case five

Wal-Mart Stores, Inc., 2007

TEACHING NOTE

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■ SYNOPSIS ■

By 2007, Wal-Mart (WM) is not only the world's biggest retailer, it was also (in terms of sales revenue) the world's largest corporation. In an industry characterized by intense competition and thin margins, WM has experienced 40 years of continuous growth and consistently high profitability since Sam Walton opened his first store in Arkansas. During this period, WM has transformed itself from a discount retailer serving small towns in Arkansas and Oklahoma to, first, a national discount chain and, subsequently, to an international retailer with multiple retail formats (discount stores, warehouse clubs, supercenters, and neighborhood stores).

The case offers insight into the basis of WM's phenomenal success by reviewing WM's main functions and major operating activities, including: purchasing, distribution and warehousing, in-store operations, marketing, information technology, human resource management, and management decision processes. These descriptions offer a basis for analyzing the resources and capabilities that form the foundation of WM's competitive advantage.

The case describes WM's development under Sam Walton's leadership, shows how WM retained Walton's values and principles after his death in 1992, and indicates how these values are critical to WM's exceptional organizational capabilities. Looking to the future, the case question's WM's ability to sustain its competitive advantage in the face of increasing size, continued success, internationalization, and hostility from a variety of interest groups.

The mixed performance of WM's overseas businesses raises important questions about WM's ability to transfer its retailing capabilities from the US to countries with very different cultures, retailing conditions, and economic systems.

Parallel issues arise in relation to the diversification of WM's retail formats. In addition to its discount stores, WM has become a successful operator of warehouse clubs and superstores (hypermarkets) that sell food as well as hard and soft goods. What are the limits to WM's ability to diversify its retail activities?

The issue of WM's ability to sustain its success relates not only to its expansion into new countries and new retail markets, but also the continued success of its core US discount retailing operations. To what extent is WM's competitive advantage sustainable against (a) imitation by competitors, (b) innovation by competitors (e.g., new approaches to retailing), (c) the depreciation/obsolescence of its core resources and capabilities (e.g., will the WM culture, values, employee loyalty, and managerial drive erode over time?).

■ TEACHING OBJECTIVES ■

I use the case to introduce the analysis of resources and capabilities. The case allows students to identify WM's resources and capabilities in a systematic fashion, then to appraise the extent to which these different resources and capabilities confer competitive advantage.

A central issue in the case is the analysis of sustainability. In a competitive industry such as discount retailing, where imitation is apparently easy, which of WM's resources and capabilities offer the basis for sustainable success?

The case allows some interesting extensions into the role of resources and capabilities in international strategy and diversification strategy.

■ POSITION IN THE COURSE ■

The case should be used as an introduction to the analysis of competitive advantage; in particular for illustrating and applying the concepts and techniques of resource/capability analysis.

■ ASSIGNMENT QUESTIONS ■

1. To what extent is Wal-Mart's performance attributable to industry attractiveness and to what extent to competitive advantage?
2. In which of Wal-Mart's principal functions and activities (namely: purchasing, distribution and warehousing, in-store operations, marketing, IT, HRM, and organization and management systems/style) do WM's main competitive advantages lie? Identify the distinctive resources and capabilities in each of these functions/activities.
3. To what extent has WM been able to transfer the competitive advantage it established in discount retailing in the US (a) to other countries, (b) to other retail sectors and formats? Why has WM's overseas performance to date been so patchy?
4. To what extent is WM's competitive advantage sustainable? Why have other retailers had limited success in imitating WM's strategy and duplicating its competitive advantage?
5. Looking ahead, what measures does WM need to take to sustain its recent performance and defend against competitive (and other) threats?

