Part I: THE STRATEGIC POSITION

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In this topic

- Analysis of External Environment (PESTLE, scenarios)
- Industry analysis (Porter´s 5 forces)
- Competitors analysis (strategic groups, market segments, critical success factors)
- Analysis of organization (resources and competencies, internal capabilities)

Needs, Trends, Megatrends

Environmental Megatrends influence in Marketing?

- Changes in population structure
- Different nature of work
- Changes in economics and politics
- Generational and identity evolution
- Technology and innovation

Macro Environment Analysis (O/

Why do we need analyze macro environment?

- **Environment is dynamic** :
  - Changes in population structure
  - Different nature of work
  - Changes in economics and politics
  - Generational and identity evolution
  - Technology and innovation
- **Environment is uncertain:**
  - Actions of Competitors
  - Customer Preferences Changes
  - Trends
- ***Opportunities and Threats***

- Macro environment

PESTLE analysis

- Micro Environment

Porter´s 5 forces

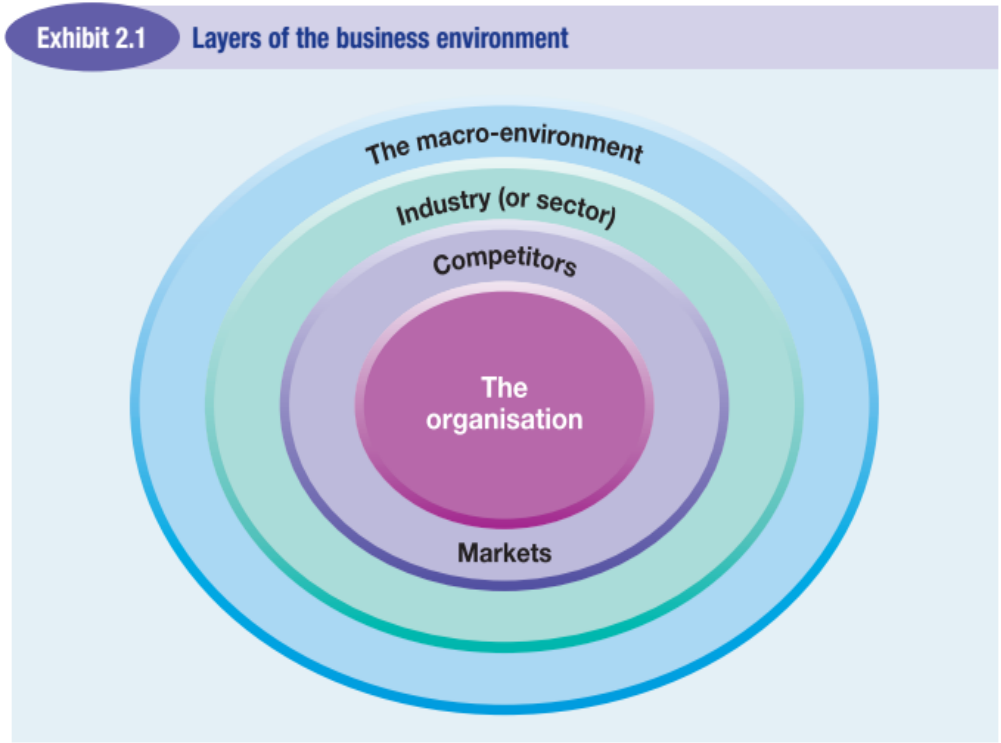
- Competitors and Markets

Strategic groups

Target markets

- Internal analysis

Resources and Capabilities



The organization

SWOT

- Strength
- Weaknesses
- Opportunities
- Threats

And

strategic capability analysis

https://www.youtube.com/watch?v=wfY-f_PfiOo - Personal SWOT analysis

The PESTEL framework

The PESTEL framework categorises environmental influences into six main types:

- political,
- economic,
- social,
- technological,
- environmental and
- legal

Key drivers for change

The **key drivers for change** are

environmental factors

that are likely to have a high impact on the success or failure of strategy.

Typical key drivers will vary by industry or sector.

Examples

a clothing retailer may be primarily concerned with social changes driving customer tastes and behaviour for example, forces encouraging out-of-town shopping

computer manufacturer is likely to be concerned with technological change, for example increases in microprocessor speeds

Building scenarios

Scenarios are

detailed and plausible views of *how*

the business *environment* of an organisation *might develop* in the future

based on *key drivers* for change

about which there is a *high level of uncertainty*.

Competitive advantage

A **competitive advantage**

is an ***advantage over competitors***

gained by offering ***consumers*** greater ***value***,

either by means of *lower prices* or

by providing *greater benefits* and

service that justifies higher prices.

Industry

An **industry** is

a group of firms producing the same principal product or service

Hospitality industry analysis

1st step in any type of industry analysis is to determine **the boundaries of the industry** to be analyzed.

Hospitality major industries:

- Hotels
- Resorts
- Bed and Breakfasts (B & Bs)
- Inns
- Golf and country clubs
- Restaurants
- Foodservice
- Cruise lines
- Airlines
- Gaming/casinos
- Travel and tourism operators
- Online and regular travel agencies
- Global reservation distribution systems
- Trade associations
- Nightclubs
- Meeting and convention planners
- Time - share/vacation ownership
- Theme parks
- Spas
- Ski industry
- Real estate development for these enterprises
- Franchise development for these enterprises
- Consultants, attorneys and accountants, and vendors to all of these sectors
- Hospitality trade media

