Learning Objective
On completion of this chapter you should be able to:

- You should be able to understand that this method for assessing the strengths and weaknesses of an organization on the basis of an understanding of the series of activities it performs.
- You will understand that a value chain is a set of interlinked value creating activities performed by an organization.
- You will understand that these activities may begin with the procurement of basic raw material go through its processing in various stages and continue right up to the end products finally marked to the ultimate consumer.

SWOT Analysis
SWOT analysis means analyzing strengths, weaknesses, opportunities and it is a useful strategic planning tool and is based on the assumption that if managers carefully review internal strengths and weaknesses and external threat and opportunities, a useful strategy for ensuring organisational success can be formulated. It is a simple technique for getting a quick overview of a strategic situation so that such strategies can be formulated as to produce a good between the company’s internal competencies (strength and weaknesses) and environment (opportunities and threats).

Strengths and Weaknesses
A "strength" is a positive characteristic that gives a company an important capability. It is an important organisational resource which enhances a company, competitive position. Some of the internal strengths of an organisation are:

- Distinctive competence in key areas
- Manufacturing efficiency
- Skilled workforce, adequate financial resources Superior image and reputation
- Economies of scale
- Superior technological skills
- Insulation from strong competitive pressures
- Product or service differentiation
- Proprietary technology.

A “weakness” is a condition or a characteristic, which puts the company at disadvantage. Weaknesses make the organisation vulnerable to competitive pressures. These are competitive liabilities and strategic managers must evaluate their impact on the organization’s strategic position when formulating strategic policies and plans. Weaknesses require a close scrutiny because some of them can prove to be fatal. Some of the weaknesses to be reviewed are:

- No clear strategic direction
- Outdated facilities
- Lack of innovation is Complacency
- Poor research and developmental programs
- Lack of management vision, depth and skills
- Inability to raise capital
- Weaker distribution network
- Obsolete technology
- Low employee morale
- Poor track record in implementing strategy
- Too narrow a product line
- Poor market image
- Higher overall unit costs relative to competition.

Opportunities and Threats
An “opportunity” is considered as a favourable circumstance, which can be utilized for beneficial purposes. it is offered by outside environment and the management can decide as to how to make the best use of it. Such an opportunity may be the result of a favourable change in any one or more of the elements that constitute the external environment. It may also be created by a proactive approach by the management in moulding the environment to its own benefit. Some of the opportunities are:

- Strong economy
- Possible new markets
- Emerging new technologies
- Complacency among competing organizations
- Vertical or horizontal integration
- Expansion of product line to meet broader range of customer needs
- Falling trade barriers in attractive foreign markets

A “threat” is a characteristic of the external environment, which is hostile to the organisation. Management should anticipate such possible threats and prepare its strategies in such a manner that any such threat is neutralized. Some of the elements that can pose a threat are:

- Entry of lower cost foreign competitors cheaper technology adopted by rivals
- Rising sales of substitute products
- Shortages of resources
- Changing buyer needs and preferences
- Recession in economy
- Adverse shifts in trade policies of foreign governments
- Adverse demographic changes

SWOT analysis involves evaluating a company’s internal environment in terms Of strengths and weaknesses and the
external environment in terms of opportunities and threats and formulating strategies that take advantage of all these factors. Such analysis is an essential component of thinking strategically about a company's situation.

**Management**
1. Does the company use strategic management concepts?
2. Are company objectives and goals measurable and well communicated?
3. Do managers at all hierarchical levels plan effectively?
4. Do managers delegate authority well?
5. Is the organization’s structure appropriate?
6. Are job description and job specifications clear?
7. Is employee morale high?
8. Is employee turnover and absenteeism low?
9. Are organisational reward and control mechanisms effective?

**Marketing**
1. Are markets segmented effectively?
2. Is the organisation positioned well among competitors?
3. Has the company's market share been increasing?
4. Are present channels of distribution reliable and cost-effective?
5. Does the company have an effective sales organisation?
6. Does the company conduct market research?
7. Is product quality and customer service good?
8. Are the company's products and services priced appropriately?
9. Does the company have an effective promotion, advertising, and publicity strategy?
10. Is marketing planning and budgeting effective?
11. Do the company’s marketing managers have adequate experience and training?

**Research and Development**
1. Does the company have R&D facilities? Are they adequate?
2. If outside R&D companies are used, are they cost-effective?
3. Are the organization’s R&D personnel well qualified?
4. Are R&D resources allocated effectively?
5. Are management information and computer systems adequate?
6. Is communication between R&D and other organisational units effective?
7. Are present products technologically competitive?

**Computer Information Systems**
1. Do all managers in the company use the information system to make decisions?
2. Is there a chief information officer or director of information systems position in the company?
3. Are data in the information system updated regularly?
4. Do managers from all functional areas of the company contribute input to the information system?

