The Entry Decision Tool

A process for identification and evaluation of new business areas

**Master's Thesis
in Business Development,
Lund University - Faculty of Engineering**

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Preface

This master's thesis was sprung from the intensive growth planning at Scalado, a world leading company in mobile imaging. Scalado needed to look outside their core business area and to create alternatives and to evaluate new possible markets. The goal was therefore to identify and to create a structured and logical process for entry decisions. Because of the consultative nature of the thesis, management-consulting firm Centigo offered to help us (the authors) reach our goal.

During the summer and fall of 2010, we worked in collaboration with Scalado and Centigo in order to create a tool for use when facing entry decisions. The master's thesis is comprised of 30 hp and represents the final part of the authors Master of Science degree in Industrial Engineering and Management.

We would like to direct special thanks to:

Fadi Abbas (CSO/CMO at Scalado) for initiating the project and for giving us the opportunity to work close with Scalado in such exciting and challenging times. His inspiring approach to business has taught us much.

Gustaf Piper (Centigo) for always taking his time and for always being enthusiastic and supportive. His analytical thinking and substantial experience have contributed a lot to our work.

Carl-Johan Asplund (Lund University) for providing us with a lot of relevant literature and for always being inspiring and supportive.

Ulf Christiansson (VP Software Engineering at Scalado) for providing extra support and new perspectives.

Johan Sten (Technical Business Developer at Scalado) for his patience and for taking his time to discuss opportunities, problems and different approaches to our thesis.

Robin Gustafsson (Product Development Manager at Scalado) for his assistance when our need was great and the hour was late.

We would also like to thank the entire Scalado staff for their warm welcoming and for their participation and contribution to our master's thesis. We also wish them good luck with implementing our ideas into their mindset for strategic planning and business development in the future.

Lund, October 20, 2010

Patrik Nilsson and Erik Larsson

Summary

Ever since Scalado was founded in the year 2000, the company has grown remarkably fast compared to other mobile software companies. Today the company has a turnover of about SEK 150 million and is one of the largest middleware companies in the mobile phone industry. Scalado's core business lies within mobile imaging solutions and their technology is present in more than 600 million mobile phones. Aggressive growth plans in combination with a strong technology and a unique position in the industry eco-system made Scalado realize that there were significant opportunities in entering new business areas. However, a company usually has limited resources and cannot enter all possible new markets at once. As a consequence, the company was in need of a way to identify, evaluate and select new business areas. It was in this context that this master's thesis came to being.

There are numerous aspects that are necessary to take into account when making an entry decision. By creating a structured process with clear phases, including instructions and well-defined input and output for each step, the risks to miss out on important aspects decrease. Thus the entry decision reaches higher quality. *The entry decision tool* was created to fulfill this goal and consists of five steps starting with a situation analysis. This step generates a general understanding of the company's capabilities and its business environment. In the second step a workshop is conducted, where key employees generate concepts and sketch on business models for new business areas. After this is done, the business models are evaluated and analyzed. In step three the industry specific factors are accounted for, answering the question: is the targeted industry attractive at all? Step four, accounts for company specific factors, answering the question: does the company have a chance to successfully compete in the new market, given its current resources and competences? The last step focuses on which strategic approach the company should choose on the new market, given that entry would be favorable.

The question of entry into a new business area is often a complex one. This tool provides a structured approach to the problem with the main goal to identify and evaluate possible alternatives. The tool pinpoints key areas and factors affecting the possibility of success on the new market. The outcome of the five-step process is a desired strategic position on the new market, including key strategic elements of this position. It will not include how this position should be reached. Due to the complex cause effect relationships in this kind of questions, the analysis in each step will be of qualitative character.

Even though this tool was developed with Scalado as the studied object, it is intended that the tool should be applicable on any arbitrary company. Since the decision process is based on a generic decision model and each step is developed using literature in the field of strategy and the entry problem in general, this tool is believed to be generic and applicable on any company.

Sammanfattning

Ända sedan Scalado grundades år 2000 har företaget haft en anmärkningsvärd tillväxt. Idag omsätter företaget runt 150 miljoner SEK och är en av de största spelarna inom mellanprogramvara för mobiltelefonindustrin. Scalados kärnverksamhet ligger inom lösningar för bildhantering och bildbehandling på mobiltelefoner och företagets teknologi finns närvarande i fler än 600 miljoner telefoner. Aggressiva tillväxtplaner i kombination med en stark teknologi och en unik position i industrins ekosystem har fått Scalado att inse att det finns betydande potential i att gå in på nya affärsområden. Ett företag har dock som regel alltid begränsade resurser och kan inte gå in på alla möjliga nya marknader på en gång. Som en konsekvens av detta var Scalado i stort behov av ett sätt att identifiera, utvärdera och välja ut nya affärsområden. Det är ur detta behov som denna magisteruppsats är sprungen.

Det finns ett flertal aspekter som är nödvändiga att ta med i beräkningen när ett inträdesbeslut ska tas. Genom att skapa en strukturerad process med separata faser där instruktioner och väldefinierad input och output finns beskriven för varje steg, minskar risken att viktiga aspekter missas. Därmed når beslutet en högre kvalitet. Verktyget för inträdesbeslut *(The Entry Decision Tool)* som skapats för att uppfylla detta mål är en process bestående av fem faser. Det första steget utgör en nulägesanalys vilket handlar om att skapa en grundläggande förståelse för företagets nuvarande verksamhet, vilka resurser och kompetenser som finns och i vilket sammanhang företaget verkar. I det andra steget genomförs en workshop där nyckelpersoner inom företaget genererar koncept och skissar på tänkta affärsmodeller för nya affärsområden. Efter detta utvärderas och analyseras affärsmodellerna. I steg tre tas industrispecifika faktorer i beaktning, vilket syftar till att svara på frågan: är den tänkta industrin attraktiv överhuvudtaget? I nästa steg, steg fyra, analyseras företagsspecifika faktorer, vilket syftar till att svara på frågan: har företaget en chans att konkurrera framgångsrikt på den nya marknaden, givet sina nuvarande resurser och kompetenser? Det sista steget fokuserar på vilken strategisk ansats företaget ska välja på den nya marknaden, givet att ett inträde är fördelaktigt.

Frågan om vilken ny marknad ett företag ska gå in på och om de ska gå in överhuvudtaget är ofta väldigt komplex. Detta verktyg tillhandahåller en strukturerad ansats till problemet med huvudsakligt mål att identifiera och utvärdera möjliga alternativ. Verktyget pekar ut nyckelområden och faktorer som påverkar sannolikheten att lyckas på en ny marknad. Utfallet av femstegsprocessen är en önskvärd strategisk position på den nya marknaden, inklusive viktiga strategiska element för positionen. Det kommer inte att inkludera hur denna position ska nås. Eftersom en frågeställning av denna typ innehåller många komplicerade orsak-verkan-samband är analysen i varje steg kvalitativ. Trots att detta verktyg utvecklades med Scalado som studerat objekt är tanken att verktyget ska vara applicerbart på vilket godtyckligt företag som helst. Då beslutsprocessen är baserad på en generisk beslutsmodell och varje steg är utvecklat baserat på litteratur inom strategi och allmänna modeller rörande inträdesproblemet, är det rimligt att anta att verktyget är generiskt och applicerbart på vilket företag som helst.

Key words

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Glossary and Abbreviations

CSF = Company Specific Factors (not to be confused with the otherwise common abbreviation of Critical Success Factors)

ISF = Industry Specific Factors

DDP = Dialogue Decision Process

DQC = Decision Quality Chain

SWOT = Strengths, weaknesses, opportunities and threats

OEM = Original Equipment Manufacturer

SDK = Software Development Kit

PS = Professional Services

BMC = Business Model Canvas

1. Introduction

Strategic decisions, such as determining whether to enter a certain new business area, and if so which, require a structured process and a lot of information. This is mainly because the time frame of such decisions is rather long and the possibility to get immediate feedback and make adjustments is very small. This means that the decision must be of good quality right from the beginning. A structured decision process is a good means to achieve this. This dissertation deals with the work of creating such a process as well as the some validation of it by executing the process in the context of the studied company.

1.1 Background

Scalado, the object of this study, was founded in Lund in 2000 and is today a leading provider of imaging technologies, applications and engineering services for the camera phone industry. With the ambition to enhance the mobile imaging experience, Scalado offers products and services in all phases of imaging; capturing, viewing, creating and sharing. Their products mainly consist of software development kits (SDKs), which are sold to OEMs and are used to build camera functionality and applications into mobile phones. Scalado also offers what is called Professional Services (PS), which consists of three areas: training, consulting and solutions. With PS, Scalado offers help to their customers to build applications with a possibility to differentiate from their competitors (e.g. other OEMs).

Having always been a player in the mobile imaging industry, Scalado has come to realize that their technology might be suitable in other industries as well. Work has already begun within Scalado to search for other businesses outside of mobile phones, though this follows no structured process. Surely there is competence and experience enough within the company to make a good decision regarding this matter; however a structured process would probably add to the decision quality. This is mainly because such a process structures and aligns the way thoughts and ideas are gathered within the company, makes sure that all important factors are taken into account and are properly analyzed. Based on this, our assignment is to identify, evaluate and create strategies for new potential business areas and to develop a structured process for Scalado to use in the future.

1.2 Purpose

The purpose of this master's thesis is to identify and formulate a structured and well-defined process for identification and evaluation of new potential business areas. It is also intended that this process should generate business models for these areas as well as to identify critical success factors for the entry strategy.

The process will be based on the studied company but should be generally applicable to any given company. It should also provide a logical correct and science based approach to the entry decision problem. One of the main challenges to overcome is to create a process that is intuitive and nimble enough to be used continuously in a company's business development activities. Since the result of this report consists of a tool formed as a decision process, both the words *process* and *tool* will be used when referring to *The Entry Decision Tool*.

1.3 Delimitations

When creating processes for this kind of problems, one major danger is to create a process that is too complex. It is very important that the process is flexible and easy to use, but on the other hand it might become over simplified and therefore inaccurate. This fact strongly limits the level of detail used in this tool.

This master's thesis focuses on providing a logically structured approach to a sometimes very abstract and open problem. The goal is to pinpoint the key areas and factors that will impact the most on the possibility for success, when entering a new industry. Because of this broader purpose, the process will only provide some broad insights towards the business strategy for the entry. Further optimization will almost always be necessary in order to maximize the result in the new industry. This kind of adjustments will always be necessary for any in-advance strategy and a too detailed approach will in many cases just be a waste of time.

The process will be mainly qualitative and this is because of the often very complicated relation between industry factors, company strategic capabilities and their potential impact on the industry. This fact will demand some basic understanding of modern management theories.

1.4 Specification of research questions

With the purpose in mind, to identify and formulate a structured and well-defined process for identification and evaluation of new potential business, the following questions will need to be answered throughout this report:

- Is it possible to create a reliable, useful and valuable process for entry decisions?
- Which factors impact on the entry decision?
- How do these factors impact and which are the most important?
- What information is required for high quality entry decisions?
- How can this information be analyzed in a systematical way?
- How can this type of qualitative data be transformed into quantitative and comparable data?

1.5 Target groups

The main target group of this dissertation is managers and other people working with business development on a strategic level. *The Entry Decision Tool* should function as a process to guide decision makers when approaching the opportunities of entering new business areas, whether this need arises from one-time occasions or if this kind of business development activities is performed on a regular, iterative basis. The process could also target anyone looking to start a new venture, because of the analytical tools provided.

Since this tool contains many commonly used and widely accepted management theories and frameworks for company and industry analysis presented as a cohesive whole, students interested in this field may also benefit from taking part of this document. Examples of student groups for which this document may be useful in educational purposes are M.Sc. in industrial engineering and management students and MBA students.

1.6 Report outline

This master's thesis will be structured somewhat different than other master's theses, even though all essential parts will be present. Since part of the purpose is that the tool should be both intuitive and nimble enough for a company to use, it was decided that the result, which is called *The Entry Decision Tool*, should be placed first in the report. Doing this will hopefully make it easier for a company to use the model, since the people working with it merely has to pick up this report and follow the steps in the model. Further references and the logic behind the model can be found in the other chapters while working through the steps. The outline is as follows:

- **Introduction**
- **Result – The entry decision tool**
  This is the report's result. The chapter explains the *Entry Decision Tool* and provides a guide that takes the reader through the five steps of the tool, from pre-study to broad strategic approach for the most attractive new business area. Following the steps in this chapter should be enough for making a high quality decision regarding entry into a new business area.
- **Method and Research Design**
  This chapter contains the methods used to create the *Entry Decision Tool*. If the people working with the tool want to know more about the reasoning and the logic behind the steps in the tool, this is the place to look. This chapter also deals with the problems the authors faced when they conducted the research and how they approached and solved them.
- **Theoretical framework**
  Here the reader will find the theories and models used to build the *Entry Decision Tool*. Together with the method chapter this part serves as a reference for the people working with the tool, when more background knowledge of the models included in the tool for some reason is needed.
- **Discussion**
  In this chapter the reader will find a discussion about the tool and the work of creating it. Based on the execution of the tool, which the authors did once for the benefit of Scalado, is it possible to determine the validity of the tool? Does the company applying the tool reach a high quality entry decision? Furthermore, the tool was created in the context of a specific company and the authors also have to deal with the question: is the tool applicable on any other arbitrary company? To summarize, the discussion chapter deals with whether or not the authors completed the task they set out to solve.
- **Conclusions**
  This chapter deals with which conclusions that can be drawn based on the research of creating and the execution of the *Entry Decision Tool*.
- **Appendices**

2. Result - The Entry Decision Tool

In this chapter the result of this master's thesis will be presented: *The Entry Decision Tool*. The tool will be presented as a five-step guide, starting with pre-study and ending with broad strategic approach for the selected business area or areas. By following this guide, step by step, the users of *The Entry Decision Tool* will have gathered all relevant facts and have made all relevant benchmarking and analyses in order to make a high quality decision regarding entry into new business areas.
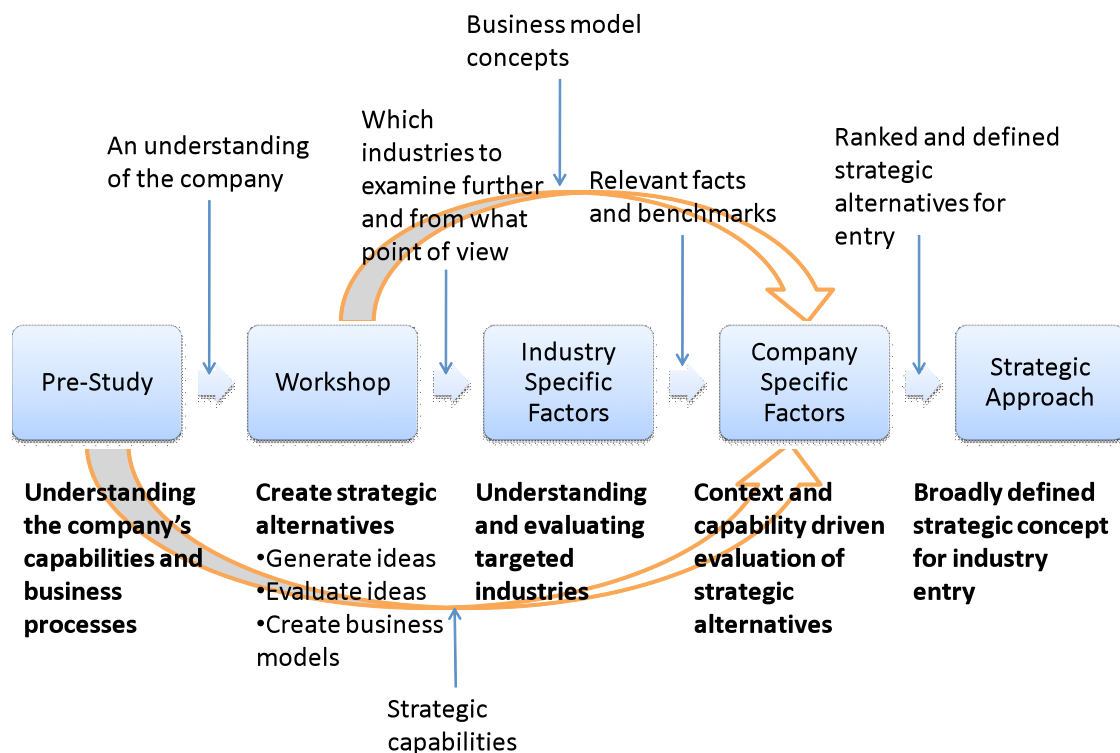
Figure 1: The Entry Decision Tool

The process described in figure 1 above is intended to generate ideas and to create business models for new business areas. It is also intended to function as a method of evaluation and benchmarking for the suggested industry and business model concepts and to ensure that the entry decision is made in an optimal way. The rest of chapter 2 will present the different steps and which methods to use in every step. To briefly summarize these steps, the following can be said.

- **Step 1: Pre-study**
  This first step is a way to create an understanding of the targeted company's capabilities and business processes. This understanding is vital in order to be successful in the later phases of this process.
- **Step 2: Workshop**
  The workshop is a way to create a broad scope of ideas for possible future markets and business areas. It deals with the generation and most basic evaluation of new business areas. The workshop also helps formulate a basic business model for these possible new ventures.

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- **Step 3: Industry Specific Factors**
  This phase provides a tool for analysis of the targeted industries. It helps gather and understand data on how these industries are structured and how they work. It will also help highlight potential problem areas and to provide a context needed for some conclusions later in the process
- **Step 4: Company Specific factors**
  Step 4 is intended to use the data and analysis provided from the earlier stages of the process. The aim is to provide a structured way to perform a benchmark of how well the company's capabilities, the industry climate and the chosen business model fit together.
- **Step 5: Broad Strategic Approach**
  The final step of the process is primary a tool for highlighting and analyzing the findings from the other stages of the process. If performed correctly, this process will provide a great understanding of the key strategic elements that enables successful competition in the targeted new industry.
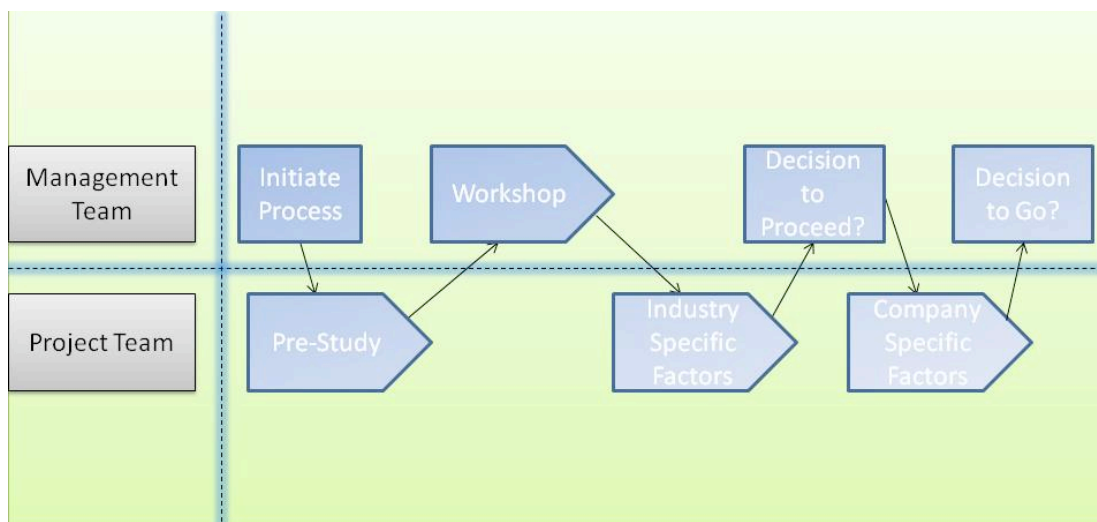
Figure 2: The Entry Decision Tool (DDP approach)

Figure 2 above shows an alternative view of the process described in figure 1 on the previous page. Whereas figure 1 focuses on the contents and the input/output from each step, the representation above explains who is responsible for each step and how and when the exchange of information between the management team and the project team is intended to take place. This approach is based on the *Dialogue Decision Process* (for more details see chapter 4. Theoretical framework).

