Albert LAINZ FORNELINO

SUCCESSFUL BUSINESS STRATEGIES DURING PERIODS OF CRISIS

Treball Fi de Carrera
dirigit per
Eva PEREA MUÑOZ

Universitat Abat Oliba CEU
FACULTAT DE CIÈNCIES SOCIALS
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“Self-trust is the first secret of success”

RALPH WALDO EMERSON

Abstract

Undergraduate Thesis Project consistent on the analysis of the different type of strategies that companies can implement focusing on Michael Porter's ideas and the development of these of ideas by different professionals. The Undergraduate Thesis Project is divided into two blocks, one theoretical and one practical. The first block is the analysis of the different types of strategies derived from Michael Porter's ideas. In this first block, we have explained how through Five Forces model, Porter reached the generic strategies. Then we have analyzed the three generic strategies together with hybrid strategy and with the Blue Ocean Strategy. The second block consists of several case studies of companies that have achieved success during the current period of crisis in various sectors of the economy. Those companies are Yoigo as an example of low cost, Starbucks as an implementation of a differentiation strategy and Ryan Air exemplifying a low cost focused strategy. Finally, we have analyzed Toyota due to its hybrid strategy and Graphenea as a Blue Ocean Strategy company.

All these companies have achieved success during the current period of crisis. The reason is that these firms chose a type of strategy according to their industry structure where they operate. Nevertheless, the implementation of these strategies doesn't ensure successful results. The appropriate implementation of these strategies involves a demonstration for companies that achieving success during an economic recession is possible, linked to a good strategic management.

Resumen

Trabajo Final de Carrera (TFC) consistente en el análisis de distintos tipos de estrategias que las empresas pueden aplicar centrándose en las ideas de Michael Porter y el desarrollo de estas ideas por parte de distintos profesionales. El TFC está dividido en dos bloques, uno teórico y uno práctico. El primer bloque consiste en el análisis de los distintos tipos de estrategias derivadas de las ideas de Michael Porter. En este primer bloque, hemos analizado como a través del modelo de las Cinco Fuerzas, Porter llegó a las estrategias genéricas. Después hemos analizado las tres estrategias genéricas conjuntamente con la estrategia híbrida y con la Estrategia del Océano Azul. El segundo bloque está formado por diversos casos prácticos de empresas que han logrado el éxito durante el actual período de crisis en los distintos sectores de la economía. Estas empresas son Yoigo como ejemplo de bajo coste, Starbucks como implementación de una estrategia de diferenciación y Ryan Air ejemplificando una estrategia de segmentación con enfoque bajos costes. Finalmente, hemos analizado a Toyota debido a su estrategia híbrida y Graphenea como una compañía que implementa Estrategia del Océano Azul.

Todas estas compañías han logrado el éxito durante el actual período de crisis. El motivo es que estas empresas escogieron un tipo de estrategia acorde a la estructura de la industria en la que operan. Sin embargo, la implementación de estas estrategias no asegura resultados de éxito. La adecuada aplicación de estas estrategias supone para las empresas una demostración de que conseguir el éxito *durante períodos de recesión económica es posible, vinculado a una buena gestión estratégica.*

Resum

Treball Final de Carrera (TFC) consistent en l'anàlisi de diferents tipus d'estratègies que les empreses poden aplicar centrant-se en les idees de Michael Porter i el desenvolupament d'aquestes idees per part de diferents professionals. El TFC està dividit en dos blocs, un de teòric i un de pràctic. El primer bloc consisteix en l'anàlisi dels diferents tipus d'estratègies derivades de les idees de Michael Porter. En aquest primer bloc, hem analitzat com a través del model de les cinc forces, Porter va arribar a les estratègies genèriques. Després hem analitzat les tres estratègies genèriques conjuntament amb l'estratègia híbrida i amb l'Estratègia de l'Oceà Blau. El segon bloc està format per diversos casos pràctics d'empreses que han aconseguit l'èxit durant l'actual període de crisi en els diferents sectors de l'economia. Aquestes empreses són Yoigo com a exemple de baix cost , Starbucks com implementació d'una estratègia de diferenciació i Ryan Air exemplificant una estratègia de segmentació enfocada als baixos costos. Finalment, hem analitzat a Toyota degut a la seva estratègia híbrida i Graphenea com una companyia que implementa Estratègia de l'Oceà Blau.

Totes aquestes companyies han aconseguit l'èxit durant l'actual període de crisi. El motiu és que aquestes empreses van escollir un tipus d'estratègia d'acord amb l'estructura de la indústria en la qual operen. No obstant això, la implementació d'aquestes estratègies no assegura resultats d'èxit. L'adequada aplicació d'aquestes estratègies suposa per a les empreses una demostració de que aconseguir l'èxit durant períodes de recessió econòmica és possible, vinculat a una bona gestió estratègica.

Keywords / *Palabras claves*

Strategic Management – Competitive advantage – Differentiation – Innovation – Added value – Low cost – Blue ocean – Hybrid strategy

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Introduction

The economic situation has been affected by the economical recession that, since 2008, is affecting most developed countries. In this context of crisis, most profitable businesses have suffered losses or have been reducing their profits due to the lack of customers' confidence and the decrease of consumption. Also, the foundation of new businesses has been, at least, risky. The increasing prices of raw materials together with the decreasing sales of the companies forced those companies to change their strategies or choose one that could change this situation in order to outlast as much as possible without generating losses. Many companies during those years of recession have reduced their costs in a prominent way due to the demand reduction. Other companies have invested in advertising to recover customers' confidence or to enforce their brand image in order to retain loyal customers with the aim of maintain a profitable margin that could help the company to survive as much as possible this situation. But during those years, not all the companies have been generating losses. Many of them, from different industries, have achieved success during those years by the implementation of an appropriate strategy to their business models or by the continuation of an implemented strategy since before crisis.

The motivation of the development of the following academic work attains to my personal motivations of creating a business in the not too distant future. My personal aim of the academic work is to take strategic references that confirm that the economic recession should not represent an obstacle for entrepreneurs. The following academic work intends to answer the question: during this economic crisis, is achieving success possible? To answer this question, we will analyze both young businesses and businesses that have been operating for years in different sectors of the economy. Through the analysis of the different strategies that companies have been implementing during those years of crisis and the possible changes that they undertook to achieve success despite the economic situation we will try to answer the previous question. The analysis of those successful business strategies is based on the different strategies that the well known professor Michael E. Porter have been developing for years, and the different strategies that emerged as an extension of his ideas in order to achieve success. The academic work is divided in two parts. A theoretical part were we will analyze the different competitive strategies that Michael E. Porter had developed as pioneer on competitive strategies and strategic management and the different strategies that many authors under the influence of Porter have developed as a result of years of investigation and analysis, proving that strategic management is not an exact science. The second part consists on the analysis of different business cases that have implemented different strategies in many industries of the economy and have achieved success in an unfavourable economic situation. The analyzed cases are businesses from many industries, several countries and with a different vision in order to analyze if success is possible in countries affected by the economic crisis.

I. A THEORETICAL APPROACH ABOUT STRATEGIC MANAGEMENT

1. The concept of strategy

A corporate strategy is one of several sets of decision-making rules for guidance of organizational behaviour.[1] It means that a strategy frame rules to follow, in order to achieve simple, consistent and long term goals. But first of all, we must have the concept of strategy as clear as possible. And to start from the beginning, the concept strategy comes from the Greek word *strategos*[2] and it's a term related to the military. It means "the art or science of the planning and conduct of a war", but in it's strictly meaning the correct definition of the word is "to lead the army"[3].

Ignoring the roots of the word, there are too many definitions about this concept. Both examples we've chosen are business definitions, but with the nuance that one it's taken from a dictionary and the other from a strategy book. The first one is "a method or plan chosen to bring about a desired future, such as achievement of a goal or solution to a problem"[4] and the second one "a consistency of direction based on a clear understanding of the game being played and a keen awareness of how to manoeuvre into a position of advantage"[5]. As we've said there are also many more definitions of the term that is non-viable to mention due to their number and extension. So, in our own words, a strategy is the steps to follow to reach an objective or a goal. But when is focused to a business, strategy is the steps to follow to take a position of advantage over your competitors. And this definition is the objective of all the companies, take advantage against competitors.

1.1. What's a company's strategy?

To identify a company's strategy we have to take a look in three places where it's located: in the heads of the chief executive and senior managers, in their articulations

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[1] ANSOFF, I.; MCDONELL, E., The new corporate strategy, New York: John Wiley and Sons, 1988, p.78.

[2] <http://www.strategyskills.com/Articles_Samples/origin_strategy.pdf>

[3] <http://www.thefreedictionary.com/strategy>

[4] <http://www.businessdictionary.com/definition/strategy.html>

[5] GRANT, ROBERT M., *Contemporary strategy analysis*. London: John Wiley and Sons, 2010p.9

of strategy in speeches and written documents, and in the decisions through which strategy is enacted. Only the last two are observable.[6] In order to share the strategy with their employees, customers, shareholders and partners, some companies share its statements of strategy.

Collis and Rukstad indentify a hierarchy of company statements:

- The mission is the basic purpose of the company: “Why we exist”.
- The values states: “What we believe in and how we will behave”.
- The vision statement: “What we want to be”.
- The strategy statement: “What our competitive game plan will be”. In this statement they differentiate three components of strategy: objectives, scope and advantage.[7]

Therefore, public statements of company’s strategy should be compared with the decisions and actions they really carry out in order to alter competitors’ decisions.

1.2. The roles of strategy

Once arrived to this point it’s very possible that we associate strategy as a topic to support individual or organization’s decisions. But the transition from corporate planning to strategic management gives a result of multiple roles that strategy can occupy in an organization apart from strategy as a decision support. Another role is strategy as a coordinating device in order to coordinate the actions of the different members of an organization. Once the implementation is done through goals, commitments and targets it provides a device to ensure that all the organization is moving in the same direction. Finally, strategy as a target is a way that concern not only how the company is competing and getting success but also how will compete and evolve in the future.[8] All the multiple roles of a company are very important to take it in care in a way of improvement and to get success because it helps the company with staff structure and management structure to develop the necessary changes for the future.

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[6] GRANT, ROBERT M., *Contemporary strategy analysis*. London: John Wiley and Sons, 2010, p.23.

[7] COLLIS, DAVID J.; RUKSTAD, MICHAEL G., “Can You Say What your Strategy Is?”. *Harvard Business Review* [online], April 2008. Retrieved from: <http://www.pathmos1762.nl/wp-content/uploads/2010/10/CanYouSayWhatYourStrategyIs.pdf> [Date of reference: June 13, 2013]

[8] GRANT, ROBERT M., Op. Cit., p.25-27.

1.3. Goals and success

Nevertheless, to reach success it's not as simple as thinking where you want to be in the future and what you have to do to be there. Because the real success not depends solely on a good strategy, it depends on an affordable goal. For this reason there are necessary some common factors when considering the objectives or goals in order to balance effort and outcome. If you take in account the following factors, you'll be looking for that balance, equalling effort in accordance with your resources. Robert M. Grant[9] explains these factors that lead to affordable goals that form the key of our business strategy analysis.

- *Goals that are simple, consistent and long term*. Impossible or very difficult goals are doomed to failure as well as no perseverance and the desire of immediately results.
- *Profound understanding of the competitive environment*. The requirement of a deep appreciation of the business environment to develop the best possible strategy.
- *Objective appraisal of resources*. It's essential to be effective in exploiting internal strengths while protecting weakness.
- *Effective implementation*. None of the previous factors are useless if an effective implementation is done, because this factor is straw that breaks the camel to reach a successful strategy.

Obviously, after the explanation of those factors the implementation of a strategy seems much difficult than initially. But once you've chosen the goals and the implementation is effectively done you can take different paths of strategies to reach that goal.

