Bang & Olufsen Strategic Analysis since 2008 financial crisis

Summer 2014
# Table of contents

1. Introduction .................................................................................................................. 5

1.2 Problem Statement........................................................................................................ 6

1.3 Delimitation .................................................................................................................... 7

1.4 Methodology and Theory ............................................................................................. 7

2. History of the company ................................................................................................. 8

3. Theory in practice ........................................................................................................... 10

3.1 Resource and Capabilities ......................................................................................... 11

3.2 Core Competences ...................................................................................................... 12

3.3 VRIN Test ....................................................................................................................... 13

3.4 SWOT Analysis ............................................................................................................. 16

3.4.1 Strength ....................................................................................................................... 17

3.4.2 Weakness ..................................................................................................................... 18

3.4.3 Opportunity ............................................................................................................... 18

3.4.4 Threat ......................................................................................................................... 18

3.5 Porter Five Force ......................................................................................................... 19

3.5.1 Analysis of B&O within Porter`s Five Force Framework ....................................... 21

3.5.2 Competitive Rivalry ................................................................................................. 21

3.5.3 Threat of New Entrance .......................................................................................... 22

3.5.4 Threat of Substitute ................................................................................................. 23

3.5.5 Bargaining Power of Buyers .................................................................................... 23

3.5.6 Bargaining Power of Suppliers ................................................................................ 23

3.6 Porter`s Generic`s Strategy ......................................................................................... 24

3.6.1 Analysis of B&O within Porter`s Generic`s Strategy ............................................. 26

4. Phase 1 ............................................................................................................................ 26
4.1 Pre-Financial Crisis .................................................................27
4.2 Pole Position Strategy ..........................................................30
4.3 Ansoff Matrix ......................................................................31
4.3.1 Analysis of B&O within Ansoff Matrix .................................33
4.3.2 Market Penetration ............................................................33
4.3.3 Product Development ........................................................33
4.3.4 Market Development ........................................................38
4.4 BCG Matrix ........................................................................39
4.4.1 Analysis of B&O within BCG Matrix .....................................39
4.4.2 Star ...............................................................................40
4.4.3 Question Mark ..................................................................40
4.4.4 Cash cows .......................................................................40
4.5 Evaluation of Pole Position Strategy .........................................41
4.6 B&O Stock market ...............................................................44
5. Phase Two ............................................................................45
5.1 Analysis of B&O within Pestle Framework ...............................48
5.1.2 Economic Aspect ..............................................................49
5.1.3 Social-Culture and Environmental Aspect ............................50
5.1.4 Technological Aspect ........................................................51
5.1.5 Legislation Aspect ............................................................51
5.2 Analysis of B&O within Ansoff Matrix in the Second Phase .......52
5.2.1 Market Penetration ..........................................................52
5.2.2 Product Development .......................................................53
5.2.3 Market Development ........................................................57
5.3 Evaluation of Strategy based on Ansoff Matrix .........................59
5.4 Entry mode .............................................................................................................................................60
5.4.1 Direct Investment ..................................................................................................................................60
5.5 Branding ..................................................................................................................................................61
5.6 Segmentation ...........................................................................................................................................63
5.7 Evaluation of Strategy (leaner-faster-stronger) .........................................................................................64
5.8 share price ................................................................................................................................................70
6. Limitation ...................................................................................................................................................71
7. Conclusion ..................................................................................................................................................71
8. References ..................................................................................................................................................75
9. Appendix ....................................................................................................................................................76
1. Introduction
1.1 Contextual

In recent decades trading among international corporations and the presence of firms in international environment has been dramatically increasing due to globalization and internationalization of businesses. Most international firms enjoyed high growth and expansions in other markets than the domestic markets. It was all possible due to economic booming and internationalization of businesses, but the beginning of world financial crisis of 2008 was the turning point for most international firms. No matter how successful firms were operating, the financial crisis of 2008 had brought it to an end. In order to cope with the challenges of the crisis most firms were forced to bring strategic changes in overall company’s vision. Many firms failed to come up with a good strategy so that it could lead the company in the right direction and save it from the financial crisis. Out of all these international firms only few firms succeeded to bring strategic changes in over all companies operations and push it to the right directions so it could meet with all the challenges that has been brought by the crisis.

Bang and Olufsen (B&O) is an international Danish company, the company produce wide range of luxuries products within video and audio industry. For B&O the beginning of financial crisis in 2008 was one of the toughest and challenging year in overall companies history. According to the company’s financial report, the Company’s sales drops to almost 50 percent, The Company’s revenue, net profit, and net income drops down to unpredictable level which was quit shocking for the company’s management. There are many factors which are accountable for the catastrophic year for B&O. but most important of all, is the price factor, B&O product is categorized as one of the most expensive product among the competitors in the market. As it is obvious that “price signals the quality” B&O products achieved good reputations among consumers in terms of quality and design for decades. Keeping in mind that in period of world financial crisis consumer behaviors changes, although seeing from the price perspective most of B&O consumers are classified as high income consumers, but never the less whoever the real consumers are, the world financial crisis brought a significant changes in consumers’ mind in terms of their consumptions specially with luxury and expensive products such as B&O products which is considered one of the most expensive products in market. According to consumers behavior theory, in situation like financial crisis consumers will tend to increase their saving rather than to consume.

In order to cope with all these challenges brought by the crisis and to minimize the effect of losses the company needed to come up with an efficient, well planned and smart strategic changes in its overall operations around the world. In the year 2008, just a few months after the crisis the company came up with a new strategy the so called ”Pole position strategy” it was planned to pursue by the company for at least two years. The main purpose of this new strategy was to cope with current economic crisis, meaning that to increase the company’s revenues and net profit as well as expansion in new emerging markets at the same time the company aimed to
save costs by closing shops in least promising markets. The pole position strategy was quickly implemented in all dimension of the company and it was perused for almost three years.

Following this strategy, 2011 was another challenging year for B&O a new CEO took place and a new strategy came in to play. As the new CEO took office he came up with his new strategy the so called "Leaner Faster Stronger” there were differences and also similarities between the two strategies. But the main concept of the Leaner, faster and stronger strategy was to triple the revenues and net income of the company. The main focused of this new strategy was to increase the attention into new emerging markets such as BRIC markets. Furthermore these two strategies included, each years of product development, market development, market penetration and diversification in new markets.

The purpose of this thesis is to asses and analyzes the choice of strategies by B&O since the beginning of financial crisis in 2008. To what extend these strategies were successful and brought changes in company’s revenues, net profit and net turn over.

The structure of assessment in this thesis will be more analytical rather than being descriptive along with those critical approaches will be attached including articles, and views from critics towards B&O implemented strategies since the beging of the financial crisis.

For more clearness and understanding the thesis is divided into two phases, the first phase deals with the first choice of strategy by B&O the so called "the Pole position strategy” which covers the first three years right after the beginning of financial crisis, this strategy was launched in 2008 and continued until 2011.

The second phase deals with the next choice of strategy by B&O the so called "Leaner Faster Stronger" strategy this strategy was designed for five years. It was implemented in August 2011 and it is in use till now. In both phases, the thesis will go in depth discussion of the details and specification of both strategies, asses and analyze the effect and consequences of the launch of both strategies, it also compare and analyze the difference and similarities between the two phases and the importance of each strategy in each period of times.

1.2 Problem statement

This thesis analyses the strategic choice of Bang & Olufsen. As pinpointed in the context, B&O has developed two distinct strategies since 2008 financial crisis namely the “Pole Position Strategy” and the “Leaner Faster Stronger” strategy. We will further analyze how each strategy affected the company, in order to be pursue with thesis mindset the below problem statement has been developed.
How was Bang and Olufsen affected by 2008 financial crisis, and how did it cope with the crisis from a strategy perspective?

To best answer the problem statement, following research questions are developed to be answered.

- To what extend did financial crisis affect Bang & Olufsen?
- How are the external factors affecting Bang & Olufsen as a company?
- How the pole position strategy helped Bang & Olufsen during the crisis?
- When/where was the need for the next move from pole position strategy?

1.3 Methodology and Theory

This thesis provides some exposure to practical review of strategic choice and strategy analysis in an electronic, video and audio industry. Following part will account for which theory of science we have chosen to be applicable with analysis of B&O strategies, as well as our methodological choices will be explained and expounded.

The aim of this paper is to pinpoint the topics of interest in relation to the strategic choices and strategic development of the firm with special attention to Bang and Olufsen two developed strategies namely “Pole position” and “Leaner Faster Stronger”.

Furthermore, this section will provide a brief introduction of the theories that have been chosen to answer the problem statement and the developed research questions.

Through the strategic analysis the estimation of performance on earing and growth potential during the 2008 financial crisis until now will be done for Bang and Olufsen. The strategic analysis will be based on the industry level, as well as the company level to assess the conditions the firm faced and how these conditions derived value to Bang and Olufsen.

The analyzing part of this thesis is consists of three main areas. The first part is the general evaluation of the company, which starts with Bang and Olufsen resources and capabilities that helps identify all company’s assets and how these assets are put into effective use. VRIN framework, which helps to identify all the potential key resources and how these resources can be the source competitive advantage. This models is followed by SWOT analysis which will help us analyze company’s internal and external strengths and weaknesses, Porters Generic strategy is tackling the competitive advantage of the company. The external environment of B&O will be analyzed by applying theories such as, Porters Five Forces, which helps to identify the market barriers, the entrant and exit barrier in the industry in which B&O operates.

The second part is phase1, which mainly covers evaluation of company’s new strategy Pole Position strategy. The models used in this part is Ansoff's Growth matrix, this models gives a
sense of company’s activities, discover where the value is created and where not, furthermore it helps identify companies product development opportunities, what products and market growth strategies company follow. The other model used in the part is BCG matrix, which helps to analyze company’s product line and to allocate resources as analytical tool in marketing of the company.

The third and last of the main part of thesis is phase 2, this section starts by analyzing the macro-environmental aspects of the firm. PESTEL framework will help us analyze different environmental factors that influence business performance now and in the future. Ansoff Matrix helps identify alternative corporate growth strategies, the matrix also focuses on the firm’s present and potential products and markets. It considers ways of growth via existing products and new products, in existing markets and new markets. One of the other models used in this part is segmentation, which help firms aggregates of prospective buyers into groups, which have common needs and will respond similarly to a marketing activity, it also enables companies to target different categories of consumers who perceive that full value of a certain product and services differently from one another. This last model used in this section will be branding, involves in creating a unique name and image for a product in the consumer’s mind, mainly thorough advertising companies with a consistent theme. Branding also helps firms aim to establish a significant and differentiated presence in the market that attracts and retains loyal customers. (Bisnes Dictionary, 2014)

We tried to base our research on primary data, in order to do so we designed a personal interview and wanted to interview one of B&O line managers. Therefore, an email has been sent to Bang & Olufsen’s customer service “BeoCare” to set an interview. Due to protection and confidentiality perspectives and huge amount of such request from all over the world, the response was negative and they don’t provide students such opportunity.

Various sources have been used to gather industrial data. Due to subject in hand, all of the data are from secondary sources such as data base search, industry reports, company annual report, industry conference agenda and news article and journals.

Finally, a conclusion will summarize all the points raised in the discussion, most possibly will answer the research questions proposed.

2. History of the company

Bang and Olufsen was founded in 1925 in Struer Denmark by two young Danish engineers, Peter Bang and Svend Olufsen. They both share the idea of developing a superior Radio at the time although their first product was not Radio which they dreamed about, but they developed their first magical product the "Eliminator" a mains receiver that eliminated the need for batteries and worked solely on electricity. (B&O Annual Report 2007/08, page 8) Their first product the
Eliminator was a successful launch in the market, the timing was perfect at the time the eliminator reached to the market, and the electricity has already become common place in Danish households. The first production facility of the company was built in 1927 but few years later by the end of the Second World War the company has been bombed and all the infrastructures were destroyed by Danish Nazi sympathizers as revenge for B&O refusal to work for the occupying forces and because many of its employees were involved in the Danish Resistance. (B&O annual report 2008, page 8) The post war years were the challenging years in history of B&O, the company fought so hard to survive and rebuild the factory. It didn’t take so long that the company established a recognized named for itself in the Danish market. During the 1950s and 1960s B&O was recognized as "The Danish Quality Brand” In early 1950s B&O developed its first black and white TV and later in 1960s they launched their new colored TV in the market.

In late 1960s the market was occupied by a number of Asian manufacturers producing cheap products, which leads many firms get out of market, on the other hand B&O moved into design and high quality segment, this strategy was followed by collaborating with architects and designers since then the company started exploitation of the product with high focus on high quality and design. This was also the time that the company moved out of the domestic market and expands in international markets.

In the late 1980s the company suffered financially in international markets and was not able to stay profitably, The company dispose a large scale of non-core activates and came up with a new distribution strategy, the main purpose of the new distribution strategy was to create B&O own stores, therefore the new strategy abandon the cells of B&O products through multi Brand radio/TV stores but through dedicated outlets which only dealt in B&O products (B&O annual report 2008, page 9) since then B&O created their own shops (B1 shops) around the world. The opening of B1 shops brought strategic success for B&O. these shops were not only B&O representative around the world but also accounted for a large increase in overall sales.

Beside B1 shops B&O also focused on developing a shop-in-shop concept where individual dealers can sell B&O products providing a separate section of the shop is designed according to B&O demand and specifications. (B&O annual report 2008, page 9) Today B&O is represented by stores (B1 shops) in more than 100 countries worldwide which only sell wide range of B&O products.

Following the new Millennium B&O focused on the same strategy of establishing shops in most emerging markets around the world such as China, Russia, India and Brazil.

B&O did not limit their business area into B2C but also into B2B, at the begging of the new Millennium the company established close relation in Auto industry, in their new business area they focused on developing products and selling of luxury sound systems for cars. Their recent achievement in B2B area is their strategic collaboration with big car manufacturers companies.
such as BMW, Audi, Mercedes, and Aston Martin, supplying unique sound system and radios. The strategic collaboration in B2B and focuses on core skills of the company with a differentiation strategy of producing unique designee and high quality create a strong brand for the company.

In year 2008 the company was named one of the coolest brands in the world (B&O group 2008) the company enjoyed years of growths and profitability from 1990s until late 2000s, however things did not go smoothly for B&O. At the beginning of 2008 as the world financial crisis started to hit more countries around the world B&O started to feel the pain back home. It hit B&O so seriously the company has suffered tremendously in terms sales and financial profitability. In order to save the company from the challenges brought financial crisis, the company introduced a new strategy entitled “The pole position strategy” the purpose of this strategy was to help make the company profitable through a focused product development approach, strengthened sales efforts and adjustments of the cost level. (B&O annual report 2008, page 9)

The first three years of the financial crisis was the most challenging years for B&O. as the company was struggling to cope with the crisis a new CEO took office in 2011. He launched a new strategy entitled “The Leaner, faster, stronger strategy ” the new strategy was designed to in increase the profitability of the company three times more than the previous year. And it also had focused on growth and expansion in new markets. Today B&O has more than 800 B1 shops in 100 countries around the world the numbers of employees reach to 2500. Most of the company’s production takes place at the company’s own production facilities at Struer. (B&O annual report 2010 page 10)

### 3. Theory in practice

It is relevant to start the analyzing part with Bang and Olufsen market classification and product classification. B&O sells designed, developed and marketed wide range of luxury audio/video products, including loudspeakers, music systems, multimedia systems and television sets, that combine new technology with stylish design, quality and user friendliness which are durable goods. Nevertheless, it could be argued specialty good given its unique design and luxury item. Bang & Olufsen operates with two business lines; B2C and B2B, and is present almost in the entire globe’s markets.

### 3.1 Resources and capabilities
Strategic Capabilities means that the capabilities of an organisation that contribute to its long term competitive advantage.

Resources are the assets that organisations have or can call upon, and competences are the ways those assets are used or deployed effectively. (Exploring Strategy, 2011, page 84)

Strategy is concerned with a firm’s resources and capabilities to the opportunities that arise in the external and internal environment.

Increasing emphasis on the role of resources and capabilities is the result of two factors, first that firms in the industry have become more unstable, so internal resources and capabilities rather than external market focus have been viewed as compromising a more secure base for shaping the strategy. The second, it has been obviously that the competitive advantage rather than industry attractiveness is the primary sources of superior profitability. (Contemporary strategy analysis, 2013, page 112)

There are four main factors of strategic competitive advantage, Bang and Olufsen’s superior design, higher quality, intangible benefits and the experiential. It is through the great resources in hand, by the year 2008 financial crisis, B&O had 2,664 million DKK in Assets, and 2,051 employees.

B&O has two main kind of dedicated shops, the so called B1 shops which mainly sells Bang and Olufsens Products and Shops-in-shops in which a substantial are of the shop is designed for, and exclusively devoted to Bang and Olufsen’s products. Bang and Olufsen’s products are currently available from 751 B1 shops and 385 shop-in-shops worldwide. In the year 2008, the B1 shops accounted for 81 percent of the turnover, while the shop-in-shops accounting for 19 percent of the turnover. Bang and Olufsen’s pole position strategy part was to continue focusing on these two types of shops with special consideration to the B1 shops and the shop-in-shops outlets are significant distribution channels in areas where the demographics don’t justify.

Irrespective where you purchase Bang and Olufsen’s products, you will encounter well-trained staff specially as Bang and Olufsen invests substantial sums in training the shop staff. (Bang & Olufsen, AR 2008, page 11)

Bang and Olufsen has outsourced all its production of Audio/Viedo components, and sources a large number of product related sub-components and semi-finished products from suppliers. As well as Bang and Olufsen focuses on in housing production of component which core to the company and has developed special expertise primarily in relation to color dyeing, processing and surface treatment of aluminum. These individual products are assembled and hoisted at Bang and Olufsen’s own production facilities in Struer, Denmark and Koprivinc, Czeck Republic. In addition, software and technology form part of the products, all these features helps to differentiate the product and stand away from the crowd, in terms of user-friendliness, sound and picturing.
Human capability has always played a major role in long term sustainable competitive advantage of the company, during the 2007 financial year, a large number of employees participated in the training programmers of a shorter or longer duration. Over the few years B&O has directed considerable attention to competence development for managers and employee. This effort will be on ongoing with this financial year, for instance the so-called IPMA certificates, under which a large number of Technical Project Managers receive training in order to strengthen Bang & Olufsen’s project management Skills. (Bang and Olufsen, AR 2008, page 42)

Generally innovation and product development has an organic structure in Bang and Olufsen, around 300 of company’s employee are involved with product development in Struer, Denmark, it has a small unit in Aarhus, Denmark too which works closely with Aarhus university. In addition, around 30 employee are employed in the innovation and development department located in the factory at Koprincke, and 35 employees in the Estonian business.

