Transcription Lesson 7: VRIO

In this figure, we can see an example of how either the marketing or the supply chain function of an MNE may contribute resources that are valuable, rare, inimitable, and organisable.

A resource or capability is said to be valuable if it allows the MNE to exploit opportunities or negate threats in the environment. If a resource does not allow an MNE to minimise threats or exploit opportunities, it does not enhance the competitive position of the MNE. So, how does marketing create value? By increasing revenues for the MNE – bringing in sales through higher volumes or increased price premiums. It also creates value for the customer by providing them with a product they need. Let's look at Coca Cola. The MNE spends billions on its marketing annually and has an experienced marketing team – this allows value to be added by creating a differentiated brand image. The supply chain, when efficient, provides value to the customer by lowering inventory costs. To the MNE, it provides access to markets. Coca Cola's distribution network allows the company to service the global market and has played a major part in giving the brand a global presence. In both cases, value is only added if these operations are running smoothly. Both marketers and supply chain managers should constantly evaluate the tools and channels at their disposal to ensure they continue to add value.

What about rarity? A resource is rare simply if it is not widely possessed by other competitors. Of all of the VRIO criteria this is probably the easiest to judge. An MNE that possesses valuable resources that are not rare is not in a position of advantage relative to competitors. Rather, valuable resources that are commonly held by many competitors simply allow MNEs to be at par with competitors. However, when an MNE maintains possession of valuable resources that are rare in the industry they are in a position of competitive advantage over MNEs that do not possess the resource. They may be able to exploit opportunities or negate threats in ways that those lacking the resource will not be able to do. Coca Cola's marketing skills are not necessarily rare, but with marketing expenses at around $4 billion a year, competitors will have a hard time matching them. Similarly, their strong global brand image is not an easy one to build. Still, Pepsi – their nearest competitor – has a formidable one too. The supply

References: Conway, J. 2021. Coca-Cola Co.: ad spend 2014-2020 [Online], Available: https://www.statista.com/statistics/286526/coca-cola-advertising-spending-worldwide/#:~:text=Over%20the%20last%20six%20years,million%20U.S.%20dollars%20in%202018.&text=Soft%20drinks%20still%20made%20up,Cola's%20sales%20volume%20in%202017. [14 May 2021]; Guttmann, A. 2020. PepsiCo: ad spend worldwide 2013-2019 [Online], Available: https://www.statista.com/statistics/286547/pepsico-advertising-spending-worldwide/ [14 May 2021]; Peng, MW & Meyer, KE. 2019. *International business*. 3rd ed. Andover, United Kingdom: Cengage Learning; Pratap, A. 2017. VRIO analysis of Coca Cola [Online], Available: https://notesmatic.com/201707vrio-analysis-of-coca-cola/ [14 May 2021]; Shrum, A. 2018. The Coca Cola supply chain & manufacturing process explained [Online], Available: https://www.dynamicinventory.net/coca-cola-supply-chain/ [14 May 2021].

chain of Coca Cola can be matched by very few competitors, Pepsi being a notable exception, helping the MNE to reach its global market.

So, we have the advertising ability, brand name and global supply chain of Coca Cola as being both valuable and rare resources. What about imitability? An inimitable (the opposite of imitable) resource is difficult to imitate or to create ready substitutes for. A resource is inimitable and non-substitutable if it is difficult for another MNE to acquire it or to substitute something else in its place. A valuable and rare resource or capability will grant a competitive advantage as long as other MNEs do not gain subsequent possession of the resource or a close substitute. If a resource is valuable and rare and responsible for a market leader competitive advantage, it is likely that competitors lacking the resource or capability will do all that they can to obtain the resource or capability themselves. This leads us to the third criterion—inimitability. The concept of imitation includes any form of acquiring the lacking resource or substituting a similar resource that provides equivalent benefits. The criterion important to be addressed is whether competitors face a cost disadvantage in acquiring or substituting the resource that is lacking. There are numerous ways that MNEs may acquire resources or capabilities that they lack. Generally, intangible (also called tacit) resources or capabilities, like corporate culture or brand image and reputation, are very hard to imitate and therefore inimitable.

Think of Coca Cola's brand image, which is intangible and very unique to the company. However, Pepsi's brand image can be considered an acceptable substitute – meaning that Coca Cola and Pepsi have competitive parity there. In the same way, the average of $4 billion spent on advertisements by Coca Cola is a resource that is not easy to imitate. Pepsi has its own financial strength, spending between $2.3 and $3 billion itself, meaning that the potential to match Coca Cola is there and this marketing resource is not necessarily sustainable. We see a similar situation with Coca Cola's global distribution network. It is a source of temporary, not sustainable, competitive advantage when one considers the resources of Pepsi, who have their own global distribution network. However, any other competitor, but Pepsi, would find this global network exceptionally hard to copy!

The fourth and final VRIO criterion that determines whether a resource or capability is the source of competitive advantage recognises that mere possession or control is

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necessary, but not sufficient, to gain an advantage. The MNE must likewise have the organisational capability to exploit the resources. Think of it in terms of whether the organisation owns the capability. Alternatively, think of organisation ownership in terms of how much it would cost to copy the capability in terms of time or money or both. We can conclude that Coca Cola is well organised and possesses the capabilities to take advantage of its brand image and leverage its spending. Coca Cola is also widely acknowledged as one of the most wide-reaching and seamless distribution operations in the world!

References: Conway, J. 2021. Coca-Cola Co.: ad spend 2014-2020 [Online], Available: https://www.statista.com/statistics/286526/coca-cola-advertising-spending-worldwide/#:~:text=Over%20the%20last%20six%20years,million%20U.S.%20dollars%20in%202018.&text=Soft%20drinks%20still%20made%20up,Cola's%20sales%20volume%20in%202017. [14 May 2021]; Guttmann, A. 2020. PepsiCo: ad spend worldwide 2013-2019 [Online], Available: https://www.statista.com/statistics/286547/pepsico-advertising-spending-worldwide/ [14 May 2021]; Peng, MW & Meyer, KE. 2019. *International business*. 3rd ed. Andover, United Kingdom: Cengage Learning; Pratap, A. 2017. VRIO analysis of Coca Cola [Online], Available: https://notesmatic.com/201707vrio-analysis-of-coca-cola/ [14 May 2021]; Shrum, A. 2018. The Coca Cola supply chain & manufacturing process explained [Online], Available: https://www.dynamicinventory.net/coca-cola-supply-chain/ [14 May 2021].