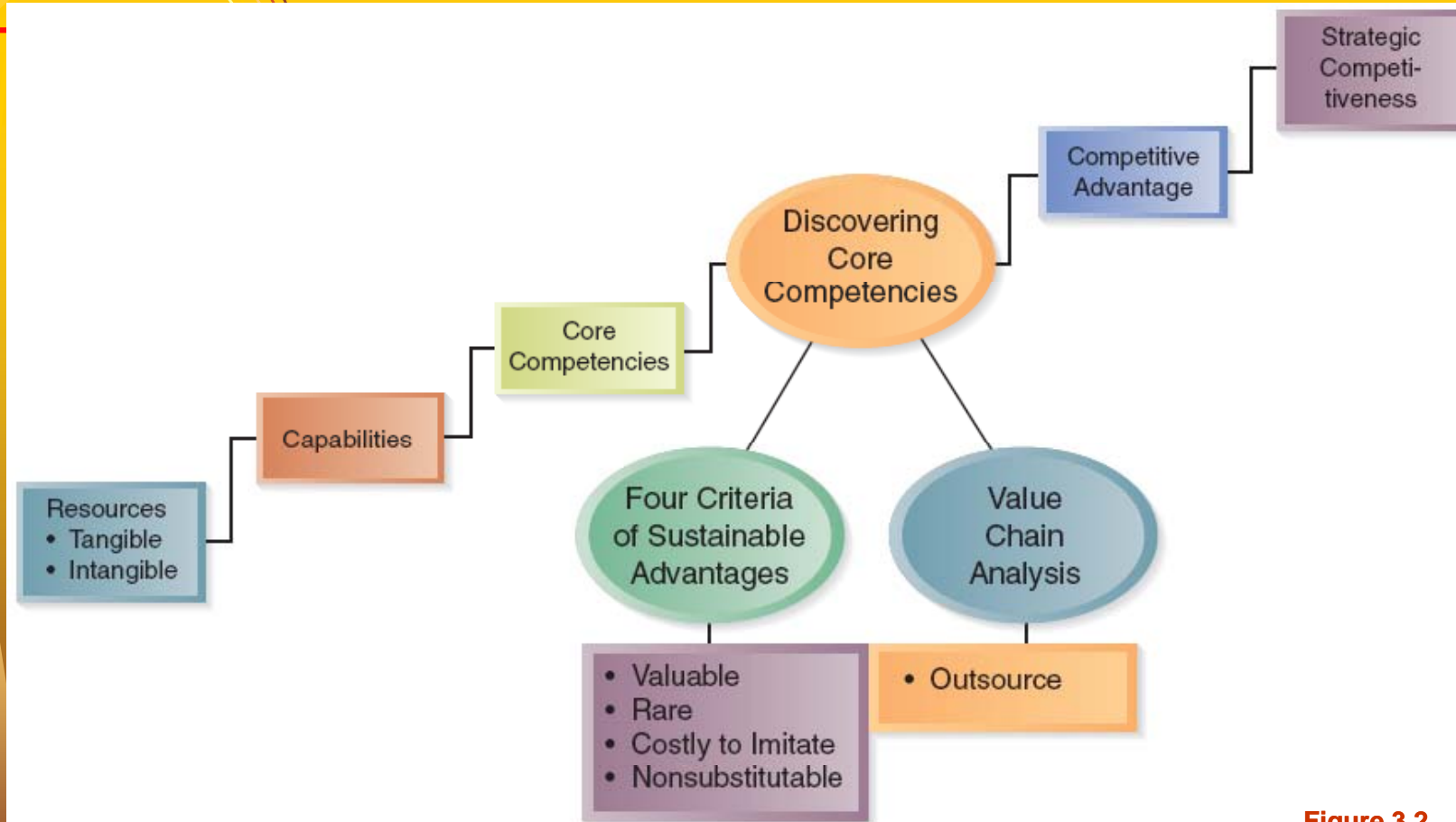
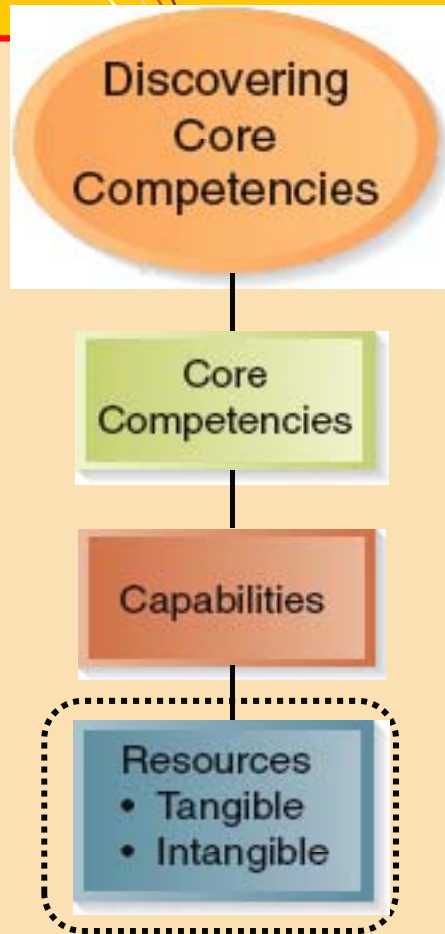


