

**TAP IN STRATEGIC CHANGE:
WHAT SHOULD BE THE FUTURE STRATEGY?**

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ABSTRACT

During the last century, organizations focused their business on the long-term planning, considering that business environment will remain stable for a long period of time, so they made plans for long duration. Nowadays, it is obviously that environment can change at any point of time.

Consistent to this, the purpose of this thesis is to conduct a case study that illustrate how strategic management is critical for success and how it helps companies to analyse its business, in order to define a strategy. Also, it outlines the importance of having a continuous process of strategic planning in today's companies. The case is built around TAP, so that could have a practical application and make possible to see concrete results.

To develop the case, it was made a descriptive research with qualitative and both primary and secondary data. The interview was the method chosen to collect primary data.

In terms of results, it was found that a simple process of strategic management is not enough to be competitive. It is necessary to have a continuous process, capable to be adaptable to the market trends and business environment changes. Throughout this ongoing process, TAP is able to be agile and define and keep modifying its future strategy whenever necessary to keep up with the constant changes in airline industry.

This case is targeted to students and professionals with an interest in strategic management and strategic analysis.

Key words: Strategic management, organizational change, business environment and strategic analysis

JEL Classification System: M10, M19

RESUMO

Durante o século passado, as empresas centravam os negócios no planeamento de longo prazo e, partindo do pressuposto que o ambiente empresarial permaneceria estável durante um grande período de tempo, faziam planos para longa duração. Atualmente, é obvio que o ambiente organizacional pode mudar a qualquer instante.

Consistente com isto, o objectivo desta tese é a construção de um estudo de caso que mostre como é que a gestão estratégica é um fator crítico para o sucesso, e de que forma ajuda as empresas a analisar o negócio, de forma a definir uma estratégia. Também sublinha a importância de um processo de gestão estratégica continuo nas empresas. O caso é construído em torno da TAP, de forma a ter uma aplicação prática e verificarem-se resultados concretos.

Para desenvolver este caso, foi feito uma pesquisa descritiva com dados qualitativos, primários e secundários. A entrevista foi o método escolhido para a recolha de dados primários.

Em termos de resultados, verificou-se que um simples processo de gestão estratégica não é suficiente para ser competitivo. É necessário um processo continuo, capaz de se adaptar às novas tendências do mercado e alterações do ambiente empresarial. Através deste processo continuo, a TAP está apta a ser uma empresa ágil, a definir e mudar a estratégia sempre que necessário, acompanhando as constantes alterações da indústria aérea.

Este caso é direccionado a estudantes e profissionais com interesse em gestão estratégica e análise estratégica.

Palavras-chaves: Gestão estratégica, mudança organizacional, ambiente empresarial e análise estratégica.

JEL Classification System: M10, M19

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ACRONYM

ASK – Available Seat Kilometre

ATA – Air Transportation Association

ATL – Air Traffic Liability

CAB – Civil Aeronautics Board

CAGR – Compound Annual Growth Rate

CASK – Cost per Available Seat Kilometre

DOT – Department of Transportation

FSC – Full Service Carriers

HS – Hub and spoke

IATA – International Air Transport Association

IFE – In-flight Entertainment

LCCs – Low-Cost Carriers

M&A – Mergers & Acquisitions

PESTEL – Political Economical Social Technological Environmental Legal

PGA – Portugália Airlines

PP – Point to point

RASK – Revenue per Available Seat Kilometre

RPK – Revenue Passenger Kilometre

SWOT – Strengths Weaknesses Opportunities Threats

TAP – Transportes Aéreos Portugueses

1. Introduction

Nowadays in business the only constant is change. It is extremely important that companies prepare themselves to operate in a truly changing environment. To be prepared and to be successful in this changing environment it is necessary that companies understand the importance of strategic management and strategic analysis. In addition, they should be aware that strategic planning previously done to remain unchanged for several years is no longer sustainable.

In line with this, this case study describes the current situation of TAP, using this company to explain the importance and the essence of strategic management and to understand how it can help TAP to analyse its business, in order to define its future strategy.

This thesis, being a case study, will be divided into two main parts: the case and the pedagogical note. In the first part it will be presented the business situation, the company studied and a compelling and concrete business problem with some questions regarding to the case. In the second part will be presented the pedagogical note with the literature review, the educational objectives, the data analysed, the case resolution proposal and the main conclusions of the case. Regarding to the literature review, presented in the second part of the thesis, it will contribute for a general understanding of strategy, highlighting the importance of strategic analysis. Also it will give theoretical knowledge about SWOT framework, since it is part of the strategic management process.

The resolution of the case study goes mainly through an application of some strategic frameworks, specially the SWOT. This tool is crucial to analyse the business environment, in order to define the company's future strategy, to remain competitive in the future.

The choice of this theme relates to the fact that strategic planning is something across all businesses and all industries. In fact, this subject is actually something that all executives, managers or business owners should worry about and should understand better. Regarding the choice of the company, TAP was chosen because it was passed by an organizational change, being privatized on 12nd November of 2015. As consequence of this situation, strategic management has become critical for the success of the Portuguese airline. Furthermore, the airline industry is one of the most competitive industries in the world and if airlines do not plan and analyse its business, probably, they will not have a strong strategy to enable them to compete and sustain its position in the market.

2. Case study

2.1. Presentation of the issue

The airline industry is considered as being one of the most competitive industries in the world, enabling economic growth, world trade, international investment, tourism and also accelerating globalization. During the last decades, since the end of implementation of the three liberalization packages of European air market, the airline industry observed a huge transformation of this sector in Europe. New players, LCCs – low cost carriers, have entered into the market with a revolutionary business model that focuses on a strategy based on price rather than capacity or service level. This situation came not only to revolutionize the airline industry in terms of increasing the number of passengers using the aircraft to travel, but also in terms of increasing the number of travels by passenger. Furthermore, it brought together stiff competition in a market that until now was historically closed, protectionist, heavy and expensive. According to this, it is possible to state that the sector of air transportation is substantially different from what it was in the 1950s and as a result of that, the sector witnessed a massive restructuring with a significant increase in M&A activity and also privatizations.

In fact, privatization has become a global phenomenon, it still among of the top priorities in the politic agenda of developing countries and it can be seen as an organizational change process. In Portugal, the Portuguese airline, TAP - Transportes Aéreos Portugueses, passed by an organizational change, being privatized in November 2015. TAP was founded on 14th of March 1944 and started commercial flights in September 1946, doing connections from Lisbon to Madrid. Nowadays, the Portuguese airline operates in 38 countries worldwide with several flights for a week to 88 different destinations.

During these years until now, TAP has been doing some improvements and developments, such as increasing the number of flights, the number of destinations, acquiring new aircrafts, increasing the quality of the service and improving the customer's security. In 2013, TAP was named as being the "Best Airline in Europe" by the Global Traveler Magazine. Also, in 2015 was considered one of the most secure European airline to travel, reaching the 3rd place in top 10. In fact, regarding to security, the only accident with fatalities that involved TAP was in 1977, when a Boeing 727 overran the runway on landing in Madeira airport because of the bad weather conditions.

As a consequence of the privatization on November of 2015, the TAP organization structure was change, being the airline majority owned by Atlantic Gateway Consortium, led by David

Neeleman and by Humberto Pedrosa. An organization's privatization and a change on its the organizational structure have a direct impact in its business, so it is probably that the business strategy and the way of doing business will be different. In this concrete situation several questions are being made. Will TAP be the same company, with the same "image" and with the same portfolio of products? Does TAP will change completely the way of doing business and the type of customers? Does TAP will turn its differentiation strategy into a cost leadership strategy? These kind of questions are very important when a huge organizational change happens and it is extremely necessary to think and to reflect about it, in order to re-define or create a new strategy, that guarantee a sustainable and stable future, capable to face the new market trends and competitors.

At the same time, there are other issues that are constantly affecting, positively and negatively, the airlines. Since the airline industry faces a lot of uncertainty, mainly caused by external factors (economic, political, social, technological, environmental and legal), airlines must be aware of how these issues can affect its business.

The strategic management plays a great and important role in today's business, in order to maintain the company performance and to define a competitive and sustainable strategy to face the future. A deep strategic analysis and a good strategic thinking allows managers, in this specific case TAP's managers, to do profound research of the company, outlining its resources, capabilities, points to improve, opportunities and threats. With this knowledge and also with valuable information about airline industry will be easier to define a new strategy for TAP or re-define the old one.

2.2. Airline industry

2.2.1. Industry overview

In a world increasingly globalized, where agility and rapid change is a constant, the airline industry, more precisely the commercial air transport of passengers, contributes effectively to this development, allowing and facilitating connections around the world. The airline industry can be considered as one of the most competitive industries in the world, with the highest growth expectations. Some authors argue that, over time this industry has been changing the way of doing business and the way in which people live by reducing time and distance and enabling economic growth, world trade, international investment and tourism. In fact, this is true and it is practically impossible and hard imaging living in a global world without air

transportation. Belobaba, Odoni and Barnhart (2009:1) refer that *“the global airline industry provides a service to virtually every country in the world, and has played an integral role in the creation of a global economy”*, and, indeed this is possible because of its unique transportation network across the world.

Over time, the airline industry has experienced several changes, it has gone through a huge influence on both the supply and the demand side. The United States airline deregulation in 1978 had affected the carrier’s network strategy, resulting in a rapidly reorganization of network structures from point to point¹ (PP) system into a hub and spoke² (HS) system and in a use of PP system by low cost carriers (LCC), or low-fare airlines, such as Southwest Airlines. After the U.S. airline deregulation, the pressure on governments to reduce their involvement in the economics of airline competition has spread to Europe, which had similar results but the effect was not so strong when compared to U.S. market deregulation (Cento, 2009). As a consequence of the deregulation and the subsequent process of privatization, new players entered in the market and increased the competition with its low fare airlines. As stated by Price and Hermans (2009:125), *“the European low cost carriers have proven that the business model is profitable and can be sustained”*. Full services carriers (FSC), or legacy carriers, felt the need of start following the path taken by low cost carriers, so they started by increasing their efficiency and lowering their operating costs. Since that passengers are now accustomed to the low cost business model, it appears an increased demand for a higher and better service with a higher perceived value. Furthermore, *“with major increases in fuel costs and airport access costs at the more popular destinations, the low cost airlines may find it difficult to maintain their price advantage over the legacy airlines without additional runway capacity.”* (Price and Hermans, 2009:125). Considering these facts, legacy carriers have now a great opportunity to compete and fight back for increasing its market share.

After the market deregulation the emergence of the international alliances have started to appear, with the main objective of adding as many destinations as possible by accessing the connection system of the partners (Cento, 2009). In fact, being the airlines industry one of the most competitive industry in the world, it is practically impossible for any company to survive without partners. Abeyratne (2005: 4) refers that *“By entering into alliances and sharing each other’s resources, including air traffic rights, carriers managed to gain access to new routes*

¹ Point-to-point (PP) refers to a transportation system in which passengers travel directly to a destination.

² Hub and spoke (HS) refers to a system of connections arranged like a wire wheel, in which all traffic moves along spokes connected to the hub at the center.

and networks which they previously could not reach due to the strict requirements of bilateral air transport agreements". From the airline's point of view, the biggest advantage is to benefit from the network that alliances offer. In addition, the presence of each airline in the market, by entering into an alliance, will increase substantially and airlines will have opportunity to learn through the knowhow and experience of their airline's partners. Moving to financial and economic advantages, airlines can increase its revenues as well reduce its cost through the several joint purchasing initiatives and standardisation of products (Szakal, 2013). Passengers will also benefit from these alliances, for instance, they will have a greater network access with better connection; seamless travel experience with a low risk of missing connecting flights; transferable priority status; extended lounge access and lower risk of losing baggage. According to World Airline Alliance, in 2015, the best world's airline alliance was Oneworld Alliance, followed by Star Alliance and in third place the SkyTeam Alliance.

2.2.1.1. Industry characteristics

According to U.S. Department of Transportation (DOT), the airline industry is divided into four main categories: international, national, regional and cargo. The airlines should be grouped taking into account the number of destinations, the type of routes (shorter or longer) and the amount of revenue earned:

1. International – Travel around the world and its revenues are superior than \$1 billion.
2. National – Travel in particular regions of the country, although some provide long-haul and even international service. Its revenue is between \$100 million and \$1 billion.
3. Regional – Travel in single region of the country, transporting passengers between the major cities of the country and it have revenues between \$20 million – \$100 million.
4. Cargo – This kind of airlines is generally for goods transportation.

Machado, Castro and Oliveira (2010) has provided evidence that, a common airline structure is broken down five different responsibilities:

1. Passenger services – Responsible to consider and minimize the impact of the decisions on passengers;
2. Maintenance services – Responsible for the unplanned services and for the short-term maintenance scheduling;
3. Aircraft control – Responsible for the resource aircraft management;

4. Crew controller – Monitors the crew check-in and checkout, updates and changes the crew roster according to the arisen disruptions;
5. Flight dispatch – Responsible to prepare flight plans and requests of new flight slots to the Air Traffic Control (ATC) entities.

As said before, it is not easy to operate in this industry because is an extremely competitive market and there are several factors and issues that can hamper the airline's business. Factors such as the airport capacity, technology, aircraft dimension, routes and some costs regarding to lease or buy aircrafts are very important for airline industry, because they have a significant relevance to well-perform the business activity and also to increase competitiveness between airlines. Furthermore, there are other issues that have also a huge impact on the aviation industry, being them, sometimes, an obstacle to carrying out the activity. For example, terrorist attacks or weather's conditions that are unpredictable and they may force to close the airport, which will increase the airline's costs. The costs have, as well, a significant impact and, according to International Air Transportation Association (IATA) Annual Review (2015), the most relevant costs in this industry are the labour and the fuel costs.

2.2.2. Deregulation

Nowadays, airline industry is completely different when compared with the years before to 1978, where the industry was supervised by the government which had the authority to defining each airline's routes and also control the prices they charged. Today, the demand is defined by customers which determine the prices and the service levels.

The process of airline's deregulation did not appear as a result of globalization or modernization of airline industry. It appears as a consequence of a dysfunctional system inside of airline industry. Several facts had contributed to the dysfunctionality of the system and previously led to airline deregulation. Firstly, airlines were not allowed to sell tickets at lower prices in order to fill in the rest of their flights, with their planes only half full. In fact, it not made sense having air fares so high, that were too expensive for the majority passengers, being half the plane empty. This situation was not worthy neither for passengers, neither for airlines. Secondly, airlines could not remove or adding route because was the Civil Aeronautics Board (CAB) that controlled and defined the routes and it was very difficult for airlines getting authorization to change routes. A practical example was the case of Continental Airlines that was waiting eight years to receive permission to fly between San Diego and Denver (Robson,

1998). Thirdly, it was impossible new airlines start up doing business in the market, because CAB was not allowing any new entrants. As a consequence, the anti-competitive contracts between airlines increased. In addition to these three main facts, other ones such as the lower profits of airline industry, the higher amount of complains and the flight's delays have contributed for an airline industry deregulation.

The first great victory for airline industry happened in United States, in 1978, when CAB approved the Airline Deregulation Act. This transformation brought several benefits for the industry. Research by Anderson et al. (2005) has provided evidence that, after the U.S. airline industry deregulation, the market suffered significant changes. Those changes mainly included the entry of low-cost carriers, lower fares, more passengers and service – *“In 1978, 275 million people flew on domestic carriers. In 1997, that number had more than doubled to 600 million passengers.”* (Robson, 1998:18), waves of M&A among the major airline carriers – *“During the 1980s, the airline industry experienced massive consolidation and in the period between 1978 and 1988 alone, there were fifty-one airline mergers and acquisitions. In 1995, the six largest U.S. airlines held a market share close to 82,7%.”* (Scharpenseel, 2001: 99), appearance of HS system and higher variability in fares across the market. Besides those changes, the deregulation has had two major effects on the network strategy (Cento, 2009). The first effect was a reorganization of their structure system, moving from a PP into a HS, which effect was, consistent to Robson (1998:19) *“one important catalyst behind the industry's success, an efficient and cost effective way to transport people quickly to a large number of destinations”*. The second effect was an adoption of PS system low cost carriers, for instance Southwest Airlines.

In Europe, the airline deregulation just happens 10 years later and was quite different from the U.S. deregulation. The liberalization of EU airline's industry was a gradual process, which was developed in three phases (1987, 1990 and 1992). At the beginning, in the initial stage, the process was slow and with few impact on the industry but, after 1990s the process became bigger with higher effects in the market. The first effect, in the initial stage of deregulation, was characterized by an increase of international airline's alliances. The second effect was the development of HS system strategy by the former flag carriers (Cento, 2009). Finally, the third effect was the growth of low cost carriers, that experienced a higher and fast growth after 1999. This third phase of EU airline's deregulation was truly important, because it permitted an increment on competition between LCC and FSC.

Despite the differences, in terms of the airline's deregulation process between U.S. and EU, both deregulations contributed for *"changes in airfares, service, and safety (...) that cited a dramatic improvement once airlines were allowed to compete for customers in a free market"* (Robson, 1998:19).

2.2.3. Low-cost carrier vs. full-service carriers

One of the several effects of U.S. and EU airline industry deregulation was the entry of new players in the market, that enabled more competition between airlines and increased the air traffic (Burghouwt & Wit, 2015). These new players, LCC, have revolutionized the airline industry with a different business strategy supported by their ability to charge a lower price over the traditional full-service carriers, and with a different network structure.