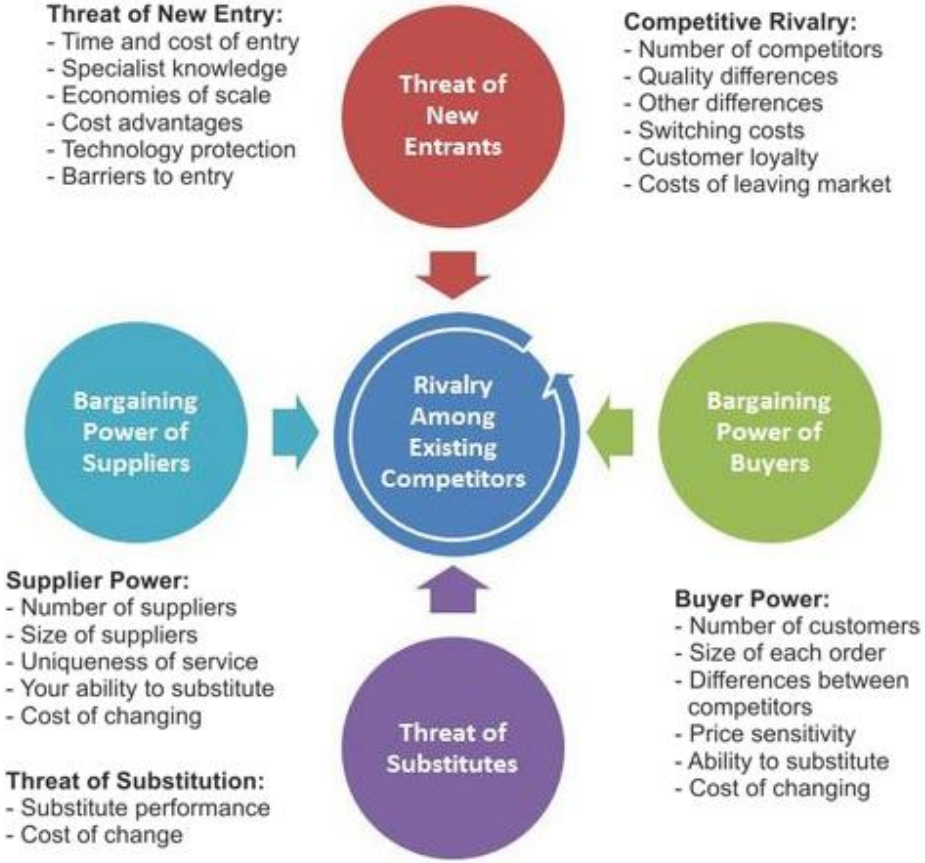
Michael Porter’s five forces for industry analysis.

The **five forces framework**

helps *identify* the *attractiveness* of an *industry* or sector in terms of competitive forces.

- the threat of entry into an industry;
- the threat of substitutes to the industry’s products or services;
- the power of buyers of the industry’s products or services;
- the power of suppliers into the industry;
- the extent of rivalry between competitors in the industry.

Five Forces Analysis (Porter)



Porter’s essential message

where the five forces are high, then industries are not attractive to compete in:

- *too much competition,*
- *too much pressure,*
- *not reasonable profits.*

The threat of entry

Barriers to entry

are *factors* that *need to be overcome* by *new entrants* if they are *to compete successfully.*

- Scale and experience.
- Access to supply or distribution channels.
- Legislation or government action.

The threat of substitutes

Substitutes are

products or services that offer a ***similar benefit*** to an industry's products or services,

but by a different process.

Example, trains are a substitute for cars; films and theatre are substitutes for each other.

The power of buyers

Buyers are

the organisation’s immediate customers,

not necessarily the ultimate consumers.

- Concentrated buyers (number and size of customers)
- Low switching costs (and price sensitivity)
- Buyer competition threat (buyers has facilities to supply themselves)

The power of suppliers

Suppliers

supply the *organisation*

with what *is required to produce* the product or service, and

include labour and sources of finance.

- Concentrated suppliers (number and size of suppliers)
- High switching cost.
- Supplier competition threat (cut out buyers who are middlemen)

Competitive rivalry

Competitive rivals are

organisations with *similar products and services*

aimed at the *same customer group*.

Competitive rivalry - the competition aggressiveness in the industry

- Competitor balance (number and quality of competitors)
- Industry growth rate.
- High fixed costs.
- High exit barriers.
- Low differentiation.

Implications of five forces analysis

Which industries to enter (or leave)?

What influence can be exerted?

How are competitors differently affected?

Key issues in using the five forces framework

- Defining the 'right' industry.
- Converging industries.
- Complementary products.

Convergence is

where *previously separate industries begin to overlap* in terms of activities, technologies, products and customers.

Complementors are

products or services for which customers are prepared to *pay more if together than if they stand alone*.

5 Forces Analysis

Porter's Five Forces Analysis is an important tool for **assessing the potential for profitability in an industry** (or assessing the balance of power in more general situations).

It works by looking at the strength of five important forces that affect competition:

Supplier Power: The power of suppliers to drive up the prices of your inputs.

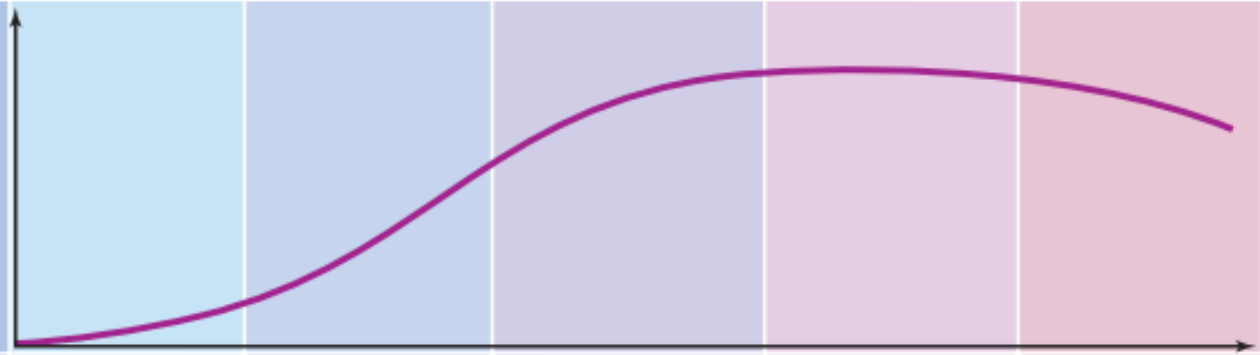
Buyer Power: The power of your customers to drive down your prices.

