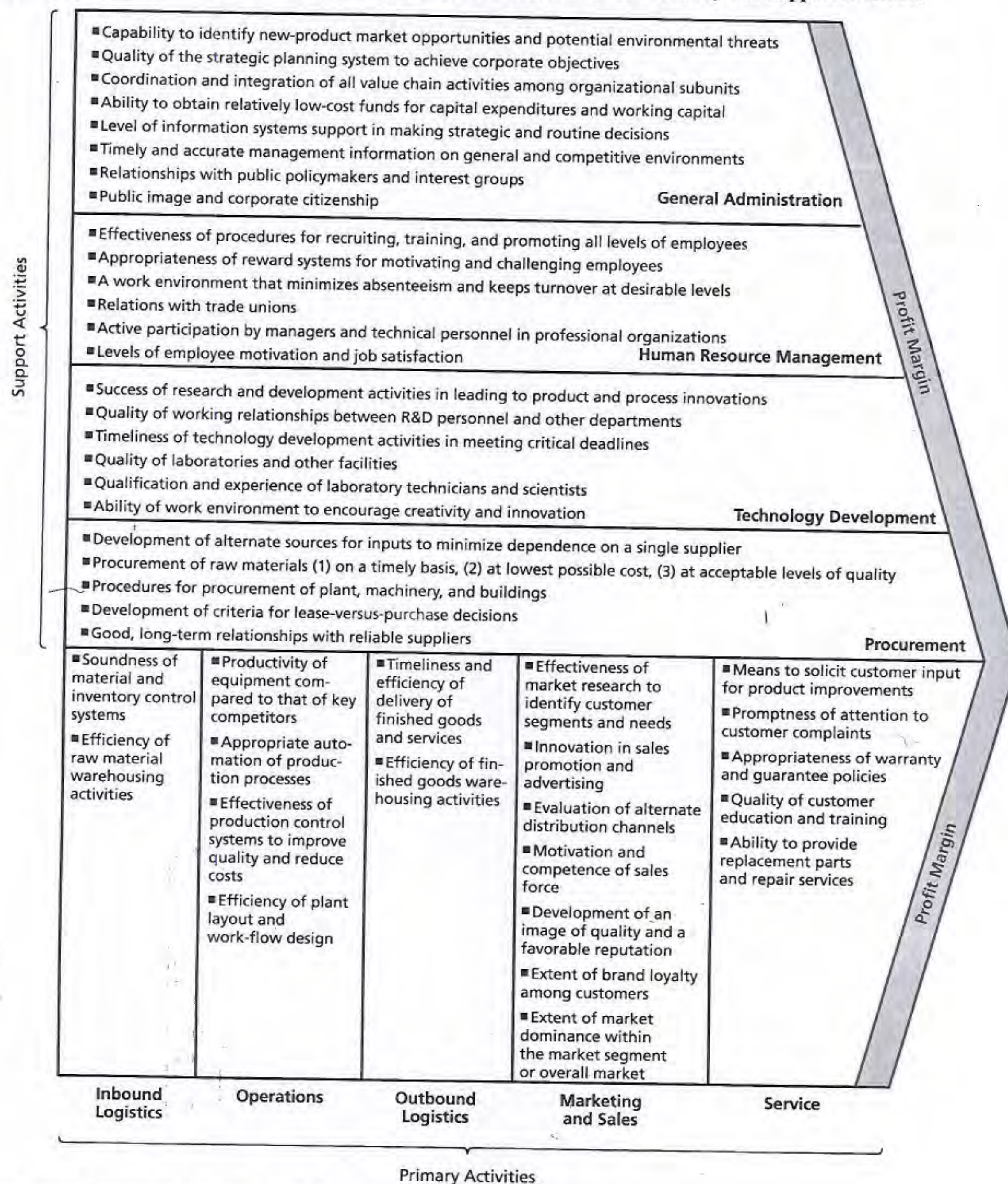
EXHIBIT 6.6 **Possible Factors for Assessing Sources of Differentiation in Primary and Support Activities**



Source: Based on Michael Porter, *On Competition*, 1998, Harvard Business School Press.

are differentiation cornerstones. Retailer Wal-Mart focuses intensely on costs related to inbound logistics, advertising, and loyalty to build its competitive advantage, while Nordstrom builds its distinct position in retailing by emphasizing sales and support activities on which they spend twice the retail industry average.

Second, the nature of value chains and the relative importance of the activities within them vary by industry. Lodging firms like Holiday Inn have major costs and concerns that involve operational activities—it provides its service instantaneously at each location—and marketing activities, while having minimal concern for outbound logistics. Yet for a distributor, such as the food distributor PYA, inbound and outbound logistics are the most critical area. Major retailers like Wal-Mart have built value advantages focusing on purchasing and inbound logistics, while the most successful personal computer companies have built via sales, outbound logistics, and service through the mail-order process.