Figure 3.2

Creating Competitive Advantage

- ◆ Core competencies, in combination with product-market positions, are the firm's most important sources of competitive advantage
 - Innovation capabilities at Apple (with globalization)
 - Shop's ambience at Star Buck (with the Third Place)
 - Taste of Yakult (with Healthy Trend)
- ◆ Core competencies of a firm, in addition to its analysis of its general, industry, and competitor environments, should drive its selection of strategies

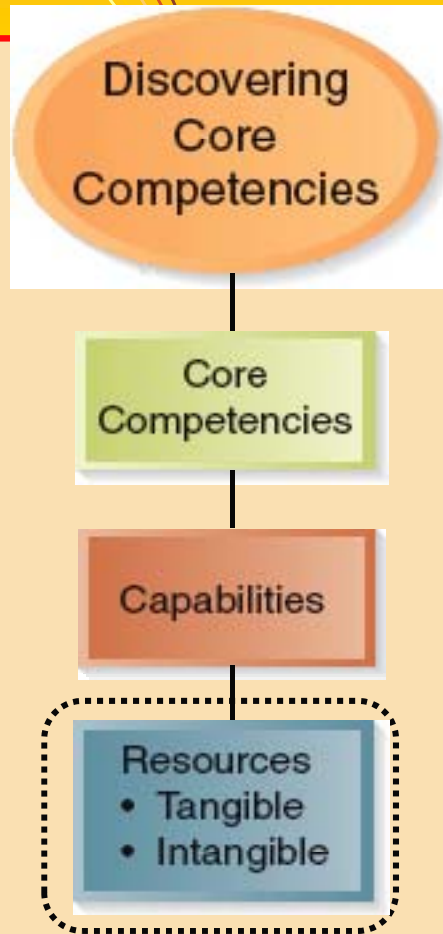
Resources, Capabilities and Core Competencies



◆ Resources

- Are the source of a firm's capabilities
- Are broad in scope
- Cover a spectrum of individual, social and organizational phenomena
- Alone, do not yield a competitive advantage

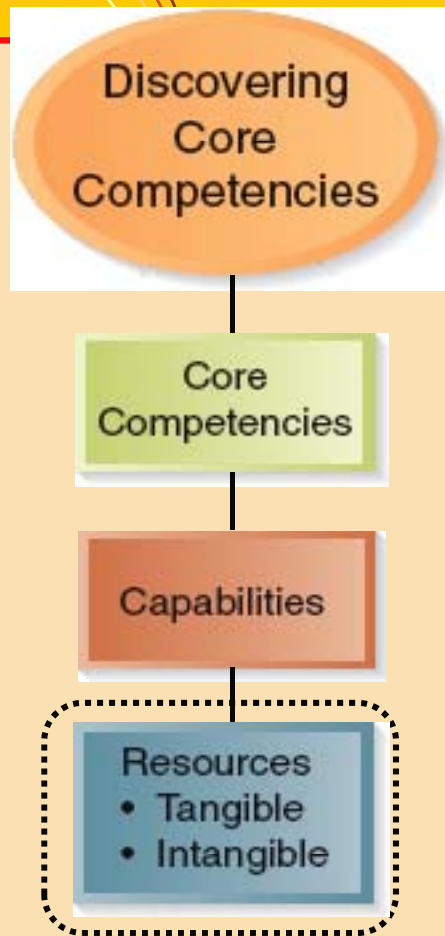
Resources, Capabilities and Core Competencies



◆ Resources

- Are a firm's assets, including people and the value of its brand name
- Represent inputs into a firm's production process, such as:
 - Capital equipment
 - Skills of employees
 - Brand names
 - Financial resources
 - Talented managers

Resources, Capabilities and Core Competencies



◆ Resources

➔ Tangible resources

- Financial resources
- Physical resources
- Technological resources
- Organizational resources

➔ Intangible resources

- Human resources
- innovation resources
- Reputation resources

Tangible Resources

Financial Resources

- **The firm's borrowing capacity**
- **The firm's ability to generate internal funds**

Organizational Resources

- **The firm's formal reporting structure and its formal planning, controlling, and coordinating systems**

Physical Resources

- **Sophistication and location of a firm's plant and equipment**
- **Access to raw materials**

Technological Resources

- **Stock of technology, such as patents, trade-marks, copyrights, and trade secrets**

SOURCES: Adapted from J. B. Barney, 1991, Firm resources and sustained competitive advantage, *Journal of Management*, 17: 101; R. M. Grant, 1991, *Contemporary Strategy Analysis*, Cambridge, U.K.: Blackwell Business, 100–102.

