

Analysis of managing capability at nandos essay sample

[Business](#), [Marketing](#)



This report aims to describe and evaluate capabilities it will use the resource based view to examine them in more detail and examine the importance of them to a firm. After this, the report will then evaluate Nandos resources and capabilities and will discuss ways in which these can create a foundation for competitive advantage. It will then use an assortment of analytical frameworks relevant with Nandos to investigate in more detail the competitive advantage they have over their competition. Finally it will then discuss how Nandos managers are able to develop and manage their capabilities. INTRODUCTION

This report will be based around Nandos the restaurant chain. Nandos whose food, along with wacky advertising campaigns has captured the hearts of thousands of beloved customers. The origins of Nandos can be traced back to South Africa where the first restaurant opened in 1987, Robert Broz and his friend Fernando Duarte popped into a Johannesburg restaurant called Chicken land. The chicken was the best they'd ever tasted, they thought, and promptly bought the joint. They renamed it Nando's, after Fernando, a Portuguese national (Guardian. co. uk). Its the distinctive chicken they serve, happy staff and customer service which offers a unique Nandos dining experience which competitors could only hope to achieve. It has had rapid expansion overseas seeing triumph in many of the 30 countries they operate, although it has not been successful everywhere they laid their eggs. In order to comprehend the strategy as well capabilities the companies possess, it is essential to look at all the pieces of the Nandos puzzle, this report will do this by drawing on real life examples of how Nandos have utilised resources and capabilities, in addition will be using analytical

frameworks to support findings and present further understanding.

RESOURCE BASED VIEW

The resource-based view of strategy proposes that both resources and capabilities are essential to success in business; Grant states it is the principle foundations for strategy, along with correct understanding and implementation of them, are a firm's key source of profitability. (Grant 2009 pNUM) It is also important to distinguish between resources and the capabilities of a firm; resources are, The productive assets owned by the firm whereas capabilities are what the firm can do (Grant 2009). One of the foremost sources of profitability is the competitive advantage in a market. Establishing competitive advantage can be achieved through the development and deployment of resources and capabilities, and has become the primary goal for strategy.(Grant, R 2009 p. 124).

Furthermore, if the external environment changes frequently, then a more secure foundation is constructed using internal resources and capabilities (Grant, R 2009). This strong assortment of resources and capabilities can be used by a firm to exploit different markets in which they could complement, instead of allowing the market in which they operate along with customers to control how it functions and what it produces, further supporting the significance competitive advantage can have in a market, as well as the need to possess this. Tangible

In Fig 2, it identifies the financial resources ratio of the firm. Since beginning the company in 1987 it has seen continued financial success especially

through 1993 to 1997, their revenue had increased by over 700%. Carrying on into the 00s the firm has seen triumph in the UK with the opening of over 200 stores by 2008 (Guardian.co.uk). When looking at the balance sheets of Nandos it shows them in a strong financial position, although the 30 million pound acquisition of GBK could be seen as an unnecessary risk by some, it will allow Nandos to acquire more capabilities rather than having to develop them by themselves. Intangible

Management within Nandos shows how they are constantly innovating and this can be seen as a reason behind their success over recent years. Another valuable resource over the past twenty years has been their reputation, helped in no small part by their wacky advertising campaigns which have drawn the attention of many. Nandos the brand is seen as thought provoking and contemporary worldwide. They also boast a superior unrivaled customer service, with the speed and quality that competitors could only dream of. However having considered all this, I believe the most key resource is Nandos cultural background. We can see this culture emanating from their restaurants when you enter them, it almost seems like you step into a foreign land or as Nandos call it The Nandos Experience, and is based around their five values: Courage, Integrity, Pride, Passion and family. (Nandos.co.uk) Human

The launch of Nandos saw Brozin hire the best possible team to contribute effectively to the running of his restaurant. This base of business has been replicated in all of their stores to date to ensure the best possible food and service to the customer. What Brozin achieved was a family within each

Nandos restaurant consisting of employees with knowledge in all areas of running a restaurant as well as the passion and enthusiasm for great food. The way in which they communicated through the business was also informal and personal giving a closer knit feel to the business. This however does not come without problems, due to the organisation structure of Nandos it causes problems for promotion prospects due to the majority of employees being on the same level, which in turn could cause motivational problems in the workplace.

