1. In recent years Google has expanded from internet search across a broad range of internet services including email, photo management, satellite maps, digital book libraries, blogger services, and telephony. To what extent has Google’s strategy focused on its resources and capabilities rather than specific customer needs? What are Google’s principal resources and capabilities?

Google’s own goal formulation emphasizes its customer focus. In its IPO documents, its founders stated: “Our goal is to develop services that significantly improve the lives of as many people as possible. In pursuing this goal, we may do things that we believe have a positive impact on the world, even if the near-term financial returns are not obvious.” In the 2005 Annual Report, Google states: “We are dedicated to serving our users with the best possible experience.” What this customer service constitutes is explained more clearly in its mission statement: “To organize the world's information and make it universally accessible and useful.”

Yet, Google’s rapid and seemingly chaotic growth has involved a host of diversification initiatives. Some are consistent with Google’s mission, such as Google Book Search, which involves digitizing a large proportion of the world’s books, and mobile versions of Google’s search engine. Others are not directly linked to its focus on organizing and providing access to information. These include:

- selling ads in newspapers, magazines, radio, and television;
- introducing a suite of online office software it is selling for a small fraction of the price of Microsoft’s Office;
- offering e-mail services (Gmail);
- providing free wireless internet access (Google WiFi);
- developing and acquiring software for scheduling and monitoring radio advertisements;
- entry into online video sharing (acquisition of YouTube in November 2006 for $1.65 billion);
- entry into in-game advertising (acquisition of Adscape in February 2007).

The driving force behind these initiatives appears to be Google’s desire to exploit its key resources and capabilities. In particular, Google’s position as the world’s dominant search engine (it has 57% of the world’s total internet searches) means that the volume of traffic through its website gives it a massive market access potential. Similarly its dominance of online advertising (>30% of US online advertising revenue) gives it a powerful position in the entire advertising sector.

The incentives for expanding beyond the search engine business are bolstered, too, by Google’s huge capacity for acquiring other companies, as proved by two key resources: its $11 billion cash mountain and its $140 billion market capitalization.

Finally, Google’s vibrant, entrepreneurial corporate culture, its human resources (renowned for their technical skills, energy, and commitment), and its capabilities for informal collaboration offer tremendous potential not only for generating new initiatives but also for integrating these initiatives and acquired businesses and technologies within Google’s existing business system.

2. Microsoft’s main capabilities relate to the development and marketing of complex computer software and its greatest resource is its huge installed base of its Windows operating system. Does Microsoft’s entry into video game consoles indicate that its strategy is becoming divorced from its principal resources and capabilities?
Microsoft is a software company, not a hardware company. Does this mean that Microsoft is unlikely to succeed in the video game industry? The key observation here is that competing in the video games business involves a coordinated package of hardware and software. For the most part, Microsoft outsources both parts of the package: the console is produced by a contract manufacturer; most games are produced by independent developers. However, this does not mean that Microsoft’s resources and capabilities are not relevant to this market:

- The main element of the system that Microsoft is responsible for is the operating system – one of its core capabilities.
- Microsoft’s capabilities as a systems integrator – coordinating a network of companies in order to manage the direction of technology and to build market dominance – is second to none.
- As video games move to the internet, Microsoft’s online capabilities become increasingly important.
- The video games industry has historically been a winner-take-all business, where companies invest huge sums of money in a quest for market leadership. A critical advantage of Microsoft over Sony and Nintendo is its massive financial strength.

Finally, it needs to be recognized that Microsoft’s primary interest is not video game consoles; it is the future of digital technology in the home. The possibility that the video game console might be the primary platform for home entertainment and online access means that a strong market position in video game consoles represents an important option for Microsoft.

3. During 1984–8, Michael Eisner, the newly installed CEO of Walt Disney Company, successfully exploited Disney’s existing resources to boost profitability. During the last eight years of Eisner’s tenure (1998–2005), however, profitability stagnated and share price declined. To what extent do you think that Eisner focused too heavily on exploiting inherited resources and not enough on developing Disney’s capabilities to meet the entertainment needs of a changing world?