■ READING ■

R. M. Grant, *Contemporary Strategy Analysis* (6th edn), Blackwell Publishing, 2008, Chapter 5.

■ CASE DISCUSSION AND ANALYSIS ■

WM's Performance

I start by asking the class how good WM's performance has been. The answer (should be): pretty spectacular. Between 1994 and 2006, WM's ROE has averaged 22%. This strong profitability has been achieved despite WM's continuous strong growth (averaging 14% per year during 1994–2006). Typically, rapid top-line growth reduces bottom-line profitability because of the costs of expansion (capital investment costs, start-up costs, acquisition premiums, etc.).

A further feature of WM's performance has been its consistency over time: across the economic cycles, WM has shown remarkable constancy of both growth and profitability.

Despite lower sales growth in recent years, profit growth has been strong: ROA and ROE have shown no deterioration over the past 13 years.

Explaining Profitability

A key issue for any company experiencing superior performance is to explain why. Concentrating on profitability, our basic strategic analysis tells that superior profitability can be the result either of industry attractiveness or of competitive advantage. To what extent has WM been successful because of location in an attractive industry?

Industry analysis

There is not much evidence in the case on industry profitability. Other discount retailers (Target, Costco, and Dollar General) have earned respectable rates of profit in recent years. However, these are the more successful firms in the industry – a broader look suggests that discount retailing is a brutally competitive industry where bankruptcies and losses are common. WM's closest competitor, Kmart, was locked in a downward spiral for several decades before emerging from bankruptcy. There is not enough evidence in the case to perform an elaborate industry analysis of discount retailing;

however, from the information in the case, supplemented by general knowledge of retailing, it should be possible to perform a rough-and-ready five forces analysis. Thus, key structural features of the discount retailing industry are:

- *Supplier power:* some strong manufacturers of branded products (e.g., P&G, Gillette, Sony); however, most evidence suggests that it is the major retail chains that hold the more powerful bargaining position.
- *Buyer power:* weak – buyers are individual consumers. However, buyers are very price sensitive.
- *Substitute competition:* strong – for every product category there are a variety of other specialist and general retailers, including online retailers.
- *Entry barriers:* weak.
- *Industry rivalry:* generally strong, since there is little product differentiation (different retailers offer similar ranges of products); there is excess capacity (the US has higher sq. footage of retail space per person than any other country); substantial fixed costs, which encourages retailers to maximize sales volume. However, the key factor limiting competition is that this is a geographically fragmented market – typically, individuals shop within a 10–20-mile radius. Hence, within the US there are many thousands of local markets and seller concentration is very high in many of these.

Wal-Mart's choice of geographical segments

This feature of the discount retailing industry – that it is comprised of many distinct local markets – is critical to recognizing one element of WM's superior profit performance. As the section describing WM's history makes clear, a key element of WM's early strategy was locating stores in small and medium-sized towns that other discount chains had ignored.

The advantage of this strategy was that WM's stores faced competition from small, local, independent stores, but not from other large discount stores. Moreover, once WM had established itself within one of these towns, it preempted the market – WM's monopoly position was secured by the fact that the local market was too small for two large discount stores to survive.

Over time, as WM extended its geographical reach to the entire US, and increasingly to metropolitan areas, WM has been brought into closer competition with other discount stores. However, WM still reaps the benefits of its small-town locations. Because individual store managers are given discretion over pricing, the small-town WM stores are able to charge higher prices and earn higher margins than their metropolitan counterparts.

WM's Competitive Advantage

The observation that WM is more profitable than its rivals (see Table 5.4 in the case) is evidence that the primary source of WM's stellar profitability record is its competitive advantage over its nearest rivals. WM has consistently outperformed its closest rival, Kmart, and been more profitable than even its more successful rivals (Target, Costco, Dollar General).

I ask students whether WM's competitive advantage is a cost advantage or a differentiation advantage. The case does not provide comparative price data; however, it should be clear from the students' own shopping experience that WM is among America's lowest-price retailers. This shows up in gross margins – despite higher ROE, WM's gross margins are *lower* than Target and Dollar General's and about the same as Kmart. Clearly WM chooses to compete by setting low prices (thus earning low gross margins).

