Lecture -32
Prahlad's Core Competency

Out of the four strategic models, that we plan to discuss, the first two of them that we covered in the previous sessions, namely the Ansoff Product Grid matrix, and Porter's Three Generic strategies model. The examples that I gave, more or less where about organisations, which had a strategy to make sure that, the end product, or the end service that they were offering, was successful.

In terms of the value, that it was delivering, or in terms of the cost at which, they were delivering the product or service, or the focused market to which they were delivering, that particular product or service, was successful. In essence, the strategies were more aligned towards a single business, which had in itself a single product or a service.

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Now, I am just trying to slowly deviate, from that business model for which, those two strategies were aligned to a new thinking paradigm, which introduces the third strategic model namely the Core Competency, which is different from the first two models. Because, it tries to provide a bigger picture. A bigger picture, that views strategy from a bird's eye view, which does not limit

the strategy, just to be applicable for a single product or a single service, but more towards an enabling mechanism, which touches various products and various services.

And, it is the ability of organisations, to put in place such an enabling mechanism, which has the abilities to result in a core product or a core service, which finds its place, embedded in an end product or an end service, which may or may not be delivered by the same organisation. I will try to explain this further, as we go. But, this is the essence, that forms the fundamental basis, behind the Core Competency strategy. The Core Competence of the corporation, as written in an article by a great management thought leader, C K Prahalad and Gary Hamel, in 1990.

And, this form the basis of the spirit of Core Competency. It tries to identify, the synergy that might emerge out of the collective learning, and coordination of various sets of skills, behind a firm's product or service lines. And, when we are able to do that, the Core Competencies, then emerge as the sources of competitive advantage, which can create a multiplier effect, which multiplies the internal resources. And, as a result of this multiplier effect, the firm can by itself introduce, a series of new products or services.

Or, will be able to embed its product or services, in an array of, a range of products and services, that are offered by other firms or other organisation. But, it is this particular firm's product or service, or the Core Competency in a firm that resulted in, producing core products or core services, which are embedded, which are core, to a different firm's end product or end service, that makes the key difference. That is the central focus, for a Core Competency.

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Core Competency isn't about 'A product'

- Core competencies lead to the development of core products
- Core products are not directly sold to end users; rather, they are used to build a larger number of end-user products – ICs are a core product that can be used in wide array of end products.
- The business units of the corporation each tap into the relatively few core products to develop a larger number of end user products based on the core product technology

So, Core Competency is not about, just a product or a service. It is about how, organisations can develop competencies within themselves, that leads to development of various core products. And, by core products, there is a difference between, core product and end product, that we need to understand. Core products are not directly sold to end-users. Rather, they form, the essence of the end product. Or, they are used to build, a larger number of end-user products. For example, if you take, the Semiconductor Industry.

Or, more specifically, the Integrated Circuits, the IC industry. Now, for TI, their Core Competency is to, as much as possible, miniaturise and produce, IC's with various functionalities. And, it is these IC's, that get into various other end products, in a PC, or in consumer electronics, or in photography, or in videography. In various such array of end products, the Core Competence of TI, or any leading IC manufacturing organisation, the Core Competency of such organisation is their ability, to make sure, that it is their IC's, with multiple functionalities.

And, it is the capability of the organisation, to produce such core products, which form the heart of the end product, whose application is very diverse, then we are talking about Core Competency. Now, it is a corporation, whose business units, can tap into these few core products. And, their ability to develop, a larger number of end-user products, themselves. Or, make sure that these core products form, the crux for end-user products, from other organisations. And, this

forms the basis of Core Competency.

Because, it is the core product, or a core technology, or a core process. Remember, it is not just about a product. Core Competencies can also come out of, a core process, or a core service attitude. Or, at times, even the the behaviour of people, within an organisation, can be a source of Core Competence. So, human resource skills within an organisation, can be a Core Competence, which results in the formation of core services, which terminates into different end services, delivered by different organisations. And, this is true, if you think about consulting companies.

So, a very good mixture and aggregation of skills and competencies, that can deliver a set of core products and core services, which business units of a given corporation can use, to build few end products and end services. Or, the corporation by itself, can ensure that these core products and core services, are embedded as an integral part of an end product or end-service, delivered by different organisations. So, it is not just about a product or a service that we are talking about, it is about developing Core Competencies within a corporation.