Competitive Rivalry: The strength of competition in the industry.

The Threat of Substitution: The extent to which different products and services can be used in place of your own.

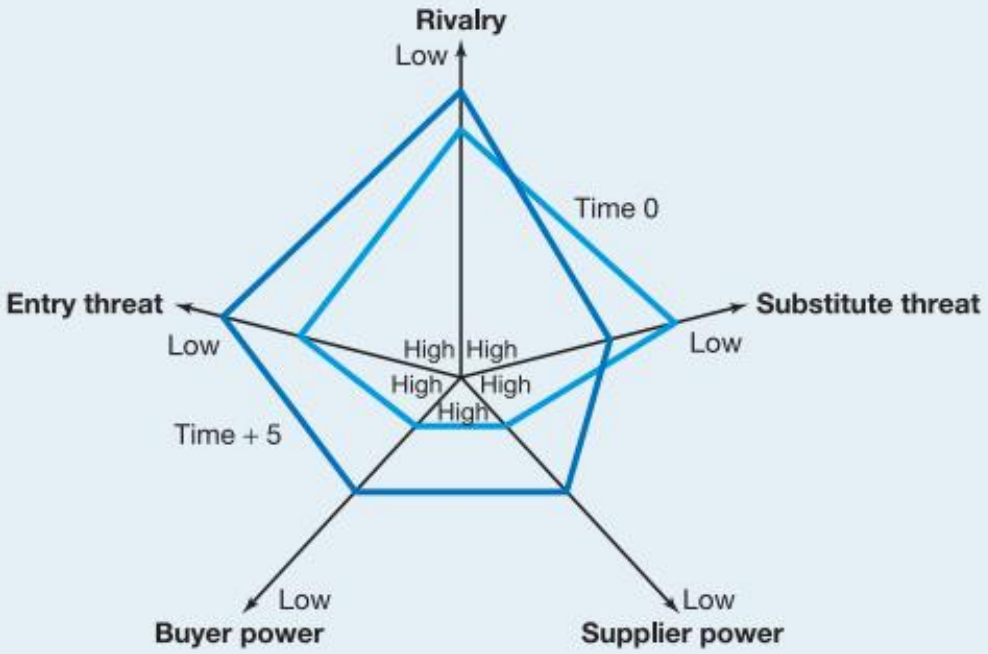
The Threat of New Entry: The ease with which new competitors can enter the market if they see that you are making good profits (and then drive your prices down).

Exhibit 2.3 **The industry life cycle**

	Development	Growth	Shake-out	Maturity	Decline
Market size					
Typical five forces	*Low rivalry*: High differentiation. Innovation key	*Low rivalry*: High growth and weak buyers, but low entry barriers Growth ability key	*Increasing rivalry*: Slower growth and some exits Managerial and financial strength key	*Stronger buyers*: Low growth and standard products, but higher entry barriers Market share and cost key	*Extreme rivalry*: Typically many exits and price competition Cost and commitment key

The industry life cycle

Exhibit 2.4 **Comparative industry structure analysis**



Source: Based on V. Lerville-Anger, F. Fréry, A. Gazengel and A. Ollivier, *Conduire le diagnostic global d'une unité industrielle*, Editions d'Organisation, Paris, 2001.

Comparative industry structure analysis

Strategic groups

Strategic groups are

organisations within an industry

with similar strategic characteristics,

following similar strategies or

competing on similar bases.

Exhibit 2.5 Some characteristics for identifying strategic groups

It is useful to consider the extent to which organisations *differ* in terms of **characteristics** such as:

Scope of activities

- Extent of product (or service) diversity
- Extent of geographical coverage
- Number of market segments served
- Distribution channels used

Resource commitment

- Extent (number) of **branding**
- **Marketing effort** (e.g. advertising spread, size of salesforce)
- Extent of **vertical integration**
- Product or service **quality**
- **Technological leadership** (a leader or follower)
- **Size** of organisation

This strategic group concept is useful in at least three ways:

- Understanding competition.
- Analysis of strategic opportunities.
- Analysis of mobility barriers.

Market segments

A **market segment** is

a group of *customers*

who *have similar needs*

that are *different* from *customer* needs in *other parts of the market*

The concept of market segments should remind managers of several important issues:

- Customer needs
- Relative market share
- How market segments can be *identified* and ‘serviced’

Exhibit 2.6 Some bases of market segmentation

Type of factor	Consumer markets	Industrial/ organisational markets
Characteristics of people/ organisations	Age, sex, race Income Family size Life-cycle stage Location Lifestyle	Industry Location Size Technology Profitability Management
Purchase/use situation	Size of purchase Brand loyalty Purpose of use Purchasing behaviour Importance of purchase Choice criteria	Application Importance of purchase Volume Frequency of purchase Purchasing procedure Choice criteria Distribution channel
Users' needs and preferences for product characteristics	Product similarity Price preference Brand preferences Desired features Quality	Performance requirements Assistance from suppliers Brand preferences Desired features Quality Service requirements

Identifying the strategic customer

The **strategic customer** is

the *person(s)*

at whom the *strategy* is primarily *addressed*

because

they have the *most influence* over which goods or services are purchased.

