[Module 6 – Strategic Management]

Lecture Title: 4Evaluating the Internal Environment

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Undergraduate Diploma in
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Lecture 1: Evaluating the Internal Environment

1. What is the Resource-Based View and why is it important to organizations?
2. How is the VRIO tool applied to strategic resources?
3. In what ways can intellectual property serve as a value-added resource for organizations?
4. What are isolating mechanisms and how can they contribute to a firm's competitive advantage?
5. How can the Value Chain be applied to achieve a competitive advantage?

- In addition to evaluating the external environment of a firm and the industry in which it operates, strategic management requires that a firm conduct an internal assessment of its resources and capabilities.
- This further helps the firm answer the question “Where are we?” before setting strategies for reaching the goals and vision of the organization.
- Part of this assessment is the organizational performance evaluation discussed previously that deals primarily with financial and other quantitative information.
- This helps the firm determine where it is in comparison with its competitors.
- Next, the firm needs to look inside to see how it can achieve a competitive advantage over its rivals, so customers will buy what the firm has to sell instead of buying from competitors.

- One method of internal assessment is using the Resource-Based View.

- This model examines any resources and/ or capabilities of the firm that may provide a competitive advantage.

- The VRIO framework is used to evaluate each resource or capability to determine what type, if any, of competitive advantage it brings.

- VRIO is an acronym for a four-question framework focusing on ***v**alue, **r**arity, **i**mitability,* and ***o**rganization*, the criteria used to evaluate an organization's resources and capabilities.

- If a resource or capability cannot be imitated by a competitor, then that resource may create a sustained competitive advantage.

- Patents or isolating mechanisms can reduce or eliminate temporarily the opportunity for a rival to imitate.

Explaining The VRIO Framework (With A Real-Life Example - Google)

- There's no doubt that Google is one of the most powerful companies in the world, and its success arguably stems from a sustained competitive advantage in human capital management. If we were to break down Google's VRIO framework from the HR perspective, it might look something like this:
- **Value:** Use human capital management data to hire and retain innovative, productive employees. These employees consistently create some of the most popular consumer products and services in the world.
- **Rarity:** No other companies are using data-based employee management so extensively.
- **Imitability:** Data-based human capital management is both costly and difficult to imitate, at least for the near future. Companies have to build the software and invest in training their HR staff on the new technology and strategy.
- **Organization:** Google is organized to capture value from this capability. The IT department has the skills to collect and maintain the data, while HR and team leaders are trained on how to use the data to hire, promote, manage, and improve performance of employees.

- Having a VRIO framework in place allowed Google to take a completely different approach to human capital management and make decisions using massive amounts of objective data.

- For example, Google's People Operations team set out to identify which characteristics make a great manager. The data used to determine this included surveys, performance evaluations, and great-manager nominations.

- Google also conducted double-blind interviews with the company's highest- and lowest-rated managers.

- By determining what qualifies as a great manager, Google strengthens its internal team and the foundation of its sustained competitive advantage.

Case Study: Coca-Cola Company

- Coca-Cola is one of the world's largest beverage companies, operating in more than 200 countries.

- The company's main product, Coca-Cola, is one of the most recognizable brands in the world.

- Coca-Cola has been able to maintain its competitive advantage through effective strategic management, including the use of the VRIO tool.

- Value:

- Coca-Cola has created value through its brand, distribution network, and product innovation.

- The company's brand is recognized globally and is synonymous with soft drinks.

- Coca-Cola has also built a strong distribution network, which has enabled the company to reach customers in remote areas.

- In addition, the company has consistently introduced new products to its portfolio, such as Diet Coke, Coke Zero, Sprite, and Fanta.

- Rarity:

- Coca-Cola's brand and distribution network are rare resources that are difficult for competitors to replicate.

- The company has spent decades building its brand, and it would be challenging for a new entrant to compete on the same level.

- Similarly, building a distribution network requires significant investment and time.

- Imitability:

- Although Coca-Cola's brand and distribution network are difficult to replicate, they are not completely immune to imitation.

- Competitors can attempt to replicate Coca-Cola's branding efforts or build their distribution networks.
- However, doing so would require significant investment and time, making it challenging to replicate Coca-Cola's success.

- Organization:

- Coca-Cola has been able to organize its resources effectively to create value for its customers.
- The company has a strong culture of innovation, which has allowed it to introduce new products and respond to changing customer preferences quickly.
- The company also invests heavily in marketing and advertising to maintain its brand's relevance.

Conclusion

- Based on the VRIO analysis, Coca-Cola's competitive advantage is sustained through its brand, distribution network, and innovation culture.
- The company has built a strong brand that is recognized globally, making it difficult for competitors to replicate.
- Coca-Cola has also invested significantly in building its distribution network, which allows it to reach customers in remote areas.
- Additionally, the company's culture of innovation ensures that it stays ahead of the competition by introducing new products and responding to customer preferences.
- https://www.youtube.com/watch?v=uqvcR0leLA4

- Another tool used for internal assessment is Value Chain Analysis.