So, where are the sources of WM's superior cost efficiency?

The DuPont formula allows us to break down return on capital employed into two elements:

$$\text{ROCE} = \text{Profit margin on sales} \times \text{Rate of capital turnover}$$

Comparing WM with Target, we see that despite higher ROE, WM's net margin is lower than Target's – as is its gross margin. WM's cost efficiency is more apparent in terms of SGA as a proportion of sales. However, WM's main indicators of superior efficiency relate to WM's higher asset turnover. WM not only turns over its total assets faster than Target, this asset turnover efficiency is also evident in constituent components: inventory turnover ratio, average collection period for receivables, and fixed asset turnover ratio.

	Wal-Mart	Target	Costco	Dollar General
Return on equity, 2006 (%)	22.5	18.0	11.3	21.0
Net margin (%)	3.5	4.6	2.0	4.1
SGA as % of sales, 2006	18	23	9	20
Sales/Av. total assets, 2006	2.3	1.5	3.2	2.9

Identifying and Appraising WM's Distinctive Resources and Capabilities

To analyze the sources of WM's competitive advantage – especially its superior efficiency – we need to dig down into its resources and capabilities.

In relation to each of WM's value chain activities – *purchasing, warehousing and distribution, in-store operations, marketing, information technology, human resource management, organization and management* – I ask: what are the main characteristics of how WM performs the function/activity and to what extent has WM developed distinctive capabilities and distinctive resources in relation to this function/activity?

To make the most efficient use of class time, I sometimes pre-assign specific students to particular functions or activities. For example, on the evening prior to the class, I might e-mail individual students to notify them that they will be called upon to comment on a particular function or activity. My goal is to gain insight into what WM's organizational capabilities are and what are the superior processes and practices on which they are based. To this end, I may probe with the following questions:

- *What does WM do differently from other retailers?*
- *How did WM develop this distinctive way of conducting this activity?*
- *Why is this a source of competitive advantage?*
- *Are there any critical resources that this activity draws upon?*

Some of the key points I'm looking for include:

- *Purchasing* – WM's buying power derives from the huge size of its purchases (its critical resource in this area). However, it is also organized to maximize the impact of this buying potential through:
  - centralizing its buying;
  - placing vendors' representatives under pressure (the windowless cubicles, metal furniture);
  - limiting the power of suppliers by limiting each supplier to a maximum of 2.5% of WM's total purchases;
  - collaborating with suppliers (e.g., EDI) to offer suppliers cost savings that could then be passed on in discounts for WM;
  - internet-based buying that allows WM to access purchasing opportunities worldwide.
- *Warehousing and distribution* – Key distinguishing features: WM is responsible for distributing most of its goods to its stores; WM's hub-and-spoke system. How does this differ from other retailers? They rely more on their suppliers to undertake delivery; because they didn't expand in so systematic a fashion, they have less well-integrated and less well-positioned hub-and-spoke systems. Is WM's system superior? Yes! Why? Because it:
  a) gives WM *control* – it has total control over scheduling its deliveries to stores which allows it complete integration of its supply chain (thereby allowing lower levels of store inventories and reducing the likelihood of stock-outs, etc.);
  b) permits efficiencies from higher-capacity utilization of trucks – larger drop volumes (as compared with individual suppliers offering individual store drops) and the ability to utilize truck backhauls to return excess in-store inventories;
  c) allows WM to introduce innovation throughout its entire distribution system – e.g., cross-docking.

