

# [Resource based view of strategy](https://assignbuster.com/resource-based-view-of-strategy/)

This report is based on a detailed case study analysis the acquisition of Abbey done by Santander in UK financial sector. During the analysis, the student will use tools such as PESTEL, Porter Five Forces, Generic Strategy, Ansoff Matrix to analyse and evaluate if Santander’s move to acquire Abbey’s bank was a successful approach. However, the student will propose strategic orientations and options so that Santander resolves around the issues identified from an inside out perspective as well as from the consumer orientated perception.

## 1-Introduction

When analysing the student starts by defining the terms of strategy used by different authors from the position school, from an inside out perspective and from an outside in perspective to identify a standing point of how are the different and contradictory strategies applicable to Santander case study. Secondly, the definitions of strategy will help the student guide himself towards recognizing Santander’s market position and dynamics. Hence, applicable strategies viewpoints are mentioned below.

## 1. 1-Deliberate vs. Emergent Decisions

According to H. Mintzberg and J. A. Waters (1994), the concept of strategy comes from 2 processes the planned strategy process and the emergent strategy process. In the planned strategy, targets are very clear, straightforward and then converted into actions. In the emergent strategy, judgments appear from negotiating, opportunity and positive feedback. Mintzberg says that a strategy emerges overtime and an organization might start with a viewpoint and sum that it calls for a certain position, which is to be accomplished by way of a cautiously constructed plan. In addition, instead of saying that one strategy is better than the other, the authors claim that what is best depends on the nature of the organization. [4][The rise and fall of strategic planning, 1994]

This concept is clearly justified within the case study. Under the management of the CEO Francisco Gomez Roldan, Santander planned to revolutionize the company by implementing a three year plan which consisted in implementing a new operational model, rebuilding Abbey’s sales competences , and the development of an independent commercial bank. Later, an emergent strategy was then applied by the new CEO Antonio Horta Osorio who emphasized the concept of Five Themes: efficiency, service quality, customer loyalty and teamwork meritocracy.

## 1. 2-Resource Based View of Strategy

The Resource Based View model approach says that a company resource is its main source of sustainable competitive advantage in the market which competes as well as the strategic choice made by management. RBV strategy objective is to develop its internal resources to meet the demands of the market (inside-out strategy). Barney (1986) claims that “ developing a match between the firms resources and the success factors in the industry, is a demanding task and the success of the match is a function of the accuracy of managerial expectations about the value of strategy”. [3][ David J. Teece, Strategic Management Journal]

When justifying the statement above, the student found that the resource based view strategy is applicable to Santander case study because, one of the main strategies of Abbey was to diversify into new markets, rebuild its internal dynamic capabilities, and focus on efficiency by delivering a new IT Platform which could be assumed to be a rare resource within its market, as well as to reduce costs and cut down its internal processes in order to drive the company forward. Also, the complexity of the overall management role is such that good quality, top management, in itself is a potential source of competitive advantage (Castanians and Helfat, 1991). [3][David J. Teece, Strategic Management Journal]

## 2-Industries and Markets

In order to identify the industries and the markets where Santander competes, the student must explain the core operation of Abbey before and after Santander acquisition.

Previously, Abbey’s three main business divisions consisted of the Personal Finance Services division which included Banking and Savings (mortgages, savings accounts, current accounts and unsecured loans), Investment and Protection (life and health protection, investment and pensions products), and General Insurance. The Treasury Service division was accountable for the liquidity and capital management activities of Abbey, while the Portfolio Business Unit deals with businesses considered for divestiture.[6][Santander (D)Transformation and Growth in the UK]

In the future, its retail division consists of sales productivity, customer and savings retention, cross sales and the exploitation of new growth opportunities. The Insurance and Asset Management division comprised the legacy insurance business of Abbey and the asset management business. The third division Abbey Financial Market covered activities in derivatives and structure products as well as short term markets. .[6][Santander (D)Transformation and Growth in the UK]

As described above, the student is now able to mention that Santander is competing in the financial services industry sector along with its competitors which are Barclays, HSBC, HBOS, and LTSB, Insurance Companies and retail supermarkets such as Tesco. Its sales come from the management of people’s money and other businesses. Santander is a retail and commercial private bank with numerous branches in the UK, Europe, and South America.