Third, the relative importance of value activities can vary by a company's position in a broader value system that includes the value chains of its upstream suppliers and downstream customers or partners involved in providing products or services to end users. A producer of roofing shingles depends heavily on the downstream activities of wholesale distributors and building supply retailers to reach roofing contractors and do-it-yourselfers. Maytag manufactures its own appliances, sells them through independent distributors, and provides warranty service to the buyer. Sears outsources the manufacture of its appliances while it promotes its brand name—Kenmore—and handles all sales and service.

As these examples suggest, it is important that managers take into account their level of vertical integration when comparing their cost structure for activities on their value chain to those of key competitors. Comparing a fully integrated rival with a partially integrated one requires adjusting for the scope of activities performed to achieve meaningful comparison. It also suggests the need for examining costs associated with activities provided by upstream or downstream companies; these activities ultimately determine comparable, final costs to end users. Said another way, one company's comparative cost disadvantage (or advantage) may emanate more from activities undertaken by upstream or downstream "partners" than from activities under the direct control of that company—therefore suggesting less of a relative advantage or disadvantage within the company's direct value chain.

COMPETITIVE ADVANTAGE VIA CUSTOMER VALUE: THREE CIRCLES ANALYSIS

three circles analysis
An internal analysis technique wherein strategists examine customers' needs, company offerings, and competitor's offerings to more clearly articulate what their company's competitive advantage is and how it differs from those of competitors.

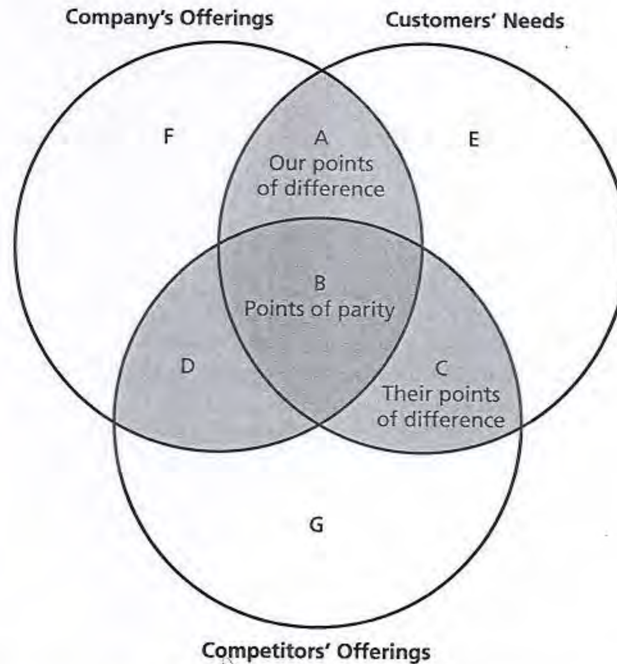
There is considerable appeal and anecdotal evidence that a company must build a distinct value chain–based competitive advantage to grow and be profitable over the long term. However, in using the value chain approach just described or the resource-based approach (described in the next section), it can remain difficult for many strategists to clearly articulate what their company's competitive advantage is and how it differs from those of competitors while in the midst of strategic analysis activities. University of Notre Dame Professors Joel Urbany and James Davis have developed a clever, useful, and simple tool to help in this analysis that can also complement and help articulate the findings from a value chain analysis or the resource-based view.[4] In this section, we use their ideas and examples to describe their "three circle analysis."

To begin the **three circles analysis,** the strategizing team of executives should begin their analysis by thinking deeply about what customers of their type of product or service value and why. For example, they might value speedy service because they want to minimize

[4] Joel E. Urbany and James H. Davis, "Strategic Insight in Three Circles," *Harvard Business Review* 85, no. 11 (2007), pp. 28–30.

EXHIBIT 6.7
Three Circles Analysis

Source: Reprinted by permission of *Harvard Business Review.* Exhibit from "Strategic Insight in Three Circles," by Joel E. Urbany and James H. Davis, November 2007. Copyright 2007 by the Harvard Business School Publishing Corporation; all rights reserved.



inventory costs with a just-in-time inventory system. Looking at findings from the value chain analysis, or from a resource-based view of the firm, but through the eyes of their key target customers, is a simple but often overlooked perspective from which to evaluate core competencies. It is a central part of this technique and logically hits the core of the reason for the firm's existence in the first place.

Next, the strategists should draw three circles as shown in Exhibit 6.7. The first circle (seen on the top right) is to represent the team's consensus of what the most important customers or customer segments need or want from the product or service.

Urbany and Davis observe that even in very mature industries, customers do not articulate all their wants in conversations with companies. For example, there was no consumer demand on Procter & Gamble to invent the Swiffer, whose category contributes significantly to the company's recent double-digit sales growth in home care products. Instead, the Swiffer emerged from P&G's careful observation of the challenges of household cleaning. Therefore, in conducting this initial phase of competitive advantage analysis, the consumers' unexpressed needs can often become growth opportunities.

The second circle represents the team's view of how customers perceive the company's offerings (seen on the top left). The extent to which the two circles overlap indicates how well the company's offerings are fulfilling customers' needs.

