Competing on Resources

Key ideas from the Harvard Business Review article By David J. Collis, Cynthia A. Montgomery

The Idea in Brief

What gives your company a competitive edge? Your **strategically valuable resources** -- the ones enabling your enterprise to perform activities better or more cheaply than rivals. These can be *physical assets* (a prime location), *intangible assets* (a strong brand), or *capabilities* (a brilliant manufacturing process). For example, Japanese auto companies have consistently excelled through their *capabilities* in lean manufacturing.

Strategically valuable resources have five characteristics, say Collis and Montgomery: 1) They're difficult for rivals to copy. 2) They depreciate slowly. 3) Your company--not employees, suppliers, or customers--controls their value. 4) They can't be easily substituted for. 5) They're superior to similar resources your competitors own.

To keep your edge sharp, build your strategies on resources that pass these five tests. Regularly invest in those resources. And acquire new ones as needed, as Intel did by adding a brand name--Intel Inside--to its technological resource base.

The Idea in Practice

Collis and Montgomery recommend these practices for managing your strategically valuable resources:

Put Your Resources to the Test

A resource is strategically valuable if it passes five tests:

It's hard to copy. Some resources are hard for rivals to copy because they're physically unique; for example, a desirable real estate location. Others must be built over time, such as Gerber's brand name for baby food.

It depreciates slowly. Disney's brand name was so strong that it survived almost two decades of benign neglect between Walt Disney's death in 1966 and the installation of Michael D. Eisner and his management team in 1984.

Its value is controlled by your company. Your firm--not individual employees, suppliers, distributors, or customers--keeps the lion's share of profits generated by the resource. Your company does not lose a critical resource when a key employee leaves.

It's not easily substituted. Because of easy substitution, the steel industry lost a major market in beer cans to aluminum-can makers.

It's better than competitors' similar resources. A maker of medical-diagnostics test equipment bested rivals at designing an easy interface between its machines and people who use them. Armed with this capability, it expanded into doctors' offices, a fast-growing segment of its market. There, its equipment could be operated by office personnel, not just technicians.

Invest in Your Most Valuable Resources

Continually invest in building and maintaining your strategically valuable resources.

Eisner revived Disney's commitment to animation, a capability at which it excelled. He invested $50 million in *Who Framed Roger Rabbit* to create the company's first animated feature-film hit in many years. Disney then quadrupled its output of animated feature films, bringing out successive hits, including *The Lion King*.

Upgrade Your Resources

To stave off the inevitable decay in your resources' value, move beyond what your company is already good at.

Diversified manufacturer Cooper Industries realized it lacked global management capabilities. It addressed the problem by acquiring Champion Spark Plug. Champion had numerous overseas plants and could provide the skills Cooper needed to manage international manufacturing.

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Further Reading

Article

The Core Competence of the Corporation

Harvard Business Review

April 2001

by C.K. Prahalad and Gary Hamel

The authors focus on capabilities (which they call core competencies) as strategically valuable resources. To invest in your capabilities: 1) *Clarify them* by articulating your strategy (including the markets your company intends to compete in) and then listing the capabilities that support

the strategy. 2) *Build them* by investing in needed technologies, infusing resources throughout your business units, and forging strategic alliances that give you access to needed expertise. 3) *Cultivate a capabilities mindset* by reminding managers that strategic capabilities are corporate--not unit--resources. Ask managers to redeploy people who best perform those capabilities as needed across units. Also, bring managers together to identify next-generation capabilities and ways to acquire them.

Collection

The Tangible Power of Intangible Assets

HBR Article Collection

June 2004

by Dave Ulrich, Norm Smallwood, Nitin Nohria, William Joyce, Bruce Roberson, Robert S. Kaplan, and David P. Norton

This collection sheds additional light on intangible assets as strategically valuable resources. Such assets pass the hard-to-copy test with flying colors. Each article in the collection addresses a different aspect of managing your intangible assets:

In "Capitalizing on Capabilities," Dave Ulrich and Norm Smallwood define 11 intangible assets that are particularly important to have. These include strategic unity (articulating and sharing a strategic viewpoint), customer connectivity (building enduring, trusting relationships with targeted customers), efficiency (managing costs), and speed (making important changes rapidly).

In "Measuring the Strategic Readiness of Intangible Assets," Robert S. Kaplan and David P. Norton provide tools for assessing how prepared your company is to use its intangible assets to execute its competitive strategy.

In "What Really Works," Nitin Nohria, William Joyce, and Bruce Roberson present a model for determining whether you have an effective blend of intangible assets. To achieve the right mix, you need to excel at *four primary activities:* formulating and communicating strategy, executing operations, defining high performance expectations, and reducing bureaucracy. In addition, you must excel at *two of four secondary activities:* building managerial bench strength, developing leaders who connect with employees at all levels, innovating (products and business processes), and forging strategic partnerships.

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