Enterprise Management and Entrepreneurship

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Strategic Management

Gerry Johnson, Richard Whittington, Patrick Regnér, Kevan Scholes, Duncan Angwin; Exploring Strategy: Text and Cases, Pearson, 2017. ISBN: 9781292145129 (11ª edition)

Strategic Management

- Strategy is a pattern of action or a plan that integrates the major objectives, policies and actions of an organization into a coherent whole

"A well-formulated strategy allows the organization to mix and allocate the its resources into a single positioning based on their skills and weaknesses, anticipating changes in the environment and potential movements of competitors."

James Brian Quinn 1980

Fundamental concepts of strategic managment

- **Integrated** plan of objectives, policies and actions.
- The pursue of a **fit** between **internal competences** and **external market conditions**
- The development of a **sustainable competitive advantage** as a key success factor

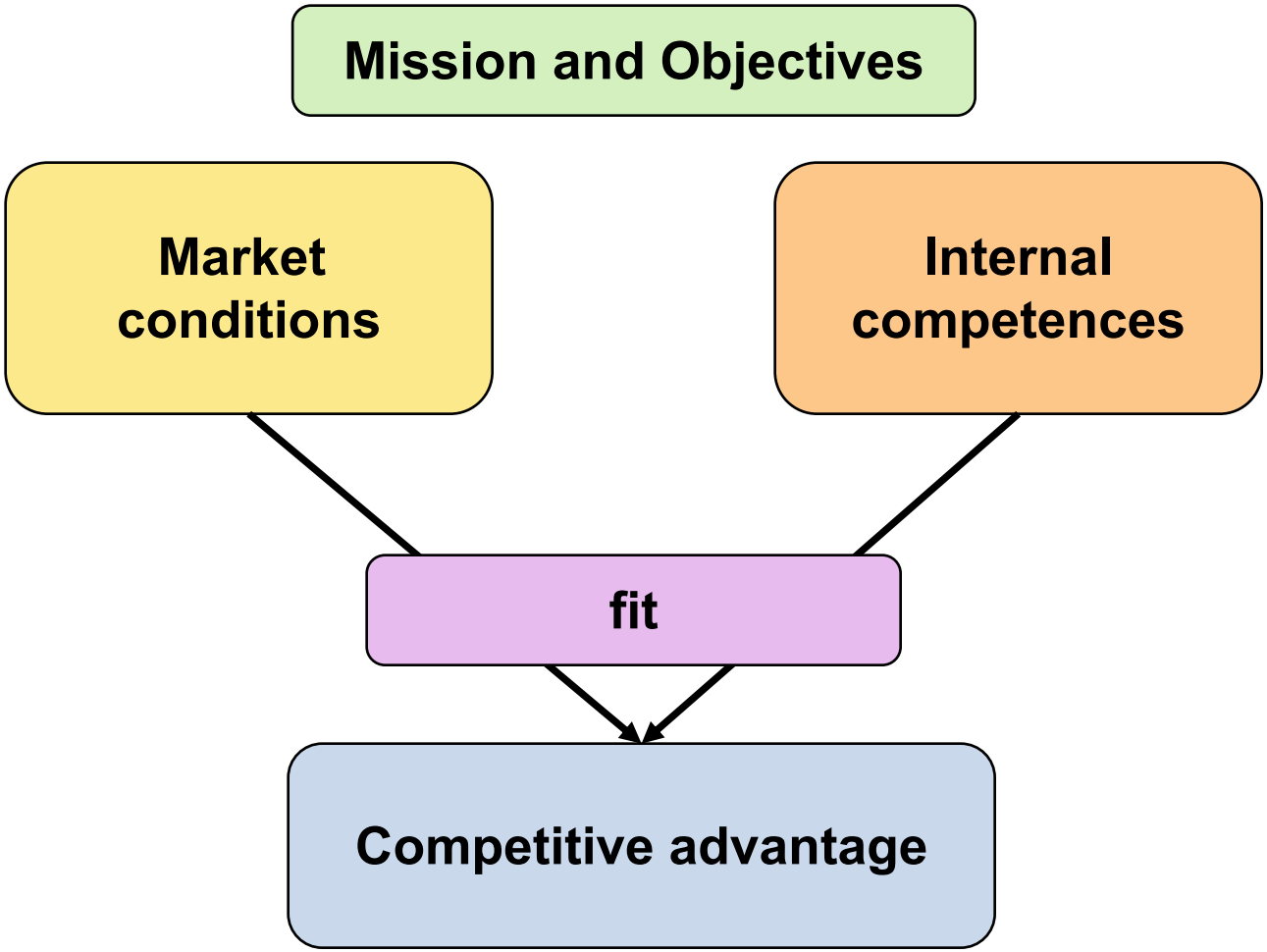
The Quest for Competitive Advantage

Competitive advantage

ability of a firm to outperform its rivals

Perceived as valuable and rare
Costly to imitate by competitors
Allows to earn above-average returns

