

# Enterprise Management and Entrepreneurship MIEIC 2023-2024



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# Strategic management

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# Content

- Fundamental concepts of strategic management
- Building a business strategy
- External environment analysis
  - PESTEL analysis
  - Porter's perspective
- Internal environment analysis
  - Resource-based view
- Elements of competitive advantage
- Exercise

# Strategic management

## Fundamental concepts

# Strategic management

## What is strategy?

- Means by which individuals or organizations achieve their objectives
  - Not detailed actions
  - Plans, policies, principles that unify and guide specific actions
- For an organization, the essence of strategy is about making choices about:
  - **Where** to compete?
  - **How** to compete?

# Strategic management

## Coca-Cola: **Where** it competes?

- **Industry:** soft drinks
  - Branded sodas – Coca-Cola, Sprite, Fanta
  - Other drinks – Juices (Minute Maid, Hi-C, Fiver Alive), water (Dasani)
- **Geography:** 200 countries
  - 27% of sales in the U.S.
  - 27% in the following four markets – México, Brazil, Japan, and China
- **Activities:**
  - Products development, trademark management, and concentrate production
  - Local bottling and distribution franchisings
  - Shareholder in more than half of the largest bottlers

# Strategic management

Coca-Cola: **How** it competes?

- **Differentiation strategy**
  - Trademark, through intensive advertising and promotion
  - Market leadership, through mass marketing and close relationships with key bottlers in each country

# Strategic management

## What is strategy?

“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

- Pursue of a **fit** between **internal competencies** and **external market conditions**
- Development of a **sustainable competitive advantage** as a key success factor

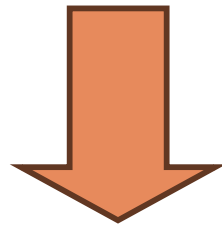


# Strategic management

## The quest for competitive advantage

### Competitive advantage

Ability of an organization to outperform its rivals



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

# Strategic management

## Strategy and technology

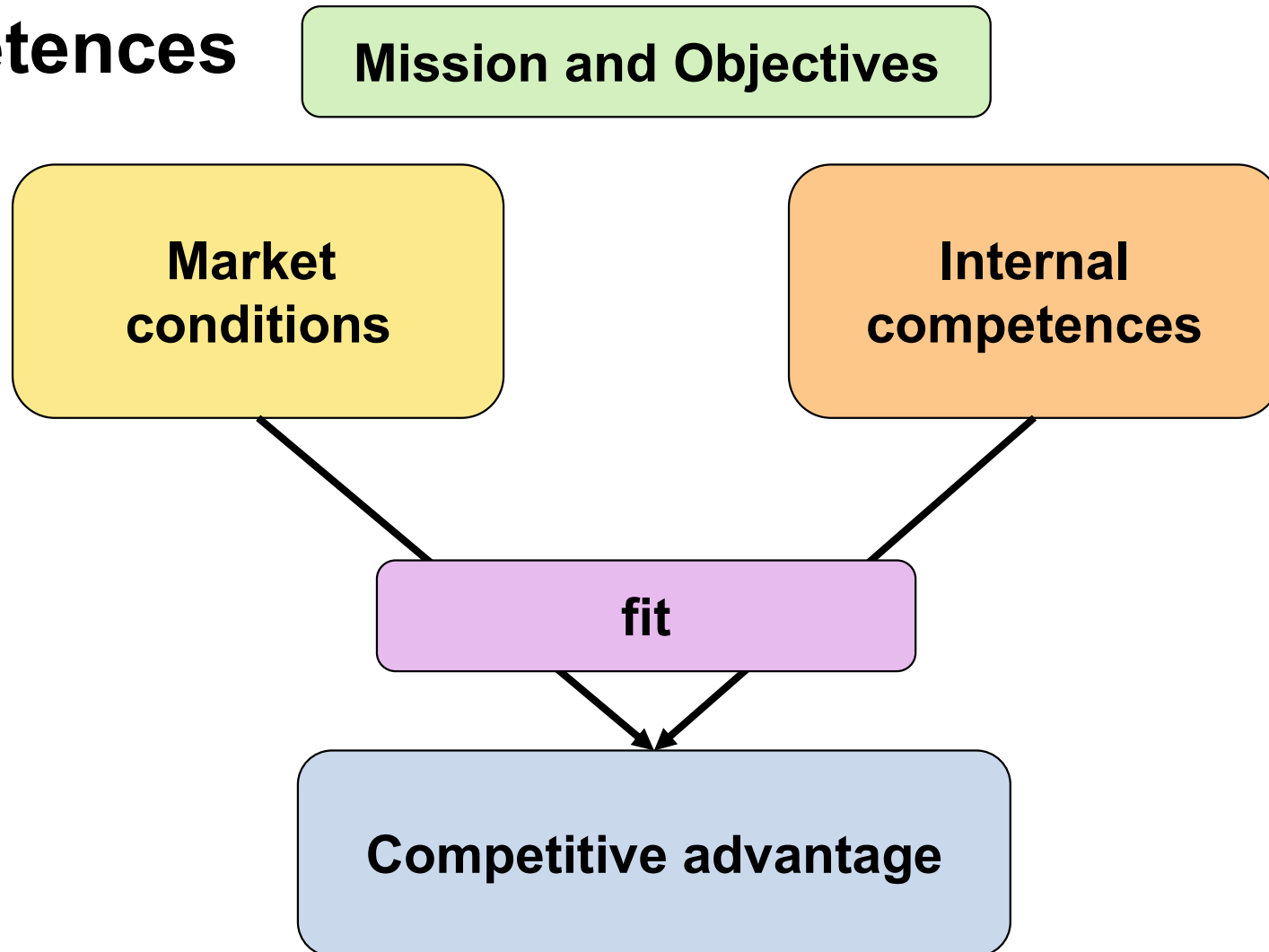
- In technology-based industries, competition is mainly driven by technology
  - Established Industries– pharmaceutical, chemical, telecommunications, electronics
  - Emerging Industries– alternative energy, biotechnology, nanotechnology
- In many other industries, with much less technological content, technological developments are important sources of competitive advantage
  - Food, household products, financial services, ...
- How can an organization use technology to establish and exploit a competitive advantage, i.e. to compete?

