

*Note: This is the text-only version of this week's lecture.*

All media (i.e. videos, flash presentations, and PowerPoints) and learning activities (i.e. assigned readings, assignments, and discussions) are accessible only through the online course.

## **Week 2: Analyzing the Firm: Resources and Capabilities**

### **Overview**

In Week 2 of this strategy course, we will focus on analyzing the firm. We will analyze the firm's unique resources and capabilities.

*Log in to the course to view video and alternative version.*

Click the link below to access a transcript of the video.

[Video Transcript](#)

### **Learning Objectives**

At the completion of this lesson, you will be able to:

- Understand the nature of resources, capabilities and core competencies.
- Understand resources and links to customers and to competitive advantage.
- Understand what makes resources critical to strategy: Value, Rarity, Imitability, Durability and Organization.
- Understand sustainable competitive advantage and the link to resources that are hard to transfer or replicate.
- Understand what constitutes value chain activities.
- Understand how a firm makes choices along the value chain.
- Understand a firm's capabilities along the value chain.
- Understand key strategic decisions along the value chain.
- Understand the firm's organization structure and corporate culture as additional resources.

Learning Activities

Learning Activity	Description	Due Date	Point Value	Weight
<b>Lesson 1</b>	Analyzing the Firm	Day 3	~	~
<b>Reading 1</b>	<ul style="list-style-type: none"> <li>Rothaermel, Chapters 4 and 6.</li> <li>PowerPoint review of Rothaermel, Chapter 4</li> <li>PowerPoint review of Rothaermel, Chapter 6</li> <li>"<a href="#">Emirates, Etihad and Qatar Make Their Move on the U.S.</a>," <i>Wall Street Journal</i>, Nov. 6, 2014 (<a href="#">PDF</a>)</li> <li>"<a href="#">Disney-The force is strong in this firm.</a>" <i>The Economist</i>, December 19, 2015 (<a href="#">PDF</a>)</li> </ul>	Day 3	~	~
<b>Discussion 1</b>	"Emirates, Etihad and Qatar Make Their Move on the U.S." & "Disney- The force is strong in this firm"	Initial Post Day 3; Response Day 5	<b>100</b>	<b>4%</b>
<b>Lesson 2</b>	Resources and Capabilities and the Value Chain	Day 3	~	~
<b>Reading 2</b>	<ul style="list-style-type: none"> <li>Review: Marine Harvest Leading Salmon Aquaculture" HBS #9-512-042 Travel</li> </ul>	Day 3	~	~
<b>Assignment 1</b>	"Marine Harvest Leading Salmon Aquaculture" case write-up	Day 6	<b>100</b>	<b>15%</b>
<b>Discussion 2</b>	"Marine Harvest Leading Salmon Aquaculture" case write-up discussion	Initial Post Day 6; Response Day 7	~	~

**Note:** All assignments are to be submitted through the **Assignments** area of the course. Similarly, all discussions can be accessed in the **Discussions** area.

## Analyzing the Firm

### Introduction

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Click the link below to access a transcript of the video.

[Video Transcript](#)

We begin by discussing resources and capabilities and how key success factors in an industry can be linked to resources and capabilities that the firm must develop or possess in order to succeed in its industry. We discuss resources and characteristics that can help a firm obtain a sustainable competitive advantage, the role of knowledge, and why some resources and capabilities can be more easily copied than others.

### Learning Objectives

At the completion of this lesson, you will be able to:

- Understand the nature of resources, capabilities and core competencies.
- Understand resources and links to customers and to competitive advantage.
- Understand what makes resources critical to strategy: Value, Rarity, Imitability, Durability and Organization.
- Understand sustainable competitive advantage and the link to resources that are hard to transfer or replicate.

### Reading 1 (Complete by end of Day 3)

Textbook readings:

- T. Rothaermel. *Strategic Management - Concepts*. McGraw Hill-Irwin, 2012, Chapters 4 and 6.
- [PowerPoint review of Rothaermel Chapter 4](#)
- [PowerPoint review of Rothaermel Chapter 6](#)

Read the following article:

- "[Emirates, Etihad and Qatar Make Their Move on the U.S.](#)," *Wall Street Journal*, Nov. 6, 2014 ([PDF](#))
- "[Disney-The force is strong in this firm.](#)" *The Economist*, December 19, 2015 ([PDF](#))

## Resources and Capabilities

A firm possesses resources, both tangible and intangible. Tangible resources may be factories, products, and land, while intangible assets can be brand names, patents, a skilled and experienced workforce, or reputation. The firm obtains capabilities and core competencies by putting together combinations of these resources. Capabilities are important both for their ability to attract customers and for their ability to withstand competition. Understanding an industry's key success factors is one way to assess which capabilities are critical for the firm. Such an assessment will point to the firm's strengths (the resources and assets it possesses) as well as the gaps in its capabilities (the competencies it should develop for success in the future).