The company's management team is intended to initiate the process and the project team should report to the management as illustrated above. See chapter 4. Theoretical framework for more details. Every step in this process is well defined and the input to the next phase has been carefully stated. This will allow the management team to access all the necessary information in order to make high quality decisions on how to proceed within the process.

The rest of chapter 2 will serve as a guide through this process.

2.1 Step 1: Pre-study
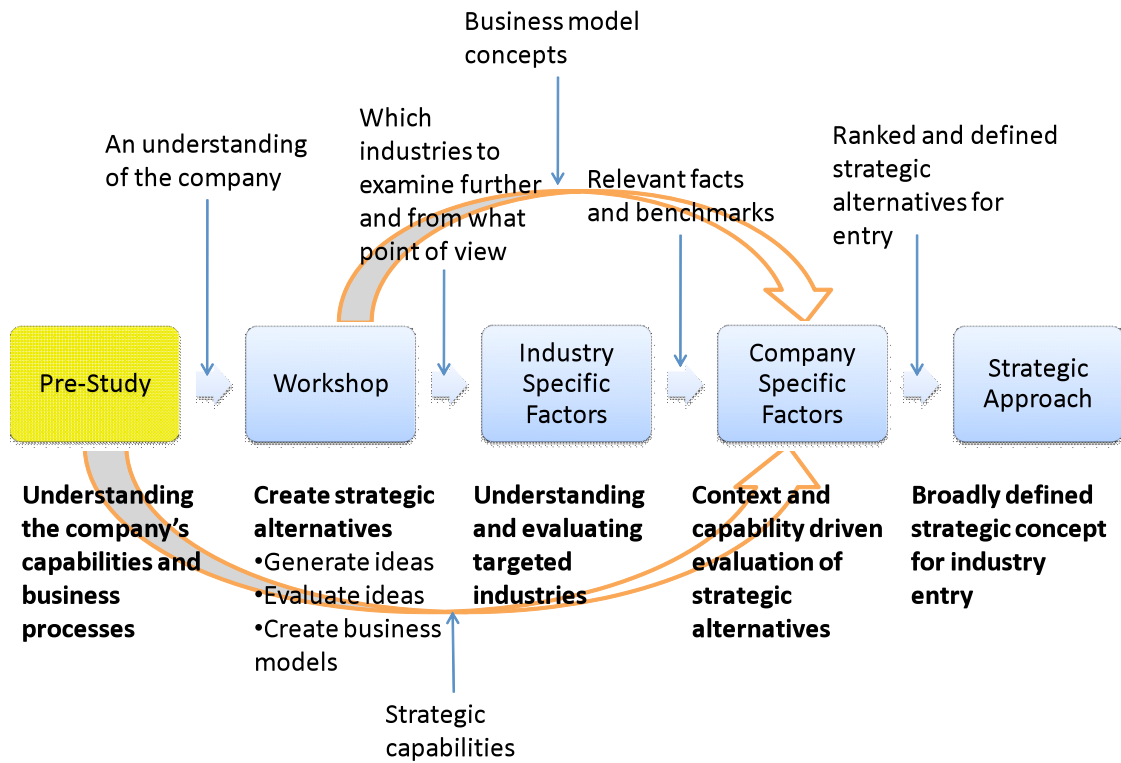
Figure 3: The Entry Decision Tool - Step 1

In order to successfully make an entry decision and to actually profit from it, a deep knowledge and understanding of the entering company is needed. This knowledge is needed trough out the process and here are some analytical tools that help structure this information.

The information in this step could be successfully gathered by conducting semi-structured qualitative interviews with key employees (for more details see chapter 3. Method) Use the following models to structure and analyze the gathered input. The models will not be described in detail here and for a thorough description and references to the frameworks, see chapter 4. Theoretical framework.

2.1.1 The value chain

The *Value Chain* (figure 4) enables a segmented approach to the value-creation process in a firm. By breaking down key activities within the organization and plotting them in the picture shown below, the understanding of a company's business is simplified.

It might add some value to the analysis to link these activities together by using the *Activity System Map* framework (see chapter 4. Theoretical framework). This approach enables an understanding of how the different activities relate to each other from a strategic perspective. For an example see the report *Situation analysis of Scalado: Framing the competitive advantage*[1] for more information. (Larsson, E and Nilsson, P. 2010)

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[1] Larsson, E. and Nilsson, P. *Situation analysis of Scalado: Framing the competitive advantage.* This document is the property of Scalado and all its contents are classified.

2.1.2 SWOT

Another useful tool is the SWOT analysis. It helps structuring the firm's strengths, weaknesses, threats and opportunities. Figure 5 serves as a template. The framework for the SWOT analysis is somewhat intuitive, however more detailed information is to be found in chapter 4. Theoretical framework.
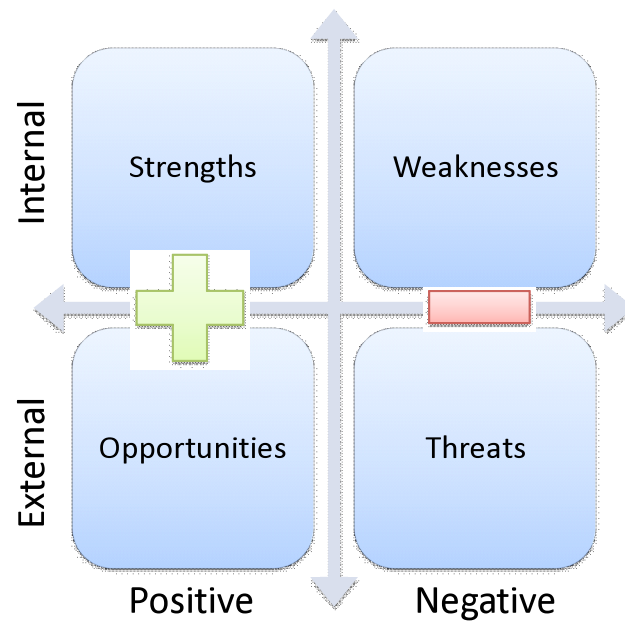
Figure 5: SWOT Template

2.1.3 Strategic capabilities matrix

Every successful company has some key resources and competences that together provide the base for successful competition in its markets. If these can be identified, it is possible to determine how useful they might be in a new context (e.g. in a new industry). Use figure 6 as a template when conducting this analysis.
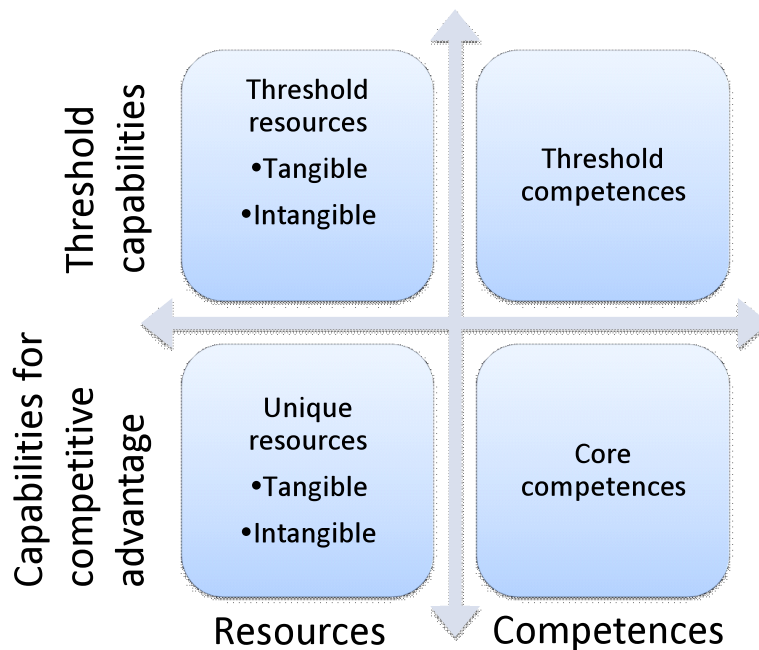
Figure 6: Strategic Capabilities Matrix Template

2.1.4 Before proceeding

To ensure that the decision at the end of the process reaches high quality, the output from this phase should be matched to the following criteria. They are based on requirements in the *Decision Quality Chain* (DQC) (see chapter 4. Theoretical framework). See figure 7 for which aspects of the DQC that are most important in this step (the blue links).

- Make sure that a good understanding has been reached regarding how the current business is done and what value is created.
- Ensure that an understanding of the pursued strategy is reached.
- Make sure that an understanding is reached of the strategic capabilities and the factors they draw upon.
- Make sure that an understanding is

Figure 7: DQC for step 1

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reached of the challenges and opportunities ahead.

- Ensure that the question of entry that initiated this process is put in its right context, i.e. make sure that the problem has an appropriate frame.
- Make sure that the gathered information is valid, i.e. check with the management team that the models are correctly completed and that the analysis is accurate.

2.2 Step 2: Workshop

Business model
concepts

Which
industries to
examine further
and from what
point of view

An understanding
of the company

Relevant facts
and benchmarks

Ranked and defined
strategic
alternatives for
entry

Pre-Study	Workshop	Industry Specific Factors	Company Specific Factors	Strategic Approach

**Understanding
the company's
capabilities and
business
processes**

**Create strategic
alternatives**
•Generate ideas
•Evaluate ideas
•Create business
models

**Understanding
and evaluating
targeted
industries**

**Context and
capability driven
evaluation of
strategic
alternatives**

**Broadly defined
strategic concept
for industry
entry**

Strategic
capabilities

Figure 8: The Entry Decision Tool - Step 2

This workshop is intended to generate alternative business areas as well as to provide a rough evaluation of these initial ideas. The goal is to settle on a few attractive business areas and to create business models for these. The business models will then act as input to the next step in this process. The *Business Model Canvas* (see figure 9 on next page) should be used when developing the business models. This framework is explained in detail in chapter 4. Theoretical framework. Depending on how much time and effort the company puts into the process, a varied number of business areas can be used as input in the steps ahead. It is recommended to strive for circa four business areas; more will mean an overwhelming workload and less will mean too few alternatives.

Figure 9: The Business Model Canvas

2.2.1 Preparations

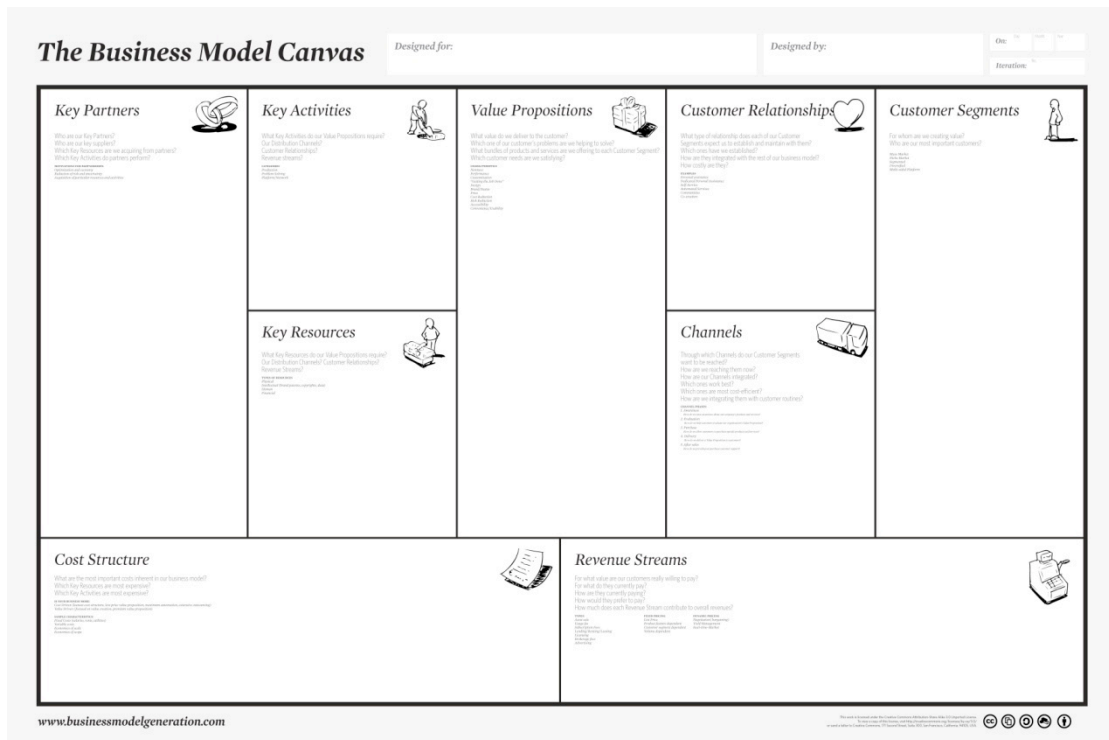The workshop will require a lot of preparations. It will be advantageous to create a power point-presentation for the workshop, including purpose, agenda, explanation of the steps and time plan. Furthermore it could be good to prepare some few ideas for new business areas in advance, if the group fails to provide enough alternatives.

Make sure to book the workshop well in advance and to send a brief explanation of it to the participants. An example of how this explanation can look like is attached in appendix 1 of this report.

2.2.2 Execution

The workshop can be executed like this:

1. Brief introduction, explanation of the process and the models.
2. Participants present their ideas, which are put down on the whiteboard.
3. Each participant will get three points to assign to the concept or concepts they believe will be the best one/ones for the company (motivation might be required), which will result in a list of ranked concepts.
4. Participants are divided into four teams and each team will develop a business model for one concept, according to the *Business Model Canvas*. This will result in business models for the four highest ranked concepts.
5. The Business Models will be presented and the other participants will have the opportunity to give feedback. If needed, present the alternatives for the management team and decide upon which concepts to proceed with.
6. The business models are used in the next phase of the process.

It is important to find an approach that suits the need and context of the organization. Feel free to use another approach. However, always make sure that the criteria below are fulfilled.

2.2.3 Before proceeding

Before proceeding to the next phase, some things need to be considered. This is mainly to ensure the quality of the material and input used throughout the process. As seen in figure 10, all links are important in this step of the process.

- It is important that the generated business model concepts are creative, doable alternatives. This is always hard and sometimes the greatest ideas seem undoable at first sight. But don't proceed with a concept that doesn't make sense or is obviously flawed.
- Make sure that all the resulting business model concepts are based on logical correct reasoning.
- Make sure that the generated concepts are complete and that there are no major questions left unanswered.

Figure 10: DQC for step 2

- Ensure that all the generated concepts are stored, even the ones that weren't chosen to proceed with. This makes it possible to look back and to use them in the future.
- This step is important to ensure commitment to action when a decision is actually reached at the end of the process. Therefore everyone who should partake in the future implementation must be involved in this step, either direct or by getting a chance to contribute his or her ideas indirect.
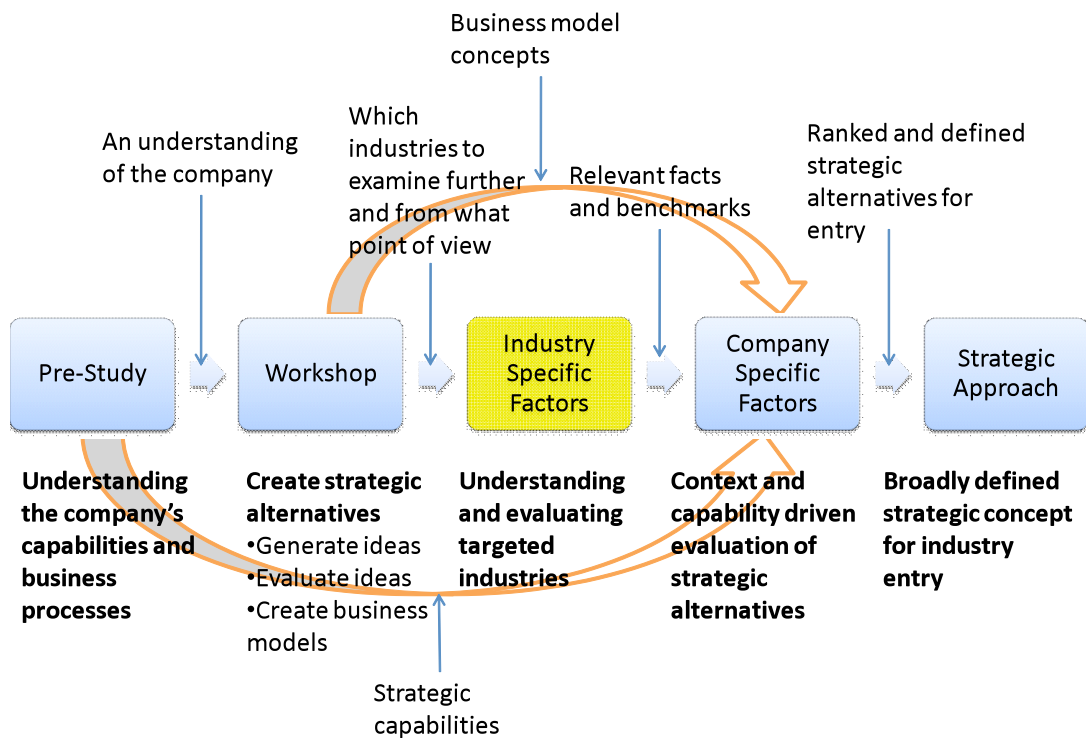
2.3 Step 3: Industry specific factors

Figure 11: The Entry Decision Tool - Step 3

This phase is intended to determine the attractiveness of a specific industry and is based on *Porter's Five Forces* (see chapter 4. Theoretical framework for further details). It points out key factors that need to be evaluated. This is done by gathering information about the industry, and by using the checklist provided here.

Every factor can result in a score between +5 and -5. The score is summarized force-wise, with the maximum total score for a force set to 6. This means that even if the total score for a single force exceeds 6, every single force can only contribute with 6 points to the total *Industry Specific Factor*-score. If the total score of the *Industry Specific Factor* analysis is negative, the contribution to the total benchmarking score is set to 0.

One important thing to keep in mind is that if the total score for a single force is negative, the force is likely to be very strong. This might result in very low margins upon entry into the industry, even if all the other forces are deemed weak. This means that if the score for a force is negative, it might be a good idea to pause and take a step back in order to think through the implications of this. It is almost impossible to create rules for these occasions; every situation will need to be handled individually. Remember that a single strong force, in some cases, might be enough to make the industry un-attractive.

