

**International Management**  
**Master Thesis No 2000:12**

*-A study of Expekt.com from a strategic point of view*

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## **Abstract**

The discussion during the last few years about the importance of working with strategy has been in some ways neglected because of the entrance of Internet. This issue has intrigued us and so we asked ourselves the question, what has happened with the traditional strategic business models that the business community for so many years have been using?

Michael Porter created one of the most traditional business strategy models during the eighties. It became increasingly interesting for us to uncover if his theories still have a value in today's Internet economy. With this background in mind, we have formulated the following problems: In general, to what extent, are the existing strategic schools pertaining to the e-business companies? Specifically, is the strategic framework by Michael Porter suitable for the Internet based e-businesses? If this is not the case, might there be a need to complement Porters theory with other approaches?

We have chosen to answer our stated questions by following the start up process of one e-commerce business in United States. The company is called Expekt.com and they are in the beginning of their expansion as a startup. Expekt.com's business idea is to provide the market with comprehensive interactive online betting services on the Internet. We have taken an active part with them during their entrance into the US market

Therefore we have decided to answer our problem questions by gathering data in two ways: From our own observations through the initial process of Expekt.com into the United States, and from interviews made with each market's manager for Sweden, Norway, Denmark, Finland and Germany.

The conclusions from this thesis are integrated with the issue that Porters theory of five-forces fulfills a very important purpose for e-commerce, but yet the theory needs to be complement by other strategic approaches to make it functionally viable for Expekt.com and other e-commerce companies.

## **Sources of inspiration and acknowledgments**

Before we even decided to write a thesis together we had a discussion about what our interests were when it comes to our university studies. We both agreed that it was very important to discuss these kinds of issues before you decide to write a master thesis together. We did not know each other very well, even though we were classmates in the International Management program. The program that we were attending was divided into four different areas as management, leadership, management accounting, and business from a cultural perspective. The latter of these areas (business), made both of us very curious, and especially on the focus of the concept of strategy and e-commerce with a global perspective. Since we have been attending the course from September 1999 until May of 2000 we have been frequently shown through mass media, internet, and news periodicals about the foundation of all successful businesses, specifically dot-com companies, and how their stock prices have risen to incredible stock prices and how you could be so potentially successful in e-business in such a short period. So based on this we felt that we wanted to find out a problem area where we could combine our interests in strategy with e-business and therefore learn more about the market and its functions. We had taken the first step towards something, even though it was very broad.

The next step was to explore and define each other's private interests. Both of us are almost fanatical when it comes to sport and that took us a bit closer to each other. Now we were in a stage where we had found out the following things about each other, our common interest in strategy, e-commerce and sport. So the question arose of what and how could we do something about these interests?

With this background we contacted a company that was into e-business and sport. This was a relatively new company (by traditional business standards) that was in the beginning and expansion of their startup. The company is called Expekt.com Ltd. and their business idea is to provide the market with interactive online betting services on the Internet. Here we had a new company on a new market with questions and ideas for expansion into new markets.

The next step was to see if we could do something with them, find a practical and academic direction that could lead us to a thesis, and at the same time give us some practical experiences. We arranged a meeting in Stockholm with the owners of the company, Christian Haupt and Conny Gesar. Both of them had their degree in industrial engineering and management technology from Linköping University, which made it easy for them to understand our situation and the purpose for a thesis. We were a bit afraid that they only wanted us to do practical work for them and not take a focus on our thesis. It was decided that our contact was to be Erik Horneman who assists Expekt.com with business development issues

Nevertheless, we discussed a few issues, and the purpose of the meeting was to see if we could find a problem for the company to solve, and at the same time fulfill the requirements for an academic thesis. The meeting was very productive and we decided to take on the project with Expekt.com. With their academic background, and from the company's perspective the owners were sure that we could find an interesting angle within our thesis. This angle would therefore later evolve towards an angle of strategy combined with new market entry.

A couple of days later we arranged a meeting with our coordinator of the management program, Torbjorn Stjernberg to discuss our thoughts and share our information from the meeting with Expekt.com. We received a few ideas how we could take this a bit further and a few days later we decided to contact Kai Simon at the Victoria institute to be a second facilitator. Kai had been our teacher one time and we felt that he was very suitable to be our tutor. Kai is not only a very educated lecturer within our studies, but he is also quite knowledgeable of newer technologies and of e-commerce. He has had a tremendous amount of exposure towards new Internet technologies and also of Internet companies. So due to these facts we felt that Kai and Torbjorn would be valuable thesis tutor choices and they have discussed with us the structure of this thesis and research related questions therefore pertaining to it.

After this we arranged a meeting with Erik Horneman in Stockholm at his home and he gave us some suggestions how we could find and attack a problem

area within our interest. The meeting was very productive and we decided together that he could help us during the thesis process to give us continuous feedback. Eric Horneman has been a great source for feedback on our writings. With his academic and practical background it is irreplaceable to have this source in a thesis work.

In June we agreed upon a problem area with our tutor, Kai Simon. This problem area would be focused around a theoretical approach combined with a practical case study through Expekt.com. We were interested to find out to what extent the existing strategy schools were relevant for e-business companies. Our idea was to see if we could answer our problem area by following the start up process of Expekt.com in United States and discuss it in the light of strategy framework. The purpose was not to start a company but to make a study of Expekt.com in United States. And through this case study the thesis and purpose of the project took shape. So a couple of days later we signed a contract with Expekt.com, and in the middle of August we were ready to leave Sweden for our thesis writing in San Diego in the United States.

During this thesis process, we have had a great combination of help from Expekt.com, School of Economics and Commercial Law, and people outside this area. We have also been provided with alternative perspectives through our studies in the States, and the people involved there which hopefully have only broadened our own perspectives.

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## **1. Introduction**

In this chapter we will give the reader an understanding of the problem area, and the purpose of the study. To make things clearer for the reader, delimitations and the structure of the thesis will be presented at the end of the chapter.

### **1.1 Background**

Ready to join the e-business revolution? The business landscape is undergoing a seismic change. Companies and customers are flocking to the Internet, and smart businesses will take the chance to join this new business environment. (Ginsberg, 1999).

Today in the debate, we are moving from an industrial economy, in which companies have competed in for the last century, towards a different new economy. Just as railways and roads were the infrastructure in the industrial economy, the information and the Internet make up the infrastructure of the new economy.

The Internet has become something revolutionary for companies. With the astonishing growth of the Internet, many companies are finding new and exciting ways to expand upon their business opportunities. There are few successful companies that do not use computers in their everyday business activities, which in turn means there are few companies that do not use e-commerce. Today, we are seeing new companies that are growing up among the traditional ones. Companies where the Internet is creating a direct pipeline to customers. As a result, the time to market and geographic presence has rapidly decreased.

But what exactly is e-commerce? To most casual Internet surfers, e-commerce basically means online shopping. However, that is not the whole truth. Simply

put, e-commerce is the exchange of business information between two or more organisations. An example of this would be the act of buying and selling products or services over the Internet. E-commerce also includes electronic fund transfer, smart cards, and all other methods of conducting business over digital networks. (Www.idc.com)

With digitalisation, we step into a world where information is given the value of one or zero, which makes it possible to have information travel in bits instead of atoms (Pehrsson & Engstrom, 2000). The digitisation in society is the most obvious evidence of the technological progression of today. The developed, and distributed technologies can influence and change the competition. The Internet is the closest environment we have today to a “digital world.” It is the place where new technologies and businesses models are being introduced, tested and observed.

One interesting thing that drives, and is driven by the new technology is globalisation. The phenomenon of globalisation, while not new, always existed in different forms in the market. It brought more potential for organisations to grow, and enables expansion to become almost unlimited as far as the markets of the world are concerned. Alas, in today’s volatile world with the onset of e-commerce, anyone can do business from anywhere, no matter what the size of either the firm or the budget, and reach an audience of millions of people.

## **1.2 Problem discussion**

As we touched upon earlier, today new companies are starting up at a more rapid pace than in any prior time due to: the new technologies, the entrance of the Internet, and the increased globalisation these technologies bring with them. With just a mere idea and a web site, a new business can be established, and up and running without ever having to put up a huge investment. Due to the Internet and these technologies, suddenly the market has become global. The last couple of years have been dramatically different for new businesses because of the emergence of the Internet.

Many new companies have made millions of dollars, just by simply being the first to market a rave new concept. If the site is considered cool or fresh, the market goes wild. Most e-commerce companies are based on hopes and prayers rather than anything that could be called a business strategy. (Clancy, Kevin J, 1999)

The discussion up until now has been about describing the Internet as the new success factor that has created a new industry in which it is very easy to succeed. A company needs a business idea, website, and financial resources to get the company up and running. Once these things are accomplished, it should not take much more time until your market is global, and you have a successful company. Do we recognize this? This is how it sounded for the last couple of months. Despite this, the hopeful entrepreneurs that are out there should be wary that numerous conditions, directly relevant to the e-commerce companies, have started to change.

Keep in mind that it was not a long time ago, when new companies were starting up, the start-up process was very time consuming before they become a fully functional company. They needed to make investments and have a well-defined strategy, one that could help to steer them in the right direction. When it came to establishing a company, many critical eyes were scrutinizing the businesses, and it was not enough to just have an idea. However, the Internet changed those conditions in a very dramatic way, as mentioned before, and the Internet market was not interested in the traditional way of doing business.

This intrigued us, and we asked ourselves what had happened with the business models that the business community had been using for years. Perhaps the time has come where the business strategy will not serve the same function in today's 21<sup>st</sup> century environment, as it had in the years preceding the institutionalisation, and globalisation of the Internet.

During the 1980s, there were a wide variety of business models that emerged to help explain how to formulate and implement strategy. Michael Porter's five-

forces model was one of the most popular. In essence, this model suggested that companies and strategists needed to consider five forces when examining the nature of the current environment in which they competed: new entrants, suppliers, buyers, substitutes, and competitors. Porter's model, as was the case with many of the other theories, was created and empirically tested during the old economy, where the conditions were different from today's environment. The message with Porter's theory about the five-forces was to illustrate how important it was to determine the industry's attractiveness in determining where your company should compete. This would give the company a chance to help determine a competitive strategy (Porter's generic competitive strategy model) to "cope with and, ideally, to change those rules in the firm's favour to be successful."

Michael Porter is, as we mentioned earlier, a guru in the strategy area. This statement is supported by Kevin Coyne, who says that Porter is still the most dominant strategist working today, and maybe of all time. People have not forgotten about him or his work (Surowiecki, James, 1999). What will the consequences be now that business has become Internet based? Can Porter's five-forces model fit into the volatile e-commerce environment?

The discussion about Porter, and the new e-commerce companies makes it very interesting to find out if his theory pertains to today's Internet based economy. That is something we wanted to investigate further. The first step we took in trying to solve this quagmire was formulating the following questions:

1. In general, to what extent are the existing strategy schools relevant to the e-business companies?
2. Specifically, is the strategic framework by Michael Porter suitable for the Internet based e-businesses?
3. If this is not the case, might there be a need to complement Porter's theory with other approaches, in order to make it viable for other e-commerce companies?

In order to conduct research on afore stated questions, we will chart the progress of one e-commerce company. The company we will chart is called Expekt.com, and they are in the process of expanding their European foundation. Expekt.com's chief business idea is to provide the market with an interactive online sports betting service. Expekt.com Ltd is a British bookmaker situated in central London. Two Swedes, Christian Haupt and Conny Gesar, founded Expekt.com in February 1999, and were operating in August of the same year. Expekt.com quickly became the leading Internet sports betting site in Sweden. They are now further developing their markets in: Finland, Norway, Denmark and Germany. Currently, Expekt.com is operating in: Sweden, Finland, Norway, Germany, England and Thailand. They are currently thinking of entering into the North American market. We decided to associate with Expekt.com, so that we may have an active role in their emergence into the United States. The chosen strategic models will be directly put to the test.

### **1.3 Purpose**

The first purpose of this thesis is to see if we can answer the two first stated problems questions from two different ways. First by allowing us to actively take part in the development of Expekt.com in the North American market, and then by interviewing Expekt's marketing managers from: Sweden, Norway, Finland, Denmark, and Germany.

The second purpose is to see if Porter's strategic framework has to be complemented by another strategic school so it can be applicable for Expekt and other e-commerce companies.

### **1.4 Delimitations**

Our theoretical framework is directly shaped by Porter's beliefs. In general, his theory is often divided into three areas:

*Five-forces model:* The model could determine an industry's attractiveness. The five- forces model provides a framework for the collection and organisation of

an industry. The five-forces are: new entrants, suppliers, buyers, substitutes, and competitors; which are vital in choosing your company's strategy.

*Generic competitive strategy model:* After you have analysed the industry and the environment with the five-forces, it is time for a company to decide which competitive strategy the organisation should use. After deciding which strategy to employ, it is time for Porter's generic competitive strategies, which include: low-cost strategy, differentiation, and focus.

*Value chain model:* According to Porter (1985), the concept of the value chain "divides a company's activities into the technologically and economically distinct activities it performs to do business." Each of these activities can add value, and act as a source of gaining a competitive advantage.

The first two models from Porter explain what is happening in the external environment of a company, and what can be done about it, in terms of strategy. Our objective was to make an analysis of the online betting industry. With that information, we could decide and suggest what kind of strategy Expekt.com should adopt to be successful in the North American market. The five-forces model, and the generic competitive strategies models will suit our purpose, which is why we will omit the value chain model from our thesis.

One usually talks about e-commerce from three perspectives: customer to business interactions, intra-business interactions, and business-to-business interactions (Kalakota and Whinston, 1997). In our thesis we will focus on the customer to business interactions, since this classifies Expekt.

The American study is geographically limited to California in United States. The Swedish study is limited to Stockholm. This is because of difficulties in: time, money and traveling. The thesis is time limited, it spans from the middle of August, to the end of November.

We are fully aware of that we will not solve the entire e-commerce problem with this thesis. We will formulate a general answer, as to whether or not the old strategies, as presented by Porter, are good or bad for an e-commerce company, based on our study of Expekt.com.

