External Environment
What the Firm *Might* Do

Internal Environment
What the Firm *Can* Do

Sustainable Competitive Advantage
Discovering Core Competencies

**Resources**
- * Tangible
- * Intangible

**Capabilities**
- Teams of Resources

**Core Competencies**
- Sources of Competitive Advantage

**Criteria of Sustainable Advantages**
- * Valuable
- * Rare
- * Costly to Imitate
- * Nonsubstitutable

**Value Chain Analysis**

**Competitive Advantage**
- Gained through Core Competencies

**Strategic Competitiveness**
- Above-Average Returns

* Outsource
**Resources**

What a firm *Has*...

What a firm has to work with:
- its assets, including its people and the value of its brand name

Resources represent inputs into a firm’s production process...
- such as capital equipment, skills of employees, brand names, finances and talented managers

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**Tangible Resources**
- Financial
- Physical
- Human Resources
- Organizational

**Intangible Resources**
- Technological
- Innovation
- Reputation

“Some genius invented the Oreo. We’re just living off the inheritance.”

F. Ross Johnson, Former President & CEO, RJR Nabisco
Capabilities

What a firm *Does*...

Capabilities represent:
the firm’s capacity or ability to integrate individual firm resources to achieve a desired objective.

Capabilities develop over time as a result of complex interactions that take advantage of the interrelationships between a firm’s tangible and intangible resources that are based on the development, transmission and exchange or sharing of information and knowledge as carried out by the firm's employees.

Capabilities become important when they are combined in *unique combinations* which create core competencies which have *strategic value* and can lead to *competitive advantage*. 
Core Competencies

Core Competencies must be:

- **Valuable**
  Capabilities that either help a firm to exploit opportunities to create value for customers or to neutralize threats in the environment

- **Rare**
  Capabilities that are possessed by few, if any, current or potential competitors

- **Costly to Imitate**
  Capabilities that other firms cannot develop easily, usually due to unique historical conditions, causal ambiguity or social complexity

- **Nonsubstitutable**
  Capabilities that do not have strategic equivalents, such as firm-specific knowledge or trust-based relationships

What a firm *Does*... that is Strategically Valuable
Core Competencies

Resources
- Inputs to a firm’s production process

Core Competence
- A strategic capability

Capability
- Integration of a team of resources

Does the capability satisfy the criteria of sustainable competitive advantage?

YES

NO

Capability
- A nonstrategic team of resources
Value Chain Analysis
Identifying Resources and Capabilities That Can Add Value

Support Activities

- Firm Infrastructure
- Human Resource Management
- Technological Development
- Procurement

Primary Activities

- Inbound Logistics
- Operations
- Outbound Logistics
- Marketing & Sales
- Service
Outsourcing

Strategic Choice to Purchase Some Activities From Outside Suppliers

Support Activities

Firm Infrastructure

Human Resource Management

Technological Development

Procurement

Inbound Logistics

Operations

Outbound Logistics

Marketing & Sales

Service

Primary Activities

MARGIN
Firms often purchase a portion of their value-creating activities from specialty external suppliers who can perform these functions more efficiently.
Value Chains are part of a *Total Value System*

Supplier Value Chain  Firm Value Chain  Channel Value Chain  Buyer Value Chain

**Upstream Value**
Perform valuable activities that complement the firm’s activities

Each firm must eventually find a way to become a part of *some* buyer’s value chain

Ultimate basis for *differentiation* is the ability to play a role in a buyer’s value chain

This creates VALUE!!

Value chains vary for firms in an industry, reflecting each firm’s unique qualities:

- History
- Strategy
- Success at Implementation
Core Competencies--Cautions and Reminders

- Never take for granted that core competencies will continue to provide a source of competitive advantage.

- All core competencies have the potential to become *Core Rigidities*.

- Core Rigidities are former core competencies that sow the seeds of organizational inertia and prevent the firm from responding appropriately to changes in the external environment.

- Strategic myopia and inflexibility can strangle the firm’s ability to grow and adapt to environmental change or competitive threats.
A statement of the firm’s unique purpose and the scope of its operations in product market terms

Leveraging of a firm’s resources, capabilities and core competencies to accomplish what may appear to be unattainable goals in the competitive environment

Strategic Intent

Strategic Mission

The Strategic Management Process

Chapter 2
External Environment

Chapter 3
Internal Environment

Strategic Intent

Strategic Mission