The third circle represents the strategists' view of how customers perceive the offerings of the company's competitors.

Each area within the circles is important, but areas A, B, and C are critical to identifying and building a real value-based competitive advantage. The planning team should ask questions about each:

- *Circle A:* How big and sustainable are our advantages? Are they based on distinctive capabilities?
- *Circle B:* Are we delivering effectively in the area of parity?
- *Circle C:* How can we counter our competitors' advantages?

As Urbany and Davis explain, the team should form hypotheses about the company's competitive advantages and test them by asking customers. The process can yield surprising insights, such as how much opportunity for growth exists in the white space (E). Another insight might be what value the company or its competitors create that customers do not need (D, F, or G). For example, Zeneca Ag Products discovered that one of its most important distributors would be willing to do more business with the firm only if Zeneca eliminated the time-consuming promotional programs that its managers thought were an essential part of their value proposition.

But the biggest surprise is often that area A, envisioned as huge by the company, turns out to be quite small in the eyes of the customer. One important contribution that the next internal analysis technique, the resource-based view of the firm, can make in this regard is to help provide an in-depth method to more thoroughly identify and examine a firm's existing or potential competitive advantages. Let's examine the resource-based view.

RESOURCE-BASED VIEW OF THE FIRM

Toyota versus Ford is a competitive situation virtually all of us recognize. Stock analysts look at the two and conclude that Toyota is the clear leader. They cite Toyota's superiority in tangible assets (newer factories worldwide, R&D facilities, computerization, cash, etc.) and intangible assets (reputation, brand name awareness, quality-control culture, global business system, etc.). They also mention that Toyota leads Ford in several capabilities to make use of these assets effectively—managing distribution globally, influencing labor and supplier relations, managing franchise relations, marketing savvy, and speed of decision making to take quick advantage of changing global conditions are just a few that are frequently mentioned. The combination of capabilities and assets, most analysts conclude, creates several competencies that give Toyota key competitive advantages over Ford that are durable and not easily imitated.

The Toyota–Ford situation provides a useful illustration for understanding several concepts central to the **resource-based view** (RBV) of the firm. The RBV is a method of analyzing and identifying a firm's strategic advantages based on examining its distinct combination of assets, skills, capabilities, and intangibles as an organization. The RBV's underlying premise is that firms differ in fundamental ways because each firm possesses a unique "bundle" of resources—tangible and intangible assets and organizational capabilities to make use of those assets. Each firm develops competencies from these resources, and, when developed especially well, these become the source of the firm's competitive advantages. Toyota's decision to enter global markets locally and regularly invest in or build newer factory locations in those global markets has given Toyota a competitive advantage analysts estimate Ford has lost and will take at least 20 years or longer, if ever, to match. Toyota's strategy for the past 15 years was based in part on the identification of these resources and the development of them into a distinctive competence—a sustained competitive advantage.

resource-based view
A method of analyzing and identifying a firm's strategic advantages based on examining its distinct combination of assets, skills, capabilities, and intangibles as an organization.

Core Competencies

Executives charting the strategy of their business have more recently concentrated their thinking on the notion of a "core competence." A **core competence** is a capability or skill that a firm emphasizes and excels in doing while in pursuit of its overall mission. Core competencies that differ from those found in competing firms would be considered *distinctive competencies*. Apple's competencies in pulling together available technologies and others' software and combining this with their own product design skills and

core competence
A capability or skill that a firm emphasizes and excels in doing while in pursuit of its overall mission.

new-product introduction prowess result in an innovation competence that is different and distinct from any firm against which Apple competes. Toyota's pervasive organizationwide pursuit of quality; Wendy's systemwide emphasis on and ability to provide fresh meat daily; and the University of Phoenix's ability to provide comprehensive educational options for working adults worldwide are all examples of competencies that are unique to these firms and distinctive when compared to their competitors.

Distinctive competencies that are identified and nurtured throughout the firm, allowing it to execute effectively so as to provide products or services to customers that are superior to competitor's offerings, become the basis for a lasting *competitive advantage*. Executives, enthusiastic about the notion that their job as strategists was to identify and leverage core competencies into distinctive ones that create sustainable competitive advantage, encountered difficulty applying the concept because of the generality of its level of analysis. The RBV emerged as a way to make the core competency notion and thought process more focused and measurable—creating a very important, and more meaningful, tool for internal analysis. Let's look at the basic concepts underlying the RBV.

Three Basic Resources: Tangible Assets, Intangible Assets, and Organizational Capabilities

The RBV's ability to create a more focused, measurable approach to internal analysis starts with its delineation of three basic types of resources, some of which may become the building blocks for distinctive competencies. These resources are defined below and illustrated in Exhibit 6.8.

tangible assets
The most easily identified assets, often found on a firm's balance sheet. They include production facilities, raw materials, financial resources, real estate, and computers.

intangible assets
A firm's assets that you cannot touch or see but that are very often critical in creating competitive advantage: brand names, company reputation, organizational morale, technical knowledge, patents and trademarks, and accumulated experience within an organization.

organizational capabilities
Skills (the ability and ways of combining assets, people, and processes) that a company uses to transform inputs into outputs.