## **1.5 Key Words**

We will make clear, concise definitions of terms that we use over and over in our thesis. It is important for the reader to understand these definitions, and by giving the reader an explanation of different words, the thesis will be much easier to understand.

### **Strategy**

Ansoff (1987) explains strategy as a set of decision-making rules for guidance of organisational behaviour. According to Porter (1980), strategy is a deliberate search for a plan of action that will develop a business's competitive advantage and compound it.

### **E-business versus E-commerce**

A definite distinction exists between e-business and e-commerce. An e-business is one that electronically connects with: customers, suppliers, partners, and employees. E-commerce has a narrower definition. It only involves the buying and selling of goods and services over the Internet (e.g., order entry authorization, and confirmation). E-business companies also conduct electronic encompass activities, except for buying and selling (e.g., providing information over the Web, purchasing supplies online, and posting job adverts). (Www.idc.com)

## **New economy**

Expekt.com is a part of the new economy, which is why it is important to give a short description of the new economy. By better understanding the new economy, the reader will better grasp how and why certain things are relevant.

There are at least a dozen overlapping themes that distinguish the new economy from the old. These include: the knowledge of the orientation of business and the economy, the digitisation of information, the emergence of virtual entities, the rise of dynamic molecules and clusters of individuals and entities as a basis of economic activity, the formation of networked organisational structures, and the demise of the middlemen's functions between manufacturers and customers. Other characteristics of the new economy are: the convergence of technology, the rapid pace of technological innovation, the blurring of boundaries between consumers and producers, the importance of immediacy in economic activity, the globalisation of business, and increased social discord. (Tapscott, 1996)

## **Internet**

The Internet constitutes a majority of the new economy. The Internet is a collection of computer networks that interconnect computers all over the world. Computers on the Internet are able to communicate with each other because they use the Internet protocol as a common method for routing and transferring messages across computers. E-commerce describes the commercial activities over the worldwide network or web.

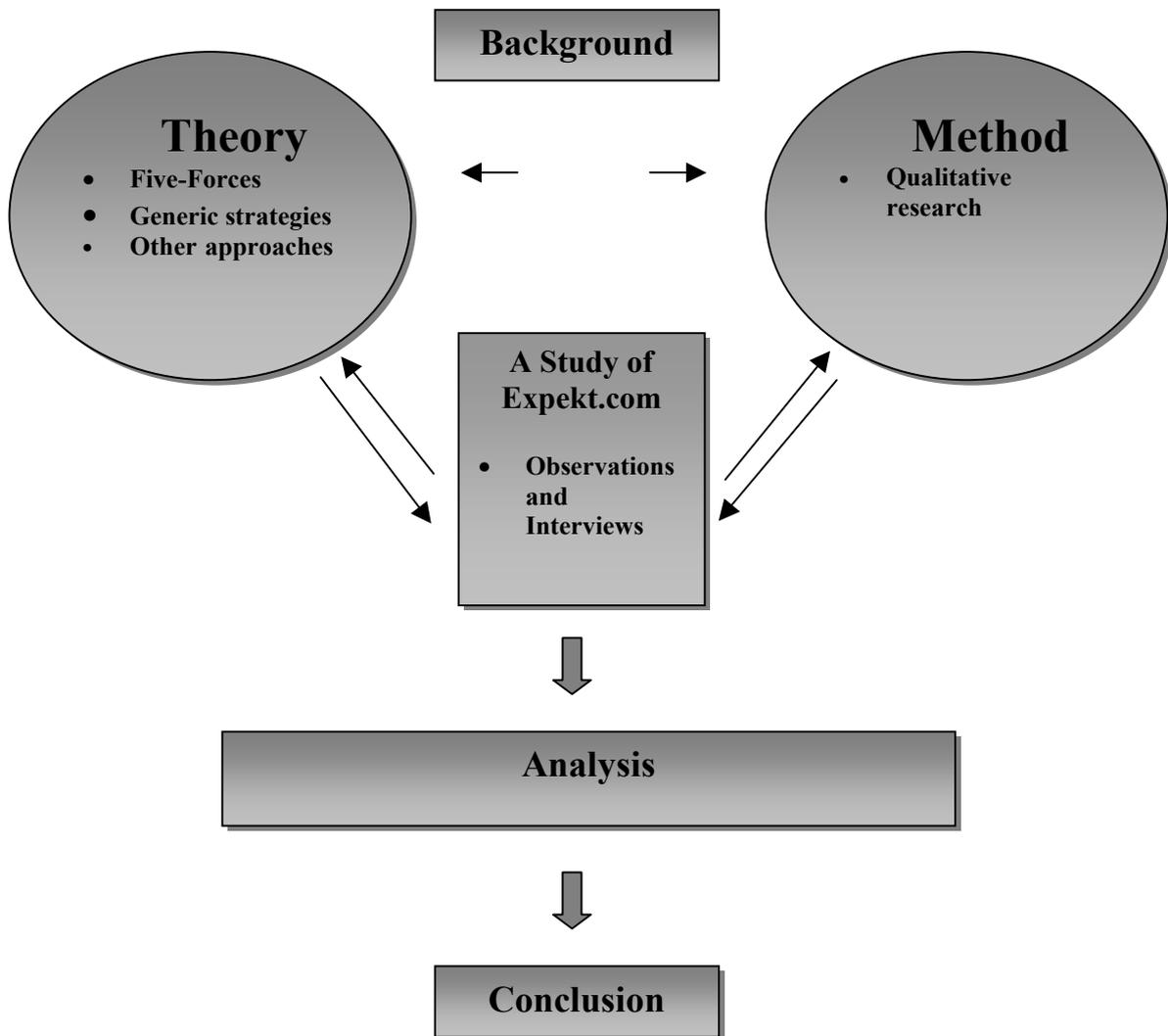
## **Globalisation**

The phenomenon of globalisation, while never significantly noticed, has always existed in different forms in the world. It brought more potential for organisations to grow, and expansion became almost unlimited as far as the markets of the world are concerned. In today's volatile world with the onset of

e-commerce, anyone can do business from anywhere, no matter what the size of neither the firm nor the budget, and reach an audience of millions of people.

According to Porter (1986), the global industry is not merely a collection of domestic industries, but a series of linked domestic industries in which the rivals compete against each other on a truly worldwide basis.

## 1.6 Thesis Outline



*Figure 1. Source: Own Model*

The problem of this thesis is studied upon a: theoretical, practical, and empirical perspective. The first chapter gives the reader an understanding of: the background, the problem, and the purpose we wish to achieve.

In chapter two we will explain: why we have chosen a specific approach, how we have collected the information, and any potential criticisms to the study. The third chapter will explain: the theoretical approach, and why the authors

have chosen that specific approach. In this chapter, we have to answer the weaknesses of Porter, as well as explain which parts of the theory we have chosen to analyse. Chapter four will present the company and the study of Expekt.com, both from our observations and from the interviews. The results and information from that chapter leads us directly to chapter five, where we analyse our data with our chosen theory. Then we summarize the thesis with a conclusion, and further reflections discovered over the course of conducting the thesis.

## **2. Method**

In this chapter we will explain how we have conducted our research. This chapter is very important, because it is crucial for the researchers to understand how the research will be put to use. A study is not an easy task for a researcher. Before conducting a research study, the researchers should know the effect behind the chosen study research.

We will start this chapter (2.1) by giving a short general presentation of how you can attack the problem by comparing two basic concepts, qualitative and quantitative methods, on the obtained research. This will be followed by a discussion (2.2) of how we have attacked the stated problem, and more specifically, why did we attack the problem in the chosen way. Giving an explanation of how the data has been collected (2.3), and different criticisms (2.4) of collecting data will conclude the chapter.

### **2.1 Choosing an approach**

When you are writing a thesis, you have to decide how you should attack the problem. The two main ways are by using the qualitative and quantitative methods. All methods are tools to come to a result in the research, and the different methods use diverse methodical principals to different degrees. (Holme I. M. & Solvang B, 1997)

In the quantitative method, you change the information into figures. With the assistance of the quantitative method, you get real statistics and can do a statistical analysis (Holme I. M. & Solvang B, 1997). The advantage is that statistics do not lie or carry biases with them. However, the statistics that become generalized, may have holes in them, or be biased in the manner in which they were collected. When you use the qualitative method, the researcher is the primary instrument when it comes to collecting, and analysing information. The researcher can maximize the way he collects information, in

order to make it meaningful. On the other hand, the human being is limited in terms of just being a human being. Being a human being automatically brings with it biases and perceptions, which can deviate towards biased data or information. That means that he/she can make mistakes, miss opportunities, and easily let personal thoughts color the study. (Merriam, 1994)

The researcher knows the qualitative method as a method with closeness of a respondent, which is the source from where you get the information. When you use a qualitative method, you will get to a result with a low degree of formalization. This method has the primary goal of understanding the purpose. The purpose is not to find out if the information has a general validity, but rather to get a deeper understanding of the problem. (Holme I. M. & Solvang B, 1997)

Our purpose is not to produce a result that is statistically right and has a general validity. Rather it is to get a deeper understanding of the concept of strategy, and see if the traditional way of using a strategy is working for the new e-business. We believe that a qualitative method is most suitable for our purposes, due to the situation we have. This kind of method should be used when the picture of the problem is difficult to catch, and you therefore want descriptive research and are not absolutely sure of the independent variables. (Holme I. M. & Solvang B, 1997)

The strength in qualitative data and methods is that they show the total situation, which will lead to a better understanding of the social processes and the context. Research, which is based on a qualitative method, is good to have as a base in a construction of theories. A qualitative method requires closeness to the research object, and face-to-face interviews are often used. Furthermore, the method takes a lot of time and you have to be flexible. Flexibility can be both a strength and weakness. The flexibility makes it difficult to compare the information from different units. Another weakness is that it is not that easy to find people who have time for interviews. (Holme I. M. & Solvang B, 1997)

When you have come to the solution that you should use a qualitative method for your study, the problem of how you should attack it arises. There are a lot of different ways to approach a problem. For example, there are: case studies, cross section studies, survey-studies, and experimental research. (Lekwall P. & Wahlbin, 1993) The fact that we decided to deduce answers of our stated problem by doing a study from Expekt.com, made us sure that some kind of a case study was the most appropriate form. But how do you define a case study?

*A case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident. In other words, you would use the case study method, because you deliberately wanted to cover contextual conditions - believing that they might be highly pertinent to your phenomenon of study. (Yin, 1994)*

The main argument for a case study as a scientific method is that the researcher observes facts (rather than interprets), and does not intervene in the situation being observed. But is this reasonable? Sources of case study evidence include: documentation, archival records, interviews, direct observations, participant-observation, and physical artifacts (1994). Interviewing and observation are not neutral. The best the researcher can do in conducting a case study is to try to minimize the impact they have on the situation. Up until now, we thought that a pure case study was the most appropriate form for us to do as researcher. We wanted to answer our stated problem questions by making a study of Expekt.com. However, we saw a problem with making a case study, which was that we were an active part of Expekt.com. We could affect the situation, even if we did not have that in mind. This together with what Braa (1995) has to say about a case study made us rethink and decide to make an action study, which is something similar to a case study.

*What should the researcher do once it is apparent that they are affecting the situation of study? The researcher has to decide whether or not to withdraw*

*from the situation or to reclassify the research from a case study to an action research. (Braa, 1995)*

We will now explain how we did our action study and how it suits our purpose. Before that, a short summary of what an action study means will be stated.

## **2.2 Choice of Research Method**

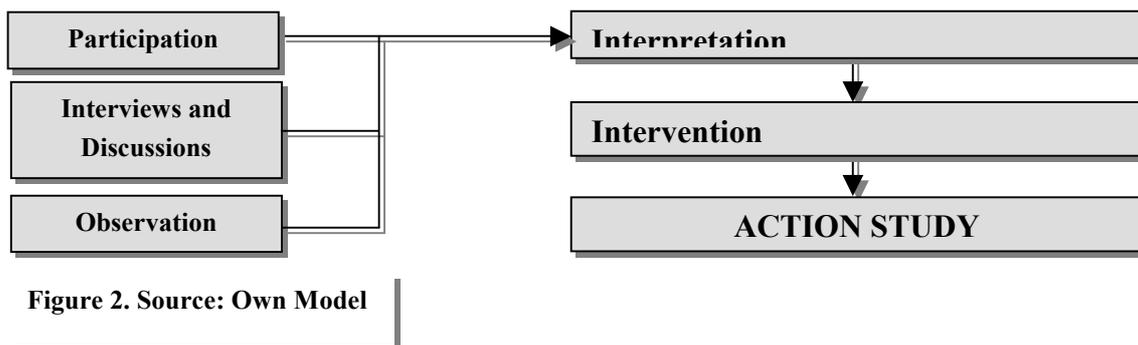
There are no strict definitions, or agreed principles in an action research. Action research has been classified as a way of building a theory, and descriptions within the context of practice itself. The theories are tested through intervention experiments. These intervention experiments bear double the burden of testing the hypotheses, and effecting some desirable change in the situation. (Argyris & Schon, 1991)

Why do we think the action study is the most suitable research method for our purpose? We are an active part of Expekt.com and their entrance into the United States' market. Being a part of Expekt.com, the work includes aspects of interpretation and intervention. According to Braa (1995), the research in an action study is both an **outsider** and a **collaborative partner** in the process. This is simply the truth for us, because we will first as an outsider observe Expekt.com, their entrance to the United States' market, and how Expekt.com is working with their strategic development. At the same time, we will be a part of the process of Expekt.com's entrance into the United States' market when we will be working with strategic development questions. We will examine the sports betting industry, and its attractiveness in United States, where Expekt.com wants to be established. This would give us a chance to help determine a competitive strategy for Expekt.com.

According to Braa (1995), the case study has less intervention, and is more of a description. This is one reason why the case study has limitations for our

purpose, but at the same time we are aware of that our study contains our descriptions from the interviews that we will conduct.

We will complement our observations from the United States with interviews of Expekt.com's country managers. These people were in similar situations as us, in trying to get into new markets for Expekt.com. By comparing their situations and results, we felt that we could use this as an indicator and compare that to our own observations and work for Expekt.com in the United States. Our observations, as well as the interviews and the discussions, made it impossible to neglect aspects of interpretation and intervention. During the thesis we had weekly contact with the employees or the owners of Expekt.com.