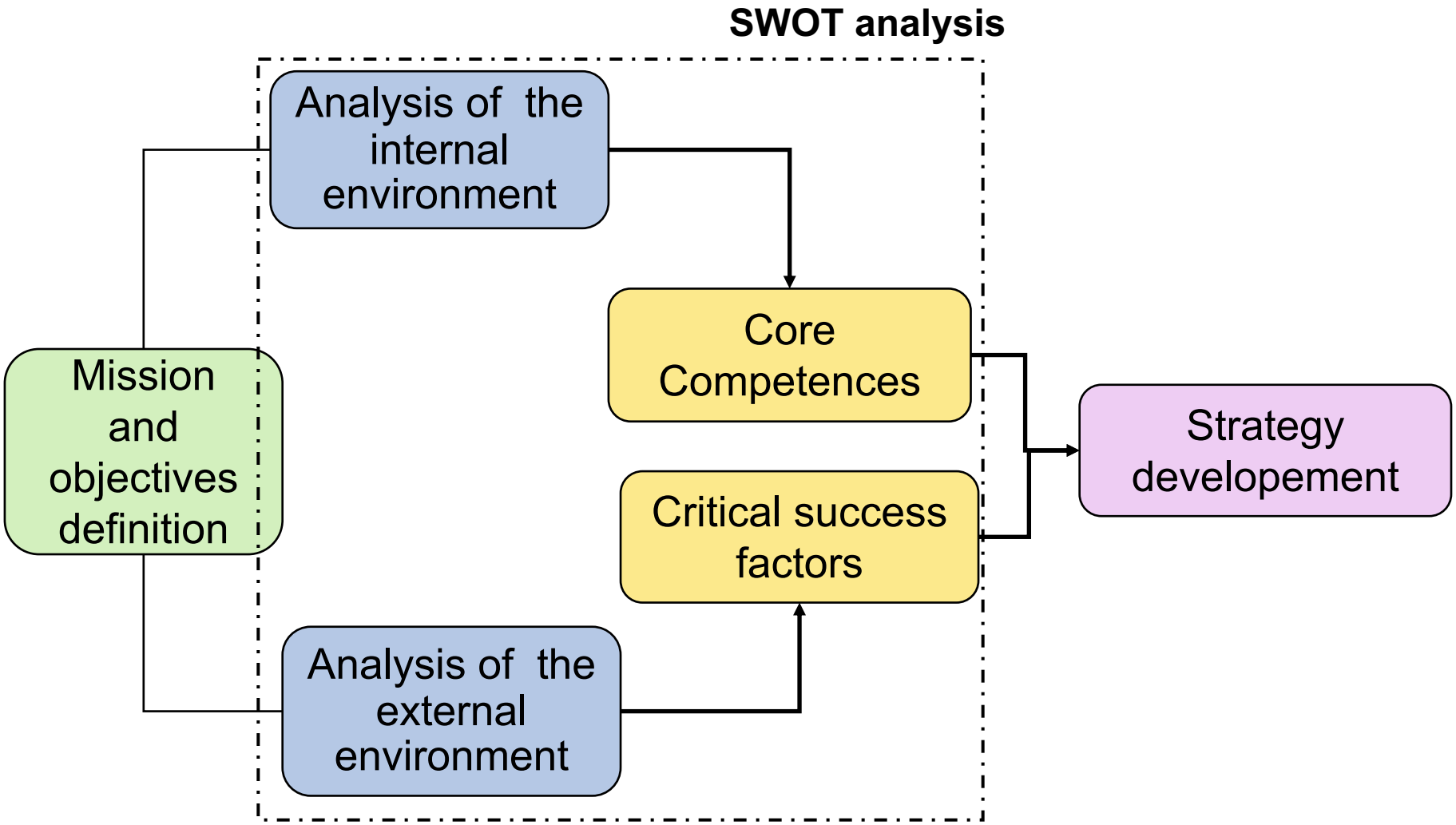
Fit between market conditions and internal competences



SWOT Analysis

		external environment	
		Opportunities	**Threats**
internal environment	**Strengths**	Opportunities for the firm	Threats neutralization
	Weaknesses	Opportunities for the market but NOT for the firm	Areas that require attention