The pioneer low cost carrier, or low-fare airline, was Southwest Airline, *"operating interstate in Texas in the USA in the early 1970s, and has grown on the back of airline deregulation in 1978 to be one of the most successful and consistently profitable US airlines"* (Price & Hermans, 2009: 117). In Europe the LCC's pioneer was Ryanair, when the Irish airline company copied the Southwest model. The business strategy of LCC is very focused and simple. Basically, these carriers *"identified the coverage-convenience trade-off that characterizes the industry and took a different approach by tipping the balance in favour of simple and efficient production processes at the cost of connectivity and network coverage"* (Daraban, 2012: 39). In truth, the LCC have deeply examined their business to achieve a cost leadership strategy, which the main goal of it *"(...) is to contain the costs to the lowest relative to industry rivals and, in essence, to create a sustainable cost advantage over the competition. The key to this strategy is that cost is not equal to price"* (Flouris & Oswald, 2006:21). Several other factors contributed to take advantage of this strategy and to characterized the business model of LCC.

In LCCs model (Table 1), the product offered is very simple and basic, not differentiated and with no in-flight service or lounge services in the airport, being charged every extra service. The use of a single type of aircraft, standardizing its fleets, allows them to have economies of scale in its acquisition, maintenance and operations. The productivity and the aircraft utilization is high, operating and being in the air, generally, more hours in a day compared with FSC. Through a yield management system, the tickets are sold in a demand and supply basis, which its price depends on the seat available. Also, the tickets are sold and distributed via internet

instead of travel agencies. These carriers use a PP network, flying from place A to B with no any connection at the airport bases. Regarding to airports, LCC tend to look for secondary or tertiary airports that offer minimum costs in terms of landing tax and handling fee, because they believe *“that passengers spend a relatively short time in an airport and are not looking for a luxury experience”* (Price & Hermans, 2009:122).

In contrast, FSC (Table 1) have a completely different business strategy supported by a hub-and-spoke network, that *“allow them to achieve maximum connectivity for as many demand categories as possible (i.e. take anyone from anywhere to everywhere), consistent with the ‘full service’ label”* (Daraban, 2012: 38). The HS network will also increase the average’s time and the circuitous routings of passenger’s trips. On the other hand, with a HS network it is expected to have a reduction the passenger’s schedule delay time, by offering an increased flight frequency (Fu, Oum & Zhang, 2010). The FSCs usually charges higher prices, however they have in-flight entertainment, checked baggage, meals, beverages and comforts included in the ticket price. Tickets can be sold and distributed in many different ways, such as phone, travel websites, agencies and internet. The fleet it is not homogenous or standardize, operating with several types of aircrafts. The primary airports, which have better accessibility, are the first choice of these carriers instead of the secondary airports, which have lower cost and weak accessibility. The aircraft utilization is not very high, being in air few hours per day when compared with low-fare airlines. Typically, in FSCs its cabins have two or three classes services and fewer seats in each aircraft. Also, their business model is characterized by airline alliances, allowing them to have interline agreements with other airlines (such as Star Alliance, SkyTeam Alliance and OneWorld Alliance). With airline alliances plus a HS network, FSC can have diversified routes and increase the probability of connecting outbound flights with inbound flights, that will enable them to fly around the world.

However, it is important to outline that not all LCCs have implemented all of the key elements presented above. For instance, EasyJet has a focus on major airports like Gatwick (London) or Orly (France). Another example is Germanwings that is one of the few LCCs that has introduced a flyer program. There also other airline carriers that have opted by a business model which contains elements from LCCs and others elements from legacy carriers, such as in the case of Air Berlin. This situation can be mainly explained by increased competition and by the agreements between Europe and third countries.

TABLE 1 - DIFFERENCES BETWEEN LCC AND FSC

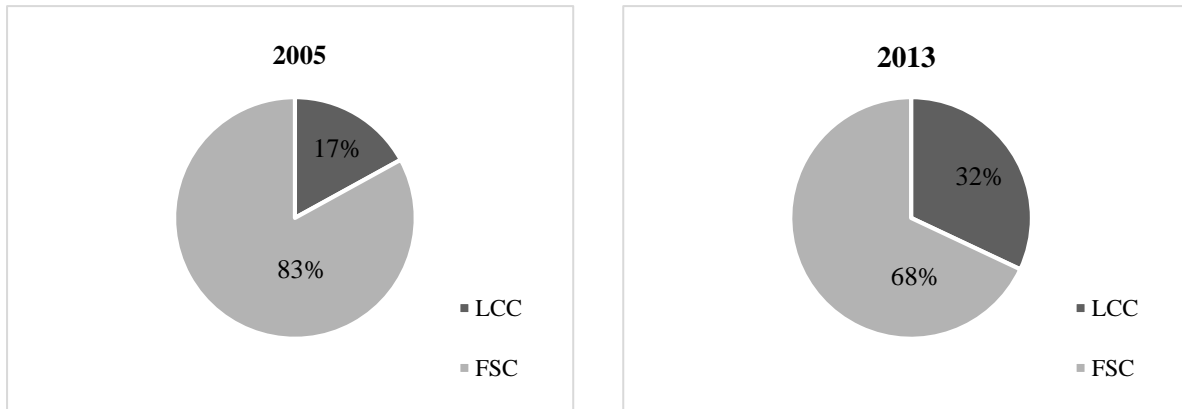
<i>Product features</i>	<i>LCC</i>	<i>FSC</i>
<i>Brand</i>	One brand: low fare	Brand extensions: fare + service
<i>Airports</i>	Secondary	Primary
<i>Connections</i>	Point-to-point	Interlining, code share, global alliances
<i>Class segmentation</i>	One class (high density)	Two or three classes (dilution of seating capacity)
<i>In-flight</i>	Pay for amenities	Complementary extras
<i>Aircraft Utilization</i>	Very high	Medium to high: union contracts
<i>Turnaround time</i>	25 minutes	Low turnaround: congestion/labour
<i>Product</i>	One product: low fare	Multiple integrated products
<i>Ancillary revenue</i>	Focus on the primary product	Advertising, on-board sales
<i>Aircraft</i>	Single type: commonality	Multiple types: scheduling complexities
<i>Seating</i>	Small pitch, no assignment	Generous pitch, offers seat assignment
<i>Customer service</i>	Generally, under performs	Full service, offers reliability
<i>Operational activities</i>	Focus on core (flying)	Extensions: passengers, maintenance, cargo

Source: Adapted from O'Connell & Williams, 2005

However, it is important to outline that not all LCCs have implemented all of the key elements presented above. For instance, EasyJet has a focus on major airports like Gatwick (London) or Orly (France). Another example is Germanwings that is one of the few LCCs that has introduced a flyer program. There also other airline carriers that have opted by a business model which contains elements from LCCs and others elements from legacy carriers, such as in the case of Air Berlin. This situation can be mainly explained by increased competition and by the agreements between Europe and third countries.

As previously mentioned, LCCs have revolutionized the airline market and made a positive impact on competition and innovation due its strategy based on lower prices. The higher airline market share is from FSCs, although the LCCs have been growing significantly in the market, as can be seen in the Chart 1.

CHART 1 - COMPARISON BETWEEN AIRLINE MARKET 2005 VS 2013 (IN %)



Source: Adapted from Airline Profiler: International Low-Cost Airline Market Research, 2015

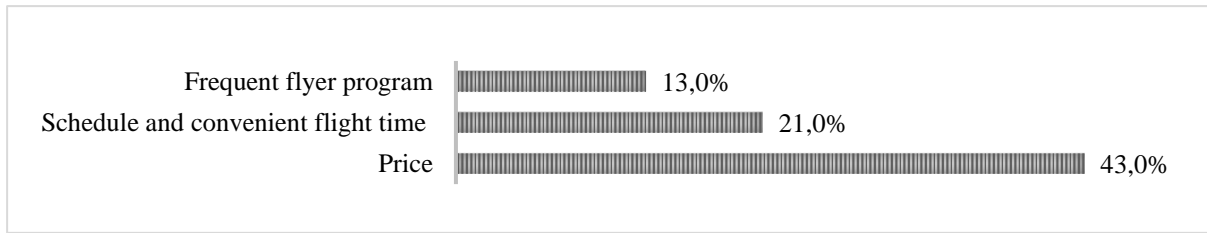
As a consequence of the increased competition, the differentiator’s factors have become even more important. There are several differentiator’s factors that airlines can use to differentiate its product, to compete and to retain clients: airfares price, airport connections, number of baggage allowed, on time performance, primary airports, services in-flight (meal, comfort, on-board sales, advertising), passengers boarding bridges, class segmentation, and others differentiators. The key to survive and to have sustainable competitive advantage in this market goes through a deep understanding about the passengers. Truthfully, passengers are not equal, they have different preferences, so it is extremely necessary to have a solid knowledge about what passengers want. Also, it is important to comprehend when they want something and how they want it. If airlines want to be passengers’ first choice, they should create perceived value for passengers and to be one sept ahead from its competitors. The following charts, elaborated based on the study “Global Passenger Survey” conducted by IATA (2015), give valuable information about customer’s behaviour and its preferences.

CHART 2 - TOP 3 FACTORS THAT IMPACT AIRLINE BRAND PERCEPTION



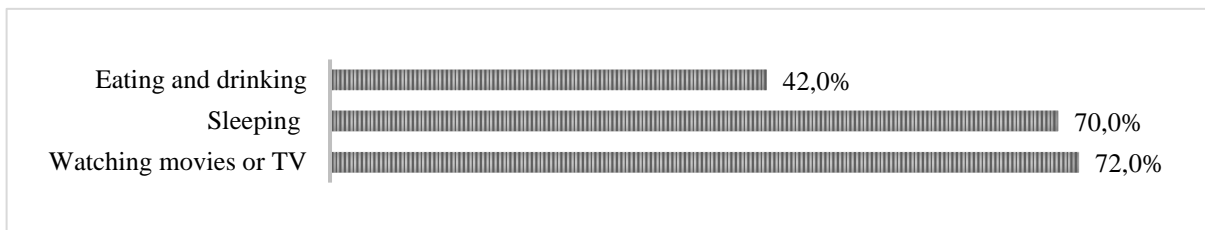
Source: Own creation, based on “Global Passenger Survey” by IATA, 2015

CHART 3 - TOP 3 FACTORS THAT IMPACT TICKET PURCHASE



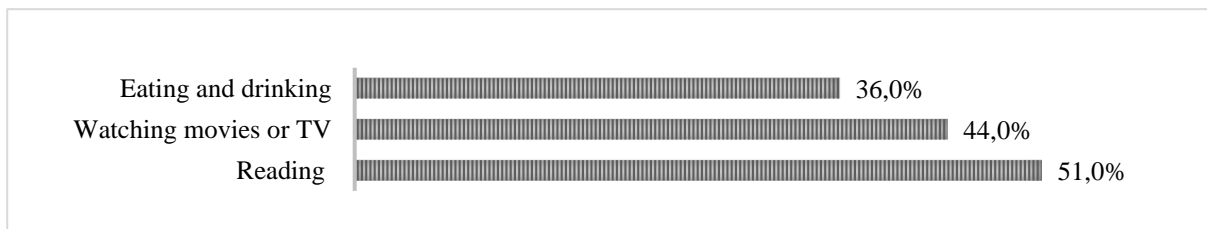
Source: Own creation, based on “Global Passenger Survey” by IATA, 2015

CHART 4 - TOP 3 FAVOURITE ACTIVITIES DURING A FLIGHT (LONG HAUL)



Source: Own creation, based on “Global Passenger Survey” by IATA, 2015

CHART 5 - TOP 3 FAVOURITE ACTIVITIES DURING A FLIGHT (SHORT HAUL)



Source: Own creation, based on “Global Passenger Survey” by IATA, 2015

2.2.4. Forces that affect the industry

The airline industry is mainly dominated by Airbus and Boeing. Also, the industry’s inputs (fuel, labour and aircraft) are all affected by the external environment and as they are standardized, the airline companies only seem to differentiate with services (meal, comfort, on-board sales, advertising, baggage allowance, on-time performance, and others). Regarding to costs, the switching costs between airline’s companies are low, because most of people have a tendency to choose the flight based on where they want to go, based on price and on time. This tendency can, sometimes, turns into loyalty to some airline’s companies. Although, this is not

enough for high switching costs, because there are others relevant information that passengers may look for when choosing the flight. Each airline has a specific niche and as consequence each of them provide a specific service – some are focused on cost while others are focused on having very good amenities. In the airline industry there are some substitutes products, since passengers can choose other transportation such as car, bus, train or boat to travel and to get to their destination. However, there are switching costs and sometimes other types of transportation can be more expensive than a plane ticket.

As previously mentioned, this industry is one of the most competitive industries in the world and this situation is a consequence of:

- The number of competitors, that does not change regularly, being stable in the long run;
- The fixed costs, that are very high and make difficulties for companies to leave this industry – existence of loan agreements in order to stay;
- The products (service) involved and/or planes, that are very complex;
- The increased power of LCCs in the airline industry, that revolutionized the airline market and increased the competition among the FSC.

In line with these factors and being the airline industry one of the most competitive industries in the world, it is required a huge amount of capital investment to enter in this industry. Furthermore, when airlines have to exist it may be necessary to write down and absorb many losses. Despite the fact of having low switching costs, which might increase the entrance of new companies in the market, it is not enough to have a high threat. Additionally, passengers have a great power inside of the airline industry, since they have several airlines to choose and they only chose the one which can give them perceived value. Consistent to this, to have a well-known name and to have a brand name recognition are two important things in this kind of industry.

So, by having a knowledge about the forces and factors that influence the business and the industry, airlines can easily strategically manager their agenda of action.

2.2.5. Performance of airline industry in 2015

The year of 2015 was a good year for airlines in general. According to IATA Annual Report 2016, the world's airline, in the previous year, carried more than 3.5 billion of people and transported 52.2 million metric tons of cargo, an improvement compared to the 3.3 billion of

passengers carried in 2014 and to the 51.5 million metric tons of cargo transported. In 2015, the industry employed approximately 10 million of people, which managed a fleet of 26,000 aircraft with an average of 100,000 flights per day over a global network of 51,000 route.

The ASK³ - Available Seat Kilometre and the RPK⁴ – Revenue Passenger Kilometre are the most used indicators to evaluate the performance of an airline. The ASK is related with the capacity of operations and the RPK is related with the traffic of passengers. Regarding to RPK, it grew 7.4% in 2015 and the capacity (ASK) increased 6.7% compared to the 5.5 % recorded in 2014. Also, there was an improvement in the world's airline load factor⁵, which increased 0.6 percentage points over the 2014 percentage, recorded in 2015 a value of 80.4%. The airline industry recorded a net income of EUR 31.9 billion, on revenues of EUR 649.4 billion. Additionally, there was an increase of 4 billion gallons in the fuel consumption to the 78 billion gallons consumed in 2014. However, since the fuel price decreased, the fuel expenses also decreased from EUR 204.1 billion in 2014 to EUR 163.4 in 2015.

In Europe, similarly to other regions in the world, the airlines had a good 2015. The RPK grew 0.3 percentage points over the 2014 percentage, recorded a value of 6.0 % in 2015, faster than the ASK growth of 4.8% in 2015. The load factor was 80.9 % in the previous year. There was a substantially increased of the net income in 2015, having airlines reached a value of EUR 6,8 billion compared to EUR 903.1 million recorded in 2014. In 2015, the Europe's three airlines with a higher operating margin were Ryanair (24.5%), Wizz Air (16.5%) and EasyJet (14.9%), all of them LCCs. After them, Icelandair (11.9%), IAG (11.5%) and Aeroflot (10.6%) recorded the highest margin in the FSCs market.

2.2.6. Future trends

In the future, the airline industry will experience some changes. In a study conducted by IATA, "*Vision 2050*", the major changes are related with market's dimension, technology and customer's priorities.

³ The ASK is obtained by multiplying the total number of seats available for scheduled passengers and the total number of kilometres those seats were flown.

⁴ The RPK is obtained by multiplying the total number of revenue-paying passengers by the number of kilometers traveled.

⁵ The Load Factor is the ratio of passenger-kilometers travelled to seat-kilometers available.

Considering the study mentioned, the global population will grow more than 20% over the next 40 years. Furthermore, the GDP of G20 will increase from \$38 trillion in 2009 to \$170 trillion in 2050 and China, India, Brazil, Russia and Mexico will comprise just over 50% of the GDP of the G20 countries. The advances in technology will revolutionize even more people lives, becoming the access to all type of information at real-time and anywhere in the world something acquired and banal the society in 2050. As stated by IATA, virtually all people will manage their lives using Lifestyle Integrated Management Pods (LIMPs) – portable devices that have all essential personal data related to their owners. *“Through LIMPs, individuals can manage literally every part of their lives, including all communications, entertainment, business, commercial and information needs. They contain all biometric data and allow individuals to constantly monitor their own health and, to a certain extent, fix health problems that arise. They facilitate the buying, selling and shipping of goods from any point to any destination”* (IATA – Vision 2050: 60). However, the differences between developed and non-developed countries will continue to be observed, despite of all technology advance and of all economic and population growth.

Concerning about the passenger market, it will expand and will be more diversified. This industry which carried 2.4 billion of passengers and 40 million tons of goods in 2010 will probably carry 16 billion of passengers and 400 million tons of goods in 2050. People will prefer to travel by air instead of doing it by car or other type of transport, since by air will be faster, safer and seamless than today. The availability of technology in airplane will be different too. In-flight entertainment systems will not be present on most airplanes, as the majority of customers become to have their personal audio and video entertainment. In the future the customer’s top priorities will be safety and security. In the future, although price still a key driver of consumer choice, it will not be at customer’s top priorities due the access of information which made price transparency absolute. Aircraft design will also be changed with the intention of being more comfortable, affordable and environment friendly. Regarding to fuel, it will be more efficient than in the present and the landing and take-off oxides of nitrogen will decrease.

