

# Competitive Advantage – Linking Resources with Internal & External Fit

Resources, competencies, dynamic capabilities & competitive advantage

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Napoli, February 6, 2024

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## Very Short Survey to Complete by **Midnight tonight!**

*Pre-Class Assignment (i.e., brief survey)*

**\*\*\*For our final Integrative Session on Thursday (Feb 8),  
please click on the link (or scan the QR code)\* below and complete the short survey  
comparing the attractiveness of the four retail formats listed.**

*You can do this before reading any course material based on your own experience. Please submit completed survey (by clicking the arrow → on the  
bottom right of the page) before midnight **Tonight (Tuesday, February 6)!***



[https://ceibs.qualtrics.com/jfe/form/SV\\_6yE4vOcaZzPBEnI](https://ceibs.qualtrics.com/jfe/form/SV_6yE4vOcaZzPBEnI)

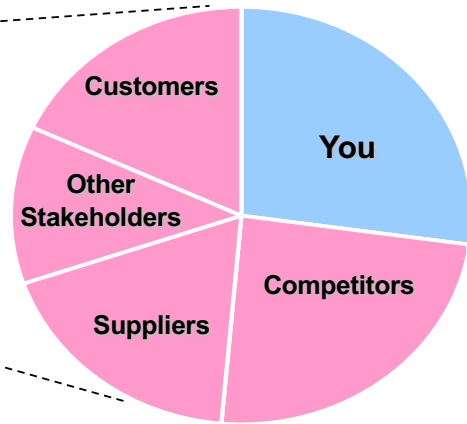
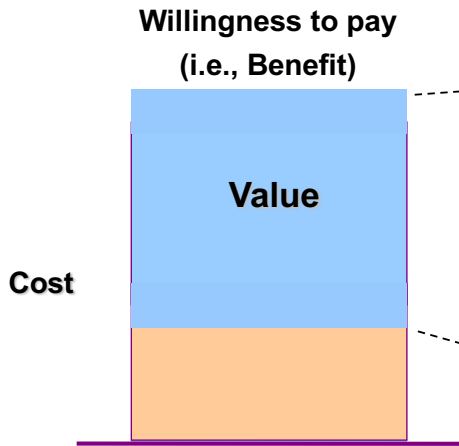
*\* The survey can be completed on your phone but it may be awkward using the phone's keyboard. It will be faster to do it on a computer.*

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Consider how *Creating Value* differs from *Capturing it*.

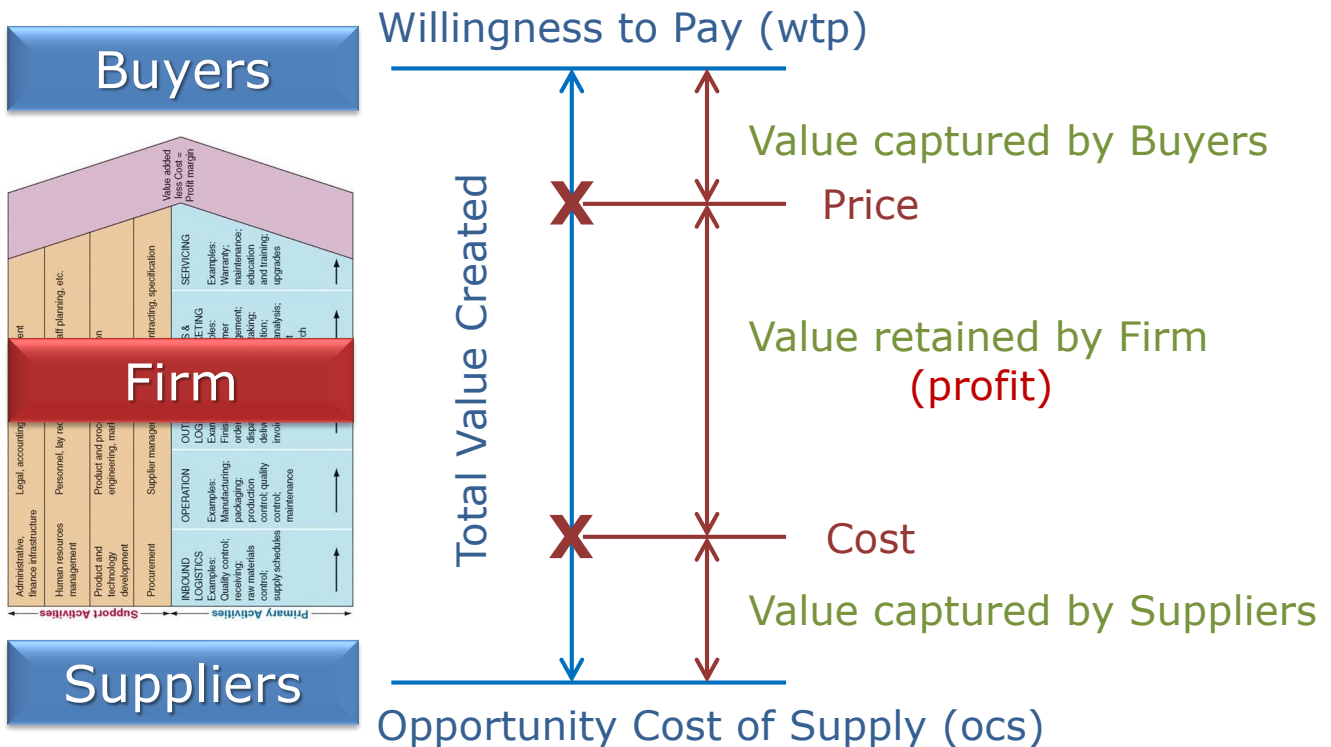
CREATE VALUE BY ...

CAPTURE VALUE BY ...



- ... ↑ **Willingness to pay &**
- ... ↑ **# of customers willing to pay**
- ... ↓ **Opportunity cost of supply**
- ... • **Leveraging bargaining power over key players**
- ... or ... • **Controlling key resources**

## FIRM VALUE CREATION



## This morning's focus: Resources and internal fit

We will explore tools to help us establish an industry position and to identify the kinds of resources needed to defend it

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## Questions to guide our discussion

How does Amazon **create value**?

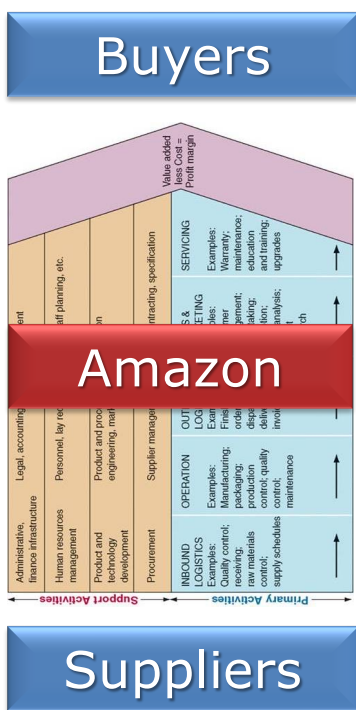
To what extent does Amazon **capture** the value it creates? Why? / Why not?

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# How does Amazon create value?

... Recall ...