1.4. Business environmental

As we have said, companies must have a profound knowledge of the competitive environment. The business environment of the firm consists of all the external influences that affect its decisions and performance.[10] This environment is the key when choosing a strategy and all possible influenced factors. In order to establish a

[9] GRANT, ROBERT M., *Contemporary strategy analysis*. London: John Wiley and Sons, 2010, p. 9-11

[10] GRANT, ROBERT M., Op. Cit., p.64

basis for future strategic management companies use different tools to review the position of an organization related to their external environment, these tools are PESTLE and SWOT. The PESTLE analysis should be used to provide a context for organization's role in relation to the external environment[11]. This analysis covers political, economic, social, technologic, legal and environmental factors and how these factors influence to the company in the present or which of them will get more importance in the future. This analysis is directly focused to the external environment that affects to the position of our business and the reasons of the evolution of the market in order to find new directions for the business in the future.

By the other hand, SWOT analysis should be a useful tool for planning and marketing strategy[12]. Versus PESTLE, the SWOT analysis is both oriented internal and external by indentifying internal strengths and weaknesses together with external opportunities and threats. This analysis is more narrowed and focused to the company. Despite both are different, it's very useful to perform the PESTLE analysis and then use SWOT, because a performed PESTLE will identify the components of the other analysis. With both tools companies can elaborate future strategic decisions to keep performing and achieving success.

2. Porter's Five Forces model

Due to competition is the core of success or doom, company's strategies has to establish a profitable and sustainable position against the forces of industry's competition. To take advantage against competitors, companies have to be able to create value and sustain it over time to hold its position of advantage. "When two or more firms compete within the same market, one firm possesses a competitive advantage over its rivals when it earns a persistently higher rate of profit"[13], that's what we call position of advantage, or as the definition says competitive advantage. Michael Porter thought that companies can offer value to their costumer by offering a lower price than the competitors for the same characteristics, or offering unique characteristics of a product but a higher price. In relation to this, "there are only two

[11] <http://www.jiscinfonet.ac.uk/tools/pestle-swot/>

[12] Op. Cit.

[13] GRANT, ROBERT M., *Contemporary strategy analysis*. London: John Wiley and Sons, 2010, p.211

basic types of competitive advantage: cost leadership and differentiation”.[14] The conclusion that Porter reached was that there are three generic strategies to reach success, both competitive advantage and focus. But when choosing one of the competitive advantages, companies have to analyze industry attractiveness and the relative position of the company. This was the first step taken by him and from this step he developed a model to analyze the industry.

The essence of developing a competitive strategy is relating a company to its environment, and the key factor that influences companies is the industry in which an organization competes. In 1979, Porter developed a model where he explained that the competition of a sector is determined by five competitive forces that fix the potential profit of the companies. Even though, there are different types of industries and the potential profits are very varied from industries like steel where any firm earns high returns, to industries with very high rate of returns as services and oil-fields. In this model, Michael Porter indentifies the key structural features that determine strengths or weaknesses in order to achieve the goal of competitive strategy, that is to find a position where can defend itself against the competitive forces, or use it in its favour to get an advantage.

So, before analysing the structural determinants of the intensity of the competition, we will define the industry as “the group of firms producing products that are close substitutes for each other”[15]. So, as we can see in the Figure 1, in any industry Porter divides the forces that drive the industry competition in five. Those forces are threat of entry, rivalry amongst existing firms, substitute products, bargaining power of buyers and bargaining power of suppliers.

[14] PORTER, MICHAEL E., *Competitive advantage: creating and sustaining superior performance*, New York: The Free Press, 1985, p.3

[15] PORTER, MICHAEL E., *Competitive strategy: techniques for analyzing industries and competitors*, New York: The Free Press, 1980, p.5

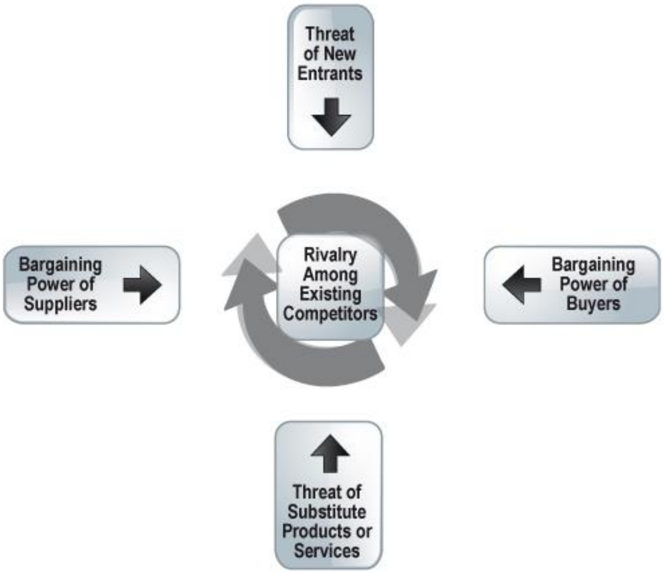

Figure 1. The Five Forces that shape industry competition
Source: PORTER, MICHAEL E., *Competitive advantage: creating and sustaining superior performance*, New York: The Free Press, 1985

2.1. Threat of entries

Entering in an industry is not easy. There are a lot of factors such as barriers to entry. In this force, there are seven factors:

- *Economies of scale*. Companies when starting have high unit costs and it's important to use economies of scale in order to decrease cost per unit. For example, this factor occurs when there are economies to vertical integration.
- *Product differentiation*. This means that firms have brand identification and also loyalty from their consumers. This creates a barrier to entry that forces high investment to retain customers.
- *Capital requirements*. When companies invest large financial resources for risky or unrecoverable up-front advertising or research and development they are creating a barrier to entry. The non-tenue of this capital creates a huge risk for companies and advantages for firms that are competing in the sector.
- *Switching costs*. The presence of these costs makes buyers switch from one supplier's product to another. Here companies have to improve or perform.
- *Access to distribution channels*. Distributors that operate with the established firms can resist, so new firms have to persuade channels to accept its product.

- *Cost disadvantages independent of scale*. In this factor there are critical disadvantage such as proprietary industry technology, favourable access to raw materials or government subsidiaries.
- *Government policy*. The last major entry barrier is government policy. The limitation that government for licensing or acquisition of raw materials in regulated industries are an inconvenient and it's important to take in account.

Apart from these factors, there are others that can condition the entrance to an industry or another such as retaliation that are the aggressive reactions that firms can take against new companies, or the experience as entry barrier.

2.2. Intensity of rivalry among existing competitors

Rivalry among competitors is the use of tactics like price competition, advertising battles, product introduction and warranties. But an implementation of one tactic can be irreversible for the companies and they can be expensive in terms of revenues or costs. In some industries there is a firm that owns a big market share or a firm that owns in it totally such as monopoly. For this reason it's important the numerous and the equally balanced competitors in order to analyze the number and size of each one and the difference between one firm and another to analyze the diversity and if they coexist in peace or they are continually struggling.

About product, the differentiation between them and the capacity of the companies to affront the excess capacity in recession when the demand is low and the valuation of the fixed costs related to storage. It's important the type of industry and it's mature. Also the growth of the market for the increase or decrease of market share in order to not entry in a market where obtaining market share it's expensive balanced to efforts and investments. Finally, the exit barriers are very important in order that some companies may be earning low or negative returns and the sources that can impede companies to leave the industry are specialized assets, fixed costs of exit, strategic interrelationships between business unit and other in the company, emotional barriers or by government and social restrictions.

2.3. Pressure from substitute products

In this force, it's important to emphasize with the customer more than ever. How much a product costs? It's differentiated from another substitute product? Which is the buyer propensity to substitute? How much a customer will pay? All these questions are related to the availability of substitute products.

When an industry gives high returns, it becomes a magnet for new firms. If entry barriers are low, companies are doomed to battle every piece of market share. The identification of substitute products is a matter of searching products that can assume the same function as the product of the industry, when this product is not differentiate it's easy to find a substitute. So the presence of substitute products affects the market in the way that the presence of this type of products reduces the value of them.

2.4. Bargaining power of buyers

In the industry, companies don't compete only with other companies; they also do it with buyers. The why of this affirmation is that buyers force down prices, they bargain for more quality and playing competitors against them. But the power of buyers depends on the characteristics of the situation of the market and on the importance of its purchase from the industry. But to know if a buyer group has power or not, Porter[16] explains that depends on the truthfulness of the following circumstances. If most of them are true, buyers have bargain power to influence companies.

- It is concentrated or purchases large volumes relative to seller sales
- The product it purchases from the industry represents a significant fraction of buyer's costs or purchases
- The product purchases from the industry are standard or undifferentiated
- It faces few switching costs
- It earns low profiles
- Buyers pose a credible threat of backward integration
- The industry's product is unimportant to the quality of buyers' product or services
- The buyer has full information

2.5. Bargaining power of suppliers

[16] PORTER, MICHAEL E., *Competitive strategy: techniques for analyzing industries and competitors*, New York: The Free Press, 1980, p.24-26

The power of suppliers is the opposite to power of buyers. Powerful suppliers can increase their prices because they have freedom to do it in order that have power to do it either buyers don't. As in the bargaining power of buyers, Porter[17] though that a supplier is powerful if the following apply are true.

- It is dominated by a few companies and is more concentrated than the industry it sells to
- It is not obliged to contend with other substitute products for sale to the industry
- The industry is not an important customer of the supplier group
- The suppliers' product is an important input to the buyer's business
- The supplier group's products are differentiated or it has built up switching costs
- The supplier group poses a credible threat of forward integration

These conditions are determined by suppliers power is not subject to change but as the power of buyer's, they can improve the situation through strategy. Apart from that, government can also force competition in an industry. Government has multiple ways to do it through regulations, subsidies, or other. To anticipate to this, companies have to do an analysis of the present and future government policy, at all levels because of the impact that a governmental decision can have. For this reasons strategy must to involve government as an actor in the market.

2.6. Is there any missing force?

Once finished the Five Forces model, different authors thought that this model could be extended due to the possibility of adding more forces. Economic theories identify two types of relationship between products, one is substitutes that are already considered in the model and the other is complements. Michael Porter[18] extended this model adding complements as a force of the industry. As we have explained, substitutes reduce the value of a product. On the other hand, the presence of complement products has the opposite effect, increase the value of the products in the industries. The way they affect to the market is that they create value and can

[17] PORTER, MICHAEL E., *Competitive strategy: techniques for analyzing industries and competitors*, New York: The Free Press, 1980, p.27-28

[18] GRANT, ROBERT M., *Contemporary strategy analysis*. London: John Wiley and Sons, 2010, p.96-98

exercise bargaining power. So, when there are two complement products, the major profit will fall upon to the supplier that owns more market share and has a stronger position. The key of this is to achieve a monopoly through differentiation and the excess capacity of the production.

3. Generic strategies

Five Forces model is not useful by itself; it needs a support in a shaped bracket competitive advantage. As we have seen, there are two types of competitive advantage: cost advantage and differentiation. When we join these competitive advantages with the scope of activities, we obtain three generic strategies: cost advantage, differentiation and focus. Each of the generic strategies involves fundamentally a different route to competitive advantage[19]. An effectively implementation of these strategies requires that all the company moves in the same way to achieve performance in the industry. Therefore, Porter's generic strategies establish three potentially successful paths for organization that wants to achieve competitive advantage and sustain it at long term. Each option needs to be analyzed within the context of two aspects. Firstly, the sources of competitive advantage in order to establish if the products are differentiated or if the products are the lowest cost produced in the industry. By the other hand, the second aspect is the competitive scope of the market to determine the target of the company, if it will have a wide market or will focus on a narrow market[20].

The main characteristics of a competitive advantage reside on its difficulty to match, its uniqueness, its sustenance at time and its superiority over competitors. The emergence of a competitive advantage depends on the changes of external and internal sources. To create an advantage against competitors, due to the external changes such as changing customer demand, changing prices or due to technological changes, the change must have differential effects on companies because of their different resources and capabilities or strategic positioning. In long term, competition eliminates differences of profitability between competing firms[21]. But the emergence of competitive advantage also depends on the ability of the

[19] PORTER, MICHAEL E., *Competitive advantage: creating and sustaining superior performance*, New York: The Free Press, 1985, p.11

[20] <http://oxlearn.com/arg_Marketing-Resources-Porter's-Generic-Strategies_11_33>

[21] GRANT, ROBERT M., *Contemporary strategy analysis*. London: John Wiley and Sons, 2010, p.211.

companies to respond changes. These internal sources of change depend on creativeness and innovative capabilities. An external change is an opportunity for profit and the firm able to response to change fastest will exploit new business opportunities. As the market become more turbulent and unpredictable responsiveness to change become important as a source of competitive advantage[22]. In order to anticipate to the changes the first requirement is information and the second flexibility.