In an action study, according to Argyris & Schon (1991), theories are tested through intervention experiments. We have chosen to use our theoretical framework to see if the existing strategy schools are still suitable and compatible for these new e-commerce companies? We tested the theories with our study on Expekt.com through our own involvement and the interviews obtained from each manager. Action research is a perspective of a cycle of continuous inquiry where theory interacts with practice. (Braa, 1995) The theory that we used interacts in all parts of the practice.

What has to be kept in mind is that the action case and the case study are a combination of each other, even if they differ in some ways.

## **2.3 To Collect Data**

There are two different types of data: primary data, and secondary data. Primary data is information that is not already gathered somewhere. You have to gather the information yourself, which is generally done via interviews. Secondary data is information that is already gathered somewhere. Some examples of secondary data are: literature, previous research, and existing statistics. Primary data carries the advantages of being collected first hand, as well as being trusted, and is totally current and up to date. However, on the negative side, it may be biased, and non-reflective of other perspectives. Secondary data carries positive aspects of: being well respected (depending on the source), multi-faceted with perspectives perhaps otherwise not seen by the secondary research user, and not biased with one's personal views. Drawbacks may include: lack of personal perspective, lack of relevant data, inconsistency in the research methods, or quality of research. (Merriam, 1994)

In the acquirement of primary data, interviews are necessary when we cannot observe behavior, feelings, or how people interpret the world around them, as well as when we are interested in events, which occurred in the past, and that are impossible to replicate. There are three types of interviews: highly structured, semi-structured, and unstructured interviews. The most common interview used in a qualitative case study is a semi-structure interview, which is used for gathering certain information and guided by a set of questions and issues, which should be explored. To get good data from the respondent, the researcher should ask appropriate questions. The researcher can use various types of information desired, such as: opinion, experience, feeling, knowledge, sensory, or demographics as aids. All of these lead to deciding which types of questions and what questioning strategy to apply. Observation is also a primary source in data collection. (Merriam, 1994)

For the purpose of our study we have used a lot of: secondary data, books, articles, press releases, and information from the Internet. First we wanted to get an initial understanding of the problem. Secondly, we wanted to find some

relevant theories that pertained to the problem we wanted to study. Many facets of the focus area have been increasingly difficult to acquire information about. We have read articles and searched for massive quantities of information on the Internet. This subject is a hot topic now, since companies are frequently questioned/criticized about their strategy all the time and many e-commerce companies are going bankrupt. As a result, it becomes vital to maintain your knowledge of the current affairs and their pertinence to the marketplace. Since the laws and conditions in the sports betting business are constantly changing, this forces us to constantly stay up to date on the changing regulations in the field. Another problem to consider with secondary data is to truly know if the information you collect is right for the purpose and if the precision and quality is high enough. (Lekwall P. & Wahlbin, 1993)

Half of our interviews have been via the telephone, rather than in direct contact. This is not the most preferable method of collecting primary data. It is easier to establish good contact with the respondent when you meet him/her and talk to the individual face to face. When you meet the respondent face to face, you can also judge impressions on his/her face or body language when he/she speaks, therefore making it easier to see if what he/she is saying is of validity or not. Face to face interviews are the most preferable for our purposes, but time, distances, and anonymity have dictated otherwise in our interviewing process.

Observation is something we have done, during our practical work. This part has been a significant form of data collection and whether it is reliable or not, could be questioned, which we will bring up later. However, due to the circumstances we were unable to conduct many of the interviews in person, so we were left with this means and no other alternative to tackle the issues we are discussing.

We have chosen to do five interviews. Four interviews were conducted with the managers of each country for Expekt.com. The last interview was conducted with the CEO of Expekt.com. The data from the interviews will be compared

against our own observations from the United States' market later in our analysis to answer our problems questions.

As mentioned earlier, interviews, observations and participation have been a part of the data collection but could be the problem with this kind of data collection. This will be discussed in the following chapter.

## **2.4 Biases**

When you do interviews it is important to be critical about the sources, but it is also important to remember that the results can be biased due to the interviewer. The bias means that the interviewer influences the respondent on how he/she should answer without knowing it. An example of this is that the interviewer knows what he/she wants to learn so he/she asks leading questions. It is difficult to avoid the bias problem completely but it is important to take this bias into consideration when you analyse the interviews and judge the validity and reliability of the results. The bias becomes more apparent when you use different interviewers. We have tried to minimize the bias by letting both of us conduct different interviews, and we have worked hard at being as objective as possible during the interviews.

## **2.5 Criticism of Sources**

When you do a study it is important that you are able to evaluate your sources critically, especially when you use interviews. Who is the respondent; does he have enough knowledge about the subject, etc? The respondent can be partial and make things sound better than they are. It is necessary to consider this when you analyse the results. There are two factors that are good to have in mind when you analyse your results. These factors are validity and reliability. Validity is the extent to which one's findings are congruent with reality. Reliability is the extent to which there is consistency in one's finding. The internal validity question is addressed by using: triangulation, checking interpretations with individuals interviewed or observed, staying on-site over a

period of time, asking peers to comment on emerging findings, involving participants in all phases of the research, and clarifying researcher biases and assumptions. In order to enhance reality, researchers explain the assumptions through triangulation data and by leaving an audit trail. Ethics also has an important role in research, although the researcher has guidelines and regulations to deal with some ethical concerns. The burden of producing a study that was conducted and disseminated in an ethical manner lies with individual investigator. (Merriam)

We are aware that our interviews can reduce the reliability, as compared to the structured interviews, where you meet the respondent face to face.

Sometimes the respondents in our interviews are subjective, which we are fully aware of. They can argue that things are good or bad just because they work for personal interest in the company. Overall, we do not think that this is a problem in our study.

We are aware of that a lot of our information collection comes from business papers and the Internet. Yet, it was at those places we could find the latest and most relevant information. Nevertheless, our theoretical framework comes from books written by the author who was formulating and establishing the theories.

We further agree with what Merriam (1994) says about the critical process of interviewing, because we know that we are in a special situation as the researchers. We use observations in our research when we actively take part in the development of Expekt.com's strategy development. According to Merriam (1994), observations are highly subjective and unreliable mature human perceptions. However, there are also numerous reasons that make researchers prefer to gather data through observation. The ideal observation in qualitative studies is to get inside the perspective of the participants; full participation is not always possible. Merriam suggests being careful with the bias that can occur in data collection. The researcher can affect and be affected by situation, which leads to the distortion of real situations. This is something we are aware of, even though we are not always as objective as we would like to be. We are a

part of the research and sometimes we are affected by the situation. Throughout the entire process, we have tried to help each other and give feedback, so long as one of us takes a subjective role in the process.

### **3. Theory**

In understanding our study, a comprehension of the theoretical background of our project is necessary. Through our explanations, we will explain a short history of the development of the strategy area. This will in turn clarify the concept of strategy and its origins. Then, we will make a short presentation of different strategic models that are equivalent to or that can be substituted for our main theoretical approach, the five-forces model developed by Michael Porter. It is important for the reader to understand the history of strategy and the purpose of the strategic models that exist before we explain our main theoretical approach, represented by Michael Porter. His theoretical work is pertinent, but as explained earlier in delimitations we will focus on his industrial work, the five-forces model. However, we will also mention his theory about generic competitive strategy since it is relevant to the five-forces model.

#### **3.1 History of strategy**

The word and concept of strategy takes its origin from the military, influenced by the Greek word “strategos,” which means general warfare. In military theory, strategies are defined as a way to take care of a country’s forces, in order to obtain security and victory. (Mintzberg, 1976) Strategy was once associated as a military art form, however in recent time the word has been highly associated with business and its functions.

In the beginning of the 1950’s, the market was relatively stable and dominated by the supplier. During the 50’s, competition increased and the customers became more demanding. The environment became less stable and it was harder to foresee the future. Companies had to become more effective and competitive, and therefore began to seek out rational and predictive measures to facilitate the adjustment to the new demands set on companies. It became imperative for companies to adjust to the ongoing changing environment and

seize the opportunities that emerged in order to be profitable and successful. Strategy began to become relevant in the company's perspective of thinking. In the 1950's, the business area started incorporating strategy. Prior to this, the market was relatively stable and dominated by the supplier. Until the 50's, when competition increased and the customers' demands became focused. The environment became less stable due to different trends and new entries into the market. It also became much more difficult to foresee the future. Companies had to become more effective and competitive, and therefore began to seek out rational and predictive measures to help facilitate the adjustments to the new demands set upon companies. It became imperative for companies to adjust to the changing environment and seize the opportunities that emerged to ensure profit and success.

Companies started to develop and use strategies, whose attention was aimed at describing various strategies. Researchers and theorists have since then tried to develop general models with the purpose of explaining how effective strategies develop. But how do we define a strategy and what is it? Ansoff (1987) explains strategy as "...a set of decision-making rules for guidance of organisational behaviour". According to Porter (1980), strategy is a deliberate search for a plan of action that will develop a business' competitive advantage and compound it. The objective of a strategy is then to enlarge the scope of the company's advantage, which can happen only at other stakeholders' expense.

Simon (1976) has a more flexible approach to the concept of strategy, since he claims that decision-making is the process by which one of the possible behaviour in one situation are selected to be carried out. The series of such decisions, which determine behaviour over some stretch of time, may be called a strategy. According to Johnson and Scholes (1997), strategy is "the direction and scope of an organisation over the long term, which achieves advantages for the organisation through its configuration of resources within a changing environment, to the needs of markets and to fulfil stakeholders expectations". This could be compared to Gore et al (1992) when they state that a strategy

broadly outlines how management perceives the organisation reaching its overall objectives, and how this should be done in the best way.

‘Strategy’ is something that all firms are supposed to have. Most senior managers regard it as their particular responsibility, even those who hire consultants to do it for them. The formulation of 'strategy' is often organised as a formal review, evaluation and decision making process, although, in practice, it sometimes evolves in response to a myriad of complicated forces outside the ken or control of most decision makers. For some, 'strategy' is about cogitation, while for others it is more about orientation and motivation; some regard it as a practical subject, while others seem to think of it as a branch of metaphysics. Everybody agrees, however, that whatever it is, it is almost certainly very important. (Geroski, 1999)

### **3.2 Strategic models**

In looking at strategic models, Porter’s five-forces model is among the most popular models in the academic and practical world. Therefore, it is important to illustrate the significance of these models and to try to understand the wide use and understanding of Porter’s theories. Through the following explanations we will show that there are other models, ones different than Porter’s, that can be used which have similar or nearly the same function.

Strategic planning models emerged into the business world between mid-1960s to mid-1970s, when the people believed this could be the answer for many if not all problems, and corporate America was "obsessed" with strategic planning. Following that "boom", strategic planning was cast aside and abandoned for over a decade. The 1990s brought the revival of strategic planning as a "process with particular benefits in particular contexts." (Mintzberg, 1994) Although individual definitions of strategy vary between authors, traditionally, theorists have considered planning an essential part of organisational strategy.

The SWOT analysis model dominated the strategic planning of the 1950s. The SWOT analysis identifies factors that may affect desired future outcomes of the organisation. The SWOT model is based on identifying the organisation's internal strengths and weaknesses, and threats and opportunities of the external environment, and consequentially identifying the company's distinctive competencies and key success factors. These, along with considerations of societal and company values, lead to creation, evaluation, and choice of strategy. SWOT's objective is to recommend strategies that ensure the best alignment between the external environment and internal situation, therefore providing the best desired results. (Mintzberg, 1982)

After the SWOT analysis, later the 1960s came the qualitative and quantitative models of strategy. Thereafter, during the early 1980s, the shareholder value model and the Porter model, five-forces, became the standard. The beginning of the nineties was dictated by strategic intent and core competencies, as well as market-focused organisations.

During the last couple of years, with the Internet boom, things have started to change when it comes to working with strategy. Many of the basic principles of strategy that have helped companies become competitive during decades, have come under attack. Many new e-business companies thought that the old ways of doing things were not sufficient to sustain a competitive advantage. During the last couple of months, many companies have started to reconsider the importance of working with strategy. Strategy planning and the traditional strategy models will perhaps have a new chance of becoming popular. The year 2000 and beyond is no longer in the realm of fantasy and science fiction.

### **3.3 Michael Porter**

There are those who argue that it is the environment and its influences that are the most important consideration when analysing the strategic position of an organisation. This approach is about identifying opportunities in the environment and building strategy by matching resource capabilities to those

opportunities. The most popular and famous author that belongs to this theory is Michael Porter. One of the most popular models written by Porter was his Five-Forces model. In essence, this model suggested that strategists needed to consider five forces when examining the nature of the current environment in which they competed: new entrants, suppliers, buyers, substitutes, and competitors. This model could provide essential insight for a company when they are deciding their competitive strategy and the external factors, which determine it.

The industrial structure remains relatively unclear without an analysis. Therefore, the Five-Forces Model, by more clearly specifying the various aspects of an industry structure, provides a useful analytic tool to assess an industry's attractiveness and facilitates competitor analysis. The ability for a firm to gain competitive advantage, according to Porter (1980, 1985, 1996), rests mainly on how well it positions and differentiates itself in an industry. The collective effects of the five-forces determine the ability of firms, in an industry, to make profits. To Porter (1980, 1985, 1996), the five- forces embody the rules of competition that determines an industry's attractiveness, and help determine a competitive strategy to "cope with and, ideally, change those rules in the firm's favour. Porter's framework specifies the competitive structure of an industry in a more tangible manner, as well as recognizes the role of firms in formulating appropriate competitive strategy to achieve superior performance. Porter (1980, 1985, 1996) suggested after analysing the five-forces, that generic strategies (low cost leadership, differentiation, and focus) can be used to match a particular industry and, thereby, build a competitive advantage.