Furthermore, around 500 engineers and technicians are involved in the development new products each year, in a close cooperation with the product development department, to ensure that the products has the same features and right quality as desired.

3.2 Core competences

Traditionally companies own and controlled most of the factors of production that design their business-land, labor and capital. According to Prahalad and Hamnl core competence is not only the physical resources but also the unique skills and knowledge embedded in their organizations and to stick to what they do best. A core competency has three main characteristics: (1) it is a source of competitive advantage in that it makes a significant contribution to customer-perceived value, (2) it has application in a wide variety of markets; and (3) it is difficult for competitors to imitate. (Kotler, 2012, page 82)

Bang & Olufsen recognizes the importance of identifying, cultivating and utilizing its own expertise and has over the years built up a number of areas of expertise through experience, practice, development and co-operations with external partners. B&O, core competencies has all the three characteristics; it is a source of competitive advantage such as sound and acoustics, the unique design. It has application in the markets of the world, through market penetration and market development. The user experience mapping, concept development and system integration characteristics make it quit difficult for competitors to imitate. (B&O annual report, 2011, page 3)

Furthermore, when it comes to knowledge centric Bang and Olufsen has built partnership with knowledge centers, including universities, an integral part of life in Bang and Olufsen and an important factor in the ongoing development of the company’s core competences. This has been a long-standing tradition for Bang and Olufsen and the company partners with universities in
Europe and North America. This process places strong emphasis on the both research and its practical application. Engineers and all technical staff participate in professional networks and conferences. In reality the partnerships in based on the updated research strategy on participation in research in all core competence areas. Each era has a technological specialist, who takes care of a research undertaken by a Phd student, financed by Bang and Olufsen. In the same year Bang and Olufsen had embarked on a research partnership with Aarhus University, the School of Engineering in Aarhus and the University of Survey in the UK. We will take into further discussion this part accordance with VRIN framework.

3.3 VIRIN Test

This test verifies, on what basis organization capabilities might be the sources of sustainable competitive advantage and superior economic performance. Furthermore, this considers four key criteria by which capabilities can be assessed: Value, Rarity, Inimitability and non-substitutability. (Johnson, 2011)

Value: strategic capabilities that provides competitive advantage in the market in a price that lets an organisation to realize acceptable levels of return.

Rarity: are those capabilities possessed uniquely by one organisation, if organizations have similar capabilities they respond quickly to strategic initiatives of a rival company.

Inimitability: are referred to a company’s capabilities which are difficult for competitors to imitate or obtain. Search for strategic capabilities that provide sustainable competitive advantage is not straightforward, having strategic capabilities that are valuable to customers and relatively rare is vital.

Non-substitutability: capabilities that provide value to customers and retain competences that are difficult and rare to imitate, it is almost impossible for organisation to copy them due to huge economics cost and uniqueness.

<table>
<thead>
<tr>
<th>Resource</th>
<th>Valuable</th>
<th>Rare</th>
<th>Costly to imitate</th>
<th>Vulnerable to substitution</th>
<th>Competitive implication</th>
<th>Competitive economic performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product and Technology innovation</td>
<td>Yes</td>
<td>Partially</td>
<td>No</td>
<td>Partially</td>
<td>Competitive advantage temporary</td>
<td>Normal</td>
</tr>
<tr>
<td>Customer Service</td>
<td>Yes</td>
<td>No</td>
<td></td>
<td>Yes</td>
<td>Competitive Parity</td>
<td>Normal</td>
</tr>
</tbody>
</table>
The criteria of the VRIN framework clearly rules out the best practices as sources of competitive advantage. However if a firm is easily understand and copy a capability or competence, it does not poses competitive advantage. (Strategic management insight, 2014)

Some of the resources that we are going to focus on using the VRIN framework are, the company’s internal knowledge (know how), company’s Brand, the shop outlets B1 and Shop-in-Shops, the automotive business unite possibility, patents, integrated product and technology development and the exceptional customer service.

Bang and Olufsen has gained a lot of knowledge (know-how) in development, sales and production of audio/video products over many years. This know-how is formed partially on knowledge that the organization has accrued through many years of experience and partly by the knowledge that employees possess. The know-how which employees possess for development and innovation are of great value to the company, as they are the bases for continues help towards creating new products that may push the limits in the future. As a niche player in the audio/video industry, B&O’s know-how is not only valuable but also rare in the industry. As the know-how of the company is not in tangible asset form, but is in the company’s competence and employee’s strength, it makes it expansive and impossible to imitate. Even it takes ages for the competitors to build know-how of a company, which should be the source of competitive advantage. Therefore this resource is seen as sustainable competitive advantage and the economic performance of this resource is said to be above normal. (Bang and Olusen, Rights issues 2009, page 54)

<table>
<thead>
<tr>
<th>Resource</th>
<th>B1 shops</th>
<th>Agreements with Automotive</th>
<th>Brand</th>
<th>Know-how</th>
<th>Patents</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Depends</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>sustainable competitive advantage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Normal</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>sustainable competitive advantage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Above normal</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>sustainable competitive advantage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Above normal</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Figure 1: Bang and Olufsen’s VRIN framework
Bang and Olufsen has a brand image which among other resources will give the company sustainable competitive advantage. The company has built a very strong brand that excludes design and quality, and the recently established sub-brand B&O play, which segments a slightly different group of customers. In a niche market, to maintain such brand is valuable, rare and as well as costly to imitate. B&O has a good opportunity to utilize this resource entirely and categorize it in resource for competitive advantage, the economic performance for this resource is also above normal. This resource is going to be taken into further discussion in phase 2.

Bang and Olufsen business to customer area sales good through B1 shops and Shop-in-shops outlet, among the B1 shops in year 2009 the company owned 42 of them and the rest of the shops are in the form of franchise. As well as there are 265 shop-in-shops, since most of Bang and Olufsen’s revenue is through these two channels of distribution they are extremely valuable for the company. This option is not rare in the industry as Sony and Apple uses the same approach. Many companies choose to advantage of franchising, this is not an expansive resource of imitating. By means of franchise companies normally move huge amount of financial risk, and investment that requires opening the shop by franchisee. And therefore expanding through franchising is not costly, it associates some cost by franchisee. According to the new strategy the plan is to optimize and improve these distribution channels and increase the number of stores in most emerging markets. These sources are not giving the company any sense of competitive advantage, but are instead rather a competitive natural source, which gives B&O a normal economic performance.

Automotive agreement of Bang and Olufsen with Audi, Aston Martin, Mercedez and BMW is undoubtedly valuable to the company and may in the future come to be extremely valuable. The agreement with automotive industry has established an opportunity for the company to revel itself as supplier of audio system for exclusive auto brands. Thus, these agreements will open up the opportunity for B&O to inaugurate in a relatively new industry-something which might be extremely valuable in the future. As the agreements are relatively expansive and exclusive with car manufacturers this resources is considered to be both rare and expansive to replicate. Taken all the possibility into account, the resources gives the company a sustainable competitive advantage and will provide a normal economic performance.

Bang and Olufsen is trying in many ways to optimize their customer service. In the shops, B&O tries that customer get a dynamic and engaging customer experience, when they visit a B&O store. The stores are designed in way, that customers get a chance to get a rally of all the products, they are able to see, hear and feel how the products are experienced. Simultaneously B&O customers get the right advice and professional support through educated and trained staff. This resource is very valuable for the company, as the store represents the external image of the company to the customers. Providing good customer service is not an unknown phenomena in today’s world, companies provide excellence customer services around the globe that makes this
resources not rare or neither too expansive to replicate. Therefore we assessed this resource to be competitively natural and the economic performance is normal.

In respective to innovation and unconventional product and technology development, Bang and Olufsen has always been famous for a rather extraordinary product and technology development, through their innovative mindset, they have over many years managed to push the limits of both technology and design. This has been and is a valuable resource for the company, but this has been debatable whether the resource is rare. Immediate innovation and product and technology development is not a rare event in the audio/video industry most companies in the industry constantly develop and design new technological products. The innovative thinking and innovative culture is bit rare in B&O niche market that it is for the industry in general, and therefore we can argue that the resource is rare. This resource can be assessed to be neutral or temporary competitive advantage for the company and the economic performance is measured to be above normal.

More companies prefer to protect their products by patents, something which makes the resources expansive or impossible to imitate. Bang and Olufsen has patented it new technology in order to remain a leader in its market segment. In case a patented technology is considered to be not be significant or have any kind of strategic benefit to Bang and Olufsen, the company gives it to a certain extended license third parties. According to Rights Issues, Bang and Olufsen has approximately over 100 patents and pending patent applications, of which 32 are assessed to be essential for the company. A concern fort the company is that patent for these 32 products expires in 2019. Normally patents are to protect products from the potential competitors and therefore they are very important resources. The basic principle of patent is that it protects a product or product innovation, and therefore it will be costly and illegal to imitate. We argued that this resource will give the company a sustainable competitive advantage and the economic performance of this resource is above normal.

3.4 SWOT Analysis

The overall evaluation of a company’s strength, weaknesses, opportunities and threats is called SOWT analysis, likely to impact on strategy development that arises from such analysis. This can also be useful as a basis against which to generate strategic options and assess future courses of action. SWOT can also help focus discussion on future choices and the extent to which an organization is capable of supporting these strategies. (Kotler, 2012)

One main critical point with SWOT, is that it long lists all the strengths, weaknesses, opportunities and threats but what matters to be really clear about what is more important and what is less important, basically prioritization of issues matters.
SWOT model is one of the most related and extremely useful tools for analyzing strategic position of B&O in the market among the competitors, the greatest advantage of SWOT analysis is that, it not only assess and examine the company’s internal environment (strengths and weaknesses) but also external environment (opportunities and threats) it gives an overall picture of the company’s position in regards with other competitors. A SWOT analysis can also be used to analyze whether the strategy chosen by the company seems to be the right one. In order for a strategy to be successful there has to be a strategic fit, which means that the strengths and weaknesses of the company matches the opportunities and threats in the environment (Elling and Sorensen 2005, Page 103)

3.4.1 Strengths

A firm’s strengths are the resources and capabilities that it uses to gain a competitive advantage (Laurence, 2009) in case of B&O the company has a long history in video and sound industry, they have travel so long and managed to maintain its core competences through years of experience, invocation and developments. Their greatest capabilities are categories in delivering high quality high performance and unique design products among other competitors, which give them a high brand value.

B&O is a well-known company which through the years of producing excellent innovative products has established itself as a top brand. The brand value has also been increased by the numerous awards the company has received for Great design and technical solutions (Bang & Olufsen) due to its high brand image the company was named two times as the coolest brand in 2008 and 2011. Their brand values are considered one of the potential strengths of the B&O, one of the other great strengths that B&O has is customer relationship and customer care. The evolution in technological development in products brought lots of challenges for customers to deal with it, B&O as one of the firms which has an upper hand in technological developments in products understands the concepts therefore their products are manufactured to be user friendly, the product interface are designed the way that customers find it easy and friendly to deal with it. Most of B&O products are purchase from B1 shops where customers receive substantial help from B&O personally, which basically give the customers the opportunity to ask for their needs and choices and get an experience of their desire products on the spot. This gives the customers more satisfactions and happiness, one of the long term visions of B&O as an international company for decades was to create a good customer relationship this strategy was part of the company since the foundation, we can claim that one of the potential factors for the success of the company is their customer relationship. The last but not the least strength of B&O is the good relationship with its suppliers, through years of experience B&O understands the importance of having good connections with its suppliers. B&O products are unique in terms of design technology and quality, their product’s materials are complex and with high specifications and requirements there are few suppliers which are able to fulfill the requirement that B&O wants, if
the company gets any problems with any of these suppliers it would be hard for the company to find an alternative in the short run and it would be so costly to switch and adjust therefore creating a good relation with suppliers were one of the priority of the company from the beginning. The company tries to establish a cooperating relationship with its business partners. This has enabled B&O to get assistance and benefits from both suppliers and buyers (Bang & Olufsen Group 2008, page 39).

3.4.2 Weakness
Although the company has manage to build many internal strengths through experience during all these decades, but it never been that simple there are always been challenges and weakness for B&O to cope with, one of the biggest weakness for B&O when it comes in competition is the price factor, most of B&O products are three times expensive than the other competitors. Basically B&O targeted segments are high income consumers and consumers who are loyal to the company, in fact that is has been pragmatic for the company in the past and it is considered a huge threat in the future as well. In the past economic crisis the company has been through tough situation one of the most recent one is the financial crisis’s of 2008 which has been a challenging year for the company, one of the key factor that has played a huge role was the price factor, as the financial crisis escalated around the globe consumers perceptions towards buying expensive products has changed, they no longer wanted to buy more expensive product like B&O instead most consumers switch to alternative products which are cheaper and in that way they could save more. In fact the price factor is not only related to consumer’s perception but also considered as a weakness against other competitors in the market.

The level of revelry in the industry that B&O existence now is getting so intense that each player is trying to catch up the front runner and dominated the industry, one of the other biggest weaknesses that B&O has in regards with price and their competitors are that most of the production takes place in Denmark Production facilities, administration, material supplies and distribution to other part of the world all takes place from Denmark, the cost of labor, shipping costs, logistics of raw materials and supplies are so high in Denmark, that is also one of the main factor of high price for B&O. Other competitor not only supplies in cheaper price but they are all also cat Ching up with technological development.

3.4.3 Opportunity
There are a lot of opportunities for B&O beside the fact that there are many threats and competition intensity in the industry, one of the greatest opportunity in the future for B&O is the consumer desire and demand for design, B&O is one of top companies that is famous for their design and quality, B&O can increase their market share by increasing more focus on innovation and design which they are already good at it and has years of experience in that area.

The other opportunity for B&O which is possible to get benefit in near future is to enter into new emerging markets such as BRIC markets, it seems that they have already seen the opportunity,
recently they have entered new emerging markets such as China, Hong Kong, Taiwan, India and Brazil, but they haven’t exploit the full potentiality of the market specially countries like China, India and Brazil have a very promising future.

There are also many opportunities in B2B section, The automotive where B&O has strategic collaboration with top auto manufacturers such as AUDI, BENZ, BMW, Aston Martin, and also enterprise like luxuries hotels, for B&O the B2B section has played a major role in increasing net turnover in the past years, expanding of collaboration with auto industries and enterprises would lead to great opportunities where not only it increase the overall turnover but also it can also open doors into a diversify gate of new business.

3.4.4 Threats
One of the biggest threats that B&O is facing at the moment is the threats of close competitors in high-end technology goods, especially in audio and videos industry. The intensity of rivalry in this industry pushes other competitors to catch up B&O in terms of technological development in products, the biggest threat here is that these competitor targets huge segments of the market with much cheaper price then B&O’s, the probability that B&O consumers switch to any of these competitors who offers much cheaper is so high, if B&O does not consider this issue seriously it would not be wrong to assume that in near future B&O would lose a big segment of their consumers.

One of the other threats in relation to B&O is the currency risk, B&O is currently operating in more than 100 countries, any economic disorder or political instability would lead to huge currency fluctuation risks, they need to come out with new solutions to decrease this risks also while entering any new markets B&O needs to consider the risk of currency fluctuation which plays a major role in competing in a new market.

3.5 Porters’ five force
In his classic industry competition model, Michael E. porter, Professor at Harvard business school, has identified five forces that determine the intrinsic long run attractiveness of a market or market segment, industry competitor, potential entrants, substitutes, buyers and suppliers. (Kotler 2012 page 332) According to porter the five forces are the fundamental indicator of market competition. Based on each of these five forces the companies would assess and analyses the market and shape their strategies.
According to Porter, firms who are competing in the markets understanding of these five forces are the essential and vital factor. Competitions in the market have lots of challenges competitors are looking for new opportunities, consumers requirements and interests are changing quickly. Only those firms who could fulfill these requirements and reacts according market shifts would be able to compete and stay in the market. Each of the five forces is taken into further discussion as below.

Industry competitors (Threat of intense segment rivalry)
In most markets, competitions are based on the number of competitors and the amount of profit firms can make. In a market where it is easy to entry and where there is perfect competition it is likely to attract new firms. But it is not always the case. Now days most industries are captured by many competitors competing with each other’s that makes it difficult for new firms to entry the market.

A segment is unattractive if it already contains numerous, strong or aggressive competitors and if these competitors have high stakes in staying in the segment. (Kotler, 2012, page 332) According Porter high competitiveness in the industry put pressure over competitors which will results in price war, innovation, differentiation etc. between the competitors which makes it harder for new firms to enter the market.

Threat of new entrants: Threat of the new entrant as mentioned above are most likely to happen if in a market where it is easy to enter and easy to exit and most important of all is there any possibilities of making profit out of entering a specific market. For most firms which exist in a
market threat of new firms entering the market is a major concern. That is why most often the existing firms always tries to create entry barriers for new comers or at least make it more harder and riskier to enter the market.

Entry barriers such as economics of scale and scope, product differentiation, innovation, investment in RD and advertisement (brand loyalty, brand awareness) cause close customer relationship creates a buffer zone for the existing firms in the market.

Threat of substitute product: The threat of substitute exist when an existing competitor or a new comer provide substitute or complementary product which either has a better performance or a lower price. According porter substitution creates a limit on the price and profit. If technology advances or competition increase in these substitute industries prices and profits are likely to fall. (Kotler 2012 page 332) The factors that have impact on, how much substitute of product can be a major concern for a firm is buyers switching cost, price and brand loyalty.