# Strategic management

Building a business strategy

# Building a business strategy

**Fit between market conditions and internal competences**



# Building a business strategy

## SWOT Analysis

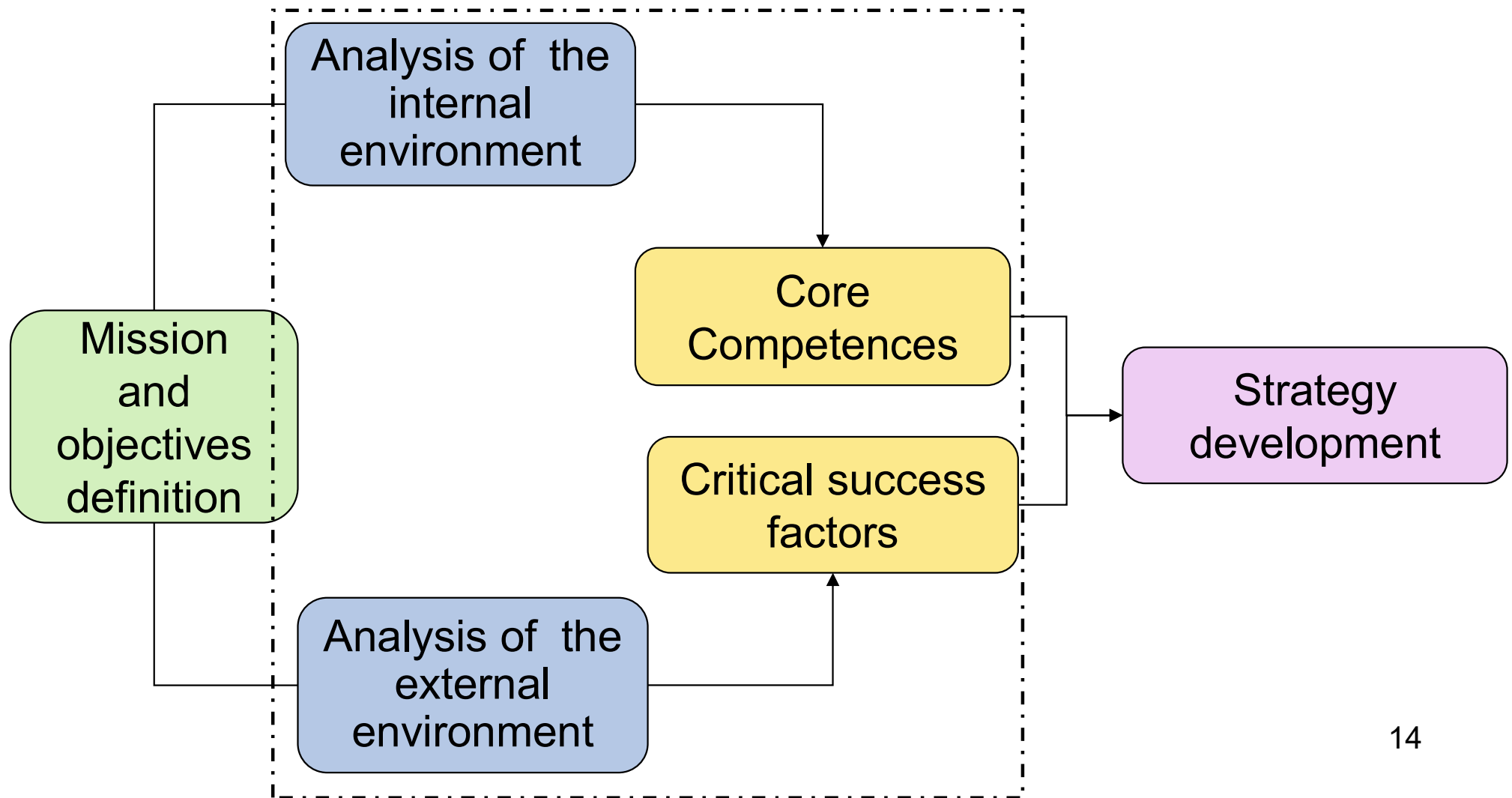
external environment

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

# Building a business strategy

## Business Strategy

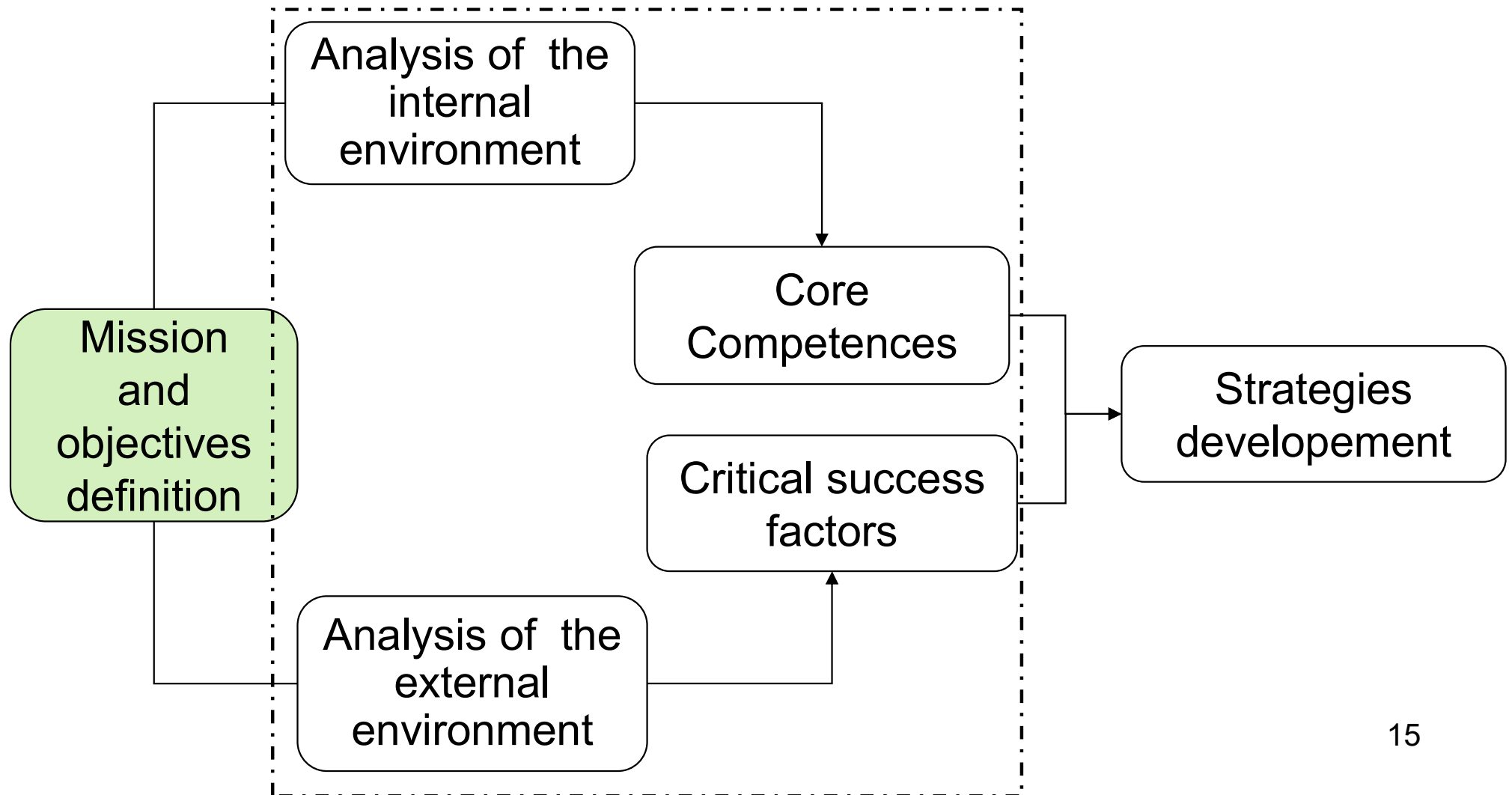
SWOT analysis



# Building a business strategy

## Business Strategy

SWOT analysis



# Building a business strategy

## Mission statement

- The **mission statement** of an organization 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



# Building a business strategy

## Mission example: **Songae**

- 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.