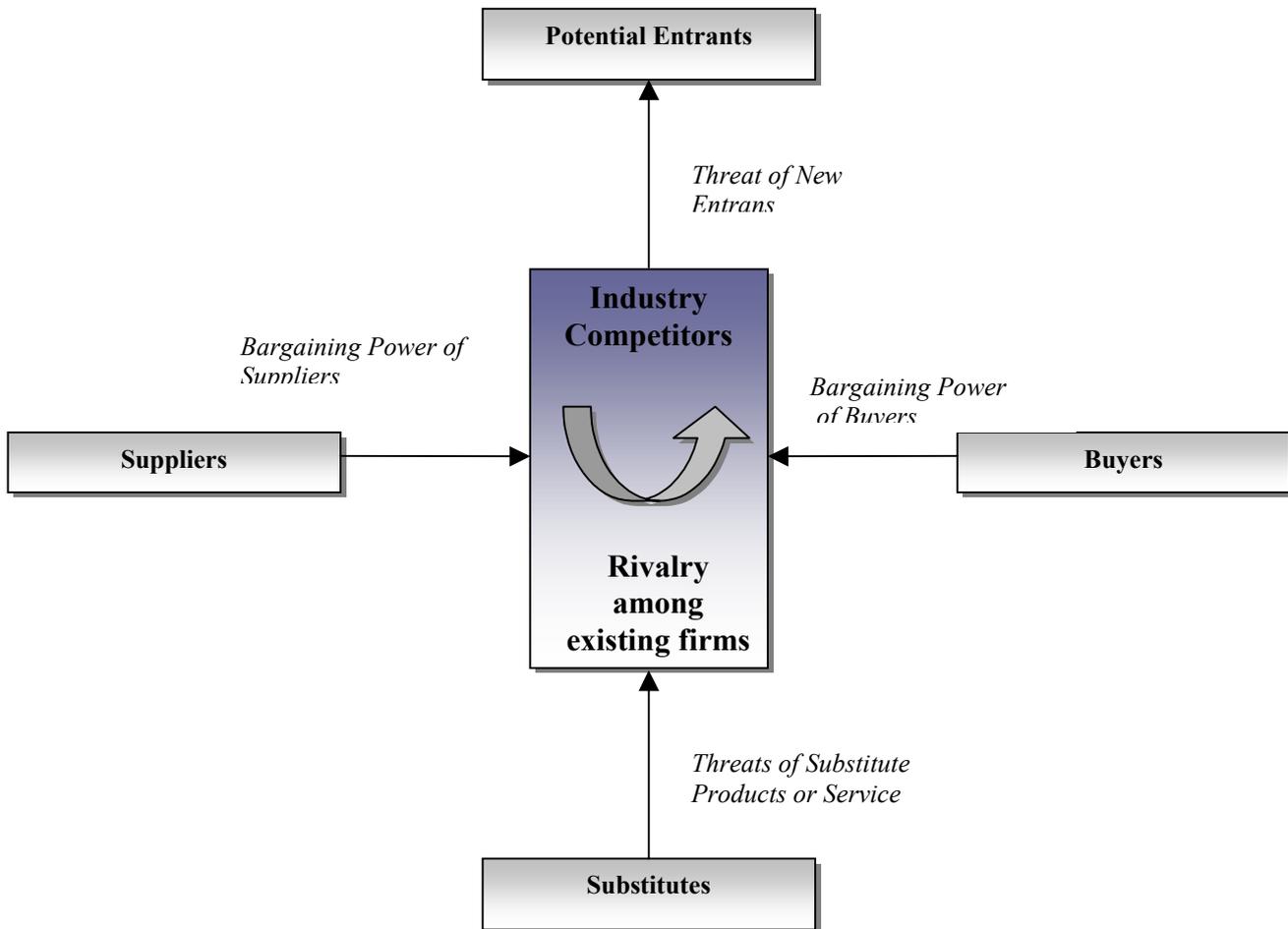
Porter's five-forces model and his generic strategies are well known and recognized. Hamel and Prahalad (1994) have some compelling thoughts about him: "Michael Porter integrated corporate strategy and industrial economics successfully. He reminded his colleagues that corporate strategy should neither be created nor pursued in a competitive vacuum. Any strategy that is not

grounded in a deep understanding of the dynamics of competitive rivalry will fail”(Prahalad and Hamel, 1994).

### **3.4. Five-forces analysis**

Using Porter's model to analyse an industry for a particular firm, involves: estimating the strength of each force, identifying its underlying source, and then formulating a strategy that will create an advantage for the firm. Defining a position from which to defend itself against strong forces somewhere in the model, drafting an offensive posture to take advantage of weak forces in the industry, or designing a way to favorably alter the forces would establish an advantage. (Porter, 1980, 1985, 1996)

The key task of the analyst is to understand the underlying causes of each of the competitive forces at work. With this knowledge, a company's strengths or weaknesses can be simplified, and the most fertile areas for drafting competitive thrusts become defined. Another important factor is to know the magnitude of the competitive forces that allow the strategist to identify the most important trends that emerge as opportunities and threats. In light of this, the five-forces model will now be discussed in detail in the following section. Before we start with the barrier of entries from the five-forces, the model will be shown. (Porter, 1980, 1985, 1996)



### 3.4.1 The threat of entry

Threats of entry to an industry will depend upon the extent to which there are barriers of entry, which most typically are as follows: (Johnsson and Scholes, 1997)

- *Economics of scale.* In some industries, economies of scale are extremely important: for example in the production of electrical components, especially pertaining to distribution or sales and marketing.
- *The capital requirement of entry.* The capital cost of entry will vary according to technology and scale. The cost of setting up a retail clothing business is minimal when compared with the cost of, for example, entering an intensive capital industry such as chemicals, power, or mining.

- *Access to distribution channels.* For decades, brewing companies in different countries in Europe have invested in the financing of bars and pubs. This has guaranteed the distribution of their products and made it difficult for competitors to break into their markets.
- *Cost advantages independent of size.* To a large extent these are to do with early entries into the market and the experience so gained. It is difficult for a competitor to break into a market if there is an established operator who: knows that market well, has good relationships with the key buyers and suppliers, and knows how to overcome market and operating problems.
- *Legislation or government action.* Legal restraints on competition vary from patent protection, to regulation of control markets through a direct government action. This can create the welfare for the country, but it will indirectly affect how a company can be established.
- *Differentiation.* By differentiation, it is meant the provision of a product or service regarded by the user as different from and of higher value than the competition. It is important that companies try to achieve strategies of differentiation that provide themselves with real barriers of competitive entry.
- *Experiences.* Experiences are more risky than economics of scale. Without experience, knowledge is difficult to achieve and apply better than competitors. Competitors can copy knowledge and get ahead. (Porter, 1996)

Entry of barriers differ by industry and by product/market, thus it is impossible to generalize which ones are more important than others. Each individual case scenario will determine the importance and significance of the particular barrier of entry. In some situations, some of the aforementioned barriers may not even be relevant. So it is important to establish, which barriers, if any exist. As in with the Internet and it's e-commerce many of the so called traditional barriers of entry were non-relevant for the market, since it was so new and still

emerging, just as it is in many facets of the Internet trade today. From there, it is essential to establish the extent to which they are likely to prevent entry into the particular environment concerned, and the organisations position in all this – is it trying to prevent the competition of entrants, or is it attempting to gain entry, and how?

### ***3.4.2 The Power of Buyers***

The power of buyers and suppliers can be considered together because they are linked. All organisations have to obtain resources and provide goods or services. This has become known as the supply chain, value chain, or values system of an organisation. Moreover, the relationship of buyers and sellers can have similar effects in constraining the strategic freedom of an organisation and in influencing the margins of that organisation.

The power of the buyer is likely to be high when:

- The supplying industry comprises a large number of small operators.
- The component or material cost is a high percentage of total cost, since buyers will be likely to shop around to get the best price and therefore squeeze suppliers.
- The cost of switching a supplier is low or involves little risk.

### ***3.4.3 The power of suppliers***

The power of the supplier is likely to be high when:

- There is a concentration of suppliers rather than a fragmented source of supply. This is generally the case in the provision of finance by central government to public corporations such as the National Health Service, or the BBC in the UK.

- The switching cost from one supplier to another is high, perhaps because a manufacturer's process is dependent on the specialist product of a supplier, as in the aerospace industry, or a product is clearly differentiated.
- The brand of the supplier is powerful. This is linked to switching costs since a retailer might not be able to do without a particular brand.

#### ***3.4.4 The threat of substitutes***

To act against substitute products for a market it is important for all companies to be involved. That is why it is important to improve the products all of the time. It is also vital to constantly market, and maintain the presence of the product, as well as battling costs versus quality. (Porter, 1996) The threat of substitution may take different forms:

- There is product-for-product substitution – the e-mail for the fax is one example.
- There is substitution due to the need of a new product or service rendering an existing product, or service superfluous; for example more precise casting means that engine blocks are cast to a finer specification, then demand for cutting tools may be reduced.
- Generic substitution occurs where products or services compete for need; for example, furniture manufacturers and retailers compete for available household expenditure with suppliers of televisions, videos, cars, or holidays.
- Doing without can also be thought of as substitute, a prime example of this is the tobacco industry.

### ***3.4.5 Competitive of rivalry***

Well-established companies try to compete with each other via: prize, marketing, products, or services. Rivalry will exist when a company feels that they have to do something to put their company in a better position. (Porter, 1996) The most competitive conditions will be those in which entry is likely, substituting becomes a threat, and buyers or suppliers exercise control. However, there are markets where the competitive conditions are very gentle and friendly. An example of the friendly market might be industrial fasteners, the manufacturers of nuts and bolts and other devices used to connect the components of products. A large number of quite small manufacturers accept low levels of profitability as a cost of staying in business. Competition is low key with little effort and expense devoted to differentiating brands or single products. Such firms often produce a catalogue and send representatives to trade shows to demonstrate products, or use sales forces or independent sales representatives for selling. They usually compete on: the basis of price, delivery times, or the convenience of either large or small lot sizes. For example, there are virtually no screwdriver companies advertising on television, for they illustrate many of the features listed above.

However, there are likely to be other forces that affect competitive rivalry. These other forces may be:

- Are the competitors in balance? There is a danger when one company attempts to gain dominance over another. In markets with dominant organisations, the market tends to be less competitive.
- Market growth rates may affect rivalry. The idea of the life cycle suggests those conditions in markets, primarily between growth stages and maturity, are important, not least in terms of competitive behaviour. For example, in situations of market growth, an organisation might expect to achieve its own growth through the growth in the marketplace,

when the markets become mature. This has to be achieved by taking market share from competitors.

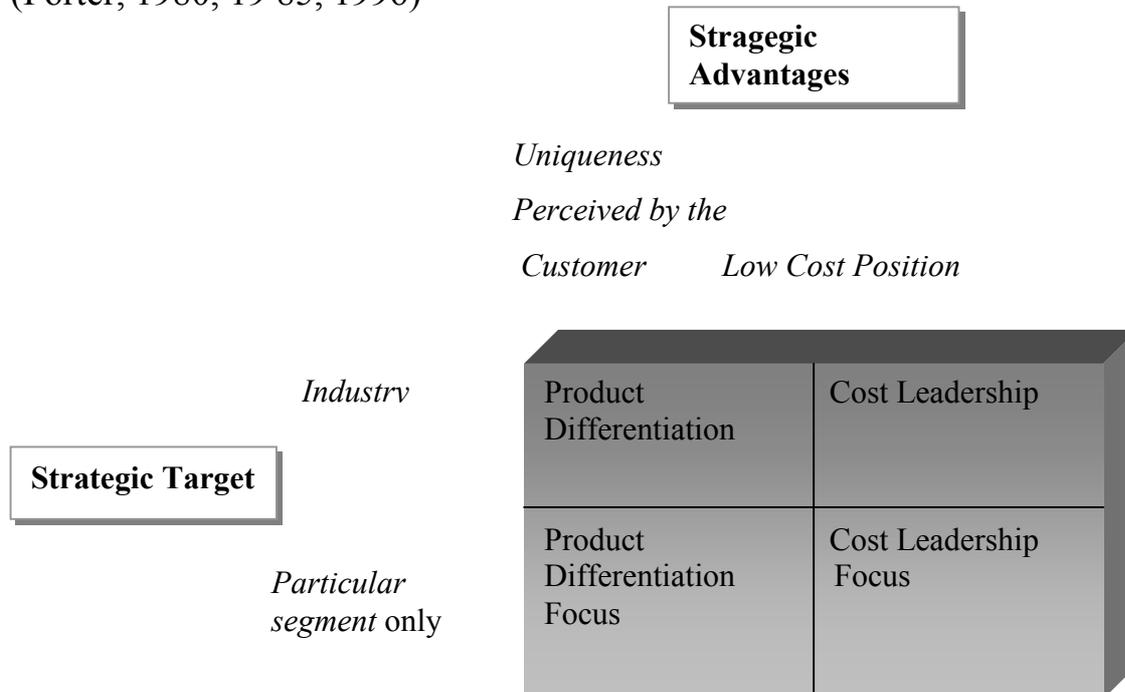
- The existence or development of global customers may increase competition among suppliers as they try to win their business on a global scale. Some may say this is definitely the case among the Internet, for the market has increased to never before seen globalisation through this new media than ever before.
- High fixed cost in an industry is likely to result in competitors cutting prices to obtain the turnover required. This can result in price wars and very low-margin operations.
- Differentiation is important. In a commodity market, where products or services are not differentiated, there is little to stop customers from switching between competitors.
- Where there are high exit barriers to an industry, there is again likely to be the persistence of excess capacity and, consequently, increased competition. Exit barriers might be high for a variety of reasons: they may vary from a high investment in non-transferable fixed assets such as a specialist plant, the cost of redundancy, the reliance on one product in order to be credible within a market sector even if the product itself makes losses.

