Master Thesis

Business Strategy Case Study

When growth goes on vacation

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Abstract

Title: *ES Viagens, when growth goes on vacation*

After only five years of operations in Portugal, in 2006 ES Viagens was already the market leader, controlling several important tourism operators and travel agencies that generated a revenue of over 440 million Euros. It was therefore nothing less than surprising to see revenues and profits declining in the following years. In the case study the Portuguese market and ES Viagens' competitive landscape are described, in an attempt to find reasons that would explain such low performance.

Besides the case study, this dissertation contains a Literature Review section in which several frameworks and theories that may help identify ES Viagens' external and internal issues are explored. Such theoretical background is then applied in the Teaching Note, a possible approach to analyze the case in class is suggested.

From the analysis of the case study it is possible to identify environmental trends and structural industry conditions affecting ES Viagens, as well as positioning and operational problems in the company. After this diagnosis recommendations are made in order to assure its growth in the leisure segment, both nationally and internationally, while maintaining its leadership position in the corporate segment.

Resumo

Título: *ES Viagens, quando o crescimento tira férias*

Após apenas cinco anos de actividade em Portugal, em 2006 a ES Viagens era já líder de mercado, controlando diversos operadores turísticos e agências de viagem importantes, gerando mais de 440 milhões de euros de receitas. Foi portanto nada menos que surpreendente ver as receitas e lucros a cair nos anos seguintes. No caso de estudo o mercado português e o panorama competitivo da ES Viagens são descritos, numa tentativa de encontrar as razões que expliquem tal baixo desempenho.

Para além do caso de estudo, esta dissertação contém uma secção de Revisão de Literatura, na qual diversos frameworks e teorias que possam ajudar a identificar as questões externas e internas da ES Viagens são exploradas. Essa fundamentação teórica é depois aplicada na Nota de Ensino, onde é sugerida uma possível abordagem para analisar o case de estudo em aula.

Da análise do caso de estudo é possível identificar tendências ambientais e condições estruturais da indústria que afectam a ES Viagens, bem como problemas de posicionamento e operacionais da empresa. Depois destes diagnóstico recomendações podem ser feitas de forma a garantir o seu crescimento no segmento do lazer, tanto a nível nacional como internacional, enquanto mantém a sua posição de liderança no segmento empresarial.

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I. Introduction

After only five years of operations in the Portuguese market, in 2006 ES Viagens was already market leader, controlling several important tourism operators and travel agencies that generated a revenue of over 440 million Euros. It was therefore nothing less than surprising to see revenues and profits declining in the following years, with the company expecting to register losses in 2009. ES Viagens had a leadership position amongst corporate clients, position that it was able to maintain, despite the stability in size of this segment and the negative effects of the economic crisis. Nevertheless in the leisure segment the company was losing sales to competitors. After the third year in row with decreasing revenues and profits, ES Viagens' management was aware that changes had to be made, and was wondering how could they restructure the company and reposition its brands to respond to market changes.

The Case Study provides students with an overview of ES Viagens' history, helping them understand the company's positioning and strategy, as well as a description of the changes that occurred in consumer behaviour and competitive conditions. The Literature Review section presents the theories and frameworks to support the analysis made in the Teaching Note, where an approach to how the case study may be used and analysed in class is suggested.

More than the acquisition of knowledge about the Portuguese tourism distribution industry, or about ES Viagens, this thesis was develop with the idea of assisting in the acquisition of knowledge that students may apply on other situations. Besides the lessons to be learnt about how to adapt a company's strategy to changing environmental conditions, students may use ES Viagens case to develop a structured way of analyzing and diagnosing company problems, one of the first and crucial steps any manager has to take in order to make good and informed strategic decisions and choices.

II. Case Study

It was a rainy April afternoon like any other at Espírito Santo Viagens' headquarter in the modern Oriente section of Lisbon, but for Rogério Cardoso, ES Viagens' Marketing Director, that rainy afternoon was having a rather bitter taste. The results for the first quarter had just came out, and the CEO, Francisco Calheiros, was expecting Rogério's input and recommendations to handle the rather disappointing performance shown during that period.

ES Viagens was a tourism group owned by Rioforte, a holding from Espíritio Santo Group, responsible for managing its non-financial investments and companies. Market leader in the tourism distribution sector, ES Viagens had just turned 2008 with a revenue stream of close to 400 million Euros, the worst in the past four years.

Looking at the river through his office window, Rogério Cardoso wondered how, after the initial years of such success, could a market leader like ES Viagens be exhibiting such a poor performance. He recalled the company history, trying to find the wrong turn that had led it to this path. With a leadership position in a relatively stable corporate segment, he knew ES Viagens was facing the challenge of restructuring and reorganizing itself, as well as finding other growth opportunities that could increase revenues and profits back to its golden days. But in order for that to happen he knew he had to answer two though questions: What went wrong? What could be done to fix it?

1. Background

The company operates in the travel distribution sector. This sector is constituted mainly by two different kinds of companies: tourism operators and travel agencies. The operators' main activity is one of putting together travel packages. This activity is related with the concept of 'trip' as one that may involve a wide set of activities – from getting to the place you want to visit, by plane or other means of transportation, to finding a place to stay or activities you might want to do while you are there. Operators arrange all these separate activities and sell it as a whole. They negotiate with airplane companies, hotels and resorts, rent-a-car companies and others, to put together a package for a certain destination. Operators may sometimes have privileged relations or even exclusivity deals with these players for certain destinations. They do, however, most times sell to travel agencies and not directly to the final consumer. Travel agencies in turn have the main function of selling the packages to the final consumer, whether they are the general public or corporate clients. Besides the pre-made packages from operators, travel agencies may also sell any of these services separately (flights, hotels, rent-a-car, others). This may happen either because the client is only looking for one of these services or because he prefers to purchase a package specially tailored to his needs, instead of one already prepared by an operator.

ES Viagens, as a tourism group, has a portfolio of a wide variety of companies. These aim mainly at two purposes: integrating as much of the process as possible and having different brands (travel agencies) in order to reach different segments and therefore a wider audience. This means that its portfolio of companies is constituted not only by companies such as operators that allow ES Viagens to develop its own products and packages, but also by several travel agencies, each with its own brand, in order to communicate different messages, targeting different audiences and reaching higher sales volume.

1.1. The beginning

It all began in 2001 through the merger of two travel agencies, Toptur and Space, giving birth to the renamed Top Atlântico. These agencies were the second and third biggest players in the market and were merged with the purpose of challenging the leader Abreu. Top Atlântico would pursue that purpose with the claim and differentiating point of a great know-how inherited from the agencies that had merged, with improved quality and service, as well as a financially secure group behind them. This strategy aimed at taking advantage of a rather fragmented market, made up of various small travel agency groups.

This operation also resulted in the creation of MundoVip, ES Viagens' operator. It resulted from the merger of Mapamundo and Clubevip, which were the operators of the former agencies, and were now also part of ES Viagens' assets.

This operation allowed ES Viagens to enter the market with a brand, Top Atlântico, with a sales volume and network of stores much higher than any other agency in the market except for Abreu, aiming at challenging it for a leadership position. Nevertheless, ES Viagens continued to grow Top Atlântico's network of stores by buying some smaller regional networks and travel agencies, in order to strengthen its presence and awareness in key locations. Such growth strategy was chosen over organic growth given the gap that still existed between Top Atlântico's and Abreu's sizes. This competitor enjoyed a greater recognition and awareness in the market given its successful history, being the largest and oldest travel agency in Portugal.

1.2. Growth and new brands

Soon ES Viagens' executives realized they had the opportunity to increase sales volume if they were able to reach different segments. In order for that to happen they also needed to present differentiated and targeted products and messages. With that in mind, in 2002 two more brands were acquired: Tagus and Carlson Wagonlit Travel.

Carlson Wagonlit Travel was an international brand with worldwide presence. They were owned by the international tourism group Accor. After establishing a partnership with the former, ES Viagens was able to acquire its network of stores in Portugal and became responsible for managing the Carlson Wagonlit Travel brand locally. This allowed the group to enter the corporate travelling market, one that it would later come to lead.

With a stronger presence in more upper-scale segments of leisure and corporate traveling, assuring Tagus' acquisition aimed at diversifying the target audience. With a strong awareness among younger groups this brand communicated a message of lower price and hip and cosmopolitan destinations and clients. The presence of a brand like Tagus was thought to be crucial in reaching a balance between upper-scale's higher margins and mass-market's higher volumes, which was part of ES Viagens' portfolio management.

Later on, in 2004, ES Viagens would come to make another important acquisition, with Netviagens joining its portfolio of brands. Netviagens had enjoyed only a few years of success but was the first and only travel agency in Portugal to operate exclusively in the online channel. This operation allowed ES Viagens to enter a new channel with growing importance, while keeping up with its strategy of diversification of targets and audiences.

At this time ES Viagens had these four brands as its main source of revenue (Exhibit 1). Together they accounted for over 55% of total revenue, the remaining coming from its operators and representatives like Mundovip, ATR and Solférias, as well as other small enterprises such as its airplane company, the event planning company and its international offices in Spain, Italy and Angola. This offices had the main purpose of bringing foreign tourists to Portugal, and did not sell ES Viagens' products to other destinations. The most relevant of these revenue sources was Mundovip, representing almost one third of such revenues. This was rather unusual, since groups managing leading travel agencies owned tourism operators of small size, none of them reaching a market share close to that of Mundovip (Exhibit 2).

The couple of years after ES Viagens' final acquisition were years of growth for the company. Its revenues grew from 388 million in 2004 to over 440 million in 2006, boosted by the growth of their main brands, Top Atlântico, Carlson Wagonlit Travel and Netviagens. And profits grew to historic maximums, more than doubling between 2004 and 2006 from 3,75 million Euros to over 8 million. Everything seemed to be going perfectly for the company, and no one anticipated what happened next.

1.3. The following years

In 2007 ES Viagens faced a difficult situation. For the first time in its history its revenues and profits had decreased. And the worst of all was that the problem seemed to be there to stay, with the same happening in 2008. Between 2006 and 2008 revenues felt close to 35 million Euros, leading to a decrease in profits of over 2,7 million, the worst performance since 2004.

At this point it was evident that something had to be done. Revenues of its main brands had decreased in 2007. Although it seemed they had stabilized in 2008, revenues from Operators and other sources kept decreasing, being responsible for a loss in revenue of over 15 million Euros. This led the company to try and hold back on expenses and costs, but the savings achieved were not enough to maintain profitability. It was becoming evident to executives that the company had built a cost structure it would have trouble to maintain if revenues kept decreasing.

In fact, ES Viagens ended up never integrating completely the different brands' activities. All brands had their own marketing and purchasing departments. Even some back-office activities lacked proper integration. As a result, not only the group did not gain bargaining power over their suppliers or reach economies of scale, but it also saw an increase in costs that now were being hard to cut back.

If on the one hand internal factors like its cost structure may have had its influence on ES Viagens' performance, the slowdown in sales was not indifferent to critical changes in the market.

2. The Portuguese traveling market

Crucial changes took place during that decade that may help shed some light on ES Viagens' situation from 2007 onwards.

Figures from INE[1] suggest that this market grew during the 2000 decade. Although the number of travelers had remained approximately the same since 2000, around 3 million travelers, the number of trips had increased during that same time. Special growth was verified in shorter trips, with trips of at least one day growing 46% from 2001 to 2009, but with longer trips of at least four days long showing a slower 26% growth in the same period.

These numbers become even brighter for travel agencies when considering that not only the number of trips increased, but also the total percentage of such trips organized trough a travel agency or operator increased as well. In shorter trips such percentage increased from 8% in 2001 to 10% in 2009, and in longer trips increased from 13% to 18%. The complexity of longer trips is higher, and most customers prefer to plan their own trips when they are shorter. Customers also prefer to turn to travel agencies when going abroad (47,5% for short trips and 56% for longer ones), but chose to organize the trip on their own when traveling inside national borders (only 5,6% used travel agencies for short trips, and 9,1% for long ones).

[1] The national statistics agency

Despite those figures and ES Viagens' expansion, mainly through acquisitions, the group's sales did not keep up with such growth during a decade when important trends and changes in the consumer behavior had taken place.

2.1. Key success factors and changes in consumer behavior

While the number of trips organized trough travel agencies had definitely grew during the 2000 decade there had been a considerable change in consumer habits. This change is related with a decrease in consumers' disposable income, and therefore the decrease in expenditure on holidays and on trips in general.

ES Viagens' Marketing Director, Rogério Cardoso, explained these changes in one sentence - "People are not traveling less than before, they simply spend less in each trip". He further added, "The new question clients were faced with was where to go with their budget, which had been decreasing during the 2000 decade".

Even in the beginning of the decade the Portuguese traveler was already characterized by preferring destinations of proximity, low on complexity (few services per trip), which are less expensive and less profitable for travel agencies.

This means that much of the growth verified during that decade was due to the growth of what might be called a 'mass-market segment'. This segment is represented mainly by middle-class and low/middle-class customers that although traveling with some frequency, prefer proximity destinations and shorter trips, spending less on each trip. Figures from INE's statistics highlight this trend, such as the decrease of the average trip duration, which fell from 6,4 days in 2001 to 5,2 in 2009, representing a decrease of 20%.

According to Rogério Cardoso, there was another important change, related to the key success factors in this sector. In fact, he explained that while factors as guaranty of quality and best destinations, good customer service and advice from specialists were previously of extreme importance for customers searching for a travel agency, price became much more important, especially from the second half of that decade on. "Such factors that were important at this point only hold if one travel agency can guaranty price parity. Customers first search for the best price and only then they look for differentiating points such as assurance of quality, broad choice of destinations or customer services".

This trend was specially threatening for ES Viagens given the positioning of its most important brand, Top Atlântico, focused more on upper-class segments, as Rogério Cardoso admits, "we were perceived as being too expensive. Our claim of higher quality and service was not adequate to an increasing mass-market trend that privileged price above all else. We needed to take our brands' quality two steps down in order to guaranty best price".

2.2. The multi-channel trend and the online channel

The new reinforced importance of price could not be explained only by a decrease in consumers' disposable income. There were other factors that pressured travel agencies to compete much more in price than ever before, and the growth of the internet was certainly one of them.

When asked about the Internet's role in the changes verified in the traveling distribution market, Rogério Cardoso first noted, "When the online appeared some predicted physical travel agencies would be wiped out. But the fact is that until 2009 new stores kept opening. This may be explained by the value attributed to the shopping experience. Furthermore there were a series of online scams that prevented this channel from transmitting an image of security. Security was even more important when customer's money was short, valuing it more."

He further admitted, "However there was a growing presence of big players online that had a more secure image. This happened with airplane companies, hotels and even some tourism operators. Along with the appearance of low cost airplane companies and online travel agencies. All this led to an increasing trend for customers to buy directly from the source and build their own packages."

Rogério Cardoso concludes, "I don't feel the online channel had grown enough to be steeling sales volume from us. But it definitely pushed travel agencies to decrease prices and margins."

The trend that had been verified was one of 'multi-channel', with customers, especially experienced ones, preferring to search themselves for the best prices for each service. As was already pointed out, travel agencies increased its percentage of sales relative to total trips, but these trips were increasingly less complex, with less experienced travelers, which are usually less profitable. Furthermore, even for more complex and comprehensive packages, the fact that customers had a greater possibility of building it themselves, going directly to the source, led travel agencies to try and match their prices, or at least reduce the gap, which led them to reduce prices and squeeze margins.

3. Competition

In the supply side two main factors contributed for ES Viagens' problems. One was the inability to catch up with the market leader Abreu, and the other was the consolidation of the market, with mergers and associations between smaller players, which led TopAtlântico to lose its position as the number two brand.

3.1. Abreu – the market leader

Abreu was created in 1840, and had been operating in Portugal as the market leader throughout all of ES Viagens' existence, reaching in 2008 an estimated sales volume of 240 million Euros, corresponding to a market share of approximately 23%, against 17% of Top Atlântico (Exhibit 3).

Abreu's main advantage over Top Atlântico was the higher recognition, mainly due to the long history in the Portuguese market, creating a sense of attachment and familiarity with the brand. Another point of advantage that contributed to maintaining and increasing its awareness was its network of stores. Such network was not only much higher than that of Top Atlântico, 133 stores against 49 in 2009, but was also better distributed throughout the country (Exhibits 4, 5 and 6). Such distribution allowed the brand to focus on the more populated area along the seashore, with special focus in Lisbon and Oporto, but still to maintain a greater presence than any of its main competitors in the interior region.

Adding to all this, Abreu's was also able to position itself as a specialist in leisure traveling. Such positioning had a much greater mass-market focus, being perceived by the public as having lower prices than most of their main competitors. This left the company in a great position to face market trends due to the growing importance of price. That situation contrasted with ES Viagens', with brands more targeted at corporate and upper-class segments, and with difficulty facing the recent trends.

3.2. Concentration and market consolidation

The performance of ES Viagens and its brands was not only conditioned by competition from the leader Abreu, but also the growth of smaller brands constituted a great increase in competition in the sector. Such growth happened due to several reasons, the most relevant of those being the association between small players, increasing presence of international competitors, especially Spanish ones, and mergers between players. Bruno Quental, head of the CRM Department at ES Viagens, said that data indicates an increase of 28% in the number of registered travel agencies. Even though 52% of the registered travel agencies in 2008 were still independent one-store travel agencies or small networks, those were increasingly associated with each other, with some associations reaching a size that could match the big players' negotiation power.

3.3. Gea and Airmet – associations of small players

Gea and Airmet are two of the most relevant examples of the association between small chains of travel agencies that reached sizes comparable to the market leaders.

Gea was an international tourism group operating in Spain and Andorra that entered the Portuguese market in 2003. Its business model consisted of increasing its network of stores trough the association of independent travel agencies. Besides an entry fee, the members had to pay an annual fee in order take advantage of the group's services. Although the members remained independent and did not share a common brand and image, they had significant incentives in joining the association. The most relevant of which was the negotiation with operators. Buying as a group, the small travel agencies were able to diversify their suppliers and get better prices than they would on their own. The group also focused on offering training and consulting services to its associates, such as training sessions to its employees and helping in business development and marketing strategy of its associates. In 2008 the group saw its revenues decrease 11% in Spain, but were still able to reach 700 million Euros in revenue in that country. In Portugal there was no information on the group's revenue, but Bruno Quental estimated its national network to include around 400 stores in 2008. Still the group was growing and expected to reach 1300 stores distributed trough Portugal, Spain, Andorra and Argentina by the end of 2010.

Airmet was another group that, as Gea, worked as an association between small chains of travel agencies. Airmet was first born in Spain in 2001 with the objective of improving independent travel agencies' negotiation conditions with suppliers. In 2006 the group entered the Portuguese market, reaching 120 associates by the end of 2007. The group offered the same kind of services as Gea, and was expected to match its size, with an estimate of 250 associates and over 500 stores in Portugal by the end of 2010.

Although there was no public information regarding these groups' revenues and market share in 2008, it was possible to conclude from the size of its network of stores and the number of associates that these associations had at that time a bargaining power over suppliers close or even higher than that of ES Viagens'. Certainly much higher than any of the associated agencies had before the groups' entrance in the Portuguese market. Such concentration of buying and negotiating with suppliers meant that even small sized chains of travel agencies were able to offer a competitive price and compete with the industry major players.

3.4. Best Travel – the franchising business model

One other emerging trend in the market during the 2000 decade that contributed to the growth of small players and an increase in industry rivalry was franchising. Many players used this kind of business model in order to grow their network of stores. Among those one stood out, Best Travel, not only because of its size and market share, but also because all its stores were franchised. Best Travel was created in 2003 with 33 stores but grew to 80 by 2008. The franchising business model was very similar to the associations mentioned before, with franchisees paying a fee to enjoy services such as supplier negotiation, but with one big difference: all stores had also common marketing and advertising services. While in an association the independent travel agencies kept their own brand, having only advantage in reduced prices from operators, in a franchising business every store had the same brand, benefiting from a much higher visibility.

By adopting the franchising business model, Best Travel was able to grow at a fast pace. In 2008 it had more stores than Top Atlântico, and higher revenues than Carlson Wagonlit Travel (50 million Euros).

3.5. Geostar – the threat of a new big player

While associations and franchising were strengthening smaller players, increasing potential threats and competition, in 2009 a merger between two key brands in the market was threatening to make the travel distribution sector an even tougher place to operate. Sonae and Rar groups partnered up to merge their main brands Geotur and Star, creating Geostar.

At this point it was yet unclear how the market would react to this merger, but the revenues of both brands in 2008, would add up to over 200 million Euros, and an estimated market share close to 20% (Exhibit 3). This meant that for the first time since its creation in 2001, Top Atlântico was in serious risk of losing second brand position.

Considering Geotur's and Star's network of stores in 2008 it was also likely that Top Atlântico's chain would be surpassed. Geostar's network (Exhibit 4 and 7) had a great focus in the coastal areas, having advantage over Top Atlântico in the northern region of the country. Another key factor in the choice of these brands locations was a strong presence in high traffic places, such as shopping malls. Presence in such locations was important not only to ensure high visibility, but also to gain awareness among the mass-market segment. As Bruno Quental refers it would be very hard for ES Viagens' brands, especially for Top Atlântico, to ensure locations that would guarantee higher visibility for this segment: "When we realized shopping malls were important, it was already too late."

3.6. Other competitors

The remaining competition of ES Viagens' brands are small one or two store regional chains, and independent online travel agencies. These two kinds of competitors have in common the fact that their size is small in terms of sales and market share, reaching only some small niches of the market. The independent online travel agencies, although having the potential for national-wide reach, are often only known by a small amount of people, given their scarce resources for proper advertising and marketing campaigns. These agencies market themselves mainly through inexpensive online adds in very targeted websites. The physical small agencies only operate locally, in the proximities of their stores. Therefore they invest in inexpensive advertising in local radios and newspapers, and trust in the effect of familiarity and word-of-mouth, to try to increase their client-base.

