Identifying core competencies and capabilities

Using McKinsey’s 7S for Identifying core competencies and capabilities, discuss the ability of your chosen company current CEO in improving the company’s products and customers’ perception of the year 2009 as well as the group understanding of the approach to strategy development at Wal-Mart since 2003.

A core competency differentiates not only between firms but also inside a firm, it differentiates among several competencies. In other words, a core competency guides a firm recombine its competencies in responds to demands from the environment.

The McKinsey’s 7S framework offers a useful tool for focusing on certain policy areas which are vital in implementation and control.

INTRODUCTION

The purpose of this report is to identify the core competencies and capabilities of Wal-Mart using the McKinsey’s 7S framework as well as discuss how the current CEO is improving the company’s products and customers’ perception by the year 2009.

This report is also to analyse the 7S framework of McKinsey which includes 7 interdependent factors and they are categorized as either hard or soft elements. They includes: strategy, structure, systems, shared values, skills, style and staff and are useful in wide variety of situations, such as:

Examine the likely effects of future changes within the company

Improve the performance of a company

Determine how best to implement a proposed strategy

Align departments and processes during Merger and Acquisition

FINDINGS/MAIN BODY

HISTORY

The McKinsey 7S framework was named after a consulting company, McKinsey and Company, which has conducted applied research in business and industry (Pascale & Athos, 1981; Peters & Waterman, 1982). All of the authors worked as consultants at McKinsey and Company; in the 1980s, they used the model to analyse over 70 large organisations. The McKinsey 7S Framework was created as a recognisable and easily remembered model in business. The seven factors or variables, which the authors term “ levers”, all begin with the letter “ S”: The McKinsey’s 7S framework is a value based management (VBM) model that describes how one can holistically and effectively organize a company and together, these factors determine the way a company operates.

THE SEVEN ELEMENTS

These seven elements or variables include structure, strategy, systems, skills, style, staff and shared values and are interdependent factors which as noted earlier are categorized as either “ hard” or “ soft” elements: This is shown below:

HARD ELEMENTS:-

Strategy

Structure

Systems

SOFT ELEMENTS:-

Shared Values

Skills

Style

Staff

HARD elements are easier to identify or define and management can directly influence them. These are IT systems and formal processes; strategy statements and organization charts.

SOFT elements can be more difficult to describe, and are less tangible and more influenced by culture. However, these soft elements are as important as the hard elements for the success of the organisation.

The way the model is presented in Figure 1 below shows the interdependency of the elements and indicates how a change in one element affects all the other elements, as such this explains why share values is placed in the middle.

Figure 1: The McKinsey's 7S Model

The seven elements are briefly discussed below:

SHARED VALUES: Here, all members of the organization share some common guiding concepts or ideas around which the business is built. This may be to make profits or to achieve excellence in their particular field. These values and common goals keep the employees working towards a common destination as a coherent team and are important to keep the team spirit alive. It is also called “ superordinate goals”; these are the core values of the company that are evidenced in the corporate culture and the general work process.

STRATEGY: This is the plan of action an organization prepared to maintain and build competitive advantage over the competition. It could also be defined as the plan of action set by an organization to achieve its aims and objectives.

Simply put, strategy is planning of organizational goals. It deals with essentially three questions:

1. Where is the organization presently?

2. Where do the organization wants to be and

3. How do they get there?

As such, strategy is designed to transform the organization from the present position to the new position described by objectives, subject to constraints of the capabilities or the potential (Ansoff, 1965).

STRUCTURE: This is the way the organization is structured as well as who reports to whom. It is the way the organizational units relate to each other. Organizations are structured in different ways depending on their objectives and culture. The structure of an organization often dictates the way they operates and performs (Waterman et al., 1980). Businesses have been structured in hierarchy way with different departments and divisions, each responsible for a specific task such as human resources management, production, sales or marketing.

Many divisions of the management controlled the operations, with each answerable to the upper division of management. Although this is still the most widely used organizational structure, the recent trend is increasingly towards a flat structure where the work is done in teams of specialists rather than fixed departments. The idea is to make the organization more flexible and devolve the power by empowering the employees and eliminate the middle management layers (Boyle, 2007)

SYSTEMS: This is the daily activities, procedures, processes and routines that characterize how important work is to be done. These processes are normally and strictly followed and are designed to achieve the organization’s effectiveness. For instance, a firm may have a particular way of recruiting.

STYLE: This refers to the cultural style of leadership adopted by management in achieving the organization’s goals and objectives.

STAFF: This refers to the employees and their general capabilities to ensure that the organization is successful. The importance of human resources has the central position in the strategy of the organization, away from the traditional model of capital and land. All leading organizations such as Wal-Mart, IBM, etc put extraordinary effort on recruiting the best staff, providing them with required training and mentoring support, and pushing their staff to limits in achieving excellence, and this forms the basis of these organizations’ strategy and competitiveHYPERLINK “ http://www.

coursework4you. co. uk/essays-and-dissertations/general-business/competitive-advantage/competitiveadvantage. php” HYPERLINK “ http://www. coursework4you. co. uk/essays-and-dissertations/general-business/competitive-advantage/competitiveadvantage. php” advantage over their competitors.