Tangible assets are the easiest "resources" to identify and are often found on a firm's balance sheet. They include production facilities, raw materials, financial resources, real estate, and computers. Tangible assets are the physical and financial means a company uses to provide value to its customers.

Intangible assets are "resources" such as brand names, company reputation, organizational morale, technical knowledge, patents and trademarks, and accumulated experience within an organization. While they are not assets that you can touch or see, they are very often critical in creating competitive advantage.

Organizational capabilities are not specific "inputs" like tangible or intangible assets; rather, they are the skills—the ability and ways of combining assets, people, and processes—that a company uses to transform inputs into outputs. Apple pioneered and has subsequently leveraged its iPod and iTunes success into a major leadership position in digitalized music, entertainment, and communication on a global basis for individual consumers. Microsoft and others have attempted to copy Apple, but remain far behind Apple's diverse organizational capabilities. Apple has subsequently revolutionized its own iPod, using it to automate and customize a whole new level of entertainment capability that combines assets, people, and processes throughout and beyond the Apple organization. Finely developed capabilities, such as Apple's Internet-based, customer-friendly iPod/iTunes system, can be a source of sustained competitive advantage. They enable a firm to take the same input factors as rivals (such as Microsoft, HP, or Dell) and convert them into products and services, either with greater efficiency in the process or greater quality in the output, or both.

What Makes a Resource Valuable?

Once managers identify their firm's tangible assets, intangible assets, and organizational capabilities, the RBV applies a set of guidelines to determine which of those resources represent strengths or weaknesses—which resources generate core competencies that are

EXHIBIT 6.8
Examples of Different "Resources"

Source: From R.M. Grant, *Contemporary Strategy Analysis*, Blackwell Publishing, 2001, p. 140. Reprinted with permission of Wiley-Blackwell.

Tangible Assets	Intangible Assets	Organizational Capabilities
Hampton Inn's reservation system	Budweiser's brand name	Travelocity's customer service P&G's management training program
Toyota Motor Company's cash reserves	Apple's reputation	Wal-Mart's purchasing and inbound logistics
Georgia Pacific's land holdings	Nike's advertising with LeBron James	Google's product-development processes
FedEx's plane fleet	Brain Williams as NBC's *Evening News* anchor	Coke's global distribution coordination
Coca-Cola's Coke formula	eBay's management team Goldman Sach's culture	3M's innovation process

Classifying and Assessing the Firm's Resources

Resource	Relevant Characteristics	Key Indicators
Tangible Resources		
Financial resources	The firm's borrowing capacity and its internal funds generation determine its resilience and capacity for investment.	• Debt/equity ratio • Operating cash flow/free cash flow • Credit rating
Physical resources	Physical resources constrain the firm's set of production possibilities and impact its cost position. Key characteristics include • The size, location, technical sophistication, and flexibility of plant and equipment • Location and alternative uses for land and buildings • Reserves of raw materials	• Market values of fixed assets • Vintage of capital equipment • Scale of plants • Flexibility of fixed assets
Intangible Resources		
Technological resources	Intellectual property: patent portfolio, copyright, trade secrets Resources for innovation: research facilities, technical and scientific employees	• Number and significance of patents • Revenue from licensing patents and copyrights • R&D staff as a percent of total employment • Number and location of research facilities
Reputation	Reputation with customers through the ownership of brands and trademarks; established relationships with customers; the reputation of the firm's products and services for quality and reliability. The reputation of the company with suppliers (including component suppliers, banks and financiers, employees and potential employees), with government and government agencies, and with the community.	• Brand recognition • Brand equity • Percent of repeat buying • Objective measures of comparative product performance (e.g., Consumers' Association ratings, J. D. Power ratings) • Surveys of corporate reputation (e.g., *BusinessWeek*)

sources of sustained competitive advantage. These RBV guidelines derive from the idea that resources are more valuable when they

1. Are *critical to* being able to *meet a customer's need* better than other alternatives.
2. Are *scarce*—few others if any possess that resource or skill to the degree you do.
3. *Drive* a key portion of overall *profits,* in a manner controlled by your firm.
4. Are *durable* or sustainable over time.

Before proceeding to explain each basis for making resources valuable, we suggest that you keep in mind a simple, useful idea: resources are most valuable when they meet all four of these guidelines. We return to this point after we explain each guideline more thoroughly.

RBV Guideline 1: Is the resource or skill critical to fulfilling a customer's need better than that of the firm's competitors?