**Click Next for more information about resources and capabilities.**

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## What Determines the Value of a Resource?

The resource should be scarce and unavailable to competition. It should be linked to strategy; that is, the firm should be able to develop a strategy that builds on the scarce resource. The resource should have economic value; that is, it can help create products or services that result in sales, in output that the customer is willing to pay for, such that the firm can earn a profit. The resource should also have value now and for some time in the future. It should also be difficult for competitors to copy, so that the firm enjoys a competitive advantage for some time in the future. We discuss these criteria of value, rarity, imitability, durability and organization as characteristics of a valuable resource.

We also discuss what makes a resource hard to copy or buy. Such barriers to replicability can include a lack of transparency, imperfect information, the role of tacit knowledge and complex organizational routines and managerial skills in extracting value from resources.

**Click Next for more information about determining the value of a resource.**

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## Knowledge as a Resource

Knowledge is an intangible resource of great importance to firms. Knowledge, when made explicit, can be easily shared across the organization but is also then easily disseminated across the industry, becoming available to competitors. Knowledge can take many forms, including customer knowledge, employee knowledge and organizational knowledge. Knowledge can also be codified in databases, software and simulations.

**Click Next for more information about knowledge as a resource.**

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## Summary

A firm competes in its industry by delivering superior value to customers while outdoing competition. This requires that the firm develop resources and capabilities that can help it deliver superior value to customers, while at the same time performing better than competition, in creating value and in delivering value at lower costs. A firm's strategy should be built around capabilities that can confer value and advantage for a number of years, and criteria such as rarity, durability and difficulty of imitation. These criteria are important in determining which resources and capabilities to accumulate and which strategies to pursue (built on these unique and sustainable resource advantages).

You have now completed Week 2 Lesson 1. Click the link below to access a PowerPoint presentation to review what you have just learned.

[Lesson 1 Summary](#)

*End of Lesson 1*

## Discussion 1 (Post by end of Day 3; Respond by end of Day 5)

Point Value: 100

Read the following article:

- "[Emirates, Etihad and Qatar Make Their Move on the U.S.](#)," *Wall Street Journal*, Nov. 6, 2014 ([PDF](#))
- "[Disney-The force is strong in this firm.](#)," *The Economist*, December 19, 2015 ([PDF](#))

### Discussion Questions

- Discuss the unique resources/capabilities that the Middle Eastern airlines and the Disney Co. possess, and how these contribute to their competitive advantage, respectively, in the long haul air transport industry and the global film and entertainment industry. How have they used their competitive advantages to succeed in their respective industries?

**Note:** Your posts on the articles should be between 300 to 500 words.

Post your answers within the *Emirates and Disney* thread by no later than end of Day 3. Respond substantially to one classmate's initial post by end of Day 5.

## Resources and Capabilities and the Value Chain

### Introduction

Firms create value for customers through a series of activities which can be collectively termed the value chain. Some value chain activities can be more profitable than others, i.e. profits from retailing vs. profits from research and design of new products. Firms decide which value chain activities they will pursue and when they will rely on outside suppliers. We discuss how the firm's value chain choices are linked to its capabilities. We also discuss key strategic decisions in each of the major value chain activity areas.

### Learning Objectives

At the completion of this lesson, you will be able to:

- Understand what constitutes value chain activities.
- Understand how a firm makes choices along the value chain.
- Understand a firm's capabilities along the value chain.
- Understand key strategic decisions along the value chain.
- Understand the firm's organization structure and corporate culture as additional resources.

### Reading 2 (Complete by end of Day 3)

Read the following case in your course pack:

- "Marine Harvest Leading Salmon Aquacultur" *HBS Case #9-512-042*

### Capabilities and the Value Chain

The value chain can be subdivided into upstream and downstream activities. A firm can choose to vertically integrate and perform all these activities or choose to concentrate on some activities and outsource or buy the products of other value chain activities from outside suppliers. Thus, a technology firm might decide to focus on R&D and new product design, and outsource manufacturing to Asian subcontractors, and then market the product as an OEM product, i.e. through brands created and sold by outside marketing partners.