## FIRM VALUE CREATION



Willingness to Pay (wtp)

Total Value Created

Opportunity Cost (ocs)

How does Amazon . . .

- Raise wtp?
- Reach more customers?
- Lower ocs?

## Bezos' sketch of Amazon's "Flywheel" Business Model



Source: Adapted from A. Tonner, "The 1 Key to Amazon.com Inc.'s Success That No One Talks About (but Everyone Should)," The Motley Fool, February 19, 2016.

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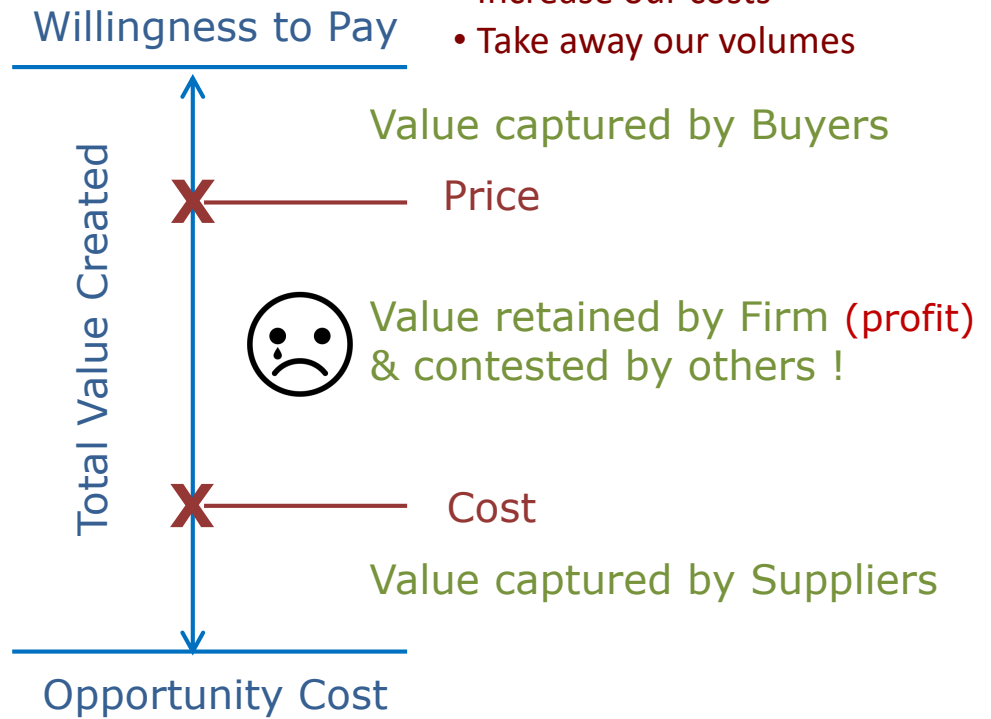
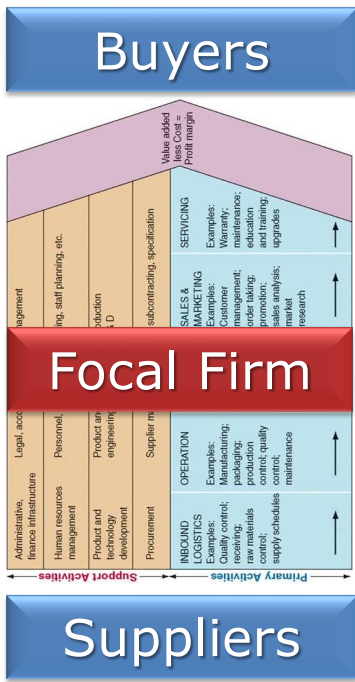
To what extent is Amazon able to  
**capture** the value it creates?  
Why? / Why not?

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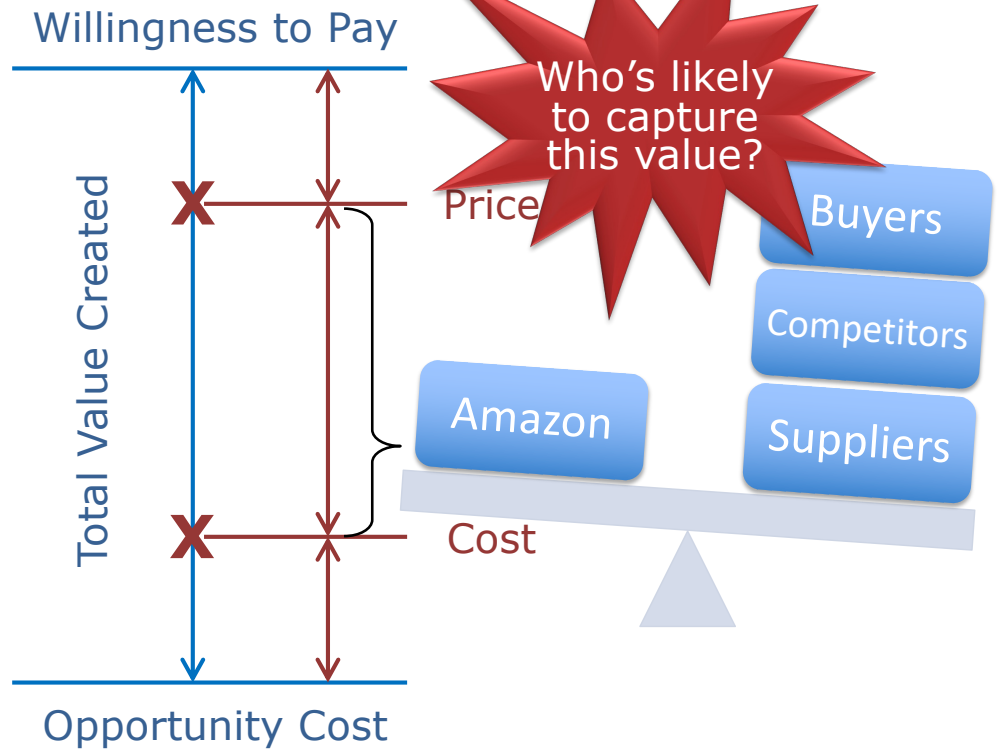
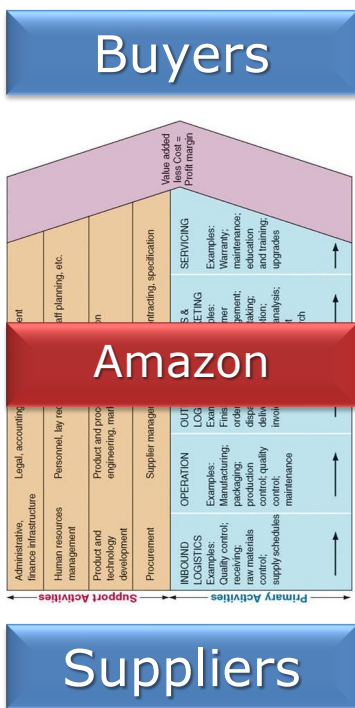
# Porter's Insight:

Our competitors = anyone who can:

- Lower our price
- Increase our costs
- Take away our volumes



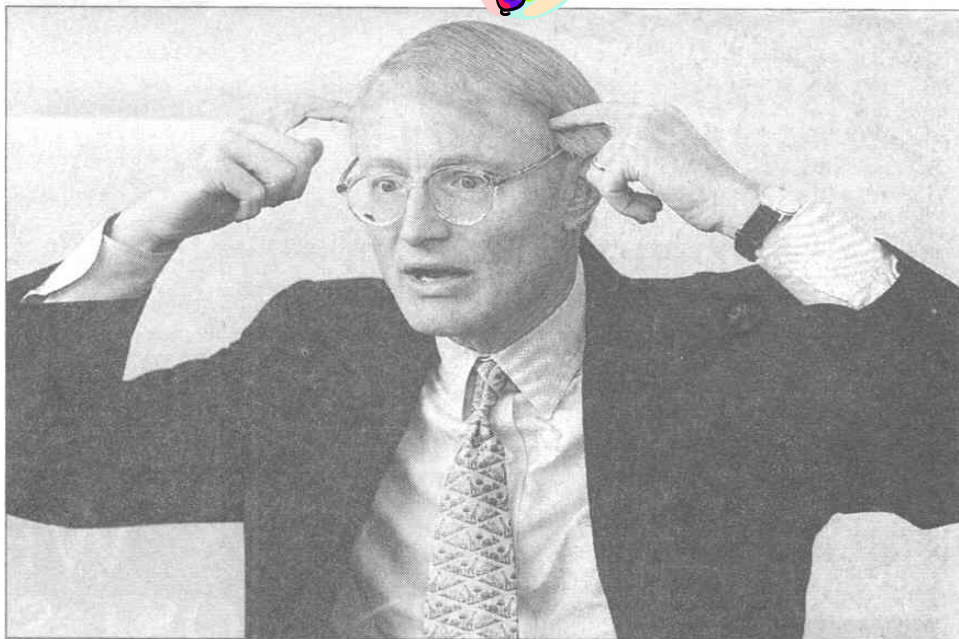
# CHANNEL VALUE CAPTURE



# Does Amazon have a competitive advantage?

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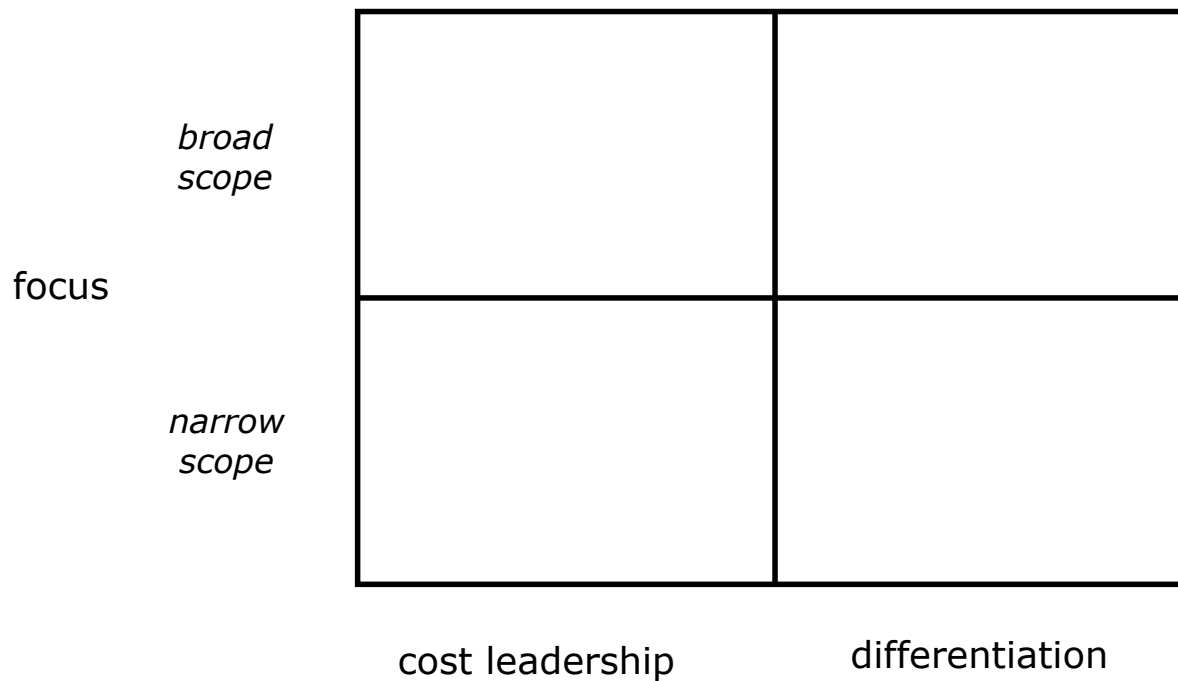


Michael Porter

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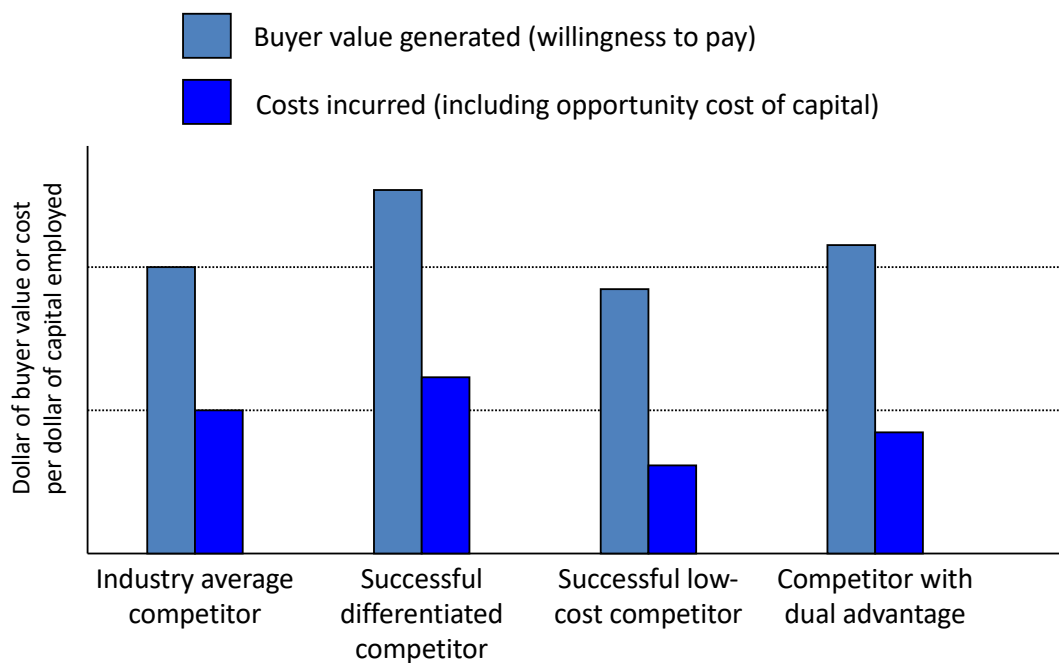
Recall:

## Porter's "generic strategies".



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## Types of Competitive Advantage

