<u>**Business Management**</u>

Analyse and evaluate the resources and capabilities of Stagecoach.

You are to undertake a Resource Based Analysis of an organisation with which you are familiar. As part of this analysis you should use appropriate tools and frameworks to identify and evaluate the extent to which your chosen organisation obtains a sustainable competitive advantage through its capabilities.

All assignments should:

- Explain and assess the importance of capabilities and how they contribute to the competitive advantage of the organisation.

- Identify and analyse your selected organisation's resources (tangible / intangible) and capabilities

- Use a variety of tools and frameworks to Evaluate strategic capability (Value Chains, SWOT, Balanced Scorecard, Benchmarking, Ratio analysis, VRIN)

- Discuss the contribution of managers to the development and management of capabilities.

Full assignment information provided.

This report aims to examine the competitive advantage achieved by the Stagegroup in their current operations. It takes a 'resource based view' of competitive advantage – the significance of which will be explored in greater detail at the opening of the report. Having identified how resources can contribute to the competitive advantage sustained by a company, the report then examines the resources possessed by Stagecoach, and how these have been utilised by the company to achieve competitive advantage. The report will attempt to critically identify whether Stagecoach are effectively deploying resources, or whether their strategy could be improved.

The Resource Based View of Competitive Advantage

Porter (1991, p3) defines competitive advantage as something which 'grows fundamentally out of value a firm is able to create for its buyers that exceeds the firm's cost of creating it' and whilst it is acknowledged that this constitutes a good base point for a definition of competitive advantage, it is argued that it fails to fully address the concept of superior operation that is intrinsic in the concept of 'advantage' over competition. A further improved definition of competitive advantage is therefore found by Besanko, Dranove, and Shanley (2000, p389) who state that competitive advantage is achieved "When a firm earns a higher rate of economic profit than the average rate of economic profit of other firms competing within the same market, the firm has a competitive advantage in that market."

There are two central views as to what constitutes the main contributing factor to the deliverance of competitive advantage. The first of these is the 'positioning based view', which is proposed most vehemently by Porter (1991). As a theory it has dominated thinking in relation to competitive advantage in modern business, and is characterised by the fact that it takes an 'external' view to the success achieved by a business. Thus, it does not look at the skills that a business holds internally, but examines the position that a firm holds within the market – focusing centrally on the cost advantage and the differentiation advantaged secured by an organisation. Conversely, the resource based view of competitive advantage focuses on the internal capabilities of an organisation, and how these add value to the product delivered to the consumer. The resource based view of competitive advantage is based on two central principles; that competitive advantage can be achieved when the resources possessed by an organisation are both heterogeneous and immobile. By this, it is meant that they are exclusively possessed and not easily transferred. Barney (1991) classes the elements required as possessing 'value', 'rareness', inimitability' and 'non-substitutability'. Most importantly, it must be remembered that the objects to which these qualities relate do not need to be tangible. It is not merely the raw resource (ie gold for a jeweller) that must be rare, exclusive and hard to imitate. Instead, these characteristics for competitive advantage can relate to any element of business; tangible or intangible. Thus human capital (Afiouni, 2007) or core competencies (Prahalad and Hamel (1990, p82) constitute source of resource based competitive advantage, and Barney sums up these elements as '"all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm to enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness (Barney, 1991, p. 101).

Why this report favours the Resource Based View as a Model for Ascertaining Competitive Advantage.

The central reason that the RBV of competitive advantage is favoured is because it avoids a fundamental flaw that is inherently contained within positioning based views. This flaw is the assumption that the companies operate from a homogeneous basis in which their underlying operations are exactly the same. This assertion is made because of the belief that if a company is operating on a heterogeneous basis, competitors in the market are able to purchase the required knowledge or resources, thereby levelling the playing field again. However, this assumption is strongly rejected because it fails to take account of the fact that not only do most companies possess protected resources (through patent, trade secrets, limited availability, lack of duplicability etc), many companies simply chose to operate on a fundamentally different basis, meaning resources within a market are rarely truly homogeneous, nor is there a desire for competitors to make them so.