Perhaps the most important thing to keep in mind is the inverse relationship between profit margins or returns, and the intensity of competition: as the intensity of competition goes up, margins and returns are driven down. This can require changes in competitive strategy to remain in an industry, and under some circumstances, can result in the decision to exit a business or an industry. ([http://home.att.net/~nickols/five\\_forces.htm](http://home.att.net/~nickols/five_forces.htm))

### 3.5 Generic Competitive strategies

Up until now we have been discussing the five-force model. After analysing the industry and the environment with the five-forces, it is time for a company to decide which competitive strategy the organisation should use. Then it is time for Porter's generic competitive strategies. The concept of generic strategies is based on the premise that there is a number of ways in which a competitive advantage can be achieved, depending on industry structure. (Porter, 1980, 1085, 1996)

Porter describes his thoughts in a matrix shown below. In the generic strategies matrix we can see that Porter offers two alternative routes to competitive advantage, namely cost leadership and differentiation. The two basic types of competitive advantage combined with the scope of activities, for which a firm seeks to achieve them, lead to three generic strategies for achieving above-average performance in an industry: cost leadership, differentiation, and focus. The focus strategy has two variants, cost focus and differentiation focus. (Porter, 1980, 19 85, 1996)



**Source:** Porter, 1980

### **3.5.1 Low Cost**

Cost leadership is perhaps the clearest of the three generic strategies. In it, a firm sets out to become the low-cost producer in its industry. The firm has a broad scope and serves many industry's segments, and may even operate in related industries. The company's breadth is often important to its cost advantage. The sources of cost advantage are varied and dependent on the structure of the industry. They may include: the pursuit of economies of scale, proprietary technology, preferential access to raw materials, and other factors.

If a firm can achieve and sustain cost leadership, then it will be an above-average performer in its industry, provided it commands prices at or near the industry average. At equivalent or lower prices than its rivals, a cost leader's low-cost position translates into higher returns. The low cost producer considers such options as substituting capital for labour. Capital is cheaper in the long run, and will try to move up the experience curve to obtain economies of scale. Where technologies do not change, and producers are equally positioned in terms of an advantage is in the increasing volume of the market that will drive down the average costs. The low cost producer will likely try and take cost out of the business by increasing severe restrictions on management discretion. They will try to analyse contributions more precisely, as well as price aggressively to build volume. This type of strategy is appropriate when products are essentially commodities and there is high price elasticity in the market.

Cost leadership means, as mentioned earlier, that the company achieves or seeks to achieve the position of the lowest cost producer or supplier to its markets. A common misunderstanding is that this means the low price supplier. However, the lowest cost producer has the ability to price below competitors, and during severe price competition still have profit margins that are advantageous. As Porter says: "The cost position gives the company a defence against rivalry from competitors, because its lower costs means that it can still

earn returns after its competitors have competed away their profits through rivalry.”

A cost leader may accept average market prices, and at the same time they can maintain price parity with its competitors. By doing this, it will lead to a higher profit. When pursuing a cost leadership strategy it may require a strong focus on cost management. Barney (1997) states that there are many reasons why a firm has cost advantages over its competitors. For example, some of the most important sources of cost differences are: size differences and economics of scale, volume of production and specialised machines, experienced differences and learning curve economies.

Furthermore, Porter argues that there can be only one cost leader in a market. This statement is debatable, according to Faulkner and Bowman. (1992) Their empirical studies have identified several cost leaders in the same industry. They propose that cost leadership, unless demonstrated by the lowest price strategy, is relatively invisible. Therefore, this tactic must not be used to win customers, and gain competitive advantage.

According to Sharp (1991), one can question if cost leadership is a separate strategy. He says that having a cost advantage is a way to help to differentiate, usually on price. He means that the low cost firms try to decrease bases for differentiation in order to be able to offer a standard product to the whole market, thus decreasing the differences between segments.

### ***3.5.2 Differentiation***

The second generic strategy is differentiation. In a differentiation strategy, a firm seeks to be unique in its industry along dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important and uniquely positions itself to meet those needs. It is rewarded for its uniqueness with a premium price. Its important to note that differentiation can be based on: the product itself, the delivery system by which it is sold, the marketing approach, as well as a broad range of other factors.

A differentiated strategy is appropriate when a firm can identify what is unique about its own product in terms of design or special features of quality or service. Where there is a wide range of buyers and potential buyers, expectations and latent demands in the market result in greater opportunities for differentiation.

A firm that can achieve and sustain differentiation will be an above-average performer in its industry, if its price premium exceeds the extra costs incurred in being unique. A differentiator, therefore, must always seek ways of differentiation that lead to a price premium greater than the cost of differentiating.

The logic of the differentiation strategy requires a firm to choose a unique attribute in which to differentiate itself from its rivals, attributes that only they possess. A firm must truly be unique at something or be perceived as unique if it is to expect a premium price. In contrast to cost leadership, however there can be more than one successful differentiation strategy in an industry if there are a number of attributes that are widely valued by buyers.

A common misunderstanding, according to Barney (1997), in regard to this strategic position is that a successful differentiator operates in high-price markets. In some situations, a strong price can be a positive differentiator, since the customer correlates price with value. However, in some situations successful differentiators operate in a narrow niche at a price, which is not high by many criteria.

### ***3.5.3 Focus***

The third generic strategy is focus. This strategy is quite different from the others because it rests on the choice of a narrow competitive scope within an industry. The focusers select a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others. By optimising its strategy for the target segments, the focusers seek to achieve a competitive

advantage in its target segments, even though they do not possess a competitive advantage overall.

The focus strategy has two variants. In cost focus, a firm seeks a cost advantage in its target segment, while in differentiation focus a firm seeks differentiation in its target segment. Both variants of the focus strategy rest on the differences between a focuser's target segments and other segments in the industry. The target segments must either have buyers with unusual needs, or the production and delivery system that best serves the target segment must differ from that of the other industry segments. Cost focus exploits differences in cost behaviour in some segments, while differentiation focus exploits the special needs of buyers in certain segments.

The focus niche strategy is appropriate when a firm has the potential to specialise in a particular product market. The specialisation or focus may be geographically related to customer groups or related to the functionality of the product. A smaller company, with limited resources, may find the focused niche strategy appropriate

#### ***3.5.4 Stuck in the middle***

A firm that engages in each generic strategy but fails to achieve any of them is "stuck in the middle." It possesses no competitive advantage. This strategic position is usually a recipe for below average performance. A firm that is stuck in the middle will compete at a disadvantage because the cost leader, differentiators or focusers, will be better positioned to compete in any segment.

Becoming stuck in the middle is often a manifestation of a firm's unwillingness to make choices about how to compete. It tries for competitive advantage through every means and achieves none, since achieving different types of competitive advantage requires inconsistent actions. Becoming stuck in the middle also afflicts successful firms, who compromise their generic strategy for the sake of growth or prestige. An example of this could be taken from Laker, an airway company that began their strategy with a clear cost-focus strategy,

aimed at a particular segment of the travelling public that was extremely price sensitive. Over time, the company began adding frills, new services, and new routes. It blurred its image, and sub-optimised its service and delivery system. The consequences were disastrous, and Laker eventually went bankrupt.

Thus, both cost leadership and differentiation strategies can be effective; the former increases profit margins by lowering costs, and the latter increases profit margins by allowing firms to charge higher prices for products that are perceived as unique. In fact, many different business strategies can be effective so long as they provide business units with advantages over their rivals.

### **3.6 Additional strategic approaches**

Up until now Porter's theory has been discussed. However, throughout our working process with Expekt.com we found out that Porter is not enough for us to use when answering our stated problems. We found a few limitations and shortcomings with his theory. From the beginning of this study, when we were reading and studying Porter's theory, it was obvious that Porter's strategic framework was more aimed towards the traditional companies than the e-commerce companies. This was something that was not new to the academics, professors, the business world or us.

Nevertheless, it became more apparent during our working process when we started to work with Expekt.com and their strategic development. With this background, we decided in the early stages of our working process to complement Porter in our theoretical framework. We decided to see if we could find a theory that did not fully go along with Porter. We found a strategic school that was critical to Porter and his way of looking at strategy. From this point, we decided to add this new school to Porter. This will give us a possibility later in the analysis to complement Porter if it is necessary.

Hamel and Prahalad state counter perspectives of those of Porter. They take a critical stance to Porter's theory about the importance of an industrial analysis

and the purpose of it. They say that an industrial analysis is as important as: market research, scenario planning, and competitor analysis. All of this goes along with Porter. However, many things are omitted, and it will miss industry foresight, as well as the reshaping of the industry and invention of new advantages.

Hamel and Prahalad suggested that instead of focusing on industry conditions as Porter, management strategists should concentrate on their companies' core competencies and use these skills, processes, and technologies to fashion a sustainable competitive advantage in their value-chain. They argue that only by building and nurturing the core competencies can top management sustain the competitive advantage for their organisation. Using a tree as a metaphor, the core competencies are the "roots" and the individual products/services are the "fruit."

### **3.7 Porter vs. Hamel and Prahalad**

There are similarities and differences between Porter, and Hamel and Prahalad's theories, when it comes to how to be successful with strategic thinking and development. These two schools have different views on how you should use your industrial analysis (five-forces analysis), and what value it brings for a company in the decision of their strategy.

Hamel and Prahalad (1994) have questions about Porters traditional industry structure analysis. They mean that is good to formulate an industrial analysis, but you miss too many things. If the analysis of the market situation is only focused on what is happening today, the company likely will miss important trends in other markets that have a great potential impact for the companies future markets. According to Hamel and Prahalad, the industrial analysis can be used to act in the opposite way to become a winner. Understanding "the what" of competitiveness is a prerequisite for catching up. Understanding "the why" of competitiveness is a prerequisite for getting out in front. Porter means that it is important to understand the industry structure, but according to Hamel and

Prahalad, you miss important things, such as reshaping the industry and inventing new advantages.

Porter (1980, 1985, 1996) means that different industries and industry segments have different average profitability levels, and that these differences persist over time. Depending on the array of competitive forces at work, many specific industry segments, on average, inherently become more or less profitable than another. Understanding a business' competitive position of the market gives a crude indication of the relative potential for profits. (Porter, 1980) This was something that companies and corporations started to use during the 1980s, to make their activities become more profitable in business. This directly led to becoming more competitive in the growing international marketplace. Prahalad and Hamel (1994) say that this could be true and possibly work, but what they mean is that you might find successful firms in supposedly unattractive industries, which merely demonstrates that a relative advantage may ultimately matter more than an industry's affiliation.

Porter often assumed that competition is limited to the market for goods and services. According to Prahalad and Hamel (1994), some examples of extra market, or non-market competition are: competition for foresight, competition to build competencies, and competition to shape industry evolution through a coalition. The fact that this competition takes place outside a market of competition can prevent a company from adequately preparing for the future. These reflections are missing in Porter's industry structure analysis.

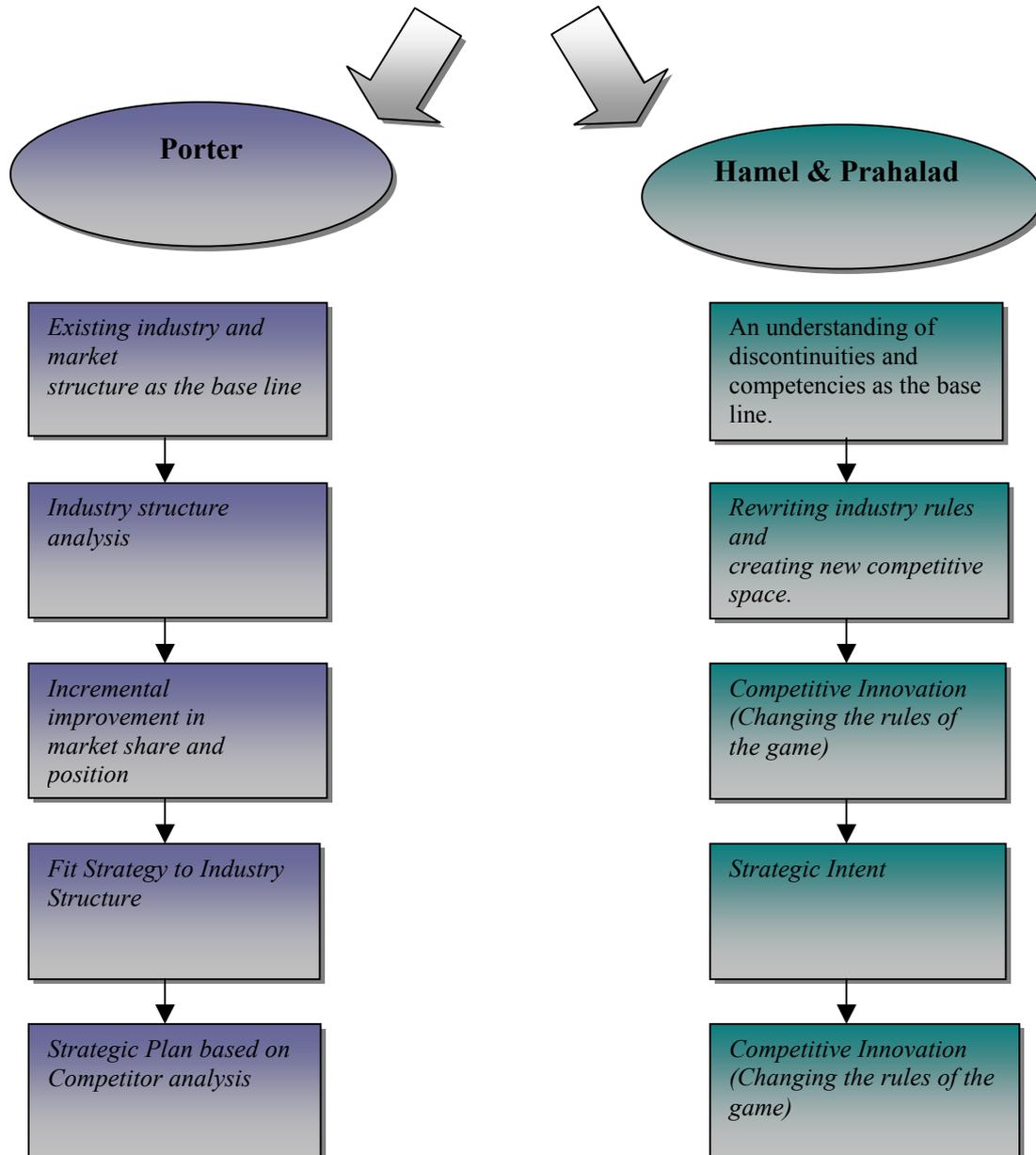
Porter's (1980, 1985, 1996) industry structure analysis is well suited to describing "the what of competitiveness," what it is that makes one firm or industry more profitable than another. Porter presents this, but according to Hamel and Prahalad, industry structure analysis provides almost no insight into the two critical tasks of restructuring industries, and building new non-conventional advantages. It is not enough to understand "the what" of industry structure that is of interest. It is "the why" of industry restructuring that provides valuable insight. Why do some firms seem to take industry structure

as a given, while others are able to harness the forces of globalisation in an existing structure of an industry?