It is important that airlines rethink in their business strategies in order to be successful and sustainable in the future. Along with IATA, airlines should adopt new marketing strategies, change their broad-based orientation towards a focused segmentation, to move from a mass customization to an insight-driven development and to move from a mass marketing towards a differentiated branding.

2.3. TAP

2.3.1. History

TAP is a Portuguese airline that was created on 14 March 1945 by Humberto Delgado, the then Director of the Civil Aviation Office. The first commercial flight, Lisbon-Madrid, occurred in September 1946, which was followed by flights between Lisbon, Luanda and Maputo (then Lourenço Marques) followed by others routes, such as Paris (1948), Seville (1948) and London (1949). Until the April Revolution, the company continued to develop some routes across the world, launching during the 1960s flights for Porto Santo, Goa, Rio de Janeiro, Geneva, Munich, Frankfurt, Funchal and others.

At the beginning of 1974, TAP began with 32 advanced aircrafts that were operating to more than 40 destinations, in four continents. Also, it began offering electronic reservations, load control and check-in, and became the first European airline to be responsible for comprehensive overhauls of the Boeing 747 engines. After 1974, the TAP became a stated-owned company. It was in the 1980s that the company made a re-branding, which included: new uniforms, logo and aircraft colours. Also, launched the in-flight magazine, created the Executive Class and opened a new cargo terminal at Lisbon airport. During the 1990s, for the first time, TAP had more than three million of passengers in a year. It was the decade of the first commercial jet that was designed by computer – the Boeing 777, Also, TAP developed flights from Porto to Barcelona and Basel and reopen the route to Salvador da Bahía.

The first decade of the 21st century was very important for the Portuguese airline's economic growth, with profits of several million euros. During this first decade, TAP made a rebranding, presented a new image, including a new logo and a new name – TAP Portugal. The main purpose and goal of this “rebranding” was communicate its modernity, lightness and to reinforce the name its name. The year 2005 was marked by considering TAP as a member of Star Alliance and one year after, in 2006, the Portuguese airline signed a deal with Espírito Santo International for the acquisition of 99.81% of the Portuguese regional airline – Portugália.

During the following years, TAP won several awards in many different categories, such as “World's Leading Airline to Africa” (by the World Travel Awards in 2011 and 2012), “World's Leading Airline to South of America” (by the World Travel Awards in 2009, 2010, 2011 and 2012), “Best Executive Class” (by Business Destinations, a British magazine, in 2013), “Best

Airline” (by the magazine Condé Naste Traveler, in 2010), “Leading European Airline to Africa and South America” (again by the World Travel Awards, in 2014 and 2015), and others.

In 2014, TAP include new 11 destinations, having, nowadays, connections around 81 destinations in 34 countries. In average, the Portuguese airline has around 2500 flights in a weak and has a fleet of 77 aircraft.

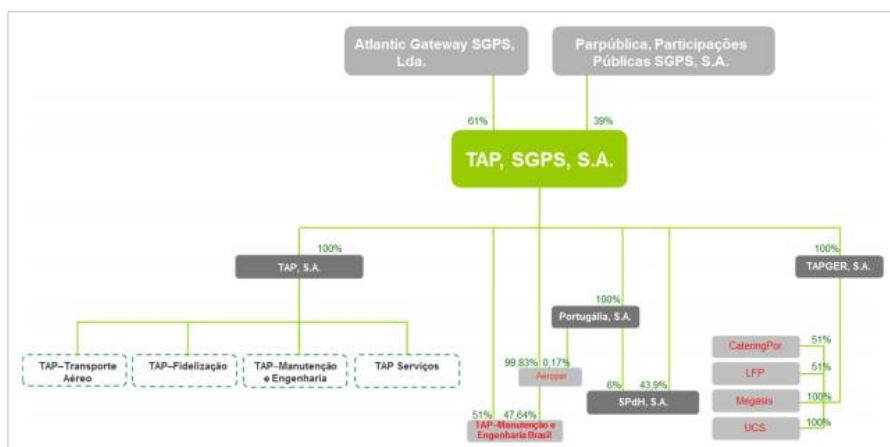
Once the Portuguese Government decided to sell the company, TAP experienced a profound organizational change, being privatized in November 2015. The Portuguese Airline was sold to the Atlantic Gateway Consortium, a joint venture between David Neeleman, owner of Azul Brazilian Airlines, and Humberto Pedrosa, owner of Grupo Barraqueiro, who take control of 61% of the capital of the TAP.

The consortium that won the company's privatization, in June 2015, has promised to buy more aircrafts so, in January 2016, TAP has announced an order of new 8 ATR 72-600, 9 Embraer 190, two A330-200 and the creation of a new brand, TAP Express, that will replace Portugália PGA Airlines. Nowadays, TAP has a fleet of 88 aircrafts (63 TAP Portugal and 25 TAP Express).

2.3.2. TAP organizational structure

As shown in Figure 1, Atlantic Gateway Consortium is the major owner of TAP Group, with 61 % of the group and TAP S.A. belongs 100% to TAP Group.

FIGURE 1 – TAP SGPS, S.A. ORGANIZATIONAL CHART



Source: TAP Annual Report 2015






2.3.3. Fleet, product and destinations

TAP boasts a fleet of 63 Airbus aircraft, being 4 Airbus A340-300, 16 Airbus A330-200, 3 Airbus A321-200, 19 Airbus A320-200 and 21 Airbus A319-100. Also, has another 25 at the service of TAP Express, being a total of 88 aircrafts.

Nowadays, the Portuguese Airline fly for 88 different destinations across Europe, Africa, North America and South Africa. Furthermore, TAP have some European and African destinations that are being operated by TAP Express.

TAP has a portfolio with five main categories: *tap/discount*, *tap/basic*, *tap/classic*, *tap/plus* and *tap/executive*. Each of these products is associated with different services, relating to reservations and some advantages on the ground and on board (Table 2).

TABLE 2 - TAP PORTFOLIO

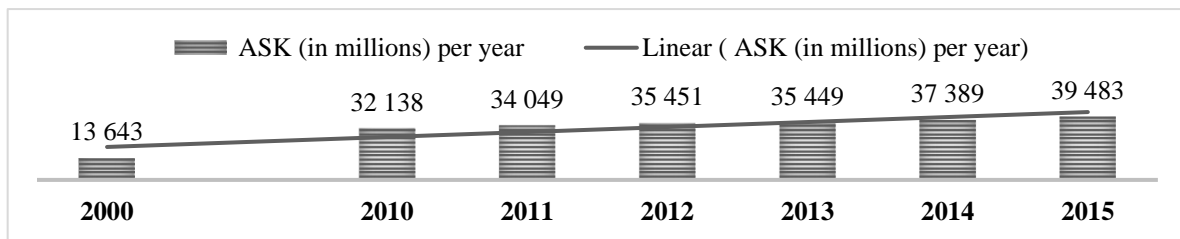
	
For those looking for excellent opportunities to travel at very low prices.	
<ul style="list-style-type: none"> ▪ Ticket changes allowed; ▪ Miles accrual; 	<ul style="list-style-type: none"> ▪ Meal; ▪ On board entertainment.
	
For those who plan their holidays, an economic solution that still has advantages.	
<ul style="list-style-type: none"> ▪ Ticket changes allowed; ▪ Miles accrual; ▪ Seat Reservation; ▪ Newspapers and Magazines; 	<ul style="list-style-type: none"> ▪ Information via SMS; ▪ Meal; ▪ On board entertainment.
	
For those looking for some flexibility and the convenience of classical TAP.	
<ul style="list-style-type: none"> ▪ Ticket changes allowed; ▪ Partial refund; ▪ Miles accrual; ▪ Seat reservation; ▪ Upgrade with Victoria miles; 	<ul style="list-style-type: none"> ▪ Newspapers and Magazines; ▪ Information via SMS; ▪ Meal; ▪ On board entertainment.
	
If you are looking for speed and total flexibility, this is your solution.	
<ul style="list-style-type: none"> ▪ No charge for ticket changes; ▪ Total refund; ▪ Miles accrual; ▪ Priority Check-in; ▪ Priority security/x-ray; ▪ Priority Baggage; 	<ul style="list-style-type: none"> ▪ Seat reservation; ▪ Upgrade with Victoria miles; ▪ Newspaper and Magazines; ▪ Information via SMS; ▪ Meal; ▪ On board entertainment.
	
At the airport and on board, exclusive personalized service and maximum comfort allow you to work or relax as you wish.	
<ul style="list-style-type: none"> ▪ No charge for ticket changes; ▪ Total refund; ▪ Miles accrual; ▪ Priority Check-in; ▪ Priority security/x-ray; ▪ Lounge access; ▪ Access to Premium Customer Center; ▪ Priority Baggage; ▪ Seat reservation; 	<ul style="list-style-type: none"> ▪ Differentiated boarding/disembarkation; ▪ Free Parking & ValetXpress; ▪ On board newspaper and magazine; ▪ Information via SMS; ▪ Wardrobe; ▪ Amenity-kit (long haul); ▪ Executive meal with option; ▪ On board entertainment; ▪ Exclusive benefits with TAP ground partners.

Source: Adapted from TAP Corporate – TAP Products, 2016

2.3.4. Performance indicators

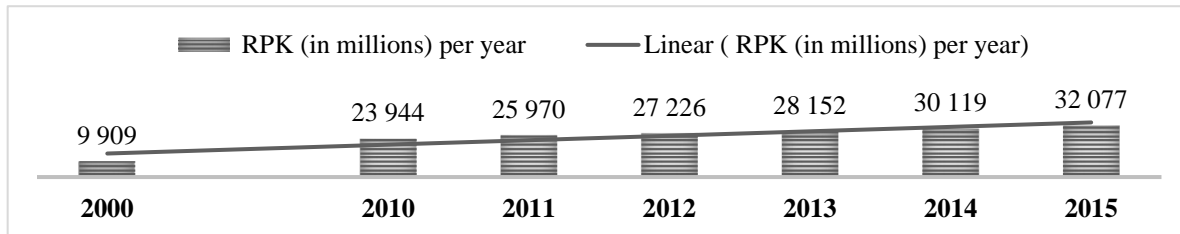
Through the following graphics it is possible to see that both ASK and RPK have been increasing along these years. Regarding to Available Seat Kilometre (Chart 6), TAP had a Compounded Annual Growth Rate of 189.4 %, between 2000-2015. Concerning the Revenue Passenger Kilometre (Chart 7), TAP had a Compounded Annual Growth Rate of 223.7%, between 2000-2015. Having the ASK and RPK it is possible to determine the Load Factor⁶ (RPK/ASK). In 2014 it was 80.56% and in 2015 it was 81.24% having increased 0.84 % between 2014-2015.

CHART 6 - TAP AVAILABLE SEAT KILOMETRE



Source: Own creation based on TAP Annual Report 2014 and 2015

CHART 7 - TAP REVENUE PASSANGER KILOMETRE



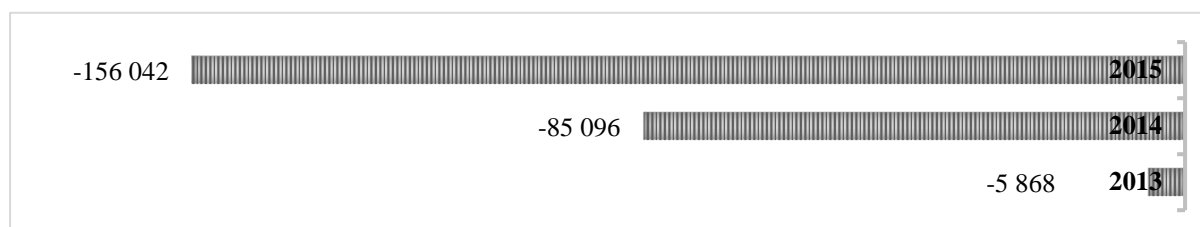
Source: Own creation based on TAP Annual Report 2014 and 2015

Besides these indicators previous mentioned, there are others that can be used to do a deeper analysis of TAP's performance. TAP SGPS, S.A. ended 2015 with a net income (Chart 8) of EUR - 156 million, which became more negative when compared to the EUR - 85.1 million recorded in 2014. Regarding to TAP S.A., the company recorded a net income of EUR - 99 million, which is more negative in EUR 52.6 million than the EUR - 46.4 million recorded in 2014. The situation of Venezuela, had an important impact on the negative results of 2015,

⁶ The Load Factor is the ratio of passenger-kilometers travelled to seat-kilometers available.

since the amounts were withheld due to the economic crisis. The Company said that approximately EUR 91.4 million were held in Venezuela and without this effect, the net income of TAP SA. would be EUR - 7.6 million.

CHART 8 - TAP SGPS, S.A. NET INCOME 2013-2015 (IN THOUSANDS €)



Source: Own creation based on TAP Annual Report 2014 / 2015

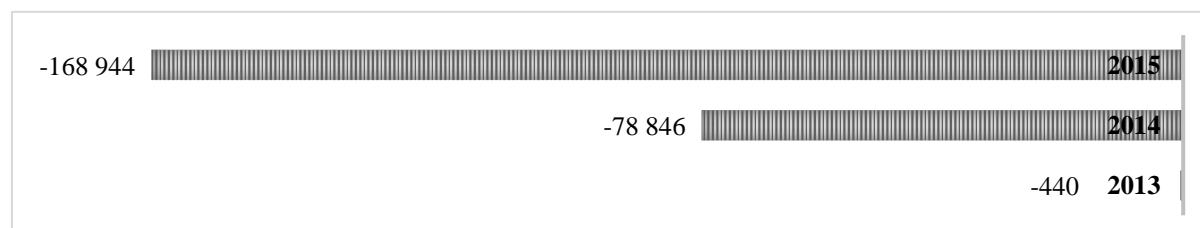
Regarding to operating income (Chart 9), TAP SGPS, S.A. recorded a result of EUR -105.7 million in 2015, compared to the EUR 2,6 million verified in 2014. The profit before taxes (Chart 10) remained negative in 2015. The company recorded a profit before taxes of EUR -168.9 million, being more negative in EUR 90.1 million, compared the EUR -78.8 million verified in 2014.

CHART 9 – TAP SGPS, S.A. OPERATING INCOME 2013-2015 (IN THOUSANDS €)



Source: Own creation based on TAP Annual Report 2014 / 2015

CHART 10 - TAP SGPS, S.A. PROFIT BEFORE TAXES 2013 - 2015 (IN THOUSANDS €)



Source: Own creation based on TAP Annual Report 2014 / 2015

Additionally, according to TAP Annual Report 2015, the Company's debt recorded a decrease of EUR 1,062 million in 2014 to EUR 942 million in 2015. This decrease was related to some reimbursements done last year, that benefiting from the process of TAP capitalization which was supported by Atlantic Gateway Group. Although, the Company had an improvement on its operating costs, which down to EUR 2,269 million in 2015 against to EUR 2,341 million in 2014. The improvement on TAP's operating costs is linked to the reinforcement of cost containment measures, in which the Company spent EUR 660 million in 2015 compared with EUR 798 million spent in 2014, and due the decrease seen in fuel prices.

Regarding to the passenger's revenues, in 2015, the Portuguese Airline had a decrease of 5.2% in air transport revenues compared to previous year. TAP recorded revenues of EUR 2,227 million in 2015 against to EUR 2,343 million in 2014. Both in 2014 to 2015 the regions with higher airfare selling were Europe and South Atlantic. Considering these two regions, although not significant, there was a decrease in South Atlantic, which down to 32.72% in 2015 against to 33.88% in 2014, and an increase in Europe, which up to 38.36% in 2015 against to 36.74% in 2014.

2.3.5. Competitors

As previous stated, the airline industry is one of the most competitive industries in the world, especially since the airline liberalization. Nowadays, the main competitors of TAP are not only FSC but also LCC, since these careers have been increasingly influence and significance in this industry. Regarding to FSC, the main competitors are Lufthansa Group, Air France KLM and IAG and concerning to LCC, the main competitors are Ryanair and EasyJet.

- **Lufthansa Group** – Founded in 1953, Lufthansa is the largest German airline and, when combined with its subsidiaries, also the largest airline in Europe. Its subsidiaries are Austrian Airlines, Swiss International Air Lines, and Eurowings (including Germanwings).
- **Air France KLM** – These airline was a merger between Air France and Netherlands-based KLM in 2004. One of the Air France KLM subsidiary is Transavia, which is a LCC. Additionally, Transavia maintains Transavia France as its French subsidiary.
- **IAG (International Airlines Group)** – This group is a holding company created in 2011, as a result of the merger of airlines British Airways and Iberia. The British

Airways, founded in 1924, is the second largest in Europe and also one of the largest airlines in the world. The Iberia is the flag carrier of Spain, that was founded in 1927.

- **Ryanair** – Is an Irish airline low-cost, founded in 1985, which headquarters are in Dublin, Ireland. Ryanair is considered as one of the largest LCC in Europe.
- **EasyJet** – Is a British LCC, founded in 1991 and based at London Luton Airport. It is the leading airline in Europe, in the LCC market.

There are several differences between TAP and its main competitors regarding to passengers, routes, fleets and employees (table 3 and table 4). Ryanair was the airline which had more passengers in 2014, with 81.7 million of passengers carried. Although, in 2015 the airline which carried more passengers was Lufthansa Group, around 107.7 million of passengers. In turn, TAP was the one which carried less passengers in 2014 as also in 2015, 11.4 million and 11.3 million respectively.