3.1. Cost advantage

Cost leadership strategy consists on being the lower cost producer in the industry through mass production and, also, mass distribution. This strategy, often established as a goal, tends to concentrate on manufacturing costs and overlook other activities such as marketing or service such as Ryan Air that overlooks other activities to cut costs drastically. But low cost doesn't mean that a product by its condition of cheap isn't differentiated. Some leader companies in their industries balance low cost and quality such as IKEA that in fact they're selling an experience beyond a price.

To determine a firm's unit cost there are seven determinants in relation to its competitors, these cost are called cost drivers. Many firms use the cost curve to analyze and determine the unit cost its products have[23]. The importance of each cost drivers varies depending on the industries and the activities a firm implement. So, examining these cost drivers in relation to particular firm, companies can analyze their cost position in relation to its competitors, diagnose their inefficiencies and make recommendations in order to improve its efficiency in terms of costs. The drivers of cost advantage are the following[24].

Economies of scale

An economy of scale exists when the increasing of inputs employed in a production process is consequence of lower unit costs. The three principal sources of an economy of scale:

[22] GRANT, ROBERT M., *Contemporary strategy analysis*. London: John Wiley and Sons, 2010, p.212

[23] PORTER, MICHAEL E., *Competitive advantage: creating and sustaining superior performance*, New York: The Free Press, 1985, p.64

[24] GRANT, ROBERT M., Op. Cit., p.231-239

- *Technical input-output relationships*. The increasing in output must increase proportionally in input.
- *Indivisibilities*. Many activities are not available in small sizes of production. Economies of scale able the firms to spread costs among large volumes of production.
- *Specialization*. Large volumes involve separation of tasks by specialized workers and equipments.

But the existence of economies of scale also determines a high level of concentration by the largest firms of the industry. For this reason economies of scale cause that world markets become dominated by giant companies through marketing.[25]

Economies of learning

The experience curve is based on learning-by-doing. Nowadays, knowledge is an important resource and repetition of a process develops both individual skills and organizational routines. A complex product or process means a greater potential for learning, and this learning occurs through improvements and problem solving.

Production techniques

A process is technically superior to another when, for each unit of output, it uses less of one input without using more of any input[26]. A new production method may reduce costs, but when new equipment is required the full benefits of the new process requires changes in job design, incentives or organizational structures. Then, an increasing of productivity is the result of organizational improvements rather than in innovation.

[25] GRANT, ROBERT M., *Contemporary strategy analysis*. London: John Wiley and Sons, 2010, p.232-234

[26] GRANT, ROBERT M., Op. Cit., p.234

Michael Hammer and James Champy[27] with the aim of achieving efficiency gains, redesigned operational processes through *business process reengineering*. They defined it as "the fundamental rethink and radical redesign of business processes to generate dramatic improvements in critical performance measures -- such as cost, quality, service and speed"[28].

In order to achieve efficiency benefits, re-engineering aim is to automate processes that already exist to gain in efficiency. The main inconvenient is the complexity of some processes makes them difficult to re-engineer.

Product design

A new product design linked with a new production technique can offer great cost savings especially when it's a design-for-manufacture. That means designing for ease of production and not only for functionality and aesthetics. Some automotive firms share a single platform to produce different cars such as Audi TT or Volkswagen Beetle with the objective of saving costs.

Input costs

In an industry, not all firms pay same prices for their inputs, there are many sources of lower costs that can benefit firms by establishing their production in a place or in another.

- *Location differences in input prices*. In order to reduce costs, there are important differences in input prices between locations, but these differences are higher between some countries.
- *Ownership of low-cost sources of supply*. Access to low-cost raw materials can offer cost advantages.
- *Non-union labour*. Labour unions increases cost due to pay and benefits for employees. Non-union labour had lower average salaries for their employees.
- *Bargaining power*. If companies have to buy products, buying power can be an important source of advantage referring to costs. A

[27] HAMER, MICHAEL; CHAMPY, JAMES, *Reengineering the corporation: A Manifesto for Business Revolution*. New York: HarperCollins Publishers, 2003

[28] HAMER, MICHAEL; CHAMPY, JAMES, Op. Cit., p.35.

company with greater bargaining power would be able to obtain additional discounts.

Capacity utilization

Another cost driver is capacity utilization. Variations in output cause the fall or rise of the capacity. Underutilization causes that unit costs raise due to the spread of fixed costs is higher. By the other hand, overcome full-capacity is not efficient at all because extra costs of production may appear. An effective capacity is the result of the distinction of cyclical overcapacity and structural capacity.

Residual efficiency

After taking all the previous cost drivers, differences between unit costs in the industry remain. These remaining differences are residual efficiencies that depend on the ability of the firms to eliminate excess costs. In some companies such as Wal-Mart or Ryan Air, cost efficiency is part of corporate culture.

Before seeing cost drivers we can say that cost advantage strategy is not easy. In order to maximize shareholder wealth, increase financial performance, eliminate the inefficiencies, increase decision making speed, and divest poor performance assets, sometimes companies' needs to apply radical cost-surgery. This is translated in plant closures, outsourcing of components and services, reduction of employees and reducing administrative overhead.

3.2. Differentiation

Differentiation strategy consists on the production of a unique product or service in the industry that it's widely valued by consumers. In fact, differentiation is basically determined by its physical characteristics so complex products have a greater scope of differentiation. When analyzing differentiation opportunities, we can distinguish *tangible* and *intangible* dimensions[29]. By one hand, tangible opportunities are those referred to the physical characteristics of a product that are relevant for customers

[29] GRANT, ROBERT M., *Contemporary strategy analysis*, London: John Wiley and Sons, 2010, p.248

such as Dell computers and its flexibility to configure their own computers. By the other hand, opportunities of intangible differentiation remain in customers' choice that it's determined by its personal criteria. In automotive a good example is Volvo that offers more security than other cars in the market, or Ferrari that offers exclusivity.

Nevertheless, differentiation doesn't mean segmentation, the fact that differentiation products are destined to a market segment it's not a firm choice. Segments are defined by the market structure and firms tend to take advantage of these opportunities. For this reason, company's decision tends to be linked with the segment criteria and choices where they compete. In order of analyzing differentiation it's important to divide differentiation by demand side and supply side.

The demand side

Demand side analysis firstly requires understand why customers buy a product or service because the key of successful differentiation remains on the understanding of customers. To understand customers' needs there are a lot of attributes that have to be analyzed and for this reason market research has developed different techniques in order to understand customers' preferences in relation to these attributes[30]. First of all, we have *Multidimensional Scaling*, also called MDS, a graphic depicting similarities and dissimilarities of competing products through customers' perceptions. Graphically it can be interpreted in terms of key products attributes. Another technique is *Conjoint Analysis*, which through the analysis of customers' preferences can measure the strength of the attributes in people. Continuing with different techniques, *Hedonic Price Analysis* uses the prices of products to compare and make differences between attribute products of different prices. An example is that washing machines price differences vary depending on capacity, spin speed or other characteristics. Finally, Chan Kim and Renée Mauborgne[31] create the *Value Curve Analysis*, a graphic depiction of the way a company or industry configures its offering to customers. By the identification of different combinations of product characteristics they came to the conclusion that new market space can be created through this tool.

Even so, product attribute is not the only factor that can influence demand side. Nowadays, the role of social and psychological factors is taking more and more

[30] GRANT, ROBERT M., *Contemporary strategy analysis*, London: John Wiley and Sons, 2010, p.251

[31] CLARK, KIM B.; MAUBORGNE, RENÉE, "*Creating a New Market Space*", Harvard Business Review, January–February 1999, p. 4

importance. The reason is that most of the acquisitions are not to satisfy basic needs but most buying is motivated by social and psychological needs. When customers needs are satisfaction of their identity or social affiliation, companies needs differentiated products to reach this customers' needs. Because of this, when companies tries to understand customers needing and found differentiation opportunities they have to analyze product characteristics', but also customers lifestyles and the relationship between product and lifestyles.

The supply side

After analyzing customers' demands for differentiation, we are going to analyze firm's potential supply differentiation by examining the activities they perform and the resources needed. First of all, differentiation is related to uniqueness. But for companies' uniqueness is not located to a particular activity or a particular function, it's located in everything it does. Michaels Porter identifies a number of drivers of uniqueness that are decision of the firm such as product features and product performance, complementary services, intensity of marketing activities, location, the degree of vertical integration, the employees skills and experience, or the quality of purchased inputs. Reached this point, companies can get differentiated through differentiation of the product or differentiation of the auxiliary services with the purpose of providing uniqueness to their customers.[32]

Another characteristic of the supply side is product integrity. This term refers to consistency of a firm's differentiation. Kim B. Clark and Takahiro Fujimoto defined as:

> The extent to which the totality of a product achieves balance and attracts and satisfies customers… Product integrity has both internal and external dimensions. Internal integrity refers to consistency between the function and structure of the product –e.g., the parts fit well, components match and work well together, layout achieves maximum space efficiency. External integrity is a measure of how well a product's function, structure, and semantics fit the customer's objectives, values, production system, lifestyle, use pattern, and self-identify.[33]

[32] GRANT, ROBERT M., *Contemporary strategy analysis*, London: John Wiley and Sons, 2010, p.254

[33] CLARK, KIM B.; FUJIMOTO, TAKAHIRO, *Product Development Performance*, Boston: Harvard Business School, 1991, p.30

Internal and external product integrity is important to be combined to supply products that are based on customers' social and psychological needs, in another way, supplying lifestyle. In those cases of lifestyle supply, the firms' image and its credibility is the most important. Moreover, economics have distinguished between search goods and experience goods, the quality of experience goods only can be recognized after consumption. So, when a product's quality cannot be detected, differentiation becomes ineffective. To solve this problem, companies must have signals of quality to avoid customers buying a product by its price. Those quality signals can be brand names, warranties, expensive packaging, money-back guarantees, sponsorship of sport or cultural events and a carefully designed retail environment in which the product is sold[34]. So, with the aim of selling products whose quality can only be recognized after its acquisition, firms must implement strategies to build a reputation. Most important signal of quality for a company is brand names. The main reason is that brands provide a guarantee of the quality of the product to the customers. In e-commerce the role of a brand acts as guarantee of quality and reliability.

Finally, differentiation it's expensive than cost advantage. As differentiation requires quality and reputation, it has direct costs such as quality inputs, experienced and trained employees, higher investment in advertisement and better after-sales service.

3.3. Focus

Focus strategy is the last of the three generic strategies. The last strategy is quite different from low cost or differentiation because it consists on choosing a narrow market. This strategy, as it name suggests, consists on focusing on a particular segment of customers, on a segment of product line or on a geographical market. The basis of this strategy is serving to a narrow market in a more effectively way than competitors that are serving a product more broadly.

The focus strategy has two variants. By one hand, the first variant is cost focus, which consists on exploiting differences in cost behaviours in some segments. By the other hand, the second variant is differentiation focus, which consists on exploiting the special needs of buyers in a determined segment of customers. This determined target segments that we are talking about must have unusual needs or the

[34] GRANT, ROBERT M., *Contemporary strategy analysis*, London: John Wiley and Sons, 2010, p.257

production of this goods must differ from the production of other industry segment. The most important is that both variants of focus strategy imply a segment that is poorly served by competitors that actually are serving a broad target and not a narrow market. The focus strategy target segment must be different from other segment because if it doesn't, the strategy will not succeed. There is too much confusion when talking about differentiation and differentiation focus. The difference is that differentiation bases its strategy on widely value attributes, while the differentiation focuser looks for segments with special needs[35] such as Bugatti or Lamborghini in the automobile industry and other companies that are serving luxury goods. Even though, the focus strategy doesn't achieve low cost or differentiation from the perspective of the market whole[36], it does achieve one or both of these variants from the perspective of a narrow market target. The main objective when companies apply focus strategies is that they are searching targets that are less vulnerable to substitute products or segments where competitors are not strong enough. If a company can achieve focus strategies of cost leadership or differentiation in its segment and the segment is attractive, the company will achieve a position that will be best than usual.