Additionally, the resource based view is recognised as favouring self-determinism, because it focuses on what the company can achieve internally, rather than leaving is subject to the vagaries of the external market. This self-determinism is recognised as being positive in encouraging companies to take positive action in relation to their abilities.

Approach Taken by the Report

Having identified the research based view of competitive advantage, and why it is considered to be the most effective model for CA assessment, it is now time to turn to an examination of the organisation in question. It is necessary to outline the structure that the report will take. After outlining the basic facets of the company, the report will engage in a SWOT and Balanced Scorecard analysis. These tools are used to identify the key resources that the company possesses, as well as identifying how they are deployed. Having identified what resources exist and how they are used, the report engages in an assessment of whether these resources truly constitute a source of long-term competitive advantage (and even whether the elements can truly be classified as ‘resources’ at all). The report will identify that although Stagecoach currently possesses a number of intangible resources that are delivering competitive advantage, this competitive advantage is only ‘first mover’ CA, and is not sustainable in the long term. Moreover, it will be identified that they key way in which the resources benefit the organisation is by facilitating effective ‘positioning’ decisions. Thus, it is identified that the resource based view and positioning based view of CA are intrinsically bound within one another.

The report concludes my making a number of recommendations for Stagecoach in relation to how their competitive advantage might be maintained and improved.

Introduction to Stagecoach

Stagecoach is an international transport organisation, originating from Perth (in Scotland) and specialising centrally in bus and train services. In the UK, Stagecoach operates 8,400 vehicles spanning across 100 UK towns, and carrying approximately 2.5 million passengers a day. In the UK it employs around 30,000 people (www.stagecoachgroup.com A and B). As well as operating in UK regions, it operates a low-cost no frills intercity bus service under the brand name Megabus, and also has coach operations in North America. Though the analysis of Stagecoach operations will focus mainly on their UK efficacy, their international presence and its effects on operations will be explored.

Market Position

Stagecoach occupies 14% of the bus market and 25% of the rail market (www.stagecoachgroup.com B), which makes it the second largest transport operator in the UK, second only to First Group. It constitutes one of the FTSE 250, and exhibits a share price of 199.2 (close of 29/11/10, Yahoo Finance) which experienced a recent significant rise due to the buyback of some London operations for a quarter of the price at which they were sold off four years ago).

Stagecoach SWOT analysis

Strengths

- Established infrastructure, fleet of 8,400 vehicles, continued investment in upgrades
- Established brand identity, with high brand equity
- Solid, consolidated markets, focus on organic growth
- Understanding of good HR practice (healthy hearts initiative, etc)
- Innovation in provision (market segmentation – no-frills, standard local, Gold etc), provision of Wi-Fi, identification of new routes
- Brian Souter recognised as strong management figure

Weaknesses

- Employee base underpinned by Unite Union
- Previous instability due to overexpansion in the US
- Continuation of old stock in fleet
- Reputation for ‘maverick’ management practice, and apparent dependency on Souter (Lorenz, 1997)
- Occasional poor PR practices (see for instance see statements made re: Section 28 by Chairman Brain Souter, or the discrimination of gay passengers in 2007).

Threats

- Competition from regional independent providers
- Competition from central national competitors – First Group, Arriva (National Express competition for Megabus).
- Rising oil prices increase running costs
- Increasing Car Use for many market sectors.
- Continued accusations of anti-competitive practice
- Governmental/Legal changes to practice
- Employee shortages lead to fine for non-provided routes.