It is also highly recommend that anyone using this tool for analysis writes a brief summary of each factor included, (see table 2 – table 6)[2]. This is due to the usefulness of this information in the later stages of the process. It can also be very useful for communicating the results of this analysis. When each force is analyzed and summarized put the scores in table 1 below to get the overall score for the industry.

Forces	Score
Rivalry-force	
Entry-force	
Substitute/Complement-force	
Supplier-force	
Buyer-force	
Total Score	

Table 1: Summary of Five Forces

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[2] Besanko, D., Dranove, D., Shanley, M. and Schaefer, S. *Economies of Strategy*, 4th edition. John Wiley & Sons, 2007. p 337-339. ISBN978-0-471-67945-5

2.3.1 Assessing the rivalry-force

	Favorable	Un-favorable
Market concentration?		
Industry growth?		
Market size?		
Average ROI in the industry?		
Cost-structures in the industry?		
Excess capacity?		
High fixed costs?		
Degree of differentiation in the industry?		
Brand loyalty and importance of brand recognition?		
Price elasticity?		
Switching costs?		
Transparent sales prices and terms?		
Easy to adjust prices?		
Large or/and infrequent sales orders?		
History of fierce competition?		
Strong exit barriers?		
Total Score		(maximum 6)

Table 2: The Rivalry Force

Summary of the force:

2.3.2 Assessing the entry-force

	Favorable	Un-favorable
Economies of scale?		
Expensive customer acquisition?		
High minimum efficient scale?		
Importance of an established customer base/relation?		
Access to distribution channels?		
Access to raw material?		
Access to technology/know-how?		
Access to favorable geographical locations?		
Learning curve disadvantages?		
Hard/expensive to create a sufficient position in the eco-system?		
Government protection/involvement?		
Expected retaliation from incumbents?		
Total Score		(maximum 6)

Table 3: The Entry Force

Summary of the force:

2.3.3 Assessing the substitute/complement-force

	Favorable	Un-favorable
Availability of close substitute?		
Price-value characteristics of substitute?		
Price elasticity of substitutes?		
Availability of close complements?		
Price-value characteristics of complements?		
Price elasticity of complements?		
Total Score		(maximum 6)

Table 4: The Substitute/complement force

Summary of the force:

2.3.4 Assessing the supplier-force

	Favorable	Un-favorable
Market concentration on supplier markets?		
Price competition in the supplier industry?		
Does the industry represent a large share of the suppliers' total turnover?		
Availability of substitutes to the supplier industry?		
Requirement for relation-specific investments?		
Threat of movement in the value-chain?		
Are the suppliers able to sell to a new entrant?		
Total Score		(maximum 6)

Table 5: The Supplier Force

Summary of the force:

2.3.5 Assessing the buyer-force

	Favorable	Un-favorable
Market concentration on buyers markets?		
Does the industry represent a significant share of the cost in the buyer's industry?		
Does the industry represent a large share of the buyers' total turnover?		
Price elasticity in the buyers industry?		
Availability of substitutes to the buyer industry?		
Requirement for relation-specific investments?		
Threat of movement in the value-chain?		
Are the suppliers able to sell to a new entrant?		
Which industry adds and/or captures the most value in the value-chain?		
Total Score		(maximum 6)

Table 6: The Buyer Force

Summary of the force:

2.3.6 Before proceeding

In order to make sure that the entry decision reaches high quality, the following criteria need to be fulfilled. The most important aspects of the DQC are found in figure 12.

- Make sure that the information gathered is meaningful and reliable.
- Ensure that the key drivers of the industry are fully understood.
- Make sure that the information is sufficient to put the business model concepts in their right contexts.
- Is there any additional information that needs to be gathered?

Figure 12: DQC for step 3
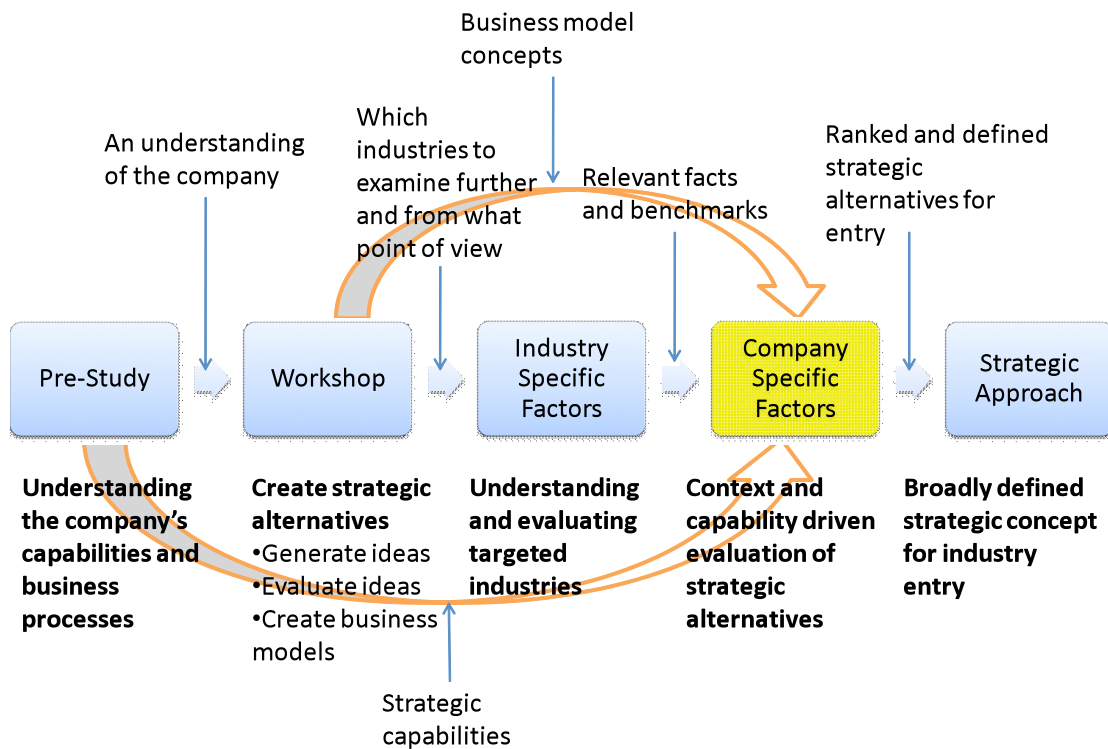
2.4 Step 4: Company Specific Factors

Figure 13: The Entry Decision Tool - Step 4

In this step, company specific factors should be put in relation to five entry decision parameters, which are explained in detail in chapter 4. Theoretical framework. The CSFs should also be put in relation to the situation analysis and the industry specific factors (ISF). The information and facts from the pre-study will serve as foundation for determining whether the company has the ability to compete in the targeted business area, mainly in terms of resources and competences. As for the ISFs, these sets the scene for the how the company's internal resources and competences can be exploited.

See figure 14 on next page for a graphical representation of the evaluation model, including the five entry decision parameters. The figure indicates that the evaluation should account for if the company is capable of competing in the new industry, if the company's resources and capabilities are useful in the targeted business area and if the competitive advantage can be sustained over a significant period of time.
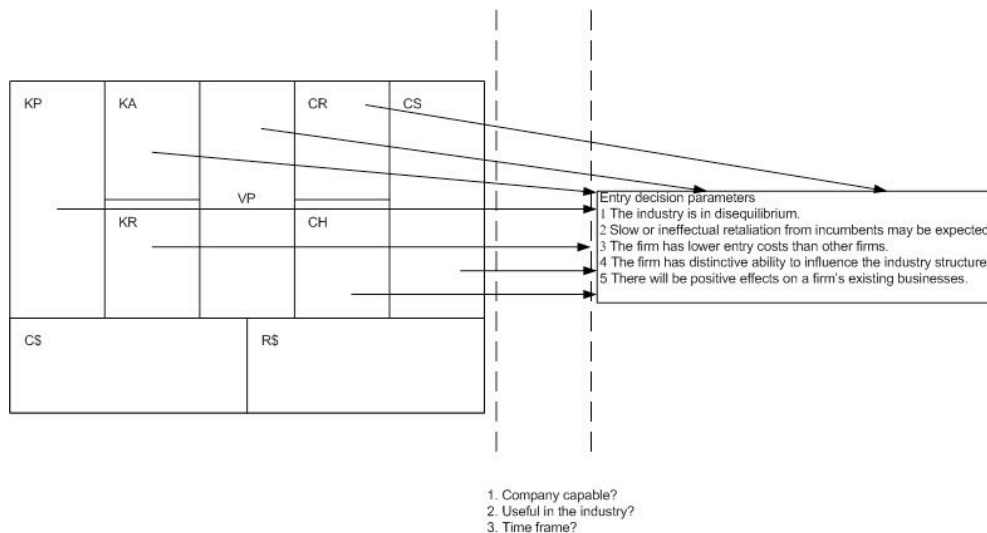
Figure 14: The CSF Scoring Model

The *Business Model Canvases* from the workshop should be evaluated in such a way that it is the overall ability for the company to earn revenues in the new market that matters. This means that if the firm has no ability to earn revenues, company specific factors will be graded to 0. Conversely, if there are reasons to believe that the firm has the ability to earn the largest revenues in the new market, company specific factors will be graded to 70. Use the scale below (figure 15) to grade the ability to earn revenues based on the probability that the statements above the boxes turn out true. Which scenario is most likely to occur?
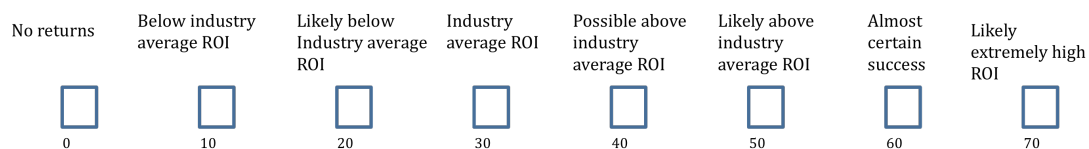

Figure 15: CSF Scoring Scale

The analysis of whether large revenues should be expected or not, are based on the five entry decision parameters mentioned earlier. For more details behind this reasoning, see chapter 3. Method. Keep in mind when conducting the analysis that some factors may have great impact in certain industries, while of less or no value in other. When analyzing the ability to earn revenues, one should have a clear picture of the industry and relate the business models to the specific industry context (i.e. some factors are considered to be of high value in some markets, while of none value in other markets).

The *Business Model Canvas* on next page (figure 16) will serve as a template with guidelines for what to look after when conducting the analysis. Each guideline is motivated after the figure, but the overall idea is that the guidelines should point out what to look for and what factors that enables a successful entry according to the five entry decision parameters. Note that this figure is not exhaustive. The most important thing to keep in mind is that any factor in the business model that might be a source of competitive advantage should be considered as having a positive contribution to the evaluation. When performing this evaluation one should also have in mind the *Strategic Capabilities Matrix*, the *Value Chain* and

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the SWOT-analysis from step 1: Pre-study in order to make comparisons with the existing business. This is especially important when looking at building blocks in the canvas where activities and resources might be shared with existing businesses or to determine whether the firm can perform the required activities at all.

KP	KA	VP	CR	CS
Unique partnerships that; -Improves cost efficiency -Improves performance -Are enabling In other parts of the business model	Shared activities Unique activities in: -Production -Problem solving -Platform/network	Unique value proposition: -Newness -Solution -Low price -Brand -Customization -Cost reduction -Risk reduction -Accessability -Convinience -Design	High performance or low cost: -Customer acquisition -Retention -Up selling	Unserved customer segments Brand recognition: -Positive effects on existing business -Entry advantage Networking(relations): -Entry advantage
	KR		CH	
	Shared resources Unique resources: -Human -Financial -Physical -Intellectual		Share channels Unique channels -Cost efficient -Enabling -High performance	

C$	R$
Source of costs	Potential revenues and how to reach them

Figure 16: CSF Scoring Guidelines

2.4.1 Value Proposition (VP)

- Unique value proposition – If the Value Proposition is unique for the new industry/market there are reasons for entry, since the entrant probably will have a chance to affect the industry structure (entry decision parameter 4). Uniqueness could be determined by looking at:
  - o Newness – No other company offers the same product and/or service.
  - o Solution – Aiming at solving a particular customer problem.
  - o Low price – Offering a lower price than competitors.
  - o Performance – Offering higher performance than competitors.
  - o Brand – Customers might be willing to buy a particular product and/or service due to brand recognition.
  - o Customization – Tailoring products after specific customer needs, which also include customer co-creation.
  - o Cost reduction – Offering products and/or services that reduce costs in the customers' businesses.
  - o Risk reduction – Offering products and/or services that reduce the customers' risks.

- o Accessibility – Offering products and/or services to customers who previously lacked the means to acquire them.
- o Convenience – Making products and/services easier to use.
- o Design – Adding design to products often increase their attractiveness to customers.

2.4.2 Customer Segments (CS)
- Unserved customer segments – If the identified customer segments are previously unattended with similar value propositions, there are reasons for entry. This situation could be due to market disequilibrium (entry decision parameter 1).
- Brand recognition and reputation – There are two ways in which this factor can affect the entry decision in a positive way:
  - o Entry advantage – If the identified customer segments recognize the supplying company's brand (with good associations) or if the supplying company has a good reputation, there is a chance that it will attract potential customers. This gives the entrant an advantage, because of lower customer acquisition costs (entry decision parameter 3).
  - o Positive effects on existing businesses – By working with a particular customer, the supplying company can gain advantage of "being seen" in the same context (entry decision parameter 5). This is especially significant if the customer is an industry leader or just has good image and reputation.
- Networking – If there is a possibility that the entering firm can exploit its current position in the eco-system and the personal relations therein, there are reasons for entry. This is also due to lower customer acquisition costs (entry decision parameter 3).

2.4.3 Customer Relations (CR)
- Customer acquisition – by using this type of relationship the firm can acquire new, previously un-served customers. For example, using dedicated personal assistance can attract customers with complex and unique problems (entry decision parameter 4).
- Retention – the relationship enables significant customer retention, i.e. making the customers come back and re-buy. For example, establishing a mutually beneficial relationship based on trust and personal contacts makes the customers more unwilling to switch supplier (entry decision parameters 2 and 3).
- Upselling – the relationship enables upselling, i.e. the customer is willing to buy more of the product or service they already buy or other related products and services offered by the firm. For instance, dedicated personal assistance might, through in-sight in the customer's business, reveal other customer needs which the firm can satisfy with other products and services (entry decision parameters 3 and 5).
- It is important to take in to account if the type of relationship is of low cost or high performance character. This should reflect the company's overall strategy. A low cost supplier might not find it worth to offer dedicated personal assistance, whereas a premium supplier probably won't benefit from low cost relationships (e.g. highly automated services).

2.4.4 Channels (CH)

- Shared channels – if customers in the new business area could be reached through the same channels as used previously by the firm, there is potential to reach synergies. By sharing activities the firm gains a cost advantage when entering the new business area (entry decision parameter 3).
- Unique channels – by using unique channels the company can gain a competitive advantage in the new market. Look for the following characteristics:
    - Cost efficient – a cost efficient channel can create lower entry costs (entry decision parameter 3).
    - Enabling – a channel might be unique in the sense that it enables the firm to reach a certain customer or customer segment that were previously not reachable (entry decision parameters 2 and 4).
    - High performance – if the channel is high performing and has the potential to outperform competitors' channels this is a good reason for entry (entry decision parameters 2 and 4).

2.4.5 Key Activities (KA)

- Shared activities – the same logic as with shared channels applies here. If the company can use existing activities to create the value proposition, reach the market, maintain customer relationships and earn revenues in the new business area, synergies are reached and an entry is probably favorable (entry decision parameter 3).
- Unique activities – by using unique activities the company can gain a competitive advantage in the new market. Look for the following unique activities in the following categories:
    - Production – if the firm can produce the value proposition in a unique way resulting in lower cost, higher quality or any other characteristic that creates a highly competitive product or service, entry could be favorable (entry decision parameters 3 and 4).
    - Problem solving – this type of activity relates to the act of finding a solution for a particular customer problem. By performing unique activities of this kind, the same results can be achieved, as with unique production activities above, and entry could be favorable. In addition, it can create a good reputation of the firm for solving individual customers' problems satisfactory. If competitors fail in this aspect it also creates a lock-in, e.g. no other alternatives exists (entry decision parameters 2, 3 and 4).
    - Platform/network – if the business model builds on a platform, i.e. two or more customer segments "meet" on the platform (e.g. matchmaking platforms, software platforms), activities related to maintaining the platform, and if they are unique, could result in a competitive advantage in the new business area (entry decision parameters 2, 3 and 4).

2.4.6 Key Resources (KR)

- Shared resources – similar to channels and activities, exploiting existing resources on new business areas enables a cost advantage when entering (entry decision parameter 3).
- Unique resources – using unique resources is a source of competitive advantage. Look for uniqueness in the following categories:
    - Human resources – if the company possesses unique competences it has an ability to create value that no other company has. Therefore the firm has an ability to influence industry structure (entry decision parameter 4). They might also be able to lower the entry costs, e.g. due to unique competences in selling that could be exploited in the new market, learning curve effects and production knowledge (entry decision parameter 3).
    - Financial resources – if the company has low cost of capital and/or strong financial muscles they can pursue strategies which competitors are unable to, leading to an ability to fend off retaliation attempts (entry decision parameter 2), cost advantages (entry decision parameter 3) and an ability to influence industry structure, i.e. doing things no one else can (entry decision parameter 4).
    - Physical recourses – unique physical resources can enable lower production costs than competitors (entry decision parameter 3). If the firm has unique access to important raw materials there is a significant ability to influence industry structure (entry decision parameter 4).
    - Intellectual resources – being in possession of unique intellectual capital (e.g. patents, copyrights, trademarks and trade secrets) makes competitors unable to retaliate and the entering firm has an ability to influence the industry structure (entry decision parameters 2 and 4).

2.4.7 Key Partnerships (KP)

- Unique partnerships – look for partnerships that:
    - Improves cost efficiency – sourcing some of the firms activities to key partners often creates a cost advantage (entry decision parameter 3).
    - Improves performance – outsourcing and other forms of partnerships could enable higher performance in one or more of the other building blocks, leading to entry advantages (see respective building block for which entry decision parameters that are affected).
    - Are enabling – some partnerships may be necessary for undertaking a certain activity and without it the business model might not work at all (see respective building block for which entry decision parameters that are affected).

2.4.8 Revenue Streams (R$) and Cost Structure (C$)

These two building blocks serves to illustrate the cash flows of the business and it is therefore hard to identify entry advantages here. It is important to know what costs are inherent in the business model, where the revenue streams come

from and how the firm should get paid, even though it doesn't affect the entry decision. However these aspects are of major importance when developing a go to market strategy.

2.4.9 Before proceeding

This phase should be regarded as the most demanding and complicated part of the process. It is based on subjective reasoning, anchored on basic strategic logic. The problem is to correctly estimate the impact of the different advantages that can be identified. Another problem is to correctly understand the resulting sum of all factors. Take a look at figure 17 for which aspects in the DQC that are the most important to cover in this step.