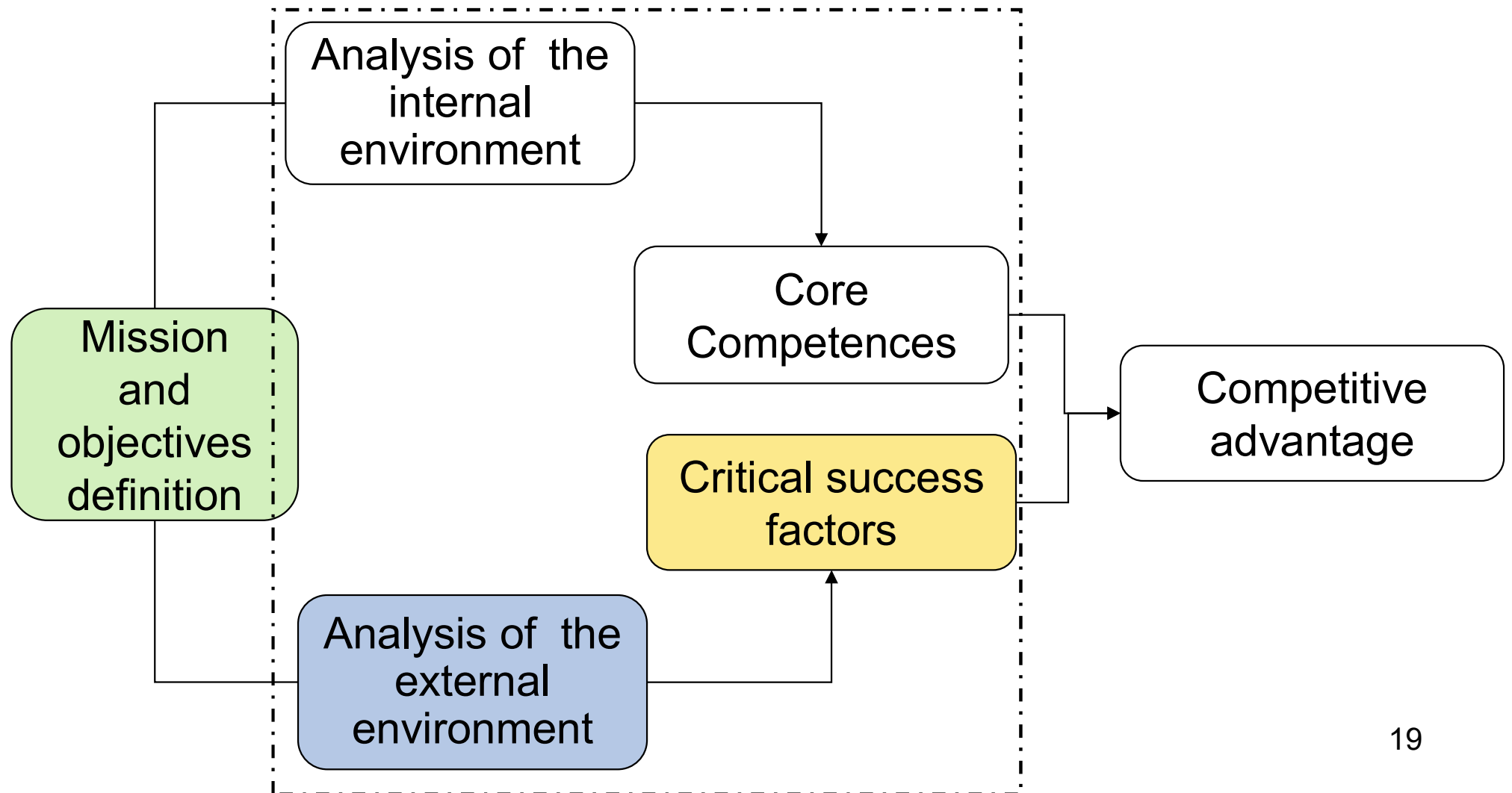
# Strategic management

## External environment analysis

# External environment analysis

## Business Strategy

### SWOT analysis



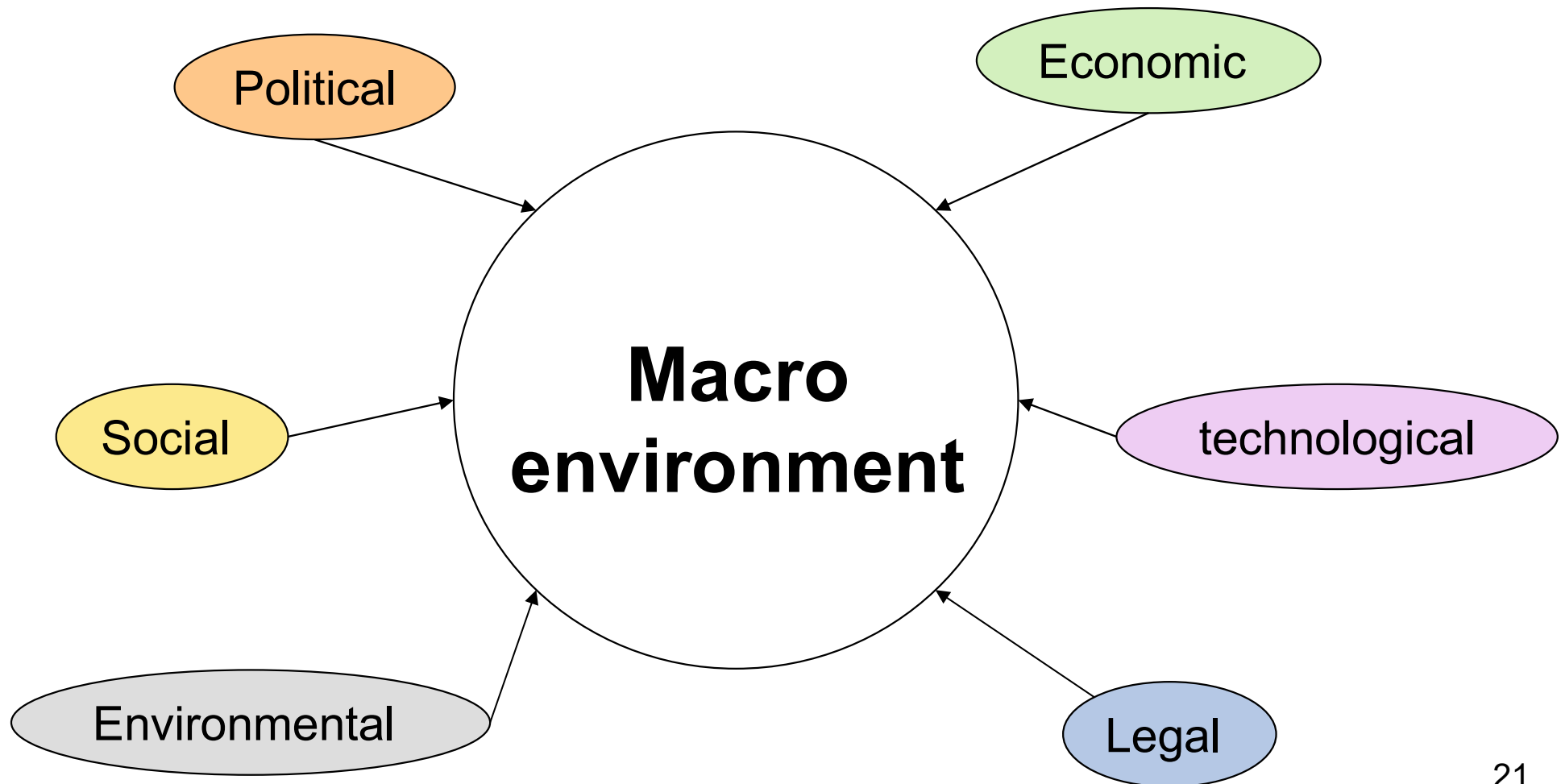
# External environment analysis

## The External Environment

- External Environment
  - All external forces, factors, or conditions that exert some degree of impact on the organization's strategies, decisions, and actions.
- Environmental Change
  - Affects the organization's choice and use of strategy.
  - Creates opportunities that enable the organization to use its core competencies to achieve its vision
  - Creates threats with the potential to prevent an organization 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

# External environment analysis

## Macro environment – PESTEL analysis



# External environment analysis

## **Political trends**

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

# External environment analysis

## **Economic trends**

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

# External environment analysis

## **Social trends**

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



# External environment analysis

## **Technology trends**

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

# External environment analysis

## **Environmental trends**

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

# External environment analysis

## **Legal trends**

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

# External environment analysis

## 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

# External environment analysis

## Macro environment in the post COVID-19

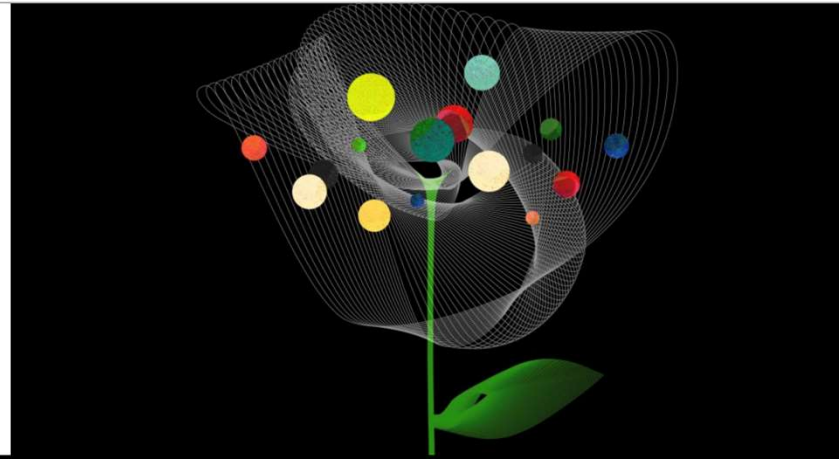
≡ TIME

U.S. POLITICS WORLD TECH ENTERTAINMENT SUBSCRIBER

### 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.

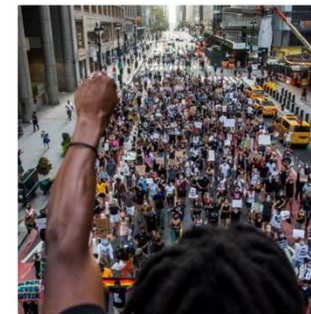
IN PARTNERSHIP WITH SOMPO HOLDINGS



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/>

# External environment analysis

## Macro environment in the post COVID-19





# External environment analysis

## PESTEL analysis applied to air transportation (after 2020)

### 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-sustainability of mass tourism**  
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

# External environment analysis

## Industry analysis

According to Porter, the organization's success depends on:

- Industry Attractiveness
  - Factors affecting the profitability of the industry, forces that erode the profitability of an industry at long-term
- Competitive Position
  - Achieve a sustainable competitive advantage through differentiation or cost.



# External environment analysis

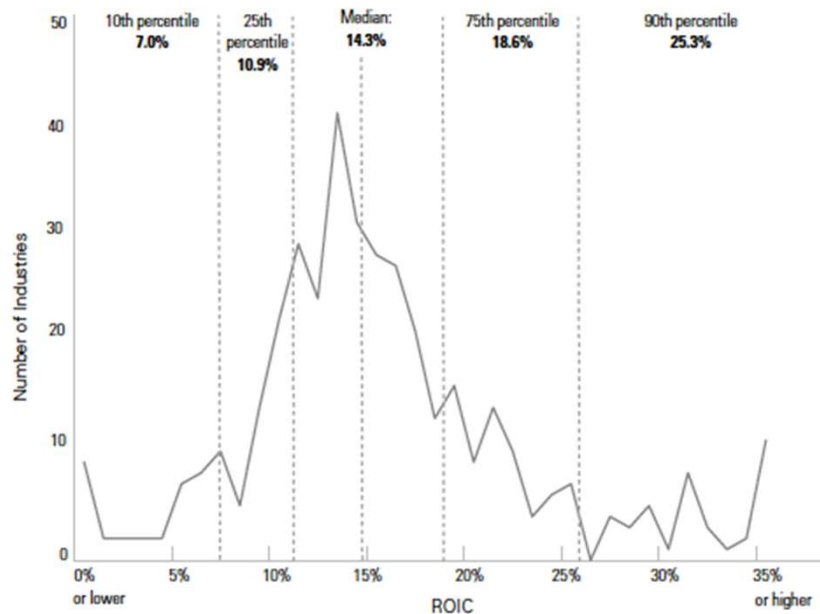
## Industry analysis

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

# External environment analysis

## Industry attractiveness

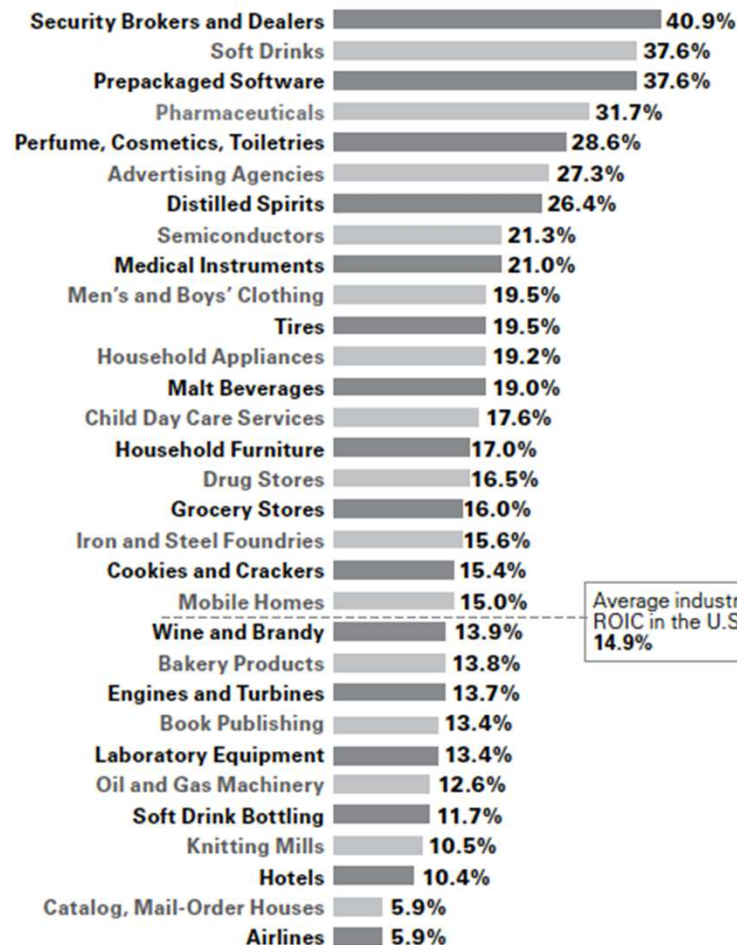
**Average Return on Invested Capital  
in U.S. Industries, 1992–2006**



**Return on invested capital (ROIC)** is the appropriate measure of profitability for strategy formulation, not to mention for equity investors. Return on sales or the growth rate of profits fail to account for the capital required to compete in the industry. Here, we utilize earnings before interest and taxes divided by average invested capital less excess cash as the measure of ROIC. This measure controls for idiosyncratic differences in capital structure and tax rates across companies and industries.