As we have seen in the previous paragraphs, one of the most important conditions of a focus strategy is to look for a segment that is poorly served by a company that is serving the industry, but this is not the only conditions to carry out a focus strategy. Another condition of the strategy is that the segment that companies are going to serve must be attractive, because in an industry there are segments less profitable than others. But the attractive doesn't mean exclusively profitable, the attractiveness of an industry resides on its size and its growth and the capabilities of a firm to satisfy the segment needs. Finally, the focus strategy always implies some limitations on the achievable market share of the whole market because there must be a balance between profitability and volume sales, for these reason the size and the growth of the segment it's important.

3.4. Stuck in the middle or hybrid strategy

To deal with the competitive forces, we have seen three generic strategies. But, what happens if a firm fails developing its strategy in at least one of the three generic

[35] PORTER, MICHAEL E., *Competitive advantage: creating and sustaining superior performance*, New York: The Free Press, 1985, p.15

[36] PORTER, MICHAEL E., Op. Cit., p.38

strategies? Porter's answer is that the company will be in an extremely poor situation because when a company fails in at least one of the strategies is a firm that is "stuck in the middle". For Porter, a "stuck in the middle" company does not possess any competitive advantage. Porter thought that if a company in these conditions earns attractive profits it's because of the structure of the industry is favourable or just because depending on "the lucky to discover profitable product or buyer"[37]. But, there is too much discussion about the compatibility of low cost and differentiation due to the different approaches that some authors have. Many authors differ from Porter "stuck in the middle" concept and they postulate the concept of hybrid strategy or combined strategy escaping from the possibility of choosing only between differentiation and cost leadership. The hybrid strategy is the one which combines low cost and differentiation elements. A hybrid strategy involves simultaneously high levels of emphasis of low cost and differentiation strategies that should be distinguished from the "stuck in the middle" concept, which actually means fail in the pursuing of both strategies.[38]

A hybrid strategy looks for simultaneously differentiation and low cost, offering a product at a low cost but with a higher perceived value than others from low cost competitors. The success of the strategy depends on the ability of the firm on achieving enough margins to reinvest on maintaining and developing a differentiated product. So, while differentiation enables companies to establish high prices and low cost enables companies to establish the lowest prices, a company that is implementing a hybrid strategy is able to achieve a competitive advantage through products with an added value for a segment of customers and at a low price. Moses Acquaah and Masoud Yasai-Ardekani[39], explains in their article that the combination of a strategy will generate superior performance than the implementation of a single generic strategy. The reason is that a hybrid strategy results in multiple competitive advantages such as economies of scale or customer loyalty compared to a generic strategy. Also, companies that are implementing a differentiation strategy can

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[37] PORTER, MICHAEL E., *Competitive advantage: creating and sustaining superior performance*, New York: The Free Press, 1985, p. 16

[38] BAROTO, M. B., ABDULLAH, M. M. B., WAN, H. L., *"Hybrid strategy: A new strategy of competitive advantage"*, International Journal of Business Management, Vol. 7, Num. 20, 2012

[39] ACQUAAH, M., YASAI-ARDEKANI, M., *"Does the implementation of a combination competitive strategy yield incremental performance benefits? A new perspective from transition economy in Sub-Saharan Africa"*, Journal of Business Research, April 2008

strengthen their position in the market by achieving a low cost position through the improvement of their efficiency

3.5. Sustaining Competitive Advantage

Once the competitive advantage is defined and is getting successful results, sustain it at time depends on the ability of the competitors to imitate or innovate this competitive advantage. The easiest and fastest form of competition is imitation and because of these, to sustain competitive advantages over time, companies must create barriers to imitation to take advantage of it as much as it's possible. Companies invest in innovation in order to get a competitive advantage over their competitors. So, to sustain the competitive advantage, innovation is one of the most important sources of the competitive advantage. Companies create new products or processes through its knowledge, but the commercialization of these inventions is innovation, but it doesn't guarantee fame and fortune.

To appropriate the innovation, there are four factors to determine this appropriation and exploit the advantage among competitors[40]. First of all, appropriating on innovation depends basically on the ability to establish property rights for intellectual property and firms can establish this intellectual property through many different ways such as patents, copyrights, trademarks or trade secrets. When technology is the base of an industry, the tacitness and complexity of the technology is an essential factor. How an innovation is easy or difficult to copy is essential in the absence of legal protection and if property rights are not effective to protect, diffusion will be rapid and the competitive advantage will not be sustainable. Also, to build a market position, lead time is a useful tool for companies to create a temporary competitive advantage. The lead time is the time that will take followers to catch up, and is a challenge to build a market position of leadership until competitors will be able to imitate. Finally, complementary resources are a good way of sustain a competitive advantage when it's possible through the alliance with other firms and the specialized resources they have. After analyzing all the factors, secrecy and lead time are the most effective patents to sustain a competitive advantage over time.

However, there are a lot of cases where imitators are achieving more success than the innovators and sometimes there is a dilemma between being a leader or a

[40] PORTER, MICHAEL E., *Competitive advantage: creating and sustaining superior performance*, New York: The Free Press, 1985, p. 297-304

follower in innovation[41]. When companies can appropriate an innovation through property rights or by leading time there is an advantage of being an early mover. Also, when companies have the possibility of exploiting an innovation by the use of complementary resources the leader have huge development costs and being a follower can favour specialized firms to emerge as suppliers of complementary resources. And finally, the potential to establish a standard when companies are early movers they have an opportunity to establish an advantage to influence those standards and gain market share and the leadership of the market. In conclusion, the most effective follower strategies are those that initiate a new product's transition from niche market to mass market[42]. The first movers introduce innovation in a niche market, and then follower's takes this niche into a mass market allowing the opportunity of decrease costs and increase quality.

4. Blue Ocean Strategy

4.1. What's the Blue Ocean?

Since the beginning of the industrial era, companies have competed in overcrowded industries. The battle for competitive advantage, market share or differentiation has been a common point in strategic plans. As an evolution of generic strategies, Kim Chan and Renée Mauborgne[43] designed the Blue Ocean Strategy. After analyzing the rough and bloody competition existing in the markets and industries, a research of more than one hundred years gets the result that companies should stop competing in existing industries space. Maybe you'll be asking if it's possible, and the answer is 'yes'. The answer the authors give to us is "creating a Blue Ocean to make the competition irrelevant" [44]. Here it's important to difference between the Red Ocean and the Blue Ocean. The authors divide the market in those types of ocean.

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[41] PORTER, MICHAEL E., *Competitive advantage: creating and sustaining superior performance*, New York: The Free Press, 1985, p.306-308

[42] PORTER, MICHAEL E., Op. Cit., p. 308

[43] KIM, C; MAUBORGNE, R., *La estrategia del océano azul: Cómo crear en el Mercado espacios no disputados en los que la competencia sea irrelevante,* Barcelona: Verticales de bolsillo, 2008

[44] "Blue Ocean Strategy and the World". *ARIS community* [online]. New York: INSEAD, 2011. [Retrieved from: <http://www.ariscommunity.com/users/vanderhaeghen/2011-09-12-video-recommendation-blue-ocean-strategy> [Date of reference: October 3, 2013]

Red Ocean represents the market as we know markets, companies and industries nowadays. In this market, competition is getting developed in the market space, where competition is rough and bloody and because of these it's called the Red Ocean. Companies competing in this market are focused to existing customers and they battle to get a market share of the existing demand. If an industry it's more profitable than another one, the competition becomes more and more harder and getting a percentage of market share becomes very difficult due to the 'giants' of the market owns the majority of resources, relegating smaller business to survival.

By the other hand, the Blue Ocean it's the unknown market, all companies, markets and industries that don't exist. So, this means new markets, which it means new demand and the final meaning is new great opportunities to exploit. All this new markets and demands entails that competition is reduced to no competition and focused to non-customers. This means finding a non-existing market in order to create a new demand and attract new customers. In contrast with the Red Ocean, the Blue Ocean's purpose is avoiding competition through the value innovation focusing on the final customer and not on the competition in order to create value[45]. Finally, the Blue Ocean aligns the whole firm and its activities with its strategy of differentiation and low cost at the same time. The great difference between the Red Ocean and Blue Ocean is that the first one has to choose among cost advantage or differentiation strategy and Blue Ocean can choose both at the same time due to the irrelevant competition existing in the market.

4.2. Value innovation in the Blue Ocean

Once differenced both types of oceans the market is divided in, the researching of a Blue Ocean is raising nowadays due to the negative impact that competing in the Red Ocean has. As a globalization increasing, traditional markets are saturated and difference between firms is greatly reduced specially during a global economic recession. With the current technological advances, productivity has improve substantially making producers provide a wide range of products and services as never seen before. The result is a supply excess that is increasing more and more and the result of this supply excess is that most products have become generic, reason why price war have augmented and profit margin have decrease. Blue Ocean

[45] KIM, C; MAUBORGNE, R., *La estrategia del océano azul: Cómo crear en el Mercado espacios no disputados en los que la competencia sea irrelevante,* Barcelona: Verticales de bolsillo, 2008, p.32

creators doesn't use the competition as a reference for comparison, they apply a different strategy that the authors of the Blue Ocean Strategy have called Value Innovation. The reason of this name is because Blue Ocean's purpose is not the victory among its rivals; the main objective is turn competition to irrelevant by an augment of value for its customers but also for the company. This is a creation of a new market space unknown for the industry.

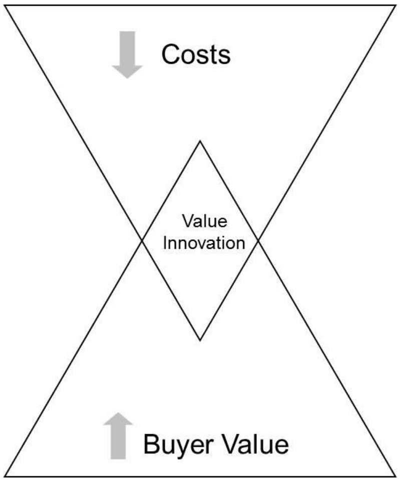

Figure 2. Value Innovation

Source: KIM, C; MAUBORGNE, R., *La estrategia del océano azul: Cómo crear en el Mercado espacios no disputados en los que la competencia sea irrelevante,* Barcelona: Verticales de bolsillo

Value Innovation is the cornerstone of any Blue Ocean Strategy. This occurs when companies aligns innovation with utility, price and cost positions. Value Innovation is a different way of thinking and a different way of executing a strategy, and through it companies can create Blue Oceans. Also, it defies one of the most commonly accepted dogmas of a strategy based in competition that is the value-cost trade off[46]. As we have seen in generic strategies, companies can choose between creating a high value at a high price or by creating a low value at low cost limiting companies to opt for differentiation or for cost advantage. By another hand, companies that are looking for a Blue Ocean are looking for differentiation and low cost simultaneously.
As we can see in Figure 2, the key of creating Blue Oceans is reducing costs and at the same time augment the buyer value. In conclusion, Value Innovation is more than

[46] KIM, C; MAUBORGNE, R., *La estrategia del océano azul: Cómo crear en el Mercado espacios no disputados en los que la competencia sea irrelevante,* Barcelona: Verticales de bolsillo, 2008, p.32-33

simply innovation, is a matter of strategy that affect the whole activities system of a firm.

4.3. Action framework and principles of Blue Ocean

First of all, with the purpose of defining customers' most value elements when designing a new value curve for the new customers, the authors of Blue Ocean Strategy defined four actions to implement that precedes the creation of a new market space. These four actions are: eliminate, reduce, raise and create[47].

To specify a bit more, the first action consists on looking for which of the factors that the industry takes for granted should be eliminated. This means eliminate factors that competition has been taken into account in a determinate industry. Then, companies need to look for which factors should be reduced well below the industry's standard, because to create a new value curve the design of goods have to be analyzed to determine if companies have exaggerated to be more than the competition. Once done that, the constructive part becomes important. First of this part is look for which factors should be raised well above the industry's standard in order to eliminate customers sacrifices. Finally, look for which factors should be created that the industry never offered to the customers in order to discover new sources of value to create a new non-existent demand and modify the price strategy of the industry. By one hand, the first two actions have the objective of develop ideas in order to reduce the cost structure in the market and by the other hand, the last two actions helps to recognize a way of increasing value of customers and generating a new demand.