Critical success factors

Critical success factors (CSFs) are

those product *features*

that are particularly *valued by a group of customers* and,

therefore, where the organisation must excel to outperform competition.

Blue ocean and red ocean

Blue ocean strategies characterised by low rivalry are likely to be better opportunities than *red ocean* strategies with many rivals.

The external environment of an organisation can create both strategic **opportunities** and **threats**.

However, Tesco, Sainsbury and Asda all compete in the same environment, yet Tesco is a superior performer.

It is not the environment that distinguishes between them but their internal **strategic capabilities**.

Strategic capability

Strategic capability is

the *resources and competences* of an organisation

needed for it *to survive and prosper.*

RBV theory

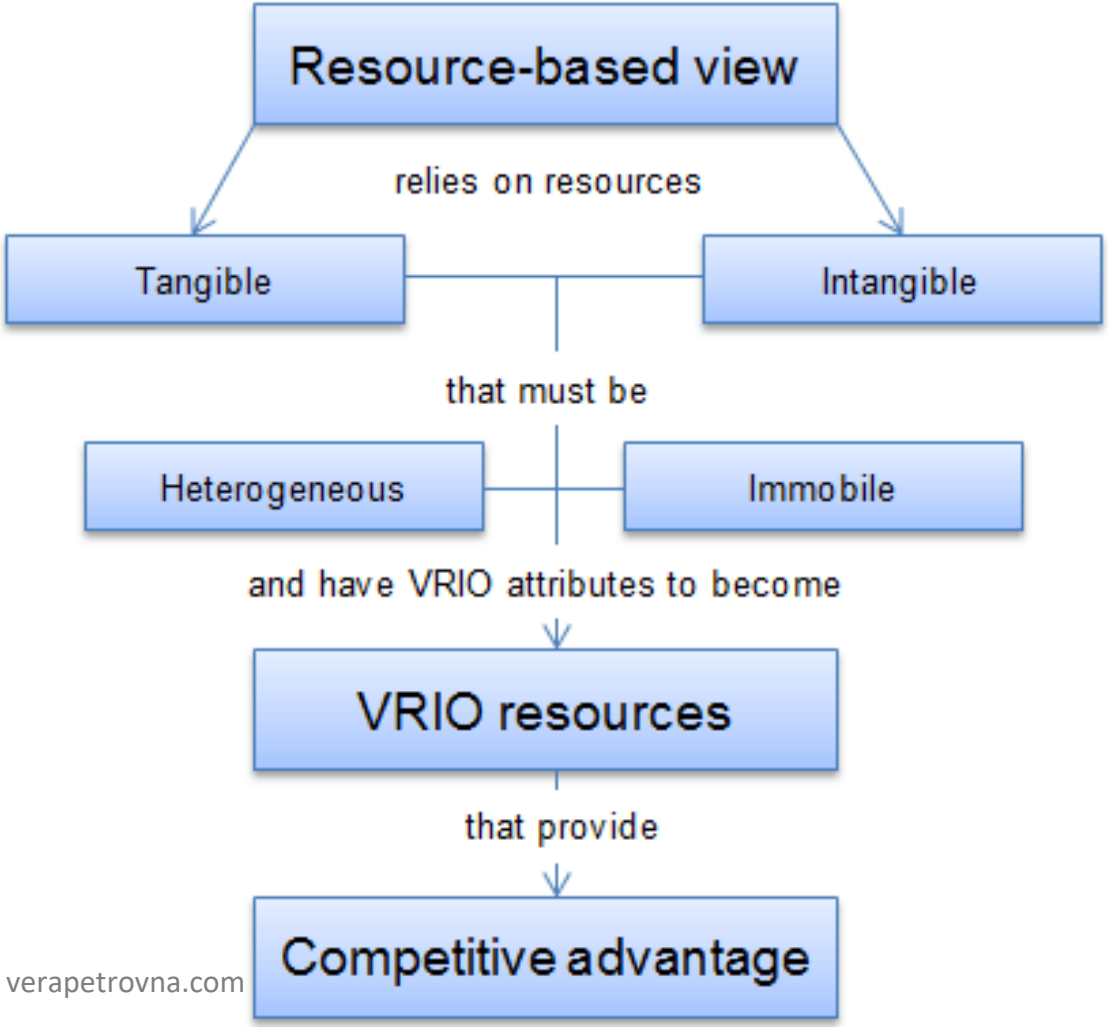
RBV theory view firm as

a bundle of *resources and competencies* (capabilities)

which can bring *competitive advantage* to the company

and

improve performance.



Tangible resources

Tangible resources are

the *physical assets* of an organisation

such as plant, labour and finance.

Intangible resources

Intangible resources are

non-physical assets

such as information, reputation and knowledge.

4 categories of resources

- **Physical resources** – such as the machines, buildings or the production capacity of the organisation.

The nature of these resources, such as the age, condition, capacity and location of each resource, will determine the usefulness of such resources.

- **Financial resources** – such as capital, cash, debtors and creditors, and suppliers of money (shareholders, bankers, etc.).
- **Human resources** – including the mix (e.g. demographic profile), skills and knowledge of employees and other people in an organisation's networks.
- **Intellectual capital** as an intangible resource includes patents, brands, business systems and customer databases.

An indication of the value of these is that when businesses are sold, part of the value is 'goodwill'. In a knowledge based economy intellectual capital is likely to be a major asset of many organisations.

Competences

Competences are

the *skills and abilities* by which resources are deployed effectively through an organisation's activities and processes.

Heterogeneous.

