

Xelibri

Strategic Management

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2 Executive summary

We believe that Xelibri has a good chance for success even though the market is highly competitive. Xelibri can be successful by creating a new market in fashionable phones and using the six recommendations that have been discussed, whilst being backed up throughout with the core competency of marketing. We believe that the first mover advantage can be achieved despite Nokia previously launching a fashion phone, as their brand image is still driven by price and style. As the first manufacturer to launch handsets that solely focuses on fashion, we believe that Xelibri can build up a new brand image that no other company has.

However, this advantage is not sustainable in the long term and will be lost if the product is not kept technologically relevant and up to date. Famous designers and role models should be used to ensure the product stays at the forefront of the fashion industry, but given that technology is the key driver of change within the industry, it also needs to be incorporated into the phone to maximise the potential for sales.

3 External Analysis and Market Based View

The market based view is very important to any firm as firms must understand the external environment that they operate in before making strategic choices. There are many factors which influence the industry which must be analysed carefully; examples of these include the PESTEL analysis, globalisation drivers and the Porter's Five Forces (Partridge, 2005).

3.1 Industry dynamics

The key driver of change in the mobile phone handset industry is technology, which is constantly changing and being updated. Camera-phones and MMS (multi media messaging) were labelled as the new killer applications.

Technology will continue to be the driving factor in the future. Given the decision to focus on fashion phones with only proven reliable technology, other more technologically advanced phones could be considered threats. This is especially true if one particular application were to take off and become 'standard' on all phones – Xelibri would need to be able to accommodate this change.

3.2 Trends in the environment – PESTEL analysis

Political – As markets are deregulated, both operators and manufacturers are free to act independently of government intervention

Economic – With incomes rising, people have more disposable income, which enables consumers to be more selective with their choice of mobile phone, looking to other factors rather than fulfilling the most basic of user needs (text messaging and phone calls) and price being such a key factor.

Social – The rise of the so-called information society has made telecommunications increasingly more important to consumers, both in terms of work and leisure. Users are more aware of mobile phone handset choice and advancements due to increased information availability.

Technological – There have been many global advancements in technology such as MMS, Bluetooth, WAP, GSM, GPRS, cameras etc. The Asian markets are more technologically advanced than their European counterparts, for example in 2002, just 4% of phones had cameras, whereas in Asia 90% did (Johnson and Scholes, 2001).

Environment – There is a concern that the use of mobile phones could be damaging to health, with tumours potentially being caused by the waves emitted by the handsets (BBC, 2004). There is also immense wastage created by unwanted mobile phones that are thrown away as they are non-biodegradable.

Legal – Difficult to patent mobile phone designs

Summary of PESTEL Analysis

The most significant environmental trends for Xelibri are technological and economic. As technology is the key driver of change in the mobile phone industry, Xelibri phones will need to be adapted in the future to ensure compatibility, especially with 3G technology. In addition, Xelibri will be able to charge a high price premium as the disposable income per capita is increasing.

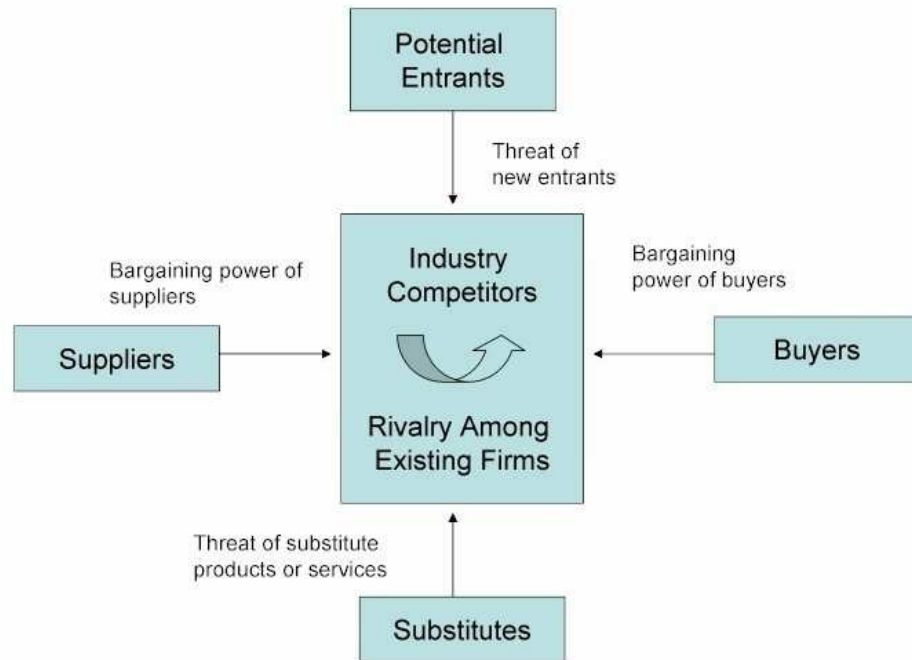
3.3 Globalisation

In order for the market based view analysis to be thorough, market globalisation drivers need to be considered (Campbell et al. 2002). The mobile phone manufacturers operate and compete internationally selling their products in different countries and continents, although various adaptations need to be made to accommodate differences such as technology (e.g. China uses a different network) and language. However on the whole there is a global standardisation of quality, with consumers having similar expectations. Companies have also reached economies of scale and can outsource production globally and use international networking to drive down costs.

The amount of money people are prepared to pay for a mobile phone also varies from country to country, so Xelibri will need to have a pricing strategy that reflects these differences. The same price should not be charged in all countries. Xelibri needs to expand its market to the USA and other Asian countries, in order to compete with its main competitors who currently sell handsets all over the world. Xelibri will need to adapt the phone for China and the USA, as mobile phones in these countries use different technologies, e.g. tri-band.