After analyzing the action framework, the next step to create a Blue Ocean consists on analyzing the principles of it. The first four principles are addressed to the formulation of the strategy and the last two address the execution risk of the implementation of the strategy.

We will begin with the principles that are addressed to the formulation of the Blue Ocean Strategy[48]. The first one is 'reconstruct market boundaries'. It consists on identifying paths to create new market space. Using a six paths framework will help companies on how to make competition irrelevant and open up commercially important Blue Oceans. 'Focus on the big picture, not the numbers' is the second

[47] KIM, C; MAUBORGNE, R., *La estrategia del océano azul: Cómo crear en el Mercado espacios no disputados en los que la competencia sea irrelevante,* Barcelona: Verticales de bolsillo, 2008, p.51

[48] KIM, C; MAUBORGNE, R., Op. Cit.

principle and presents an alternative to the existing strategic planning process. This alternative proposes a planning process that creates and captures opportunities in the Blue Ocean. The third principle is ‘reach beyond existing demand’. This principle states the importance of aggregating demand by building on the powerful commonalities across non-customers. And finally, the last principle of the first four is ‘getting the strategic sequence right’. The fourth principle shows the sequence that companies should follow to ensure the production and the profitable growth through the sequence of utility, price, cost and adoption requirements. Once we’ve seen the principles addressed to the formulation of the strategy we will continue with the two principles that are addressed to the implementation of this strategy. First one, we have the principle of ‘overcome key organizational hurdles’. This principle mitigates organizational risk, outlining how to surmount the cognitive, resource, motivational and political hurdles in spite of the limitation of resources and time in order to mobilize the whole organization to avoid the obstacles that block the implementation of a Blue Ocean Strategy. And finally, ‘build execution into strategy’. The last principle is addressed to the risk with people attitudes and behaviours. This process is required to facilitate strategy making and execution by integrating execution into strategy formulation. The result is a motivated staff.

4.4. Sustainability of the Blue Ocean

The creation of Blue Oceans is a dynamic process and when a Blue Ocean Strategy gets success, it entails the emergence of imitators. When these imitators start getting succeeded, the Blue Ocean automatically becomes a Red Ocean. A Blue Ocean Strategy brings barrier to imitations. In most of Blue Ocean cases, the strategy is sustained during years. The reason of its sustainability resides on barrier imitation such as patents, licenses, brand image or market’s condition of a monopoly. As the cornerstone of the strategy resides on Value Innovation it adds barriers related to it. The Value Innovation brings high volumes of production that is traduced to cost advantage and in some cases competitor companies avoid imitation due to possible modifications of company activities. And finally, the value and fame of an image brand retain loyal customers and for other firms it’s not possible to reach the valued firm. However, most of the Blue Ocean Strategies get imitated with time. The first action of firms is defending their customers’ base that they have build during years of hard work, but competitors are perseverant. This perseverance can make that companies that are in a Blue Ocean compete with the other company and their value curve will start to converge with competitors and they will be competing in a Red Ocean again. The key of avoiding returning to a Red Ocean is to analyze the value curve. The curve will show when it’s moment for Value Innovation and when not. When the curve starts to converge with other competitors it’s a signal to look for another Blue Ocean. Also, when the value curve still having a great revenue stream, it’s important for companies to resist innovating in value because the main purpose is dominate the Blue Ocean keeping imitators as far as we can during as much time as possible.

To conclude, when the rivalry gets harder and the competition starts, the Blue Ocean disappears. When the value curve of the competitors starts to converge with the value curve of the Blue Ocean Strategy it’s time to look for another value innovation to create a new market. In order to maintain the competition irrelevant it’s basic to revise the own value curve and the competitors value curve periodically to visualize the grade of imitation and determine when it’s time to look for another Blue Ocean.

II. A PRACTICAL APPROACH THROUGH CASE STUDIES

1. Yoigo, the revolution of low cost telecommunications

For the last decades the importance of mobile phones in our daily life has increased exponentially. A huge part of the population owns cellular phones and most of them change them with a frequency of two or three years. Since 2008 the economic situation has forced people to reduce their expenses and to concentrate their incomes in basic needs. Nowadays, the use of a mobile phone is not a basic need and because of the high prices of mobile phone operators in Spain a new company emerged with the purpose of offering a mobile phone that could be affordable for everybody.

1.1. The emergence of Yoigo[49]

The story of this company is about a firm born of the no-heard complaints and the frustration of customers in a market where customer service, rates and bills are very difficult to understand by them due to the complexity of the contracts and the inattention of the company to solve customer's problems. The expensive bills for the customers and the no competition in the market sector were the main basis to start this project.

Yoigo is the fourth mobile phone operator with an own network in Spain. It was founded in 2000 with the name of Xfera, reflected by its registered name Xfera Móviles, S.A. with the aim of competing for a new license in Spain which they won. Xfera was built by several companies coming from different industries. Due to many technological and market problems such as the late apparition of 3G technology, the company remained inactive for some years. The market was monopolized by three firms, so the entrance barriers to the industry were high. After many negotiations in order to keep the license, some shareholders abandoned the project and sold the majority part of their shares. And in 2006, TeliaSonera became the controlling shareholder. The result was that the company launched its commercial service under the name Yoigo.

[49] "La historia de Yoigo". *Iralta films* [online]. Madrid: Yoigo, 2011. Retrieved from: <http://www.iraltafilms.es/?portfolio=1337> [Date of reference: October 15, 2013]

In order to continue with the project, the young Swedish CEO, Johan Andsjö was named to lead the company. The business model was based in outsourcing in order to reduce fixed costs and to achieve maximum flexibility out of the service. The result was the birth of the first low cost operator in Spain.

1.2. Spanish low cost telecommunications pioneer

Once the CEO was named, the company had to define its commercial strategy. They based it on the definition of direct sales channels and agreements with other companies accompanied with the purpose of having the best coverage in the market by sharing sites. When the company was ready, a massive advertising campaign was launched.

The company is based in five principles[50]. The first one is to make life easier for Yoigo's customers. This means to simplify the communication and the relation with the company by simplifying the contracts, with advertisements or by supplying communication channels. Another principle of the company is to be fair with the customer and to make pay what is strictly used for. The intention is to be a company without segmentations, where all customers are equals, and for customers that want to communicate in good conditions and for an affordable price. In relation with the last point, Yoigo wants to be positioned as an honest company and for that reason they work to offer a simple and clear communication. To be transparent and to contribute in stopping the complaints in the telecommunication industry is the result expected by the company. So, the basis of the first three principles requires the fourth one, which is to be effective. Finally, the last principle is based on its character and wit to be competitive and on adapting to the customers' needs and not making them adapt to the companies as it has been for years.

Yoigo positioned itself as an operator with its own network focusing on simplicity, efficiency and low cost. Their strategy of low cost was based on the externalization of all services. The distribution has been carried out by Dextra Moviles, and the sales channel by The Phone House. As we have already said, all the services are externalized and Ericsson carries out the deployment and the network operator. The company Starnet is the responsible of IT (Information Technology) and finally the

[50] YOIGO, *Nace Yoigo, la alternativa fácil y sencilla de telefonía móvil en España* [online], October 26, 2006. Retrieved from: <http://www.yoigo.com/sobreyoigo/pdf/20061026.pdf> [Date of reference: October 15, 2013]

customer care service is responsibility of Emergia. The externalization means giving control of the most important parts of a business to other companies, but because they are not looking for a differentiation strategy they didn't apply an added value to their customer's service in order to achieve low cost strategy. Its strategy was very clear since its official launching in December of 2006. The main characteristic of the service that the company offers to the customers are to bill them by sections of 30 seconds, after charging for the full first minute. Also, in each call the company applies a charge of 12 cents[51]. But the novelty of the company is the no distinction between contract and prepaid phone when billing, in order to avoid division between customers, as we have explained in their principles.

The distribution of their cell phones is done through their website and their call centre, but customers also have the opportunity to acquire their telephones by the externalization of their sales channel through The Phone House. The acquisition in one of these 400 stores will be 10 Euros more expensive. For the phone selling, Yoigo bet heavily on digital channels, dismissing the traditional channel of sales, the stores. Also its strategy is reflected in their marketing campaign. They expended 10 millions of Euros in advertisements the day of their launching. The cost can seem high but it is six times less than the expense of the France Telecom fusion with Wanadoo and Orange.[52]

The attractiveness of the new operator was higher due to the situation that in the years 2007 and 2008 started. So, for Yoigo the crisis was a great opportunity to position itself as a serious competitor for the three other big companies that were leading the market. Due to the crisis, the company changed its commercial strategy opting for the opening of over one thousand stores in a period of 2 years to have the opportunity to attend their customers. During 2008, Yoigo realized that their network wasn't as large as it required; in some regions of the country the broadband coverage was limited and for this reason Yoigo and Movistar reached an agreement by which Movistar would rent a part of their network until 2014. This contract was very beneficial for Yoigo. With the agreement they were ensuring the quality of their broadband coverage until they could continue investing on enlarging their network.

[51] MOVILONIA, "Yoigo celebra su 6º cumpleaños con nuevas tarifas". *Movilonia.com* [online], November 30, 2012. Retrieved from: <http://www.movilonia.com/yoigo-nuevas-tarifas-la-del-uno-la-del-cinco-infinita-30-39/> [Date of reference: October 17, 2013]

[52] MOVILONIA, "Nace Yoigo, la primera operadora low cost". *Movilonia.com* [online], November 30, 2006. Retrieved from: <http://www.movilonia.com/nace-yoigo-la-primera-operadora-low-cost/> [Date of reference: October 17, 2013]

This contract infuriated the competitor Movistar when they noticed the growth of Yoigo and they threaten the company to break the agreement if Yoigo continued on increasing their number lines. The result was that Yoigo was working according to the law and their customers would continue enjoying of a great broadband coverage all over the country.

1.3. Overcoming the crisis

By the year 2011, Yoigo had become essential for its parent company, TeliaSonera, becoming the subsidiary which more customers contributed to the company in that year. The company in 2011 increased its turnover in a percentage of 31.8%, with turnovers of 841 million with a profitable growth each quarter of the year. The main objectives for 2012 were achieving 3.5 million new customers, in a year where the growth of Internet cell phones had high expectations. As we can see in their Annual Report for 2012[53], they ended the year with 3.7 million customers, an EBITDA of 80 million and turnovers worth of 995 million of Euros, improving the objectives that the company though would arrive during the 2012. These numbers are rather good for a 6 year old company.

As we can see in the Annual Report, Yoigo during 2012 was the telecommunications company with more satisfied customers over the country. This is one of the keys that was used and is still being used for the growth of Yoigo. Despite this, the goal for the following years is the network optimization to avoid relaxation inside the company and to go on growing to reach the lead of the market. Apart from all that, the brand image that the customers have of the company is an image of a simple, efficient, honest, transparent, and wit company. All these, are values that during years have been required by the customers in a sector where information is rough and difficult to understand. So, it’s important to notice that during the year 2012 two of the three companies that were leading the market lost customers, making the sector lose customers in a general way. But referring to Yoigo we have seen that their numbers are growing year by year and during 2012 they had enlarged its market share.

For 2013, the sector will continue being affected by the economic crisis and the weak consumption rate of the families. These factors and also due to the more frequent

[53] XFERA MOVILES, *Annual Report 2012* [online], March 19, 2013. Retrieved from: <http://www.yoigo.com/sobreyoigo/pdf/Xfera%20FFSS%202012.pdf> [Date of reference: October 17, 2013]

substitution of short messages and calls by data, will affect the revenues of the company. The perspective for the current year is that the use of mobile services on smart phones, tablets and laptops will continue increasing and generating more number lines that have access to Internet through the mobile, compensating the decrease of other traditional services. Subject to the annual report, the company's evolution for the 2013 will still have a profitable growth continuing with the same strategy that they have been carrying out during the years of crisis. So, they expect to reach 4.2 million customers, an increase of 10% of the revenues and a 50% of the EBITDA. The result of reaching all these targets will be the reaching of a solid market share that they hope will be higher than 7%.