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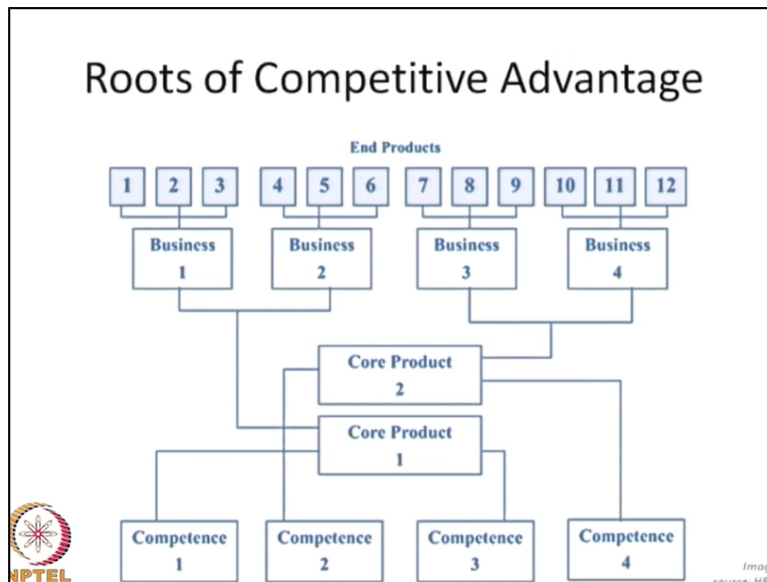
And, if I give you this figure, you will develop a better understanding of what I am trying to explain. An organisation, a corporation, can develop different competencies. Competency-1, 2, 3, 4, as much as possible, as much as it can. And, that each competence is able to, deliver a core product or a core service. And, if we are talking about a corporate entity or a conglomerate, that

each business units of the conglomerate, is able to tap on to these core products or core services. And, by themselves are able to, deliver end products or end-service.

Or, these core products or core services, form an integral input into a business, which can be outside the corporation. And, using these integral core products and services, the organisation by itself, or a different organisation, is able to produce an array of end products or services. But, what is key in the Core Competency is that, the root of the competitive advantage, that firms get by delivering these end products or end services, do not lie in the end product per say.

It, rather lies in the competency, to develop a core product, whose value proposition, is not restricted within a single product, but is able to create a multiplier effect, and hence finds this value proposition, multiplied in an array of products. Now, that route of the competitive advantage, that comes from the competence, that organisations are able to build, internally. So, it is more internal competence, which forms the root of this competitive advantage. And, this is the essence of Core Competence.

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Now, it is for organisations to leverage, these Core Competency skills. Because, you find that, there is tremendous opportunity. And, these opportunities, the intersection of various such market opportunities, with various Core Competencies, that an organisation can build. You can imagine that, it is a matrix, where you have different market opportunities, and different Core

Competencies. And, the intersection of these market opportunities and a Core Competence, that forms the basis for launching new businesses.

And, it is our ability to combine, these different Core Competencies in different ways, and match them with an emerging market opportunity, results in launching an array of businesses, or an array of business products and services. Now, if we are not able to identify these Core Competencies, and it is just that, large corporations identify business units as individual business units, then large corporations just remain as an aggregate, of discrete business units.

And, you never know that, these discrete business units have individual Core Competencies. And, that corporations have missed, trying to synergise and leverage these Core Competencies, within individual businesses. Now, the purpose of Core Competency exercise, for larger corporations, is to see how, Core Competencies within individual businesses can be glued together, so that the large corporation can be viewed, as a portfolio of Core Competencies, rather than individual discrete business units.

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So, if we need to develop a Core Competency, it stems out from the integration of, such unique skills or unique processes, which can be from technology. So, the essence is, to integrate as much as possible, the multiple technologies, or the coordination of diverse production skills, in delivering, certain set of competencies, which form the basis of developing, a core product, or a

core skill, or a core service.