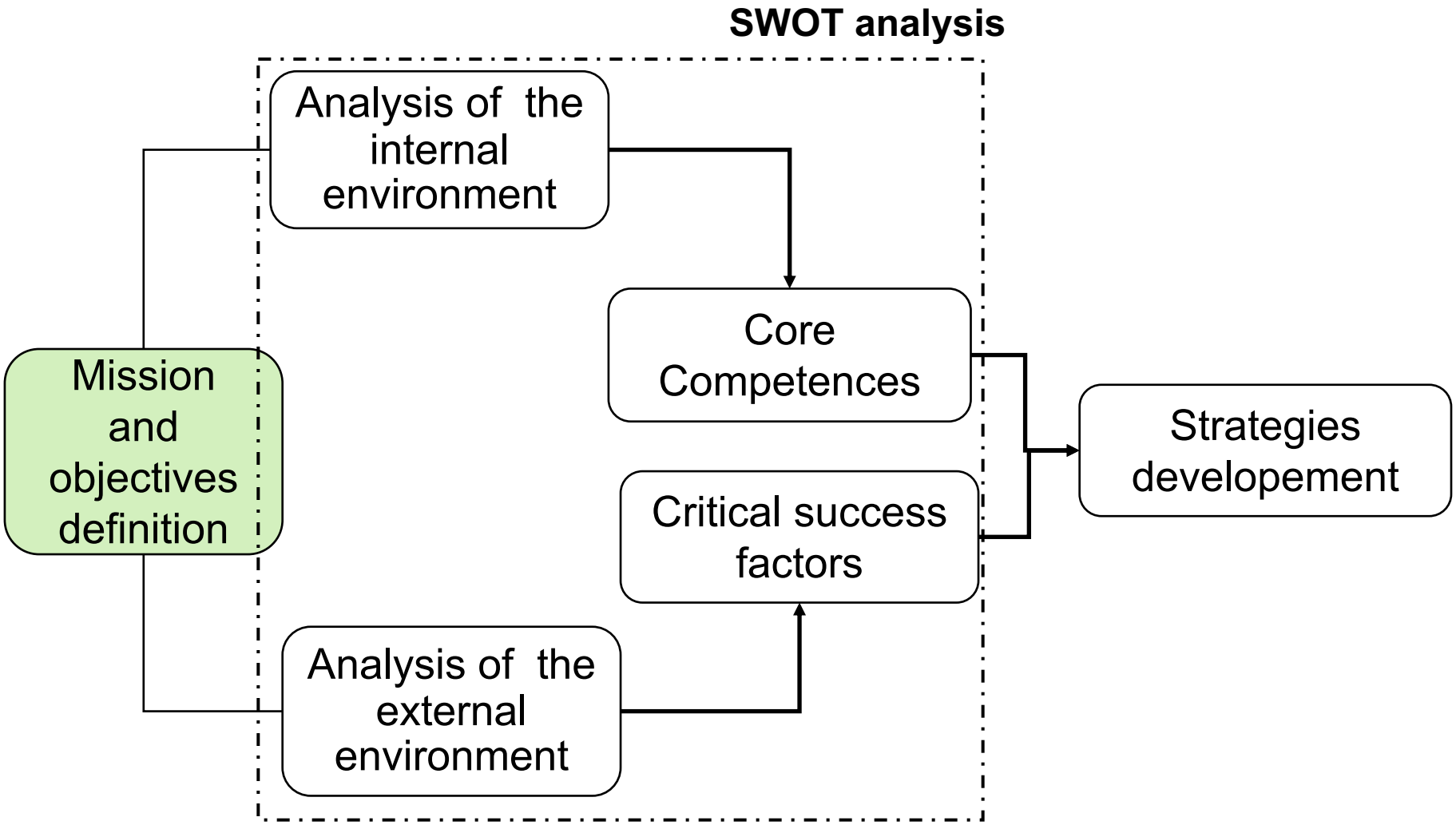
Business Strategy



Lia Patrício©2021/2022

Mission and objectives

Business Strategy



Mission statement

- The ***mission statement*** of a firm focuses on its ***present*** business purpose - ***"who we are and what we do"***
  - Current product and service offerings
  - Customer needs being served
  - Technological and business capabilities

Mission example: SONAE

- Mission in the 80's
  - "Driving the economy forward, promoting wellbeing".

- Mission today
  - To create long-term economic and social value, taking the benefits of progress and innovation to an ever-increasing number of people.

Our way

SONAE

SONAE
IMPROVING LIFE

Sonae Investors Planet Community People Media PT

Our approach to life and business is guided by the body of values and principles we call OUR WAY:

Trust and integrity - We are committed to creating economic value in the long term, built on sustainable relationships with all our stakeholders. These relationships are established based on principles of honesty, integrity and transparency.

People at the centre of our success - Our people are a determining factor in our success. For that reason, we constantly work to improve our employer value proposition to allow us to attract and retain the most talented and ambitious professionals. We invest not only in developing their capabilities and skills, but also in ensuring we provide a thriving and attractive work environment, and facilitate balanced lifestyles. We continuously promote meritocracy and embrace diversity at all levels of the organisation.