3.4 Porter's 5 forces analysis

A firm needs to neutralise as many as possible of the five forces in order to create a competitive advantage. Porter's five forces framework (Porter, 1998) is used primarily to assess the attractiveness of an industry and identify possible sources of competition. Firms will try and neutralise or disrupt as many forces as possible in order to achieve a competitive advantage. The forces are dependent on one another, so the firm must understand the connections between them in order to succeed.



Source: William and Joan Schreyer Business Library. 2005. Tools for Industry Analysis.

Entry Barriers

Due to the ever changing technology within the industry, there are very high capital requirements needed to invest in the research and development, which needs to be constantly carried out by the firms to keep up with the latest trends as companies differentiate themselves on who has the most up to date handset with the latest technological features.

There is very high expected retaliation from the leading players in the market, as any attempt to differentiate the mobile phone, be it through technology, applications, design etc will result in the existing firms releasing rival phones with similar or better attributes. A similar business strategy was successfully carried out by a number of smaller manufacturers in Asia, who copied leading designs, grabbing 1% of the market share each month of 2002.

Due to Xelibri's affiliations with Siemens, the company will already have good access to all the necessary supply and distribution channels which are needed to operate successfully in this industry. This includes using EMS and ODM outsourcing models provided by companies such as Finnish Microcell.

Economies of scale have also been reached by the firms in the market due to globalisation, this has led to an increased degree of efficiency and therefore lower production costs.

There are very high marketing costs which are incurred by the firms, via promotion when a new product is released.

First mover advantage provides limited scope for resurrecting an entry barrier if technology is chosen as the means to differentiate the product, as it will be copied quickly by other firms. However there is potential to resurrect entry barriers which are more sustainable through effective brand marketing, with a specific focus on fashion and exclusivity.

Buyers

There is no threat of shops such as Carphone Warehouse integrating vertically to merge with mobile phone manufacturers. However buyer power can be seen as strong – with the existence of the network operators, who exist in an economic oligopoly.

As operators buy in bulk off manufacturers, large sums of money are involved and therefore they can be specific with their constant demand for new technology and a full line of products. These mass sales are needed to ensure the funds necessary to invest in research and development for the manufacturers which is so essential to satisfy the operators demand. This process is cyclical and favours the operators, showing their buying power in the market.

In terms of consumers the market is segmented into two main groups, the smallest being the one of techno-junkies who are happy to pay premium prices for the latest killer application or technology in their phone. However the majority of users buy their phones based mainly upon price, quality and style. They appear to have no particular brand loyalties and are relatively price-sensitive. Other consumers in countries such as China, the Philippines and Taiwan will pay even higher prices relative to their income than their European counterparts.

Users in Great Britain and Germany are used to subsidised phone prices, however users in Italy and Asia are not and pay full price. With their massive sunk costs, marginal cost is tiny for the network operators so they are desperate to gain new customers, and to attract them they often heavily subsidise phones (selling at 40-50% of production cost) or give them away free on contracts. This ties the user into a contract which promotes loyalty as new customer recruitment is so expensive. Buying power with the operators such as O2, Vodafone, and Orange can be seen as powerful.

Substitutes

There are few substitutes for mobile phones although there is the potential for further technological innovations to become better substitutes, though they will

never replace them. Examples include PC based applications such as internet telephone services and the ability to send text messages via programs such as MSN Messenger. The other possible problem is that of technological regression in that people may return to fixed line telephony as mobile phone call charges escalate. However, given the massive convenience that mobile phones provide, there are very limited substitutes available.

There has also been a convergence between mobile phones and PDA's although a department within Siemens has already been developing such products. Also this is a very specific customer segment, with limited potential for growth so Xelibri does not need to focus on this.

Suppliers

There is little threat of integration, even though the suppliers are all outsourced. In addition switching costs between suppliers is low due to the high number of them. So supplier power is relatively weak with limited bargaining power.

Industry Competition

There are a few main big international players, Motorola, Siemens, Nokia, Sony Ericsson, Samsung, as well as smaller emerging copying firms in Asia. It is an intensely competitive industry as it has reached the maturity stage, where the market is completely saturated. In order to increase growth, market share must be taken away from competitors (G. Johnson, K Scholes, 2001). There is also reliance on repeat purchasing of mobile phones. It is therefore difficult to gain market share and there is a big emphasis on efficiency. With technology as the main driving factor for differentiation of the handsets, any changes are quickly copied, so any competitive advantage is quickly lost. The company must be prepared for 'copy cat' phones.

Key trends and strategic issues in mobile phone industry

There is high demand for handsets across all geographical regions. The market is maturing with high levels of market penetration, but the pace of change is not slowing down; new services are being introduced and the major operators are preoccupied with the advent of third-generation (3G) licences. Market deregulation, improvements in technology and new consumer tastes have all been important factors in the dramatic growth seen in this sector. The pace of change may even accelerate as mobile telephony becomes increasingly integrated, not only with fixed-link telecommunications, but also with other technologies such as computing and multimedia. This shows how vital it is for Xelibri to keep up with technological advances, as technology is the key driver of change in the industry, but also with changing consumer tastes.

Summary of Porters Five Forces for Xelibri

Entry barriers are medium in the mobile phone industry, which benefits Xelibri as because they use Siemens' resources they have the infrastructure already in place and are also backed financially by them, funding the high R&D costs. Xelibri have to be prepared for rapid retaliation from the competition.

Due to the strong buyer power from operators and retailers, Xelibri should pursue other methods of distributing the phones to avoid a weak strategic position. Buyer power can be seen as a threat as they have the power to reduce retail prices and hence damage the brand image which is a key success factor. The limited loyalty by consumers can be exploited by Xelibri for the launch but in the long-term this could prove a problem for sales, as there is little differentiation between manufacturers.

