

“Can strategic analysis through a market and resource based view prevent the founding of companies with an unsustainable business strategy?”

Abstract

The Resource-based and Market-based views (RBV and MBV) are two theoretical frameworks which try to find an optimal structure for business strategy by focusing on key strategic points to gain the maximum output or return. During the peak and later upheaval of what is often called the “dot.com bubble” – business models, valuations and strategies were questioned with regards to their anchorage to reality and building enduring businesses. Based on a wide investigation of literature and reports within the Resource-based and Market-based view combined with first-hand interviews and second hand research, we have tried to find to what extent these strategies could or would have prevented investments in IT-ventures lacking the prerequisites for long term competitive advantage.

The initial indications and rationale was that the information and frameworks would provide a structured strategic analysis that, if correctly used, could have prevented the poor investments and even lessened the impact of the crash. However, our conclusions are that a strategic analysis, using the MBV and RBV frameworks, would not have been able to give a correct strategic recommendation since the analysis would have been largely based on incorrect assumptions. Furthermore the analysis would not in an efficient way make us aware of the inflated valuations and the inherent traits of new technologies. However, by adding additional theoretical frameworks such as behavioural finance and dominant design, we could conclude that, a more “true” picture of the inherent risk with IT-ventures at the time could have been created which should have been able to supply investors and entrepreneurs with the needed information to not embark on fruitless IT-ventures. Nonetheless we also conclude even a “true” analysis would have had very little or no lessening or preventive impact on the dot.com bubble as the forces behind the bubble were first and foremost of an irrational character.

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Chapter 1 - Introduction

1.1 Background

By the early months of 2000, people in particular within the IT-sector, had for a number of years seen a tremendous growth and prosper in what many referred to as the new economy. Expressions like “clicks”, “virtual warehouses”, “digitalization”, and so on became common language without any deep and clear meaning of definition or usage. IT-company stock broke record after record climbing several hundred percent every year. New Internet ventures were bought and sold for incredible amounts often making the young founders millionaires before their 25th birthday. At the same time well established brick and mortar companies were growing more and more nervous as claims arose that only IT-companies would survive in the future and that all traditional companies unable to adapt quickly enough would simply go extinct. The new economy was here to stay and the world had entered a new era.

However, in the year 2000 the entire world economy turned in just a few months and the value of the stock exchanges and many companies declined severely or were wiped out entirely. How could this happen and how could this happen so fast? Had the market been running blind not seeing what was to come? In retrospect the bubble that burst has been blamed on all imaginable parties ranging from financial market researchers and audit regulators to financial predators only interested in a short term gain. Although a blaming finger can be pointed at many parties we can conclude the facts, which are that an abundance of capital was invested in at the time the very profitable IT-ventures and stock. These ventures did, however, prove to be unable to sustain their high valuation due to the fact that they could not transform their lofty business ideas into the actual turnover and revenues they had promised. As this realization dawned on the world capital started to flee the IT-stocks and ventures but it was in many cases too late and investors as well as the general public found their investments turned to dust. In the wake of the burst dot.com bubble many countries faced a number of years in downturn or even recession largely due to the fact that “all the money was gone”. The phenomenon of the dot.com bubble is not entirely different from the Sub-prime crisis we are seeing today. Both have their base in poor investments which ultimately have caused a lack of capital in market and thus fuelled a global downturn or even recession.

Our interest for this matter and especially for business strategy grew from the perspective rooted in whether a strategic analysis could actually prevent creation of business ventures lacking the prerequisites for long-term competitive advantage? Was there a mismatch between market demand and market offer during this period and if so, would it not be valuable for us to understand if we could have been able to prevent embarking on all the unsuccessful Internet ventures? Would it have been enough to avoid building the dot.com bubble?

In the views and discussions of achieving competitive advantage different discourses take, in large, either a resource perspective or market perspective – more academically known as the “Resource Based View” (RBV) and “Market Based View” (MBV). Michael Porter’s early research and models were focused on the market side, at for instance substitutes, competition, etc. Complementary, another view of competitive advantage rooted from a resource perspective changed and added to the discussion of reaching competitive advantage, all in the simple matter of “doing the right thing”. Putting together these two views in practice, i.e. aligning the operation’s resources with its market requirements, is a challenge for numerous reasons but probably crucial for sustained growth and prosper of any company. One could hence argue that should enable a fully encompassing strategic analysis of a business plan or venture.

The global competition has exponentially increased over the years due to various factors such as increase in number of new ventures, more efficient product research, global distribution networks, resource availability, price competition, etc. The competition and market place expanded worldwide almost as a direct effect of the new technologies. One of the more evident (and widely discussed) effects was the view of “time-to-market” where the common perception was that the initiator and the first company or product on these new markets would be superior and wipe out most of the competition. With record at hand, most people believe that this was one of the major misperceptions of this period. Of course there were companies that succeeded way beyond others due to the fact that they were “first-to-market”, but equally many companies are superior today using a much more cautious approach. With this in mind one can easily imagine the importance of a clear and structured business strategy, but also the notion that strategy must be dynamic where market logic changes rapidly and over time.

The breakthrough of Internet as a mean of communication in all its forms is interesting for several reasons. First of all, many people still believe that the technology is today not even close to being used at its full potential. Putting that in perspective one can begin to understand the

‘hype’ and obscure but visionary business cases that were presented and launched in the late 1990’s and beginning of 2000. Secondly, with Internet many companies and new ventures took the idea of ‘virtual offices’ to a new level, perceiving the entire world as their market. It is not Internet as such that is the most interesting driver but rather it is the underlying digitalisation of products, services and of course most importantly – communication.

1.2 Purpose

The purpose of this thesis is to analyze whether a strategic analysis using the Market-based and Resource-based perspectives could have supplied entrepreneurs and investors in 1996-2000 with the necessary information to not embark on what would turn out to be fruitless Internet ventures?

1.3 Delimitations

1.3.1 Organization and market

The study will not be limited to any particular industry or market, but rather it will focus the entire market economy combined with a selection of companies that created new and revolutionary business models through new IT-technology. Hence, we find no value in delimiting the study to any particular business or product. We find this to be reasonable since the scope of this thesis is not limited to a particular product or service. The choice of study objects and definitions of markets will be further broken down in the Methodology chapter.

1.3.2 First and second hand information

In the essay we have taken a pragmatic approach to combine both first hand and second hand information within the available context. The first hand information will be gathered through interviews with company profiles from different ventures that operated during the focal period. The secondary information will be collected by looking at corporations that gained attention from the mid 90’s until today, contemporary articles and papers on the subject as well as articles and books analysing and discussing the bubble in the years following the dot.com crash.

With regards to the primary information, we believe that the Swedish company profiles are representative for the Western global corporations and hence we believe that the implications are not delimited to a certain geographical area. In addition, Sweden is in many ways viewed as a pioneer within new technology and especially of Internet infrastructure.

1.4 Prerequisite definitions

To facilitate the reading of this paper this section will identify some of the common language phrases

The *Internet* phenomenon is defined as the technological mean of communication to exchange information or make business transactions. The technology renders the transformation of information into digital data that can be transmitted to any place at any time, which in turn permits interaction in real time.

New Markets are defined as markets where new technology or business logic has completely transformed the prevailing business for that particular industry. Further, this transformation has led to that the previous business models have become economically more or less unproductive.

Technological innovation will in this paper be defined and discussed as matters when innovations creates a shift or has significant impact on the market environment or companies' business models. These shifts can be either radical or incremental ways of thinking but has nothing to do with the level advance level.

Information Technology, or *IT*, will be used as the bundled term for all information technologies combining both software and hardware in the transformation and processing of data.

The dot.com bubble is the term generally used to describe the phenomenon of the greatly over evaluated IT-stock at the turn of the century and the crash (substantial value loss) of the same stock during the first few years of 2100st century.

The new economy is the term that was used during the turn of the century to describe how Internet and IT would completely alter the way of doing business and make traditional brick and mortar companies, unable to adapt, obsolete.

Internet-/IT-ventures is the term we will use in this thesis to describe new business ventures (1996-2000) focusing on using IT or the Internet as a main strategic advantage vs. competitors in their business plan

Competitive advantage can be defined as when a company is applying a value creating strategy not being implemented by a present or potential competitor. A *Sustained Competitive Advantage* can be defined as when a company is implementing a strategy not being applied by any competitor and when these other companies are unable to duplicate any of the benefits with this strategy

Market-Based view (MBV) is the market perspective of a firm's strategy looking at the market requirement/demand side.

Resource-Based view (RBV) is the perspective of looking at a company's resources to define and develop market strategies from preset criteria such as *scarcity, value, substitutability, limitability, etc.*

1.5 Model for analysis

The overall outline is illustrated by Figure 1-1, based on individual companies' inner perspective for competitive advantage and strategy, with resources and market requirements as base. Further, the larger market perspective is taken into account for disruptions, which can be caused by e.g. new innovations. With this inner and outer perspective the analysis will centre on our purpose – looking at the alignment and effects on the match between resource and market perspective and to discuss the implications and effects of this view.

For the logic and purpose of this paper the development of a clear and simple model for analysis

for analysis is based on a “X-Y-Z-approach” where the X represents the Theory and underlying discourses, Y represents the empirics and real world findings which combined with X creates a third dimension, the Z-leg – deepening the study into a profound understanding in our Analysis (Figure 1-2).

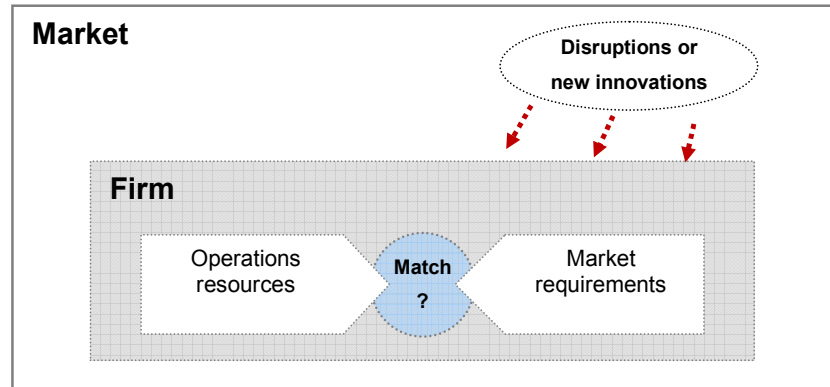


Figure 1-1

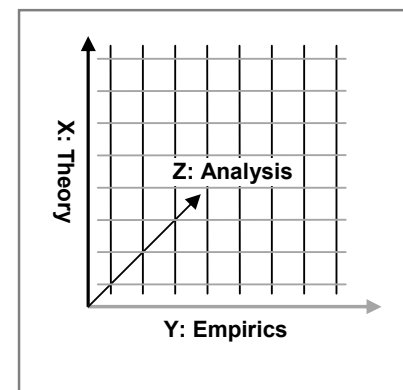


Figure 1-2

1.6 Disposition

Following this introductory chapter with purpose, definitions and an introductory model for analysis, our study will commence in chapter two by presenting the core of the appropriate theories applicable for our purpose, prepared from a market and resource perspective as well as a description of first-mover advantage and competition. The third chapter presents the method for the entire study, focusing on the research approach and creating a reliability and validity in the data collection. The results from our data collection is presented in chapter four, disposed with a larger market perspective followed by specific areas characterized for the time period and in line with the purpose. Our model for analysis is concluded in chapter five to link the prevailing theories with our findings. Chapter six leads into the discussions of new ideas and

development of theories that have arisen to further concretise our case with valuable input. Our findings and ideas will also be related to earlier studies in our attempt to develop the discourse. The paper is tied together with the conclusions discussed in chapter seven and will be followed by a future research chapter.

Discussion of problem and purpose	Chapter 1
Presentation of main theories	Chapter 2
Methods for data collection and analysis	Chapter 3
Empirics and data findings	Chapter 4
Analysis	Chapter 5
Synthesis	Chapter 6
Conclusions	Chapter 7
Future research	Chapter 8

Chapter 2 - Theory

In this chapter we will present and describe the theories chosen and appropriate for our research. The theories are presented with the same logic that permeate the whole paper, beginning with a market perspective (MBV), moving deeper into other market based ideas and finalizing with the resource based perspective (RBV). An overview of first vs. late mover advantage has also been included to clarify how MBV and RBV generate competitive advantages. The objective is to present and focus on the most apposite parts of the theories to be used in our analysis.

2.1 Overview

In the theories of how to reach competitive advantage, different authors, views and discourses are represented. From a market perspective, most dominant and mentioned is Michael Porter. The market perspective can be categorised into three main areas: *Strategy*, *Competitive Forces* and *First-Mover advantage*. These topics are discussed by Ansoff, Caves, and Porter (with added input from Liebermann, Montgomery, Dierickx, Cool and Foss) in different researches and times. When it comes to the resource perspective on how to gain competitive advantage there are several researchers, both taking a strict RBV perspective (Barney, Peteraf, Wernerfelt, Amit, Schoemaker and Hamel) and a general resource perspective (Barney, Ansoff, Reed and Fillippi, among others). In conclusion, all theories to some extent point towards the same objective – reaching competitive advantage.

2.2 Market based view (MBV) – Ansoff and the market growth matrix

Our approach and purpose requires a common and basic theoretic platform to be both comprehensible, covering the wider concept, as well as being simple enough to be applicable on different markets and aspects. Igor Ansoff's product-market matrix is a widely accepted and used framework that appealed to our essay with the above aspects as criteria. By choosing Ansoff's matrix as starting point and core to our theory we are able to cover both the market and the resource based view into one

Igor Ansoff's theories on business strategy were among the pioneers in business management. The basic starting point is from a matrix focusing on present and potential products and market or customers (Figure 2-1). The matrix shows four possible strategic ways that the company can take, each strategy having its own implications.

	Existing Products	New products
Existing Markets	Market Penetration	Product Development
New Markets	Market Development	Diversification

Figure 2-1

The underlying principle for the discussion is that growth is crucial for the firm's future success. This is in order for any firm expand its market share (if above average market growth rate) or sustain its position (if equal company growth as market growth).

Growth, as defined in this market context, can be achieved through either expanding a new or existing product offer on current or new markets, creating the simplified model of 4 dimensions for growth.

Market Penetration

In the market penetration strategy the company focus on achieving further growth with existing products in their current markets – increasing market share. Either increasing the volume of sales or finding new customers for the present products does this. This strategy is the least risky since it uses many of the company's present resources and capabilities. If the market itself is growing, maintaining present market share will ensure market growth is achieved. The limitations of market penetration rely on the market potential. As soon as the existing market reaches maximum extent the company must adopt or take on another strategy to further grow.¹

Market Development

Taken the market development strategy, the company concentrates on growing through offering and penetrating new market segments with their existing products. For example, an airline company that adapts and sells its passenger transport for cargo transport missions. This strategy is suitable if the company's core competencies are more related to the specific product than

¹ Ansoff, I. (1957) "Strategies for Diversification". *Harvard Business Review*.

market experience.² In relation to the market penetration strategy this approach is more risky, largely due to higher startup and distribution costs.

Product Development

If the company seeks to go for a product development strategy the focus lies in development of new products and target these to their existing markets. If the company has very strong customer relationship and can offer complementary products etc. this strategy is appropriate for gaining further growth. The company's product and market knowledge gives them an edge to target their existing market. As for market development, in relation to market penetration, this strategy is more risky due to the higher establishment costs.

Diversification

In the fourth strategy, diversification, the company seeks to grow into new business by both developing new products and penetrate into new markets. This strategy is the most risky since it incorporates both new markets and products, i.e. development and sales are conducted simultaneously in new areas. This strategy is sometimes called "suicide cell" due to the complexity in practice. Diversification may however be an appropriate strategy if a potential high yield market compensates the high risk. Further, the diversification strategy may be advantageous if it enables a strong position in an attractive market or industry and reduces the complete portfolio.

The matrix (Figure 2-2) can also be used to illuminate that the element of risk increases the further the strategy moves away from known markets and products, also incrementally increased with the number of markets/products. The diversification strategy requires new skills, new techniques and new facilities. Hence, diversification leads to changes for the organization and the company composition.

² Ansoff, I. (1957) "Strategies for Diversification". *Harvard Business Review*.

		Markets				
		μ_0	μ_1	μ_2	...	μ_m
Products	π_0	Market penetration	Market development			
	π_1	Product development				
	π_2			Diversification		
	...					
	π_n					

Figure 2-2

2.3 Five Forces of Competition Model

2.3.1 Introduction

The business environment within an industry is constantly influenced by external and internal factors that shape daily decisions of the players in that industry as well as their performance. Porter's model Five Forces of Competition is commonly used in order to specify and analyze different factors that affect an industry. By analyzing these factors and creating the best possible strategy with regards to the five forces, players will be successful (with successful we mean being able to generate enough profit to sustain and grow the business). Therefore, the attractiveness of an industry, as well as the player's position within the industry should be analyzed. As Porter (1996) explains, "that is what strategy is all about – making choices about how you position your company in its competitive environment; [...] no matter how attractive the game is, you will not do well if you do not hold a good position in it".³

As we in this thesis intend to analyze how players within different industries, and indeed the entire market, developed and executed strategies, Porter's Five Forces model serves as an excellent tool for us with regards to understanding and analysing company strategies from a market and industry perspective.

³ Porter, Michael E. (1998) Competitive advantage: Creating and sustaining superior performance: with a new introduction 1st Free Press edition. New York: Free Press (p.90)

2.3.2 The Five Forces model

In any industry there are five competitive forces that collectively determine the attractiveness of the industry:

- Three sources of “horizontal” competition – threat of substitutes, rivalry among existing competitors and entry of new competitors,
- Two “vertical” sources of competition – bargaining power of buyers and bargaining power of suppliers (Grant, 2005) (Figure 2-3).

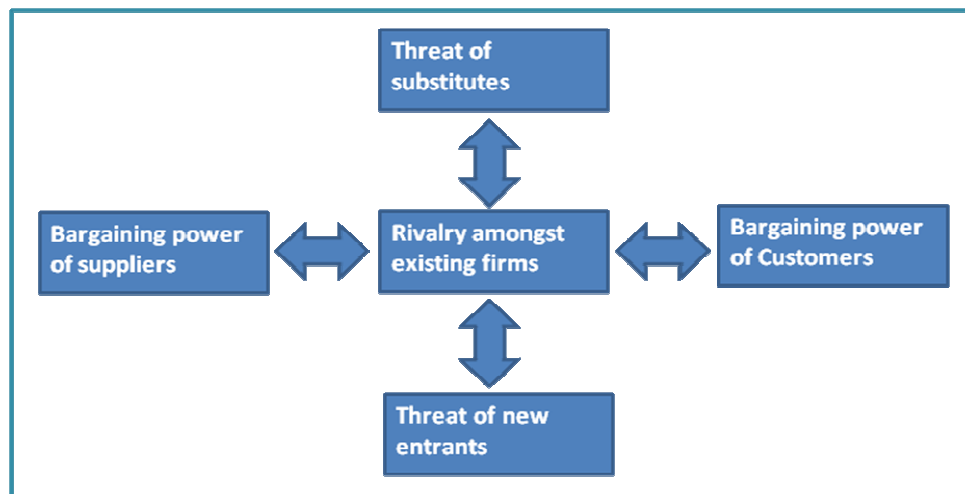


Figure 2-3. Five forces of competition.