Opportunities

- Continued effective use of yield management practices on long-haul routes.
- Non-cyclical industry – always base demand for OAPS, school children, etc
- Expansion of UK routes
  - Creation of new routes
  - Acquisitions
    - Re-entry into the London market
- Continued expansion of potential market
  - ‘Green’ consumers
  - Drivers concerned by rising cost of motoring
  - Central/Eastern Europeans already comfortable with public transport
- Second attempt at overseas expansion if growth in UK slows

Balanced Scorecard

There are a vast variety of ‘Balanced Scorecards’ that have implemented different areas of assessment and varied metrics in order to assess the efficacy of a business’s practices. The key element to all of these various incarnations of the Balanced Scorecard is that they aim to focus on a broader array of metrics outside of the purely financial performance of the company. The space available for assessment of Stagecoach’s operations precludes an in-depth comparison of the various models of measures and metrics available. One of the main options that presents itself is the use of the Performance Indicators used by Stagecoach themselves. These measurement areas are safety, profitability, organic growth, service delivery and staff retention.

However, these measures are rejected in favour of the tradition Kaplan and Norton’s (1992) model. The reason for this is that the Performance Indicators used by

Stagecoach are arguably too financially orientated, and most aspects of them can be brought under the umbrella of the Kaplan and Norton criteria, namely Financial, Customer, Internal Business Processes and Learning and Growth. It should be noted that some of these metrics are nearly impossible to access or assess without internal access to the operations of the business. Where this is the case, non-numerical assessments of performance in these areas have been made.

Financial:

The financial health of the business can be measured along two spectrums; firstly the comparative spectrum with the sector in general, and secondly a year on year assessment of the relative improvement or lack thereof.

Sector Comparison (sourced from Morningstar.com).

		Company Name	Sector	Market
PER (E)	x	9.14	12.46	12.03
Dividend Yield (E)	%	3.65	3.50	3.83
Price Earning Growth (E)	f	1.16	1.46	0.84
Return on Capital Employed	%	20.34	10.36	124.61
Operating Margin	%	6.83	10.60	9.11
EPS Growth (E)	%	7.90	15.01	16.68
EV/EBITDA	x	6.08	5.79	6.99
Net Gearing	%	2371.65	196.13	63.60
Net Tangible Asset Value Per Share	p	8.85	1.63	2.13
Price to Tangible Book Value	x	-14.00	-0.46	-0.21
Price/Cash Flow	x	6.61	10.54	12.06
Price/Sales	x	0.66	1.63	2.74

As can be seen from the comparative financial assessment, whilst the company is paying out dividends above the sector rate, its shares are not performing as favourably. However, the return on capital is favourable and although growth is nearly half that of the rest of the sector, it has been identified as a strategic decision by Souter, who stated that he was ‘happy’ to let growth happen ‘organically’, because the growth of other competitors was leading to prices that he considered to high for the market. The financial assessment also identifies the company’s strong dependency on tangible assets. As can be seen, arguably the most concerning figure is the astronomically high gearing ratio (indicating a high reliance on debt), but it is recognised that this amount has actually been significantly reduced, with debts cut from roughly £1 billion to around half of that.

		2006	2007	2008	2009	2010
Fiscal Year Ends		30/04/06	30/04/07	30/04/08	30/04/09	30/04/10
Net Tangible Asset Value Per Share	p	8.85	37.19	-5.54	-18.63	-14.28
Profitability						
Operating Margin	%	8.96	9.27	9.40	8.64	6.83
Profit Margin	%	7.44	10.44	9.70	9.12	7.02
ROE	%	15.83	17.02	61.00	95.05	41.46
ROCE	%	16.58	19.51	29.93	33.20	20.34
Financial Health						
Net Gearing	%	75.14	-33.18	412.81	-	2371.65
Gross Gearing	%	168.95	67.01	738.93	-	5329.92
Dividend Cover	x	2.07	2.70	4.58	3.91	1.73
Interest Cover	x	5.93	9.83	5.14	6.87	6.45
Quick Ratio	r	0.76	1.33	0.79	0.52	0.94
Current Ratio	r	0.79	1.35	0.83	0.54	0.97
Growth						
DPS Growth	%	13.33	11.77	8.88	37.65	82.91
Norm EPS Growth	%	-0.84	46.04	84.93	17.45	-19.12
Reported EPS Growth	%	-2.99	95.39	144.88	-40.51	-19.46
Cash Flow						
Cash Flow Per Share p	p	15.97	40.40	45.60	38.88	30.22
CAPEX PS p	p	8.05	3.31	5.22	11.55	5.18

The analysis of Stagecoach's performance over time has shown that dividend growth has increased dramatically, whereas earnings per share has decreased indicating that overall growth of the company has slowed down. The profit margin experienced by the company has decreased by 2%, perhaps indicating overexpansion or alternatively indicating reduced efficiency. However, Stagecoach indicated that revenues for the year were 'on-track' (BBC, 2010).