Two restaurants offer similar food, at similar prices, but one has a location much more convenient to downtown offices than the other. The tangible asset, location, helps fulfill daytime workers' lunch-eating needs better than its competitor, resulting in greater profitability and sales volume for the conveniently located restaurant. Wal-Mart redefined discount retailing and outperformed the industry in profitability by 4.5 percent of sales—a 200 percent improvement. Four resources—store locations, brand recognition, employee loyalty, and sophisticated inbound logistics—allowed Wal-Mart to fulfill customer needs much better and more cost effectively than Kmart and other discount retailers. In both of these examples, *it is important to recognize that only resources that contributed to competitive superiority were valuable*. At the same time, other resources such as the restaurant's menu and specific products or parking space at Wal-Mart were essential to doing business but contributed little to competitive advantage because they did not help fulfill customer needs better than those of the firm's key competitors.

RBV Guideline 2: Is the resource scarce? Is it in short supply or not easily substituted for or imitated?

Short Supply When a resource is scarce, it is more valuable. When a firm possesses a resource and few if any others do, and it is central to fulfilling customers' needs, then it can become the basis of a competitive advantage for the firm. Literal physical scarcity is perhaps the most obvious way a resource might meet this guideline. Very limited natural resources, a unique location, skills that are truly rare—all represent obvious types of scarce resource situations.

Availability of Substitutes We discussed the threat of substitute products in Chapter 4 as part of the five forces model for examining industry profitability. This basic idea can be taken further and used to gauge the scarcity-based value of particular resources. Whole Foods has been an exciting growth company for several years, focused exclusively on selling wholesome, organic food. The basic idea was to offer food grown organically, without pesticides or manipulation, in a convenient grocery atmosphere. Investors were excited about this concept because of the processed, nonorganic foods offered by virtually every existing grocery chain. Unfortunately for their more recent investors, substitutes for Whole Foods's offerings are becoming easily available from several grocery chains and regional organic chains. Publix, Harris -Teeter, and even Wal-Mart are easily adapting their grocery operations to offer organic fare. With little change to their existing facilities and operational resources, these companies are quickly creating alternatives to Whole Foods's offerings if not offering some of the same items, cheaper. So some worry about the long-term impact on Whole Foods. Investors have seen the value of their Whole Foods's stock decline as

substitute resources and capabilities are readily created by existing and new entrants into the organic grocery sectors.

Imitation A resource that competitors can readily copy can only generate temporary value. It is "scarce" for only a short time. It cannot generate a long-term competitive advantage. When Wendy's first emerged, it was the only major hamburger chain with a drive-through window. This unique organizational capability was part of a "bundle" of resources that allowed Wendy's to provide unique value to its target customers: young adults seeking convenient food service. But once this resource, or organizational capability, proved valuable to fast-food customers, every fast-food chain copied the feature. Then Wendy's continued success was built on other resources that generated other distinctive competencies.

The scarcity that comes with an absence of imitation seldom lasts forever, as the Wendy's example illustrates. Competitors will match or better any resource as soon as they can. It should be obvious, then, that the firm's ability to forestall this eventuality is very important. So how does a firm create resource scarcity by making resources hard to imitate? The RBV identifies four characteristics, called **isolating mechanisms,** that make resources difficult to imitate:

Isolating mechanisms
Characteristics that make resources difficult to imitate. In the RBV context these are physically unique resources, path-dependent resources, causal ambiguity, and economic deterrence.

- *Physically unique resources* are virtually impossible to imitate. A one-of-a-kind real estate location, mineral rights, and patents are examples of resources that cannot be imitated. Disney's Mickey Mouse copyright or Winter Park, Colorado's Iron Horse resort possess physical uniqueness. While many strategists claim that resources are physically unique, this is seldom true. Rather, other characteristics are typically what make most resources difficult to imitate.
- *"Path-dependent" resources* are very difficult to imitate because of the difficult "path" another firm must follow to create the resource. These are resources that cannot be instantaneously acquired but rather must be created over time in a manner that is frequently very expensive and always difficult to accelerate. Google's creation of proprietary search algorithms; interlocking and directly targeted online advertising; very easy to use, and also interwined, e-mail services; and an extraordinary environment to attract and retain the world's top talent have combined to create a combination of path-dependent resources that are very difficult for even the wealthiest software and Internet companies worldwide to easily emulate, acquire, or accelerate. It will take years for any competitor to develop the expertise, infrastructure, reputation, and capabilities to compete effectively with Google. Coca-Cola's brand name, Gerber Baby Food's reputation for quality, and Steinway's expertise in piano manufacture would take competitors many years and millions of dollars to match. Consumers' many years of experience drinking Coke or using Gerber or playing a Steinway would also need to be matched.
- *Causal ambiguity* is a third way resources can be very difficult to imitate. This refers to situations in which it is difficult for competitors to understand exactly how a firm has created the advantage it enjoys. Competitors can't figure out exactly what the uniquely valuable resource is or how resources are combined to create the competitive advantage. Causally ambiguous resources are often organizational capabilities that arise from subtle combinations of tangible and intangible assets and culture, processes, and organizational attributes the firm possesses. Southwest Airlines has regularly faced competition from major and regional airlines, with some like United and Continental eschewing their traditional approach and attempting to compete by using their own version of the Southwest approach—same planes, routes, gate procedures, number of attendants, and so on. They have yet to succeed. The most difficult thing to replicate is Southwest's "personality," or culture of fun, family, and frugal yet focused services and attitude. Just how that works is hard for United and Continental to figure out.