As Porter (1985) further explains, each player strives to capture a profitable and sustainable position within an industry in order to defend itself from the influence of the forces that determine the industry competition. Although the structure of the industry is defined by exogenous factors, every company can influence each of the five forces through the competitive strategy in its own favour⁴. Further more, the strength of each individual force can vary across industries and change over time as an industry grows, and not all of the forces are equally important for different industries⁵. Other authors have, however, argued that the five forces model only offers a limited perspective¹. According to Besanko et al. (2007), the Five Forces approach ignores both changes over time in consumer income and preferences, and changes in companies' strategies in order to reinforce demand. The role that governments play in an industry has also been left out of the model. Besanko et al. (2007) mention that the government as a regulator could affect profitability of an industry, and therefore it should be introduced as

⁴ Porter, (1998)

⁵ Porter, (1998)

the sixth force. With regards to this thesis, however, the most severe criticism of the Five Forces model is that it assumes that companies are free to access the required assets in order to compete in the industry and the chosen market position. As the resource based view explains this may not always be the case⁶.

Internal Rivalry

Competition among the existing players within an industry is the key determinant of the overall industry profitability. “If someone is always attacking your position, that makes the industry less attractive and less profitable”⁷. Internal rivalry could take either of the two forms:

- An aggressive strategy when the market players use price pressure,
- Or a more gentle strategy when the market participants focus more on new product innovation and advertising.

Whatever the case, companies are jockeying for the market share in the industry⁸. There are several factors that influence internal rivalry. Rivalry is commonly measured by a seller concentration ratio. A market dominated by a few large players is characterized as “a highly concentrated market”. In these kinds of markets or industries competitors recognize their dominance and mutual interdependence which often leads to price similarity. Normally this causes competing firms to focus on image and new product development⁹. In general, internal rivalry intensifies when an industry is characterized by high fixed costs, slow growth, excess capacity and lack of product differentiation¹⁰. In industries where the growth rate is low, the companies must steal market shares from competitors in order to expand which generally intensifies competition¹¹. Exit barriers are costs incurred by a company in case of leaving a specific industry¹². These costs vary across different industries and as a rule, if there are high exit costs, companies will compete more aggressively and remain in the industry even when the business is not profitable¹³. Different cultures and management styles are also factors that influence price competition. Furthermore, when there is no or weak product differentiation among competitors and the costs for switching from one brand to another are low for

⁶ Teece, Pisano and Shuen, (1997) “Dynamic Capabilities and Strategic Management”. *Strategic Management Journal*, Vol 18:7, 509.533

⁷ Porter, (1998), p. 90

⁸ Besanko, David et al. (2007). *Economics of Strategy*, Wiley, 4th Edition, 2007

⁹ Grant, Robert M., (2005), *Contemporary Strategy Analysis*, 5 ed. Malden: Blackwell Publishing.

¹⁰ Ghemawat, P. (1998). *Creating Competitive Advantage*. HBS

¹¹ Besanko et al., (2007)

¹² Porter, (1998)

¹³ Ghemawat, (1998)

consumers, there will be increased incentives for companies to cut the prices in order to increase their market shares.¹⁴

Threat of Entry

The profitability of an industry is influenced by existing and potential competitors. As a new entrant comes in the market, the existing product demand will have to be divided among more sellers which leads to a more intense rivalry¹⁵. As Ghemawat (1998) explains, “the key concept in analyzing the threat of entry is entry barriers, which act to prevent an influx of firms into an industry whenever profits, adjusted for the cost of capital, rise above zero”. There are different types of entry barriers and most of them require large capital investments in order to defend a company from competitors in the industry¹⁶. As a result, new entrants will not face the same market conditions as established companies in the industry.¹⁷ According to Porter (1979), new entrants must invest a lot to establish a strong reputation and create brand loyalty. It may take a long time to build brand awareness, irrespectively of how much money and time the company invests in advertising. In some industries brand loyalty is the highest entry barrier. Government actions can play a decisive role by affecting entry barriers through different laws that favour some companies over the others¹⁸. Grant (2005) mentions that barriers created by the government are the most efficient ones. Through different laws and norms the government could keep out potential competitors. Furthermore, new competitors without the industry-specific knowledge face higher costs than established companies within the market. Newcomers could face cost disadvantage as the accumulated experience of specific market gives lead to already established companies¹⁹.

Substitutes

“Whatever your business does, customers nearly always have other ways of satisfying their needs”.²⁰ Ghemawat (1998) mentions that all products which perform a similar function should be seen as substitutes. The threat of substitutes depends on the price-to-performance satisfaction ratio of a product or service. If a substitute exists in a market the competition within

¹⁴ Besanko et al., (2007); Grant, (2005)

¹⁵ Porter, (1996), "What is Strategy", Harvard Business Review, Nov/Dec 1996.

¹⁶ Ghemawat, (1998). p. 28

¹⁷ Grant, (2005)

¹⁸ Besanko et al., (2007)

¹⁹ Porter, (1998)

²⁰ Porter, (1996), p. 91

that industry will be intensified²¹. The extent of how willing customers are to change from one product for another that satisfies their needs, depends on the accessibility of information and the involved costs of changing. Today the use of the Internet has improved the accessibility of information on available substitutes, thus increasing the information transparency and lowering the cost of change²².

Bargaining Power of Buyers

The bargaining power of buyers is simply a measure of the customer's ability to negotiate the price of a product or service and in consequence squeezing out a company's profit margins²³. The bargaining power depends on several factors. As Ghemawat (1998) mentions, the size and the concentration of buyers relative to suppliers is one of the most important determinants of the power of buyers. The power of the buyers is strong if there are few buyers that purchase a large amount of products. However, one needs to distinguish between the power of buyers and their willingness to use this power²⁴. Access to information about the sellers' prices and costs gives additional bargaining power to buyers. It should be noticed, however, that customers are more price sensitive if the product that they purchase is standard and undifferentiated, expensive and cover a significant proportion of their disposable income²⁵. The bargaining power of buyers has increased with the IT development. The possibility to compare price and quality of products and services as well as the introduction of internet-based reservation systems are examples of how improved information enhances the buyers bargaining power.

Bargaining Power of Suppliers

Number and size of suppliers are the factors that determine the bargaining power of suppliers. With many small suppliers within an industry, the players have a possibility to choose among them. The preferred supplier will be the one with the lowest price and the best quality products. Hence, in this case the bargaining power of suppliers is relatively low²⁶. In contrast, Porter (1997) admits that "powerful suppliers can squeeze profitability out of an industry" much in the same way that strong buyers can.

²¹ Besanko et al., (2007)

²² Grant, (2005)

²³ Besanko et al., (2007)

²⁴ Ghemawat, (1999)

²⁵ Porter, (1997)

²⁶ Ghemawat, (1999)

How Internet Influences Industry Structure

In March 2001 Porter published an article explaining his view of how Internet affected strategic thinking²⁷. The following overview explains how Internet influence on an industry with regards to each of his five forces.

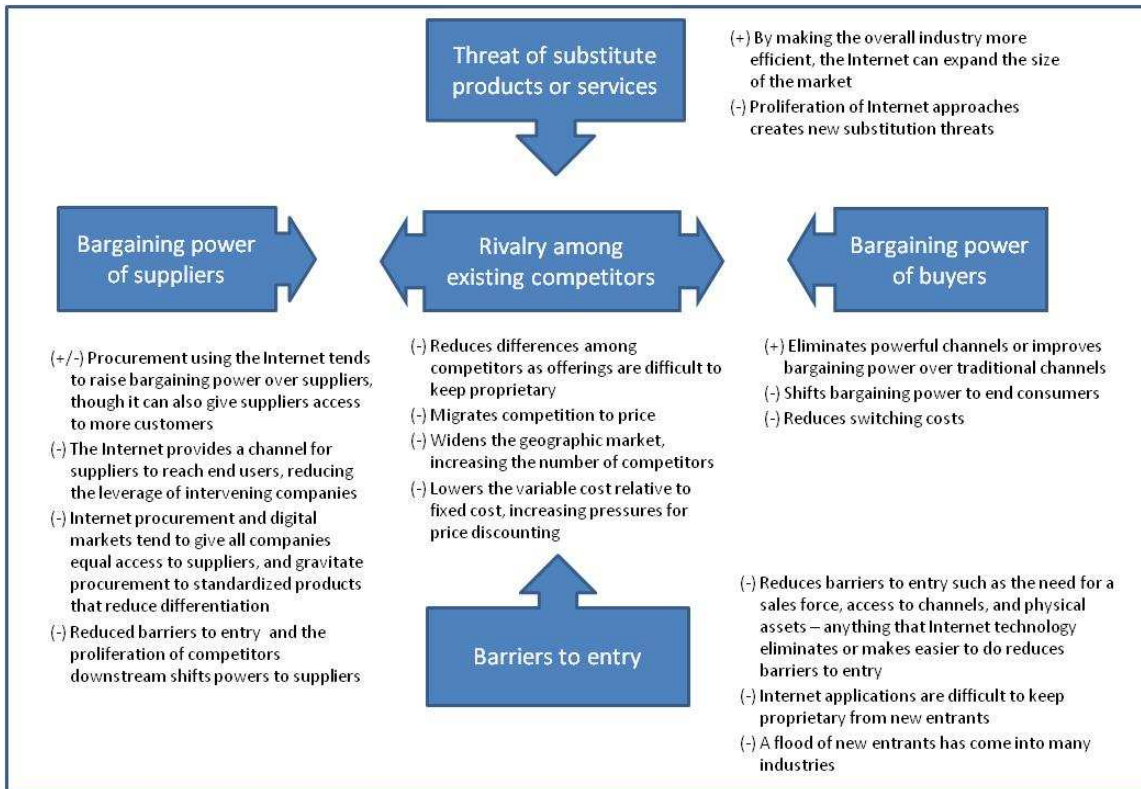


Figure 2-4

2.4 First mover advantages

Several definitions can be found of what first movers are and what advantages they may benefit from. For this thesis we shall use the following definition of both first mover and first mover advantage.

*“First-mover advantage is the advantage gained by the initial occupant of a market segment. This advantage may stem from the fact that the first entrant can gain control of resources that followers may not be able to match.”*²⁸

²⁷ Porter, Michael E. (2001) “Strategy and the Internet”. *Harvard Business Review*

²⁸ Grant, Robert M. (2003). *Cases in Contemporary strategy analysis*. Blackwell publishing.

According to Michael Porter (1980) first-mover advantages are liable to occur if the following aspects come in to play:

1. Early entry can initiate the learning process in a business in which the learning curve is important, experience is difficult to imitate and it will not be nullified by successive technological generations.
2. Absolute cost advantages can be gained by early commitment to supplies of raw materials, distribution channels and so on.
3. The image and reputation of the firm is important to the buyer and the firm can develop an enhanced reputation by being a pioneer.
4. A high degree of customer loyalty can be expected in the market, benefiting the first-mover.

A similar definition to that of Porter can be found in Lieberman and Montgomery (1988) who have divided their finding into three broader categories as follows.

1. Technological leadership
 - a. Advantages derived from the “learning” or “experience” curve
 - b. Success in patent or R&D races
2. Pre-emption of assets
 - a. Preemption of input factors, i.e. natural resources
 - b. Preemption of locations in geographic and product characteristic space
 - c. Preemptive investment in plant and equipment
3. Buyer switching costs

It is clear that both Porter and Lieberman et al. have similar views on what market characteristics that needs to be in place for first mover advantage to materialize. The main distinction between the two views can be found in that Lieberman and Montgomery focus more “tangible” or “measurable” resources e.g. pre-emption of assets or Technological leadership whilst Porter also include “soft factors” such as customer loyalty or enhanced reputation. Using both perspectives as complements hence enables us to take a fully comprehensive view of first mover advantage.

One must remember that each market will meet each first mover characteristic to a different degree, and so each company attempting to enter a new market will have to analyze the potential for first mover advantage in their specific market and situation.

2.4.1 Late mover advantages – first-mover disadvantages

Consequently to what has been stated above it does not always pay off to be the first mover and as a complement to his first-mover advantages Michael Porter (1980) has also stated the risks that comes with being a first-mover.

1. Early competition and market segmentation are on a basis different to what will be important later in the industry development. The firm thus builds the wrong skills and may face high costs of changeover.
2. Costs of opening up the market are great, including such things as customer education, regulatory approvals and technological pioneering and the benefits of opening up the market cannot be made proprietary to the firm.
3. Early competition with small, newly started firms will be replaced by more formidable competition.
4. Technological change will make early investments obsolete and allow firms entering later to have an advantage by having the newest products and processes.

Lieberman and Montgomery (1988) have similarly to Porter illustrated the risks of being a first-mover and the advantages of being a late mover.

1. Free riding effects²⁹
 - 1.1. Late-movers may be able to free-ride on the investments of earlier entrants in a number of areas including R&D, buyer education, and infrastructure development.
2. Resolution of technological and market uncertainty³⁰
 - 2.1. Late mover can gain an edge through resolution of uncertainty with regards to market or technology e.g. the development of dominant design

²⁹ Spence, Michael, 1984. "Cost Reduction, Competition, and Industry Performance". *Econometrica*, *Econometric Society*. vol. 52(1), pages 101-21, January; Baldwin, WL & Childs, GL (1969). "The Fast Second and Rivalry in Research and Development". *Southern Economic Journal*.; Ghemawat, P. & Spence, M. (1985). "Learning Curve spillovers and market performance". *Quarterly Journal of Economics*. Issue 5, Vol 100, 832-52; Lieberman, M & Montgomery, D. (1987) First-Mover Advantages. Research Paper No. 969. Stanford Business School

³⁰ Wernerfelt and Karnani (1987) "Research Notes and Communication: Competitive strategy under uncertainty" *Strategic Management Journal*. Volume 8 Issue 2, Pages 187 - 194

3. Shift in technology or customer needs³¹

- 3.1. Creative destruction: Existing products are superseded by the innovations of new firms.

4. Various types of incumbent inertia³²

- 4.1. Factors that may inhibit the firms ability to respond to environmental change or competitive threats
 - 4.1.1. The firm is locked in to a specific set of fixed assets
 - 4.1.2. The firm may be reluctant to cannibalize existing product lines
 - 4.1.3. The firm may be organizationally inflexible

In conclusion, both Porter and Lieberman and Montgomery, state that if a company is to benefit from first mover advantages, within a specified market segment, that segment has to fulfil not only all or most attributes enabling first mover advantage but also not fulfil all or most of the attributes that counteracts first mover advantage. The better the fit with “first mover advantage” enablers and misfit with “first mover disadvantage” enablers, the more likely a company is to benefit from long term competitive advantages.

2.4.2 Hypercompetition

However, some researchers³³ have challenged the perspective of sustainability of competitive advantages. They argue that the idea of building long term sustainable advantages has become outdated. In today’s fast paced “hypercompetitive” and increasingly global market competitive advantages is now based more on “invisible assets”³⁴ that are more mobile, more easily imitated, and more easily circumvented by substitution, rather than on scale and “bricks and mortar” physical assets.³⁵

According to this “hypercompetitive” view the purpose of strategy is not to build and then defend large sustainable competitive advantages, but rather to create a constantly changing series of small, temporary competitive advantages to keep competitors off balance by forcing them to respond.

³¹ Schumpeter, J. (1961). *Theory of Economic Development*. Cambridge, Mass: Harvard University Press

³² Tang (1988); MacMillan (1983); Arrow (1962); Reinganum (1983); Ghemawat (1968a)

³³ D’Aveni, (1994), (1995); Hamel and Prahalad, (1994); Mac Millan, (1988), (1989); Oliva, Day, and Macmillan, (1988); Williams, (1992)

³⁴ Itami, H. Roehl, T. (1987) *Mobilizing Invisible Assets*. Harvard University Press

³⁵ Can First-Mover and Early-Mover advantages be sustained in an industry with low barriers to entry/imitation?, SMJ Vol 19, No. 7. 1998

2.5 Resourced Based View (RBV)

The rationale for choosing a resource perspective in our theory to complement our analysis is that it adds and combines the company's important internal aspect, many times overseen in the preparation and formulation market strategy. The resources can be viewed and categorised in many different ways (as will be illustrated this subchapter) but it carries the same basic ideas of availability, ownership, replicability, etc. Incorporation of both a MBV and RBV perspective is required to tie together our purpose to see the linkage of market and resources, possible finding the match or mismatch of these to worlds.

The Resource Based View (RBV) has been in the light since Birger Wernerfelt's in depth 1984 publication "A resource based view of the firm". RBV takes off from a resource perspective, thus shifting the focus from the product and market focus to the resource side. In respect to the market based view, it is basically the same fundamental logic in how to do business for a company, only with a different management perspective. Both views still support the fundamental idea to reach a sustained competitive advantage. Early research in RBV relies on the straightforward logic that on one hand by specifying the size of a company's activity in a market, it is possible to effectively deploy the appropriate amount of resources. On the other hand, by specifying the resource the company possibly can deploy, it is possible to find the optimal product-market activities.³⁶

The Resource based view argues that firms possess resources, a subset of which enables them to achieve competitive advantage, and a subset of those that lead to greater long-term performance. Resources that are valuable and rare can lead to the creation of competitive advantage. That advantage can be sustained over longer time periods to the extent that the firm is able to protect against resource imitation, transfer, or substitution. In general, empirical studies using the theory have strongly supported the resource-based view.