  To show the advantage of the WM system it is useful to draw the WM hub-and-spoke system, where suppliers deliver to warehouses and WM delivers to stores, as compared with a system where each supplier delivers direct to the stores.
- *In-store operations* – Two key features characterize WM's in-store management:
  a) Decentralization of decision making. A key feature of WM's system is the level of autonomy given to store managers over pricing and merchandising. This decentralization is extended down to individual departments within stores. The result is flexibility to adjust to local conditions (stocking products that meet local needs; adjusting pricing to local competitive conditions) and flexibility to respond quickly to new local market preferences.
  b) High level of consumer service. Although WM's competitive advantage is basically its cost leadership, it also seeks differentiation advantage through meeting shoppers' needs and preferences. Key aspects of offering a superior retail service are seen in (a) offering a wide range of goods, (b) ensuring availability (avoiding stock-outs), (c) adjusting to local needs and preferences, (d) offering a positive customer experience (e.g., "greeters," "satisfaction guaranteed" program, etc.).
- *Marketing* – The hallmark of WM's approach to the market is simplicity and consistency. Its "Everyday Low Prices" theme positions WM as *the* low-price retailer while also allowing major economies in advertising and

promotion. Note that WM's advertising/sales ratio is a mere 0.5% – one-fifth of Kmart's and one-seventh of Sears Roebuck's.

- *Information technology* – WM has long been a leader in the application of IT to retailing (e.g., it pioneered EDI with suppliers, EPOS data gathering, satellite communication, etc.). Key aspects of WM's IT systems are:
  a) They are closely tailored to WM's decision-making needs. The IT system provides a very rapid flow of information (in many cases in real time) to decision makers to allow faster, more accurate decisions. In particular, POS data is continually being analyzed while it is being collected to provide easy-to-use feedback to store managers, warehouse managers, and suppliers.
  b) WM's IT system creates close integration throughout the whole value chain. The most remarkable aspect of WM's operation is the close linkage of the entire supply chain. The result is a system in which inventory turns are among the highest in the industry (Costco's ratio is higher – but a warehouse club cannot be directly compared to a retailer).

- *Human resource management* – Fundamental to WM's capabilities across all its activities is the motivation, flexibility, and cooperation of its employees. What is different about WM's employees? The interesting feature is their sheer ordinariness. The huge majority of WM's 1.8 million employees are working-class individuals with modest educational attainments doing relatively low-skilled jobs for pay that is not very far above minimum wage. So what is it that makes their performance so remarkable? Two factors seem critical:
  a) WM's culture. WM's culture has its roots in the principles and values of Sam Walton, which themselves are a reflection of the society of which he was a part. The protestant Christian, rural, comparatively poor areas of Arkansas and rural southwest America are closely associated with WM's values of thrift, hard work, fairness, simplicity, and friendliness. Under Sam Walton there was a remarkable unity within WM. Even though Sam Walton was the richest man in America while most of his associates were earning less than \$6/hour, they shared the same dress, way of talking, and lifestyle.
  b) WM's people management. Human resource management is based on the WM culture and Sam Walton's management principles. These are to reinforce motivation, both through "empowering" employees with decision-making and consultation rights, and providing them with financial incentives. Not least of these was WM's profit-sharing and stock ownership scheme that created several thousand millionaires among WM employees. But WM's HRM policies extend well beyond decentralization and financial incentives; the real brilliance of its people management lies in its ability to treat its employees as individuals, and to offer them respect in very tangible ways – listening to their suggestions, asking for their opinions, enlisting them in WM's strategic initiatives. It is these values translated into everyday practices that create a family atmosphere within this huge corporation.

- *Organization and management* – The peculiarities of WM's top management structure are not always apparent to students, so establishing the distinctive features of WM may take a bit of drawing out. If the students have difficulty articulating the key features of WM's management structure and methods, I ask: "Would you like to be a manager at WM?" or "How many Harvard MBAs do you think are working at WM?" I encourage them to picture life as a WM regional vice president. These key individuals live in Bentonville, and spend most of the week visiting stores and warehouses within their region. They have no office within their region, and spend Friday and Saturday in meetings back at HQ. It's a tough life – a lot of travel, high expectations, and few perks (traveling on Southwest airlines; staying in budget motels). Who are the people that thrive in this lifestyle? It's not MBAs from prestigious B-schools, but internally promoted managers who have worked their way up from being local warehouse assistant managers and department managers within stores. They have degrees, but mostly from state universities in Arkansas, Missouri, and such places. Why unique capabilities are associated with general management? Probably the key lies in the role of the regional VPs in providing direct and personal linkages between HQ and the local operation. On Friday/Saturday they are taking corporate decisions; on Monday they are implementing those decisions within their own regions.