EXHIBIT 6.9
Degree to Which Resource Can Be Imitated

Source: © RCTrust LLC, 2010.

	Easily Imitated	Possibly Imitated	Hard to Imitate	Cannot be Imitated
Examples	Utilities	Skilled employees	Image/reputation	Unique location
	Cash	Additional capacity	Customer satisfaction	Patents
	Common raw materials	Economies of scale	Employee attitudes	Unique licenses/assets
Specific example: Google	Electricity Server farms	Smart people Larger server farms	Search leadership Brand image	Patented search algorithms "Google"

- *Economic deterrence* is a fourth source of inimitability. This usually involves large capital investments in capacity to provide products or services in a given market that are scale sensitive. It occurs when a competitor understands the resources that provide a competitive advantage and may even have the capacity to imitate, but chooses not to because of the limited market size that realistically would not support two players the size of the first mover.

While we may be inclined to think of the ability to imitate a resource as a yes-or-no situation, imitation is more accurately measured on a continuum that reflects difficulty and time. Exhibit 6.9 illustrates such a continuum. Some resources may have multiple imitation deterrents. For example, 3M's reputation for innovativeness may involve path dependencies and causal ambiguity.

RBV Guideline 3: Appropriability: Who actually gets the profit created by a resource?

Warren Buffett is known worldwide as one of the most successful investors of the last 25 years. One of his legendary investments was the Walt Disney Company, which he once said he liked "because the Mouse does not have an agent."[5] What he was really saying was that Disney owned the Mickey Mouse copyright, and all profits from that valuable resource went directly to Disney. Other competitors in the "entertainment" industry generated similar profits from their competing offerings, for example, movies, but they often "captured" substantially less of those profits because of the amounts that had to be paid to well-known actors or directors or other entertainment contributors seen as the real creators of the movie's value.

Disney's eventual acquisition of Pixar illustrates just the opposite situation for the home of the Mouse. Pixar's expertise in digital animation had proven key to the impressive success of several major animation films released by Disney in the past several years. While Disney apparently thought its name and distribution clout justified its sizable share of the profits this five-year joint venture generated, Steve Jobs and his Pixar team felt otherwise. Pixar's assessment was that their capabilities were key drivers of the huge profits by *Ants* and *Finding Nemo*, leading them not to renew their Disney partnership. Pixar's unmatched digitalization animation expertise quickly "appropriated" the profits generated by this key competitive advantage, and Disney Studios struggled to catch up. Disney eventually solved the dilemma by acquiring Pixar at a handsome premium. The movie *Cars* soon followed.[6]

Sports teams, investment services, and consulting businesses are other examples of companies that generate sizable profits based on resources (e.g., key people, skills, contacts) that are not inextricably linked to the company and therefore do not allow the company to easily capture the profits. Superstar sports players can move from one team to another or command excessively high salaries, and this circumstance could arise in other personal services business situations. It could also occur when one firm joint ventures with another, sharing resources and capabilities and the profits that result. Sometimes restaurants or lodging facilities that are

[5] *The Harbus*, March 25, 1996, p. 12.
[6] "Disney Buys Pixar," *Money.CNN.com*, January 1, 2006.

franchisees of a national organization are frustrated by the fees they pay the franchisor each month and decide to leave the organization and go "independent." They often find, to their dismay, that the business declines significantly. The value of the franchise name, reservation system, and brand recognition is critical in generating the profits of the business.

RBV Guideline 4: Durability: How rapidly will the resource depreciate?

The slower a resource depreciates, the more valuable it is. Tangible assets, such as commodities or capital, can have their depletion measured. Intangible resources, such as brand names or organizational capabilities, present a much more difficult depreciation challenge. The Coca-Cola brand has continued to appreciate, whereas technical know-how in various computer technologies depreciates rapidly. In the increasingly hypercompetitive global economy of the twenty-first century, distinctive competencies and competitive advantages can fade quickly, making the notion of durability a critical test of the value of key resources and capabilities. Some believe that this reality makes well-articulated visions and associated cultures within organizations potentially the most important contributor to long-term survival.[7]

Using the Resource-Based View in Internal Analysis

To use the RBV in internal analysis, a firm must first identify and evaluate its resources to find those that provide the basis for future competitive advantage. This process involves defining the various resources the firm possesses and examining them based on the preceding discussion to gauge which resources truly have strategic value. It is usually helpful in this undertaking to

- *Disaggregate resources*—break them down into more specific competencies—rather than stay with broad categorizations. Saying that Domino's Pizza has better marketing skills than Pizza Hut conveys little information. But dividing that into subcategories such as advertising that, in turn, can be divided into national advertising, local promotions, and coupons allows for a more measurable assessment. Exhibit 6.10 provides a useful illustration of this at the United Kingdom's largest full-service restaurant operator—Whitbread's Restaurant.
- *Utilize a functional perspective*. Looking at different functional areas of the firm, disaggregating tangible and intangible assets as well as organizational capabilities that are present, can begin to uncover important value-building resources and activities that deserve further analysis. Appendix 6A lists a variety of functional area resources and activities that deserve consideration.
- *Look at organizational processes* and combinations of resources and not only at isolated assets or capabilities. While disaggregation is critical, you must also take a creative, gestalt look at what competencies the firm possesses or has the potential to possess that might generate competitive advantage.
- *Use the value chain approach* to uncover organizational capabilities, activities, and processes that are valuable potential sources of competitive advantage.

