

THE CONCEPT OF CORE COMPETENCY

CORE COMPETENCY

- Core competency is a concept in management theory introduced by, C. K. PRAHALAD and GARY HAMEL.
- It can be defined as "a harmonized combination of multiple resources and skills that distinguish a firm in the marketplace"
- Core competency are the skills, characteristics, and assets that set your company apart from competitors.
- They are the **fuel for innovation** and the **roots of competitive advantage**.
- The engine for new business development, underlying component of a company's competitive advantage created from the **coordination, integration** and **harmonization** of diverse skills and multiple streams of technologies.

COMPETENCIES DO NOT MEAN

- ☐ Outspending competitors on research and development
- ☐ Cost sharing among SBU's
- ☐ Vertical integration

Roots Of Competitive Advantage

- Consolidate corporate wide tech. & production skills
- Binds the existing business and an engine of new business development.
- Involvement and a deep commitment to work across organizational boundaries.

IDENTIFYING YOUR CORE COMPETENCIES

- Prahalad and Hamel suggest three factors to help identify core competencies in any business:

- 1. Provides potential access to a wide variety of markets***
- 2. Makes a significant contribution to the perceived customer benefits of the end product***
- 3. Difficult for competitors to imitate***

1. Provides potential access to a wide variety of markets

- The key core competencies here are those that enable the creation of new products and services.

Example: Why has Saga established such a strong leadership in supplying financial services (e.g. insurance) and holidays to the older generation?

- Core Competencies that enable Saga to enter apparently different markets:

- Clear distinctive brand proposition that focuses solely on a closely-defined customer group

- Leading direct marketing skills - database management; direct-mailing campaigns; call center sales conversion

- Skills in customer relationship management

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ITC

2. Makes a significant contribution to the perceived customer benefits of the end product

Core competencies are the skills that enable a business to deliver a **fundamental customer benefit** - in other words: what is it that causes customers to choose one product over another? To identify core competencies in a particular market, ask questions such as "why is the customer willing to pay more or less for one product or service than another?" "What is a customer actually paying for?"

Example: Why have Amazon been so successful in capturing leadership of the market for online book shopping?

Core competencies that mean customers value the Tesco.com experience so highly:

- Designing and implementing supply systems that effectively link existing shops with the Amazon.com web site
- Ability to design and deliver a "customer interface" that personalizes online shopping and makes it more efficient
- Reliable and efficient delivery infrastructure (product picking, distribution, customer satisfaction handling)

3. Difficult for competitors to imitate

A core competence should be "competitively unique": In many industries, most skills can be considered a prerequisite for participation and do not provide any significant competitor differentiation. To qualify as "core", a competence should be something that other competitors wish they had within their own business.

Example: Why does Dell have such a strong position in the personal computer market?

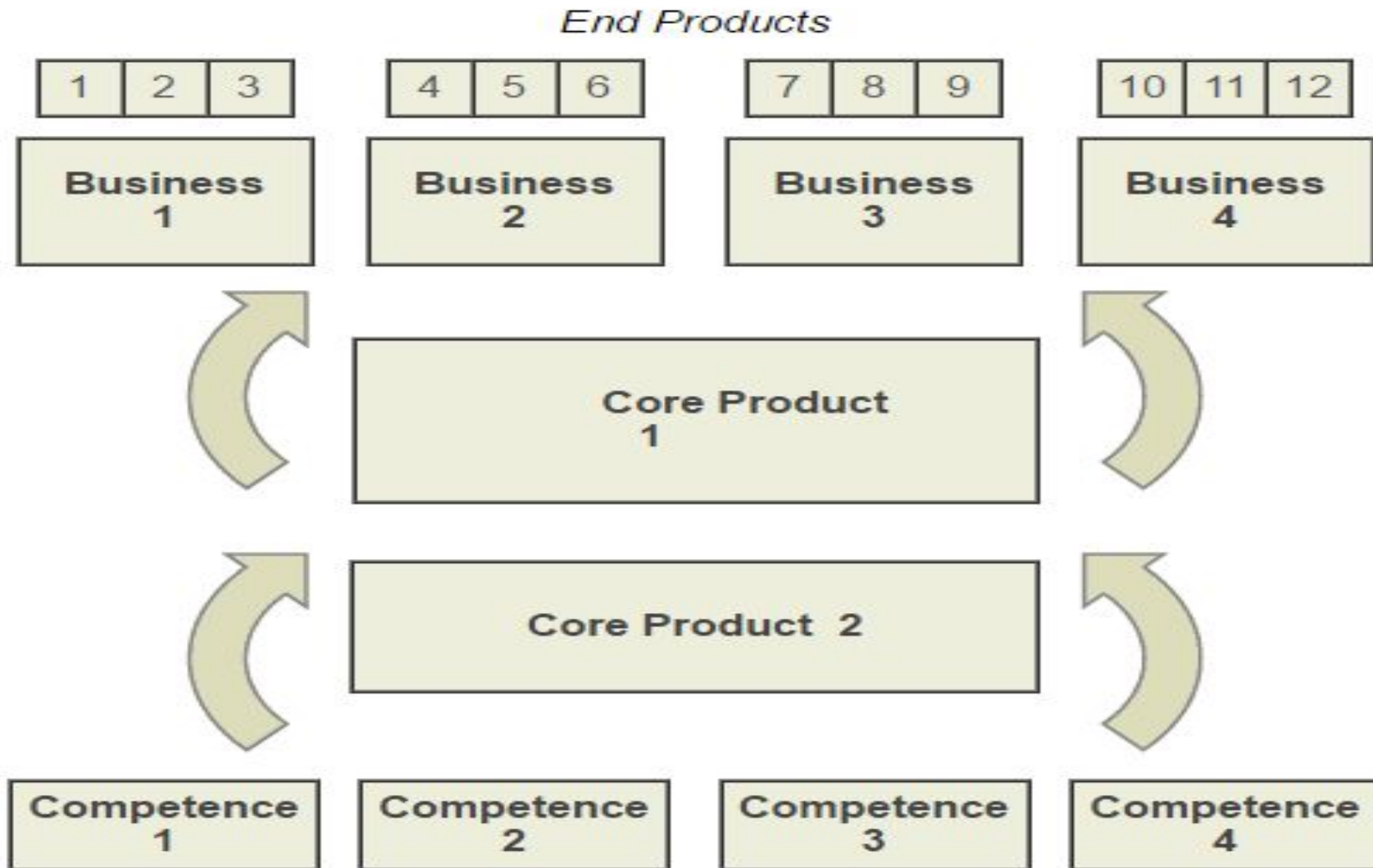
Core competencies that are difficult for the competition to imitate:

- Online customer "bespoking" of each computer built
- Minimization of working capital in the production process
- High manufacturing and distribution quality - reliable products at competitive prices

CORE PRODUCTS

- Core competencies manifest themselves in core products that serve as a link between the competencies and end products. Core products enable value creation in the end products. Examples of firms and some of their core products include:
 - Canon - laser printer subsystems;
 - Honda - gasoline powered engines;
 - Black & Decker - small electric motors
- Because firms may sell their core products to other firms that use them as the basis for end user products, traditional measures of brand market share are insufficient for evaluating the success of core competencies. Prahalad and Hamel suggest that core product share is the appropriate metric. While a company may have a low brand share, it may have high core product share and it is this share that is important from a core competency standpoint.
- Once a firm has successful core products, it can expand the number of uses in order to gain a cost advantage via economies of scale and economies of scope.

CORE COMPETENCIES TO END PRODUCTS



Case Study 1: HONDA MOTOR CO.



- It is a Japanese multinational corporation primarily known for automobiles and motorcycles.
- It is the largest manufacturer of motorcycles and internal combustion engines measured by volume producing more than 14 million internal combustion engines in an year.
- Apart from core automobiles and motorcycles Honda are also manufacturers garden equipment, marine engines, personal watercrafts
- They have recently ventured into the aerospace industry with GE Honda Aero engines. The Honda jet was scheduled in 2011.

CORE COMPETENCIES OF HONDA

- R&D
- FINANCIAL RESOURCES
- MANUFACTURING

COMBINATION OF CORE COMPETENCIES LET TO CORE PRODUCT i.e. **ENGINES** WHICH THEY DIVERSIFIED INTO VARIOUS BUSINESS LIKE AUTOMOBILES, MOTORCYCLES, POWER PRODUCTS, HONDA JETS AND ROBOTICS.

Case Study 2: Black & Decker



Black & Decker's core technological competency pertains to 200 to 600 W electric motors, and this motor is their core product. All of their end products are modifications of this basic technology, with the exception of their work benches, flash lights, battery charging systems, toaster ovens, and coffee percolators.

They produce products for ***three markets***:

- *The home workshop market*: In the home workshop market, small electric motors are used to produce drills, circular saws, sanders, routers, rotary tools, polishers, and drivers.
- *The home cleaning and maintenance market*: In the home cleaning and maintenance market, small electric motors are used to produce dust busters, etc.
- *The kitchen appliance market*: In the kitchen appliance market, small electric motors are used to produce can openers, food processors, blenders, bread makers, and fans.

Summary

- ❑ Learn your competencies
- ❑ Develop your competencies
- ❑ Structure your organization around your competencies
- ❑ Involve core products in all end products
- ❑ Outsource non-competencies with strategic alliances and licensing.

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If you don't have a
competitive advantage, don't
compete

”

- Jack Welch

“ The ability to learn faster than
your competitors may be only
sustainable competitive
advantage.”

- Arie De Geus

THANK
You😊