According to Hamel and Prahalad (1994), strategic planning (indirect critique to Porter's theory) typically fails to provoke deeper debates about who we are as a company or who we want to be in ten years time. It rarely escapes the boundaries of existing business units. It rarely illuminates new white space opportunities. It rarely uncovers the unarticulated needs of customers. It rarely provides any insight into how to rewrite industry rules. It rarely stretches to encompass the threat from nontraditional competitors. Strategic planning almost always starts with "what is." It seldom starts with "what could be."

We conclude the discussion by summarizing the most important differences between Porter, (1980, 1985, 1996) and Hamel and Prahalad (1994). By having this knowledge we are well prepared to answer our three aforementioned problem questions.

### Two different types of strategies



Source: Own Model

### **3.8 The new forces**

This chapter will be concluded by a discussion from Downes and Mui, (1998) who add three new forces to Porter's model. The reason why we present Downes and Mui's (1998) ideas is that we want to give an alternative way of how Porter today with the emergence of the Internet has been looked upon. We see these authors as some of the few who took the chance to criticize Porter during the e-business development. This also makes it evident that no one has, of yet, analysed Porter's theory the way we will. Downes and Mui (1998) add information from Porter's five-forces model, but they do not go deeper with their criticism of each variable of Porter's five-forces model.

According to Downes and Mui (1998), the five-forces model is too simple to achieve a competitive advantage. Today, in the new economy, it is hard according to, Downes and Mui (1998), to achieve a competitive advantage. Therefore, Downes and Mui (1998) developed a modified Porter's five-force model, by adding three new forces: digitisation, globalisation, and deregulation.

#### **Digitisation:**

As costs come down, competitors and the market generally force organisations to move information-intensive activities to: computer systems, public networks, open databases, and collaborative environments. Upon moving the information, the new economics multiply in their value. In doing so, traditional business principles, and industry rules are suddenly brought to light. They soon disintegrate, leading to a period of chaos followed by the rise of a new, but less stable relationship.

#### **Globalisation:**

The world can be thought of as a very large network. Improvements in transportation and communications have taken many businesses long

considered local to global status, sometimes overnight. In capital markets, for example, globalisation is old news, acknowledged as long ago as 1974, when the United States permanently abandoned the gold standard and chose instead to allow its currency to float with the international market. Today, trillions of units of currency are traded electronically every day.

The impact of globalisation is felt throughout the production and distribution life cycle. In upstream activities, it is now common to have component sourcing and assembly provided by a global network of partners and suppliers. Since it is critical to pass work back and forth between Asia, Europe, and the Americas, a 24-hour operation was established.

Downstream, customers are already used to the idea of borderless commerce. Given the chance, they are more than willing to shop on an international basis for everything from: entertainment, software, cars, electronics, and even for many goods and services traditionally considered national or even local.

### **Deregulation:**

Regulation exists in some form in every industry. It often begins as an attempt to restore consumer leverage to markets where there is a scope or monopoly condition. Adam Smith's invisible hand of supply and demand does not appear to be operating the regulation of price. Such regulations, and the bodies they are regulating become a tool for reducing competition and freezing out new entrants. This is ironic, since this is the opposite of their objective.

The move for deregulation is generally stimulated by a widespread belief of buyers and sellers that the cure has become worse than the disease. A recognition that the free market, thanks to the plunging transaction costs, is now a better industry regulator than the government. Sometimes, as in the case of United States' railroads earlier this century, deregulation follows a realization that some substitute has become available from an unregulated set

of providers. Thus making it difficult, if not impossible, for the regulated businesses to compete.

In an international telephone call, for example, regulated prices encouraged the rise of companies that used technologies like leased data lines, satellites, and automated call-back systems to circumvent local monopolies. The success of these companies encouraged the national companies to sign a pact in early 1997 that opened markets and reduced inter-company charges. Deregulation will spur additional competition and the development of more technology.

## **4. Findings: A study of Expekt.com**

This chapter will be divided into three important stages and those will be:

- We will start with a short a short presentation of Expekt.com.
- The other stage will be information from our observations and our work in the United States. This will include an industrial analysis of the online betting market. It will further include what we think Expekt.com should use in term of competitive strategy in US to be successful.
- The last stage in this chapter will include information from our interviews.

### **4.1 Company Background**

Two Swedes named Christian Haupt and Conny Gesar founded Expekt.com in February 1999 and the service was introduced in August the same year. Expekt.com Ltd. business idea is to provide the market with interactive online betting services on the Internet. The goal is to be the leading private online Internet betting service in the Scandinavian market within three years, while in the meantime to expand their customer base to other markets including the US. The ever-growing possibilities with the Internet, opens up a new market window of opportunity for betting in Scandinavia as well the world. The focus of the firm is predominantly sports betting. The market is today strictly regulated and only a limited number of state-owned companies are allowed to run betting operations. By running the operation from the United Kingdom, Expekt.com Ltd will take advantage of the more liberal regulations and taxation of betting operations. They can operate from UK in a legal manner.

They are now experiencing developments in Finland, Norway, Denmark and Germany. Today the website is working in Swedish, Finnish, Norwegian, German, English and Thai. The goal is to be the leading private online Internet betting service on the Scandinavian market within three years. The new possibilities with the Internet open up a new market window for betting in

many countries which is why Expekt.com today are thinking of an entrance into further markets. The potential for Expekt.com Ltd looking at a future global expansion is enormous. It is easy to add new markets and build up a large local market share with small additional investments. In this regard, Expekt.com is looking to go into the North American market.

The company is comprised of several individuals in key market areas representative of various backgrounds. Currently there are employees in seven nations with the site being in six different languages. There is at least one represented employee in each target market, totaling eight employees at present (not including the authors). As noted several employees are responsible for individual markets and the stake Expekt has in them. The company is intellectually and culturally diversified due to the representation in various markets. This provides a broader scope and better perspectives for when the company maintains a presence in a particular market.

## **4.2 Our observations and work in the United States**

In the following section an industrial (external) analysis of the betting market will be prevented. Yet, before this analysis, information about our available resources and working processes will be provided to help define the study.

### **4.2.1 Resources**

The resources of Expekt.com provided for the thesis were numerous. Full access to company documents were provided, and freedom to work independently for acquiring US market research was granted. This enabled us to be actively involved with strategic development and possible future steps for the company entering the new market. We also received constant feedback and support of the company, therefore generating new ideas and information to guide this project. This information was practical and essential in providing real world, hands on experience in a project like this.

Another major aspect of resources available was not only the company's internal resource present, such as ideas, support and funding, but the use of the Internet and ability to analyze the competition became an absolutely invaluable resource. The inspiration of information present on the Internet was essential, and through this tool, information was provided to us in such a short time, which may have been inconceivable just a mere five years ago. Having access to legal databases, competitors planning, and the ability to read about others successes and failures provided a tremendous inspiration for this thesis. Without these resources this thesis may not have been otherwise possible to understand the market in such depth in such a short time.

#### ***4.2.2 United States Market background***

Most states in US forbid operating gambling operations or devices, excepting certain legalized operations such as lotteries, horse racing, or riverboat gaming that varies state- by state.

A map of the United States in 1960 would have shown one legal casino state, Nevada. It would have shown no lottery states. To be sure, it would have shown many horse tracks and some dog tracks, but all of the legal betting would have taken place at each track itself and would have involved only races run at the track.

Of course, a different map from 1960 -- one that indicated where gambling actually was occurring -- would have shown bookies, and football pools, and number runners, and poker games virtually everywhere and casinos in many places. Gambling was illegal but pervasive, and most of it was linked in some way to organized crime.

A map of the United States today shows much more in the way of legalized gambling. Eleven states now allow commercial casinos to operate. We hear most frequently about Nevada and New Jersey, but all of the rest are states in

the nation's heartland: Illinois, Indiana, Iowa, Mississippi, Louisiana, Colorado, South Dakota, Michigan, and Missouri.

Sixteen more states, most of them west of the Mississippi River, have casinos owned by Native American tribes. This trend began with a Supreme Court decision in 1987 that declared that state governments have no jurisdiction over Indian lands. Congress passed a law two years later that said if a state allows commercial casinos, race tracks, or video poker parlors to operate, it must allow any Indian tribe that has land within its borders to operate a casino.

The amount of money involved in gambling today is enormous. According to the website ZDNet, in 1997, \$600 billion was legally bet in America. That betting generated \$50 billion in profits to businesses and revenues to government. \$16 billion of that \$50 billion came through lotteries, the only form of gambling that a majority of Americans admit to having engaged in, even though lotteries offer the worst odds of any common form of gambling. Commercial casinos earned \$20.5 billion. Indian casinos earned \$6.7 billion. Racetracks earned \$3.75 billion. In dollar terms, legal gambling is bigger than movies, bigger than spectator sports, bigger than theme parks, bigger than all the profits earned by all the books, magazines, and newspapers published in this country put together.

Sports betting is another form of gambling that is only legal in Nevada, where many are familiar with Las Vegas. Sports betting has been banned by the federal government from being legalized anywhere else. Las Vegas is still growing at exponential rates, and if the city continued to grow at the same rate, every American would have his or her own hotel room in the city by the year 2075. However the glory days might soon be over for them, too, since the games are no longer so profitable due to the growing competition of Internet betting. Because of the entrance of Internet, online betting has become a business idea through the Internet. Nevertheless, we look further into it in the next headline about the U.S. betting market throughout the Internet.

### ***4.2.3 United States Online Betting***

Online betting has exploded in recent years, growing from virtually zero into a \$1.2 billion business. Over the next two years, it's expected to balloon to more than \$3 billion. Currently over a thousand Web sites are devoted to gambling, and that number grows daily. (ZDNet, 1999)

Gambling through the Internet offers new and better access to something that American consumers demand in spades. Lawmakers and prohibitionists try to stop gambling through the Internet but they can't neither effectively stop Internet gambling nor justify their attempts to do so.

Only three states (Illinois, Louisiana, and Nevada) currently have laws specifically banning Internet gambling. It is considered illegal elsewhere based on a 1961 Federal law banning interstate sports betting over the telephone and numerous state laws banning gambling in general. The collection of gambling debts is also considered unenforceable in most states.

According to ZDNet, in 1999, there were 139 sports betting sites. One web site alone has links to 1,000 Internet betting sites. Most of these are not operated by organized crime but rather are licensed in foreign countries.

In November 1999, there was one conference held in Washington D.C about betting. The event held hundreds of entrepreneurs hoping to set up sites, a hundred people trying to sell hardware and software, and the rest were FBI or state attorneys general. This gives a clue how betting has become a big issue when the Internet has made an entrance into the market.

Gambling online is now popular enough to cut into the profits that states and municipalities make from selling lottery tickets and collecting casino taxes. But any attempts by the U.S. government to ban Internet gambling will fail, predicts the Cato Institute, a think tank in Washington, D.C.

"The architecture of the Internet makes prohibition of online gambling easy to evade and impossible to enforce," writes law professor Tom W. Bell, author of a recent Cato study, *Internet Gambling: Popular, Inexorable, and (Eventually) Legal*. If the government tries to shut down Internet gambling sites, those businesses will simply move their operations to countries such as Australia or New Zealand, where online gambling is already legal, says Bell.

In a fairly recent ZDNet article, fifty-six percent of Americans gambled in 1995, wagering \$600 billion, including \$100 billion in illegal sports betting. In 1996, state and municipal governments collected \$3 billion in casino taxes and sold \$43 billion worth of lottery tickets. But now the Internet offers new ways to satisfy the age-old human desire to gamble: 100 gambling sites that generate approximately \$1 billion in revenues.

How the future will look like for online betting one can only guess, but there are a lot of different opinions and predictions about the online betting in the future. The growing number of overseas havens guarantees that, regardless of domestic policies, U.S. consumers will have access to Internet gambling.

#### ***4.2.4 United States Legal aspects***

In terms of legal aspects there are many regulations and stipulations possibly prohibiting or hindering Expekt.com's entrance into the US market. Federal law in the US, as in many other nations, is quite stringent on new markets and regulation. For Expekt.com's entry there are many issues to contend with for US penetration. In the following sections a brief overview will be given of some of the legal stipulations involved.

The U.S. Department of Justice has officially stated that Internet gambling is illegal, but unofficially is not so sure. The department initially stated that online gaming was a low priority, but in recent years it seems as it is becoming increasingly more significant. Congress is considering a bill that would

therefore make illegal all forms of online gaming in the United States. The issues here are immense and a quick resolution will not be found easily.

Federal law prohibits those in the business of betting or wagering from "knowingly us[ing] a wire communication facility for the transmission in interstate or foreign commerce of bets or wagers, or information assisting in the placing of bets or wagers, on any sporting event or contest."<sup>1</sup> The penalty for doing so may be a fine or imprisonment for up to two years and potential asset seizure under racketeering statutes. Additionally, the common carrier transmitting the signals can be ordered by the government to refuse further services to the operator. In this case some company's solutions to this aforementioned problem may be establishing toll-free numbers that connect using wireless service instead of traditional landlines.

Interstate transmission of bets or gambling information can qualify as legal only if both the state of origination and the state in which the bet is placed allow such wagering. Therefore, an Antigua company's taking of bets via telephone from a Massachusetts resident is a criminal act under 1084, despite the fact that it is legal to take bets in Antigua. Also, note that only the party "in the business of wagering or betting" (e.g. the virtual casino, not the user) can be convicted under 1084(a). So based on this, many companies' agreements to the end-user therefore requires that the individual is using the service for personal use and is therefore not involved in the business of betting or wagering. This is made clear in an effort to avoid violation of US Federal law. Senator Jon Kyl, R-Arizona, has introduced a measure that would render placing bets on the Internet illegal, punishable by up to \$5,000 in fines or a year in jail or both<sup>2</sup>. Yet currently, only the proprietor of the online gaming organization may be prosecuted and not the bettor.