Ambition - Our ambition is founded on continuously establishing goals which will stretch us to our limits, stimulating our energy and strengthening our determination. Ambition drives us and keeps us dissatisfied with the status quo, forcing us to go beyond our past successes. We always set ambitious goals that stretch our current competences and demand a bold and entrepreneurial attitude from our managers.

Innovation - Innovation is at the heart of our businesses. We always question our way of thinking, as well as industry orthodoxies, in order to identify new opportunities. We maintain a challenger attitude by continuously improving our value propositions and experimenting with new business models, while managing risks within reasonable limits. We know that we can only grow sustainably by innovating.

Corporate Responsibility - We are committed to developing our activities based on the principles of sustainable development, by contributing to society beyond the economic value generated by our business activities. In particular, we aim to improve the communities within which we operate by working together to tackle the most fundamental environmental and social challenges of our times.

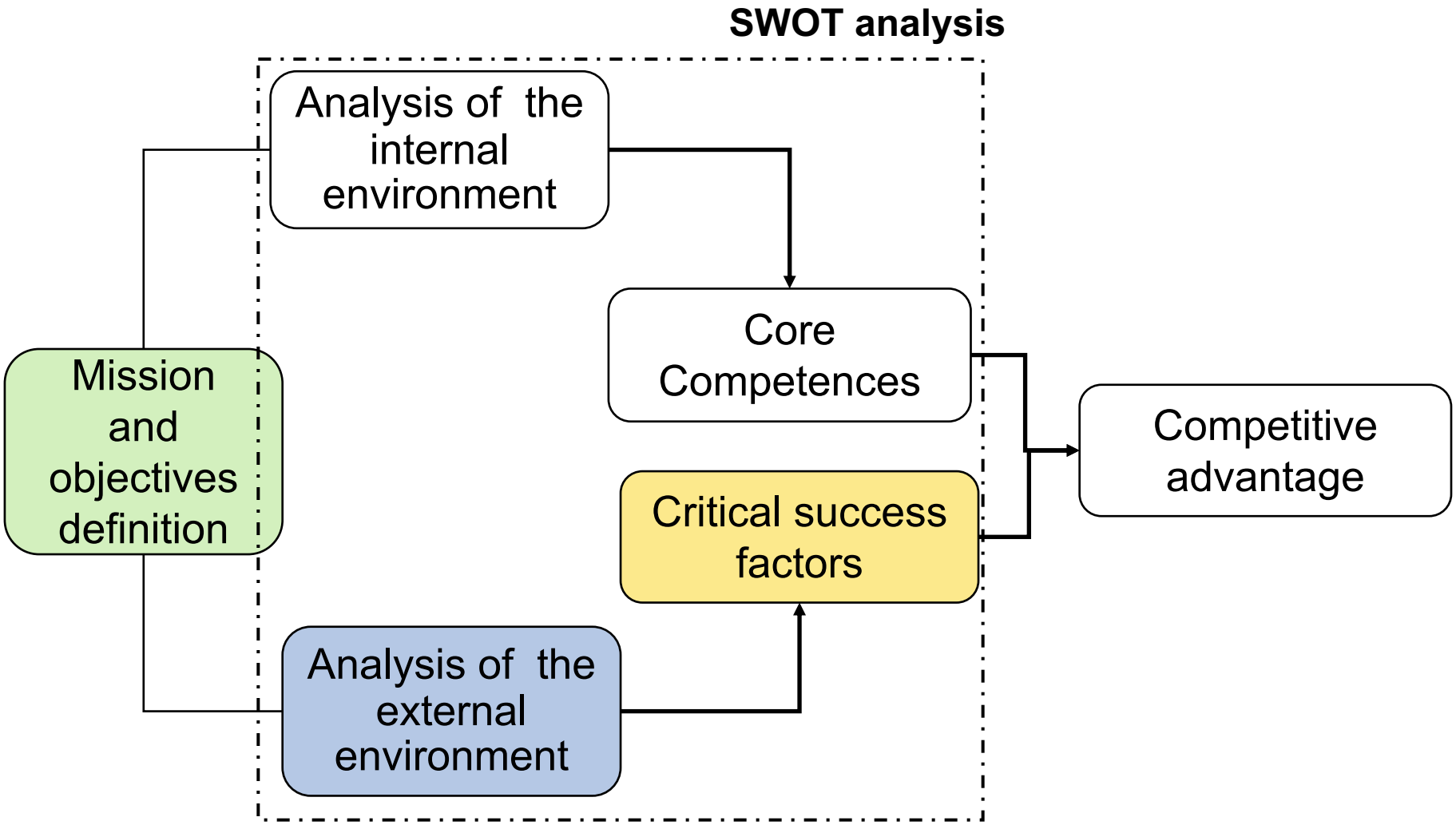
Frugality and Efficiency - We aim to optimise the use of resources and maximise their return, avoiding any waste or extravagance. As a priority, we focus on achieving operating efficiency, promoting healthy competition, and delivering high impact projects.