- Each element of a firm's primary and supportive activities are examined to see if it can provide a competitive advantage over its rivals. Weaknesses that are identified can be addressed to improve organizational performance.

- Once the external and internal assessments are complete, the firm can use the most relevant information to develop a SWOT analysis and identify the most pressing strategic issue(s) the firm must address.

Managing Firm Resources

- *Southwest Airlines: Let Your LUV Flow*

- In 1971, a new firm named Southwest Airlines opened for business by offering flights between Houston, San Antonio, and its headquarters at Love Field in Dallas.
- From its initial fleet of three airplanes and three destinations, Southwest has grown to operate hundreds of airplanes in scores of cities.
- Despite competing in an industry that is infamous for bankruptcies and massive financial losses, Southwest marked its forty-seventh profitable year in a row in 2019. Why has Southwest succeeded while many other airlines have failed?
- Historically, the firm has differed from its competitors in a variety of important ways. Most large airlines use a “hub and spoke” system.
- This type of system routes travelers through a large hub airport on their way from one city to another.
- Many Delta passengers, for example, end a flight in Atlanta and then take a connecting flight to their actual destination.

- The inability to travel directly between most pairs of cities adds hours to a traveler’s itinerary and increases the chances of luggage being lost.
- In contrast, Southwest does not have a hub airport; preferring instead to connect cities directly.
- This makes flying on Southwest attractive to many travellers.
- Southwest has also been more efficient than its rivals. While most airlines use a variety of different airplanes, Southwest operates only one type of jet: the Boeing 737.
- This means that Southwest can service its fleet much more efficiently than can other airlines.

- Southwest mechanics need only the know-how to fix one type of airplane, for example, while their counterparts with other firms need a working knowledge of multiple planes. Southwest also gains efficiency by not offering seat assignments in advance, unlike its competitors.

- This makes the boarding process move much faster, meaning that Southwest's jets spend more time in the air transporting customers (and making money) and less time at the gate relative to its rivals' planes.

- Organizational culture is the dimension along which Southwest perhaps has differed most from its rivals.

- The airline industry as a whole suffers from a reputation for mediocre (or worse) service and indifferent (sometimes even surly) employees.
- In contrast, Southwest enjoys strong loyalty and a sense of teamwork among its employees.
- One tangible indicator of this culture is Southwest’s stock ticker symbol.
- Most companies choose stock ticker symbols that evoke their names. Ford’s ticker symbol is F, for example, and Walmart’s symbol is WMT.
- When Southwest became a publicly traded company in 1977, executives chose LUV as its ticker symbol. LUV pays a bit of homage to the firm’s humble beginnings at Love Field.
- More important, however, LUV represents the love that executives have created among employees, between employees and the company, and between customers and the company. This “LUV affair” has long been and remains a huge success.

- As recently as March 2011, for example, Southwest was ranked fourth on Fortune magazine's World's Most Admired Company list. In early 2020, the US and the world were hit by the coronavirus pandemic.

- The number of airline passengers dropped by over 90% during the peak months early in the pandemic. Southwest implemented cost saving measures, but still lost $94 million in the first quarter (PRNewswire, 2020).

- Known for its efficiency, how can Southwest drive down costs to reflect the new reality of less air travel and lower volumes for years to come?

- Where in its value chain can it not only trim costs but reinvent itself as a more cost effective organization? What resources and capabilities does the airline have to help it re-tool and not only survive the crisis, but come out a sustainable winner for the future.

Southwest Airlines - Success Story

https://www.youtube.com/watch?v=Wh5KTFAQjKw

Resource-Based View

- According to resource-based theory, organizations that own “strategic resources” have important competitive advantages over organizations that do not.
- Some resources, such as cash and trucks, are not considered to be strategic resources because an organization’s competitors can readily acquire them.
- Instead, a resource is strategic to the extent that it is valuable, rare, difficult to imitate, and organized to capture value.
- Consider how Southwest Airlines’s organizational culture serves as a strategic resource

Resource-Based View: The Basics

- *Strategic Resources*
- VALUABLE resources aid in improving the organization's effectiveness and efficiency while neutralizing the opportunities and threats of competitors.
- *Expansion*
- Although the airline industry is extremely competitive, Southwest Airlines's turns a profit virtually every year. One key reason for their success is a legendary organizational culture that inspires employees to do their very best.

- *Strategic Resources*

- RARE resources are those held by few or no other competitors.

- *Expansion*

- Southwest Airlines's culture provides the firm with uniquely strong employee relations in an industry where strikes, layoffs, and poor morale are common.

- *Strategic Resource*

- DIFFICULT-TO-IMITATE resources often involve legally protected intellectual property such as trademarks, patents, or copyrights. Other difficult-to-imitate resources, such as brand names, usually need time to develop fully.

- *Expansion*

- Southwest's culture arose from its very humble beginnings and has evolved across decades. Because of this unusual history, other airlines could not replicate Southwest's culture, regardless of how hard they might try.