4. The situation in 2009 and future prospects

In the first few months of 2009, with an economic crisis hovering over Portugal, it was evident that results would reach historic minimums at the end of the year. The slowdown in sales had aggravated, and the board was predicting a decrease of at least 15% for that year, which meant the company would, for the first time, register losses.

At this point it was clear to Rogério Cardoso that there were two different problems they had to address. On the one hand, they were not able to reduce costs as much as they would desire in order to maintain profitability, with a cost structure and organizational structure that could be more efficient. On the other hand, they had a serious brand positioning problem.

Consumer trends, market consolidation and increased competition were several factors that were driving prices and margins down, and to which they did not know how to respond. How could the group reposition its portfolio of brands? How could they be perceived as being more accessible in the Leisure segment and still maintain a leadership position in the Corporate segment?

At this point, ES Viagens had Top Atlântico serving both the corporate segment, in which it held a leadership position, and the leisure segment, that represented only about 35% of the brand's revenues and where despite efforts to reduce prices it was still losing customers given its reputation for targeting higher-income segments in face of the appearance of low-cost competitors. Nevertheless the leisure segment was still showing a slight market growth, while the corporate segment was rather stagnated. The Carlson Wagonlit Travel brand, also operating in the corporate segment, had to continue as a separate brand, since it was part of an international group, with ES Viagens managing their Portuguese accounts. Given its comfortable position in the corporate segment, Rogério Cardoso believed the performance in the leisure segment had to improve.

In the leisure segment it was possible to merge some of its brands such as Top Atlântico, Tagus and Netviagens, or at least to try to reposition them. Top Atlântico had to be perceived as a more affordable brand, if it was to compete with the main players in the segment, but without affecting its leadership position in the corporate segment. ES Viagens' executives also regarded the possibility of forming only one leisure brand, but were aware that such changes could lead them to lose the client-base these brands had captivated and retained over the years.

But the company faced other problems. How could the group fight the growing network of stores of its main competitors and their increasing bargaining power over suppliers? Could it do this without having to invest even more and growing even bigger? And if not, how could it find the funds to make the needed investment in a year of losses?

5. Exhibits

Exhibit 1. ES Viagens' financial highlights

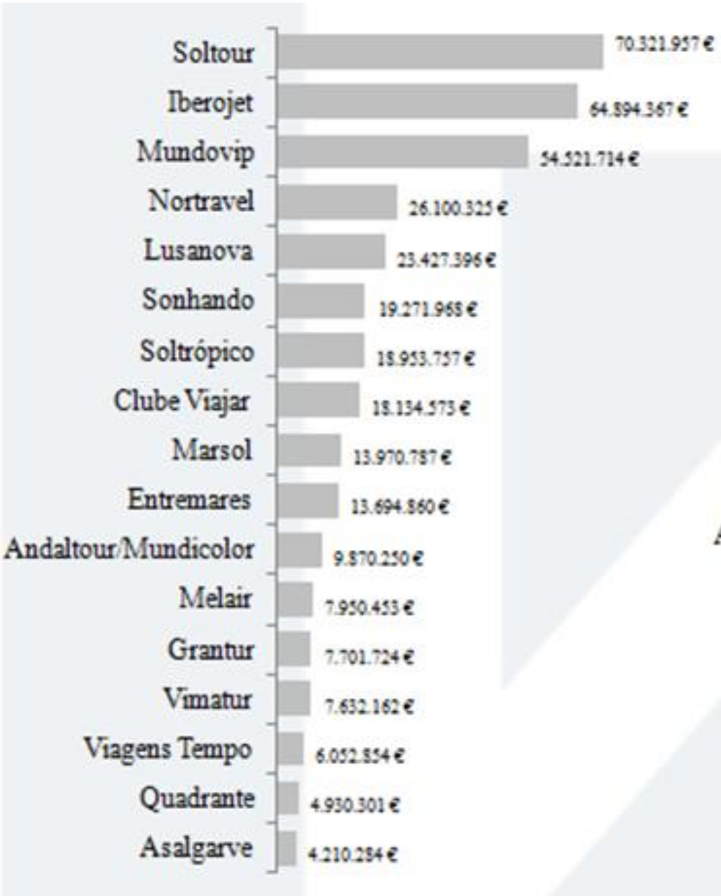
ES Viagens (in thousand euros)	2004	2005	2006	2007	2008
EBITDA	3.759	5.776	8.039	6.982	5.304
Growth rate		54%	39%	-13%	-24%
Revenues	388.670	413.638	441.606	413.281	407.228
Growth rate		6%	7%	-6%	-1%
Costs	384.911	407.862	433.566	406.299	401.925
Growth rate		6%	6%	-6%	-1%

Brand's Revenues (in thousand euros)	2004	2005	2006	2007	2008
Top Atlântico	164.735	166.642	174.600	161.498	170.497
Weight in total revenues	42%	40%	40%	39%	42%
Growth rate		1%	5%	-8%	6%
Carlson Wagonlit Travel	30.954	34.010	36.836	38.509	38.509
Weight in total revenues	8%	8%	8%	9%	9%
Growth rate		10%	8%	5%	0%
Tagus	10.721	10.678	10.683	10.433	9.765
Weight in total revenues	2,8%	2,6%	2,4%	2,5%	2,4%
Growth rate		-0,4%	0,1%	-2,3%	-6,4%
Netviagens	9.768	12.815	15.697	12.847	13.478
Weight in total revenues	2,5%	3,1%	3,6%	3,1%	3,3%
Growth rate		31%	22%	-18%	5%
Operators and other revenues	172.492	189.493	203.790	189.994	174.980
Weight in total revenues	44%	46%	46%	46%	43%
Growth rate		10%	8%	-7%	-8%

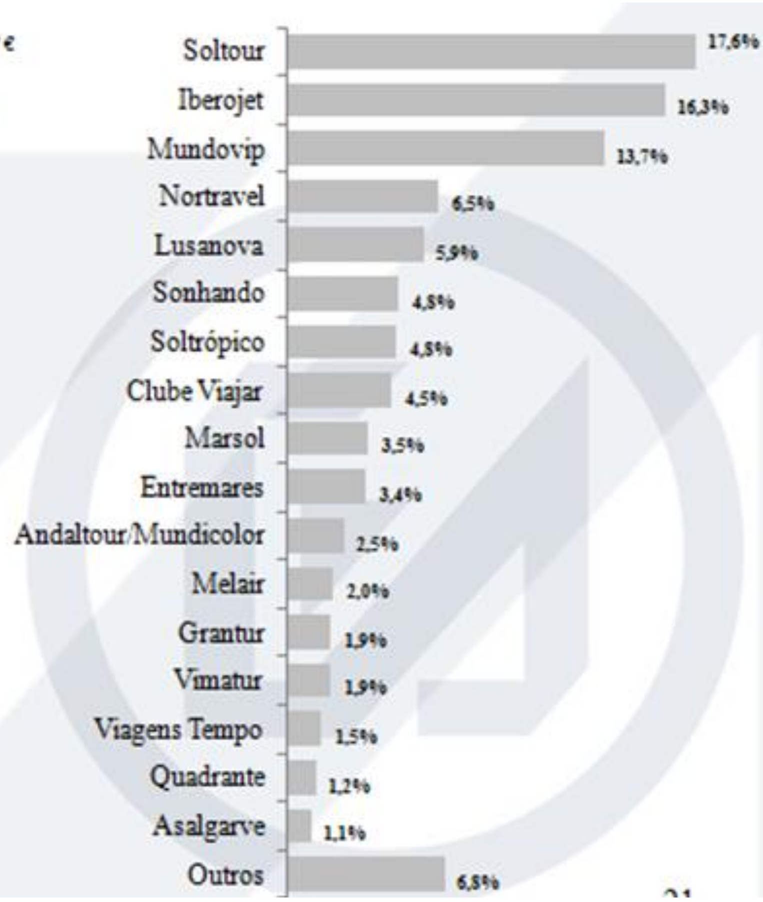
*S*ource: Rioforte

Exhibit 2. Tourism operators sales and market share in 2008

Tourism operators sales in 2008



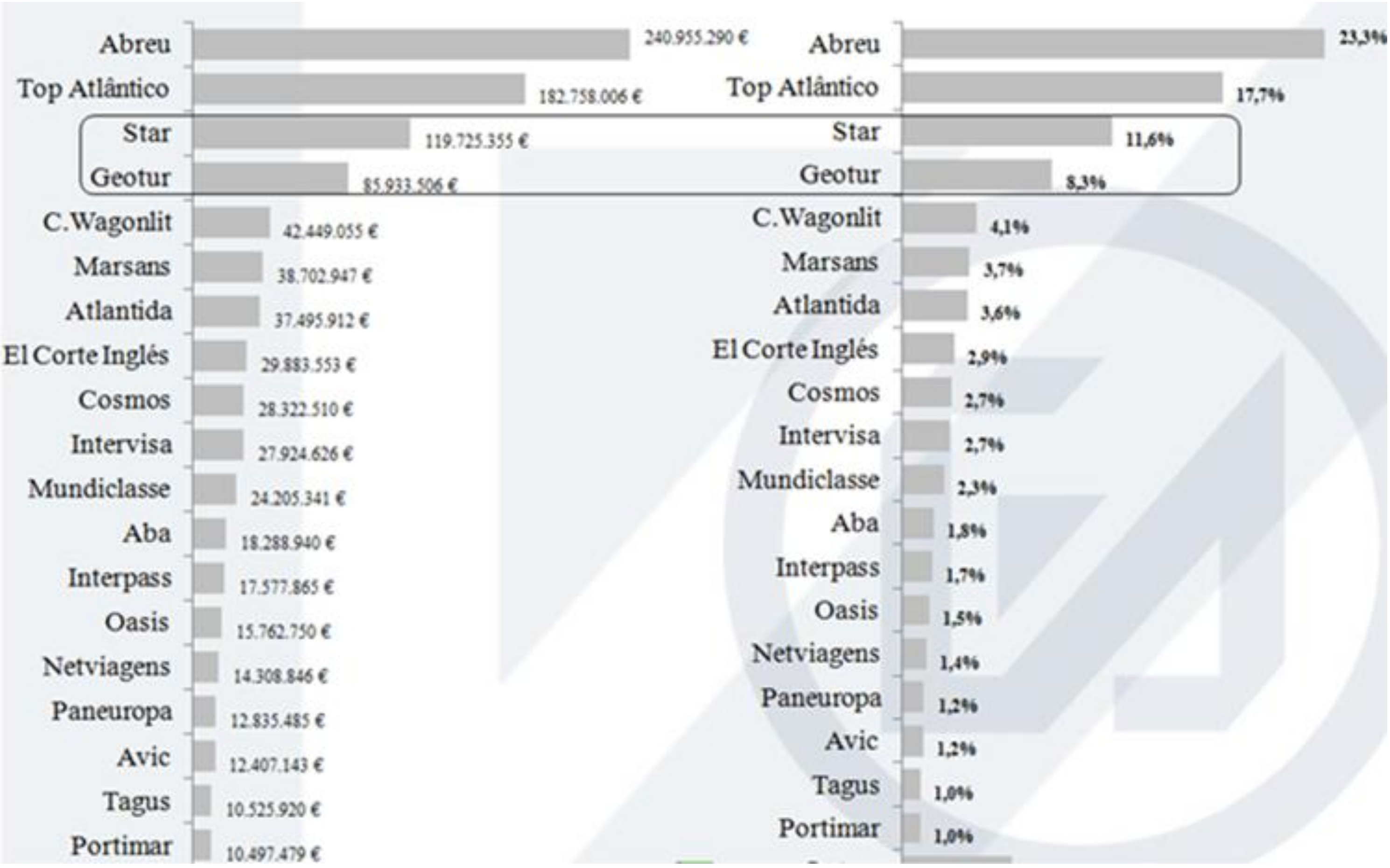
Tourism operators market share in 2008



Source: ES Viagens

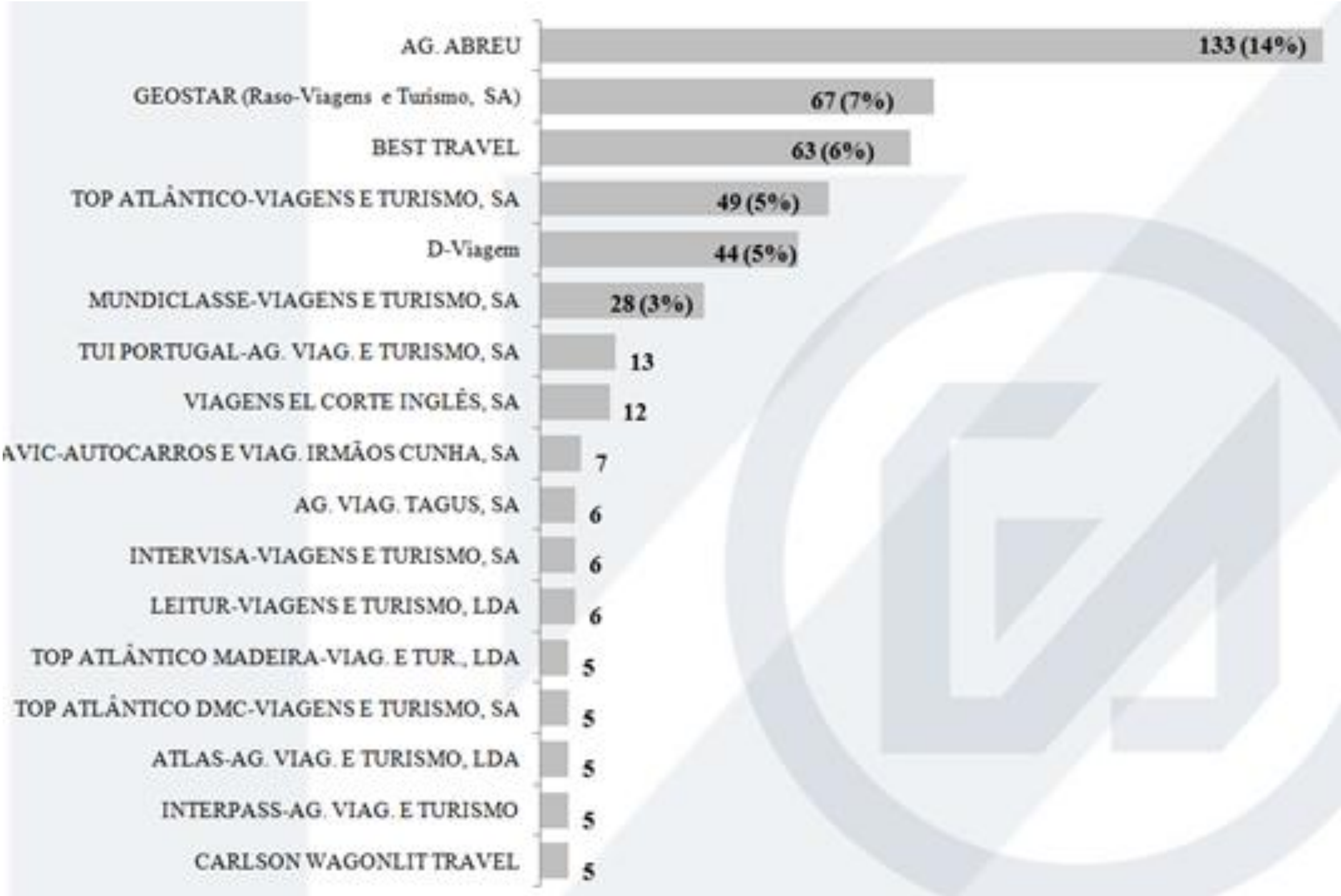
Exhibit 3. Travel agencies' sales and market share in 2008