Cooperation and Independence - We are ready to cooperate with central and local governments, to improve regulatory, legal and social frameworks, and to ensure the best solutions for the communities within which we operate, but we are also careful to maintain our independence in relation to all such entities.

Strategic management
External environment analysis

Arthur A., A. J. Strickland and John E. Gamble, Crafting and Executing Strategy , 15th edition, McGRaw-Hill , 2007, cap. 3.

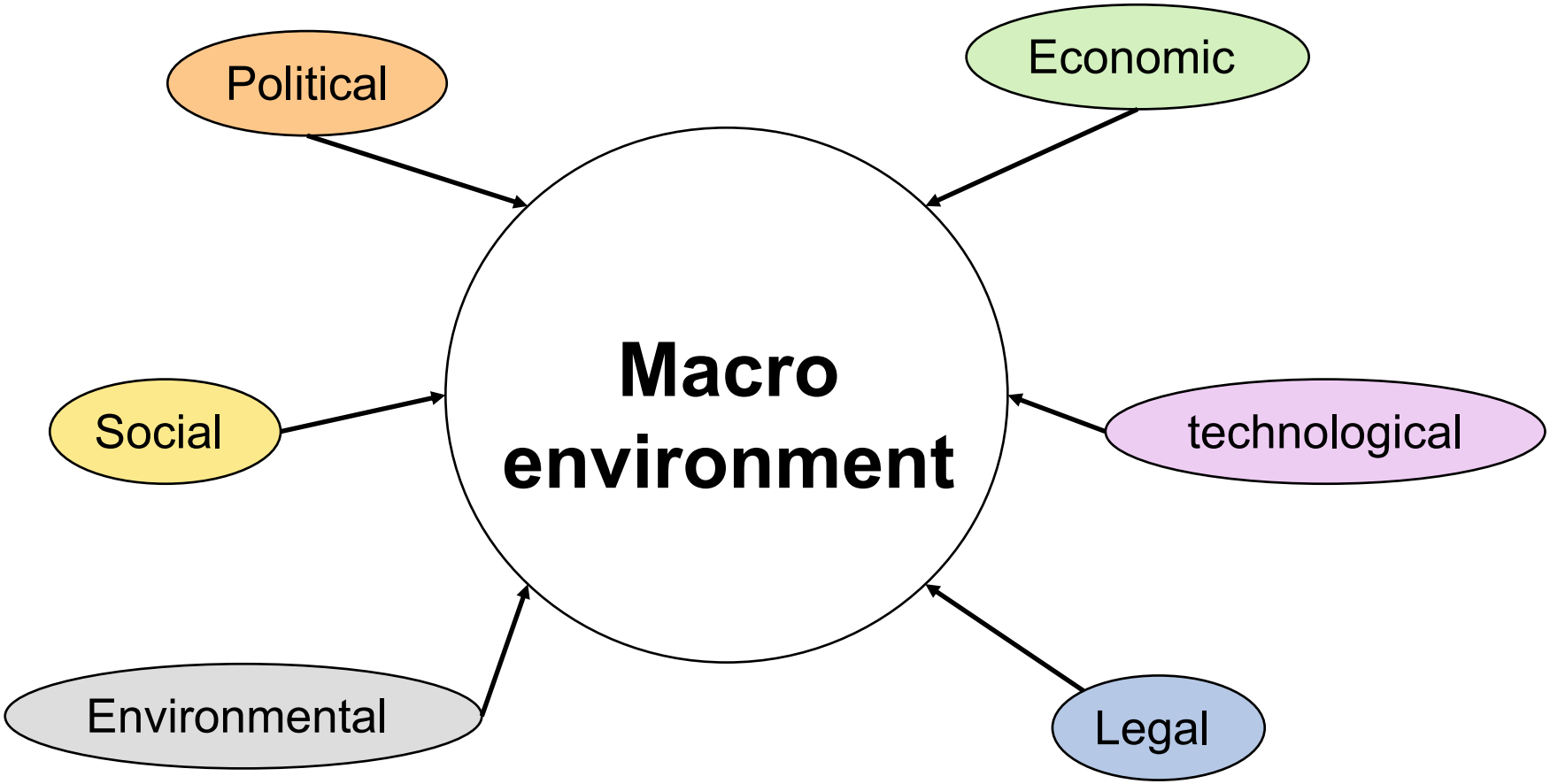
Business Strategy



The External Environment

- External Environment
  - All external forces, factors, or conditions that exert some degree of impact on the firm's strategies, decisions, and actions.
- Environmental Change
  - Affects the firm's choice and use of strategy.
  - Creates opportunities that enable the firm to use its core competencies to achieve its vision
  - Creates threats with the potential to prevent a firm from successfully using its core competencies.
- Managers must **scan the external environment** to:
  - Identify potentially important external developments
  - Assess their impact and influence
  - Adapt a company's direction and strategy as needed

Macro environment – PESTEL analisys



Political trends

- Government policies and trends that affect the macro environment
  - Governmental instability or stability
  - Decisions and policy priorities
  - ...

