for things the company already provided. And customers whose ideas were implemented tended to return with additional ideas that were quite similar to their initial suggestions.

Applying the Value Chain to Service Organizations

The concepts of inbound logistics, operations, and outbound logistics suggest managing the raw materials that might be manufactured into finished products and delivered to customers. However, these three steps do not apply only to manufacturing. They correspond to any transformation process in which inputs are converted through a work process into outputs that add value. For example, accounting is a sort of transformation process that converts daily records of individual transactions into monthly financial reports. In this example, the transaction records are the inputs, accounting is the operation that adds value, and financial statements are the outputs.

What are the "operations," or transformation processes, of service organizations? At times, the difference between manufacturing and service is in providing a customized solution rather than mass production as is common in manufacturing. For example, a travel agent adds value by creating an itinerary that includes transportation, accommodations, and activities that are customized to your budget and travel dates. A law firm renders services that are specific to a client's needs and circumstances. In both cases, the work process (operation) involves the application of specialized knowledge based on the specifics of a situation (inputs) and the outcome that the client desires (outputs).

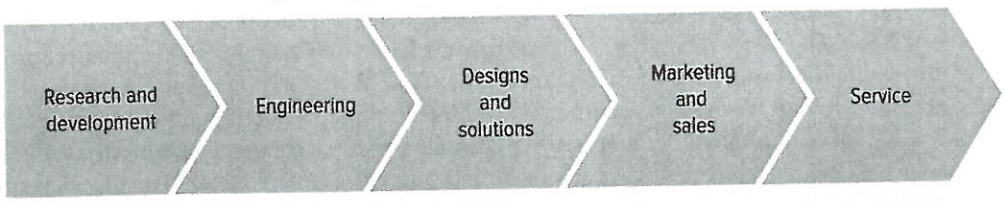
The application of the value chain to service organizations suggests that the value-adding process may be configured differently depending on the type of business a firm is engaged in. As the preceding discussion on support activities suggests, activities such as procurement and legal services are critical for adding value. Indeed, the activities that may provide support only to one company may be critical to the primary value-adding activity of another firm.

Exhibit 3.4 provides two models of how the value chain might look in service industries. In the retail industry, there are no manufacturing operations. A firm such as Nordstrom adds value by developing expertise in the procurement of finished goods and by displaying them in its stores in a way that enhances sales. Thus, the value chain makes procurement activities (i.e., partnering with vendors and purchasing goods) a primary rather than a support activity. Operations refer to the task of operating Nordstrom's stores.

EXHIBIT 3.4 Some Examples of Value Chains in Service Industries

Retail: Primary Value-Chain Activities

Engineering Services: Primary Value-Chain Activities



For an engineering services firm, research and development provides inputs, the transformation process is the engineering itself, and innovative designs and practical solutions are the outputs. The Beca Group, for example, is a large consulting firm with about 3,000 employees, based in 17 offices throughout the Asia Pacific region. In its technology and innovation management practice, Beca strives to make the best use of the science, technology, and knowledge resources available to create value for a wide range of industries and client sectors. This involves activities associated with research and development, engineering, and creating solutions as well as downstream activities such as marketing, sales, and service. How the primary and support activities of a given firm are configured and deployed will often depend on industry conditions and whether the company is service- and/or manufacturing-oriented.

Resource-Based View of the Firm

resource-based view (RBV) of the firm perspective that firms' competitive advantages are due to their endowment of strategic resources that are valuable, rare, costly to imitate, and costly to substitute.

LO3.4

The resource-based view of the firm and the different types of tangible and intangible resources, as well as organizational capabilities.

The **resource-based view (RBV) of the firm** combines two perspectives: (1) the internal analysis of phenomena within a company and (2) an external analysis of the industry and its competitive environment.[31] It goes beyond the traditional SWOT (strengths, weaknesses, opportunities, threats) analysis by integrating internal and external perspectives. The ability of a firm's resources to confer competitive advantage(s) cannot be determined without taking into consideration the broader competitive context. A firm's resources must be evaluated in terms of how valuable, rare, and hard they are for competitors to duplicate. Otherwise, the firm attains only competitive parity.

As noted earlier (in Strategy Spotlight 3.1), a firm's strengths and capabilities—no matter how unique or impressive—do not necessarily lead to competitive advantages in the marketplace. The criteria for whether advantages are created and whether or not they can be sustained over time will be addressed later in this section. Thus, the RBV is a very useful framework for gaining insights as to why some competitors are more profitable than others. As we will see later in the book, the RBV is also helpful in developing strategies for individual businesses and diversified firms by revealing how core competencies embedded in a firm can help it exploit new product and market opportunities.

In the two sections that follow, we will discuss the three key types of resources that firms possess (summarized in Exhibit 3.5): tangible resources, intangible resources, and organizational capabilities. Then we will address the conditions under which such assets and capabilities can enable a firm to attain a sustainable competitive advantage.[32]

Types of Firm Resources

Firm resources are all assets, capabilities, organizational processes, information, knowledge, and so forth, controlled by a firm that enable it to develop and implement value-creating strategies.

tangible resources organizational assets that are relatively easy to identify, including physical assets, financial resources, organizational resources, and technological resources.

Tangible Resources **Tangible resources** are assets that are relatively easy to identify. They include the physical and financial assets that an organization uses to create value for its customers. Among them are financial resource (e.g., a firm's cash, accounts receivable, and its ability to borrow funds); physical resources (e.g., the company's plant, equipment, and machinery as well as its proximity to customers and suppliers); organizational resources (e.g., the company's strategic planning process and its employee development, evaluation, and reward systems); and technological resources (e.g., trade secrets, patents, and copyrights).

Many firms are finding that high-tech, computerized training has dual benefits: It develops more-effective employees and reduces costs at the same time. Employees at FedEx take computer-based job competency tests every 6 to 12 months.[33] The 90-minute