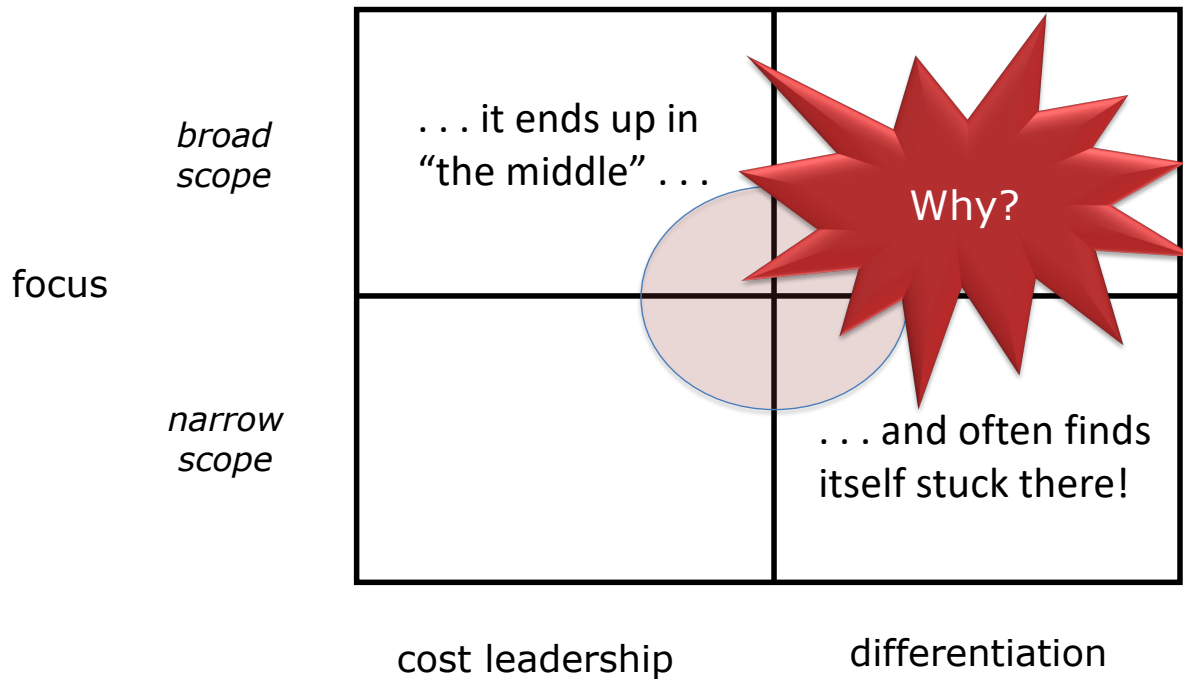


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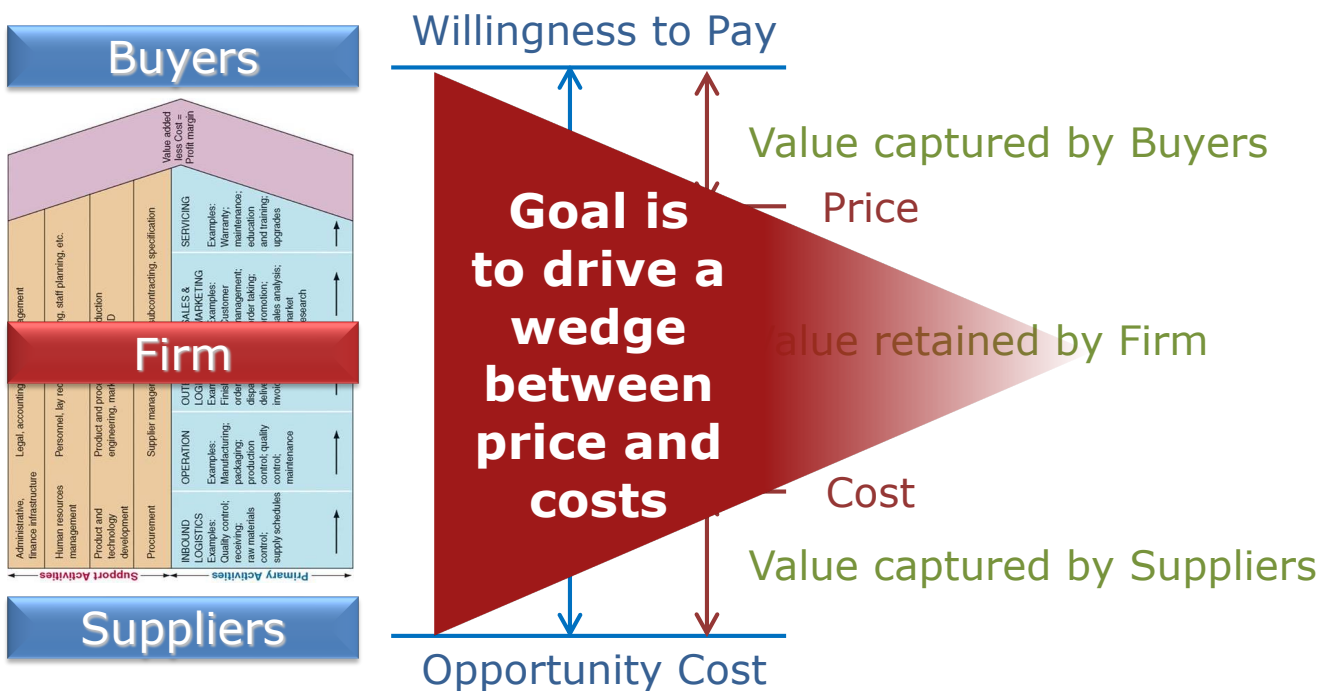


Recall:

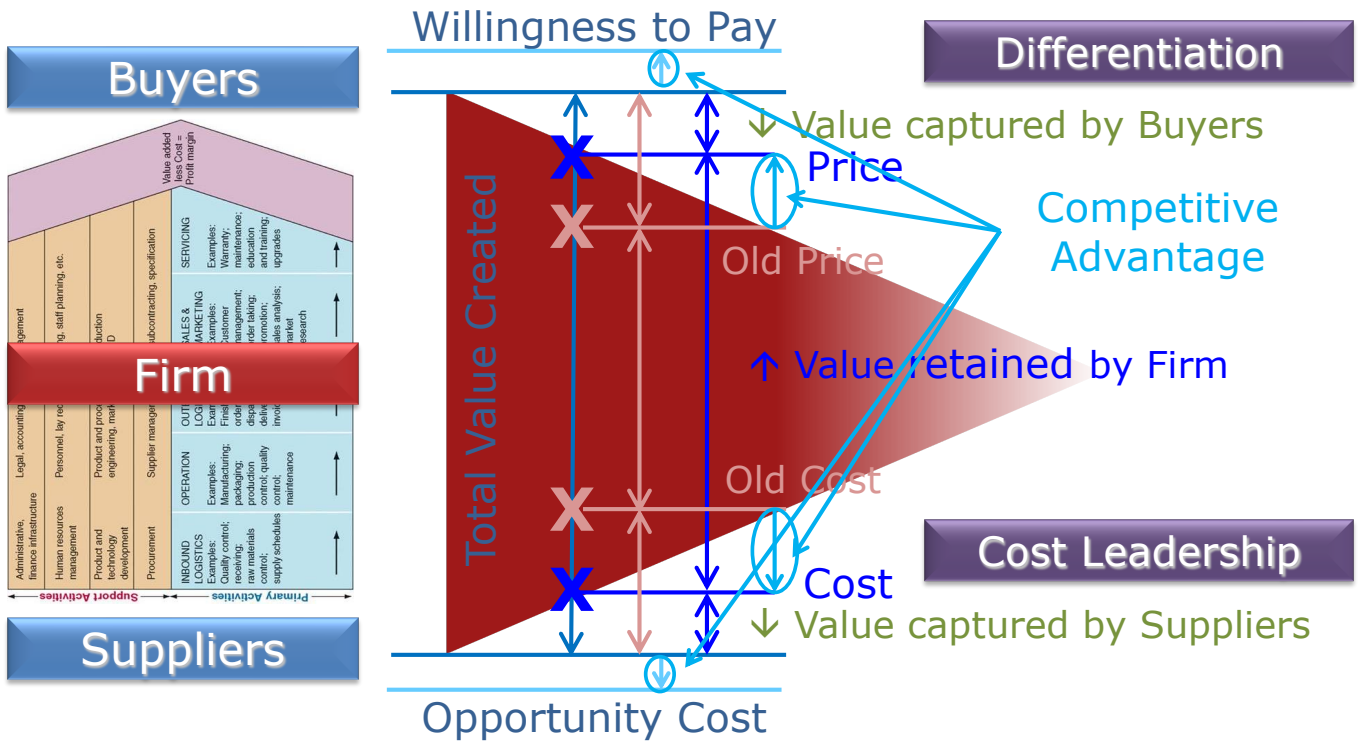
When a firm fails to choose one of these strategies . . .



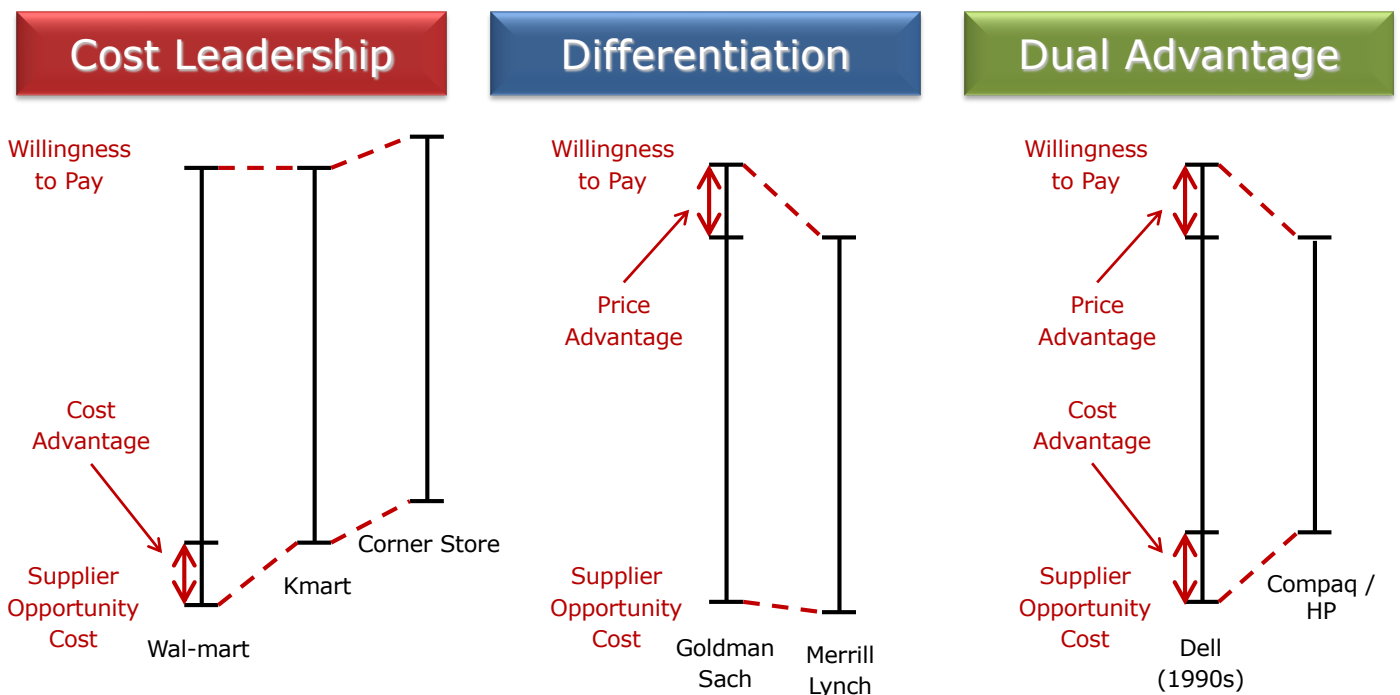
## FIRM VALUE CAPTURE



# FIRM VALUE CAPTURE



# BUSINESS-LEVEL STRATEGIES



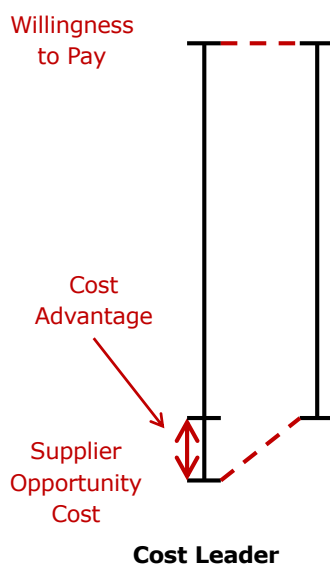
# BUSINESS-LEVEL STRATEGIES

## Cost Leadership

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### HOW TO ACHIEVE COST LEADERSHIP

- Determine and control cost drivers in your value chain.
- Reconfigure your value chain – eliminate non-value add activities.



Firm Infrastructure	Cost-effective management information systems	Relatively few managerial layers to reduce overhead costs	Simplified planning practices to reduce planning costs		
Human Resource Management	Consistent policies to reduce turnover costs		Intense and effective training programs to improve worker efficiency and effectiveness		
Technology Development	Easy-to-use manufacturing technologies		Investments in technologies I to reduce costs associated with a firm's manufacturing processes		
Procurement	Systems and procedures to find the lowest-cost (with acceptable quality) products to purchase as raw materials		Frequent evaluation processes to monitor suppliers' performance		
	Highly efficient systems to link suppliers' products with the firm's production processes	Use of economies of scale to reduce production costs Construction of efficient-scale production facilities	A delivery schedule that reduces costs Selection of low-cost transport carriers	A small, highly trained sales force Products priced so as to generate significant sales volume	Efficient and proper product installations in order to reduce the frequency and severity of recalls
	Inbound Logistics	Operations	Outbound Logistics	Marketing & Sales	Service

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# Differentiation

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## DIFFERENTIATION STRATEGY

Produce goods or services that customers perceive as value-adding at an acceptable cost and that are not easily copied by competitors.