2. Starbucks, the art of selling coffee

Nowadays, coffee is present throughout the world with different habits of preparation and consumption. The cost of a coffee is low. Nevertheless, would you pay four times the price of a cup coffee? In fact, for just a cup of coffee most people wouldn't, but if this cup entails an experience such as Starbucks share to its customers, probably most people would do it. In fact, many people do it and for this reason the success of Starbucks is great, because they've made that having a cup of coffee becomes into a whole experience.

2.1. Starbucks story[54]

Starbucks evolves from a single coffee store in Seattle's Pike Place market to a multinational company and to one of most successful business in America and around the world. Howard Schultz in 1981, while he was managing the United States operations of a Swedish kitchenware company in New York, was intrigued by the reason of the ordering of large quantities of an unusual coffee filter in a small company headquartered in Seattle. This small company was Starbucks Coffee, Tea and Spice. He decided to visit the store owned by two students from the University of San Francisco, Gerald Baldwin and Gordon Bowker, who had founded the company 10 years before. Schultz had a vision of a national chain of coffee stores and his

[54] STARBUCKS, *Starbucks Company Timeline* [online], 2012. Retrieved from: <http://globalassets.starbucks.com/assets/e56b2a6b08244aaab0632dc6ac25ad0d.pdf> [Date of reference: September 27, 2013]

energy and ambition pushed Baldwin and Bowker to hire him as their head of marketing.
One year later, on a business trip to Milan, Schultz saw the opportunity for Starbucks to become a place where people would go to share experience of drinking a great coffee. He proposed to its partners to expand the sale of coffee beans as a new idea to expand the business. None of the partners agreed because they considered that Schultz ideas were not focused on the original idea of the company. Due to the situation and to his business vision he decided to open his own Italian coffee bar in 1986, it was named 'Il Giornale'. One year later he bought Starbucks Company and merged with his coffee bar adopting the Starbucks name for the company.

Little by little, Starbucks expanded nationally in United States and in Canada with the aim of increasing Starbucks' local brand and facilitating customers to find a Starbucks anywhere. Its growth was augmented by international expansion through selected acquisitions in the U.K and Japan. Currently, Starbucks Coffee Company is the world's largest coffee shop company around the world, with approximately 17,800 coffee shops in 49 countries.

2.2. A strategy of differentiation

The main idea of Starbuck's strategy was the concept of "Starbucks Experience" and the idea of creating a place which was also a home and a place to work, where people could share the experience of drinking a good coffee. This idea was the production of a unique product or service that would be widely valued by the customers by combining a large number of elements.

First of all, Starbucks is committed to selling the finest coffee. Due to its rigorous standards and to ensure the quality of their coffee beans, Starbucks controls the purchasing, roasting and packaging, and the distribution of its coffee. The volatility of the price and supply can be affected by multiple factors in the producing countries. In order to ensure the sustainability of high-quality coffee supply in Central America and to intensify the leadership role in the coffee industry, Starbucks operates the Starbucks Coffee Agronomy Company. In these subsidiary staffed with experts, they have to respond to changes in the production of coffee that affect farmers and the supply. Starbucks buys coffee at a fixed price and using price-to-be-fixed depending on market conditions to ensure quality supply of coffee. The company depends upon its relationship with coffee producers and for this reason Starbucks forms long term arrangements with them, ensuring Starbucks' requirements.

The involvement of employees is a central role in the creation and sustenance of the Starbucks Experience. As staff, their role further than brew and serve coffee is also involving customers in the unique atmosphere of the Starbucks coffee shop. The company makes employees participate in the vision to involve them in the success of business, and for this reason the staff selection is rigorous looking aspects such as adaptability, capacity for teamwork and willingness to respect and follow Starbuck's mission and values. Starbuck's training program goes further than basic skills. They educate their employees about coffee, and this program of contracting and educating is unique in the world. Also the company provides health insurance for their employees. In 1991, the company offered to their employees' shares of Starbucks to make them shareholders and make them participate in the success of the business. But the role of employees as key agents in transmitting the Starbucks' Experience isn't the only role of human resource management they also want to transmit a vision of a common humanity. Schultz's vision was of a company that not only earns profits, but a company that does something good in the world.

> I wanted to build the kind of company my father never had the chance to work for, where you would be valued and respected wherever you came from, whatever the colour of your skin, whatever your level of education… We wanted to build a company that linked shareholder value to the cultural values we want to create with our people.[55]

To finish, one of the key points for differentiation is their stores. By one hand, Starbucks' analysis of sales found that closely located stores were getting more profits and sales than others, and the recognition of a convenient location was critical to driving sales. Location strategy had the aim of enhancing Starbucks' Experience by giving facilities to retain customers. By the other hand, another critical element of the experience was the layout and design of Starbucks stores. The company has a store design group, which is responsible of the furniture design and the layout of the stores that like everything else is subjected to analysis.

> It crystallized in my mind that coffee brought people together… and that as far as I could envision, at the time there did not exist in the United States a place that brought people together with coffee as the conduit.[56]

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[55] GARTHWAITE, C.; BUSSE, M.; BROWN, J.; MERKLEY, G., "*Starbucks: A story of growth*", Harvard Business Review Cases, July 2012.

[56] WIGGINS, JENNY, "The trouble with Starbucks". *FT Magazine* [online], December 12, 2008. Retrieved from: <http://www.ft.com/intl/cms/s/2/aa9831ce-c266-11dd-a350-000077b07658.html#axzz2h3jrq0bq> [Date of reference: October 24, 2013]

Aside from key elements of differentiation, Starbucks' get diversified by responding to customers demand as a part of Starbucks' Experience building. Starbucks' expansion involved the addition of food, music, books and videos. In order to complete its expansion it includes licensed stores as a desire of reaching the customers in many locations not only by company-owned outlets. Also the distribution of Starbucks retail packs of coffee in supermarkets, other retail stores and the licensing of Starbucks brands to other companies such as Unilever for the supplying of bottled drinks. All the previous elements are focused to add value to the customers and not only commercialize a product. For these reason Starbucks is leader of the coffee industry in United States and in other countries around the world. People prefer paying a higher price for a product and live an experience. Customers like to go walking with their cup of coffee of Starbucks and they like to share the world that they are customers of Starbucks

2.3. Managing during the crisis

After years and years of expansion and rising profits, unexpectedly Starbucks suffered a rapid downturn. Starbucks had suffered an amazing expansion and growth but in 2008 the sales decreased for the first time since its foundation. The main indicator of the problem was its stock-market valuation. In a period of two years Starbucks' shares decreased more than 75%. Starbucks current strategy in 2007 and its uncertain future forced Howard Schultz to return as CEO. The main redirection of Starbucks' strategy was focused in the belief of renew "Starbucks Experience" to re-establish customers connection with the company[57]. In order to change the current situation, Starbucks employees from different levels of the company met and the result was a revision of mission statement and a renewed emphasis on corporate social responsibility.

First of all**,** Starbucks used its annual leadership meeting in 2008, celebrated in New Orleans, as an opportunity to field 10,000 volunteers on different community projects ranging from repainting damaged houses to cleaning up neighbourhoods. Apart from these initiatives, the company also included the *Starbucks Shared Planet* that consisted in a set of environmentally sustainable community services and ethical targets to be achieved by the year 2011. Also, the company increased its commitment with small-scale coffee farmers by doubling the purchase of Fair Trade

[57] GRANT, ROBERT M., *Contemporary strategy analysis*, London: John Wiley and Sons, 2010, p.503

Certified Coffee in 2009. And finally, it cooperated with Bono and with the Global Fund to donate 5 cents from each beverage sale to support AIDS programs in Africa.[58]

We've seen the corporate social responsibility part, but further than improve its image, Starbucks made some changes in their production structure. On the 26th of February of that year, around 7,000 stores, mainly in United States, closed due to training specifically their employees. Schultz detected the problem that their stores had lost the particular coffee aroma and its traditional preparation. With the purpose of analyzing Starbucks consistency, one key change was to return to hand-made coffee. Due to the great expansion that the company had suffered all the stores had changed its manual coffee machines to automatic machines and to speed coffee making. In 2008 the company spent millions in installing new coffee machines where cups of coffee were individually made. But not only the beverages were revised; the food menu underwent little changes such as the removing of the breakfast toast. Another differentiation change that has been made during the crisis is the elimination of the standard store, giving each store a new and unique design adapted to the environment. Finally, Schultz challenged his store managers to return to the original values and practices that in the past made Starbucks a special place for their customers.

2.4. Starbucks nowadays

Despite the crisis, after two years of decreasing, in 2010 the changes started to give results. First of all it's important to mention the official data of Starbuck's to understand when the crisis started to affect the business management and when was that reflected on the company's results. To begin with, the first indicator of crisis was the drop-off of sales. After years and years of increasing sales, the company in 2008 got net earnings that were less in number than in the previous years. So analyzing the fiscal year of Starbucks, we found that the sales in 2008 were reduced in comparison of 2007 and the operating income was reduced nearly to a half. As the price of the shares started to go down, its net revenues were higher than in 2007. So in terms of revenues the company hadn't suffered any crisis, but in order to prevent an uncertain future, the company started a change to avoid a worst situation.

[58] GRANT, ROBERT M., *Contemporary strategy analysis*, London: John Wiley and Sons, 2010, p.503

In 2009, the situation in terms of net revenues wasn't as good as in 2008 and the revenues decreased as the first indicators showed. During the year 2009 the stores sales went on decreasing in contrast with the net earnings, which were a bit higher than the previous year. The increasing of the net earnings was the result of the changes in the management and in the strategy, in a period of recession. The shares price continued going down until 2010. As result of a differentiation strategy during the crisis, in 2010 the situation radically changed showing improvement in the economic indicators such as net revenues, net earnings, store sales growth and shares prices. The results still reflect improvement during the current years 2011, 2012 and 2013. The change of strategy motivated by the world economic situation was successful and the radical change in the company was amazingly good in order to maintain the position and leadership of the industry.

Nowadays the company owns more than 17,000 stores over 49 countries and Howard Schultz continues managing the company as CEO. Starbucks was having a great growth and when the growth decreased during a couple of years, the company started working hard to avoid a possible situation of losses. But it's important to notice that the change is not only determined by economic investments for the improvement of the quality, the change involves all the areas in the company and also the customer treatment that is a treasure for every company in the world.

3. Ryan Air, minimalism to fly

Globalization has made that travelling around the world is day by day easier but making it affordable for everybody is not as easy as it seems. Low cost companies made possible travelling for people that couldn't afford such a high amount of money to visit other countries. Nowadays there are airlines that have adopted this strategy and have become successful for this. Ryan Air describes itself as the only European Ultra Low Cost Carrier and thought the company receives many complaints and bad reviews due to its stringent conditions. During many years and especially during the years of crisis, the company has become the most attractive choice to travel around Europe at an affordable price for people that couldn't afford to fly in major lines

3.1. History of Ryan Air

Ryan Air is an airline founded in 1985 by Christopher Ryan, Liam Lonergan and by an Irish businessman Tony Ryan. The airline began with an aircraft with a capacity of

15 seats operating between Waterford, southeast of Ireland, and London Gatwick Airport, with the aim of breaking the duopoly held by British Airways and Aer Lingus, London-Ireland flights. After obtaining permission from the regulatory authorities to challenge the duopoly on the Dublin-London route, they operated their first flight in May of 1986. As result, Ryan Air started the first price war in Europe forcing their competitors to reduce their high fares. During the next years, the Irish company enlarged their network by opening up over 15 new routes all over the United Kingdom and Ireland and 2 routes to Brussels and Munich. But the rapid growth in aircrafts and routes and the price competition the company was not profitable and accumulated losses. Then Michael O'Leary was hired as CEO to turn the company into a profitable business and he quickly decided that the key was to have lower fares, aircrafts with quick turnaround times and no business class. O'Leary convinced the Ryan family to copy the Southwest Airlines low fares model and the company was re-launched as Europe's first low fares airline. The company was restructured by cutting back routes and fleet, from 19 to 6 routes. Five years later, in 1993, they launched a new route ignoring the Irish Government warnings that that would upset the competitors. They carried on launching new routes and ten years after its foundation, the company became the largest passenger airline on the Dublin-London route and the first low fares airline to operate a domestic route in the UK.