1st assumption of RBV

Skills, capabilities and other resources that organizations possess *differ* from one company to another.

If organizations would have the same amount and mix of resources, they could not employ different strategies to outcompete each other.

Immobile.

2d assumption of RBV

Resources are not mobile and *do not move* from company to company, at least in short-run.

Due to this immobility, companies cannot replicate rivals' resources and implement the same strategies.

Intangible resources, such as brand equity, processes, knowledge or intellectual property are usually immobile.

Ciro Immobile

VRIN framework

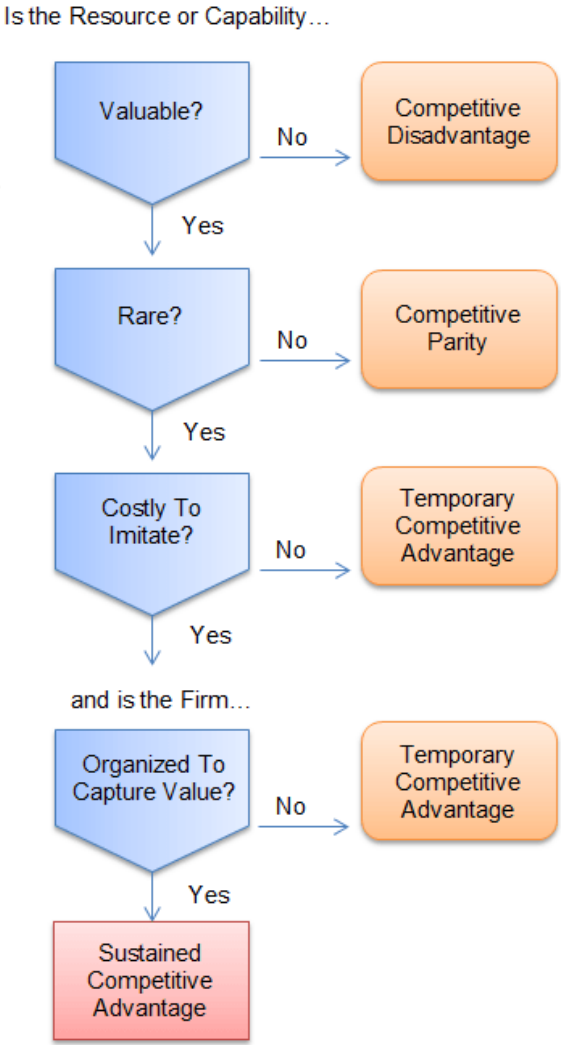
Barney (1991) has identified VRIN framework that examines if resources are

- valuable,
- rare,
- costly to imitate and
- non-substitutable.

The resources and capabilities that answer yes to all the questions are the **sustained competitive advantages**.

from VRIN to VRIO: "Is a company organized to exploit these resources?"

VRIO framework adopted from Rothaermel's (2013) 'Strategic Management'



Question of Value.

Resources are valuable if they

help organizations to *increase the value offered to the customers.*

This is done by increasing differentiation or/and decreasing the costs of the production.

The resources that cannot meet this condition, lead to ***competitive disadvantage****.*

Question of Rarity.

Resources that *can only be acquired by one or few companies* are considered rare.

When more than few companies have the same resource or capability, it results in ***competitive parity (equity).***

Question of Imitability.

The resource must be *costly to imitate* or to substitute for a rival, if a company wants to achieve sustained competitive advantage.

If not company has only ***temporary competitive advantage***.

Question of Organization.

Only the firm that is *capable to make use of* the valuable, rare and imitable resources can achieve ***sustained competitive advantage***.

Dynamic capabilities

Dynamic capabilities are

the organisation's ability to

sense the changes in the market

renew and recreate its strategic capabilities

to meet the needs of *changing environments*.

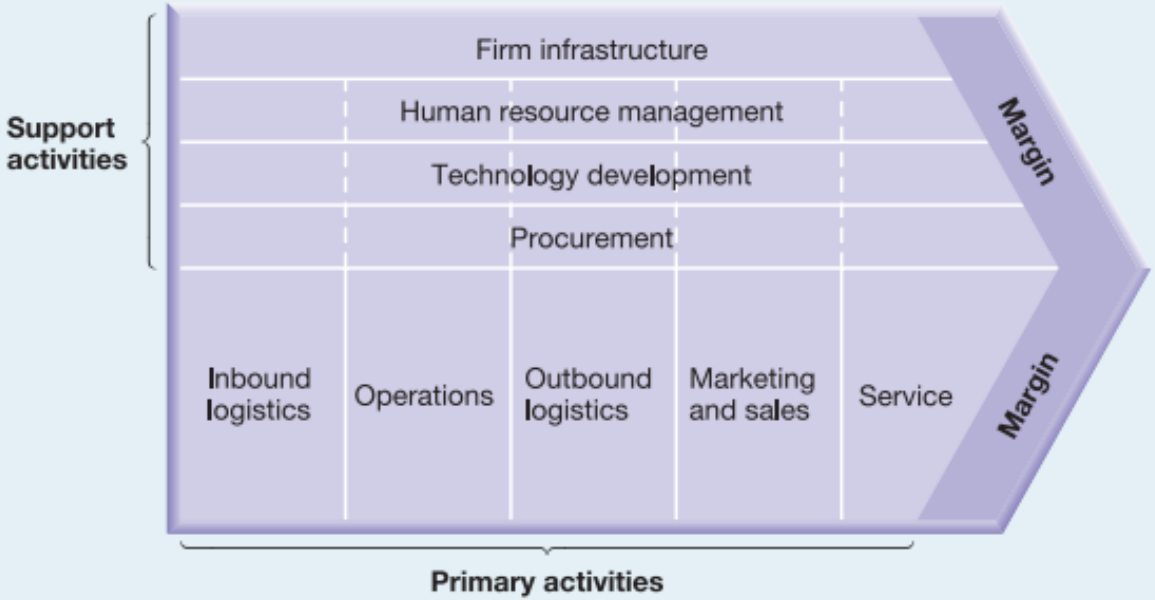
Value chain and value network

The value chain describes the categories of *activities* within and around an organisation, which together *create a product or service.*

The concept was developed in relation to competitive strategy by Michael Porter.

