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# Is it possible to make competition irrelevant in a hypercompetitive converging environment?

## - *A study of mobile content providers' competitive strategies*

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## Abstract

The telecom industry of today is characterised by hypercompetition, convergence and constant change. The market for mobile services is exploding and new actors are continuously entering the market. The rapid advancements and changes in this industry provide companies with business opportunities as well as challenges due to an increasingly complex environment in terms of competition and technology. Porter's theories encourage companies to choose whether to focus on differentiation, cost-leadership or focus. The more recent theory, the Blue Ocean Strategy, BOS, is however challenging companies to make competition irrelevant. Instead of stealing market share from competitors and compete in "bloody red oceans", companies should create new untapped market space, "blue oceans". This theory is highly relevant in hypercompetitive environments such as the mobile industry.

The purpose of this thesis is to create a deeper understanding regarding mobile content providers' competitive strategies, with focus placed on whether they tend to pursue traditional competitive strategies or blue ocean strategies. The study includes in-depth interviews with the CEOs from five mobile content providers, as well as a questionnaire for visualizing the companies' strategic profiles illustrated in a strategy canvas.

All companies do have an outspoken differentiation focus, and are cost conscious. The fact that the majority is in expansion phase makes cost reductions less apparent and the slimmed cost structure provides further limitations for cost reductions. They can despite this be defined as pursuing value innovation. Partnerships are an essential part in their competitive strategies in order to seize know-how and technological advantages etc. Competition is seen as something positive which promotes the companies' own business. The companies all tend to strive for creating blue oceans; some do however include more elements from traditional theories. As a conclusion; the threat of competition can be made less relevant by making them even more relevant in a positive way through partnership etc.



**Keywords:** *Blue Ocean Strategy, Red Oceans, Competitive strategies, Mobile content providers, Hypercompetition, Convergence, Differentiation, Cost-Cutting strategies, Boundaries, Strategy canvas.*

## Glossary

| | |
|---|---|
| **3G** | Third generation (mobile systems) |
| **BOS** | Blue Ocean Strategy |
| **FMC** | Fixed-Mobile Convergence |
| **Hypercompetition** | Occurs when technologies or offerings are so new that standards and rules are in flux, resulting in competitive advantages that cannot easily be sustained. |
| **IP** | Internet Protocol – the computer networking protocol used on the Internet |
| **ISP** | Internet Service Provider |
| **VoIP** | Voice over Internet Protocol |
| **Mobile content provider** | Company developing services for use in mobile phones |
| **MVNO** | Mobile Virtual Network Operator |
| **mVoIP** | Mobile Voice over Internet Protocol - a relatively new technology that allows mobile phone users to make low cost worldwide Internet calls via WiFi, GRPS or 3G network connections. |
| **SMS** | Short Message Service – text messaging, a means of sending short messages between mobile phones |
| **Convergence** | Refers to a trend where some technologies having distinct functionalities evolve to technologies that overlap, i.e. multiple products come together to form one product. |
| **Voice** | Telephone call services |
| **WAP** | Wireless Application Protocol |
| **WiFi** | Wireless Fidelity |
| **White-Label** | Product or service produced by one company (the producer) that other companies (the marketers) re-brand to make it appear as if they made it. |
| **WISP** | Wireless Internet Service Provider |

## Useful Web Links

| | |
|---|---|
| Broaden | www.broaden.se |
| Challenger Mobile | www.challengermobile.com |
| Plusfoursix | www.plusfoursix.com |
| Squace | www.squace.com |
| The Mobil Life | www.themobilelifegroup.com |

## Table of Contents


**1. INTRODUCTION ........................................................................................... 6**
1.1 Background and Problem Discussion ........................................................................... 6
1.2 Purpose of Study ........................................................................................................... 7

**2. THEORETICAL FRAMEWORK........................................................................ 8**
2.1 The Competitive Environment of the Mobile Industry.................................................... 8
*2.1.1 Hypercompetition* ........................................................................................ 8
*2.1.2 Technological and Business Convergence*.................................................... 8
*2.1.3 A Global Market Place*.................................................................................. 9
2.2 Competitive Strategies; Red versus Blue Ocean Strategies ......................................... 10
2.3 Differentiation and/or Cost-Cutting.............................................................................. 10
*2.3.1 Red Ocean View* .......................................................................................... 10
*2.3.2 Blue Ocean View*.......................................................................................... 11
2.4 Approach to Industry Boundaries................................................................................. 12
*2.4.1 Red Ocean View* .......................................................................................... 12
*2.4.2 Blue Ocean View*.......................................................................................... 13
2.5 Compete in Existing Market Space vs. Creating New Untapped Market Space .......... 14
*2.5.1 Red Ocean View* .......................................................................................... 14
*2.5.2 Blue Ocean View*.......................................................................................... 15
2.6 Application of the Theoretical Framework.................................................................... 16

**3. METHODOLOGY ........................................................................................... 18**
3.1 Methodological Approach ............................................................................................ 17
3.2 Qualitative Interviews................................................................................................... 17
3.3 Questionnaire .............................................................................................................. 17
*3.3.1 Strategy Canvas; A Tool for Visualising Strategic Profiles* ........................... 18
3.4 Secondary Data ........................................................................................................... 19
3.5 Selection of Interview Respondents............................................................................. 19
3.6 Critical Review of Methodology.................................................................................... 20
*3.6.1 Critical Review of Literature*.......................................................................... 20
*3.6.2 Validity*.......................................................................................................... 20
*3.6.3 Reliability*...................................................................................................... 21
*3.6.4 Weaknesses*.................................................................................................. 21
3.8 Delimitations ................................................................................................................ 21

**4. EMPIRICAL FINDINGS ................................................................................. 22**
4.1 Brief Presentation of the Companies Studied .............................................................. 22
4.2 The Competitive Environment of the Mobile Industry................................................... 23
4.3 Strategy Canvas – Visualising the Companies' Strategic Profiles ................................ 25
4.4 Differentiation and/or Cost-Cutting Strategies.............................................................. 25
4.5 Approach to Industry Boundaries................................................................................. 28
4.6 Competing in Existing Market Space vs. Creating New Untapped Market Space......... 30

**5. ANALYSIS..................................................................................................... 32**
5.1 The Competitive Environment of the Mobile Industry................................................... 32
5.2 Differentiation and/or Cost-Cutting Strategies.............................................................. 33

5.3 Approach to Industry Boundaries ........................................................................................ 35
5.4 Compete in Existing Market Space vs. Creating New Untapped Market Space .......................... 36

**6. CONCLUSIONS ........................................................................................................ 39**

**References ................................................................................................................ 39**

**Appendix I; Interview Guide ........................................................................................ 44**
**Appendix II; Questionnaire .......................................................................................... 45**

## Table of Figures

**Figure 2.1** Work-Specific Theoretical Model ..........................................................................................16
**Figure 3.1** Example of a Strategy Canvas ...............................................................................................18
**Figure 3.2** Work-Specific Theoretical Model – the Relation to the Strategy Canvas...............................19
**Figure 4.1** Strategy Canvas – Visualising the Companies' Strategic Profiles ........................................25
**Figure 5.1** Strategy Canvas, Part 1 – Differentiation and/or Cost-Cutting Focus ...................................33
**Figure 5.2** Strategy Canvas, Part 2 – Approach to Industry Boundaries ................................................35
**Figure 5.3** Strategy Canvas, Part 3 – Existing Market Space vs. New Untapped Market Space ...........36

# 1. INTRODUCTION

*In this introductory chapter, the background to the research area of the thesis and the problem discussion are given, followed by the purpose of the study. To clarify the focus of the thesis further, the purpose has been divided into two research areas.*

## 1.1 Background and Problem Discussion

Everything is going mobile. The global mobile industry is experiencing a revolution in terms of integration of new technologies and applications.[1] The number of mobile subscribers around the world has more than doubled in the last five years. There are over 2.6 billion mobile phone subscribers globally and these figures are growing rapidly, not least thanks to emerging markets.[2] The mobile phone is gaining a more and more important role in people's lives - *"the mobile is the remote control of life".*[3]

As a result of the rapid development of telecommunications, the Internet, broadcast networks, and the emergence of new technologies and services, the boundaries between the different communication industries have in principal blurred.[4] This convergence process is changing the roles of telecom industry actors and Internet players. Hence, this is generating new ways of organising global business, a re-evaluation of business models and changing the competitive landscape from formerly distinct markets.[5] On one side stand Internet players, such as Google; on the other, telecom giants, such as Nokia. In between these, media and a great amount of new entrants are fighting for market share.[6] The next step of convergence implies the integration of voice, video and data; all together in one multimedia device.[7] The trend pointing towards a convergent future is confirmed by the major recent investments in R&D and M&As made by telecom actors and IT industry leaders. Apple launched its first mobile phone, the Iphone, earlier this year, gaining enormous attention worldwide.[8] Also, established media players are investing heavily in mobile communication, now offering mobile services to lure customers away from the traditional telecom players.[9]

This ever-changing, converging environment of the global mobile market creates multiple new business opportunities for mobile content providers. However, the competitive pressure is escalating, which

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[1] The Netsize Guide. Convergence: Everything's going mobile, 2007-11-01
[2] Global Mobile Communications – Statistics, Trends & Forecasts Report, 2007-11-03
[3] Computer Sweden, *"Mobilen i centrum hos Microsoft",* 2007-11-09
[4] Steinbock, 2005
[5] The Netsize Guide. Convergence: Everything's going mobile, 2007-11-01
[6] Erlandsson, *"Sökjättens eget system, Google ger sig in i kanmpen on mobilanvändarna med gratis programvara,* SvD, 2007-11-06
[7] Ekonominyheterna TV4, *"Nokia vs. Google",* 2007-11-09
[8] Augustsson, *"Öppnar för Nätet",* SvD, 2007-11-02
[9] The Netsize Guide. Convergence: Everything's going mobile, 2007-11-01

poses major challenges. The telecom industry is characterised by hypercompetition, where emerging technologies, complex interactions and unexpected user patterns result in unforeseeable outcomes.[10] Although voice is still representing the key driver of the mobile traffic in the world, there are tendencies towards increased revenues from mobile services. With the transition from voice traffic to data, the pace of mobile content evolution has accelerated substantially.[11] Billions are invested and the market for new mobile services is booming – the battle of mobile services has just begun.[12] Factors, such as price and quality, timing and know-how, business territories and financial strength, have always been of great importance in companies' strategies for remaining competitive.[13] More recent research on competitive strategies in a dynamic environment includes the Blue Ocean Strategy, BOS, based on fifteen years of research, which is challenging companies to make the competition irrelevant. Instead of stealing market share from competitors and compete in "bloody red oceans", companies should create new untapped market space, "blue oceans", and make the competition irrelevant.[14]

Although the industry is experiencing a rapid growth across the world, the documentation and information about mobile content providers' strategies for handling competition are scarce. On this background, it is highly interesting to scrutinise how recently established actors in the mobile industry perceive and manage the competitive environment. We are interested in investigating whether the BOS is applicable in practice, or if companies compete on the basis of traditional factors to sustain their competitive advantage. A dynamic, converging environment, such as the telecom/IT industries, should be an ideal environment for companies to create new untapped markets, blue oceans. Based on this reasoning it is interesting to examine whether BOS is applicable in practice, i.e.; *is it possible to make competition irrelevant in a hypercompetitive, converging environment?*

## 1.2 Purpose of Study

The aim of this study is to increase the understanding regarding the relevance of the BOS. This purpose can be divided into two parts, which will be the focus areas of this thesis:

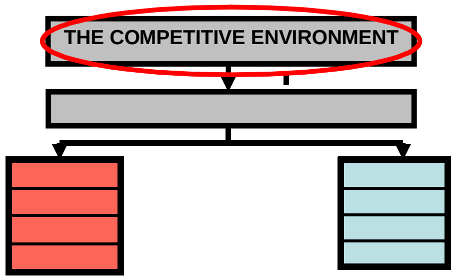
1. To gain an understanding regarding the competitive environment, perceived by mobile content providers.
2. To scrutinise mobile services companies' competitive strategies, with focus placed on whether they tend to pursue traditional, so called red ocean strategies, or blue ocean strategies.