Table 3.1

Intangible Resources

Human Resources

- Knowledge
- Trust
- Managerial capabilities
- Organizational routines

Innovation Resources

- Ideas
- Scientific capabilities
- Capacity to innovate

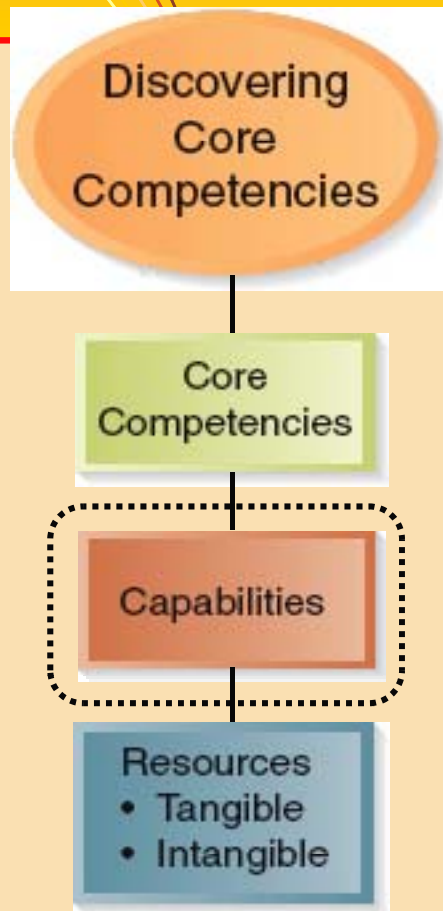
Reputational Resources

- Reputation with customers
- Brand name
- Perceptions of product quality, durability, and reliability
- Reputation with suppliers
- For efficient, effective, supportive, and mutually beneficial interactions and relationships

SOURCES: Adapted from R. Hall, 1992, The strategic analysis of intangible resources, *Strategic Management Journal*, 13: 136–139; R. M. Grant, 1991, *Contemporary Strategy Analysis*, Cambridge, U.K.: Blackwell Business, 101–104.

Table 3.2

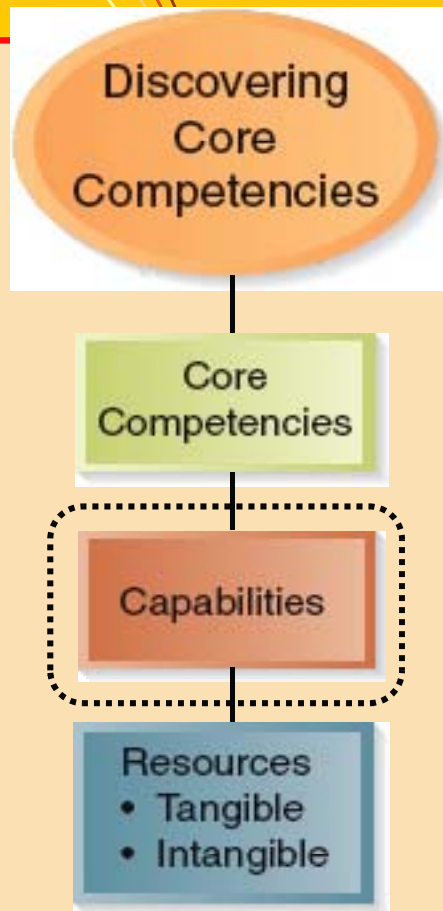
Resources, Capabilities and Core Competencies



◆ Capabilities

- Are the firm's capacity to deploy resources that have been purposely integrated to achieve a desired end state
- Emerge over time through complex interactions among tangible and intangible resources
- Often are based on developing, carrying and exchanging information and knowledge through the firm's human capital

Resources, Capabilities and Core Competencies



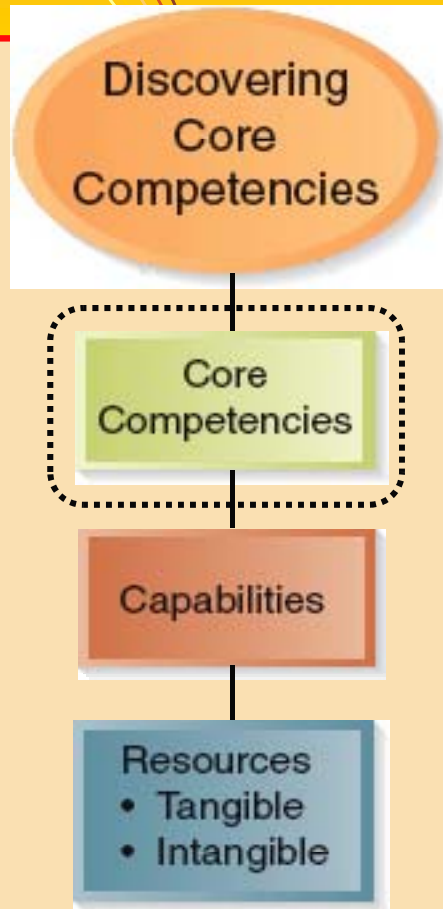
◆ Capabilities

→ The foundation of many capabilities lies in:

- The unique skills and knowledge of a firm's employees
- The functional expertise of those employees

→ Capabilities are often developed in specific functional areas or as part of a functional area

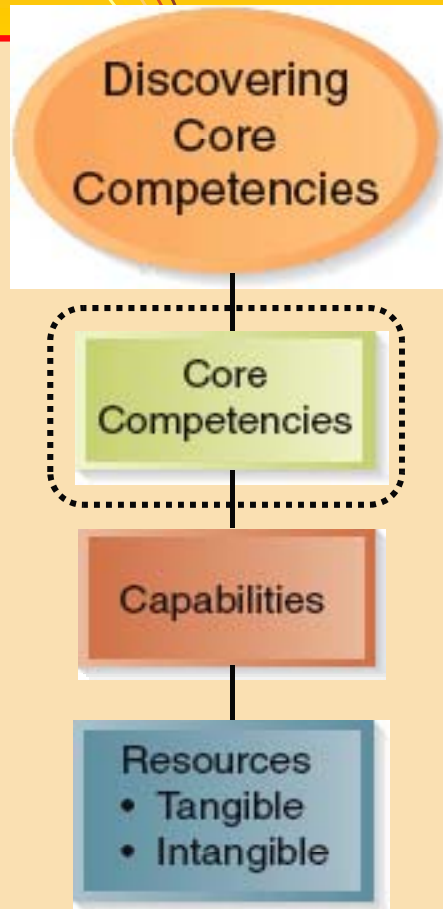
Resources, Capabilities and Core Competencies