The value network is the set of *interorganisational links* and relationships that are *necessary to create a product or service.*

Exhibit 3.5 **The value chain within an organisation**



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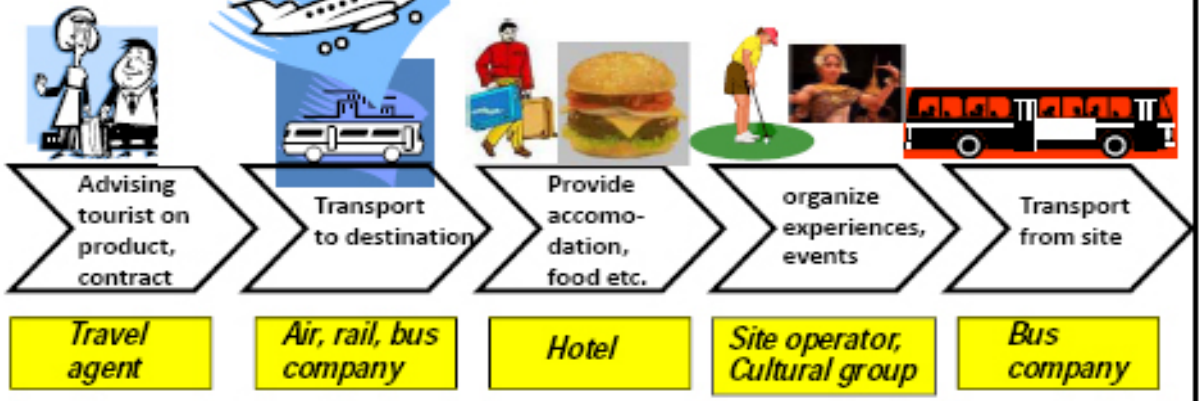
Value chain

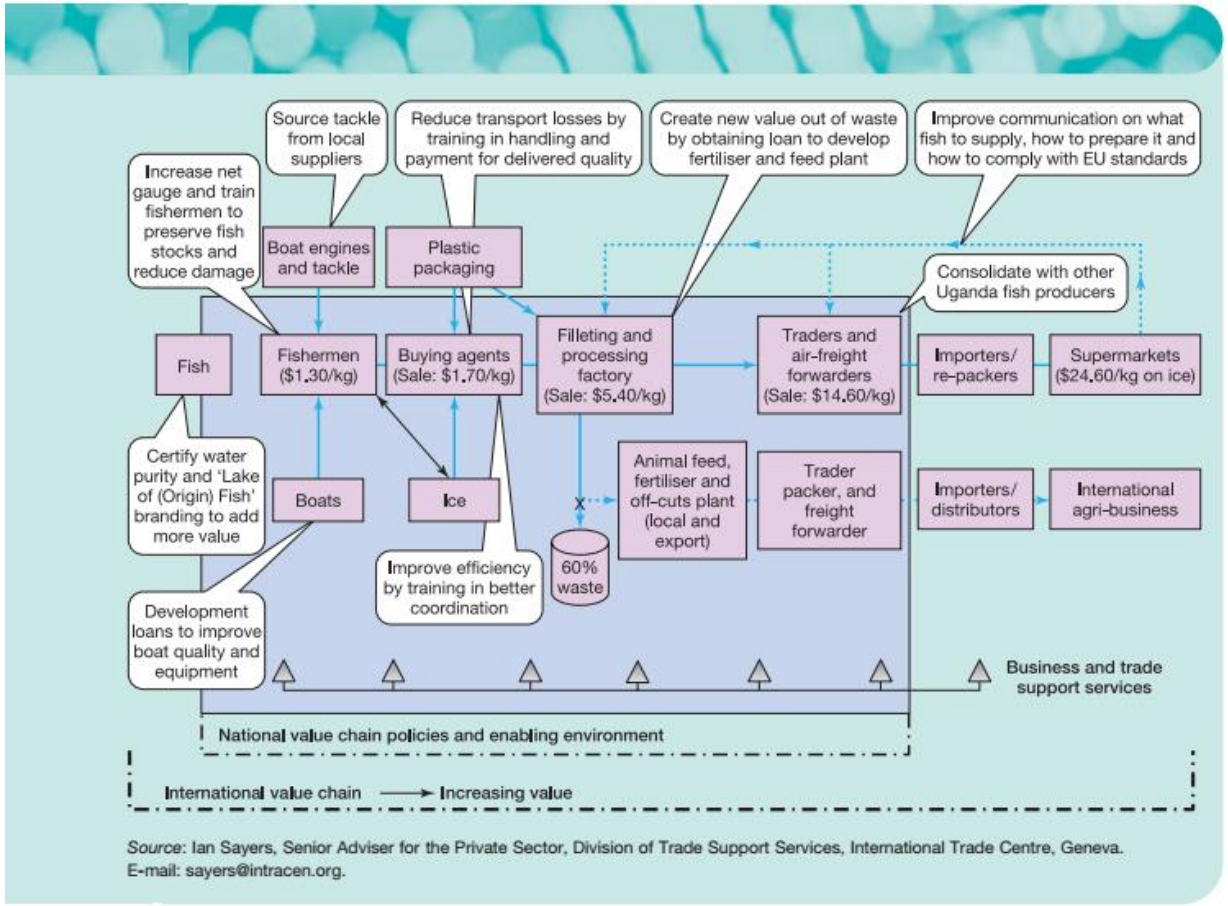
International Trade Centre

What is a tourism value chain?