With the acquisition of Abbey’s Bank, Santander found itself a major player in mortgages, savings and protection. These represent the solid market position where Santander competes.

## 3-Overview market analysis

According to Santander (D) Transformation and Growth in the UK, Santander is presently one of the largest banks in the UK market, and has one of the lowest rates of the market. With the acquisition of Abbey’s bank and with the implementation of the three year plan, Santander has grown dramatically in terms of size and value. This strategic move was very important in order to gain market share and get access to new customer segments. In order to forecast revenue growth Santander started to offer a full scale commercial bank divided into three categories: core business, under presented markets and new opportunities. In the core business Santander aimed for lending market share exceeding 10% from 2006 for the mortgages segment. In the under-represented markets Abbey boost it sales to win 10% share of new bank accounts due to the aggressive campaigns to win higher customer value in cross sales initiatives and the development of a premium bank service. The entry into a new market to exploit new opportunities in credit cards, consumer finance and corporate banking represented an enormous income pool but it had major competition with the big 5 seen in Exhibit 3, 4, 5 and 6 from the [Santander (D) Transformation and Growth in the UK].[6]

## 3. 1-Structure and Dynamics

Porter’s five forces is a model that helps identify the attractiveness of five competitive forces: the threat of entry, the threat of substitutes, the power of buyers, the power of suppliers and the extent of rivalry between competitors. These five forces together constitute an industry structure and an analysis of its market dynamics. The student is using this model to identify issues in a wider scope. Some issues mentioned in the model are not only relevant for the service oriented businesses but also for the banking sector. Within the time frame of the Santander analysis case study, a constant evaluation is required in order to avoid being myopic within the results presented. According to Michael Porter (1980), a business has to recognize the dynamics of its industries and markets in order to compete successfully in the market. [9][Competitive Strategy: Techniques for analysing industries and competitors]

## 3. 1. 1-Causes of supplier power

In the case of the bargaining supplier’s power, information technology plays a major role in the functioning of the bank. Santander had stopped all pending IT projects of Abbey’s bank in order to integrate a full complete System of the Partenon (it is a platform that allows the incorporation of a global data centre which could be moved across any market, also allows the launch of new products with minimal lead time). From 2006 to 2007 the roll out of Partenon reconfigured the all Abbey’s infrastructure including a new communication branch network. Partenon was a necessary investment that reduced massive costs in the first two years.[6][Santander (D) Transformation and Growth in the UK]

The student assumes that a major supplier is IBM as the database that hold the customer’s information runs on IBM middleware and so the bargaining power is present as all systems must be operating at all times. Therefore IBM can bargain, because it is being realized an optimal service in keeping the system on. Santander reliance on a single IT system does not provide risks as the acquisition of other banks in different business processes and markets.

## 3. 1. 2-Factors of buyer power

The bargaining power of customers is very high, due to customers having many options in choosing which bank they should go to. Moreover, the products provided by Santander are very important for their customers but not necessary crucial as there are similar products being offered within their competitors.

## 3. 1. 3-Threats of new entrants

The threats of new entrants in the financial UK industry sector are very low, since large banks (Barclays, HSBC, and HBOS) have strong market position and many years of experience. Therefore, the cost of entrance in this sector is very high as new entrants will have to gain customer’s confidence and loyalty in order to establish themselves. Also, the distribution channels are controlled by existing players as the government’s regulations are severe to approve new entrants.

## 3. 1. 4-Threats of substitutes

There is a high level of substitutes providing different products and low prices as compared to the major players in this industry, some banks have improved performance constraints for the same products provided by Santander. Futhermore, it is hard to gain new customers because brand image and its loyalty are very important in the UK market (e. g. the internet is substitute). However, Santander’s strategy in regards to its prices to conquer new customer segments using different sales strategies is very effective and Santander is a leading organization with this unique sales capabilities and efficiency.

