Objective 1

Objective 1 Learning Outcomes:

- **Evaluate and apply strategic management concepts**
  - **Recognizing factors that affect development and implementation of strategies**
  - **Analyze a firm's external environment and internal organization (opportunities, threats, strengths, and weaknesses)**
  - **Apply Porter's Five Forces model**
  - **Define business-level strategies and recommend appropriate ones in a specific business situation**
  - **Explain impacts of competitive dynamics on strategy**

Objective 1 Learning Outcomes (continued):

- **Evaluate growth strategies**
    - **And their application under different environments**
    - **Internal/organic and external (i.e. acquisition or alliance) growth strategies**
    - **Innovation and market disruption**

Strategic Management – Ch. 3

Components of an Internal Analysis

(1) Resources (tangible/intangible)

(2) Capabilities

(3) Core Competencies

(4) Discovering Core Competencies

- Four Criteria of Sustainable Advantages (valuable, rare, costly to imitate, non-substitutable)
- Value Chain Analysis – outsource?

(5) Competitive Advantage

(6) Strategic Competitiveness

Value:

- measured by a product's performance characteristics and by its attributes for which customers are willing to pay
- Firms create value by innovating - bundling/leveraging resources to form capabilities/core competencies - the stronger the core competencies, the greater the value a firm can produce

Tip: think about what products you buy and what gives you value?

Conditions Affecting Managerial Decisions about Resources, Capabilities and Core Competencies:

- **Uncertainty:** relating to a firm's general/external environment and customer needs
- **Complexity:** resulting from the interrelationships among conditions shaping a firm
- **Intra-organizational Conflicts**: conflicts may exist among managers making decisions as well as between those who are affected by the decisions

Tip: if an internal analysis is required on the exam, the graders will be looking for you to apply these ideas to a very specific situation

Tangible Resources:

- Assets that can be observed and quantified (Ex: equipment, manufacturing facilities, distribution centers, etc.)
- 4 primary categories: financial, organizational, physical, technological
  - Financial Resources: firms capacity to borrow, firm's ability to generate funds through internal operations
  - Organizational Resources: formal reporting structures
  - Physical Resources: sophistication of plant & equipment, attractiveness of location, distribution facilities, product inventory
  - Technological Resources: copyrights, patents, trademarks, trade secrets

Intangible Resources:

- Includes assets that are rooted deeply in the firm's history, accumulate over time, are relatively difficult for competitors to analyze/imitate (Ex: brand name, trust between managers/employees, knowledge, etc.)
- 3 primary categories: human, innovation, reputational
- Superior source of capabilities and core competencies (as compared to tangible resources)
- Harder to imitate/understand/substitute and less visible

Tip: an example of an intangible resource is that Corning has a strong culture of employees moving around the company to share knowledge and skills

Capabilities and examples

- Capabilities are built by combining individual tangible and intangible resources together

Examples of Capabilities (Table 3.3. in textbook)

- Distribution (Ex: Walmart)
- Human Resources: motivating/empowering/retaining employees (Ex: Microsoft)
- Management Information Systems: effective/efficient control of inventory levels with point-of-purchase data collection (Ex: Walmart)
- Marketing: (Ex: Procter & Gamble, Nordstrom, etc.)
- Management (Ex: Hugo Boss, Zara)
- Manufacturing (Ex: Komatsu, Sony)
- Research & Development: (Ex: Caterpillar)

Core Competencies

- The activities that a firm performs especially well compared to competitors and which add value to the firm and customers

Describe The Four Criteria of Sustainable Competitive Advantage

- **Valuable Capabilities:** allow the firm to exploit opportunities or neutralize threats in its external environment
- **Rare Capabilities:** capabilities that few (if any) competitors possess
- **Costly-to-Imitate Capabilities**: capabilities that other firms cannot easily develop … can depend on a few things
    - The right organizational culture - depends on when the culture was founded historically
    - Link between core competencies and competitive advantage is causally ambiguous - not easily understood how the competencies translate into the competitive advantage – so hard to copy!
    - Social complexity - some/all of the competitive advantages are a product of the firm's social phenomena (relationships, trust, friendships, etc.)
- **Non-substitutable Capabilities:** capabilities that do not have <u>strategic</u> equivalents – e.g. can't buy those capabilities as they often require a lot of time or specific company cultures to develop

Non-substitutable Capabilities versus non-substitutable products – Big Ben example

It is important to distinguish between the idea of capabilities and products when it comes to competitive advantages and five forces analysis

- For example, Big Ban has a new crypto-currency ETF product – there may be other crypto-currency products offered by other companies that can be a substitute to what Big Ben offers
- However, Big Ben is a recognized world leader in ETF's giving it a <u>non-substitutable capability</u> in gaining credibility for its new ETF products

Value Chain:

- template that firms use to analyze their costs and identify multiple ways to implement a chosen strategy

Supply Chain Management ->Operations ->Distribution->Marketing (including Sales) ->Follow-Up Service

Value Chain Activities:

- activities/tasks the firm completes in order to produce products and then sell/distribute/service the products in ways that create value for customers
- includes support functions
  - Support functions include: Finance, Human Resources and Management Information Systems

Outsourcing:

- the purchase of a value-creating activity or a support function activity from an external supplier
- Outsourcing can increase flexibility, mitigate risks, and reduce capital investments
- Two concerns with outsourcing:
    - Potential loss of ability to innovate
    - Loss of jobs in the firm

- **Tip**: to further be able to justify if a part of the value chain should be kept internal or outsourced, you should be able to determine if the firm has (or can have) some sort of superiority in that activity over competitors