- Be sure that every identified source for an expected competitive advantage is based on sound and realistic reasoning.
- Make sure that the gathered information is valid and accurate.
- Are there any possible changes that can improve the business model?
- Make sure to highlight any potential risks and or potential upsides. Use intervals for estimations, not point estimates.

Figure 17: DQC for step 4
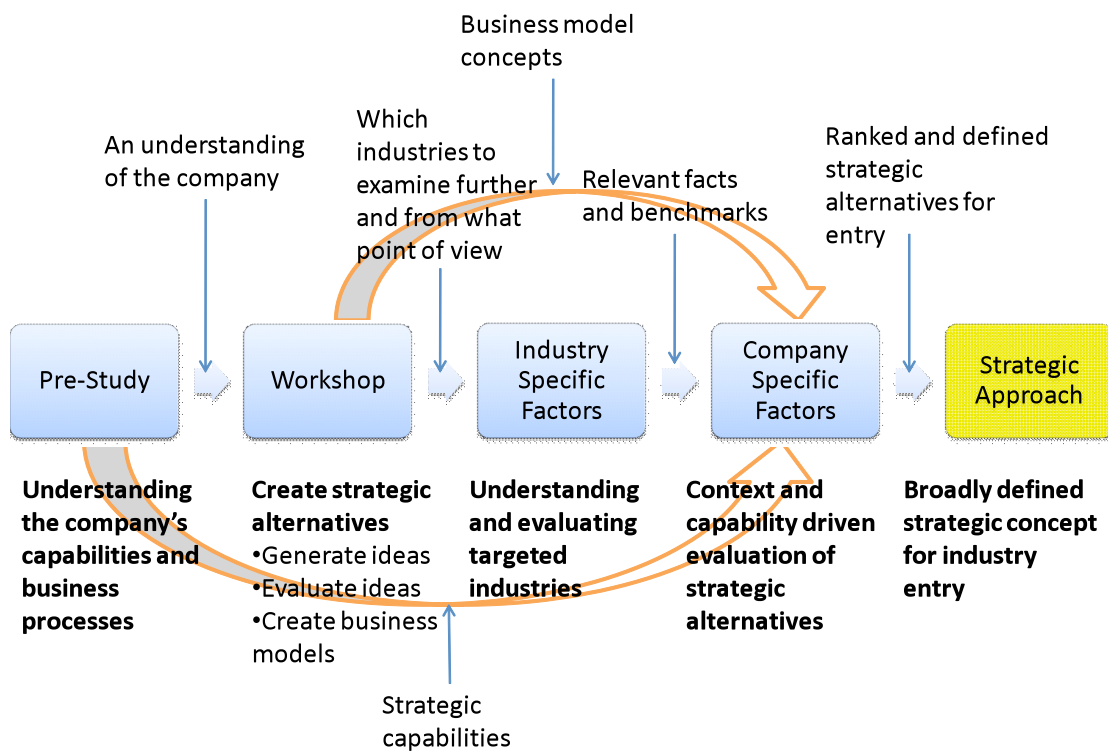
2.5 Step 5: Broad Strategic Approach

Figure 18: The Entry Decision Tool - Step 5

This is the last step in the *Entry Decision Tool*. Up to this step there should be enough information gathered and analysis conducted to make a decision whether to enter a new business area and if so also which area. The idea with this last step is to summarize the important facts and to structure the information. Doing this should form a solid base for the decision makers to proceed with.

2.5.1 Benchmarking and decision making

It is now time to compare the scores of the different business models/areas. This is easily done by filling the table below with the output from prior steps. Adjust the length of the list depending on how many business areas that were used as input in the process.

Business area	ISF score	CSF score	Total score

Table 7: Benchmarking table for Business Models

If the analysis in the previous steps is conducted correctly and with high quality input, it is likely that the business areas in table 7 have the greatest potential.

The next step is to present the result for the decision team (often the management team). The process strives to achieve a high decision quality; it is therefore recommended that the material is checked towards the DQC in figure 19.

Figure 19: DQC for step 5

The process has been constructed with this goal in mind and if done correctly all of the dimensions should have been accounted for. With this said, it never hurts to check one last time.

The presentation should focus on describing the different concept and to point out the key factors that make some concepts more interesting than others. Make recommendations on which concept/concepts to proceed with.

It could also be a good idea to perform a SWOT-analysis for the business model (i.e. the desired strategic position). This analysis will highlight many of the critical success factors behind the position. These factors can then be handled in the business plan.
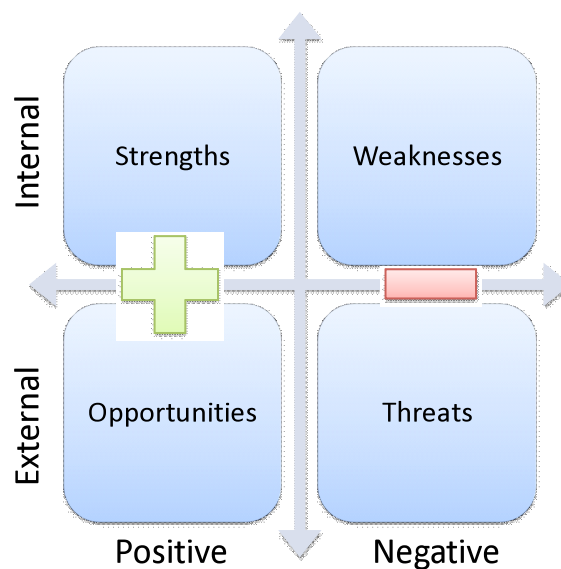

Figure 20: SWOT for Business Models

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2.5.2 After the decision to proceed

The process has so far resulted in a substantial amount of data, paired with tools for structuring and analyzing this data. If the decision team decides to proceed with one or more business concept/concepts the work with constructing a detailed business plan begins. The generated data should with some complementary work be able to provide the core for a market plan. The process described in this report ends where the work with the business plan begins.

While writing and working with this market plan, keep in mind that the business model never becomes finished. The business model will always need to be adapted due to new insights or to changes in the market.

Note that the process gathers and analysis information about the entry conditions, but it does not provide a strategy for how to handle these conditions. Somewhat simplified, the process can be said to provide the most desired strategic position, but not how to reach it. It is therefore recommend that further investigations are made on how to create a good entry strategy and how to execute it well.

3. Method and Research Design

This chapter contains the methods and research design used to create *The Entry Decision Tool*. Some obstacles arose during this research and here the reader will find how the authors approached and solved those problems. The reasoning and the logic behind each step will be covered in this chapter as well.

When deciding how to approach an investigation, two main dimensions are to be considered. The first dimension describes the character of the data gathered and could be either qualitative or quantitative. The other dimension is related to whether the study aims to deeply analyze one particular case, a case study, or to more broadly analyze a larger number of cases, a survey or experiment study.

It is important to remember the main premise for this entire master's thesis; one part is to create a decision process, *The Entry Decision Tool* and another part is to apply it on Scalado. The former part is based both on a study of Scalado and a study of literature dealing with entry, strategy and decision theory. The study of a company, in this case Scalado, is necessary in order to create a process like this, since it contributes with a real business environment, including a specification of information needs and decision parameters without which it is very hard to know what is important in a real life business situation. The literature study contributes with theories and frameworks for dealing with and analyzing businesses, industries and entry decisions. The latter part, applying the *Entry Decision Tool* on Scalado, has resulted in classified information and is therefore excluded from this report (see the report *Situation analysis of Scalado: Framing the competitive advantage*[3] for more information). The intention with this dissertation is instead to present *The Entry Decision Tool* and to describe the method of generating such a process, based on Scalado as the studied object. All this taken together, a case study approach has been chosen. By conducting a case study, it is possible to study Scalado more deeply and from many different aspects, which is required in order to generate such a process. This approach is also suitable because of the complicated cause-effect relationships one might expect to find when mapping a company's internal activities and external business environment and exploring whether a new business area would benefit the organization.

The data gathered in this study are mainly of qualitative character, however quantitative data are also considered. The main reason for this is that many of the facts used to describe a company's benefits of entering a new business are not meaningfully quantified and analyzed using mathematical statistical methods. The major part of the studied factors is for example the company's activities, core competences and how an entry decision might affect the market. Those are partly subjective and relatively hard to find numerical facts about, and are by nature suitable for a qualitative approach. Most numbers should also be considered as historical pictures of the industry; when it comes to the future, there are no true numbers, only guesses.

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[3] Larsson, E. and Nilsson, P. *Situation analysis of Scalado: Framing the competitive advantage.* This document is the property of Scalado and all its contents are classified.

There are of course important quantifiable data that could be used as basis for entry decisions, e.g. market shares or profit margins. Such data will be taken into account; however, there will be no quantitative analysis of data. The data will be analyzed qualitatively and only when the *Entry Decision Tool* is applied on Scalado. The point here is that the construction of the *Entry Decision Tool* isn't based on quantitative analysis. To summarize, the approach of this investigation will be a qualitative case study.[4]

3.1 Initial hypothesis

After some research the authors found that there are a number of known factors that impacts on a company's profit. These factors are illustrated in figure 21 below[5].
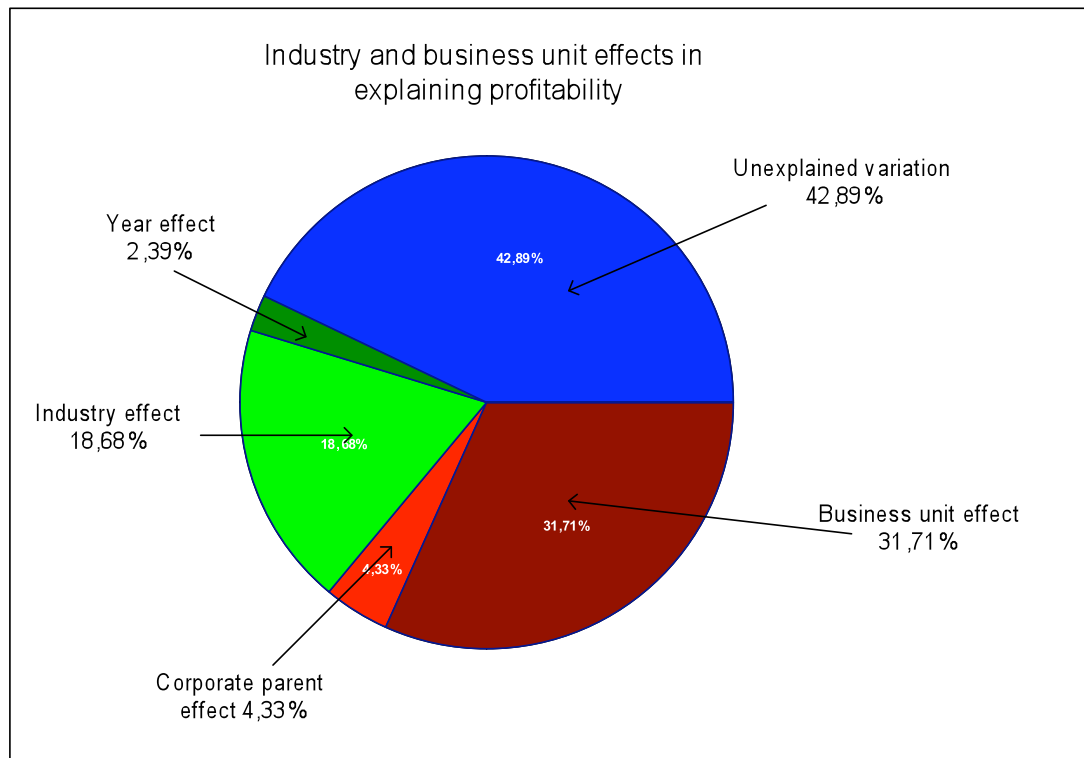

Figure 21: Variation in profitability

These figures represent a combined average from a lot of different industries. It would have been ideal to have access to up to date figures for Scalado's current industry, or intended industries, but since the data is only used to generate a hypothesis of how to create the evaluation process, this is no real problem. Also, one of the goals with this study is to create a process that is applicable to any given company in any given industry. This data points out that there are two major factors to take into account when evaluating a new business area; industry specific factors and company specific factors. It is also obvious that these factors

[4] Lekvall, P. and Wahlbin, C. *Information för marknadsföringsbeslut.* 4th edition. Göteborg: IHM Publishing, 2001. p 209-224. ISBN 978-91-86460-85-3
[5] Besanko, D., Dranove, D., Shanley, M. and Schaefer, S. *Economics of Strategy*, 4th edition. John Wiley & Sons, 2007. p 350. ISBN978-0-471-67945-5

impact differently on the profit and that the company specific factors are almost twice as important as the industry specific factors.

The other factors in the pie chart are almost impossible to account for and can be argued to be unaffected by the choice of business area and are therefore not further mentioned.

Any decision requires an understanding of the present situation; if you don't know where you start, how can you be sure where to go and what direction to take? This indicates that a process like this must start with a pre-study or situation analysis. As mentioned above, two factors are of major importance for profitability; industry specific and company specific factors. When evaluating a business concept with regard to company specific factors, one must not only be familiar with the present situation, but also with the industry the company is about to enter. By relating company specific factors to certain criteria for entering new businesses (see chapter 4. Theoretical framework), the company's internal prerequisites are analyzed to see whether they would be useful or not when entering a new potential market. This requires, however, a good understanding of the current internal and external business environment, as well as a good understanding of the market one wants to enter. With this in mind the overall process was designed so that industry specific factors are examined and analyzed before company specific factors are taken into account.

The goal is to create a process that can put numerical quantitative scores to the different business areas. This will make it easier to compare the different possibilities. The main challenges will be to create a benchmarking model that is relevant and not misguiding.

By using a model called the *Dialogue Decision Process* (see chapter 4. Theoretical framework for more details) the initial approach is illustrated. The use of DDP helps to construct an efficient and structured process for entry decisions, see figure 22 on next page. The figure represents a somewhat altered version of the DDP, tailored to fit the purpose of this thesis. However, the main logic is the same as for the original version.
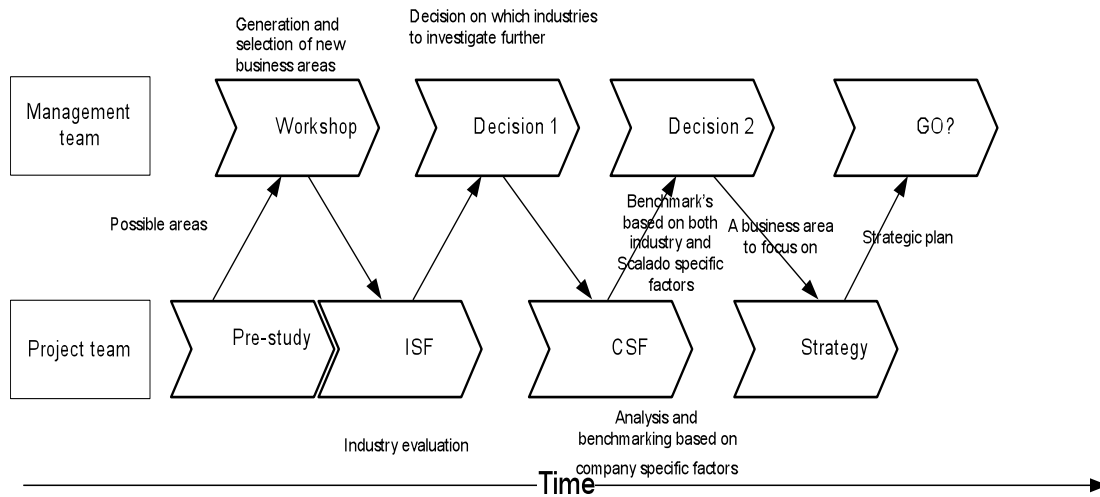
Figure 22: The Entry Decision Process (DDP approach)

Figure 23 shows an alternative way to look at the targeted process. This more linear approach will enable the identification and separation of five different phases and therefore to discuss them separately. The rest of this chapter deals with the different approaches and methods used when deriving *The Entry Decision Tool*.

Figure 23: The Entry Decision Process (linear approach)

This entire chapter will explain how the different steps of the process were created and how different models became incorporated into the different steps. The chapter is designed to show the authors' reasoning in creating the process.

3.2 Selection of models

There is a wide variety of models that can be included in the different steps of *The Entry Decision Tool*. The following criteria were used for selection.

1. The model should fit the needs of the step.
2. The model should be intuitive and easy to use.

All models were discussed with either Scalado, Centigo or the authors' tutor at LTH, and a consensus was reached. Every single model used is considered to be a general recognized model for its specific application (see Chapter 4. Theoretical Framework).

3.3 Creation of the Pre-study step

The most important goal of this step is to enable an understanding of the targeted company's business activities and its strategic capabilities. Thus there was a need for a way to identify what data that was needed, therefore the *Value Chain* (see chapter 4. Theoretical Framework) was selected for this purpose. The

other three models were selected in order to create a sufficient understanding of the targeted company's strategic capabilities, based on the collected data. (see the report *Situation analysis of Scalado: Framing the competitive advantage*[6] for more information).

With the qualitative case study approach in mind, the method used to gather information about the company was chosen to be a series of semi-structured interviews with key employees. For more information regarding this study see the report *Situation analysis of Scalado.* Semi-structured interviews are conducted around a specific topic – in this case Scalado's activities, value chain and strategy – where the questions may be altered during the interview as new interesting information and viewpoints arise. The questions constructed in advance will merely serve as guidance. For a review of the questions used when this process was executed on Scalado, see appendix 2. The point is also that the respondent should be able to reason and talk freely around the topic with the purpose to gather as much information as possible.[7]

The point with these interviews is to find the information required to make a situation analysis. There are certain standard models used for mapping a company's current business situation, which are described further in chapter 4. Theoretical framework.

3.4 Creation of the Workshop step

When the pre-study is completed and a clear picture of the company has been established, it is time to create a phase in the process for generating new business area concepts and for performing an initial rough evaluation of the generated concepts. These new potential business area concepts will from now on be called concepts.

The hypothesis is that this can be done through a workshop, mainly because this method enables healthy discussion and reasoning between participants. To test this hypothesis an issue tree has been created (figure 24 on next page). The issue tree breaks down the workshop-approach into smaller sub-problems. By breaking down the problem in this way, it becomes a much easier task to cover all important aspects that must be taken into account in this step.

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[6] Larsson, E. and Nilsson, P. *Situation analysis of Scalado: Framing the competitive advantage.* This document is the property of Scalado and all its contents are classified.