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# DIFFERENTIATION THEMES

• Unique Taste:



• Multiple Features:



• Service Excellence:



• Quality Engineering:



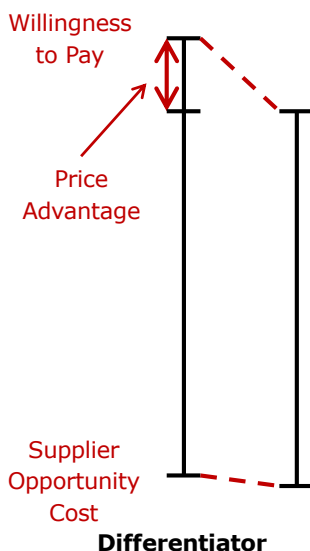
• Prestige:



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# HOW TO ACHIEVE DIFFERENTIATION

Add features that lower overall cost and/or raise the performance buyers get from your products → new technologies, quality of inputs, information, service.



Firm Infrastructure	Superior MIS - to integrate value-creating activities & improve quality		Facilities that promote firm's image	Widely respected CEO to improve firm's reputation	
Human Resource Management	Program to attract talented employees			Provide training and incentives to ensure a strong customer service orientation	
Technology Development	Superior material handling and sorting technology		Excellent applications of engineering support		
Procurement	Purchase high-quality inputs to enhance product image		Use of most prestigious suppliers		
	Superior material handling to minimize damages	Flexibility and speed in responding to changes in production specification	Accurate and responsive order processing	Creative and innovative advertising programs	Rapid response to customer service requests
	Quick transfer of inputs to production processes		Effective product replenishment to reduce customers' inventory	Fostering of personal relationship with key customers	Complete inventory of replacement parts and supplies
	Inbound Logistics	Operations	Outbound Logistics	Marketing & Sales	Service

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## BUSINESS-LEVEL STRATEGIES

# Focused

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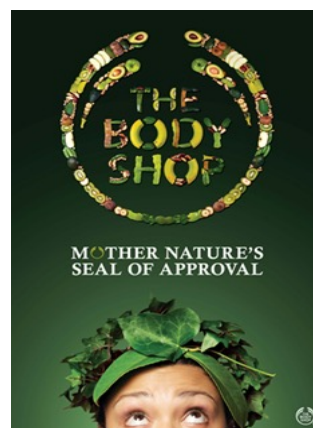
## FOCUSED STRATEGIES

Produce goods or services that serve the needs of a particular competitive segment (niche) to the exclusion of others, through cost leadership or differentiation.

### Focused Cost Leadership



### Focused Differentiation



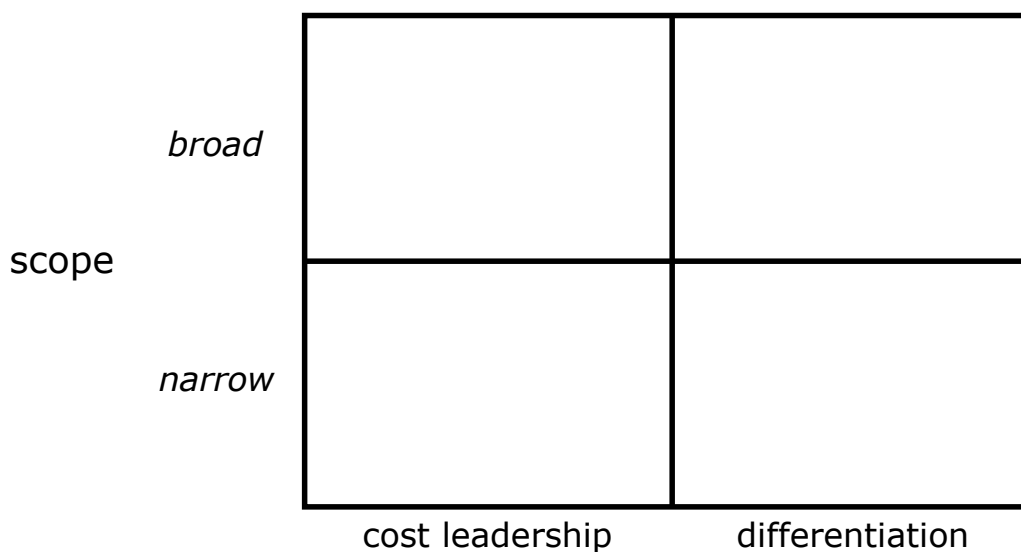
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# Generic Strategies

Research shows that . . .

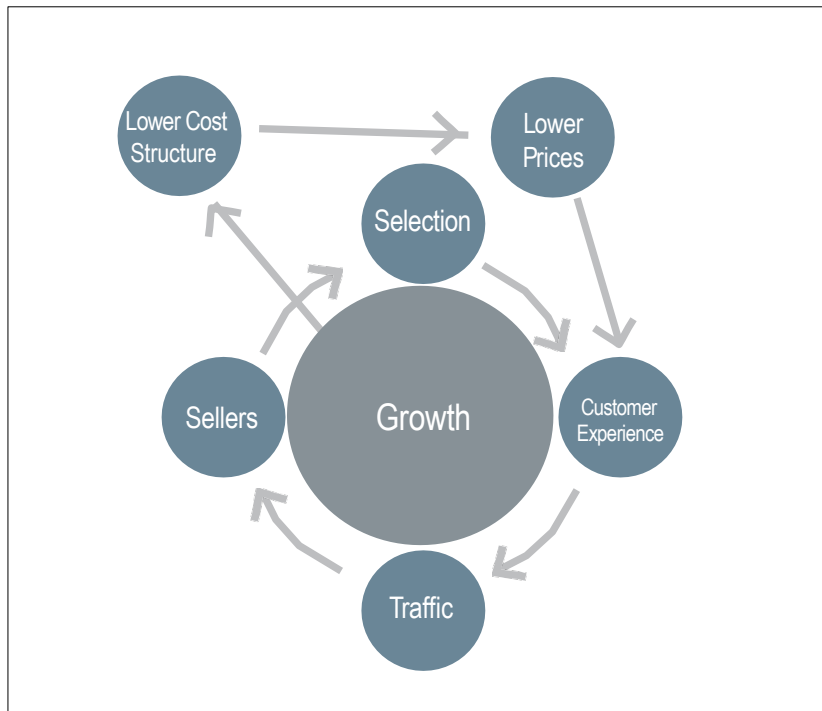
- Generic strategies exist in industries, as a dominant managerial emphasis
- Superior performance tends to be associated with a clear focus on one generic strategy
- No clear emphasis (i.e., being stuck in the middle) is associated with lowest performers

What “generic strategies” has Amazon pursued over time?