Is WM's Competitive Advantage Sustainable?

Having established the resources and capabilities that underpin WM's competitive advantage, the key issue concerns their sustainability.

I broach this issue by asking: "Why hasn't Kmart been able to replicate WM's resources and capabilities and imitate WM's strategy?" At first glance, this seems a paradox. WM has few secrets – as one retail executive commented to me, "Retailing is an open book. There are few secrets. Each of us can walk into our competitors' stores, see what is being sold, at what prices, what promotional support is being offered, what POS systems are in operation, and so on."

Time allowing, I find it useful to run through the chain of activities from purchasing to top management structure and systems and ask what can be copied and what can't. Some resources are apparently easily replicable: there is nothing to stop Kmart, Target, Sears Roebuck (or other retailers) from installing state-of-the-art IT and communication systems. WM's hub-and-spoke distribution system and techniques of warehouse management can also be imitated. However, even with these items, the problem for other retailers is that in order to imitate WM, they must first dismantle what they already have. This raises issues of *path dependency* – WM is what it is because it has slowly developed in that way; Kmart has developed along a different path. For Kmart to leave its path and move onto a new path would result in it incurring some very heavy costs of reconstructing its resources and systems.

Other resources and capabilities are much less easy to replicate. WM's in-store management capabilities, its HRM capabilities, and its general management capabilities depend on a key resource – the WM culture. This is something that is unique to WM. While a rival might do a good job of replicating every aspect of WM's tangible resources, and its management method and systems, the magic ingredient that makes it all work for WM is the culture – the values, beliefs, and behavioral norms that provide the organizational glue holding the bits together.

Another irreplicable resource is operating scale. WM's purchasing capabilities – in particular, its ability to pressure suppliers for preferential discounts – depend on its huge purchase volumes. No other retailers are close to WM in terms of volume. Similar points can be made about financial resources (I would imaging that WM has the lowest cost of capital in the sector).

Extending WM's Competitive Advantage: (1) To Different Retail Formats

How successful has WM been at extending its competitive advantage to other types of retailing? Answer: moderately. The only financial data we have relates to Sam's Club (Table 5.3). Here margins are much lower than in the Wal-Mart Stores division; however, these margins may be offset by greater capital turnover (as indicated by higher sales/sq. ft.). Some indication of WM's strength in warehouse clubs is indicated by the fact that Sam's Club and Costco are the two principal survivors in this intensely competitive sector. The entry into supercenters (which involved a major move into food retailing) also seems to have been very successful. However, WM's other retail ventures – Helen's Arts and Crafts, Dot Drugstores, Hypermart USA – were less successful and were sold off.

Why has WM been successful in retail ventures that are closely related to its original discount stores retail model? Primarily because WM has been able to draw upon the same capabilities that have made it successful in discount retailing. Note that in most instances, WM has not directly shared its resources across these different types of retailing – Sam's Clubs and Supercenters have a separate distribution system. However, the key appears to be a replication of the same capabilities in IT, supply chain management, in-store management, marketing, customer service, and HRM within the new retail formats.

Extending WM's Competitive Advantage: (2) To Different Geographical Areas

Does WM have a history of adjusting well to new geographical locations? Certainly in the US, and also in the adjacent markets of Canada and Mexico. WM's whole history has involved steady expansion throughout the US (and subsequently throughout the world). In relation to the US, many doubted WM's ability to compete as effectively in the sophisticated east and west coasts as it had in Oklahoma and Missouri. But WM has confounded its critics, showing that it could retain its culture and its systems while adapting to different customer requirements in local markets.