◆ Core Competencies

- Resources and capabilities that serve as a source of a firm's competitive advantage:
- Distinguish a company competitively and reflect its personality
 - Emerge over time through an organizational process of accumulating and learning how to deploy different resources and capabilities

Resources, Capabilities and Core Competencies



◆ Core Competencies

- ➔ Activities that a firm performs especially well compared to competitors
- ➔ Activities through which the firm adds unique value to its goods or services over a long period of time

Examples: (Distinctive) Core Competencies

◆ *Sharp Corporation*

→ Expertise in flat-panel display technology



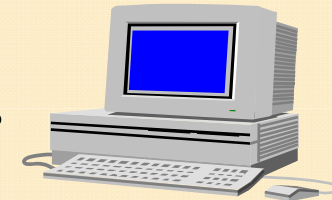
◆ *Toyota and Honda*

→ Low-cost, high-quality manufacturing capability and short design-to-market cycles



◆ *Intel*

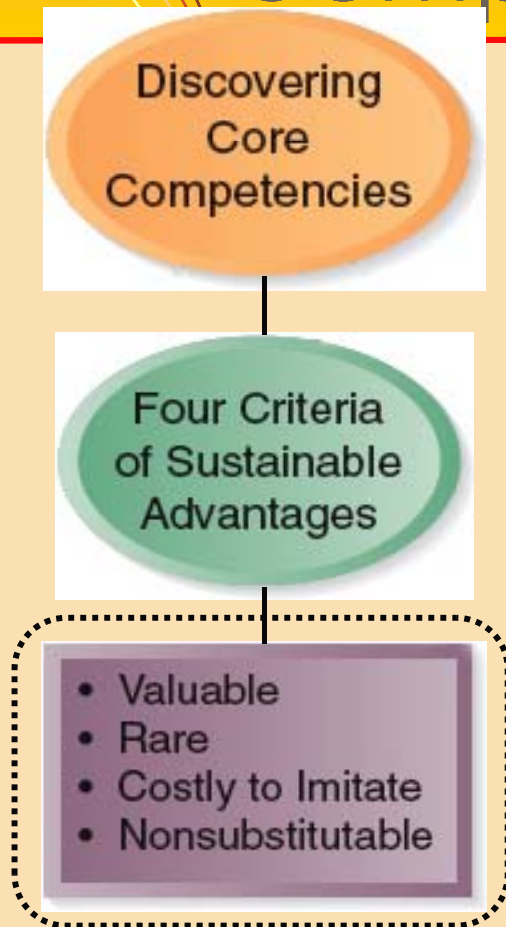
→ Ability to design and manufacture ever more powerful microprocessors for PCs



◆ *Wal-Mart*

→ Low-cost distribution and use of state-of-the-art retail technology

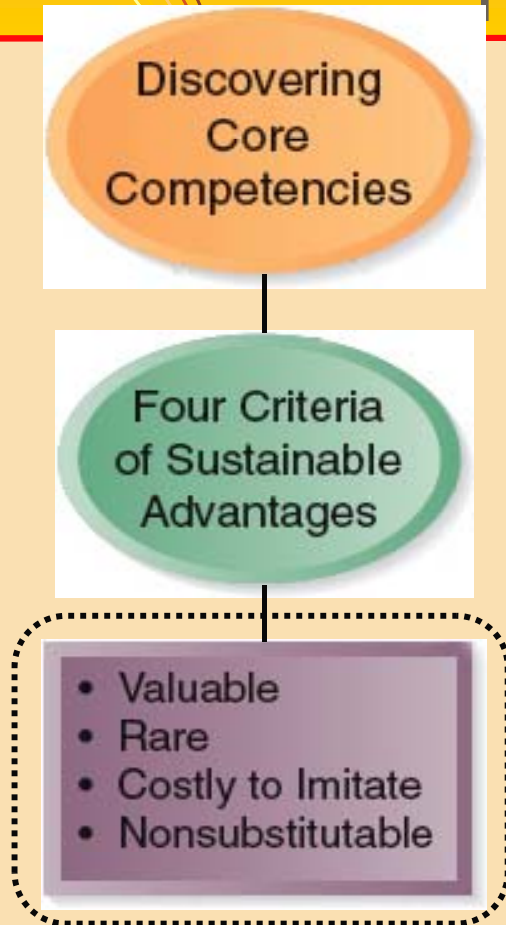
Building Sustainable Competitive Advantage