Source: Standard & Poor's, Compustat, and author's calculations

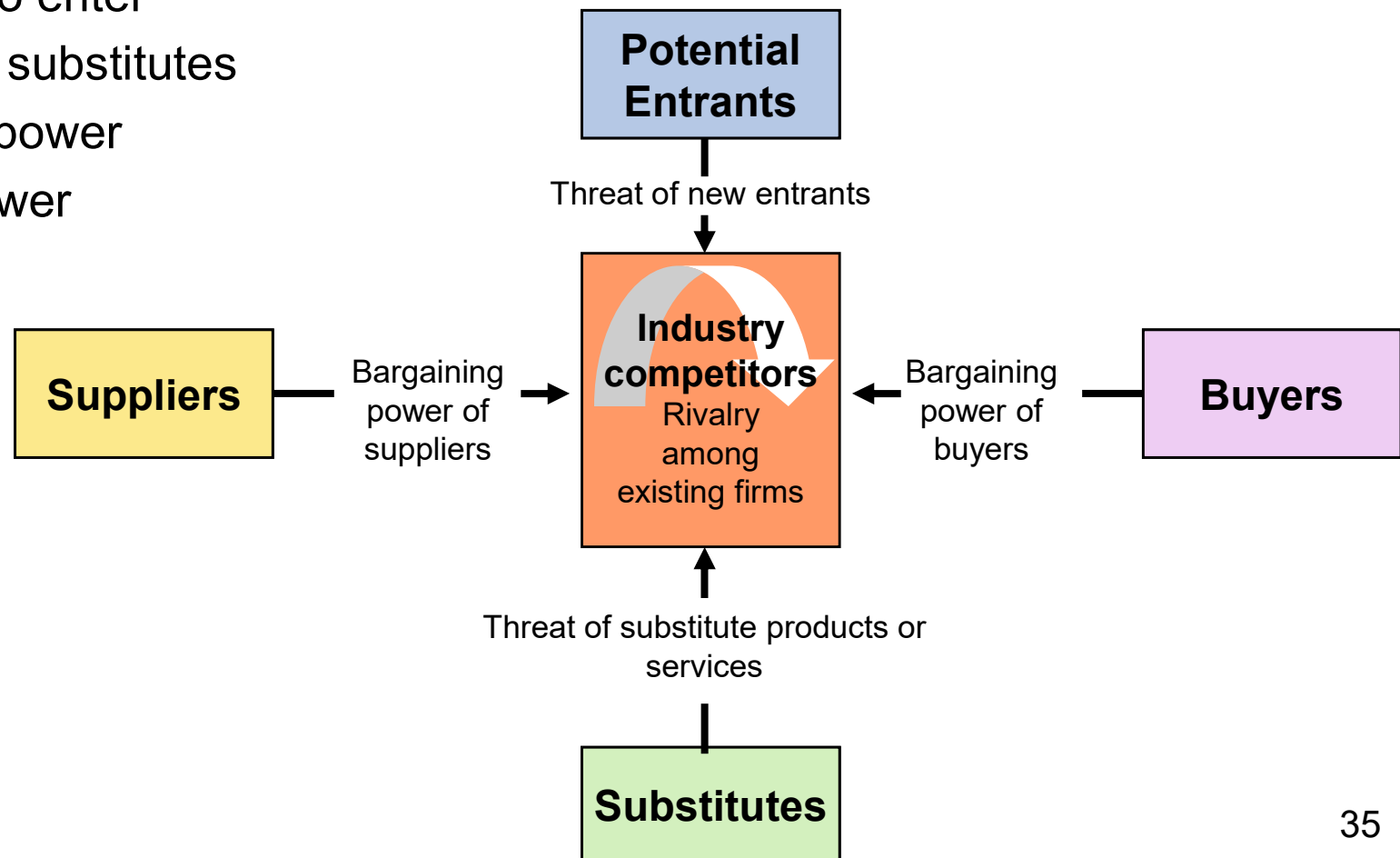
**Profitability of Selected U.S. Industries  
Average ROIC, 1992–2006**



# External environment analysis

## Porter's Five Forces model of competition

- Rivalry among established competitors
- Barriers to enter
- Threat of substitutes
- Supplier power
- Buyer power



# External environment analysis

## Porter's Five Forces

### 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.**

# External environment analysis

## Porter's Five Forces

### Substitute products

- 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.**

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

# External environment analysis

## Porter's Five Forces

Rivalry among competitors, high 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
- The strategic stakes are high
- High exit barriers prevent competitors from leaving the industry
- **Example: glass container industry.**

# External environment analysis

## Porter's Five Forces

Bargaining power of suppliers, is strong 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.**

*Suppliers exert power in the industry by threatening to raise prices or to reduce quality.*

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

# External environment analysis

## Porter's Five Forces

Bargaining power of buyers, is strong 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:*

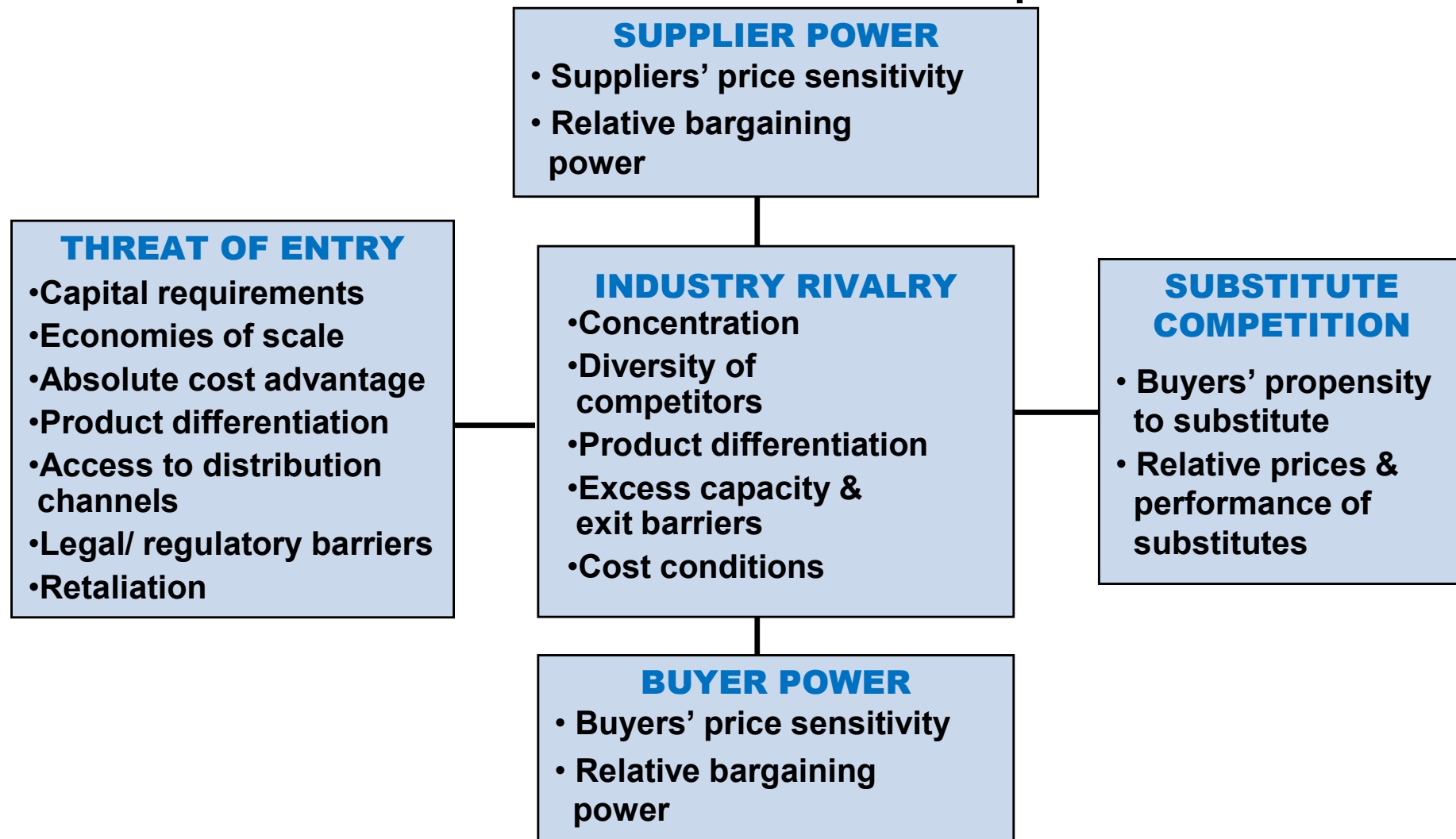
- *Bargaining down prices*
- *Forcing higher quality*
- *Playing organizations off of each other*