RESOURCES AND CAPABILITIES AS A SOURCE OF COMPETITIVE ADVANTAGE

The nature of competitive advantage is formed through a capability or resource which have two conditions; their relevancy and their scarcity. The benefits from these resources and capabilities depend not just on their ability to establish a competitive advantage, but also on how long that advantage can be sustained (Grant, R 2009 p 136). Also it is dependent on how resilient the company's capabilities are; as well as if a rival company can replicate specific capabilities. Also provided is a more in depth view of Nandos resources, Figure 1 shows Nandos tangible, intangible and human resources, as well as their current capabilities, this report will now analyse what a core and dynamic capability is, including certain relevant examples related to Nandos from Figure 1. After this, I will go on to discuss in depth the connection between these and how they may be able to present Nandos with effective advantage over their competition, following on from this, I will then use certain frameworks to analyse and determine whether these are sustainable or not.

CORE & DISTINCTIVE CAPABILITIES

Grant deems that capabilities can be defined as either core or distinctive, the differences between the two are; core are the main fundamental capabilities a company must possess to compete in the chosen market, whereas distinctive are ones which separate the company from the competition, giving them a competitive advantage.(Grant 2009 p) I will now look further into Nandos capabilities with reference to them in forms of core and distinctive. In order for Nandos or any company for that matter, to stay in a position that is both profitable and sustainable is a very hard thing to do. The understanding of their capabilities is imperative, as if they don't understand them then they could find themselves on a path to failure.

Development of capabilities can take a long time; this has become clear in the restaurant industry being one of the largest and most competitive industries. Large amounts of money and time are invested every year into new eating habits and trends within their markets to ensure they stay one step ahead. One way of acquiring capabilities through a reduced time frame is acquiring a company which already possesses a valuable set of capabilities, this however does carry risks to begin with it is a large financial risk when acquiring a firm as it is a very expensive process to complete, and also when incorporating acquired capabilities with a firm's already established could cause problems. Nandos have shown over the last 10 years that they are doing something right in the restaurant industry by opening up over 200 stores in the UK alone, and high operating profit (SEE FIG).

Also they have presented this success in the form of the acquisition of Gourmet Burger Kitchen, gaining new capabilities in a new section of the

restaurant market. As stated by Clap ham House (GBK), The past few years have been challenging and there are difficult times remaining ahead. Nandos has extensive experience in this sector and can therefore help the business overcome its difficulties and grow into a more successful organisation.

(Thisislondon. co. uk, 2010) The success of Nandos has been down to their thrive to develop a valuable base of core and distinctive competences in addition to their mergers with partners at the start of operations to minimise risks. Also how they have come out on top within an already highly populated market, providing the consumer with an all new eating experience. Relationship between Capabilities and Resources and their development. An organisation with consistently successful financial performance are often distinguished by their managerial values they possess, and define the way in which the firm performs (Grant 2009). Within this report it has described how strong staff relationships and organisational capacity of Nandos has proved a valuable resource and a key part to their success over the years in the industry.

Many of Nandos resources they possess are dependent on other resources in order to become a significant resource to the firm. When looking at Nandos last five years of trading they have seen a significant increase in revenue and profit (APPENDIX), meaning a financial resource for Nandos to utilise, having this resource has a huge impact on how Nandos operates and also significantly increases capabilities of Nandos, which has been shown how over the last few months as Nandos have successfully negotiated the acquisition of Gourmet Burger Kitchen. Along with this large financial capital

resource, Nandos are able to deploy other resources such as R&D customer trends and eating habits every 6 months allowing them to adapt their development of capabilities to keep up with the industry. With revenues over the last few years being (FIGURE AMOUNT) it enables them to spend vast amounts of money developing new ideas for menus and updating the Nandos Experience to keep customers interested, one powerful idea that has been used is the loyalty card scheme which has been a huge success in drawing in customers and to keep them coming back to eat time after time.

Gaining and maintaining a competitive advantage consists of creating and applying a strategy that utilises the inimitability of an organisations array of resources and capabilities (Grant 2009). This is a key area that is linked to the effectiveness of M&As and will become important for Nandos in the near future, as if they fail to put together an effective strategy through obtaining GBK, they may find themselves failing to gain direction in their market, which could in turn lead to incurring loss of revenue. Although GBK only opened in 2001 it has developed capabilities that other companies aspire to have, with their focus on the burger it complements Nandos who focus their business around chicken. They built up 45+ restaurants from 2001-2008, however they did not react to the recession over the last few years and adapt to the changing trends in the market, which lead to in 2008 to post a 39% loss of revenue.