◆ Four Criteria of Sustainable Competitive Advantage

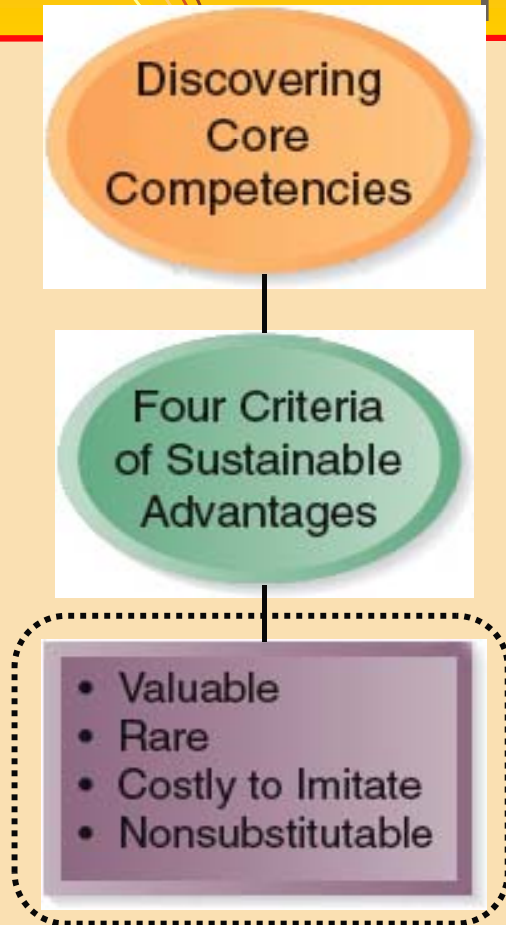
- Valuable
- Rare
- Costly to imitate
- Nonsubstitutable

Building Sustainable Competitive Advantage



- ◆ Valuable capabilities
 - ➔ Help a firm neutralize threats or exploit opportunities
- ◆ Rare capabilities
 - ➔ Are not possessed by many others

Building Sustainable Competitive Advantage



◆ Costly-to-Imitate Capabilities

→ Historical

- A unique and a valuable organizational culture or brand name

→ Ambiguous cause

- The causes and uses of a competence are unclear

→ Social complexity

- Interpersonal relationships, trust, and friendship among managers, suppliers, and customers

Building Sustainable Competitive Advantage

Discovering
Core
Competencies

Four Criteria
of Sustainable
Advantages

- Valuable
- Rare
- Costly to Imitate
- Nonsubstitutable

- ◆ Nonsubstitutable Capabilities
 - No strategic equivalent

Outcomes from Combinations of the Criteria for Sustainable Competitive Advantage

Is the Resource or Capability Valuable?	Is the Resource or Capability Rare?	Is the Resource or Capability Costly to Imitate?	Is the Resource or Capability Nonsubstitutable?	Competitive Consequences	Performance Implications
No	No	No	No	Competitive disadvantage	Below-average returns
Yes	No	No	Yes/no	Competitive parity	Average returns
Yes	Yes	No	Yes/no	Temporary competitive advantage	Above-average returns to average returns
Yes	Yes	Yes	Yes	Sustainable competitive advantage	Above-average returns

Table 3.5

Group Activity

- ◆ Determine if the following companies have sustainable competitive advantages?
 - PTT → AIS → TOYOTA
 - LG → OISHI → MK SUKI
 - TESCOLOTUS → THE PIZZA → MCOT
- ◆ First determine its resources or capabilities (competencies) that the company performs well compared with its competitors, then select one or two core competencies—and use the four criteria to analyze it.

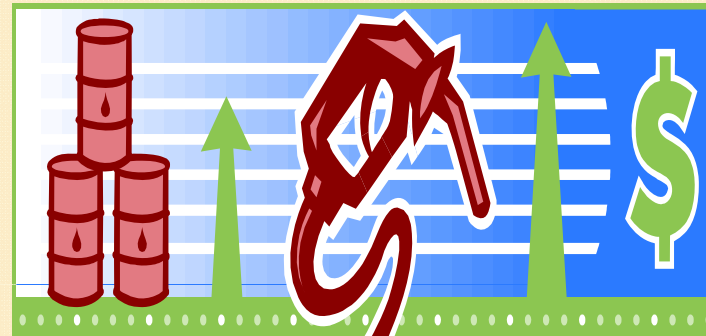
Are the Company's Prices and Costs Competitive?

◆ **Assessing** whether a firm's **costs** are **competitive** with those of rivals is a crucial part of company analysis