It can be argued that 1084's use of the phrase "wire communication facility" was intended to refer only to telephone communication since within 1084 the

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<sup>1</sup> 18 U.S.C. 1084(a) (1995); This provision also prohibits "the transmission of a wire communication which entitles (emphasis added) the recipient to receive money or credit as a result of bets or wagers, or for information assisting in the placing of bets or wagers."

<sup>2</sup> S. 1495, 104th Cong., 1st Sess. (1995).

"common carrier" transmitting the signals could be ordered to desist. Yet in this respect the Federal government implied a broader term than just wired telephone communication when the law was enacted. Also, 18 U.S.C. 1081 defines "wire communication facility" very broadly as "any and all instrumentality, personnel, and services (among other things, the receipt, forwarding, or delivery of communications) used or useful in the transmission of writings, signs, pictures, and sounds of all kinds by aid of wire, cable, or other like connection between the points of origin and reception of such transmission." (Janower, 1995)

A difficult issue has therefore emerged of whether creating a site on the Internet constitutes "transmission" under 1084. "Transmission" has been construed to mean only sending, not receiving<sup>3</sup>. Yet, in *Sagansky v. U.S.*, the court held that when a person holds himself out as being willing to make a bet or wager over interstate telephone facilities and does in fact accept offer of bets or wagers over the telephone as part of his business, he has "used" the facility against the contention that the offense is committed by one who initially sends in the bet and not by one who receives it, that is, that "transmission" does not embrace the act of receiving<sup>4</sup>. In these issues mentioned, it would be implied that merely creating an online gaming site would therefore constitute transmission. These points are very valid in therefore determining the future status of future online gaming law and are being resolved as this paper is written.

If 1084 is found not to govern Internet gaming, 1952 might. Section 1952 imposes a fine or up to five years imprisonment for "travel[ing] in interstate or foreign commerce or us[ing] the mail or *any facility in interstate or foreign commerce*, (emphasis added) with intent to (1) distribute the proceeds of any unlawful activity; ... or (3) otherwise promote, manage, establish, carry on, or facilitate the promotion, management, establishment, or carrying on, of any unlawful activity. (Janower, 1995)

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<sup>3</sup> U.S. v. Stonehouse, 452 F.2d 455; see also *Telephone News System, Inc. v. Illinois Bell Tel. Co.*, 220 F.Supp. 621, affirmed 376 U.S. 782.

#### **4.2.5 Jurisdictional Issues**

Even if the cyberspace casinos can be found to violate U.S. state or federal law, the U.S. government's ability to prosecute a foreign organization operating entirely outside the U.S. is questionable. Under international law, a state is subject to limitations on its jurisdiction to prescribe (i.e. to make its law applicable); its jurisdiction to adjudicate, (i.e. to subject persons or things to the process of its courts, whether in civil or in criminal proceedings); and its jurisdiction to enforce (i.e. to compel compliance or to punish noncompliance with its laws).<sup>5</sup> (Janower, 1995)

Within these laws, issues around these codes clearly fall under the state's territorial jurisdiction to prescribe since it governs conduct that occurs in the U.S., namely the transmission of signals over U.S. interstate wires. Yet the whole concept of the Internet puts this in question. The Internet is a global network. Allowing any country to regulate it because some portion of the network resides in its territory seems justly unreasonable, given the minimal links to the U.S., the host country's interest in regulating the casino, and varying international views of gambling. Jurisdiction over conduct outside the U.S. that has or is intended to have substantial effect within its territory may be a more reasonable basis for jurisdiction, since public statements by the casino operators evidence intent to target the U.S. market. However, under the reasoning of a German court upholding only so much of an order as would have a significant effect on the German market, any U.S. action to shutter the casinos would probably be found to overreach its jurisdictional bounds.<sup>6</sup> Yet on the other hand, little opposition would be received if requiring casino operators to warn prospective American customers that betting online may be illegal and therefore punishable.

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<sup>4</sup> 358 F.2d 195, certiorari denied 385 U.S. 816 (1966).

<sup>5</sup> ALI, Restatement of the Law (Third) of Foreign Relations Law of the United States, 401.

<sup>6</sup> Dec. of Kammergericht of July 1, 1983 (Philip Morris/Rothmans), Kart 16/82, summarized in English in 4 CCH Comm.Mkt.Rptr. para. 40,571 (Doing Bus. in Europe).

For the U.S. authority to condemn conduct by an offshore company with no presence in the U.S. could fall under its general jurisdiction if bets are received using offshore accounts through an offshore betting system, if this were to be considered carrying on business within the specific state. This would therefore recall issues similar to those discussed above regarding state governing law. Authority to arbitrate might also be dependent upon the state's subject matter jurisdiction if Internet gambling can be found to occur in the U.S., since accepting bets from U.S. citizens abroad can certainly be thought to have "substantial, direct, and foreseeable effect within the state." (Janower, 1995)

But in order to arbitrate some sort of criminal statute, the defendant must be present at trial. This would require that the U.S. would need to seek extradition. This could be impossible though if the state has specific laws indicating otherwise. Therefore the state may refuse to extradite the defendant if "the offense with which he is charged or of which he has been convicted is not punishable as a serious crime in ... the requested state." In other words, since transmitting gambling information is not a crime in the Turks and Caicos Islands, extradition of the offenders is unlikely to be granted. (Janower, 1995)

In retrospect, if the U.S. can be found to have jurisdiction presence to prescribe and is able to adjudicate the case, the U.S. will have precedent to enforce judgment abroad if it can gain the foreign state's consent and acts in compliance with its own and the foreign state's laws.

#### ***4.2.6 Non-Legal Obstacles to Internet Gambling***

Being that an online sport betting is part of the total online gaming experience there are several other factors that may aid in the prevention of legalizing online gaming. One of these issues pertaining towards casinos interests is the ease in which players can use their computers to illegally count cards. This player cheating undermines the integrity of the game and can be very costly to the casino, therefore hurting the abilities of other players, as well as the casinos. It would be next to impossible to monitor player's behavior within their own

homes. This may not be a problem within online sports betting, but at the same time information about the possible outcome of particular sporting events has been known to leak out of corrupt individuals. Nonetheless this affects the industry as a whole and gaming online is still classified by the U.S. government as gambling.

A second potential obstacle or, at least, limit on the cyberspace casinos activities is Internet self-policing. As noted by Dean Hopkins, president of Toronto based CyberPlex Interactive Media, which helps organizations market via the Internet, "[Eugene] is going to face some concern on behalf of the Internet community at large. They're very good at self-policing and there could be a backlash." (Marotte, 1995) Though 51% of those surveyed by *Casino Journal* approved of casinos in general, 80% opposed Internet casinos. (Roura, 1995) Additionally, a family-values backlash, signaled by the Republican takeover of Congress, could spur a new round of legislation and or international negotiations to block the virtual casinos, bolstered by state and tribal fear of competition for gaming revenues. In all, gambling interests, on all sides of the issue, have poured \$3.1 million into political campaigns since 1993, ranking them just behind the National Rifle Association. (CNN, 1995)

Finally, gambling debts are generally not enforceable in the U.S.; hence, the online casinos generally require players to forward cash to an offshore account or take a cash advance on their credit cards before they are able to play. While this will not deter the online casinos, it will at least limit the degree to which players can accumulate gambling debts online.

#### **4.2.7 Competitor analysis**

The technological, legal and market expertise serves as a entry of barrier for new players. The competitors, and potential competitors, substitute competitors can be divided into three categories:

### ***Traditional gambling businesses***

The gambling businesses are located in the states in the U.S. where gambling is legal. As mentioned earlier, eleven states now allow commercial casinos to operate. Not surprisingly, the old boys' network, of licensed, land-based gambling businesses do not welcome competition from this worldwide digital network. They aren't losing much money to it yet. But they will soon, and they know it. They have to do something.

The main reason to still continue to have betting in casinos is the likeliness of a betting winner to stay to gamble in the same casino. Compared with betting on the Internet, in Las Vegas where sports betting is legal, there exists a good reputation among betting people, for it always pays the wins in cash, whereas brokers on the Internet are never completely considered trustworthy to the consumers. More time will therefore be necessary for the industry to establish trustworthiness for online casinos.

### ***Online betting businesses***

Online betting has exploded in recent years, growing from virtually zero into a \$1.2 billion business. Over the next two years, it's expected to balloon to more than \$3 billion. Some hundreds of Web sites are devoted to gambling, and that number grows daily. We present here the most important competitors and why we think they are important to consider and be aware of.

Research based on what the US customers want from Expekt.com's competitors in the U.S is important in understanding this new market. The research has been done through thousands of surveys done by a news publication called "Football, Betting Guide 2000". The most important characteristics for an online betting company, which were listed, are experiences, customer services, handling of funds, rules and technology.

[www.sportsinteraction.com](http://www.sportsinteraction.com).

A Canadian sports betting site that seems to be focused on the North America Market. Sports Interaction, located in Kahn Awake Mohawk Territory in Canada, covers all the important US sports that are of significant betting importance. The site is well presented, complete and very comprehensive in its use. It features some of the best odds and high levels of customer service, meanwhile being the only online sports betting site located in North America.

[www.caribsports.com/fb](http://www.caribsports.com/fb)

Licensed out of Antigua, Carib Sports is one of two Internet sports betting companies, which met all of the criteria mentioned above. They have excellent experiences, customer services, handling of funds, rules and technology according to the survey done by “Football, Betting Guide 2000”. They have one of the best websites and a very functional one.

[www.bethorizon.com](http://www.bethorizon.com)

They are a professional and well-run company, which has earned its reputation as one of the best in the online betting business in US. They are one of the best according to the “Football, Betting Guide 2000”.

[www.sportingbet.com](http://www.sportingbet.com)

Sportingbet.com is a fully regulated online British sports bookmaker. They cover all the major sports and they also have US sports that includes Professional and College Football, Baseball, Basketball and Hockey.

[www.easybets.com](http://www.easybets.com)

They are licensed and recognized by the Free Trade Zone of Antigua, as a sports betting company, to transact sports betting services worldwide. They have all the major U.S. sports.

[www.betvsi.com](http://www.betvsi.com)

This company are licensed and regulated to operate worldwide. They run their operations to San Jose, Costa Rica (offshore). They have all the major U.S. sports.

None of these companies and their competitors are located in the U.S. because of the legal aspects involved. The only exception worldwide for having a base in North America is Sportsinteraction.com. There are barriers of entry, which do exist, for online betting companies who often try to establish themselves in countries like Antigua, etc. These companies must pay an annual licensing fee of between \$50,000 and \$75,000, undergo rigorous personal and credit investigations, and post bonds, some as high as \$500,000, to ensure that they can pay off winners.

The Internet companies that we have described above have all of the most popular sports to bet on for the American customer. They all look fairly similar when you look at their content, supply of sports and betting options and marketing campaigns to attract consumers. The major differences are their websites, how they are built and their functionality.

### ***Substitute businesses***

With gambling, there is a dream to win fast and easy money. That is something that has become a reality in the stock market. This could be seen as a threat to sports betting because this substitute could take customers from the sports betting industry. Yet it could also be the other way around.

#### ***4.2.8 Competitive strategy***

After many months of research on the sports betting industry and working with the company, we realized entering the market was more advanced than just the listed above planning and ideas. Factors such as funding, and legal support gained significant importance as the time went on in the United States. For some time internal issues were not as significant as external issues. Laws and possible funding were a dominant concern. But if Expekt.com was to have a chance in the United States we thought that these criteria should be fulfilled as a competitive strategy.

To be different from your competitors is key in this situation. Expekt.com is a British bookmaker, and therefore they should maintain this consideration in their tactics. The American customer doesn't necessarily wholly trust the online betting companies who are located in the Caribbean countries. A few customers would rather bet with an English online bookmaker because England has a solid reputation within its legal system and trustworthiness. So in this respect Expekt.com should place a heavy emphasis of being located in the U.K. and it's therefore being governed by the laws of the United Kingdom, and moreover the European Union.

Expekt.com also should not necessarily focus on maintaining the best prices. Through establishing trustworthiness, reliability, and high levels of customer service this will maintain an integrity among online sports bettors. The focus of the company should rather be on a well-established technique and betting safety. The higher taxes the company pays being based in England does not give Expekt.com a significant cost advantage, so the focus should shift to reliability and trust. When a customer signs on with the company they are not receiving best odds, but best service. This is a big positive among many online gamers.

Finally, being that a majority of the company is young and many of the bets offered are new and fresh, in comparison with traditional gaming firms, a

competitive target group to focus on would be with collegiate students. The betting limits the company offers are lower than many competitors and the bets are very fresh and cutting edge, so this could be very appealing towards a younger crowd. By building a strong customer base among collegiate students this will not only bring in revenues today, but also establish a strong future for the company tomorrow, as this crowd becomes more affluent and mature later on. It is steps like these that could bring a lasting success for Expekt.com into the future. Therefore as presented, we have done an industrial analysis and created a generic competitive strategy for Expekt.com. We will continue with the presentation of the interviewed persons and then we shall present the analysis.

### **4.3 Presentation about the interview persons**

Hereafter we give a short presentation about the managers for each country. The purpose of the interviews was to acquire information as to how each manager looked at: barriers of entry, power of buyers, substitution, rivalry, and power of suppliers. The most important data collected from the interviews will be found under each headline of the five different forces.

#### ***Hans-Erik Börjes, Manager for Sweden and Norway***

Hans-Erik has been involved with the company since 1999. Before he came to Expekt, he was manager for a food store in Gothenburg for thirteen years. When Hans-Erik began employment with Expekt.com, the company was just up and running and had only a small amount of customers in Sweden and Norway. He therefore became the manager for these two countries, and his mission was to get Expekt.com to grow in a legal manner in these countries, with a limited amount of resources.

***Johanna Paulsson, Manager for Denmark***

Johanna became responsible for the Danish market for Expekt.com in June 2000. Before she got the job at Expekt.com, she graduated with a degree in business from Halmstad University. She had the experience of living and working in Denmark, this coupled with the fact of her interest in sport, made the job perfect for Johanna.