The threat of substitutes is very low so this is not a strategic issue for Xelibri and does not need to be neutralised.

Supplier power is weak as there are many available so Xelibri can easily switch between them if needed.

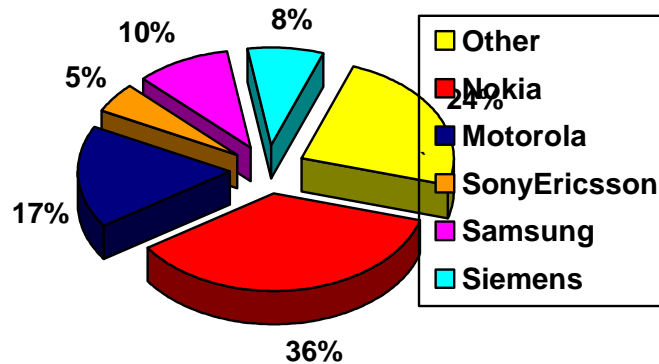
Industry competition is extremely high as there is an oligopoly of manufacturers who possess a large market share between them. Xelibri will have great difficulty gaining market share in this highly competitive industry. Xelibri are differentiating themselves from the competition through fashion, which should lead to increased market share but is hard to sustain due to the ease of imitation.

3.5 Strategic group analysis

A strategic group is the group of firms in an industry following the same or similar strategy along strategic dimensions (Grant, 2002). An analysis of this highlights the most likely direct competitors. For this example we shall presume that other competitors such as Sony Ericsson, Samsung and Nokia etc. could enter into the fashion market as well. The strategic gap that should be moved into is the fashion phone market segment. However, it will be hard to sustain this advantage.

3.6 Individual competitor analysis

Global Market Shares of Handset Producers



Source: Johnson and Scholes, *Exploring Corporate Strategy: Texts and Cases*, FT Prentice Hall, 2001. Page 824.

The major firms are obviously direct competitors – especially if the fashion range takes off, they should be expected to retaliate with rival phones – perhaps even with better technology. Their core competencies are in R & D as well as brand reputation such as Nokia, who have been in the industry a long time. The competitors are focusing mainly on technology and applications for the phone as well as general quality and styling. However none of these companies appear to have potential for much growth as the market is so saturated. Smaller firms in Asia who are achieving market growth should be respected as their imitation policies have proved effective so far. These retaliations should be expected to happen very quickly, so competitive advantage will be difficult to obtain.

Competitive position variables	Nokia 8210	Samsung A800	Siemens CL50	Sony Ericsson T68i	Motorola V300
Target Market	Fashion-conscious	Business	Young girls	Techno-junkies	Price-driven
Product	Changeable covers, small	Stylish, functional	Functional	Stylish, MMS	Functional
Place	Global available	Global available	Global available	Global available	Global available
Promotion	First fashion-based phone	Style, function and price	"Girl's best friend"	First to support MMS	Cheapest
Price (£)	200	150	120	200	100

This table shows that the mobile phone manufactures already cater for price/style/quality-driven consumers, as well as techno-junkies, so these segments are already saturated. This is why Xelibri is therefore creating a new market segment, aiming to gain market share. Mobile phones also have to globally available.

3.7 Market segmentation analysis

The existing companies in the market seem to serve all market segments, both the high end technology driven buyers as well as the quality/price/style driven segment.

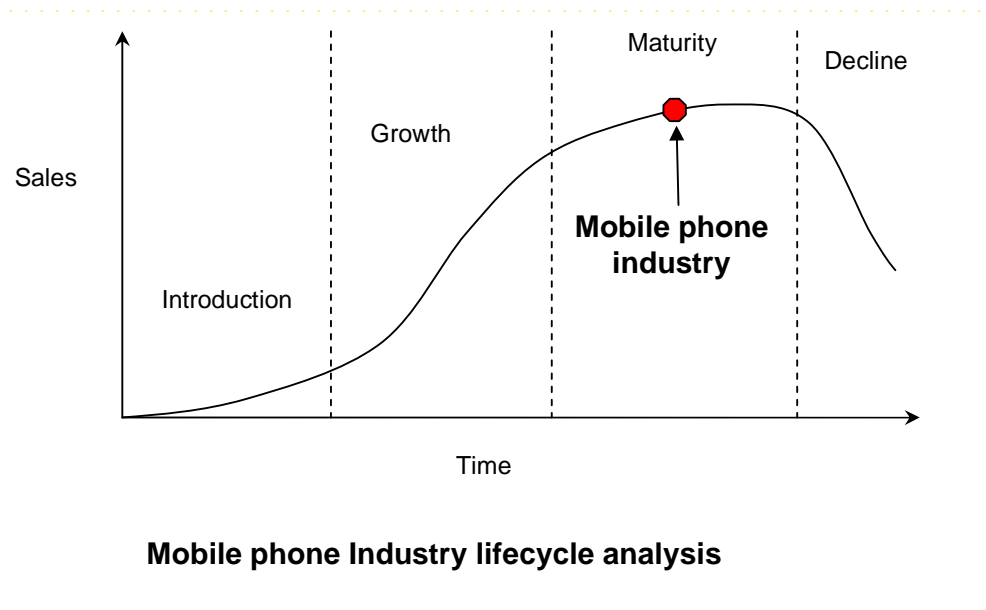
The differences between the countries and the prices that people are willing to pay should also be considered. In China, Philippines and Thailand people spend a higher percentage of their income on phones. In Italy people are used to paying full price, but in Great Britain and Germany consumers are used to subsidised prices from network operators.