## 3. 1. 5-Rivalry among Existing firms

According to the diagrams provided in the Santander (D) Transformation and Growth in the UK case study, competition is intense in this particular industry because banks have similar offering in terms of the value for the money, margins and cost-effectiveness in the long term for different businesses. Barclays , HSBC, RBOS, LTSB, Insurance Companies, Retail Supermarkets such as Tesco are Santander’s main competitors and these companies have similar strategies as well as few differentiation between the products offered from each bank, consequently there is more competition in terms of price than anything else.

On the other hand, the financial service industry sector is very sensitive to the economic cycles. At the time when Santander case study was written, Bank of Santander was an industry frontrunner due to its knowledge and financial strengths. As an industry leader, it is problematic for other retail banks to compete against, which lessens businesses and risk investment. With the acquisition of Abbey, Santander gained solid position in one of the most lucrative investment marketplaces in the world. As the bank expands rapidly, it minimizes the threat of straight rivalry and increases the profit of Santander.

In addition, the student finds it necessary to link the analysis and evaluations conducted on the structure and dynamics of the competing markets using the five forces model by Porter (1980) with the critical success factors for succeeding in the financial markets.

## 4-Crucial success factors

The idea of critical success factors as a source for deciding the information of leaders was proposed by RH Daniel as an approach that had potential to be used in the practice of assessing info units which was spread by F Rockart (1979). Basically, if a business possessed critical factors which would in the sense be associated with the factors of an organization, then the business would fail catastrophically. Furthermore, Critical Success Factor (CSFs) is determined by the satisfactory results obtained within the different SBU’s (e. g. Santander’s). It ensures the successful competitive performance of a business. [2][David Aaker, Strategic Marketing Management]

So, the student has identified critical success factors that are fundamental important for the success of Santander in the financial industry sector, they are:

The managerial position of both CEO’s was and still is a critical success factor for Santander business because Antonio Horta Osorio a top manager who was with Santander for over a decade and had rich experience in global banking, in fact his influence to the Santander’s global banking strategy was a vision that generated growth by implementing the Five Themes (efficiency, service quality, customer loyalty, teamwork and meritocracy). So, his responsibility and the position that he has had in the Santander commercial banking is a critical success factor.

Santander’s resources and capabilities in the sense of where the company has positioned itself in the marketplace in order to gain market shares is a critical success factor.

The different strategies implemented to cut costs, to boost sales throughout the different channels (branch network, telephones and intermediaries). The full implementation of Partenon IT infrastructure to reduce costs is also another critical success factor with major influence in the financial industry sector.

The environmental changes such as Economic, regulatory, political and demographic also influence the critical success factors for business to compete in this market. [2][David Aaker, Strategic Marketing Management]

## 5-Differentiation

Santander has a consumer oriented business model which provides higher levels of returns in its earnings and despite the difficult economic situation faced by banks lately, Santander’s control and risk management principles is a different approach used by this organization to differentiate itself from its competitors. Also, Santander’s reputation in terms of what they have achieved along the years it is different. For instance, in 2004 when Santander bought Abbey’s bank, the investment and the turnaround or the change provided in the business was tremendously efficient and surprisingly effective. Perhaps, Santander is one of the most efficient banks in the world with a high cost to income ratio. Nevertheless, its culture and corporate structure in the retail and commercial bank sector is different in the sense that, all the branches share a common policy framework. As a whole, Santander offers bank services in a choice of currencies to its global clients. Likewise, it provides mortgages in different currencies too.

A further internal analysis was conducted and the student as found important aspects to mention as Santander internal resources, competences and capabilities (see Appendix 2) plays a major role within the differentiation of the company itself.