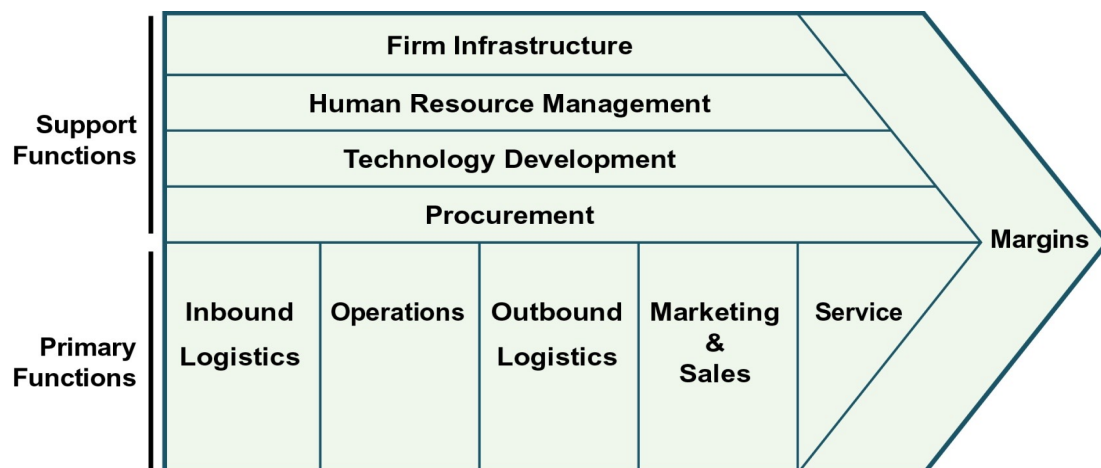
. . . how sustainable is any advantage from these strategies?

# Bezos' sketch of Amazon's "Flywheel" Business Model



Source: Adapted from A. Tonner, "The 1 Key to Amazon.com Inc.'s Success That No One Talks About (but Everyone Should)," The Motley Fool, February 19, 2016.

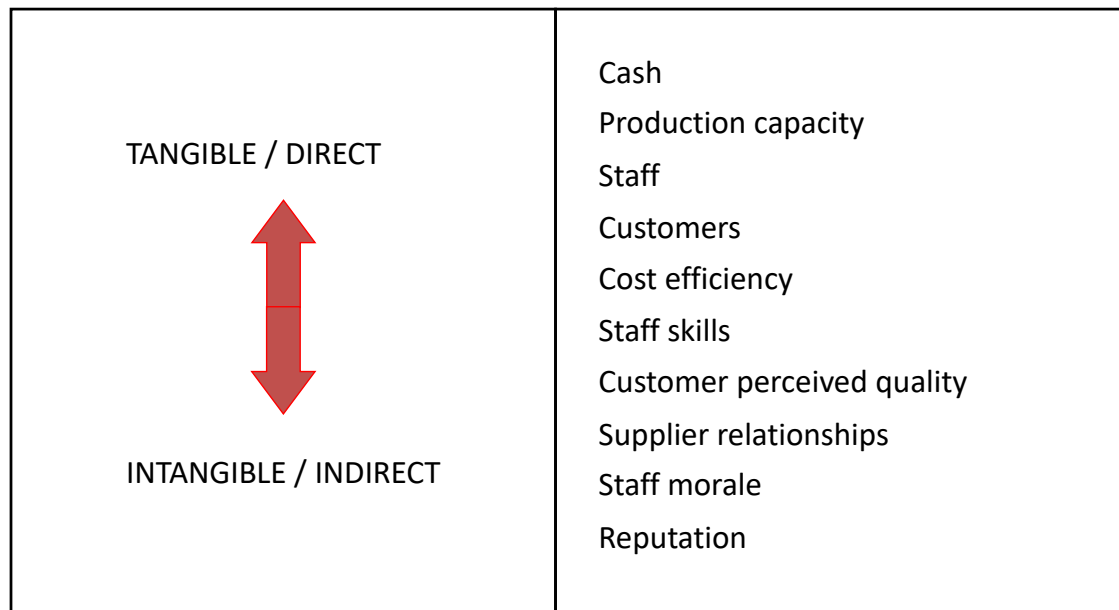
## The Firm's Value Chain: How value is created



... The first step in identifying strategic resources



## Resources: How do they vary?



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## Value in the PC industry has been exploding for decades

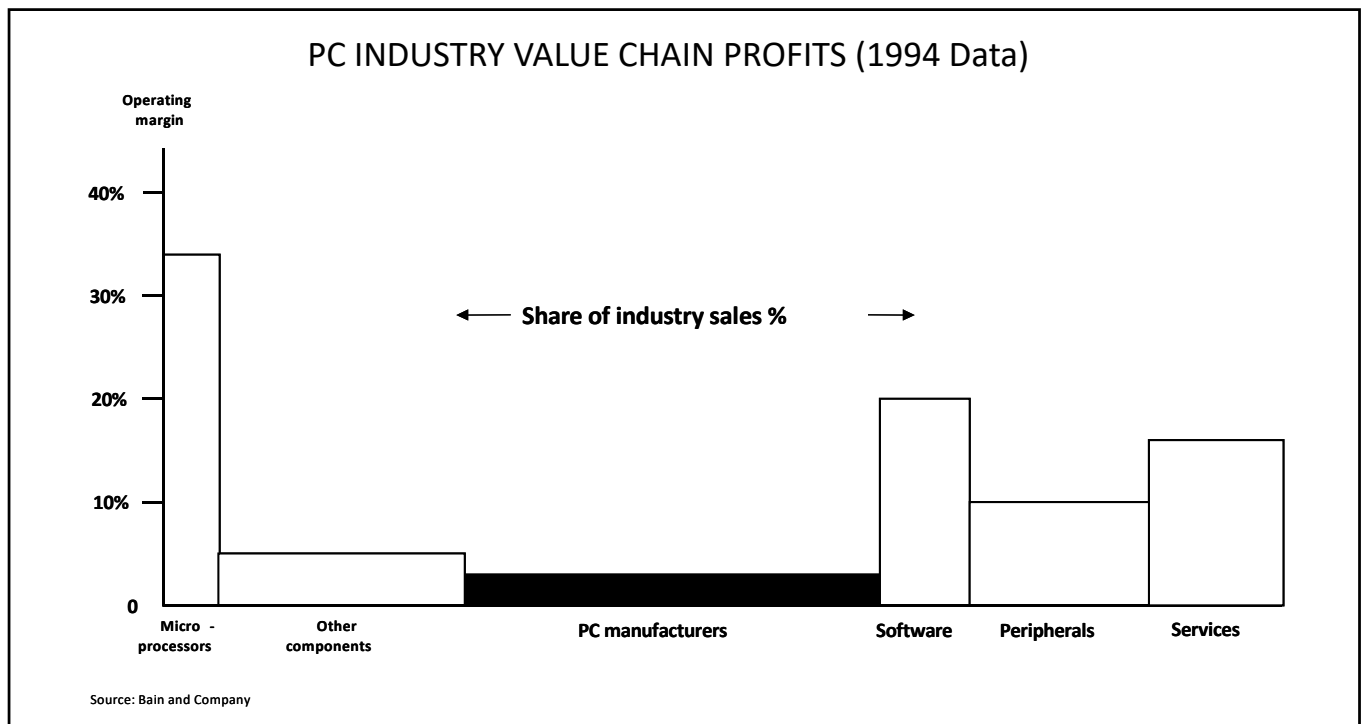
IBM's business model, which outsourced most components, stimulated intense competition that . . .

- Led to component quality getting better and better (e.g., increasingly powerful processors, more and better software, faster & bigger capacity drives, better monitors, . . .):  
↑ **wtp**
- Drove down costs – 25% per year for 30 years!\*:  
↓ **ocs**
- . . . And ever cheaper prices meant PCs for all:  
↑ **#s**

. . . \* the relentless decline in transistor costs also played a big role

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. . . the value migrated away from the PC manufacturers . . .



