CHAPTER 5

RESOURCE ATTRIBUTES

KEY ISSUES

- The attributes possessed by resources that describe their quality and determine their contribution to performance.
- Understanding how those attributes improve and deteriorate as resources are added or lost.
- Implications for developing human resources, product range, and other functional issues.
- Using the quality-distribution of resources to decide where to compete and where to focus efforts at improving performance.
- Situations when resources bring with them the potential to access others.
- The importance of competitive structure in an industry, and using attributes to undermine competitors.

Worksheet 6a: Resource Attribute Analysis

Worksheet 6b: Resource with Multiple Attributes

Worksheet 6c: Primary Resource Brings Access to Potential Secondary Resource.

This chapter includes links to the concepts of: human capital, skills and competency audits, marketing channels, industry consolidation, corporate turnround and rejuvenation.

Part 1 of this book assumed for simplicity that resources were uniform. Customers all purchased at the same rate, staff all possessed the same skills, and products were equally appealing. However, some customers buy more than others, staff have varying levels of skill, and products differ in their appeal to customers. Moreover, adding and losing customers, staff or products means that these important characteristics, like the resources themselves, are changing over time. A realistic explanation of performance in most situations therefore requires that these characteristics be included in the analysis and planning of strategy.

"ATTRIBUTES" OF TANGIBLE RESOURCES

Most tangible resources have some quality or characteristic that affects their impact on the business system and its performance. These qualities are referred to as "attributes" (Table 5.1).

The scale and development of attributes have important implications for other resources and for performance. A fitness club might, for example, receive $100 000/month in membership fees from 500 members paying $200/month. Another club might receive the same income but from 1000 members paying $100/month. The members of the two clubs will have quite different expectations regarding the standard and range of facilities offered, and will expect different levels of service, which implies differences in both the number and experience of staff.

The importance of this difference in customer quality can be demonstrated by extending the manufacturing company example from Chapter 3 (Tables 3.7 and 3.8). In its initial state, the company had 80 customers each buying 105 units per month, to give total sales of 8400 units per month. It could, however, receive the same sales volume from three times as many customers (240), each of whom buys one-third of the quantity, or 35 units per month (Table 5.2).

The company's revenue is identical, and most of its costs do not change. But its distribution costs and service costs are both higher, though not in direct proportion to the number of customers. Table 5.2 shows the impact on the company's profits if distribution costs double to serve three times the number of customers, and if service costs increase by 50 %.

TABLE 5.1: EXAMPLES OF ATTRIBUTES OF TANGIBLE RESOURCES

Tangible resource	Measure for the resource	Attribute	Measure for the attribute
Customers	People or companies	Sales value	$/month per customer
Staff	People	Experience	Years per person
Products	Number	Customer appeal	Rating 0–1 for each product
Distributors	Companies	Potential end-customers	End-customers per distributor
Equipment	Units	Reliability	Failures per unit per year

These financial consequences of the differing customer quality also reflect our principle that "resources drive performance" (Chapter 2). The distribution costs are higher because more delivery vehicles and staff are needed, and the service costs are higher because more service personnel are required. Those additional resources are only required because of the larger number and lower quality of customers.

The issue of customer quality differences also adds to the list of reasons given in Chapter 1 for being wary of market share as a performance indicator or objective. This company may have the same market share regardless of whether it has few large customers or many small ones, but its current performance is quite different. Its potential future performance will differ too, if its lower cash flows in the latter case limit its ability to invest in growth.

TABLE 5.2: AN ILLUSTRATIVE MANUFACTURING FIRM WITH DIFFERING CUSTOMER QUALITY

	Few, large customers	Many, small customers
Customers	80	240
Sales per customer	105	35
Sales	8400 units per month *$'000 per month*	8400 units per month *$'000 per month*
Revenue $000	1008.0	1008.0
Sourcing cost	58.8	58.8
Production costs	310.0	310.0
Distribution costs	122.0	244.0
Sales and marketing spend	100.0	100.0
Service costs	80.0	120.0
Overhead cost	100.0	100.0
Total costs	770.8	932.8
Operating profit	237.2	75.2

Chapter 2 explained that firms in the same or similar industries feature resources that are quite characteristic of those industries. Retailers have stores, and oil companies have reserves, for example. These industry-specific resources also have important attributes. Each store in a retailer's portfolio gives access to a certain number of consumers; each oil field has a certain volume of oil reserves, and so on (Table 5.3).