Threat of buyers (bargaining power): Threat of buyers is the force which defines how much buyer has the ability or power to impose pressure on the firms to get more benefits. Buyers bargaining power grows when they became more concentrated or organized, when the product represents a significant fraction of the buyers costs, when the product is undifferentiated, when buyers switching costs are lower, and when buyers are price sensitive because of low profit. (Kotler 2012 page 332)

Threat of suppliers (bargaining power): the bargaining power of the suppliers is that the company’s suppliers have the power or ability to raise the price or to reduce the quantity of the supply or act in their favors whenever they want. Most firms are dependent over the suppliers. A higher bargaining power of supplier simply means that they could raise the price or reduce the quantity of supplies or bring any other changes which could benefit them and that is only possible if the firms is either over dependent on a supplier or the number of suppliers are so low or the switching cost from one supplier to other supplier are so high.

According to porter these are the five basic forces that define the current competitive position of the firms.

3.5.1 Bang and Olufsen’s porter five forces
This section of the assignment will be focus on the framework of porter competitive forces as discussed in the theatrical part of the paper according porter these are the five forces that shape the strategy of a company. In analyzing the strategy of B&O it is very necessary to look B&O strategic position in accordance porter five forces.

3.5.2 Competitive rivalry
According porter one of the most important force in his five forces is the competitive rivalry within an industry. The level of competition within an industry is based on the number of
competitors and the market structure. In the visual and audio industry there are large number of players each of these players has cover different market segments and pursues different strategies.

B&O follows a differentiation strategy that makes them different form other competitors. Beside the quality and design of B&O product which gives competitive advantage. One of the other factors that B&O has an upper hand compare to other competitors is the technological developments in B&O products. B&O products are designed with latest technology especially in visual and audio industry the speed of technological development is so high that most of the firms in this industry failed to catch up. But what really makes a company to be competitive and gain competitive advantage is their core competencies it is the lined set of skills, activates, and resources that together deliver customer value, differentiate a business from its competitors and potentially can be extended and developed. (Exploring Strategy Johnson, 2009, page 89) In case of B&O their core competencies which built up a number of areas of expertise through experience, practice development and cooperation with external partners. Of these areas of expertise such as sound and acoustics, user experience mapping concept development, design system integration and craftsmanship. (B&O annual report 2012-13 pages 5)

According this definition B&O mainly Focusing on design, quality and development, today B&O has high image among their consumers came from their high quality and uniquely design which give B&O highly competitive advantage.

3.5.3 Threat of new entrants

The second force out of five force of porter is the threat of new entrance. In case of B&O we need to have a look in to different aspects of the industry such as how easy it is for a new firm to enter and exit, as well as the number of competitors, the price, the level of competition among competitors and many other entry and exit barriers that exists. In the visual and audio industry that B&O is competing there are many other competitors such as Base, Sony, Toshiba, Philips, LG and many other smaller competitors but the main competitor until 2013 was Loewe from Germany, Loewe produces high end products as Bang and Olufsen such as television and music systems. Loewe was financially gone bankrupt on October, 2013.

It is not easy for a new firm to entry the market and competes with these big competitors. Especially competitors such as B&O, Sony Toshiba Philips and LG are worldwide famous and exist in the market for decades, first of all it needs huge investments and it take decades to create an image like these competitors. What is seen as a risk for B&O in the industry is the firms which are already exist in the market but they are not focusing too much on the segment that B&O is providing product. Most of these competitors are mostly focusing either on cost leadership strategy or noncompetitive strategy providing their own segments, on the other hand B&O is more focusing on differentiation especially quality and design, so there is a high possibility in the future that these firms changing from their own segment to differentiation or
targeting B&O segment. Since these firms exist in the same industry for decades they have the experience, they have their brand image and they have huge capital investment. Beside that now a days the consumer’s choices has changes rapidly. It is not only the prices that most consumers are thinking, they want more intangible values within products. Apple is a great example for the revolutionary thinking of changing the product not only in design but also placed a lot of other values associated with the product that the consumers can get access to these values just by getting access to one of these products. Based on the changes in the consumer’s choices more firms such as Sony, Samsung, LG and many other firms are changing their product design. Most likely in few years from now B&O would find a lot of threats from these existence firms which is one of the important factors for B&O to take it to consideration in the future. Never the less the threat of new entrants is quite low.

3.5.4 Threat of substitutes
The third force that porter came up with is the threat of substitutes. As mentioned above B&O products are different in terms of design quality and functions, there main consumers are those with high income or those who think more in terms of quality and brand values, for these consumers the threat of substituting from B&O to another product is low. On the other hand there are consumers who do care about quality and design but they also do care about price. If a new firm succeeded to fulfill the requirements for these consumers producing at a lower price with higher quality, for this sort of consumer the threat of substituting is high. As mentioned early in the discussion B&O should consider the threat of other existing firms both in terms of product substitution and also in terms of threat of firm’s entry in the same segments.

3.5.5 Bargaining power of buyers
The fourth force that porter had in his model is the buyers bargaining powers. In order to assess buyers bargaining power in relation with B&O, we need to see it from two perspectives. B&O is currently operating in two business areas B2C and B2B. In B2C market where customers are buying B&O products from the stores and they are usually either the customers who are loyal to B&O or the customers are looking for high quality and design product. Since B&O has niche segment different from other competitors the bargaining power of buyers are low. On the other hand if we look at B2B area, B&O has strategic corporation with four biggest car manufacture company (BMW, Audi, Mercedes and Aston Martin) for B&O being in corporation with these car companies is one of the key factors for the success of the company. It benefits them not only financially but also in terms of reputation is a great advantage for B&O. Based on that argument the buyers barging power in B2B are is higher.

3.5.6 Bargaining power of suppliers
One of the important forces that porter came along with is the bargaining power of suppliers. In case of Bang and Olufsen they have been successful to create a good relationship with its
suppliers. B&O enjoys close partnerships with leading suppliers-selected in accordance with the strategy-in areas in which B&O does not itself possess the requisite knowledge and competencies. These partners not only supply components for B&O also knowledge and skills for the development of the products. (B&O annual report 2008, page 41) Seen from a strategic point of view B&O and its suppliers are not only having the relationship of buyer and supplier but also having corporation in terms of skill and knowledge. This relationship will benefit both party and therefore would decrease the risk of suppliers to use their bargaining power.

Beside that B&O produce different kind of product, each of these products are made of different small component. There are a lot of suppliers in the industry who could supply B&O, how ever since B&O is a worldwide brand operating in the visual and audio industry there are many other suppliers who are in favor of being in cooperation with B&O based on that assumption the bargain power of suppliers are not high enough for B&O. On the other hand there are some factors that we could also argue that the suppliers do have bargaining power B&O product are unique and high quality. Only a few suppliers are able to fulfill the requirements of B&O, that can be consider one of the important factors that put a limit on the number of suppliers who are able to meet the B&O requirements the other factors in favor of suppliers bargaining power is the swit Ching cost, since B&O produce different kind of product. Each of this product has a special type of requirements both in terms of quality and in terms of design. It needs a high level of investment, swit Ching from one supplier to another supplier will be so costly for B&O which can be consider a factor in favor of suppliers. Never the less as mentioned above the close relationship with its suppliers and B&O reputation and the special supplier requirements which is not available in the market, all and all take us to the conclusion that the supplier bargaining power is high.

3.6 Porters’ Generic strategy
Porter Generic strategy talks about the strategic choice of a company. What is the best strategy for a firm to follow? And how could they achieve competitive advantage over other competitors.

Competitive strategy is concerned with how a strategic business unite achieves competitive advantage in its domain of activity in turn Competitive advantage is about how a strategic business unit creates value for its users both greater than the cost of supplying them and superior to that of rival strategic business units (Johnson, Exploring strategy, 2011, page 199)
According porter there are three fundamental ways firms can achieve competitive advantage. He came up with three generic strategies (cost leadership, differentiation, and focus). The three generic strategies are illustrated in the figure 3.

Cost leadership: cost leadership strategy involves becoming the lowest cost organization in a domain of activity. There are four key cost drivers that can help deliver cost leadership: input cost, economies of scale experience and product/process design. (Johnson, Exploring strategy, 2011: page 200)

Input costs are those costs that are involved with raw materials, labor hours, transportation, and operations. Many competitors tried to cut down these input costs for example by shifting to another countries which has lower labor cost or lower raw material cost, in order to achieve competitive advantages in terms of cost leadership.

Economies of scale are another key factor which helps the firms to reduce the average cost of their product by producing in large scale. Experience on the other hand is one of the other advantages for the firms which had been operating in a segment for a longer period of time. Having experience would help them to be cost efficient and produce to a lower cost. Product/process design is the method of finding the cheapest way to accomplish a task with acceptable quality requirements. All these factors would help firms to follow a cost leadership strategy.

Differentiation strategies: The second strategy that porter suggests is differentiation. Differentiation involves uniqueness along some dimension that is sufficiently valued by customers to allow a price premium. (Johnson, Exploring strategy, 2011: page 199) According
porter differentiation varies between markets. Managers within the firm needs to be careful on what attribute they should differentiate.

Differentiation strategies require clarity about two key factors the strategic customer which is to identify clearly the strategic customer on whose needs the differentiation is based on and the other one is the key competitors differentiation allows higher prices but usually comes at a cost (R&D branding, or stuff quality) the differentiator need to ensure that the additional costs of differentiation do not exceed the gain in price. (Johnson, Exploring strategy, 2011: page 204-5)

Focus strategies: The focus strategy is the third generic strategy suggested by porter a Focused strategy targets a narrow segment of domain of activity and tailors its products or services to the needs of that specific segment to the exclusion of others. (Johnson, Exploring strategy, 2011: page 205)

According porter the focus strategies has two variants (cost or differentiation) the cost focuser will always look for the areas that broader cost based strategies did not succeed. On the other hand differentiation focuser will try to identify and fulfill the needs of a specific segment that the broader differentiator could not reach or fail to serve.

3.6.1 B&O’s Porter’s Generic Strategy

As discussed in the theoretical part of the assignment porter classified three sorts of strategies in his model, cost leadership, differentiation and focus. Based on their core competence, capabilities and resources firms choose a specific strategy that fits them best and gives them competitive advantages. In case of B&O if we look back to B&O’s historical background we can see that decades ago the company followed a differentiation strategy. The factors which gives B&O a competitive advantage and to differentiation them from others is the Design. Bang and Olufsen devotes considerable efforts to creating innovation and durable concepts and designs to differentiate the company from other consumer electronics producer. (B&O, annual report 2012: page 44). Second innovation ability “B&O is constantly striving to optimize the company’s innovation processes, which encompasses the definition, creation and realization of the right products for customers in the target group. The product and technology strategy is continuously being developed based on general market development input from markets and customers, completed technology projects and B&O so called technology radar which contains information on and overview of expected future technologies. (B&O annual report 2012: page 44).

One of the other factor is Quality, B&O is obliged to surpass its customers expectation for the best possible quality, innovation and craftsmanship. B&O consciously improve the efficiency of its quality management system by preventive quality improvement activates with well-organized and well educated staff at all levels, stuff who are recognized for their professional integrity and practice and customer oriented approach. (B&O annual report 2012: page 44)

Although choosing differentiation strategy gives B&O competitive advantages but there are many other disadvantages associated with differentiation strategy one of the disadvantage is that B&O products are considered one of the expensive products in the market one of the reason
behind that is that most of B&O products are produced in Denmark. Labor cost and material cost are much higher in Denmark compare to Asian countries; seen from a cost leadership strategy B&O will not be able to enter markets in low income countries. Not only that there is also risk associated with expensive product, now a days many other competitors in the market are trying to catch up with quality and design the same as B&O can provide to the customers and the fact is that they are be able to put much lower price than B&O. That is a huge risk threatening B&O in the longer run

4. Phase 1

4.1 Pre-financial crisis strategy

This thesis pinpoints the strategic analysis of Bang and Olufsen since 2008 financial crisis. It is a good idea to start phase1 with a brief introduction of company’s strategies in previous years, more specifically since 1990s and beginning of the new millennium. Bang and Olufsen, always rattan to mission statement

“Bang and Olufsen manufactures a high distinctive and exclusive rang of televisions, music systems, loudspeakers, telephones, and multimedia products that combine technological excellence with emotional appeal”

But there have been small strategic changes along with the economic boom or downturn, throughout the years.

One of the major strategic changes in early 1990s, was that Bang and Olufsen experienced difficulties staying profitable, new distribution strategy was launched, no longer Bang and Olufsen’s products sold throughout multi-brand radio/TV stores, but through dedicated B1 shops which only dealt with Bang and Olufsen products.

In the year 2000 Banag and Olufsen Audio Visual pursue distribution strategy that has proved it worth, the number of well-located and well-staffed B1 shop and shop-in-shops will be increased throughout the world and the retailers will be provided with best tools possible. Beside a strong product portfolio will include target marketing in crowd and important European markets as well as the US and Japan. Furthermore, Bang and Olufsen operates with subsidiary in responsibility for developing the distribution channels across the globe, recently a regional head office for Asia was established in Singapore. In the same year, the announcement stated that Bang and Olufsen Telecom’s turnover in the first half years was DKK 75 million relatively below as the same period last year. The decline was due to delays to the cordless telephone, BeoCom2. But the inclusive distribution strategy would be maintained with increase concentration on sales through alternative networks. Bang and Olufsen Medicon a/s was developing and expanding a
partnership with AstraZeneca, one of the world’s leading pharmaceutical companies. (Bang and Olufsen, Annual Report 2000)

Among the others, a new CEO Torben Ballegård Sørensen was hired to join the company as of July 2001, through an informing report sent to the Copenhagen Stock Exchange, this happened after Anders Knutsen announced his intention to leave Bang and Olufsen no later than 2002.

Year 2003 was characterized generally economy slowdown, but Bang and Olufsen maintained the strategy for consolidation, caution and efforts to increase the overall gross margin. (Bang & Olufsen, Annual Report 2003)

In 2005 B&O focus on expanding distribution in cooperation with partners with huge brand experience, the strategy was to penetrate these markets with high sketch-shops in the region’s metropolises. This was a part of the B&O’s new markets Brazil, Russia, India and China which are positively developing. Subsequently during the same year 5 new B1 shops opened in China, which the number reached to 10 B1 shops and One new B1 shop opened in India, which the number of B1 shops reached to 3. (Bang and Olufsen, Annual Report 2005, page24)

Bang and Olufsen pursuing new growth strategies since year 2000, the company continues to establish shops worldwide including the growing markets. During this period the company has launched different inventive products, which meet B&Os’ high quality requirements and design, setting new standards for the industry. Not only on Audio brand which BeoLab 5 was named one the worlds coolest Loudspeakers, but also video brand. In the year 2006, according to highly respected British Trade Magazine, the LCD TV BeoVision 7-40 got highest scores in terms of sound and picture.

There has been a growth of DKK 19 million from the number of overseas markets in expansion markets globally DKK 186 million in total. Russia in particular, continued a positive development, the distribution strategy to open B1 shops in well located markets has subsidized to raising Bang and Olufsen awareness and the two B1 shops in Moscow were position first and second place in the Bang and Olufsen’s top selling list. (Bang and Olufsen, Annual Report 2006, page 9)

Year 2007 was a fascinating year followed with best sells at the second half of the year. Despite some difficulties and economic downturn, it was a pleasure for Bang and Olufsen to memo 2007 with the fourth highest turnover year in the company’s history. The company continued the whole-hearted commitment to innovation, idea and product development is the essential point in the company’s strategy. In addition, the number of new products these representative led, for example to the introduction of Automatic Color Management during the year. This patented system funds, that company’s plasma TV maintain their full color and picture quality through their life time. On other hand, the quality of an ordinary Bang and Olufsen, plasma TV color and picture quality falls down over time. Bang and Olufsen always over its history tries to attempt to
differentiate their products and continuously set new standards and quality by delivering solutions that fulfills the need. (Bang and Olufsen, Annual Report 2007, page 11)

Just before the financial crisis Bang and Olufsen was enjoying its high turnover. You can notify the high performance of Bang and Olufsen in figure 4, that it has higher Net turnover of DKK

<table>
<thead>
<tr>
<th>Group (DKK million)</th>
<th>2006/07</th>
<th>2005/06</th>
<th>2004/05</th>
<th>2003/04</th>
<th>2002/03</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit and loss account</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net turnover</td>
<td>4,376</td>
<td>4,225</td>
<td>3,742</td>
<td>3,610</td>
<td>3,974</td>
</tr>
<tr>
<td>Of which in foreign markets as a percentage of above</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating profit</td>
<td>530</td>
<td>439</td>
<td>372</td>
<td>337</td>
<td>296</td>
</tr>
<tr>
<td>Net financials</td>
<td>(16)</td>
<td>(7)</td>
<td>7</td>
<td>2</td>
<td>(9)</td>
</tr>
<tr>
<td>Result before tax</td>
<td>524</td>
<td>431</td>
<td>380</td>
<td>341</td>
<td>290</td>
</tr>
<tr>
<td>Result for the year</td>
<td>373</td>
<td>296</td>
<td>265</td>
<td>264</td>
<td>190</td>
</tr>
<tr>
<td>Result for the year, the Parent's shareholders</td>
<td>367</td>
<td>294</td>
<td>265</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance sheet</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets, end of year</td>
<td>2,965</td>
<td>2,915</td>
<td>2,784</td>
<td>2,721</td>
<td>2,572</td>
</tr>
<tr>
<td>Share capital</td>
<td>121</td>
<td>125</td>
<td>124</td>
<td>124</td>
<td>134</td>
</tr>
<tr>
<td>Equity, end of year</td>
<td>1,682</td>
<td>1,742</td>
<td>1,715</td>
<td>1,652</td>
<td>1,551</td>
</tr>
<tr>
<td>Equity, end of year, the Parent's shareholders</td>
<td>1,676</td>
<td>1,738</td>
<td>1,713</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment in tangible non-current assets</td>
<td>(158)</td>
<td>(185)</td>
<td>(123)</td>
<td>(138)</td>
<td>(132)</td>
</tr>
<tr>
<td>Cash flow for the year</td>
<td>(346)</td>
<td>(229)</td>
<td>258.9</td>
<td>28</td>
<td>296</td>
</tr>
<tr>
<td>Of which cash flow from:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating activities</td>
<td>530</td>
<td>395</td>
<td>740</td>
<td>448</td>
<td>643</td>
</tr>
<tr>
<td>Investment activities</td>
<td>(388)</td>
<td>(379)</td>
<td>(233)</td>
<td>(195)</td>
<td>(245)</td>
</tr>
<tr>
<td>- of which investment in tangible non-current assets</td>
<td>(158)</td>
<td>(185)</td>
<td>(123)</td>
<td>(138)</td>
<td>(132)</td>
</tr>
<tr>
<td>- of which investment in intangible non-current assets</td>
<td>(210)</td>
<td>(171)</td>
<td>(125)</td>
<td>(147)</td>
<td>(146)</td>
</tr>
<tr>
<td>- of which investment in associates</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Financing activities</td>
<td>(488)</td>
<td>(246)</td>
<td>(248)</td>
<td>(225)</td>
<td>(102)</td>
</tr>
<tr>
<td>Employment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of employees at year-end</td>
<td>2,520</td>
<td>2,422</td>
<td>2,331</td>
<td>2,339</td>
<td>2,636</td>
</tr>
</tbody>
</table>

Figure 4: Bang and Olufsen Result of the year 2007

151 million and total of DKK 73 million in the overall result of the year. The company’s products were available from 822 B1 shops and 421 shop-in-shops. In the 2007 year, B1 shops accounted for 81 percent of overall turnover, with the shop-in-shops channel accounting for 19 percent of turnover. The total employee strength of the company had reached to 2,520 employees.
4.2 Pole Position strategy

The financial year 2007/2008 was a challenging and volatile year for Bang and Olufsen, already in the second half of the year a significance economic slowdown could be seen in international economic activities, as result of many economic boom years. The economic downturn caused Bang and Olufsen an adjustment in the main markets of the world for the result of the year. The expectations was not from good to bad, but from high expectations of previous years to a modest expectation based on the economic changes, that effect large economies of the world.