5. Are there effective passwords for entry into the company's information system?
6. Are strategies of the company familiar with the information systems of rival companies?
7. Is the information system user friendly?
8. Do all users of the information system understand the competitive advantages that information can provide companies?
9. Are computer training workshops provided for users of the information system?
10. Is the company’s information system continually being improved in content and user friendliness?

**Value Chain Analysis**
The second framework that companies can use to identify and evaluate the ways in which their resources and capabilities can add value is value chain analysis. This framework is useful because it enables companies to understand which parts of their operations or activities create value by segmenting the value chain into primary and secondary activities as illustrated in the figure.

The figure illustrates how the value-creating activities performed by the company can be separated into primary and secondary activities. Primary activities, shown vertically, represent traditional line activities such as inbound logistics, operations, outbound logistics, marketing and sales, and service. Support activities, shown horizontally, are represented by a company's staff activities and include its financial infrastructure, human resource management practices, technological development, and procurement activities.

The first step in value chain analysis is to carefully examine each of the company’s primary activities to determine the potential for creating or adding value.

- **Inbound Logistics**
Examine all activities related to the receipt, control, warehousing, inventory, and distribution of raw materials or component parts into the production process.

- **Operations**
Activities to be examined are all those necessary to convert the inputs (raw materials or components) available as a result of inbound logistics into finished products. Examples include machining, assembly, equipment maintenance, and packaging.
Outbound Logistics
This category represents the company’s activities involved with the collection, storage, and physical distribution of products to customers. Examples include warehousing or storage of finished products, material handling, and order processing.

Marketing and Sales
Several marketing and sales activities must be completed to both induce customers to purchase products and ensure that products are available. Activities include developing advertising and promotion campaigns; selecting and developing distribution channels; and selecting, training, developing, and supporting a sales force.

Service
These are the activities that a company offers to enhance or maintain a product’s value, including installation, product use training, adjustment, repair, and warranty services.

The next step in the value chain analysis process is an examination of the company’s support activities to determine any value creating potential in those activities.

Procurement
These are activities that are completed to purchase the inputs needed to produce a company’s products, including items consumed or used in the manufacturing process (such as raw materials or component parts), supplies, and fixed assets (machinery, equipment and facilities).

Technological Development
All activities that are completed to either improve a company’s products or its production processes. This includes basic research, process and equipment design, product design, and servicing procedures.

Human Resource Management
These activities are related to the recruiting, hiring, training, developing, and compensating (including performance assessment and reward systems) of a company’s employees.

Company Infrastructure
These activities support the activities performed in the company’s value chain, including general management practices, planning, finance, accounting, legal, and government relations. By performing its infrastructure related activities, a company identifies external opportunities and threats, and internal strengths and weaknesses related to company resources and capabilities, and supports or nurtures its core competencies.

Using the value chain framework enables managers to study the company’s resources and capabilities in relationship to the primary and support activities performed to design, manufacture, and distribute products, and to assess them relative to competitors’ capabilities. For these activities to be sources of competitive advantage, a company must be able to perform primary or support activities in a manner that is superior to the ways that competitors perform them. Also perform a primary or support activity that no competitor is able to perform to create superior value for customers and achieve a competitive advantage.

This implies that, given that individual companies are comprised of unique or heterogeneous bundles of activities, reconfiguring the value chain, or rebundling resources and capabilities, may enable a company to develop unique valuecreating activities. The managerial challenge is that the value creation process is difficult and there is no one best way to assess a company’s primary and support activities or to evaluate the value creating potential of those activities either within the company or relative to competitors, because of incomplete or ambiguous data.

However, by being objective, managers may be able to use the value chain framework to identify new, unique ways to combine resources and capabilities to create value that are difficult for competitors to recognize, understand, or imitate. The longer a company is able to keep competitors “in the dark,” as to how resources and capabilities have been combined to create value, the longer a company will be able to sustain a competitive advantage.

Companies can use outsourcing as an alternative to identify primary or support activities for which its resources and capabilities are not core competencies and do not enable the company to add superior value and achieve competitive advantage.

Outsourcing
Outsourcing describes a company’s decision to purchase a valuecreating activity from an external supplier. Outsourcing has become important, and may become more important in the future, for two reasons:

- First, there are limits to the abilities of companies to possess all of the bundles of resources and capabilities that are required to achieve superior performance (relative to competitors) in all of its primary and support activities.
- Second, with limits to their resources and capabilities, companies can increase their ability to develop resources and capabilities to develop core competencies and achieve competitive advantage by nurturing only a few core competencies.

However, outsourcing is yet to pick up in India in a major way. When outsourcing, a company seeks the greatest value. In other words, a company wants to outsource only to companies possessing a core competence in terms of performing the primary or support activity that is being outsourced. When evaluating resources and capabilities, companies must be careful not to outsource activities in which they can create and capture value. Additionally, companies should not outsource primary and support activities that are used to neutralize environmental threats or complete necessary ongoing organisational tasks.