In 1996, the European Union completes the "Open Skies" agreement on the scheduled airline business allowing airlines to compete freely in Europe. On year later, Ryanair became a public company with a successful flotation in the Stock Exchanges markets. After that, the company selected its Continental European bases all over Europe. Due to its growth, the company announced the increase of their fleet and went on expanding through Europe by operating in many different countries.

3.2. Low cost focusing in short-haul routes

Ryan Air during the years has implemented many different strategies in order to have a good position in the market. With the objective of being recognized, the company has been capable of adapting to the situation in the market by the effective implementation of generic strategies. First of all, the company offers low cost fares in comparison with its competitors. During the years they have concentrated on different narrow markets such as flights between Ireland and UK and they have focused on the segment of travellers that can't afford to pay the high fares of the major lines. In 1985, when the company was founded, they concentrated in Ireland –

they offered a low fares London route with the aim of breaking the duopoly held by British Airways and Aer Lingus. After years of growth and after some internal crisis, the company became the largest company operating in Dublin through offering the first low fares airline for a domestic route in the UK. So, focusing in some routes they have achieved success.

It's important to mention that the company as a low cost focuser implements a low cost strategy. To be established as the lowest cost European airline they needed to control different key elements. First of all, Ryan Air strategy is based on low fares with the aim of stimulate the demand of people that usually have used alternative ways of travelling or that they had never travelled indeed. It's important to notice that Ryan Air sets fares depending on the demand of certain particular flights and on the remaining period of the date of departure. As we have explained, in the route Dublin – London, Ryan Air is the biggest company in terms of passenger volume. As they demonstrate, low cost doesn't have to mean dreadful customer service. During the last years, the airline has been the most punctual company, the one that has lost lesser bags and the company that fewer cancelations have achieved in Europe, as they have shared in their customer service news through their website.

Another key element is the frequent point-to-point flights. Ryan Air provides frequent short-haul routes to secondary and regional airports over many population centres and travelling destinations. The reason for the frequency of the service is due to the fact that the company offers short-haul routes that make it able to eliminate the "frill" services that customers expect on longer flights. Also, the company favours secondary airports with a need of convenient transportation to population centres. The secondary airports are less congested and allow the company to provide higher rates of on-time departures, faster turn-around times and fewer terminal delays.

Furthermore, low cost fares of the company are based on reducing the primary expenses that involve managing a major airline. Ryan Air controls the productivity of their staff and holds in the aircraft equipment, customer service, airport access and handling costs. To reduce aircraft equipment costs, the company started purchasing used aircrafts that weren't older than 17 years. During the 90's, there was a reduction of used aircraft available to purchase, and the company decided to invest on new aircrafts with the aim of increasing the size of their fleet in order to tart it up and to reduce maintenance costs. To assure the safety of their aircrafts, the company commitments included the correct training of their staff and a strict policy of maintenance according to the highest European airline industry standards. In order to control their labour costs and with the aim of increasing the staff productivity, the company established an incentive plan that included commissions for on-board sales and salary payments based on the number of hours flown by pilots and cabin crew. To continue with low operating costs, Ryan Air thought that third party contractors were more efficient at aircraft handling, ticketing and other services. Also, the development of their internet booking facilities permits the company to eliminate travel agents' commissions. With these booking facilities, the company earned the 96% of their passenger revenues through website sales, which were promoted through different media.

Finally, Ryan Air controls their airport access fees by focusing their operations on airports that offer competitive cost terms. The company reduces their airport charges costs by opting for less expensive gate locations. Ryan Air, in order to increase their sales and reduce their costs, provides many services related to the passenger core necessities such as accommodation services, travelling insurances or car renting through its website.

3.3. Overflying the crisis

Carrying on with their low cost focused policy in short-haul routes, when the crisis started affecting the airline industry, Ryan Air continued minimizing their operating costs and at the same time increasing their benefits. During the year 2008, the fuel price increased 50%, making the company to reduce their revenues considerably. Nevertheless, during that year the company increased their number of passengers versus the customers' decrease of their competitors. But, the increase of the fuel price and the reduction of the revenues for the rest of the companies obliged their competitors to charge more to their customers by an increase of their fares; for most of the people that would be an indicator of a change in the industry. Far from that, Ryan Air refused an increase of its low cost fares. The company maintained their fares as a confirmation that their model could avoid crisis although short term results were not optimistic. The company believed in a long term project and they continued acting the same way. Ryan Air is one of the few low cost companies that are still operating in the airline industry. Partly of blame is because of a 19%[59] of their

[59] TUBELLA, PATRICIA; OTERO, LARA, "Ryanair paga la crisis con el pasajero". *El País* [online], August 18, 2008. Retrieved from: <http://elpais.com/diario/2008/08/18/economia/1219010405_850215.html> [Date of reference: November 12, 2013]

revenues come from complementary sales such as hotel nights, car rental and assurances.

> “We are not just looking at a recession but a depression… We are really looking at four or five years of recessionary economics and that’s great for Ryan Air business”[60]

Because of the height of the crisis, people were motivated to reduce their travelling expenses choosing Ryan Air and their low cost fares. During the month of July of 2009, the company registered the best month of their history and also registered their best twelve months between March 31 of 2009 and March 31 of 2010. But as we have said, the company believed in a long term strategy and during the first years of crisis the company had losses in comparison with the previous year but they didn’t care about it because those losses were just a short term result. At the end of their fiscal year 2011, the European leader airline in number of passengers, registered 500 millions of net revenues in the middle of an economic and airline crisis. Their economic profitability was owing to their profit margin were of 14% versus less than the 3% of their competitors. Also, a 16% increment of their fares due to the luggage fee increased the net revenues of the company. Ryan Air during 2011 reduced their debts in a significant way and their financial costs were also cut down. Finally, the increase of the fuel price forced the company to park a part of their fleet during winter. Apart from all the previous information, Ryan Air established six new bases during that year operating 330 new routes and beneficiating from the crisis in Europe by the low cost short-haul flights.

3.4. Future perspective

As well as the crisis has been hitting the airline industry, it will probably continue happening during the next years. During the fiscal year of 2012 the company was still beating records of revenues due to the increase of the number of passengers, overcoming the increase of the fuel price and the low demand existing in the industry. But the future perspectives are not good enough for a company that during the crisis had registered great numbers in comparison with its competitors. For 2013, the company will probably not have achieved their goals of revenues and in September of 2013 will announce the decrease in their fares due to the competing in an industry

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[60] BELFAST TELEGRAPH, “Finance crisis good for business: Ryan Air boss”. *Belfast Telegraph* [online], October 8, 2008. Retrieved from: <http://www.belfasttelegraph.co.uk/business/news/finance-crisis-good-for-business-ryanair-boss-28449620.html> [Date of reference: November 12, 2013]

where there is a supply excess. For the next years, we will check how the company evolves and if their policy of low fares will continue providing the best choice for travellers in short-haul flights. Currently, focusing on short-haul flights and medium-haul flights over Europe is the best strategy for an airline to survive the crisis.

4. Toyota, the best combination of price and quality

We have seen some firms that operate in different industries. To include an industry that moves large amounts of money, we are going to talk about the case of Toyota and its hybrid strategy, or how to "stuck in the middle". Toyota competes in an industry where competition is hard and rough. They are one of the biggest automobile manufacturer companies in favour of the good quality of the car industry in Japan.

4.1. The beginnings of Toyota

Toyota Motor Co. Ltd. was founded in 1926 as a subsidiary of Toyoda Automatic Loom Works that during this period was producing sewing machine under the management of Sakichi Toyoda. The president of the company was a great inventor and one of his ideas was the manufacturing and developing of Toyota automobiles. In 1935 they produced their first car, and after years of manufacturing cars in Japan they choose to send some cars to the United States. Some years later, in 1962, the Toyota Corona reached the number one million sales in the United States. But before this, the company become independent from its parent company in 1937 and during the World War II, the company manufactured trucks for the Japanese armed forces. During the Japanese recession in 1950, the company was forced to lay off their employees in a massive way due to the large losses of the company. In 1959 the company took the decision of externalizing the production by opening a factory in Brazil, which became their own pioneer factory amongst the others. The company owns factories in different countries nowadays. During 1976, the company became the first foreign automobile manufacturer to sell more than 100,000 units in one year in the United States. As an anecdote, the successor of the model Toyota Corona was the Toyota Corolla, the bestselling car in the world.

In 1982, the company under the name Toyota Motor Company joined the New United Motor Manufacturing Inc., and then they started to create new automobile firms in the late 80's. The result was the launch of the luxury firm Lexus, in 1989. During the 00's, the company was launched in the stock market. Nowadays, the company is a leader company in the automobile sector and beyond the automobiles manufacturing; the company owns a large network of design, investigation and development facilities that include three major automotive markets in the world: Japan, North America and Europe.

4.2. Hybrid strategy

Toyota is not a company that people would identify with differentiation or with low cost; the reason is that the company implemented a hybrid strategy. As we have seen previously, a hybrid strategy consists on producing a differentiated product at a low cost. This differentiation is not as developed as companies that are following a differentiation strategy and its low cost is not as low as other companies that implement it.

Toyota became the biggest automobile manufacturer of the world given by its rapid expansion in order to satisfy the demand, the aim of keeping up the newest technology and for their style. The Toyota style is based on a continuous improvement and on the people’s respect, which includes employees, partners and customers. One of the principles of the companies is ‘the client goes first’. They understand as client all the intermediates making team work a way to analyze how good they are working by promoting the ability of identifying problems amongst all the workers. The company develops T-shaped persons, the vertical line represents the fact that the employees must deepen in what they are doing, and the horizontal line represents that they should also learn other tasks. This learning is a way of retaining people. The company’s principle value is the good quality of their products by the production of zero fails cars transmitting this objective to their employees as an improvement of the staff.

Toyota always concentrates in long term results, superimposing the long term ones to the higher short term costs. They thought that this would allow them to work without pressure. The automobile manufacturer has always worked with a manufacturing system consisting on the production of only what are the customer’s needs, in contrast with other automobile manufacturers that first produce massively and then they try to sell. As a part of a long term vision, Toyota makes decisions in consensus and they don’t care if that delays those decisions, in order to focus the organization in the same way. Also, Toyota is an organization that wants to grow and despite the company is traditional, they work to adapt to the new changes. Another important aspect of the strategy is the hierarchy. The leaders encourage and motivate their employees to reach the objectives of the company together. To enforce this, all the employees must share information with their workmates. The company is organized horizontally allowing the employees to work with in different areas encouraging them to share their ideas. Also, the company doesn't contract employees with the best curriculums but they contract the employees that fit better with the company culture. The company strengthens the weaknesses of their employees by the idea of all employees must make mistakes to find the reason of it and then to avoid it happening again. They follow the policy of support to their employees to encourage them to work hard despite the mistakes they can commit.

The quality is one of the cornerstones of the company and Toyota ensures that the quality is an aspect that involves the whole company[61]. Toyota is famous because the zero defects in production are because of the fact that any employee can stop the production if any defect is detected. This point of view is enforced by three concepts: every employee is responsible of ensuring quality, the employees must find the real cause of the defects and when they find the problem they have to try and solve it. The quality is reflected in their products; the company creates more value than the competition, estimated in 2,500 dollars. The main objective of the company is to produce better cars than the competition by a better engineering but with lower costs. So, they try to sell more value at a lower cost. Another cornerstone of the company is the continuous improvement. One of the improvements was the patented manufacturing system known as *Toyota Production System*, which is based on Just-in-time and on Jidoka. Just-in-time is a system that consists on producing just what is demanded in order to reduce inventory costs. Jidoka is the capability of stopping the production once a defect has been detected.