Customer

Stagecoach engage in Primary Research in order to identify consumer type and satisfaction levels that lead to an increase in brand equity levels. Stagecoach identify that there are three types of user:

User
Lasped User
Non-User

They identify that the Non-User group that demonstrates potential for switching to bus transport constitutes about 30% of the overall non-user group.

The company identifies that customer perception is almost entirely linked to journey experience, and therefore their central measurement metrics are thus (Baines et al, 2008):

- Reliability/punctuality (source www.stagecoachgroup.com C)

		Year ended 30 April		
	Target	**2010 %**	2009 %	2008 %
UK Bus reliability	>99.0%	**99.3%**	99.5%	99.4%
UK Rail punctuality				
– South West Trains	>90.0%	**93.0%**	93.3%	92.2%
– East Midlands Trains	>85.0%	**92.5%**	89.3%	87.2%
– Virgin Rail Group – West Coast Trains	>85.0%	**85.3%**	79.7%	85.9%

- Staff attitude
- Comfort
- Cleanliness
- Value for Money
- Space

Exact data for all of these metrics are not available, but it is recognised (OnStage, 2010) that both individual services and drivers have been voted within the top 15 at National Awards, whilst Stagecoach received the most nominations for the awards. The latter results are indicative of some success, due to the fact that statistically they are not the largest UK bus operator.

Internal Processes

The business employs strong risk management processes that aid in identification, evaluation and management of risk. It uses third party transference for risk management where necessary.

It engages in annual budgeting and reporting of key financial metrics

It employs a decentralised organisational structure with clearly defined limits of operations authority and responsibility, thus promoting more effective and efficient operation

All joint ventures maintain strong management contact between Stage Coach and the partner is question

Performance management appraisal systems have been implemented to cover senior management.

The company identifies that it currently experiences 'minor' internal control weaknesses.

Internal HR practices (such as a heart monitoring initiative, and pay negotiations), have reduced staff loss. (source www.stagecoachgroup.com C)

	Target	Year ended 30 April 2010 %	2009 %	2008 %
UK Bus staff turnover	To decrease each year	**15.0%**	18.3%	24.0%
UK Rail staff turnover				
– South West Trains		**7.4%**	11.3%	10.7%
– East Midlands Trains		**7.3%**	8.3%	5.8%
– Virgin Rail Group – West Coast Trains		**3.6%**	5.3%	5.5%
North America staff turnover		**20.1%**	20.2%	21.7%

Learning and Growth

Whilst formal business growth has been limited (as demonstrated by the Financial metrics above) internal learning and growth appears to be being deployed effectively. Efforts to retain staff at the front line level indicate an awareness of the need to maintain current capabilities, whilst new level employments in higher management positions (particularly in Scotland) indicate an awareness of a need for new blood and innovative thinking. This balance of old and new is important to maintain. Stagecoach do not outline any formal mechanisms for learning (with the exception of some regional level research (Onstage, 2010)), but innovations in routes (with the Oxford Tube and X5 appearing particularly effective), and improved quality initiatives (quick tickets, embracing online solutions for megabus, rolling out wifi across the fleet www.stagecoachgroup.com D)) indicate that the company strongly embraces learning to gain competitive advantage.

What the Findings Indicate

The findings from the above two analysis models (SWOT and balanced scorecard) both give strong indications as to the way in which the resources possessed by Stagecoach aid their competitive advantage.