◆ Key **analytical tools**

→ Value chain analysis

→ Benchmarking

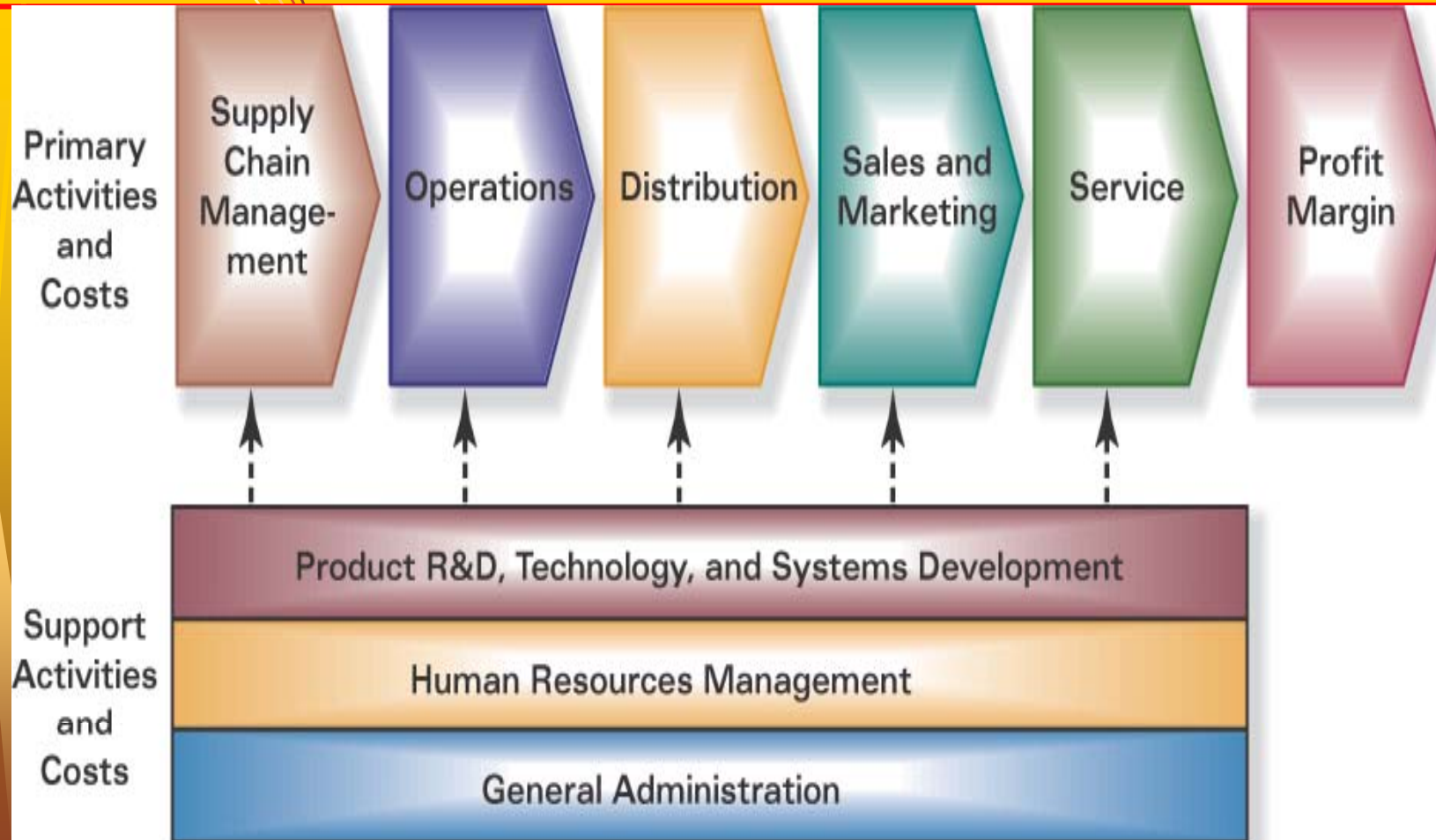


The Concept of a Company Value Chain

- ◆ A company's **business** consists of **all activities undertaken** in designing, producing, marketing, delivering, and supporting its product or service
- ◆ A company's **value chain** consists of a linked set of value-creating activities performed internally
- ◆ The **value chain** contains **two types** of **activities**
 - **Primary activities** – where most of the value for customers is created
 - **Support activities** – facilitate performance of the primary activities