The firm decides which value chain activities it will concentrate on based on the fit between its unique resources and capabilities and specific value chain activities. Presumably, the technology firm concentrates on R&D and product design because it has a competitive advantage in those areas, linked to the availability of critical scientific personnel on its staff, specialized domain knowledge in scientific areas, patents and reputation in that technology sphere. At the same time, it may prefer to subcontract and outsource manufacturing and marketing as it may feel that it does not possess the resources and capabilities needed to gain competitive advantage in manufacturing and marketing.

The value chain provides a useful approach to assessing the firm's capabilities, as they can be broken down by function – whether the capability pertains to research and development, marketing, manufacturing, etc.

A key feature of the value chain are complementers – firms whose products and services may be used in conjunction with the firm's own products and services to deliver greater customer value and to derive competitive advantage. An example would be hit video games such as Halo 3 and its role in making the Xbox 360 more attractive to customers over competing video game platforms such as the Nintendo Wii or the Sony PS3.

Value chain analysis and strategy formulation will vary across the firm's diverse lines of business. Thus, a firm organized by Strategic Business Units—SBUs—will determine capabilities and assess value chain activities for each SBU separately, while firms organized by function or by division will assess value chain choices and capabilities at these organizational levels. However, a firm's corporate culture, an intangible resource, is likely to be similar across organizational subunits, and thus a common capability in influencing strategy.

**Click Next for more information about the value chain.**

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## **Strategic Decisions**

There are major strategic decisions that affect each key value chain step. In marketing, the product life cycle is central, as is segmentation, while in finance, capital budgeting decisions and cash flow forecasting are critical to strategy.

**Click Next for more information about strategic decision making.**

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## **Summary**

A firm's resources and capabilities can shape its ability to compete successfully in an industry. Satisfying customers and gaining competitive advantage together determine which resources and capabilities are important. Long-term sustainable competitive advantage comes from developing resources which are unique and hard to imitate. The bundle of unique resources which lead to core competencies help the firm determine how to compete along the value chain, which value chain activities to focus on and which value chain activities to outsource.

**You have now completed Week 2 Lesson 2. Click the link below to access a PowerPoint presentation to review what you have just learned.**

[Lesson 2 Summary](#)

*End of Week 2*

## Assignment 1 (Submit by end of Day 6)

Point Value: 100

### Case: Case: Marine Harvest: Leading Salmon Aquaculture 9-512-042

1. What are some distinctive characteristics of the aquaculture industry? How is the aquaculture industry changing?
2. How is Marine Harvest performing within the industry?
3. Which of the three options mentioned in the case should CEO Aarskog choose? Why?
4. What other recommendations would you suggest for Marine Harvest?

**Case Write-ups should be around 5 pages (1000-1200 words) maximum**, 10 point font, double-spaced, in addition to exhibits. Please **also use exhibits and charts as necessary** to support your text answers. Your comments on the answers of colleagues can be short, up to 200 words.

Submit your write-up through the Turnitin drop box found within the Assignments area by no later than end of Day 6.

After you have submitted your write-up, post a copy of your answers to the Week 2 Discussion 2 forum by no later than end of Day 6. Respond substantially to one classmate's initial posts by end of Day 7. Your comments on the answers of your colleagues can be short, up to 200 words

### Accessing Grademark Commentary for Individual Turnitin Assignments

- Select the **View/Complete** link in the assignment drop box, or select your grade in the **My Grades** area.
- Next, select the View button associated with the assignment you wish to review or click on the title of the assignment.
- Once the document view loads, select the **GradeMark** button, located at the top left of the screen.
- To view individual comments, hover the mouse over the blue comment bubbles.

### Discussion 2 (Post by end of Day 6; Respond by end of Day 7)

#### Case: Case: Marine Harvest: Leading Salmon Aquaculture 9-512-042

1. What are some distinctive characteristics of the aquaculture industry? How is the aquaculture industry changing?
2. How is Marine Harvest performing within the industry?
3. Which of the three options mentioned in the case should CEO Aarskog choose? Why?
4. What other recommendations would you suggest for Marine Harvest?

Post a copy of your write-up within the *Marine Harvest* thread by no later than end of Day 6. Respond substantially to one classmate's initial post by end of Day 7. Your comments on the answers of colleagues can be short, up to 200 words.