Travel agencies' sales in 2008 **Travel agencies' market share in 2008**



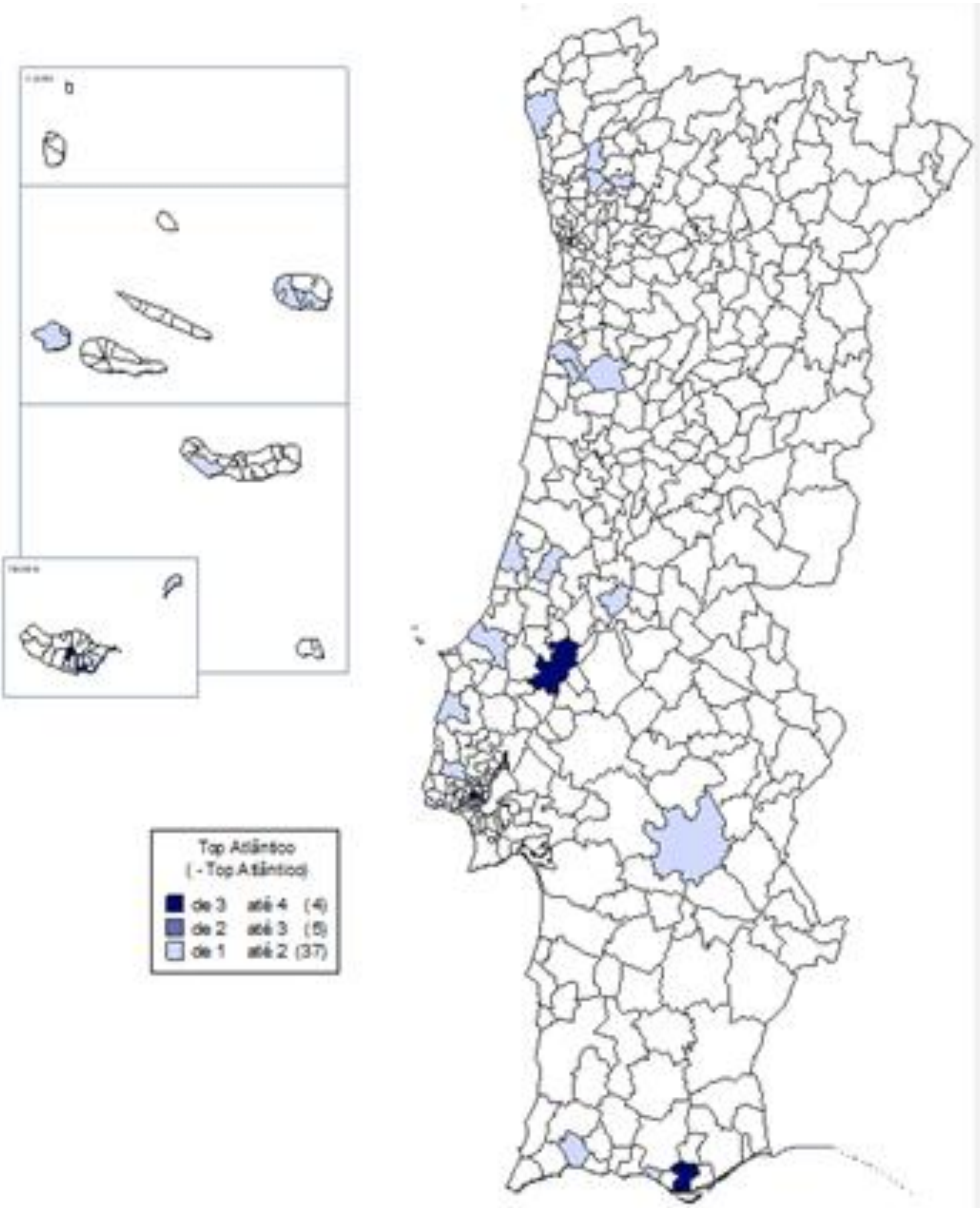
Source: ES Viagens

Exhibit 4. Number of stores of main travel agencies chains in 2009



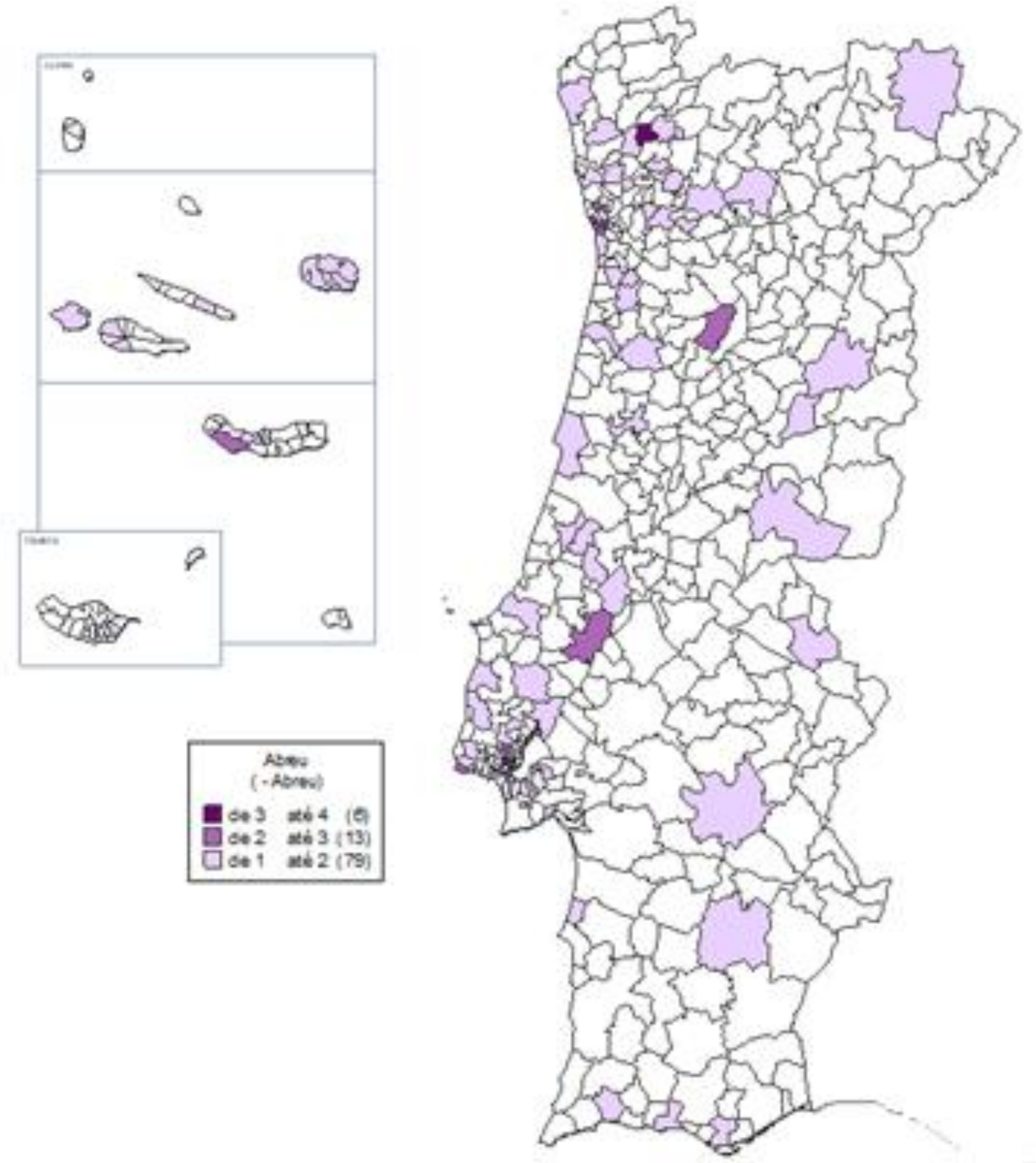
Source: ES Viagens

Exhibit 5. Top Atlântico's chain of stores in 2009



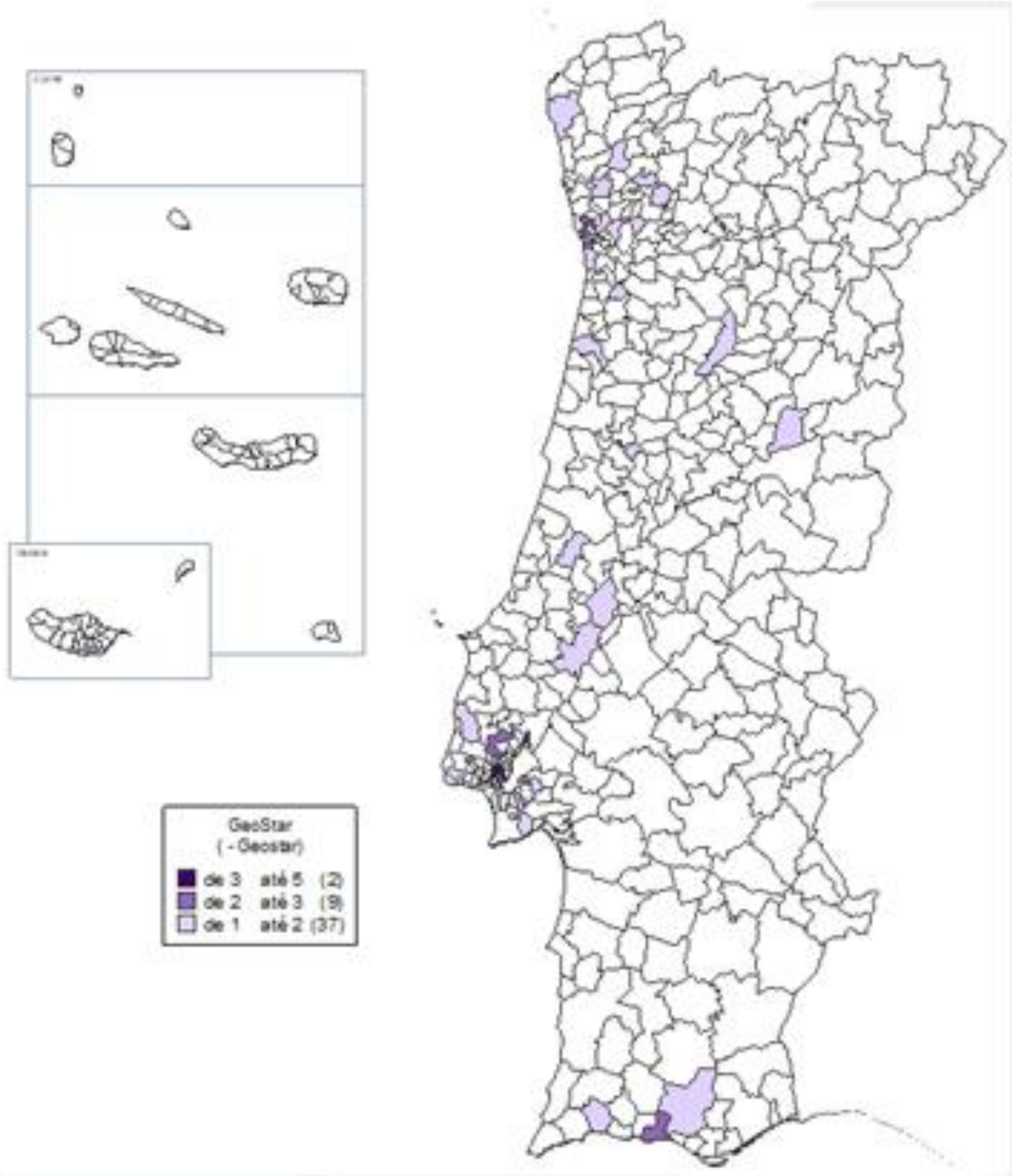
Source: ES Viagens

Exhibit 6. Abreu's chain of stores in 2009



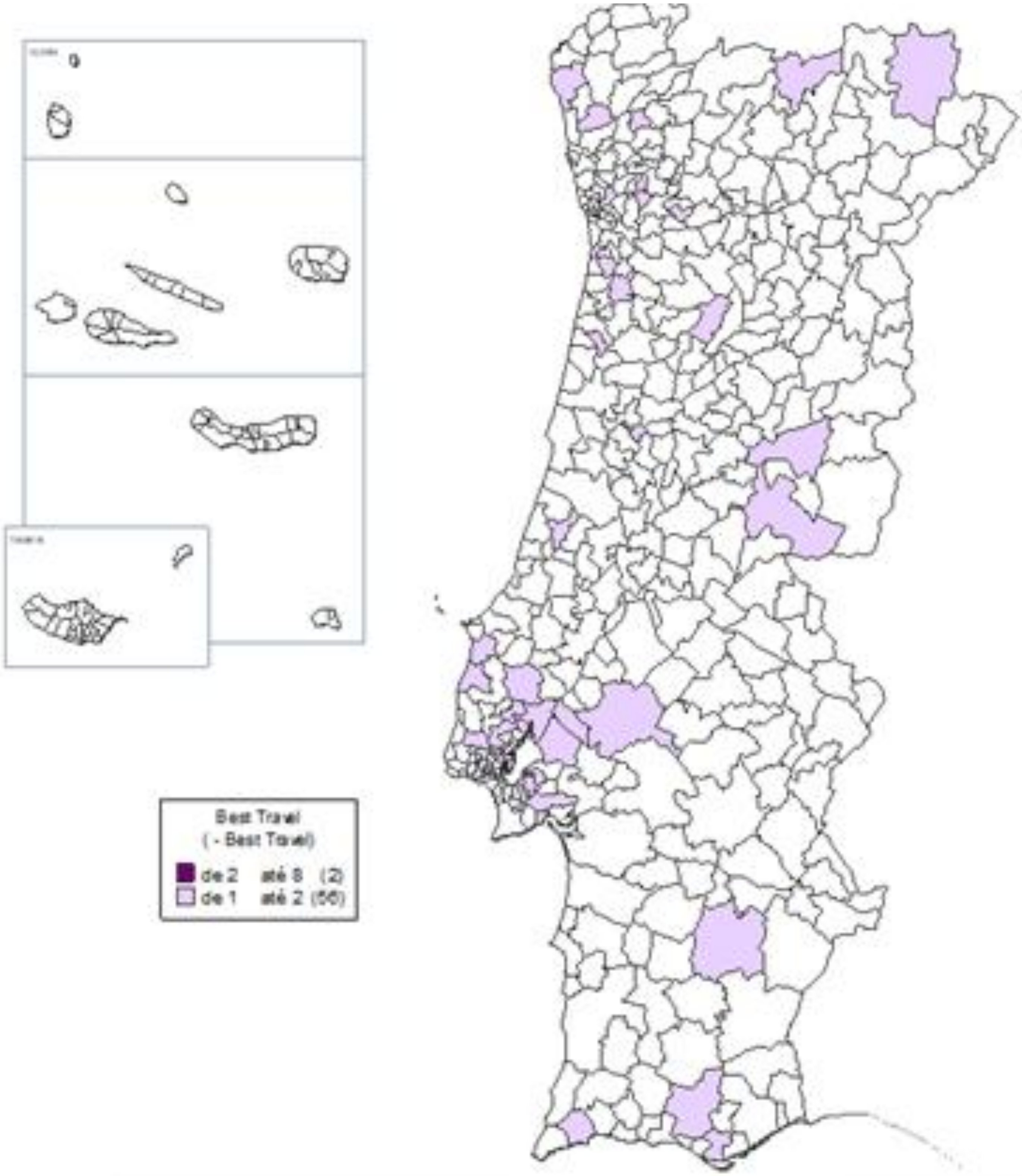
Source: ES Viagens

Exhibit 7. Geostar's chain of stores in 2009



Source: ES Viagens

Exhibit 8. Best Travel's chain of stores



Source: ES Viagens

III. Literature Review

In this chapter I aim at looking at different theories and frameworks that will be useful to apply during the analysis of the case study. The theories and frameworks found in this chapter are suppose to give students and teachers a theoretical background they may use as a ground to build on when addressing the assignment questions proposed in the Teaching Note. Although there may be other frameworks and theories that might be applied to the analysis of this case study, I tried to approach the ones I considered most relevant, trying to give an overview of both general strategic analysis and industry specific frameworks. It is, nevertheless, possible and natural that depending on the specific courses it is applied to, and depending on class participation and discussion, other frameworks and theories may be applied.

The structure of this chapter was also based on the case study and the issues it raises. It is suggested in the case study that two different kinds of factors influenced the firm: external and internal factors. The literature review is therefore divided into two big sections, one that looks at theories and frameworks to support the analysis of the company's external factors, such as macro-environment, industry and competitor analysis; and one other that looks into theoretical background related with internal factors, such as resource-based view, dynamic capabilities and strategic choice theories, and related frameworks and analysis such as the value chain and SWOT analysis, among others.

1. External factors

1.1. Macro-environment analysis

The environment is what gives organizations their means of survival, with clients, suppliers, and possible business opportunities; but also possible threats such as hostile shifts in market demand, new regulatory requirements, revolutionary technologies or the entry of new competitors (Johnson, Scholes, and Whittington 2008). The success of an organization depends on how it adapts to its environment, having the advantage those who better read trough complexity and find new and innovative ways to interact with its stakeholders (van der Heijden, 2005).

The PESTEL framework is a commonly used tool to identify how future trends in the **political, economic, social, technological, environmental ('green') and legal** environments might affect organizations (Johnson et al. 2008). This framework provides a comprehensive list of influences on the possible success or failure of particular strategies (Johnson et al. 2008).

Limitations of this framework include the fact that it best applies to past stable markets but that does not take into account the increasing dynamics and speed of change (Burt, Wright, Bradfield, Cairns, and van der Heijden 2006). Managers that look at the environment as stable, too concerned with past patterns to understand changing future trends are doomed to fail (van der Heijden 2005; Burt et al. 2006).

Scenario planning is introduced as a possible way to prepare for future changes (van der Heijden 2005; Burt et al. 2006; Johnson et al. 2008). Scenarios are seen as a way to probabilistically manage the risk associated with the complexity and uncertainty of the environment in which organizations operate (van der Heijden 2005). Organizations need to understand what really is important and what will really make an impact, and construct scenarios with different outcomes of such factors (van der Heijden 2005). Such important factors may be called the "key drivers for change" (Johnson et al. 2008).

Some authors also point-out the lack of the importance of the firm and firm-specific analysis in frameworks like PESTEL (or PEST) (Smircich and Stubbart 1985; Burt et al. 2006). The enactment view is one theory that supports such arguments. It claims that the organization and environment are created together trough social interactions of participants; with an organization having a key role in shaping its environment (Smircich and Stubbart 1985). It also points out the subjectivity of environmental analysis, considering that it is not an objective thing to be analyzed. It is furthermore considered that organizations should not try to adapt to the environment or trends, but should make them happen (Smircich and Stubbart 1985).

Authors like McKiernan have tried to make sense of these different perspectives amongst academics. It is pointed out that there are several different "schools" in strategic management (Planning School, Learning School, Positioning School and Resource-Based School) each with its own understanding of the environment and how to deal with it (McKiernan 2006). While the planning school argues the ability to forecast future trends, the learning school suggests a much more ambiguous, subjective and instinctive environment (McKiernan 2006). The positioning school focus on more industry-specific frameworks such as Porter's Five Forces (which will be analyzed further in this section), while the resource-based school attributes more importance to internal competencies rather than external factors (McKiernan 2006).

1.2 Industry

1.2.1. Porter's Five Forces

While the macro-environment might influence the success or failure of an organization's strategies, these general factors tends to surface in a closer environment through changes in the competitive forces surrounding organizations (Johnson et al. 2008). Understanding the industry is of extreme importance since it gives the opportunity to "ride trends rather than fight them" (McGahan 2000), as well as for setting diversification strategies (Porter 1979a). Furthermore, in order to cope with competition, organizations must understand the underlying economic and competitive forces rooted in its industry (Porter 1979a).

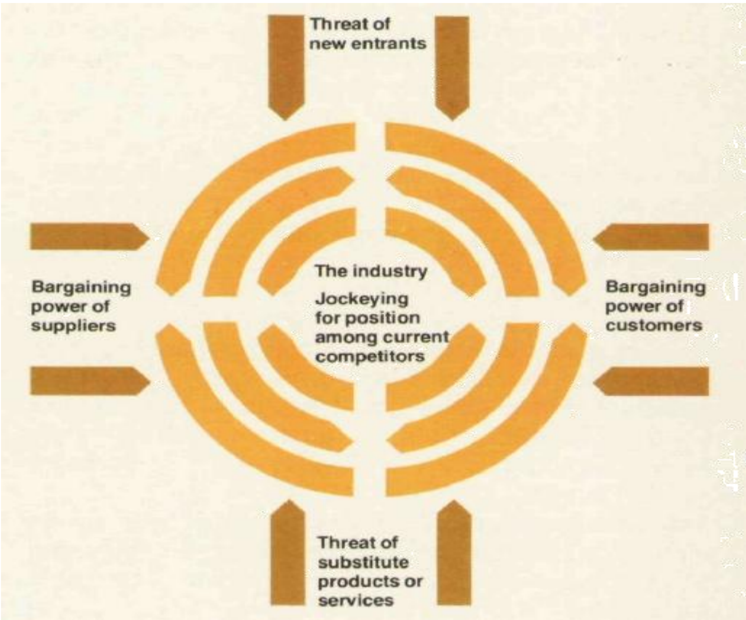


Figure 1. Porter's Five Forces

Source: Porter (1979a), How competitive forces shape strategy

Porter's Five Forces framework analyses the forces that determine the ultimate profit potential of an industry (Porter 1979a, 2008). These forces are **the bargaining power of buyers, bargaining power of suppliers, threat of new entrants and threat of substitutes**. Collectively, they influence the fifth and final force, **rivalry amongst competitors**, which may range from intense, where companies earn low return on investment, to mild, where there is room for high returns (Porter 1979a, 2008).

Although Porter argued his framework may be complemented with forecast and long-term planning to "anticipate and influence competition", and therefore "construct a composite picture of the likely profit potential of the industry" (Porter 1979a, 2008), few literature has attempted to challenge and build on this framework (Grundy 2006), characterized by being static (McGahan 2000; Grundy 2006).

Possible ways to improve Porter's system may be greater integration with other frameworks; analysis to greater depth of the inter-dependencies and relations between forces; application of the analysis to a more micro level; increase in the model's dynamic by analyzing the evolution of the forces over industry maturity and over time; use of the framework to identify different segment attractiveness within an industry (Grundy 2006).

1.2.2 Product life cycle

Some authors argue that most successful products go through similar recognizable stages during their lifetime (Levitt 1965). These stages are Market Development, Market Growth, Market Maturity and Market Decline. Given the different characteristics of each stage, using this framework may help managers prepare strategies to try to extend its market and life span (Levitt 1965). Although

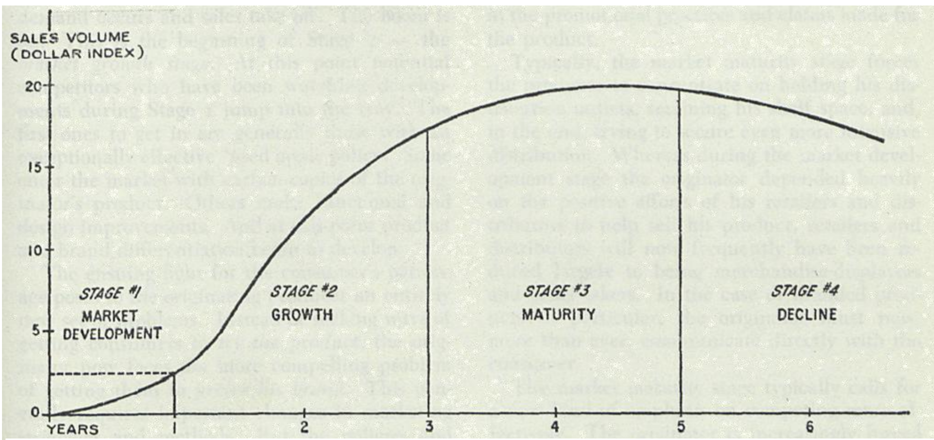


Figure 2. Product life cycle

Source: Levitt (1965), Exploit the Product Life Cycle duration of each stage may vary considerably, there are some factors that affect stage duration. It is argued that factors such as uniqueness, complexity, level of newness, price, and number of people influencing the buying decision may lead to different rates of market development (Levitt 1965). Similarly, there are some strategies that can be implemented in order to prolong a product's life, such as "promoting more frequent usage of the product among current users; developing more varied usage of the product among current users; creating new users for the product by expanding the market and finding new uses for the basic material" (Levitt 1965).

Authors that have analyzed empirical evidence in order to assert the framework's reliability have found mixed results (Klepper 1997). Main findings supporting the framework indicate that it is specially reliable in describing the formative times of an industry, nevertheless evidence of many products that do not follow the predicted trends was found, suggesting the possibility of more than one trend, or a limited applicability of the framework (Klepper 1997).

The main criticism to the framework is that identification of different stages is hard and somewhat arbitrary (Klepper 1997; McGahan 2000), even with the main developers of the framework admitting this shortcoming (Levitt 1965). Further flaws are related with low reliability of the framework describing later stages, mainly failing to predict great level of innovation and number of entrants in such stages in more specialized industries (Klepper 1997).

Other authors also point out how the framework does a good job describing industry evolution, but does not prepare companies to adjust to jumps to the next S-curve and the next generation of products (McGahan 2000). McGahan's tries to overcome such shortcomings with a set of four models describing industry evolution based on the kind of change it experiences - architectural or non-architectural (McGahan 2000).

1.2.3. Critical success factors and strategy canvas

Given that customers value certain attributes more than others, it is important for companies to identify which features are more valuable to certain market segments

(Johnson et al. 2008). These attributes are the Critical Success Factors (CSFs), also known as Key Success Factors (KSFs). Given its importance to customers, CSFs may be defined as the factors in which an organization must outperform its competitors (Johnson et al. 2008). Other authors offer a broader definition, characterizing them as the factors on which the success of the organization depends upon, and therefore the issues or areas to which special attention must be paid (Boynton and Zmud 1984).

Some authors suggest using the CSFs analysis to build a "Strategy Canvas" (Johnson et al 2008; Kotler and Keller 2011). The framework was introduced by Kim and Mauborgne (2002). The authors describe the framework as a tool to improve strategic planning, giving a clear picture of the factors a company and its competitors in the industry have invested on (Kim and Mauborgne 2002). The authors highlight how one can use the "value lines" constructed on the canvas to understand the positioning and strategy of competitors, but also to understand how they can shape their own curve, differentiating from competitors (Kim and Mauborgne 2002).

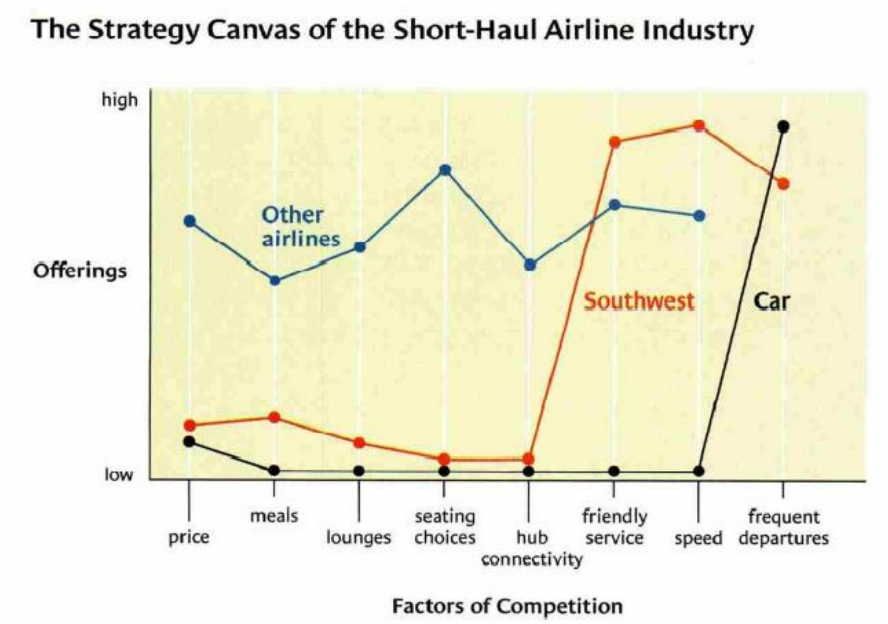


Figure 3. The Strategy Canvas of the Short-Haul Airline Industry

Source: Kim and Mauborgne (2002), Charting Your Company's Future

Managers' role is to put themselves in customers' shoes (Johnson et al. 2008) in order to build a distinct line, with a certain pattern, that sends a clear message to the market (Kim and Mauborgne 2002). The goal is to track competitors' strengths and weaknesses, in order to identify with which competitors should a firm engage in competition, and based on which attributes or product features (Kotler and Keller 2011).