[10] D'Aveni, 1995
[11] The Netsize Guide. Convergence: Everything's going mobile, 2007-11-01
[12] Ekonominyheterna TV4, *Här är årets bästa mobilföretag*, 2007-11-09
[13] D'Aveni, 1995
[14] Kim & Mauborgne, 2005

# 2. THEORETICAL FRAMEWORK

*This chapter presents the characteristics of the competitive mobile industry; hypercompetition, technological and business convergence and globalisation. Furthermore, three research areas are presented from two different perspectives; red ocean view and blue ocean view. These research areas are summarized in a work-specific theoretical model.*

## 2.1 The Competitive Environment of the Mobile Industry




In order to understand mobile content providers' strategies, it is important to understand the industry characteristics and competitive environment the companies are facing. The following section will describe the mobile industry characteristics.

### *2.1.1 Hypercompetition*

A hypercompetitive environment can be described as a marketplace with an escalating level of competition. Hypercompetitive environments are often characterised by rapid changes in technology, regulations, relative ease of entry and exit and ambiguous customer demands. These rapid changes make it tough for companies to keep their competitive advantages for a longer period of time. When technologies shift, competences are destroyed and open the door for rivals to enter the market based on the new technology.[15] D´Aveni´s definition of hypercompetition is: *"Hypercompetition is characterised by intense and rapid competitive moves, in which competitors must move quickly to build (new) advantages and erode the advantages of their rivals."*[16] This state of competition is characterised by an increased competitive environment in terms of price, quality, know-how and pioneer advantages. The frequency of aggressive actions in the marketplace is causing a state of constant imbalance and change. The market's stability is threatened by short product life cycles, new technology, new entering firms and radical changes in the marketplace, such as the development of new markets.[17] The converging markets of IT and telecom are, due to the rapid advancements in technology, deregulation and intense competitive environment, a highly hypercompetitive environment.[18]

### *2.1.2 Technological and Business Convergence*

Technological convergence refers to the way technologies are increasingly converging into one. In the digital world of today, convergence can be defined as "*the liquidity of information which can easily flow seamlessly from one device to another across varying channels, carriers, form factors and technological*

[15] Bogner & Barr, 2000
[16] D´Aveni & Thomas, 2004
[17] D´Aveni, 1995
[18] D´Aveni, 1995

*standards."*[19] Historically, telecom network operators have controlled all elements of the value system. Today, convergence of the telecommunications and IT industries (networks, systems, fixed and mobile services, TV and broadband), brings more players from various industries into the market in more complex value systems. Convergence offers telecom companies a world of opportunities, but rapid technology developments are also presenting new challenges.[20] A fundamental issue is the distinct shift in the telecoms industry away from paying for voice communication to paying for data. This is affecting the core businesses of telecommunications operators.[21]

As convergence continues apace, the competitive landscape is changing. Established players face intensifying competition from each other and rebelling actors, as new service opportunities arise. There is also competition between content providers due to an excess supply of mobile services and the globalisation. [22] The introduction of new players is making it increasingly difficult for telecom providers to build long-term relationships with customers. In the value system currently emerging, telecom operators have not only lost their monopoly on voice communications, they also must compete with other suppliers for customer access.[23] Growing customer demands for mobile services from an increasing variety of sources require telecom providers to partner with other actors in the values system.[24]

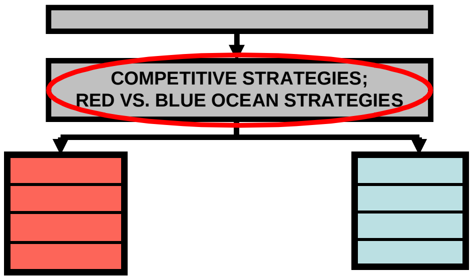
### *2.1.3 A Global Market Place*

There are four key drivers of growth in the industry: *globalisation, increasing specialisation, deregulation and rapid advancement in IT.* [25] The convergence of telecom and IT has led to a geographical convergence, where interactions and communication are no longer hindered by distance. [26] Globalisation comes as a direct consequence of convergence, digitalisation and the Internet and puts pressure on service providers to increase their competitiveness.[27] In order to keep up with the latest innovations, companies are pushed to focus on core competencies and outsource peripheral activities. Companies are increasingly realising that by outsourcing, they will be able to obtain specialised services with higher quality and at the same time reduce their costs. [28] The trend towards increasing specialisation is also fostered by increasing deregulation of different markets. Deregulation drives competition, leading to lower prices, better quality, as well as a wider variety of services offered to

[19] The Netsize Guide, Convergence: Everything's going mobile, 2007-11-01
[20] Steinbock, 2005
[21] OECD, Communications Outlook 2007-11-11
[22] Stream Magazine, October 2007
[23] OECD, Mobile Commerce, 2007-11-11
[24] IBM, Profiting from Convergence, 2007-11-09
[25] Lovelock et al., 2002
[26] IBM, Profiting from Convergence, 2007-11-09
[27] OECD, Working Party on Telecommunication and Information Services Policies, 2007-11-11
[28] Bitner et al., 2006

customers.[29] To respond to the new competitive pressures of liberalisation, an increasing number of companies are striving for new levels of innovative thinking.[30] Services are becoming more complex, and hence, technological innovations are needed in order for companies to respond to the more sophisticated demand and staying competitive.[31]

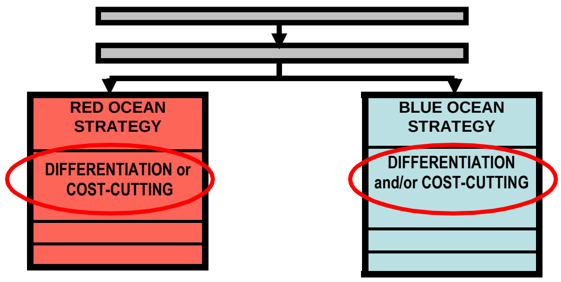
## 2.2 Competitive Strategies; Red versus Blue Ocean Strategies




Companies' competitive strategies are highly dependent on the competitive environment they are operating in. There are however different approaches existing on how to tackle the competitive situation in a hypercompetition.[32] Traditional approaches are highly influenced by Porter.[33] Kim and Mauborgne are presenting a newer approach with the aim of making the competition irrelevant by creating new untapped market space, called the BOS.[34] They describe the traditional approach as competing in "bloody red oceans" of competition. The traditional approach is named "red ocean view" in this study.

## 2.3 Differentiation and/or Cost-Cutting

*2.3.1 Red Ocean View*




Traditional competitive theories emphasise the importance of creating one sustainable competitive advantage. Porter has developed one of the most recognised theories and describes three types of competitive strategies; cost-leadership, differentiation and focus. Porter emphasises the danger of being "stuck in the middle", and therefore the importance of selecting only one strategy. If a company tries to adapt many strategies simultaneously, it will probably lose focus and also its competitive advantage.[35] The strategies for attaining one of Porter's three competitive strategies are as follows. A *cost-leadership* can be attained by producing a high volume of standardised products at a low cost, resulting in a cost advantage or economies of scale and the possibility to offer the lowest price on the market in order to

[29] Bitner et al., 2006
[30] Lovelock et al., 2002
[31] Bitner et al., 2005
[32] D'Aveni, 1995
[33] Porter, 1985
[34] Kim & Mauborgne, 2005
[35] Grant, 1991

reach great volumes. This requires a big customer base and a strong focus on reducing all costs possible. Successful firms often have a big market share and/or an advantage in the access to input components.[36] The *differentiation* strategy's aim is to produce a unique product that creates a high customer value. This uniqueness will hopefully make customers willing to pay a premium price. These customers tend to be fairly brand loyal. Another kind of differentiation strategy is the *focus* strategy; to tailor the company's marketing mix for one or more niche markets. By focusing on a smaller market, it is easier to serve the needs of this specific market. The aim of this strategy is to create an effectiveness advantage rather than an efficiency advantage. Traditional competitive theories therefore encourage companies to differentiate from their competitors by product differentiation/market differentiation (focus) or adopting cost-cutting strategies.[37]

#### *2.3.2 Blue Ocean View*

The BOS has adopted a different opinion in this matter, compared to the traditional theories of differentiation versus low-cost strategies. The authors criticise Porter's theory of focusing on either differentiation or low-cost strategies. The cornerstone of BOS is to create a competitive advantage through value innovation; *the simultaneous pursuit of differentiation and low cost*. Value innovation is achieved when companies are cutting their costs at the same time as they raise the buyer value. The strategy for achieving value innovation can be explained as follows. Cost savings are made by *eliminating* and *reducing* some of the factors that an industry competes on. Frequently, those factors are taken for granted although they no longer have value or may even detract from value. If so, this factor should be eliminated or reduced in order to reduce costs. This question pushes the company to determine whether they over-design their products or services in order to match and beat their competitors. In such cases, the company over-serves customers, and thereby increases the cost structure of the company for no gain.[38] Differentiation can be reached by *raising* factors above the industry's standards. This forces the company to uncover and minimise the compromises that the industry pushes customers to make. The company can also *create* factors that the industry has never offered, which helps the company to discover new sources of buyer value, create new customer demand and shift the strategic pricing. A successfully implemented BOS provides strong barriers to imitation, such as conflict with other companies' brand image, legal permits or patents, network