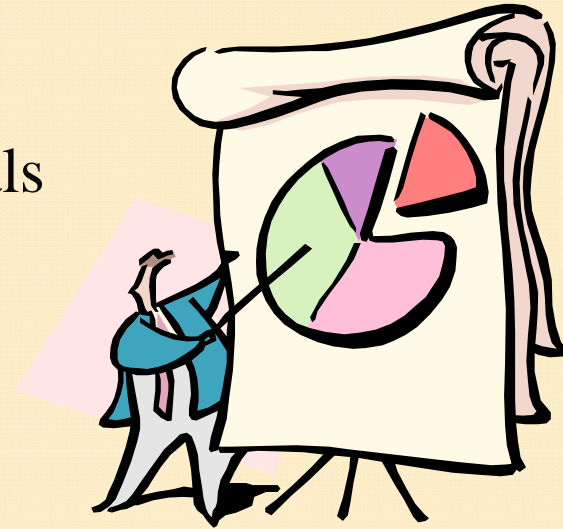


Company Value Chain

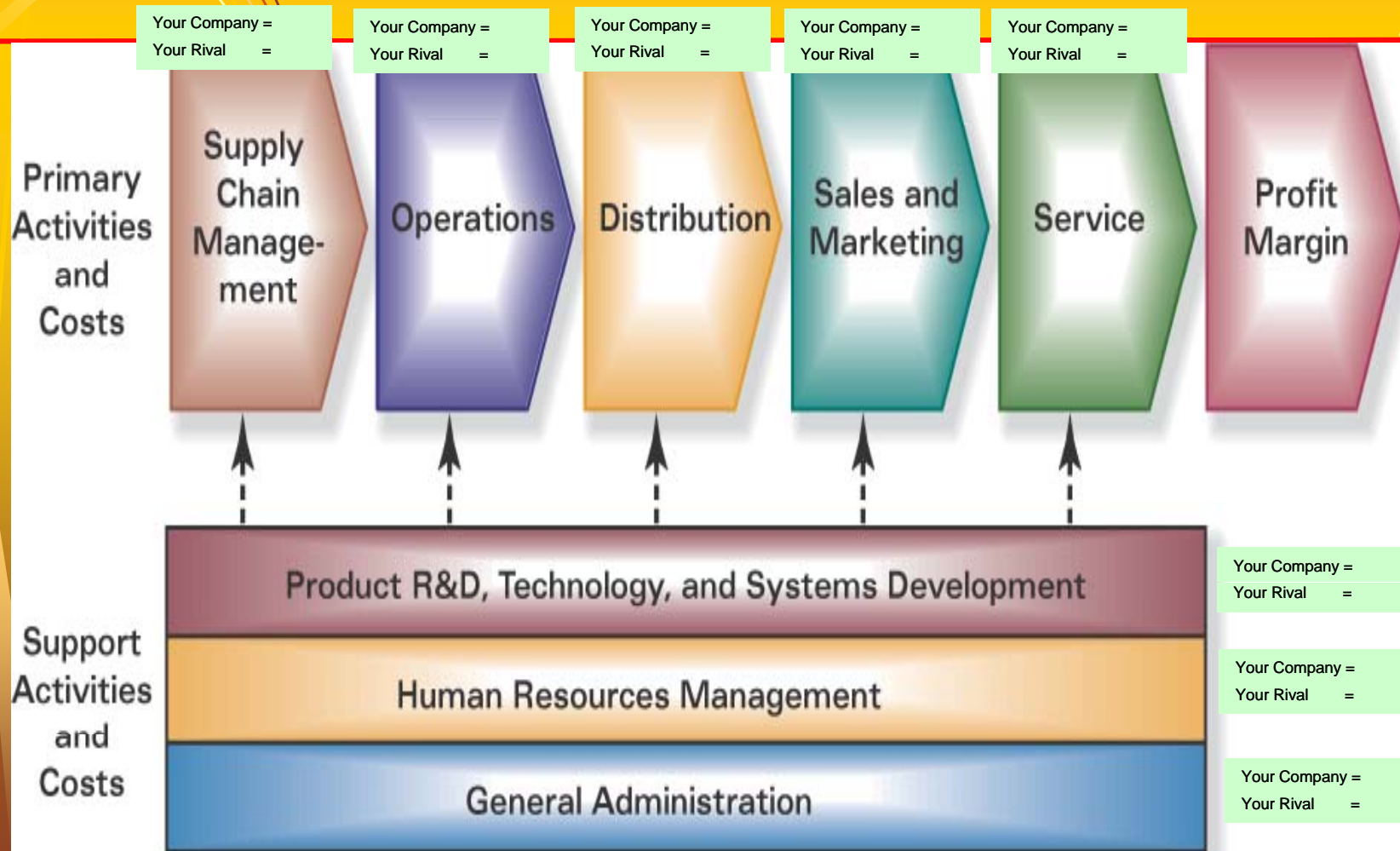


Characteristics of Value Chain Analysis

- ◆ ***Combined costs*** of all activities in a company's value chain ***define*** the company's ***internal cost structure***
- ◆ ***Compares*** a firm's costs activity by activity against costs of key rivals
 - From raw materials purchase to
 - Price paid by ultimate customer
- ◆ ***Pinpoints which*** internal ***activities*** are a source of ***cost advantage*** or ***disadvantage***

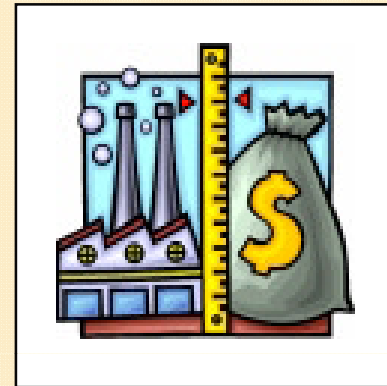


Evaluate your company and your rival through Company Value Chain



Objectives of Benchmarking

- ◆ **Identify** best practices in performing an activity
- ◆ **Understand** the best practices in performing an activity – learn what is the “best” way to do a particular activity from those demonstrating they are “best-in-world”
- ◆ **Learn** how other firms achieve lower costs
- ◆ **Take action** to improve company’s cost competitiveness



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**

Table 4.5 Illustrations of Unweighted and Weighted Competitive Strength Assessments

A. An Unweighted Competitive Strength Assessment					
Key Success Factor/Strength Measure	Strength Rating (Scale: 1 = Very weak; 10 = Very strong)				
	ABC Co.	Rival 1	Rival 2	Rival 3	Rival 4
Quality/product performance	8	5	10	1	6
Reputation/image	8	7	10	1	6
Manufacturing capability	2	10	4	5	1
Technological skills	10	1	7	3	8
Dealer network/distribution capability	9	4	10	5	1
New product innovation capability	9	4	10	5	1
Financial resources	5	10	7	3	1
Relative cost position	5	10	3	1	4
Customer service capabilities	5	7	10	1	4
Unweighted overall strength rating	61	58	71	25	32

Table 4.5 Illustrations of Unweighted and Weighted Competitive Strength Assessments