# External environment analysis

## Porter's Five Forces

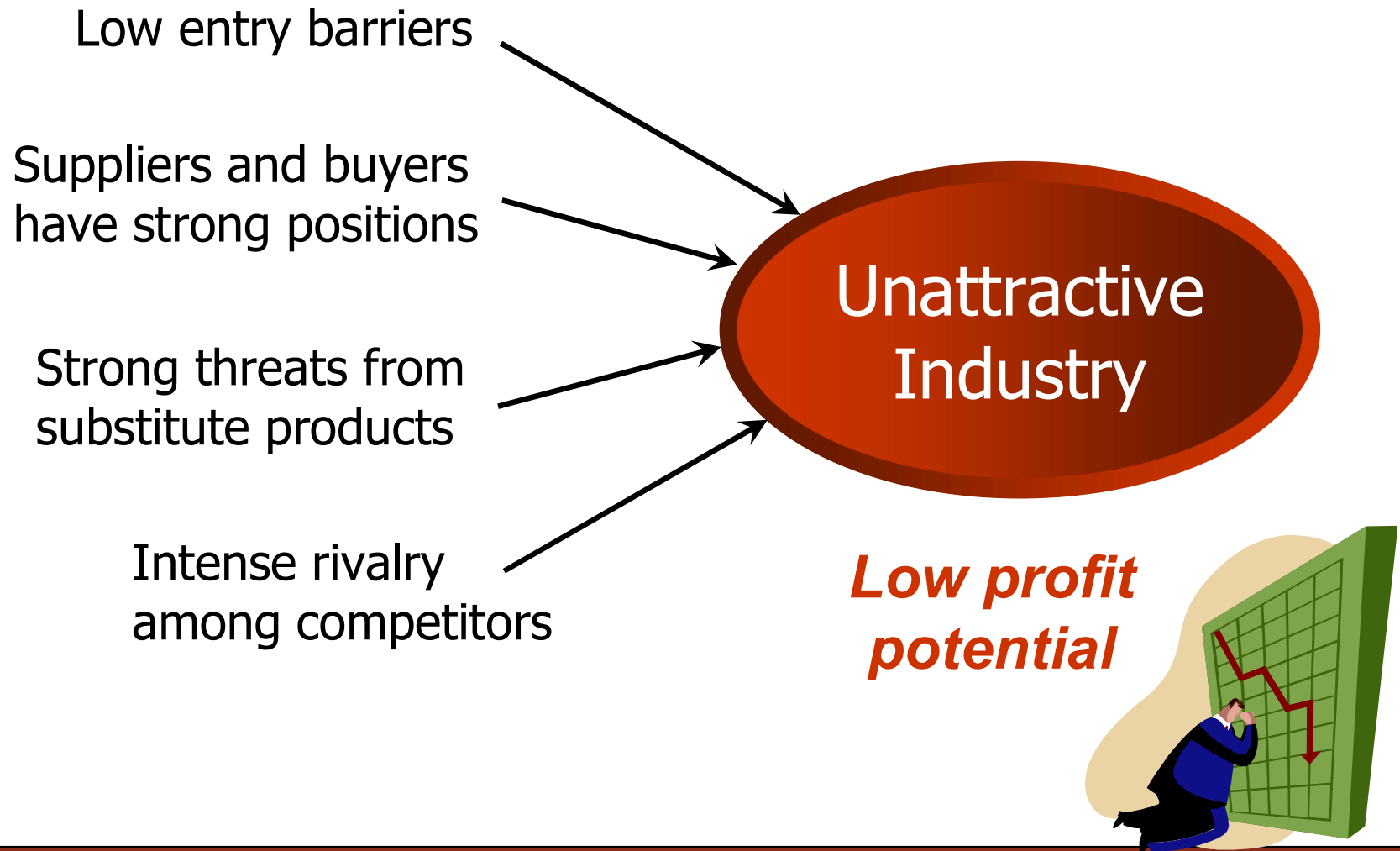
The structural determinants of competition