Economic trends

- Economic environment
- Distribution of income and purchasing power
- Changing patterns of household expenditure
- ...

Social trends

- Demographic growth
- Changing age structure of the population
- Changes in family structure
- Changing the level of schooling
- Increasing diversity
- ...

Technology trends

- The revolution in information technologies
- The speed of technological change
- New technologies and production processes
- ...

Environmental trends

- Growing concern with environmental issues
- The limitation of natural resources
- Issues related to pollution
- ... .

Legal trends

- National and Community legislation
- Normative legal
- Regulation of markets
- ... .

PESTEL analysis applied to air transportation (before 2020)

Political trends
Government support to airlines
Privatization policy
Security control
Border control

Economic trends
Moderate growth economic environment
Recent lowering cost of fuel

Social trends
Increased travel frequency
Growth of travel of younger and older

Environmental trends
Environmental concerns about pollution
Concern for fuel consumption

Technology trends
Improved fuel efficiency of engines
Security technologies
Self-service technologies

Legal trends
Restrictions on mergers and acquisitions
Industry regulation

Macro environment in the post COVID19 world

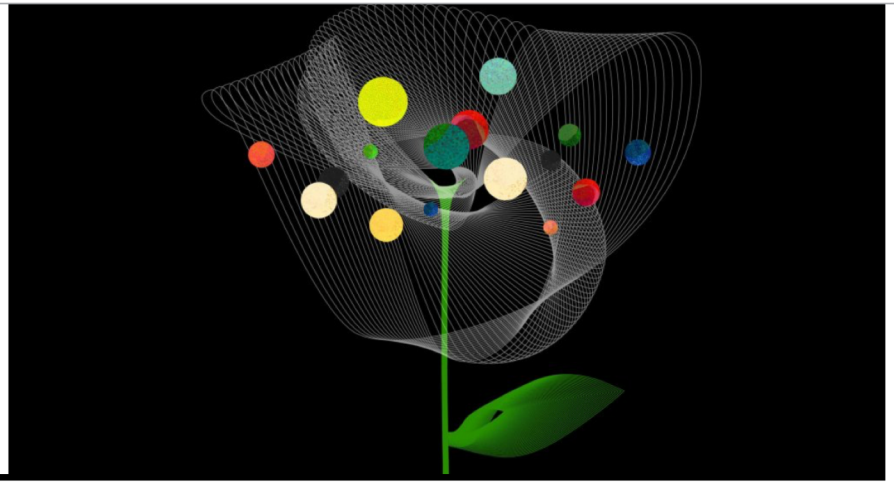
TIME

U.S. POLITICS WORLD TECH ENTERTAINMENT SUBSCRI

THE GREAT RESET

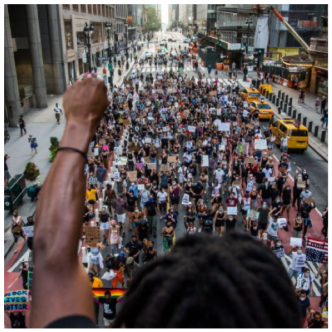
The COVID-19 pandemic has provided a unique opportunity to think about the kind of future we want. TIME partnered with the World Economic Forum to ask leading thinkers to share ideas for how to transform the way we live and work.

IN PARTNERSHIP WITH SOMPO HOLDINGS



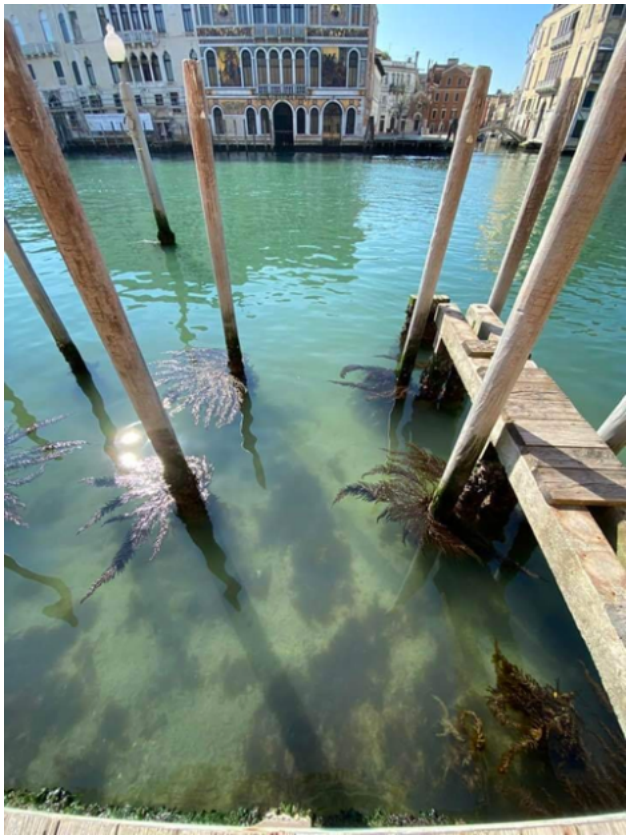
A Better Economy Is Possible. But We Need to Reimagine Capitalism to Do It