The financial year 2008/09 was a hostile year for Bang and Olufsen, not only for the company itself but also for employees, partners and as well as shareholders. The downturn in sales was substantially noticed in the major European and the US markets which resulted a negative outcome. On the other hand, new expanded markets such as Russia and the East were less hard hit. The Global financial crisis had last long that it turn into recession, which caused a slowdown in the private consumption, especially for luxury or specialty goods.

While the second segment of Bang and Olufsen B2B specially the automotive segment developed positively and produced a small profit, hence sales to hotels and real estate developments were exaggerated by the recession too. One of the big reasons behind the negative sales tendency was over recent years the product development due to some reasons has been delayed, while some of the new products failed to meet the acceptance sales expectation of the company. It has been a tradition in Band and Olufsen, which new products accounted for 25 percent of sales on their first 12 months. (Bang and Olufsen, Annual Report 2008, page 5)

In order to cope with economic slowdown and recession, there have been some changes In Bang and Olufsen’s management. The new CEO Karl Kristian Hvidt Nielsen joint the company at the start of 2007/08 financial year. When the company was suffering negative turnover, it has been seriously hit by financial crisis and a new defensive approach was needed to fight the circumstance caused by crisis, in respective to major historic changes, the company launched it is new strategy on October 2008 called “Pole Position Strategy” the purpose of this new launched strategy was to take the company toward a healthier, more focused and more profitable B&O with a strong product line and a simplified sales organisation. In addition, that strategy was designed to deal with focused product development, development of one share digital technology platform, Establishment of a single global sales organization, increase the B1 shops in most important emerging markets and cost reduction.

With the help of new launched strategy Bang and Olufsen intentions to concentrate on some products, primarily on exclusive audio and video products, in the same year the company launched number new products which met the expected acceptance level and the turnover from the launched products were accounted for 10 percent of audio and video products of the company. Likewise, the intentions to create one share digital technology platform, which will help in the future constitute the technology basis for product portfolio and reduce development
time. The company expected to launch its new product based on technology platform on the end of year 2009, in the form of audio. Moreover, establishment of one single global sales organisation, that supports and develops the dealers network. In support to this element the company has initiated and created a Shared Service Center, which ensures best possible and professional servicing of company’s dealers. Beside the company has developed a training program for Company’s Retail Development Managers, in purpose of providing the dealers with specialized and business oriented support. Despite, reduction of number of B1 shops, Bang and Olufsen intention was to increase the number of B1 shops in growing markets like China and Russia, which increase the number of shops by one and four respectively.

Last but not least, the pole position strategy was designed for cost savings in the global sales organization, in the production process and the costly administration functions in Denmark. The administration cost declined as planned, similarly the Marketing and Distribution area cost decline too. On the contrary the developments cost and focus on innovation increased by DKK 7 Million from DKK 530 million to DKK 537 million. Furthermore the cost reduction beside the administration cost was the laying off of employees. (Bang and Olufsen, Annual Report 2008)

### 4.3 Ansoff Matrix

The Ansoff matrix is one of the useful tool which provide four basic strategic direction for firms. These four directions are Market penetration (protect/build), product development (new product and service), market development and diversification.

**The Ansoff Matrix**

![Ansoff's Matrix](image)

**Figure 5: Ansoff’s Matrix**

**Source:** Gerry Johnson, Exploring Corporate Strategy
According to Ansoff the firms could basically choose between staying in the same market and penetrate (zone A) or they could either increase its diversity by increasing product development (zone B) or market development (zone C) or they could totally diversify in a new market (zone D).

Market penetration: According to Ansoff this strategic option often is used by the firms who are in favor to increase productivity and increase sales rate. They would try to attract more customers within the existing market along with their existing product. Market penetration implies increasing of its existing market, with the current product range. This strategy builds on established strategic capabilities and does not require the organization to venture into uncharted territory. The scope is exactly the same. (Johnson, Exploring strategy, 2011, page 234)

According Ansoff firms that are seeking market penetration most often face two kinds of constraints; retaliation from competitors increasing market penetration by a firm will lead to more rivalry and competition. For companies that are seeking for market penetration they need to have strategic capabilities in other words they need to achieve competitive advantage, so they could be able to penetrate in the market where there are many competitors. The other constraint is Legal constraints which is official constrains implemented by competition regulators in order to avoid any market monopoly from the powerful firms in the market.

Product development: is a strategic option where a firm delivers a new product or service to the existing market. According Ansoff product development can be costly and risky for the firms for two reasons. The first reason is new strategic capabilities, when a firms develop new product it involves new processes that the firms does not have experience with, hence in most cases it will not work. The second reason is project management risk in most firms product development is typically a project which involve the risk of delaying or being too costly due to the complexity of the project.

Market development is about entering into a new market with the existing product. According to Ansoff when firms found out product development too risky or costly, market development is an alternative option to choose. Firms can achieve market developments by selling the existing product to new customers by entering new geographical areas.

Diversification is about when firms choose to expand and enter to a completely new market with new product or relevant market with new product. According Ansoff there are many reason why firms what to diversify but the most important reason behind diversification is increasing market power, exploiting economies of scope and gaining more financial benefits.
4.3.1 Bang and Olufsen’s Ansoff Matrix

Bang and Olufsen with the launch of new “Pole Position” strategy mainly increases market expansion in growing markets. The company primarily focuses growth through product development and market development. In this part, we will consider the activities company increased during the launch of Pole Position strategy, which does not cover Diversification and market penetration growth strategies so in respect to application of this theory diversification will be limited.

4.3.2 Market Penetration

(Existing markets with existing product) is not Bang and Olufsen’s growth strategy. The reason for this is that the markets in which Bang and Olufsen has its highest sales are at the best case lagging in the current economic market and at worst in recession. Market penetration requires aggressive advertising and requires competing on prices which will be very apathetic for Bang and Olufsen. As part of the launched strategy, there should be cost reduction between others on marketing activities there has been decline of DKK 75 million in year 2008. Furthermore Band and Olufsen produces high-end quality and designed product, where exclusivity, signaling and prestige values are important factors, thus it has to keep up with those values and remain on the cutting edge which makes penetration a bad strategy.

4.3.3 Product development

Generally Bang and Olufsen considers the environment as early as possible in the product life cycle. Apparently, the company sets out comprehensive environmental necessities for its product during the product development phase. These obligatory features, environmental requirements include apart from the purely legislation requirements, internal demands, that extend beyond the legal requirements in consideration of EU directive and other international legislations, so that B&O is confident of its product according to all local legislation in every market of the world. (Bang and Olufsen, annual report 2009, page 35)

One of the major aspects of “Pole Position” strategy was product development. Bang and Olufsen has three major product categories, Audio and Video products, CarFi products initially for automotive industry with enterprise state development and non-brand products, the development of products takes place in Struer, Denmark, in closed cooperation with its software and innovation department in Aarhus, that works in near partnership with Aarhus University. All in all, almost 300 employees of Bang and Olufsen are engaged with product development in the home country, 30 employees are involved in the product development in production facilities of the company in Koprivnice, in addition 35 employees in the Estonian business.
Similarly, in respect to product development Bang and Olufsen has entrenched innovation culture, which has grown over years. This culture and innovation of product features has been divided into different stages. As part of Pole Position was to further go in debt of this innovation culture and improve handling of the increased technology content that will help B&O with re-application of technology in individual products.

Compared with other manufacturer of electronic products in the industry, Bang and Olufsen takes a progressive approach to product development and design-driven innovation. One of the core approaches that the company stands out is the early concept development stage, during which Bang and Olufsen applies considerable resources in creating innovative and long-lasting concepts and designs.

It should be not forgotten that the overall specification concepts are determined during the product development phase. The integrated product development process between the Idea Factory, the development department, production and key supplier is strengthened and workers from the Idea Factory and the development department interact with the production group. These processes are relevantly important in factors in certifying that the finished products have the intended features and properties and meet the mandatory quality requirements. This integrated process continues with the involvement of external and internal suppliers until the product extents its final shape. In some areas, where Bang and Olufsen has no knowledge and skills, it works in close collaboration with suppliers, these partners not only supply parts of the products but also provide special knowledge and skills for developing the products. This for instance applies, to the LCD panels, speakers units, optical drivers such as Blu-ray, digital video broadcasting (DVB), wireless Ethernet and a number of software apparatuses that are used in different applications.

As part of Pole Position strategy, the product development plan for the year 2009 enclosed new product launch, BeoSound 5, with this model the company has completed a global launch of the digital music system, BeoSound 5, which, through, an intelligent and multi-dimensional mathematical algorithm (MOTS), analyses the music collections and selects the music that matches to the music listened to. In addition to other service in the market, which typically compares the genres and artist, MOTS analyses the music on the bases of parameters such as syncopation, key tonality and rhythm. Furthermore, the strategy suggest new product Master Link Gateway, which is a complete integration of different products and functions in the home, Master Link Gateway links the Beolink system to 120 manufacturer of Home Automation system, such as LK/Schneider, Lurton, Creston and Busch Jaeger, along with this model the company introduces Flexible Concept for BeoVision 7 to the world's market, which provide more flexible picturing solutions and DVB-HD model that supports MPEG2 and MPEG4, in order to meet the new standards within digital TV transmission, this model has been introduced and integrated successfully for the first TV models. (Bang and Olufsen, Annual Report 2009)
Likewise, BeoVision 8-40 new TV was launched at highly attractive price and was the company’s entry product within the video portfolio and the TV is equipped with a 40 inch high glare screen, Full HD, digital surround sound, MPEG4 DVB receiver as well as a range of technologies that produce impressive picture and sound quality, the price of BeoVision 8-40 was GBP 3,400 in UK markets in the year 2009. (BeoWold.org, 2009)

BeoVision 4-103 is a new unique video concept which sets standards in size and functions. The concept at is the core of the intelligent home due to its numerous opportunities for combining sound and picture experience with Home Automation system via Master Link Gateway and TV’s Beo5 remote control. One of the other products launched in the same year was BeoVision 7-40 Blue-ray which is updated with blue-ray player and offer a high quality potential film experience. Along with launch of these products Bang and Olufsen, optimized the existing concepts of some products including BeoVision 7-32 and BeoVision 6, have been updated and integrated with DVB-HD module and two HDMI inputs, which provide the High Definition (HD) material.

When it comes to the Automotive segment, Bang and Olufsen expanded its portfolio with both Audi specially Audi A4/S4, Audi A5/S5, Audi A8/S8, Audi Q7, Audi 8 and Audi Q5, Aston Martin, there have been special development for this company DBS sound systems and DB9 sound system were well received in the markets, as well as a cooperation agreement is in place with Mercedez-AMG. In the same year the company has signed a contract with a new partner regarding the initial stages in the development of sound systems. Bang and Olufsen had a turnover, which was satisfactory for the company. On the other hand the fourth quarter turnover was DKK 1 million and was DKK 41 million against DKK 42 million year before same period. It should not be forgotten that automotive segment provides branded high-end sound systems for car, the segment has always generated and has developed and therefore is an important segment for the company.

As part of the Business to Business, Bang and Olufsen’s enterprise for the financial year 2008/09 attained a turnover of DKK 115 million against DKK 155 million year before. The enterprise segment covers and markets products 5 star hotels and major prosperity development across the world. This segment was affected by the economic downturn, which resulted large hotel development project either cancelled or postponed. Whereas, the segment had generated a higher turnover of DKK 3 million in the fourth quarter of the 2008/09 financial year. The turnover has traditionally been from Europe, but during this financial turnover in the Middle East has increased satisfactory.

Bang and Olufsen’s non-branded business ICE power provides a significant contribution and customized solution from the sales of standard amplifier modules for quality manufacturers in the global audio market. Moreover, the company’s ICE power receives royalties from sales of amplifier technology and acoustic solutions for major OEM partners, including Samsung. Bang and Olufsen recorded a turnover of DKK 85 million against DKK 118 million last year. In the
second half of 2008/09, Bang and Olufsen ICE power experience a decline in coming orders from largest customers of the company, which caused a decline in the result. (Bang and Olufsen, Annual Report 2009)

As continues product innovation and product development a line with the pole position strategy, Bang and Olufsen in result of materialized effort in 2009/10 financial year, the company launched the following products in the year 2010. The company launched its first family member of new TV that is characterized by new, unique design expression. BeoVision 10-40 is a full HD LCD TV with LED backlight, based on a slim 200 Hz panel. Of course with the slim design the TV provides excellent sound quality through integrated stereo speakers and digital surround sound modules. In addition, BeoVision 10-46 and BeoVisoin 7-55, each with 40 inch LCD screen and 55 in Full HD LCD and direct type LED backlight local dimming respectively. BeoVision 10-46 have a 32 percent larger screen and a white rear cover which gives the TV an even lighter expression and supports the concept of a TV that blends into the wall. This TV series has an integrated surround sound and DVB-DH modules, electronic curtains and an extended connection panel allowing the user to add a total surround sound set-up with up to five extra loudspeakers as well as wide range of external unites. The new BeoVision 7-55 series offers sublime sound quality via BeoLab 7-4, a dedicated mono speaker for surround sound.

BeoCom 5 is one of the other products that Bang and Olufsen launched in the same year, which is a cordless telephone with integrated speaker for hands-free telephony and conference calls. BeoCam 5 with combination of integrated speakers gives an opportunity for conversations at home. Furthermore, BeoCom 5 has the option of two separate telephone lines so users can merge a conventional fixed network line and IP-telephony or use on line for private calls and the other line for business calls for instance the user works from home. The Telephone is equipped with superior sound quality with the integrated speakers based on same acoustic, which the company uses in traditional speakers.

BeoTime, is another unique product which combines an alarm clock with a remote control, it allows the user to set wake up to the sound of gentle alarm clock and the sound of TV programme, a radio or music from B&O system. Moreover, BeoTime has built in- sleep timer, when the user falls asleep it shuts down the music system or the TV as per time set.

The adaptive sound technology (AST) and BeoLab 11 are the two new patented products. The AST is created user-friendly, which enables the user to optimize the sound from different locations in the home irrespective where the loudspeakers are, in a normal surround sound set up. It also provide the user freedom of positioning the loudspeakers in harmony with the rest of the home design, the technology will make the necessary compensation to achieve optimum sound performance. BeoLab 11, is a new subwoofer which combines excellent bass, design and unusual placement options.
With excellent picture quality and durable design, Bang and Olufsen has introduced the new software application which link iPhone and iPod touch with link all home audio video equipment and home automation system, the application is available in Apple’s App Store. (Bang and Olufsen, Annual Report 2010, Page 22)

As tradition in Bang and Olufsen that the launch of new products generate 25 percent of total turnover, some strong product pipeline for the year 2009/10 can be seen in the figure below. In the middle of the crisis, in financial year 2007/08 the launch of new products generated 16 percent of total turnover and in the financial year 2008/09 had generated 11 percent. (Band and Olufsen Investors, 2010)

![Bang and Olufsen’s new products percentage](image)

**Figure 6: Bang and Olufsen’s new products percentage**

Market fluctuates when it comes to Bang and Olufsen Business to Business area, company’s products well-established as the most exclusive brand among some of the world’s leading property developers, interior design and hotels. The company generated a turnover of DKK 91 million in the year 2010 against DKK 115 million of same period year before.

The Automotive segment, achieved a turnover of DKK 268 million against DKK 174 million year before, the satisfactory growth was on the fourth quarter a total of DKK 101 million against DKK 42 million same period year before, the development was due to increase in sales of new brand cars. Similarly, the ICE power segment had at totaled turnover of DKK 80 million against DKK 85 million the year before. (Bang and Olufsen, Annual Report 2010, page 26)
4.3.4 Market Development

On average Bang and Olufsen’s 91 percent turnover drivers from export during the recession years. It is important for the company to keep investing in foreign markets to push up growth rates. Geographically Bang and Olufsen is strangest in Europe, with number of B1 shops and Shop-in-Shops outlet but has also spread to the US, Australia and Asia. According to market development the company has grew further and took advantage of the high growth that has taken place in expansion and increasing number of B1 shops in Russia and China, and company’s strategy was to double the number of shops and consider most emerging markets in geographical areas such as BRIC countries, which experience growth and increasing growth.