[7] Lekvall, P. and Wahlbin, C. *Information för marknadsföringsbeslut.* 4th edition. Göteborg: IHM Publishing, 2001. p 265. ISBN 978-91-86460-85-3
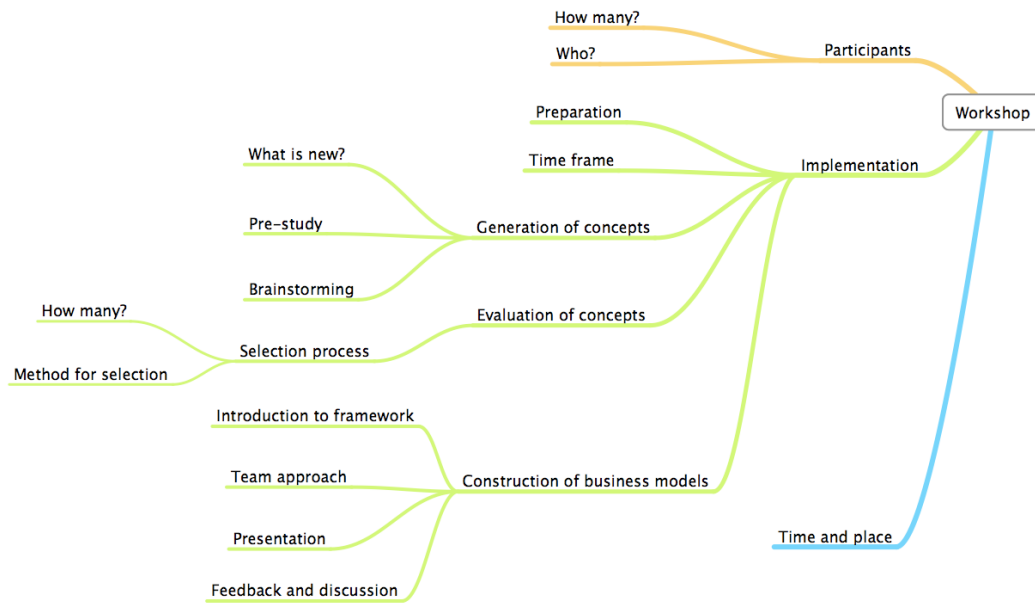
3.4.1 Participants

In order to generate high quality concepts, key employees will need to be included; the management team along with representatives from the company's business development team. A possible approach is that every workshop participant takes some help from its department in order to generate concepts before the workshop. This is advantageous for two main reasons; it will increase the number and the quality of the concepts and it will allow everyone put forward their ideas. The last point is especially important since it might improve the alignment within the company. If the company can create a feeling that all ideas are considered and evaluated equally, it will help to create an innovative and open organization.

When conducting a workshop there is always the balance between too many and too few participants. Too few participants might have a negative impact on the number and quality of concepts. On the other hand, too many participants might result in a fragmented and ineffective discussion. In this case, the purpose is best served with 6-12 participants and that the number should be based on the company's internal organization.

3.4.2 Implementation

The following topics where derived from the question: how should the workshop be executed?

3.4.2.1 Preparation

Every participant will need to be clearly informed of the purpose and agenda for the workshop series. A PM will be used for this purpose (see Appendix 1 where the PM used when the process was executed, is enclosed). The PM should include:

- Introduction/Background

- Purpose of the workshops
- Time plan
- Required preparations
  - Input from Co-workers
  - Prepare some concepts briefly

The PM will need to be distributed well in advance in order to make sure that the participants are available and get sufficient time for preparations.

3.4.2.2 Time frame

Most of the participants will probably already have some ideas of possible concepts. Based on this assumption, there is no need for dedicating a lot of time for the concept generation. It will probably take around 30 minutes and the participants will need around 3-5 days to prepare their concepts. The emphasis on the workshop will lie on the construction of and discussion around the business models, resulting in a 2-3 hour workshop.

3.4.2.3 Generation of concepts

The first part of the workshop will be dedicated to generating and describing different possible concepts. Possible problems with the concept generation have therefore been identified. These problems and the solutions to them will be discussed under the following topics.

The company might already have started to evaluate or at least discuss some concepts, but these concepts should be included in the process as well. There are purposely no delimitations in this area, since this might be an excellent opportunity to raise a healthy discussion about the current research areas as well. One possible scenario, for the workshop, could be a lack of concepts and therefore preparations should be made with some concepts in advance. The next identified issue is how to generate concepts. A brainstorming session could be used for this purpose. The goal is to create a list of around 10 concepts.

3.4.2.4 Evaluation of concepts

When the concepts have been generated, there will be a need for evaluation. The goal is to settle on a few concepts for which to develop hypothetical business models and thereby become input to the next step in the process.

After the presentation/brainstorming phase there will be a selection phase. The goal is to determine which concepts to eliminate and which to take to the next stage of the evaluation process.

There are several possible methods for selection and the one that was chosen stands out for its swiftness. Everyone one will get three markers and all the concepts will be listed. Every participant will then place their markers next to the concepts that they think the company should investigate further. Should it be a tie between two or more concepts, another round of voting will be done, i.e. each participant will receive one new marker, which they assign to the concept they believe the most in. This will result in a prioritized list of concepts.

These concepts are the output from this first phase. What is left is to determine how many concepts that should be transferred as input to the next phase. There is of course a limitation based on the time it will take to examine too many concepts and there is also the danger of missing promising concepts by choosing to few. Therefore five concepts should be the maximum number of concepts. The selection process should determine the exact number but there should be at least three concepts as output from the workshop-phase.

3.4.2.5 Construction of business models

In order to make the concepts comparable, a model for expressing and explaining business models will be used. By letting the participants use a standardized way to explain their concepts, it is ensured both that every concept gets the minimum required attention and that the most essential data is collected as well as that the individual concepts will be fairly evaluated and compared. After some discussion, it was decided to use a model called the *Business Model Canvas* (see chapter 4. Theoretical framework). This model is also advantageous because of its view of a business as a whole, which helps to explain how business should be conducted in a new market.

In order to get a proper discussion and understanding of the *Business Model Canvas*, information about this framework ought to be sent out to participants prior to the workshop (suitably as attachment to the PM). It is important to make sure that everybody participating in the workshop is familiar with the framework before starting.

When the prioritization is completed there will be 3-5 concepts that will be taken further in the process. As mentioned above, the *Business Model Canvas* will be used to describe the business concepts. Since this model works best when used as a basis for discussion (see chapter 4. Theoretical framework), it will make sense to divide participants into teams. These teams will then be assigned with one particular business concept (from the prioritized list) and should start building a business model using the canvas.

When the business models are put down on canvases, they should be presented in order for all participants to get a picture of all concepts. This will also give the team a chance to pitch "their idea" which might bring innovative and interesting business models to life. The last part of the workshop should be focused on participants giving feedback and discussing the different possible business models.

3.4.3 Time and place

In order to get prepare participants and make sure that the invited people are available, it is recommended that these key decisions are made well in advance of the event.

3.5 Creation of the Industry Specific Factors step

As previously discussed, two major areas impact on a firm's profitability, industry specific factors and company specific factors. The goal here is to create a framework that can be used for the analysis of the industry specific factors that will impact on the choice of which business area to enter. Once again the problem is approached by creating an issue tree (figure 25 on next page).
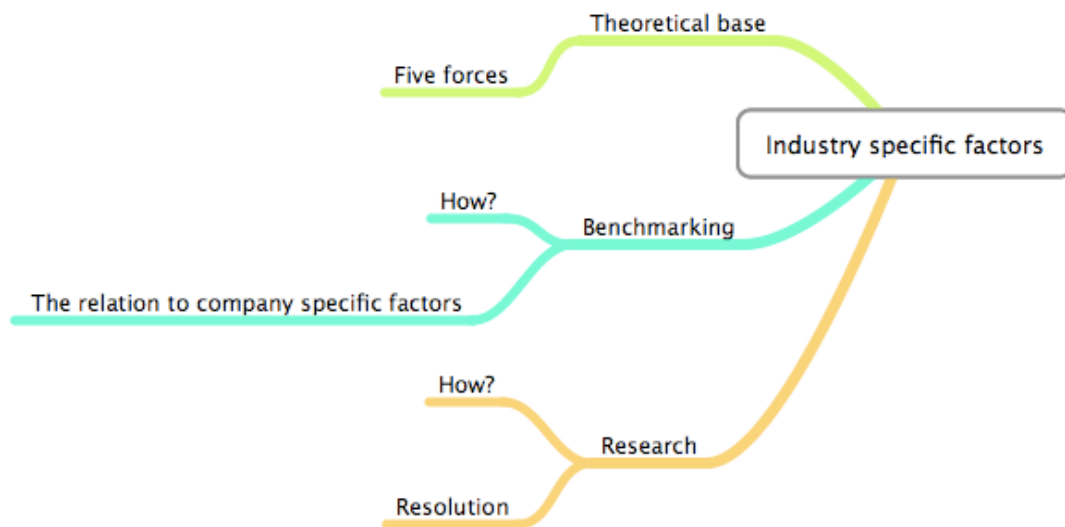
Figure 25: ISF issue tree

The result should be a brief summary of the industry and a quantitative score. This summary could then be used to capture more subtle information together with providing context to the benchmarking result.

3.5.1 Theoretical base

The approach will need a solid theoretical base in order to create an efficient and sufficiently exhaustive benchmarking tool. The choice fell on a theoretical framework provided by Michael Porter called the *Five Forces* framework.

3.5.1.1 Five Forces framework

The *Five Forces* framework provides an excellent tool for industry analyses and with just some small adjustments it was fitting perfectly into the entry decision process. This phase will therefore mainly rely on this framework in order perform the industry specific analysis.

3.5.2 Benchmarking

Based on the initial hypothesis, around one third of the total benchmarking weight should be assigned to the industry specific factors. By using the *Five Forces* framework, it is clear which factors that should be accounted for, but not how they should impact on the total result of the entry decision process.

3.5.2.1 How is it done?

All the factors were listed and then assigned a potential score from +5 to -5. In this way it will be possible to weight the importance of the factor and in the same way illustrate if it is to the firms advantage or disadvantage.

It was also decided to force anyone using the entry decision process to make comments about their reasoning while determining the score of a single factor. This will result in a qualitative description of the *Five Forces*. This description can then be used in the company specific factor analysis.

3.5.2.2 The relation to company specific factors

To properly assess the importance of the *Company Specific Factor's*, it's needed to understand the context in which they will operate i.e. the industry. Therefore the brief summary of the *Five Forces* will be of great help while performing the *Company Specific Factor*- analysis part of the process.

To solve the problem with assigning the right benchmarking weight to the industry specific factors, it was decided that the total score for an individual force should be +6 or -6. If the score exceeds these values, it should be set to the maximum/minimum value. After determining the total score for every single force, the force-scores can be summarized and the total score for the industry specific factor analysis can be calculated.

One important thing to keep in mind is that if the total score for a single force is negative, the force is likely to be very strong. This might result in very low margins upon entry into the industry, even if all the other forces are deemed weak. This means that if the score for a force is negative, it might be a good idea to pause and take a step back in order to think through the implications of this. It is almost impossible to create rules for these occasions; every situation will need to be handled individually. Remember that a single strong force, in some cases, might be enough to make the industry un-attractive.

If the total score of the *Industry Specific Factor*- analysis is negative, the contribution to the total benchmarking score is set to 0.

3.5.3 Research

One major problem with performing this analysis will be how to find and gather the necessary information. There is probably no easy solution to this problem, the only way will be to use search engines and to read articles.

Another issue will be to decide upon a sufficient level of detail. The focus should be to capture the broad aspects of the industry. If the analysis is too detailed, it will require a lot of time and the amounts of information might be hard or even impossible to comprehend. It might not even add that much to the result of the analysis. In the end, the process aims to determine the attractiveness of a certain industry. Thus it is more important to focus on the analysis itself and put less effort on the details since that might lead the people conducting the analysis to miss the big picture.

3.6 Creation of the Company Specific Factors step

As mentioned earlier, when studying company specific factors, they have to be put in relation not only to entry decision parameters, but also to the situation analysis and the industry specific factors. By breaking down the problems that have to be dealt with, the following issue tree (figure 26 on next page) was obtained.
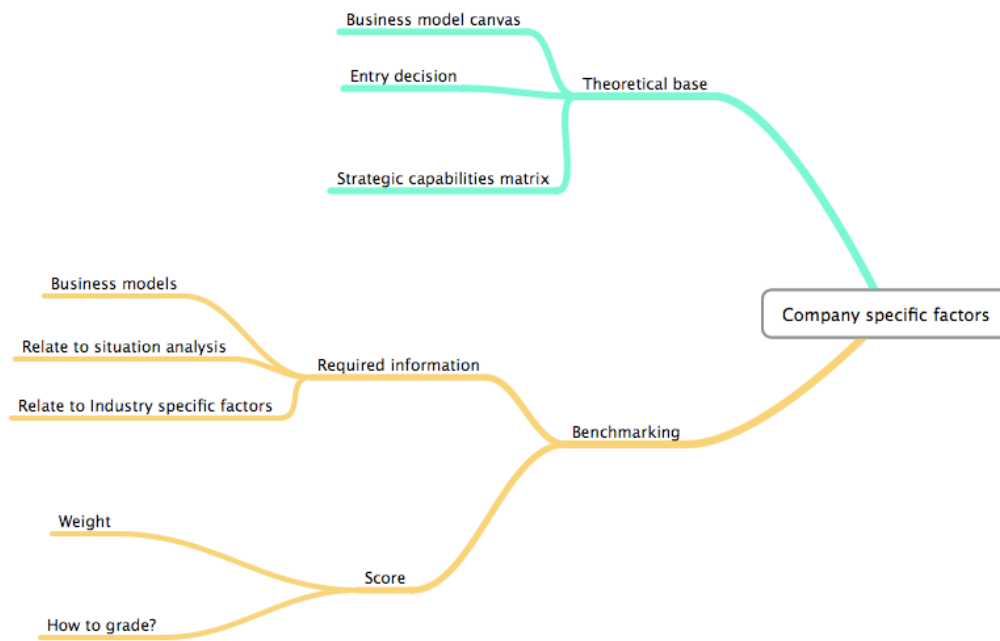
3.6.1 Theoretical base

The models used when evaluating the company specific factors affecting the attractiveness of a particular industry are presented in this chapter. They are presented as a whole in chapter 2 Theoretical framework; the focus here merely lies in motivating their contribution to the evaluation.

3.6.1.1 Business Model Canvas

The outcome of the workshop (step 2) will be business concepts expressed according to the *Business Model Canvas* framework. Because of its strength to communicate a comprehensive view of a business, its activities and its underlying logic, these canvases will serve as a steady basis for evaluation of company specific factors. The information on the canvases will be put in relation to entry decision parameters, strategic capabilities and the industry context.

3.6.1.2 Entry decision

In chapter 4. Theoretical framework, five parameters affecting the entry decision are listed. By relating the nine building blocks from the *Business Model Canvas* to each of the five parameters, there will be an evaluation of which company specific factors that will affect the decision to enter a new market. This evaluation will result in each building block giving either a positive or a negative contribution to the overall assessment of the entry decision.

3.6.1.3 Strategic capabilities matrix

Comparing the business models (i.e. the canvases from the workshop) with the entry decision parameters as described above will not provide sufficient information for the decision, since important aspects of the current business are left unconsidered. To overcome this problem the business models need to be related to the situation analysis (first step in the 5-step process) of the company.

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The *Strategic Capabilities Matrix* provides information about what the company currently possesses in terms of resources and competences. It is highly relevant to take these factors into account, since it will indicate whether or not the company has the abilities to compete in the new market. This means that when looking at each building block in the canvas, regard is taken to both how it affects the entry decision parameters (i.e. how useful they are for creating competitive advantage) and if the company has the ability to be in the market at all.

3.6.2 Benchmarking

The previous chapter deals with the issue of what tools are to be used in this step of the evaluation process, while this chapter deals with the issue of how to do the evaluation in practice.

3.6.2.1 Required information

As indicated above, the information required for this step is the business models from the workshop, the *Strategic Capabilities Matrix* from the situation analysis and information about the industry from the industry specific factors step.

The business models form the basis for comparison with both strategic capabilities and industry conditions. The goal is that after the workshop, the business models should provide sufficient information about what the company needs in terms of resources and competences to compete in the suggested market.

Information about the company's strategic capabilities will come from the situation analysis. The *Strategic Capabilities Matrix* helps answering the question: do the company has the resources and competences required to be in the market at all? Since the *Business Model Canvas* takes into account what is needed in those terms, the matrix will provide the answer to whether the company has it or not. Each factor in the business models should therefore be evaluated with the following question in mind: does the company have what it takes?

When studying the business models and which internal factors that are useful in the new market, the industry context has to be considered. In step 3 of the 5-step process, industry specific factors are studied and evaluated, but this evaluation step merely provides an overall view of a particular industry and how attractive it is in general terms and for any arbitrary company. Interlocking the *Business Model Canvas* with the industry specific context helps answering the question: are the factors in the *Business Model Canvas* useful in the specific target industry? This has to be done, since some factors may be useful in one industry while completely irrelevant in another. One last aspect to assess is how each factor changes over time, which is important since it affects the company's ability to create sustainable competitive advantage. Figure 27 below shows a schematic picture of how the factors and building blocks should be related to the entry decision parameters and through which filter they should be studied.
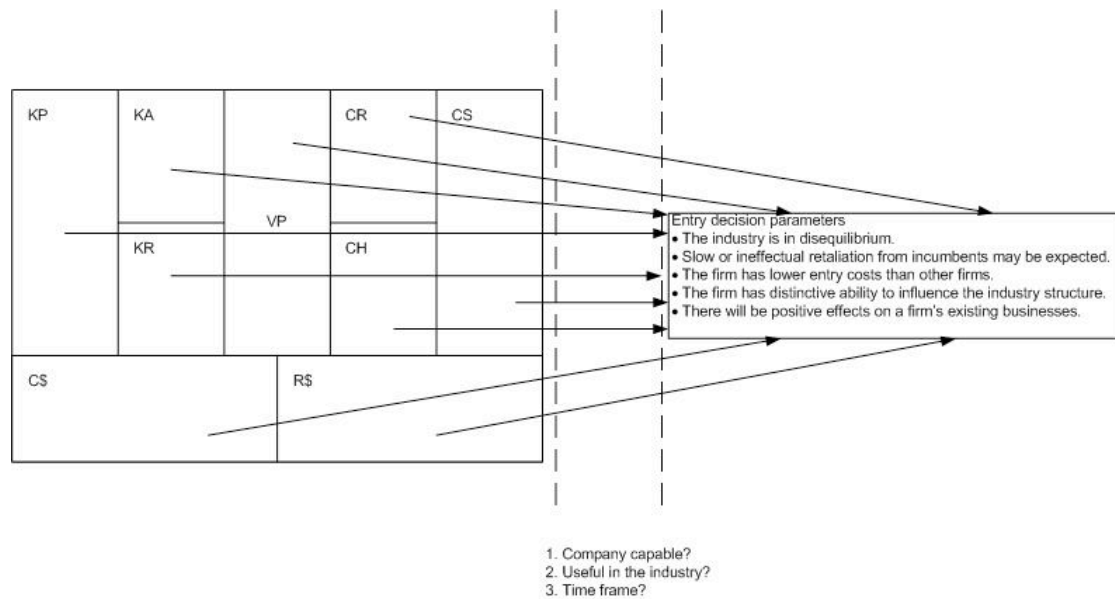
Figure 27: CSF Scoring Model

3.6.2.2 Score

According to this dissertation's initial hypothesis, mentioned earlier in this chapter, company specific factors should have approximately twice as much impact on the choice of market as industry specific factors. This has to be taken into account when grading a new business area in this evaluation step. While the score for industry specific factors ranges from 0 to 30, a reasonable range for the score generated by company specific factors is 0 to 70. One approach to evaluate these factors in a reasonable way is to create an 8-grade scale with equidistant steps (see figure 28 below).
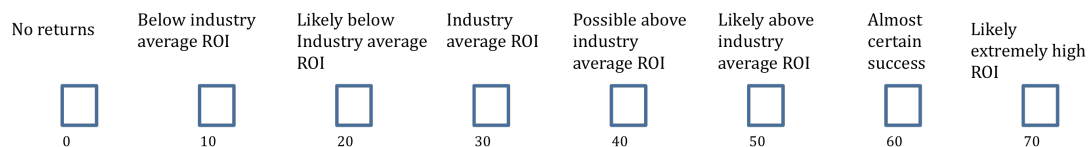
No returns	Below industry average ROI	Likely below Industry average ROI	Industry average ROI	Possible above industry average ROI	Likely above industry average ROI	Almost certain success	Likely extremely high ROI
☐	☐	☐	☐	☐	☐	☐	☐
0	10	20	30	40	50	60	70

Figure 28: CSF Scoring Scale

The *Business Model Canvases* should be evaluated in such a way that it is the overall ability for the company to earn revenues in the new market that matters. This means that if the firm has no ability to earn revenues, company specific factors will be graded to 0. Conversely, if there are reasons to believe that the firm has the ability to earn the largest revenues of all actors in the new market, company specific factors will be graded to 70. The scale steps in figure 23 above should be used when one of the alternatives stated above each box is believed to be true.