And, it is worth an effort to do this exercise, if and only if, developing such core products or services, provides access to a variety of markets outside. And, that it can contribute significantly, to the end product. Because, there is no point in developing a Core Competency. And then, the Core Competency is not very significant value addition, when it embeds into the end product. And, thirdly, it must be very difficult for competitors to imitate.

And, it is by enlarge the experience has been that, organisations that have developed this Core Competency framework, have been successfully able to insulate itself from competition. Because, the essence of building a Core Competency grid, lies in the strength of organisations to ensure, that it is very difficult for competition to imitate, this Core Competency grid. So, if I can say, these are the three prerequisites, to build a Core Competency framework, for an organisation.

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Why core competency?	Remarks
Access to wide market varieties across industry space	To create new products and services, core competencies are powerful enablers
Perceived end-product use is of high value	Core competencies drive the premium for value – what is the value for which there is willingness to pay? Remember the value stick!
Imitation challenges for competition	Build competencies that make competitor think they had it at their first place!

To just reiterate, the key Core Competencies are those that enables, the creation of new products and services. And, that it is able to make a significant value addition, to the end user. A significant contribution that is perceived by the end-user, to be of great value addition. In essence, it tries to identify, and ask the question, why is that the end-user, is willing to pay more or less, for a particular product or service, than the regular question, what is the value for which

the customer is paying. And, thirdly, as I said before, it is the uniqueness, in building this Core Competency. And, that the uniqueness is so competitive, that it should be very difficult, for competitors to imitate.

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Developing Core Competency

- Developing core competency is not expensive
- Core competency can be acquired at a low cost through alliances and licensing agreements
- In many cases an organizational design that facilitates sharing of competencies can result in much more effective utilization of those competencies for little or no additional cost
- Core competency is not: outspending rivals on R&D, sharing costs among business units or integrating vertically

Now at times, developing Core Competency, need not be necessarily be expensive. Either, it can be done through alliances or licensing agreements, which are low-cost. Or, an internal organisational restructuring, whereby as I said before, instead of viewing a corporation as discrete business entities, if we are able to view a corporation, and try to share a lot of competencies from different business units, this can result in an effective utilisation of those competencies. And, there is no additional cost to it. We are not taking over. We are not acquiring a new organisation, to develop Core Competencies.

It is just an internal restructure, capable of sharing some of the competencies, which otherwise we did not see because, we did not view this through a Core Competency lens. Then, we can build Core Competencies, develop Core Competencies, at no additional cost. And, at times organisations, mistake Core Competency as, just you know, spending more on R&D, to develop Core Competency. Or, just integrate, vertically. Or, sharing cost, across business units. Now, these are not tools, to develop Core Competency. At times, organisation mistake these, as just tools, for developing Core Competency.

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Losing Core Competencies

A Core Competency is lost:
- Through outsourcing/OEM-supply relationships
=> Example: Chrysler vs Honda
- Through giving up opportunities to establish competencies that are evolving in existing businesses
⇒ Example: 1970s US television makers
⇒ Motorola – DRAM Business beyond 256kb

And, the end of doing these things. Actually, a Core Competency is lost, if we are integrating vertically, or outsourcing them to a third party. For example, Chrysler versus Honda. Honda has its own competence to develop engines, as against Chrysler, which actually outsource this. So, when you give up this opportunity to establish competency by outsourcing it, then you also give up the ability, that can evolve within an existing business, to build a core product, which can integrate into a multiple line of end products.

A classic example is, when in the 1970's, with the conventional CRT Televisions, a lot of losing popularity, a lot of American Television makers, came out of that business. And, now on hindsight they realise, with the booming Plasma and LCD Television market, had they stayed, into that business, develop a Core Competency in Television making, they would have come successful. Same is the case with Motorola. They did not build a competency in, the storage, the DRAM business.

And, said that, beyond 256 KB, they do not have the ability. And, did not want to enter into the, higher end of this business. And, today on hindsight, the very thought of, or in fact, they did it. They gave up the opportunity, to establish a Core Competency in this business. And hence, when the business evolved, over a period of time, today on hindsight, they feel that, they have missed, though being experts themselves when they started off, but they missed, building these competencies.

