An introduction to the VIRO analysis

We are a big believer that communications professionals need to think strategically as well as operationally. If you're at the heart of selling and increasing awareness of your business then you really should be at the heart of the strategic planning of it. The more you understand about the business, the more you can contribute to make long lasting sustainable change to improve its success.

Understanding and identifying your unique selling points as a communications team and ultimately a business is one of the most critical tasks you need to complete in order to remain competitive in the marketplace.

There are many ways you can do this, however, what tends to happen is that you will have bias towards certain areas which make you misjudge what your actual USPs are.

This could be a costly error therefore, undertaking a VRIO analysis can help you be objective in your identification process. As a communications team, you should be working closely with senior management throughout the situation analysis stage of any project so you can develop the communications from the findings.

This **should not be the only analysis undertaken**. You should be complementing this with a SWOT/TOWS analysis, PESTLE analysis, stakeholder mapping and the BCG Matrix, to name just a few.

What is a VRIO analysis?

The VRIO analysis, in its original form VRIN, was devised by Jay Barney in 1991 as a way to identify which resources must be in place for a business to have a long-term competitive advantage in their sector. Essentially, the framework will allow you to look inwards at you what you do and have as a business and ascertain whether these can amount to a sustained competitive advantage.

Ultimately, we will be looking at an organisation's financial resources, human resources, tangible and intangible resources such as retained knowledge and data.

To undertake a VRIO analysis as a business, you need to be able to ask the following questions:

- Is the resource, service or capability **valuable?**
- Is the resource, service or capability **rare?**
- Is the resource, service or capability costly to **imitate?**
- and from these . . . is your business or organisation **organised** to capture the value?

If you cannot answer yes to the question, you must stop at that point. Only if you can answer yes to all of these questions do you have a true sustained competitive advantage.

Is it valuable?	Is it rare?	Is it costly to imitate?	Is it exploited by the organisation?	How competitive does this make you?
No				Competitive disadvantage
Yes	**No**			Competitive parity
Yes	Yes	**No**		Temporary competitive advantage
Yes	Yes	Yes	**No**	Unexploited competitive advantage
Yes	Yes	Yes	Yes	Sustained competitive advantage

Defining your resource, service or capability?

We have two key forms in play here, tangible and intangible. The difficulty is that one of them is very simple to value as it is physical whereas organisation's can often overlook their intangible assets as, by nature, they don't 'exist' and are often harder to define or value – but they might actually be the most valuable thing the organisation owns and controls.

Tangible – these are physical items which are used in combination with human resources to generate revenues. These can include cash, stock, property, plant and vehicles. Typically, as these are usually easy to acquire, aren't usually a sustained competitive advantage on their own.

Intangible – in comparison to tangible assets, these can often be harder to value purely because they are not physical. For a business, you should be considering your brand reputation, any systems, trademarks and intellectual property owned by the business. For communications team, your brand might actually be one of the most valuable assets however, this will always be hard to value. Interestingly, some organisations like Interbrand and Brand Finance value brands each year.

Is the resource, service or capability valuable?

This area can be challenging as ‘valuable’ is a loose and subjective term depending on who you ask within your business. For the Marketing Director, they might say the brand whereas the Finance Director may immediately turn to physical assets on the balance sheet.

Essentially, you should be able to identify these capabilities by completing other models such as a SWOT analysis.

If there are clear ‘strengths’ identified then these would be a great place to start identifying your valuable resources, services or capabilities. It is important to remember that you **should be critical** about your strengths – are they really strengths compared to your rivals or is it just a sector norm?

You should be considering if the resources that your business has control over are efficient and effective enough to generate profit, create perceived customer value as well as mitigate threats within your marketplace. These resources, if valuable, should allow you to combat all of the areas within Porter’s Five Forces. You could also conduct a value chain analysis for your business in order to identify potential capabilities or resources within your business. The strategic and operational decisions that a business makes can make a difference to its value chain which is often directly linked to its resources and capabilities.

If the answer is no to this question, you are at a competitive disadvantage.

Is the resource, service or capability rare?

When we look at whether something is rare, you really need to consider whether someone else can do the same thing or has the same resource. If the answer is yes they can, then honestly this is probably not a rare resource. Additionally, when looking at tangible assets, if this can be purchased easily in market (easily is also loose as if it is expensive then this might be deemed not truly easy), for example a piece of plant or an adjacent location, then this would also not be rare.

Finally, you have to assess whether one of your competitors could bring this online in a short period of time. If you know that you offer a service and it is protected by a trademark for 15 years then you know this is rare, however, if you know this is going to expire in 6 months, then this will soon be common and not consider rare in the VRIO analysis.

If, as a communications team you can see that certain USPs are becoming more common, you should work with your senior management team to isolate how this can be stopped, either through protection or through identifying other assets that may be the future USPs on the business.

If the answer is no to this question, you have competitive parity within the sector.

Is the resource, service or capability difficult or hard to imitate?

At this point you should have some valuable and rare resources, services or capabilities – now you need to ascertain whether your competitions can imitate these easily. Many businesses when they see a competitor taking market share will either continue as normal trying to improve their operations or will try and mimic or copy the strategy of their competitor.

One very clear way firms can be protected is if it will cost a lot of money to directly imitate as this forms a natural barrier as requires the competitor to either have a lot of capital ready or have to undertake fundraising prior to trying to imitate. Additionally, if you have trademarks in place protecting process or products, then firms will not be able to directly duplicate what you're doing, leading to a substitution or an alternative being sought – which may not be as good as your firm's capability.

Competitors can fail to imitate in the following ways:

- **Culture constraints** – your competitors actually fail to compete on culture. Your firm may have a better staffing or better change management culture. Your capabilities are ingrained in what your company is rather than what it does.
- **Timeline constraints –** if you've been doing something for years and something has been developed by your firm over a long period, then obviously this is going to be hard to replicate. However, this means it's important to protect your processes so somebody cannot jump all that time by finding trade secrets.
- **Financial constraints** – essentially, a competitor just doesn't have the capital to compete or try to imitate. This doesn't mean you're safe but does give you some time to make sure you can protect it before they have the funds to try to imitate.
- **Trade secret constraints** – this is basically when your competitors have no idea what you're doing and don't even know where to start. Think about the 'KFC 13 herbs and spices' or the actual 'Google Search Algorithm'.

If the answer is no to this question, you have temporary competitive advantage within the sector.

Is your firm ready to exploit these resources, services or capabilities?

This is somewhat the hardest thing to get right as it means changing something that you do as a business, be that culture, process or even human resources. However, if you have a brilliant resource or capability that is valuable, rare and hard to imitate but fail to exploit it then it's going to be expensive for the business and you won't be able to truly benefit from it.

This is where you should start to include your senior management within the analysis because this is where there are ramifications across your wider operations in order to capture value. Making your senior management understand that the way the business operates is as important as the services it offers is a key part of sustaining competitive advantage.

Business can improve their organisation by considering the following areas:

- **Lines of communication –** including reporting lines and management structures allowing for more effectiveness and efficiency.
- **Control, reporting and business information systems** – allowing for more informed strategic decision making.
- **Renumeration, wellbeing and reward policies** – are you staff valued and do they feel looked after? Staff are the key to any successful business. Try to remember that hygiene factors such as pay-rises alone don't make for sustained happy staff.
- **Transparency** – do people feel they can make suggestions to senior management about process and change? Is the business stifling innovation through how it behaves?

Just considering these areas may make it easier for your business to capture the value of these great resources that you have at your disposal as a business.

If the answer is no to this question, you have unexploited competitive advantage within the sector but if the answer is yes then you will have sustained competitive advantage and a true USP.