Studies in the tourism industry reveal that customers' using different channels have very different preferences, resulting on the need of online and traditional travel agencies to focus on different CSFs and value lines, and which explains why these two kinds of agencies will most likely continue to co-exist (Mayr and Zins 2009), unlike many predicted (Mamaghani 2009).

Mayr and Zins (2009) identified five different segments of tourists: the **Travel Agency** prone tourists, have a bond with the traditional agencies, finding their prices more transparent and appropriate than its online counterparts. As such, they have high expectations regarding the travel agency's personal service and active marketing. The **Switchers** are the tourists who organize their trips both trough online and traditional agencies. This segment values some services traditional agencies offer such as their promotions, customer relationship and convenience; but also turn to online agencies since they do not value the face-to-face sale. The **Online** segment could turn to traditional agencies for issues of convenience but do not value the personal interaction or a long relationship with their agency and find its prices to be inadequate. Instead they prefer to use the internet, which they feel provides a more convenient and individualized experience. The **Independents** are the tourists who prefer to book their vacations without resorting to any intermediary or agency, being divided into those who use the internet at times and those who do not. The **Modern Independents** are reasonably satisfied with the traditional agencies' prices but do not seem to value any of their promotional activities or their personalized and continued services. While they prefer to book directly at the source, they are open to use the internet for its convenience and fair prices. The **Classical Independents** do not find convenient to book their vacations neither trough traditional, nor online agencies. They find the traditional agencies' prices to be unfair, but they are also very skeptic about using the internet given its high levels of unfiltered information, which adds complexity to the decision-making process (Mayr and Zins 2009).

1.3. Competition

As seen in previous sections, industry understanding and analysis is essential in order to spot opportunities that will eventually lead to superior performance and profitability. Nevertheless such analysis may be incomplete. It is necessary to analyze competitors, as well as industry structure, in order to find a set of competitive opportunities and initiatives a company must undertake to enjoy success and superior performance (Hamel and Prahalad 1989).

Furthermore, firms in the same industry may be, and usually are, extremely different from each other (Porter 1979b; McGee, Thomas, and Pruett 1995; Johnson et al. 2008). Such differences are reflected on different levels of performance (measured by profitability or return on investment) (Porter 1979b; McGee et al. 1995), but also on the ownership of different assets (Porter 1979b), that may more generally be defined as possession of different resources and competences (McGee et al. 1995).

In fact, firms in the same industry follow d different strategies regarding a number of different decision variables (level of vertical integration, level of fixed costs, product line, distribution channels, level of R&D investment, markets served, among others) (Porter 1979b). The fact that different strategies yield different results for firms with different resources and competences may explain the very existence of such differences in strategic choice and positioning (McGee et al. 1995). It is therefore expected that firms follow the strategies that better fit their particular strengths and weaknesses (McGee et al. 1995).

Given the differences in companies' strategic positioning within the same industry it is necessary to apply a level of analysis between industry and company in order to better understand one's competitors (McGee et al. 1995; Johnson et al. 2008). It is possible to look at an industry as having different clusters or groups of companies (Porter 1979b; McGee et al. 1995). Such groups may be called strategic groups (Porter 1979b; McGee et al. 1995).

1.3.1. Strategic groups

Strategic groups may be defined as "organizations within an industry or sector with similar strategic characteristics" (Johnson et al. 2008). Firms in the same strategic group are alike, and are likely to respond in similar ways to disturbances, as well as recognize their mutual dependence, or anticipate each other's reactions in an accurate way (Porter 1979b). Such similarities, resulting from investments in similar assets, strategic resources, and core competencies, lead to more direct competition between members of the same group, given that they can replicate competitors quicker, and/or target the same audiences (McGee et al. 1995).

The factors on which strategic groups differ from each other vary across industries (Porter 1979b; McGee et al. 1995; Johnson et al. 2008), but these can be summarized as differences in scope of activities (such as product range, geographical coverage, or distribution channels) and differences in commitment (such as brand and marketing expenditure or level of vertical integration) (Johnson et al. 2008).

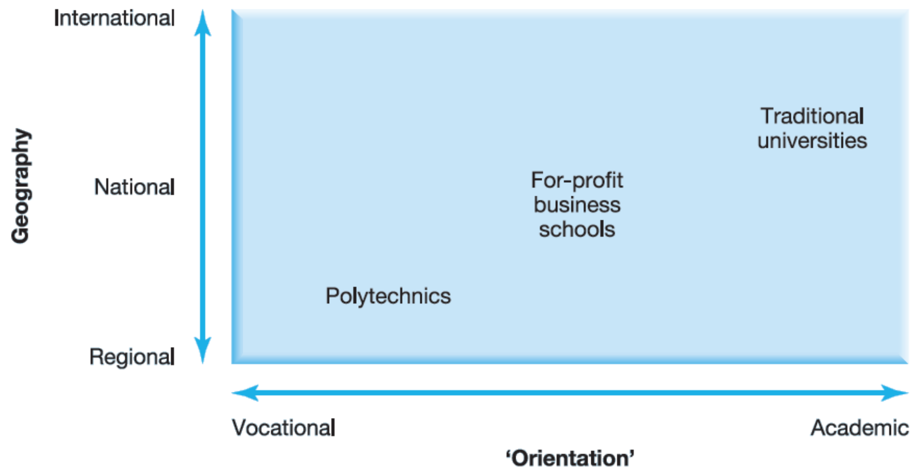


Figure 4. Strategic groups in Dutch MBA education

Source: Johnson et al. (2008), Exploring Corporate Strategy

Different groups have different levels of competition and profitability given the already mentioned difference in investments, assets, strategic resources and profitability (Porter 1979b; McGee et al. 1995). Such investments and actions create what might be called ***mobility barriers***. (Porter 1979b; McGee et al. 1995).

Mobility barriers may be characterized as the barriers to entry in that specific strategic group (Porter 1979b), being factors that shield members of that group from entry and imitation by others, helping them sustain their competitive advantages (McGee et al. 1995). This leads to differences in the impact of the Porter's Five Forces across strategic groups, which in turn is reflected on different rivalry and profitability levels (Porter 1979b, McGee et al. 1995; Johnson et al. 2008).

It is expected that the group with higher mobility barriers will also be the one with higher profitability, and therefore the most attractive one (Porter 1979b; McGee et al.

1995). Some companies may have chosen a less attractive, but also less protected group as means of entering an industry (McGee et al. 1995), while first movers and early entrants in the formation of that same industry may have enjoyed some kind of learning or scale advantages that have positioned them in more protected and attractive groups (Porter 1979b). Nevertheless it is expected that all these try to acquire the resources and competences necessary to move to a more attractive group (McGee et al. 1995). It is even argued that since companies in more protected groups will always have advantages over those in less protected ones, success can only be achieved by strategic actions that allow such mobility between groups, and by doing so, changing the structure of that industry (Porter 1979b).

Barros' and Matias' (2006) study of the Portuguese travel agencies suggests the existence of different strategic groups in this industry. Greater efficiency scores of historic first movers and worse performance of new entrants are consistent with this theory, while a positive effect of M&A actions in efficiency may be explained by providing travel agencies with the necessary resources and competences to move to a more attractive strategic group (Barros and Matias 2006).

One main criticism regarding this framework, similarly to many others, is that while being extremely helpful in mapping an industry and its inherent competition, only an understanding of the changes in industry structure and competition patterns, aligned with a clear setting of strategic goals and challenges, and consequent strategic actions to achieve and overcome them, will enable a company to "take the initiative away from better positioned players" (Hamel and Prahalad 1989).

> ***"Armed with concepts like segmentation, the value chain, competitor benchmarking, strategic groups, and mobility barriers, many managers have become better and better at drawing industry maps. But while they have been busy map making, their competitors have been moving entire continents. The strategist's goal is not to find a niche within the existing industry space but to create new space that is uniquely suited to the company's own strengths, space that is off the map."***
>
> (Hamel and Prahalad 1989)

1.3.2. Hypercompetition

One theory consistent with Hamel and Prahalad's view (1989) is the theory of hypercompetitive markets. Hypercompetition might be defined as "occurring where the frequency, boldness and aggressiveness of competitor interactions accelerate to create a condition of constant disequilibrium and change" (Johnson et al. 2008).

Such theory argues that industries and markets have changed from stable and slow moving environments to more dynamic and intense sets, where competitors grow increasingly aggressive, unpredictable and unconventional (D'Aveni 1998). In such markets, hypercompetitive cycles are frequent, with new entrants attacking incumbents' positions, leaving the market leaders with the only options of responding and entering a margin-loosing game, or not responding and risking seeing the challenger's attack intensify (Johnson et al. 2008).

Given the fast pace of change and emergence of new competitors, market structures and attractive industries will not prevail, being constantly reshaped by these fast competitive dynamics (Johnson et al. 2008). Under such conditions the only way leaders and established companies may maintain their position is by being one step ahead of the competition, disrupting their own product in order to assure their competitors will not, maintaining their advantage (D'Aveni 1998).

This theory questions some assumptions of other frameworks, often criticized for being static, such as Porter's Five Forces, PLC or Strategic Groups. It is argued that companies should not try to fit into the existing market, and that adaptation leads to inflexibility to change (D'Aveni 1998). Furthermore, the use of positioning procedures to avoid competition is seen as "defensive strategies that will not prevail", and since there is no chivalry in business, companies should be as aggressive as possible, because only those able to sustain price, product, R&D or advertising wars, are able to compete in a global market (D'Aveni 1998).

2. Internal factors

2.1. Resource-based view

Although external analysis of environment, markets and competitors is important, many authors, especially since the 1980s, have been pointing out the importance of internal factors, such as firm specific resources (Wernerfelt 1984; Hamel and Prahalad 1989). This is the argument of the **resource-based view**, which may also be called "capabilities view" (Johnson et al. 2008).

Its main divergence with the positioning school comes from the assumptions of firm heterogeneity and asset immobility (Barney 1991; Leonard-Barton 1992; Johnson et al. 2008). It is argued that in certain industries there are valuable resources that are not perfectly mobile, which leads competitors to be different, as well as their performance and profitability (Barney 1991). Ambiguity and uncertainty contribute to uniqueness of assets, which along with proprietary rights, are indicated as main reasons for immobility to exist; in other words, **"factors of production cannot become mobile unless they are known"** (Lippman and Rumelt 1982).

Resources may be defined as all assets, tangible and intangible, but also capabilities, processes, information, knowledge and insights that can be used by the firm to outperform its opponents (Barney 1991). Resources are the strengths the company may use in its strategy formulation and implementation (Barney 1991; Wernerfelt 1984).

Wernerfelt (1984) suggested applying the Five Forces Framework to determine the attractiveness of a given resource, focusing on resources that provide position barriers, which complement and enhance entry barriers, and allow for decreased competition and higher profits. The author suggests that *"**what a firm wants is to create a situation where its own resource position directly or indirectly makes it more difficult for others to catch up**"* (Wernerfelt 1984). More generally a resource is considered to be a potential source of competitive advantage if it is **valuable, rare, inimitable and non-substitute (VRIN)** (Barney 1991; Johnson et al. 2008; Wang and Ahmed 2007).

Many authors have further developed this theory to add that sustained competitive advantage does not only come from VRIN resources, but rather from the unique way companies use such resources (Leonard-Barton 1992; Prahalad and Hamel 1990; Wang and Ahmed 2007; Johnson et al. 2008; Teece, Pisano and Shuen 1997). Those are usually called **core capabilities** or **core competences**, and may be defined as the specific knowledge that only that company possess (Leonard-Barton 1992). It is not only their processes, but the formal and informal procedures for handling them, and the knowledge gathered from such interactions between resources (Wang and Ahmed 2007). In other words, core capabilities, or competences, are the skills used to handle firm's resources, carrying out its processes in a way that competitors cannot easily replicate (Johnson et al. 2008).

It is further considered that a firm's core capabilities should allow a firm to deliver greater value to the final consumer (Johnson et al. 2008). This may be done trough the development of **core products**. Core products are "components of subassemblies" that will be incorporated in the end product, being such component or characteristic that adds greater value to the end product, differentiating it from competitors' ones (Prahalad and Hamel 1990). Furthermore, assuring a leadership position in the production of core products will not only provide diversification opportunities by applying such components to other areas and end products, but will also give the company an increased efficiency and effectiveness when developing and launching new products (Prahalad and Hamel 1990).

Nevertheless this theory also faces criticism. Some authors have pointed out that in modern marketplaces hypercompetitive conditions occur more often (D'Aveni 1998; Johnson et al. 2008), and that RBV is not able to fully explain sources of competitive advantage in such environments (Eisenhardt and Martin 2000; Wang and Ahmed 2007). In fact while some authors that developed this theory seem to suggest a stable environment with long-lasting sustainable competitive advantages, arguing that immobility of resources prevents market entry and mobility (Barney 1991; Lippman and Rumelt 1982; Wernerfelt 1984); others already considered that in order to achieve competitive advantage a firm must improve existing competencies and learn new ones (Hamel and Prahalad 1989), with core competencies being constantly enhanced and pressured to change, existing a need to embrace such changes to avoid **"core rigidities"** (Leonard-Barton 1992). In light of such considerations, the theory of **dynamic capabilities** might be used to address such shortcomings (Teece et al. 1997; Wang and Ahmed 2007).

2.2. Dynamic capabilities

The theory of dynamic capabilities builds on the RBV, to add that strategic capabilities are not only unique competences in the way an organization uses its resources, but also the way companies are able to adapt their core competences and capabilities to the fast changing market trends and competitive landscape (Eisenhardt and Martin 2000; Teece et al. 1997; Wang and Ahmed 2007). In that way, this theory deals with the sources of competitive advantages in environments of fast pace of change (Teece et al. 1997).

Companies acquire and accumulate resources and knowledge over time, which position them in a certain way, creating a distinctive path (Eisenhardt and Martin 2000; Leonard-Barton 1992; Teece et al. 1997). This means that dynamic capabilities are constantly being updated, and that their evolution is not random but dependent on the firm's past and current path and resource position (Teece et al. 1997). Dynamic capabilities are therefore the ways in which companies absorb and adapt knowledge, using it to innovate (Wang and Ahmed 2007), with success coming from the ability of managers to balance between flexibility and structure (Eisenhardt, Furr, and Bingham 2010).

Some authors argue that since each company has its specific knowledge, developing its own path (Leonard-Barton 1992), it will necessarily operate in a different and unique way, developing a dynamic capability that will be a possible source of competitive advantage if rivals cannot easily imitate (Teece et al. 1997). Nevertheless other authors argue that there are "commonalities" in dynamic capabilities (Eisenhardt and Martin 2000). This means that although each company follows its own path, it may develop a similar or substitute capability (Eisenhardt and Martin 2000).

Eisenhardt and Martin (2000) further develops this theory to explain the different dynamics of more moderately paced markets and high-velocity ones. In markets of moderate velocity, competitive advantage may be sustainable for a longer period of time as industry-structure is relatively stable; while in "high-velocity" markets all a company is able to aspire are short-term advantages, and success depends upon their ability to constantly generate renewed competencies and capabilities (D'Aveni 1998; Eisenhardt and Martin 2000).

The types of knowledge accumulated may also differ according to the environmental velocity of change (Eisenhardt and Martin 2000). While dynamic capabilities are generically associated with the build-up of situation-specific knowledge (Wang and Ahmed 2007), this is optimal for companies facing fast-paced environments, developing simple heuristics that provide higher flexibility; while in more stable markets past information is analyzed and gathered in more complex processes and structures (Eisenhardt and Martin 2000).

2.3. Travel-agencies' strategic capabilities

Many authors have suggested the use and application of RBV and dynamic capabilities theories to explain how travel agencies may achieve sustained competitive advantages (Walsh, Lynch, and Harrington 2011; Zhang 2009). The tourism industry is argued to be a high-velocity one (Walsh et al. 2011), meaning that high incentives to the creation, dissemination and storage of tacit knowledge are crucial (Zhang 2009), as well as the adaptability to changing conditions (Weaver and Lawton 2008) and an organizational culture of openness and creativity (Walsh et al. 2011). These capabilities are said to be essential to guarantee that travel agencies remain equipped to adapt their strategies and business models to the changing external conditions and different customers' needs (Walsh et. al 2011; Zhang 2009).

Capabilities such as innovativeness (Walsh et al. 2011), knowledge management (Zhang 2009), strategic relations and alliances (Roberts-Lombard and Steyn 2008), and customer service (Weaver and Lawton 2008) are the most referred as essential to the competitive advantage of travel agencies. Strategic M&A initiatives have also shown to be positively correlated with superior efficiency and performance, since it may enable an agency to acquire strategic resources and develop capabilities (Barros and Matias 2006).

Human resources management and mainly employee training and development are a crucial strategic resource to develop such capabilities (Walsh et al. 2011; Weaver and Lawton 2008; Zhang 2009). Employees are an essential resource not only as main source of innovation generators (Walsh et al. 2011) and creators and depositories of complex, firm-specific and hard to imitate knowledge (Zhang 2009), but also as fundamental to a strong customer service and relationship (Weaver and Lawton 2008).

Weaver and Lawton (2008) have interviewed a sample of US-based successful travel agencies, and identified **relationship building** capabilities as the source of these agencies' success. Relationship building consists of common necessary strengths of travel agencies such as networking, employee empowerment, and most importantly customer service (Weaver and Lawton 2008). The authors argue that a close relationship with tourists is essential to gain their commitment, with their employees playing a major role since they are the ones that interact with clients (Weaver and Lawton 2008).

Customer service seems to be the most mentioned capability any travel agency must possess (Alberdi, Andrada, and Antón 2005; Moliner, Sánchez , Rodríguez, and Callarisa 2006; Weaver and Lawton 2008). The clients' perception of quality and differentiated service is mainly influenced by the professionalism of employees (Alberdi et al. 2005). Also clients' perceptions of service towards an agency is also based on their past experience (Moliner et al. 2006). This means that while for clients that have already booked through a specific agency the evaluation may be more rational, for new clients first impressions and emotional responses have much greater importance (Moliner et al. 2006). Although such emotional connection towards a company, that will ultimately result in brand trust, are indeed expected to have great influence in customers' satisfaction, empirical studies show that travel agencies have failed to engage their potential clients on an emotional level, failing to generate a trust towards the brand strong enough to affect their buying decisions (Gilbert and Gaos 2005).

Studies assessing the efficiency of Portuguese and Spanish travel agencies found that while the Portuguese average efficiency scores were considerably high, representing a very competitive market (Barros and Matias 2006), the Spanish market still has much inefficiency, but with a large number of companies on full-efficiency levels (Sellers-Rubio and Nicolau-Gonzálbez 2009).

2.4. Value-chain

For a company to be able to deliver greater value to their customers must not only understand their needs, but also how the firm needs to perform and what should do in order to achieve such expectations (Johnson et al. 2008). Meaning that competitive advantage can only be understood by analyzing "where" inside the company the source(s) of advantage might be (Porter 1998), and the value chain analysis does just that (Johnson et al. 2008; Porter 1998).

Porter (1998) describes a firm as **"a collection of activities that are performed to design, produce, market, deliver, and support its product"**. The value chain represents such activities (Johnson et al. 2008; Porter 1998), suggesting some generic activities that a firm should adapt to its specific activities (Porter 1998).

The firm's activities may be divided into primary and support activities (Johnson et al. 2008; Porter 1998). **Primary activities** are those directly related to production, distribution or customer service (Johnson et al. 2008; Porter 1998). These may include **inbound logistics**, which include all activities that are associated with management of inputs; **operations**, meaning all activities that actually produce the final product; **outbound logistics**, which are the activities that handle the final product after it is finished, such as storage and distribution; **marketing and sales,** are the activities that allow the product to reach final consumers; and **service**, which are the activities that provide greater value to consumers after their purchase (Johnson et al. 2008; Porter 1998).

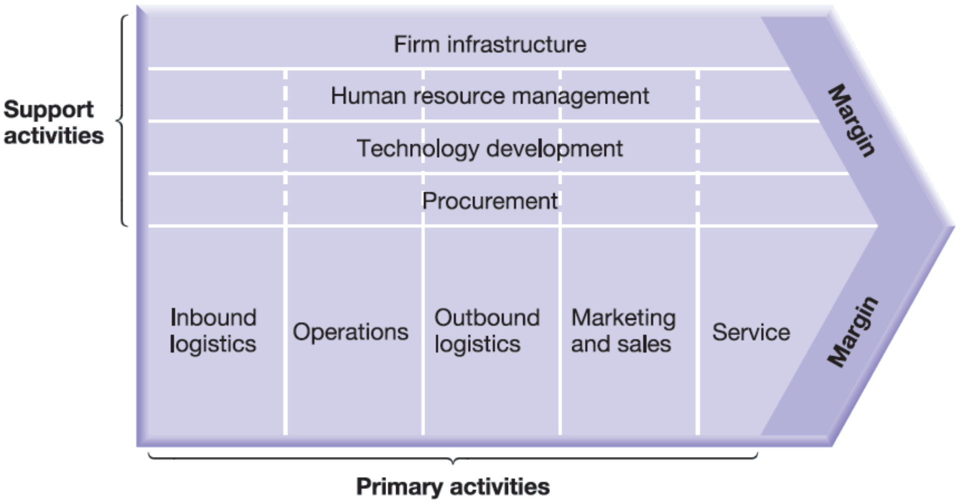


Figure 5. Porter's Generic Value Chain

Source: Johnson et al. (2008), Exploring Corporate Strategy

Support activities are those that increase efficiency of primary activities, and of the whole firm, by providing operational support (Porter 1998). These generically include **procurement**, which are the activities related with the acquisition of inputs and other resources needed for other activities to operate; **technology development,** which mainly includes knowledge and processes for how to handle technology in other activities; **human resources management**, which are the activities that involve recruiting and training of employees of the organization; and **infrastructure**, which are a set of routines derived from the company's culture and values and may be related to overall company activities such as planning or finance (Johnson et al. 2008).