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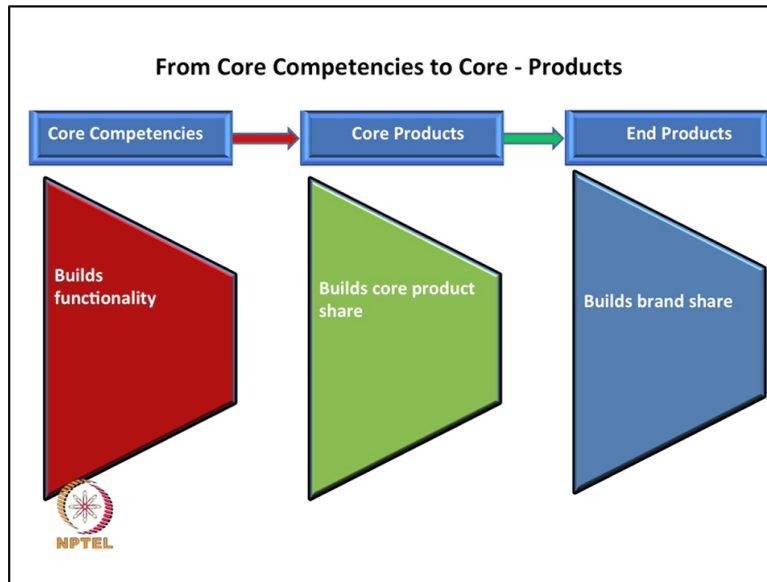
So, if you look at the chain of activities, it is Core Competency is to, develop and build, a particular capability, a particular functionality, which results in a set of core products, or one core product, or a core service. And, the reason that it is core, is because, that it shapes, the evolution of an end product. And, if we are able to build, a number of such core products, and able to shape the evolution of a number of such end products, then the multiplier effect, the success of building, a Core Competency within an organisation, is multiplied. And, I will give you more examples for you, to understand this.

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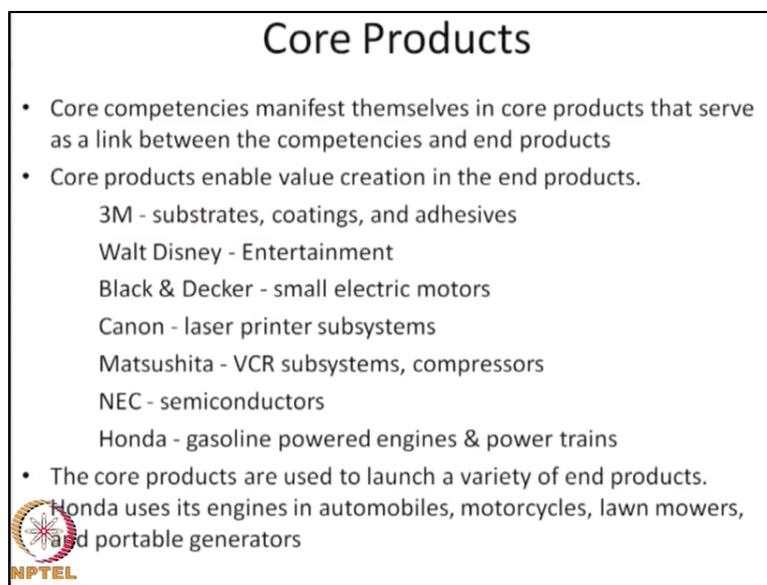
It is the ability, for Core Competencies to manifest themselves, into one or more core products or services. And, that manifestation, forms a very good link between, the competencies and the end product. And, these core products, the reason that they are core product is because, they are the ones, that actually create the value in the end product. If you take for example, 3M. The Core Competency of 3M, is its adhesives and coatings. And then, you find that, it is being used as ((postates)) (24:33), as transdermal patches, or in optical films.

Now, you find that, they are in different product ranges, in different business altogether, but the Core Competency of 3M is in, developing these adhesives and substrates. The next example is, Walt Disney. The Core Competency of Walt Disney is to provide, entertainment. And, it could be through, direct motion pictures. It could be through, animatronics. It could be through, story-telling. It could be through, even theme parks.