Toyota has been working during years to eliminate each function that wastes resources. The production system is a way of improving quality at the same time the costs are being reduced, apart from having advantage over the competition. The company has been investing in their suppliers to make them more competitive. Moreover, the company has eliminated every process that doesn't increase the value, becoming a company that doesn't waste resources and that cares about environmental problems. The key factors of the company and its strategy is to improve in quality, to decrease the costs and to develop in human resources. Also, the company optimizes each phase of the supply chain from the development to the

[61] <www.toyota-global.com>

after sales service. Their objective is to be the first in offering differentiated products to their customers, manufacture them at the lowest price and sell them through the best sales networks. The success of Toyota consists on the development of a complete range of products for each region of the world, offering global models and also regional models. The company owns a system for improving its efficiency that allows the company to communicate with their manufacturing plants through innovative technologies that allow the company to transfer production from a plant to another. Toyota incorporates certain technologies to their cars from analyzing the needs of each region and from combining the development of products with market trends. Finally, Toyota wants to produce the best cars of the world through the analysis of the appropriate fuel, the technology and the delivery systems. This is a key of the company future. So, the success of Toyota resides on the correct team work, on the correct development of the human resources and on trying to improve every large or small detail.

4.3. Toyota and the crisis

The crisis in Toyota is an exceptional case. In 2009, many customers informed the company that there were some problems in their vehicles, more specifically, problems with a defective accelerator in a concrete model of car. This problem caused many accidents and the company received many lawsuits. In economic terms, the company lost more than 20 millions in the stock market. So, apart from the economic crisis, the company suffered an internal crisis.

The defective accelerator problems affected the customers' confidence, making the company lose money and consequently deteriorating the brand image. Akio Toyoda, president of the company, during a press conference apologized and announced that more than 8 millions of vehicles will be revised in relation with the accelerator problems in order to recover customers' confidence. The company invested on the engagement of Sitrick & Co., an agency qualified as one of the most prestigious firm in crisis management, in order to withdraw the affected models from the market such as Toyota Prius. Then the company organized many press conferences with the aim of informing about the problems in their cars and to explain what measures to take to solve these problems, also they set up a website with information about all the affected models. The result was a revision of over 20 million cars, with the consequent decision of withdrawing from the market 8 million units and the closuring of the plants where the Prius model was being produced.

During 2009, the company sales were decreased in a 0.4%, becoming the only automotive company that suffered a sales reduction. The customers' confidence was hitting the brand despite the efforts of the company to solve the problems that their vehicles had caused. But the company continued working hard to return to their position of market leadership. And in 2011, the company sold more than 8 million units of vehicles all over the world becoming the world automotive leader despite of the negative impact of the vehicles technical problems they have had. In relation with the previous years, the company increased an 8% their sales during 2010 due to the great sales growth in China and other Asian countries. In global results, the company became leader of the market after eight decades of the leadership of their competitor brand GM. Despite the problems they had caused with the following deterioration of the brand image and the decrease of their sales, the company continued implementing their long term strategy by manufacturing quality cars at an affordable price, lower than their competitors. The company culture and the reparation of their defects made the company recover the customers' confidence and positioned itself as the leader of the automotive industry.

5. Graphenea, innovating for a Blue Ocean

The relation between entrepreneurs and investors is at least difficult. Most entrepreneurs need finance, and most investors are looking for attractive projects to invest. In periods of economic crisis, finding investors it's more difficult but some projects are enough interesting for investors that are able to take a risk. When an interesting idea finds enough funds to get developed, the result is a promising business such as the following one.

5.1. A company born from an opportunity

Graphenea is the result of taking advantage of an opportunity. The company emerged as an early bet of an investigation line with an uncertain future: the graphene. It is a new material two hundred times harder than steel and one thousand millions thinner than paper, and is used as an energy conductor. In 2004, as a result of multiple experiments in the University of Manchester, two Russian researchers invented a new material that was harder than diamond and was called graphene. Six years later, Jesús de la Fuente, after discovering this opportunity founded Graphenea. He was an entrepreneur looking for finance and he found it among CIC nanoGune Research Center, private investors and venture capital fund. In its initial period, the company received an initial investment of 3 million of Euros and the permission to access to high technology laboratories that were property of CIC nanoGune Research Center, the reference of nanotechnology in Basque country, Spain. When the company was founded, the two Russian researchers were awarded with Nobel laureate in Physics in 2010, confirming that graphene was an emergent innovative activity but, as we said, with an uncertain future. But before that, in 2009 after the foundation of the company, Jesús de la Fuente was looking for finance and was recruiting a scientific team to start up the business. During this period, a Basque agency of business development named Spri, cooperated with Graphenea to make possible the emergence of the company and nowadays is one of the shareholders of the company. Spri make contact with CIC nanoGune and when the company get the finance required, the project became a reality.

Nowadays, there are ten workers in the company. Four of them are working in CIC nanoGune Research Center in Donostia, and six of them are international scientists joining "the full time commitment of people and the experience of international gurus"[62]. Also, Graphenea is one of the nearly seventy centres that are cooperating in "Graphene Flagship", a European program that support this type of innovative ideas in relation with graphene. Their promotion through the presence in different forums, the attendance to conferences and exhibition to be disclosed and the search of the best distribution channels was part of their intense commercial strategy. This strategy have permitted that the company is leading the market positioned as supplier of different customers such as Nissan, Canon or Phillips.

5.2. A Blue Ocean Strategy

The strategy that Graphenea is implementing is a Blue Ocean Strategy. As we have explained previously this type of strategy consists on looking for a new industry where competition is irrelevant and generates a new demand to exploit great opportunities. Jesús de la Fuente thought that in 2004 the new material discovered could be a "revolutionary material that could impact in several industrial markets like batteries, solar cells and LEDs"[63]. By exploiting this opportunity, the company created a new market with the aim of creating a demand through the innovation of this

[62] <www.buenaspracticasdegestion.wordpress.com>

[63] NANOWERK, "Graphenea is the main graphene producer in the European EUR 1 Billion project". *Nanowerk.com* [online], February 11, 2013. Retrieved from: <http://www.nanowerk.com/news2/newsid=28954.php> [Date of reference: November 24, 2013]

material. The main objective of the company is to satisfy high-quality demanding customers and develop increasingly pure graphene.

The result of this opportunity is that Graphenea is pioneer and leader in Europe for the fabrication of graphene films. The company is a reference within scientific research and wants to promote research on graphene by supplying this material to the most important laboratories over the world. As a Blue Ocean Strategy means no competition, the company is leader in Europe and many companies of different sectors are starting to use graphene for the production of batteries, electronics chips and LEDs such as their customers Nissan, Phillips or Canon. The product that the company is selling is an innovative product that is part of the differentiation strategy that companies are implementing. Nowadays, the cost of the product is such expensive but he company though that the economies of scale and the diffusion of this material could be a real alternative when the cost could be reduced to 3 Euros. The reduction of the cost of the material couldn’t be a real choice until six or eight years. This material is the cornerstone of the innovation value of the strategy.

Three years later, the company had achieved a production rhythm of five squared meters during a year, oscillating its price between 10 and 50 Euros. Despite its high costs, there are many customers that are buying this material for their productions. The company has discovered a Blue Ocean where the competition is irrelevant and is creating a new demand by the research of different uses that the material can be used to. The generating of this new demand is a great opportunity to exploit that the company is working on and their uses in the future are unpredictable. But in the present, Graphenea is the first company to offer graphene for commercial applications. The first customers of the company were laboratories, but its commercial applications could be an authentic revolution for electronic, energy or computing. Probably in the future, the material could be as normal as plastic and as indispensable for electronic such as silicon. Nowadays, graphene is considered by many experts as the material of the future, and if this is correct will have an advantage against its future competitors.

Depending on the possible applications of the material, the market will decide its importance in the future production systems, but nowadays graphene is a reality and in the future we will known about its success.
The main importance of this case is that Graphenea has discovered a market opportunity in a period of rough crisis, and after three years of its foundation is achieving great results thanks to the investors that had trust in this new business.

6. Summary of case studies

Firm	Strategy	Reason	Achievement
Yoigo	Low cost	End with an oligopolized industry	Nowadays, is the pioneer of low cost telecommunications in Spain and one of the four companies that are operating in this industry
Starbucks	Differentiation	Continuing selling more than coffee, selling an experience despite crisis	Expect to crisis, and restructure the company in order to improve the added value sold
Ryan Air	Low cost focus	End with the monopoly of London-Ireland flights	Nowadays, the company is the leader of short-haul and medium-haul flight in Europe
Toyota	Hybrid strategy	Be one the biggest automobile manufacturer in the world	Recover the customers' confidence to become again one of the biggest automobile manufacturer in the world
Graphenea	Blue Ocean Strategy	Be the pioneer and leader of graphene production in order to achieve a competitive advantage	Be the pioneer and leader of graphene producer in Europe. Also, the company started working with worldwide companies by supplying graphene to them

Conclusions

As we have observed in the previous academic work, there are many types of strategies depending on which scope or which source of competitive advantage the companies opt for. Those strategies vary depending on the authors and their influences in the world of strategic management. According to Michael Porter, the father of modern strategy, the strategy in the business world has achieved a great importance in order to achieve successful results. In periods of economic growth, most companies do not care about strategic aspects because earning profits isn’t difficult at all. But during periods of crisis the importance of strategic management increases in an exponential way, probably due to an inappropriate management during periods of economic growth or due to the lack of investment in research and development. This management can force companies to failure. In addition, companies with the aim to modernize themselves and with the purpose of taking competitive advantage to achieve success in comparison with their competitors are developing the strategic area in their businesses to not be back.

First of all, in the theoretical part of the academic work, we have analyzed the different types of strategies that companies can implement. Those strategies that we can see in the first part of the academic work are directly or indirectly related with Michael E. Porter and his ideas. As the father of modern strategy, we have focused this work in Michael Porter ideas, but in order to avoid setting out this subject we have also analyzed some strategies that have been derived from Michael Porter ideas. For example, some types of strategies included in the first part of the academic work have emerged as an extension of Porter’s ideas, but in fact those types of strategies are not approved by Porter. By explaining them together with Michel Porter’s strategies, we are enlarging a world where companies can choose an appropriate path, always depending in the business model that a company is carrying out. However, as always happens between theoretical and practical approaches, there is a big difference between a theoretical model and reality. Sometimes there are companies that follow a concrete strategy in a loyal way; they try to implement this path as is explained in the theoretical model. Other companies just follow a strategy in order to adapt a part of the strategy path to their businesses. Finally, many authors, analyzing the practical approach of strategic management have discovered new innovative strategies that companies are implementing nowadays in order to achieve success.

In the second part of the academic work we have analyzed case studies of strategic management under the theoretical approach of the first part of the work. We have analyzed some companies that are operating in different industries and are implementing a concrete type of strategy. To answer the question about the possibility of achieving success during crisis, we have explained the paths followed by many companies before and during the crisis. Firstly, we have started analysing companies that have implemented the most basic strategies. From the approach of Michael Porter, there only exist four types of strategies and the companies we have chosen have been loyal to them. Yoigo has implemented a low cost strategy that is very common during periods of crisis. During the economic recession, this company has achieved success competing in an oligopoly. The second case, Starbucks is one of the most successful companies in USA and all around the world. It has differentiated itself since its foundation in an industry where competition is really rough. Finally, Ryan Air is one of the most obvious examples of focusing in low cost. This company emerged many years ago to cover up the needs of a concrete segment and nowadays is operating all over the world in the aircraft industry. In the academic work we haven't analyzed companies that follow a differentiation focus strategy. The reason is because this type of strategy is usually implemented by companies that operate in the luxury industry. These companies are focused on a segment where people have enough money to not experience the economic crisis. Furthermore, the last companies we have analyzed are following strategies that are derived from Michael Porter four strategies. Toyota's strategy is equal to failure through the approach of Porter. Nevertheless, this company is an example of success in the automotive industry by the combination of low cost and differentiation. This case was chosen because of its evolution during crisis and focusing on how they have solved problems during this period defined by the lack of customers' confidence. Finally, Graphenea is an innovative company that have followed a Blue Ocean Strategy, which similar to a hybrid strategy but looking for a segment where competence is non-existent.

In conclusion, these strategies don't mean success. Even so, an appropriate implementation of them depending on the context where companies are operating can be the key of it. As we have seen, achieving success is possible but in a context where many companies are closing due to the current situation, an appropriate strategy is basic to overcome crisis. So we can conclude that achieving success during periods of crisis is not only possible, it's already a reality.

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