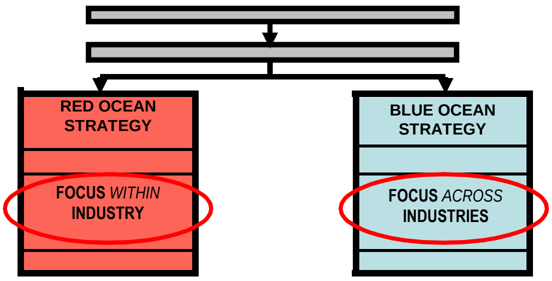
[36] Barney & Hesterly, 2006
[37] Ibid.
[38] Kim & Mauborgne, 2005

externalities etc.[39] Value innovation is thus reached by breaking the traditional trade-off between differentiation and low cost. Instead of choosing *one* strategy, a company must pursue both.[40]

One company example worth mentioning in this matter is Dell Computer, which created a new blue ocean in the computer industry by linking technology to elements valued by customers. Traditionally, the industry players competed on providing higher speed computers having more features and software. To challenge this industry, Dell changed the purchasing and delivery experience of buyers by selling direct to customers. This provided them with the ability to reduce the price to substantially less than other players, as well as to reduce delivery time. Furthermore, the company's online and telephone ordering system allowed the customers to tailor their computers to their preferences. Through this built-to-order model, Dell was able to significantly lower inventory costs.[41]

## 2.4 Approach to Industry Boundaries

### *2.4.1 Red Ocean View*




Red ocean strategy represents a traditional market space where products and services are well-defined and competitors are known. Traditional markets are large and the rate of product innovation is modest. Hence, the market is heavily populated by competition and the rules of competition are known. In this environment, companies strive to outperform their rivals within their industry in order to seize a greater share of already existing demand. As the market space gets crowded, the prospects for growth and profitability are reduced. Products become commodities, and a price-war is often the result. Most businesses operate within such market space. [42]

The competition-based strategies have been the main focus of strategy thinking over the past decades. The result has been a rather good understanding of how to compete competently in red oceans, through analysing the underlying conditions and economic structure of an existing industry and benchmarking the competition.[43] The aim of Porter's traditional competitive theory is to make a choice between strategic positions of differentiation, low cost or focus.[44] Although it will always be important to swim

[39] Ibid.
[40] Ibid.
[41] Kim & Mauborgne, 2005
[42] Grant, 1991
[43] Kim & Mauborgne, 2004
[44] Porter, 1985

successfully in the red ocean by outcompeting rivals, competing for a piece of market share in markets where supply exceeds demand, will not always be sufficient to sustain high performance.[45]

### *2.4.2 Blue Ocean View*

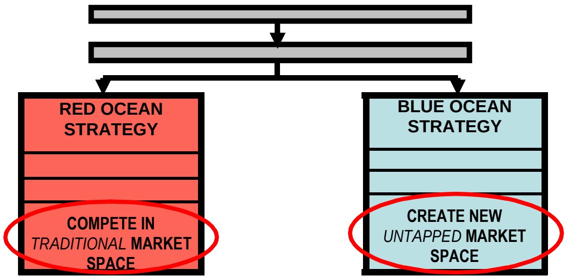
The aim of BOS is to find and exploit uncontested market space. Companies must realise that in order to win in the future, they must stop competing with each other; stop benchmarking the competition. In other words, the only way to stop beating the competition is to stop *trying* to beat the competition. It is imperative that a company views the competition from a broad perspective and considers industries that produce *alternative* products or services, with different functions and forms but the same purpose as the company. *Alternatives* are broader than *substitutes*, which have different forms but offer the same functionality.[46] It is also important to look across segments within industries. According to Kim and Mauborgne, most companies focus on improving their competitive position *within* a segment and focus on outcompeting one another in the same segment. It is as important to understand the actions of companies in other segments within the industry that pursue similar strategies. In general, these segments can be ranked in a hierarchical order based on two dimensions; price and performance. Each climb in price tends to bring a corresponding climb in some dimensions of performance. To be able to create new market space, it is therefore important to understand which factors that determine customers' decisions to trade up or down from one segment to another.[47]

The blue ocean view also focuses on the importance of looking across the chain of buyers. By challenging an industry's traditional perception of which buyer group to target, and looking across buyer groups, a company can gain insight into how to focus on overlooked groups of buyers. In this matter, Kim and Mauborgne underline the importance of considering the whole chain of buyers, including the purchasers, who pay for the product or service, the actual users, as well as important influencers. These may have different views on and definitions of value. By focusing on all these groups, the company can break away from competition and create new market space. Competition is seen as irrelevant, as the rules of the competition are waiting to be defined.[48]

[45] Kim & Mauborgne, 2005
[46] Ibid.
[47] Ibid.
[48] Ibid.

## 2.5 Compete in Existing Market Space vs. Creating New Untapped Market Space

### *2.5.1 Red Ocean View*




The red ocean view represents the traditional market space, a constant battle of market share against competitors; a bloody red ocean.[49] Competition in such markets is dominated by the quest for economies of scale from standardised production, mass marketing and brand benefits. To be successful in red oceans it is imperative to conduct competitor analysis to stay updated with competitors' moves and coming actions. The company then has to adapt their strategies depending on what they think their competitors' future actions will be. This type of strategies represents approaches to protect market share from competitors, as well as stealing market share from competitors.[50] According to D'Aveni, market share can be stolen from competitors if the company succeeds in satisfying their customers better than its competitors. D'Aveni calls this: superior ability to create satisfied customers.[51] In order to protect and steal market share, the company needs to create services in line with customers' preferences; either by incremental revisions of existing services, or by creating truly new services; new-to-the-world services. Most new services are developed through incremental revisions or copies of competitors' services.[52]

The importance of creating first-mover advantages is underlined when competing in a traditional market space where competition is based on price and quality. By being flexible, a company can reposition due to changes in customer demands and/or trends. The first-mover advantage provides a company with benefits such as acquiring low-cost sources of raw materials, economies of scale, know-how etc.[53] Therefore, companies need to develop their abilities to *position for speed and surprise*. It is important to be able to exploit sudden and temporary opportunities on the market before competitors do so. If a company is able to surprise competitors, it will paralyse them for a shorter period of time, and the company can therefore benefit from its advantage for a bit longer. This ability to take advantage of unpredicted changes and disturbances in a hypercompetitive market is crucial. The traditional theory focuses on adapting to external trends as fast as possible as they occur.[54]

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[49] Kim & Mauborgne, 2005
[50] Grant, 1991
[51] D'Aveni, 1995
[52] Steinbock, 2005
[53] Porter, "*Strategy and the Internet*", 2001
[54] D´Aveni, 1995

*2.5.2 Blue Ocean View*

Blue oceans refer to all industries not existing today; the *unknown* market space. Blue oceans are characterised by unexploited market space and opportunities for highly profitable growth. Focus is placed on creating new untapped market space, and hence making the competition irrelevant. There are different ways to create blue oceans. In a few cases, companies can give rise to completely new industries, as eBay did with the online auction industry.[55] Although some blue oceans are created well beyond existing industry boundaries, most are created from within red oceans, when companies alter the boundaries of an existing industry. A company can create new untapped market space by innovating a new service or product which will create a new market. A company should try to find, or create new customer demands, which then can be exploited by offering a particular product or service. Hence, the blue ocean approach focuses on creating new-to-the-world services, also called disruptive services, in order to create new market space.[56] Developing such new services carries the highest risk, but also the greatest potential rewards.[57] Companies should also consider complementary products and services that affect their offerings' value and the demand for their business. In most industries, however, rivals converge within the boundaries of their industry's product and service offerings. The key here is to define the total solution buyers seek when they choose a product or service and hence, the context in which the company's product or service is being used. Unexploited value is often hidden in complementary products and services. Therefore, it is important to consider what happens before, during and after the service is used.[58]

Kim and Mauborgne argue that most companies tend to adapt incrementally to new trends and focus on projecting the trend itself, rather than participating in *shaping* new trends. This means that they pace their actions to keep up with the development of the trends they are following. They emphasise the importance of looking *across* time. Their arguments regard the importance for companies to consider external trends that have a high probability of affecting the industry over time, and how these trends will impact their business model and change the value to customers. To create untapped market space, they mean, companies need to find insight in trends that are observable today and look across time from the value a market creates today to the value it may deliver tomorrow.[59] In order to assess trends across time, three principles are essential; these trends must have decisive impact to the company's business, they must be irreversible and they must have a clear path. As an example, Apple monitored

[55] Kim & Mauborgne, 2004
[56] Ibid.
[57] Steinbock, 2005
[58] Kim & Mauborgne, 2005
[59] Ibid.

the flood of illegal music file sharing that began in the late 1990's. Various music file sharing programs, such as Kazaa, Napster and LimeWire etc. created a network of Internet users who freely, yet illegally, shared music across the world and by 2003, more than two billion illegal music files were being traded each month. This trend toward the use of digital music was clear and to capitalise on this trend, Apple launched the legal, easy-to-use, iTunes online music store in 2003.[60]

## 2.6 Application of the Theoretical Framework

In order to compile and analyse the empirical information, we have developed a work-specific conceptual model, based on the theoretical framework. The competitive environment is affecting how the companies will develop their strategies for handling this competitive situation. We will analyse the empirical information based on our theoretical model, identifying three key research areas in which these strategies differ from each other.

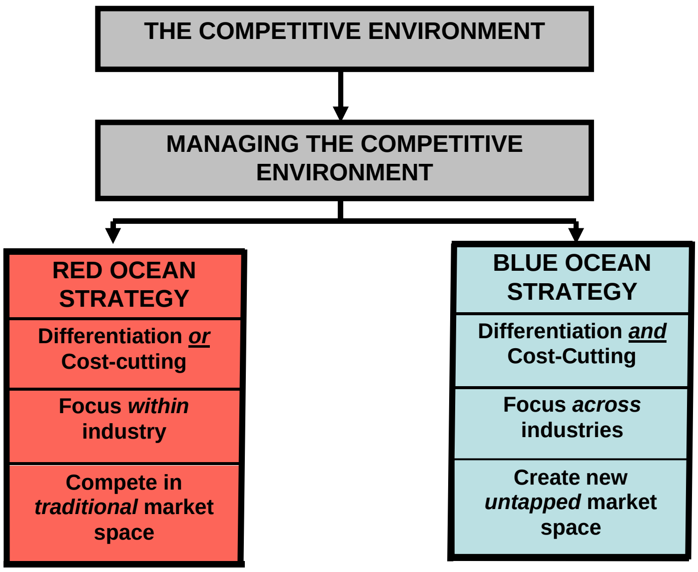


*Figure 2.1: Work-Specific Theoretical Model*

[60] Kim & Mauborgne, 2005

# 3. METHODOLOGY

*This chapter introduces the methodological approach and sources for collecting data. The strategy canvas is presented as a tool for analysing the empirical data. Weaknesses of the research design are addressed in a critical review.*

## 3.1 Methodological Approach

In order to fulfil the purpose of this study in the best possible way, we have mainly chosen a qualitative approach. A qualitative study ensures that the relevant information is gathered in a flexible way and enables the researcher to acquire a rich and in-depth understanding of the research topic.[61] We are still at the early stages of the globalisation and convergence trend and the competitive conditions for mobile content companies are changing continuously. We have chosen to conduct qualitative interviews with companies developing mobile services. We have also some quantitative influences in our study since we have a complementary questionnaire aimed for the same respondents. This questionnaire will be used for creating a strategy canvas which will visualise the companies' competitive strategies discussed in the in-depth interviews.