But, the manifestation of the Core Competency in this case, being entertainment. And, if it is able to put in place, a good mechanism, that coordinates various skills, in providing this entertainment, as the core product, which manifests itself, in different end products, namely movies, or cartoons, or good books, then we are talking about Core Competency. Or, Black & Decker, the Core Competency is in developing small electric motors, which we find being used in a number of applications.

Or, Canon's Laser Printer systems. Or, NEC's Semiconductors. This is a classic example, that Prahalad and Hamel uses, in actually coining this term, Core Competency. How NEC, versus the GTE, how the transformation took place, that it was able to build a competency in semiconductor. And, then revolutionised, the Consumer Electronics market, the Telecom market, the PC manufacturing industry, not losing its Core Competency, that it was a Semiconductor manufacturing company.

Or, Honda, whose Core Competency was to develop, just gasoline powered engines and power trains. And, now you can understand that, what I am trying to say is that, the Core Competency means, that organisations will tend to develop, using a set of skills, a set of processes, a set of technologies, to develop a product or a service, so well, that it is a core product or service, which

manifests itself. And, it is that core product or service that forms, the key to add value, in the end product or service.

And, if we are able to develop, a core product and service in such a way, that the manifestation is so diverse, then we have a successful Core Competency strategy in place. And, that is why you find that, Honda's Core Competency, if it is in engines, then you find that, its engines, or in Automobiles. In Motorcycles, in Lawn Movers, in Generators, and what not so, because of this diversity in manifestation.

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Measure Core Competency

- 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
- *Core product share* is the appropriate metric. While a company may have a low brand share, it may have high core product share – International Flavours & Fragrances
- 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

Then, how do we measure, the success of Core Competency. Because, the core product or the service gets hidden, in the end product or the service. And, it is this end product or service, that gets sold, that gets easily measured. In this case, actually the firm sell their core products, to other firms. And, using them as the basis for, end-user products. Now, traditional measures of brand market share, is it enough, to evaluate the success of Core Competency.

Not enough because, brand market share, is usually a qualitative indicator. And today, we need to evaluate, from a quantitative point of view. So, it is easy to develop a core product share, as an appropriate quantitative metric. Because, at times, you never know, that there are some organisations, which have a very low brand share, but a high core products share. I don't know, how many of you know this organisation, International Flavours and Fragrances.

Now, their Core Competency is to produce, flavours and fragrances. And, it is these flavours and fragrances, that actually forms the core of the, end product or service. In this case, you find them in, various dairy products, various cakes and confectioneries, in some of the beauty care products, in some perfumes. But, nobody knows that, this has come from, International Flavours and Fragrances. It is used to be called, Bush Boake Allen.

So, if we are going to measure, Core Competency from brand market share, despite the fact, IFF being the single largest supplier of this core product, to a variety of end product use. Confectioneries, Beauty products, Cakes, Dairy products. But, nobody knows this. But, if we are able to capture, the content of the core product, in the end product, and see, how much can we quantify this manifestation. And this, we call it as, Core Product Share.

And, if the Core Product Share is very high, then it is reasonably safe to conclude, that the Core Competency of a firm is this, and the extent to which it has manifested, measures the extent to which, it has leverage its Core Competency skills. And, once a firm has a successful core product, it has to necessarily expand, the extent to which this core product is being used, so that it gains itself a cost advantage, through economies of scale. And, also economies of scope, because it can be used in, different end products and services.

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Core Competency Strategy

- Corporation should be organized into a portfolio of core competencies rather than a portfolio of independent business units
- Business unit managers must be responsible for developing company-wide core competencies than to focus on getting immediate end-products to market rapidly
- Share core competencies across businesses – not just cash allocation but core competency allocation
- Should be driven from the TOP MANAGEMENT

So, what do firms actually do, by way of a Core Competency strategy. It tries to reorganise a corporation, into a portfolio of such Core Competencies, rather than a portfolio of individual business units, as I said before. And that, the role of business unit managers, is to be, to develop such companywide Core Competencies than, to just focus on getting immediate end products, that reaches the market, rapidly. And, it is the role of a business manager again, to ensure that these Core Competencies, are shared across businesses.