Overseas expansion has represented a very different challenge. Instead of simply extending its existing systems into new localities, overseas expansion has involved setting up entirely new systems in a very different environment, partnering with an existing local player, or acquiring a local retailer. In Argentina, Germany, and the Far East, WM has not performed well. In the UK, WM has been modestly successful. In contrast with its US expansion, WM's overseas expansion has not involved any standardized, systematic market entry and market development strategy – there as been a mixture of acquisition, joint venture, minority acquisition, and full acquisition.

Analyzing the desirability and the design of WM's international strategy requires careful consideration of the following issues:

- Can WM replicate its resources and capabilities in an overseas company (either from scratch or within an acquired company)?
- Will these resources and capabilities have the same relevance to key success factors as in the US? For example, do everyday low prices and very large stores with a vast range of choice appeal to customers as much overseas as in

the US? Can WM's system of distribution work in other countries? Will WM's approach to HRM be as effective in motivating and generating initiative in cultures that are very different from the US?

- Can WM create the new resources and capabilities it needs to be successful outside the US? These include cultural adaptability, acquisition management and integration capability, and joint venture management capability.

Sustaining Competitive Advantage in the Future

What kinds of threats does WM face?

Risks of growth and maturity. Will success kill WM? The more it grows in size, the more it risks diluting its unique culture and loosening the bonds that create a family-like atmosphere. Similarly, the wider its geographical spread, the more it distances itself from its small-town, Arkansas roots that nourished the WM values. Increased size has more direct and tangible effects too. How can WM retain the close linkages between the Bentonville HQ and the individual stores as it continually expands? Maturity has also meant lower returns to shareholders – what effects will this have on employee motivation? The observation of checkout operators retiring rich on the capital appreciation of the WM stock provided a powerful motivator and attractor for many low-paid employees. Growing size and success also means that WM becomes more of a target for competitors, labor unions, governments, and grass-roots activist groups – loss of social legitimacy and increasing diversion of management time and effort to defending the company against its critics may sap its vigor.

Risks of overseas expansion. WM's overseas experiences have been mixed. Overseas markets are inherently more attractive than the US in terms of lower levels of competition and being later in their industry cycles in terms of discount retailing. However, the challenge is WM's ability to establish competitive advantage within them. The balance between opportunity and risk is a difficult one to assess. One argument is that, ultimately, the consumers the world over are much the same – they want low prices, variety, quality, and service. The converse is that retail markets are divided by culture, levels of economic development, customers, and government regulation. The factors that determine success in the US are very different from those that determine success in Germany, China, and Argentina. Purchasing, supply chain management, and in-store management are different in each. As we have noted, the evidence is mixed. Most telling is the fact that, unlike IKEA, WM has nothing approaching a global strategy. In every country its approach has been mixed – even experimental.

Risks of imitation. WM's retail practices continue to become better known and better understood. Some companies have even experienced some success in replicating the WM HRM practices and WM culture – e.g., Asda in the UK (it is interesting to observe that it was because of this closeness that WM decided to acquire Asda!). The fact is, however, that the performance differential between WM and its closest US rivals has remained wide. WM is not a static target – it is continually working to improve its systems and upgrade its capabilities.

Risks of innovation. Probably some of the most significant threats that WM faces are from competitors emerging with new, potentially superior, strategies. Retailing has followed a process of *creative destruction* in which market leaders are continually being displaced by newcomers. Typically these newcomers pioneer new approaches to retailing. Independent stores were decimated by chain stores, chain stores then fell victim to discount stores. Will WM – the king of the discount chains – suffer the same fate? Almost certainly, at some time. However, the interesting fact is that WM has already survived several new retailing waves. When warehouse clubs threatened discount stores, WM joined the new wave and became one of the most successful warehouse clubs. When "category killers" – such as Toys 'R' Us in toys, Home Depot in home improvement products, Best Buy in appliances – threatened the discount stores, WM fought back. It is now taking market share from Toys 'R' Us, Circuit City, and many others of the "category killers." The most recent wave – online retailing – has proven to be much less of a threat than many realized. While the dot.com retailers wither and fail, WM continues to grow sales and market share.