Another possible use of the value chain, is to the identify which **linkages** may be more beneficial to the company (Porter 1998). Such linkages may be between activities, allowing for greater operational efficiency and coordination (Porter 1998), and creating an unique way of operation that is hard to replicate (Porter 1996); or may be linkages between the company's and its suppliers' and distributors' activities in order to deliver greater value to the customer (Johnson et al. 2008; Porter 1998).

These characteristics of the value chain framework make it a valuable framework in identifying resource requirements and the capabilities a firm may develop in order to achieve competitive advantage (Johnson et. al 2008).

2.5. Strategic choice

Strategic choices relate with making important decisions regarding the company' future, mainly how it will respond to external threats and how it will position amongst competitors (Johnson et al. 2008). Given that most firms are diversified, facing different kinds of competitors to service different kinds of customers, there is the need to divide an organization into strategic business units (SBUs), that compete in different ways (Johnson et al. 2008; Porter 1998).

Usually decision on how to position and how to engage in competition falls into each strategic unit's responsibility, with corporate management deciding which markets and products the company will be present in (Johnson et al. 2008).

2.5.1. Business unit level strategic choice

Since the bases of competitive advantage may differ across markets and/or market segments, there is a need for an organization to divide itself into different business units (Johnson et al. 2008). This way a company may deal with the problem of having to engage in incompatible strategic choices that generate inconsistencies and other costs for the company (Porter 1998).

The main strategic decisions facing the business unit managers relate with the choice of competitive strategies (Johnson et al. 2008). Competitive strategies may be defined as the positioning of a firm in a certain industry or market in a way that is able to sustain a profitable activity amongst its competitors (Porter 1998).

The two basic types of competitive positioning are cost leadership and differentiation (Porter 1998). These strategies may also vary on their scope (Porter 1998), being defined as broad when a company positions itself in the same way for a wide variety of segments and customers, or focused when it applies that strategy for a specific market segment or niche (Johnson et al. 2008; Porter 1998).

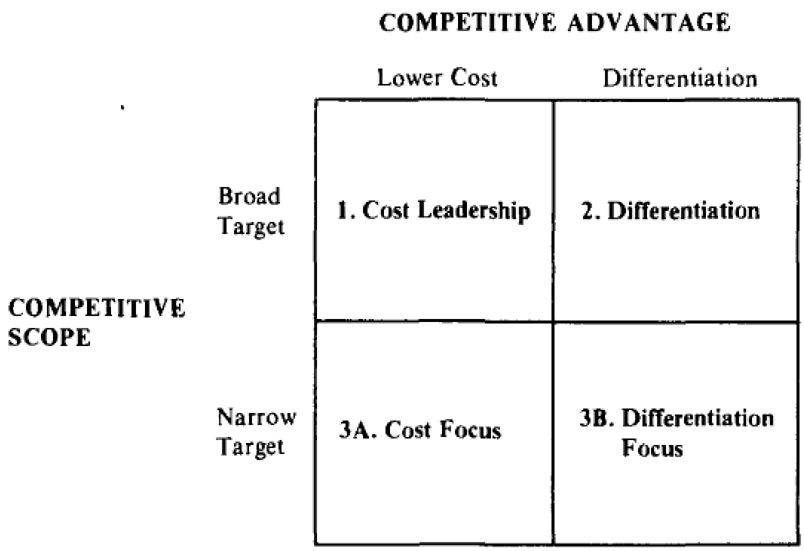


Figure 6. Porter's Generic Strategies

Source: Porter (1998), Competitive Advantage: Creating and Sustaining Superior Performance (with a new introduction)

The main discussion between authors that studied competitive positioning is related with the possible use of "hybrid strategies" (Johnson et al. 2008; Thornhill and White 2007). Some authors argue that it is possible, and sometimes desirable, for a company to achieve low costs and prices while delivering differentiated, enhanced products in relation to their competitors, at least as long as such prices generate a margin high enough to reinvest in the development of differentiating bases (Johnson et al. 2008). Nevertheless others argue that it is unfeasible to compete and service all needs of all segments, which means that hybrid strategies will necessarily yield lower performance and results (Porter 1998). The argument for purity is that an organization should separate units pursuing different competitive strategies, or else none of them will be fully able of generating and sustaining competitive advantages (Porter 1998). In

Thornhill and White's (2007) empirical study is argued that past studies contain some errors in methodology that may explain mixed results. The authors found positive relationship between performance and purity, being unable to find a scenario where hybrid strategies outperform pure ones (Thornhill and White 2007).

Other topic of discussion and criticism is related to criteria used to identify and separate business units (Porter 1998; Prahalad and Hamel 1990). Companies may use market-based or capability-based criteria in identification and creation of SBUs (Johnson et al. 2008). Nevertheless some consider that companies have been relying too much on market-based criteria (Porter 1998), which has prevented them to achieve leadership positions (Prahalad and Hamel 1990).

Prahalad and Hamel (1990) argue that an organization should be seen as a "portfolio of competences", meaning that SBUs should be organized by competences, in order to be able to develop sources of competitive advantage. The authors defend the creation of an architecture that gives indication to each unit on which core competence to develop, assuring that each unit works towards the strategic goals of the corporation and avoiding perverse incentives that prevent strategic fit (Prahalad and Hamel 1990).

Porter (1998) argues for an "activity-based view" of the firm. This means that SBUs should be clustered in a way that similar activities are shared and centralized, in order to promote efficiency and cost reductions (Porter 1998). This may be done through the use of the Value Chain Framework (Porter 1998).

2.5.2. Corporate level strategic choice

At Corporate level, strategic choice has two main functions: deciding which product-markets, industries and sectors the corporation should be present in; and organizing and coordinating the strategies of the different business units (Porter 1987, 1998).

Relating to choice of sectors and businesses to be present in, the Ansoff Matrix is a tool that provide a company with a few paths the company may choose (Johnson et al. 2008). Growth is essential for the survival of any corporation (Ansoff 1957; Laurie, Doz, and Sheer 2006), and the Ansoff Matrix provides with four different kinds of growth strategies that may be pursued (Ansoff 1957; Johnson et al. 2008). A company may choose between **market penetration strategies,** meaning that the company will pursue growth opportunities within the present markets and product-line, attempting to grow sales and gather new customers, and intensifying competition; **market development strategies,** where companies try to extend their presence to new markets with the current product-line; **product development strategies**, launching new products to gain market share within the markets it already competes in; and **diversification strategies**, by entering new markets with newly developed products (Ansoff 1957; Johnson et al. 2008).

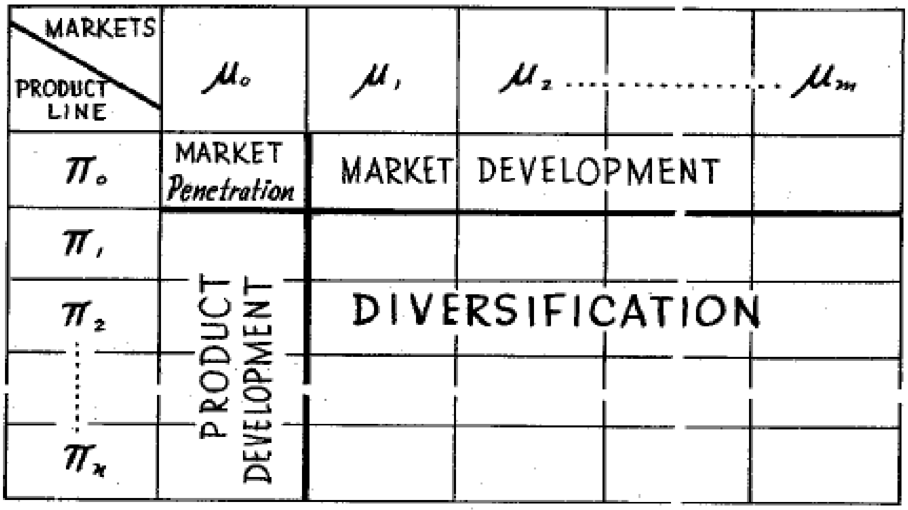


Figure 7. Ansoff's Matrix

Source: Ansoff (1957), Strategies for Diversification

Nevertheless many authors have pointed out that too much attention has been paid to growth strategies involving acquisitions and diversification (Laurie et al. 2006; Porter 1998). Some authors argue that growth should be mainly organic, through the extension of a company's core competences and capabilities to new products and markets (Laurie et al. 2006), while others defend that there is an optimal level of diversification (Palich, Cardinal and Miller 2000; Porter 1998; Johnson et al. 2008).

Discussion on the subject of diversification often lies on which level and kind of diversification brings greater value to the corporation (Palich et al. 2000). Some authors defend that diversification should be limited to related businesses, meaning that corporations should target companies where synergies can be found by the transference of skills and sharing of activities (Porter 1987, 1998). It is implicit that unless such criteria are met, acquisitions will not add value to the corporation and its SBUs (Porter 1987, 1998), even having a negative effect past some point, with increased complexity and coordination costs (Porter 1998). Nevertheless other authors argue that unrelated diversification may yield advantages especially within a certain geographical market (Johnson et al. 2008). On this issue empirical studies favor the argument of "related diversifiers", suggesting that the relationship between diversification and performance is one of an inverted-U (Palich et al. 2000).

Regarding the structure and organization of SBUs, authors defend that corporations should look for architectures that add-value, making the corporation more than the sum of its units (Porter 1998; Prahalad and Hamel 1990). It is suggested that SBU should be organized in "conglomerates" (Porter 1998), generating efficiency gains from sharing of activities, resources and competences (Laurie et al. 2006; Porter 1998; Prahalad and Hamel 1990). Furthermore it is argued that in the case of dynamic markets, where structural market changes occur more frequently, the organizational structure of the corporation should be flexible enough to accommodate frequent changes in the SBUs (Eisenhardt and Brown 1999). By frequently adding and exiting new businesses to the corporation's portfolio, splitting and transferring skills and resources across SBUs, the corporation generates routines and processes for implementing fast organizational change, being able to adjust SBUs' size and production to the fast changing customer needs and competitive landscape, and thus responding more effectively to external opportunities and threats (Eisenhardt and Brown 1999).

One commonly used way of analyzing the firm's portfolio of SBUs and the directions those will take, is the Boston Consulting Group (BCG) matrix (Johnson et al. 2008; Hax and Majluf 1983). This takes into account mainly market growth and market share

(Johnson et al. 2008), and may be very useful in analyzing and balancing the firm's cash-flows (Hax and Majluf 1983). Market growth may be measured comparably to the average growth rate of the industries that business competes in, while market share should be measured comparably to its main competitor (Hax and Majluf 1983).

There are four different quadrants, each representing a different kind of business (Johnson et al. 2008; Hax and Majluf 1983). **Stars** are businesses in growing markets, with high market share, generating modest cash in-flows given its need for strong investment in order to maintain its position (Johnson et al. 2008; Hax and Majluf 1983). **Question marks** are those businesses that show high growth but have not yet conquered a high market share(Johnson et al. 2008; Hax and Majluf 1983). These represent good opportunities, since they will be the future stars and cash cows of the company, but careful evaluation must be undertaken since these units reveal investment needs much higher than the cash in-flows it generates (Johnson et al. 2008; Hax and Majluf 1983). **Cash cows** are very important in a corporations portfolio, given their high market share in mature markets, being able to generate much greater cash flows than they require, being important investment sources to finance other projects and units, such as question marks (Johnson et al. 2008; Hax and Majluf 1983). **Dogs** are unattractive businesses, retaining low shares of mature markets, absorbing the low cash in-flows it generates to keep its operations running (Johnson et al. 2008; Hax and Majluf 1983). In these cases divestment is advised, unless they possess important

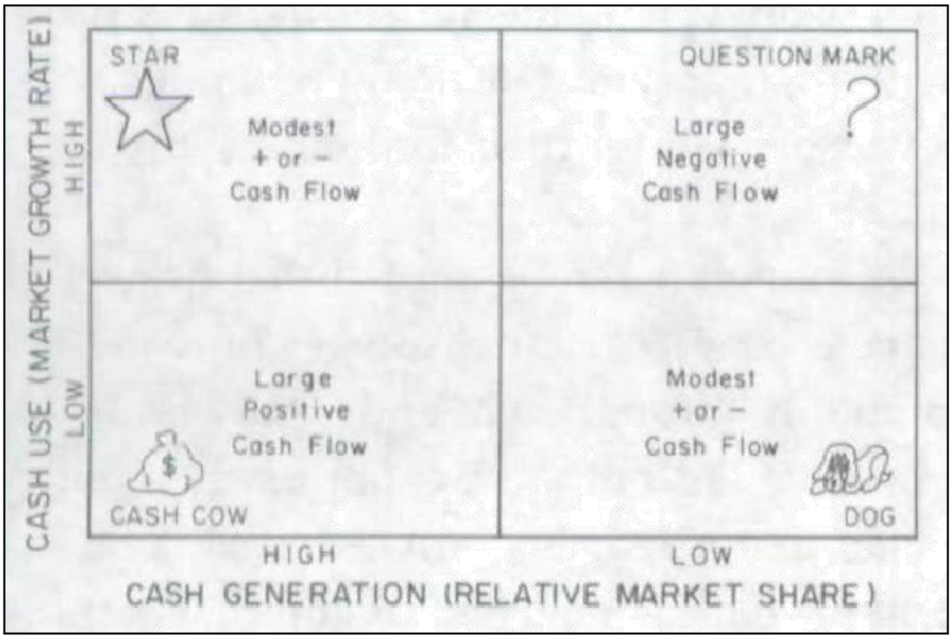


Figure 8. BCG Matrix

Source: Hax and Majluf (1983), The Use Of The Growth-Share Matrix In Strategic Planning operational activities that support other businesses (Johnson et al. 2008; Hax and Majluf 1983).

Nevertheless there are some limitations of this framework. A poor market definition may reveal misleading conclusions, as well as the link between market share and profitability, and between growth rate and opportunity may not be as obvious as suggested (Hax and Majluf 1983). Furthermore, it is often considered too simplistic which may lead to inappropriate levels in investment in cash-cows in order to sustain such positions (Johnson et al. 2008), and that it does not take into account operational implications of the businesses (Johnson et al. 2008; Hax and Majluf 1983), which may be especially dangerous in the evaluation of dogs (Johnson et al. 2008).

2.6. SWOT analysis

SWOT analysis has the main merit and usefulness of putting together internal and external factors in the same analysis, allowing for a better understanding of the organization's issues as a whole (Johnson et al. 2008). The fact that the design of strategy implies an analysis of external factors for identification of key success factors, and internal factors for identification of distinctive competencies, makes SWOT analysis an important tool for this process (Mintzberg, Ahlstrand, and Lampel 1998). Furthermore is argued that SWOT should be an analysis made relative to competition, assessing therefore relative strengths, weaknesses, opportunities and threats (Johnson et al. 2008).

Nevertheless one must be aware of this framework's main limitations. Authors criticise the framework's lack of testing and challenge of assumptions (Hill and Westbrook 1997; Mintzberg et al. 1998). The lack of prioritization or weight of issues; use of unclear and ambiguous words or sentences; no resolution of conflicts (as when the same factor may be seen as strength and a weakness); lack of link with the implementation stage; are also some of mistakes usually made when using this framework (Hill and Westbrook 1997).

Finally there is also evidence of literature of more developed uses of the SWOT matrix. Kotler and Keller's (2011) matrixes of Seriousness/Probability of Occurrence for Threats, and Attractiveness/Probability of Success for Opportunities are a feasible option for overcoming SWOT's shortcomings (Pickton and Wright 1998). Other authors have also suggested ways of scoring the issues on the matrix, in order to identify the most important issues to be dealt with (Johnson et al. 2008).

IV. Teaching Note

This document is supposed to provide instructors with a guideline on how to use the case study in classes. For that purpose it provides a summary of the case study, its main teaching objectives and pedagogical merits, as well as the issues and questions arising from the case study. Along with this information a Class Plan will be provided, with the main topics and specific questions to guide class the discussion. Finally the proposed Analysis is presented, where instructors approaching the case study may find a suitable set of answers they may expect from their students. Furthermore, a last chapter will provide a note of some indications of the changes the company underwent between 2009 and 2011.

The analysis presented in this section does not attempt to be the only one possible or adequate, but a starting point for instructors, when preparing this case study. This document is not a finished one, but rather a ever-changing dynamic process that is intended to grow with the input of instructors and students approaching the case, as well as with the proper adaptations to be made with the analysis of additional themes and issues relevant to the courses where it will be used.

1. Case synopsis

ES Viagens was founded in 2001, with the purpose of managing Espírito Santo Group's travel agencies and tourism operators. With the mission of becoming market leader, efforts in mergers and acquisitions were pursued, building a tourism group that generated over 380 million Euros in 2004, with a portfolio of travel agencies that was able to gain significant market share.

ES Viagens' management believed that size was essential to succeed in the sector, continuing to grow the chain of stores of their main brand, Top Atlântico, through acquisitions. They intended to maintain different brands within the group, allowing them to enjoy the advantages of their scale, while serving different market segments.

By the end of 2006 the company was enjoying the fruits of its growth strategy, with revenues increasing more than 50 million Euros, and profits doubling from 2004 to 2006. Such results let in no way predict the sudden change in performance the company was about to experience, with decreasing profits and revenues in the two following years, culminating in what was expected to be its worst year ever in 2009, with the company anticipating losses for the first time in its 8 year history.

The travel agencies market had become more competitive, with the number of travel agencies increasing, and with the entry of important new players. Nevertheless, either through associations or M&As, consolidation and coordination had also increased, which along with the internet phenomenon, was increasing direct access to the source, changing customer habits and squeezing intermediaries' margins.

Faced with a changed competitive landscape, ES Viagens' management knew it had to reposition its brands in order to keep up with its competitors and satisfy new preferences of the leisure segment. It also acknowledged the need to improve efficiency and reduce costs, in order to return to its former profitability standards. Finally, the company's management was faced with the challenge of fighting its rivals increase of relative negotiating power, with increased financing difficulties that a year of losses was predicted to bring.

2. Case issues

The case study has the main objective of providing a real life example of a company that by many indicators was considered successful, but that at certain point started showing decreasing revenues and profits. It tries to provide students with the information the company's management had, so that they can be put in their shoes, and inviting them to suggest future strategic moves that may put ES Viagens' back on the right track.

With that in mind the case study focuses on two main issues:

- Identification of the company's most relevant problems and issues that are preventing it to maintain an high performance level;
- Consideration and suggestion of different options and actions the company may take in order to address the identified problems and constraints.

With this in mind, the case study was contained in a period of time before the company takes action. Some of the company's management beliefs and concerns are included in order to provide students with a better overall understanding of the company and its industry. Such information may point some directions to the students, trying to provide them with possible strategic options, but without ever letting be known what the management's final assessment and decision would be.

Ultimately, what is expected from the students is that they use the information available in a structured way, so that they can discuss the company's overall strategic options, and present their final decisions and recommendations.

3. Learning objectives

This case study was written with business strategy students in mind. Generic strategy courses are most suitable for approaching this case study, even when analyzing more specific topics like competitive landscape, consumer behaviour changes or organizational structure. It looks at the extent to which such factors may affect overall corporate performance, and that is the ultimate focus of the case.

Nevertheless more specific courses may use this case as a useful example to introduce the study of one specific topic amongst the ones mentioned. This approach would most likely be useful if further analysis on the topic chosen takes into account discipline specific frameworks and/or theory that may not be found in the Literature Review presented here. This suggests that, for purposes of application of the case study in such courses, the Assignment Questions and Class Plan would also have to be appropriately redesigned and modified to exclude other non-relevant topics, and provide greater depth in the analysis of the chosen topics.

For generic business strategy students this case study provides a real-life example, to which they may apply or introduce the study of the following aspects:

- Frameworks that provide useful insights to analyzing the company or its environment such as: Pest Analysis, Porter's Five Forces, Strategy Canvas, Strategic Groups, Value Chain Analysis, Ansoff's and BCG Matrixes, and SWOT Analysis;

- Theoretical background and concepts that in many cases underline the use of the mentioned frameworks, and that students must bear in mind when performing their analysis such as Industry and Product Life Cycle, Critical Success Factors, Competitive Landscape and Hypercompetitive Conditions, Resource-Based View, Dynamic Capabilities, and Business-Unit and Corporate Strategic Choices.

Instructors of strategy courses may also chose to put greater emphasis and dedicate more time to the assignment questions that allow for the application of the frameworks and for application of theoretical ground more relevant and appropriate to the scope and advancement of their courses.

Lastly, this case study may also be of relevance in tourism management courses. Even though the case and following analysis focuses only on the Portuguese travel agency market, it might be relevant for courses that address the travel distribution sector. Nevertheless instructors must be aware that the theoretical review of literature referent to the tourism management only aims at providing greater meaning and specificity to the application of other strategic frameworks and theories. The application of further course specific theory would be needed when using this case study. Furthermore the assignment questions and class plan would also need to be significantly adapted.

4. Assignment questions

The assignment questions are constructed in order to help students address the main case issues and objectives, meaning that those should help them identifying the main problems and issues the company faces, and then suggest strategic moves and initiatives that may mitigate such effects, and improve performance.