The key industry drives are still technology and what is going to be the next killer application, all companies seem to be focusing on this. Mobile phones have not yet really been designed for specific user groups, the marketing campaigns and focus seems to be decided after the product has been decided. Complete consumer focus (such as the fashion conscious segment) has as of yet not been really tapped into, though Nokia had some success with the 8210.

Xelibri should try to create a new market segment through producing a line of fashion phones as no other companies have specifically done this. These users will be young, affluent and willing to regularly pay premium prices for the handsets which will be updated in time with the fashion world calendar.

3.8 Industry life cycle analysis

The industry has reached the mature stage of its life cycle, where demand is fairly constant. In terms of strategic issues, to increase market share, Xelibri will have to turn the market into a hypercompetitive one. In this new market, Xelibri will differentiate through creating fashion phones and not using technology as the key driver of change. This will stimulate demand and hopefully lead to increased market share through creating a 'turbulent, face-changing, uncertain business environment'. The advantage will be temporary, and achieving a competitive advantage will depend on Xelibri's ability to change, speed, flexibility, innovation and disruption of markets (Johnson and Scholes, 2001).



4 Internal analysis and Resource Based View

The resource based view is vital in understanding how to exploit the firm's capabilities in order to achieve a sustainable competitive advantage. The main aim is to assess the strengths and weaknesses of the firm and then to identify the core competencies from the internal analysis (Best, 2001). The organisation must also take into account how best to deploy their resources and not just identify them.

4.1 Resources analysis

Tangible assets

Financially Xelibri are not constrained as they have been given an unlimited budget from Rudi Lamprecht, the Siemens ICM Group President. Xelibri is currently made up of 42 people from 17 countries, mainly Siemens MP employees and external fashion designers and consultants.

Intangible assets

Many Xelibri employees have gained knowledge of the mobile phone industry through working for Siemens and the external fashion consultants bring with them their knowledge of the fashion industry.

At the moment the Siemens brand is known for its functionality but Xelibri is a new brand and wants to create a reputation for producing fashionable phones. It will be an important decision where to launch the brand with non-existent brand awareness.

Leveraging Xelibri's Resources

- | | |
|---------------|---|
| Concentrating | - Focusing on a small market niche |
| Accumulating | - Use Siemens own production resources
- Use fashion expert's knowledge |
| Complementing | - Marketing initiates the value chain |
| Conserving | - Recycling same chips for different handsets |
| Recovering | - Have first mover advantage combined with a large marketing campaign to ensure awareness and hopefully sales |

4.2 Organisational capabilities

Production	Use relations with EDS or ODM suppliers (Siemens') so they can focus on other aspects of supply chain
Marketing	Good marketing and sales force, through recruitment of marketing agencies and consultants
R&D	R&D is not a core competency and is outsourced. Use Macron, a marketing strategy agency to design the phones. Only use proven technology. Ability to conceive and launch phone in a short space of time is crucial in the dynamic market.
Finance	Full backing from Siemens in short term. Need minimum returns of 8-11% for the financial year 2005, targets set by Siemens' CEO.
Management	Appling, the Xelibri CEO is a former consultant and has limited experience

4.3 Core competencies

The threshold resource for a mobile phone is the ability to make and receive calls and texts on the move. The unique resource for Xelibri is that they produce stylish fashion phones. There is no doubt that the core competency of Xelibri is marketing.

VRIO Framework for Xelibri

Capability	Valuable?	Rare?	Costly to imitate?	Exploited by Organisation?	Competitive Implications
Marketing	Yes	Yes	No	Yes	Temporary Competitive Advantage
Design	Yes	Yes	No	Yes	Temporary Competitive Advantage
Production	No	No	No	No	Competitive Disadvantage

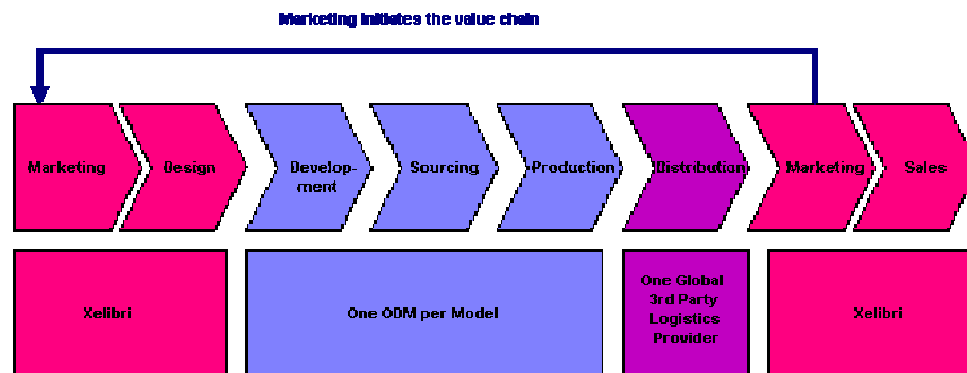
The capability of marketing is valuable as it raises entry barriers through excellent branding. As they are the first company to target this fashion-conscious segment apart from Nokia's limited attempt, the capability is also rare. However it is very easy for other mobile phone manufacturers to follow Xelibri into this niche so it is not costly to imitate. The capability is exploited by the firm as they invest all their resources in this part of the value chain. Using the VRIO framework we can predict that marketing will lead to a temporary competitive advantage for Xelibri.

The capability of design can be seen as valuable as Xelibri are specifically focusing on this area using leading fashion consultants. At present no other companies in the industry create high fashion phones, therefore it is also rare. It is exploited by the organisation as design, along with marketing, are the only aspects of the value chain which Xelibri focus on. However, it too is also easily imitable so it is unsustainable in the long-term, so only produces a temporary competitive advantage.

Production is not Xelibri's strength as they outsource it to ODM or EDS suppliers like most mobile phone manufacturers; therefore it will not achieve any competitive advantage and can even be regarded as a disadvantage.