- *Strategic Resource*

- ORGANIZED TO CAPTURE VALUE: Having in place the organizational systems, processes, and structure to capitalize on the potential of the resources and capabilities of the firm to provide a competitive advantage

- *Expansion*

- The influence of Southwest’s organizational culture extends to how customers are treated by employees. Executives strongly encourage flight attendants to entertain passengers, like hiding in an overhead compartment. Processes related to passengers are infused with customer service attention and actions.

Important Points to Remember:

1. Resources such as Southwest’s culture that reflect all four qualities - valuable, rare, difficult to imitate, and organized to capture value - are ideal because they can create sustained competitive advantages.

2. A resource that has three or less of the qualities can provide an edge in the short term, but competitors can overcome such an advantage eventually.

3. Firms often bundle together multiple resources and strategies (that may not be unique in and of themselves) to create uniquely powerful combinations.

4. Southwest's culture is complemented by approaches that individually could be copied - the airline's emphasis on direct flights, its reliance on one type of plane, and its unique system for passenger boarding - in order to create a unique business model in which effectiveness and efficiency is the envy of competitors.

5. Satisfying only one or two of the valuable, rare, difficult-to-imitate, organized to capture value criteria will likely only lead to competitive parity or a temporary advantage.

- Resources and capabilities are the basic building blocks that organizations use to create strategies.
- These two building blocks are tightly linked—capabilities from using resources over time.
- Resources can be divided into two main types: tangible and intangible.
- While resources refer to what an organization owns, capabilities refer to what the organization can do.
- More specifically, capabilities refer to the firm's ability to bundle, manage, or otherwise exploit resources in a manner that provides added value and, hopefully, advantage over competitors.

Resources and Capabilities

- Resources

- Tangible resources are resources that can be readily seen, touched, and quantified.

Companies" for 2020

- Physical assets such as a firm's property, plant, and equipment are considered to be tangible resources, as is cash.

- Intangible resources are quite difficult to see, touch, or quantify. Intangible resources include, for example, the knowledge and skills of employees, a firm's reputation, and a firm's culture. In a nod to Southwest Airlines' outstanding reputation, the firm ranks eighth in Fortune magazine's 2018 list of the "World's Most Admired Companies."

- The tangibility of a firm's resources is an important consideration within resource-based theory.
- Tangible resources are resources that can be readily seen, touched, and quantified.
- Physical assets such as a firm's property, plant, and equipment, as well as cash, are considered to be tangible resources.
- In contrast, intangible resources are quite difficult to see, to touch, or to quantify. Intangible resources include, for example, the knowledge and skills of employees, a firm's reputation, brand name, exclusive rights to intellectual property, leadership traits of executives, and a firm's culture.
- In comparing the two types of resources, intangible resources are more likely to meet the criteria for strategic resources (i.e., valuable, rare, difficult-to-imitate, and organized to capture value) than are tangible resources.
- Executives who wish to achieve long-term competitive advantages should therefore place a premium on trying to nurture and develop their firms' intangible resources.

- Capabilities

- A dynamic capability exists when a firm is skilled at continually updating its array of capabilities to keep pace with changes in its environment.

- Capabilities are a key concept within resource-based theory. An effective way to distinguish resources and capabilities is this: resources refer to what an organization owns, capabilities refer to what the organization can do.

- Capabilities tend to arise over time as a firm takes actions that build on its strategic resources.