Europe Has Big Plans for a Green New Deal. Poland's Coal Country Isn't So Sure



If Corporations Really Want to Address Racial Inequality, Here Are 9 Things That Actually Make a Difference

https://time.com/collection/great-reset/



PESTEL analysis applied to air transportation (after COVID 19)

Political trends
Government support to airlines
Lockdowns and travel restrictions
Security control
Health control

Economic trends
Halt of economic growth
Unemployment rates
Recent lowering cost of fuel

Social trends
Radical decrease in travel frequency
Increasing concerns with healthcare
Telework and online retailing

Environmental trends
It is possible to decrease CO2 emissions!
Un-sustainabilty of mass tourim
Concern for fuel consumption

Technology trends
Improved fuel efficiency of engines
Security technologies
Health technology evolutions

Legal trends
New regulations and safety measures
Restrictions to state support to airline companies

Industry analysis

- Set of companies that offer products that are close substitutes.
- The industry environment has a more direct impact on company strategy .
- The company influences and is influenced by other companies in the industry.

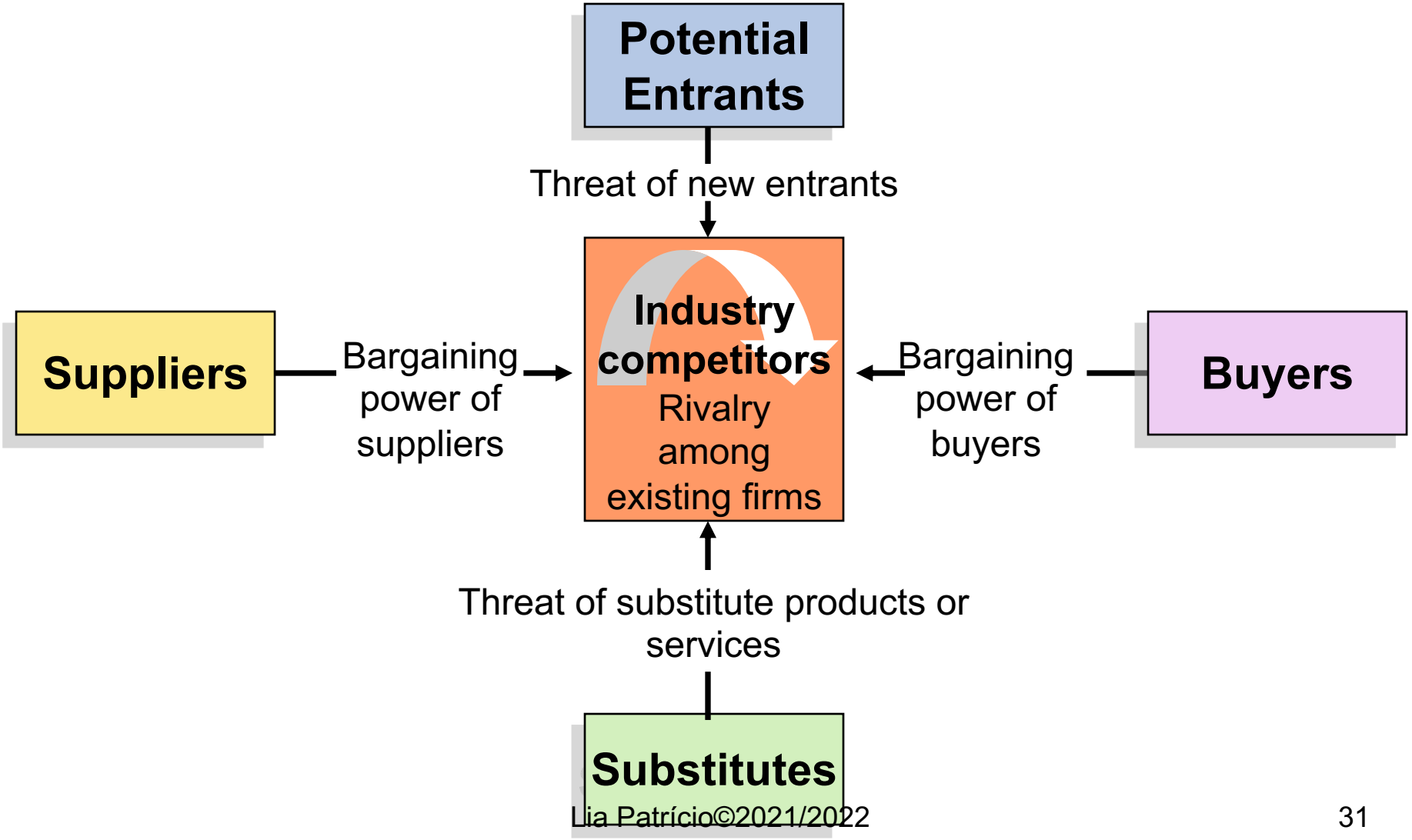
Industry Environment

- Industry Defined
  - A group of firms producing products or services that are close substitutes
    - Firms that influence one another
    - Includes a rich mix of competitive strategies that companies use in pursuing strategic competitiveness and above-average returns

Industry Environment

- A set of factors that directly influences a company and its competitive actions and responses
- Interaction among these factors determine an industry's profit potential
- Porter´s Five Forces of competition:
  - Threat of new entrants
  - Power of suppliers
  - Power of buyers
  - Product substitutes
  - Intensity of rivalry

Porter's Five Forces Model of Competition



Bargaining Power of Suppliers

Suppliers exert power in the industry by:

**** Threatening to raise prices or to reduce quality***

Powerful suppliers can squeeze industry profitability if firms are unable to recover cost increases

- Supplier power increases when:
  - Suppliers are large and few in number
  - Suitable substitute products are not available
  - Industry firms are not a significant customer for the supplier group
  - Suppliers' goods are critical to buyers' marketplace success
  - Suppliers' products create high switching costs.
  - Suppliers pose a threat to integrate forward into buyers' industry
  - **Example: oil industry**

Bargaining Power of Buyers

- Buyer power increase when:
  - Buyers are large and few in number
  - The sales of the product being purchased account for a significant portion of the seller's annual revenues
  - Buyers could easily switch to another product
