

Evaluating a Company's Resources and Competitive Position

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Table of Contents:

- The concept of company value chain.
- What is competitive intelligence?
- Key points in Evaluating a Company's Resources and Competitive Position:
 - ✓ *How well is the present strategy working?*
 - ✓ *What is the company's resource SWOT analysis?*
 - ✓ *Are the company's prices and costs competitive?*
 - ✓ *Is the company competitively stronger or weaker than key rivals?*
 - ✓ *What strategic issues and problems merit front-burner managerial attention?*

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.)

**Supplier-Related
Value Chains**

**Activities,
costs, and
margins of
suppliers**

**A Company's own
Value Chain**

**Internally
performed
activities,
costs,
and
margins**

**Forward Channel
Value Chains**

**Activities,
costs, and
margins of
forward
channel
allies and
strategic
partners**

**Buyer or
end-user
value chains**

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



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!***