Nandos jumped at the chance to buy out GBK for 30m in Sept 10, having spotted the potential in their similar business ethos. As Nandos have only seen rapid expansion over the last 5 years, they are only now realising their

potential and adjusting their market strategy accordingly to gain a larger market share and become more competitive. With the acquisition of GBK they have been able to utilise the Unique Selling Point and resources that they offer of a powerful brand, percentage of the restaurant market and over 50 restaurants worldwide. With acquiring such an innovative business it gives Nandos advantage over their market with such unique capabilities and resources already present in both companies. Synergy Evaluating Nandos Strategic Capability

Having identified the resources and capabilities of Nandos, I will now analyse these applying certain theoretical frameworks to ascertain whether or not they have contributed to a competitive advantage. I will be using SWOT analysis, Ratio Analysis among others to gain a better insight into Nandos and the market they operate in, which will help me analyse how strategically capable Nandos is, which can be defined as a set of capabilities, resources and skills that create a long-term competitive advantage for an organisation. (Business Directory). I will also be using up to date company reports which I have acquired from companies house to gain a more in-depth view of how Nandos is, and has been performing against their competitors. Porters Value Chain

Infrastructure Acquires funds, accounts and payroll are completed, administrative tasks are completed for each activity. Human resource Management (HRM) HRM area supervises all support participants in all activities, such as trucks and drivers for inbound logistics to supervision of restaurant workers. Technology Development This area of Nandos is

responsible for making the company more streamlined and effective through new developments in technology, such as development of and warehouse methods, or developing new promotional materials. Procurement Purchase of materials needed to complete primary activities, including trucks, warehouse space and advertising space or time. Nandos Primary Activities Inbound Logistics Operations Outbound Logistics Marketing & Sales Service Raw Materials received and stored.

Raw material distribution to manufacturing. Research and Development in the field to research needs of customers Quality products developed by transforming raw materials into finished products. *Implementation of R&D Resources. Distribution of foodstuffs and other products from manufacturing areas to restaurants via regional distribution centres. The marketing department develops the brand of Nandos. *Advertising, Marketing resources are used. Sales of food to the customer, also providing them with an experience that keeps them coming back. The Nandos experience. The value chain shown above identifies some key activities throughout Nandos. Earlier in this report it outlined many of Nandos capabilities and resources and are also mentioned in Appendix, it is clear to see the relationship that is present between resources and capabilities and how in fact these have an effect on how strategically capable Nandos is.

This relationship means that the different departments of Nandos are able to support one another in a well formed way which is hard to imitate, for instance inbound logistics can fail if deliveries are not met on time or materials are not of the right standard, while outbound logistics would not be

able to produce such high quality food designed around the consumers needs without the help of operations and the R&D department within the activity, also marketing and sales supports the service that offers the customer such a high quality of service, as Nandos are selling the food as well as the experience in the restaurant to the consumer. All these activities are interlinked closely with one another, so if one area fails to deliver then the whole chain can be broken, which can have drastic effects on the profit margin of Nandos.

One problem that can be seen with this piece of analysis is that it is based solely around the internal workings of a business, which consequently means no consideration of threats, opportunities or anything for that matter within the external environment around them; this can be seen as highly dangerous in a market such as Nandos, having this such problem could lead to strategic drift of the company which Handy states as a gradual change that occurs without being noticed until it is too late (Handy 1982). However due to the evidence stated throughout this report of Nandos completing acquisitions and constantly adapting to fit their market, it is clear this may not be a cause for concern. Nevertheless, as I feel only using the value chain would be insufficient to analyse Nandos thoroughly I have chosen to use a SWOT analysis, which used in conjunction with a value chain builds the best possible picture of how Nandos are performing strategically and takes into account the external environment to help identify threats and opportunities. Management of Resources and Capabilities how managers contribute to the success of capabilities and resources SWOT Analysis

Strengths Weaknesses

- * Strong financial position despite challenging downturn in market.
 - * Well developed brand.
 - * Increasing market share and consumer awareness.
 - * Customer service and employee satisfaction one of the highest in their market. No organic and vegetarian options. * Extensive employee turnover costs Nandos lots on training. * Testing for other recipes and other meat products failed materialize, leading to inability to compete with competitors who possess these.
- ### Opportunities Threats

- * Ability to acquire similar companies to GBK.
- * New ways of cooking allows different flavors to be tested, attracting different consumers.
- * Expansion into new countries to expand portfolio.
- * Diversification into delivery service. Increasing competition from rivals, pricing wars and product innovation.
- * Weak economy people aren't spending as much eating out.
- * Rising raw material costs threaten profit margins.