SKILLS: This is the distinctive capabilities of employees and or organization as a whole. It is the actual skills and competencies of the employees working for the firm. That is, the core competencies, main or important activities of the employees.

USING THE MCKINSEY’S 7S MODEL TO ANALYSE AN ORGANIZATION

The McKinsey 7S model is one that can be applied to almost any organizational or team effectiveness issue. If something within your organization or team is not working, this may mean that there is inconsistency between some of the elements identified by this classic model. Once these inconsistencies are revealed, you can work to align the internal elements to make sure they are all contributing to the shared goals and values.

The process of analyzing where you are right now in terms of these elements is worthwhile in and of itself. But by taking this analysis to the next level and determining the ultimate state for each of the factors, you can really move your organization or team forward.

The model covers almost all parts of business and all major parts of the organization as such it is very important to gather as much information as possible about the organization from all sources available such as press release, organizational news and reports, etc. Primary research such as interviews is more effective.

CORE COMPETENCIES AND CAPABILITIES IN WAL-MART

Core competencies are activities or processes that critically underpin the organization’s competitive advantage. The primary aim for the firm is to recognize that competition between businesses is as much a race for competence as it is for the market power.

Core competencies lead to the development of core products. Core products are not directly sold to end users but are used to build a larger number of end-user products. For example, motors 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.

The intersection of market opportunities with core competencies forms the basis for launching new businesses. Combining a set of core competencies in different ways and matching them to market opportunities, a corporation can launch different businesses. Without core competencies, a large corporation is just a collection of discrete businesses. Core competencies serve as the glue that bonds the business units together into a coherent portfolio.

Core competencies arise from the integration of multiple technologies and the coordination of diverse production skills. Some examples include Wal-Mart’s Logistics and Honda’s engines.

There are three useful tests for identifying a core competence. A core competence should:

Provide access to a wide variety of markets: This enables the creation of new products and services. For instance, ASDA has established a strong leadership in food retail industry. The core competence and capability that enable Wal-Mart to go into food and non food retailing products was a clear distinctive brand idea that focus on a well defined market segment.

Contribute significantly to the end-product benefits: The organization makes a significant contribution to deliver customer benefit. To identify core competences in a market, the question of why is a customer willing to pay more or less for a product/service than another needs to be addressed.

Difficult for competitors to imitate: There is need for core competence to be competitively unique; this shows the importance of product differentiation. For example, Wal-Mart has been recognised as a leading food retailer in UK and had a strong position within the retailing industry.

To better understand how to develop core competencies, it is worthwhile to understand what they do not entail

Outspending rivals on R&D

Sharing costs among business units

Integrating vertically

Applying this framework to Wal-Mart in order for the organization to be successful, has to base its business strategy on low cost leadership, they do not really differentiate themselves from competitors and provide no-frills self-service stores that provides lowest prices always.

Wal-Mart has built enough power and influence with suppliers that they can dictates their prices and change suppliers manufacturing process so as to obtain with difficulty more and more savings for the consumer. They provide good customer service with low prices, in other words, Wal-Mart strength is low prices and no one allows such a supplier and distribution network like them that allows such low prices.

When analysing Wal-Mart business and the 7S framework, they employ all the three hard elements: strategy, structure and systems, and due to their strength in these elements they have been so successful.

As earlier mentioned, Wal-Mart overall strategy is to always provide lowest prices and they aim to provide a store that customers can shop under one roof and find everything they needed. This strategy of convenience shopping and lowest price has made Wal-Mart to be a business leader that it is. They also plan to continue to expand into markets not yet penetrated by major chains and some already saturated markets like California and New England. This strategy infiltrated the whole organization so that it encompasses all the other S's and the other two S's structure and systems support this strategy

Wal-Mart has a system in place that helps it achieve its low price strategy every day. The most profitable and largest of these systems is Information technology system and it has employed computers, networking and internet to reduce inventories and waste and also speed deliveries.

Wal-Mart also uses good structure that works with the systems to empower the low price strategy. Wal-Mart has design an efficient management structure that allows it to eliminate regional office, all its plan and operation is from the home of Bentonville, AR. Wal-Mart has designed an efficient management structure that allows it to eliminate the regional office. Everything for Wal-Mart is planned and operated in their home of Bentonville, AR. This structure alone has saved Wal-Mart millions of dollars a year. When Wal-Mart places stores in strategic locations and drives traffic using convenience and then combines the sales with its systems and structure, you get a highly efficient and well-oiled corporation that can cut costs to a bare-minimum which are then passed along to the consumer, hence fulfilling the strategy. If Wal-Mart continues to dominate these three S's, it will continue to dominate the retail market.