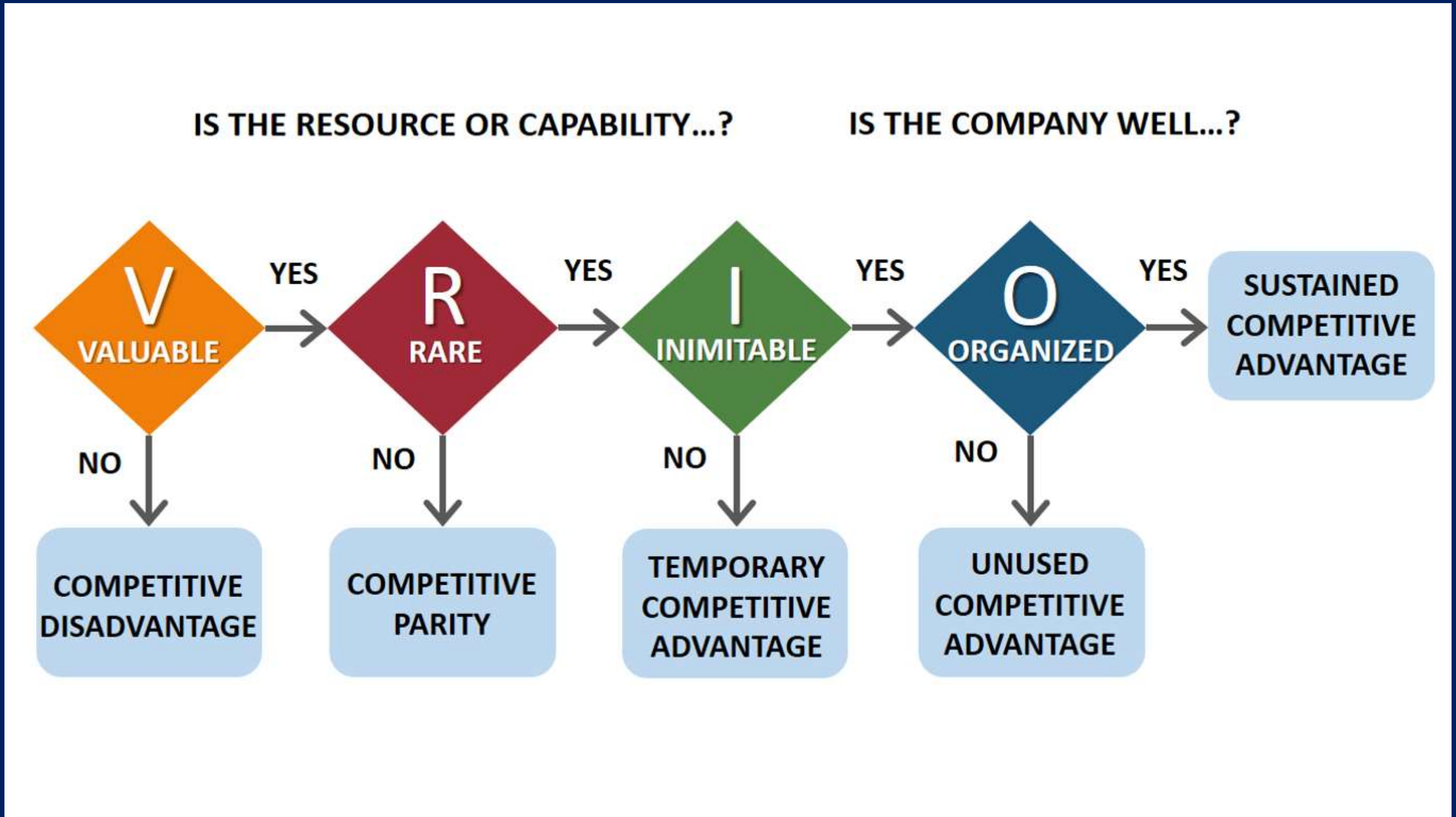
- Southwest Airlines, for example, has developed the capability of providing excellent customer service by building on its strong organizational culture.

- Capabilities are important in part because they are how organizations capture the potential value that resources offer.

- Customers do not simply send money to an organization because it owns strategic resources.

- Instead, capabilities are needed to bundle, to manage, and otherwise to exploit resources in a manner that provides value added to

- Some firms develop a dynamic capability. This means that a firm has a unique ability to create new capabilities.
- Said differently, a firm that enjoys a dynamic capability is skilled at continually updating its array of capabilities to keep pace with changes in its environment.
- Coca-Cola has an uncanny knack for building new brands and products as the soft-drink market evolves.
- Not surprisingly, Coca-Cola ranks among the top twelve in Fortune’s “World’s Most Admired Companies” for 2020.


IS THE RESOURCE OR CAPABILITY...?
IS THE COMPANY WELL...?
V
VALUABLE
YES
R
RARE
YES
I
INIMITABLE
YES
O
ORGANIZED
YES
SUSTAINED COMPETITIVE ADVANTAGE
NO
COMPETITIVE DISADVANTAGE
NO
COMPETITIVE PARITY
NO
TEMPORARY COMPETITIVE ADVANTAGE
NO
UNUSED COMPETITIVE ADVANTAGE

Video:

The Resource-Based View: Resources, Capabilities, and Competitive Advantage

- https://www.youtube.com/watch?v=ZKPyhoPwuhA

- Resource-based theory can be confusing because the term resources is used in many different ways within everyday common language.

- It is important to distinguish strategic resources from other resources. To most individuals, cash is an important resource.

- Tangible goods such as one’s car and home are also vital resources.

- When analyzing organizations, however, common resources such as cash and vehicles are not considered to be strategic resources.

- Resources such as cash and vehicles are valuable, of course, but an organization’s competitors can readily acquire them. Thus an organization cannot hope to create an enduring competitive advantage around common resources.

- Southwest Airlines provides an illustration of resource-based theory in action.
- Resource-based theory contends that the possession of strategic resources provides an organization with a golden opportunity to develop competitive advantages over its rivals
- These competitive advantages in turn can help the organization enjoy strong profits (Barney, 1991; Wernerfelt, 1981). A strategic resource is an asset that is valuable, rare, difficult to imitate, and organized to capture value (Barney, 1991; Chi, 1994).
- A resource is valuable to the extent that it helps a firm create strategies that capitalize on opportunities and ward off threats. Southwest Airlines' culture fits this standard well. Most airlines struggle to be profitable, but Southwest makes money virtually every year.
- One key reason is a legendary organizational culture that inspires employees to do their very best. This culture is also rare in that strikes, layoffs, and poor morale are common within the airline industry. Southwest embraces a culture of fun for both its customers and employees.
- Most other airlines do not have this philosophy.