Source: from GTZ

Source: http://www2.adb.org/documents/events/2011/developing-sec/presentation-07-tourism-VC-analysis.pdf



Source: Ian Sayers, Senior Adviser for the Private Sector, Division of Trade Support Services, International Trade Centre, Geneva.
E-mail: sayers@intracen.org.

Illustration 3.3 - https://docs.google.com/document/d/1XsF75OaHY6MErTTDlpJFbXD6-4vTSYh4a3HIfdRNIjQ/edit?usp=sharing

What is culture and why is it important?

Organisational culture

Organizational culture is a system of shared assumptions, values, and beliefs, which governs how people behave in organizations.

These shared values have a strong influence on the people in the organization and dictate how they dress, act, and perform their jobs.

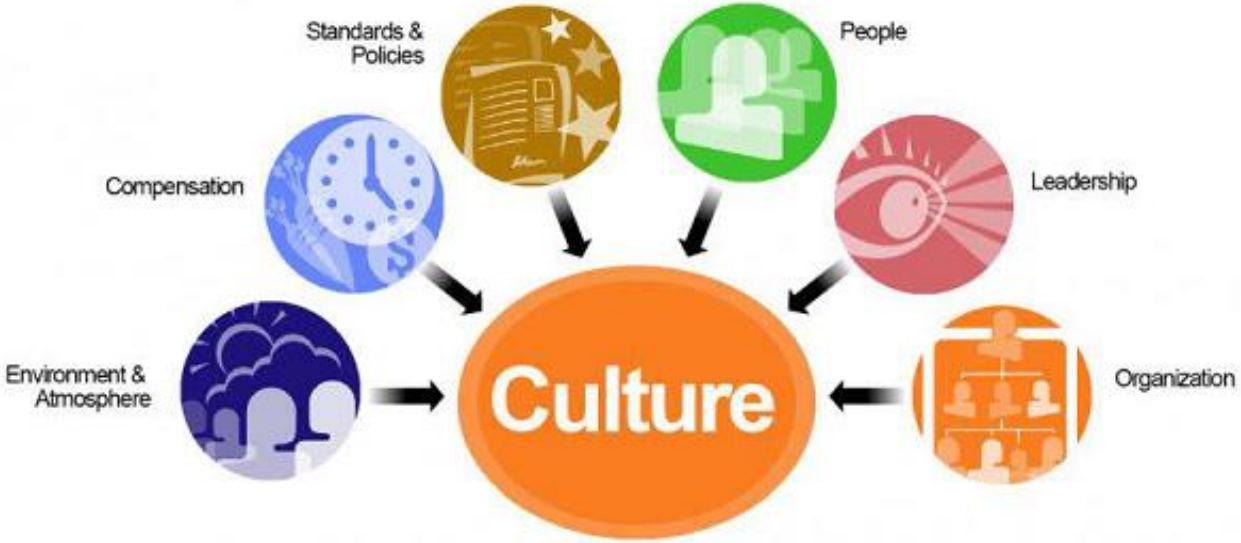
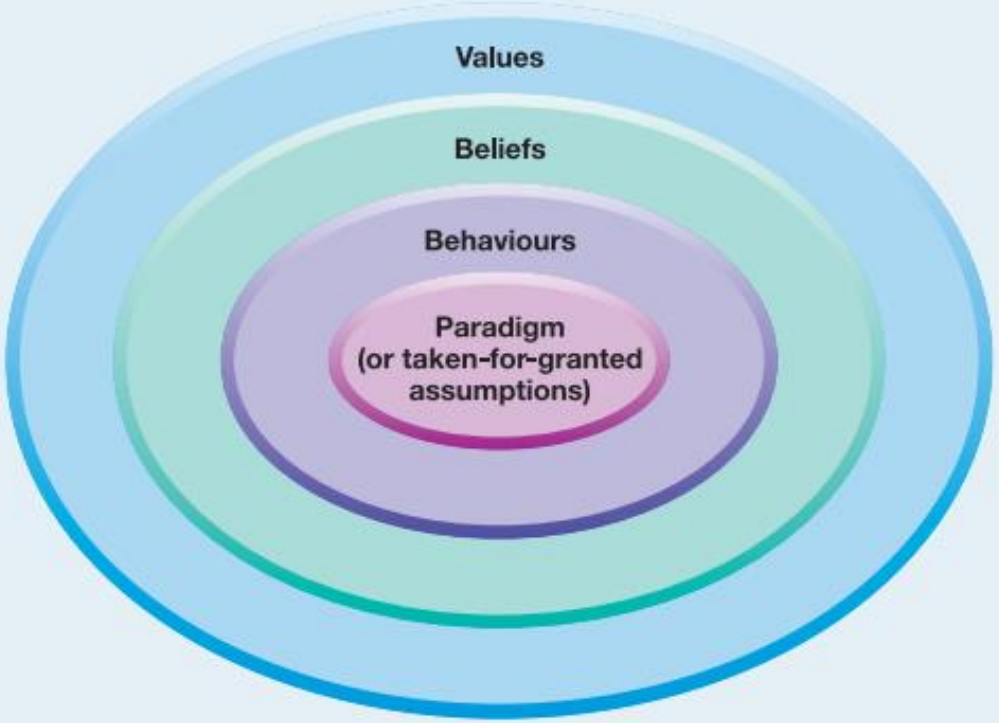