It is important to point out that this analysis will have to build on a subjective estimation, yet it has to be logical and well underpinned with facts. This demands much from the people conducting the analysis.

The analysis of whether large revenues should be expected or not, are based on the five entry decision parameters mentioned earlier. For example, if the market

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is in disequilibrium or if the firm can share costs for different activities and thus achieve low entry costs, it is reasonable to expect that entry might generate significant revenues. There is of course a problem with this approach: which factors in the business models are the most important in this aspect? Which affects the entry decision parameters the most? There are factors that are more important in one industry than in another. For example, achieving lower production costs (e.g. through economies of scale) than competitors is more important in price sensitive markets than in markets where customers value other factors (e.g. brand, availability). The solution to this problem is to have a clear picture of the industry and relate the business models to the specific industry context, i.e. some factors are considered to be of high value in some markets, while of none value in other markets. By reasoning on what factors to look for when evaluating whether a new business area would be lucrative from the CSF point of view, the following *Business Model Canvas* (figure 29) were created to serve as a template with guidelines for what to look after when conducting the analysis. Each guideline is created with the main idea that it should point out what factors that enable a successful entry according to the five entry decision parameters. Note that this figure is not exhaustive. The most important thing to keep in mind is that any factor in the business model that might be a source of competitive advantage should be considered as having a positive contribution to the evaluation.

Figure 29: CSF Scoring Guidelines

3.7 Creation of the Broad Strategic Approach step

The last phase is intended to synthesize the gathered data and to help with the decision on how to proceed. After conducting all four phases prior to this one, the work left should merely be to summarize all input, ensure high decision quality, present the results and start writing on a detailed business plan.

3.7.1 High decision quality

During the creation of this process, the decision quality has been a top priority. Every step has been adapted to the decision quality model, in order to make sure that they provide the necessary input. Despite this being so, it is still important to scan the material and to look for gaps in the material and in the reasoning. The *Decision Quality Chain* should therefore be included in this step as a quality assurance.

3.7.2 Presenting the results

Once the scores are summarized it should be obvious which business concepts are the most attractive. In case of a tie, just present both options to the decision team. It could also be efficient to create a pros and cons list, just to structure the thoughts.

In order to make the presentation comprehendible, it is important to include an overall summarization of the different concepts in the presentation. By highlighting the different factors that impact the most on the result of the scoring, a more digestible presentation can be reached.

3.7.3 Writing a business plan

Once the decision team has made the decision to proceed with a concept, the next step should be to write a business plan. The material provided by this process should be enough to form the core of the business plan, but other complementary data will need to be gathered and analyzed. Remember that some of the purpose of the business plan is to further improve the business model, try to find adjustments that increase the concepts potential for success.

4. Theoretical framework

This chapter will present the models used in the construction of this dissertation's main goal: a 5-step process for identification and evaluation of new potential business areas. See chapter 2. *The Entry Decision Tool* for a detailed explanation of this process. This chapter will follow the structure of the process, i.e. the models used will be placed under subtopics corresponding to each step. However, the workshop step will be omitted here, since the only framework used in that step, The *Business Model Canvas*, is described under the CSF step, where it suits better. A subtopic regarding overall concepts will initiate this chapter.

4.1 Overall concepts

The models described in this chapter were used as a foundation for the *Entry Decision Tool*. They help creating a structured process for reaching high quality decisions.

4.1.1 Dialogue decision process

As mentioned in chapter 3 Method, the approach for creating *The Entry Decision Tool* is based on a model called *Dialogue Decision Process* (DDP). By tailoring the DDP to the specific case of this thesis, an overall picture of how to approach the work of constructing an evaluation process for potential business areas were received. Here the DDP will be described in its original appearance, see figure 30 below. However the main idea is the same in the tailor-made version. This figure is taken, without modification, from the book: *The Smart Organization* by Jim and David Matheson[8].
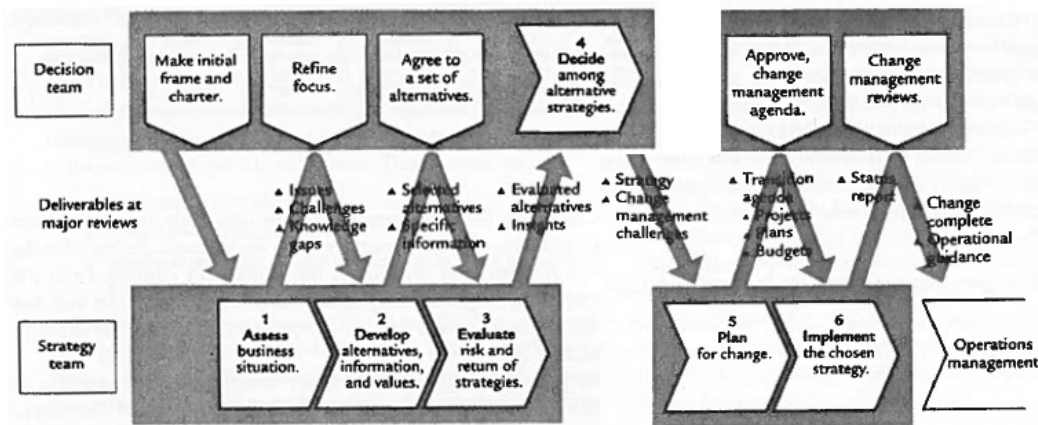
Figure 30: The Dialogue Decision Process

The basic idea with DDP is that it should work as disciplined, powerful and robust process for decisions on business and technology strategy. To achieve this, the process has six major phases and each phase has the purpose of adding quality to the decision.

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[8] Matheson, D. and Matheson, J. *The smart organization: creating value through strategic R&D.* Boston: Harvard Business School Press, 1998. p 178-179. ISBN 0-87584-793-5

The major phases are as follows:

1. Assess business situation.
2. Develop alternatives, information and values.
3. Evaluate risk and return of strategies.
4. Decide among alternative strategies.
5. Plan for change.
6. Implement the chosen strategy.

As the name indicates, the DDP puts emphasis on dialogue. This means that the process gathers input from everyone who has something to contribute in order to reach an intellectually correct decision and cover every aspect of the decision. Ideally both internal and external persons add input to the process. Another point with the dialogue is to achieve commitment as well as alignment and empowerment for implementation. By designing the process in such a way, people working with the decision will experience confidence in each other, which often is required for the implementation to succeed. The dialogue is a way to ensure that the process is on the right track from the beginning to the end. In DDP, the dialogue should take place between two groups: the *strategy team* and the *decision team*.

The decision team should be composed of individuals with enough authority to make the decision stick in the organization. For high-level decisions, those individuals are usually senior executives. In order to ensure that the decision reaches high quality, it is important to cover as many different areas in the organization as possible. The decision team should therefore ideally consist of the CEO, division general managers, technical executives and marketing, finance and manufacturing managers (the titles, of course, varies from firm to firm, depending on the organizational design). The decision team should be involved from the beginning, framing the scope of the strategy project and reviewing the progress after each step as well as making a contribution at least once during each phase. It is also important to note that it is the responsibility of the decision team to make sure that the decision is implemented.

The strategy team carries out most of the steps in the DDP and could be regarded as the operational group. The team should ideally be cross-functional, covering as many areas and functions in the organization as possible, in a similar fashion as the decision team. The members could be managers from the areas represented in the decision team as well as experts in different areas, for example market research and R&D. The main assignments for the strategy team are, as mentioned, to carry out each step, as well as act as implementation leaders and to engage the decision team in the dialogue.

In figure 30, the arrows between the teams indicate the information flow. In order for the process to fulfill its purpose and function as indented, communication between the teams is essential. The bullets connected with the arrows are results that should be delivered after each major phase, which keeps the process on track. The power of this design lies in its ability to enable that:

- Strategy proposals are rationally discussed
- Alternatives are sought and weighed

- New alternatives are created that are often superior to original concepts
- Power plays and personal agendas are eliminated
- The decision is enriched by the insights of many parties
- A solid ground for successful implementation is laid

Following this process gives no guarantee for a successful strategic decision in the long run. However, the probability of success increases since most of the factors influencing a great strategic decision are taken into account in the DDP.[9]

4.1.2 Decision Quality Chain

The *Decision Quality Chain* will help improve the decision process in an organization. This means that it will help the organization to make the right decisions in the right way and in the right time.

In order to assure a high decision quality there are six dimensions to account for. This section will list and discuss these dimensions[10]. It is important to understand that the quality of a decision never is stronger than its weakest link.

4.1.2.1 Appropriate frame

It is almost always possible to look at a certain situation in many different ways. By using different perspectives, different conclusions can be drawn from the same situation. It is often easy to miss the big picture, when making decisions and it is therefore important to not only look at the direct impact but also the indirect implications from a decision. For an example a 10 percent cost reduction seems like a real treat, but how will it impact on other variables within the company?

The following requirements for a high-quality frame can be identified:

- Never accept the problem as it is first presented
- Frame strategic and operational problems differently
- Approach R&D activities as long-term investments, not as expenses
- Include multiple perspectives in the decision frame

4.1.2.2 Creative, Doable Alternatives

By definition, a decision needs alternatives otherwise it is no decision. Many organizations strive towards creating a single viable choice. This often reduces the strain on the top managers, but in the same time it reduces the possibility for valuable input from the more experienced managers. A good decision process creates several alternatives for management's consideration. A good set of alternatives needs to be:

- Broadly constructed, not simply variations of a single concept
- Reasonable contenders for selection
- Sufficiently numerous, but not so that it reduces the ability to evaluate

There are also some requirements for a high-quality alternative generation:

- Separate the evaluation from the generation

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[9]ibid, p. 173-198
[10]ibid, p. 35-59

- Make sure that each alternative result in a feasible strategy
- Make sure that the alternatives are significantly different

4.1.2.3 Meaningful, Reliable information

When struggling with major strategic decisions there are seldom many facts to base the decision upon. This is mainly because there are no facts about the future, only guesses and assumptions. It is important to realize that historical data tends to grow old as the business environment constantly changes. It is therefore dangerous to be too reliant on this type of data when making forecasts.

High-quality decision-making requires an understanding of the *key drivers of uncertainty.* This enables the decision makers to identify and understand the most important factors to account for when making the decision.

It is also important to be clear about the definitions of these *key drivers of uncertainty.* It allows the decision team to easily communicate and discus the impacts of the risks and dangers involved with the decision.

Every important uncertainty involved with the decision needs to be quantified. This forces the involved people to further structure and exam the uncertainties in the same time as it helps a lot when trying to evaluate the net present value of an alternative. One of the most important things to understand about quantifying uncertainties is that the more precise the estimate is, the more likely it is to be wrong. Always use intervals, it clearly communicates the importance of the uncertainty and it makes it very clear that it is an uncertainty and not a fact.

To summarize the critical success factors behind achieving meaningful reliable information for decision making, the following key points needs to be pointed out:

- Understand the drivers of uncertainty
- Be clear and precise about their definitions
- Express uncertainty as ranges and probability distributions, not as point estimates
- Do everything you can to ensure a un-biased result
- Focus on the drivers whit the biggest impact

4.1.2.4 Clear Values and Trade-offs

High-quality decision-making requires that the different alternatives have clear values and trade-offs, otherwise there is no basis for comparison. There needs to be a single metric that can be used to compare all the alternatives. In most companies the metric is the net present value of all the future cash flows expected from an alternative.

Some types of intangible objectives can be very hard to measure in monetary terms. One possible solution can be to determine how much NPV cash flows the company is willing to give up in order achieve the objectives.

4.1.2.5 Logically Correct Reasoning

A logical correct reasoning means that different alternatives are considered in a logical and systematic way. It also means that the decision process is a rational process whit out any champions or organizational politics.

The following requirements for high-quality reasoning have been identified:

- Make sure that the decision is based on scientific and systematic evidence and not on political/personal opinions
- Use a open and transparent process
- Use quantified data

4.1.2.6 Commitment to Action

One of the most important factors to decision making is to ensure that the decision is carried out. This is often a problem in many organizations, people who are against the decision often tend to slow down the process as well as counteract the decision.

The following requirements for high-quality commitment have been identified:

- Both decision makers and decision implementers should be included in the decision process
- Trust and confidence must be built during the process, there are no shortcuts
- A high quality in the other decision dimensions will improve the commitment

4.2 Situation analysis

The models used in the situation analysis step are means of diagnosing the company's resources and competences and thereby identifying their strategic capabilities. In order to map the firm's activities in a systematic way, two related models are used; the *Value Chain* framework and the *Activity System Map*. When the activities are identified, the *Strategic Capabilities Matrix* will be used to map which competences and resources are of threshold character and which are unique to the company, and thus form the basis for competitive advantage. Finally a SWOT analysis will be conducted to visualize the company's internal strengths and weaknesses as well as their external opportunities and threats.

4.2.1 Value chain

The *Value Chain* is a model into which all of the firm's activities are put and are categorized into primary activities and support activities. Primary activities are those directly connected with the delivery of a product or service, while support activities help to improve the effectiveness or efficiency of the primary activities.

Primary activities are categorized as follows:

- Inbound logistics
- Operations
- Outbound logistics
- Marketing & Sales
- Service

Supporting activities are categorized as follows:

- Procurement
- Technology development
- Human resource management
- Firm infrastructure

To systematically map the activities and describe them visually helps to understand the organization and which activities or cluster of activities that creates customer value.[11,12]

4.2.2 Activity system map

Closely related to the *Value Chain* framework is the *Activity System Map*. This model can be viewed as a further development of the *Value Chain* model, but instead of mapping the activities in categories as described above, the focus now lies on identifying the relations between the activities and how the activities support the company's strategy. In other words, the purpose of this model is to find the *strategic fit* between activities and strategy, which is; how well do the activities the company undertakes fit with the strategy of the firm? The answer to this question will be visualized by using this model. The activities and the main strategic goals are mapped using circles. If two circles are related, they connect with lines. It is a fairly simple method but powerful since it visualizes the relationships between activities and strategic goals; which activities that reinforces each other and the strategic goals as well as which activities that work against each other and the strategic goals. The activities used here will be taken from the value chain analysis, however, only those that are considered unique or core will be included. After all, strategy rests on combining a unique set of activities.[13]

4.2.3 Strategic capabilities matrix

The strategic capability matrix is a tool used to identify and understand the source of competitive advantage and what enables the company to be a player in its business at all. This model does not only regard activities but rather capabilities in form of resources and competences. Competences are skills and abilities that are used to effectively deploy the company's resources through its activities. The matrix consists of four quadrants: threshold resources, threshold competences, unique resources and core competences. Threshold capabilities are of such character that the company will need them in order to meet the necessary requirements to compete in its market and thus to survive.

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[11] Porter, M.E. *Competitive advantage: creating and sustaining superior performance.* New York: Free Press, 1998. p 33-48. ISBN 0-684-84146-0

[12] Johnson, G., Scholes, K. and Whittington, R. *Exploring corporate strategy.* 8th edition. Harlow: Pearson Education, 2008. p 110-111. ISBN 978-0-273-71192-6

[13] Porter, M.E. (1996) What is strategy?. *Harvard Business Review.* Vol. 74, issue 6, p 61-78

Conversely, unique capabilities are essential for the company because they underpin competitive advantage and are hard for competitors to imitate.[14]

4.2.4 SWOT

In the last step of the situation analysis, the SWOT model will be used. A SWOT (acronym for strengths, weaknesses, opportunities and threats) is a way to summarize the most important factors in the company's external business environment, and the internal strategic capabilities, which are most likely to have an impact on the strategy development. The main point of this exercise is to identify how the firm's strengths and weaknesses relate to the business environment. This should provide help for further discussion on future strategic choices. When this model is deployed it is common that the result is long lists of strengths, weaknesses, opportunities and threats. In order not to drown in information, it is important to have a clear understanding of what is really important and what is less important. However, there is a risk with overgeneralization, which will result in the fact that the underlying causes for the observed phenomenon are not entirely revealed. This has to be taken into account when setting up the model, and when one is interpreting the results from it.[15]

4.3 Industry specific factors

This chapter explains the *Five Forces* framework and how it can be used to assess the attractiveness of an industry.

4.3.1 Five forces

Five Forces (figure 31 on next page) is one of the most commonly used tools for industry analysis. The *Five Forces* framework includes five different market forces that impacts on the profitability of a given industry and therefore can be used to determine the attractiveness of the industry[16]. The *Five Forces* included are internal rivalry, entry barriers, substitutes and complements, supplier power and buyer power. The figure below is based on the graphical representation of *Five Forces* as it appears in Michael Porter's book *Competitive Strategy*[17].

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[14] Johnson, G., Scholes, K. and Whittington, R. *Exploring corporate strategy.* 8th edition. Harlow: Pearson Education, 2008. p 95-99. ISBN 978-0-273-71192-6
[15] ibid, p 119-120
[16] Besanko, D., Dranove, D., Shanley, M. and Schaefer, S. *Economics of Strategy*, 4th edition. John Wiley & Sons, 2007. p 313. ISBN978-0-471-67945-5
[17] Porter, M.E. *Competitive Strategy: Techniques for analyzing industries and competitors*. New York: Free Press, 2004. p 4. ISBN 0-7432-6088-0
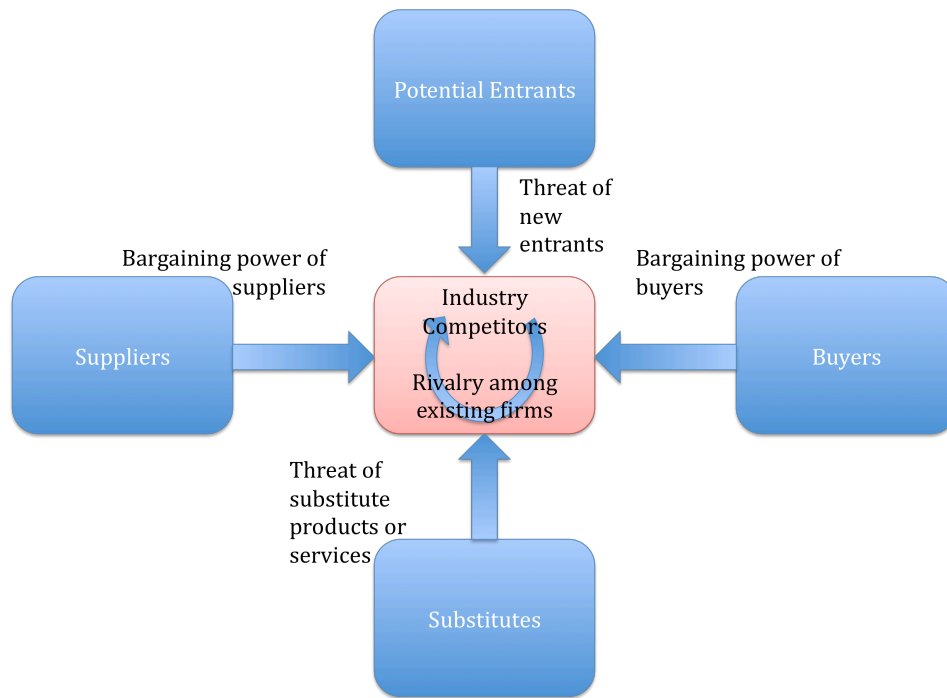
Figure 31: The Five Forces Framework

If all forces are strong in an industry, the forces are likely eliminating much of the profitability in the industry. Each force is evaluated by examining the different factors that impact on the force. Some of these factors will now be described.