Competitive advantage and Sustained competitive advantage

Competitive advantage can be defined as when a company is applying a value creating strategy not being implemented by a present or potential competitor. A *Sustained Competitive Advantage* can be

³⁶ Wernerfelt, B. (1984). *A Resource-Based View of the Firm*, Strategic Management Journal, Vol. 5, No. 2

defined as when a company is implementing a strategy not being applied by any competitor and when these other companies are unable to duplicate any of the benefits with this strategy.³⁷

Figure 2-5 gives a simplified display of how the productive use of the firm's resources can over time create a sustainable advantage, presuming their ability to uphold the resources' individual potential of *imitability*, *substitutability* and *mobility*.³⁸

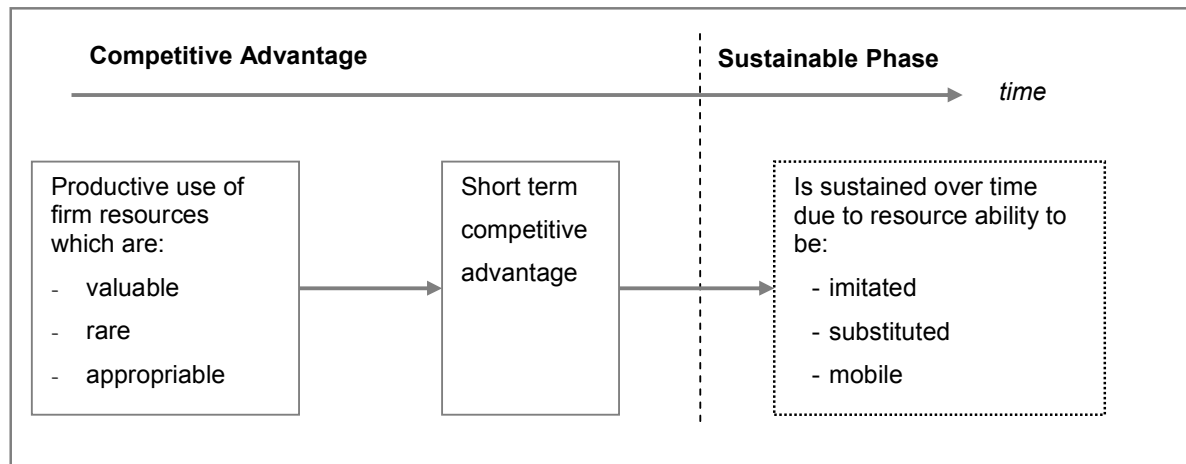


Figure 2-5

Resources

One definition of resources that Daft makes is that it includes all assets, capabilities, organizational processes, company attributes, information, knowledge, etc. controlled by the firm that enables the firm to create and implement strategies that improve its efficiency and effectiveness.³⁹ Amit and Schoemaker define resources as “stocks of available factors that are owned and controlled by the firm. Resources are converted into final products or services by using a wide range of other firm assets and bonding mechanisms”.⁴⁰

RBV are in some contexts also described as Strategic Factors derived from the necessity of certain resources needed in order for the company to be competitive.⁴¹ One of the earlier theories on the subject presented by Jay Barney has been cited numerous times and discussed by succeeding theorists. The basic assumption builds on the idea that strategic resources are

³⁷ Barney, J. (1986). “Strategic Factor Markets: Expectations, Luck, and Business Strategy” *Management Science*, Vol. 32, No. 10, p.102

³⁸ Wade and Hulland (2004) “Resource-Based View of Information System Research” *MIS Quarterly* Vol. 28 No. 1, pp. 107-142/March

³⁹ Barney (1991)

⁴⁰ Amit, R. and Schoemaker, P. J. H. (1993). Strategic Assets and Organizational Rent. *Strategic Management Journal*, Vol. 14, 33-46.

⁴¹ Barney, (1986), p.123

heterogeneously distributed across the firms and that these differences are stable over time. Barney identifies four indicators of the potential of a company's resources to generate a sustained competitive advantage: *value*, *rareness*, *imitability* and *substitutability*. From Barney's perspective, the major difference between the traditional market based view and the resource based view is that the former suggests that companies obtain sustainable competitive advantage through responding to environmental opportunities, while defusing external threats and avoiding internal weaknesses.⁴² This classic approach is more commonly known as the SWOT analysis.

The value of resources has been debated among several scholars, i.e. how to determine what resources are strategic. The strategic value of resources has been measured and evaluated through various evaluation models and the following authors (among others) have provided and discussed resource values from different approaches;

- Barney (1991) – the VRIN-model
- Peteraf (1993) – competitive advantage framework
- Wernerfelt (1984) – Resource-product Matrix and Stepping Stone Model.
- Amit & Schoemaker (1993) – Resources and Capabilities framework

Barney's model is the most common and most influential of these and the key to understanding sources of sustained competitive advantage one must start with the assumption that firm resources may be heterogeneous and immobile. That being said, not all companies hold the potential of sustained competitive advantage and to have this potential four criteria's can be outlined (VRIN-model).

1. First, the resource must be *valuable*
2. Second, the resource must be *rare* among the company's competitors
3. Third, It must be imperfectly *imitable*
4. Fourth, it must be *non-substitutable* for any resource that upholds equal or higher value.⁴³

Valuable resources

A resource must be valuable in order to be a source for competitive advantage or sustained competitive advantage. Resources are valuable when they allow a company to create or implement strategies that improve their efficiency or effectiveness.

⁴² Barney, (1986), p.99

⁴³ Barney, (1986), p.105

Rare resources

Logical reasoning clearly points out that if valuable company resources are possessed by a large number of competitors the company cannot take advantage or gain sustained competitive advantage. A company benefits competitive advantage when it is implementing a value-creating strategy not simultaneously implemented by many other companies. If multiple companies implement the same strategies from the resources no company will gain any relative advantage.

One may raise the question of how rare a resource must be in order to have the potential of engendering competitive advantage. For sure, if a company's valuable resources are completely unique among a set of competing companies, these resources will give at least a competitive advantage and possibly a sustained competitive advantage.⁴⁴ As long as the number of companies that possesses a certain valuable and rare resource is less than the number of companies needed to generate produce "perfect competition dynamics", that resource has the potential of giving competitive advantage to this small number of companies jointly.⁴⁵

Imperfectly imitable resources

To further develop the discussion of sustained competitive advantage, one must take into account that these resources cannot easily be obtained by competitors, also called "Imperfectly imitable"⁴⁶. The rationale for imperfectly imitable resources can be divided into three reasons:

- a. the ability for a company to obtain a resource is dependent on *unique historical conditions* – i.e. the company's ability to attain and exploit resources depends upon its historic positions and achievements.
- b. the link between the resources possessed by a company and a company's sustained competitive advantage is *casually ambiguity* – i.e. when the connection between the resources controlled by a company and the company's sustained competitive advantage is not understood or understood imperfectly.

⁴⁴ Barney, (1986), p.107

⁴⁵ Hirshleifer, (1980) Evolutionary Models in Economics and Law: Cooperation Versus Conflict Strategies. UCLA Department of Economics.

⁴⁶ Lippman, Steven A. and Richard P. Rumelt, (1982). "Uncertain Imitability: an Analysis of Interfirm. Differences in Efficiency Under Competition." *Bell Journal of Economics*. 13: 418-438; Barney (1986)

- c. the resource generating a company's advantage is *socially complex* – meaning that there is no clear understanding of how the relation is connected. E.g. reputation, interpersonal relations, etc.⁴⁷

Substitutability

The final requirement for a resource to be classified as a source of competitive advantage is that there must be no strategically equivalent valuable resources that could be substitutes. This can be defined as “where two valuable company resources are strategically equivalent when they each can be exploited separately to implement the same strategies.”⁴⁸ Substitutes can be either a similar resource or a different resource but it has the same effect on the implemented strategy.

Since rare and valuable organizational resources can be a source of competitive advantage is another way of describing first-mover advantages given to companies with resource advantages. It is important to point out that Porter sees the Resource Based View as a complementing theory to strategy rather than a substitute.⁴⁹

Intangible resources

Hall & Grant discusses the value of intangible resources and argues that intangible resources are much more valuable than tangible resources.⁵⁰ This is due to the fact that intangible resources are by nature harder to imitate or replicate than tangible resources.⁵¹ Intangible resources can be anything such as; *reputation, organisation, human resources, perceived quality, brand, network etc.*

⁴⁷ Dierickx, I. and Cool, K. (1989). “Asset Stock Accumulation and Sustainability of Competitive Advantage” *Management Science*, Vol. 35, No. 12., 1504-1511.

⁴⁸ Barney (1986), p.111

⁴⁹ Porter, M. (1987), "From Competitive Advantage to Corporate Strategy", Harvard Business Review, May/June

⁵⁰ Grant, Robert M., (2005), Contemporary Strategy Analysis, 5 ed. Malden: Blackwell Publishing.

⁵¹ Barney, J. (1994). “Competitive Organizational Behaviour: Toward an Organizationally-Based Theory of Competitive Advantage”. *Strategic Management Journal*.

2.6 Theory conclusion

To conclude our theory chapter we present an overview model below (Figure 2-6) that summarizes our selected theoretic scope to help the reader navigate through the remainder of the thesis. The model summarizes both the market and resource based view and how they by interacting create a comprehensive strategic scope, as a company must asses whether their strategies are sound from both a market and resource based view.



Figure 2-6

Chapter 3 - Methodology

This chapter will discuss the methodological part of our thesis. First we will briefly describe the different methods for research under research approaches. Second, we will describe the chosen methodology for our particular thesis more in depth. This part involves the design as well as arguments for using the method chosen. Thirdly, we will describe how the sampling, collection and analysis of our data will be conducted to ensure maximum quality for our thesis. Finally, we will present an appropriate research model.

Our method for investigation is based on the principles for Historical Research and the Case Study Method. With this approach we will ensure the validity and reliability through the premises that both methods rely on. We find the historical method to be suitable for describing and discussing our historical phenomenon that we are investigating.

3.1 Research approaches

According to the literature, research theory initiates from two main principles; *deduction* and *induction*. Both methods can be used to make scientific conclusions. The *deductive* method is based on conclusions drawn from general principles from single events.⁵² The deductive approach thus has a weakness since the general principles has to ensure a high degree of validity in order for the thesis as a whole to be valid. The other approach, *induction*, starts from a quantity of observed cases and then generalizes from the patterns of these events. The inductive method therefore formulates new hypothesis that can be used to establish new theories as well as develop the prevailing theories. For historical and case methods as well as other explorative studies, the inductive method is the most appropriate method to use – this is also the case for our study.

3.2 Historical research

Historical research offers a qualitative method that has been formulated to explain the causes of change through time. Hence, this method offers a great potential for getting in depth understanding of our research objects that we are looking at in order to find implications for how strategic analyses were used from MBV or RBS perspectives. To be able to make a comprehensive historical approach, the historical method includes two main stages. The first

⁵² Andersen, Ib. (1998). Den uppenbarliga verkligheten: val av samhällsvetenskaplig metod. Studentlitteratur, p. 29

stage is the research design where the specific questions and purpose are formulated. Our research/thesis design is explained in more detail further on in sub-chapter 3.4. The second stage of the model is the actual analysis, which can be conducted in four steps – investigation, analysis, synthesis and interpretation, which is an altered version of Mary Ann Smith's Historical Method.⁵³ The investigation is in this context linked to our empirics, both company and market wise. The synthesis will tie together the findings with other possible research and theories to further add to the arguments in our analysis and conclusion. In the interpretation we will objectively and with reason interpret and present our analysis.

3.3 The case study method – theoretical implications

The case study method, like other research strategies, is a way of investigating an empirical topic by following a set of pre-specified procedures.⁵⁴ The case study involves several carefully selected decisions to maximize the outcome with one definition according to Leonard-Barton as:

*“A case study is a history of past or current phenomenon, drawn from multiple sources of evidence. It can include data from direct observation and systematic interviewing as well as from public and private archives. In fact, any fact relevant to the stream of events describing the phenomenon is a potential datum in a case study, since context is important”*⁵⁵

We found it important to set the foundation of the method in coherence with our research question. Yin describes the case method as favourable under a set of conditions, which to a large extent motivates this approach in our research. These conditions are:

1. Situations when the researcher is looking for answers to “how” and “why” questions.
2. When the investigator has little control over the events.
3. When the research is looking at current events.⁵⁶

All of the arguments in favour of the case method are applicable for our research question. More specific:

1. We are trying to find how this phenomenon may occur in our investigated settings and why that is.

⁵³ Smith, Mary Ann. (1993) “Historical Method in consumer research” *Journal of Consumer Research*, p. 598-599

⁵⁴ Yin, Robert K. (2003) *Case Study Research, Design and Methods*. Third Edition. Sage Publications Inc., p. 15

⁵⁵ Leonard-Barton, D. (1990), “A dual methodology for case studies: synergistic use of a longitudinal single site with replicated multiple sites”, *Organisation Science*, Vol. 1 No. 1 pp. 248-66.

⁵⁶ Yin, (2003), p.1-2

2. The events are not in control of our research and our findings will have negligible impact on the current business, particularly since the study is viewed over an extensive time period.
3. The markets that we are looking at were established within the last decade and presumably became steady in the last few years.

3.3.1 Designing the study

In order to make the case study comprehensive we need to establish an explicit research design, just like for the historical method. The design will assist us in ensuring the logic between the collected data and the initial questions and will eventually secure the link to the conclusions. In other words, the research design is “*a logical plan of getting from here to there*”.⁵⁷ From a more technical point of view, this includes a set of “components” in the design that need to be considered in the research design process:⁵⁸

1. *The study's question* (the “who” and “why” as described by Yin), which in our case is stated in the purpose – effects on strategic analysis within MBV and RBV in early 2000 with the objects being within the Internet companies and their market in the same period.
2. *Its propositions* (what do we believe are the implications?), i.e. what were the effects of the current and perceived strategies.
3. *Its units of analysis* (which units to study and what is the “case”); our research objects – both in terms of primary sources and selected companies as well as views on market events.
4. *Its logic in linking the data to propositions* – in our research this relates to having a clear logic for linking the findings with to what we are investigating and in the meantime ensuring validity.
5. *The criteria for interpreting the findings*, i.e. what will different outcomes in the data collection render, in addition to what premises we set up as framework. In our case adding on to the discussion in the Synthesis to further reason around the findings.

Design quality

In order to ensure quality in our design maximization of both validity and reliability is key. Yin has dissected these into four areas, each with individual tactics for optimization as well as

⁵⁷ Yin, (2003), p.20

⁵⁸ Yin (2003), p.21

categorized into the different phases of the study. This breakdown will assist in the thinking and assembly of a thorough casing:

1. Construct validity – *correct operational measures for studied objects*
2. Internal validity – *establishing causal relationships*
3. External validity – *establishing a field where the findings can be generalized*
4. Reliability – *Demonstrating that the study can be repeated with the same results.*

Figure 3-1 illustrates the components that need to be addressed in order to maximize quality of the study.

Figure 3-1

	Case Study Tactics	Phase of research
Construct Validity	• Multiple sources • Chain of evidence • Key informants review report draft	Data collection Data collection Composition
Internal Validity	• Pattern-matching • Explanation building • Address rival explanations • Use logic models	Data analysis
External Validity	• Theory in single-case studies • Replication logic in multiple-case studies	Research design Research design
Reliability	• Case study protocol • Develop case study database	Data collection Data collection

In research design, *validity* is defined as the level of coherence between theory and observation. Validity can also be divided into the two variables *authenticity* and *relevance*. The authenticity assesses the general coherence between theory and empirical findings on an overall level. The relevance describes the empirical findings in relation to the formulated problem.⁵⁹ The *reliability* indicates to what level the result from a data collection is affected by coincidences, as well as how certain and precise we measure what we are looking at.⁶⁰

Choosing design method

For any case study, it can be based on either a single- or multiple-case design. The single-case study thus focuses on a single scenario whereas the multiple design is supported by multiple scenarios. From this starting point the design method can be categorized into four different

⁵⁹Halvorssen, Knut (1992). *Sambälskvetenskaplig metod*. Studentlitteratur, Lund, p.42

⁶⁰ Winter, Jenny (1992). *Problemformulering, undersökning och rapport*. Almqvist & Wiksell, Stockholm

types, as illustrated by Figure 3-2 based on the holistic or embedded approach within the different case categories.

Figure 3-2

	Single-case design	Multiple-case design
Holistic (single unit)	Type 1	Type 3
Embedded (multiple units)	Type 2	Type 4

- Type 1 – One context with one case
- Type 2 – One context, one case with multiple units
- Type 3 – Multiple context with multiple cases of analysis
- Type 4 – Multiple context with multiple cases, including multiple units

In determining the design this initial distinction between single- versus multiple-case design has to be made. Yin lists five rationales for choosing a single-case method:

1. When the study represents the *critical* case in testing a well-formulated theory. This may be when there are established theories and when propositions are easily formulated.
2. When the case represents an *extreme* or *unique* case.
3. When the case is *representative* or *typical*. The objective is to capture a common phenomenon or situation. The results from the case are assumed to be informative about the average person or institution.
4. When the investigator has the opportunity to observe a phenomenon that was previously inaccessible. This is referred to as the *revelatory* case.
5. When studying the same single case at several points in time, also named *longitudinal* case.

From these arguments we find that the single-case design with multiple units is most suitable for our thesis, i.e. Type 2. This type enables us to focus on the business strategy on a general level with a number of sample companies. There are well established theories and practiced followed with in the research area.

3.4 Thesis Design

Generally, the design of our study will be conducted by examining single-case contexts with study units with similarities with regards to business development. The units use the same technological means (Internet) towards the market, which enables the study to make a comparative case study within several contexts. These objects will be analyzed from a comparative-historical perspective.

As described earlier, the quality of the design relies on the level of validity and reliability. The table presented earlier by Yin (Ref), dissects these terms further and especially analyses the validity in a deeper context. To *construct* validity our study must rely on multiple sources in the data collection phase. Hence, we will look at market data as well as conducting interview with different people within the same context and within the same topics/questions. The collected secondary data will also be analyzed in relation to the primary data gathered from the interviews. Since the business performance can be measured through various qualitative and quantitative means, this have to be put into relation to the explicit company strategies. To construct validity, there has to be a chain of evidence established during the data collection. Evaluating the coherence between the different data regarding the time as well as the magnitude of each data point will further ensure the validity.

As it implies, the *internal validity* is very important in case studies where a causal relationship is examined. The focus lies in the analysis of the data and to find support for that the implications of one event have led to another.

The *external validity* deals with the generalization of the case study findings, i.e. are the implications and conclusions of the study relevant in a greater context? With multiple study objects high level generalisation can be made.

The *reliability* demonstrates to what extent the study can be repeated with the same results. For our study, the economic figures and market data are not likely to change and are therefore considered to have a high reliability. The reliability issue on this case lies in the definitions and revaluation of the starting point for the studied companies. For the primary data, all interviews will be recorded and attended by two interviewers and conducted in highly structured manner.

This increases the level of documentation and ensures validity within the data collection context, i.e. validity in an objectivity aspect, which in turn will ensure reliability in the long run.

3.5 Data collection and analysis

As described earlier this study is based on multiple approaches to collect data, both primary and secondary. The basis of this approach lies in the triangulation of data⁶¹, which ensures reliability through the use of multiple types of sources. Hence, we have in our research chosen to look from multiple viewpoints with different zoom – both at individual companies and events, but also from broader market perspectives, capturing the larger dynamics. In practice, we triangulate by viewing different entities as well as taking a holistic view on the covered area. In order to capture the essence that also has a strong linkage to our purpose and in the meantime ensuring validity, our data collection will be approached along the following rational principles.