In the year 2009, company’s fastest growing geographical markets were expansion markets, Middle East and Asia Pacific at DKK 71 million. Among Expansion Markets, particularly Russia has excelled with an increase of DKK 28 million. European Markets such as Switzerland and France has also shown growth, between them, the Business to Business area Automotive and Enterprise achieved a turnover growth of DKK 95 million. Despite some net reduction on number of shops in some markets of the worlds, either B1 shop was converted to shop-in-shops or declined in less attractive areas. Bang and Olufsen, has succeeded in increasing number of B1 shops in China and Russia /Ukraine by one and four shops respectively. (Bang and Olufsen, Annual Report 2009, page 26)

It should be mentioned that growth in new markets is appropriate for a business like Bang and Olufsen as its core competencies are related to products and not a geographic areas. Thus it can carry on its expertise into new markets. There are however still some drawbacks as moving into new markets is generally associated with higher risks than if market penetration, as a strategy, had been chosen.

4.4 BCG Matrix

The BCG matrix uses market share and market growth criteria for determining the attractiveness and balance of business portfolio. High market share and high growth are attractive, however the BCG matrix also warns that growth demands heavy investment, there needs to be a balance within the portfolio, so that there are some low growth businesses that are making sufficient surplus to fund the investments needs of high growth businesses (Exploring strategy, Johnson, 2011 page 250) The BCG matrix classifies the products of a firm into four different areas Star, Question mark, Cash cow and Dogs.

A star is a business unit within a portfolio which has a high market share in a growing market the business unit may be spending heavily to keep up with growth but high market share should yield sufficient profits to make it more or less self-sufficient in terms of investments needs. (Exploring strategy Johnson, 2011 page 250)
Question mark: explore a business unit which is in a growing market, but does not achieve a high market share yet. In order to develop question marks to Stars within high market share it needs heavy investments, therefore most of the times firms fail to do that. It needs time and skills to achieve it.

Cash cow: is a business unit within a portfolio that has a high market share in a mature market however because growth is low, investments need are less, while high market share means that the business unit should be profitable. The cash cow should be then be a cash provider, helping to fund investments in question mark.

Dogs: it is a business which has low share in static or declining markets, these sorts of business units are considered worst of all combinations.

### 4.4.1 Bang & Olufsen’s BCG matrix

One of the important aspect and source of success for Bang and Olufsen is the product innovation and appealing products in order to maintain its position in the market and brand value. In order to get an overview on company’s future possibility and growth it is relevant to analyze Bang and Olufsen’s product portfolio.

Bang and Olufsen has wide range of products with different product category. In order to make more practicable analyze, we will limit the analysis to some product groups instead of individual
product analysis. This is because there are huge differences between the series of products e.g. TVs and Loudspeakers.

The product groups that will be included in the analysis are: TVs (with integrated TV/DVD players), home audio products, MP3 players, mobile phones, and automotive products (the player and build-in players). Once again, Bang and Olufsen is operating in entire globe. It is hard to perform this model without percentages of products categories, due to economic slowdown for luxury products. In the recession years importantly 2008/2009 the company had a negative result before tax DKK 523 million. In order to execute this analysis, we assume the integrated growing markets in last year of Pole Position Strategy right before the launch of company’s new strategy (Leaner, Faster and Stronger).

4.4.2 Stars

Since many years now Bang and Olufsen has one product group in this category, namely the B&O automotive section. The Automotive (In-car player and Loudspeaker) market had generated a turnover of DKK 268 million in 2010. Bang and Olufsen seemed to have large market share in the segment, as it has contracts with Audi different classes, Mercedes Benz specially AMG and Aston Martin, which are thee important auto manufacturer with great brand value and high market share in the automotive industry. The star requires liquidity, as they operate in high growth markets where investments are required to capture a share of the growth. These products are considered an important part of the firm’s future and are expected to gradually move in the cash cow category. (Bang and Olufsen, Annual Report 2010)

4.4.3 Question Mark

It could be concluded that Bang and Olufsen MP3 player and mobile phones fall in the category. Company’s market share in these market are though measured to be very small, as it is not even possible to compete with other existing MP3 and mobile phone manufacturers in the industry like Apple, HTC, Samsung and Nokia which already have captured large shares of the market.

4.4.4 Cash Cows

We could argue that Video specifically TVs group belong to this category. The market for Video and TVs had a turnover of DKK 1,297 million in 2010 against DKK 1,198 million the year before, it shows there has been a slight increase in the segment than previous years. It should be included that there is a big difference between flat screens and non-flat screen TVs as well as integrated solutions with DVDs. The company’s market share of B&O in the overall TV market is in high niche in European market. The market share of Bang and Olufsen in the overall TV market is although not very high, as the company is targeting a small niche of overall consumer electronics market. (B&O, AR 2010)
Dogs in the classification of products, we concluded that at the moment none of Bang and Olufsen’s products falls in this category.

4.5 Pole Position Strategy Evaluation of outcome

As mention earlier in the introduction of Phase 1, in the light of economic downturn that began to take place on the second half of 2007/08 financial year, in some important markets of the world which caused the Bang and Olufsen period of less successful, less profitable and lack of new product launches. The company launched its new strategy in October 2008 named “Pole Position” strategy. As mentioned earlier, the strategy was designed to increase profitability, boost sales, create a stronger and more attentive product line and develop one share digital technology platform.

In order to increase the profitability, the company had some cutting cost including lay-off staff on external services, during 2009 year company laid-off around 528 employees and the number of employees reached to 2,051. (Pleasurebørsen.dk, 2009) Furthermore, the company focused on general cost level, which has resulted on the lowering the break even turnover. During the 2008/09 financial year the company has been through high levels of product development activities concentrating on company’s product launch next year and the development of planned shared digital platform, which is mainly aimed to constitute the technological basis for B&O’s products across the product portfolio and helps to significantly reduce development time. Total development cost in 2008/09 was DKK 463 million where the development cost previous year the same period was DK 546 million and the net effect of the capitalization was negative at DKK 16 million. As well as, the cost reduction continued to marketing and distribution and administration cost were declined by DKK 75 million and DKK 44 million respectively. Similarly in 2008/09 Bang and Olufsen focuses on fewer products categories, primarily centered on exclusive audio and video products. As mention in Ansoff matrix, product development, the company launched number of new products according to plan based new strategy and met the previously announced expectation of the company from audio and video which was 10 percent of audio and video turnover. During financial year and part of Pole Position strategy the company established one global sales network for dealers, which ensures the more efficient support and development of the network. The company has also prepared and originated the formation of one Share Service Center, which insures servicing of all dealer and clients. As a matter of fact the company has initiated a training program for Regional Development Managers in a purpose to provide company’s dealers with professional advice and business related support. In like manner, the company increased the number of B1 shops in most attractive area of the integrated markets like China and Russia, whereas closed 64 B1 shops across the glob’s market or either converted to Shop-in-Shops where demographic did not testified. (Bang and Olufsen, Interim Report 2009, page 4) To give a fair picture of the company’s financial status with pre-crises period and during the crisis, we would see the difference in figure 8.
Bang and Olufsen’s total turnover was DKK 2,790 million for the financial year 2008/09 against DKK 4,092 million last year and firm’s gross margin was 39.6 percent against 46.2 percent last year.

Total operation losses of the year was DKK 496 million, of which DKK 106 million relates to restructuring cost, against operating profits of DKK 195 million for the 2007/08 financial year and the result before tax was recoded negative DKK 523 million while the company had expected for a negative result of DKK 510 million against the result before tax of last year DKK 154 million. The result before tax for financial year 2008/08 was also negatively affected by two lawsuits that the company was charged by French dealers. One of the charges was concerned with commercial condition for selling and marketing of Bang and Olufsen products, while the other one was related to a dealer who felt badly treated by Bang and Olufsen France. (Bang and Olufsen, AR 2009)

In the same manner, Bang and Olufsen’s turnover in 2009/10 financial year totaled DKK 2,762 million against DKK 2,790 million same period year before. The company had a total turnover of DKK 779 million against DKK 617 million year before on the fourth quarter, which basically responded to an increase of 26 percent. The result before was negative DKK 50 million against a negative result of DKK 523 million year before. Accordingly the result before tax on the fourth
quarter was positive at DKK 22 million against a negative result of DKK 108 million the same period year before.

Correspondingly the graph below provides an over view of Bang and Olufsen’s regional and segmental turnover over pole position strategy period from 1 June to 31 May each year. The graph below provides turnover in some important markets of the world, for more details please see figure 5 in appendix.

Figure 9: Bang and Olufsen’s regional turnover

The green line in figure 9 shows the turnover of the company in different regions and segments during 2007/08 financial year. Bang and Olufsen turnover from Denmark was DKK 478 million, from Germany DKK 422, from automotive DKK 123 million, from enterprise DKK 155 million and from middle east 46 million.

The maroon line in the graph shows the turnover in 2008/09 financial year, where the recession had hit most the economic markets. And the turnover fall accordingly the turnover from Denmark was DKK 209 million fell almost to half, from Germany DKK 279 million. It was different for automotive segment, the reason in increment was the auto manufacturers in the auto industry had increase the number of cars produced and the turnover from this segment was DKK 174 million. While it was quit opposite in enterprise segment, the turnover was DKK 115 million, the reason in decline for this segment was, that major hotel projects during the financial crisis were either postponed or cancelled.

After the implementation of new strategy as it was planned turnover of the company increased in some regions and segment. The blue line in the graph shows the turnover in 2009/10, the turnover in from Denmark DKK 299 million, from automotive DKK 268 million, from Switzerland DKK 210 million and from Middle East DKK 42 million.
4.6 Bang and Olufsen’s Stock market

The stock market or the equity market is the place where shares of publicly held companies are issued and traded either through exchanges. Normally, when companies are profitable, stock market investors (shareholders) through the dividend the company pay out and by selling appreciated stock at a profit called capital gain. And stock itself is a kind of security that grants ownership in a corporation and represents a claim on part of company’s assets and earnings. Stock can be differentiated by common stock and preferred stock. Common stock owners have right to vote at shareholders meeting to receive dividend, while preferred stock holders do not have right to vote. (Investopedia, 2014)

Bang and Olufsen’s share capital is separated to two different shares A shares (ordinary or multiple voting shares) and B shares (ordinary shares). Each share amounts DKK 10.00 but each A share carry 10 votes and each B share carries 1 vote.

As you can see in figure 10 the graph shows that Bang and Olufsen’s B shares reached to 698 at 31 May, 2008, which is an increase of 2 percent than previous year. During 31 May 2006 to 31 May 2007 market value of B&O B shares fell from DKK 7,750 million to DKK 7,675 million. At the end of 31 May 2007 both A and B issued shares were at 12,081,338 minus own shares of 619,923 which gives a total of 11,361,415. (Bang and Olufsen, Annual Report 2007, page 41)

As a matter of fact, as of 31 May 2008 you can see in the graph in figure 10 B shares fell to 265 from 698 same period year before, which was a fall of almost 62 percent already at the second half of the 2007/08 financial year the company felt the economic downturn. And the market value of B share fall from DKK 7,675 million to DKK 2,908 million. The share capital consists of A shares and B Shares totaled 12,081,338 minus own shares of 767,787 which gives 11,313,551. (Bang and Olufsen, Annual Report 2008, page 47) In the year 2009 there have been some changes in the shares from Board of Directors, according to article 4 of the Articles of Association, on the 16 April, 2009 the Board of Directors decided to increase the share capital by
DKK 241,626,760 nominal value at a value of DKK 10. The suggestion was effected with Preemptive action for the existing shareholders at the ration of 1:2. The new shares were subscribed at a price of 19 per share at a nominal value of DKK 10. The capital increased and stemmed a gross increase of approx. DKK 459 million and in the same year Board of Directors abolished the company’s share classes so in the future the company will have only one share class, each share with a nominal value of DKK 10 will represent 1 vote. During the year the share price fall even further to 45 as you can notify in figur10 with a market value of approximately DKK 1,613 million. (Bang and Olufsen, Annual Report 2009, page 49)

Last but not least, on the last year of the launched strategy as of 31 May 2010 the closing price was 56, with a market value of DKK 2,030 million, which is relatively higher than previous year. Total number of shares issued were 36,244,014 minus own shares of 90,372 that gives 36,153,642.

5. **Phase 2 (leaner –faster –stronger)**

The second phase of the thesis deals with the second strategy of B&O which was designed and implemented in August 2011. This strategy was different from the previous strategy of B&O the so called “Pole Position” strategy, the main purpose for the previous strategy was to cope with the financial crisis situation and help the company to keep its position among other competitors in the industry. Following the company three years under the Pole Position strategy, the company saw the opportunity to bring strategic changes in order to increase the overall net turnover and also to bring the company to a pre-crisis stage and get advantages of new opportunities in new emerging markets. Therefore In August 2011, Bang & Olufsen launched the strategy plan “Leaner, Faster, Stronger” with the aim of realizing the full potential of the company. The five-year strategy plan contains six “must-win battles,” which Bang & Olufsen has focused on in 2011/12. (B&O, annual report 2011/12, page 10)
The “must-win battles” are listed in the figure below each with specific short descriptions.

Figure 11: B&O six winning battle

As the company suffered during financial crisis with dramatic decrease in sale rate and net turnover, the company planned to focus the first two years on the new strategy more to achieve a leading position among competitors. The attention will be on regaining a leading position within Bang & Olufsen key areas of strengths and building a more effective, globalized and customer-focused organization. At its core, Bang & Olufsen focus is to develop integrated audio-video solutions and market these globally through a network of dedicated retailers. (B&O, annual report 2010/11, page 24) Therefore the five year strategy outline six major steps by which the company is expected to not only bring back the company to its leading position but also triple the profitability. Of those six major steps the first step was:

1. **Increasing the focus on sound and acoustics:**
   Years of experience on sound and acoustics gives B&O great competence and competitive advantage, this is where it makes the difference between B&O and other competitors as Tue Mantoni CEO of the says
“Over the years, we have built up extensive skills and competencies within sound and acoustics, skills that have led to award-winning product solutions. As we increase focus on this area, we will see even more innovative solutions - for the benefit of our customers around the world as well as our partners within Automotive.” Therefore Bang & Olufsen will expand the acoustics portfolio further from entry-level products to statement line products, and strengthen the development of products for existing automotive partners. A deeper vertical integration of the ICE power engineering teams and stronger knowledge sharing with the Automotive acoustics teams will strengthen the innovation level across the company. (B&O PRESS RELEASE 17.8.2011)

2. **Launching a new product category and expanding the distribution:**

The second major steps in the new strategy was that B&O planned to launch a new category of products by the end of 2011, the main purpose was to fulfill the existence customers satisfaction as well as attracting new customers to the brand. One of the new product category which was included to the B&O product line was B&O play which was a new advance product offering amongst other things wireless music systems, aimed at the digital generation, at the same time distribution has been expanded with the conclusion of a number distribution agreements, with new retail outlets in Europe and the USA as well as an online shop has been established. In 2012/13, the company will focus on increasing the number of retail outlets beyond Europe and the USA. Similarly, the work on expanding the product portfolio within B&O PLAY will continue. (B&O, annual report 2011/12, page 11)

3. **Optimization of distribution**

In connection with the efforts to optimize distribution, during the year, Bang & Olufsen has worked on upgrading the existing store concept to make the future interior design reflect the focus on integrated audio-video solutions and the increased focus on acoustics. Work is continuously being undertaken to increase the number of B1 stores in developing markets and reducing the number of B1 stores in mature markets. The upgrade of the existing store concept will start during the course of 2012/13. (B&O annual report 2011/12 page 11) Furthermore at the same year of new strategy implementation B&O come to an agreement with Apple Co. Through this agreement B&O would be able to distribute their products through Apple shops in Europe and USA. Although B&O products have high value and high image in terms of their quality and design, but colorations with Apple will not only increase their values but also their brand awareness both in Europe and USA.
4. **Growth in the BRIC markets:**
As part of the new strategy one of the other major steps was expansions in new emerging markets. The most promising markets that B&O saw with a promising future was the BRIC markets, therefore B&O has establish a national sales office in Shanghai, and B&O has assumed control of the activities and distribution in Hong Kong and Southern China – including existing service and training facilities, at the same time an agreement has been reached with a new master dealer in India. (B&O, annual report 2011/12, page 11) The Growth strategy in BRIC market will not only be a great opportunity into new geographical area but also help the company to reducing B1 shops from mature markets, and instead increase the number of B1 shop in emerging markets.

5. **R&D transition – use of partners for audio-video development and sourcing**

With the prospect of much more extensive audio-video development cooperation and sourcing with partners in order to provide greater efficiency in product development, Bang & Olufsen has set-up an office in Singapore to be closer to the company’s partners in Asia. In 2012/13, the work on finding new cooperation opportunities will continue. At the same time, Bang & Olufsen will increase its focus on the competencies where the company is able to really stand out – for instance key differentiation areas such as sound and acoustics, user experience mapping, concept development, design and system integration. (B&O, annual report 2011/12, page 11)

6. **Strengthening the Automotive business further:**

One of the other business areas that B&O has strategic collaboration is the automotive business; this segment of business has played a very significant role in overall companies’ net turnover for the past several years. Therefore as part of their new strategy the company planned to focus more on strengthening the automotive business further. In the coming years, Bang & Olufsen will continue its focus on creating outstanding value to existing partners (Aston Martin, Audi, BMW and Mercedes) through the development of innovative sound systems, which will support the partners’ brand image and maximize their car-fi businesses. Bang & Olufsen will continue to carefully evaluate approaches from potential new partners and will do so with due consideration to existing partners. (B&O, annual report 2010/11, page 25)

5.1 **PESTEL framework**

When assessing the new strategy of B&O (leaner, faster, stronger) there are a lot of aspect need to consider starting from internal and external environment, as the internal environment of the company has been taken into assessment in the earlier part of project, therefore the external environment of the company will be asses by using the Pestle framework, the reason behind the choice of this framework in relation with B&O new strategy is that, The five years plan of the
new strategy consist of market penetration, market development, product development and diversification, this means that B&O as part of their new strategy will enter into new markets as well as focus on their existing market, most of which are in USA and Europe, the PESTEL framework would be a great tool to analyze the effect and influences of recent changes in international aspect on B&O as a Danish firm.