Resources in public service and voluntary organizations also carry important attributes. In policing, criminals differ in the frequency and seriousness of the offences they commit. Schools differ in the learning abilities of their students. Voluntary organizations are often concerned with the value of their donors; some deliberately choose to focus on a few rich individuals, whilst others adopt a policy of "every little helps" and seek donations, no matter how small, from as many people as possible. Table 5.4 offers some further examples.

Such attribute differences can complicate policy, and give rise to unintended consequences. In the United States, for example, care for the terminally ill is funded on the basis of a fixed rate per patient-day. This puts providers of care in the difficult position of favoring patients with relatively simple needs for palliative relief, rather than those with more complex needs, such as cancer sufferers.[1]

The key point to note from all these examples and others that follow is that:

Resources have quantifiable attributes that must be known and managed to ensure the organization's system is effective and to drive performance.

TABLE 5.3: EXAMPLES OF INDUSTRY-SPECIFIC RESOURCE ATTRIBUTES

Industry	Tangible resource	Measure for the resource	Attribute	Measure for the attribute
Retailer	Stores	Number	Consumers reached	People per store
Oil company	Fields	Number	Oil reserves	Barrels, millions per field
Media company	Advertisers	Companies	Advertising spend	$000 per month per advertiser
Utility firm	Equipment	Items	Reliability	Failures per unit per year
Contracting company	Current projects	Number	Workload	Workload per project

TABLE 5.4: EXAMPLES OF RESOURCE ATTRIBUTES IN PUBLIC SERVICE AND VOLUNTARY ORGANIZATIONS

Sector	Tangible resource	Measure for the resource	Attribute	Measure for the attribute
Healthcare	Cancer patients	Number	Drug requirement	Units per month per patient
Waste disposal	Consumers	Households	Refuse generation	Volume per week per household
Sport	Players	People	Performance	Various, e.g. yards carried, home-runs hit, etc. per player
Business school	Students	People	Prior business experience	Years per student

RESOURCES AND ATTRIBUTE "CO-FLOWS"

It is challenging to understands and manage changes in attributes and the consequences of those changes. If the second of the fitness clubs described at the start of this chapter wished to move away from its low-price positioning to attract higher-paying members, all its other resources have to be changed. Equipment and facilities need to be improved, and staff either replaced or retrained. This will be costly, so membership fees may need to rise somewhat before the full improvement program is complete. The original members may not be happy about this, and may start to leave, so the club will need to seek new members willing to pay higher fees. However, this may be difficult before the improvements have been completed.

This simple example illustrates once again that strategy must recognize and cope with change *over time*, so needs a method for quantifying both scale and speed of progress. Now though, we must not only evaluate change in key resources, but also in the quality of those resources.

Table 5.5 looks at how the customer base and sales for the manufacturing firm in Table 5.2 would evolve if it started with the larger number (240) of small customers (each buying 35 units per month), and set out to win larger customers, each buying 105 units per month. Its customer base increases, but its total sales

TABLE 5.5: ADDING LARGER CUSTOMERS TO THE MANUFACTURING FIRM'S CUSTOMER BASE

Start of month . . .	1	2	3	. . .	22	23	24	end
Customers	240	245	250		345	350	355	360
New customers per month	5	5	5		5	5	5	5
Newsales per new customer units per month	105	105	105		105	105	105	105
Increase in total sales rate	525	525	525		525	525	525	525
Total sales units per month	8400	8925	9450		19425	19950	20475	21000
Average sales per customer units per month	35.00	36.43	37.80		56.30	57.00	57.68	58.33

rise still faster, and over two years the average customer size increases from 35 units/month to more than 58. It does not actually end up with 355 customers each buying at this higher average rate, of course. Instead it has the original 240 buying at the low rate and an additional 120 customers buying at the higher rate.

This change in customer quality can be depicted in rigorous time chart form, as shown in Figure 5.1. As in earlier chapters, the causal arrows reflect specific relationships:

New sales each month = new customers per month multiplied by new sales per new customer
Average sales per customer = total sales per month divided by customers

In Figure 5.1, the attribute *Total sales per month* is shown as a resource, in parallel with the *Customers* resource. This is because, like customers, it accumulates and would deplete if customers were lost. In other words, *sales per month* is something that "flows with" customers, so the way this relationship is displayed is referred to as a "co-flow" structure.

There are two potentially confusing features of this structure to clarify. First, the attribute of *Total sales: units per month* is increased by the arrival of new sales from newly won customers. The units of this increase are therefore "units per month, per month," so the phrase *New sales each month: units per month* is used to avoid confusion.