## 3.2 Qualitative Interviews

Interviews give the researcher the opportunity to ask resulting questions, and the answers and views of the respondent can be developed and deepened. A skilled interviewer can explore answers and follow up on ideas and feelings in a way that is impossible when using questionnaires.[62] These arguments have inspired us when conducting the interviews. This study consists of face-to-face interviews with five mobile content companies; each lasting for about one hour. The aim of the interviews is to get in-depth information regarding our three research areas in the theoretical model. In order to facilitate flexibility, the interviews conducted have been semi-structured and open ended, following an interview guide with the purpose of letting the respondent express his or her own ideas and reflections. The interview guide is designed based on the three research areas in the theoretical model. This means that they have three sections, each corresponding to a research area. The topics were structured to leave room for discussions according to the main points of our theoretical model.

## 3.3 Questionnaire

We have developed a complementary questionnaire including questions corresponding to each of the three research areas in our theoretical model. Each area has two corresponding questions; one

[61] Holme & Solvang, 1997
[62] Kinnear & Taylor, 1996

question aimed to "measure" red, and one for blue influences in their competitive strategies. The purpose of this questionnaire is to make it possible to visualise the focus points of the responding companies' competitive strategies in a strategy canvas, as described in paragraph 3.3.1. The questionnaire is designed based on the three research areas in the theoretical model. The questionnaire consists of eight statements regarding the companies' competitive strategies. The respondents will rate the statement using a Likert scale ranging from 1 (disagree) to 7 (agree very much). By using a scale of seven alternatives, a more precise pattern can be provided compared to a scale of five alternatives. The respondents also have the alternative to choose a neutral option, number 4.

### *3.3.1 Strategy Canvas; A Tool for Visualising Strategic Profiles*

The strategy canvas is a tool for visualising competitive strategies. The canvas can be used to reveal specific companies' strategic profiles by plotting out their value curves. This gives good information about where focus is placed in their individual strategies. The strategy canvas will also show the companies' competitive profiles in relation to the other companies in the study.[63] The strategy canvas is created based on the questionnaire answers. The result will be one value curve per company, showing their strategic profiles. An area which the company perceives as important in their competitive strategies will receive a higher number on the y-axis and areas with low importance a low number. The strategy canvas in this study will be used as a tool for visualising the companies' competitive strategies, and hence, facilitate the work of finding similar patterns in their competitive strategies. Each of the three research areas in the theoretical conceptual model has corresponding questions in the strategy canvas: Research area A; Factors of competition number 1 & 2. Research area B; Factors of competition number 3 & 4. Research area C; Factors of competition number 5, 6, 7 & 8 (Figure 3.1 and 3.2).

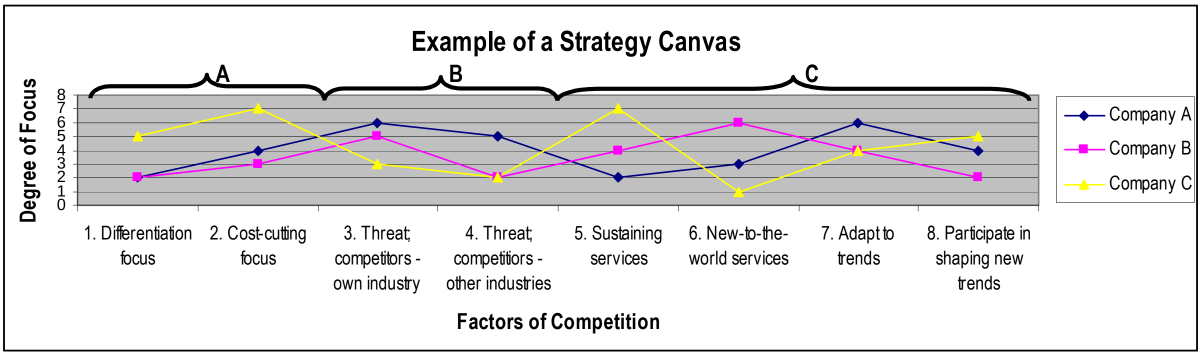


*Figure 3.1: Example of a Strategy Canvas*

[63] Kim & Mauborgne, 2005

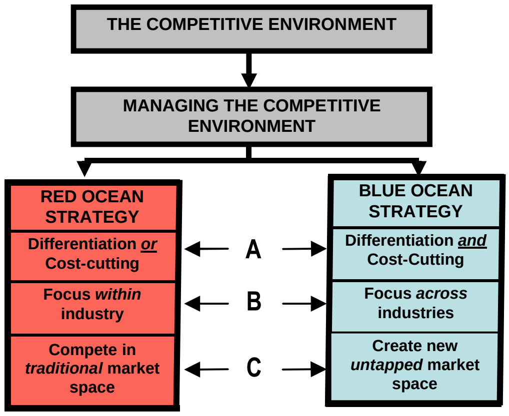


*Figure 3.2: Work-Specific Theoretical Model - the Relation to the Strategy Canvas*

## 3.4 Secondary Data

With regards to the importance of having a theoretical knowledge before collecting the data, our starting point of this research project was a thorough review of relevant literature in reference to our research topic. We have chosen to focus on the BOS theory in this research. However, we have also collected relevant theories regarding traditional competitive theories and the industry characteristics to create our own theoretical framework for our specific purpose of study. Further industry information aggregated includes a range of scientific articles, research papers and reports from industry journals.

## 3.5 Selection of Interview Respondents

The companies in this study are selected based on certain criteria in order to be relevant for the purpose of study. They are all recently founded; between year 2001 to 2006, and small actors with 10-35 employees. The companies are all mobile content service providers, meaning that they develop services for use in mobile phones. Knowledge about mobile content companies has been gained through studying industry journals, company websites, and meeting with the manager of TelecomCity, a Swedish network organisation and knowledge centre consisting of companies working with telecommunications, mobility, Internet and with the convergence between them.[64] Based on these inputs, the responding companies were found and appointments for a personal interview were scheduled over the phone with the CEOs in person. Although the responding companies' structure, historical background and service portfolio differ from each other, they operate in the same competitive environment. This industry is characterised by diversity which means that it is impossible to find several companies which are offering the same service portfolio or have the same business scope. The purpose

[64] Telecom City Homepage, www.telecomcity.org, 2007-12-18

of this study is also to explore if it is possible to create and capture a new market space, meaning that it is not feasible to study identical companies.

## 3.6 Critical Review of Methodology

### *3.6.1 Critical Review of Literature*

The BOS is complemented with traditional theories from well known authors within the field of competitive strategies, such as Porter, D'Aveni etc. Much of the theoretical framework is based on the BOS and the authors' mentality, also their view on traditional competitive strategies. This could be considered as a weakness of this thesis. The fact that this study is testing the BOS, its relevance and level of application in practice, does however justify this fact. We do not claim this mentality to be flawless or the correct approach to strategies; the purpose is to contribute to the knowledge and regarding the BOS theory's relevance and legitimacy.

The BOS gives several examples of companies that have succeeded in creating blue oceans; these companies mentioned by Kim and Mauborgne have however not created these blue oceans by using the BOS. Some critique can be dedicated the BOS for being too descriptive and not providing any examples of companies that have succeeded in creating a blue ocean using the tools and strategies provided by the authors. The BOS is however based on fifteen years of research and is contributing to the knowledge regarding strategic planning, the importance of having a wide perspective and thinking "outside the box". The authors are also encouraging companies to find their own ways instead of following previous best seller advice. The ideas of the BOS provide managers with new perspectives and ways of thinking in their strategic planning.

### *3.6.2 Validity*

We have designed the interview guide with the aim to avoid leading questions in the form and during the interviews. We have chosen questions derived from the theory that we think are highly relevant to gain a deep understanding regarding the areas of focus in our research. This contributes to the validity of the study. Something that could affect the validity negatively is if the mixes of questions in the interviews are not ultimate. This is an explorative study; we do not know how the reality is in advance, and we could therefore have missed to ask a relevant question. The authors conducted and analysed the interviews together in order not to miss relevant information, and hence, to raise the validity. The interview respondents are CEOs of the companies of focus for our research. The CEO, if anyone, should have the most accurate knowledge and perception regarding the company's competitive strategies. This is therefore raising the study's validity.

### *3.6.3 Reliability*

We have described our course of action when we designed the interview guide, conducted the interviews and also analysed the interviews. This contributes to the understanding of how the study is performed and raises the reliability. We asked the questions in the same way to all respondents, in order not to influence them in different directions. The interviews were all face-to-face interviews. This offers the advantage that we can further explain a question if a respondent does not understand the question. We also sent the respondents the interview guide in advance so they could read the questions beforehand and therefore be better prepared. Our perception is however that the questions were easy to understand and we did not need to explain anything further during the interviews. The interviews have been recorded and transcribed right afterwards by both of us, to avoid any misperceptions. We strive to be as neutral and objective as possible in order not to lead the result in any certain direction.

### *3.6.4 Weaknesses*

A CEO could be keen to describe the company as rational, up-to-date and professional in all possible directions. This could negatively affect the study if they not are giving accurate and honest answers to our questions. Competitive strategies could be defined as confidential information, not supposed to leave the company. We have however informed the respondents before they accepted to participate in this study that the subject of research was competitive strategies. The respondents could therefore have chosen not to participate if they found the area was sensitive. We perceived the respondents to be very open to be included in the study and also about the subject.  We have also offered the respondents the option of being anonymous in the study, but all agreed to be named in the study. Our impression is therefore that this is not a problem in this study. The companies interviewed are all operating in the mobile content industry. However, they have slightly different focus in their offerings, which makes them slightly different from each other. This could affect their competitive strategies, since their environmental conditions differ. We are aware of this, and have chosen companies that are as similar as possible.