## How can we explain this value migration?

One way is with the 5-forces.

- Entry into the PC Industry has been easy – all components have been readily available
- Rivalry has therefore been intense, with little to differentiate one PC maker from another, → low prices → low profit
- Buyers have lots of choice and are big beneficiaries
- Two suppliers – Intel and Microsoft – are also big beneficiaries. They have huge bargaining power because every PC needs the same processor and operating system. Thus they are also capturing a lot of the value.

. . . Another way is by considering resources and how they create competitive advantage.

# What makes a competitive advantage sustainable?

Tool:

Sustainability implies resources that are:

## VRIN

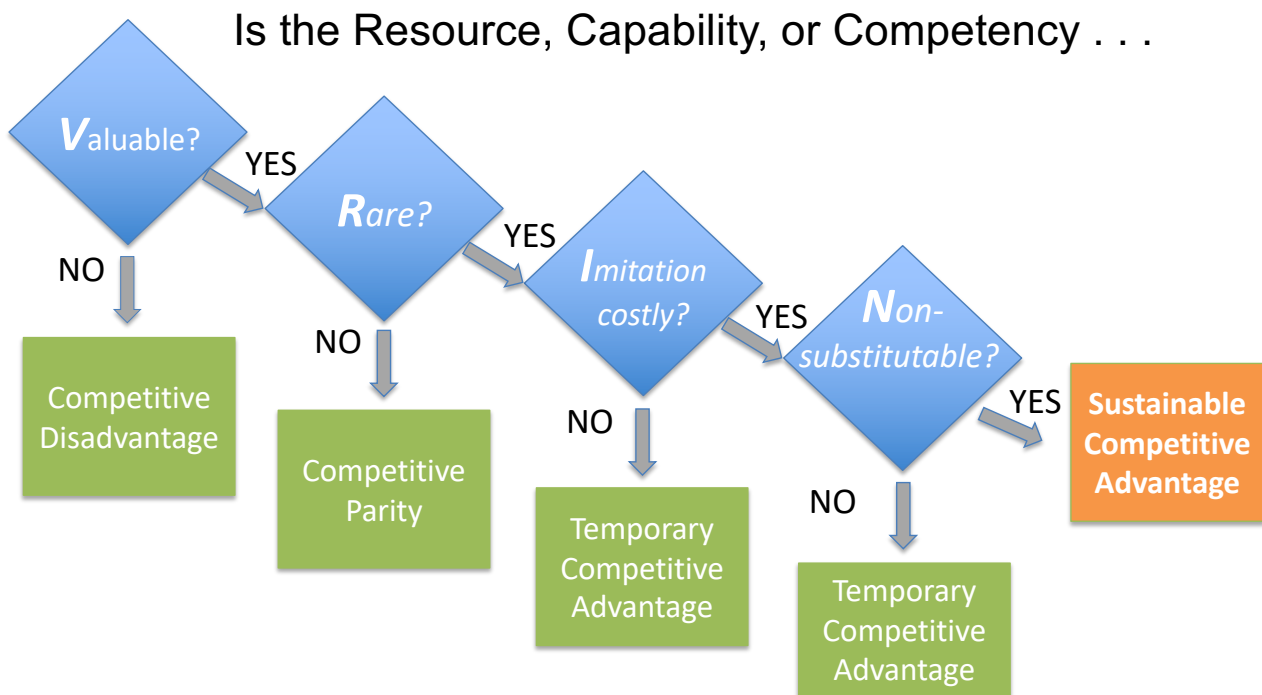
**V**aluable

**R**are

**I**nimitable or difficult to **I**mitate

**N**ot substitutable

## Applying the VRIN Framework:



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## ADDITION TO VRIN TOOL:

### Sources of inimitability:

- time compression diseconomies
- asset mass efficiencies (cf. first mover advantages)

*Dierickx and Cool*

- history dependence
- causal ambiguity
- social complexity (cf. a VRI combination of resources)

*Barney*

. . . which of these sources of inimitability has benefited Amazon?

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## IMITABILITY: an example – American visitor admiring the lawn of an English Lord

**American visitor:** “How come you got such a gorgeous lawn?”

**English Lord:** “Well, the quality of the soil is, I dare say, of the utmost importance”.

**American visitor:** “No problem”.

**English Lord:** “Furthermore, one does need the finest quality seed and fertilisers”.

**American visitor:** “Big deal”.

**English Lord:** “Of course, daily watering and weekly mowing are jolly important”.

**American visitor:** “No sweat, just leave it to me!”

**English Lord:** “That’ s it”.

**American visitor:** “No kidding! That’ s it?”

**English Lord:** “Oh, absolutely. There is nothing to it, old boy . . .  
. . . just keep it up for five centuries”.

## EXERCISE (in groups): Enhancing competitive advantage

**Quickly select a business to analyze from those that you know and prepare an elevator pitch that recommends a change to its value chain that will preserve / enhance a competitive advantage.**

- Identify the critical resources / capabilities in the business’ value chain that create value (i.e., ↑ wtp, ↑ sales, or ↓ cost).
- Apply the **VRIN** tool to determine which R / C are critical for your competitive advantage.
- Recommend a specific change (adding or removing a R or C) to your value chain that will strengthen your competitive advantage. Explain the advantage that you expect to result (i.e., enhancing revenue or quality, lowering costs and / or making the process rarer or less imitable).

## ... Auditing Capabilities:

VRIN opportunities are resource combinations that are:

- **Valuable ...**

Does the capability create something that customers want or need?  
(e.g., does it contribute to differentiation or cost advantage)

- **... and Rare ...**

Does the capability require one or more scarce resources that make it  
'best in class' among the competition?

- **... and Inimitable ...**

Is the capability at risk of imitation by prospective rivals (can the requisite resources be  
acquired or imitated by others)?



- **... and Not Substitutable!**

Is the capability at risk from potential substitutes by prospective rivals (can substitutes for  
the requisite resources that have comparable functionality be developed and/or exploited  
by others)?

Source: J. Barney,

## SUMMARY ...

### 1. Resource analysis

- ▶ understand what resources are & what is required for them to be a source of sustainable competitive advantage
- ▶ tool: **value chain** (to detect sources of value) 
- ▶ tool: **VRIN** framework: "V" & "R" are required for *competitive advantage*; "I" & "N" make it *sustainable* 

## ... SUMMARY

### 2. Resource analysis (*continued*): using the VRIN tool

Note: Resources & capabilities can be the basis of a **competitive advantage** if they are

- **Valuable**, usable to create value for customers, accounting for opportunity costs, and . . .
- **Rare**, not widely held by competitors

A competitive advantage can be **sustainable** if the relevant resources or capabilities are also

- Difficult to **Imitate and Substitute**, because of
  - Barriers to imitation or to using alternatives with similar functionality
  - Problems with catching up to first movers

... Next ...

## ***Assessing the opportunity for and requirements of blue ocean strategy:***

Is it possible to avoid the red ocean of competition altogether and achieve differentiation and low cost? If so, how?

- What attributes do non-customers value?
- Why are they non-customers?
- What would it take to make them customers?