

FUNCTIONAL CAPABILITY AND RESOURCE ANALYSIS

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AGENDA

- Short Description
- Analytical Model
- Strategic Implications
- Critique of the Model
- Apply the Model to American Airlines
- Conclusion
- Questions & Comments

DESCRIPTION

- ❑ Views the firm as a collection of resources
- ❑ Resource Base View (RBV)
- ❑ Internal scrutiny and external competitive analysis
- ❑ VRIO Framework
- ❑ Determines competitive value of resources

ANALYTICAL MODEL

- Step 1. Determine the Firm's Critical Success Factors (CSFs)
 - Macroenvironmental Characteristics
 - Industry Characteristics
 - Competitive Position
 - Firm Specific
- Step 2. Identify the Firm's Resources
 - Tangible assets
 - Intangible assets
 - Organizational Capabilities
 - Core competencies

ANALYTICAL MODEL (CONTINUED)

- Step 3. Evaluate the Firm's Resources
 - Run Resources through VRIO Framework
 - Value Question
 - Rareness Question
 - Inimitability Question
 - Organization Question
- Step 4. Identify Gaps Between CSFs and Firm's Resources
 - Successful companies feature few gaps
 - Unsuccessful companies have many gaps

ANALYTICAL MODEL (CONTINUED)

- Step 5. Diagnose Current Strategy
 - Successful strategies should protect core assets
 - Unsuccessful strategies will highlight strategic gaps
- Step 6. Formulate Rational Future Strategies
 - Invest in Resources
 - Upgrade Resources
 - Leverage Resources

STRATEGIC IMPLICATIONS

- Can be used at any time, encouraged to be used continuously
- Three important roles:
 - Test the strength of the firm's current strategy
 - Test the viability of the firm's planned strategy
 - Assist in setting stretch goals

CRITIQUE

□ Strengths

- Integrative
- Discipline, Realistic, Objective, and Actionable
- Growth and Diversification

□ Weaknesses

- Little empirical support
- Ambiguous Taxonomy
- Nothing new

APPLICATION TO AMERICAN AIRLINES

- CSFs
 - Vast Route System
 - Service Product/Promotions
 - Revenue/Cost Control
 - Financial Management

2012 Rank	Airline	2012 Enplaned Passengers
1	Delta	116,445
2	Southwest**	112,234
3	UA/CO Combined***	92,367
	United	92,367
	Continental	-
4	American	86,336
5	US Airways	54,238
6	EV/XE Combined****	32,376
	ExpressJet	32,376
	Atlantic Southeast	-
7	JetBlue	28,934
8	SkyWest	26,163
9	AirTran	21,745
10	American Eagle	16,731

Year	Average Jet Fuel Cost (per Gallon)	Annual Rate of Savings (Gallons)	Equivalent Fuel Cost Savings
2003	\$0.88	N/A	N/A
2004	\$1.56	N/A	N/A
2005	\$1.66	84M	139M
2006	\$1.97	95M	197M
2007	\$2.50	96M	242M
2008	\$3.03	111M	335M
2009	\$3.01	108M	327M
2010	\$3.41	123M	423M
2011	\$3.05	141M	430M
2012	\$1.56	147M	246.4M

AMERICAN AIRLINE'S RESOURCES

- **Tangible Assets**
 - Large fleet
 - New airplanes
- **Intangible Assets**
 - Well-known
 - Size and reputation
- **Organizational Capabilities**
 - 3,400 flights daily
- **Core Competencies**
 - AAdvantage Frequent Flyer Program
 - OneWorld Alliance

EVALUATION OF RESOURCES

VRIO Analysis of American Airlines				
Resource	Valuable	Rare	Inimitable	Organized to Exploit
1. Vast Fleet	YES	NO	NO	Realized
2. OneWorld Alliance	YES	NO	YES	Realized
3. AAdvantage Loyalty Program	YES	NO	NO	Realized

GAPS BETWEEN RESOURCES AND CSF

- No gaps
 - Fleet size
 - Vast route system
 - Service product/promotions
- Existing gaps
 - Financial situation
 - Revenue/Cost control

ANALYSIS OF CURRENT STRATEGY

- ❑ Merger with U.S. Airways will help financial situation
- ❑ New airplanes will improve upon revenue/cost control
- ❑ The “New American” campaign supports service product/promotion

RATIONAL FUTURE STRATEGIES

- Likely to focus attention towards financial situation
- Upgrading their resources
- Invest in marketing on the “New American”
- Restructuring if merger goes through

CONCLUSION

- Analytical method that views the firm as a collection of resources
- Effective analytical method for determining which resources provide competitive advantage
- Effective in developing strategies for growth and diversification

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