THE CEO'S ABILITY TO IMPROVE WALMART'S PRODUCTS AND CUSTOMERS' PERCEPTION BY 2009.

In Wal-Mart international, Michael Duke CEO since February 2008 and his team continued to drive exceptional sales growth around the world, totalling $90. 6billion at the end of the year. He said that Wal-Mart is well positioned for today's economy and future changing world with exceptionally strong management team and ability to execute the company's strategy, perform every day and deliver results, this success is attributed to the hard work of many people and the formal CEO, Lee Scott (2000-2008).

Wal-Mart has a role to in terms of offering more efficient services to employers, helping customers save money through $4 prescription program, opening health clinics in our stores and engaging a broader public policy debate.

Wal-Mart as a global company is better positioned today than ever before on its mission. By 2009, the Lee believes that customers everywhere in the world will continue to depend on Wal-Mart to save them money so they can live better, in respective of their age. The company's price leadership position helps those willing to improve their lives through hard work move up the ladder.

The company owe every customer their very best – lower prices, higher quality goods and a better store experience. Sustainability as a permanent culture in Wal-Mart has help t to remove waste, lower costs and provide savings to their customers.

The CEO also ensure that Wal-Mart is committed to building more socially and environmentally responsible supply chain which will make a difference in responsible sourcing that no other retailer can make.

THE APPROACH TO STRATEGIC DEVELOPMENT AT WAL-MART SINCE 2003.

Wal-Mart made strategic attempts in its formulation to dominate the retail market with its present growth by expansion in the United State and internationally through creating widespread name recognition and customer satisfaction in relation to brand name and branching into new sectors of retailing.

It is observed that Wal-Mart strives on three generic strategies namely, focus strategy, Differentiation strategy and overall cost leadership. Wal-Mart has firm infrastructure, well equipped human resources with management professionals as well as technologically too. The company operates on low price strategy which operated as everyday low prices (EDLP) and this helps to build customers' trust. this strategy involves Wal-Mart purchase goods at lower prices and sell the goods t customers at much lower prices, the price is cut as low as possible, this brought about an increase in the profit by increasing the number of sales. This causes increased market competition and makes Wal-Mart compete with all its competitors till it dominates the market.

Wal-Mart is expanding seriously and rapidly which is also its strategic goal. Wal-Mart employs over 1. 3 associates, owns over 4000 stores out of which 3000 are in US and serves around 100 million customers weekly. Wal-Mart has acquired many international stores and merged with some super stores like ASDA in UK.

Wal-Mart far flung network of retail outlets has ensured that Wal-Mart interacts with and has impact on virtually every locality within US. The expanded strategy has led the hunger of Wal-Mart to many European Countries. It is learnt that three countries with no Wal-Mart stores became part of corporation's international presence wherein the domestic retail chains were taken over by Wal-Mart including 122 Woolco stores in Canada, 21 Wertkauf stores in Germany and 229 ASDA units in United Kingdom. The takeover strategy by Wal-Mart keeps the company at forefront when entering into the new market and the number of competitors is also minimized. The strategies have helped the Wal-Mart to remain in number one position in international countries making it the largest retailer in the world.

It is seen that Wal-Mart has significantly the Porters five force model where through proper strategic planning and strategic implementation has led to removal of barrier entry, rivalry from competitors and pricing norms.

Wal-Mart with its low cost and ever expanding strategy has made a dramatic impact since 1962 when Sam Walton first started his business. With this strategy, Wal-Mart has now over 4000 stores and outlets in US and other countries through acquisition and mergers.

EXECUTIVE SUMMARY

When you think of the discount retail industry, you think of the bigger name Wal-Mart. Wal-Mart has built the industry into leader in a very competitive market, and has continue to set the bar for every company. But as of late Wal-Mart’s sales growth rate has been slipping, which is causing a major problem for them. For the past few years Wal-Mart has grown accustom to double digit sales growth rates, but recently they have been unable to match their previous success. Now Wal-Mart is faced with the challenge of regaining the success that they once had.

To recapture these high growth rates it is important to understand what lead Wal-Mart to these high growth rates in the first place. When analyzing Wal-Mart externally you find that its 5 forces tend to have a positive effect on the company. The company has high barriers of entry, a moderate threat of rivalry with Target and incredible power over all its suppliers because Wal-

Mart purchases so many products, the suppliers have little negotiating powers, and finally Wal-Mart technically has a great amount of power over its buyers because of its product variety and low prices.

When analyzing Wal-Mart internally you discover may things that lead to their success. Probably the number one thing that led to success is their world class supply chain. Wal-Mart's supply chain is remarkable and really allows them to cut cost by eliminating unneeded steps. For instance their supply chain is a high tech that can notify Wal-Mart's suppliers directly (cutting out worker intervention) when inventory is low for certain products. Another internal strength that has lead to Wal-Mart's success is its ability to focus on reducing costs to ensure everyday low prices. Wal-Mart has never drifted away from this motto which has led to Wal-Mart's extensive self size and amount of products offered.