- Competitors have a hard time duplicating resources that are difficult to imitate.
- Some difficult to imitate resources are protected by various legal means, including trademarks, patents, and copyrights.
- Other resources are hard to copy because they evolve over time and they reflect unique aspects of the firm. Southwest's culture arose from its very humble beginnings.
- The airline had so little money that at times it had to temporarily "borrow" luggage carts from other airlines and put magnets with the Southwest logo on top of the rivals' logo.
- Southwest is a "rags to riches" story that has evolved across several decades.

- A resource is organized to capture value when the firm has organizational systems, processes, and structure in place to capitalize on the resource for a competitive advantage.
- This may provide bargaining power for the firm in the marketplace.
- A key benefit of Southwest's culture is that it leads employees to treat customers well, which in turn creates loyalty to Southwest among passengers. This customer loyalty is why many passengers choose Southwest over other airlines.
- The key to using the Resource Based View is to evaluate a firm's resources and capabilities using the VRIO framework decision tree.
- Note that the decision tree is used to assess resources and capabilities, NOT a firm's products, services, or the firm itself. The evaluation occurs within the industry of the firm being evaluated.
- Using Southwest Airlines culture as the resource to evaluate with VRIO:

1. Is Southwest's culture valuable? If not, all the effort to develop it is a waste of resources and a competitive disadvantage. If yes, go to number 2.

2. Is Southwest's culture rare within the airline industry? If not, then this resource only provides Southwest competitive parity. It does not help or hurt Southwest competitively. If yes, go to number 3.

3. In the airline industry, is Southwest's culture hard to imitate? If not then culture provides Southwest with a temporary competitive advantage over its rivals, but competitors can imitate it. If yes, go to number 4.

4. Has Southwest organized this resource of culture to capture value? If not, then it still only provides a temporary competitive advantage. If yes, then Southwest's culture is providing a sustained competitive advantage.

For the company culture resource of Southwest Airlines, a yes can be answered for each of the four steps, providing a sustained competitive advantage for this organization.

As can be seen from its exceptional organizational performance over many years when compared to other airlines, VRIO shows that company culture is one reason why it is more successful than its competitors.

Key Takeaway

- Resource-based theory suggests that tangible or intangible resources that are valuable, rare, difficult to imitate, and organized to capture value best position a firm for long-term success.
- These strategic resources can provide the foundation to develop firm capabilities that can lead to superior performance over time.
- Capabilities are needed to bundle, to manage, and otherwise to exploit resources in a manner that provides added value to customers and creates advantages over competitors.
- The VRIO tool can be used to determine if resources or capabilities are valuable, rare, difficult-to-imitate, and organized to capture value, and thereby understand what type of competitive advantage they offer to a firm.

Groups Exercise

1. What tangible and intangible resources does your favourite restaurant have that might give it a competitive advantage?

2. Do any of the resources or capabilities of your favourite restaurant have the four qualities of resources (VRIO) that lead to success as articulated by resource-based theory?

Intellectual Property & Isolating Mechanisms

- Defining Intellectual Property

- The inability of competitors to imitate a strategic resource is a key to leveraging the resource to achieve long - term competitive advantages.
- Companies are clever, and effective imitation is often very possible.
- But resources that involve intellectual property reduce or even eliminate this risk.
- As a result, developing intellectual property is important to many organizations. Intellectual property refers to creations of the mind, such as inventions, artistic products, and symbols.

- The four main types of intellectual property are patents, trademarks, copyrights, and trade secrets.

- If a piece of intellectual property is also valuable, rare, difficult to imitate, and organized to capture value, it constitutes a strategic resource.

- Even if a piece of intellectual property does not meet all four criteria for serving as a strategic resource, it can be bundled with other resources and activities to create a resource.

- The term intellectual property refers to creations of the mind, such as inventions, artistic products, and symbols.

- Some forms of intellectual property are protected by law while others can best be defended by surrounding them in secrecy.

Types of Intellectual Property

- Patents protect inventions from direct imitation for a limited period of time.
- Within the pharmaceutical industry, patents protect the new drugs created by firms such as Merck and Pfizer for up to twenty years.
- If a new drug gains acceptance in the market, its patent creates a window of opportunity for the patent holder to enjoy excellent profits.
- Trademarks are phrases, pictures, names, or symbols used to identify a particular organization.
- McDonald’s golden arches, the phrase “Intel Inside,” and the brand name Virginia Tech are examples of trademarks.

- Copyrights provide exclusive rights to the creators of original artistic works such as books, movies, songs, and screenplays.

- Sometimes copyrights are sold and licensed.

- The late pop star Michael Jackson bought the rights to The Beatles' music catalog and later licensed songs to Target and other companies for use in television advertisements.