## 3.8 Delimitations

Due to time restrictions, the scope of this thesis is based on in-depth interviews with five mobile content providers. With respect to the global marketplace together with the purpose of this study, we make no distinction between different geographical markets. Focus of the research is placed on the research areas, visualised in the theoretical model, Figure 2.1. Hence, other internal and external factors such as organisational structure, market-specific environmental factors that could impact their competitive strategies go beyond the scope of this thesis.

# 4. EMPIRICAL FINDINGS

*This chapter provides the five responding companies' view on how they perceive the competitive environment in the industry, and their opinions regarding the three research areas. The questionnaire results are also presented in a strategy canvas.*

## 4.1 Brief Presentation of the Companies Studied

*Squace* was founded in 2006 by two partners and currently the company has fifteen employees. Squace has developed a mobile service used for navigating, storing, sharing and personalising the mobile phone, without typing; Web 2.0 in the mobile phone. The company's aim is to create *"the new Google in the mobile"*, which is supposed to be free and easy to use.[65] Squace was nominated for Golden Mobile Award in the category "Newcomer of the year", in October this year.[66] The company's CEO, Aage Reerslev, has several years of previous experience as an entrepreneur in the industry, from starting up a range of companies as a consultant.[67]

*Challenger Mobile* was established in 2001 and currently has around ten employees. The company has developed a next generation platform for mobile Internet telephony, mVoIP, offering free mobile calls that works all over the world.[68] In October 2007 they were nominated for Golden Mobile Award in the category "Innovation of the year".[69] The company has established a representation office with sales staff in Shanghai, China. The CEO, Christina Sundman, has prior experience within the industry and has previously been owner and CEO of a corporate finance/stock broker company and a consulting company working with M&As and start-up companies.[70]

*Plusfoursix* was established in 2003 by three partners to work on technology developments for the music industry. Plusfoursix today, is focusing on development, management and delivery of quality mobile content services. The main areas in which they operate are music and mobile marketing. The company's CEO, Fredrik Frenckner, joined the company in February 2006 with a background from corporate finance, focusing on mobile media. Currently, the company has thirty five employees in Sweden, and ten in their office in India. [71]

[65] Squace Homepage, www.squace.com, 2007-12-05,
[66] Ekonominyheterna TV4, *Här är årets bästa mobilföretag,* 2007-10-02
[67] Reerslev, Squace, Interview, 2007-11-28
[68] Challenger Mobile Homepage, www.challengermobile.com, 2007-12-01
[69] Ekonominyheterna TV4, *Här är årets bästa mobilföretag,* 2007-10-02
[70] Challenger Mobile Homepage, www.challengermobile.com, 2007-12-01
[71] Franckner, PlusFourSix, Interview, 2007-11-21

*Broaden* was established in 2002 and currently, the company has fifteen employees. Broaden develops mobile media solutions and its business scope is to provide mobile TV and mobile communities; from content production, platform creation and streaming to rights management. The CEO Daniel Söderberg has five years of experience within the company and ten years of experiences within the industry.[72]

*The Mobile Life* is a multinational developer and provider of mobile communities. The company was founded in 2005 with the vision to gather people around specific categories, such as fashion, sports and dating, and enable them to communicate through the mobile Internet. The company currently has around ten employees in Sweden, Malaysia, Italy and Singapore. The CEO and co-founder, Christopher Magnani, has previous experience within the industry, working with software technology since 1995.[73]

## 4.2 The Competitive Environment of the Mobile Industry

*Squace* experiences competition from all different directions in the industry. It is an emerging market and the competition will be extremely fierce in the future. But, there is at the same time a need for many actors and there is room for them. Squace has a positive attitude towards new entrants. They are competitors, but will compete in different fields. Squace perceives that the mobile world will be as the future Internet world, everything will be financed by advertisements and the consumer will only pay a fixed price for access. The greatest barrier of entry is technology; it is expensive and complex to develop mobile services. Still, there is no user-interface standard. The operators are also a great barrier, they have the power and there are limitations due to subscriptions etc. Uncertainty for consumers is a barrier since they do not know the price for mobile surfing and find it complex to use.[74]

*Challenger Mobile* perceives a low degree of competition in the industry since not many companies are offering the same services as they are. They predict the rivalry to increase in the future, but also the demand. As the same time as the rivalry increases, opportunities for partnering are also increasing. Small companies have the highest barriers of entry. They do not get any attention and need to develop brand awareness. Another barrier is the operators and the mobile handset manufacturers, which have the power in the industry.[75]

> *"Today, the big dragons; the operators and the mobile handset manufacturers, have the power in the industry".*[76]

[72] Broaden Homepage, www.broaden.se, 2007-12-05
[73] The Mobile Life Homepage, www.themobilelifegroup.com, 2007-12-05
[74] Reerslev, Squace, Interview, 2007-11-28
[75] Sundman, Challenger Mobile, Interview, 2007-11-28
[76] Ibid.

*Plusfoursix* perceives the industry as immature and rapidly expanding. Therefore, the competitive environment is perceived as less intense compared to other industries, as there is room for many actors. Many companies are heterogeneous niche players, which provide opportunities for positioning and to be alone in that particular niche. Currently, the industry is not very price sensitive. In the future, the rivalry will be more intense as more actors enter the market. Competition will be based on price to a higher extent than today. Technology will also be cheaper in the future. Barriers of entry in the industry are mainly economies of scale rather than the technology. The need for a strong capital and marketing resources is a small barrier. A greater barrier is the need for experience to build an organisation in a complex environment.[77]

*Broaden* is experiencing competition in the mobile industry but to a limited extent. There are a few big, and many small companies. The competitive climate in Sweden is not so fierce when it comes to size and dignity, but they predict the competition to intensify in the future. Mobile services and technology will become more complex and advanced. The new generation consumers together with a lower price for mobile surfing will have big impact in the future. Convergence of different technologies provides opportunities as well as challenges. Technology will be more expensive and advanced in the future. There will also be a shift towards a business model financed by advertisements, which will result in a lower price for the consumer. Gaining financing and rights represent barriers of entry; however, the main barrier is experience and knowledge regarding user-interface and user-friendliness. Companies need to be unique and develop smart services which are not yet available in the market.[78]

*The Mobile Life* perceives the competitive environment as fierce in general. Most companies follow other companies' actions or copy services from other companies and spend little time on innovation. Companies that have managed to grow big have bought most of their competitors. In an era of convergence, new competition will emerge. There is a move towards mobile Internet usage supported by better handsets and higher data speed (3G). The business model for mobile Internet will follow the fixed internet and make it even better since users can access anywhere. Barriers of entry include operators' monopoly power, low profit margins, competition and finances. The mobile operators take the responsibility for the content billing and take a large percentage of the gross revenue for doing so. Mobile content providers also depend on mobile operators to get onto their portals to reach end-users, since not all operators are open to the mobile Internet. This means that content providers are subject for

[77] Frenckner, Plusfoursix, Interview, 2007-11-21
[78] Söderström, Broaden, Interview, 2007-11-21

approval by each operator and media companies represents another layer for approval. Another barrier is time; the need for securing partnerships, building the right relations etc.[79]

## 4.3 Strategy Canvas – Visualising the Companies' Strategic Profiles

The empirical information collected via the questionnaire (Appendix II) is visualised below in a strategy canvas showing the companies' strategic profiles. The strategy canvas (Figure 4.1) is divided in three parts; A, B and C, which are presented individually and analysed in chapter 5.

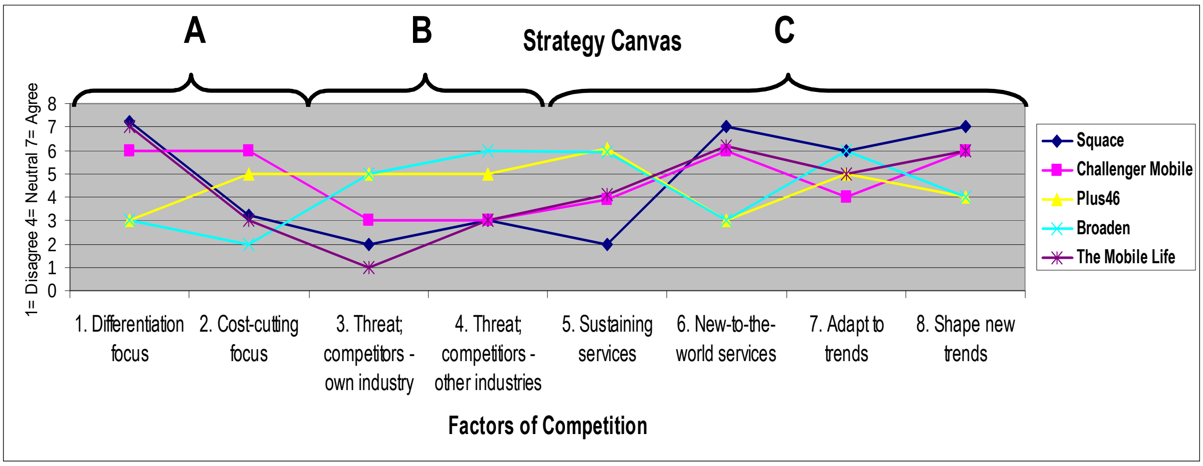


*Figure 4.1: Strategy Canvas – Visualising the Companies' Strategic Profiles*

## 4.4 Differentiation and/or Cost-Cutting Strategies

*Squace***'s** strategy for differentiation is to create simple, user-friendly tools for mobile Internet surfing. The founders have found it very difficult to define their differentiation strategy, as the Squace service they have developed is very broad. The CEO, Aage Reerslev, states that no other actor has created such services and Squace's aim has been to do what no one previously has done. He emphasises the importance of offering services that are easy for consumers to absorb. Squace suits all consumer groups and what they find most important is to reach out to those who fastest can spread the service and to the broadest audience possible. Squace has defined this group to include urban, young professionals, and primarily girls. As Squace is developed to suit all consumer segments, the company has no defined niche strategy. Regarding costs, Squace is currently in the development phase where investments in R&D are crucial for their business' success. Hence, the company only has expenses at this stage and the CEO states that he can even be criticised for cutting costs, since it indicates that he does not deliver what he is supposed to. He mentions that the company is outsourcing technology development to India, thereby gaining a better cost structure. However, this strategy is not chosen for

[79] Magnani, The Mobile Life Group, Interview, 2007-11-30

cost reasons, but rather due to the higher quality and competence level in India, compared to Sweden. The company is taking a high risk and it is financed completely through risk capital. Therefore, time-to-market combined with quality is seen as most critical.