4.4 Value chain analysis

Looking at this diagram it is clear how Xelibri's value chain differs from the rest of the industry. Previously, Siemens designed the phone then decided afterwards which group to market the phone to. On the other hand Xelibri decide the market segment first, and then design the phone to fit that segment. Therefore marketing initiates the value chain. The key cost driver is production, so Xelibri outsource it. The key value driver is brand marketing.



Source: Johnson and Scholes, Exploring Corporate Strategy: Texts and Cases, FT Prentice Hall, 2001. Page 828.

4.5 Value chain activities

Marketing and Sales

There is no current advertising as the brand hasn't been launched so Xelibri has no brand loyalty but they do possess a first mover advantage. Xelibri are aiming to be an exclusive fashion accessory which can be reinforced through their advertising. Xelibri also have a competent and experienced marketing and sales team.

Design

Xelibri used market research to assess the potential market segment and market trends. Xelibri can then use their fashion consultants and external designers to help create each seasonal collection in line with current fashion trends. Fashion is regarded as more important than other factors such as technology.

The rest of the value chain is outsourced so Xelibri can concentrate on their core competency of marketing.

Internal Analysis of Value Chain Components

Value Chain Component	Key Activities	Key Cost/Value Drivers	Xelibri's Strategy	Resulting Resources and Capabilities	Resulting Cost and Value Advantage
Marketing and Sales	Advertising	Economies of Learning	Learn from competition	Good brand reputation and loyalty	Increase Siemens market share
	Promotion	Timing	First mover advantage	Expertise in Marketing	Stagnant market becomes hyper-competitive
	Pricing	Interrelationships	Share with Siemens		Optimize location
		Location			

This table shows how Xelibri need to exploit their core competency of marketing and sales. Xelibri's first mover advantage, combined with their expertise in marketing should result in a good brand reputation, which will help to gain market share and encourage multiple phone ownership.

4.6 Strategic flexibility analysis

What do customers want?

- Fashionable phones
- To own an exclusive product
- Regular new models to tie in with current fashion seasons

Industry Characteristics

- Few big players - oligopoly
- Moderate entry barriers
- High bargaining power of buyers
- Low supplier power

Xelibri's Strategy – Turn phones into fashion accessories and encourage multiple phone ownership

Target Market

- Wealthy, fashion-conscious, young people

Product

- Good functional design but emphasis on style
- Design standards consistent
- 4 models per year in 2 collections

Place

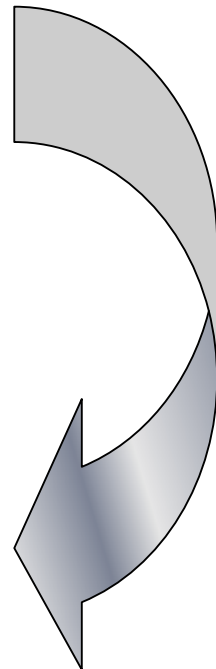
- What kind of outlets should stock Xelibri?
- Which countries should they launch in?
- Sales and marketing expenditure will be very high

Promotion

- Huge PR campaign to coincide with launch
- Use fashion role models

Price

- Expensive to ensure exclusiveness



4.7 Summary of RBV

Xelibri have adapted their value chain to suit their core competency of marketing and sales. However they do solely rely on outsourcing for key parts of the value for production, which gives them less control over production quality.

5 Organisational analysis and Organisational Behaviour Analysis

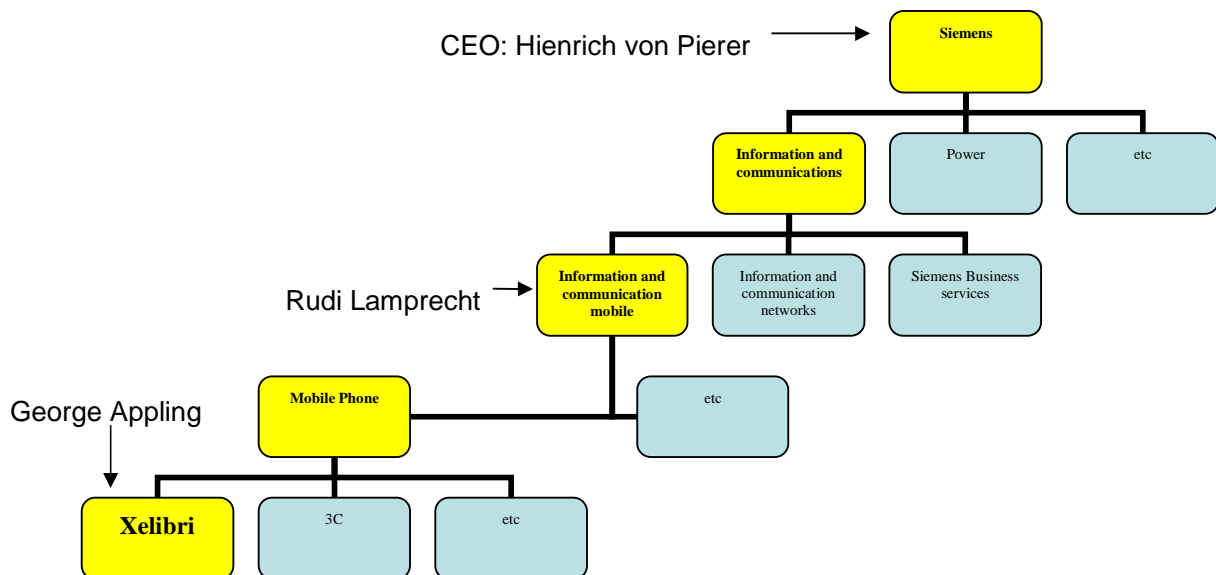
Organisational analysis is an essential part to strategic decision making, as the objectives of the organisation and where accountability lies within the different strategic business units must be clearly defined. Strategy must be aligned to stakeholders' satisfaction (Joyce and Woods, 2001). Corporate culture and ethics must be also taken into account when implementing strategy ensuring that strategy is appropriate and can be implemented within organisations.