Strategy Capsule 5.2 suggests that Michael Eisner’s role in Disney’s 1984–8 turnaround was less central than is commonly supposed. Most of Disney’s strategic initiatives of the period were the result of decisions by the previous management team. Eisner certainly deserves credit for the success of the movie studios over the period – especially the expanded Touchstone label. However, the evidence of the longer term is that Eisner’s contribution was more in squeezing additional profits from existing resources and capabilities than in building for the longer term. In Disney’s core business of family movies, Disney was eclipsed by Steven Spielberg (ET, Indiana Jones) and George Lucas (Star Wars). The declining success of Disney’s animated productions (Lion King was the last blockbuster) relative to newcomers such as Pixar (Toy Story) and Aardvark (Wallace & Gromit) was especially noticeable. In growth areas such as video games and the internet, Disney failed to establish a strong position. Most of Disney’s growth after 1998 was the result of acquisitions – including Miramax studios, ABC (TV broadcasting and cabled channels), and Pixar. The synergies generated by these acquisitions in relation to the acquisition premiums paid were small. One of Disney’s biggest greenfield investments was Hong Kong Disneyland. The success of this project has yet to be seen – however, it is worth noting that this is another example of Disney investing in traditional rather than new forms of entertainment.

4. Many companies announce in their corporate communications: “Our people are our most important resource.” In terms of the criteria listed in Figure 5.7, can employees be considered to be of the utmost strategic importance?
Establishing competitive advantage

People are the primary source of knowledge of the firm and the central resource within virtually all a firm’s organizational capabilities. Hence, in terms of their relevance to key success factors, clearly they are important. But are they scarce? This depends on the skills being sought. Some skills – driving a vehicle, inputting data, manning a telephone helpline – are relatively common. Others, such as performing a liver transplant, identifying mis-priced securities, or distinguishing between a 1996 and 1997 Chateau d'Yquem are scarce.

Sustaining competitive advantage

Since people cannot be owned, they tend to be mobile between firms. Hence, it could be argued that they are not a source of sustainable advantage. Where certain skills are in limited supply, then firms can grow their own human skills through training programs. However, this is to view people as bundles of skills whose contribution in different employment situations is potentially the same. In fact, the effort and effectiveness with which people deploy their skills is dependent on a host of organizational factors. What emerges, therefore, is that the key sources of sustainable advantage in relation to human resources are not the people themselves, but the human resource management capabilities through which people are recruited, trained, motivated, and deployed. The striking feature of many high-performing organizations is that they do not hire star performers, but select into entry-level positions on the basis of aptitude then rely on their internal processes to develop those people. Examples include Wal-Mart, Accenture, General Electric, and Google.

Appropriating competitive advantage

As is argued on pp.141–3, there is competition between owners (shareholders) and employees over economic rents. To the extent that scarce employees can offer their valuable services to other employers, then they will be able to appropriate most of their potential to create competitive advantage. The critical issue for the firm is to reduce the bargaining power of key employees by reducing their mobility. This may involve some kind of long-term contracts, or incorporating the employee as part of a team such that individual productivity is obscured.

5. Given the profile of VW’s resources and capabilities outlined in Table 5.4 and Figure 5.8, what strategy recommendations would you offer VW?

Over the short to medium term, the emphasis needs to be on how best to exploit VW’s existing base of resources and capabilities.

Given VW’s high-cost manufacturing, its engineering strengths, and its German home base, it needs to compete on differentiation rather than cost – differentiated on the basis of technically advanced, quality engineering.

This raises key issues for product and branding policies – quality, reliability, and performance are consistent with the brand positioning of VW, Audi, Bentley, Bugatti, and Lamborghini – but presents questions with regard to Skoda and Seat. VW needs to consider the positioning of the Seat and Skoda ranges and their relationships with the core VW brand.

In terms of global marketing and distribution, VW has strengths in Europe and parts of the developing world (particularly China and Latin America), and weaknesses in North America. But what should VW’s future emphasis be? Its strength in managing government relations suggests that the developing world might offer continuing potential for VW. With regard to the North America, the brutal competition for medium and smaller cars (where Japanese and US automakers dominate) suggests that VW might be advised to focus on its more up-market Audi, Bentley, Bugatti, and Lamborghini brands.
In terms of upgrading its capability base, VW’s key challenges appear to be: (1) putting in place a stable top management team, (2) building product development capability, and (3) cutting costs.

6. Apply the approach outlined in the section “Putting Resource and Capability Analysis to Work” to your own business school. Begin by identifying the resources and capabilities relevant to success in the market for business education, appraise the resources and capabilities of your school, then make strategy recommendations regarding such matters as the programs to be offered and the overall positioning and differentiation of the school and its offerings.

Capabilities relevant to success in the market for business education might include:

- Admissions capability (recruitment and selection of students).
- Teaching capability (curriculum design; course development; classroom delivery).
- Research capability (as indicated by publications and impact on business practices).
- Career management capability (ability to secure jobs for graduates).
- External relations capability (especially corporate relations).
- Leadership (ability of dean and top management team to define and implement strategy, motivate employees, and manage operations).