*"Most times, the one who runs the fastest wins, not the one who provides the best technology".*[80]

Aside from management aspects, the three most central factors are: time-to-market, quality and positive publicity; being open to the surrounding world's judgements.[81]

*Challenger Mobile* is a white-label company, focusing on their technical strengths and they provide a platform for operators, service and content providers that serve the operators, enabling consumers to make free Internet calls from their mobile phone, without restrictions. Through this openness to all consumers and their technological strength, Challenger Mobile differentiates from its competitors, which in general have some restrictions regarding free calls. In addition, by focusing on B2B, the company has overcome complications and many of the barriers related to differing market restrictions, as well as avoided the high marketing costs for building a brand directed to consumers, B2C. The company's success is dependent on market acceptance and they see B2B as the best way to achieve this. The company's target customers are relatively well defined, including operators; both network operators and MVNOs, Internet Service Providers (ISPs) Wireless Internet Service Providers (WISPs) and other service providers that serve operators. Regarding the latter group, the potential customers represent a very broad segment. Regarding costs, Challenger Mobile is privately financed and therefore, the aim has always been to keep the organisation at a highly slimmed cost structure. They see this tight cost structure as a good start, as the revenues start to increase.[82]

*Plusfoursix* has placed focus on keeping a high technological standard and charge premium prices for their services. Price and quality are essential. By charging premium prices they have the ability to differentiate. Rather than focusing on great volumes and size, they have the strong connection to music. There are many new actors and therefore, this knowledge and being first are critical. The company does not focus on a particular customer segment, but they offer their services to all companies within the telecom, music and entertainment industries that are mature enough for their technology. They strive to keep their costs low in the long term through their investments in a new office in India. This is because it is important to be able to handle the future, more price-based, competition. At the moment, the operation in India is mainly focusing on technological development and some complementary services. In order to keep their costs down, Plusfoursix strives to use free software solutions rather than paying

[80] Reerslev, Squace, Interview, 2007-11-28
[81] Ibid.
[82] Sundman, Challenger Mobile, Interview, 2007-11-28

licence fees to Microsoft, for instance. In addition, the company has fairly low salaries and instead of using a budget system, the CEO has to approve all expenses.[83]

*Broaden's* differentiation strategy is to provide both mobile TV and mobile community services simultaneously. The company has created a platform in order to enable these media solutions combined. The TV and community segments are both very broad and Broaden expects these segments to converge more and more. Therefore, the company has chosen to combine these areas to be able to cover the entire value chain. Within the TV segment, Broaden has the strength to offer both rights and technology, which provides them with the capability to offer all elements to the customer. Aside from combining TV and communities, Broaden has neither a distinct niche strategy, nor cost cutting strategies. The company is currently in a phase of expansion, and therefore, saving costs is not a priority. They have made cut-backs on the number of domains used to keep costs down but also for convenience. Broaden is a corporate group of five companies and each subsidiary has its own budget, measuring costs on individual level per project. Aside from this, the company has no particular cost-cutting strategies. The CEO emphasises the importance of focusing on core competence, and Broaden has defined this to include community and TV. Holding expertise within both mobile technology and TV/media is therefore seen as critical.[84]

*The Mobile Life***'s** strategy for differentiation is to offer community services that encourage consumers to longer usage, often including an addictive element, in order to generate higher average revenue per user (ARPU) compared to single downloadable content such as java games, ringtones etc. If users can gather around a specific topic, where interaction is encouraged, they are likely to come back often and also spread the use to their friends. The mobile community services are cross-platform enabled, meaning the company supports multiple user interfaces: WAP, SMS and Internet, with focus on mobile aspects. The company has a low cost structure, which has been the case since its foundation. For instance, the company's programmers are situated in Malaysia where wages are substantially lower. There are no plans to cut costs, as the company is in an expansion phase. They rather plan to recruit more people and to invest in regional expansion, marketing and hardware etc. Today, the company's main focus is placed on the Asian market [85]

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[83] Frenckner, Plusfoursix, Interview, 2007-11-21
[84] Söderström, Broaden, Interview, 2007-11-21
[85] Magnani, The Mobile Life, Interview, 2007-11-30

### 4.5 Approach to Industry Boundaries

*Squace* defines direct competitors as companies offering similar services to theirs; mobile browsers. They undoubtedly have several competitors, but explain that they do not speak in terms of "competitors". Competitors can also offer complementary services, or be potential partners. Google is a giant competitor, but at the same time a gigantic potential partner. Squace perceives this phenomenon as being a difference between the market place today compared to yesterday. Today, the market place is more open and industry actors are competitors and partners simultaneously. Squace strives to cooperate and defines other actors as being both, as it is impossible to know which the direct competitors are. Hence, partnering is extremely important, and Squace strives to make friends in all parts of the value chain. Squace argues that it is not possible to focus on all customer segments at the same time. They offer a service suitable for all customer segments, so the issue for Squace is to decide which customer group is most suitable to adopt the service in the initial phase. This group will then through word-of-mouth spread the service to other customer groups and by using the sharing content feature in the application. The aim is to ultimately target all customer groups, the most challenging issue is to decide in which order to target the different segments.[86]

*Challenger Mobile* does not experience much competition. CEO states that there are below ten companies offering VoIP services, mainly operating in Europe. They have a global perspective of the market and are interested in gaining customers globally. They do not see any boundaries as their technology is not dependent on networks or boundaries. However, due to limited resources focus must be placed on a few geographic areas. Since Challenger Mobile is a small company, finding partners is crucial to enable wider expansion. The company has very well-defined customers, so there are no defined strategies for identifying, creating or winning new customer segments. However, regarding service providers as customer group, there is more room for creativity when it comes to finding new customers. They see more opportunities to emerge within this customer group and through their contact network they learn which companies that may be interesting to approach.[87]

*Plusfoursix* views competition from a global perspective, but their focus is placed on the European market. They are not aware of all their competitors; it is mainly during larger procurement processes that competitors appear and are seen as threats. The company defines competitors as both small and large companies operating within the same industry. This is, since it is difficult to predict which companies that will succeed in the future value chain. Whether it is music companies, entertainment companies,

[86] Reerslev, Squace, Interview, 2007-11-28
[87] Sundman, Challenger Mobile, Interview, 2007-11-28

operators or broadband actors, Plusfoursix sells its services to all these areas of operation and is therefore relatively unaffected regarding changes in the industry structure. In Sweden, there are around five companies that regularly show up and the CEO believes that another fifteen exist but are so far unknown. The same holds for other EU markets, where he estimates a number of twenty larger competitors in each country. However, Plusfoursix does not actively sell in the EU. They do not have a defined strategy for creating or winning new customer groups, but they continuously analyse which different areas that are profitable and adapt accordingly.[88]

*Broaden* states that the company has around five competitors in Sweden and seen from a Nordic perspective, there are up to ten competitors. Above these, there are no unknown competitors. The traditional actors are generally not ready for this market yet. Broaden views competition from a Nordic/European perspective. However, they have good knowledge of other markets and travel a lot to keep updated of companies in Asia etc. The company has no defined strategies for identifying new customer groups and the costs related to data traffic represent the greatest problem, since the company is forced to turn to the operators. All companies that are mature enough for the technology are seen as potential customers. Regarding communities, all companies with the aim to be active in their marketing towards consumers are potential customers to Broaden. These represent a great base and the CEO states that it is just to pick and choose. The traditional telecom players and media houses are also starting to learn. As the case for all companies in the industry, partnering is highly important. Even more important is to find the right partners; as a partner grows it may change strategies and turn into a competitor by independently approaching customers.[89]

*The Mobile Life* states that they have one main competitor; the founder's previous company which is a Norwegian based entity with strongest presence in Scandinavia. The Mobile Life is instead focusing on other markets, such as Asian markets and Europe, and has developed additional community services, since this competitor focuses on one specific category (mobile dating). The mobile Life defines direct competitors to include mobile content companies that develop similar community-based services and offer these to mobile operators and media companies. They do not experience competition at all from other content companies. There are however other online companies that potentially could go mobile, which could be a future competitor. The CEO stresses the importance of securing partnerships to reach end-users. The company currently has a defined B2B business model which includes indirect sales, through mobile distributors, as well as a direct sales approach where they deal directly with mobile

[88] Frenckner, Plusfoursix, Interview, 2007-11-21
[89] Söderström, Broaden, Interview, 2007-11-21

operators and media companies. In addition, the company is currently developing a new B2C strategy for creating and marketing of their own brands, directly to end-consumers with focus on mobile Internet. Thereby, a larger group of customers can be reached.[90]

### 4.6 Competing in Existing Market Space vs. Creating New Untapped Market Space

*Squace* does not prioritise competitor analysis, but perceives this more as an interest when they have some extra time. It is however important to stay updated with trends and other actors' products and services. The company does not conduct any in-depth analysis, but just keeping themselves updated gives inspirations for further development. The CEO is not yet aware of which companies they will compete with or how potential competitors will react towards their service, but they have a positive attitude towards future competition. He emphasises the importance of looking at people's own tendencies and following the gut instincts when developing new services. Squace's number one priority is usability; to facilitate for mobile users and make it easier to surf on the Internet through the mobile phone. The demand for surfing on the mobile exists and there is a need for solving the problem of user complexity. Squace is focusing on affecting what does not already exists; the use of mobile Internet.[91]

*Challenger Mobile* strives to continuously stay updated regarding competitors' moves. A number of the employees monitor competition and they buy market research reports. The company does not have any strategies for gaining market share from competitors. Their customers; mainly telecom operators are the actors stealing customers for them. Other actors' partnerships, such as the cooperation between Skype and the operator 3, have had positive effects on the company's business as it triggers the market for their mVoIP. In order to remain flexible and enable mobile, cost-efficient calling, the company is continuously developing new products and features and adapting their services according to consumers' wants and needs. They strive to stay in the forefront of development within telecom and in order to be quick with new solutions and features they have established operations in China to gain better resources to a better price in terms of engineer competence. In addition, partnerships with companies are essential in the development of new services and to gain new customers.[92]

*Plusfoursix* has no defined routines for monitoring competitors' actions. The CEO means that placing too much focus on competitors' moves, results in that the company only sees threats rather than opportunities. The CEO emphasises the importance of being perceived as a reliable company in order

[90] Magnani, The Mobile Life, Interview, 2007-11-30
[91] Reerslev, Squace, Interview, 2007-11-28
[92] Sundman, Challenger Mobile, Interview, 2007-11-28

to keep customers and protect their market share. Plusfoursix has key accounts for each customer, meaning that for each customer, one employee has the responsibility. In addition, they are willing to offer services that lay outside their main focus to maintain their reliability. The company's main focus is to commercialise their existing services and do not strive to create new-to-the world services.[93]

*Broaden* emphasises the importance of staying updated regarding competitors' actions. What the company can do is to monitor what competitors offer, their services' turnover, pace of expansion and the people working for them. Knowledge about other companies' technology and competence is important, as this is a way of finding new customers and partners. Broaden strives to maintain good relationships and dialogues with their customers. The most important factors for satisfying customers' needs are good price and quality of the services. The company focuses on developing the areas in which they already operate, rather than creating new, yet unknown services and customer needs. Their communities can be adapted for each customer upon request.[94]