5.1 Mission, objectives and corporate governance analysis

Siemens is in the electronic and electrical engineering sector. The company is divided up into 6 independent operating groups:

- Information and communications
- Medical
- Lighting
- Automation and control
- Power
- Transportation

Xelibri is under the information and communications group as follows:



Source: Johnson and Scholes, Exploring Corporate Strategy: Texts and Cases, FT Prentice Hall, 2001. Page 822.

Although Xelibri is under the 'Information and Communications, Information and Communication Mobile, Mobile Phone' hierarchy, Rudi Lamprecht (the president of Information and Communications Mobile) has given George Appling the all clear to establish Xelibri as independent from current operations within the Information and Communication Mobile business unit. Whilst Appling has control over Xelibri, he is directly accountable to Lamprecht. Lamprecht is himself under the ICM division of Siemens, thus whatever is decided by the top management of ICM, Lamprecht will have to ensure is carried out. ICM top management made the strategic decision to attempt to become one of the two top players in the mobile handset industry. All business units within Siemens are scrutiny to the direction given by the CEO (Hienrich von Pierer), thus his minimum return goals for ICM of 8-11% for 2005 will be relevant for Xelibri also, as targets will be passed down the hierarchy.

One of the difficulties within this case is that Appling is setting up the Xelibri team as an independent unit to foster the spirit of start-up, however evidently Xelibri has been setup by Lamprecht to revitalise Siemens mobile phone unit in order to meet the demands imposed by the ICM top management. The CEO will have set these goals to maximise shareholder wealth and ensure Siemens only remains within the most profitable markets.

Thus whilst Xelibri is acting as an independent unit, it will inevitably be driven by the goals of the Siemens as it is operating within the organisation, and all the companies revenue will be rewarding Siemens shareholders. The Siemens board of directors are solely responsible to Siemens shareholder, thus the whole objective

5.2 Organizational culture analysis

Having an independent culture to that of Siemens is pivotal to Xelibri's success. This may prove problematic as a substantial number of people from the Siemens Mobile Phone marketing department and other departments transferred to join the Xelibri venture. Although this is positive, there is a danger that the Siemens culture may live on within Xelibri. It may prove difficult for Appling to effectively create an organisational culture which is not limited in the same way that the Siemens culture was. It is inevitable that operating within Siemens, with employees from Siemens, will result in certain aspects of the Siemens culture manifesting itself within Xelibri (Watson, 2002). This is not necessarily a serious problem, however, Appling will play the essential of role of ensuring which aspects remain.

The external fashion experts may find it difficult to integrate into Xelibri as they are unlikely to have experienced what culture is like within Siemens. The fashion experts may not be attuned to the mobile phone industry and this could also prove problematic.

As a new company, Xelibri will have to establish its own way of decision making and control. Appling has been given complete control of this by Lamprecht. Whilst this gives Appling as much independence as possible, Appling has only worked as a consultant. Assuming Appling does not have experience as a CEO it may prove problematic for Xelibri particularly as they are entering an uncertain, dynamic and quick moving market.

Whilst it is positive that the Xelibri team is made up of 42 people from 17 nationalities, this could also be a potential problem in terms of communication and group dynamics.

5.3 Stakeholders analysis

Key stakeholders:

Stakeholder	Primary Objective	Secondary Objective
Shareholders of Siemens	Financial return	Added value
Rudi Lamprecht	Wage	Work satisfaction
George Appling	Wage	Adventure in starting a new market
Employees of Xelibri (Previously Siemens Employees)	Wage	Work satisfaction
Fashion designers and other employees	Wage	Adventure in starting a new market
Manufacturer	Payment	Long term relationship
End customer	Supply of phone	Social status/Added value

All of the stakeholders above share the common interest of desiring products which are good, profitable and appropriate for the market.

There is a possibility of a 'stakeholder coalition' (Crosby, 1996) arising. If Xelibri does not take off within a couple of years of being established, the shareholders of Siemens, the CEO, Lamprecht and all the management tiers above Xelibri will be eager to close Xelibri down. Thus it is important for Xelibri that they are successful from day one. Xelibri will either be a 'Star' or a 'Dog' on the Boston matrix. Thus the financial results will push these related stakeholders in the same direction.

In order to neutralise the potential coalition arising, Xelibri will need to ensure that the launch is successful and revenue is secured.

5.4 Business ethics

Xelibri is not facing any serious ethical dilemmas. However, one possible minor dilemma could be the poaching of Siemens staff. This could result in discontent from other Siemens departments, facilitating the growth of factions within Siemens which will be corrosive to the organisation as a whole. Xelibri should have a reactive strategy to ethical dilemmas, dealing with problems as they arise.

5.5 Key Strategic OBV issues

The key strategic issues facing Xelibri from the organisational based view can be seen to be founded in the fact that Xelibri has is a new organisation. It is essential that Xelibri establish a culture which is separate to that of Siemens, fostering the spirit of start-up. Another key strategic issue from the OBV relates to the importance of satisfying key stakeholders, as Xelibri must ensure that it is profitable from the beginning preventing a stakeholders coalition arising. Finally, there is the issue that Appling has not had experience as a CEO before which casts doubt upon his suitability for the job.

6 Summary of MBV, RBV and OBV strategic issues

After conducting the internal and external analysis of Xelibri, the following strategic issues can be identified which need to be addressed in the future.