# External environment analysis

## Porter's Five Forces

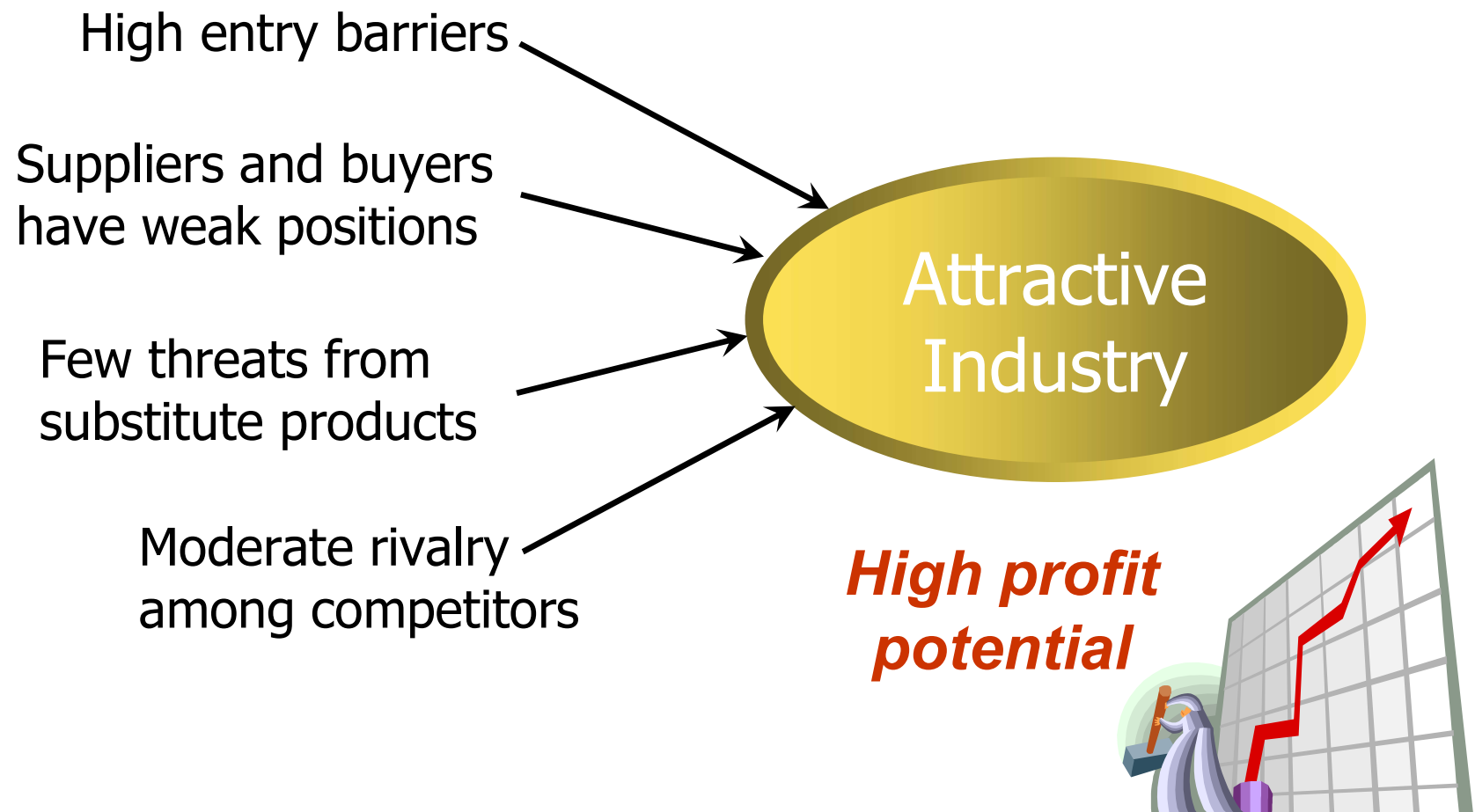
Interpreting industry analyses



# External environment analysis

## Porter's Five Forces

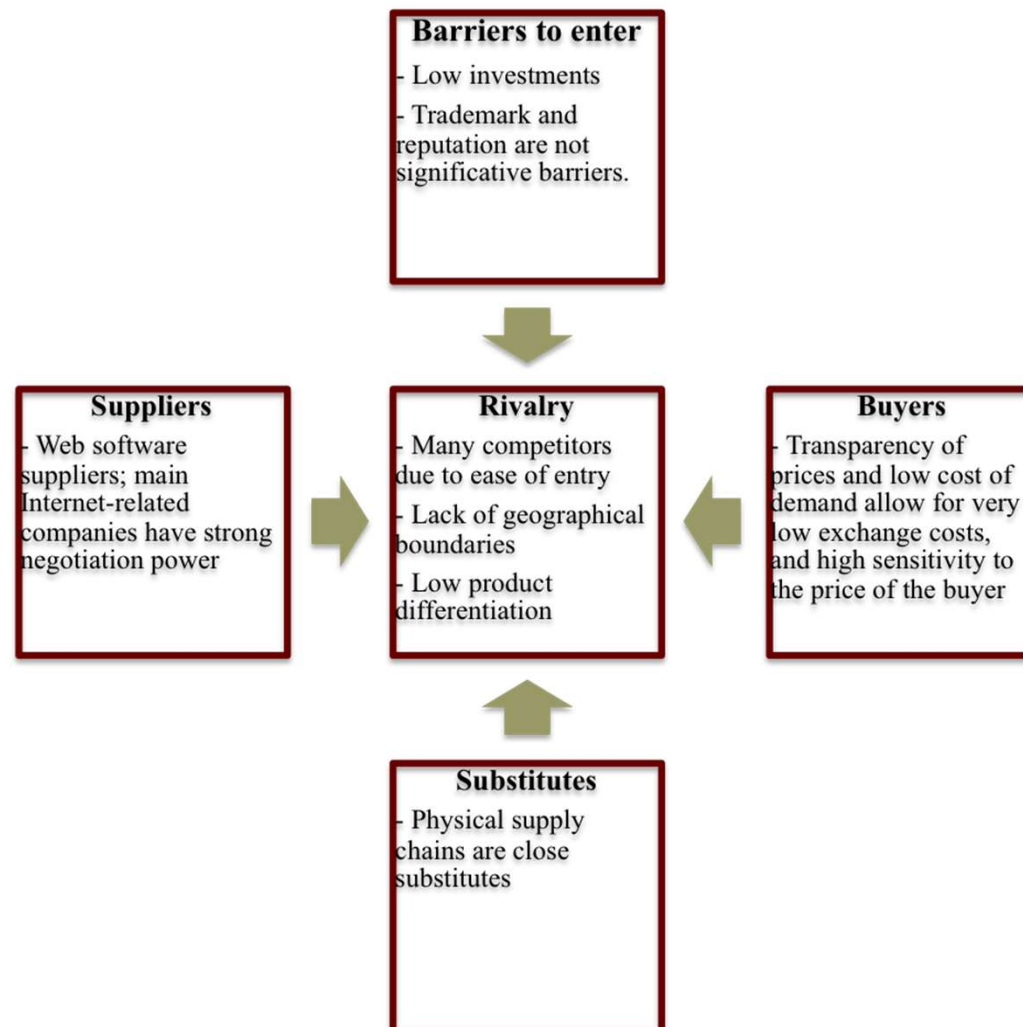
Interpreting industry analyses



# External environment analysis

## Porter's Five Forces

Example: Analysis for an *e-business* case



# External environment analysis

## Porter's Five Forces

### Example: Analysis for an *e-business* case

- Most new electronic businesses were not new businesses; were a new distribution channel for existing goods and services: books (Amazon), airline tickets (Expedia), grocery store (Peapod), financial assets (E-Trade).
- Main features:
  - Strong competition from traditional substitutes
  - Low barriers to entry (low cost of setting up a website)
  - Low differentiation
- Implications: high competition, low margins, low returns

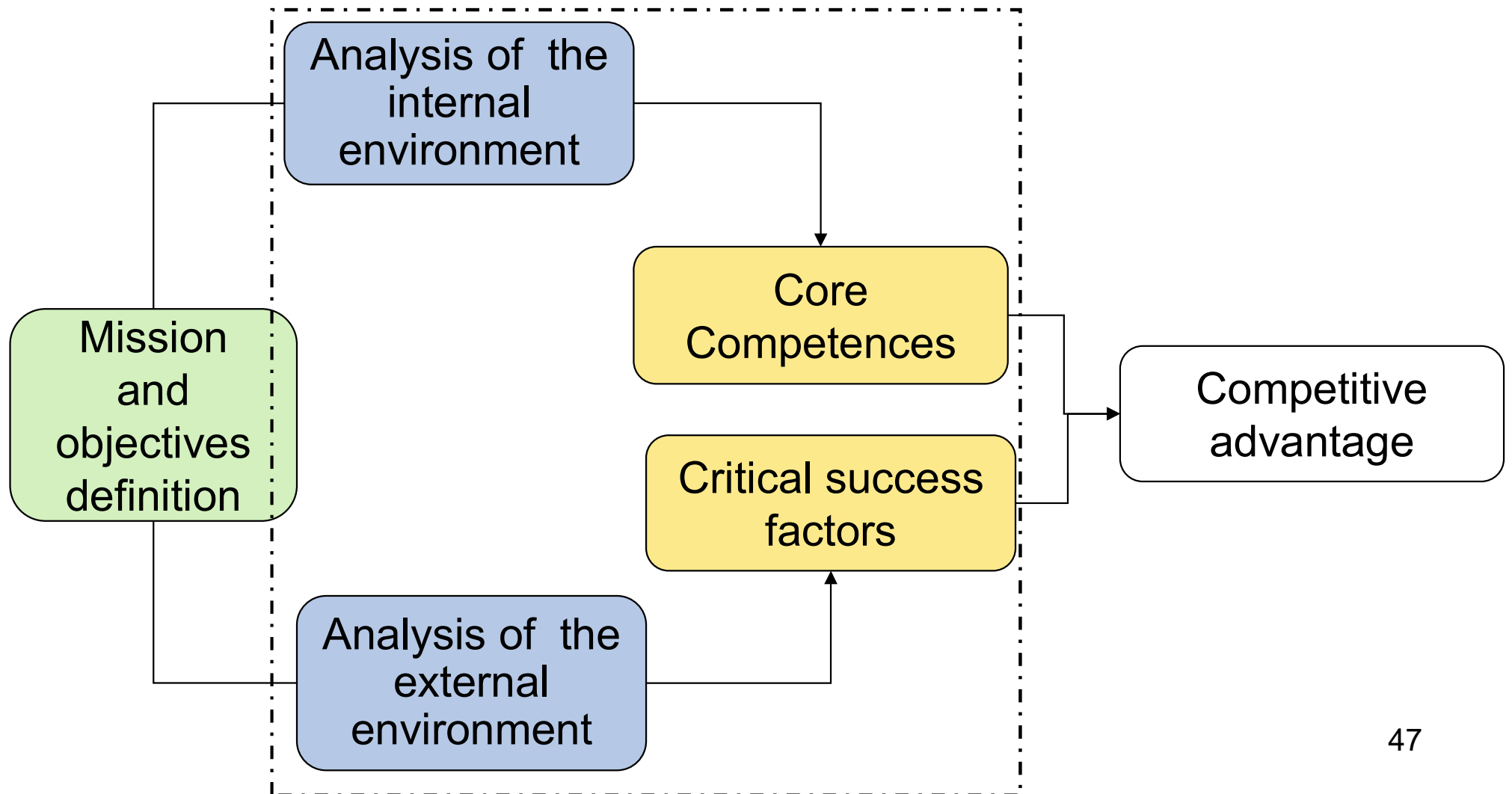
# Strategic management

## Internal environment analysis

# Internal environment analysis

## Business Strategy

### SWOT analysis



# Internal environment analysis

## **Resource-based view**

In a constantly changing world, it is more relevant to define the mission of organizations in terms of what they are capable of doing (resources and capabilities) than in terms of the product they develop or the needs they satisfy.

Robert Grant, 1998



# Internal environment analysis

## **Resource-based view**

Resource based of analysis and organization capabilities to develop competitive advantage

- Types of resources
  - Tangible resources
  - Intangible resources
  - Human resources
  - Organizational capabilities
- Core competencies as a source of competitive advantage
- Development of core competencies and the base of organization resources

# Internal environment analysis

## **Resource-based view**

### Development of a resource-based strategy

1. Analyse and evaluate the resources and capabilities of the organization.
2. Select the strategy that best exploits these resources and capabilities.
3. Ensure that the organization's resources are used to their maximum potential.
4. Build and develop the basis of organization resources in order to develop core competencies that are the basis for creating competitive advantages.

# Internal environment analysis

## **Resource-based view**

### Tangible assets

- Easier to identify and evaluate
- Often the only present in the balance sheet
- Examples: real estate, manufacturing equipment, raw materials
- They may be essential, but they will rarely be a source of competitive advantage because of their standard character

# Internal environment analysis

## **Resource-based view**

### Intangible assets

- Often they have more value than tangible resources
- Many invisible in the balance sheet
  - one of the main reasons for the divergence between the book value and the market value of the organizations
- Examples: reputation, brand recognition, culture, technological know-how, patents, trademarks, accumulated learning and experience
- They often play an important role in the competitive advantage (or disadvantage), and in the value of the organization

# Internal environment analysis

## **Resource-based view**

### Human resources

- Expertise and effort of employees
- Evidently absent from the balance sheet
- Identifying and evaluating human resources management in an organization is complex and difficult:
  - What set of skills, know-how, attitudes and values lead to better performance in each professional category?
  - Social and emotional competencies and values are increasingly recognized as important, in particular resulting in the ability to harmonize efforts and integrate skills.

# Internal environment analysis

## **Resource-based view**

### Organizational capabilities

- Complex combinations of assets, people, and processes that organizations use to turn inputs into outputs
- Descriptive capabilities of efficiency and effectiveness
- Examples:
  - A surgeon is virtually useless without a radiologist, an anaesthetist, nurses, surgical instruments, imaging equipment, and a variety of other resources.
  - Low cost structure, high quality production, fast product development

# Internal environment analysis

## Resource-based view

### Examples of resources

<b>Tangible assets</b>	<b>Intangible assets</b>	<b>Human Resources</b>	<b>Organizational capabilities</b>
Via Verde system (Brisa)	Trademark (Nike)	Baseball team (Red Sox)	Customer Service (Dell)
Cash reserves (Continente)	Reputation (Dell)	Professors (MIT)	Inbound and outbound logistics (Wal-Mart)
Network (EDP)	George Clooney vs John Malkovich (Nespresso)	Musicians (Boston Philharmonic)	Product development process (Sony)
Vineyards of Herdade do Esporão (Finagra)	Steve Jobs as leader (Apple)	Journalists (NY Times)	Global distribution coordination (Coca-Cola)

# Internal environment analysis

## **Resource-based view**

### Core competencies

- Small set of strategic resources and capabilities that underpin the development of competitive advantages.
- Resources and capabilities:
  - Contribute decisively to customer perceived relative to the product or service offered by the organization.
  - Are unique and differentiating against the competition.
  - Are hard to imitate by competitors.