The case study allows for a structure to analyze the problem also applied in the Literature Review, which is the division between Internal and External factors.

With that in mind the assignment questions are built around such structure:

1) What are the main external issues and factors affecting ES Viagens' performance?

2) What are the main internal issues and factors affecting ES Viagens' performance?

3) How would you address the identified problems?

5. Class plan

This chapter aims at providing specific topics and frameworks that may be applied in the analysis of each assignment question. Given the extensive list of frameworks that can be applied for each assignment question, it is considered that it might be unfeasible to address all these topics during a single class's time span. For that reason it is found that it should not also be adequate to make specific recommendations on how much time to spend on each topic, with the instructor having the liberty to allocate more time to topics relevant for his course scope and advancement. In that way the instructor may choose to summarise or skip the application of certain frameworks in order to fit the case analysis in one single class (with proper attention to the issues each framework raises and their importance in the student's understanding of the case), or may choose to allocate more than one class to the case study, given the richness of theoretical grounding it provides. The same richness and broadness of frameworks and theories would also make this case study a suitable option for an individual or group homework assignment, providing students with more time to perform their analysis, and discussing in class the topics the instructor finds more relevant for the course, or those that students had most problems with.

Assignment Question 1

a) Use the PESTEL analysis to identify environmental factors that are affecting or will affect ES Viagens' performance.
b) Use the Porter's Five Forces and Product Life Cycle frameworks to identify structural industry conditions that are affecting or will affect ES Viagens' performance.
c) Use the Strategic Groups and Strategy Canvas frameworks to map competitors' position relative to ES Viagens' brands.

Assignment Question 2

d) Use the Value-Chain framework to identify ES Viagens' main internal strengths and weaknesses.
e) Discuss the possibility of ES Viagens' having unique resources and/or capabilities relative to its competitors.
f) Use the BCG Matrix to analyze ES Viagens' portfolio of brands. Does the company present a balanced portfolio?

Assignment Question 3

g) Use SWOT analysis to summarise the main issues identified in the previous questions and discuss their relevance.
h) Use the Ansoff Matrix to consider possible growth strategies, and discuss which would be most suitable to improve ES Viagens' performance.
i) Make your final recommendations.

6. Analysis

6.1. Assignment Question 1

a) Use the PESTEL analysis to identify environmental factors that are affecting or will affect ES Viagens' performance.

Political - There is no indication of political factors that particularly affect, or may affect in the future ES Viagens and the tourism distribution sector in general. Political stability in a country may affect its ability to attract tourists. Nevertheless, given the information in the case about the Portuguese consumer as preferring destinations of proximity, as European countries, there is no expectation of turmoil that may affect touristic demand. There is no further information in the case about the company's destinations. Although one may assume that some African countries that may be part of its portfolio, mainly given its coastal position, may possess a greater risk factor, there is no indication that such destinations cannot be replaced, or that they represent a considerable chunk of the company's revenues.

Economic - In 2009 the European countries were feeling the effect of the recent financial crisis, with the bankruptcy of several financial institutions. Governments were injecting money in their financial systems and in the economy to try and revert the situation, accumulating big deficits that would imply raising taxes. Both European and Portuguese entities predicted a recession in Portugal in 2009, which could be extended further. This meant that consumers disposable income was about to be reduced, with higher taxes and fixed salaries.

In the case study, ES Viagens' Marketing Director, Rogério Cardoso mentions that in the past, when faced with reduced disposable income, consumers do not tend to travel less but spend less per trip instead, reducing the time spent on vacation and choosing closer and cheaper destinations. While the effect on the number of trips may be ambiguous at this point, the tendency for customers to look for spending as less as possible is surely expected. This may lead to two very important conclusions. One, it is expected that price relative to competitors gains even greater emphasis in the buyers' decision-making process, across all segments, although with special emphasis on lower- income segments. Two, it is also expected that more customers that did not attribute as much importance to price will now do so, meaning that the "mass-market" lower-cost segment may be expected to grow relative to the higher-income segment, that looks for more complex and expensive trips. This means that not only pricing adjustments may be in order but even changes in product definition and supply, as consumers may demand less expensive, shorter trips.

Social - The main social changes and effects expected on consumer behaviour derive mainly from the already referred economic situation that may lead to a greater emphasis on price, and even some change in the types of destinations demanded. Internet usage is expected to increase, with particular focus on portable devices such as smartphones and tablets, and with increased traffic and use of social networks. Such trends might be relevant and should be taken into account when considering communication and distribution channels. These trends might also be taken into account when trying to develop customer data collection and monitoring, in order to better understand changing customer needs.

Technological - Some of these were already mentioned in the social trends, and are related with the consumers' increasing technological skills and embrace, with increasing access and use of online operations in multiple devices. Besides these trends, technological changes may also be useful for internal organization, with new software that enables greater service integration and data storage and analysis being constantly launched and updated.

Environmental - Although environmental awareness and concern is increasing within the general public, this has little effect on this sector. Customers changing habits, demanding "greener" hotels and destinations, may be the most relevant effect. With that in mind, ES Viagens should try to monitor the real size of such demand, and take it into consideration when choosing its partners and suppliers, as well as in the product definition.

Legal - There are no relevant legal issues currently affecting or expected to affect the travel agency business. These could mainly relate to increased constraints on the number of entities allowed to legally sell touristic products, mainly online. Nevertheless with many arguing that the increased possibility of choosing directly from the source, decreasing prices and increasing destination choices, no constraints are expected to be implemented in the following years.

In conclusion, the most relevant macro-environmental trends that might affect ES Viagens' are the effects of the economic crisis, which may be reflected in decreased demand and/or decreased consumer's willingness to pay. Such changes may be reflected on the greater emphasis on price comparison in the buying decision, and the increase of the "mass-market" segment, which may demand different products and destinations. Furthermore social and technological changes may be opportunities to reach customers in a different way, allowing for greater monitoring of preferences.

b) Use the Porter's Five Forces and Product Life Cycle frameworks to identify structural industry conditions that are affecting or will affect ES Viagens' performance.

Threat of New Entrants - This force is influenced by the advantages established players have in the market, how much effort new entrants would have to make in order to penetrate the market, as well as the costs they would have to incur.

Although some difficulties are mentioned in the case study and in the literature review for established players to generate brand loyalty and trust, essential elements for customer retention, specially due to the importance customers attribute to price, the fact is that established players have some advantages that would be costly to replicate. These relate mainly to reputational and visibility advantages, with the top brands having a broad and disperse networks of stores, that ensure visibility, some of them present in high traffic locations. These brands also have an active marketing presence, many with billboards and radio and television commercials. Abreu, the market leader, is a perfect example of the kinds of rewards and advantages enjoyed by players with a long history in the industry. Barros and Matias' study (2006) find evidence of greater efficiency of historical players.

Even though set-up costs are not significant, especially for firms that wish to use the internet as their main distribution channel, investment costs in marketing or network of stores would have to be considerable to allow for the necessary visibility and reliability that competing nationally requires.

There may exist an opportunity for new entrants in regional markets, as local small players still survive, mainly in the interior and northern regions of Portugal, where the market leaders have less presence and visibility. Nevertheless these markets present a small potential market, with few possibilities of growth. Such small businesses, given their lower scale, only have the chance of offering attractive products at competitive prices if they join one of the many associations that have appeared in the Portuguese market in the past few years. Economies of scale for larger players do exist, mainly due to the added negotiating power provided over suppliers, but the mentioned associations have come to solve these problems, centralizing supplier negotiations, and significantly increasing the survival chances of small agencies. Still, given that these associations usually do not integrate marketing activities, these agencies would still have to engage in significant investments in order to grow their business.

One may conclude that the threat of new entrants has increased in the past decade, with the emergence of online agencies, that allow for almost non-existing set-up costs, along with the appearance of associations of travel agencies that reach significant volume to match the market leaders' negotiating power over supplier, and therefore match their prices. Nevertheless, since these associations do not integrate marketing activities, these costs would still need to be supported by the small agencies, as well as the investment in new stores, limiting the growth potential of new entrants. Given that the established players, mainly the market leaders, still show advantages, this force may be considered to be **moderate,** or even **moderate-to-low.**

Bargaining Power of Suppliers - These force expresses how much power suppliers have to influence the products' price, as well as the overall performance of a company. In the specific case of travel agencies, their suppliers are operators, that negotiate with hotels, airplane companies and others, and sell them to travel agencies that distribute to the final consumers.

Operators have as much negotiating power as exclusive their access to specific hotels, resorts, or other important aspects of the trip to a certain destinations is. This means that one operator may be able to offer travel agencies one destination with conditions that no other operator can match. Still one must consider that destinations themselves, or specific hotels or resorts, may be substitutable by others with similar characteristics (vacations in the city, European capital, cultural destination, vacation near the beach, snow trip, etc).

There is no information in the case study about how differentiated the offer of travel operators are. Nevertheless one can see that this market is rather fragmented, with the market leader representing a market share of only 17,6%. From the case study, one can conclude that travel agencies have a diverse choice of suppliers, which probably will also be reflected in a broad choice of products and destinations.

Furthermore, the fact that ES Viagens owns the third biggest operator in the market, with a market share of 13,7%, decreases even further the bargaining power of suppliers. In fact, it is expected of the products offered by the company-owned operator, Mundovip, to be aligned with the ones demanded by the group's travel agencies' clients, reducing exposure to other suppliers to a minimum.

In conclusion, given the fragmented travel operator market, and the fact that the company owns an operator, which happens to be one of the most significant players in the market, this force is considered to be **very low.**

Bargaining Power of Buyers - This force is influenced by the degree of difficulty, and overall likelihood of customers changing to other brands. Although customer loyalty and brand trust are factors that usually diminish the effect of this force, in the case of travel agencies, empirical studies like Gilbert and Gao's (2005) seem to show that agencies have not generally been able to capitalize on these factors. In fact, the big decrease in sales of ES Viagens' brands after 2006 suggest that these brands are also failing to gain customers' loyalty and trust, or to build switching costs to retain clients.

Moreover, the increasing number of travel agencies present in the market, along with increasing association and coordination between them, had increased the scope of options available to the consumers. The increasing use of the internet is also facilitating access to information, as well as access to the source of some products, without the need of any intermediaries as travel agencies. This reflects in very low searching costs, allowing customers to freely compare prices and products, and choose accordingly.

ES Viagens' Marketing Director, Rogério Cardoso, also refers that customers are very price sensitive, choosing the best available price before looking for other differentiating characteristics. This seems to suggest that products and services provided are not very differentiated among the main players, as well as suggesting that customers may freely choose and change among travel agencies without significant switching costs.

Nevertheless, in the corporate segment many of these conditions are not verified. Corporate clients tend to be less price sensitive and to value the stable relationships with the travel agencies. This means that they are less willing to change travel agencies, which may reflect greater brand loyalty, or greater switching costs. Such costs could derive from the necessary changes in routines and procedures a company would have to undergo in their booking and travelling process if it changes its travel agency. Moreover, the fact that this segment values customer relationship in a greater degree may shelter ES Viagens from some online competitors since such services often imply a personal contact that they cannot provide.

Therefore, one may conclude that different segments reveal different customer bargaining power. Low customer loyalty, along with the existence of a broad range of relatively undifferentiated travel products and services, and the decrease of searching costs introduced by the increasing use of the internet imply that this force has a very high impact on agencies competing in the leisure segment. Nevertheless corporate clients are more loyal and have greater switching costs. The fact that a great deal of ES Viagens' revenues come from the corporate segment shelter it in some way from the effects of this force, having nevertheless an overall **high** impact on performance.

Threat of Substitute Products - The substitutes of travel agencies would be other means of booking trips and vacations, mainly booking it directly to source, meaning booking it directly in the hotels or airplane companies, etc.

Related with this force one may find contradictory evidence in the case study. On the one hand it is mentioned that between 2001 and 2009, the percentage of trips organized trough travel agencies has increased. This would suggest that travellers are turning less to other substitute services, and therefore, that this threat is decreasing. On the other hand it is mentioned that the internet has allowed many hotels, airplane companies, and other websites (not online travel agencies) to sell their products directly to the final consumer in a convenient, inexpensive manner. It is furthermore considered by ES Viagens' Marketing Director, Rogério Cardoso, that there is an increase tendency for consumers to aggregate and create their own packages, which is forcing travel agencies to decrease prices and profit margins. Nevertheless one must separate the effect of the internet, dividing it into increase of substitution of intermediaries, and also into increase of online travel agencies, which is increased competition, not substitution.

In weighing the effects of the two opposing trends mentioned in the case study, one must bear in mind Rogério Cardoso's words, which clearly indicate that ES Viagens' performance is being affected by substitute forms of booking trips. Although travel agencies have managed to attract an increased share of the total travellers in the past decade, there is no indication that such trend will be maintained in the following years, while an increase in booking directly at the source seems more likely to continue given the lower prices it offers, and given the expected increased use of the internet, essential platform to reach customers. For all this, the threat of substitute products is considered to be **moderately high**.

Rivalry amongst competitors - The level of rivalry in an industry is mainly influenced by the number of competitors fighting for the same segments, and the overall ability of the players to generate revenues and retain profits. In the travel agency market one can find evidence of increased competition, mainly if we compare the increase in trips with the increase of travel agencies. The case study mentions that between 2001 and 2009, trips longer than four days increased 26%, but that only 18% of these trips were organized trough travel agencies, while the number of travel agencies grew 28% in the same period. These numbers show that the size of the cake has grown slower than the number of people eating it, leaving less for everyone.

Furthermore the already mentioned association and coordination trends have allowed small travel agencies to offer more competitive prices. If we add to this the increase of online players, and hotels, airplane companies and other players also offering their own products at lower prices directly to consumers, we can see that prices and margins have fallen in the travel agency sector in the past few years.

These changes in the competitive conditions have also conditioned consumers' behaviour, that have grown accustomed to comparing prices in search to the better deal, tendency that is expected to intensify with the economic crisis predicted for 2009 onwards.

In conclusion, given the increase in the number of travel agencies relative to the increase in the size of the market, and their ability to engage in price wars, aggravated by a high tendency for customers to switch to substitutes given their high bargaining power, the overall rivalry in this industry is considered to be **intense**, with prospects of intensifying in the next few years, given social-economic conditions.

Figure 9. Porter's Five Forces analysis of the Portuguese tourism distribution sector

The structural conditions and competitive changes described in the Porter's Five Forces framework above seem to suggest that the travel industry might have just entered the **maturity phase** of its life cycle.

In Levitt's (1965) product life cycle model, in the growth phase, industry sales would still be growing, with profits attracting new entrants, until entering the maturity phase, where despite still verifying total market growth, units contributions, meaning margins, would begin to decrease given the new competitive focus on price.

In fact some of these conditions have been verified in the travel distribution industry, with the total number of trips increasing since 2001, but with the number of travel agencies increasing in a bigger proportion, leading to new competitive focus on price and consequently decreasing profit margins.

It might be speculated that the economic crisis has reduced consumers' income and pushed the industry prematurely and temporally to this stage. If that was the case one could expect an effect in the curve similar to that of a product extension, with a new increase of total sales in the market and entrance in a new growth stage.

Even if true, the fact is that these are the current competitive conditions that travel agencies should take into account, especially since the duration and effects of such crisis are yet unknown. This means that price parity will be a necessary condition, with companies differentiating on small product and service differences and on marketing and advertising wars.

The following table summarizes the structural conditions that affect ES Viagens' performance:

Structural Conditions	
Favourable	**Unfavourable**
• Ownership of assets such as a network of stores in densely populated areas increasing investment needs for competition; • Historical advantages over "younger" players such as high visibility and reputation, increasing competitors marketing investment requirements; • Ownership of a travel operator, retaining greater share of value inside the company and allowing for decreased costs; • Scale and low-dependency advantages in negotiations with suppliers.	• Low set-up costs for new entrants, especially in the online channel; • Price sensitive audience, with little emotional attachment to travel agencies; • Relatively undifferentiated products and services amongst competitors; • Low search and switching costs; • Associative conditions allowing smaller scaled competitors to compete in prices; • Availability of substitute services; • Existence of a wide variety of rather undifferentiated service providers for customers to choose from.

Table 1. Summary of structural conditions affecting ES Viagens' performance

c) Use the Strategic Groups and Strategy Canvas frameworks to map competitors' position relative to ES Viagens' brands.

From the case study several strategic groups can be identified, which according to Porter (1979) and McGee et al. (1995) can be ranked according to its profitability and attractiveness. The strategic groups of the travel agency market are represented in figure 10.

Figure 10. Travel agencies' strategic groups

I choose to identify strategic groups in the market according to their positioning relative to geographical reach and marketing efforts. By geographical reach is meant the ability to cover a certain area of the country, actively serving the customers of such area. The lower the player is located, the smaller is the geographical area it services, while the upper the player is located in the graph, the bigger the area it services. The marketing efforts are a way of trying to access a travel agency's ability to communicate and engage with their clients. The players' marketing efforts increase as one travel from the left to the right, on the graphic.

Starting with the least attractive groups, one can find the group constituted by small regional players, one the bottom left side of the graphic. These players have mainly small chains of physical stores, competing only locally or regionally. Constrained by this limitation, its marketing activities are mainly targeted at local consumers. With a small client base, these players lack the investment capacity needed to broaden its marketing activities and its network of stores to the scale needed to compete nationwide.

The group located on the top left side of the graphic is the one constituted by independent online travel agencies. By using the internet as its distribution channel, it allows for reaching customers all over the country. The problem with this group is not one of geographical reach, but one of resources available. In fact, although having a global platform, these players do not usually have the financial capacity to market themselves to such wide audiences. Instead most of them invest in less expensive online advertising in targeted websites, depending on the "viral effect" such campaigns may have, in order to get new customers.

The two groups mentioned earlier mainly lack the financial resources to get the visibility and reputation necessary for customers all over the country to trust and choose them. Instead they invest in niches where competition is less intense and more suited to their characteristics, with online agencies usually targeting young, technologically savvy clients looking for the best prices, while the regional agencies are able to attract a more conservative local audience that values proximity and familiarity in their customer service.

The group that is located on the center of the graphic is the one where associations of independent travel agencies, such as Gea and Airmet, are present. This differs mainly from the former two mentioned because of the bargaining power they get over suppliers, given their centralized group procurement. By negotiating with suppliers as a group they are able to get competitive prices that high scale allows. This factor confines greater competitiveness to its member agencies, providing them with a better condition to extend their network of stores and marketing expenses. Nevertheless, since these advantages are distributed across a great number of members they are not able to attain the geographical reach or marketing capacity of big players.

On the last group, located on the right side of the graphic, one can find the market leaders like Abreu, Geostar, Top Atlântico and Best-Travel. These players all have in common a big network of stores, that provides higher visibility and geographical reach, as well as a financial capacity to engage consumers across the nation on a more active way. Abreu is the historic market leader, benefiting from its 150+ years in the Portuguese market, having in that time developed brand-equity, the largest network of stores of all players, and financial capacity to support its marketing activities. Top Atlântico and Geostar are two brands that although more recent in the market, have used the financial capacity their owner groups provide (Espírito Santo Group, Sonae and Rar) to acquire an extended network of stores and to support their marketing activities. Best Travel operates as a fully franchised business, with a network of independent stores operating under the same brand name. Besides the centralized supplier negotiation advantages that common agency associations provide, the fact that marketing and brand activities are shared, provides this player with an equally extensive network of stores and a financing source for its marketing activities, since such activities are supported by all the franchisees.

On Mayr and Zins' (2009) study one can find five different segments within travel agencies' potential clients, with the following critical success factors:

Mayr and Zins' Five Segments and its CSFs				
Travel Agency	**Switchers**	**Online**	**Modern Independent**	**Classic Independent**
• Personal Service; • Active Marketing	• Convenience; • Customer Relationship	• Convenience; • One-time deals/promotions	• Price; • Convenience	• Prices; • Personal Service

Table 2. Mayr and Zin's Five Segments and its CSFs

Using the CSFs found in table 2 one could use them to plot on a Strategy Canvas how each competitor rates on such topics. In this case, given the broad spectrum of competitors, I will plot the strategic groups identified instead. This will show us which kinds of competitors will compete for which segments.

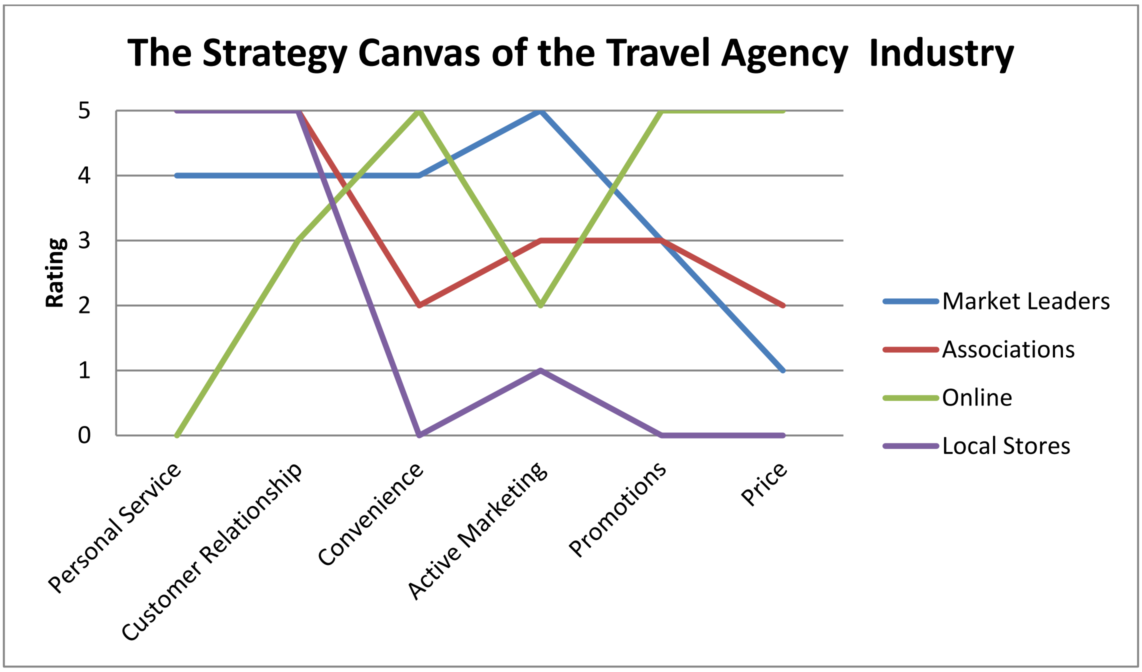


Figure 11. The Strategy Canvas of the Travel Agency Industry

Analyzing the CSFs for the **travel agency** prone clients, one may verify that market leaders and associations are the groups better suited to serve this segment. We can see that in order for ES Viagens' main brand, Top Atlântico, to gain a competitive position in this segment it will have to face severe competition from other market leaders that can effectively market their brands to these consumers. This is especially important for Top Atlântico, given their competitors greater awareness in the leisure segment (Top Atlântico is more focused on the corporate segment). Furthermore, Top Atlântico faces a great competitive threat from smaller travel agencies, namely the members of associations, given that their smaller client base may allow for a more personalized service.