Secondary data, i.e. market data, financial values, statistics, general market discussions, etc. will be gathered from commonly available databases with high reliability and reputation. In addition, discussion forums and articles will be gathered, scanned and interpreted based on common sense and background research of the authors. Secondary data represents information that has formerly been collected and gathered from other sources, hence there is no direct observation of the authors.⁶² Subjectivity in terms of secondary data relies on the validity of the sources chosen. The data have to be evaluated with the underlying evaluation of the source itself, e.g. its purpose, context and coherence. For this study, the secondary data is crucial for the evaluation of the market growth and implications of companies/sectors.

As presented and discussed in the literature, the primary data is collected through interviews or observations⁶³. Our primary data will be gathered from executives in former and present corporate strategy positions. In regards of primary data, the subjectivity in the collection relies on the interviewers' prior experience and knowledge. In order to reach a high degree of objectivity the interviewers have to make certain that the different interviewees are approached alike. In order to gain access to relevant information the study relies on a number of principle informants that will facilitate the insight into corporate strategies.

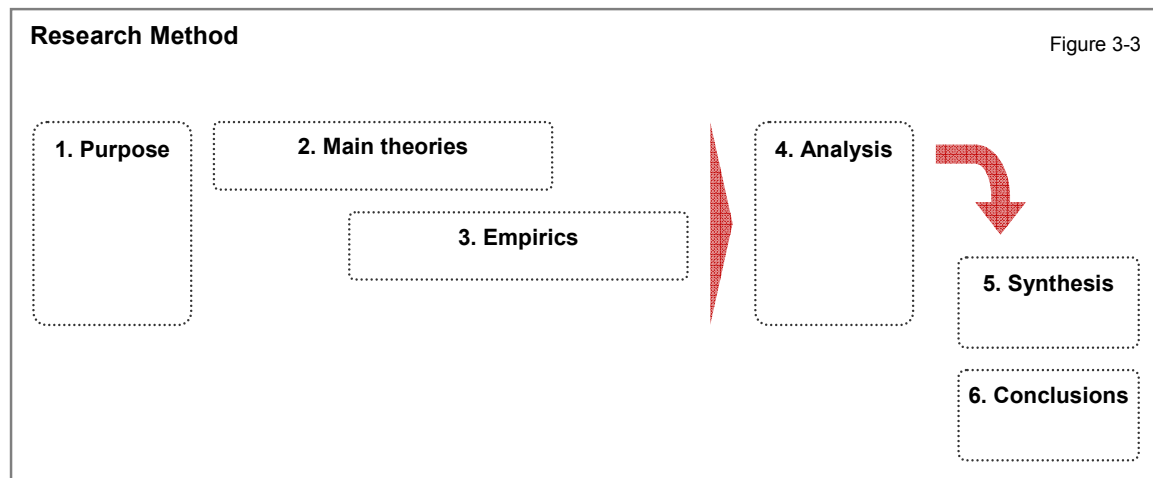
⁶¹ Andersen (1998), p.33

⁶² Andersen (1998), p.150, 158

⁶³ Andersen (1998), p.150

3.6 Our Research Method

As pointed out initially, our approach is based on a mixture of Historical Method as well as Case Study principles. The rationale for this is due to the good fit of both methods with the phenomenon investigated – historical and with a pre-set number of companies. The method can be illustrated by a number of steps shown in figure 3-3.



The logic follows the notion of an initial formulation of purpose (1.) to set the framework for the entire study. Second, the prevailing theories with appropriate focus for our study is illustrated and presented (2.). With the initial purpose as framework and the guiding theories we conduct the investigation of the study objects and in our case also the second hand information for the broader view of the marketplace (3.). When the empiric data has been collected, the discussion and analysis of the findings in relation to the theory can be described (4.). This part was illustrated in the *Model for Analysis* as the Z-leg in our “X-Y-Z approach” in Chapter 1.6 (figure X) – gaining the depth of understanding. In part 5 – the Synthesis, we reach for higher grounds based on the discussion in our analysis to see whether there are new implications and ideas that should be incorporated in the study. The final phase of the study is when we conclude our findings, discussions and ideas for future development (6.).

Chapter 4 -Empirics

In this empirics chapter we aim to firstly give the reader a comprehensive understanding of the “buzz” around “the new economy” both globally and in Sweden specifically. Secondly we aim to supply an overview of what was happening with regards to stock and securities valuation within the stock markets, and finally we also wish to give the reader an overview of the, at the time, most central ways of using Internet and IT as a part of a company’s business strategy by exemplifying these strategies through our chosen reference companies.

4.1 Market

4.1.1 Transformation of traditional marketplaces – “the new economy”

Although interconnected digital network traffic has been used for nearly fifty years it was not until the late 1980’s that the shared networks became commercially available when the first Internet Service Providers (ISP) were established. Prior, the Internet was merely a tool for research information sharing. The rapid growth of Internet availability, in parallel with the expansion of products and services through the development of Internet applications, enabled established companies to market and trade products through a new powerful medium, often denoted “e-commerce”.⁶⁴ In addition, the cost benefits and scalability allowed for new ventures and companies to establish and in many cases overgrow prevailing companies stuck with expensive infrastructure and tied-up capital etc. These new companies with Internet based business models gave birth to a new definition of the economy known as “the new economy”⁶⁵. Kevin Kelly, the founding executive editor of Wired magazine, explained the phenomenon of “the new economy” as follows:

“This emerging new economy represents a tectonic upheaval in our commonwealth, a social shift that reorders our lives more than mere hardware or software ever can. It has its own distinct opportunities and its own new rules. Those who play by the new rules will prosper; those who ignore them will not.”⁶⁶

⁶⁴ Wikipedia.com. Search: “Internet”

⁶⁵ Elmlund, Björn. (2005) Dansen kring guldkalven. Bokförlaget Atlas

⁶⁶ Kelly, Kevin. (1997) “New Rules for the New Economy”. *Wired*. issue 5.09. September

In his book “New rules for the New Economy” Kelly went one step further and explained that what characterized “the new economy” was that it favored immaterial values like ideas, information and relations. The ability to build networks through internet was crucial for the company that wished to survive.⁶⁷ Furthermore, “the new economy” seemed to symbolize a form of business Darwinism, according to Kelly, where only the fittest would survive:

“If you are not in real-time, you are dead”

The result would not only be that the “the winner takes all” but also that there would probably only be room for one “winner” in the market place, meaning that even if you were in second place you would not survive in the long run.⁶⁸

The concept of “the new economy” spread very quickly to the general media and was described not only as a whim or trend but as a reality. Internet as a revolutionary technology was one of the driving factors behind “the new economy” but the real strength and credibility came from established economists in America who had a hard time explaining why the economy was behaving the way it was. From the beginning of the 90’s unemployment was going down but at the same time inflation stayed low which historically should not have been possible. At the same time internet companies were being valued higher in the stock market than traditional “brick and mortar” companies. From 1986 to 1999 America had basically experienced one long boom with low inflation and constantly increasing stock market value. These phenomenon’s occurring simultaneously signalled that something had in fact happened to the economy. Even President Bill Clinton started talking about “the new economy” as early as 1996. Maybe there was some truth in all the talk of about “the new economy”? Maybe we would never again experience any more dips or depressions in the economy and the future would just be one long continuous global boom with America at the lead?⁶⁹

Dow Jones index 1995 - 1999	
1995 (February)	4.000
1996 (October)	6.000
1997 (July)	8.000
1998 (October)	9.000
1999 (March)	10.000
2000 (January)	11.700

The ever increasing stock market value was thus explained by “the new economy” and Internets revolutionary powers. These revolutionary powers made it possible for companies to raise salaries without raising prices which would have been the traditional solution. By using

⁶⁷ Kelly, Kevin. (1997)

⁶⁸ Kelly, Kevin. (1997)

⁶⁹ Elmbrant ,Björn. (2005) Dansen kring guldkalven. Bokförlaget Atlas

information technology, companies could increase their productivity and lower costs which compensated for the increase in salaries.⁷⁰ Furthermore, the American people were now said to have fully embraced capitalism and their doubts towards the financial markets tracing back from the Wall Street crash in 1929 had now vanished.⁷¹ The American people had also become “calmer and cleverer” and understood the low risk of long term investments. The high stock values then did not reflect that people were crazy but that they were in fact rational and healthy.⁷²

Critics claimed that “the new economy” was nothing new at all and that there had in fact always been “new economies” for instance when the train or the car were introduced. The high stock market value thus could not be or should not be derived from the introduction of Internet but would have to be explained otherwise.⁷³ In retrospect the warnings delivered by critics did little to cool the market.

In 1996, in what was to become one of his most remembered speeches during his time as the Fed. Chairman,⁷⁴ Alan Greenspan hinted his worries concerning the development of the stock market:

*(...) Clearly, sustained low inflation implies less uncertainty about the future, and lower risk premiums imply higher prices of stocks and other earning assets. We can see that in the inverse relationship exhibited by price/earnings ratios and the rate of inflation in the past. But how do we know when irrational exuberance has unduly escalated asset values, which then become subject to unexpected and prolonged contractions as they have in Japan over the past decade? (...)*⁷⁵

Greenspan was worried that the market was overheated but at the same time he feared that if he increased the interest rates to cool the market it could cause a stock market crash and recession. Japan, had during the 80's tried to combat their stock market and Real Estate bubble by heavily increasing interest rates. The result was a stock market crash (in 1989) and a 14 year long recession with the Nikkei index reaching its bottom quote in 2003 at around 8000 from the all

⁷⁰ Bergkvist Lars-Georg (1997-08-24) Svenska Dagbladet Näringsliv. Feds tolkning ger börsoro.

⁷¹ Lowenstein, R. (2004) Origins of the Crash: The Great Bubble and Its Undoing. Penguin

⁷² Glassman & Hassett, (1999), Dow 36 000,

⁷³ Interview with Schiller, “Bloody but not unbowed” http://www.businessweek.com/magazine/content/01_12/b3724602.htm.

⁷⁴ Chairman of the Board of Governors of the Federal Reserve System

⁷⁵ The Challenge of Central Banking in a Democratic Society

time high of 38 000 in 1989.⁷⁶ The day following Greenspan's speech stock markets plunged world wide but recovered quickly. Discussing the issue of the overheated stock market together with the "United States Secretary of the Treasury", Robert Rubin, Greenspan and Rubin came to the conclusion that there were no safe ways of cooling the market. If they publicly announced that the stock market was overheated it could just as well cause the crash they wanted to avoid. Still Greenspan continued to express his worries in public.⁷⁷ In early 1997 Greenspan was asked, in the House of Representatives, if he was trying to "talk down the stock market". He replied:

*"(...) that was not my intention. It is not possible (...) "*⁷⁸

In 1998, quite late compared to others, Greenspan himself started to speak about "the new economy" in theoretical terms, more or less silently giving his consent to the rational that was driving up the stock prices.

*"(...) In summary, whether over the past five to seven years, what has been, without question, one of the best economic performances in our history is a harbinger of a new economy or just a hyped-up version of the old, will be answered only with the inexorable passage of time. And I suspect our grandchildren, and theirs, will be periodically debating whether they are in a new economy. "*⁷⁹

Speaking to the congress on the 17th of June in 1999 he explained that it was the productivity of "the new economy" that created increasing values which in turn caused the stock prices to soar. He admitted that the prices were high but responded:

"(...) The 1990s have witnessed one of the great bull stock markets in American history. Whether that means an unstable bubble has developed in its wake is difficult to assess. A large number of analysts have judged the level of equity prices to be excessive, even taking into account the rise in "fair value" resulting from the acceleration of productivity and the associated long-term corporate earnings outlook.

*But bubbles generally are perceptible only after the fact. To spot a bubble in advance requires a judgment that hundreds of thousands of informed investors have it all wrong. Betting against markets is usually precarious at best. (...)"*⁸⁰

⁷⁶ Fagerfjäll, Roland. (2003) Historiens största börsbubbla : hur modelltänkande, flockbeteende. Girighet. Aktiespararnas service

⁷⁷ Woodward, Bob (2000). Maestro: Greenspan's Fed and the American Boom. New York : Simon & Schuster.

⁷⁸ Woodward, Bob (2000)

⁷⁹ Greenspan At the Haas Annual Business Faculty Research Dialogue, September 4, 1998. Fed web page.

⁸⁰ Greenspan Before the Joint Economic Committee, U.S. Congress. June 17, 1999.

4.1.2 The new economy spreads to Sweden

Inspired by the seemingly never ending American boom and advancements in IT-technology the concept of “the new economy” slowly spread to Europe and Sweden, at first very slowly and then literally exploding with the turn of the century. The first articles to mention “the new economy” did so in passing and without explaining or clarifying what they meant by “the new economy”. Statistics, illustrated by Figure 4-1, show the step raise in number of articles writing about the “new economy”. The term is in several cases quoted straight from International debates ranging from statements by the World Bank⁸¹ to the U.S. elections in -96 and Robert Reich⁸². By not clarifying what “the new economy” was, or even questioning it, the media conveyed a vague and mystic message that “the new economy” signified technology and technology in turn would be the driving force in creating value for all companies in the future.

“(...) the more companies that network and use the information technology to gain competitive advantages, the more important it becomes for the ones that do not, to follow and in return force the former ones to use it even better. IT is the motor in the new economy and whether the concept for using it is called client/ server or something else, no company can in the long run afford to not make the investments needed.”⁸³

The American boom had Europe spellbound and not a single Swedish article, in the main media, questioning the “new economy” can be found between January 1990 and December 1997.⁸⁴

“(...) There are economists that argue that USA really has taken the step into a world of continuous high growth which inflation never again will threaten. They mean that global competition signifies that capacity can be pushed harder and unemployment lower, before long everywhere. In “the new economy” the companies can not simply increase prices, even if costs for staff rise. If they increase prices they will consequently lose market shares on the global market where companies and consumers freely can choose who they wish to buy from. Instead the companies must always make sure that they are increasing productivity.”⁸⁵

⁸¹ Dagens Industri. (1996-09-26) Dialog: Planetekonomi istället för nationalekonomi

⁸² Svenska Dagbladet Näringsliv (1996-03-09). Skräckvision med visst stöd i verkligheten

⁸³ Datavärlden (1994-10-14). Strul och trassel hör vardagen till

⁸⁴ Database search for the phrase “the new economy” www.affarsdata.se

⁸⁵ Dagens Nyheter – ekonomi (1997-08-02), Stark ekonomi förvånar

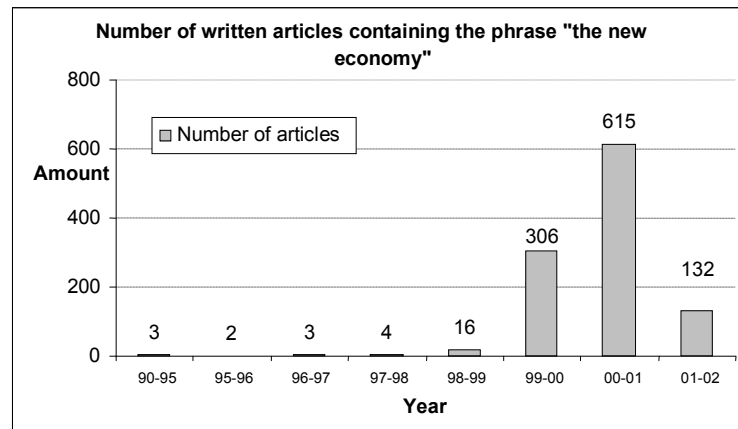


Figure 4-1

Even if the gospel of “the new economy” had its real breakthrough first in -99, the foundation for the Internet boom really started in 1995. After a rough start to the 90’s with increasing unemployment figures and decreasing GDP optimism was once again starting to rise on the Swedish stock market in 1995. The weak Swedish currency which had been set afloat in 1992 had favoured Swedish export while national consumption stayed low, but in 1995 consumption finally started to rise.⁸⁶ The market for IT-consultancy continued to grow with around 30 percent for the second year in a row and in late 1995 Sweden’s first media agency specialised in Interactive media (Spray) was launched.⁸⁷

4.1.3 Change of behaviour

In 1996 the IT-market in Sweden was valued to 3.5 billion SEK⁸⁸ and two of what were to become Sweden’s largest IT-agencies during the dot.com bubble were launched, Icon Medialab and Framtidsfabriken. The number of IT-consultancy firms doubled from 30 in 1995 to 60 in 1996. Index on the O-list, which primarily listed smaller and new companies, experienced an increase of 60 percent driven solely by companies in or around IT. With low inflation and falling interest rates investing in stocks was becoming increasingly attractive.⁸⁹ With some small IT-companies increasing their stock price with over 300 percent in one year investors became progressively more interested in opening up their wallets to buy shares in IT-start-ups.

⁸⁶ Fagerfjäll, Roland. (2003) Historiens största börsbubbla : hur modelltänkande, flockbeteende. Girighet.

⁸⁷ Paulsen Mats (1995-10-07) Dagens Industri. Kinnevik får konkurrens av före detta anställda.

⁸⁸ Paulsen Mats (1996-09-13) Dagens Industri. LOTSAR i cyberspace.

⁸⁹ Andersson Jan (1996-12-15) SvD ekonomi. Oljan, guldet och IT lockar.

However, even though the market was beginning to speed up question-marks remained concerning the profitability of being present in the IT-marketplace.

*(...) Now I have been looking for half a year, but still I have not found a single company that makes money using internet. (...)*⁹⁰

*(...) Bill Gates, the owner and fonder of Microsoft proclaims that it will take at least 10-20 years for internet to show its full potential and the CEO of IBM Louis Gerstner has said that it always takes much longer than expected before large groups start to work and consume in a new way. (...)*⁹¹

In late 1996 there were still just 250 000 Internet subscriptions in Sweden, not even 2 percent of the population considering most subscriptions were by companies.⁹² Internet providers still struggled to match the demand and setting up the infrastructure and customers ended up waiting many weeks for their 56Kbps. Modems.⁹³ Even though the customer base was inexistent, Swedish companies stumbled over their own feet in the rush to “get onboard the Internet train”. Big traditional companies owned by the government like the Swedish Mail (Posten) and the telecommunications company Telia invested hundreds of million SEK. in IT-solutions and WebPages.⁹⁴ Even though talk of “the new economy” was still non existent in Sweden at this time the insecurity of middle-aged C.E.O.s regarding Internet in general caused many companies to spend fortunes on IT-consultants and web-pages⁹⁵. If you do not know what to do then whatever everybody else is doing probably seems like a good idea. One such signal was TV4’s former C.E.O. Björn Nordstarnd stepping in as chairman of IconMediaLab.

*(...) these two gentlemen’s engagement in the new Internet companies should be an obvious signal that Internet can’t possibly turn out to be anything but a big fat cash-cow for the ones that can use and understand the new medium (...)*⁹⁶

⁹⁰ Paulsen Mats (1996-03-26) Dagens Industri. Kan någon tjäna på Internet?

⁹¹ Paulsen Mats (1996-03-08) Dagens Industri. Vänta på andras misstag.