*The Mobile Life* does not monitor competitors on an analytical level, but they are observing trends and follow news related to their business on a daily basis. However, the company is in the midst of creating a new business plan which also features a more in-depth study on competitors. The company has no strategies for taking market share from competitors. The CEO emphasises the great opportunities the company sees due to convergence. By being a small company they have the ability to quickly adjust focus and it enables them to stay open to new customer demands. For instance, if a specific client requests them to modify or create new functionalities, the company sees it as input to re-use for other clients and in the ongoing process of product development. The company strives to create new service that are unknown to the consumers by identifying patterns of human daily life combined with mobile technology development and currently, they plan to release a range of new services.[95]

[93] Frenckner, Plusfoursix, Interview, 2007-11-21
[94] Söderström, Broaden, Interview, 2007-11-21
[95] Magnani, The Mobile Life, Interview, 2007-11-30

# 5. ANALYSIS

*This chapter provides a deeper understanding of the competitive situation in the industry. The empirical findings regarding the three research areas are also analysed in a structured manner based on the theoretical model. Each research area is visualised part by part from the strategy canvas.*

## 5.1 The Competitive Environment of the Mobile Industry

The respondents have a very similar perception of the competitive environment of today and in the future. The fact that they currently do not perceive competition as a threat, but rather as potential business opportunities, indicates a blue ocean mentality among these companies. However, they agree that the level of competition in the industry and the rivalry most likely will be more intensified in the future, as more actors enter the market and the market reaches a more mature stage. The convergence of technologies provides challenges as well as opportunities for companies; challenges, as in competition from related industries, and opportunities, as in greater potentials for partnerships and increased market space in phase with increasing demand for mobile content and services. The majority of the respondents mentioned operators' power as a great barrier of entry. As long as the operators refuse to cooperate there will be limitations in content providers' ability to reach end-users and execute control over the pricing and revenue structure. The majority predicts a decreasing power of the operators in the future, which would result in a wider range of possibilities to create blue oceans. Mobile Internet will be available to a fixed price (flat rate), and/or financed by advertisements and they also expect lower prices to end-users as a result of increasing competition. This means that it will be even more important for companies to create a blue ocean in order to be able to charge a premium price and keep their margins relatively high. Current difficulties are the usability for consumers; the user-friendliness is low and consumers in general do not understand the pricing for using mobile Internet and other mobile services. In order to overcome these obstacles, a blue ocean attitude is preferable.

The importance of outsourcing and partnering is huge and new actors are therefore seen as potential partners as well as competitors. At this stage in time, the respondents perceive other actors more as potential partners or complements, rather than a threat to their business. Instead of striving to keep competitors as distant as possible, as the case in red oceans, they operate close to them. Competition is perceived as positive for the companies' own business, it contributes to market acceptance, provides partner opportunities and complementary services. This tendency mirrors a blue ocean approach.

As a conclusion, more intense competition is the prospect of the future industry climate. Companies will most likely partner and merge to a great extent, in order to achieve greater technological know-how, financial strength, economies of scale, credibility, brand awareness etc. This will result in fewer, but larger companies with a higher degree of power than companies of today. User-interface standards, business model standards and pricing models etc. are not yet defined - the rules of the future competitive environment are still uncertain which also reflects a blue environment.

## 5.2 Differentiation and/or Cost-Cutting Strategies

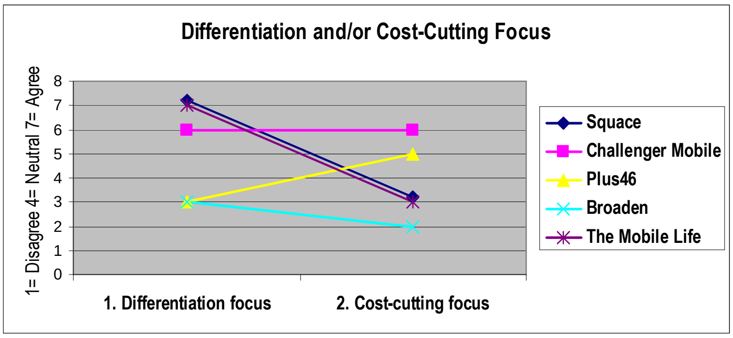


*Figure 5.1: Strategy Canvas, Part A – Differentiation and/or Cost-Cutting Focus*

As the first piece of strategy canvas shows, the majority of the companies do not seem to pursue differentiation and low-cost strategies simultaneously, as the BOS advocates for reaching value innovation. Regarding the companies' focus on differentiation, two groups can be distinguished, where Squace, TML and Challenger Mobile show a very strong focus on differentiation, ranked between number 6 and 7 respectively, and Broaden and Plusfoursix have substantially less focus, both at number 3. The latter group has a relatively broader focus and does not differentiate to the same extent. Broaden offers services within two very broad areas; TV and communities. Plusfoursix offers music and mobile advertisements which also can be seen as relatively broad services. The first group has a strong differentiation focus; Squace has developed a new user-interface technology for mobile Internet, which no other company has done. TML offers differentiated, subscription-based mobile services. Challenger Mobile has developed an mVoIP platform to enable free mobile calls with no restrictions. All companies stressed the importance of providing high quality services to create a sustaining competitive advantage.

Regarding costs, the respondents' views show a differing pattern even though all companies have very slimmed cost structures inherently, they do not have high fixed costs but mainly have costs in terms of development and labour. Their differing focus regarding costs can be explained by the fact that the companies are in different phases of development and expansion, which impacts their ability to focus on low-cost strategies. Naturally companies' expenses will be high during expansion and there may be little room for cost-cuttings even though they are cost-conscious. This is not standing against the BOS which advocates cutting all costs not contributing to the customer value. The fact that Broaden, Squace and TML currently are in the midst of an expansion phase and consequently focus on development, explains their relatively low cost-cutting focus in the canvas, as too much expenditure cuts are likely to be at the expense of innovation and quality. The degree of perceived competition and the company's number of direct competitors can also be seen as impacting the extent to which the company has a cost-saving focus. Plusfoursix' relatively stronger focus on long-term cost advantages is a strategy chosen to prepare for more price-based competition. Most companies strive for achieving lower costs in order to increase their profitability, the difficulty lies is determining where to draw the line for what to be regarded as value innovation. Generating revenues by charging premium prices and reducing expenses does not necessarily lead to value innovation; BOS. All companies in this study are cost-conscious, but only three companies have a clear differentiation strategy; Squace, Challenger Mobile and TML. Hence, these three companies can be seen as pursuing value innovation as advocated by Kim and Mauborgne.

These companies have more or less *differentiated* service offerings aimed for a global market. They *focus* on particular market segments in order to gradually reach the global market. The question whether they have a *cost-leadership* is less relevant in this industry since the companies often have premium pricing regardless of their costs, which are primarily development costs and low variable costs. We find little relevance for Porter's reasoning in this industry since the relevance of cost-leadership is limited, and differentiation and focus do not exclude each other.

Squace, Challenger Mobile and TML can be defined as pursuing value innovation in line with BOS. Broaden and Plusfoursix have less focus on differentiation and can therefore not be defined as pursuing value innovation to the same extent, even though they have some elements of BOS in their approach.

## 5.3 Approach to Industry Boundaries

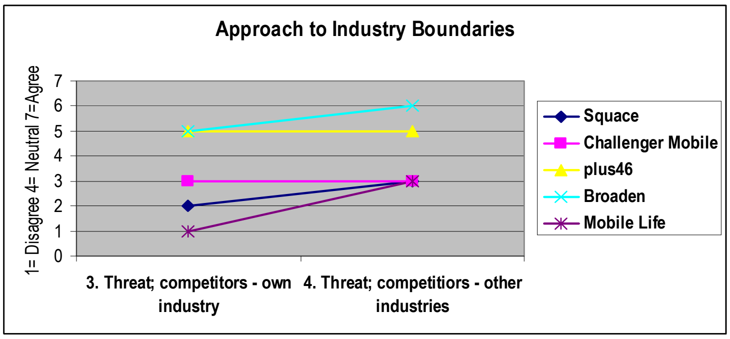


*Figure 5.2: Strategy Canvas, Part B – Approach to Industry Boundaries*

All participating companies perceive escalating competition in phase with the flood of new entrants in the industry. At the same time, they are not threatened by competitors but rather have positive prospects as there is also room and need for many actors. This view reflects the creation of new market space in line with the BOS view, where companies see opportunities to operate in uncontested markets. It is evident that the market is not well-defined. None of the responding companies conduct in-depth competitor analysis, and the majority finds it hard to define or is not aware of its competitors. This common view of blurred market space and competitive boundaries indicates that the majority of the companies looks across industry boundaries, as stressed in BOS, and do not strive to outperform their rivals within their own industry to seize greater share of already existing demand.

All companies perceive a higher, or to the same extent, threat from other industries compared to their own industry. This reflects the converging market and the companies' awareness of alternative or potential substitute services from related industries. They are all also offering services to different buyer groups across industries, provided these are mature for the companies' technology. This approach is in line with BOS; looking across the chain of buyers. This is essential in an era of convergence.

However, regarding direct competition, the companies' views differ to some extent. The result shows the impact of the degree of direct competition. Squace, Challenger Mobile and TML all meant that they hardly perceive any direct competition; they do not hear of competition *within* boundaries. These companies are all plotted between number 1 and 3 in the canvas. This can be a result of choosing BOS for just that reason; to avoid competition in red oceans. The companies rather see potential threats of competition from other industries. Broaden and Plusfoursix have a greater number of direct competitors, which can explain their higher ranking in the canvas.

The importance of partnering and the fact that competitors are also potential partners and complements mirror the need for small actors to achieve higher customer awareness, technical know-how and other synergies. However, Broaden also mentioned the risk of potential problems; as a partner changes strategies they may turn into a competitor. This also indicates that the company is more subject to direct competition and therefore sees a greater threat than other companies. Companies must make a trade-off between the beneficial effects of partnerships and the risk of stolen know-how from a potential competitor.

This area of research proves a high level of awareness of potential threat from related industries. This is in line with the BOS and all companies do hence have a BOS mindset in this matter.