## 5. 1-Resources

According to the Strategic Management Journal (Wiley Blackwell), resources is defined as “ firms specific assets that are difficult if not impossible to imitate”, for example the specialized production facilities possessed by Santander. [3] [Strategic Management Journal (Wiley Blackwell)]

Santander UK and other branches operate as a geographic subsidiary. They operate independently in each market, working effectively as a separate entity. Moreover, each unit manages its own capital liquidity, with its own funding sources. Broadly the whole Santander Group applies controls for all its subsidiary units which mean that they share a common policy framework in areas such as risk management, internal audit and financial management. Each unit shares practice and experiences in product development as well as the IT operational framework and a common brand. [8][Santander Supplementary Evidence, 2011]

According to Santander Structure Evidence, the student draws upon the fact that in order to have a structure model that best fits the environment of retail and commercial banks, Santander must engage or work along its customers in order to provide solutions for the betterment of the client. [8][Santander Supplementary Evidence, 2011]

The fact that the organization structure is part of their unique resource, Santander also possesses other means such as tangible and intangible resources (see Appendix 2). Perhaps, the IT platform Partenon is an integral resource that embodies their capabilities and competences overall.

## 5. 2-Competences

Strategic Management Journal (Wiley Blackwell) states that organization routines and core competences define the firm’s ultimate business as a core. Primary proficiencies must be consequent of seeing across the range of a firm’s (and its competitors) products and services. Specifically Santander’s primary competences reside in the enhanced operations efficiency in order to increase revenues and reduce costs, as well as, the ability to expand to other markets and to improve relationship management with other banks, insurance companies and building societies. Santander is highly known for its marketing power and for the competence to deliver good value and innovative products for retail customers. [3][Strategic Management Journal (Wiley Blackwell)]

## 5. 3-Capabilities

Furthermore Leonard-Barton 1992, states that the capabilities of a firm reside on the ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments. [3][Strategic Management Journal (Wiley Blackwell)]

Basically, Santander’s main capability exist in delivering strong performance management by enhance retention, increase incentives for cross sales. Control and risk management is another capability that Santander possesses in order to defend its market share regardless of the prevailing conditions.

Another Santander’ capability resides in the delivery of increased sales throughout the sales channels (the branch network, telephones and intermediaries). In fact with the acquisition of Abbey, Santander had forecasted that with their sales capabilities the staff would be able to increase productivity by 40% and an even higher figure, namely 60% was targeted in telephone based sales.[6][Santander (D) Transformation and Growth in the UK]

After the identification of its internal capabilities, the students have identified sources that constitute an advantage for competing in the financial industry sector.

## 6-Sources of Competitive Advantage

M. Porter 1980, states that competitive advantage is achieved by offering buyers better value for product either by means of lower prices or by giving better products and services which validates higher prices. Porter suggests the use of four generic business strategies which is a tool used to identify sources of competitive advantage. [9] [Competitive Strategy: Techniques for analyzing industries and competitors]

Using the generic business strategy by Porter, the student has drawn below the strategy approaches that exemplify the sources of competitive advantage used by Santander.

Segmentation Focus

Differentiation Leadership

Cost LeadershipNarrow Scope

Broad Scope

Uniqueness Low Cost

In the figure above, you can clearly identify that Santander has more than one source of competitive advantage in the short term and long term perspectives.

Differentiation Leadership- with this strategy, Santander is targeting a large market with aims to achieve competitive advantage across the whole financial industry. Basically, this strategy is regularly related by means of charging a premium price for the product. [9] [Competitive Strategy: Techniques for analyzing industries and competitors]

Cost Leadership- this strategy is to become the lowest cost producer in the financial industry by reducing costs and enjoying the best profits. By doing so, Santander has cost advantage over the competition and can significantly gain market share. [9] [Competitive Strategy: Techniques for analyzing industries and competitors]

For instance, Santander has the most advanced banking technologies (Partenon) and operations platforms in the finance industry, which permits it to turn cost savings efficiency into superior value for the customer. Santander is one of the utmost efficient banks in the world, with a high cost to income ratio. In addition, Santander uses customer focused management which allows closer connections and consumer retention through better quality service.

