Evaluating a Company's Resources and Competitive Position

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The Value Chain Concept

- **Value Chain -** interlinked value-adding activities that convert inputs into outputs which, in turn, add to the bottom line and help create competitive advantage

The Value Chain Concept (contd.)

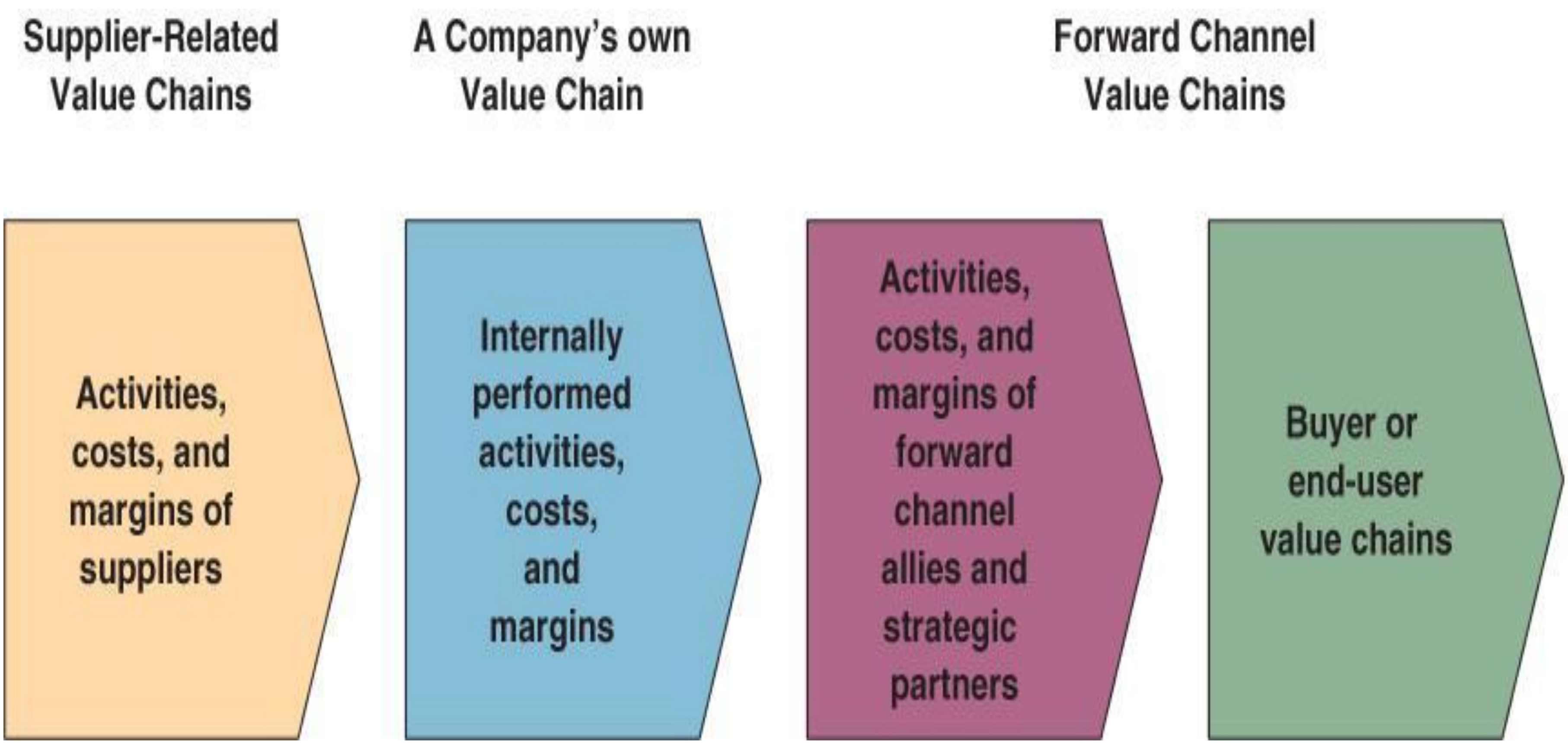
- ***Value Chain analysis*** was first suggested by *Michael Porter* (1995) as a way of presenting the construction of value as related to end customer.

- **It can:**
  - Increase your competitiveness
  - Reduce your costs
  - Improve your market share
  - Bottom line – improve overall profitability

The Value Chain Concept (contd.)

- **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
- **Value chains of distributors** and retailers are relevant because
  - Their costs and profit margins represent "value added" and are part of the price paid by ultimate end-user
  - Activities they perform affect end-user satisfaction

The Value Chain Concept (contd.)



The Value Chain Concept (contd.)

- Several ***factors*** give rise to ***differences*** in ***value chains*** of rival companies:
  - Different strategies
  - Different operating practices
  - Different technologies
  - Different degrees of vertical integration
  - Some companies may perform particular activities internally while others outsource them

What is competitive intelligence?

Competitive Intelligence is:

- Information about opportunities and threats
- Information which makes companies and local industries more competitive
- Forecasting of changes about the economic environment
- Actionable recommendations from analysis of the environment

It is the total knowledge a company or a local industry possesses about the environment in which it competes gathered in an ethical manner

Key points in Evaluating a Company's Resources and Competitive Position

- **Key indicators of How well is the present strategy working:**
- ✔ Trend in sales and market share
- ✔ Acquiring and/or retaining customers
- ✔ Trend in profit margins
- ✔ Trend in net profits, EPS, and ROE
- ✔ Overall financial strength and credit rating
- ✔ Efforts at continuous improvement activities
- ✔ Trend in stock price
- ✔ Image and reputation with customers
- ✔ Leadership role(s) – Technology, product quality, innovation, etc.

Key points in Evaluating a Company's Resources and Competitive Position (contd.)

- **What are the company's resource SWOT?**

1. A ***strength*** is something a firm does well or an attribute that enhances its competitiveness

- ✔ Valuable skills, competencies, or capabilities
- ✔ Valuable physical assets
- ✔ Valuable human assets
- ✔ Valuable organizational assets
- ✔ Valuable intangible assets
- ✔ Important competitive capabilities
- ✔ An attribute placing a company in a position of market advantage
- ✔ Alliances or cooperative ventures with partners

Key points in Evaluating a Company's Resources and Competitive Position (contd.)

- 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

Key points in Evaluating a Company's Resources and Competitive Position (contd.)

- 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*

Key points in Evaluating a Company's Resources and Competitive Position (contd.)

- ***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 and/or burdensome government policies

Are the company's prices and costs competitive?

- ***Cost competitiveness*** depends on how well a company ***manages*** its ***value chain*** relative to how well competitors manage their value chains
- When a company's costs are out-of-line, the activities responsible for the higher costs may be due to any of three parts of industry value chain

Activities, Costs, & Margins of Suppliers

Internally Performed Activities, Costs, & Margins

Activities, Costs, & Margins of Forward Channel Allies

Buyer/User Value Chains

Is the company competitively stronger or weaker than key rivals?

- Whether a company is competitively stronger or weaker than key rivals hinges on the answers to two questions:
  - How does the ***company rank relative to competitors*** on each important factor that determines market success?
  - Does the company have a net ***competitive advantage*** or ***disadvantage*** vis-à-vis major competitors?

What strategic issues and problems merit front-burner managerial attention?

- Based on results of both industry and competitive analysis and an evaluation of a company's competitiveness, what items should be on a company's ***"worry list"?***
- Requires ***thinking strategically*** about
  - Pluses and minuses in the industry and competitive situation
  - Company's resource strengths and weaknesses and attractiveness of its competitive position
  - ***A "good" strategy must address "what to do" about each and every strategic issue!***