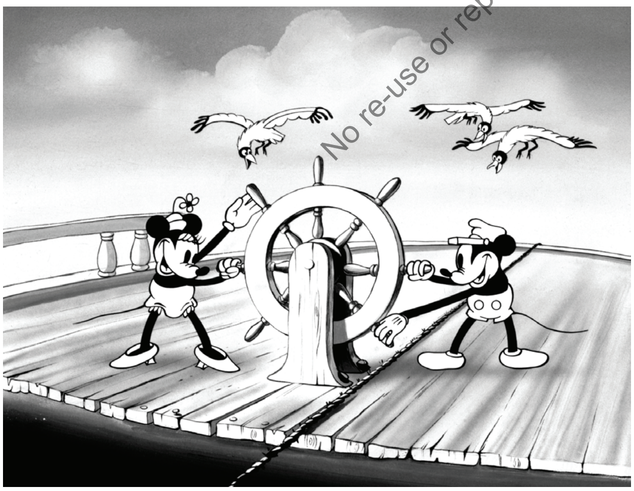
Internal Analysis: Strengths, Weaknesses, and Competitive Advantage

LEARNING OBJECTIVES

Studying this chapter should provide you with the knowledge to:

1. Identify the steps in the value chain a firm uses to create competitive advantage.
2. Distinguish among the core concepts of strengths, weaknesses, resources, capabilities, and priorities.
3. Evaluate the strength and sustainability of internally generated competitive advantages using the VRIO model.
4. Analyze a company and identify its strengths or weaknesses, resources, capabilities, and priorities using the Company Diamond tool.

Disney: No Mickey Mouse Company



WALT DISNEY PICTURES / Album / SuperStock

When most of us think about the Disney Company, we think of Mickey Mouse, Disney's oldest and most important in a long line of memorable characters. As the company's spokesman, Mickey appears prominently on the Walt Disney Company's home page (http://thewaltdisneycompany.com/about-disney.)[1] Everyone knows Mickey, but few know the story about how Mickey's arrival in 1928 set off a chain of events that continues to drive profits for Disney more than 85 years later.

In 1923, Walt Disney and his brother Roy settled in Burbank, California. They created the Disney Brothers Cartoon Studio to capitalize on a series of *Laugh-O-Gram* animations Walt had produced in their hometown of Kansas City, Missouri. Later that year, movie distributor Margaret Winkler contracted with the new studio to produce a series of single-reel cartoons based on a character from Walt's first movie, *Alice's Wonderland*.[2] After 56 successful episodes of the *Alice Comedies*, Winkler's husband, Charles Mintz, contracted with the Disneys in 1927 to produce a new character, Oswald the Lucky Rabbit.

Oswald quickly gained popularity, in large part because of the Disneys' insistence on quality drawing and animation sequences that came to be described as the "illusion of life," which enabled characters to move smoothly, like real humans.[3] In 1928, Walt and his wife, Lilly, headed east to negotiate with Mintz for more money to expand the successful series. The negotiations did not go well for the Disneys. Not only would Mintz not pay more, he fired Walt!

Mintz held the rights to the Oswald character, and he set out to produce Oswald without the Disney brothers.

Crushed at the loss of their main character and income source, Walt and Lilly boarded the cross-country train to return to Hollywood. Lilly recalled, "Walt showed me some of his sketches on the train coming home. They were cute little things; they could do anything. I asked him what he was going to call the character. "Mortimer Mouse," he said. I said, "That doesn't sound very good,' and then I came up with 'Mickey Mouse.'"[4] That mouse, conceived in adversity, would soon lead his creator to prosperity.

Mickey's public debut in *Steamboat Willie* in late 1928 introduced not only a memorable mouse performing laughable antics, but also a company that incorporated the latest technology to bring its stories to life. Sound was just beginning to make inroads in Hollywood, and *Steamboat Willie* represented the first synchronous sound movie. Mickey's motions and voice were perfectly timed with the music and audio in the cartoon, a major advance in motion pictures. The public, and critics, loved it, and the Disneys were on their way to lasting success.

Walt and Roy Disney learned well from Charles Mintz the importance of owning, not just creating, characters. Ownership of their most important resources allowed the brothers to control the use of characters by licensing the images to others. Walt entered his first licensing agreement in 1929 with a stationery company that produced Mickey Mouse emblazoned notecards. By 1942, when the United States was entering its first full year of World War II, Disney was earning 10 percent of its revenue from licensing.[5]

The cartoons featuring the lovable Mickey Mouse, and cutting-edge technology became a Disney hallmark. The company pioneered a series of firsts:

- Technicolor was used for the first time in a film in 1938's *Snow White and the Seven Dwarfs*.
- A multiplane camera enhanced the illusion-of-life artistry.
- In 1940, *Fantasia* introduced a precursor to modern surround-sound technology. This innovative technology would not spread industry-wide for another two decades.[6]

Walt's capability to innovate continued throughout his career. He realized the potential of television in its infancy. The first Disney television broadcast in 1950 was *One Hour in Wonderland*, a program Walt created to help promote his upcoming film *Alice in Wonderland*. And on October 27, 1954, the first episode of *Disneyland* aired. The show would later become *Walt Disney's Wonderful World of Color* to capitalize on the potential of color television. And, it would last. In some version, new Disney programming, from the original Mickey Mouse Club to today's popular Disney Channel, has been on weekly network television for more than 60 years.

Walt entered the world of television in order to fund his grandest innovation of all: The country's first destination theme park. Disneyland opened in July of 1955 on 270 acres of land in Orange County, California.[7] Disneyland defied all skeptics and proved to be a huge success from the day it opened. The park combined the company's skills in engineering and entertainment. Walt even called his designers "imagineers." Walt's focus on creating a clean setting also helped to set Disneyland apart from other amusement parks. Ferris wheels and roller coasters were no substitute for Space Mountain or the Tea Cups, and the spotless and inviting atmosphere proved a huge draw for families across the country. Disneyland became one of America's first destination resorts.

The Disney brothers chose to compete in a difficult industry. Their studio survived and eventually flourished in spite of a harsh industry environment and intense competition. The film industry featured several large studios such as Metro Goldwyn Mayer (MGM) and United Artists. These industry powerhouses had access to the best actors and writers, and they had distribution networks to ensure that their films played in theaters across the United States. Competition in the industry was fierce—the industry produced more than 800 films a year throughout the 1920s.[8]

The Disney story, from a strategic perspective, captures the essence and power of a firm's *internal abilities*—the *resources* and *capabilities* that can create and sustain a competitive advantage. The concepts and tools in this chapter will help you to evaluate a firm's internal abilities in order to answer the question: "How can a firm succeed, even in a very difficult industry environment?" The first section of the chapter explains how firms create competitive advantages over rivals, and the second section discusses the sustainability of those advantages over time. Internal analysis seeks to facilitate informed and meaningful judgments about a company's ability to win in its market, both *in* time (during any year or product cycle) and *over* time (as long as a decade or longer).[9] Winning in time means that a firm has a competitive advantage; winning *over* time requires that advantage to be sustainable. We end the chapter by describing how to use a tool called the Company Diamond to create a helpful visual model of the internal attributes that are the basis for a firm's competitive advantages.

As we've mentioned, strategists assume that firms differ. How can we describe those differences in a clear way that highlights how they contribute to the overall strategy? The value chain provides a logical way to divide the firm into important strategic activities.