However, it is necessary to identify strategic marketing issues that could possibly influence Santander in the future.

## 7-Macro/Micro Environmental

The PESTEL framework tool was used to evaluate and identify the major macro/micro environmental issues that are affecting the business strategies of Santander as well as to measure in what way the environmental aspects may well influence business performance at present and in the forthcoming future.

## 7. 1-Political

Political Intervention in Capital Markets(threat) )(high priority)

The economy controls and imposes a rising amount of regulations, the government selected regulators who can execute price controls in most of the main utilities. There are all sorts of implications regarding the political interventions such as fiscal policy used to modify the level of demand for different products and also the pattern of demand within the economy. Perhaps, over the last few years privatization in the UK economy has given to a new trend of nationalization comprising certain banks. So, Santander is on imminent pressure from this political power which could have a huge impact on the future of Santander in the UK.

## 7. 2-Economical

Eurozone Credit Crisis. (threat) )(high priority)

Housing market is declining. (threat) (low priority)

Eurozone credit crisis and the global recession threaten to destabilise Santander’s position in financial market industry as customers are highly concerned about the debts that banks face. These uncertainties are a high priority to be resolved in the future as consumers cannot predict what will happen to the bank and their saving. So, it is necessary to ensure customers that the bank is safe from the global recession and Eurozone crisis.

The housing market is downgrading in the current years as consumers have huge debts and low credit limit that they cannot afford to pay off their mortgages, therefore there is less people wanting mortgages which means that Santander will face a challenge to overcome this issue. In addition, this threat is to be resolved with low priority in the long term, the student assumes.

## 7. 3-Social

Growth in Emerging Markets (Opportunity)(low priority)

Social impact of the change of brand from Abbey to Santander(threat)(high priority)

According to Santander (D) Transformation and Growth in the UK case study, Santander saw an opportunity to make profits from the corporate banking market. The reason is that Abbey lacked business loans and fee earnings products that restrained a corresponding growth in earnings. In the long run, Santander would benefit from building particular product areas on standalone basis both organically and by small acquisitions.

With the acquisition of Abbey, Santander radical change of its brand could have an enormous impact on the culture of the organization as well as on its customers. The reason is that a sudden change on an iconic image that Abbey had to the new logo of Santander causes confusing among the customers as it is a threat for the organization itself to lose customers for other banks. In reality, this sudden change of the brand is a marketing crime the student thinks, as basically Santander is trying erase the past of Abbey and implement its new way of business. This is an important issue that must be resolved with high priority as Santander can lose confused and unsatisfied customers to its competitors. Also, it is a must to resolve this issue with an influence to bring in new identity and culture so that the staff does not become unclear of their position in the organization.

## 7. 4-Technological

Online banking (Opportunity) (high priority)

Credit card expansion (Opportunity)(high priority)

According to Santander (D) Transformation and Growth in the UK case study, Santander Bank has gone through several integrations in the latest years, with the acquisition of Abbey’s bank and the expansion to other markets in South America. Online bank is within the highest priorities as to keep customers loyal to Santander and to keep customers satisfied and safe as online banking is an investment to provide greater value product service.

Santander had a huge opportunity to make enormous profits in the Credit Card market in a short period of time. Santander in 2006 launched a plan to tackle its current customer’s base and guard in the UK with solid innovative product offerings.[6][Santander (D) Transformation and Growth in the UK]

## 7. 5-Legal

Money Laundering. (threat) (high priority)

Money Laundering is an issue faced by all major financial services as the UK government must ensure that all customers are safe and to fight against financial crime. In addition, Santander must be at all times(present and future) aware of this threat which if found guilty of laundering money , its reputation will be demolished and the consumers will not trust the bank to put their saving in Santander’s bank. In addition, Santander is regulated by the United Kingdom’s Financial Services Authority (the “ FSA”) under the Financial Services and Markets Act 2000(“ the Act”) as Santander must comply with UK’s money laundering and countering terrorist financing regime to prevent this issue from happening.[1][Anti money laundering and counter terrorist financing]

After a PESTEL analysis conducted on the strategic marketing issues facing Santander, the student developed two strategic options that could be implemented in order to tackle some of the issues identified in the PEST analysis.