B. A Weighted Competitive Strength Assessment (Rating Scale: 1 = Very weak; 10 = Very strong)											
Key Success Factor/ Strength Measure	Importance Weight	ABC Co.		Rival 1		Rival 2		Rival 3		Rival 4	
		Strength Rating	Score	Strength Rating	Score	Strength Rating	Score	Strength Rating	Score	Strength Rating	Score
Quality/product performance	0.10	8	0.80	5	0.50	10	1.00	1	0.10	6	0.60
Reputation/image	0.10	8	0.80	7	0.70	10	1.00	1	0.10	6	0.60
Manufacturing capability	0.10	2	0.20	10	1.00	4	0.40	5	0.50	1	0.10
Technological skills	0.05	10	0.50	1	0.05	7	0.35	3	0.15	8	0.40
Dealer network/distribution capability	0.05	9	0.45	4	0.20	10	0.50	5	0.25	1	0.05
New product innovation capability	0.05	9	0.45	4	0.20	10	0.50	5	0.25	1	0.05
Financial resources	0.10	5	0.50	10	1.00	7	0.70	3	0.30	1	0.10
Relative cost position	0.30	5	1.50	10	3.00	3	0.90	1	0.30	4	1.20
Customer service capabilities	0.15	5	0.75	7	1.05	10	1.50	1	0.15	4	0.60
Sum of importance weights	1.00										
Weighted overall strength rating		61	5.95	58	7.70	71	6.85	25	2.10	32	3.70

Why Do a Competitive Strength Assessment ?

- ◆ Reveals strength of firm's competitive position vis-à-vis key rivals
- ◆ Shows how firm stacks up against rivals, measure-by-measure – pinpoints firm's competitive strengths and competitive weaknesses
- ◆ Indicates whether firm is at a competitive advantage / disadvantage against each rival
- ◆ Identifies possible offensive attacks (pit company strengths against rivals' weaknesses)
- ◆ Identifies possible defensive actions (a need to correct competitive weaknesses)

Strength Assessments

- ◆ Which industry does the following firm belong to?
 - Do you know their direct and main competitors?
- ◆ Think in terms of Value Chain activities
 - How well does it perform compared to its competitors?
 - PTT
 - AIS
 - TOYOTA
 - LG
 - OISHI
 - MK SUKI
 - TESCOLOTUS
 - THE PIZZA
 - MCOT

Weighted Strength Assessment Using Value Chain Activities

Value Chain Activities	Weighted	DELL		ACER	
		Strength Rating	Scores	Strength Rating	Scores
Inbound Logistics	0.10	8	0.80	8	0.80
Operations	0.10	10	1.00	8	0.80
Outbound Logistics	0.15	9	1.35	8	1.20
Marketing & Sales	0.15	9	1.35	7	1.05
Services	0.10	7	0.70	7	0.70
Human Resources	0.10	9	0.90	7	0.70
Technology Development	0.20	10	2.00	7	1.40
General Administration	0.10	8	0.80	8	0.80
Sum of Important Weights	1.00		8.90		7.45

Outcomes from External and Internal Environmental Analyses

By studying the external environment, firms identify

- what they *might* choose to do

By studying the internal environment, firms determine

- what they *can* do

Examine opportunities and threats

Examine unique resources, capabilities, and competencies (sustainable competitive advantage)

Figure 3.1

What Are the Firm's SWOT?

◆ **SWOT** 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 both*

→ *Resource strengths and weaknesses*

→ *Best market opportunities and external threats* to its well-being

SWOT Analysis – What to Look For

Potential Resource Strengths	Potential Resource Weaknesses	Potential Company Opportunities	Potential External Threats
<ul style="list-style-type: none"> • Powerful strategy • Strong financial condition • Strong brand name image/reputation • Widely recognized market leader • Proprietary technology • Cost advantages • Strong advertising • Product innovation skills • Good customer service • Better product quality • Alliances or JVs 	<ul style="list-style-type: none"> • No clear strategic direction • Obsolete facilities • Weak balance sheet; excess debt • Higher overall costs than rivals • Missing some key skills/competencies • Subpar profits • Internal operating problems . . . • Falling behind in R&D • Too narrow product line • Weak marketing skills 	<ul style="list-style-type: none"> • Serving additional customer groups • Expanding to new geographic areas • Expanding product line • Transferring skills to new products • Vertical integration • Take market share from rivals • Acquisition of rivals • Alliances or JVs to expand coverage • Openings to exploit new technologies • Openings to extend brand name/image 	<ul style="list-style-type: none"> • Entry of potent new competitors • Loss of sales to substitutes • Slowing market growth • Adverse shifts in exchange rates & trade policies • Costly new regulations • Vulnerability to business cycle • Growing leverage of customers or suppliers • Reduced buyer needs for product • Demographic changes

Worksheet: SWOT Analysis

Strengths

Weaknesses

Opportunities

Threats

TOWS Matrix for Strategy Formulation

INTERNAL FACTORS (IFAS) EXTERNAL FACTORS (EFAS)	Strengths (S) List 5 – 10 <i>internal</i> strengths here	Weaknesses (W) List 5 – 10 <i>internal</i> weaknesses here
Opportunities (O) List 5 – 10 <i>external</i> opportunities here	SO Strategies Generate strategies here that use strengths to take advantage of opportunities	WO Strategies Generate strategies here that take advantage of opportunities by overcoming weaknesses
Threats (T) List 5 – 10 <i>external</i> opportunities here	ST Strategies Generate strategies here that use strengths to avoid threats	WT Strategies Generate strategies here that minimize weaknesses and avoid threats

TRUE iPhone, AIS BB

Outsourcing Chinese Partners

Toyota Camry Hybrid

Fly-Now Brand Development

Assignment

- ◆ Competitive Strength Assessment
 - ➔ Using the concept from TOWS Matrix for strategy formulation, can you come up with the strategic direction for the particular company?