4.3.1.1 Internal Rivalry

Internal rivalry should be regarded as an indicator on how the competitive climate is in the industry. There are often difficulties in determining which companies that really are competitors. This is because they might be addressing different customer segments or maybe different geographical areas. It is therefore important to realize that it is possible to put these gray-zone cases under some of the other forces, such as substitutes. Another important factor is how the possible competitors compete, is it with price or performance? This might give some information about the margins and about the value of high market shares. Here follows a list of important factors to consider when determining the strength of the Internal Rivalry-force.[18]

- *The number of sellers on the market.* An industry with many different competitors is more likely to have strained margins, than an industry with a high concentration (few strong competitors). This is due to a lot of factors such that if there are many competitors, at least one is likely to be dissatisfied with its market share and therefore willing to lower its prices. Another factor is that a "low market share"-actor suffers less from revenue destruction when lowering it prices.
- *The industry is stagnant or declining* If the industry is in decline or if it is stagnant, the only way to increase market shares is to steal it from competitors. This might indicate that many actors are willing to go to

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[18] Besanko, D., Dranove, D., Shanley, M. and Schaefer, S. *Economics of Strategy*, 4th edition. John Wiley & Sons, 2007. p 314-315. ISBN978-0-471-67945-5

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great length in order to protect their market shares, which will result in fierce competition.

- *Firms have different cost structures.* If some companies have a more advantageous cost structure than others, they might think that some companies might exit the industry if they lower they prices.
- *Low switching costs, undifferentiated products* If it is hard to differentiate in the industry and/or if the customers have low switching cost, the competition is likely to be harsh.
- *Prices and terms of sales are hard to compare and/or prices cannot be adjusted easily/fast.* These conditions increase the response time for competitors to match price cuts. It therefore increases the incentives to cut prices and thereby facilitates mistrust between the competitors.
- *Large infrequent sales orders* make every single order won very important. Thus creating incentives to lower prices in order to get an order.
- *A history of facilitating prices* might indicate that the competition is low on the market.
- *Strong exit barriers* will make existing firms reluctant to exiting the market and therefore more willing to suffer low margins.
- *High price elasticity of demand* indicates that even the smallest price reduction will have a large impact on market shares, which gives incentives to cut prices.

4.3.1.2 Entry

If the entry force is strong, it is easy for new firms to enter the industry. This is negative for the current incumbents in two ways. Firstly, a new firm will most likely take market shares from the incumbents. Secondly the new entrant will decrease the market concentration and there by facilitate harder competition. High entry barriers are therefore good for the incumbents because of the protection it offers to them. Here follows some factors to account for while assessing the size of the entry-force.[19]

- *A high minimum efficient scale (MES)* will force an entrant to achieve a high market share in order to compete efficiently. If the MES is high relative to the market size, it might be extremely hard for an entrant to achieve the required MES, and it will therefore be deterred from entry.
- *Government protection of incumbents* will make it harder for entrants to compete on or to enter the market.
- *High brand loyalty from the buyers* will make customer acquisition costly for new entrants.
- *Access to key input* is a vital part in building a strong competitive position. If these inputs are hard to acquire or controlled by the incumbents, it will deter entry.
- *The learning curve* might be very steep and will therefore put an entrant at a cost disadvantage relative to the incumbents.
- *Networking* is very important in many industries and if the incumbents already have great relations to existing key partners, it might prove disadvantageous to an entrant.

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[19] ibid, p. 316

- *Expectations of aggressive reactions towards new entrants* will in many cases deter entrants from entry. It is fairly easy to acquire historical data about the industry's previously reactions towards new entrants.
- *High capital requirement for entry*

4.3.1.3 Substitutes and Complements

Substitutes provide an alternative to the industry products. If, for an example the price for flights increases dramatically, the train transportations are likely to increase. In order to understand the substitute-force it is important to understand what different substitutes are available and how their fulfillment of the customer need vary from the industry.

Complements are products that are sold as a complement to a product. For example, a DVD-player is a complement to a TV. Many complements are tightly tied to each other, with potential to impact on the market demand of each other. Here are some important factors.[20]

- *Availability of substitutes.* If there are many different close substitutes available it will increase the threat of substitution, and therefore result in a strong force.
- *Price-value characteristics of substitutes.* The price-value attributes of a possible substitute needs to be compared with the industry in order to determine the threat of a given substitute.
- *High price elasticity* is often a sign that customers are willing to buy substitutes instead, if prices become too high in the industry.
- *Availability of complements*
- *Impact on the value by complements*
- *Price on complements*

4.3.1.4 Suppliers

This force describes the strength of the industry incumbents relative to its suppliers. A strong force is equal to a poor position while negotiating terms with suppliers. This will in turn impact negative on the average margins in the industry. There are a lot of factors that have effects on the power balance between the incumbents and the companies located upstream in the value chain.[21]

- *Competitiveness in the supplier industry* will work towards better supplier deals for the incumbents.
- *The concentration of the upstream industry,* a high concentration often equals high bargain power for the suppliers and vice versa.
- *Purchase volumes of the incumbents,* if the volumes are high relative to the supplier market size it often gives the purchaser more bargaining power.
- *Availability of substitute inputs* if it is easy to substitute an input the bargain power often is in favor of the incumbent and vice versa.

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[20] ibid, p. 316-317
[21] ibid, p. 317-318

- *Relationship specific investments*, investments that are specific towards a particular partner often create switching cost and therefore shift the power balance towards the part that didn't make the investment.
- *Threat of forward integration by suppliers* could decrease the bargaining power of the supplier.

4.3.1.5 Buyers

It is easy to realize that the factors impacting on suppliers and buyers are very similar, since it is only the question of the position in the value chain. By using the same approach as when determining to supplier-force but from the other perspective it is possible to determine the strength of the buyer-force.[22]

4.4 Company Specific Factors

This chapter explains the models and theories used to assess a company's abilities to create competitive advantage in a new business area.

4.4.1 The entry decision

The following chapter will mainly be based on theories formulated by Michael E Porter in his book *Competitive Strategy[23]*.

Note that entry can be achieved in more than one way. Two of these ways could be trough internal development of a new business unit or trough acquisition of a company that is already in the targeted industry. This chapter will only discuss the entry decision and not the method of entry.

Porter states that no entry can ever yield above-average return on investments if the market forces on the entered market are in perfect balance. If this is accepted this statement implicates that every entering company will need a strategy to shift the balance of the market forces or to identify a market where the market forces work imperfectly.

Porter also points out that many companies fail to account for market changes that occur because of their entry. This could for example be due to retaliation from incumbents or due to over capacity in the industry as a whole.

According to Porter there are five criteria that can justify the entry into a new industry. These criteria are called entry decision parameters or merely decision parameters. If none of these criteria are met, the company can't expect to earn above average returns on their investment. The criteria are:

1. The industry is in disequilibrium.
2. Slow or ineffectual retaliation from incumbents may be expected.
3. The firm has lower entry costs than other firms.
4. The firm has distinctive ability to influence the industry structure.
5. There will be positive effects on a firm's existing businesses.

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[22] ibid
[23] Porter, M.E. *Competitive Strategy: Techniques for analyzing industries and competitors*. New York: Free Press, 2004. p 339-356. ISBN 0-7432-6088-0

4.4.1.1 The industry is in disequilibrium

There are some characteristics that can indicate that an industry is in disequilibrium.

- **New industries**
  Many new or rapidly growing industries initially have very low structural entry barriers. No incumbent have created strong brand recognition or locked up key suppliers. Incumbents also often face a problem in growing as fast as the industry, which will allow other companies to exploit the situation. There are also the aspects of first mover advantage or second mover advantage that are relevant for new industries.

- **Rising entry barriers**
  If the entry barriers are expected to rise, an early entry into the industry might be very cheap in relation to later entries from competitors. This will give the early mover some protection from competition.

- **Poor information**
  If information about sales, market growth, entry costs or similar data is hard to come by, it might deter entry. Presence in an industry with these characteristics might very well benefit from some protection since it's hard for potential entrants to estimate costs and revenue streams.

4.4.1.2 Slow or ineffectual retaliation from incumbents may be expected

If the incumbents for some reason are unwilling or incapable to retaliate towards entrants, there might be a beneficial opportunity to enter the industry. Here follows some aspects that might indicate unwillingness or incapability to retaliate.

- **Incumbents' cost of effective retaliation outweighs the benefits**
  If the firm considering entry believes that the retaliation cost of the incumbents is bigger than the benefits from retaliation, retaliation is unlikely. This fact can be exploited for example by loudly and clearly committing to the entered industry, if the incumbents believe that the entering company will fight to the bitter end, they are less likely to retaliate.

- **There is a paternal dominant firm or tight group of longstanding leaders**
  Some big players who use a dominant strategy or business model have long dominated certain industries. These industry leaders might very well be unable to adapt or slow to learn. There might be possibilities to identify customer segments that are under satisfied or business model innovations that better meets the customers' needs. It might, for many reasons, be hard for the previously dominant firms to adapt to the new situation.

- **Incumbents' costs of responding are great given the need to protect their existing businesses**
  The incumbents may have created a strategic position in the industry that prevents it from efficiently fulfill the needs from some customer

segments. For example a premium car manufacturer cannot easily sell cheaper models whiteout damaging its premium brand.

- **The entrant can exploit conventional wisdom**
  Many companies, that have been present in an industry for a long time, tend to base their business models on key assumptions. If an entrant can challenge this path dependency by proving these assumptions wrong, it is often hard for the incumbents to adapt.

4.4.1.3 The firm has lower entry costs than other firms

If a firm for some reason can overcome entry barriers at a lower cost than other potential entrants, it might be able to earn above industry average return on investments. This ability is often related to skills and resources drawn from the company's existing businesses. Examples could be brand recognition, established distribution channels or favorable technologies. It is important to remember that these factors are only relevant if they are unique to the specific firm.

4.4.1.4 The firm has distinctive ability to influence the industry structure

If a firm has some distinctive ability to change the industry structure of the targeted industry, the entry might be profitable. For example, if a company owns IPR that cannot be circumvented by other companies, it might be able to shift the balance in the entered industry and to earn above average returns.

4.4.1.5 There will be positive effects on a firm's existing businesses

If a firm will be able to achieve economies of Scope by entering a new industry, it will reap advantages from the presence in both markets. Even if the firm won't earn above average returns in the new industry, it might improve the returns in the existing industry. There could be many possible ways to achieve these effects, such as: Shared distribution, shared marketing, and shared R&D and brand recognition.

4.4.2 Generic strategies for entry

Porter identifies and lists what he calls *Generic strategies for entry.* These strategies describe different generic strategic elements that can be used in order to overcome structural barriers and to create a favorable strategic position in a new industry.

4.4.2.1 Reduce product cost

Find a way to produce the same product or services as the incumbents, but at a lower cost.

4.4.2.2 Buy in with low price

Buy market share with a low price, at the cost of profitability.

4.4.2.3 Offer a superior product, broadly defined

Offer a product or service that is superior or perceived as superior by the customer

4.4.2.4 Discover a new niche

Identify and target a market segment that is under satisfied.

4.4.2.5 Introduce a market innovation
Find a new way to offer value to the customer.

4.4.2.6 Use piggybacked distribution
Use existing distribution channels to support the entry strategy.

4.4.3 Business Model Canvas
Throughout the 5-step process of identifying and evaluating new business areas, it is important that people participating have the same idea of how to express a certain concept. According to *Decision Quality Chain* (see corresponding topic for more details), it is crucial that information, figures, facts and thoughts are expressed in the same way.[24] This is because alternatives should be easy to compare, which is necessary in order to reach high quality decisions. By having a standardized way to express business concepts, unfair and biased comparisons will be avoided. It will also make it easier for people involved in the discussion to understand each other and to express their own thoughts.

A model that fits this purpose is the *Business Model Canvas*, a model that enables a shared understanding of the concept of business models. The model is a graphical representation of an enterprise and the main point is to map the underlying logic of how the business works. It consists of nine building blocks, which cover the four main areas of a business: customers, offer, infrastructure and financial viability. The nine building blocks are summarized below, including a short description together with main questions that could be asked when mapping each building block.[25] The canvas first appears in the workshop step, but is included under this subtopic since most of the analysis work connected with the canvas is performed in the CSF step.

4.4.3.1 The canvas building blocks
Customer Segments[26] are the different groups of people or organizations a firm wants to reach and serve. The segments usually contain customers with similar needs and behaviors. Examples of Customer Segments are:

- Mass market – no distinction made between segments.
- Niche market – tailored approach to each segment.
- Segmented – distinction between slightly different segments.
- Diversified – serving segments with completely different needs.
- Multi-sided platforms – serving two or more segments where each segment are essential for the business model to work, e.g. companies offering free newspapers need a large reader base to attract advertisers without which there would be no funds to run the newspaper.

Main questions when mapping this building block are:

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[24] Matheson, D. and Matheson, J. *The smart organization: creating value through stretegic R&D.* Boston: Harvard Business School Press, 1998. p 45-54. ISBN 0-87584-793-5

[25] Osterwalder, A. and Pigneur, Y. *Business Model Generation: A Handbook for Visionaries, Game Changers and Challengers.* Self Published, 2010. p. 15. ISBN 978-2-8399-0617-3

[26] ibid, p. 20-21

- For whom are we creating value?
- Who are our most important customers?

Value Propositions[27] are defined as the complete offering or bundle of products and services with which a company serves and creates value for a specific Customer Segment. Note that the value can be either quantitative (e.g. price, time for service) or qualitative (e.g. design, perception of quality, customer experience). The following factors may affect the value created for the customer:

- Newness – satisfying entirely new customer needs, often with new technology.
- Performance – increasing performance on already existing products and services.
- Customization – tailoring products and services to specific customer demands.
- "Getting the job done" – offering complete solutions to customer problems.
- Design – creating products with appealing design.
- Brand/status – using a strong brand to create customer value.
- Price – serving price-sensitive Customer Segments by offering similar value as competitors at lower price.
- Cost reduction – helping customers reduce costs in their own enterprises
- Risk reduction – reducing customer's risks (e.g. guarantee, insurance).
- Accessibility – offering products and services to customers that previously couldn't afford them, either through a completely new business model or through new technology or a combination of both.
- Convenience/usability – making products and services easier to use.

Main questions:

- What value do we deliver to the customer?
- Which one of our customer's problems are we helping to solve?
- Which customer needs are we satisfying?
- What bundles of products and services are we offering to each Customer Segment?

Channels[28] describe how a company interacts with its Customers Segments to deliver a Value Proposition. This includes communication, distribution and sales channels. Channels can be divided into direct and indirect channels, as well as owned and partner channels. Partner channels are always indirect (e.g. partner stores, wholesaler) while owned channels can be both direct (e.g. sales force, web sales) and indirect (e.g. own stores). There are five phases that a channel (or combination of channels) should cover:

1. Awareness – raising awareness among customers about the Value Proposition.
2. Evaluation – helping customers to evaluate the Value Proposition.
3. Purchase – allowing customers to purchase products and services.

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[27] ibid, p. 22-25
[28] ibid, p. 26-27

4. Delivery – delivering the Value Proposition to the customer.
5. After sales – providing after sales support to customers.

A company usually has a mix of owned/partner direct/indirect channels in some way reflecting its strategy. Partner channels tend to have lower margins but makes it possible expand and benefit from partners' strengths. Owned channels, however, are probably more costly and more difficult to operate, but have higher margins. The right mix of channels creates the most customer value while maximizing revenues.

Main questions:

- Through which Channels do our Customer Segments want to be reached?
- How are we reaching them now?
- How are our Channels integrated?
- Which ones work best?
- Which ones are most cost-efficient?
- How are we integrating them with customer routines?

Customer Relationships[29] describe the relationship a company sets up with its Customer Segments. The choice of Customer Relationships can be driven by different motives: *customer acquisition, customer retention* and/or *boosting sales*. There is a set of categories ranging from personal to automated service:

- Personal assistance – customer representatives help customers during the sales process and receive after-sales service.
- Dedicated personal assistance – the company dedicates a customer representative to an individual client.
- Self-service – no direct relationship; the company provides all the means necessary for customers to help themselves.
- Automated services – a more sophisticated type of self-service, which can recognize individual customers and provide adequate help and information, although automated (i.e. no personal contact).
- Communities – this type of relationship allows customers to solve each other's problems and at the same time make it possible for the company to learn about its customers.
- Co-creation – customers are invited to participate in the value-creation.

Main questions:

- What type of relationship does each of our Customer Segments expect us to establish and maintain with them?
- Which ones have we established?
- How costly are they?
- How are they integrated with the rest of our business model?

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[29] ibid, p. 28-29

Revenue streams[30] describe how a company generates cash flows from each of its Customer segments. Below are examples listed of how Revenue Streams can be generated.

- Asset sale – selling ownership rights to a physical product.
- Usage fee – a customer pays for the usage of a particular service and the more a customer uses the service the more he or she pays.
- Subscription fees – a customer pays a fee for continuous access to a specific service.
- Lending/Renting/Leasing – a customer (renter) are granted the rights to use a physical asset for a fixed period of time in return for a fee, which allows the renter to enjoy the benefits of the product while not bearing the full costs of ownership. For the lender, this provides an advantage of recurring revenues.
- Licensing – a Revenue Stream generated by giving a customer the right to use a particular intellectual property (e.g. patented technology).
- Brokerage fees – a Revenue Stream generated from intermediation services between two or more parties (e.g. real estate agents that earn a commission when matching a buyer with a seller).
- Advertising – revenues generated from customers paying a fee in return for advertisement space.

There are different types of pricing mechanisms that can be divided into two main categories, *fixed* and *dynamic pricing*. Fixed prices are based on static variables and include *list price, product feature dependent price, customer segment dependent price* and *volume dependent price.* Conversely, dynamic prices are based on market conditions and include *negotiation (bargaining), yield management (prices depends on inventory and time of purchase), real-time-market (prices are based on supply-demand relationships)* and *auctions.*

Main questions:

- For what value are our customers really willing to pay?
- For what do they currently pay?
- How are they currently paying?
- How would they prefer to pay?
- How much does each Revenue Stream contribute to overall revenues?