Ryanair and EasyJet are the airlines which had more routes, both in 2014 and 2015 (table 3 and table 4). In fact, since these carriers are a short haul point-to-point airline, they can operate in short-haul flights and make restricted flights connections. Additionally, LCC are not flag carriers so they can have more than one operational base in different countries, which allow them to fly for lots of destinations from that operational base.

Considering the number of employees, these carriers have a lower number compared to TAP or other FSC. This fact has a huge impact on the efficiency of the operating costs of LCC. One of the TAP's problems is related to the high number of employees, which leads to present employee's costs too much high (table 5 and table 6).

TABLE 3 - COMPARISON BETWEEN TAP AND ITS COMPETITORS IN 2014

	TAP	Lufthansa Group	Air France KLM	IAG	Ryanair	EasyJet
<i>N° Passengers (Million)</i>	11.4	77.5	77.5	77	81.7	64.8
<i>N° of Routes</i>	87	235	316	NA	1600	675
<i>Fleets</i>	77	423	571	459	297	226
<i>N° of Employees</i>	10,882	188,973	97,847	59,484	9,501	10,342

Source: Own creation based on Companies Annual Report 2015

TABLE 4 - COMPARISON BETWEEN TAP AND ITS COMPETITORS IN 2015

	TAP	Lufthansa Group	Air France KLM	IAG	Ryanair	EasyJet
<i>N° Passengers (Million)</i>	11.3	107.7	89.8	88	101	68.6
<i>N° of Routes</i>	88	211	573	344	1800	735
<i>Fleets</i>	88	268	564	529	300	241
<i>N° of Employees</i>	11,023	120,652	96,417	60,862	9,586	9,015

Source: Own creation based on Companies Annual Report 2015

As previously mentioned, LCCs are much more cost efficient than FSCs. The major costs of an airline are regarding to employees and to fuel. The fuel costs represent a higher percentage in the total operational costs, although it is not so easy to manage this cost since the fuel price is under control of airlines.

The CASK⁷, cost per available seat kilometre, is used to measure the airline's costs. Through the following tables (table 5 and 6), it is possible to observe that the CASK, in 2014 and also 2015, is lower in Ryanair and EasyJet. This lower CASK is related with the cost efficiency of these airlines and, in turn, will be translated into higher operating margins (chart 15). Regarding to FSC, the one that had a lower CASK was Air France KLM, in 2014 and also in 2015.

Other important performance indicator, that is used to compare the efficiency of several airlines, is the RASK⁸, revenue per available seat kilometre. Generally, the higher the RASK, the better is the efficiency, assuming that the CASK remains constant. Regarding to FSCs, Lufthansa presented, in 2014 and 2015, the higher RASK, EUR Cent 9.1 and EUR Cent 9.2 respectively, compared to TAP, Air France KLM and IAG (table 5 and 6). About the LCCs, the ones that had a higher RASK, in 2014 and 2015, was EasyJet, with a value of EUR Cent 6.7 and EUR Cent 6.8 respectively.

None of the airlines had a load factor of 100%, but, as expected the higher load factor were from a LCC, EasyJet had a load factor of 91 % in 2014 and 91.6 % in 2015. TAP also increased its load factor, moving from 80 % in 2014 to approximately 81% in 2015.

⁷ CASK is calculated by taking all of an airline's operating expenses and dividing it by ASK.

⁸ RASK is calculated by dividing the airline passenger's revenues by ASK.

The net income was positive in both years for all airlines, with the exception of TAP. The Portuguese airline presented, in both years, a negative net income. In 2014, TAP recorded a net income of EUR -85.1 million and in 2015 of EUR – 151.8 million.

TABLE 5 - PERFORMANCE INDICATORS OF TAP AND ITS COMPETITORS IN 2014

	Lufthansa		Air France		Ryanair	EasyJet
	TAP	Group	KLM	IAG		
<i>Load Factor</i>	80%	80.1%	85%	80%	82.5%	91%
<i>ASK (Million)</i>	37,389 €	268,105 €	270,789 €	251,931 €	77,917 €	94,779.8 €
<i>RPK (Million)</i>	30,119 €	214,641 €	229,347 €	202,562 €	64,470 €	86,923.3 €
<i>RASK (EUR cent)</i>	6.3 €	9.1 €	6.9 €	7.1 €	4.9 €	6.8 €
<i>CASK (EUR cent)</i>	8.2 €	8.8 €	7.2 €	7.5 €	5.6 €	5.9 €
<i>CASK ex-fuel (EUR cent)</i>	6.1 €	6.5 €	6.9 €	5.1 €	3.0 €	4.1 €
<i>Passenger Revenues (Million)</i>	2,342.6 €	24,388 €	19,570 €	17,825 €	3,789.5 €	5,317.9 €
<i>Fuel Costs (Million)</i>	797.8 €	6,751 €	6,629 €	5,987 €	2,013.1 €	1,491 €
<i>Employee Costs (Million)</i>	578.9 €	7,335 €	7,636 €	4,585 €	463.6 €	662.7 €
<i>Operating Profit (Million)</i>	2.6 €	879 €	751 €	1,029 €	658.6 €	692.5 €
<i>Net Income (Million)</i>	(85.1 €)	55 €	-216 €	1,003 €	522.8 €	536.3 €

Source: Own creation based on Companies Annual Report 2015

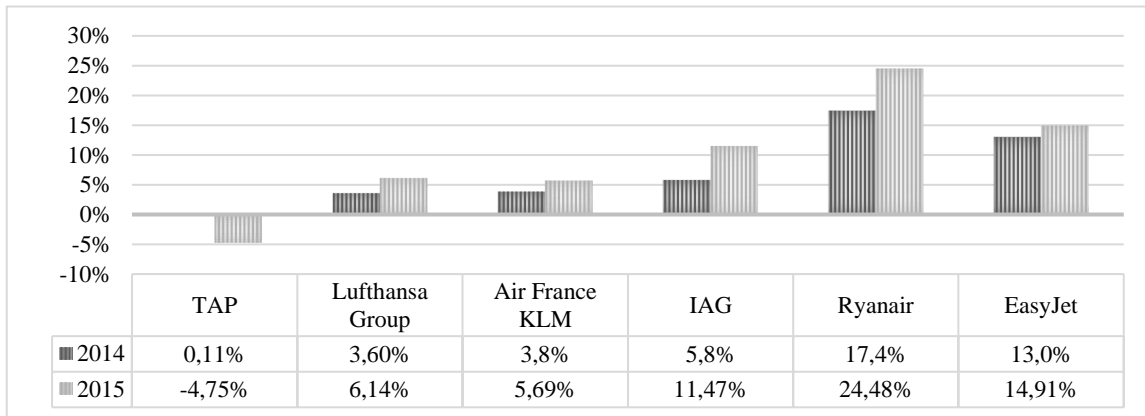
TABLE 6 - PERFORMANCE INDICATORS OF TAP AND ITS COMPETITORS IN 2015

	Lufthansa		Air France		Ryanair	EasyJet ⁹
	TAP	Group	KLM	IAG		
<i>Load Factor</i>	81%	80.4%	85.5%	81.4%	91%	91.6%
<i>ASK (Million)</i>	39,483 €	273,975 €	276,899 €	272,702 €	79,690 €	99,929.7 €
<i>RPK (Million)</i>	32,077 €	220,400 €	235,715 €	221,996 €	70,331 €	92,508.2 €
<i>RASK (EUR cent)</i>	5.5 €	9.2 €	7.1 €	7.5 €	5.4 €	6.7 €
<i>CASK (EUR cent)</i>	6.9 €	8.9 €	6.8 €	7.5 €	5.8 €	5.7 €
<i>CASK ex-fuel (EUR cent)</i>	5.2 €	6.9 €	6.7 €	5.3 €	3.3 €	3.3 €
<i>Passenger Revenues (Million)</i>	2,226.8 €	25,322 €	19,570 €	20,350 €	4,260.3 €	5,501.5 €
<i>Fuel Costs (Million)</i>	660.3 €	5,784 €	6,183 €	6,082 €	1,992.1 €	1,429 €
<i>Employee Costs (Million)</i>	566.4 €	8,075 €	7,852 €	4,905 €	502.9 €	693.6 €
<i>Operating Profit (Million)</i>	(105.8 €)	1,555 €	1,115 €	2,335 €	1,042.9 €	820 €
<i>Net Income (Million)</i>	(151.8 €)	1,698 €	127 €	1,516 €	866.7 €	653 €

Source: Own creation based on Companies Annual Report 2015

⁹ The calculations are based on the daily (05-07-2016) reference rates published by Banco de Portugal and the European Central Bank.

CHART 11 - OPERATING MARGINS OF TAP AND ITS COMPETITORS IN 2014 AND 2015



Source: Own creation based on Companies Annual Report 2015

2.3.6. Business strategy

TAP is probably the only airline in the world whose founder was a hero of freedom. For the Portuguese citizens, Humberto Delgado is the man who directly challenged the dictator Salazar. Since 1945, the year it was founded, TAP has been a national symbol. From the beginning the strategic priority of the TAP has been meeting the customers' expectations. The company continually seeks to provide them the best and easiest solutions for their trips, adding more value to the offered services/products.

TAP focuses its business in a model of full service carrier, offering a differentiated product/service compared to others airlines. This fact, allows TAP to create brand perception, customer value and customer loyalty. One example of a differentiated service that TAP offers is the Premium Customer Center. At Lisbon airport, the Portuguese airline has a desk to serve the business/corporate segment and to provide them a superior service focused on speed and efficiency. Additionally, the Company offers a portfolio of diversified products, which each product type has different specifications to fulfil the different needs of its passengers. TAP also has a great personalized and high customer service that is transversal to all segments. For instance, assistance in case of lost luggage; priority luggage reclaims; to arrange the most suitable time for boarding; escort to the check-in desk and to the aircraft; transport by exclusive vehicle; updated information and other service offers.

Beyond the concern and focus on customer, TAP also has a strong focus on continuous improvement of the routes, destinations and fleet. It was in 2001, that adopted a strategy of hub, being the Lisbon Airport the center of TAP's operations. This strategic decision allowed

the Company to take advantage to fly to several destinations in Europe, Africa and also North and South America. Nowadays, TAP has around 88 different destinations, with a huge focus on destination for PALOP (African Countries of Portuguese Official Language).

At the end of 2014, TAP has started to define a new strategic plan to the period comprised between 2015 – 2020. This strategic plan englobes six strategic axes (TAP Annual Report 2015, 2016:21-22), in order to increase its global market presence and so in the airline industry:

1. To renovate and expand the all fleets;
2. An evolution in the business model – to offer customers more options to create new products/services in addition to the trip;
3. Automation and improved customer experience – to make more digital and more automated the customer facing processes;
4. To consolidate TAP's grow and increase the focus on the hub – to build and to reinforce the Lisbon hub and to launch the Lisbon-Oporto Air Shuttle;
5. To improve operational efficiency – to optimize the company cost's structure.
6. Repositioning of the maintenance and engineering business units in Portugal and also in Brazil.

The year 2015 was noticeable by the process of TAP privatization and, as a result of that organizational change, the Company decided to initiate a new strategy to star in 2016. This strategy includes some changes to the fleet, product, network and a capitalization plan. Furthermore, after the TAP's privatization, the Atlantic Gateway consortium reaffirmed to continue with the commitment to (TAP Annual Report 2015, 2016:23)

- *Complying with public service obligations;*
- *Maintaining the integrity, corporate identity and autonomy of the TAP Group;*
- *Preserving the TAP brand and its association with Portugal, ensuring that its headquarters remain in the Country;*
- *Maintaining and reinforcing the hub in Lisbon;*
- *Contributing to the development of the national economy;*
- *Entering into commitments with regard to labour stability and developing and making the best use of human resources.*

In follow-up to the strategic plan set for the coming years, the company highlighted mainly for the period between 2016-2017 the following strategic points:

- The capitalization plan, with an investment of EUR 350 million;

- The creation of a new brand – TAP Express. This new brand will replace PGA Airlines and will mainly serve domestic and regional routes;
- Continuing to serve Portugal and PALOPs;
- To make changes in the fleet with the goal of positioning TAP among the best world's airline and to guarantee connections between Europe, Africa, Brazil and North America.

According to TAP Annual Report 2015 (2016:23), *“The strategy remains focused on diversifying the portfolio in order to meet the product changes seen in the market, thereby expanding the customer range and increasing gains in efficiency and in the consolidation of production processes”*.

2.3.7. Privatization

The process of TAP privatization goes back to the year of 2012, in which the only interested at the end of the process, was the entrepreneur Germán Efromovich. On December 20th, the Portuguese Government decided to postpone the process of privatization until 2013. Before that, both parties concluded that it was a communication failure which disrupted the business of TAP and Germán Efromovich ensured that he was going keep interested in the privatization of TAP, so the government decided to delay the process until 2014.

On November of 2014, the Portuguese Government announced that the privatization process was reopened. The form of privatization would be carried out with the direct sale of 66% of the airline's capital - 61% of sales from direct investors; 5% for employees of TAP SGP and the remaining 34% would be held by the government for two years. The submission date of tenders for the acquisition of TAP was on May of 2015 and at that time the parties which have submitted their proposal were David Neeleman, CEO of Azul Airlines and JetBlue Airways, along with Humberto Pedrosa, Germán Efromovich, CEO of Avianca, and Miguel Pais do Amaral. However, Miguel Pais do Amaral was excluded as it didn't meet one of the requirements' specifications.

On June of 2015, the Portuguese Government accepted the purchase proposal of TAP Portugal by David Neeleman and Humberto Pedrosa. The airline's sale process was completed on November 12nd with the signing of the contract, in which David Neeleman and Humberto Pedrosa take control of 61% of the capital of the TAP.

2.4. Case study questions

1. What is the essence of strategic management process and why is it becoming increasingly recognised as a facilitator of strategic decisions?
2. Think about TAP's main competitors. Can you name some strengths and weaknesses of the company? Based on the previous analysis, please give two or three most promising areas of possible focus and also some threatening factors.
3. Discuss the impact of external factors, such as political, economic, social and environmental in airline's business.
4. Considering the Porter's three generic strategies, do you think that TAP can be sustainable in the long term by following a differentiation strategy? How can the Portuguese Airline gain and retain competitive advantage over the LCCs, such as over Ryanair or EasyJet?

3. Pedagogical note

3.1. Case study target

This case study is, specially, for the following target:

1. Undergraduate and Master's students who are attending courses that have a focus on strategy or other approaches related to business analysis.
2. Professionals who are working in consultancy firms, that have interest to learn more about strategy and how some strategy tools should be applied in companies, with the main goal of analysing the business to exploit and explore existing and new opportunities.
3. Professionals who are involved in organizational changes and, as a result of that, should understand how important is the strategic management to define a strategy for the company, through a continuous management process.

3.2. Educational objective

The main objective of this thesis is to create a case study with a pedagogical note for students and professionals that have interest in developing some concepts of strategic management and strategic analysis, applied to a real situation and well known company. More specifically, the intent is to give those who will work on the case study the possibility to comprehend the importance of strategic management and to apply strategic tools, analysing business environment (internally and externally), in order to find strategies that companies could choose to be competitive in the long-run.

To succeed in this objective, the focus of the empirical analysis will be on the company TAP, which has passed by an organizational change.

Considering this, the aim is to create a case study that will give the opportunity to:

- Understand the importance and essence of strategic management and how strategies must be formulated, implemented and evaluated.
- Analyse and know the airline industry;
- Analyse TAP's company and business;
- Identifying TAP strengths and weaknesses and also outline opportunities and threats existing in the market;
- Apply strategic frameworks to analyse the company and the business environment in which TAP operates;
- Understand and discuss what should be the future strategy of TAP.

So, in this particular situation, the goal is that those who work on the case, through the objectives mentioned above, analyse the TAP strategically, discover and describe what should be the company's future strategy, in order to guarantee a successful, stable and sustainable market position in the long-term.

3.3. Literature review

3.3.1. Strategy in business

3.3.1.1. Strategy concept

The concept of strategy is not new, in fact it has been studied for years by business leaders and, nowadays, there is no definitive answer about what strategy really is. In a simplistic way, strategy is kind of a formula that will help companies to decide how business should go and

what type of initiative should take, in order to survive and have competitiveness in the long-term.

According to Johnson, Scholes and Whittington (2008:3) strategy can be defined as *“the direction and scope of an organization over the long-term: which achieves advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfil stakeholder expectations”*. Kenichi Ohmae, in his article titled *“Getting Back to Strategy”* (1988), states that strategy means *“working hard to understand a customer’s inherent needs and then rethinking what a category of product is all about.”* In his article titled *“The Origin of Strategy”* (1989), Bruce D. Henderson states that strategy is *“a deliberate search for a plan of action that will develop a business”* competitive advantage and compound it. Alfred Chandler (1963: 13) defines strategy as *“the determination of the long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out those goals”*. For Michael Porter, one of the best know strategy scholars, in his article titled *“What Is Strategy?”* (1996:3), said the *“strategy is the creation of a unique and valued position, involving a different set of activities.”* Other leading strategy theorist, that made also a great contribution in the strategy study is Henry Mintzberg (1987:74), that defines strategy as *“a pattern in a stream of decisions”*. All of these authors have their own definition of strategy, but and the end all of them state *how* strategy is created or *what* strategy is expectable to achieve.

Regarding to Michael Porter and Henry Mintzberg, it is possible to notice that Michael Porter has a more deliberative approach and, in turns, Henry Mintzberg underlines a more emergent strategy. For Mintzberg, the traditional way of thinking about strategy implementation only has a focus on deliberative strategies. In other words, they are only focus on strategies that are realized as intended instead of strategies that emerging in the organizations, not guided by intentions. By defining strategy as *“a pattern in a stream of decisions”*, the author argues that emergent strategies reflect the fact that companies’ plans can fail. Taking this in mind, strategy can be viewed as a plan, as a ploy, as a position, as a pattern, and as a perspective is important and none of this five ways of thinking about strategy can be alone, otherwise it will be insufficient to understand the concept (Mintzberg,1987).