The starting point for their competitive advantage exists in the well-established fleet of vehicles and routes that the company has secured. The vehicles present significant competitive advantage over new movers in the sector, since high capital start-up costs present a significant barrier to entry. The routes that the company have secured present them with competitive advantage over those already operating within the transport field, since these routes can provide an exclusive market within an area.

Additionally, Stagecoach have shown that a number of their non-tangible resources have provided them with elements of competitive advantage. Brand equity is established in the company through consistent branding, and structured internal systems (such as timetabling, staff training etc). These internal capabilities ensure that metrics such as reliability, cleanliness and service quality are maintained, and it is identified that these elements are central in attracting a user to a particular service provider.

The learning ability exhibited by the company (identified within the Balanced Scorecard analysis) has also granted Stagecoach a resource that provides competitive advantage. For instance, it has allowed Stagecoach to make effective decisions in relation to the rolling out of wifi across buses and trains. National Express have been slow to mobilise on this issue, and although ultimately it is a resource that can be duplicated and thus its ability to provide competitive advantage will be reduced, Stagecoach can still claim to have gained significant first mover gains from it. This is effective not only for the short-term poaching of customers, it can also be used as the first step in a long-term conversion of customers, and additionally it gives the company a reputation of customer facing innovation.

However, although this first mover advantage can be seen as a form of competitive advantage, it is arguably not sustainable, since almost all of the resources held by stagecoach fail to satisfy the Barney (1991) criteria of 'value', 'rareness', inimitability' and 'non-substitutability'. As such, despite all of the internal capabilities demonstrated by Stagecoach, it is arguable that minimal sustainable CA is actually delivered through them.

Indeed, one resource that would usually be touted as key to delivering competitive advantage (the role of key management – namely Brian Soucer) can arguably be procured or imitated, thus undermining it as a source of long-term competitive advantage. Furthermore, even if it is argued that top management provide a long term source of sustainable CA, it can be said that the value of Soucer is not as a 'resource', but instead as the determiner of 'positioning' for the organisation (which any effective manager might be able to achieve). It is arguably because Soucer has ensured effective 'positioning' of the organisation, by achieving aggressive expansion through anti-competitive pricing and operations that competitive advantage has been gained or sustained. Thus, there is argument that it is positioning rather than resources that have granted Stagecoach the greatest level of competitive advantage. However, there is also the argument that this ability to identify *how* to position effectively comes from the possession of exclusive resources – namely an effective management team. Thus, it could potentially be argued that resource based elements underpin positioning abilities, which are what then deliver competitive advantage.

Recommendations

- **Stagecoach must recognise that their current 'resources' will not sustain the business indefinitely, since they are imitable.**

- **Stagecoach must maximise internal processes and learning and growth mechanisms, since these are the most likely to generate new 'knowledge resources' which can provide short term competitive advantage.**

- **All new resources should be deployed quickly to gain regular 'first mover' advantage in the field.**

- **Effective positioning decisions regarding price, route differentiation etc can then be made on the back of this first mover advantage.**

Conclusion

The report has identified through a number of analysis techniques that whilst Stagecoach do possess a number of resources, in general these cannot be deployed in the long-term because they are highly imitable. However, they do deliver first mover advantage, and from this the company is able to make effective positioning decisions before its rivals.

Thus, what is clear from the assessment of Stagecoach is that there appears to be no clear cut answer as to which is the true determiner of competitive advantage; resources or positioning. Indeed, in some industries, where resources are capable of inimitability and exclusivity, it may be resource thinking that determines competitive advantage. However, in areas where resources are quickly and easily duplicated, effective positioning may be the key determinant of competitive advantage.

In particular, the Stagecoach analysis has identified that in need not be a case of ‘one or the other’ in relation to resources or positioning. As has also been seen, the possession of resources before others in the market allows first mover capabilities, which can be capitalised upon to secure the most effective positioning. Thus, resources and positioning are intrinsically wrapped up with one another as mutually beneficial sources of competitive advantage.

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