Some of the key resources that these capabilities require include:

- Financial resources (cash flow; college endowment).
- Location (proximity to business center; attractive living environment for students and employees).
- Faculty (skills; reputation).
- Students (academic abilities; prior experience; diversity).
- Facilities (classrooms; libraries; IT; leisure facilities; etc.).
- Reputation (status and brand equity of the institution).
- Alumni (size, loyalty, and status of former students)

In assessing the important of different resources and capabilities, a key issue is likely to be linkages between them. For example, since faculty and facilities can be purchased from the market, they may be deemed relatively unimportant to sustainable advantage. More important is likely to be the financial resources that permit their acquisition. Similarly, alumni might not be considered a particularly important resource; however, to the extent that they are critical to financial resources (gifts) and to career management capabilities (loyal alums in senior positions offer jobs to new graduates), a school’s alumni base may be one of its most important resources.

The next task is to make strategy recommendations. The trap to avoid is to focus on upgrading weaknesses. In the short to medium term your school is probably stuck with its existing resources and capabilities and the challenge is to figure out how to deploy them most effectively.

Key issues are:

- **Where to compete?** Which products should be offered? What should the balance be between undergraduate, graduate, and post-experience programs? At the graduate level, should the focus be MBA degrees (full-time, part-time, executive) or specialized master’s degrees? What emphasis should be given to doctoral programs?

- **How to compete?** Should the school emphasize teaching excellence or research excellence? (Is it possible to do both?) What disciplines or functions should be emphasized (e.g. finance, marketing, operations management)? In terms of programs, how can resource/capability
strengths be deployed to give unique differentiation (e.g. international orientation, focus on problem solving, focus on managerial skills and aptitudes)? Is a cost-leadership position feasible (e.g. by reducing program length)?

7. Identify two sports teams: one that is rich in resources (e.g. talented players) but whose capabilities (as indicated by performance) have been poor; one that is resource-poor but has displayed strong team capabilities. What clues can you offer as to the determinants of capabilities among sports teams?

There are plenty of opportunities here – both in professional leagues and in international competition. For example: in football, ice hockey, and basketball, why have the Washington-based Redskins, Capitals, and Wizards performed so dismally despite their financial strength and many star players? In the Spanish soccer league, why have Real Madrid (the world’s most expensive team) performed poorly in recent years. In international competition, how is it possible that the United States has been beaten in basketball by lowly Croatia?

8. In 2006, Disney completed its acquisition of the film animation company Pixar for $7.4 billion. The high purchase price reflected Disney’s eagerness to gain Pixar’s animation capabilities, its talent (animators, technologists, and storytellers), and its culture of creativity. What risks does Disney face in achieving the goals of this acquisition?

Announcing the Pixar acquisition, Disney’s CEO commented: “With this transaction, we welcome and embrace Pixar's unique culture, which for two decades has fostered some of the most innovative and successful films in history. The talented Pixar team has delivered outstanding animation coupled with compelling stories and enduring characters that have captivated audiences of all ages worldwide and redefined the genre by setting a new standard of excellence. The addition of Pixar significantly enhances Disney animation, which is a critical creative engine for driving growth across our businesses. This investment significantly advances our strategic priorities, which include – first and foremost – delivering high-quality, compelling creative content to consumers, the application of new technology, and global expansion to drive long-term shareholder value.” Pixar’s CEO, Steve Jobs, added: “Disney and Pixar can now collaborate without the barriers that come from two different companies with two different sets of shareholders.”

Did Disney overpay for Pixar? Certainly the acquisition price was far above Pixar’s stock market value one month previously. In terms of resources acquired, these comprised:

- The existing Pixar movie library (including hits such as *Toy Story* and *The Incredibles*),
- Pixar’s industry-standard animation software,
- Pixar’s talented animation team, including creative guru John Lassiter – a former Disney employee,
- Steve Jobs, who joined Disney’s board.

Of these, the software probably had the most enduring value. The movies had been fairly well exploited with DVD releases and sequels, while the human resources could not be counted on to stay at Disney.

The most important issue, however, was whether the addition of Pixar’s creative and animation capabilities would revitalize Disney’s own animated films division. As the opening quote acknowledges, Pixar’s capabilities are rooted in its corporate culture. Can this culture survive the integration with Disney’s own animation division? Disney’s culture is less freewheeling and much more subject to top-down control than that of Pixar’s. Given the evidence of previous acquisitions of innovative companies by languishing giants, the prognosis is not rosy.