For Porter, strategy is to create a valuable and unique position that includes a different set of activities, as well, strategy requires companies to make trade-offs in competing, choosing what not to do. The author outlines the importance of distinguish the difference between strategy and operational effectiveness because, although both being essential for achieve high

performance, they work in different ways. Operational effectiveness is related to the fact that a company can perform the similar activities better than rivals perform them, in the other hand, strategy positions means to perform different activities from competitors or perform the same/similar activities but in a different way (Porter, 1996).

Inside an organisation, strategies can exist at three main levels: Corporate Strategy, Business Strategy and Operational Strategy. The corporate-level strategy is regarding to the type of business and also related to the global scope of the organisation, in order to fulfil stakeholder's expectations. The business-level strategy is focused on how can a business compete successfully in a market, so as to take advantage over the competitors. Here, managers must have an alignment between the way of compete and organization's corporate strategy. At the ground level, the operation or functional strategy level concerns about the objectives and mission that are set at the corporate and business strategy levels. The main activities in this level includes, human resources, finance, R&D, marketing, operations and manufacturing.

In order to fit the business conditions and to remain competitive, organizations are systematically changing their strategies. Although, they must continue focusing on the development of core competences, production of synergies and in value creation. The core competences are a *"harmonized combination of multiple resources and skills that distinguish a firm in the marketplace"* (Prahalad, C. K., & Hamel, G., 1990:84). It is something that an organization does better than its competitors and it is considered as competitive advantage because organizations acquire a level of expertise that their competitors don't have. Thus, it is truly important to have a high focus on core competences – *"by focusing on core competencies creates unique, integrated systems that reinforce fit among your firm's diverse production and technology skills—a systemic advantage your competitors can't copy"*. (Prahalad, C. K., & Hamel, G., 1990:79) One example of a company that have been focusing in its core competences, so that remain competitive, is Dell Computer. This company is frequently changing its strategy, adapting, and discovering new ways to controlling its environment, although there is one thing that hasn't changed since the times that Michael Dell first began building computers: the focus on speed and low cost. *"Most observers agree that a major factor in Dell's success is that it has retained a clear image of what it does best. The company spent years developing a core competence in speedy delivery by squeezing time lags and inefficiencies out of the manufacturing and assembly process, then extended the same brutal standards to the supply chain. Good relationships with a few key suppliers and precise coordination mean that Dell can sometimes receive parts in minutes rather than days"* (Morris,

B., 2000:93-110). In addition to the focus on core competencies it important to have a focus on producing synergies, which appears when organizational parts cooperate to produce a mutual effect that is greater than the sum of the parts performing alone. PepsiCo's new "Power of One" strategy is a success story which is aimed at leveraging the synergies of its soft drink and snack-food divisions to achieve greater market power. Roger Enrico, PepsiCo's CEO, "*used the company's clout with supermarkets to move Pepsi drinks next to Frito-Lay snacks on store shelves, increasing the odds that when shoppers pick up soda and chips, the soda is a Pepsi.*" (Bryne, J. A., 2000:172-184).

According to what was previously mentioned, "*strategy necessarily changes over time to fit environmental conditions, but to remain competitive, companies must develop strategies that focus on core competencies and develop synergy (...).*" (Vallabhaneni, 2015: 202). So, by exploiting core competences and reaching synergies, organizations should create value, and should, at the same time, constantly think how to guarantee it, in order to remain competitive in the long term.

3.3.1.2. Strategic management

Nowadays, strategic management is being seen as critical issue to the development and expansion of all organizations and there is a constantly need to define and communicate an organization's unique position. Top executives at Hewlett-Packard, IBM, Johnson & Johnson, Coca-Cola, eBay, Apple, McDonald's, Nokia, and Microsoft are all involved in strategic management. They search for methods to react and respond to competitors, deal with difficult environmental challenges, meet customer needs, and successfully use existing resources.

A research by Stead, J. and Stead W. (2008), shows that strategic management is an ongoing process, that involves a strategic work of managers to modify and adapt the organization to the environment in which it operates, while developing competitive advantages. Ansoff and McDonnell (1990), in turns, defined strategic management as systematic approach to the management of changes. It is the action of positioning the organization through strategy, it includes a strategic response through the management of problems, during a strategy implementation. For Bowman et al. (2002), strategic management has a focus on issues concerning either the creation and sustainability of competitive advantage. Additionally, Grant (2002) stated that strategic management includes a multifaceted relationship between the organizational focus, the results acquired, and the external and internal environmental variables

of the organization. More generally, “*strategic management is defined as the set of decisions and actions resulting in the formulation and implementation of strategies designed to achieve the objectives of the organization*” (Pearce, J. A. and Robinson, B. R., 1991). The essence of strategic management is to discover how to perform activities differently than rivals do, through the optimal combination of a firm’s resources and capabilities in order to creating and formulating short-term and long-term initiatives, achieving organizational objectives and being competitive.

When companies applied to strategic management, they can have several benefits such as: the focus of effort and setting of directions; distinguishing the company from its environment; providing consistency and stability in the decision-making process; increasing mechanisms for guiding and leading employees; making communication and understanding easier; allowing the monitoring of the set goals and objectives; ensuring order and others benefits (Mintzberg 1998 and Richardson 1995).

Many organizations think that great performance it is a matter of luck, but it is not correct. The great performance depends on the choices and decisions that managers and top executives do. Organizations must understand why most of the times they cannot achieve higher levels of performance and also understand how to change this situation. Most of the performance gaps can be indorsed to a several factor, such as inadequate or unavailable resources, poorly strategic plans, weak communication, organization silos and culture blocking execution, and limited accountability for results (Mankins, M. & Steele, R., 2005)

In line with Mankins and Steele (2005: 123) “*companies typically realize only about 60% of their strategies’ potential value because of defects and breakdowns in planning and execution*”. Furthermore, in their research, the authors mentioned seven rules that can help organization turning great a strategy into great levels of performance:

1. Keep it simple, make it concrete – have a strait and clean focus on what the company will and won’t do.
2. Debate assumptions, not forecasts – make sure that the assumptions underlying the long-term of the organization are related and reflect the market environment.
3. Speak the same language – communication must flow in all organization. The corporate unit and the business unit must understand the common goal, objectives and strategy to adopt, otherwise the organization won’t achieve high performance levels.

4. Discuss resource deployment early – it is important to know when business units will need new resources, in order to plan it in expectable time.
5. Clearly identify priorities – some key actions are need at the right time, so it is necessary to understand which kind of activities must be done at the first place.
6. Continuously monitor performance – use a real-time performance tracking, to discover and understand errors more quickly.
7. Reward and develop execution capabilities – make the selection and the development process of managers as a priority task.

A brilliant strategy may put companies on the top of market, but just a solid one it will keep them there. Unfortunately, must companies fail with the strategy implementation. In order to enable this failure, it is important to understand the strategic management process. According to Dess, Lumpkin and Eiser (2007), strategic management comprises five phases: Identify organization's current mission, goals and strategies; environment scanning (internally and externally); strategy formulation; strategy implementation and strategy evaluation.

The first phase of strategic management process begins with an analysis of the company's current situation, where top executives evaluate the company mission, define goals and think about what kind of strategies they want to follow.

Environment scanning is the second phase of strategic management process and it is crucial in the process. The most useful framework, that helps top executives, in this analysis is the SWOT, since it includes and internal and external analysis of the factors that influence the business. By scanning the internal environment, top executives can analyse which are the best core competences, synergies and value creation that the company has and identity what are its strengths and weaknesses. This is very important because it allows companies to exploit and to achieve its strategic performance goals. As business becomes more competitive, and there are several changes in the external environment, the information regarding to the external environment is very important to the success of the long-term plans. There are several external factors that might have, directly and indirectly, a huge influence on the company's businesses. These factors may be political, economic, social culture changes, technological or factors regarding to the behaviour of competitors, customers and suppliers. So here, through the analysis these factors companies can identify the potential threats and explore potential opportunities. After analysing the environment and before going to the third step of the strategic management process, it is important the organizations think and redefine a new mission, vision and goals to achieve. This is very important, because by exploring and deciding on the vision

of the company gives clarity on its main objectives and goals. Moreover, with a well-defined mission, the company will determine the methodology that will help in reaching its vision, its goals and its philosophy behind your goals.

The third phase of the strategic management process is called as the strategy formulation stage. Along with Cohen & Cyert (1973), each operating unit in the organization must formulate its own strategic plan over a specific and defined time horizon¹⁰. The strategy formulation process should reflect the environmental analysis previously done, lead to fulfilment of organizational vision, and result in reaching organizational objectives. Consistent with Mitchell (2009), there are three levels/phases inside the strategy formulation and each one has a different focus that must be internally consistent and fit together in a mutually supportive manner that forms an integrated hierarchy of strategy. The first level is regarding to the formulation of corporate-level strategy, which includes decisions and choices about what type of business the company wishes to engage. The Boston Consulting Group (BCG) Matrix, created by Bruce Henderson in 1964, helps organizations with the analysis of their business units or product lines. So, this framework can be very useful in this level of strategy formulation, because it focused on strategic thinking instead of long planning and provide insights to the company top executives about organisational learning, investment opportunities and cash flows (Barca, 2005; Pettigrew, 1992; Whittington, 1993). The BCG matrix, organizes business along two dimensions – market share and business growth rate. The market share describes how a business unit has a larger or smaller share than competitors and the business growth rate describes how rapidly the entire industry is growing. By doing combinations between low or high business growth rate and market share the matrix also provide four categories:

1. Star – A combination between high market share and high business growth rate. Which it means a business unit that has a rapid growth and expansion.
2. Cash Cows – A combination between high market share and low business growth rate. Which it a mature, slow-growth business unit but is a dominant business in the industry. Generally, cash cows require few investment and generate cash that can be used to invest in other business units
3. Question Mark – A combination between low market share and high business growth rate. Which it means a new, rapidly growing business unit but has only a small market share.

¹⁰ The typical time horizon for strategic planning in business organizations is 5 years.

4. Dog – A combination between low market share and low business growth rate. Which it means a business unit with a poor performance, it only has a small share of a slow-growth market.

So in this level, by using this framework, top senior executives can define the grand strategy ¹¹ of the organization and build a portfolio of strategic business units to accomplish it. The second level of strategy formulation is concerned with formulating business-level strategy, in which the concern is how to compete. Managers should define which type of competitive strategy would fulfil the organization's corporate goals and for this purpose two different frameworks must be used – Porter's Five Competitive Forces (1979) and Porter's Generic Strategies (1979). Michael Porter, in his article titled "How competitive forces shape strategy" (1979:137), states that the "*essence of strategy formulation is coping with competition*", where "*customers, suppliers, potential entrants and substitute products are all competitors that may be more or less prominent or active depending on the industry*". Also, the author stated that business-level strategies are, most of the times, the result of five competitive forces existing in the organization's environment – Bargaining power of buyers; bargaining power of suppliers; threat of new entrants; threat of substitutes and rivalry among existing players. Consistent with Porter, this five forces will determine a company's competitive environment, which directly may affect profitability. After finding how this forces can influence the organization's business, Porter (1979) suggest that an organization must adopted one three potentially successful competitive strategic approaches to outperforming other firms in an industry:

1. Differentiation – To do things different from others in the industry. Creative flair, to think outside the box. Strong marketing capabilities. (ex: eBay)
2. Cost Leadership – To create a low cost operation within their niche. Efficient distribution channels. High level of expertise in manufacturing process. (ex: McDonald's)
3. Focus – To concentrate on type a specific type of market or buyer group. Use either cost leadership and differentiation, but only for a narrow target market. (ex: Novo Nordisk)

¹¹ Grand Strategy – Comprehensive, long-term plan of essential actions by which a firm plan to achieve its major objectives (Business Dictionary)

Unfortunately, several companies fall into the trap of being “stuck in the middle” of the generic strategies, since they have no well-defined business strategy and are trying to be everything to everyone. These three strategies are not necessarily compatible with one another and, on the word of Michael Porter, if companies want to be successful over the long term, they must choose only one of the three generic strategies. Otherwise, the company will not achieve competitive advantage over its competitors and will be “stuck in the middle”. Some companies, instead of thinking about strategies based on how compete with others, search for collaboration for strategic partnership. By definition a strategic partnership consists of a formal agreement between two or more parties that have agreed to share resources (finance, skills, information, technology), in order to achieve common goals. A successful partnership can generate higher levels of profit, which will open new doors to compete in the market and new ways of doing businesses. Several companies are having great success with some partnerships that they made, such as Apple & IBM that *“brought together the analytics and enterprise-scale computing of IBM with the elegant user experience of iPhone and iPad to deliver a new level of value for businesses and added a new class of apps to connect users to big data & analytics, on their iOS devices”* (Michelle Greenwald, 2014). Other really good partnership is between Spotify & UBER that allows customers to enter a hired car and also listening their favourite playlist. This will provide added value, meaningful competitive advantage and exclusivity for Uber cars and Spotify users. The Google & Luxottica is another brilliant partnership, since Google glasses are technology but not fashion and Luxottica is fashion but not technological. So with this partnership, both brands will benefit since it *“will result in attractive Google glasses that could be purchased based on looks alone, and the cutting edge technology can give Luxottica brands a reason for purchase that justifies a premium price”* (Michelle Greenwald, 2014). After companies decided how to compete and formulated the business-level strategy, they must decide how to formulate the functional-level strategy, being this the third level of strategy formulation process. At this point the objective is to define and decide which strategies are able to support the execution of business-level strategies and also to achieve the organization’s strategic goals.

Research by Davenport (2007) shows that is much easier to create a brilliant instead of executing it successful. The way how companies execute the strategy after formulating is critical to success. It is crucial that companies transform strategy into action and it is essential to execute well the strategy in order to implement it. According to Galbraith and Kazanjian

(1986) and Swit (2000) there are several tools or catalysts to help companies putting strategy into action:

- Leadership – it will motivate and persuade all the employees to work for the organization’s common goal;
- Structural design – it will help on adding or changing positions, to reorganize teams, to redesign process and jobs, to determine centralization or decentralization and design organization chart.
- Information and control systems – it includes reward payments, pay incentives, budgets allocations and the organization’s procedures and rules.
- Human resources – it includes the recruitment process, the management of transfers, promotions and training.

Along with Gary Neilson, Karla Martin and Elizabeth Powers most companies fail in implementation, fourth phase of strategic process management, because “*they overrely on structural changes, such as reorganization, to execute their strategy*” (2008: 82). Regarding to this, the key point here is to understand how to succeed in strategy implementation and how to prevent errors during this process. In order to implement any specific strategy successfully, first it is necessary to ensure that information flows at all organization levels and guarantee that all executives cooperate and second it is important to clarify decision rights by specifying who is responsible for each decision and who must provide the needed inputs (Cohen, K. & Cyert, R., 1973). Furthermore, as stated by John Pearce and Richard Robinson (1991: 297), as companies move from “*planning their work*” to “*working their plan*” they change their focus from strategy formulation to strategy implementations and this changing concerns to:

- Identify measurable, mutually and determined annual objectives;
- Develop specific functional strategies;
- Communicating concise policies to guide decisions.

Also, Michaela Blahová and Adriana Knápková in his article titled “Effective Strategic Action: From Formulation to Implementation” (2010) mentioned that the most powerful drivers of an effective implementation are right decisions and information flow. Despite of having several opinions how strategy must be implemented in order to success it is possible to have a common sense: successful implementation requires an involvement of all organization’s members and a constantly information’s flow.

Finally, the strategic management process ends with the strategy evaluation or strategy monitoring. The main objective of this phase is “*to get the relevant and timely information on changing environment and the company’s performance and if necessary take corrective actions*” (Jurevicius, 2013). According to this, managers should be responsible for activities as measurement of performance, fixing benchmarks of performance, variance analysis and to take corrective action whenever necessary. It is time to make the strategic management an ongoing process, adapting strategies whenever necessary and making companies agile, otherwise it is not possible to compete in changing business environments.

3.3.1.3. Strategic management in organizational change

In today’s business world, the only constant is change. The business environment requires companies to do constantly changes, so as to remain competitive. The globalization of markets and the rapidly evolution of technology obliges organizations to respond in order survive. Sometimes it is necessary to do M&A, to change for another supplier, to modify the way of working because there is a new information system, or because the company has a new partners and managers, and even can be needed a company privatization. Although, doing these changes are not so simply and quickly, especially because the majority of the organizational changes have a direct impact in the organization. In fact, has an influence in business activity, in company culture, in employee’s routines, in the way of working and an impact on the previous defined objectives.

Organizational change can be defined as a state of transition in an organization, basically it occurs when a company moves from its current state to some preferred future state. To really understand organizational change and to begin guiding successfully change’s efforts, companies should have a clearly comprehension and evaluation of its current situation, so as to be capable to prevent and to avoid futures risks, to guarantee that people are prepared to change and to maintain the current business activity. In a situation of organization change is crucial for a company guarantee that all people in the organization is prepare to that change, because sometimes there are workers that tend to resist to change. Furthermore, is necessary to outline goals and objectives and to define strategies in order to achieve these goals, taking in account the organization vision and mission.

Whittington (1988) refers that an organization’s environmental structure offers the place where organizational action happens. In this sense, it is important to analyse not only the organization

but also the environment in which it operates. Is in this field, that the role of strategic management is so important.