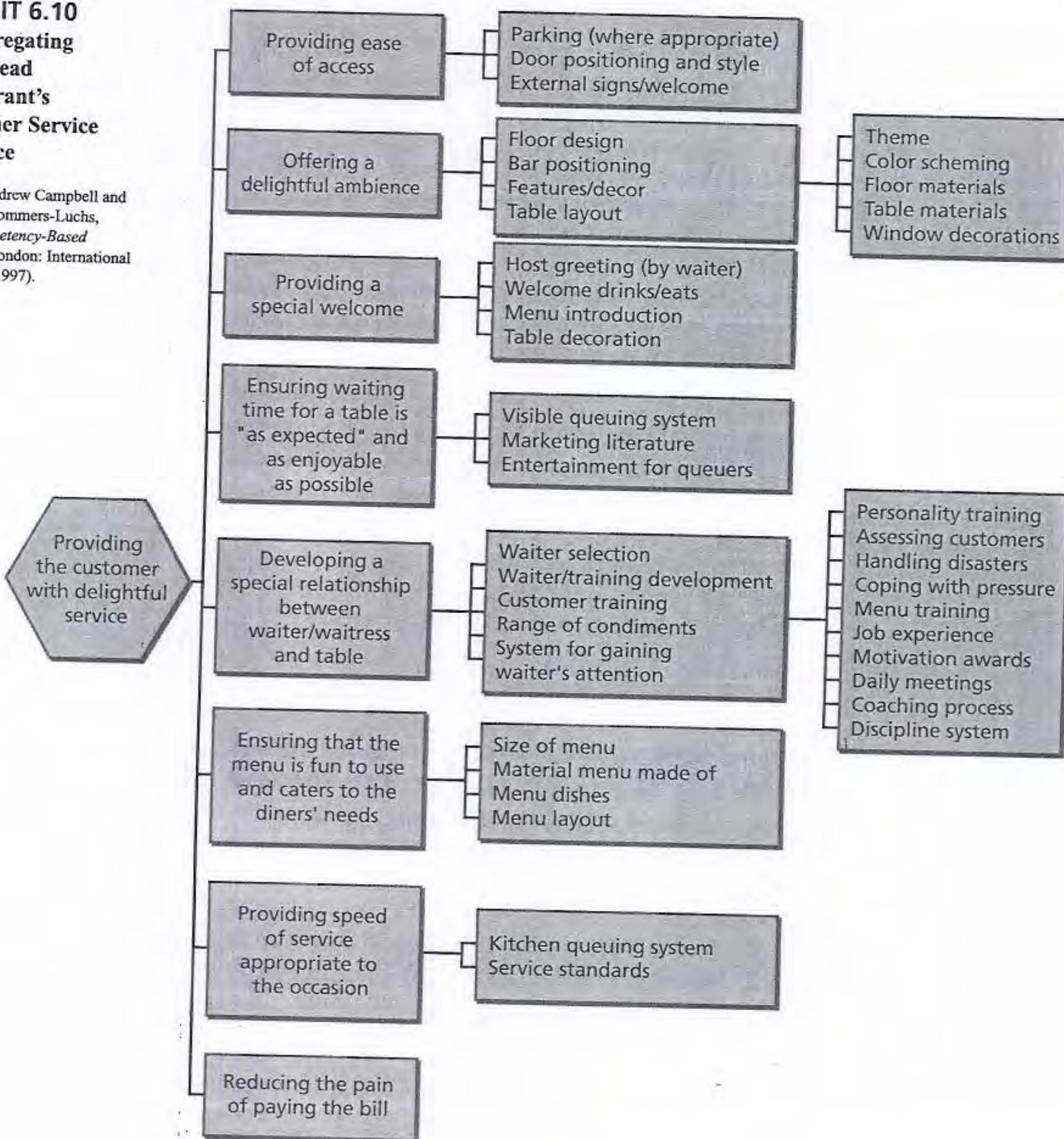
Once the resources are identified, managers apply the four RBV guidelines for uncovering "valuable" resources. The objective for managers at this point is to identify resources and capabilities that are valuable for most if not all of the reasons our guidelines suggest a resource can be valuable.

If a resource creates the ability to meet a unique customer need, it has value. But if it is not scarce, or if it is easily imitated, it would be unwise to build a firm's strategy on that resource or capability unless that strategy included plans to build scarcity or inimitability into it. If a

[7] James C. Collins, *Good to Great: Why Some Companies Make the Leap . . . and Others Don't* (New York: HarperCollins, 2001).