# Internal environment analysis

## **Resource-based view**

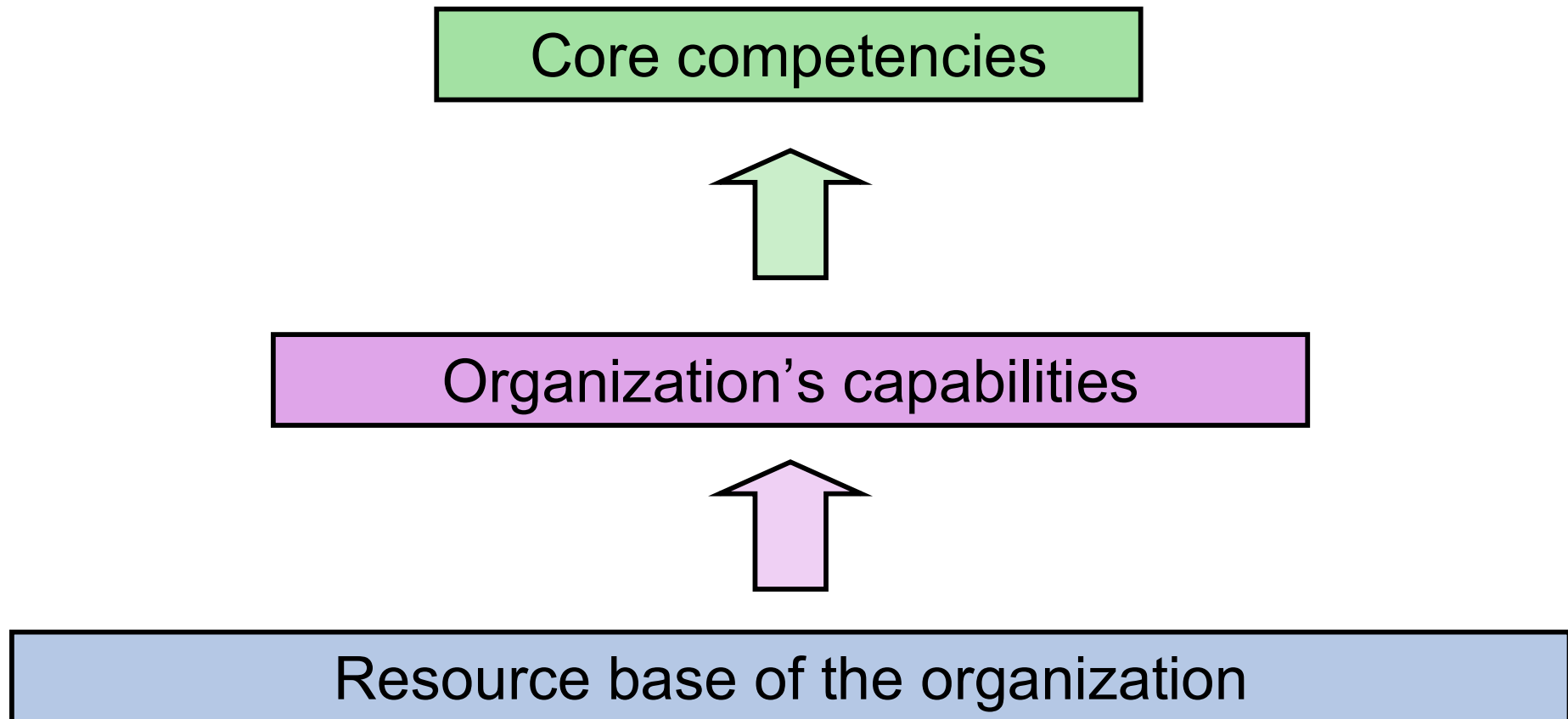
### Criteria for identification of core competencies

- The profits that an organization is able to generate through its capability base depend on:
  - Ability to create competitive advantage (creating value for customers).
  - Buoyancy of competitive advantages (difficult to imitate by competitors).
  - Profit generation capacity through this competitive advantage (creating value for customers at a profit)

# Internal environment analysis

## Resource-based view

Identification of core competencies



# Internal environment analysis

## Resource-based view

### Examples of core competencies

- Microsoft
  - Innovation and development of complete solutions
- Apple
  - Innovation, design, management of the ecosystem
- Coca-cola
  - Ability to manage its brand
- Lidl
  - Efficiency in business management with a view to offer a basic service at good quality and low price.
- Zara
  - Flexibility and dynamism to respond rapidly to fashion trends and response to changes in consumer preferences.

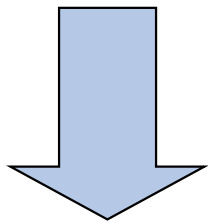
# Strategic management

Elements of competitive advantage

# Elements of competitive advantage

## **Competitive advantage**

Competitive advantage is the organization's ability in getting superior performance to its rivals in a sustained manner.



Offering a unique value solution for its customers, difficult to replicate by competitors, allowing the organization to achieve above-average profits in a sustainable way.

# Elements of competitive advantage

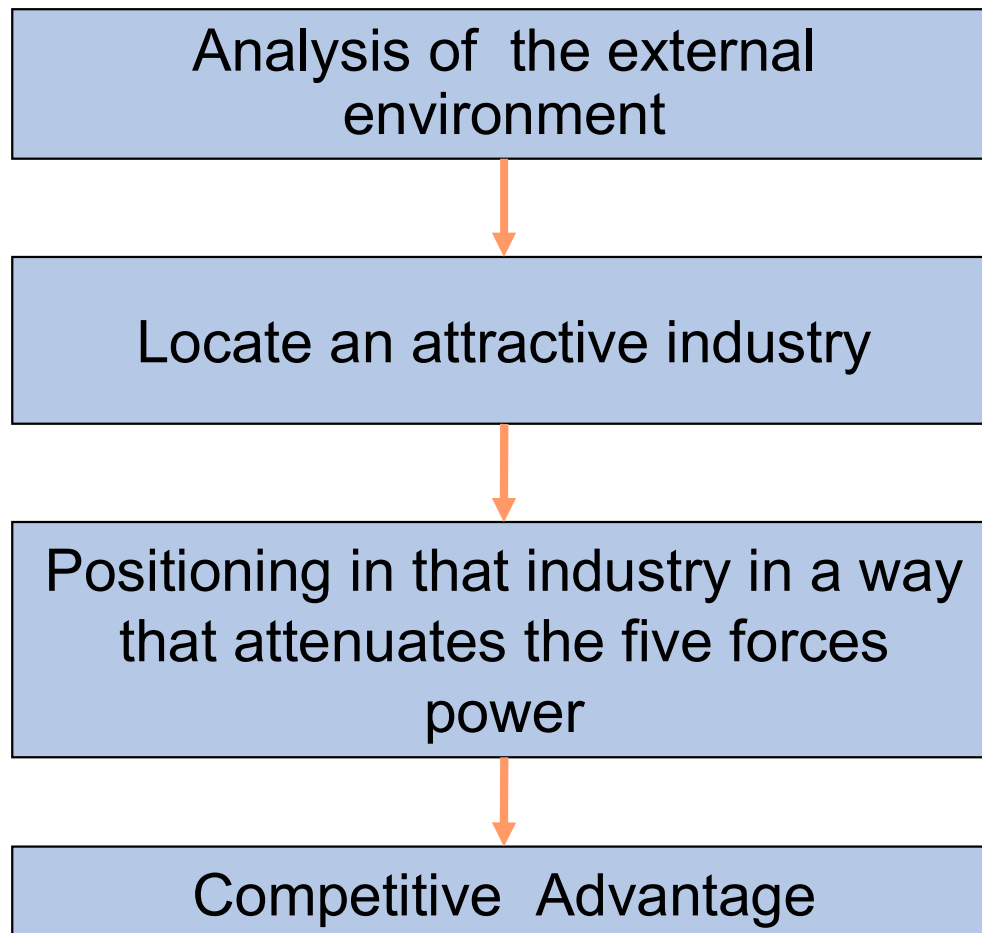
## Sources of competitive advantage

- The competitive advantage always results from an imbalance between competitors, as one performs better. This competitive advantage can result from:
  - The use of the conditions of the external environment (positioning in the most attractive industries)
  - The conditions of the internal environment (development of core competencies).
  - Competitive advantage will result from a dynamic adjustment between core competencies and critical success factors of the market.