- Trade secrets refer to formulas, practices, and designs that are central to a firm's business and that remain unknown to competitors.

- One famous example is the blend of eleven herbs and spices used in Kentucky Fried Chicken's original recipe chicken. KFC protects this secret by having multiple suppliers each produce a portion of the herb and spice blend; no one supplier knows the full recipe.

- A variety of formal and informal methods are available to protect a firm’s intellectual property from imitation by rivals.

- Some forms of intellectual property are best protected by legal means, while defending others depends on surrounding them in secrecy.

- This can be contrasted with Southwest Airlines’s well-known culture, which rivals are free to attempt to copy if they wish.

- Southwest’s culture thus is not intellectual property, although some of its complements such as Southwest’s logo and unique color schemes are.

Patents

- Patents protect inventions from direct imitation for a limited period of time. Some examples and key issues surrounding patents are illustrated below.
- Patents are legal decrees that protect inventions from direct imitation for a limited period of time.
- Obtaining a patent involves navigating a challenging process.
- To earn a patent from the US Patent and Trademark Office, an inventor must demonstrate that an invention is new, non-obvious, and useful.
- If the owner of a patent believes that a company or person has infringed on the patent, the owner can sue for damages. Patenting an invention is important because patents can fuel enormous profits.

Trademarks

- Trademarks are phrases, pictures, names, or symbols used to identify a particular organization.

- Trademarks are important because they help an organization stand out and build an identity in the marketplace.

- Some trademarks are so iconic that almost all consumers recognize them, including McDonald's golden arches, the Nike swoosh, and Apple's outline of an apple.

- Other trademarks help rising companies carve out a unique niche for themselves.

- An organization's trademarks consist of phrases, pictures, names, or symbols that are closely associated with the organization. Some examples and key issues surrounding trademarks are illustrated below.

- To be fully protected in the United States, a trademark must be registered with the United States Patent and Trademark Office. A capital R with a circle around it denotes a registered trademark.

- The distinctive pattern of clothing retailer Burberry Ltd. is an example of a trademark that does not involve words or symbols.

Copyrights

- The rights of creators of original artistic works such as books, movies, songs, and screenplays are protected by copyrights.

- Some examples and key issues surrounding copyrights are illustrated below.

- Illegal downloads of music are copyright infringements. In spite of laws and increased enforcement, millions of songs are obtained illegally.

- The presence of the copyright symbol tells consumers that they are not allowed to duplicate the product that carries the copyright.

- Copyrights provide exclusive rights to the creators of original artistic works such as books, movies, songs, and screenplays for an author's lifetime plus 70 years.
- Sometimes copyrights are sold and licensed.
- Classic rock by The Beatles has been used in television ads in recent years.
- After the late pop star Michael Jackson bought the rights to the band's music catalog, he licensed songs to Target and other companies.

- Over time, piracy has become a huge issue for the owners of copyrighted works.
- In China, millions of pirated DVDs are sold each year, and music piracy is estimated to account for at least 95% of music sales.
- This piracy deprives movie studios, record labels, and artists of millions of dollars in royalties.
- In response to the damage piracy has caused, the US government has pressed its Chinese counterpart and other national governments to better enforce copyrights.

Trade Secrets

- Trade secrets refer to formulas, practices, and designs that are central to a firm's business and that remain unknown to competitors.
- Trade secrets are protected by laws on theft, but once a secret is revealed, it cannot be a secret any longer.
- This leads firms to rely mainly on silence and privacy rather than the legal system to protect trade secrets.

- Some examples and key issues surrounding trade secrets are illustrated below.

- In 2006, Pepsi was offered a chance to buy a stolen copy of Coca-Cola's secret recipe. An FBI sting was created and the thieves were arrested.

- WD-40 was developed to repel water and prevent corrosion, but it was later found to have over two thousand uses. Creating WD-40 took a lot of work: the product's unusual name stands for "Water Displacement, 40th attempt."
- Despite being created in 1953, the formula for making WD-40 remains unknown outside the company that sells it.

- Section Video Understanding Intellectual Property (IP) [02:14]
- The video for this lesson further explains intellectual property.
- You can view this video here:
- https://youtu.be/UqZJPuyK9VY

Isolating Mechanisms

- The goal of a firm is to have a sustained competitive advantage, whereby a resource or capability of the firm provides a competitive edge for a long time. The length of time a firm can maintain a sustained competitive advantage depends on the industry.
- A company in a fast-moving industry, such as information technology or fast fashion, may be quite satisfied if they can hold a competitive advantage for a year.
- A sustained competitive advantage in another type of industry, like feminine hygiene that does not have such frequent changes may last much longer.
- No firm is able to keep a sustained competitive advantage indefinitely. The competition is always attempting to gain its own competitive advantage.

- If a firm can prevent a competitor from imitating the resource or capability that gives it a competitive advantage, it is able to sustain that advantage longer.

- This strategy is called isolating mechanisms. A patent, for example, is a legal way to prevent imitation.