⁹² Roijer Per (1996-12-24) Sydsvenska Dagbladet ekonomi. Internet slår igenom i de svenska hushållen 1997.

⁹³ Amster Harry (1996-12-02) SvD-Näringsliv. Växtvärk hos telejätten tvingar Internetkunder vänta i veckor.

⁹⁴ Affärsvärlden (1996-11-27). Se upp med internetbyråerna.

⁹⁵ Elmbrant ,Björn. (2005)

⁹⁶ Lindsten Per Olof (1996-11-11) Datavärlden. Skimrande framtid eller bara Kattguld?

In 1997 the internet hype really picked up. This was supposed to be the year that Internet was truly going to break through along with the number of users. The founders of IconMediaLab predicted that they were going to grow from “today’s” 80 employees to the leading company within their market, with 1000 – 1500 employees spread out over at least ten countries and six continents within a few years. Spray.se founded in 1995 had grown from 0 to 150 employees and merged with their competitor Tetre during the early summer of 1997. They predicted a turnaround of 100 million SEK but had not yet shown any profits.⁹⁷ Approximately 20 new IT-companies were introduced on the stock market and ten of them on the less demanding SBI list. In America investors were focusing on the companies that delivered equipment and materials to building the IT-infrastructure and buried cables in the ground, like Cisco and 3Com. Trading in stocks had become increasingly popular and reached 4 million registered stockholders in 1997, more or less 50 percent of Sweden’s population now owned stocks.⁹⁸ The Asian financial market crash caused a slump in stock markets world wide but Stockholm recovered fully before the end of the year with a strong performance in the last few months of the year.

In 1998 the media coverage of Internet had grown massive but still the industry as a whole had a turnover of only 6 billion SEK and employed a measly 9000 people. A few gray clouds started to appear on the previously so sunny IT sky. Telia and Postens huge Internet investments had not paid off and were both being heavily downsized. Even more worrisome, Ericsson’s long success streak was interrupted by galloping costs and a diminishing cell phone demand.⁹⁹ The Ericsson stock increased by 75 % during the first half of the year and the general index with 31 %, they both peaked on the 20 of July 1998 which was a new all-time-high for the Stockholm Stock exchange. After Ericsson presented a very poor Half-year report the stock tumbled 53 % until the 8th of October in the same year. In Ericsson’s wake the general index followed tumbling down 30 % when the aftermath of the crisis in Asia started to become tangible in the shape of fading Asian demand.¹⁰⁰

These events could in themselves have been enough to cool down the Swedish stock market. However, the NASDAQ was on fire and several IT-companies were already valued at more than 10 times their turnover. In top of the league were companies like Amazon, Yahoo, Excite,

⁹⁷ Fagerfjäll, Roland. (2003) Historiens största börsbubbla : hur modelltänkande, flockbeteende. Girighet.

⁹⁸ Johansson Mikael (1997-09-26) SvD Näringsliv. Börsen har tystnat trots febril handel.

⁹⁹ Fagerfjäll, Roland. (2003) Historiens största börsbubbla : hur modelltänkande, flockbeteende. Girighet.

¹⁰⁰ Dagens Nyheter – ekonomi, (1998-12-29) Höga berg och djupa dalar,

Lycos and Infoseek, all of them focusing on e-commerce or search engines combined with ads. Seemingly blinded by the dot.com success story the stock market recovered and in the last few months of the year the general index climbed 37 % ending the year up 10 %. The recovery was largely contributed by the Ericsson stock recovering 53 % corresponding to 21 % of the entire OMX-index.¹⁰¹

Swedish stocks and securities market was very early digitalized in comparison to other major stock markets. These further facilitated and enabled companies, such as Avanza, to easily establish and set up system connected to the trading market. Sweden early had an IT-infrastructure that allowed for many new ventures to establish in this region.

4.1.4 The bubble inflates and bursts

Many analysts believed that the crisis in Asia would continue to effect the western stock markets in a negative way but the negative effects failed to materialize.¹⁰² During the first half of 1999 the Swedish stock market continued to climb at a steady pace.¹⁰³ The only offsetting occurrence was the 15% slump that the IT-index experienced in March.¹⁰⁴ However, the index soon recovered and optimism was rising in the Swedish households. An increasing amount of Swedes began investing their pension savings in the stock market.¹⁰⁵ The media dedicated more and more news room to IT related stories as well as companies and their directors. The two most prominent companies Framfab and Icon Medialabs had well over 1200 articles each published about them in Swedish media 1999. In 1997 the same figure had been less than 40.¹⁰⁶ In May Microsoft bought the Swedish IT-company Sendit paying 1 billion SEK for a company with 100 employees and a measly 38 million in turnover. The signal was clear “Sweden is at the forefront of IT-technology”.¹⁰⁷ In October 1999 the general index of the Swedish stock market had increased 20 % from the beginning of the year. Still this was only the beginning of the explosion to come.

¹⁰¹ TT Nyhetsbanken, (1999-01-01) BÖRSÅRET, Skribent: 5 pch sua

¹⁰² Magnus Persson (1999-12-30) Förenade Landsorts Tidningar, 1999 bästa börsåret i historien,

¹⁰³ OMX Stockholm 30, 1999, <http://www.di.se/Nyheter/?page=/avdelningar/SWForetag.aspx>

¹⁰⁴ Håkan Gartell (1999-12-30) Dagens Industri, BÖRSKRÖNIKAN: Extremt är normalt,

¹⁰⁵ Magnus Persson (1999-12-30) Förenade Landsorts Tidningar, 1999 bästa börsåret i historien,

¹⁰⁶ Affärsdata, search Icon media labs and Framfab

¹⁰⁷ Håkan Gartell (1999-12-30) Dagens Industri, BÖRSKRÖNIKAN: Extremt är normalt,

After a slow start to the year for Ericsson, where the company presented failing earnings, the third quarter report caught the eyes of investors with encouraging figures.¹⁰⁸ During the following months Ericsson announced strategic alliances with Microsoft, SAP and Electrolux. As a result the stock price climbed strongly finishing an astonishing 176 % up in 1999.¹⁰⁹ Around 40 of the 300 stocks quoted on the Swedish stock market increased their price with more than 100 % in 1999.¹¹⁰ The general index as a whole increased with 66 %, once again a new Swedish record.¹¹¹ Nasdaq increased as much as 80 % and 45 of those percent in just the last three months of the year.¹¹² 1999 thus became the best performing year in the history of the Swedish stock market. By the end of the year stocks worth 2600 billion SEK had been bought and sold, an increase of 40 % from the previous year.¹¹³

The top performing stocks in 1999 were:

1. Information Highway (Adcore)	+2197 %
2. Framtidsfabriken (Framfab)	+ 1224 %
3. Icon Medialab	+ 927 %
4. Telelogic	+ 910 %
5. Readsoft	+ 620 %
6. Boss Media	+ 571 %
7. Teligent	+ 554 %
8. HiQ International	+ 514 %
9. Cell Network	+ 500 %
10. Nocom	+ 477%

All of the top ten performing stocks of 1999 were IT-companies and 7 of them were introduced that very same year.¹¹⁴ Almost every article commenting the incredible performance of the IT-market also point out that many IT-stocks could not justify their current price but even though all analysts agree prices continued to soar.¹¹⁵

¹⁰⁸ Mikael Gianuzzi (1999-12-30) Dagens Industri, Över 100 procent upp för 48 bolag,

¹⁰⁹ Håkan Gartell (1999-12-30) Dagens Industri, BÖRSKRÖNIKAN: Extremt är normalt,

¹¹⁰ Joel Dahlberg (1999-12-31) Dagens Nyheter – ekonomi, 1999 blev klipparnas år,

¹¹¹ Mattias Svensson (1999-12-31) Göteborgs-Posten ekonomi, Börsåret slutade med en uppgång,

¹¹² Lars-Georg Bergkvist (2000-01-03) Svenska Dagbladet Näringsliv, Bränsle kvar för nya uppgångar,

¹¹³ Sophie Nachemson-Ekval (1999-12-30) Dagens Nyheter – ekonomi, Börshandeln bara ökar,

¹¹⁴ Niclas Ericson (2000-01-02) Sydsvenska Dagbladet ekonomi, Börsåret/Stockholm,

¹¹⁵ Viktor Svensson (2000-03-04), FinansTidningen, Gardera mot börskrasch,



Figure 4-2

The start of 2000 was a bit shaky world wide with general indexes initially falling as investors were taking home profits as well as reacting on the insecurity regarding interest rates.¹¹⁶ However, IT-stocks soon continued their upward race while traditional stocks and general indexes world wide stayed around 0 to minus 1 %.¹¹⁷ On the 17th of February Alan Greenspan warned that raised interest rates were necessary to dampen the unbalanced stock market. Stock markets world wide experienced a fall but only a very modest one, the Swedish general index fell 0.5 %.¹¹⁸ The IT-sector showed no stopping and prices continued to soar. Ericssons annual report was positive and the stock climbed almost 10 %. But the optimism was short lived. On the third of March 2000 Nasdaq plunged in the single biggest fall in its history.¹¹⁹ It was the beginning of the end of the dot.com bubble. On the 17th of May news and media announced that Boo.com the flagship of “the new economy”, the company that proved that Internet was the dawn of a new era, had no money left to spend and was going to be liquidated.¹²⁰ IT-stocks plunged and the year that had started out with such optimism was looking worse and worse for each day. Despite the signs that the IT-boom was over the Swedish government introduced the previously state owned telephone company Telia on the 13th of June. The introduction had been promoted heavily in all media as the “no-brainer, everybody wins deal of the year”. The Swedish people were encouraged to invest by experts and media promising everything from a 10-20 % increase in price every year. The introduction price was set to 85 SEK but instead of rising the price fell almost immediately reaching 49 SEK in December the same year.¹²¹ In July Ericsson presented their half-year report showing lower than expected earnings causing the stock to plunge 11 %. Later in the same month Nokia also presented their report showing lower than

¹¹⁶ Caroline Sundewall (2000-01-08) Nyhetsbyrån Direkt, Nytändning för fundamentalisterna,

¹¹⁷ Affärsvärlden (2000-03-08), I världens top,

¹¹⁸ Lars-Georg Bergkvist (2000-02-18) SvD Näringsliv, Greenspan varslar om höjd amerikansk ränta,

¹¹⁹ Håkan Gartell (2000-12-30) Dagens Industri, BÖRSKRÖNIKAN: Börsen upp som en sol,

¹²⁰ Elmbrant Björn. (2005)

¹²¹ Elmbrant Björn. (2005)

expected earnings which caused the Ericsson stock to drop even further. While Nokia was earning 25 SEK per phone they sold Ericsson was losing 17 SEK.¹²²

With the whole IT-sector plunging and several previously hyped IT-companies going bankrupt the market ultimately surrendered the belief that IT-companies and consultants did not have to show profit and that each consultant could actually justify a value of 10-15 million SEK. As a result the winners in 1999 became the big losers in 2000 as IT-stock seemingly tumbled into a black hole from where they could never recover. The Swedish IT-index ended on - 56 % in 2000.¹²³ Two hundred Swedish IT-companies filed for bankruptcy in 2000, an increase of 41 % from 1999.¹²⁴

Framfab	- 93 %
Icon Medialab	- 93 %
Adcore (Information Highway)	- 77 %
Cell Network	- 86 % ¹²⁵
Readsoft	- 9 %
Teligent	- 58 %
Nocom	- 76 % ¹²⁶

As a group the winners of 1999 lost 45 % of their value in 2000. Even though the year 2000 was a disappointing year with the general Index dropping 13 % it was just the beginning of the dot.com death as stock markets world wide continued their recession during 2001 and 2002. It was first in 2003 that the Swedish general index (Figure 4-3) finally started to show positive trends again. However, by then the general index had already reached the low levels of 1997.¹²⁷

¹²² Håkan Gartell (2000-12-30), Dagens Industri, BÖRSKRÖNIKAN: Börsen upp som en sol,

¹²³ Niclas Ericson, Carin Zillén (2000-12-24) Sydsvenska Dagbladet ekonomi, Botten inte nådd för IT-aktierna,

¹²⁴ Annelie Victorzon (2001-01-10) Computer Sweden, IT-branschen mest konkursdrabbad,

¹²⁵ TT Nyhetsbanken (2000-12-29), VINNARE BLEV FÖRLORARE UNDER BÖRSÅRET 2000,

¹²⁶ Dagens Industri (2000-12-27), Börs & Finans: Fjölårets vinnare är årets förlorare,

¹²⁷ OMX stockholm all shares 1996-2007, Graphics from www.di.se



Figure 4-3

4.1.5 Valuation

At the height of the Internet boom in early 2000, internet publicly traded companies on the U.S. stock markets represented 20 per cent of the trading volumes. The total market capitalization of these companies represented 6 per cent of the total market capitalization all publicly traded companies in the U.S. In one Month, NASDAQ lost 34 per cent of its value and continued the downturn and totally loosing 75 percent of the total value, equal to USD 7 trillion of equity invested.

Securities valuation and Internet companies

The basic rationale for security investments is for investors to have an opportunity to take part in future earnings, dividends or cash-flows generated by the underlying company. The value of the earnings, dividends and cash-flows are often referred to as the intrinsic value of the company.¹²⁸ People and institutions that invest in internet company shares have the same motives as for traditional company shares; hence the Internet company shares should be valued on the same basis as traditional companies, i.e. the value of future earnings. The most commonly used valuation methods are the Discounted Cash-Flow (DCF)

As briefly described earlier, in order for investors and the market to justify and support the value of the internet companies a number of new multiples were developed. These measurements ranged from the *number of users to view a web page* to the *number of subscribers of a web page*. These measures were to some extent valid as they quantified the customer base and revenue potential of a company, whereas they had very low correlation to the future projected

¹²⁸ Lee, Myers, Swaminathan, (1999) "What is the intrinsic value of the Dow?". *The Journal of Finance*. Blackwell Synergy. Volume 54, Issue 5, Pages 1693-1741

cash flow and the company value. Another issue at the time was that companies were valued relative to another where several companies were already overvalued. Numerous internet companies used specific ratios and measurements that were financially linked to further justify the publicly traded market investors. These ratios included:

- Market capitalization / number of users
- Market capitalization / web page advertisement hits
- Revenue / Bandwidth (used to generate sales)
- etc.

John Briginshaw found in his study of Internet valuation that there in general were three possible explanations for the high valuations of the Internet companies in the late 90's and early 2000. The first explanation is that the market had identified new sources of value that were not associated with earnings or cash flows, hence the traditional valuation models were overlooked. This is motivated by the rationale that Internet companies operate within a new economy where network effects and interconnectivity are crucial and not captured by traditional future cash flow assumptions. The second explanation is that the market was correctly anticipating "hyper growth" in company earnings due to the rationale explained above with new economy logic, i.e. network effects, etc. Basically, Internet companies were viewed to be fast movers and more efficient than traditional companies and thus would grow much quicker – both in global reach and profitability. The third explanation would be that the market was overvaluing the Internet company securities due to a "speculative bubble" where investors have systematically overvalued Internet stocks. The overvaluation existed due to the observed high returns from holding Internet securities which in turn attracted new investors to the market.¹²⁹ In retrospect the final explanation is the most straight forward and data from the peak of the bubble can not explain any fundamental valuations to have been the basis.

¹²⁹ Briginshaw, J. (2002) "Internet Valuation" Palgrave

4.2 Business strategy

4.2.1 Opportunities

Time to market and ability to grow

One of the most attractive qualities of Internet, to the entrepreneurs and investors, of the day was the brand new possibility of quickly expanding and going from a local market to a global one. In theory even a small company would immediately be able to compete with major players using Internet as a medium of communication. EPO.com was a very good example of this kind of strategy.

EPO.com stands for “Electronic Public Offering” and was founded by Ola Lauritzson in the spring of 1998. Traditionally IPO’s¹³⁰ prospects had to be printed and sent out to investors and payment was often received through thousands of checks and registration of the buyers which had to be done manually. All in all this was a very expensive and time-consuming process for the companies. By allocating the whole process of sending out information, receiving payment and registering customers to the Internet EPO.com planned to offer companies a cheaper way of receiving money through an IPO. Lauritzson’s plan was to create a database of information about companies that offered IPO’s to the general public and their prospects. EPO.com would also have a huge database of private investors all over the world who they could contact directly with new IPO’s.¹³¹ In addition to being internet based EPO also very quickly expanded their business internationally and by 2000 EPO had offices in Sweden, Germany, France, London and Finland with plans to open offices in Holland, Italy and Spain before the end of the year.¹³² EPO was able to finance their aggressive expansion through raising approximately 180 million SEK in venture capital¹³³.

Through immediately becoming a global player new companies would be able reach more customers and thus generate more sales which in turn would quickly improve profitability and fuel further growth. In fact investors were so keen on new companies having an aggressive international growth strategy that they would pose ultimatums on entrepreneurs to have such a strategy in print if they were to be granted investments.

¹³⁰ IPO = Initial Public Offering

¹³¹ Interview with Ola Lauritzson, (2007-04-16)

¹³² ”Emissionsjätte på nätet bildas” (2000-04-19), Source: FinansTidningen

¹³³ “Bloody but not unbowed” http://www.businessweek.com/magazine/content/01_12/b3724602.htm

Virtual organization and Low Cost with high Flexibility

The maybe most attractive quality of Internet was that it offered the possibility of taking traditional and lucrative business ideas and making them more cost efficient through using internet as communication and distribution channel. This allowed companies to offer customers a higher degree of adaptation to their specific needs at a much lower cost. EPO.com was a good example of a company that achieved low cost through using internet as a communicator. Another good example is the internet stock broking companies, one such company in Sweden was Avanza which today is one of the most successful players.

The original company Avanza was set up in 1997 (Figure 4-4) and was a pure online stock trader. The company was known for its simplicity in user interface as well as their creativity in regards of products and marketing.¹³⁴ Avanza was also the first Swedish company to introduce a common pricing strategy, 99 SEK per transaction regardless of size, the same model used by the new players in the U.S. market. With the scalability and digitally managed products the marginal cost for adding to the size of

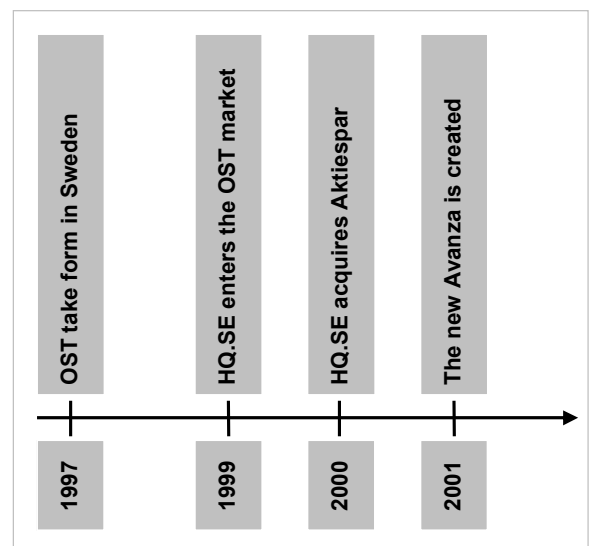


Figure 4-4

the transaction is close to zero. At the same time the actual work is done by the customers, which reduces the administration to a minimum.¹³⁵ By not having any physical front offices, other than their website, Avanza has much lower overhead costs and is able to offer their customers the same products as traditional banks at a much lower cost.