WM as target. The bigger and more successful a company becomes, the more a target it becomes for organized labor, anti-capitalist activists, environmentalists, anti-globalization groups, and various opportunists and gold-diggers. WM has had more than its fair share of all of these. In some cases it has resisted (as in the case of unionization); in others it has adapted (in particular, by embracing environmental responsibility). The overall effect however is to direct management time away from running the business and more toward managing issues that are not directly related to efficiency of retail operations.

Strategy recommendations

Recommendations for WM's strategy need to grow directly from the analysis of WM's resource/capability strengths and the potential threats that it faces in the upcoming years.

Some of the most critical issues relate to international expansion, since it is overseas that WM faces the greatest opportunities and the greatest risks. However, my preference is to acknowledge the international dimension, but to leave detailed consideration of international strategy until the course moves on to explicit consideration of global strategy and the MNC.

Far more productive in terms of the topic of resource/capability analysis is the issue of what WM needs to do in order to safeguard its US market position.

Students are likely to propose a number of possible areas for recommendations:

- *How does WM sustain its key resources – especially the unique corporate culture?* As Sam Walton and his personality and philosophy become more distant and WM moves further from its Arkansas rural roots, how can it retain its distinctive values and sense of fun and purpose? What kind of management techniques can do this? What does this imply for the type of top management WM needs to appoint?
- *Continuous improvement through innovation and upgrading capabilities.* WM cannot stand still. There are threats to its competitive advantage from imitation and, more significantly, the emergence of new retail forms. WM needs to build continuously on its competitive advantage, using advances in information and communications technologies, new approaches to increasing customer satisfaction and innovations in materials handling, supplier relations, merchandising, and people management, to make WM a more difficult target for would-be competitors.
- *Introducing new retail formats.* WM has done well in warehouse clubs and supercenters (in grocery retailing, in particular, it seems to be doing a better job than many established supermarket chains). It is expanding its "neighborhood stores" concept. How far should it go? What types of retailing are consistent with its resources and capabilities and which are not? What about online retailing – should this be a major push for WM?
- *Should WM continue to expand in the US?* Is there a danger of over-expansion in terms of stretching WM's close-knit organization and moving to less attractive locations?

■ KEY TAKE-AWAYS FROM THE CASE DISCUSSION ■

1. A straightforward approach to identifying and appraising a firm's resources and capabilities is to begin with a simple value chain – a sequence of the major functions and activities that the firm performs. Thus, to ask: What is distinctive or different about how the firm performs these activities (compared with other firms)? And do these characteristics confer either cost or differentiation advantage? Having identified the main capabilities and their distinctiveness, we can then examine the resources that underlie them.
2. To assess the ability of a firm to *sustain* its competitive advantage over time, we need to consider:
   a) The potential for competitors to *imitate* that competitive advantage through acquiring or building the resources and capabilities that the target firm possesses. This requires assessment of the extent to which a firm's resources and capabilities are *transferable* and *replicable.*
   b) The *durability* of the firm's resources and capabilities: to what extent does time, growth of corporate size, or success undermine a firm's capabilities? Alternatively, does investment and learning deepen and extend a firm's capabilities?
   c) The *relevance* of a firm's resources and capabilities: as the industry changes and new technologies and strategies are introduced, does this change the resources and capabilities that are important for success?
3. To assess the likelihood that a firm can extend its competitive advantage to new markets (either geographical markets or product markets), the key consideration is whether it can transfer or replicate its core resources and capabilities within the new market, and whether these resources and capabilities are relevant to success (i.e., do they match the key success factors in the new market?).