- Sometimes a competitor is able to "re-engineer" the patented concept by making slight changes, working around the patent to imitate the idea without infringing on the patent.

- There are other isolating mechanisms a firm may be able to employ to lessen the likelihood of imitation by a competitor. These other isolating mechanisms are Social Complexity, Path Dependence, and Causal Ambiguity.

Key Takeaway

- Intellectual property can serve as a strategic resource for organizations.
- While some sources of intellectual property such as patents, trademarks, and copyrights can receive special legal protection, trade secrets provide competitive advantages by simply staying hidden from competitors.
- Utilizing isolating mechanisms strategically is a way for organizations to prevent imitation and maintain their competitive advantage.

Value Chain

- When executives choose strategies, an organization's resources and capabilities should be examined alongside its value chain.
- A value chain charts the path by which products and services are created and eventually sold to customers (Porter, 1985).
- The term value chain reflects the fact that, as each step of this path is completed, the product becomes more valuable than it was at the previous step.
- Within the lumber business, for example, value is added when a tree is transformed into usable wooden boards; the boards created from a tree can be sold for more money than the price of the tree.

- The Value Chain is used as an internal assessment tool to help a firm determine where it might be able to achieve a competitive advantage.

- In which areas of the primary and secondary activities is the firm particularly strong?

- Can that activity be leveraged to provide a competitive advantage over its rivals?

- Resources and/ or capabilities within that activity can be evaluated using the VRIO framework to determine what type of competitive advantage they provide.

- For example, Netflix was the first firm to leverage its technology development support activity to bring high quality movies to customers through streaming.

- Being the first mover in this industry gave Netflix a foothold and reputation in this industry, and others have not been able to catch up.

- When using this tool for internal assessment, each activity of the Value Chain should be examined for its potential to achieve a competitive advantage.

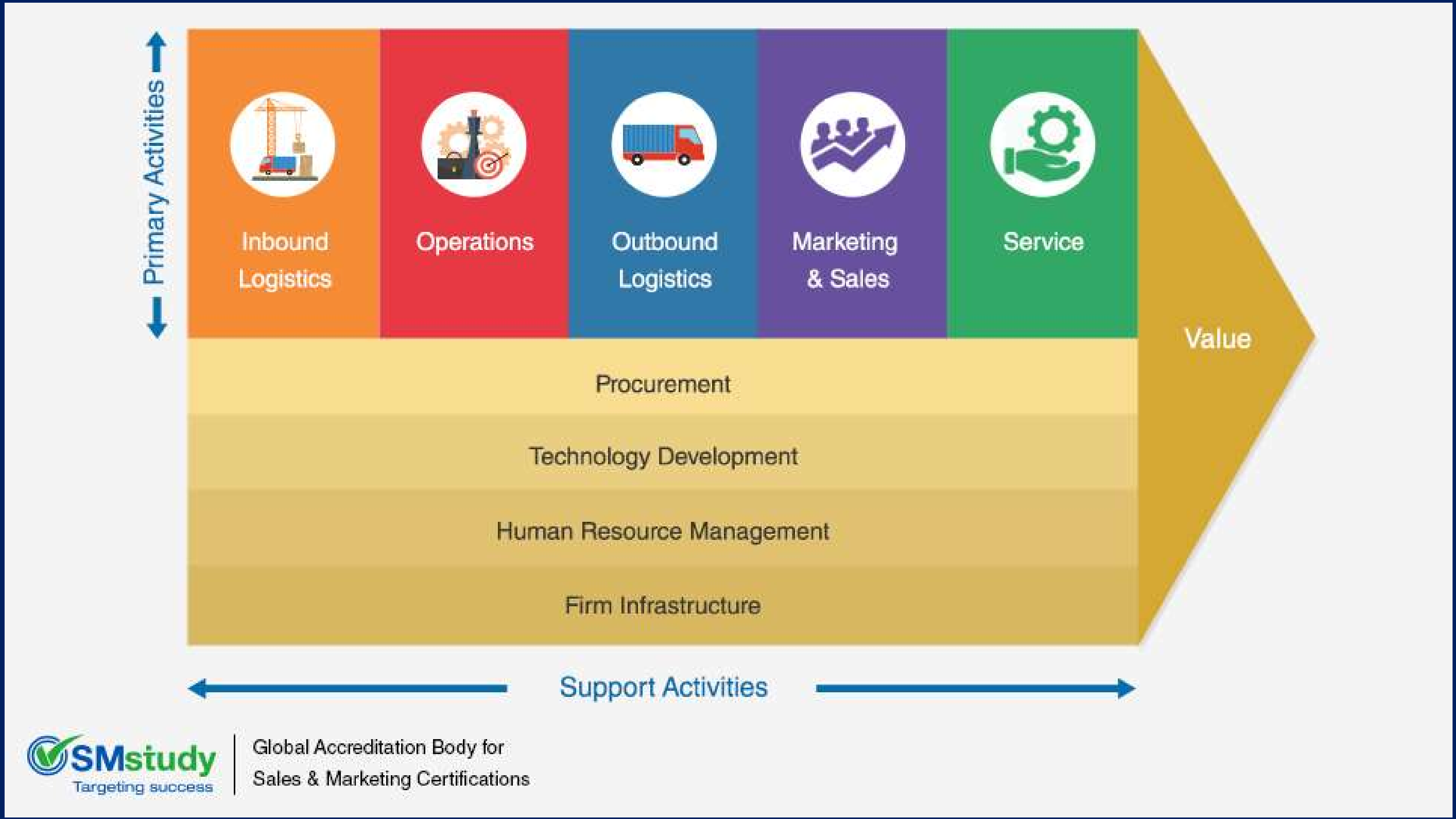
- Conversely, weak activities in the Value Chain are opportunities to improve organizational performance.