The **switchers'** segment will be better served either by market leaders or by online agencies. If on the one hand this segment enjoys the personalized service that market leaders can provide with higher convenience than other physical agencies, given their broader choices of products and services, on the other hand they may feel that having that same variety provided at the distance of a click is preferable. Therefore it would be essential for Top Atlântico to provide a good balance between online and offline services, to avoid losing customers to other web-based agencies.

The **online segment** is, as the name indicates, better suited to be served by the online agencies. This means that Netviagens is ES Viagens' better suited brand to compete in this segment. The brand should focus on providing a convenient service, with availability of diversity of choices in a user-friendly search platform, in order to differentiate from other online players. At the same time Netviagens should make an effort to offer specially low, promotional prices, even if for a limited time only.

The **modern independent** segment is one that prefers to book their reservations directly to the source, but that when they feel the need to turn to a travel agency, they prefer to buy online. This means that Netviagens should also try to capture customers in this segment, focusing also on convenience and a user-friendly booking system, but also on offering the best prices.

The **classic independents** also prefer to book their trips directly to the source, but when recurring to travel agencies, they tend to choose physical/traditional ones. This segment would be better served by associations and other small travel agencies given their greater ability to provide personalized service and lower prices. Market leaders may be a visible choice in areas where the smaller agencies cannot reach, but the highly personalized service demanded at lower prices deems this segment the most unattractive.

6.2. Assignment Question 2

d) Use the Value-Chain framework to identify ES Viagens' main internal strengths and weaknesses.

The Value-Chain framework may be a useful tool, not only to understand which firm activities may contribute to deliver great value to the customer, but also to identify areas of development that ES Viagens' future strategy should address.
With that in mind, first an analysis of the primary activities should take place:

Inbound Logistics - These activities are related with the negotiation with tourism operators and other suppliers that provide the products that travel agencies will sell to the final consumer. These activities may create greater added value to the customer, given that they are directly related with an agency's capacity to offer new, interesting, and exclusive destinations to attract clients. Furthermore given that travel agencies are mainly an intermediary, suppliers may have a considerable effect on the product's price.

In the case of ES Viagens, as previously discussed, having its own tourism operator greatly contributes to an optimization of these activities. This means that not only does it have a trustworthy partner that will put together products and packages better adjusted to its customers' needs, but also that it is able to gain bargaining power over external suppliers, reducing its costs. Nevertheless, the fact that each brand is responsible for acquiring its own products prevents the company from enjoying scale effects when negotiating with external suppliers.

This leads to the conclusion that although ES Viagens has an advantage over its rivals, deriving from owning the third biggest tourism operator in the Portuguese market, it is not taking full advantage of its scale. Even though ES Viagens is the biggest tourism distributor in the market when taking into account all of its brands, if each one of them negotiates with suppliers separately, it will not have scale advantages over their main competitors.

Operations - These activities usually relate to the transformation of inputs into the final product. Since travel agencies mainly acquire products already assembled from tourism operators, their main activities relate with understanding customers' needs, and aligning their offer accordingly.

Once again, the fact that ES Viagens owns a tourism operator with such a significant weight in the market (Mundovip was the third largest operator in Portugal in 2008, representing a revenue stream of over 50 million Euros), changes its operations in a significant way. This happens because ES Viagens is not only a distributor of tourism products through its travel agencies, but also a product developer through its operator. Having the unique asset of a major tourism operator, an asset that none of its competitors possess, may allow them to differentiate its offer. Not only can ES Viagens take advantage of this asset to respond with greater agility to customers' changes in preferences, but also it may provide the power to take a proactive attitude and try to drive such changes with their offerings.

This leads to the conclusion that by integrating product assembly and development in its operations, ES Viagens has the potential to develop a competitive advantage over its competitors.

Outbound Logistics - These activities generally relate to the storage and distribution. In the case of travel agencies the product are tickets, reservations and other documents proving the pre-paid purchase of services activities related with the trip. This means that the products are digitally stored and distributed across all of the value chain, from the company's headquarters to its stores and to the airplane companies, hotels and other that will provide its customers with some kind of service. Although these activities certainly point out the importance of an adequate technological infrastructure, they are not relevant to developing competitive advantage. They are a necessary condition to the process, but not a differentiating one.

Marketing and Sales - These activities are related with making the customers aware of a company's products, and allowing them to purchase such products. In this case these activities are associated with ES Viagens' network of stores, with its marketing and advertising initiatives, as well as with the employees' ability to convince and persuade store visitors to actually buy its products.

Regarding the network of stores, one may verify that even though ES Viagens has grown Top Atlântico's chain of stores, mainly until 2006, since then competitors like Best Travel, using the franchising strategy, and Geostar, with the merger between two competitors' agencies, have outgrown its number of stores. ES Viagens' head of the CRM department, Bruno Quental, also mentions in the case study that the company had failed to ensure location of stores in some high traffic shopping centres and malls, unlike its main competitors, which could also put it at a competitive disadvantage.

In terms of marketing and advertising one may verify that ES Viagens, and especially its main brand, Top Atlântico, may also be on a disadvantageous position. The fact that only 35% of the brand's revenues come from the leisure segment is also a consequence of the company's marketing strategy. Even though ES Viagens should aim at maintaining Top Atlântico's leadership position in the corporate segment, only trough a much heavier advertising efforts will it be able to match its main competitors' awareness in the leisure segment.

Regarding the ES Viagens' employees' sales ability relatively to its rivals' there is no available data to make an assessment. Nevertheless it is obvious that given the importance that some clients give to personal service, this could be an important source of competitive advantage.

This leads to the conclusion that given the size and location of ES Viagens' main brand's, Top Atlântico, chain of stores, and given its marketing and advertising efforts more directed to the corporate segment, these activities are contributing to a **competitive disadvantage** in the leisure segment.

Service - These activities are related with post-sale services provided to the customers. Many studies indicate that these services may be of greater value to travel-agencies' clients, especially to those that value an active customer relationship. Travel agencies should not only provide assistance to its clients before actually going on the vacation bought, by serving as a link between them and service providers such as hotels, airplane companies, etc, but should also engage the customer afterwards in a effort to build a relationship that may lead to future sales.

However, no information is available to make an accurate evaluation of the different players' ability to provide such services, being **its role as a possible source of competitive advantage ambiguous.**

Figure 12 summarizes the importance of ES Viagens' primary activities in building competitive advantages over its competitors.

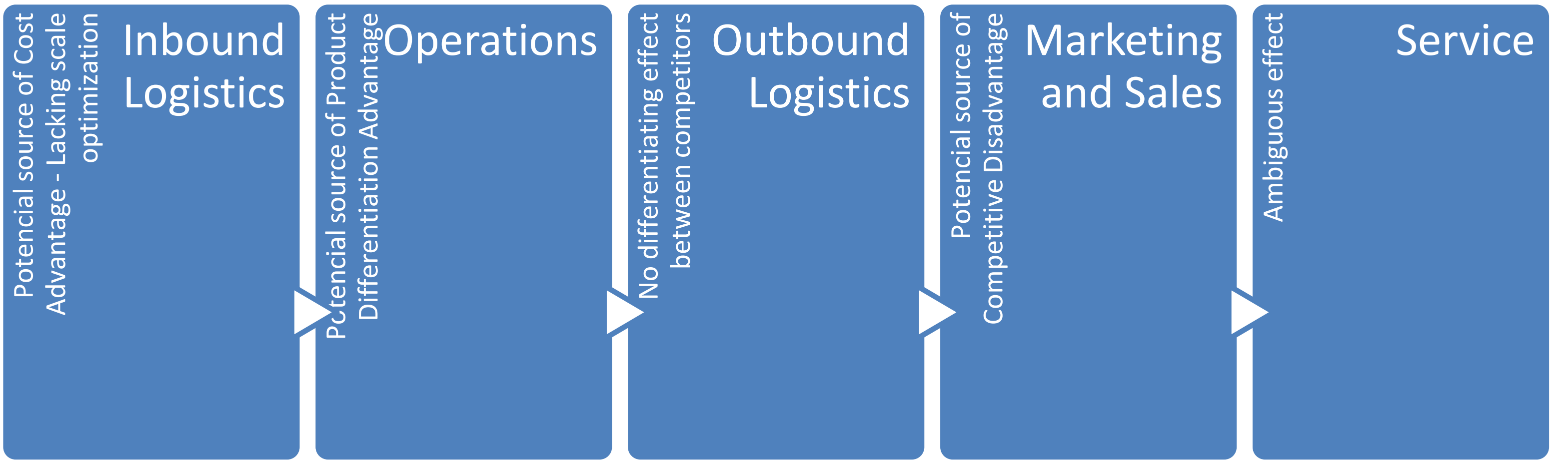


Figure 12. ES Viagens' Value Chain Analysis

In the analysis of the primary activities and its contribution to competitive advantage, it is possible to see that some secondary activities may also play an important supporting role.

Firm infrastructure, for instance, is mentioned as being a cause for constraint for activities such as inbound logistics, since it is currently causing replication of activities across firm departments, preventing ES Viagens from exploring the potential cost advantages that its scale may provide. Barros and Matias' (2006) study of the efficiency of Portuguese travel agency market reveals that all of ES Viagens' agencies were operating below the average efficiency scores, with Netviagens and Top Atlântico even being identified as the most inefficient agencies in the market. Although the authors do not attempt to explain such inefficiencies, the fact that firm infrastructure was never properly adapted to reconcile managing operations of four different travel agency brands and one tourism operator is certainly one influencing factor.

Human resources management is another support activity that may be of crucial importance to the attainment of competitive advantage. As discussed earlier, these activities crucially relate to employee response, which may significantly affect the firm's ability of improving its marketing and sales, and its customer service activities. This means that there should be an increased strategic concern with human resources activities, for employees to be a differentiating asset of ES Viagens.

e) Discuss the possibility of ES Viagens' having unique resources and/or capabilities relative to its competitors.

In the analysis conducted so far two valuable resources have already been identified: national network of stores and Mundovip, the third largest tourism operator in Portugal.

The network of stores has been argued to provide ES Viagens with a national reach that enables the firm to have greater visibility and reputational gains over competitors in other strategic groups. Nevertheless such resource is not unique among market leaders such as Abreu, Geostar and Best Travel, with these players exhibiting stores in greater number and better locations.

This is the kind of asset that although not critical to development of a specific capability, it increases the advantages of a firm's marketing capabilities, assuring greater visibility and awareness. With this mind, it would make sense for ES Viagens to keep expanding Top Atlântico's chain of stores, even if it has to look into other business models for the stores, such as franchising or partnerships.

As for Mundovip, it may be considered an unique asset since although all main competitors have their own tourism operator, these do not have significant size. Uniqueness alone, or ownership of a tourism operator on itself, will not provide ES Viagens with a competitive advantage. Nevertheless Mundovip provides a degree of uniqueness to ES Viagens' operations because, unlike other competitors, provides with the capability of developing its own products. Such capability may provide ES Viagens with the possibility of differentiating its products from main competitors'. Still such capability may need to be completed with the capability of properly understanding customers' preferences and how these change, providing its product development capabilities with the adaptive ability needed to make them dynamic.

In order to investigate the sustainability of such advantage the resource and capabilities mentioned must also be inimitable and non-substitutable. Regarding inimitability, although competitors could opt to grow their tourism operators, there would be no assurance they would succeed to grow their operators to Mundovip's size. Nevertheless substitutability may still occur, if competitors are able to match the products offered by ES Viagens. Of course such substitution may still occur, but as discussed, ES Viagens may enjoy advantages in being more agile in adapting to changing customer preferences, as well as advantages from not having to invest the time and resources to find a combination of suppliers that provide the destinations desired. In that way the advantage may only be temporarily sustained, which means that only quickly being able to understand and react to market changes will the company be able to frequently enjoy such advantages.

In the industry-specific literature review many authors argued customer service to be the main driver for travel agencies' success. Even though there are no data available to compare the main players' service level, it is important to understand the strategies and policies ES Viagens must pursue in order to develop and maintain a high service level.

In order for high service level to be maintained ES Viagens must develop what Weaver and Lawton (2008) refer to as a **relationship building** capability. Only if ES Viagens is able to develop a relationship with its clients will it be able to appropriately retain them, engaging them with the brand. For such capability to be developed ES Viagens needs to obtain two resources: **empowered employees** and an effective **knowledge management system.**

Empowered employees are argued by industry specialists to be essential for assuring a good customer service. In fact for a company like ES Viagens that manages mainly traditional travel agencies, employees represent many times the only contact customers have with the brand. In a market where, as had been analysed, product differentiation is low and often temporary, travel agencies need to distinguish themselves as service providers, as specialized travelling advisers. For such strategy to work ES Viagens' employees need indeed to be specialists: travelling specialists that know the offered destinations better than anyone else, but also sales specialists that are able to read a customer's needs and desires from a short conversation. Once again this highlights the importance of human resources management, revealing the need for ES Viagens to provide its employees with adequate training.

An effective knowledge management system is a crucial resource for storing the information gathered from customers, and disseminating the knowledge generated from data analysis. In other words, travel agencies must have a developed process to gather, store and analyse customer preferences. This will not only generate useful insights for product management, as well as information that will improve customer service. The idea is to create "customer files" where preferences are tracked in order to improve future service, and so increase customer retention. Such customer files will be built from information gathered from previous sales and in-store contact, and complemented with the creation of a loyalty programme, where clients are encouraged to divulge their preferences to gain price discounts and other prizes. Such information would be available to store employees in order to personalize service, and for the marketing department to target clients suited for specific campaigns. A good customer relationship management (CRM) software tool will make such process possible, increasing ES Viagens ability to understand and respond to market changes.

In conclusion, one may find that ES Viagens possesses some rare resources, but that those will not be able to provide sustained competitive advantages on their own. The company must invest in its human resources and knowledge management system to develop relationship building capability that will allow for potential competitive advantage from improved customer service.

f) Use the BCG Matrix to analyze ES Viagens' portfolio of brands. Does the company present a balanced portfolio?

In order to position ES Viagens' brands one must take into account the brand's market share, and the growth rates of the market they compete in. Looking at market share, exhibit X of the case study shows that brands like brands like Tagus with 1% market share, Netviagens with 1,4% market share, and Carlson Wagonlit Travel with 4,1% , have relatively low market shares when compared with the main competitors such as Abreu with 23,3% market share, Star with 11,6% and Geotur with 8,3% (the newly merged Geostar could represent a potential market share of approximately 19,3%, assuming it maintains both brands client base), or Best Travel (although this competitor is not included in the exhibit due to its franchise business model, the revenues presented in case study reveal that it has a larger market share than Carlson Wagonlit Travel). This means that such brands will be located in the right side of the matrix.

Analysing market growth, it is important to separate the leisure from the corporate segments. While the leisure segment is still exhibiting some growth (although less pronounced in the last couple of years because of the national economic crisis), the corporate segment is referred to be rather stagnated. This puts Carlson Wagonlit Travel in the lower side of matrix, while Netviagens and Tagus stay in the top half of the matrix. This leads to the conclusion that Netviagens and Tagus are question marks, while Carlson Wagonlit Travel is a dog.

Regarding Top Atlântico position, a more careful analysis is need. This happens because the brand is present in both the corporate and leisure segments. As stated in the case study, Top Atlântico had in 2008 a market share of 17,7%, with the main competitor Abreu achieving 23,3% market share, but such figure does not differentiate between the corporate and leisure segment. While most of Abreu's market share comes from the leisure segment, giving them leadership in that segment, Top Atlântico's market share is mainly accounted by the corporate segment (65% of brand revenues). This means that if we look at the corporate segment, Top Atlântico may be considered a cash-cow, since it has a leadership position, while in the leisure segment the brand does not reach more than a question mark position.

The positioning of ES Viagens' portfolio of brands in the BCG matrix is summarized in figure 13.

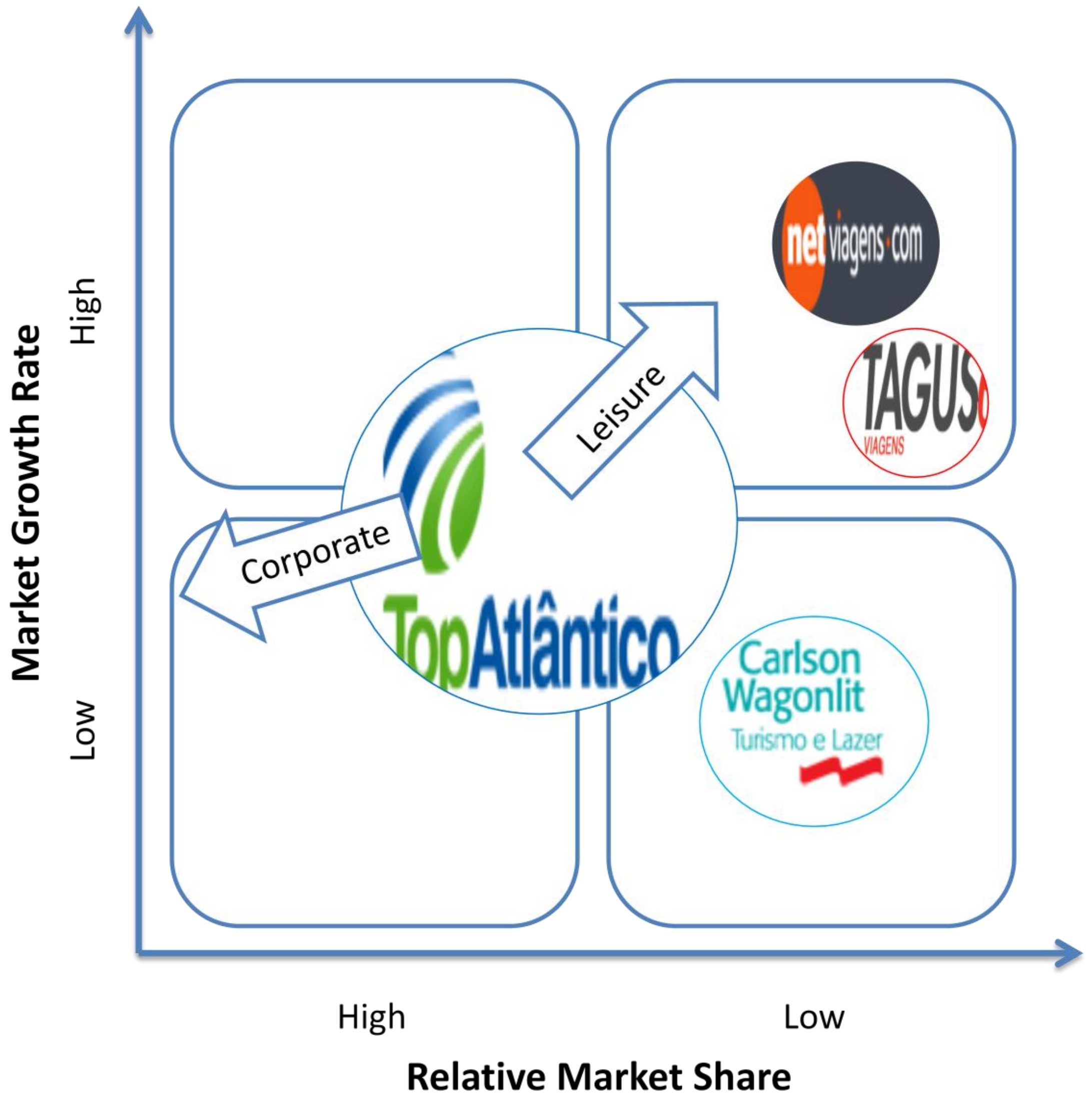


Figure 13. ES Viagens' portfolio of brands positioning in the BCG matrix

This analysis leads to the conclusion that ES Viagens' portfolio is not balanced, depending too much on one single brand, Top Atlântico, without having any star or other cash cow that may guarantee the company's success and revenue source. Furthermore, the company has too many question marks. Theory reveals that these brands show growth potential, but also that they have a negative effect on cash-flow, since these do not generate enough revenues to finance the high investment needed to grow a brand. Finally dogs are expected to be discontinued, since they do not provide significant cash-flow and have no future opportunities.

But ES Viagens reveals one more major problem, which relates to the fact of having too many brands competing in the same segments. In the corporate segment the analysis suggests that there is no need to maintain Carlson Wagonlit Travel, since it has Top Atlântico, a better performing brand, in the same segment. Nevertheless, in this case it might be worth to maintain both brands. This conclusion comes from the fact that CWT is part of an international group, with ES Viagens only having the responsibility of managing the accounts of multinational companies present in Portugal that are clients of Carlson Wagonlit Travel International. This means that in case of discontinuity of the CWT brand, there would be no assurance that such customers could be integrated into Top Atlântico, with the company risking loosing close to 10% of its total revenues. This means that although CWT may be considered a dog given its low market share, it is worth maintaining as long as such brand remains profitable on its own.