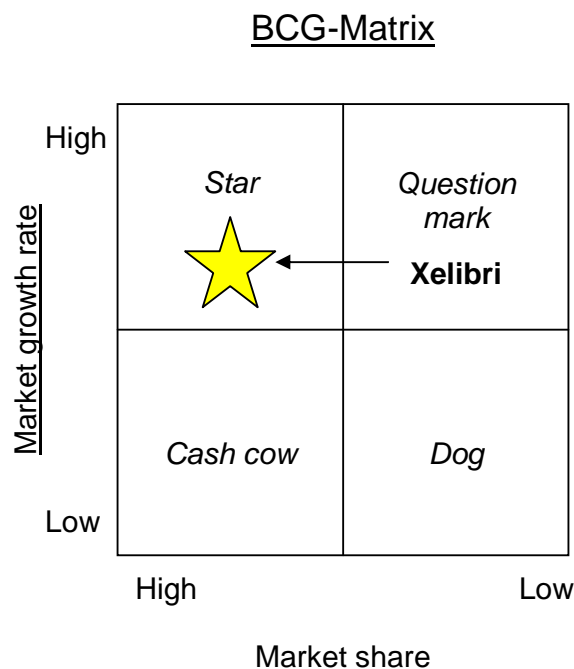
	Key Strategic Issues
MBV	<ul style="list-style-type: none"> • Highly competitive dynamic industry – Oligopoly • High retaliation • High buyer power with operators and retailers • Mature industry – stagnant growth • Technology is currently key driver of change • Differing communication networks e.g. USA has tri-band
RBV	<ul style="list-style-type: none"> • Core competency is marketing and sales but is easily imitable • Outsource most of value chain – loss of control • Currently no brand loyalty
OBV	<ul style="list-style-type: none"> • Xelibri is new organisation • Need to establish own culture • Must satisfy all stakeholders • George Appling – no experience as CEO

7 Analysis of current strategies

Given the analysis that has been carried out upon Xelibri using the MBV, RBV and OBV based views, a number of issues have been discovered when looking at the current strategy. There is a clear opportunity within the mobile phone market to target a new segment of customers who are interested in fashion, and using the first distinctive capability which is having marketing as a core competency can help to consolidate this and to help erect barriers to entry. However, other firms in the market pose a threat as their retaliation is likely to be rapid as they try to compete away the competitive advantage obtained. Relying solely on fashion can only provide limited, unsustainable success, especially given that technology is the key driver of change.

7.1 Siemens as a corporate parent

Siemens' objective is to maximise the wealth of the shareholders and through their role as a corporate parent they are fulfilling this objective by creating a new and potentially lucrative market of fashionable phones. Siemens already have phones within other market segments however through launching Xelibri, Siemens intend that Xelibri will become a rising star on the BCG matrix (Williamson et al. 2004).



Williamson et al. 2004. *Strategic Management and Business Analysis*. Elsevier Butterworth-Heinemann. Page 130.

Through the launch of Xelibri, Siemens are diversifying within the mobile phone market. However, as Xelibri aim to create a new fashion conscious market, it should not infringe on Siemens current mobile phone market too severely. As Xelibri is within the Siemens portfolio, Xelibri will benefit from economies of scope.

Problems with corporate parent

As the corporate parent, Siemens have set the objective of minimum return goals of 8-11% by 2005. This may result in Xelibri focusing too much on the goals set by the corporate parent rather than being customer facing (Goold et al. 2006). Essentially, Siemens as the corporate parent has identified a niche in the mobile phone market and has provided the resources for Xelibri to grasp the opportunity to create the new segment in fashionable phones. This strategy as a corporate parent may backfire if Xelibri is not successful, as it will be unpopular with shareholders and may deter corporate investment in the future. According to (Goold et al. 2006) corporate hierarchies inevitably result in some value destruction as resources are wasted in reporting and senior corporate managers divide their time between a number of business units. Inevitably this is also the case in Siemens, with Lamprecht and other senior managers attempting to manage several business units.

8 Identification of strategic issues

Potential problems

Given the highly competitive nature of the industry, there is high expected retaliation from the existing big players. Therefore it is probable that rival companies will produce similar fashion driven phones, perhaps with better technology to further differentiate their product. Smaller competitors have used this imitation strategy with great success in China's market, where they have copied the leading manufacturers' phones. They have been able to take an increasing share of the market there.

Using Xelibri's core competency of marketing, the exclusivity of the brand and product needs to be strongly emphasised to ensure users perceive a particular quality and style.

The fashion world is very hit or miss in terms of success and it is not unforeseeable that a complete range of phones could completely fail due to an unpopular design. Xelibri should be aware of this potential failure and be able to produce a new line of fashion phones with a different theme which is more in tune with the fashion world.

Having established that the key driver of change in the market is technology there is the potential for Xelibri to fall greatly behind if it does not keep up with rival companies. Although the decision to re-use chips to reduce waste and only use proven technology could reduce production costs and increase profit, it could mean the phones are potentially up to a year out of date in terms of functionality. This would greatly limit demand and could ultimately prove costly.

There is also potential for Xelibri to cannibalise Siemen's sales, eating into their market share. However through targeting a different market share and using specific marketing campaigns this can be avoided.

9 Future strategic options

Price

Pricing is vital to a brand's image. Xelibri must therefore set the price high enough to ensure the product is considered to be exclusive but not so high that it will discourage potential consumers. The main options for Xelibri are to price it above the rest of the market or to price it on the same level as the competition.

Distribution

The decision of where to stock Xelibri phones will also have an impact on the brand image. One could stock the phones in either high fashion designer department stores such as Selfridges or Harvey Nicholls or through mobile phone retailers such as the Carphone Warehouse.