Using an established business idea and using internet to obtain cost benefits against the traditional players within an industry or market was a popular strategy but not one that in any way a guaranteed success.

¹³⁴ www.Avanza.se

¹³⁵ Privat Affärer (1998-08-28), "Internet har gjort aktiehandeln billig"

New internet based ideas

The introduction/launch of Internet also opened up for a whole new kind of business ideas that were completely internet centric. Companies that experienced exceptional growth within this field were first and foremost IT-consultancy firms that created different kinds of web-pages for other companies and organizations. One such company was Netstar AB.

The company was founded in 1997 by Gustav Lagercrantz when he was merely sixteen years old and then focused on general website construction and a wide array of Internet solutions. In 2000 Netstar decided to focus more on creating on-line communities. Today Netstar operates towards companies that want to integrate online communities or are in the process of building new websites, and are looking for a partner to supply this service.

The IT-consultancy firms benefited greatly from the general uncertainty that traditional companies felt towards Internet. Suddenly every company and even person was supposed to have their own web-page. This opened up a huge market for the IT-consultants and their services became increasingly expensive as the demand vastly superseded availability of consultants.

Other companies saw the possibility to offer free services online to customers by selling commercial space and matching customers with directed marketing material by keeping detailed profiles of the customers. Spray.se was one such website.

Spray.se was created by Spray Ventures to operate their fully digital Internet portal. Spray.se was set up to include everything in the Internet media world in a “360 degree media house”. Spray Ventures managed to raise almost one billion SEK from various prominent investors in Sweden, such as *Investor*, to build the portal. Spray.se was the first Swedish site to offer a complete set of services where they actually integrated all their offers into the same website or portal.¹³⁶ In the year 2000, Spray.se had a function and community website equivalent to YouTube¹³⁷ and was designated as the number one website by InternetWorld.¹³⁸ In September the same year Lycos announces their buy up of Spray Networks for approximately 5 billion SEK.

¹³⁶ <http://www.newsdesk.se/pressroom/spray/pressrelease/view/107961>

¹³⁷ Interview with Casten Ahlmqvist, (2007-05-29)

¹³⁸ <http://www.internetworld.co.uk/>

Another business idea based on commercial funding at the time that generated quite a stir in Swedish media was Bottnia Internet Provider (BIP).

BIP saw the opportunity of funding Internet access through a modified business model. The concept was to offer the customers “free” access by adding directed advertisement between different websites as they were loading. In practice, this meant that the end-users did not have to pay the variable cost, but only the fixed fee for the use the telephone line to Telia. The company started out in 1997 and by 1999, BIP surpassed Telenordia when they reached 200.000 customers

The new Internet based ideas generally tried to combine Internet and traditional resources in a original and value adding manner while adding value to both consumers and the companies that financed the services through commercials.

Chapter 5 - Analysis

The Analysis chapter will present the linkage and implications of the prevailing theories and the inputs from our data collection. The purpose of the chapter is to link these theories to the empirics and vice versa in an overlapping 'matrix approach'.

5.1 Strategy through the MBV lens

During the years 1995 – 2000 the “New Economy” and Internet was generally portrayed as forces that would overthrow the traditional brick and mortar companies, too slow to adapt to the changing market conditions, and create new more flexible and fast moving players with a strong focus on IT. In the stock market these new IT-companies were traded at prices higher than their turnover multiplied several times.

With strong belief in the competitive advantage that Internet would grant them the strategies that these new companies applied were often categorised by a strong focus on growth and expansion financed by investor money. Competition had suddenly become truly global through Internet and being the first and biggest global player would grant such rewards that the initial years of high costs and no profits were justified many times over.

In retrospect we see that many of the IT-focused new thinking companies thought to take over the world were unable to survive when investor funds dried up.

5.1.1 The growth market matrix

Depending on if you classify Internet as a new market, as a new communication and distribution channel or as both, it is possible to make several different classifications of the reviewed companies. For our analysis we have chosen to see Internet as both a new market as well as distribution and communications tool. For example Avanza sells classical bank products and services, but by doing so through their website they can offer not only a lower cost but also improved customer customization and service. Avanza's primary market is not the “average Joe” saving money in a retail bank but the active customers that wish to manage their assets online with all the advantages this implies. We hence regard products and services sold on-line as separate markets compared to the same products and services sold off-line. This is a simple

but very important distinction as it sets a strict limitation to the size of the market. Without access to an Internet connection a potential customer cannot partake in the on-line marketplace which means that “average Joe” cannot be even a potential customer without having Internet access. Today internet access is widely spread in Sweden but back in 1996 there were only around 250 000 internet subscriptions in Sweden and in 2000 it was approximated that there were around 4 million Internet users in Sweden.¹³⁹

With the definition of Internet as a new market place we are able to use Ansoff's growth matrix to plot the reviewed companies in the matrix based on their chosen growth strategy (Figure 5-1). This allows us to assess the level of risk that these companies were facing at the time on a basic plane.

	Existing Products	New products
Existing Markets	Market Penetration Risk factor: 1 No case companies (Traditional brick and mortar companies investing in IT and internet e.g. retail banks)	Product Development Risk factor: 3 No case companies (...)
New Markets	Market Development Risk factor: 2 Avanza EPO.com (Other examples: Amazon.com, Boo.com)	Diversification Risk factor: 4 BIP Spray.se Netstar (Other examples: Framtidsfabriken, Icon Media labs)

Highest risk factor = 4

Figure 5-1

By classing Internet as a new market Internet centric companies choose either a market development or diversification as their growth strategies according to Ansoff. (Note that of course no company can be classified strictly into one square or another, but for simplicity our assessment is based on an overall general conclusion).

Both market development and diversification are strategies based on new markets with a great percentage of risk lying in the start-up costs for any new company. But while the market

¹³⁹ Pettersson Maria (1999-08-23), Så många surfare finns det år 2000, Aftonbladet

development strategy finds comfort in selling products and services that are already established and have a proven demand, diversification also bears the risk of selling a new and previously unproven product or service. According to Ansoff, diversification challenges the company to grow into new business by both developing new products and penetrate into new markets. To motivate an investment in a company with such high risk, investors must find that the potential rewards must stand in relation to the risk they are taking. Ansoff describes it as follows:

“Diversification may be an appropriate strategy if a potential high yield market compensates the high risk”

Our empirics show that IPO's for new Internet were often oversubscribed up to 20 times. Clearly then investors must, according to Ansoff's growth matrix, have found that these companies had a very high potential of becoming very successful in both a short and long term perspective. For many companies using the diversification strategy the flow of investor money worked as a strong confirmation of their business strategy. However, for investors looking for short term gain it was enough that only one or two of the companies they invested in was successful enough to release an IPO for the investors to get their investments back several times.

Ansoff states that the diversification strategy requires new skills, new techniques, new organisation and company compositions as well as facilities. Everyday companies found new exciting ways to “make money” on the Internet only to the next day discover that it was unable to generate the sales believed.¹⁴⁰ With Internet being such a fresh technology still largely undeveloped we can conclude that the skills and techniques for capitalizing on Internet as a medium were not in place. This becomes painfully obvious just by looking at the number of companies that went bankrupt as soon as investor funds dried up since they were unable to generate positive revenue.

5.1.2 The five forces

Internal rivalry

Our empiric research of the market as well as the specific companies investigated have shown that global expansion, low cost, ability to offer customized solutions and new innovative combinations of resources were the major driving strategies of the Internet companies launched during the last few years of the century. Even though there were a certain amount of Internet

¹⁴⁰ Interview with Adners Lövbrand, (2007-05-08)

companies in direct competition with one and other (same business idea), the majority of companies had unique business ideas and saw themselves as either first movers in a new market (e.g. Spray.com) or as competing with traditional brick and mortar companies (e.g. amazon.com). The seller concentration ratio was therefore very low within the respective new markets¹⁴¹, which according to Porter lessens the internal rivalry. The Internet industry was further characterized by (what was believed to be) quick growth, low fixed costs, strong product differentiation as well as a widened geographical market which all are factors which lessens internal rivalry¹⁴².

Internal rivalry within most Internet markets could therefore be said to be relatively low for the majority of new Internet companies, focusing on new product innovation and advertising. However, Porter also claims that “differences among competitors is reduced due to their offerings are difficult to keep proprietary” something which clearly increases the need for and hence also the cost of marketing as the ability to create a distinctive brand within the market place becomes more difficult.¹⁴³ But even with this exemption we can then conclude that with internal rivalry seen as low this would motivate new Internet companies since margins should be beneficial in a market with low rivalry.

The market for Internet consultancy firms like Framtidsfabriken and Icon Media labs was however an exception to the rule. But even within the Internet consultancy market demand was so high that only the smaller firms competed by price. The bigger consultancy firms as well as the innovative new internet companies instead focused on new product innovation and advertising as a way of gaining market share and increasing revenues.

Media failed to realize that even Internet companies like Avanza were actually players in what Ansoff would categorize as new markets rather than in direct competition with traditional brick and mortar companies which in Avanzas case were banks. By assuming that the “new economy” would replace the old the media painted the picture that companies like Avanza and EPO.com would through using Internet as their competitive advantage be able to become major players in already established markets. Following that logic, these companies would have 8-9 figure

¹⁴¹ Porter, (1996)

¹⁴² Porter, (1996)

¹⁴³ Porter, (2001)

turnovers after only a few years as soon as customers with internet access switched to the cheaper alternatives offered online.

Evidently, it did not turn out to be that simple and it would take some time even for the new market players to reach higher ground. Later and more cautiously, the brick and mortar companies altered and added the Internet distribution channel to their offer. Looking at the stock brokerage market (with Avanza, Nordnet, etc.), it took quite some time for the established more “physical” institutions to catch up and add on their Internet channel, but as we have learned this strategy was mainly due to the fact that they all had an historically well established profitable business and could wait and see how the new starters performed.

To sum up we can conclude that internal rivalry could then be said to be relatively low initially according to Porter’s definitions, but would reach a high level within a few years as established brick and mortar businesses jumped aboard the Internet train. A new Internet analysing their new market at the time would however be oblivious to the long term risks as the picture portrayed in media rather foretold the death of those brick and mortar companies.

Threat of entry

*“the key concept in analyzing the threat of entry is entry barriers, which act to prevent an influx of firms into an industry whenever profits, adjusted for the cost of capital, rise above zero”.*¹⁴⁴

By reducing the need for a physical front office like a sales force, physical store locations and so on, Internet strongly reduced barriers to entry in the new markets. This fact may have been one of the main reasons for the aggressive expansion strategies found in many Internet companies. Hoping to capture a large piece of the market could have been a way to discourage new entrant, as Porter explains it may take a long time to build brand awareness.

Internet’s Open Source technology¹⁴⁵ allowed for competitors to easily copy developed solutions and web pages, thus freely using solutions that the early entrants had paid greatly to develop. According to Lieberman and Montgomery this meant late users generally had an

¹⁴⁴ Ghemawat, P. (1998). Creating Competitive Advantage. HBS

¹⁴⁵ Open Source is a development technology, which offers practical accessibility to a product’s source (goods and knowledge) - Stallman, Richard (2007). Further, it must be freely distributed and obtainable and not discriminating against any person, group or commercial users.

advantage over the early movers through free riding effects. One such clear example is the continuous replacement of Internet search engines we have seen over the years.

Low barriers of entry also explain why there was such a vast amount of new Internet companies being launched. In relation to classic brick and mortar companies the new Internet companies required much less initial capital investments since all that was usually needed was a few computers.

In all, Internet was rather a facilitator and countermeasure to barriers of entry by being easily distributed and copied, assisted by the Open Source movement, only rarely allowing early entrants to actually build what Porter calls an enhanced reputation by being a pioneer.

Substitutes

*“Whatever your business does, customers nearly always have other ways of satisfying their needs”.*¹⁴⁶

Ghemawat (1998) mentions that all products which perform a similar function should be seen as substitutes. The “new economy” was in itself a substitute of the old way of buying and selling products. The new Internet companies were usually only threatened by the traditional brick and mortar companies. However, the proliferation of Internet companies with innovative solutions increasingly created substitution threats even for established internet companies. Hence, another evidence of the dissemination of Internet and how it created new possibilities, not only for the operating companies in a certain market, but more importantly for other companies to easily access markets with their own substitutes.

Bargaining power of suppliers

According to Porter the number and size of suppliers are the factors that determine the bargaining power of suppliers. With regards to the companies we have reviewed the impact of suppliers was very low. The nature of the new Internet companies was such that they were not in any way dependent on a supplier (although one could discuss whether ‘Internet’ as such was supplied in a way by the users themselves. The companies were truly dependent on Internet’s functionality but there was obviously no supplier with any significant power). For companies such as amazon.com and Boo.com that actually sold (or at least attempted to sell) physical

¹⁴⁶ Porter (1996), p. 91

products suppliers had very low bargaining power as these companies strictly bought on a lowest price basis. Internet as such allowing for freedom of information truly empowered the buyers rather than the suppliers. However, Internet did give suppliers an easy and cheap channel through which they could skip the “middle man” and reach their end consumer directly. This opportunity did of course only apply to already established brick and mortar companies and did not initially affect the new Internet companies.

So, the bargaining power of suppliers as stated by Porter is not apparent when discussing Internet companies and looking at their distribution and e-products. However, it is evident that the supplier power was rather low for companies that sold physical products through the Internet, as their business models for most parts were built upon the rationale to get the best price.

Bargaining power of buyers

The bargaining power of buyers is simply a measure of the customer's ability to negotiate the price of a product or service and in consequence squeezing out a company's profit margins¹⁴⁷.

Even though buyers or end consumers were the ones that would truly benefit from the increased information and lower prices that internet would offer, it was initially thought that Internet would actually increase switching cost for customers rather than reduce them. According to Porter, as switching costs go up, customers' bargaining power falls and the barriers to entry into an industry rise. Many new Internet companies believed that buyers would grow familiar with one company's user interface and would not want to bear the cost of finding, registering with, and learning to use a competitor's site. Moreover, since Internet commerce allows a company to gather and accumulate knowledge of customers' buying behaviour, the company would be able to provide more customized offerings, better service, and greater purchasing convenience – all of which customers would hate to lose if switching. This phenomenon was called the “stickiness” of a Web site. To some extent the belief that switching costs would rise explains the massive focus on quick growth that plagued most new Internet companies.

¹⁴⁷ Besanko et al., (2007)

However, in reality the bargaining power for buyers on the Internet market would according to Porter be said to be quite high. This mainly due to two simple facts:

1. There were no physical constraints from switching company or reseller.
2. Customers could easily get price and quality information from a vast number of companies allowing them to make a more educated buying decision.

Clearly early Internet companies as well as the general media not only failed to realize these facts but instead believed that the companies would actually be the ones to benefit. It is likely to some extent this false belief implicitly influenced the general valuation of the companies.

Internet influence on industry structure

Figure 5-2 below we illustrate how the media portrayed the effects of Internet on industry structure and indeed how the new Internet companies believed they would be affected by

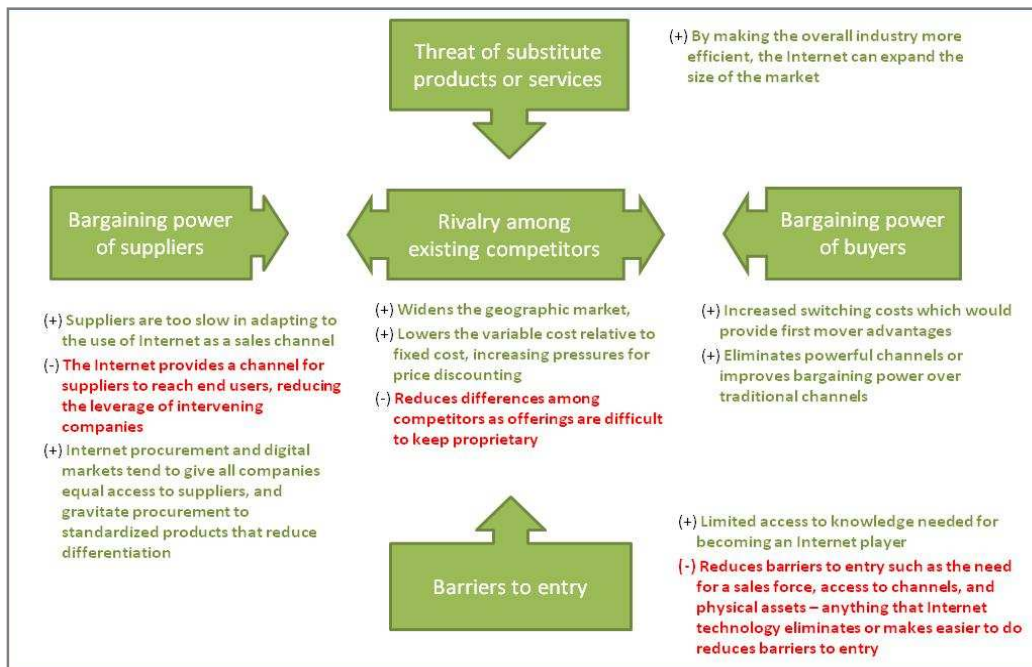


Figure 5-2

Porter's five forces. 'The misconceptions' around what impact Internet would actually have clearly painted up a much more attractive picture regarding the strategic choice of new Internet companies than the reality turned out to be. Even though there were some disadvantages shown in red below the advantages of doing business online clearly outweighs the disadvantages with the new medium. In this case, even by using strategic tools like Porter's five forces to

determine how an industry will be affected can prove faulty¹⁴⁸. By using the incorrect information supplied in the market to conduct the five forces analysis the new Internet company would believe that their strategic advantage was very beneficial, when in reality using the correct information would show the opposite.

First and late mover advantage

Porter as well as Lieberman et al. clearly state that in some markets with specific conditions, first movers can gain valuable advantages that hinder later movers from gaining market share. Many new Internet companies had a very aggressive growth strategy investing heavily in expansion hoping to benefit from first mover advantages. Boo.com spent millions on advertisement before their website even opened and EPO.com quickly opened offices all over Europe. In retrospect the aggressive expansion strategy proved unsuccessful as companies were unable to sustain their growth without investor money. Still companies like amazon.com benefited enormously from being the first recognised player in the market. Why was it believed that first movers on the Internet would benefit greatly?