In the leisure segment however, ES Viagens shows greater problems. The company justifies having three different brands in that segment since they are targeted at different audiences, but it is not financially feasible to grow all these brands with the revenues coming from the corporate business, the company's cash cow. If investment choice needs to be made, Top Atlântico may be the best choice, given its greater market share. Nevertheless, as has already been stated in the analysis of previous topics, Top Atlântico has a marketing disadvantage over its main competitor Abreu, given that it targets two widely different segments. While Top Atlântico's marketing initiatives are more targeted at the corporate segment, since it is the brand's main source of revenue, Abreu enjoys the reputation advantage of being a leisure specialist. This means that in order for the company to succeed in the leisure segment, pursuing Top Atlântico's growth into a star, separation between both segments is paramount. The question that still remains is if such separation will imply the rebranding of any of the segments. Since Top Atlântico has a better position in the corporate segment, the company could choose to re-name the brand's leisure business. Maintaining the name has the advantages of maintaining its current reputation. If on the one hand this will very likely allow the company to retain its current clients, it has the disadvantage of still being perceived as too expensive as it currently is, even if the separation allows for a strategy more direct to a mass-market. If the brand is re-named it clearly steps way from such reputation of targeting only wealthier customers, but it has to build its brand-equity from scratch, risking loosing much of its current client-base. As for the other brands Netviagens and Tagus, since it will not be financially feasible to grow both of them, they could be integrated into Top Atlântico's leisure business, with ES Viagens presenting one single brand for that segment. This may also provide the advantage of positioning the new Top Atlântico leisure brand as more accessible, given that these brands were targeted at younger audiences, with greater online presence, and perceived as less expensive.

In conclusion, ES Viagens' portfolio in the corporate segment is balanced, with the company having two brands that guarantee its success and sources of revenue. In the leisure segment the company needs to clearly separate Top Atlântico's position in that segment from its corporate business, integrating its other brands, Netviagens and Tagus, that have low weight in the company's revenues. The main question is whether to re-name this brand, or to join all of its leisure clients under TopAtlântico leisure brand.

6.3. Assignment Question 3

g) Use SWOT analysis to summarise the main issues identified in the previous questions and discuss their relevance.

SWOT analysis, although not a particularly useful and sophisticated framework for explanatory analysis is notwithstanding helpful for systematizing thoughts on relevant variables. With that in mind, it may be used to organize and summarize the main issues identified in the analysis conducted so far, giving a simpler but holistic view of the company's problems.

The main conclusions regarding the ES Viagens' strengths and weaknesses, as well as environmental opportunities and threats are summarized in the following topics:

Strenghts:

- Low dependency on external suppliers;
- Greater product development capabilities provided by its own tourism operator;
- Strong presence in the corporate segment.

Weaknesses:

- Low capacity of generating brand trust and loyalty in the leisure segment, translating into a difficulty to retain customers;
- Inadequate structure generating replication of activities that prevent scale and cost advantages to be developed;
- Thin separation between Top Atlântico's leadership position in the corporate segment and the leisure segment create a marketing disadvantage for attracting certain kinds of customers;
- Fewer stores than more direct competitors in the leisure segment.

Opportunities:

- Wide portfolio of brands that provide the possibility of serving almost all customer segments effectively;
- Possibility of also using the online presence to generate greater offline sales;
- Opportunity to differentiate through customer service using knowledge management systems;
- Creation of the "travel advisors" concept.

Threats:

- Reduction of consumers' disposable income and willingness-to-pay;
- Potential consumer preferences changes towards less expensive and less profitable destinations;
- Growing threat of emergence of new online rivals;
- Growth of substitute ways of booking trips, mainly with greater possibility of booking directly in the source;

- Growth of competition with concentration of bigger players and association between groups of small agencies;
- Temporary nature of product differentiation advantages.

Looking at the SWOT analysis one may quickly see that ES Viagens' main strengths are its strong leadership position in the corporate segment, with advantages, such as good negotiation power and product development capabilities, being cancelled out by weaknesses, such as an inefficient structure and the marketing disadvantage in the leisure segment. The threats facing the company relate mostly to the growing importance of price, with prospects of an economic crisis that will reduce the consumer income even further, accompanied with n increased competition as well as available substitutes. Such background should be taken into account when defining strategies for the future, with price competitiveness being a critical success factor.

Future strategies, however, should be focused on taking advantage of opportunities and handling the company's weaknesses. With that in mind, the recommendations to be made in the following questions should be focused on aiming at differentiation through customer service, while at the same time addressing the need for a more efficient structure, patching the marketing damage that Top Atlântico's ambivalent positioning is causing, and allowing for the sustained growth of its network of stores.

h) Use the Ansoff Matrix to consider possible growth strategies, and discuss which would be most suitable to improve ES Viagens' performance.

In the figure 14 are summarized the generic growth strategies suggested by Ansoff, with specific actions that each one could imply.

	Existing Markets	New Markets
Existing Products	Market Penetration: ✓ Differentiating in the leisure segment with the implementation of the "travel advisor" concept	Market Development: ✓ Expansion of international offices to new markets
New Products	Product Development: ✓ Diversify products and services	Diversification: ✓ Entering new markets with a diversified offer of products and services

Figure 14. Application of Ansoff's Matrix to ES Viagens

The Ansoff Matrix suggests different growth strategies that may imply entering new markets, launching new products, or a combination of both. Analysing the matrix above, it seems to exist more opportunities in market penetration and market development strategies, than through strategies relying on new products, such as product development and diversification. In the analysis already developed in the teaching note so far one may find some reasons supporting this hypothesis. Although it has been concluded that ES Viagens may possess product development capabilities that may help differentiate from competitors, such advantages have been argued to be temporary, with imitations being expected after a certain period of time. The conclusion also reached that the market may have entered its initial maturity phase may also help explain the low attractiveness of such strategies for ES Viagens. In fact, literature mentions that in such phase of the industry products are rather standardized and that only small differences will appear, with competitors focusing more in differentiated services.

From this discussion one may conclude that ES Viagens should engage in product development efforts, taking advantage of the capabilities its tourism operator, Mundovip, provide. But such strategy will only provide temporary advantages. Although forcing competitors to engage in efforts to match its offers, it will not provide the growth the company needs.

This leaves ES Viagens with the possibility of pursuing growth strategies with its existing products, which in my opinion are the company's best options. A **market**

penetration strategy, using its current portfolio of products to gain market share in the markets it currently competes in. While in the corporate segment leadership has already been achieved, market consolidation strategies may be required in the leisure segment, where ES Viagens may have an opportunity to grow. As already analysed in previous questions, customer service is the key to gaining market share in this segment, the implementation of the "travel advisor" concept being a good strategy. This strategy, as previously analysed, will focus on differentiating service through well-trained, sales oriented, tourism specialists, in combination with detailed customer information. Human resources training and knowledge management systems were the pre-requisites identified to pursue such strategy.

Market development strategies are also a suitable option for ES Viagens to grow in the future. This strategies imply the internationalization of the company, selling its products in foreign markets. It is true that ES Viagens already has international offices but they are mainly dedicated to incoming tourists to Portugal. When they also sell products to other destinations, these use local tourism operators. Surely the company should take advantage of our country's touristic appeal to attract foreign customers. Nevertheless it may be missing out on the opportunity of selling their products abroad as well. It is true that customers in different countries may have different preferences, but ES Viagens challenge should be exactly one of finding markets where customer preferences are more similar to the Portuguese consumer. As for the incoming business, the company could also consider expansion to other countries. Currently present in Spain, Italy and Angola, it seems rather odd that countries with higher disposable income and customers that usually visit Portugal are not targeted such as the UK and the Scandinavian countries. Another suitable option could be to enter the Brazilian market, taking advantage of the strong cultural and economic relations between both countries, that translate in a great amount of trips of tourists and businessmen between both countries. The need for partnerships may be a possible reason for ES Viagens not to have targeted such countries yet. So, they should be developed, especially in the countries that may be more attractive both for incoming tourism and for the sale of the company's own products.

i) Make your final recommendations.

Along the Teaching Note several issues that influence ES Viagens have been identified, and some possible solutions for them have been discussed. In the analysis of this topic all recommendations will be presented and further analysed in detail. The following table summarizes the proposed recommendations.

Recommendations	Requirements	Expected effect
Change in ES Viagens' infrastructure	Centralization and sharing of activities	Cost optimization and achievement of economies of scale
Creation of new leisure brand - TA Lazer	Separation of Top Atlântico's corporate and leisure accounts	Increasing awareness in the leisure segment, fighting its current negative associations
Implementation of "travel advisors" concept	Extensive employee training and improvement of knowledge and information management systems	Achievement of differentiation in customer service
Growth of chain of stores without full-ownership	Engaging in different business models for new stores such as franchising and local partnerships	Matching main competitors' visibility, communicating greater accessibility, and reaching new locations
International Expansion	Engaging in partnerships in new markets to increase both incoming of tourists and sales of ES Viagens' own products	Increasing growth potential with new sources of revenue in more profitable markets

Table 3. Recommendations

Change in ES Viagens' infrastructure - This recommendation is crucial to solving one of the main internal problems identified in the company. As discussed, ES Viagens is currently organized as a multi-company corporation, where each brand develops much of its activities independently, which generates replication of activities. The idea is to change the infrastructure in order for ES Viagens to function as a single-company with multiple distribution channels, its brands. This way the company may service the whole market more efficiently, segmenting it and developing different kinds of products, which then will be distributed through the brands the target customers most relate to. With such changes cannibalization between brands is avoided, operating costs are decreased and scale advantages are achieved, negotiating with suppliers as a single company.

Creation of new leisure brand - TA Lazer - In the analysis of the case study problems relating to portfolio management have been identified. It has been argued that Top Atlântico's corporate and leisure businesses should be separated. Since the brand has greater awareness in the corporate segment, Top Atlântico should be fully dedicated to service this segment. For the leisure segment a new brand needs to be created. The brand's name should change in order to communicate to customers a new and more focused approach to this segment which may attract new customers and penetrate this market. Nevertheless efforts should be made to maintain some brand-equity that may ensure retention of the current client-base. TA is the abbreviation for Top Atlântico, which creates the link with the former brand but with obvious changes. Adding "Lazer" [2] afterwards will communicate a new focus in this segment. Furthermore it should be announced that this brand is the result of the merger between Tagus and the leisure business of Top Atlântico. This will send a clear message to the customers of these brands that the new one still intends to serve them. Merging Tagus also solves the portfolio problem of having too many question marks, discontinuing the brand that has been having poorer sales performance over the past few years. As for Netviagens it should at this point be maintained as a separate brand. The justification is found in the analysis in topic c), where based on Mayr and Zins study it is argued that Netviagens will be able to serve segments that will still not choose to buy from Top Atlântico.

With the new scale advantages of ES Viagens, along with the temporary product differentiation that Mundovip may provide, TA Lazer will have the possibility of positioning itself for a more price-sensitive audience, competing in price with a different set of products and destinations, which will ultimately lead to the conquering of market share in the leisure segment.

[2] Lazer means leasure in Portuguese

Implementation of the "travel advisors" concept - This recommendation has the main reasoning of creating customer service capabilities that may allow for differentiation across all of ES Viagens' brands since these do not depend on marketing activities or products offered. With tourism products and packages becoming more "commoditised", with customers demanding the lowest price possible, and having a broad range of companies, online and offline, that may satisfy their needs, physical agencies must differentiate by offering unique market knowledge and understanding of the customer, which will lead to the best possible advise. Only this way ES Viagens may be able to achieve some degree of sustained differentiation in the services it offers. As already discussed this strategy needs two main assets: employees and knowledge management system. This means that the company should provide their employees with proper training, allowing them to develop skills as salesman, but also know more than anyone about the destinations and products offered by the company. Along with the better service these skills may help achieve, employees will also be able to serve their customers better if they have more information about them. For such reason, as well as for product development purposes, a proper information system should be implemented in order to analyse each "customer profile". In order to fill such "profiles" with useful information ES Viagens should create loyalty cards and other campaigns with promotional benefits. In combination with the new improved service, this measures will be likely, and are expected, to increase customer loyalty and retention, which will ultimately increase sales and performance.

Growth of chain of stores without "full-ownership" - This recommendation has the objective of being able to grow ES Viagens' network of stores, without compromising the financial stability of the company. In a time where for the first time the company will have losses, financial constraints will increase, with a lower possibility of continuing to open fully owned stores. Nevertheless, the identified problems with the current network of stores, mainly that ES Viagens has been outmatched by its main competitors' in number, high-traffic locations, and geographical coverage, may be solved without necessarily owning the stores. Exploring the franchise option, as well as creating partnerships with regional players that may advertise and sell ES Viagens' brands' products will provide without much initial investment the needed visibility and reach to compete with the growth of its main competitors like Abreu, Geostar and Best-Travel.

International Expansion - This is the best option for ES Viagens to grow in spite of the difficult financial and economic scenario that was predicted in 2009 and following years. As discussed earlier, with offices in Spain, Italy and Angola, the company is failing to target markets with greater disposable income and that are less exposed to the crisis ahead. The UK, the Scandinavian countries and Brazil are examples of markets that fit the previous description, and that have historically proved to have tourists that see Portugal as an appealing vacation destination. But besides attracting foreign tourists to Portugal, ES Viagens should also engage in a study to identify markets with similar preferences to the national one, where its products could be marketed without much changes needed. This will increase the company's revenue, while decreasing its dependency on the internal market. In order for such strategy to be viable ES Viagens should engage in partnerships with local agencies that may, in an initial phase, play the role of distributors of the company's products and services. Such partnerships are even more important in the already discussed scenario of financial constraint.

Altogether the recommendations presented will allow for solving internal issues, for cost savings, for improving performance in the leisure segment, for penetrating and growing in the national market, and also for growing in the external market. Furthermore, the recommendations provide a strategy of differentiation, applicable for all of the company's brands and markets.

7. What happened next?

As mentioned in the end of the case study, after the first quarter of 2009 ES Viagens' management was already predicting its worst year yet, and such predictions were indeed correct, with the company reaching the end of that year with a loss of over 1,8 million Euros. Even though ES Viagens was able to reduce some costs, the reduction of 16% in sales could not be compensated.

After consulting with Deloitte, some crucial points were identified and changes were made. In June 2009 ES Viagens announced the re-organization of its structure, centralizing activities to reduce costs. Negotiations with suppliers were now centralized, and economies of scale could be achieved. Even other departments like the Marketing department were centralized, having one single department for all the brands. The other main change was the separation between the corporate and leisure segments, with each one having its separate teams inside the company. Top Atlântico continued to service both segments, maintained the same brand name, but had now two different divisions, Top Atlântico Corporate and Top Atlântico Lazer, which also had now different distributions channels, with the corporate clients having one special store (BTC - Business Travel Centre).

Although registering a slight improvement in results, one could ask how effective the separation between the corporate and the leisure segments was. In 2010 ES Viagens' sales rose 11%, an increase that was still not enough to avoid losses of 500 thousand Euros. Such increase was due to Carlson Wagonlit Travel (CWT) and Netviagens, brands that achieved record sales that year, with Top Atlântico also increasing 10% in sales. Tagus on the other hand kept shrinking, having in 2010 its worst year since its early days. Nevertheless 2011 was another bad year, with sales decreasing 5%. Top Atlântico was the main responsible with an estimated decrease of 3,4% that year. The company remained leader of the corporate segment, with CWT, a brand fully focused in that segment, increasing 6,5%. The leisure segment seemed to remain ES Viagens' weak spot.

Market concentration increased in 2011, with the top 20 largest travel agencies being now responsible for 62,6% of the market. Nevertheless signs of increased competition were obvious, with the market leader Abreu being the only agency in the top 5 that grew its sales that year. In fact the increase in the Top 20 was mostly spurred by the growth of the agencies in the second half of the ranking. Although Top Atlântico maintained the second place, resisting the "attack" of the merger of Geotur and Star, with the newly formed Geostar loosing 6% in sales in 2011, the distance for the leader Abreu was still increasing.

ES Viagens reacted to this conditions with investments. In the leisure segment it acquired Pestana Group's travel agency, Intervisa, integrating it into Top Atlântico's chain of stores mainly in Lisbon, Oporto, Aveiro and Funchal. But the more significant investment was in the corporate segment, with the acquisition of the national branch of the international agency BCD Travel. With this acquisition ES Viagens consolidated its leadership in the corporate segment, since this agency was runner-up in that segment.

In the first day of 2012 ES Viagens announced that the new company it had just created, TOP Partner, was from then on responsible for managing all the corporate business of ES Viagens. TOP Partner was constituted by Top Atlântico's corporate segment team, and also incorporated CWT and the newly acquired BCD Travel. Furthermore Top Atlântico made small changes to its logo, for the first time creating the idea of a separate brand for the corporate and leisure segments. This move aims mainly on communicating the difference between such segments, having its own company fully specialized in the corporate segment. In an interview at "Jornal de Negócios" ES Viagens' CEO, Francisco Calheiros, admitted that the company is suffering more in the leisure segment, with decreased sales since 2008. The CEO also mentioned that although expanding internationally is not in their plans, he is expecting its international revenues, that already represent 20% of ES Viagens' businesses, to grow mainly in Spain and Angola.

While the company keeps doing a very good job at maintaining the leadership position in the corporate segment, it still has not found a way to grow in the leisure segment, which is the main source of ES Viagens' reductions in sales. If on the one hand the creation of a new company, separating the corporate from the leisure, may finally communicate to the market a different positioning on the two segments, it may also have the negative effect of transmitting to customers that its brands are not specialists in the leisure segment and do not intend to change that, quite the opposite.

The main question concerning ES Viagens remains. While the corporate segment is clearly the company's core business, what role will the leisure segment have in the future? Is that segment really the answer to ensure growth? Or will the company find other revenue sources? Only time will tell ...

V. Conclusion

ES Viagens entered the Portuguese market in the beginning of the 2000 decade with a brand, Top Atlântico, that aimed to achieve a leadership position in the tourism distribution sector. Faced with strong competition from Abreu, market leader at the time and historic player in Portugal, ES Viagens engaged in a differentiation strategy through the focus on becoming a multi-specialist. Opposed to its main competitor that was highly focused on the lower-end of the middle-class client base of the leisure segment, aiming at offering affordable vacations to everyone, ES Viagens tried to service the entire market, targeting all kinds of customers of all market segments, with multiple destination offers. In order to undertake such strategy the company acquired Carlson Wagonlit Travel to service the corporate segment, Tagus to service the leisure segment, and Netviagens to service the online segment, that was expected to grow exponentially in the following years. Top Atlântico, the original and most important of ES Viagens' brands, replicated the corporation's strategy of serving the whole market, growing to both the corporate and leisure segments, but differentiating from Abreu for targeting higher-income customers that would allow for higher profitability.

ES Viagens' strategy worked for five years, until it saw its first year of decreasing performance in 2007, ending 2009 with losses of close to 2 million Euros. Such poor performance had one main reason: ES Viagens bet on the wrong "horse". With the corporate segment being much more stable and less exposed to external social and economic changes, the company focused on the higher-income segment on the leisure segment. But this one shrank while the "mass-market" segment grew. Consequence of an economic crisis in the country, the emergence of strong, low-cost focused competitors, and the possibility of booking directly through the source on airlines', hotels' and tourism operators' website, the leisure segment was no longer willing to pay a price premium for high quality and service, which made the segment ES Viagens' had focused economically unviable to service.

Adaptability to the new competitive conditions in the industry was possible. The brands that were focused on the corporate segment would continue its strategies, since the segment was less exposed to the emerging trends, while the brands that were focused on the leisure segment would communicate that would still offer a differentiated service at the same price offered by its competitors. Profitability on the leisure segment could decrease, but its client-based would be maintained, eventually gaining their loyalty. ES Viagens problem was that Top Atlântico, its main brand, was competing in both segments. Communication of two different strategies in two different segments by the same brand proved to be impossible, with the ES Viagens loosing much of its leisure segment clients to maintain their main source of profitability, the corporate segment.

While ES Viagens could not prevent the emergence of external trends that would hurt the company's position, it should have been able to anticipate and defend itself from such factors. Not only did it failed to recognize the changing patterns in consumer preferences and competitive conditions, as it was unable to adapt properly once such problematic issues were identified, with Top Atlântico's ambivalent positioning creating rigidities that prevented proper strategic changes to be undertaken.

The separation between Top Atlântico's corporate and leisure segment may provide the flexibility to apply the needed strategic changes, but the company will start almost from scratch in the leisure segment, with corporate results close to those of 2004.

With much of this thesis focused on identifying and correcting ES Viagens' problems in the past few years, it does not go as far as possible in the discussion and analysis of the future of the company and its growth prospects. With more time, further development could have been given to the analysis of the attractiveness of the Portuguese leisure segment, and to the discussion of internationalization issues, with comparative analysis of different markets and business models to be introduced beyond national borders. Nevertheless, during the development of this thesis I learnt a lot about how environmental changes may have, without any warning, a devastating effect even in very successful corporations like ES Viagens. But more than that, I learnt that such effects may be even more dire if proper adaptation is not quick and decisive, with firm strategic actions.

While providing an interesting corporate and strategic challenge, where students may practice frameworks and theories to support the identification of issues affecting a company's performance, *ES Viagens, When growth takes a vacation* raises attention to the need for strategic decision to adapt to the fast pace of markets and societies. Pointing out the importance of theories like the dynamic capabilities, one that underlined most of the analysis undertaken, this dissertation warns for the need of companies to be able to read and understand its environment, but most importantly, since some changes cannot be predicted, it warns students, future managers, for the importance of adaptability in a company's structure.

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