The PESTEL framework categorizes environmental influences into six main types: political, economical, social, technological, environmental and legal. PESTEL provides a comprehensive list of influences on the possible successes or failures of particular strategies. The political aspects discusses on the role of governments and its influences on the firms, such as political stability legislation, taxation, employment law or relationship between the firms and the government.

In regards with B&O, if we start looking into political stability aspects of the countries that B&O has presence in those markets. B&O operates in many countries, mainly in central Europe, US and recently in Asian markets as well, such as China, Hong Kong, and India, all of these countries that B&O operates are considered to be politically stable, there might be some political changes in roles law, and legislation, in these countries but it would not be a matter of concern for B&O as these countries are mostly developed every single action from governments would be to improve trading and reduce barriers. Other political factors such as revolutions (political changes) civil wars, trade barriers are less probable to occur in US or Europe countries that B&O operates in.

One of the other import factors in relation to political aspect is taxation, an increase in tax both in Denmark or in any other countries that B&O operates would had a direct effect on overall profitability of the company, recently in Denmark the corporate income tax has been reduce in order to promote Danish business, if the corporate tax increase in Denmark it would affect B&O in terms of their revenue and net profit and that would lead to a negative effect on B&O in terms of competitions in the industry competition. The same it applies with other countries in terms of taxation, a higher taxation would reduce consumer’s preference toward expensive products, most countries that B&O operates, has to some extent low taxation rules.

5.1.1 Economic Aspects
The economics aspect discusses the macroeconomics factors such as exchange rate business cycles and differential economics growth rate around the world. (Exploring strategy Johnson 2011, page 50) B&O is very dependent on the markets with the consumers with high purchasing power, consumer with higher disposable income, those segments that could continuously stay loyal to B&O products, one of the reason that B&O had hard time than other competitors during the financial crisis of 2008 was mainly the decrease in purchasing power of the consumers, as the company has learnt a huge lesson from the crisis, one thing is now clear that no matter what markets B&O operates now or has plan to enter it should be economically stable and strong with
consumers with high purchasing power, the existing market that B&O operates now is US, Europe and Russia, and recently China are mostly prosperously and economically stronger than other countries in the world.

5.1.2 **Exchange rate fluctuation**
Fluctuation in exchange rate is considered very risky for companies that are operating internationally, B&O as an international company has always had face challenges in regards with exchange rate fluctuations around the globe. In 2011/12 91% of B&O turnover is in foreign currency. B&O has significant net in-flows in EUR, GBP and CHF, and the most significant exposure is presently attached to these. The most significant exposure on the outflow side is USD. (B&O, annual report 2011/12, page 36) For B&O their biggest market that they are operating at the moment is Europe and US, keeping in mind that 91 percentage of the company turnover is in foreign currency, it is huge challenge for B&O to cope with, the figure in Appendix A shows the most significant currencies in which B&O experience high fluctuation in recent years. The top four currencies that B&O sales take place are Euro, US dollar, British pound and Swiss franc. Although Euro has more stability than other currencies, but in recent years since the begging of financial crisis there has been lots of fluctuations in US dollar, British pound and Swiss franc as a result of this fluctuation B&O has lost millions of kroner.

5.1.3 **Socio-Cultural and Environmental Aspects**
The social aspect discusses factors such as cultural issues, demographics, lifestyles and distribution of income. The Environmental aspect discusses factors within environment such as green issues, pollution, waste and its disposal. (Exploring strategy Johnson 2011, page 50)
One of the important factors that in environmental aspect B&O pays a lot of attention is corporate social responsibility in regards with the environment.

Bang & Olufsen considers the environment in closed life cycle, where waste is a resource which can be recycled in other products. At the same time Bang & Olufsen wishes to take an active co-responsibility for the society which we are a part of. Through a number of years we have worked with corporate social responsibility within the framework of our business. This is best illustrated by the picture of a closed life cycle with a smiley which symbolizes the work with CSR in the middle – we call it “Design for Sustainability.” (B&O, annual report 2012/13, page 24)
Delivering a high quality product gives a high value for the company, but today consumers also care about the environment and how the business runs, therefore B&O has tried to minimize the level of productions effects on the environment. The table below shows a snapshot of B&O policy towards reducing environmental effects.
Source: (B&O, annual report 2012/13, page25) figure 12: B&O environmental objective

Beside the environment issue other factors which relate in social cultural factors such as people, lifestyle, job, income, spending, education level and many more, are the essential parts by which they have gain high image and high value for their products, B&O products are targeted for high class and high income consumers, those who values quality not price, not only in Denmark but also in any other markets consumers had a positive attitude towards B&O products, the company receive many awards and named two times as one of the coolest product in the world. All in all, B&O products represent a high value and image around the globe.

5.1.4 Technological Aspects

The technological aspect discusses factors such as technological development and inventions, new researches and development, new patents and products. (Exploring strategy Johnson 2011, page 50) The electronic industry that B&O is operating for decades now has been one of the fast developing industries than any others, competitions in this industry increase the level developing in terms of technology and innovation, from the beggning of B&O foundation the company has always tried to stay innovation and front runner in technological development, the beggning of the new millennium and years after the Asian competitors manage to prove that they have got an upper hand in technological development. An example of an area, where B&O is behind the competition is in the development of Full HD flat screen televisiions. B&O has not been able to introduce this technology before the 1st half of 2009, after the TV stations began using the format (Bang & Olufsen A/S 2009: p. 1) although B&O products are famous for their uniqueness in terms of design, quality, and their technology but in recent years other competitors has proved to
catch up not only in technology but also in design and quality. At the moment it has been considered one of the biggest threats for B&O future. B&O need to speed up with their technological development otherwise their differentiation strategy will not work out in the near future.

### 5.1.5 Legislation

Legal aspect discusses factors such as competition law, employee and safety law, health and safety legislation or restrictions on company mergers and acquisitions. (Exploring strategy Johnson 2011, page 50) Companies that are operating with EU law, the integration of business and collaboration of companies are much easier than with a non EU companies, as B&O most operations are in Europe and US, there are less restrictions and trading barrier within European countries, but in regards with US and many other new markets such as China, Hong Kong, India and Brazil the role and business laws differs in each of these individual countries.

PESTEL framework has been widely used by many firms to evaluate the external environment especially when firms wanted to enter new markets or new geographical with new cultures and laws. One of the other most useful framework that use by many international firms such as B&O is the Ansoff matrix which is very related with the new strategy of B&O. the next section of the paper discuss the Ansoff matrix theory and its relation with the new strategy of the company.

### 5.2 Ansoff Matrix

One of the best strategic tools that provide four basic strategic direction and helps managers how to grow business through existing or new products to the existing or new markets is the Ansoff growth matrix. The basic principle behind this strategic tool is to assess the opportunities and reduce risks. The reason behind the choice of this model at this point is, because this model is very related the new strategy of B&O (leaner, faster, stronger) consist of the six winning battles that B&O target to accomplish in 5 years ahead. These six battles involve: market penetration (increase the productivity of existing B&O product to the existence markets) product developments (launch of new products) market developments (expansions in new emerging markets BRIC, opening new distribution channels, optimization of the distribution channel) and diversification (launch of new product B&O play to new markets). Ansoff model covers every single detail of the new strategy that B&O aimed to target.

#### 5.2.1 Market penetration

According the definition market penetration implies increasing share of current markets with current products range. (Exploring strategy Johnson 2011, page 234) After the implementing the
new strategy the company aim to triple the revenue of the company one of the main part of this
strategy was to increasing their market share in the existing market that they had lost during the
crisis, the biggest market share that B&O has currently is in central Europe and also in northern
America and well their market share has been improving in most BRIC countries more
promising one is China. Although B&O launched new product in China (B&O play) but they
also had used their growth strategy to penetrate more in Chinese markets. There were also
challenges in European markets therefore as part of the new strategy the company eliminated a
number of B1 shops in mature markets. It was decided to accelerate the closure of up to 125
stores primarily in Europe. 80 of these stores were terminated during the 2012/13 financial year
of which 16 have already closed and the remainder will close within the six month termination
period. The rest will be terminated in the first half of 2013/14. (B&O, annual report, page 12)
Therefore in regards with market penetration the company put more attentions towards BRIC
markets that they existed before and on the contrary they didn’t penetrate in European markets
due to the market challenges and slowdown in consumers purchase. But since the
implementation of the new strategy the company put their attention more on products
development which leads to upgrading the old products to new products portfolio. Beside the
new markets the company also used these upgraded products for penetration of the existing
market. The discussion with this product development will be cover in the next section of the
paper. Since the main focus of the new strategy were expansions in BRIC markets, product
developments (launch of new products) and optimization of new distribution channels. The next
section of the paper will introduce all new products under the new strategy.

5.2.2 Product developments (launch of new products)

Since Ansoff matrix is used to evaluate the second phase (The leaner, faster, stronger strategy)
this part wills asses product developments by B&O after the strategy was implemented in 2011.

Launch of new products, or improvements of the existence product in 2011

- **October 2011 launch of BeoVision 10-32**
  BeoVision 10 family was expanded with a 32 inch version. The BeoVision 10 family, which
  already comprises a 40 inch and a 46 inch version, is characterized by a unique design
  expression. BeoVision 10-32 offers superior sound and picture quality. Thus, the product is
  based on a Full HD screen with an edge-type LED backlight and the TV has an active two-way
  speaker system, which offers a sound quality that exceeds the market standard for sound in TVs
  of this size. (B&O, annual report 2010/11)

- **November 2011 launch of BeoSoun 8**
  B&O launched BeoSoun 8 in November which has become the fastest selling product in the
  company’s 85 year history
In November, Bang & Olufsen launched BeoSound 8, which has become the fastest selling audio product in the company’s 85-year history. BeoSound 8 can function as a speaker dock for iPod, iPhone and iPod as well as a speaker for PCs and MACs. (B&O annual report 2010/11)

**January 2012 launch of new product B&O play (Beolit 12)**
The new product B&O play was launched in January 2012 and it was available in B1 stores around the globe and also in most Apple stores in USA, Europe. The new B&O play product BEOLIT 12 is a portable music system which can be used with wireless playing of music and also with all Apple products.

**February 2012 launch of Beo Lab**
Beo Lab was launch in early February 2012 it is the first wall-mounted loudspeaker which was designed for TV and surrounded sound set ups. The loudspeaker is perfect for all flat screens on the market and is equipped with Bang & Olufsen`s own ICE power class D amplifier technology. (B&O, annual report 2010/11)

- **March 2012 launch of Beo Vision 12**
the new 65 inches plasma TV was announced at the end of February and a month later in March in was launch in all B&O stores around the globe BeoVision12 is equipped with a Need panel, offering improved 3D performance and enhanced movement performance in a 2D situation. (B&O annual report 2011/12)

- **B&O family extended by launch B&Oplay A8**
A new B&Oplay A8 was extended to the family of B&O after the launch of Beo vision 12. B&Oplay A8 is a sound system which expands the functionality of Beo sound 8 makes it able for consumers to get access to a fast and a wireless access first class sound from an Apple product.

- **B&Oplay V1**
B&Oplay V1 is a television with unprecedented placement options. With its LED display, efficient video platform, ICE power Class D amplifiers and easy connection, B&Oplay V1 has the specifications to deliver one of the best picture and sound Experiences on the market. The all-in-one design of the sound system even measures up to many surround sound systems with their external loudspeakers, subwoofers, cables and amplifiers. The television has numerous built-in connections options, and the fabric sleeve under the front grill of the loudspeaker is replaceable. B&Oplay V1 comes in a black or White 32” and 40” screen. (B&O, annual report 11/12)

- **The B&Oplay A3**
Another B&Oplay product line was launch in the second quarter of 2012. B&Oplay A3 is a new portable sound system which is used with iPad and other Apple products with multiple choices to use the sound from difference channels in four loudspeaker.
- **Automotive B2B**
  In 2011/12, Bang & Olufsen continued its cooperation with Audi, Aston Martin, Mercedes-AMG and BMW, and a number of new car models are now available with sound from Bang & Olufsen. During the financial year, Bang & Olufsen launched audio systems for Mercedes-Benz SL, Mercedes-Benz ML 63 AMG, Mercedes-Benz E Class, Mercedes-Benz CLS and Mercedes-Benz GL Class. The cooperation with BMW was extended to include the BMW 5, 6 and 7 series; While Audi A3 is now also available with an audio system from Bang & Olufsen. (B&O, annual report 2011/12)

- **ICE power**
  During the financial year, ICE power has launched ICE match. It consists of the power supply ICE power 400SM and the Amplifier module 80AM2. It is possible to plug up to eight 80AM2 amplifiers to the power supply and make everything from active loudspeakers to multi-channel amplifiers with up to 16 channels. ICE match is among other things used in the loudspeaker family BeoLab 12. (B&O, annual report 2011/12)

- **Playmaker**
  Playmaker was another new product which was launched in July 2012; it is best functionality is that it can be connected to any active loudspeaker from B&O and it works any kind of Apple Airplay; it also enables streaming from any Smartphone or tablet or any media server.

**BeoVision 11**
In October 2012 B&O launched Beo Vision 11 TV; the TV has been equipped with new video engine and builds on the company’s well known design virtues and Acoustical expertise. Bang & Olufsen’s most ambitious TV to date incorporates 3D technology, Hybrid broadband TV optional hard disk, DLNA compatibility. (B&O, annual report 12/13)

- **BeoLab 15/BeoLab 16/Amplifier 1**
  In January 2013 B&O launched Beo Lab 15/16 and amplifier 1 sound system. It consisted of two loudspeakers which were connecting with amplifier with motorized functions.

- **BeoPlay H3 and BeoPlay H6**
  Another B&Oplay product line Beo play H3 and B&Oplay H6 headphone set were launched in April 2013. Beo-Play H3 is an in-ear headphone for people in action that gives an authentic sound along with simple and superb ergonomic comfort. Beo Play H6 is a Flexible over-ear headphone designed with the finest materials and with a Superior sound performance.
• **BeoLab 14**
A new sound speaker system was launched in May, Beo lab 14. It is a new compact satellite and subwoofer set that connects seamlessly to all Bang & Olufsen televisions, but it also works with all other TV brands. (B&O, annual report 12/13)

• **Automotive B2B**
In 2012/13 Bang& Olufsen launched new sound systems for all four business partners Aston Martin, Audi, BMW and Mercedes-Benz. Aston Martin Vanquish is delivered with sound from Bang & Olufsen as standard equipment. The sound system offers 14 active loudspeakers and 1,200 watts of musical power being generated by Bang & Olufsen’s patented ICE power amplifier technology. The new generation of BMW X5 is the first-ever BMW SUV to be fitted with Bang & Olufsen sound. The sound system offers 16 active loudspeakers powered by a 1,200-watts amplifier. (B&O, annual report 2012/13)

**ICE power**
During the financial year, ICE power has launched ICEtheater7 and ICEextend. ICEtheater7 is a seven channel amplifier for surround Sound amplifiers. This is an extreme amount of power in relation to its Compact size. The amplifier is well suited for manufacturers who want to create Stylish design products with high-end audio. (B&O annual report 2012/13)

Since the strategy was implemented in August 2011 the company came up with six major battles, out of these six battles, one of them was focusing on sound and acoustics and also further strengthen of automotive business area, in order word the company increase it’s focused in core competence in B2B and B2C area. After the strategy was successfully implemented in all dimension of the company they started to launch both upgraded version of existing products and also brand new products both in existing market and new markets. These product developments were not limited in B2C Area only they also focused on product development within B2B area. The figure on the right gives a clear picture of B&O two different business areas and their product development. 

Source (B&O annual report2011/12)

The number of products that B&O launched in both business areas since the August 2011 has been listed in the earlier part of this paper. The list of products shows a great number of innovations and development took place. These products were not only for the existing markets
but also for the new markets especially in BRIC markets. The discussion with the new market will be cover in the next part of the paper. The number of product that B&O launch under their new strategies were much higher compare with their older strategies which was taken place back in October 2008 this indicates that the company increase their focus in R&D and innovation they swiftly moving towards being more innovative and competitive. In order to evaluate what other major steps did B&O take in regards with their six battle and their target to triple the profitability of the company this paper will assess B&O strategies towards markets expansion in BRIC countries specially their tactical movement in China with their brand new product B&Oplay.

5.2.3 Market development

According the definition by Ansoff market development is a strategic option where a firm delivers an existing product or service to the new market. The new strategy of B&O (leaner-faster-stronger) which consisted of six battles they targeted to win in the coming 5 years. Out of this six battle, at least two of them involved market development, which was growth in BRIC market, expansions and optimization of new distribution channels in existing and new markets. The company took many major stops to accomplish the task since the strategy was implemented in August 2011. The most significant steps by B&O which took place in regards with market developments are as follows:

Distribution development 2010/11 financial year

Since distribution development is a way of opening accessibility of B&O products in new strategic areas for B&O consumers. It will be considered as factors for market development where B&O increase their B1 shops in most populated and strategic positions in new emerging markets. Since the implementation of the new strategy B&O has taken significant steps in regards with optimization of their distribution channel as well as their expansions strategy in China and other promising markets such as Hong Kong are pointed out below:

During the 2010/11 financial year 56 B1-shops were opened or upgraded, while 69 shops were closed or converted to Shop-in-Shops. At the end of May 2011 there were 690 B1-shops compared to 686 at the end of the third quarter. The net movement for the fourth quarter was thus plus 4 shops divided into 16 openings and 12 closures. (B&O 2010/11 annual report page 20) the number of B1 shops in BRIC markets were increase from 71 to 78 2010/11.