1. *“Early entry can initiate the learning process in a business in which the learning curve is important, experience is difficult to imitate and it will not be nullified by successive technological generations.”*¹⁴⁹

Internet allows for all players to quickly copy and imitate successful solutions developed by their competitors, free riding effects.¹⁵⁰ Consequently an early player will not benefit in any significant way from a technological advantage or from a head start in the learning process. In fact the possibility to so easily see what solutions competing companies used allowed new entrants to start at a higher level in the “common learning curve” thus being able to avoid early mistakes made by early entrants and instead building on their knowledge, and surpassing the established solutions.

¹⁴⁸ Porter, (2001) Strategy and the Internet

¹⁴⁹ Porter, Michael E. (1980) Competitive Strategy, Free Press New York

¹⁵⁰ Spence, Michael, (1984). “Cost Reduction, Competition, and Industry Performance”. *Econometrica, Econometric Society*. vol. 52(1), pages 101-21, January; Baldwin and Childs (1969); Ghemawat and Spence (1985); Lieberman (1987c)

2. *“Absolute cost advantages can be gained by early commitment to supplies of raw materials, distribution channels and so on.”*¹⁵¹

As Internet companies sold mainly services and finished products no cost advantages could be gained by early commitment from parties at the lower end of the value chain. Conversely, Internet allowed buyers to better compare price and quality between suppliers creating a tougher price pressure.

3. *“The image and reputation of the firm is important to the buyer and the firm can develop an enhanced reputation by being a pioneer.”*¹⁵²

The success of amazon.com showed other Internet start-ups that it paid to be first. With limited knowledge of Internet the early users flocked to the brands that they recognised. By being first in their market amazon.com got an incredible amount of press coverage world wide. The sheer amount of free publicity helped amazon.com immensely and truly allowed amazon.com to build a strong brand name that customers remembered. Together with the misconception of switching costs being high on the Internet it is likely that many new Internet companies believed they too could reach amazon.com popularity by being the first in their markets. In retrospect we have seen that it is very difficult to retain loyal customers on the Internet since comparing multiple offers for best price and quality is so easy.

4. *“Technological change will make early investments obsolete and allow firms entering later to have an advantage by having the newest products and processes.”*¹⁵³

It is hard to answer how long the new Internet companies thought that their technology platforms would last before they would have to re-invest in them. Considering the amount of money that was spent on developing web-pages and online solutions it is safe to assume that companies expected their investments to last for at least 3-5 years (as a rule of thumb). In reality Internet technology was developed much faster than anyone could have anticipated often making web-pages old fashion before they were even launched. In accordance with what Lieberman and Montgomery stated with regards to free riding effects and shift in technology,

¹⁵¹ Porter (1980)

¹⁵² Porter (1980)

¹⁵³ Porter (1980)

the constant struggle to always have the newest webpage or solution always benefited the late entrants. They were allowed to build on the latest technology hence benefiting from the investments made by early entrants without bearing the burdens of the investments.

Figure 5-3 illustrates the general perception of how Internet would relate to first mover advantage compared to the actual turnout.

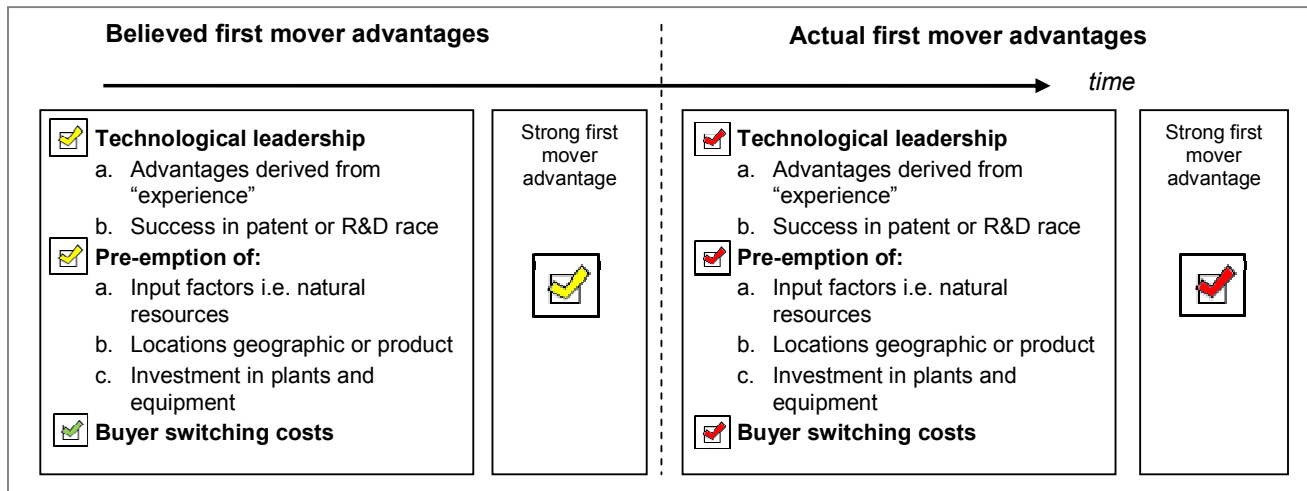


Figure 5-3

5.2 Strategy through the RBV lens

The Resource based view argues that firms possess resources, a subset of which enables them to achieve competitive advantage, and a subset of those that lead to greater long-term performance. Resources that are valuable and rare can lead to the creation of competitive advantage. That advantage can be sustained over longer time periods to the extent that the firm is able to protect against resource imitation, transfer, or substitution.

The VRIN model

Valuable resources

Resources are valuable when they allow a company to create or implement strategies that improve their efficiency or effectiveness.¹⁵⁴

Internet, as the essence of the “new economy”, was the most valuable resource that a company could possess. The capital markets clearly showed this by valuing Internet companies at multiple times their turnover. Internet as a technology and medium for communication clearly surpassed any previous ways of communication (fax, mail, telephone) with regards to efficiency cost. It was now possible to reach and communicate with a global market at a very low cost which of course should be extremely valuable. For instance imagine you would be able to capture a percent of the global clothing market by selling cloths online. By cost efficiency your company would be able to offer customers a lower price than normal clothing stores but still retain their margin. Create a business case based on these assumptions and you will end up with a fantasy numbers claiming huge returns in no time at all¹⁵⁵. However, two main facts are not taken into account when making such an assumption:

1. The online market was significantly smaller than the general clothing market and grew only slowly as consumers were concerned about online security
2. Any one of your competitors could easily copy your business idea and online solution

Still the rough business case example presented above was not uncommon at the time and can partly explain the huge hype around Internet as well as the belief that Internet companies would eventually put the traditional brick and mortar companies out of business.

¹⁵⁴ Barney, (1986)

¹⁵⁵ Interview with Lövbrand Anders (2007-05-08)

*A Sustained Competitive Advantage can be defined as when a company is implementing a strategy not being applied by any competitor and when these other companies are unable to duplicate any of the benefits with this strategy.*¹⁵⁶

Although Internet as a technology is indeed a valuable resource it is clear that the market and Internet entrepreneurs vastly overestimated the value that the technology possessed for their specific business. However, with the information available at the time and the great uncertainty regarding the future the Internet prophecies took root and became the common belief.

Rare resources

*As long as the number of companies that possesses a certain valuable and rare resource is less than the number of companies needed to generate produce “perfect competition dynamics”, that resource has the potential of giving competitive advantage to this small number of companies jointly.*¹⁵⁷

Even though Internet was a free resource open to all industries and companies the knowledge of how to use Internet was limited. Consultancy firms like Framtidsfabriken and Icon Media labs sucked the market dry of all competence by offering highly beneficial stock options to employees and then charged hefty prices for their services. The limited supply of competence together with the uncertainty many brick and mortar companies felt towards Internet created a initial scarcity of Internet as a resource. Being one of the first companies to harness the power of Internet and creating a competitive advantage before competitors was then of course seen as a valuable strategic advantage. However, Internet would not remain a scarce resource forever since eventually the supply of competence would catch up with the demand meaning that all companies would eventually be able to be present in the online marketplace. Hence it is clear that Internet cannot be seen as a rare resource.

Imperfectly imitable resources

*To further develop the discussion of sustained competitive advantage, one must take into account that these resources cannot easily be obtained by competitors, also called “Imperfectly imitable”.*¹⁵⁸

One could argue that the way individual Internet companies strategically used Internet was indeed in a manner that was imperfectly imitable as it could not be perfectly imitated by competitors. However, the inherent traits of Internet such as open source and free information

¹⁵⁶ Barney, (1986) p.102

¹⁵⁷ Hirschleifer, (1980)

¹⁵⁸ Lippman & Rumelt (1992), Barney (1986)

allows all players to copy competitors' solutions and business ideas and hence no company could really claim a competitive advantage in Internet through unique historical conditions, casual ambiguity or through social complexity¹⁵⁹.

In truth only very few new Internet companies could claim their Internet business idea was imperfectly imitable. The ways that companies like Avanza, amazon.com or Boo.com used Internet could and was easily copied by competitors. Internet can therefore not be seen as an imperfectly imitable resource. Nevertheless, if a new Internet company quickly enough could manage to create a presence and a brand name on the Internet this in itself could create the imperfectly imitable resource needed to maintain a sustainable competitive advantage. Amazon.com is one such example where a company with a fairly simple idea (selling books online) manages to create a unique image. However, Amazon had to spend several hundred million dollars achieving the brand status they did¹⁶⁰. The vast majority of Internet companies were of course unable to match such a huge marketing spend and therefore also unable to create the brand name needed to survive in the market place.

Non-substitutable resources

*There must be no strategically equivalent valuable resources that could be substitutes. This can be defined as "where two valuable company resources are strategically equivalent when they each can be exploited separately to implement the same strategies."*¹⁶¹

The power of Internet truly lies in the fact that no other channel of communication can offer the benefits of Internet at the same low cost. With regards to substitutability it is and was clear that no company aiming to survive in the long run would be able to achieve this without using Internet in any form. Both with regards to internal efficiency (e.g. e-mails and data transfer) and external efficiency (e.g. cost efficient global reach). This realization was of course what the "new economy" was all about. Without Internet the established brick and mortar companies will not survive, cried the media. Even though there lays truth within such a statement we in retrospect clearly see that the threat Internet posed to established companies was widely overstated. Internet grants cost benefits vs. traditional ways of doing business but only to a limited extent. Furthermore, Internet was at the time not in any way a non-substitutable resource, but rather a

¹⁵⁹ Dierickx & Cool (1989)

¹⁶⁰ Elmbrant, Björn. (2005)

¹⁶¹ Barney (1986) p.111

substitute in itself and represented a considerable investment which could be questioned mainly because of the two reasons we have mentioned earlier:

1. The on-line market was still very small at the time
2. Online shopping was very limited and grew only slowly due to the security issues.

Sustainable competitive advantage

Considering our analysis of Internet as a resource we can find evidence both supporting and condemning the growth strategies applied by the new Internet companies. As a resource Internet clearly qualifies as a valuable resource as defined by Barney¹⁶². The initial scarcity of competence for leveraging Internet also made it a rare resource as defined by Hirschleifer¹⁶³. The rarity was however only going to last for a limited period of time until the brick and mortar companies found ways of leveraging their businesses by using Internet thus gaining both the internal and external cost benefits of the new Internet companies. With regards to being an imperfectly imitable resource we can only conclude that Internet did not fit the bill as defined by Barney¹⁶⁴. However, the belief that switching costs¹⁶⁵ would be high online can explain why companies might have perceived their Internet solutions as also being imperfectly imitable since creating a strong brand name online would offer this advantage. Finally the non-substitutability of Internet as a resource can not be denied even though we can question the urgency of which the new Internet companies stumbled over each other to become first in the new market places which in reality generally were too small to offer the needed returns.

All in all we can conclude that relying on Internet as a sustainable competitive advantage was risky at best even considering faulty perceptions such as switching costs being high online. Figure 5-4 illustrates Internets ability to as a resource offer a competitive advantage.

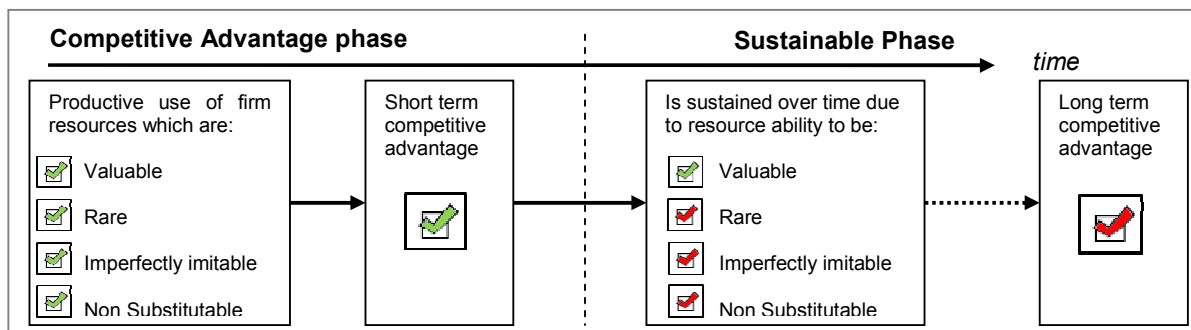


Figure 5-4

¹⁶² Barney (1986)

¹⁶³ Hirschleifer, (1980) *Evolutionary Models in Economics and Law: Cooperation Versus Conflict Strategies*. UCLA Department of Economics.

¹⁶⁴ Barney (1986)

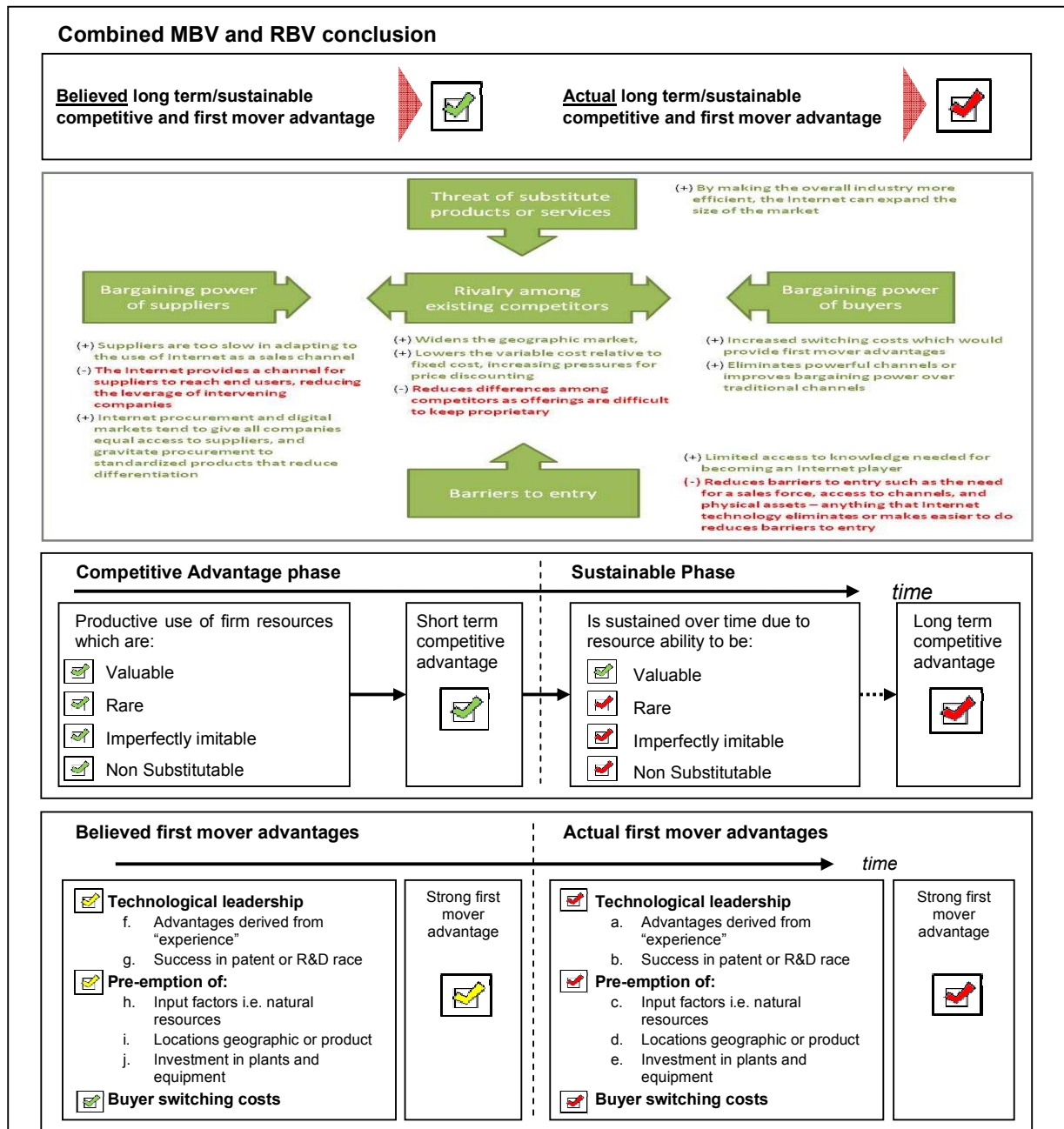
¹⁶⁵ Porter, Michael E. (2001) "Strategy and the Internet". *Harvard Business Review*

5.3 Combining the MBV and RBV views

Gaining insights from the strategic analysis

By aligning the conclusions we have reached so far in our analysis of the MBV and RBV it becomes clear that neither strategic approach would by itself or combined with the other give us the intended discouragement from entering into a new Internet venture during 1996-2000 (see fig 5-5). This in itself represents a significant finding that we will discuss further in the coming chapters.

Figure 5-5



Chapter 6 - Synthesis

In our analysis we have so far shown that a MBV and RBV analysis of a new Internet venture in 1996-2000 would not have been able to provide a clear insight showing the “true” risks and hazards with an Internet venture at the time. In this synthesis chapter we attempt to further develop and expand the theoretical framework to give a more comprehensive theoretical view with regards to the purpose of this thesis. We wish to supply additional insights regarding how a MBV and RBV frameworks analysis can or could have been improved to provide a more accurate answer or insight regarding the risks and hazards with Internet ventures at the time.

Additional strategic approaches appear to be needed to shed some light on the purely technological and financial aspect of strategy. One such theory that allows us to view Internet from a technological aspect would be the dominant design and S-curve theory developed by Everett M. Rogers. Further, the behavioural finance aspect is briefly discussed to capture the softer aspect of market volatility and dynamics.

6.1 Dominant design and S-curves

Everett M. Rogers in his 1962 book, Diffusion of Innovations, theorized that innovations would spread through society in an S curve, as the early adopters select the technology first, followed by the majority, until a technology or innovation is common. Figure 6-1 illustrate the basic S-curve model

The speed of technology adoption is determined by two characteristics p , which is the speed at which adoption takes off, and q , the speed at which later growth occurs. A cheaper technology might have a higher p , for example, taking off more quickly, while a technology that has network effects (like a fax machine, where the value of the item increases as others get it) may have a higher q .