EXHIBIT 6.10
Disaggregating Whitbread Restaurant's Customer Service Resource

Source: Andrew Campbell and Kathleen Sommers-Luchs, *Core Competency-Based Strategy* (London: International Thomson, 1997).



resource provided the basis for meeting a unique need, was scarce, was not easily imitated, and was easily sustainable over time, managers would be attracted to build a strategy on it more than likely. Our example of Pixar's relationship with Disney earlier in this chapter would seem to suggest this was Pixar's position early in its joint venture with Disney. Yet even with all of those sources confirming a very high value in its digital animation expertise and intellectual property resources, Pixar was not "appropriating" the share of the animation movie profits that were attributable to those resources. Pixar was fortunate: it had the choice not to renew its five-year contract with Disney, and so it did. That eventually led Disney to pay a premium price to acquire Pixar, to regain the strategic value of Pixar's unique resources.

The key point here is that applying RBV analysis should focus on identifying resources that contain all sources of value identified in our four guidelines. Consider the diagram in

EXHIBIT 6.11
Applying the Resource-Based View to Identify the Best Sources of Competitive Advantage

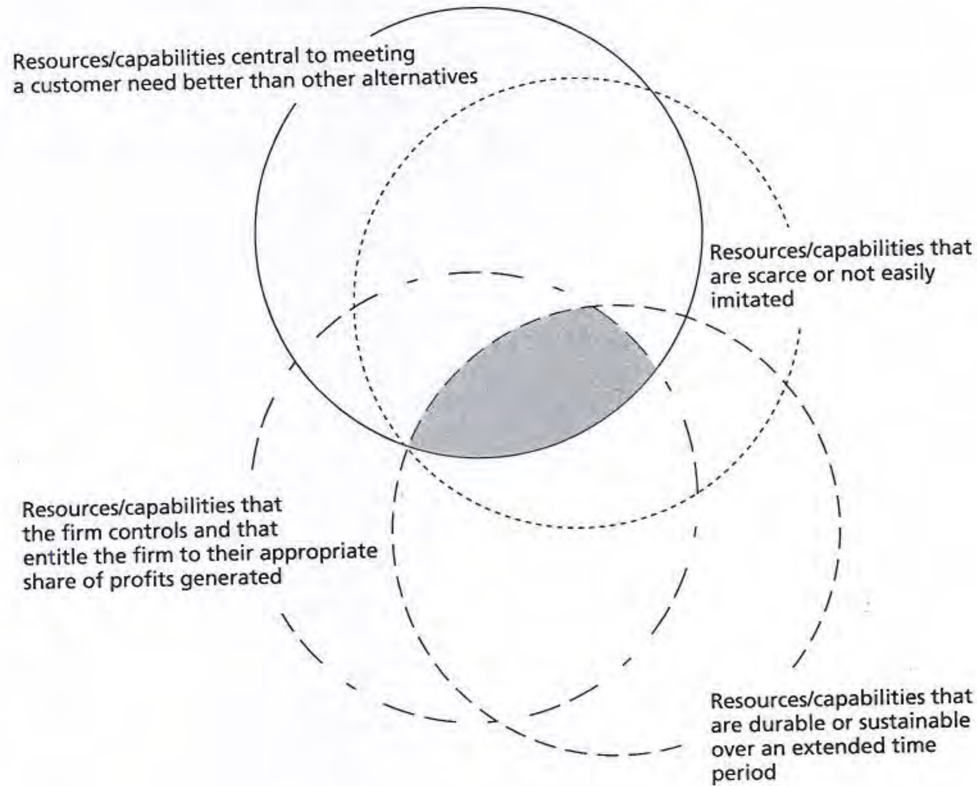


Exhibit 6.11. Each circle in that diagram represents one way resources have value. The area where all circles intersect or overlap would represent resources that derive value in all four ways. Such resources are the ones managers applying the RBV should seek to identify. They are powerful sources around which to build competitive advantage and craft successful strategies. And resources that possess some but not all sources of value become points of emphasis by a management team able to identify ways to build the missing source of value into that resource over time much like Pixar did in its relationship with Disney.

By using RBV, value chain analysis, three circles analysis, and SWOT analysis, firms are virtually certain to improve the quality of internal analysis undertaken to help craft a company's competitive strategy. Central to the success of each technique is the strategists' ability to make meaningful comparisons. The next section examines how meaningful comparisons can be made.

INTERNAL ANALYSIS: MAKING MEANINGFUL COMPARISONS

Managers need objective standards to use when examining internal resources and value-building activities. Whether applying the SWOT approach, VCA, or the RBV, strategists rely on three basic perspectives to evaluate how their firms stack up on internal capabilities. These three perspectives are discussed in this section.

Comparison with Past Performance

Strategists use the firm's historical experience as a basis for evaluating internal factors. Managers are most familiar with the internal capabilities and problems of their firms because