Some authors argue that “*strategic organizational change is influenced by environmental structure, internal conscious awareness and organizational knowledge*” (Bloodgood & Morrow, 2003: 1766). More precisely, they say that the combination between environmental structure and internal conscious awareness has an influence strategy formulation. On the other hand, the strategy formulation has an impact in the organizational performance, although “*this relationship is moderated by the type of knowledge-based strategies that organizations use during implementation*”. (Bloodgood & Morrow, 2003: 1766)

So, the key of a continuous strategic management in organizations, in order to face the constantly change of markets and business, is “*to emphasis on issues related to environmental scanning and industry analysis, appraisal of current and future competitors, assessment of core competencies, strategic control and the effective allocation of organizational resources*” (Afsar, 2011 :147). By doing this, it is possible to affirm that strategic management can, absolutely, help organisations design themselves so that they focus on the right things, that are the most likely to deliver the best performance, productivity and profit, not just in the short-run and but also in the long-run.

3.3.2. The SWOT analysis

3.3.2.1. SWOT overview

As seen above, the business environment analysis is a crucial part of the strategic management process. By analysing and monitoring the environment, companies are able to achieve more easily their objectives and goals and also to gain sustainable competitive advantage in the market. Many authors purposed the use of SWOT to analyse both internal and external factors, that have a direct impact on business. According to Ansoff (1965) the key business management problem is to discover the best way to manage firm’s resources, so as to maximize organizational performance and goal achievement. Along with this, companies need to search for synergies among assets and this search involves to create a capability profile based on an evaluation of the organization’s strengths and weaknesses. In 1971, Andrews suggested to analyse also the market potential to discover its opportunities and this process of internal and external assessment constitutes the heart of strategy formulation (Mintzberg, 1998). For Porter (1985), the analysis of a firm’s strengths and weaknesses are crucial in strategic management

and in his overall model of strategy. As he stated “*competitive strategy involves positioning a business to maximize the value of its capabilities that distinguish it from its competitors*” (Porter, 1985:47). On the word of the author, strengths will increase barriers and bargaining power for buyers and suppliers. On the other hand, weaknesses will contribute to a decrease of these barriers and to a diminish of the bargaining power. The opportunities will increase organization’s competitive advantage and the threats will weaken any positional advantages. More recently the SWOT analysis has been seen as somewhat outdated by resource-based approach (Grant, 1991). Basically this approach focuses on the internal resources, capabilities and core competences of an organization. In this approach, the internal attributes can only become strengths if they meet the VRIO framework, developed by Barney in 1991. This framework examines the internal environment of an organization, based on four elements (Barney, 1991:101):

1. Value - the resource must be valuable in terms of neutralizing the threats and exploiting the opportunities from the environment;
2. Rarity - the resource must be rarely present among existing and potential competitors,
3. Inimitability - the resource must be expensive or impossible to imitate;
4. Organization - the resource must be capable of being exploited by the organization.

Accordingly, if an organization cannot recognize these features in their resources / capabilities, they cannot become strengths, since there is not competitive advantage. On the other hand, the resources that are characterized by VRIO framework elements can be considered as strengths, since they can provide competitive advantage.

In a common sense, the SWOT emerged as a tool of strategic management, used to analyse the internal and external environment, as to achieve a systematic approach and to support decision situations (Ghazinoory, Abdi, and Azadegan-Mehr, 2011). Consistent with this, the strategic tool has two different appraisals, strengths and weaknesses are identified by internal appraisal and in turn opportunities and threats are identified by external appraisal. Therefore, the SWOT analysis has also two different directions: one related with the assessment of internal organization’s capabilities and other related with the assessment of external trends and conditions of the environment in which it operates.

3.3.2.2. SWOT in practice

There are some strategic frameworks that are essential for a company to analyse and evaluate its business, both internally and externally. In this process, the SWOT is an important tool since

provides an all-round view of the current and forward-looking situation of a business. Truthfully, evaluation of organization's strengths, weaknesses, opportunities and threats – environmental scanning – has been a deep-rooted component to strategic planning (Kotter, 1994).

Some authors recognize the SWOT to Albert Humphrey, who run a research project at Stanford University in the 1960s and 1970s using data from the Fortune 500 companies. Valentin defined the SWOT analysis as *“a conventional approach of searching for insights into ways of realizing the desired alignment”* (Valentin, 2001: 54-68). By definition SWOT is *“an analysis of an organization's strengths and weaknesses alongside the opportunities and threats present in the external environment.”* (Thompson & Martin, 2010: 140,817), which *“involves the collection and portrayal of information about internal and external factors which have, or may have, an impact on business.”* (Pickton & Wringht, 1998: 101-109).

So, the SWOT framework is 2×2 matrix that shows the strengths and weaknesses in the columns and opportunities and threats in the rows. The strengths are the main positive factors that the company has when compared with its competitors – *“A strength is a resource, skill, or other advantage relative to competitors...”* (Pearce and Robinson, 1991:182). Weaknesses are factors that can be dangerous if used against to the company by its competitors, they are *“a limitation or deficiency in resources, skills, and capabilities that seriously impedes a firm's effective performance”* (Pearce & Robinson, 1991: 182). The opportunities are positive situations which can bring sustainable competitive advantage for the firm. On the other hand, the threats ate adverse situations which can damagingly affect the company business. In line with this, organization's strengths and weaknesses must be linked to opportunities and threats inside of the business environment in order to develop effective and efficient strategies (Helms and Nixon, 2010). The SWOT analysis is a framework which involves an analysis of the business's internal factors (strengths and weaknesses) and of its external factors (opportunities and threats) which influence the company performance (Ghazinoory, Abdi and Azadegan-Mehr, 2011). Along with this, it must be considered resources and capabilities as internal factors in order to decide which are the firm's strengths and weaknesses. A firm's resources and capabilities should be used in order to define the business strategy of the company, as source of competitive advantage (Grant, 1991). The correct use of resources and capabilities can make a great influence on the company long-term performance. In fact, the theory of resources and capabilities says that the main management role of a company should be the maximization of its value by exploring and doing the best use of the company's resources and

capabilities (Grant, 1996). Several authors have been working in the definition of the resource's concept and, among this authors, with a common consensus, resources can be defined as elements that an organization uses during its business activity in order to produce services and goods. The concept of capabilities has also been worked by many authors and it can be defined as the collective organization's skills or organization's competencies (Prahalad and Hamel, 1990). According to this it is possible to conclude that resources and capabilities are different concepts: "*resources are able to bear the potential for success and capabilities are necessary to transform this potential into success*" (Grant 1991: 119). According to Barney (1991), there are four criteria that helps a firm to identify its resources and capabilities. These four criteria are known as the VRIO conditions – value, rare, imitable and organization and to consider a resource or a capability as a strength it must be valuable, rare, inimitable, and non-substitutable. (Agarwal, Grassl and Pahl, 2012).

As previously mentioned, opportunities and threats are the external uncontrollable factors which appear or arise due to changes in the remote environment, industry environment or operating environment (Pearce & Robinson, 1991). The PESTEL framework is the most common approach to scanning the macro environment (remote environment), since it comprises a Political, Economic, Social, Technological, Environmental and Legal analysis. Several factors such as tax policies, governmental laws, work ethics and culture, economic fluctuations, trade deficits and wage rates, information technology and technology breakthroughs, climate change, legislations and imports/exports laws will have a meaningful influence on firm's choice of direction and action, so it is very important that managers must be aware of them. On the other hand, if the objective is to analyze threats and opportunities but through an industry environment scanning, companies should use a framework called the Porter's Five Forces – "*The strongest competitive force or forces determine the profitability of an industry and so are of the greatest importance of strategy formulation*". (Porter, 2008: 80). Using this framework, managers will be capable to identify undeniable forces that play a part in shaping its market or industry. The forces are often used to measure industry/market competition intensity, attractiveness and profitability, and they are: threat of new entrants, threat of substitute products, bargaining power of suppliers, bargaining power of buyers and rivalry among existing firms. Finally, to determine opportunities and threats, it is also important to look for the operating environment. This environment comprises factors in competitive situation that affects an organization's success in obtaining needed resources or in profitability marketing its goods and services (Pearce & Robinson, 1991:102). Some of these factors are

include firm's competitive position (market share, capacity and productivity, effectiveness of sales distribution, experience, price competitiveness, advertising and promotion effectiveness, financial position and R&D advantages) and customer profiles (geographic areas, demographic variables, buyer behaviour and buyer personality and lifestyle).

After analyzing internal factors (strengths and weaknesses) and external factors (opportunities and threats), the SWOT constitutes a helpful tool in strategic planning, keeping a watch on organization business environment. The insights synthesized from the use of this strategic tool allows companies to recognize, explore and exploit new opportunities, gaining and increasing, at the same time, competitive advantage among its competitors and in a business' marketplace (Rothaermel, 2013). Doing a correct use of this tool, the company will be able to (Ifediora, Nzekwe and Idoko, 2014: 30-31):

- Search information for strategic planning;
- Build organization's strengths;
- Reverse weaknesses;
- Maximize its response to opportunities;
- Overcome organization's threats;
- Identify core competencies of the company;
- Set objectives for strategic planning;
- To help in knowing past, present and future so that by using past and current data, future plans can be chalked out.

3.3.2.3. SWOT limitations and criticism

In the traditional approaches to assessing a firm's internal environment, the main objective of managers was to identify their firm's strengths and weaknesses, as well as the opportunities and threats in the external environment. This approach may be a good starting point but at the same time, according to several authors, may be hardly the best approach to take in carrying out a complete analysis. In line with this, the use of SWOT analysis has been "*criticized on theoretical grounds for relying merely on subjective intuitions, being unsystematic, eschewing quantification, and for lacking predictive power*" (Agarwal, Grassl and Pahl, 2012:1). There are, in fact, some limitation with the SWOT, mainly when managers use this tool "*without a deep understanding of procedures, best practice, or research-supported method.*" (Chermack and Kasshanna's 2007: 395). In fact, without a well-defined standard procedure, the SWOT

analyses can become its own self/individual exercise. One of some limitations is related to the regularity with which it is made, because this analysis is often done as a one-time event. Other point is that SWOT analysis should not be done just at the corporate level since many organizations may have different strategies for different products or product lines (Chermack and Kasshanna, 2007). The SWOT analysis outcome often leads to a large and undifferentiated list of strengths and weaknesses which don't have a specific importance-level. Another drawback of this analysis is that it gives equal weight to every point and it is crucial to have a casual or hierarchical framework to understand the critical points and priorities, in order make strategic decisions. In turn, Mintzberg stated that the problem with SWOT is because managers think if they "*sit around a table discussing the strengths, weaknesses, and distinctive competencies of an organization (...) having decided what these are, they are then ready to design strategies*" (Mintzberg, 1990:182). The author also argued that SWOT analysis should be used as case study classroom lesson. He said that this approach only can work when the environment, in which organization operates, is quite stable and predictable and when the competitive situation and the strategy process are simple enough to be understood completely. In order to minimize and avoid the SWOT limitations previously mentioned, managers should try to use the tool taking the follow considerations:

- To choose between 3 to 6 items for each category in order to avoid having too short or do long lists of item;
- To specify and clarify as better as possible all the items, in order to be understood by every decision-makers;
- To be objective instead of being subjective. The objective is to work with real facts and not with opinions;
- Action-oriented, the factors should be oriented into action.

So, the SWOT could be a powerful tool when correctly used or could generates large and undifferentiated lists when it is not. To make the things work well, the company should "*try to critically identify the strengths of the organisation in the recent past, what has definitely been unsatisfactory, and then look at the external environment to recognise which changes could actually benefit the organisation, if appropriately addressed, and which risks the organisation needs to prepare for because they can directly impact on the ability to achieve its purpose*" (Ifediora, Nzekwe and Idoko, 2014: 31).

Despite the fact of SWOT analysis cannot make strategy prescient, it can give organizations better information and also show when, where and how to allocate resources to achieve competitive advantage.

3.4. Methodology

3.4.1 Research purpose

Based on Saunders, Lewis & Thornhill (2009) there are three main purposes of a research: an exploratory, a descriptive and an explanatory. Being this thesis a case study with a pedagogical note, the research purpose utilized was the descriptive one, as it aims to study a situation in order to answer to the question “what is / what should be”.

Considering this, the research problem was to understand the importance of strategic management in a company, in a situation after an organizational change, and to do a strategic analysis, by defining what would be the company’s new strategy. More precisely, in this concrete situation, the purpose was to answer the question ‘What should be the TAP future strategy, in order to be competitive and sustainable, in the long-term?’ Furthermore, with a descriptive purpose it was possible to yield rich data that led to important recommendations.

3.4.2. Research strategy

All the existent research strategies can be implemented to all the research purposes although not all of them can be used to the different research approach (Saunders et al, 2009). There are two possible research, the qualitative and the quantitative. The qualitative research tends to use all non-numeric data, like words as an alternative of statistics techniques and have a tendency to get in-depth knowledge from the respondents. In contrast, quantitative research typically uses the quantification in the gathering of data and its analysis to comprehend relationships between variable studied (Bryman, 2012; Saunders et al, 2009). For this specific problem, the qualitative research was more effective as it was possible to get in-depth knowledge from the respondents, having the opportunity to go further in the question asked and in the end develop a theory from the gathered data. Although, it was used also a very few qualitative research regarding to financial data.

3.4.3. Source of data in research

Primary data is defined, by Bryman (2012), as data that the researcher is in charge to collect for the problem that is being study. On the other hand, secondary data is data that was already collected by others, to other purposes and can be raw data or published summaries (Saunders et al, 2009).

For this thesis, both primary and secondary data was utilized. It is important to have some considerations when applying the research technique, for instance the lack of knowledge about the data collected by others, mainly if the data is complex and hard to comprehend. So, in line with this it is necessary to spend some time understanding others research as a lot of parameters need to be acknowledge like how the code was made and what were the variables used. Although, there are some advantages like being a costless technique, because much of the information is available in data archives, and therefore very easy and timeless to access the data.

Concerning to the secondary data used, the main sources of secondary data were from Portuguese newspapers, organizations websites, academic platforms, books, academic and scientific articles.

3.4.4. Data collection methods

The qualitative interview is a type of framework in which the practices and standards be not only recorded, but also achieved, challenged and as well as reinforced. Along with this, the collection method chosen to meet the purpose effectively was the interview, because it enables face to face discussion, allowing to have a better understanding of the situation in study. About the interview, it was some TAP's executive members and its objective was to collect qualitative data related to the market evolution, industry dynamics, current company situation and future goals. Being the intend of this study give an understanding of what should be the company's new strategy, these kind of data obtained, through the interview, was very important.

To request permission to conduct interviews, it was made an interview letter (attachment 1). Regarding to the types of interview's research (structured, semi-structured and unstructured), the one that seemed to be more suitable for gathering information was the semi-structured interview. Doing a semi-structured interview, it was possible to collect more detailed information in a style that was slightly conversational. In fact, the great advantage of using this method was to explore, in a more deeply way, specifics topics and to comprehend carefully the

answers provided by TAP's members. It is extremely important to ensure an effective and insightful interview, so it was used an interview guide (attachment 2). This guide was very simple and intuitive, it was designed to help the interviewer during the interview process and was divided into three main parts. In first part the objective was to explain the objective of the conversation and also to explain the structure of the interview. The second part was the time of questions and discussion. Finally, the third part was to thank the contribution for the research. The interview consisted mainly of descriptive and structural questions (attachment 3). The descriptive questions were to understand in more detail some situations and the structural questions were to construct a field, or to validate an existing list of items and its relationships. Although it is important to note that the questions were, largely, guiding questions for the interviewer and the question scope played a crucial role in the interview, since the main purpose of the interview was collect more detailed information in a conversational style. Regarding to this, the questions were grouped by the following topics: current situation, internal and external analysis, the service, business strategy, competition and future trends.

3.4.5. Research quality

According to Michael Patton (2002), when measuring research quality of a qualitative research, there are two main measurements that must be used: authenticity and trustworthiness. The authenticity is related with the rigor and quality of the data and with its collection procedures. In order to assure the authenticity of the data, it was used data triangulation (multiple data sources) to have a better understanding of the phenomenon studied and also it was used an individual interview to obtain some answers related with the research questions. The trustworthiness is concerning to the quality of data analysis. With the intention of having trustworthiness, and according to Lincoln & Guba (1985), four elements were considered: credibility (doing internal validations in order to analyze correct data, doing peer validations), transferability (doing thick descriptions), dependability (discovering how data was collected and kept) and confirmability.

3.5. Analytical tools

As stated on chapter 3.4.2, the case study was based on qualitative and quantitative data. In turns, this case study was solved by doing an analysis of the company and of the business environment, in which the organization operates, using the results from both qualitative and

quantitative information researched. In addition, it was also used some strategic tools to help case resolution.

The quantitative analysis was related with a gathering of data to:

- Understand the economic / financial situation of TAP and its competitors;
- Understand the economic / financial situation of airline industry;
- Evaluate, using airline industry indicators, the performance of TAP and its competitors.

The qualitative analysis was mainly used to:

- Understand the TAP's business model, its competitors and also the company's strategy;
- Characterize each TAP's main competitors;
- Characterize the airline industry;
- Comprehend the market dynamics and market trends.

In order to link the quantitative and qualitative data, some strategic tools are indispensable for solving a strategic case study. In this case, to perform a high quality analysis of TAP and also to give recommendation about what should be future strategy of the Organization, the main strategic tool used was the SWOT Analysis. This was very important, since is the main tool of the strategic management process, help to better identify the strengths and weakness of the company and at the same time the opportunities and threats existing on the market.