In 2012 the company reduced 16 B1 stores and 21 shop in shops in mature market. It was decided to eliminated up to 125 B1 stores in Europe out of 125 B1 80 of them were terminated by the end of 2012/13 financial year

By the end of May 2013 ,63 store and 39 shop in shops were reduced and 27 store were opened in emerging markets In order to create a healthier retail network, with fewer, more productive stores, Bang & Olufsen announced in January 2013, that initiatives would be taken to close up to 125 stores primarily in Europe. 93 of these stores have been terminated as of 31 August. 74 stores have already been closed and the rest will close within the six month termination period.
The remaining stores will be terminated during the 2013/14 financial year. (B&O annual report 2012/13)

The company increases the number of B1 stores from 51 to 53 in North America and 73 to 76 at the end of 2012/13 financial year. Sparkle Roll had opened 27 dedicated B&O PLAY stores across China, an increase of 11 from the 16 stores opened at the end of the financial year 2012/13. By the end of August 2013 the total number of shop-in-shops, including the B&O PLAY stores operated by Sparkle Roll, was 186 against 221 at the end of the financial year (B&O annual report 2012/13)

The figure below shows shops in shops and B1 stores by regions in 2011 and 2012 in mature markets as well as the increase in number of B1 shops in BRIC markets.

As part of their market development in BRIC countries B&O signed agreement with Apple in order facilities product distributions and also brand awareness.

Bang & Olufsen has signed an agreement with Apple for European distribution of these products through Apple shops. This complements an already established agreement to sell through Apple stores in the USA. The products under the new product category will also be sold through a new Bang & Olufsen branded digital online shop (B&O annual report 2012/13) one of the other major steps towards expansion in China was the agreement with Chinese company.

On 29 January 2013 Bang & Olufsen signed an agreement with Hengzhunzixun (Beijing) Co.Ltd. A joint venture between Sparkle Roll Group Ltd. Sparkle Roll will open and operate B1 stores in three cities in China (Chongqing, Wuhan and Wuxi). In addition, Sparkle Roll agreed to open and operate more than 50 dedicated B&O PLAY stores across China within the 2013 calendar year. At the end of the 2012/13 financial year, Sparkle Roll had opened 16 dedicated B&O PLAY stores. (B&O annual report 2012/13) beside the agreements with other companies the company opened a national sale office in most strategic areas in China.

As part of the efforts to expand business in the BRIC markets, a national sales office has been established in Shanghai, and Bang & Olufsen has assumed control of the activities and distribution in Hong Kong and Southern China – including existing service and training.
facilities. At the same time, an agreement has been reached with a new master dealer in India (B&O 2011/12 annual report page 11)

The figure below indicates B1 shops in shops and shops by region in 2013

(Bang and Olufsen annual report 2012/13) figure 14:B&O B1 shop by region in 2013

Taking into consideration the above pinpoints since the implementation of the new strategy in August 2011 out of the six battles, market development was one of the most important battles that B&O had used most of its resources and efforts. The most significant movement in market development were the launch of B&Oplay for new segment, and also signing strategic partnership with apple and Sparkle Roll, increasing the number of B1 shops in BRIC markets taking over B1 shops in big Chinese cities and also in Hong Kong, opening up new distribution channels not only in BRIC markets but also in north America and central Europe were all accounted strategic movements which had leads increase B&O market share both in the existing market as well as in new emerging markets.

5.3 Evaluation of the strategy based on Ansoff matrix

The combination of the Ansoff matrix with the “leaner-faster-stronger” -strategy gives a clear description of what major step the company took in order to accomplish the six winning battles. As it has been discussed the most significant moments that took place in the last four years were mostly in product developments and growth in BRIC markets. The company launch different sorts of products in each year - after the implementing of the new strategy. At the same the company focused on growth in BRIC markets. The most promising market which catches the attention of B&O in the last recent years was China.

Right after the crisis that every other market was in the shape declining China has been a place for growth. Both strategies that B&O perused since the financial crisis involved expansion in China, therefore in very recently years the company has paid more attention to fully get benefit of the opportunities in China. Therefore right after the implementation of their new strategy in 2011, the company signed agreements with retailer in China where they represent B&O
products, at the same times they took over B1 shops in most significant and strategic places in China and also in neighboring country Hong Kong. On the other hand the company pursed significant movements in regards establishing distribution channels. In order to increase the revenue of the company under the new strategy the company discovers the necessity to get rid of B1 shops in mature markets. Therefore each year the company reduces the number of B1 shops in mature markets mostly in east and central Europe. Alternatively they increase the number of B1 shop in BRIC markets especially in China and Hong Kong. One of the other strategic and tactical steps that B&O took after the implementation of the new strategy was the extensions of the brand by intruding B&O play.

5.4 Entry mode
Foreign investors have often joined local investors in a joint venture company in which they share ownership and control to reach more geographic and technological markets and to diversify investments and risk. A joint venture May be necessary or desirable for economic or political reasons the foreign firm might lack the financial, physical or managerial resources to undertake the venture alone, or the foreign government night require joint ownership as a condition for entry. (Kotler, Keller, Brady, Goodman, and Hansen 2012, page 70)

5.4.1 Direct investments
The ultimate form of foreign involvement is direct ownership: the foreign company can buy part or full interest in a local company or build its own manufacturing or service facilities. If the market is large enough, direct investments offers distinct advantages. First, the firm secure cost economies through cheaper labor or raw materials government incentives and freight saving secondly the firm strengthens its image in the host country thirdly the firm retain full control over its investment. (Kotler, Keller, Brady, Goodman, and Hansen 2012, page 71)

B&O Choice of market entry in China
The enter mode of B&O in China took place in China based on two approaches direct investments and strategic alliances. One of the cleverest steps that B&O took with B&OPLAY was that they signed a strategic alliance with Apple. This strategic alliance enables B&O to sell their products (mainly B&O Play) through Apple stores. Apple as one of the biggest brand name in the world and world leader in innovation technology and designed not only increase B&O brand awareness but also pave the way towards new markets. One of the other positive characteristics of Apple is that they have years of experience in exporting and doing businesses in foreign markets specially in China that would help B&O to enter the market easily and reduce the risk.

Beside the strategic alliance with Apple, B&O also established a strategic partnership with Sparkle Roll Company. Based on the agreements between the two companies Sparkle will open and operate B1 shops in three big cities in China. Beside that the Sparkle Company also agreed
to start operation in more than 50 dedicated B&O play stores in most strategic place across
China. Although B&O spent more than 2 years in China market and have got an understanding
of Chinese markets and consumers behavior, but Sparkle Roll operates more than 15 years in
Chinese market in distributing luxury brands such as Burberry, Rolls Royce and Bently.
B&O can benefit from Sparkle Roll experience to a great extended. Although the strategic
partnership with Sparkle Roll is mainly about B&O play at the moment but in the longer run
B&O can use the opportunities to introduce other products, as most of the Chinese consumer’s
values quality and designed.

5.5 B&O’s Brand

One of the biggest strengths that B&O has an upper hand when it comes to its loyal customers
and competition among its competitor is its brand image, and how consumers sees B&O product
not as a product that satisfy their needs but also a value that gives the feelings they have got the
best products in terms of quality and design. Years of experience in developing high end luxuries
product gives B&O a great brand image among its customers around the world. Therefore one of
the hot issues when discussing B&O strategic performance in international markets is its brand
image perceived by consumers. In order to evaluate what role the brand image of B&O played
during the implementation of the new strategies, and to what extend was it helpful for B&O to
use its brand image as its strongest strengths to compete with other potential competitors, it is
necessary to start with theoretical definition of what is branding and what are the most important
factors related when it comes to branding theories.

A brand is a name, symbol, logo, design or image, or any combination of these, which is
designed to identify a product or service and distinguish it from those of their competitors.
(Kotler 2012, page 467)

According to Kotler when we are dealing with branding theories there are a few important
theories that are very related which needs to be taken in to consideration. One of the most
important concept in branding is about brand identity.

Brand identity is the way a company aims to identify or position itself or its product or service in
the minds of the consumer. (Kotler 2012, page 467) if we define B&O brand identity it describes
the method and ways that B&O wants its consumers to perceive and understand its brand and
recently its sub-brand. For most firms brand identity is one of the most important concepts of
branding to create a strong brand. One of the other important concepts in branding is brand
image. Brand image is the way consumer actually perceives the visual or verbal expressions of a
brand, which leads to the psychological or emotional associations that the brand aspires to
maintain in the mind of the consumer. (Kotler 2012, page 467) In relation with B&O it is the
actual perception of how the consumers, investors as well as analysis has from B&O brand in
other world brand image is a picture and an impression which existed in the mind of B&O
consumer. Last but not the least concept that is related with B&O branding is brand equity Brand
equity is the added value of endowed on products and services, it may be reflected in the way consumers think, feel and act with respect to the brand, as well as in the prices, market share, and profitability the brand commands. (Kotler 2012, page 492)

In relation to B&O brand equity it is about the value of B&O and also how the consumers are associated with the brand. There is a strong connection between brand equity and brand identity, to create a strong brand identity brand equity is an important concept to needs to be taken in to consideration. The very last aspect which is related to B&O is brand extension.

A brand extension takes place when an established brand introduces a new product (Kotler and Keller 2006, 296) one the major steps that B&O took after the implementation of new strategy in August 2011 was the extension of its brand into to a new sub brand for a totally new segment the B&O play which was designed for younger generation and it was launch in early 2012, most of the targeted segments of this product was in BRIC countries more specifically it was China and its neighbor countries such as Hong Kong although there were advantages and disadvantages involved with the extension of the a new sub brand, one of the biggest disadvantages in relation with the new sub brand (B&O play) is that the new product line is segmented for lower income young generation, since B&O original brand product line is categorized as expensive products among other competitors, this might damage the brand image of B&O in the long run among the royal consumers of B&O. As the royal consumers of B&O who purchased B&O products for years and paid higher price than other competitors would now get a different perception of the brand, as price signals the quality of the product seeing new and cheaper products indicates that the gap between B&O and other competitors are getting much closer in terms of quality and design,

on the other hand there are a lot advantages involved in relations to B&O play for the company, by the help of B&O was able to target a large segments that they were not able to reach this segment before, beside that B&O play opened the door towards opportunities that B&O need these opportunities more than any other time ever. The biggest opportunity that came out of B&O play was the growth in Chinese and other promising markets which increase the profitability of the company to a great extent. Keeping in mind that it was all possible due the original brand image, brand equity and brand identity of B&O that the consumers had in minds for years, which had played significant roles in the success of B&O for many years even during the financial crisis of 2008 that the company was hit hard and lost millions they were awarded as one the coolest brand in the world, few years later when the company was struggling to implement new strategies in order to bring the company back to pre-creses stage the company was once again awarded as one of the coolest brand, random consumers both B&O and others were questioned under a survey out of all the top rated brand B&O was rated the highest All the above concept represents a company’s intangible assets of a company which actually reflect how the consumers, think, feel and perceive and give a higher value in terms of their quality and
satisfaction. After being awarded two times and their high price product the company has been successful in build a strong image among their consumers.

The next section of the paper deals with how segmentation plays a role for success of firms such as B&O and their strategies in regards with launching new products with cheaper price.

5.6 Segmentation

Consumers need and preferences differs around the globe factors such as lifestyle, income, age sex, gender, culture, geographical region and etc. effects the choices of consumers and their behavior, one of the biggest problem for international firms that operates around the globe is to understand each consumers needs and preferences based on their age, sex, income lifestyle and geographical region, to understand these factors is by using segmentation

Segmentation is a process, which divides the market in homogeneous groups, with uniform preferences in relation to the firm’s products. (Andersen et al.2011, page 340)

The reason behind the choice of this theory is due to the new product line of B&O (B&Oplay) B&O play consist of several kinds of products such as headphones, TVs, wireless and portable music system for digital devices. One of the biggest differences that this product line has with other products of B&O is the price.

B&Oplay products are made of cheaper product material compare to other B&O product; therefore the prices are lower than other products portfolio. And most importantly these products are mainly designed for young generation. The main reason for developing a cheaper product was mainly about targeting new middle class segments. Therefore it was vital for B&O in order to launch a new product in a country like China the majority of the population is not with high income specially the young generations who were not able to get an experience of any B&O products due the high price, now they the new product lines are designed for these new segments to increase the desire for new consumers to get an experience of the new product line. In order to assess what approaches B&O used to segments these new generation for their new product line, and what were the challenges related to segmentation, and why it was a good idea to launch the new product line in China, there are some basic theoretical approaches need to be asses to evaluate B&O segmentation in China in regards with B&O play.

According Kotler there are four major segmentation variable: geographic, demographic, behavioral and psychographic. (Kotler etal.2012)

Geographic segmentation is about dividing consumers in different geographic areas. These different areas or units can be divided by nation, state, region, country, or city. (Kotler etal.2012) Demographic segmentation it is about the way of mapping the certain population in regards the type of goods. The population can be divided into many groups such as, income, sex, age, their social class and etc.
Psychographic segmentation it is about dividing the population into groups inters of their lifestyle, values and personality trait (Kotler, 2012) 

Behavioral segmentation is about the behavior of individual consumer, and personality.

The launch of new product line (B&O play) in China was part of the growth strategy in China, in order to break into the market and have a successful product launch, it was vital for B&O to segment their potential customers based on their, geographic, demographic psychographic, and behavior, in regards with geographic segmentation, the product line (B&O play) is different from the other B&Os products in terms of price and quality. The other products are targeted on high income consumers, who mainly live in expensive residential area close to big cities or mostly capital, but when it comes to B&O play it is mainly targeted for young generation who are lives in metropolitan cities or in new build up areas close to college or work. Beside this area other urban populated area can also be included in this segment.

In regards to demographic segmentation: this part of segmentation is the most important part that involves the role of B&O playing in regards the targeted segments in China, the potential consumers that B&O segmented is the younger generation regardless of their gender, with lower income, whereas the original consumers of B&O is classified as high income, with higher age who belongs to social upper class. Who are more in favor of friendly user products; there is a distinctive distance in terms of which the consumers are what age, and their social class as well as their choice of products in terms of functionality. There is no doubt that the new segment of B&Oplay had played a significant role in the success of the new strategy since it was launch in the Chinese market a great share of the revenue during the past years was due to the successful launch of B&O play.

5.7 Evaluating the strategy (leaner-faster-stronger)

The implementation of the new strategy in 2011 by B&O started with the so called six winning battle, as the company planned to triple the revenue, not only bring the company back to a pre-crisis stage but also increase the profitability of the company more than the company expected before the crisis. And in order to achieve this, the company took every possible step and explores every single opportunity to reach the goal. Actions that were never taken before by B&O such as launching brand new products B&O play with cheaper price in new markets Singing strategic alliance with Apple, where B&O product (B&O play) sells through Apple’s stores, strategic collaboration and joint ventures with Chinese companies, and most importantly launch of new products in ever quarter of each year both in existing and new markets. Taking over B1 shops in China and Hong Kong. Reduction of B1 shop in mature markets, optimization of distribution channels and many more other tactical steps were taken to bring the company back to pre-crisis positions. As all of these major factors were discussed in details in the early part, this part of the paper will evaluate the outcome of the “leaner-faster-stronger” strategy on
the company’s financial performance. In other words to what extend did the new strategy in 2011 effected the revenue, net income, gross margin, share price, EBIT and other key important factors which plays a key role for survival of the company financially. In order to assess the key financial figures the figure below provides the review of B&Os financial performance in the years before and after the implementation of the new strategy (leaner-faster-stronger).

### FIVE-YEAR OVERVIEW – KEY FIGURES

(B&O annual report 2012/13 page 8) figure 15: B&O five years of key financial review

#### 2011/12 financial year key figure review

according the figure above (the five year review key figure) The year after the implementation of the new strategy (2011/12) key figures shows great improvements. The company was able to increase the revenue by 3,008 million in 2011/12 financial year, 141 million more than the previous year which correspond to almost 5% growth. Profit before tax 104 Million compared to 40 Million year before, EBIT 4.1% Compare to 2.1% year before. The capacity cost decreased by 3 million. Distribution cost fell down by 7 million administration expenses decreased by 22 million due to the positive changes brought by the new strategy.

In order to reduce the negative effects the declining markets the company has reduced a great number of B1 shops in southern European countries which hit hard by the financial crisis during
the financial crisis (B&O, annual report 2011/12, page 15) on the other hand B&O biggest market share in Northern European countries which shows an increase in revenue of Dkk 77 million correspond to 5%. furthermore B&O other biggest markets share in North America generated revenue of DKK 140 million compare to DKK 119 Million the year before correspond to an increase of 17% (B&O, annual report 2011/12, page 15) beside these two markets the BRIC countries prove to be a great opportunity and promise markets to get into that had been it shows an increase of 13% in revenue its all due to increase focus in BRIC markets specially China.

2012/13 key figures
The revenue in the 2012/13 financial year was DKK 2,812 Million compare to 3,008 Million from the previous year. Which correspond to 6 percent decline, gross margin% declined from 40.4 to 38.9 EBIT decreased from 122 to negative 188. As the company had experienced importonents in the previous year, the expectation were double increase the revenue compare to 2011/12 but on the contrary the revenue, gross margin along with EBIT declined. The company has found out a couple of factors that leads to this declined.

The decision in Jan 2013 to transform the retail network to focus on fewer, more productive stores in existing markets by closing up to 125 stores within 12-18 months 80 stores were terminated already in 2012/13. The terminations are estimated to have has an adverse revenue impact in the financial year 2012/13 of approximately DKK 130 Million (B&O, annual report, page 9) the increase focus in China in the 2012/13 leads to acquisition of master dealer operation both in China and Brazil had put a negative effect on the revenue which was estimated 100 million by the company. Besides the company faced continuous challenging market conditions in Europe which also had a negative effect on the revenue.

The company also listed some major facts which leads to the decline of Gross margin in 2012/13. B&O continuous focus on improving product quality has resulted in a reduced need for warranty provisions and as a result DKK 23 Million was released in the fourth quarter of year. (B&O, annual report 2012/13, page 9) The decision to terminate a large number of older and non productive product through the products segments has been a process which had a negative impact on gross margin by DKK 22 million the fourth quarter of the year besides the company also reduced a large margin of their inventory compare to the previous year which leads to reduction of indirect production cost capitalized as part of inventory.