  - Buyers pose threat to integrate backward into the sellers' industry
  - **Example – large retail chains**

Buyers compete with the supplying industry by:

** Bargaining down prices*

** Forcing higher quality*

** Playing firms off of each other*

Threat of New Entrants

- Barriers That Block New Entrants:
  - Economies of scale
  - Large capital requirements
  - Product differentiation
  - Some government policies and regulations
  - High switching cost
  - Limited access to distribution channels
  - Other advantages that are hard to duplicate such as patents, great locations, subsidies, partnerships, etc.
  - History of aggressive retaliation toward new entrants
  - **Example – pulp and paper industry**

Threat of Substitute Products

Products with similar *function* limit the prices firms can charge

- The threat of substitute products increases when:
  - Buyers face few switching costs
  - The substitute product's price is lower
  - Substitute product's quality and performance are equal to or greater than the existing product
  - **Example: glass container industry**

Intensity of Rivalry Among Competitors

- Cut-throat competition is more likely to occur when:
  - There are numerous or equally balanced competitors
  - Industry growth slows or declines
  - There are high fixed costs or high storage costs
  - There is a lack of differentiation opportunities or low switching costs
  - When the strategic stakes are high
  - When high exit barriers prevent competitors from leaving the industry
  - Example: glass container industry

The Structural Determinants of Competition

SUPPLIER POWER
- Suppliers' price sensitivity
- Relative bargaining power

THREAT OF ENTRY
- Capital requirements
- Economies of scale
- Absolute cost advantage
- Product differentiation
- Access to distribution channels
- Legal/ regulatory barriers
- Retaliation

INDUSTRY RIVALRY
- Concentration
- Diversity of competitors
- Product differentiation
- Excess capacity & exit barriers
- Cost conditions

SUBSTITUTE COMPETITION
- Buyers' propensity to substitute
- Relative prices & performance of substitutes

BUYER POWER
- Buyers' price sensitivity
- Relative bargaining power

Interpreting Industry Analyses

Low entry barriers

Suppliers and buyers have strong positions

Strong threats from substitute products

Intense rivalry among competitors

Unattractive Industry

Low profit potential

Interpreting Industry Analyses

High entry barriers

Suppliers and buyers have weak positions

Few threats from substitute products

Moderate rivalry among competitors

Attractive Industry

High profit potential

Competitive advantage

Competitive advantage is the company's ability to get superior performance to its rivals in a sustained way.

Offer a unique solution that its customers value , hard to imitate by competitors, enabling the company to gain above average returns in a sustainable way.