Key Resources[31] include the most important assets required to make a business model work. This building block describes what a company needs to create value, offer a Value Proposition, maintain relationships with customers, reach markets, earn revenues and so on. The assets are either owned or leased by a company or acquired from key partners and can be divided into the following categories.

- Physical assets – include manufacturing facilities, machines, buildings, vehicles etc.

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[30] ibid, p. 30-33
[31] ibid, p. 34-35

- Intellectual assets – include brands, patents, copyrights, partnerships, customer databases etc.
- Human assets – always necessary to run a company. This asset is particularly important in knowledge-intensive industries.
- Financial – include cash, credits, stock, stock options and other financial instruments and resources.

Main questions:

- What Key Resources do our Value Propositions require?
- What Key Resources do our Distribution Channels require?
- What Key Resources do our Customer Relationships require?
- What Key Resources do our Revenue Streams require?

Key Activities[32] include the most important activities a company must undertake to operate its business successfully. This building block describes what a company needs to do in order to create value, offer a Value Proposition, maintain relationships with customers, reach markets, earn revenues etc. Key Activities can be divided into the following categories.

- Production – includes designing, making and delivering of a product (usually manufacturing companies).
- Problem solving – relates to coming up with new solutions to individual customer problems (usually consultancy companies, service companies and hospitals).
- Platform/network – a company that depends on platforms such as matchmaking platforms or web sites needs to undertake activities in order to maintain and run its platform.

Main questions:

- What Key Activities do our Value Propositions require?
- What Key Activities do our Distribution Channels require?
- What Key Activities do our Customer Relationships require?
- What Key Activities do our Revenue Streams require?

Key Partnerships[33] are the network of suppliers and other partners that a company needs in order to operate successfully. These can be *strategic alliances between non-competitors, strategic partnerships with competitors (so-called competition), joint ventures* or *buyer-supplier relationships*. The motivations for developing a relationship can be divided into the following three categories.

- Optimization and economy of scale – these partnerships are usually initiated in order to reduce costs and optimize allocation of resources and activities (e.g. outsourcing and sharing of infrastructure).
- Reduction of risk and uncertainty – these partnerships are formed to reduce risk in competitive environments characterized by uncertainty.

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[32] ibid, p. 36-37
[33] ibid, p. 38-39

- Acquisition of particular resources and activities – these partnerships are developed in order for a company to acquire capabilities and resources needed for their business model to work (e.g. knowledge, licenses and access to customers).

Main questions:

- Who are our Key Partners?
- Who are our key suppliers?
- Which key resources are we acquiring from partners?
- Which Key Activities do partners perform?

Cost Structure[34] is the building block that relates to all the costs that arises from operating a business. All activities and resources incur costs, which could be calculated when Key Activities, Key Resources and Key Partnerships are defined. Costs should always be minimized, however low Cost Structures are more important in some business, while other companies are more dependent on delivering high value. This leads to two extremes (note that most business fall between those Cost Structure categories):

- Cost-driven – main focus lies on minimizing costs wherever possible and creating and maintaining a lean Cost Structure. Companies with this focus offer low price Value Propositions, use maximum automation and outsource extensively (e.g. no frills airlines).
- Value-driven – businesses offering premium Value Propositions and a high degree of personalized service are typically less concerned with the cost implications of their activities (e.g. luxury hotels).

Some important aspects of Cost Structures are:

- Fixed costs – not dependent on output volume.
- Variable costs – proportionally dependent on output volume.
- Economies of scale – the average cost of goods or services produced falls as output rises (for example due to lower purchase prices when buying larger quantities of raw material).
- Economies of scope – cost advantages related to a large scope of operations (for example due to shared activities for different products).

Main questions:

- What are the most important costs inherent in our business model?
- Which Key Resources are most expensive?
- Which Key Activities are most expensive?

4.4.3.2 The Canvas

Bringing together the nine building blocks described above, the *Business Model Canvas* is formed, see figure 32 below.
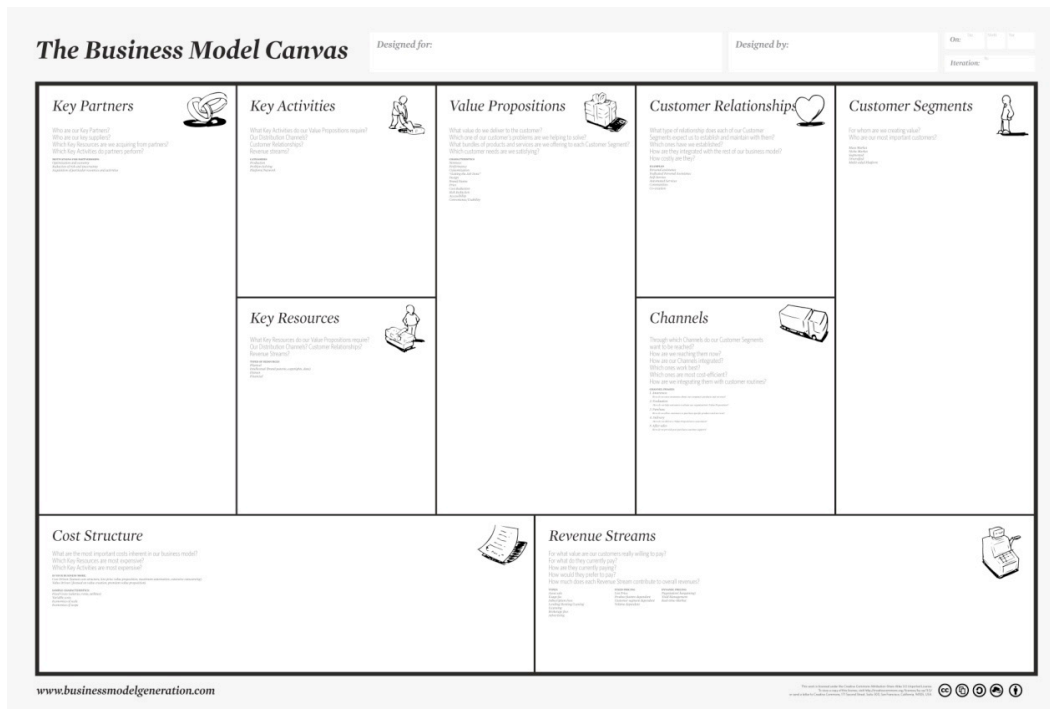
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[34] ibid, p. 40-41

Figure 32: The Business Model Canvas

The Canvas could be used to sketch either existing or new business models. Sketching could be performed individually, but preferably together in a group (e.g. in a workshop), since the *Business Model Canvas* is a tool that fosters understanding, discussion, analysis and creativity.

5. Discussion

This chapter contains a discussion of *The Entry Decision Tool* and the work of creating it. Based on the execution of the tool on Scalado, its validity and reliability will also be dealt with. Whether the tool can be applied on any arbitrary company, despite the fact that *The Entry Decision Tool* was developed in the context of one specific company, will also be discussed. To summarize, this chapter intends to answer whether the authors fulfilled the purpose of this master's thesis.

When the work began on this thesis, the aim was set at creating a tool for dealing with entry decisions. The most important requirements were to make *The Entry Decision Tool* easy to use, intuitive and generic enough to be applicable on any arbitrary company. It should be said that this tool requires a lot of time and demands much from the people using it. The information gathered is somewhat comprehensive, but thanks to the way the information is logically structured it is easy to get an overview. In short, this ensures that it becomes easier to see the relations between important factors affecting the entry decision and the context of the decision and to make recommendations based on the output provided by the tool. The approach with providing a tool with five distinct steps also ensures simplicity. The steps are easy to follow, the instructions are relative straightforward and the output from each step is well defined. As for the pre-knowledge (in e.g. corporate strategy) demanded by the managers and other people using the tool, this problem can be overcome by letting the people involved in the process take part of the chapter Theoretical framework in this dissertation before work begins. When it comes to experience, this enriches the output from the tool and thus higher decision quality can be achieved by letting more senior employees be involved in the analysis work.

Since the tool is based on generic decision models and each step is based on theories and frameworks dealing with generic approaches to strategy and the entry problem, *The Entry Decision Tool* can be said to be generic. Although the tool is created for Scalado and sprung from their specific needs, it is most likely that it is applicable on other companies as well.

The Entry Decision Tool is based on existing literature regarding corporate strategy, decision processes and entry into new business. During the thorough study of this literature it was found that there are many different views and approaches to the problem. This fact indicates that there is no definite right way to solve the entry problem. By bringing together existing models into a cohesive framework, it is the authors' hope that *The Entry Decision Tool* contributes to ease the difficulties associated with the entry decision problem.

As indicated above, decisions of this kind can be made in many different ways and the tool created in this dissertation is merely one of many possible approaches to the same problem. The strength of *The Entry Decision Tool* is that it provides a structured way to gather and analyze information. Having a structured process ensures that all relevant information is taken into account. It is also important to ensure transparency regarding decisions on new business areas (i.e. all can see why a certain decision was made). Using a standardized

process minimizes the risks of confusion since everyone who participates knows how things are done. This also enhances the chances of success since participation throughout the process is a key factor for ensuring commitment to action once the project is launched.

As mentioned earlier in this document, one of the greatest challenges with creating processes like this one is to ensure its long-term survival. One possible way to raise the chances of this is to involve the people who are supposed to perform this work in the future. By doing so, it becomes possible to customize the level of detail to more accurately match the need from the company's point of view. Due to the nature of the alternatives generated by *The Entry Decision Tool* (i.e. long-term and strategic alternatives) and the time it will take to realize a concept, the process should be executed on an annual or biannual basis. A more frequent use might result in a waste of resources and time.

It was the authors' intention to apply this tool on Scalado in order to test its validity and reliability. The first two phases were completed by the time this report was due. Phase one, the pre-study, consisted mostly of qualitative semi-structured interviews with key employees. The results from these interviews were structured and analyzed according to the *Entry Decision Tool*. It was really interesting to observe the amount of useful information that sprung from this method, which unfortunately can't be presented due to secrecy agreements. However it can be said that the pre-study step seems to be designed to cover the most important aspects needed for the rest of the process. It can be argued if not to include the *Business Model Canvas* already in phase one. It could even be used to replace the *Value Chain Model*. Both models cover almost the same information but structure it somewhat different and the canvas feels more intuitive and easy to use.

Phase two, the workshop, provided much insight in the strength of discussing business models around a certain framework. People participating in this workshop became engaged in the task and everyone made useful contributions. A great outcome was not only the new business models, but also an entirely new way of discussing an important subject. If everyone uses the same framework, the risks of misunderstandings decrease. In addition, by using a comprehensive model, important aspects are covered which maximizes the chance that the decision is based on a solid ground.

Since this tool provides a structured way to gather and analyze information regarding new business areas, it is the model's reliability and validity are actually quite difficult matters to discuss. The result will heavily depend on the analytical skills of the project team and the quality of the information put into the process. However, judged by continuous discussions with tutors and other people involved in the creation of this dissertation, *The Entry Decision Tool* approaches a complex and difficult problem with a sound and reasonable logic.

The steps three to five are being applied as this report is being written. There is nothing more to say than what has already been mentioned; the frameworks used in these steps are generic and well known, which means that when applying these steps, following the presented guide in combination with common business sense, the decision basis should be of sufficient quality.

6. Main contributions

This chapter presents the authors' conclusions based on the research and work with creating *The Entry Decision Tool* as well as the experience from executing parts of it at Scalado. The chapter also describes what contributions this thesis provides both from an academic and from an industry perspective. Finally it suggests a few areas for further studies.

One could wish for a standardized process that measures all the different aspects involved with this kind of decisions, and quantifies all the information. This process would then be used to provide the right answers about the act in the future. Due to the nature of the entry problem, it is simply unachievable. Every single factor that impacts on the decision is correlated to other factors, there are just too many variables to account for and some are even impossible to predict. There is no right answer to the problem; there isn't even a right way to approach it. *The Entry Decision Tool* provides one possible approach for any given company.

The output from *The Entry Decision Tool* does not provide the right answer regarding which new business area to enter. However, it provides a decision basis and executed correctly an indication of what new business area would be the most lucrative. The point is that one should not hold the outcome of the process as a definite truth, but instead see it as an implication or recommendation. The real strength in the process is the way it structure information, provides means for analysis and engage people in a unified and standardized process. If the right people participate, the tool has great potential of helping the decision maker to make a high quality decision for any arbitrary company.

This tool does have a weakness in the fact that it does not account for all the factors and implications, which could be wished for. But it is however quite comprehensive given the premise that the tool should be easy to use. The truth is that there is no ultimate solution, only a balance between time consumption and detail level. This tool suggests one way to balance these factors. The authors suggest further research to be made in this area.

During the research of creating this tool it was found that it is very hard, if not possible to make a decision of this character based on scientific, quantitative analysis. Even though the decision maker has very good information, the right information and excellent advisors, the analysis must always include subjective reasoning. The tool provides the basis for the decision and it is then up to the decision maker to make the decision.

The main academic contribution made by this tool is a new way to combine different analytical frameworks and concepts into one cohesive tool, customized for the entry problem. This thesis also presents an entirely new way to combine different accepted management theories into a framework for identification and evaluation of synergies and competitive advantages between business models and industries.

The authors also suggest that further studies be made around how this tool can be used in entrepreneurship. The scenario for entrepreneurs looking to start a new business is somewhat similar to the scenario faced by companies facing the entry decision problem. The authors believe that this model could benefit from such research and that it is possible that there could be contributions from this tool as well.

One interesting application for the tool derives from the fact that the company specific factors step can be used on a stand-alone basis. This is useful whenever there is a need to identify potential synergies between different business units or companies (e.g. when evaluating possible mergers or acquisitions). This step provides a structured and efficient way to identify synergies. This process will also work very well as a basic analysis tool for new ventures. It is possible to use the last three phases independently, in order to gather and understand the data needed for strategic decisions. This means that if you have a hypothesis about a new business area, you can skip the first two steps of this process. Note though that this approach only provides decision data and a way to analyze it, which means that other important alternatives and opportunities might be missed out on. However, the applications mentioned above all need further research.

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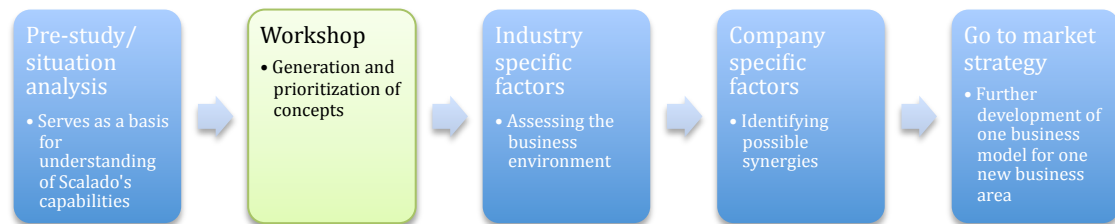
Appendix 1 – Example of workshop PM

PM regarding Concept workshop on September 3rd

As a part of our master's thesis, we plan to hold a workshop regarding concept generation and evaluation. The main outcome of our thesis will be a process for assessing and selecting new business areas, which will look like the figure below.

The purpose of the workshop is both to generate concepts and to prioritize among them. By concepts we mean new potential business areas together with a suggestion on a possible business model.

Prior to the workshop, we encourage you to gather input regarding concepts from the co-workers on your department, i.e. ask people around you which business areas they believe would be of interest for Scalado.

The agenda for the workshop will look like this:

1. Participants present their concepts, which are put down on the whiteboard.
2. Each participant will get three points to assign to the concept or concepts they believe will be the best one/ones for Scalado (motivation might be required), which will result in a list of ranked concepts.
3. You will be divided into four teams and each team will develop a business model for one concept, according to the *Business Model Canvas* (see the enclosed PDF files for information about this framework). This will result in business models for the four highest ranked concepts.
4. The Business Models will be presented and the other participants will have the opportunity to give feedback.

These Business Models will then be used as input in the process for further evaluation. We hope that you will appreciate this opportunity to make your ideas heard and to convince everyone that they are right for Scalado.

The workshop will be held on the 3rd of September, 13:00 pm to 15:30 pm, in room Björken.

Well met

Erik Larsson and Patrik Nilsson

Appendix 2 – Interview questions

Note that the following questions were used as guidelines when the pre-study was performed at Scalado. Since some are only relevant for Scalado, they might have to be changed in order to fit the organization on which *The Entry Decision Tool* is applied. Further questions might also have to be added in order to cover all important aspects of the studied company. They are categorized according to *The Value Chain.*

Firm infrastructure

How is the management team organized?

Describe the decision process?

Can you describe the key activities performed by Scalado's management team?

Which activities does Scalado need to improve and why?

What are your thoughts about Scalado's strategic planning capabilities?

Is it hard/easy to finance investments?

Is it hard to determine what areas in which to invest?

Which activities does Scalado excel in and how?

Are there any management or financial activities that Scalado performs so well, you would consider it a competitive advantage?

Technology development

Describe the activities involved in product development

What is performed well and what can be improved?

What are the technologies and know-how on
which Scalado's business depends?

Describe Scalado's abilities to bring its technologies to market?

Describe the process?

Does Scalado license in external technology?

Does Scalado license out its own technology?

Describe Scalado's technology compared to its competitors?

What is the life cycle position of Scalado's technologies?

Describe Scalado's abilities to detect new technologies that could threaten Scalado?

Do Scalado's strengths lie in its existing products or in its abilities to develop new products, or both?

Describe Scalado's abilities to exploit its current technologies

Does Scalado own technologies which it doesn't use today?

HR Management

What activities are performed by the HR department?

In which activities does Scalado excel?

Where can improvements be made?

Does Scalado attract the right people?

How does Scalado attempt to attract the right people?

How does Scalado continue to develop personnel after hiring?

How does Scalado maintain high motivation among its employees?

How is Scalado's salary levels compared to the competitors?

Does Scalado have any processes for determining which Consultant firms to use?

Are there any activities focused on partnership development with consultant firms?

Procurement

See HR

In-Bound Logistics

See HR (travels)

Operations

What does the production process look like?

Are there a standardized procedure?

Describe the activities involved in product improvement?

What is performed well and what can be improved?

How does the communication work with the sales team?

How are new improvements identified?

Are there any processes for new product development?

Out-Bound Logistics

How are how Scalado's products distributed?

Are there any other activities involved?

Marketing & Sales

What activities does Scalado perform related to advertising and promotion?

How are products priced?

How are prices adjusted when needed?

What sales channels does Scalado use?

How are relations developed and maintained?

How does Scalado acquire new customers?

Service

What activities does Scalado perform related to customer services?

Describe these strategies?

Are there any activities that you think is performed so well that they could be considered as a competitive advantage?

General Questions

What activities do you and your department performs?

What activities create competitive advantage?

What could be done to develop Scalado in the future?

How could it be done?

What opportunities can you see in the future?

What threats can you see in the future?

Are there any new business areas that you believe Scalado could compete in?

Why is that?

What is Scalado's current strategy?