Furthermore, it was used the PESTEL to comprehend the impact of external factors, such as political, economic, social and environmental in airline's business.

The Porter's Generic Strategies were very useful also, since it allowed to analyse the current strategy of the company and at the same time, using both qualitative and quantitative data, decide if this strategy will be sustainable in the long term or if TAP should re-define its strategy.

3.6. Case study lecture plan

Session	Objectives	Methods	Time
1 st Session	<ul style="list-style-type: none"> ▪ Strategic Management overview; ▪ Introduction to the case study; ▪ Introduction to Airline Industry. 	<ul style="list-style-type: none"> ▪ Understand the importance of strategic management in companies; ▪ Summary of the case study subject and scope by the professor; ▪ Characterization of Airline Industry; ▪ Brief description of TAP business situation. 	90 min.
Homework	<ul style="list-style-type: none"> ▪ Know and understand the case study; ▪ Analysis of TAP. 	<ul style="list-style-type: none"> ▪ Individual reading of the case; ▪ SWOT Analysis of TAP. 	70 min.
2 nd Session	<ul style="list-style-type: none"> ▪ Case study comprehension; ▪ Divide students into groups to solve the case study questions; ▪ Resolution of questions 1,2 and 3. 	<ul style="list-style-type: none"> ▪ Discussion of the case study main ideas; ▪ Brief discussion of TAP SWOT analysis; ▪ Group answers preparation to the questions. 	90 min.
Homework	<ul style="list-style-type: none"> ▪ Resolution of question 4; ▪ Preparation of the case study presentation. 	<ul style="list-style-type: none"> ▪ Analysis of the case study and resolution of questions 4; ▪ Prepare PowerPoint presentation. 	180 min.
3 rd Session	<ul style="list-style-type: none"> ▪ Group presentation of the case study and discussion of it. 	<ul style="list-style-type: none"> ▪ 15 min. (max.) PowerPoint presentation; ▪ Discussion of the presentations. 	90 min.

3.7. Lecture issues to be posed to the students

1. Michael Porter stated that *“the essence of strategy is choosing what not to do”*. Comment this sentence and explain the importance of a continuous process of strategic management in companies.
2. The airline industry is one of the most competitive industries in the world. According to Porter model, what determines the intensity of an industry? Perform your answer based on airline industry.
3. Before implementing and formulating a strategy it is necessary to do an environment scanning. What do you mean by environmental scanning? Please apply it to TAP.
4. Do you think that is important to do a re-branding in TAP? Think about actions that will bring more passengers, more flights and more benefits for TAP.

3.8. Resolution – analysis of the data

1. What is the essence of strategic management process and why is it becoming increasingly recognised as a facilitator of strategic decisions?

Nowadays, with the constantly changes of the markets, the fluctuations on economy, the new trends of society and also the environment changes, it is very difficult for companies to stablish plans for a long run that remain unchanged. The strategic management plays, in today’s business, a truly important role for organizations, since it helps them to guarantee its business sustainability, its competitiveness and also to achieve goals and objectives. Strategic management must be a continuous process of planning, monitoring, analysis and assessment of all that is necessary for an organization to meet its goals and objectives. This concept englobes two important words – strategy and management. Strategy is the “way” that an organization takes in order to maximize its resources, achieve goals and make the business grow. In turn, management is the process of achieving organizational goals using the available resources efficiently and effectively. So, the two words together, strategic management, means accomplish the organization’s growth through the use of effective and efficiency managements tools, which are focused on goal-setting.

The essence of strategic management process lies in how is it done. Therefore, is strictly required that managers follow the five steps of this process by a sequential order:

1. Identify the organization's current mission, goals and strategies – it is necessary to look at the present and understand what is happening, what are the objectives that have been determined, which are the goals that the organization wants to achieve and also to realize what strategies the organization has been taking.
2. Environment scanning / SWOT analysis – in this stage, it is done an internal and also external analysis. Must be observe the internal business environment, in order to understand which are the organization's internal resources and capabilities and to identify organization's strengths and weaknesses. As business becomes more competitive and in a constantly change, to have information from external environment is crucial to the efficiency and effectiveness of the organization's long-term plans. Analysing the external environment, it is possible to explore new opportunities and also reveals threats for the organization.
3. Strategy formulation – after analysing the environment, it is required to create the best course of action for fulfil organizational objectives and so to achieve the organizational purpose. It is also in this stage that will be define the three levels of strategy – functional, business and corporate level.
4. Strategy implementation – in this stage all the information, ideas and decisions will be turned into action. Furthermore, it will be design the organization's structure, the management of human resources and the development of the decision making process.
5. Strategy evaluation – it is a very important stage since the main objective of strategic management is to have a continuous process of planning, monitoring, analysis and assessment. So, in this stage the objectives are to evaluate the present strategies, measure performance, and to take corrective actions whenever necessary

The strategic management process is becoming increasingly recognised as a facilitator of strategic decisions since it:

- Helps organizations to identify, to prioritize, and to exploit opportunities;
- Provides an objective and clear view of management problems;
- Decreases the effects of adverse conditions and changes;
- Allows to take main decisions to better support well-known objectives;
- Allows a more effective allocation of resources;

- Provides a cooperative, integrated, and enthusiastic approach to tackling problems and opportunities;
- Encourages a constructive attitude towards change;
- Creates longevity of the business.

Furthermore, there are also financial advantages, such as the increase of the business profitability and market share and this process can provide a better measurement of profits and sales.

In fact, the strategic management process plays a crucial role in organizations, helping them in the process of decision making and in the determination of its business strategy. Although, to be competitive and to determine effectively and successfully the business's strategy, this process must be a continuous process, capable to be adaptable to the market trends and business environment changes. Having a continuous process of planning, monitoring, analysis and assessment companies can establish sustainable long-run plans and sustainable strategies, that are capable to face competition, market trends and face the constantly changes in the business environment.

2. Think about TAP's main competitors. Can you name some strengths and weaknesses of the company? Based on the previous analysis, please give two or three most promising areas of possible focus and also some threatening factors.

The Portuguese Airline, faces competition from both full service carriers and from low cost carriers. Regarding to full service carriers, TAP's main competitors are Air France KLM, IAG and Lufthansa Group and concerning to low cost carriers, the competitors are EasyJet and Ryanair.

The best method to analyse TAP, both internal and externally, and to mention some of its strengths, weaknesses, opportunities and threats is through the SWOT.

The following table shows an internal analysis of the company, giving some strengths and weaknesses, and also an external analysis, where is possible so observe some promising areas of possible focus and some threatening factors that may can negatively influence the company's business.

TABLE 7 - TAP SWOT ANALYSIS

Strengths	Weaknesses
<ul style="list-style-type: none"> ▪ Quality certification; ▪ The best secure European airline; ▪ The brand symbolism; ▪ Good customer service; ▪ Skilled workforce; ▪ Experienced business units; ▪ Diversified product portfolio; ▪ Brand loyalty; ▪ Star Alliance member; ▪ Personalized service. 	<ul style="list-style-type: none"> ▪ Debt and profit level; ▪ Cost structure; ▪ High labour costs; ▪ High production costs; ▪ Productivity; ▪ High competitive market; ▪ Tax structure.
Opportunities	Threats
<ul style="list-style-type: none"> ▪ New market expansion; ▪ New acquisitions; ▪ Growing economy; ▪ New market segmentation; ▪ Invest in low cost model; ▪ Improve the efficiency. 	<ul style="list-style-type: none"> ▪ Low cost carriers (EasyJet and Ryanair); ▪ High competitive industry; ▪ M&A; ▪ Economic situation of Angola; ▪ Situation in Venezuela; ▪ Terrorism attacks; ▪ Technological problems; ▪ Increase raw material's costs ▪ Price changes; ▪ Airline regulation.

Source: Own creation

As it possible to observe from the previous table, TAP is a well-recognized airline with higher levels of security which incentives passengers to travel with TAP, a very good customer service, an airline which has a diversified portfolio of products, a high skilled flight crew and a brand with great symbolism. All these factors contribute to increase the brand perception and so the customer loyalty. Although, since the airline industry is one of the most competitive industries in the world, TAP must be more efficient. The Portuguese airline has not a good cost structure, the operating costs are too much high and not just because of fuel costs. In fact, the fuel cost is something that the company cannot control, but, in another hand, the labour costs

are possible to control and they need to be cut. The secret of low cost carriers is not to sell low cost tickets to increase their margins, but have low costs of production. Furthermore, TAP has a higher debt and a negative profit which are huge weaknesses for the Portuguese Airline. The airline market has been growing for the low cost carriers, and these ones have been increasing its load factor and its productivity, because essentially they can be more cost efficiently.

To be competitive and to guarantee a stable and sustainable future, TAP must to look for new opportunities. Mainly, the company must use its geographic position to expand the business and to concentrate its business in countries that can give a profit return, take advance from de growing economies – maybe it is not profitable to have so much destinations for Brazil and the same for Angola. The Portuguese airline must has to re-think in its business model and also to think in creating a new brand inside the TAP Group, or even using TAP Express, to have low-cost flights and compete against EasyJet and Ryanair.

Although, there some factors that are very threatening for TAP and that have a huge impact in its business activity. For instance, the situation in Angola and in Venezuela that contributed to the higher debt level. Also, the constantly terrorisms attacks, that make people had fear of flying to other countries. The higher level of airline regulation is a threat also, because sometimes is very difficult to obtain an operating licence since countries have with different legal restrictions and specifications. Furthermore, high deregulation on the supply side and on the demand side can be also dangerous, for the reason that increases the competition among airlines and increases the passenger's power, respectively. The constantly changes in the fuel price is a threat for TAP too, because the operating costs will increase more and the company has no a good costs structure, so this fact will prejudice even more operating margins. The Portuguese airline has also to deal with the growing power of the low-cost carriers, which are very cost efficient and which are increasing the market presence.

The airline market has changed. Nowadays, there are new players, new customers, new trends, new habits, new cultures, new crises, technology advances and factors that are impossible to be controlled. Upon this situation, not just TAP but all airline's organizations should understand what are their resources and capabilities, they must comprehend in what they are good and think about the things that they are not so good, so they can improve it. Doing this, TAP and other airlines can explore new opportunities, fight and prevent threats and be sustainable, competitive and stable in the short, medium and long-term.

3. Discuss the impact of external factors, such as political, economic, social and environmental in airline's business.

One of the main reasons why airline industry is one of the most competitive industries in the world is because its activity is influenced by several external factors. The following table present us what factors influence the airline's business and how they influence it.

TABLE 8 – PESTEL ANALYSIS OF THE AIRLINE INDUSTRY

Political / Legal	
<ul style="list-style-type: none"> ▪ High deregulation on the supply side; ▪ High regulation on the demand side; ▪ Very strict legal system; 	<ul style="list-style-type: none"> ▪ Consumer laws; ▪ Safety standards; ▪ Difficulty among operating licence.
Economic	
<ul style="list-style-type: none"> ▪ Fluctuations on the fuel's price; ▪ High operating costs; ▪ Difficulty on getting credit; 	<ul style="list-style-type: none"> ▪ Countries own economy and financial situation; ▪ Sharp downturn in demand; ▪ M&A.
Social	
<ul style="list-style-type: none"> ▪ Culture trends; ▪ Terrorist Attacks (11/9); 	<ul style="list-style-type: none"> ▪ Less business class passengers; ▪ Millennial's Generation.
Technological	
<ul style="list-style-type: none"> ▪ E-commerce; ▪ Evolution of information systems and technology; 	<ul style="list-style-type: none"> ▪ Necessity of investment R&D; ▪ Difficulty to adjust labour to the new technologies.
Environmental	
<ul style="list-style-type: none"> ▪ Climate change; ▪ Meteorological conditions; 	<ul style="list-style-type: none"> ▪ Environmentally conscious.

Source: Own creation

The airline industry has a high strict legal system, with several policies, standards and duties that must be fulfilled. Sometimes is very difficult to get licences, since airlines operate in several countries and each country has its own political and legal systems, with different legal restrictions and specifications. Moreover, as higher is the deregulation of the supply side, as

more will be the competitions among airlines. On the other hand, higher regulations on the demand side will give more power to passengers than the airlines.

The economy has a huge impact on the airline's business, not just the economy of the country where airlines have headquarters, but also all the countries in which they operate. One example of this was the situation of TAP, in Venezuela, where EUR 91.4 million were held and consequently it had a negative impact on the net income of the Portuguese. The price fluctuations also affect business, as they have an impact on customers' purchasing power and also on the operational activities of the organization. In the case of airlines, fuel costs account for a high percentage in operating costs, therefore, any change in oil prices will have a direct impact on the airline's operating costs. Economic crises, public debt and the decrease of customer's purchasing power have sharp downturns in demand, which causes a direct reduction in passenger revenues.

People are always changing and there are also new lifestyles, new trends and the airlines must adapt to these changes. For instance, the executive classes are decreasing, since several executives prefer to do video-call or a skype-call instead of travelling to other location in the world to have a meeting – saving time and money. In addition, terrorist attacks also lower load factor and therefore revenues, as passengers travel less due to fear of travel to some countries.

The rapidly changes in technology forces companies to constantly adapt themselves in order to become more competitive. For a quick adaptation to change it is necessary a constant and proper training, in order to have solid knowledge base, which, sometimes might not happen in the Portuguese population. Furthermore, to be competitive, to face the constantly market change and the technology advances, is necessary to invest on research and development. In the airline industry, technological changes are presented as a critical issue, because buying a plane has to assume long-term studies so the R&D is a necessary and required investment. Unfortunately, lack of liquidity in countries leads to a decrease in the investment in several sectors, including R&D, which is one of the engines of growth and progress of the airline industry.

The meteorological conditions and climate change have a high impact on daily business's activity of airlines. Furthermore, the natural disasters also hamper the operations of airlines. Since it is not possible to prevent these natural disasters, airlines should be prepared for bad meteorological conditions or other climate changes in order to guarantee the passenger's safety. One good example of this preparation is TAP, where passengers feel safe to travel with the

Portuguese airline, because TAP is well known for its high standards of safety and responsibility, being the one of the three safest European airline to travel.

4. Considering the Porter's three generic strategies, do you think that TAP can be sustainable in the long term by following a differentiation strategy? How can the Portuguese Airline gain and retain competitive advantage over the LCCs, such as over Ryanair or EasyJet?

In line with Porter, there are three type of strategies that companies must follow: differentiation, price leadership and focus. These strategies are not necessarily well-matched with one other and it is recommended to companies chose only one strategy otherwise they may be “stuck in the middle” and will not achieve competitive advantage.

TAP has been follow a differentiation strategy, since the Portuguese airline stands its business goal on the type of service that offers to its clients. The vast portfolio of diversified products with different specifications; the Premium Customer Center and the personalized and high customer service allow TAP to offer a differentiated product/service compared to others airlines which, in turns, will create brand perception, customer value and customer loyalty. This is a good strategy, although there are some risks by following it, such as the fact of being easy to imitate – several full service carriers have a differentiation strategy and they can easily to offer very similar products/services. Furthermore, passengers are changing their needs, lifestyles and they are looking for more economic/low cost carriers.

The secret of these low cost carries, such as Ryanair or EasyJet, lies in the fact that they have a very good cost structure, with low production costs. So, LCS can have higher margins because they can be cost efficient and also have higher passenger's revenues because decreasing the price of production they can offer more affordable tickets.

TAP has no an efficient cost structure, having high operating costs with especially regard to labour costs, since the oil prices are not controllable by airlines. Furthermore, the Portuguese airline has a high debt level, negative margins and negative profit. So, it is necessary that TAP re-think in its business model, increase productivity, have a more efficient logistic, cut labour costs, and be more cost-efficient. Moreover, it is important that TAP be adaptable to the new market trends, that are:

- Low cost carriers are increasing its market share and gaining position in the airline industry among full service carriers;

- Executives are opting by more economic flights and even replace a business trip by a video call (technology advances);
- The competitiveness is increasing and the sustainability in the long-term is mainly determined by efficiency, effectiveness, and differentiation (to be unique).

TAP can be sustainable in the long term by following a strategy similar to Lufthansa Group, that is having a brand characterizing by a business of full service carrier with a differentiation strategy (Lufthansa) and other brand that has a business model of low cost carrier with a price leadership strategy (Germanwings/Eurowings). By doing this, the Lufthansa Group can have a different strategy for each type of business model, giving an advantage among other airlines. In this case, the airline can offer a full service for passengers who are willing to pay more for amenities and also to offer an affordable ticket for ones who are only willing to pay a simple airplane ticket.

So, the Portuguese airline should continue with a differentiation strategy, offering a personalized service and continuing to create customer loyalty and, at the same time, should build another brand or use TAP Express to have a cost leadership strategy. This will let the Portuguese Airline to have a low-cost business model, to compete and to retain competitive advantage against low cost carriers.

3.9. Case resolution slides or spreadsheets

TAP IN STRATEGIC CHANGE:
What would be the next strategy?


Case study resolution



TAP IN STRATEGIC CHANGE: What would be the next strategy? | Case study resolution 2

Question 1

What is the essence of strategic management process and why is it becoming increasingly recognised as a facilitator of strategic decisions?



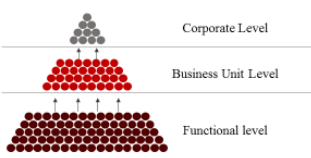
TAP IN STRATEGIC CHANGE: What would be the next strategy? | Case study resolution 2

Question 1

Strategy

"(...) the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources for carrying out these goals."

Alfred D. Chandler, Jr.