Countries

The major world markets for mobiles are Europe, Asia and America. Wealth varies widely across Europe so only the most fashionable and wealthiest European countries would be suited to Xelibri phones. In some Asian countries consumers pay relatively high prices for handsets but a recent trend has emerged of smaller Asian phone manufacturers to copy the leading manufacturers' phone design. A different network, tri-band, is used in the USA so the phones would have to be adapted.

Operators

The buyer power of operators and retailers is very high, meaning they have a large degree of control over the price of the product for end-consumers. Xelibri could be sold exclusively through one mobile phone operator, sold through all operators or the phone could be sold independently with no operator contract.

Brand Marketing

Branding Xelibri is the critical issue, because it is a new brand, with no brand loyalty. As Xelibri's core competency of marketing and sales is potentially imitable, they should make it difficult to emulate. Advertising is undoubtedly important but in the fashion world, PR and fashion role models are normally more important. If a celebrity is seen with a product, consumers will also want to own it.

Technology

The lack of new technology in Xelibri phones could prove a problem in the future, as technology is the key driver of change in the mobile phone industry. The market is extremely dynamic; if Xelibri lag behind, this could potentially damage sales.

10 Strategy evaluation and selection

After analysing the possible strategic options that Xelibri could follow, Xelibri should follow the following strategic recommendations. These recommendations have been made following careful analysis of what has so far been discussed in this report.

Price

The price of a Xelibri should be between €300 and €400 to ensure the brand is seen as an exclusive fashion accessory. This will also ensure a high price premium and hence profit margins.

Distribution

If Xelibri was stocked in a mobile phone retailer such as Carphone Warehouse, this would damage the exclusive reputation as there would be no differentiation from existing phones and they would also have the power to set prices. As Xelibri want their phones to be regarded as fashion accessories, they should therefore be sold in high fashion department stores such as Selfridges.

Countries

Looking at the European market, it is clear the most suitable countries to launch in would be the United Kingdom, France, Germany, Spain and Italy. In Asia, the most profitable countries for a launch would be Japan, China, Taiwan and the Philippines. The US market is not suitable for the launch due to the different technology used.

Operators

Selling through an operator would give the operator high bargaining power and would allow them to set prices. This would be detrimental to the brand image so it would be advisable to sell the handsets independently to start with.

Brand Marketing

Without good fashion role models, Xelibri cannot confirm itself as an exclusive fashion accessory. It would be beneficial to hire top models to use the product and therefore it will be seen in fashion magazines like Vogue. Someone who is famous for their fashion sense would be ideal, such as David Beckham or Kate Moss. The media will also be present at fashion events when the first collection is launched.

Technology

Due to the dynamic market, Xelibri cannot afford to have out of date technology even if their phones do look more stylish than the competition. Every seasonal collection should therefore have reasonably new technology in addition to the stylish design.

11 Future recommendations in the long-term

11.1 Future strategic options

To ensure that Xelibri stays at the forefront of the fashion world, top designers could be employed and role models used to endorse the products. This would add great weight to the brand and increase its reputation and hopefully, ultimately also its success. Stella McCartney or Karl Lagerfeld would be a suitable candidate for such a role.

Due to the technology-driven nature of the industry, Xelibri should try to incorporate some of the latest technology into their phones, to further add value to their product, so that just being fashionable is not being solely relied upon.

We also believe that entering into the US market should be considered in the future, although there will have to be technological changes with the phones to ensure they are compatible with the different tri-band network.

Setting up Xelibri stores is also a future option, in a similar style to the ones Apple have created, which convey the brand image of fashion and exclusivity as well as being another outlet to sell the product.

As a very last resort, if the phone line does not take off, a price drop could be considered, however we would strongly advise against this as it would severely damage the image of an exclusive brand and hamper any chances of being able to charge a premium price on the new design of phones in the future.

11.2 Future strategic alliances

There could be potential benefit through an alliance with a leading fashion house such as Diesel. Collaboration with a powerful brand would enhance Xelibri's fashionable image and hopefully lead to further sales through the positive associations with this alliance.

Sponsorship of high-profile events should also be considered to increase brand awareness – for example, the Clothes Show Live, in the UK, would be a suitable event.

Finally selling through a network operator and achieving bulk sales could be a future step, however the loss of the ability to set the price and the potential for the phone to be subsidised or given out for free on a contract, could detract from the

exclusivity of the brand. However, the increase in revenue from selling a larger quantity of phones could compensate for this.

Also selling through phone retailers such as the Carphone Warehouse could increase sales, care would again have to be taken to ensure that the appropriate brand image is conveyed when handing over control of the sale in store to them. Exclusivity and the quality of the brand would need to be strongly emphasised.

12 Conclusion

After considering the internal and external analysis, it is clear that there is a wealth of strategic issues that need to be considered. Taking into account current strategy, Xelibri will have to address these issues to achieve a long term sustainable competitive advantage. Whilst Xelibri have a first mover advantage in the new fashion phone market, they will require more than this to be viable in the long term. As the key driver of change within the mobile phone industry is technology, to make their competitive advantage sustainable, Xelibri will need to ensure that the fashion phones are technologically relevant.

Although the market is extremely competitive and dynamic, through first mover advantage and a focus upon brand marketing, Xelibri will be able to achieve the necessary sales volume to satisfy Siemens' stakeholders.

To summarise, Xelibri should be successful through focusing upon the creation of a new market segment. An initial launch into Europe and Asia would raise publicity and ensure first mover advantage. In addition, through pricing the phone between €300 and €400, and selling the phones only at high fashion stores, Xelibri will ensure exclusivity. However, as has been discussed throughout this report, Xelibri is likely to fail unless the phones are technologically relevant and up to date, therefore, the technology in the phones should match technology within the industry. Finally, through the use popular designers and role models, Xelibri should be able to ensure the product stays at the forefront of the fashion industry.

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