Just as every business has a cash allocation budget, it is not enough just, you are allocating cash, for a particular business. But, if we are able to even allocate, and distribute, and share, Core Competencies across businesses, then you are trying to develop a Core Competency strategy. And, more importantly, it has to be driven from the top management. The reason, that it is important is, it can be captured from this figure. That, Core Competency serves, as an important source for competitive advantage. Because, here we are trying to identify, different competencies within a firm.

And, using these competencies, we are able to provide, a core product, or a core service, which does not end up as an end product, but forms an integral part of an end product, within a business of a corporation, or an end product to another business. And, the extent to which, that these core products and services are able to manifest themselves, in different product ranges determines, the extent to which, the organisation has leveraged, Core Competency as an effective strategy.

So, this imagery, powerfully drives the message, that the roots of competitive advantage, can definitely come from building, a number of Core Competencies within an organisation, which produces a set of core products and services, which can be used by, various business units, and various organisations, in delivering their end products and services. This is the essence of Core Competency.

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Blue Ocean Strategy

- BOS – findings of a decade-long study by Chan Kim and Renée Mauborgne
- Studied 150 strategic moves spanning more than 30 industries over 100 years (1880-2000)
- Companies have long engaged in head-to-head competition for competitive advantage, battled over market share and struggled for differentiation
- Competing head-on results in a bloody "red ocean" of rivals fighting over a shrinking profit pool
- This is increasingly unlikely to create profitable growth in the future.

Now, the fourth strategic model, that I want to share with you is, the Blue Ocean strategy. We finish, the Ansoff. We finish, the Porter's three Generic strategies, and Hamel and Prahlad's Core Competency. The fourth one is about, the Blue Ocean strategy. Now, the Blue Ocean strategy is again based on, a very long study, that was done by two INSEAD Business School Professors. They studied, the behaviour of over 30 Industries, over 100 Years.

And, studied various strategic moves, that these 30 industries did, in the last 100 years. They studied almost, over 150 such strategic moves. And, they found that, there was a peculiarity, the way in which, some organisations competed, in the market space. Traditionally, we have always believed that, companies have engaged in, a head-to-head competition, to gain competitive advantage. And, they do this to gain, market share. And, companies have competed against each other, to get that unique value proposition.

They have competed, and struggle to build a differentiation, in the product and service, that they are delivering. But, all of them invariably, these head-on competition, results, in these Professors own words, a bloody red ocean. Because, this competition, is within a very-defined market space. And, rivals fighting head-on, against each other. And, the success of one, is the failure of the other. And, you find that, there is a shrinking profit pool.

And, over a long period of time, these Professors ask a questions themselves, whether such

competition, within this red ocean as they call it, what is the likelihood that, this is going to be sustainable. And, whether this is going to create, profitable growth in the future. Definitely, if there is competition within a very defined market space, within restricted boundaries, one company grows, the other does not. And, such head-on competitions, whether will it give a sustainable, profitable growth in the future, is a question that these Professors wanted to answer.

And, natural instinct is to say, no, it does not. It is very unlikely that, this head-on competition within a defined market space, is going to give a sustained profitable growth. Then, is there an alternative. This alternative, forms the Blue Ocean strategy, which is again, the result of the behaviour of over 30 industries. And, after analysing the strategic moves, that these industries made, Professor Chan Kim, and Professor Mauborgne, from the INSEAD Business School, coin this new paradigm shift, called the Blue Ocean strategy.

The fundamental to this Blue Ocean strategy, is to think beyond, the existing market space, is to think beyond, just the conventional competitive rivalry, competition between X and Y, to think beyond, the existing industry in which, companies compete. Is there an alternate emerging industry? Is there an alternate emerging market space? Is there a way in which, competition need not necessarily, be with competitors?

Are we trying to then say, that this Blue Ocean strategy is about, creating a new market space, creating a new industry? Creating competition in which, or creating a business in which, competition is irrelevant? Actually, yes. Blue Ocean strategy is about, trying to create, a new industry space, a new market space, trying to make competition itself, irrelevant.

And, what it actually means? How different organisations, took strategic decisions, that actually form the cornerstone of this Blue Ocean strategy. And, I will try to explain this with some examples, for you to better understand. And, this I will do it, in my next class. But, before I conclude this class, again going back to Core Competencies, I think, it would be good for you to refresh, by watching this small video, on Core Competency. Thank you.