TAP IN STRATEGIC CHANGE: What would be the next strategy? | Case study resolution 3

Question 1

Strategic Management

"(...) the set of decisions and actions resulting in the formulation and implementation of strategies designed to achieve the objectives of the organization"

John A. Pearce II and Richard B. Robinson, Jr.



TAP IN STRATEGIC CHANGE: What would be the next strategy? | Case study resolution 4

Question 1

Environment Analysis -> SWOT Analysis

- Analyse the business's environment - factors outside the business itself that may be opportunities or threats. **External Analysis.**
- Analyse the business' resources and capabilities - those things within the control of the business, such as people, machinery, facilities, contracts, image, and goodwill - that can be allocated to achieve goals and objectives. **Internal Analysis.**

Strategy Formulation

- Deciding best course of action for accomplishing organizational objectives and therefore achieving organizational purpose.
- Formulate functional, business and corporate strategies.

TAP IN STRATEGIC CHANGE: What would be the next strategy? | Case study resolution 5

Question 1

Strategy Implementation

- Put strategy into action.
- Design the organization's structure, distribute resources, develop decision making process, and manage human resources.

Strategy Evaluation

- Evaluate internal and external factors that are the root of present strategies, measure performance, and take corrective actions.

TAP IN STRATEGIC CHANGE: What would be the next strategy? | Case study resolution 6

Question 1

Benefits of Strategic Management

Non-Financial Benefits

- Helps to identify, to prioritize, and to exploit opportunities;
- Provides an objective view of management problems;
- Represents a framework for improved coordination and control of activities;
- Minimizes the effects of adverse conditions and changes;
- Allows major decisions to better support established objectives;
- Allows more effective allocation of time and resources to identified opportunities;
- Provides a basic for the clarification of individual responsibilities;
- Provides a cooperative, integrated, and enthusiastic approach to tackling problems and opportunities;
- Encourages a favourable attitude towards change;
- Create longevity of the business.

Question 1

Benefits of Strategic Management

Financial Benefits

- Strategic management does result in higher performance in organizations;
- Increase profitability and market share;
- Provide a better measurement of profits, sales, and return on assets.

Question 1

1. Identify the organization's current mission, goals and strategies
2. Environmental scanning
3. Formulate Strategy
4. Implement Strategy
5. Evaluate strategy

Will help the decision process;

Will increase the organization performance;

Will increase competitiveness;

Will create longevity of the business.



Question 2

Think about TAP's main competitors. Can you name some strengths and weaknesses of the company? Based on the previous analysis, please give two or three most promising areas of possible focus and also some threatening factors.



Question 2

Airline industry is one of the most competitive industries in the world



Question 2

SWOT ANALYSIS

- The SWOT is a strategic development tool used to evaluate the strategic position of a business and also its environment;



Question 2

SWOT ANALYSIS

Strengths	Weaknesses
<ul style="list-style-type: none"> ▪ Quality certification; ▪ The best secure European airline; ▪ Good customer service; ▪ Skilled workforce; ▪ Experienced business units; ▪ Diversified product portfolio. 	<ul style="list-style-type: none"> ▪ Debt and profit level; ▪ Cost structure; ▪ Productivity; ▪ High competitive market; ▪ Tax structure.

TAP in Strategic Change: What would be the next strategy? | Case study resolution 13

Question 2


SWOT ANALYSIS

Opportunities	Threats
<ul style="list-style-type: none"> ▪ New market expansion; ▪ New acquisitions; ▪ Growing economy; ▪ New market segmentation; ▪ Invest in low cost model; ▪ Improve the efficiency. 	<ul style="list-style-type: none"> ▪ Low cost carriers (EasyJet and Ryanair); ▪ High competitive industry; ▪ M&A; ▪ Economic situation of Angola; ▪ Terrorism attacks; ▪ Technological problems ▪ Increase raw material's costs ▪ Price changes; ▪ Airline regulation.

TAP in Strategic Change: What would be the next strategy? | Case study resolution 14

Question 3

Discuss the impact of external factors, such as political, economic, social and environmental in airline's business.





TAP in Strategic Change: What would be the next strategy? | Case study resolution 15


Question 3


PESTLE ANALYSIS


- Describes a framework of macro-environmental factors.
- It is a part of the external analysis, when conducting a strategic analysis or doing market research, and gives an overview of the different macro-environmental factors that the company has to take into consideration.



Political


Economic


Social


Technological


Legal



Environmental

TAP in Strategic Change: What would be the next strategy? | Case study resolution 16

Question 3


PESTLE ANALYSIS – Airline Industry

POLITICAL



- Airline companies operates in extremely regulated political environment;
- High deregulation on the supply side -> more competition among airlines;
- High regulation on the demand side -> passengers have more power.

ECONOMICAL




- Fuel Prices -> fluctuations in the price of oil;
- Competition from low cost carriers;
- High operating costs;
- Countries own economy and financial situation;
- Sharp downturn in demand;
- M&A and Airline Alliances.

TAP in Strategic Change: What would be the next strategy? | Case study resolution 17

Question 3


PESTLE ANALYSIS – Airline Industry

SOCIAL



- Culture trends;
- Terrorist Attacks (11/9);
- Less business class passengers -> Advances in technologies which allows to do meetings and work remotely;
- Millennial's Generation.

TECHNOLOGICAL



- E-commerce;
- Evolution of information systems and technology;
- Necessity of investment in R&D;
- Difficulty to adjust labour to the new technologies.

TAP in Strategic Change: What would be the next strategy? | Case study resolution 18

Question 3

PESTLE ANALYSIS – Airline Industry

LEGAL



- Very strict legal system;
- Consumer laws;
- Safety standards;
- Difficulty among operating licence -> countries have with different legal restrictions and specifications.

ENVIRONMENTAL



- Climate change;
- Meteorological conditions -> rain, lightning, snow, fog ...
- Environmentally conscious -> "green fly"

Question 4

Considering the Porter's three generic strategies, do you think that TAP can be sustainable in the long term by following a differentiation strategy? How can the Portuguese Airline gain and retain competitive advantage over the LCCs, such as Ryanair or EasyJet?

Question 4

Porter's Three Generic Strategies

1. **Cost leadership** - This is achieved by having the lowest prices in the target market segment, or at least the lowest price to value ratio.
2. **Differentiation** - Differentiation involves making your products or services different from and more attractive than those of your competitors.
3. **Focus** - Companies that use Focus strategies concentrate on particular niche markets.

Question 4

- **TAP differentiation strategy** is based on the type of service that offers to its clients:
 - Premium Customer Center;
 - Portfolio of diversified products with different specifications;
 - Personalized and high customer service;
- TAP has also a **focus strategy** – main target is the executive passenger
- **Ryanair and EasyJet have a cost leadership strategy:**
 - Low-cost prices
 - Increasing profits by reducing costs, while charging industry-average prices;
 - Increasing market share through charging lower prices, while still making a reasonable profit on each sale because they can reduce its operating costs.

Question 4



Problems with the differentiation strategy in TAP:

- Imitation by competitors – Several Full Service Carriers have a differentiation strategy and they can easily to offer very similar products/services.
- Changes in customer tastes / needs – Better prices

Furthermore TAP faces:

- High competition among low cost carriers;
- Different passengers and different reality of business;
- High operating costs;
- Low profit and low margins.

Question 4

What TAP should do?

1. **Should be more efficient:**
 - Access to the capital needed to invest in technology that will bring costs down;
 - Very efficient logistics;
 - A low-cost base (labour, materials, facilities), and a way of sustainably cutting costs below those of other competitors.
2. **Should be adaptable to the new market trends:**
 - Low cost carriers are increasing its market share and gaining position in the airline industry among full service carriers;
 - Executives are opting by more economic flights and even replace a business trip by a video call (technology advances);
 - To be competitive, to be unique.

Question 4

How to compete against Ryanair and EasyJet – Turning into Action

Example: Lufthansa Group

- 1 Group – Lufthansa Group
- 2 brands – Lufthansa + Germanwings / Eurowings
- 2 business models – Full service carriers + Low cost carriers
- 2 strategies – Differentiation + Cost leadership

In the case of TAP:

- Should be more efficient and must have a better cost structure;
- Should continue with the same image, brand, symbolism and differentiation strategy – TAP is known as a very good airline with a exceptional customer service.
- BUT, at the same time, should build another brand or use TAP Express to have a cost leadership strategy that will allow the Portuguese Airline have a low-cost business model, compete and retain competitive advantage against low cost carriers.

3.10. Conclusion

Nowadays, in business, the unique constant is change. Companies are constantly being affected by several issues impacting directly their business and forcing them to adapt. It is no longer possible to have long-plans that remain unchanged. Organizations must be always managing business as a continuous process of analysis, formulation, implementation and evaluation. It is in this field that the essence and the importance of strategic management has been increasingly noticeable. In fact, through a process of strategic management, companies analyse themselves and their business, have a deeper understanding of the environment in which they operate and then formulate, implement and evaluate strategies to meet the objectives and goals previously set.

Being the airline industry one of the most competitive industries in the world, the strategic management is crucial for airlines sustain and guarantee its competitiveness and its future. The airlines operate in a highly competitive market since the deregulation of the airline industry, when new players have entered and revolutionized the market with new strategies of doing business, with a different business model, mainly focused on cost efficiency. These new plays, the low cost carriers, have being increase their presence in the market and sharply increasing the competition between airlines. Additionally, the airline business is influenced by a variety of factors that sometimes are very difficult, even impossible, to control. Factors such as, atmospheric conditions, fluctuations in oil prices, politic instability, terrorism attacks, legal regulation and others.

After analysing the business environment (internally and externally) in which TAP operates, it is possible to conclude that the Portuguese airline is not following a good strategy and also is not adapting its business to the new market trends. It is true that TAP is a well-known company, with high quality certification, good customer service, skilled workforce, experienced business units, that offers a diversified product portfolio and that is one of the best secure European airlines. However, the company has no profit, has no positive margins and has a high debt level. Comparing TAP's operating margins in 2015 with those of its main competitors (Air France KLM, Lufthansa Group, IAG, Ryanair and EasJet), the Portuguese airline was the only one that recorded, in 2015, a negative operating margin (-4.5%). Additionally, is practically the one with a CASK higher than RASK, with the exception of Ryanair that had also a CASK higher than RASK but, even so, Ryanair had a good 2015 with positive profits and with a good operating margin.

The problem with TAP is mainly related with cost structure. The company has to be more cost efficient, has to reduce its operating costs with special regard to the labour and maintenance costs. It is important that the Portuguese airline access to the capital needed to invest in technology that will bring costs down, that opt for more efficient logistics. TAP should has low-cost base (labour, materials, facilities), and a way of sustainably cutting costs below those of other competitors.

Furthermore, and in addition to the goals that the company announced in its Annual Report of 2015, which are:

1. To renovate and expand the all fleets;
2. An evolution in the business model – to offer customers more options to create new products/services in addition to the trip;
3. Automation and improved customer experience – to make more digital and more automated the customer facing processes;
4. To consolidate TAP's grow and increase the focus on the hub – to build and to reinforce the Lisbon hub and to launch the Lisbon-Oporto Air Shuttle;
5. To improve operational efficiency – to optimize the company cost's structure;
6. Repositioning of the maintenance and engineering business units in Portugal and also in Brazil;

the company must adapt its business model to the new market trends. The airline market is changing, and while the low cost carriers are gaining position in the market, consumers are changing their preferences. The air travel is no more an unusual or extraordinary thing, on the contrary, passengers (tourists) travel more but opting for more accessible and affordable flights. The executive classes in the plane tend to be less, since most executives end up by choosing a video-call or a skype-call instead of a business trip. Also, the passengers have their own entertainment, thus the on-board entertainment is no longer much sought after.

It is now time for TAP re-think on its business model. The company has a good differentiation strategy, offering a premium customer center, a portfolio of diversified products with different specifications and a personalized and high customer service. It is important to continue with this strategy, but it is not sufficient to guarantee a sustainable and stable position in the long-term. Additionally, to this differentiation strategy, the Portuguese Airline should create a new brand inside the TAP Group, or use TAP Express, to build a lower cost business model. In this case, the Portuguese airline could offer an affordable ticket for ones who are only willing to pay a simple airplane ticket and also continuing to offer a more differentiated service, a full

service, for passengers who are willing to pay more for amenities. One perfect example of an airline using a similar strategy of this one, is Lufthansa Group. The Germany airline, has two brands being one a full service carrier (Lufthansa) and other a low cost carrier (Germanwings/Eurowings). Although, it is necessary to have a good cost structure, because the secret of having a low cost brand is not selling affordable tickets. The secret is to increase profits by reducing costs (charging industry-average prices) and, at the same time, to increase market share through charging lower prices and making profit because the company has lower operating costs.

Considering this future strategy, it is also important to re-think and re-adapt the full service business model. Probably the company has now some routes that are no more profitable and should end them, such as several destinations in Brazil. To be cost efficient, TAP should, not just to cut labour and maintenance costs, but also use its geographic position and take benefit from it. The low cost carriers, like Ryanair and EasyJet, use their geographic position for their business and take advantage of it, traveling only in Europe where it is possible for them to have lower operating costs and, as a result, to have a better operational efficiency.

Since passengers are now accustomed to the low cost business model, it appears an increased demand for a higher and better service with a higher perceived value. TAP has an excellent customer service, creating perceived value for their customers, although it is time for the Portuguese airline re-think on its business model and how to be more efficient. TAP will be always Portugal's airline and a symbol of Portugal and because of that, the brand should not be change. Although, should be improved and adapted to new customers and to new market trends. To guarantee a sustainable position, to be stable and to be competitive in the future, TAP Group should maintain TAP as full service carrier with a differentiation strategy, but, at the same time, should use TAP Express to have a low cost service based on a cost leadership strategy. In addition, TAP has to be aware that it is extremely important to have a continuous process of strategic management. Throughout this ongoing process, TAP is able to be agile and define and keep modifying its strategy whenever necessary to keep up with the constant changes in airline industry and to face the market trends.

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5. Attachments

ATTACHMENT 1 - INTERVIEW LETTER

Dear Sir,

In the field of my thesis of the Master in Business Administration of the ISCTE Business School, it is being developed a case study that gives those who will work on the case study the possibility to comprehend the importance of strategic management and to apply strategic tools, analysing business environment (internally and externally), in order to find strategies that companies could choose to be competitive in the long-run, using as an example a well know company. Basically, the case study will outline the current situation of TAP, to explain how strategic management is so important in business environment analysis and how people must analyse a company internally and externally, in order make hard and strategic decisions.

To be well-succeed in the case elaboration, it is crucial to have a deeply understanding about Airline Industry and TAP. It is also expectable for me, to do an insightful research to have truly and valuable information.

The information needed is related with the following topics:

- Understand and analyse the airline industry;
- Analyse TAP company and business (vision, mission, main competitors);
- Identifying TAP strengths and weaknesses and also outline opportunities and threats existing in the market;
- Explain why strategy is so important in situations of organizational change;
- Understand the role of strategic management in TAP business and how can it be formulated and implemented;
- Formulate specific strategic business questions to design a future of a company.

According to this, I ask for your cooperation and collaboration for the concession of a face-to-face interview. The interview it will take at maximum 60 minutes and this procedure is extremely important to my thesis. Furthermore, the names of respondents will not be disclosed and the information gathered in the interview will just be used for my thesis.

Finally, I solicit an interview with "*person x*". In the case of not being possible, I solicit to do the interview with a member of the company's top management that usually participates in the strategic decisions of the company.

I express my gratitude for your collaboration and availability,

Raquel Roque

Source: Own creation

ATTACHMENT 2 - INTERVIEW GUIDE

1st Part – Opening	2nd Part – Interview Process	3rd – Closing
<p><u>Main objectives:</u></p> <p>⇒ To explain the objective of the interview</p> <p>⇒ To explain the structure of the interview</p>	<p><u>Main objectives:</u></p> <p>⇒ To make questions based in the following scopes:</p> <ul style="list-style-type: none"> ◆ Current Situation; ◆ Internal and External Analysis; ◆ The Service ◆ Business Strategy ◆ Competition ◆ Future Trends 	<p><u>Main objectives:</u></p> <p>⇒ To thank the contribution for this research and also the attention and the time spent during this interview.</p>

Source: Own creation

ATTACHMENT 3 - INTERVIEW QUESTIONS

SCOPE	QUESTIONS
Current Situation	<ul style="list-style-type: none"> ▪ How was the impact of Privatization in the organizational environment?
Internal and External Analysis	<ul style="list-style-type: none"> ▪ Which are the main resources and capabilities? ▪ Does the company have opportunities to be explored? Please define two or three most promising areas of possible focus of the company. ▪ Which are the biggest threats nowadays? ▪ Which are the main external factors that can influence your business?
The Service	<ul style="list-style-type: none"> ▪ How do you describe the level of client service, in terms of quality? ▪ In 2015 TAP was the 3rd Airline company being the most secure one in Europe. Which the key success factors that have influenced such position?
Business Strategy	<ul style="list-style-type: none"> ▪ How TAP is positioning in the market? (Cost Leadership / Differentiation / Focus) ▪ Are there any possibilities to build niche markets in the airline industry? ▪ How is the impact of LCC in TAP business? How to compete with them?
Competition	<ul style="list-style-type: none"> ▪ Who are the biggest competitors of TAP? ▪ What do you think about the liberalization of Airline Industry? ▪ Do you think is that important to create low cost flights in TAP? Why yes/no? ▪ How is the impact of LCC in TAP business? How TAP sees EasyJet or Ryanair? ▪ Which kind of barriers to entry are important in this industry?
Future Trends	<ul style="list-style-type: none"> ▪ Change the way of doing business? Moving for a LCC? Change TAP's image and brand?

Source: Own creation