- The overall intent of the Value Chain is to produce a profit margin for the firm.

- Value chains include both primary and secondary activities. Primary activities are actions that are directly involved in creating and distributing goods and services.

- Consider a simple illustrative example: doughnut shops.

- Doughnut shops transform basic commodity products such as flour, sugar, butter, and grease into delectable treats. Value is added through this process because consumers are willing to pay much more for doughnuts than they would be willing to pay for the underlying ingredients.


Primary Activities
Inbound Logistics
Operations
Outbound Logistics
Marketing & Sales
Service
Value
Procurement
Technology Development
Human Resource Management
Firm Infrastructure
Support Activities
SMstudy
Targeting success
Global Accreditation Body for
Sales & Marketing Certifications

- There are 5 primary activities.

- Inbound logistics refers to the arrival of raw materials.

- Although doughnuts are seen by most consumers as notoriously unhealthy, the Doughnut Plant in New York City has carved out a unique niche for itself by obtaining organic ingredients from a local farmer's market.

- Operations refers to the actual production process, while outbound logistics tracks the movement of a finished product to customers. Referring back to Southwest Airlines, one of Southwest Airlines' unique capabilities is moving passengers more quickly than its rivals.

- This advantage in operations is based in part on Southwest's reliance on one type of airplane (which speeds maintenance) and its avoidance of advance seat assignments (which accelerates the passenger boarding process).

- Attracting potential customers and convincing them to make purchases is the domain of marketing and sales.

- For example, people cannot help but notice Randy’s Donuts in Inglewood, California, because the building has a giant doughnut on top of it. Finally, service refers to the extent to which a firm provides assistance to their customers.

- Voodoo Donuts in Portland, Oregon, has developed a clever website (voodoodoughnut.com) that helps customers understand their uniquely named products, such as the Voodoo Doll, the Texas Challenge, the Memphis Mafia, and the Dirty Snowball.

- In the service value chain analysis, it is essential to note that the business's success is mainly dependent on word of mouth and reviews of the customers. Since the products are not physical, the new customers will want to know the experience of other customers.

- Considering this, after-sale support services are crucial to the success of the services business.

- A good customer experience means customer loyalty, customer retention, and indirect marketing for the company.

- Secondary activities are not directly involved in the evolution of a product, but instead provide important underlying support for primary activities. Firm infrastructure refers to how the firm is organized and led by executives.

- The effects of this organizing and leadership can be profound. For example, Ron Joyce's leadership of Canadian doughnut shop chain Tim Hortons was so successful that Canadians consume more doughnuts per person than all other countries.

- In terms of resource-based theory, Joyce's leadership was clearly a valuable and rare resource that helped his firm prosper.

- Human resource management is also important. Human resource management involves the recruitment, training, and compensation of employees.

- A recent research study used data from more than twelve thousand organizations to demonstrate that the knowledge, skills, and abilities of a firm's employees can act as a strategic resource and strongly influence the firm's performance (Crook et al., 2011).

- Certainly, the unique level of dedication demonstrated by employees at Southwest Airlines has contributed to that firm's excellent performance over several decades.

- Technology refers to the use of computerization and telecommunications to support primary activities.

- Although doughnut making is not a high-tech business, technology plays a variety of roles for doughnut shops, such as allowing customers to pay using credit cards.

- Procurement is the process of negotiating for and purchasing raw materials.

- Large doughnut chains such as Dunkin’ and Krispy Kreme can gain cost advantages over their smaller rivals by purchasing flour, sugar, and other ingredients in bulk.

- Meanwhile, Southwest Airlines has gained an advantage over its rivals by using futures contracts within its procurement process to minimize the effects of rising fuel prices.

- Sometimes competitive advantage is achieved from the support activities of a firm as opposed to the primary activities.
- Superior technology development or human resource management can produce a temporary if not a sustained competitive advantage.
- A strong research and development arm in a pharmaceutical company can develop medications that are patented and cannot be imitated.
- Incentives to staff such as those provided by 3M and Google to be creative and develop new products have resulted in a competitive advantage.

Reading

- https://www.edrawmax.com/article/service-industry-value-chain-analysis.html