Exhibit 5.4 Culture in four layers

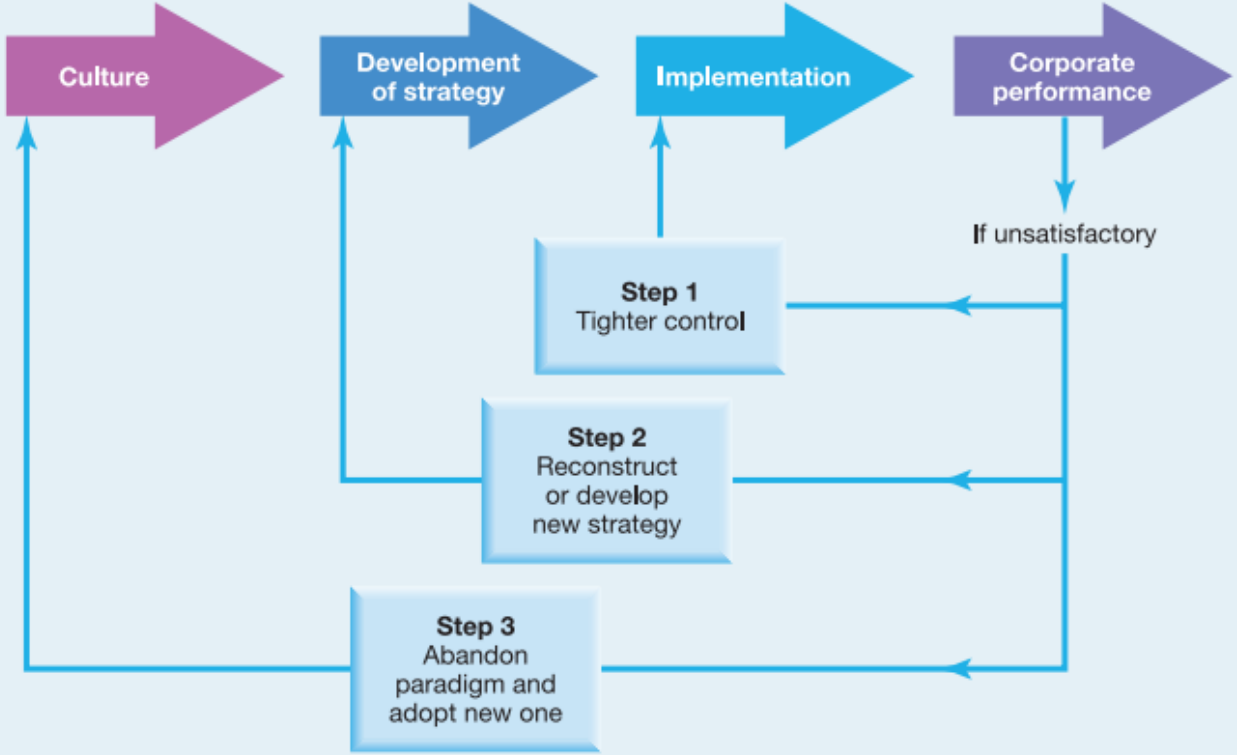


A **paradigm** is

the set of common assumptions

taken as core for organisation.

Exhibit 5.5 Culture's influence on strategy development



Source: Adapted from P. Grinyer and J.-C. Spender, *Turnaround: Managerial Recipes for Strategic Success*, Associated Business Press, 1979, p. 203.

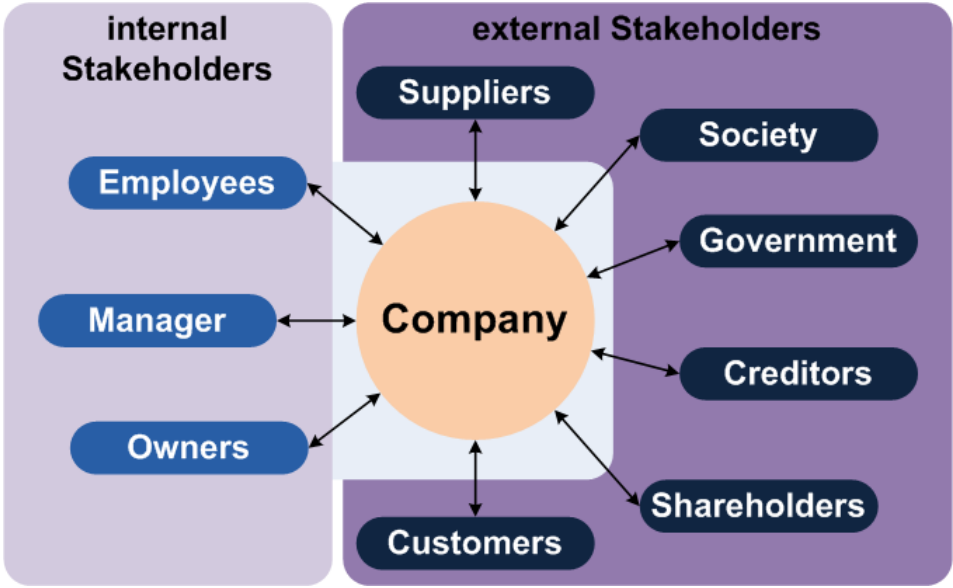
Stakeholder expectations

Stakeholders

Stakeholder is

an accountant, group, organization, member, or system

that *affects* or *can be affected* by an organization's actions.



Thank you

Questions

Johnson, Gerry; Scholes, Kevan; and Richard Whittington (2011): Fundamentals of Strategy. (2 nd edition) FT Prentice Hall

Cathy A. Enz (2010): Hospitality Strategic Management: Concepts and Cases, (2 nd edition) John Wiley and Sons