## 5.4 Compete in Existing Market Space vs. Creating New Untapped Market Space

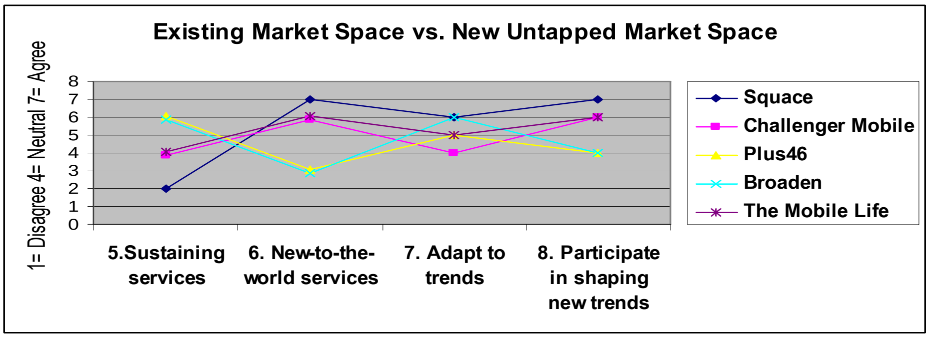


*Figure 5.3: Strategy Canvas, Part C – Existing Market Space vs. New Untapped Market Space*

In this piece of canvas, two groups of companies can be distinguished. The first group, including Broaden and Plusfoursix, shows a very similar pattern. They offer services which are relatively broad. They focus on sustaining services, to revision and improve their already existing service lines. Their focus is not to invent new-to-the-world services for a new untapped market space and participate in shaping industry trends. The second group, including Squace, TML and Challenger Mobile, also shows a similar pattern in the strategy canvas. Their focus is different from the first group; they aim to develop new-to-the-world services and influence industry trends. They have a lower focus on sustaining services than the first group; they do however not ignore this matter. Even if they are innovating new-to-the-world services they also have to spend time on product improvements and revisions. Product revisions are always necessary, the pattern can however illustrate where the company has its focus point. Squace is in the initial phase of launching their new service and hence, product revisions are not yet as important to them, as illustrated in the canvas. Product improvements will however most likely play a more important role as the service reaches a more mature stage and customer demand changes.

All companies are plotted in the area between 4 and 6 in the canvas regarding *adaptation* to industry trends. They have a quite similar view in this matter. This does make sense; even if companies are focusing on influencing industry trends, they are at the same time forced to adapt to other external changes and trends in the industry. Companies will not be successful if they close their eyes for the surroundings, only focusing on their own main objective. The difference lies in their approach regarding the involvement in *shaping* new industry trends.

According to the BOS theory the first group is defined as companies operating in a red ocean and the second group in blue oceans. Our impression from the interviews is that these companies do not have any clear or outspoken strategies for handling competition; their focus is mainly on developing their services and technologies and gaining recognition and attention to their services. The difference is that the companies in the first group are offering services which are broader and consequently have more direct competition. Hence, the difference here is the nature of their services, and not their strategic approach; red or blue ocean strategies.

All industries have product innovators as well as followers. The second group of companies in the canvas will most likely, if they succeed with their innovative products, be followed by companies imitating their services. The innovating company may however have some first-mover advantages, but the barriers of entry are according to the responding companies relatively low for following firms. The BOS theory claims that companies creating blue oceans will create barriers of entry in order to be protected against followers. According to this study, the barriers of entry are operators' power, economies of scale, expensive technological development, as well as knowledge regarding technology and user-friendly interfaces; usability. The companies in the second group all emphasised expensive technological development as a major barrier of entry. This barrier of entry is gigantic for the innovating firm, when the technology is not yet innovated or not yet available. When this technology is more mature, this barrier is automatically reduced. Market acceptance is also another barrier which most likely will be lower for following firms than for the innovating firm. The companies all emphasised the importance of partnering, it is not profitable to innovate or develop everything internally. Companies should outsource everything beyond their core competence in order to be effective. This results in lower barriers of entry for following companies than for the first innovating company. This is standing against the BOS theory which claims the opposite: the first mover should create barriers of entry to protect themselves from followers. D´Aveni also advocates the importance of positioning for speed to achieve first-mover advantages. This is according to Squace very important for firms with the aim to influence and shape new trends with innovative services. This is however highly risky, but could if successful generate very high profits. Most companies however, follow other successful trends and companies, which involves lower risk, smaller barriers of entry, less need for innovative technological competence, but also less profit potential.

Squace, Challenger Mobile and TML are heavily focusing on new-to-the world services and strive to influence industry trends with these products. This is right in line with the BOS. Broaden and Plusfoursix have stronger focus on sustaining services and the ability to quickly adapt to new industry trends; this is more in line with red ocean strategies. It can however be discussed whether these differences can be derived from the nature of their services, stage of development or their competitive strategies.

# 6. CONCLUSIONS

*This chapter presents the summarised conclusions in this study and answers the question whether it is possible to make the competition irrelevant in a dynamic and hypercompetitive industry such as the telecom industry.*

The demand for mobile services is growing in a fast pace due to convergence and this provides room for many actors to create blue oceans as well as to compete in red oceans. The rivalry is still relatively low. The study shows clear evidence of companies' wide perspective in the industry regarding competitors; they even perceive the threat from other industries as more relevant than the threat from their own industry. This is also crucial in an industry characterised by hypercompetition, where it is hard to define competitors and threats can be seen from all directions. The industry's competitive climate will however most likely change characteristics towards a more traditional red ocean as the technology reaches a more mature stage. Competitor information and vigilance will be more important in this phase.

The industry will consolidate in the future; companies will merge in order to seize greater technological know-how, economies of scale, customer base etc. The result will be fewer but bigger companies with more power and the possibilities for new upcoming companies will most likely be harsher. The fact that the responding companies are small provides them with the ability to quickly adjust focus according to changing market conditions and customer preferences. This is an advantage that could be partly lost in the process of consolidation, it is important for companies to make this trade-off between flexibility and increased power. The relatively high barriers of entry for a company creating a blue ocean involve complex technology, low market maturity and a need for a high risk capital. Following companies have a lower risk due to lower barriers; higher market and technological maturity. Kim and Mauborgne's suggestions regarding innovating companies' creation of barriers to protect from following companies have less relevance in this industry.

The challenges of today are to overcome the barriers of convergence, such as varying mobile user-interfaces and revenue models, complex technology and the operators' power. The importance of partnerships is evident and critical for survival. It is however important not to forget that partners are also current or potential competitors and companies always have to consider the span of trust and commitment allocated to partners. The study has shown a shared mentality among content providers in the industry; Competitors are seen as something positive which contribute to the market acceptance, provides complementary products and opportunities for partnerships. Surprisingly, content providers welcome new actors and competitors in the industry. The respondents do not keep their competitors on arm's length distance, but keep them as close as possible to achieve synergy effects. This mentality is a blue ocean mentality – to look across industry boarders. The aim is however not to make competition irrelevant, but to make them even more relevant.

The BOS emphasises cost reductions as a tool of strategy. Our opinion is however that resource allocation is always a management issue and a cost-conscious mentality should permeate all companies' strategies; the question is where to allocate and invest resources most efficiently to increase profits and sustain competitive advantages. Cost reductions are best seen as operational or resource issues – a barrier to overcome not an end in itself as a tool of strategy. The companies in this study have a very low cost structure from the beginning which means that there is no room for further reductions. The majority are also in a phase of expansion and naturally have to invest in the company, which makes it hard to apply the value innovation concept. All respondents are more or less cost conscious and have a differentiation strategy which could be seen as pursuing value innovation.

The companies all tend to strive for creating blue oceans; some do however include more elements of BOS: Squace, Challenger Mobile and TML. This could however have a connection to the nature of the services these companies are offering. Broaden and Plusfoursix services are broader, and slightly more mature than other companies' services. As a result of this, they have slightly differing conditions and are subject to more direct competition and their strategies have to be adapted to these circumstances. All industries have innovators and followers, so does the mobile industry. As the mobile industry matures, the trend will shift towards more traditional red ocean strategies. This is however an industry characterised by constant change and constantly new technology is developed, which means that the industry probably never will turn completely red, and there will be room for blue oceans.

Competition can never totally be ignored. Content providers strive to get as close as possible to their competitors by partnering and hence, strive to make their competitors more relevant in a positive way and less relevant as a direct threat.

*It is possible to make the threat of competition irrelevant in a hypercompetitive, converging environment – by making them more relevant as partners etc.!*

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## Appendix I; Interview Guide

**Background Information**
Company Name:
Number of employees and year of foundation:
Name and position in the company:
How long have you worked in the company/industry?

**The Competitive Environment**

1. How do you perceive the competitive situation in the industry? (Degree of rivalry?)
2. What are your expectations of the future competitive environment in the industry?
3. Which are the barriers to enter the market for mobile content?

**Strategies for managing competition**

4. Briefly describe the company's main strategies for handling competition.
5. Which factors and qualities does the company perceive as being most important for success?
6. How does the company differentiate?
7. Does the company have a niche strategy? Which, if any?
8. Does the company have cost-cutting strategies? Which, if any?
9. Which are the company's main competitors? How many are they?
10. How does the company define competitors?
11. Which routines does the company have to identify/create/win new customer groups/segments, if any?
12. Does the company conduct analysis on competitors, potential competitors and/or other actors in the value system? If so, which?
13. Which routines does the company have to protect/gain market share from competitors, if any?
14. Does the company strive to identify/create new customer demands/needs? How?
15. Does the company strive to identify/create new services yet unknown to the consumers? How?
16. Does the company strive to revision existing service line in order to maximise market share?
17. Which routines does the company have to analyse potential threats of competition, if any?
18. Which routines does the company have to analyse future trends and technological advancements etc in the industry, if any?

## Appendix II; Questionnaire

**To what extent does your company agree with the following statements?**
1= Disagree 4= Neutral 7= Agree

**1. We have our own niche in the market / we try to offer services different from other companies**
1. □ 2. □ 3. □ **4.** □ 5. □ 6. □ 7. □ Not sure □

**2. We are trying to cut our costs**
1. □ 2. □ 3. □ **4.** □ 5. □ 6. □ 7. □ Not sure □

**3. We perceive a threat from competitors in our own industry**
1. □ 2. □ 3. □ **4.** □ 5. □ 6. □ 7. □ Not sure □

**4. We perceive a threat from potential competitors in other industries**
1. □ 2. □ 3. □ **4.** □ 5. □ 6. □ 7. □ Not sure □

**5. We focus on revisions and improving existing services**
1. □ 2. □ 3. □ **4.** □ 5. □ 6. □ 7. □ Not sure □

**6. We focus on developing new-to-the-world services**
1. □ 2. □ 3. □ **4.** □ 5. □ 6. □ 7. □ Not sure □

**7. We strive to adapt to new trends when competitors has proven its potential by making a profit from it**
1. □ 2. □ 3. □ **4.** □ 5. □ 6. □ 7. □ Not sure □

**8. We strive to understand future trends / technological advancements before competitors**
1. □ 2. □ 3. □ **4.** □ 5. □ 6. □ 7. □ Not sure □