## 8-Strategic Options Developed

There are several business strategy alternatives that are commonly used and that have led to the success and survival of many organizations in long period of time from which some knowledge and perception are accessible. So, the student draws upon some strategic options that are considered for on-going investment, assurance and programmatic management overtime, as well as the culture and the values that the organization need to support the strategic options chosen. The strategic options are: being global and customer relationship management.

## 8. 1-Being Global

The global strategy is mostly established by organizations that find it essential to compete successfully with other firms over an international perception in which the interrelationships between country markets are drawn on to form collaborations, economies of scale, strategic flexibility and prospects to influence insights, programmes and production economies. For instance, a product or service established in one marketplace could be used in another, or a price advantage can be an effect from economies of scale created by the global market. In addition, operating in numerous countries can lead to better flexibility as well as significant sustainable competitive advantage. [2][David Aaker, Strategic Market Management]

For instance, HSBC is a global financial corporation, IKEA is a global retail company, and Luis Vuitton is a global fashion brand which means that being global provides purposeful benefits in a way that the customers can access the services of HSBC or buy Louis Vuitton goods everywhere. So, being global would ultimately provide reputation and reassurance that the firm has the business abilities to compete effectively internationally. [2][David Aaker, Strategic Market Management]

## 8. 2-Customer Relationship Management

The main idea of customer relationship is that cost-effectiveness could be appreciated if enduring and valuable relationships are formed among companies and their consumers, whereas loyalty as always been the front of industry rational, two trends have been the core of implementing this strategy. Fred Reicheld, Don Pepers and Martha Rogers (1980) stimulated the view that costs can be reduced and profits maximised if customers are marketed directly as well as the IT infrastructures such as database management, data mining and web based services could be tools that help with the interactivity with mass customization. [2][David Aaker, Strategic Market Management]

For instance, Manchester City football Club is world renowned for the support they receive from their fans. Man city faced problems with increasing salaries and transfer fees as they needed to maximise their revenue. So, that club tackle these issues by managing its customer relationships in a more sophisticated way to meet its financial challenges. The club implemented a smartcard system where fans could book tickets over the phone and on the internet as well as to purchase the club goods using the smartcard. This system justifies how the management of customer relationships is a strength influenced by technology and how useful it is to tackle most issues within organizations using customer relationship management. [2][David Aaker, Strategic Market Management]

In addition, a further analysis was conducted on Santander’s marketing strategy as well as strategic orientations proposed to be implemented in the long term and short term aspects.

## 8. 3-Marketing Strategy

According to Market Orientation Article , “ a firm which is characterized as market oriented could have: developed an appreciation that understands present and potential customer needs is fundamental to providing superior customer value; encouraged the systematic gathering and sharing of information regarding present and potential customers and competitors as well as other related constituencies; organization wide priority to respond to changing customer needs and competitor activities in order to exploit opportunities and circumvent threats” (Hunt and Morgan, 1995; Kohli and Jaworki, 1990; Narver and Slater, 1990).[7][Market orientation and dimensions of strategic orientation]

To justify the definition above, Santander is very much market oriented company, as most of their strategy is to develop products that cater to the needs of their clients. Initially Santander bought Abbey for a clear reason that they had a total of 18 million customers and a strong brand. For instance, Santander expertise in sales brought a convincing sales strategy to rebuild Abbey’s sales capabilities by implementing new sales channels which generated business and increased productivity by 40%. Moreover, to boost revenue growth Santander segmented the product range in order to be adaptable in the increasingly competitive climate. Within the deployment of its new product range, the company used the sales channels to advertise the products as items that clients