In other areas which has effected the companys revenue was the distribution and marketing according the company 2012/13 the cost in this area increase in DKK 102 million due to the full year impact from the establishment of a national sales office in Shanghai, the acquisition of the activities and own distribution in Hong Kong and southern China establishment of a B&O play sales organization. (B&O, annual report 2012/13)
Figur 16: B&O revenue growth per region in 2011/12 and 2012/13

The figure above to the left is from 2011/12 and on the right is from 2012/13 financial year. It gives a clear indication of how the new strategy had significant effect on each individual markets that B&O operates. According to this two figure from two years it indicates that in the European market the revenue has declined dramatically most of the negative figure comes from this market in 2012/13 financial year.

On the other hand the North American markets which is the largest revenue provider for B&O has been increased in 2012/13 comparing the year before, the BRIC region is the second top providers of the revenue it shows stability comparing the two years but as the company increase, they focus more in BRIC countries, specially China the companies expecting significant increase in revenue of BRIC markets. Besides these three markets there has been a great improvements in the rest of the regions comparing the two years the revenue has turn out from negatives to positives.

As it has been point out in the earlier part B&O bussiness area is diviede into two parts B2C and B2B the new strategy of B&O had both significant changes in both area of the business. In order to assess and evaluate in details the effect of the new strategy in each of these two bussiness area this part of the paper will look at the key figures of the years after the implementation of the new strategy to find out which specific bussiness area and to what extend did it had effect in over all profitability of the company.

The figure below is from 2011/12 within bracked and 2012/13 on the top without bracked. It gives an indication of specific amount of revenue each bussiness area made. Based on these key numbers in each of these area it shows that in 2011/12 financial year the B2C business area comprising AV and B&O play, generated revenue of DKK 2,279 million which correspond to an increase of 6 percent. The AV segment generated revenue of 2,043 million and B&O play 378 million on the other hand the in B2B bussiness area comprising Automotive and ICEpower has generated 569 million in the 2012/13 finicial year with correspond to a growth of 4% (B&O annual report 2011/12) The automotive segment in B2B achieved revenue of 454 million where
as the ICEpower in B2B segement achieved revenue of 115 million which correspond to an increase of 23.7 percent in 2011/12

Revenue 2012/13 (2011/12 within brackets)

<table>
<thead>
<tr>
<th>Segment</th>
<th>Revenue 2012/13</th>
<th>Revenue 2011/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>B2C</td>
<td>DKK 2,181m</td>
<td>DKK 2,421m</td>
</tr>
<tr>
<td>AV</td>
<td>DKK 1,649m</td>
<td>DKK 2,043m</td>
</tr>
<tr>
<td>B&amp;O PLAY</td>
<td>DKK 532m</td>
<td>DKK 378m</td>
</tr>
<tr>
<td>AUTOMOTIVE</td>
<td>DKK 546m</td>
<td>DKK 454m</td>
</tr>
<tr>
<td>ICEPOWER</td>
<td>DKK 87m</td>
<td>DKK 115m</td>
</tr>
</tbody>
</table>

(B&O annual report 2011/12) figure 17: B&O Revenue per segments
The 2012/13 financial year B&O in B2B segment has generated revenue of DKK 2,181 million. The AV segment generated revenue of DKK 1,649 million in the 2012/13 financial year against DKK 2,043 million last year, corresponding to a decline of 19 percent. (B&O, annual report 2012/13) B&O play on the other side of B2C segment generated revenue of 532 million which corresponds to an increase of 41 percent. According the company’s 2012/13 report the increase in revenue and growth in China was due to the successful launch of product (B&O play)
In B2B business area B&O generated total revenue of DKK 633 million in the 2012/13 financial year. Out of the 633 million the automotive generated 546 million against 454 million the year before which corresponds to an increase of 20 percent. On the other hand the ICE power segment has generated 87 million revenue rather than 115 million from last year. This corresponds to a decrease of 25 percent. According the company report the decrease in revenue in ICE power was due to a general slowdown in the global consumer electronics segments. (B&O, annual report 12/13)

To sum up the discussion with each segment that generated revenue under the new strategy in each year, it indicates that after the strategy was implemented B&O highest priority target was to boost up the revenue and growth they aim to increase it three times more, their first target was China and their best product line in a new segment was B&O play. The key figures in financial reports indicated that right after the implementation of the new strategy in 2011/12 the company has achieved significant improvements in terms of revenue gross margin EBIT and many more key figures. The successful launch of new products in existing market and as well as in new markets expanding in BRIC markets and optimization of new distribution channels and reduction of B1 shops in mature markets, taking control of B1 shops in more emerging markets, signing
strategic partnership and joint ventures with other companies such as Apple and local retailers all had positively affected the overall increase of revenue in 2011/12 financial year.

However the result in 12/13 turn out against the expectation of the company the revenue declined 6 percent along with other key financial figures. The company pointed out some key facts in regards with the declined of the year most significant ones was the challenging market condition in Europe and acquisition of master dealer operation in China and Brazil, termination of large number of old and non-productive products across all product segments. Each segments has different out comes in 2012/13 financial year which has been pointed out in the earlier part. An over view of each segments performance has been provided in the figure below.

Figure 18: B&O revenue and growth by segment B2B and B2C in 2011/12 and 2012/13
The figure on the left shows the revenue and growth generated by segments B2B in 2011/12 and 12/13 financial year, the figure on the right shows the revenue and growth generated by segment B2C in 2011/13 financial year. Each segments had played a key and strategic role in the six winning battles under the new strategy, no matter what would the key figures in the upcomming years look like there are a few facts that the new strategy brought in to play and gives huge lesson for B&O, the expansions in BRIC markets was one of the best decision out of the six winnng battle that brought success specialy in launch of B&O play in the new segments in China and increasinge of the new disturbance centers as well as taking over B1 shops in strategic places in China, althoug there have been many challenges in European markets including the slowdown in consumers spending and also the competitions intensity among the competitors increases the pressure for B&O to lose some of its market share in Europe. Because of that the company was forced to close down, some of the B1 shops in mature markes which was seen as clever more under the new strategy at the moment one thing obslutely for certain that China is one of the promising market to focus and increase their expansion in more populated area nd increase their brand awareness so that would not only help the company to increase their brand
awareness in more part of the world but also that seems the only way to bring back the company to stable situation otherwise the intensity of the competition will bring more disasters for B&O.

5.8 Share price
The very last part of the paper will look at how did the share price look like during the implemenetion of the new strategy and to what extend did these movments and expantions effect the stock price. According Reuters online bussiness articles in 2011 the share price increase after the company introduced the new strategy. “Shares in Bang & Olufsen A/S (BO.CO) jumped on Wednesday after the Danish luxury electronics maker said it hopes to triple sales and boost margins to pre-crisis levels on the back of a five-year strategy plan that includes a shift in focus toward China.” (Reuters.2011 B&O.share)
The figure below is a snap shot of how B&O share price fluactated during the past years after the streagety was implemented.

figure 19: B&O share price from early 2009 until 2013
The graph fluctuation support the arguments that after the implementation of the new strategy in August 2011, the company not only managed to increase their revenue and net profit but also their market share price started to increase in the early 2011 and the price dropses to almost half due to challanges the company faced at the early periods of 2012 which was discussed in the early part of the paper. The period after 2012 til early 2013 shows more stablity compared to the last previous year. if the company manage to fully get the benefits of the opportunites in the existing and new markets there is no doubt that the effecs will be unpredictable.
6. Limitations

Fundamentally strategy is formed on three parts Strategic Analysis, Strategic Development and Strategy Implementation. To stick to the topic of the thesis and problem statement, which is choice of strategy and analysis we will not take the strategic implementation issues into discussion.

In the entry mode, there are four different means of internationalization modes, Born-global firms, emerging country multinational, the breadth of competitive advantage and tradability. In this thesis the case company is working all over the world by means of Tradability and its branches, and is therefore taken into further discussion. We therefore limit the other three forms.

7. Conclusion

As the world financial crisis started to hit more countries around the globe international companies had suffered to a great extent. B&O which sells high-end luxuries products is one of those companies which was hit so hard by the financial crisis of 2008, the company implemented new defensive strategy to save and keep the company’s positions among other competitors in the markets.

The main focus of the thesis were divided into two main parts the first part dealt with how B&O was affected by 2008 financial crisis and the second major part dealt with how B&O did cope with the crisis from a strategic perspective.

To investigate the research problem the structure of the thesis were divided into two major parts, the first part of thesis asses and analyze the company from a strategic perspective, the external and internal factors that had played a significant role in overall companies performance before and after the crisis and most important of all the evaluation of B&O strategies which was designed to cope with the crisis, therefore the evaluation of the strategies were taken placed in two phases. The first phase involved the first strategy of the B&O (the “pole position” -strategy) was implemented in October 2008 this was a defensive strategy designed to cope with the crisis in the coming years. The main purpose for this strategy was to secure the position of B&O for future challenges, save costs in production administration and give the company one clear and simple vision on where the company should focus. Under the “pole position” -strategy the company focused on their core competence and product development since much of the downturn in their sell very also due to lack of product development before the crisis, and other potential competitors were catching up interims of technology and designed with B&O beside product development the company also focus on market development, their main focus were in BRIC countries more specifically it was China. But since this strategy was a defensive strategy their growth in new market was limited. Most of the resources and attention of the company were on how to save cost and secure the company from the crisis part of the cost save were also
related with elimination of B1 shops in Europe where these B1 shops had negative effects for the company. Based on the evaluation of the key financial review which was done during the first phase it became obvious that the implementation of “pole position” -strategy was a clever move at the right time. After the implantation of the strategy the key financial figure shows improvements in revenue, net profit, gross margin and EBIT, although the company was not successful to bring significant improvements in overall financial performance but comparing the existing challenges at the time the company were suffering the “pole position” -strategy brought promising improvements which encouraged the company management to fully benefit from the strengths to the company.

The second phase involve the second strategies of B&O (leaner-faster-stronger) was implemented in August 2011, this was an aggressive strategy designed to increase the profitability of the company their final target were to triple the revenue of the company for the 5 coming years. The leaner-faster-stronger strategy consisted of six winning battles that the company planned to win, these six battles were, increasing focus on sound and caustics (their core competence) which they have competitive advantage. Launches of new products, both in B2B and B2C business area, optimization of distribution channels, expansions in BRIC markets to achieve this, they took strategic and tactical movements around the globe. Just after the implementation of the strategy the company started to launch new products every quarter of the every, both for the existing market and also for the new market. The company realized the benefit of the opportunists in BRIC markets; therefore they focus more and increase their resources for expansions in BRIC markets, one of their best strategies that they perused in China was the launches new brand products (B&Oplay) with cheaper price for new segments.

Besides the company signed strategic collaboration with Apple and where B&O products will be sold through Apple stores in USA and in China, the strategic collaboration with Apple is considered the smartest strategic movements that open more opportunities in the longer run.

In order to strengthen the expansion the company signed strategic partnership with Sparkle Roll Company that has 15 years of experience in Chinese markets. Where company open and operates through B1 shops. Taking over of B1 shops in strategic areas in China and Hong Kong were another major steps in regards to expansions in China. At the same time the company also focused on eliminating B1 shop that has negatively effects the company, therefore the company under new strategy eliminate a large number of B1 shops in mature markets. On the other hand the company also focused on B2B segments.

The automotive and ICE power has been accountable for a large share of the company profitability, because of that the company increased their focus on product developments both in ICE power and automotive sound systems. The partnerships with top automatic company has increased, under the new strategy B&O accelerate their cooperation’s with new automotive companies which leads to high increase in B2B segments. The evaluation of the key financial review after the implementation of the new strategy indicates that leaner-faster-stronger strategy brought a lot of improvements in the company’s financial performance the revenue, net profit gross margin and EBIT improved to a large extend in the year 2010/11 and 2011/12 financial
years due to all the above mentioned aggressive strategy, but these figures drops slightly back in 2012/13 financial year due to increase investment in new markets and elimination of B1 shops as well as reducing a large proportions of old product portfolio. Never the less if we get a quick flash back from 2008 financial crisis where the company was hit so hard and their revenue drops to almost 50 per cents, which was accounted the most catastrophic year in the history of the company the implantation these two strategies was very clever moments and it was perused at the right time. Although there were some failures and mistakes they could have improved much better, but one thing is clear that the company has passed the year of crisis successfully it worth mention that although the intensity of competitive in increasing and other competitors are getting stronger and trying to increase their market share in areas where B&O operates. But what is now that under the new strategy of expansions in BRIC market B&O is opening new opportunities that would lead the company back to a period of boom and profitability.
8. References

1. Bang and Olufsen Homepage, Annual Report 2007/08, page 8
3. Bang and Olufsen group homepage 2008
5. Contemporary strategy analysis, Robert M. Grant, Eight Edition 2013, page 112
10. StrategicManagementInsigt.com, 2014
13. Practical Approach, Financial statements analysis and valuation, Elling and Sørensen, 2005, page 103
20. Pleasure Børsen.dk, 2009
   http://pleasure.borsen.dk/gadget/artikel/1/168304/Bang_Olufsen_-_40_tommer_fra_afgrunden.html retrieved on 20 April, 2014
22. Investopedia.dk, Stock, Stock market 2014,
27. B&O homepage, annual report 2011/12 page 10

30. Bang &Olufsen, Annual report 2011/12 page 11
32. Bang and Olufsen, homepage, Annual report 2012/13 page 24
36. B&O annual report 12/13 p19
37. Bang and Olufsen, homepage 2012/13, annual report, page 12
40. Marketing Management, Kotler, Keller, Brady, Goodman, and Hansen 2012 page 70
41. Marketing Management, Kotler, Keller, Brady, Goodman, and Hansen 2012 page 496
42. (Andersen et al.2011, p.340
44. Bang and Olufsen homepage, 2011/12 annual report page 15
9. Appendixes

Figure 1: number of shops and turnover in 2007/08 and 2008/09

Definitions of shop segments:

B1: Shops, which mainly sell Bang & Olufsen products
SIS: Shop-in-Shop with a sales area dedicated for Bang & Olufsen products
Bang and Olufsen electricity consumption

Figure 2: Bang and Olufsen electricity consumption

Figure 3: Result before tax and Return on equity

<table>
<thead>
<tr>
<th>Shop segment</th>
<th>Number of shops per 31/5-10</th>
<th>Change in the period 1/6-09 – 31/5-10</th>
<th>Share of turnover full year 2009/10</th>
<th>Share of turnover full year 2008/09</th>
</tr>
</thead>
<tbody>
<tr>
<td>B1</td>
<td>703</td>
<td>(55)</td>
<td>82 %</td>
<td>81 %</td>
</tr>
<tr>
<td>Shop in shop</td>
<td>300</td>
<td>(85)</td>
<td>18 %</td>
<td>19 %</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>(1)</td>
<td>0 %</td>
<td>0 %</td>
</tr>
<tr>
<td>Total</td>
<td>1,005</td>
<td>(141)</td>
<td>100 %</td>
<td>100 %</td>
</tr>
</tbody>
</table>

Definitions of shop segments:
- B1: Shops, which are dedicated retailers of Bang & Olufsen products.
- Shop in shop: Shops with a dedicated sales area for Bang & Olufsen products.
- Other: Shops without a dedicated sales area for Bang & Olufsen products.

Parentheses denote negative figures.

The organic growth in currently active Bang & Olufsen shops with more than 24 months of operations was for the full year 7 % for B1 shops and 7 % for shop in shops. For fourth quarter seen in isolation, growth for the same shops was 36 % for B1 shops and 29 % for shop in shops.

* The amounts are unaudited.

Source: Bang and Olufsen Interim report, 2010
Figure 4: distribution overview 2010

<table>
<thead>
<tr>
<th>Country</th>
<th>Turnover 2009/10</th>
<th>Turnover 2008/09</th>
<th>Turnover 2007/08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>299</td>
<td>269</td>
<td>478</td>
</tr>
<tr>
<td>Germany</td>
<td>174</td>
<td>179</td>
<td>422</td>
</tr>
<tr>
<td>Automotive</td>
<td>268</td>
<td>174</td>
<td>235</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>211</td>
<td>277</td>
<td>420</td>
</tr>
<tr>
<td>Switzerland</td>
<td>210</td>
<td>188</td>
<td>287</td>
</tr>
<tr>
<td>Asian Markets, Exl. Japan</td>
<td>210</td>
<td>194</td>
<td>281</td>
</tr>
<tr>
<td>Holland</td>
<td>175</td>
<td>155</td>
<td>271</td>
</tr>
<tr>
<td>France</td>
<td>133</td>
<td>146</td>
<td>215</td>
</tr>
<tr>
<td>North America</td>
<td>128</td>
<td>159</td>
<td>209</td>
</tr>
<tr>
<td>Spain/Portugal</td>
<td>122</td>
<td>125</td>
<td>237</td>
</tr>
<tr>
<td>Italy</td>
<td>112</td>
<td>169</td>
<td>186</td>
</tr>
<tr>
<td>Expansion markets, Exl. Russia</td>
<td>92</td>
<td>163</td>
<td>125</td>
</tr>
<tr>
<td>Enterprise (hotel, etc.)</td>
<td>91</td>
<td>115</td>
<td>155</td>
</tr>
<tr>
<td>Russia</td>
<td>76</td>
<td>83</td>
<td>106</td>
</tr>
<tr>
<td>Belgium</td>
<td>77</td>
<td>79</td>
<td>108</td>
</tr>
<tr>
<td>Sweden</td>
<td>71</td>
<td>58</td>
<td>150</td>
</tr>
<tr>
<td>Middle east</td>
<td>42</td>
<td>40</td>
<td>46</td>
</tr>
<tr>
<td>Austria</td>
<td>35</td>
<td>37</td>
<td>57</td>
</tr>
<tr>
<td>Norway</td>
<td>29</td>
<td>33</td>
<td>62</td>
</tr>
<tr>
<td>Japan</td>
<td>24</td>
<td>30</td>
<td>46</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total branded business</td>
<td>147</td>
<td>22</td>
<td>7</td>
</tr>
</tbody>
</table>

Figure 5: Bang and Olufsen Regional Turnover

Figure 6: US to Danish Krone currency fluctuation
Figure 7: Swiss Franc to Danish KR currency Fluctuation

Figure 8: UK to Danish KR currency fluctuation