

From Frameworks to Rigorous Internal Analysis

The frameworks in this chapter lay the groundwork for internal analysis but they need to be connected to be most effective. Begin with a rigorous value chain analysis to guide you through all aspects of the company's operations (unlike SWOT) to identify strengths and weaknesses relative to the competition. Then use a VRIO filter (Value, Rarity, Inimitability, and Organization) to analyze the strengths to assess whether any of them might reflect capabilities that could be hard for rivals to replicate. Weaknesses are areas that might limit the company's ability to execute a proposed strategy. As such, addressing these may become an important part of implementing a new strategy. The following is a step-by-step approach to internal analysis:

1. Value Chain Analysis

- Define value chain components. What support and primary activities are essential for the focal company?
- Identify strengths and weaknesses in each component.
- System coordination. Identify strengths and weaknesses in the coordination and cooperation at the system level (across operational units). What coordination is required to be effective?
- Competitive benchmark. How do the strengths and weaknesses compare to competitors? (within functions and across the system)



2. Competitive Advantage (VRIO analysis)

- Identify organizational "strengths" for which competitors' performance is actually superior. These are unlikely to be competitive strengths though managers sometimes feel they should be.
- Identify potential resources & capabilities. Select strengths that are superior to competitors' capabilities in each area.
- Analyze each strength for its potential to yield a competitive advantage
 - Value: How does it lower costs or increase customer willingness to pay?
 - Rarity: Do some (all?) competitors already have this capability/resource?
 - Inimitable: How easily could competitors acquire or imitate? Are there viable substitutes for the resource/capability that rivals could acquire?
 - Organized to exploit: Is the company prevented from leveraging the resource or capability (e.g., administrative or operating procedures may get in the way).

Resource/Capability Attributes				Competitive Outcome:
Valuable?	Rare?	Inimitable & Non-substitutable?	Exploitable by the Firm?	
No	No	No	No	Disadvantage
Yes	No	No	No	Competitive Parity
Yes	Yes	No	No	Potential Advantage
Yes	Yes	No	Yes	Temporary Advantage
Yes	Yes	Yes	Yes	Sustained Advantage

3. Implications for Strategy Formulation and Implementation

- Strategy Diamond: How/where/when can the resources most effectively be leveraged? Should the firm enter new arenas/markets?
- Weaknesses or strengths that are assessed as "Competitive Disadvantages" relative to rivals:
 - What new resources or capabilities are needed to execute a given proposed strategy?
 - What vehicles will be used to gain them (organic growth, acquisition, alliances, etc.)?
- Resources and capabilities that are superior to rivals
 - Temporary Advantage: How long will it last? The strategy should focus on how it can best be leveraged or extended.
 - Potential Advantage: The strategy/implementation should seek to remove the organizational constraints so the resource/capability can be leveraged.
 - Sustained Advantage: The strategy should focus on how and where the resource/capability can be most effectively leveraged.