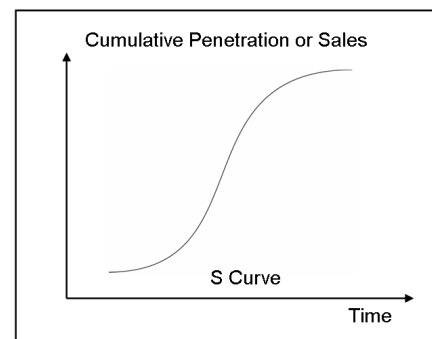


Figure 6-1

A number of other phenomena can influence innovation adoption rates, such as -

1. Customers often adapt technology to their own needs, so the innovation may actually change in nature from the early adopters to the majority of users. This is acknowledged, discussed and included in later additions of the Rogers book.
2. Disruptive technologies may radically change the diffusion patterns for established technology by starting a different competing S-curve.
3. Lastly, path dependence may lock certain technologies in place, as in the QWERTY keyboard.

6.1.1 Internet from an S-curve perspective

Speed of adoption

How fast was Internet actually going to spread? This was one of the big questions during the last few years of the century. Prominent entrepreneurs like Birgersson and von Holstein proclaimed that within years the whole developed world would be connected to Internet, using it to its full extent. The general media, spellbound by the IT revolution cemented the perception that Internet would change everything and change it fast. In reality the adoption of Internet by the general public was strongly exaggerated. In year 2000 Sweden was the country with the highest Internet density in the world and still there were only an estimated 4 million users in Sweden at the time. Still with the buzz around Internet, new Internet companies expected Internet to grow much faster than it did in reality. Some might argue that 50 % of the population using a new technology within only a few years was actually proof for the power of Internet and how fast it was spreading. However, one must also take in to account that even though the number of users could be argued as relatively high the actual level of usage was low compared with today. Since the Internet operators charged users by the minute for using the Internet, much as using a telephone, the majority of users minimized their use daily use of Internet to around an hour. Furthermore, the low velocity of Internet connections in those days was so slow that a significant time of actual usage was spent solely on waiting for web pages to load. This information was readily available for media and companies alike to use in their strategic analysis of Internet's power and expansion pace. Strangely enough the majority of players were more interested in what was going to happen with Internet than what was actually happening.

Potential for later growth

Even from the start visionaries announced that Internet was the very utopia of network technology. Today we see that many of the functionalities and uses of Internet that were foreseen by the early Internet entrepreneurs are reality. With regards to Internet's ability for growth and development we can today conclude that the visionaries were right in their beliefs and possibly even understated the possibilities for Internet to grow and expand with regards to new functionality and usage. A good example would be Web. 2.0 and the user created content which we are seeing an increasing amount of today. However, the crucial mistake was that visionaries believed that Internet would reach its full potential within only a few years. In reality

it has taken more than 10 years for Internet to evolve to the functionality and usage envisioned in the years before the turn of the century.

Combination of speed adoption and potential for later growth

If we combine the believed speed of adoption with the believed potential for later growth we get an S-curve that is very steep (see red graph in Figure 6-2) which would benefit early entrants as the technology quickly reaches its full potential and then stagnates. A technology that follows the red graph is very quickly adopted by the general market and peaks early and would thus benefit early entrants who quickly manage to generate good return on their capital employed. For new Internet companies believing that Internet would spread in accordance with the red graph it hence made good sense to invest heavily since the rewards would soon follow.

In reality Internet spread much slower than expected by the media and early Internet entrepreneurs, more in accordance with the blue graph in Figure 6-2. Even though information regarding the expansion and usage of Internet was readily available and clearly suggested Internet was spreading much slower than expected, this information did not seem to have an impact on the new Internet companies looking to sell their products and services through a medium that was still largely un-evolved.

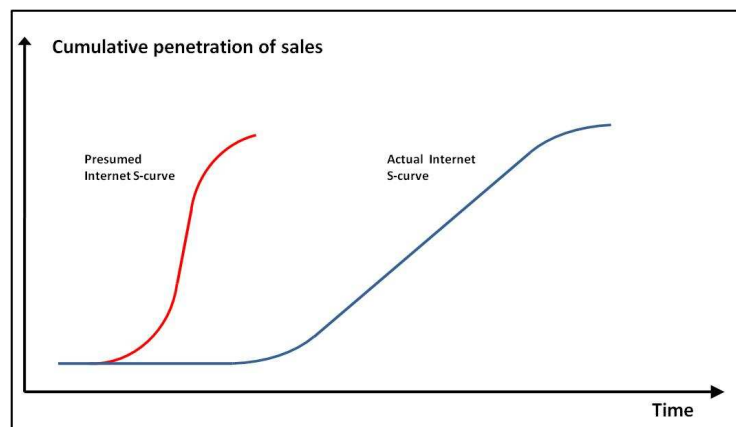


Figure 6-2

By combining the traditional strategic market and resource perspective's with the technological S-curve analysis it should have been possible to establish a fully rational approach to new Internet ventures showing that Internet was still too undeveloped and spread as a medium to support the business ideas that relied on a big consumer base.

6.2 The Behavioural finance aspect

In our study we found that the overvalued Internet companies can not easily be explained merely by flawed valuations, hence we find it important to also consider the behavioural finance aspect in the boom of Internet companies. We find this to be of value in order to concretise the reasons and get an understanding of some of the fundamental grounds for the dot.com bubble.

The basis of financial theory is the belief that investors make their investment decisions based on all the information available for a security. However, it has become evident that this is not always the case and that area of study relates to “Behavioural Finance”. The Behavioural Finance attempts to both understand and explain the effect that emotion, uncertainty and irrational thinking can play in the decisions made by investors.¹⁶⁶ We intend to briefly discuss some of the major ideas within this area – Loss/Gain imbalance, Greater Fool Theory and Herd Mentality.

The Loss/Gain imbalance relates to the fact that investors are much less satisfied with gains than they are dissatisfied with equivalent losses. Investors have also shown to take more risk to avoid losses than they would to realize gains. As a result, investors tend to delay the sale of securities that would result in losses to avoid or minimise negative emotions.¹⁶⁷

Another theory of behavioural finance is the “Herding Mentality” which suggests that investors follow the investment decisions of others. Schiller makes a description of how rational people are often involved in herding behaviour. The rationality aspect of behaviour is then motivated by the fact that it is a group of irrational people.¹⁶⁸ Whether a bubble starts or ends with events that are related to the underlying value of a security is not certain. What is interesting is the fact that a bubble may be created with variance from the fundamental valuation as a result of herding mentality. For the Internet companies this is rather evident, especially with the notion that there were new unmarked territories involved and completely new business logic behind many ventures.

¹⁶⁶ Shiller, Robert J., (1989) ”Market Volatility”, *Cambridge MA: MIT Press*

¹⁶⁷ Statman, Meir. (1988) ”Investor Psychology and Market Inefficiencies”, *Equity Markets and Valuation Methods*, The Institute of Chartered Financial Analysts

¹⁶⁸ Shiller, Robert J. (2000) “Irrational Exuberance”, New York, Broadway Books.

The Greater Fool Theory discusses the fact that it is possible to make a profit not by investing in securities based on their intrinsic value and participation in future earnings, but rather by buying overvalued securities because there will in most cases be someone else that is willing to buy the security at a higher price. This would explain high pricing of Internet company securities during the Internet era.¹⁶⁹

It is relative clear that the overvaluation of the Internet companies during the late 90's and early 2000-2001 was to a large extent based upon both the Greater Fool and herding mentality, although the latter explanation is more evident in our empirics. Methods and standards for valuation can be discussed in accounting or economical terms, but what we find more important in this context is that the behavioural aspect on the valuation of companies seem to have had a very strong link and is evident for the Internet companies. Investors were driven almost solely by short term gain with stock prices climbing several hundred percent in very short periods of time. Had there only been very few new Internet companies their high inherent risk would not have presented any real threat to the stock market. The limited value of only a few new companies has little or no effect on the general index. However, between 1995 and 2000 there was an absolute proliferation of new Internet companies that consumed a substantial part of not only investor money but also the general public's money. This resulted in a larger than average part of the stock markets value being made out of high risk companies. With the media's over belief in the "new economy" and investors chasing short term gain the speculative and high risk dot.com bubble quickly became a reality.

¹⁶⁹ Williams, J. (1997) *The Theory of Investment Value*, Fraser Publishing

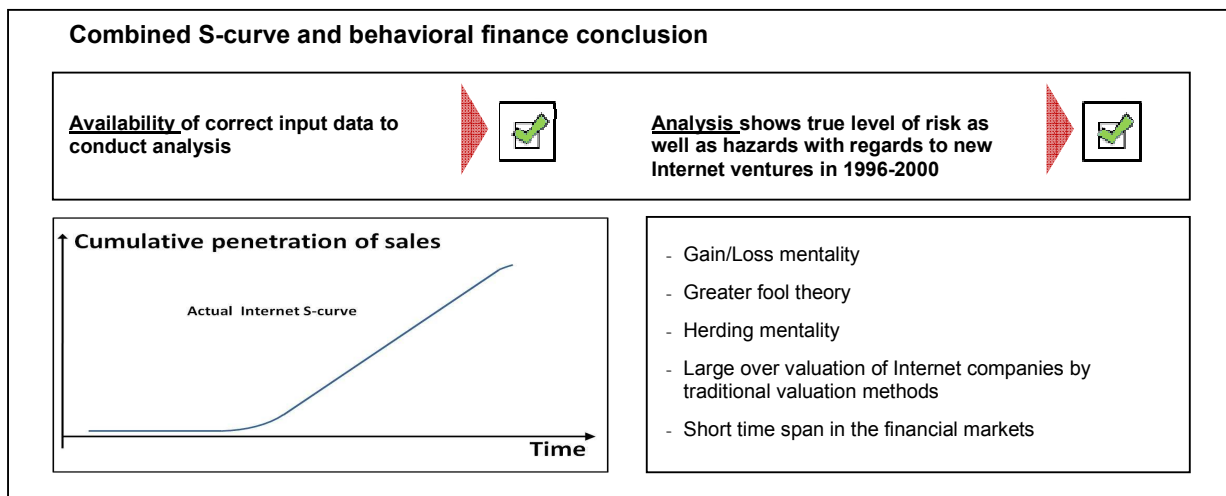
6.3 Combining S-curves and behavioural finance

Gaining insights from the analysis

Both behavioural finance and the S-curve analyses are of a quantitative character which in this particular case allows them to see past the general misconceptions spread by the media and Internet entrepreneurs. By using actual data rather than exaggerated estimations they give a much more sober view of the Internet era. Still those who tried use these very perspectives were ridiculed or ignored since in reality stocks were skyrocketing so anyone saying Internet was not a big cash cow was obviously mistaken.

Nevertheless, when we do use these theories to conduct a high level strategic analysis they manage to provide us with an answer which exhorts caution with regards to Internet ventures, something which could not be achieved through the high level MBV and RBV analyses.

Figure 6-3



But our even our additional theories have their flaws. The financial theories clearly explain how valuation of companies can and did lose its connection with its rational basis, but also state it is virtually impossible to conclude that a bubble is actually a bubble until it has burst. The technological approach clearly states the difficulties of launching new technology due to lag in user adaptation as well as undeveloped infrastructure, but also it states that new technology can become rapidly adopted if the right circumstances are in place. As such, both our supporting strategic approaches are in need of correct input data. However, since they have a quantitative approach relying on actual figures which can not easily be manipulated (e.g. current no of

Internet users or stock price per earnings (company valuation)) they offer a more robust analysis. The MBV and RBV frameworks have, with regards to the dot.com bubble, a more futuristic outlook such as *“what will our competitive advantages look like from a market and resource perspective in the future?”*. The futuristic approach is hence much more a victim of the current misconceptions at the time of the analysis formulation which we also have demonstrated in previous chapters.

Our purpose with this synthesis was to supply the reader with additional strategic approaches which could complement the MBV and RBV strategic frameworks and provide perspectives that these frameworks could not. Behavioral Finance and dominant design/S-curves both enable us to examine the dot.com bubble from such new and enlightening angles. We therefore find it valuable to include them in this thesis and will further discuss them in relation to the MBV and RBV frameworks in the final chapter.

Chapter 7 -Conclusions

When we began this thesis we were convinced that analysing a new business venture by applying a strategic approach (through the MBV and RBV framework) we would be able to determine whether it had the theoretical prerequisites needed for success (as described in the theoretical frameworks). We believed that by applying such analyses both investors and entrepreneurs could get a rational view of how their planned investment or venture would perform in the marketplace given the resources at hand and the inherent traits of the specific market.

This rational and comprehensive view would surely allow the investors and entrepreneurs to identify and avoid investments/ventures that did/do not have the prerequisites for creating a long term competitive advantage.

So why is this important you may ask?

For instance, simplified, if there had not been such a proliferation of new Internet companies springing up by the turn of the century, there would not have been such a huge amount of capital tied up in extremely risky assets. Investments that in turn lost all their value as the dot.com bubble burst. This meant going from a market place where there was a clear abundance risk-willing capital looking to be invested (both by investors and the general public), to a market with a clear lack of capital, at least a lack of risk-willing capital. With no cheaply available capital consumption comes to a halt meaning both companies and the general public go into cost cutting mode. This of course has a strong general negative effect on the market and can cause a downturn or even recession. With a global phenomenon like the dot.com bubble this would mean creating a global recession simply by poor investments creating insecurity and lack of capital in the global marketplace.

The sub-prime crisis of today is one clear example of poor investments creating a severe lack of capital in the marketplace. If these poor investments could have been foreseen or even completely hindered at an early stage could then the global economic downturn that we saw with the dot.com bubble and which we see today have been avoided?

We believed initially that the answer to that question to a very large extent was YES. Of course one could always debate whether a rational approach in reality can overcome the inherent short term greediness plaguing the capital markets of today. Nevertheless we believed investors would if possible avoid short gain high risk ventures where they able to clearly determine that a (in this case) IT-venture did not have the clear prerequisites for creating a long term competitive advantage in the marketplace.

This rather elaborate explanation of the need for a creating a “true” picture the prerequisites of any venture conveniently brings us back to the purpose of this thesis and more importantly to our conclusions.

“Could a strategic analysis using the Market-based and Resource-based perspectives have supplied entrepreneurs and investors in 1996-2000 with the necessary information to not embark on what would turn out to be fruitless Internet ventures?”

Our answer to this question, as we have concluded in our analysis chapter is NO. The MBV and RBV frameworks are in too large an extent based on the general perceptions and misconceptions of the marketplace at the time of the analysis. Our analysis has shown that despite their rational approach they would not have been able to provide entrepreneurs and investors with the needed information to estimate the “true” risk of an Internet venture at the time.

However, in our synthesis we have concluded that by combining the RBV and MBV analysis with that of behavioural finance and the technological aspect of S-curves, a much more “true” picture of the level of risk could be created. It is the quantitative rather than qualitative approach of these additional theoretical approaches that to a large extent enable them to become much more resistant to the misconceptions and irrational behaviour of the market at the time. As such we can conclude in our synthesis that by adding these additional theoretic approaches to the MBV and RBV analysis, investors and entrepreneurs SHOULD have been able to create a correct assumption of the at the time present risk with new Internet ventures and hence avoid the ones that did not in a convincing way show an ability to truly create a long term competitive advantage within their marketplace.

Finally we must ask ourselves:

“Would investors and entrepreneurs have used the rational information, if it could have been provided, to not make the investment choices made?”

Even though this is a question with a much wider scope than is possible to cover within the limits of this thesis, the insights we have gained during the writing of this thesis might allow us to attempt an inkling of an answer.

As we have already stated, an extended analysis including behavioural finance, S-curves and the MBV and RBV frameworks should have been able to create a correct assumption of the, at the time present, risk with new Internet ventures. In a rational market it would be only natural to assume that investors and the general public would immediately react on the supplied information and thus avoid investing in what would turn out to be fruitless ventures. However, the very nature of a bubble is irrational behaviour. The market reacts immediately on any kind of information (e.g. press releases, political statements etc.) rather than rely on rational quantifiable analyses. Further more, we must take into account the short term greediness of the capital markets which is a force that would clearly attempt benefit from the price inflation of IT-stock. Hence there would clearly be forces that would not consider the rational analysis, to avoid investments in IT-ventures lacking prerequisites for long term competitive advantage, even if such an analysis was available. Depending on whether you consider the market to act in a rational or irrational manner you will get the answer to our question:

- If we assume the market acts rationally then our proposed combined analysis (MBV, RBV and additional theories) should have been able to offset the poor IT-investments
- If we assume the market acts irrationally and ignores our proposed combined analysis then it would have made little or no difference to the over all dot.com bubble

Based on the insights we have gained during the writing of this thesis, we are inclined to believe the latter of the above statements. This mainly due to the fact that the notion of the new economy was based on a vision of how Internet as a mode of communication would affect the traditional way of conducting business and transform it forever. The arguments were driven forward by high profile visionaries claiming that every rational analysis related to the old ways of doing business was now obsolete and could not be used to measure or evaluate the performance of the new medium. Hence the entire reasoning behind the grandeur of Internet was based on the rationale that what was once rational had now become irrational. In such an environment we deem it unlikely that any rational approach or analysis would have succeeded in convincing the market that Internet would not be able to live up to the prophecies proclaimed.

Chapter 8 - Further Research

In this thesis the focus has been on gaining a broad understanding on how the Resource-Based and Market-Based views can be applied in practice to further investigate company strategy. This investigation has merely looked at a time period when the market peaked and then dropped dramatically. In addition, the specific industry investigated was a new market of products and services where the reasoning and business rationale was widely dispersed. In our view, this was particularly interesting as a new market holds great dynamics in terms of strategy formulation, dominant players and movement in brand perception. Of course, discussions can be made around whether this particular period is typical and ideal for research of this phenomenon, but we found it interesting to look at an extreme point in time/market to really outline the major pillars. In a future research, certain main roads can be taken to further gain understanding of the Market-Based and Resource-Based view in practical strategy. First, we suggest an approach with a longer time perspective to see how the perception and behaviours towards the different methods have changed. This historical research on the topics could give us guidance and indications of how the near future will develop in these terms. Second, a narrow approach into one (or more) specific industry to investigate a more definite set of parameters. This could gain a deeper understanding of how explicit methods for strategy in an RBS or MBV context are constructed. Third and finally, we see that there would be very interesting, somewhat partly relating to the first point, to investigate how the RBV and MBV have evolved and what practical usage and implications that has prevailed and are common today.

With these aspects in mind, we do comprehend the limits of our own thesis although we found it relevant to take an initial approach on a broad level to gain access and insight into unfamiliar territory.

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