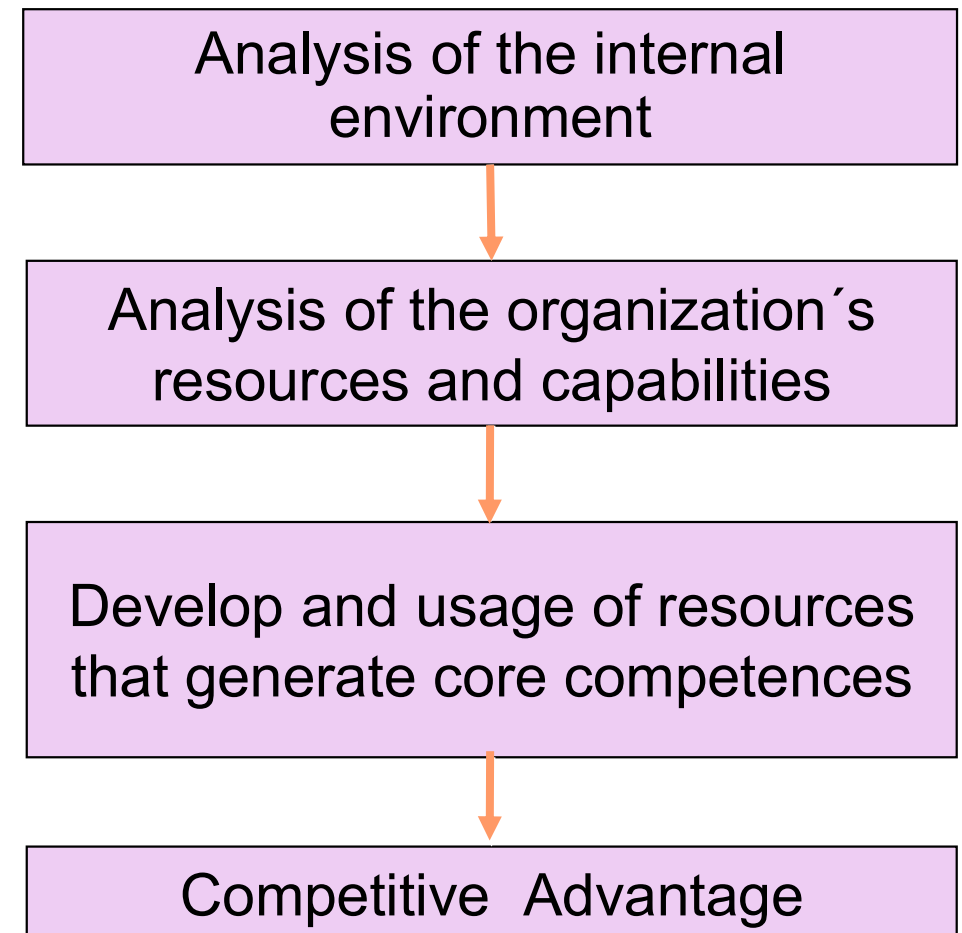
# Elements of competitive advantage

## How to develop a competitive advantage

### Based on positioning



### Based on resources



# Elements of competitive advantage

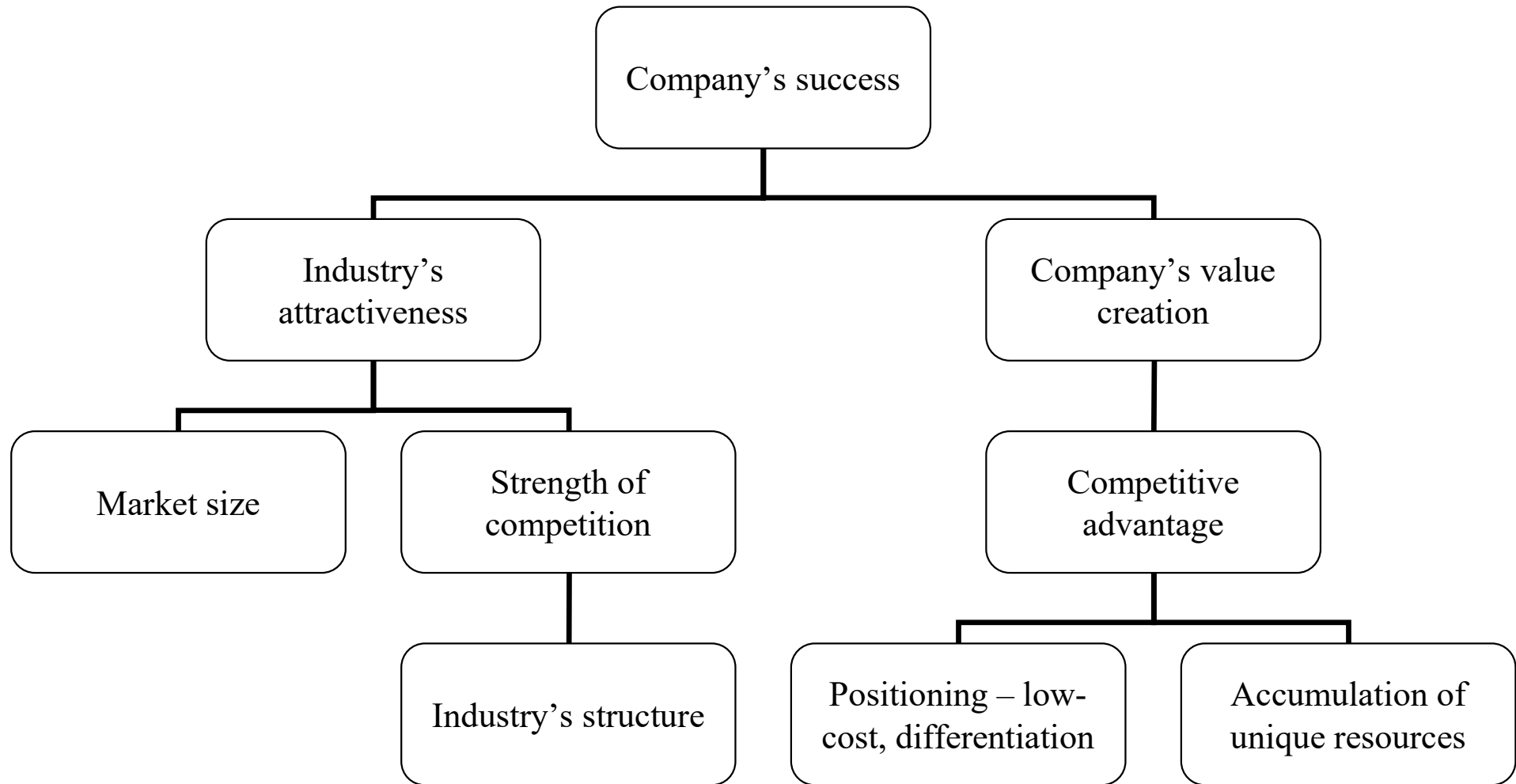
## How to develop a competitive advantage

	Based on positioning	Based on resources
<b>Strategic focus of attention</b>	Industry / Business	Company
<b>Advantages types</b>	Low cost or differentiation	Resources, skills, core capabilities
<b>Advantage basic unit</b>	Activities	Core products, strategy architecture
<b>Formula</b>	War	Real estate



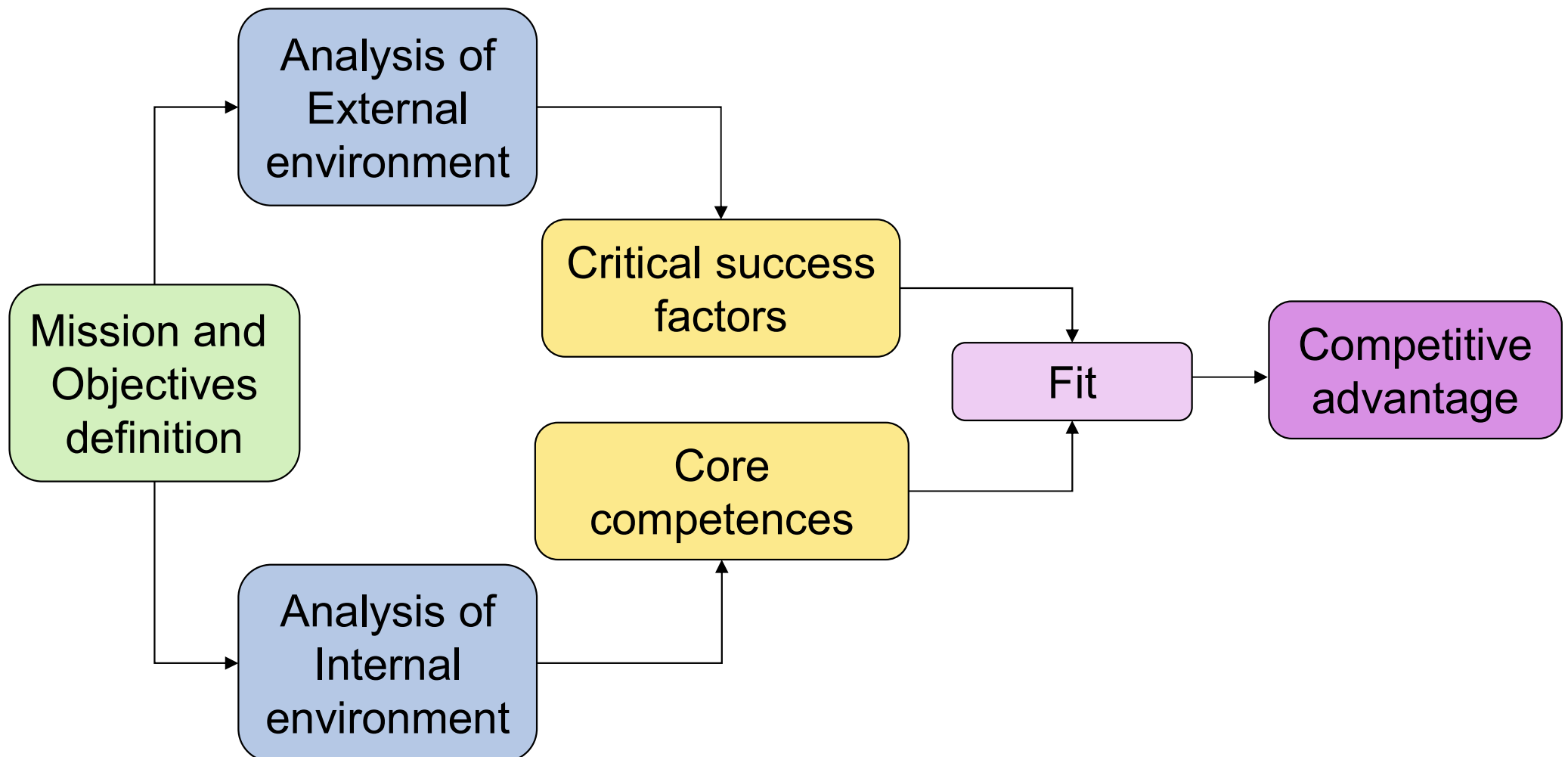
# Elements of competitive advantage

## Developing competitive advantages



# Elements of competitive advantage

## Developing competitive advantages



# Exercise

Amorim case study

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