***Veli Pouhula, Manager for Finland***

Veli is living in the United Kingdom, where he is studying marketing at the University of Greenwich. Besides the studies, he handles Expekt.com's Finnish market. He only has six months of work experience in Finland. Those six months came from working in a marketing division for a Finnish meat producing company. The reason why he got the managing position was due to his knowledge about the sports betting industry, with an emphasis on how the industry operates in Finland. Veli has been betting since he was a kid, and ever since has become very addicted to this business.

***Michael Holmberg, Manager for Germany***

Michael Holmberg has a degree in law from Uppsala University, and he has studied in Sweden and Germany. Since Michael had prior experiences in Germany, and has a natural interest in sport, it was only natural that he should become responsible for the German market for Expekt.com.

***Christian Haupt, CEO of Expekt.com***

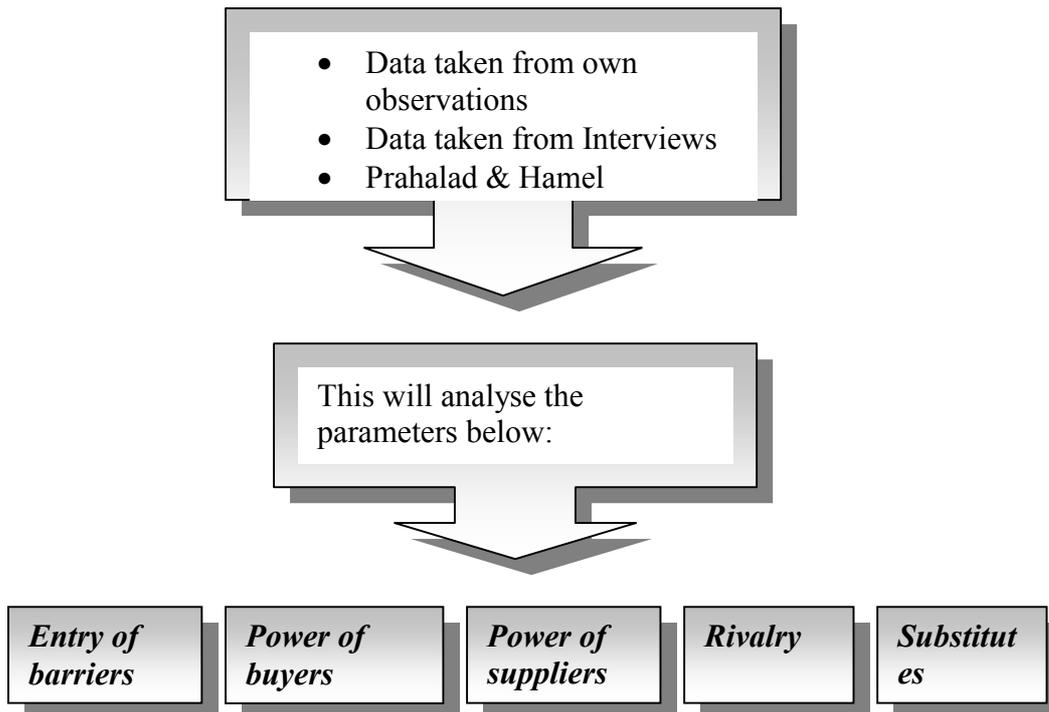
Christian Haupt was one of the two co founders of the company. Christian has a degree in industrial engineering and management technology from Linköping University.

## **5. Analyses**

This chapter will present the results of our study. Our study's main objective was to fully understand the different strategies that e-businesses incorporate, when commencing in their marketing approach. The study emphasized Michael Porter's strategic framework, with a focus on testing the compatibility of Porter's five-forces model as it pertained to numerous Internet based companies. Could Porter's five-forces theory still be applied to the multifaceted conditions that engulf the environment of the present day e-business? Porter's theory about generic competitive strategy is related to the five-forces model, which is why it is included in the five-forces model. What kind of research could be obtained in order to solve the stated objectives?

We decided to follow the start-up process of an e-business company, called Expekt.com, whose mission was to implement their business into the United States. While we did not establish the company, we were involved in the start-up process. The primary collection of data was gathered via interacting with Expekt.com while in the United States. Additional information was accumulated through interviewing the CEO of Expekt.com and each of Expekt.com's marketing managers from: Sweden, Norway, Finland, Denmark, and Germany.

We will systematically analyse each variable from Michael Porter's five-forces model, including the generic competitive strategies against our own observations. Each variable will be further scrutinized from the data obtained in the interviews. Porter's theory will be put to the test. When and if there is a need, Prahalad and Hamel's theory will complement Porter's theories to make our theoretical framework viable for e-commerce.



**Source:** Own Model

## 5.1 Barriers of Entry

Barrier of entry is the first of Porter's five-forces that will be analysed. How strong the entry of barriers are depends on the industry and the environment. The stronger the barriers of entry are, the less profitable the industry is.

### 5.1.1 From our observations

*For an e-commerce company, as Expekt.com, there were no big barriers of entry when the company was established in august 1999. (Christian Haupt, CEO of Expekt.com)*

From the beginning, there were a few companies who saw the potential in online sports betting. The founders of Expekt.com were some of the few. This could be compared to the United States, where there also were a few

entrepreneurs who saw the potential, but much earlier. In 1996, Jay Cohen and Steve Schillinger worked as traders on the floor of the Pacific Stock Exchange when they finally saw the opportunities with online betting. The sports betting industry was very attractive because of a relatively low cost of entry and profit margins that produced high volume. The necessary equipment and software to set up an operable site ran as little as \$135000, and the operating costs were roughly the same whether you had 50 or 5000 customers. (Steven, C & Yaeger, D, 1996)

From the beginning, not many entry of barriers existed in the industry. All that was essential was: a functional website, bookmaking and financial resources. Porter's discussion about barriers of entry did not at that time have a big relevance in the industry, because the Internet did not create barriers of entry for online betting companies when it came to: economies of scale, proprietary product differences, capital requirements, and absolute cost advantages. The Internet had created a new market (online betting) within an old industry (traditional gambling).

The legal aspects were the only barriers of entry that were of relevance for the online betting industry from the beginning. Sports betting companies were forbidden to act, market, and operate in most countries, because of the government regulations imposed. Therefore, the emergence of the Internet created a solution that solved the dilemma, by having the sports betting company located in a country where it was legal to run the business. The company could then operate through the Internet to countries where it was illegal to work as a betting company, yet legal to have and serve customers.

When Expekt.com started their process to go into the North American market in August of the year 2000, there were hundreds of online companies serving the United States' market according to official statistics. There were relatively few big companies, and the biggest barrier of entry was mainly the legality issue. Sports betting companies had and have to run the business, as well as operate from outside United States' borders. This was a bit tricky, because

these companies did not have the same chance as the companies operating within the country when it came to operations and marketing.

What can be seen is that the United States' laws work as a barrier of entry, but has the Internet given these online companies the chance to overcome these barriers? A gambler no longer has to fly to Las Vegas or the other destinations where it is legal to gamble. Online betting offers customers cheap and easy access to sport betting services and products. The consumers can now sit in the comfort of their own home via their computer, and gamble.

The entry of barrier that existed in the beginning of the development of the online betting industry were not very strong, which is why many companies became attracted to this new betting industry. In November 1999, there was one conference held in Washington D.C. about betting. The event hosted hundreds of entrepreneurs hoping to set up sites, as well as roughly a hundred people trying to sell hardware and software. This gave us some hint about the huge opportunities this industry had with limited barriers of entry. Nevertheless, we started to notice in year of 2000, that there were conditions in this industry that started to change, which created a few new barriers of entries that, were not detected before.

The first thing that we noticed from our competitor analysis was how a few online betting companies started establishing their own barriers of entry, in order to reduce competition. These companies have began cooperating with: important newspapers, magazines, and sport portals; who write about the best sports betting companies and give advice of which companies the customers should choose to bet with, according to: prize, service and trust. Some bad and untrustworthy companies exist in the sports betting business, so these forums and newspapers fulfill a very important purpose when they lead the American customer to the best online betting company. In the long run, we thought that this connection with important partners could work as a entry of barrier, because many of the American customers trust these forums and choose an online bookmaker after good recommendations.

There was another aspect that we realized could create entry of barrier and that had to do with the legal situation. In the business between the supplier and the buyer, there is a payment that exists, and is an important issue in a company's value chain. The lawmakers and the political forces are working on outlawing payment over the Internet when it comes to betting. Companies and legislation can either work together or against each other in these situations, depending on the general interest of the groups in power. These barriers of entry are strong determinates of the accepted values or laws of a particular region. For example, in 1996, in California, proposition 1A was voted on during the November election. The proposition had to do with whether or not it was legal to have fully-fledged gambling on Indian Tribal land. The opponents of this proposition spent over six million dollars in hopes of banning gaming on Indian land. These are some of the same opponents of the Internet gambling.

What can be seen is that before, the existence of any barriers of entry were minimal, but when an industry like the online betting industry becomes more interesting and profitable, there are companies and governments that are trying to establish barriers of entry.

As explained earlier, and taken from our observations, Porter's thoughts about barriers of entry did not have much relevance during the starting point of the sports betting industry. First of all, there were not significant barriers of entry in the beginning of online betting, and arguably if there were any, they were minimal. Second, the barriers Porter was discussing were conceived of for an environment that differed from the online betting industry. The discussion of Porter's barriers of entry was directly related to big industries and companies that worked primarily with products and services within established or traditional markets. Yet there are people that interpret Porter's thoughts in a completely different manner, citing that barriers of entry are relevant and pertinent now, because when a company within, for say, the online betting industry does get profitable, it does not take much time to create new barriers, or for those barriers of entry that may exist to get stronger.

When we started to look at the industry in the United States, it had already been fairly well developed and we saw how a few companies in the industry got stronger. We decided to see if there was a chance for Expekt.com in the United States, to find right products and services, which could create a entry of barrier. Porter (1980, 1985) says that a product or service that is different from and of higher value than the competition works as a entry of barrier. Expekt.com had an overall strategy pertaining to customer support, which was something that we thought of as a great challenge, to create something that was superior then that of the competitors. The vision and the goal, with the support concept, was that the customer should never have something to ask Expekt.com. Everything should work easily, conveniently, and have a functionality that never creates confusion among the customers. In return, this superior customer functionality should create a niche for Expekt.com, helping them to achieve their market goals. However, at the same time, this search for differentiation helps produce new barriers of entry for a particular firm into the desired market.

Guthrie and Austin (1996) argue that the threat of new entrants is high in industries with low entry of barriers. This is implying that the Internet enables entrepreneurs to enter the industry, because this new market has low barriers of entry and a potentially enormous market and audience. This would definitely be true if we had looked at the online betting industry from the beginning of its development, but as many other Internet related industries, it has started to mature more recently, which means that there have been barriers of entry as of late. This in turn has made the market more competitive than ever before, and every single market becomes increasingly more difficult to not just seize, but to enter as well.

### **5.1.2 From the other markets**

*Expekt.com was one of the first companies that focused on the Nordic market as an online betting firm. (Christian Haupt, CEO Expekt.com)*

Expekt.com had to first employ a market strategy competitively against the company, Svenska Spel, who was the Swedish state owned betting company. Svenska Spel resiste utilizing web-based technology (e-commerce techniques) in their sales plans. What happened? Expekt.com and other web-securities companies came in with excellent e-commerce sites with relatively low entry of barriers and ultimately created huge new markets. Expekt.com took customers from Svenska Spel, and after a while, Svenska Spel finally followed the trend and started with online betting. In competitive measures, Svenska Spel was not only compelled to introduce Internet betting, but to make their finished product easier for the customer to use.

Expekt.com and the other sports betting companies whom were first to enter the online betting market learned many new aspects for success in how to work online. With their experiences, they learned which partners and companies to work with and how to work with them in a legal manner. This enabled them to keep their dominance in the market, which they received from an early entrance. In retrospect, this is solid evidence of experiential learning through trial and error within a new market.

As stated earlier, Expekt.com was one of the first companies to enter the Nordic countries with online sports betting. Expekt.com worked diligently in the beginning and they contemplated creating entry of barriers for other companies who wanted to enter the online sports betting industry. Expekt.com had to work in a way to be better than the few competitors at the time, and work in a legal manner. In an interview, this was what Hans Erik Börjes had to say:

*What I saw from our competitors when we were entering the online sports betting market was that they did not show their real faces so much. They were online betting companies who were operating like us, through the Internet, yet they didn't realize the importance of showing who they were. I thought we could be different by taking experiences from my job as a manager at the food store where it was very important with personal meetings, traditional media and the importance of showing who you are. With this background I contacted the two most important newspapers in Sweden, Expressen and Aftonbladet. I invited the sport's journalists to eat lunch with me where I explained Expekt.com's business ideas and what these newspapers could gain from a partnership with Expekt.com. They weren't used to meeting people face to face from a sports online betting company. These two newspapers have always published information in their sport sites about Svenska Spel, (the state owned gambling company) odds, products and services.*

*Aftonbladet and Expressen decided after the meeting with me to write about Expekt.com's products and services to give their customers the chance to pick the online betting company with the best products and services. Expekt.com gave the newspapers their odds (prices) and suddenly the customers could read and compare different odds between Expekt.com and Svenska Spel in the newspapers. This was how we created entry of barriers for the competition, because these relationships gave us a value that took a long time for the other online companies to build with the newspapers. Actually, it is too late today for an online company to get in contact with these two newspapers, because they already have what they need. This has given us a great value because most of the customers who want to gamble, read Aftonbladet or Expressen (Hans Erik Borjes, manager for Sweden and Norway).*

Hans-Erik showed how Expekt.com had entry of barriers for other competitors because of their speedy entrance into the Nordic countries.

The market in Denmark has entry of barriers that Expekt.com could not do anything about, which made it more difficult for Expekt.com to operate successfully there.

*The local banks in Denmark don't want to work with a sports betting company, which makes it difficult for Expekt.com to handle the payments. The customers have to pay with their credit card and work with their local bank. This is a big problem and it can be expensive if you get a large amount of customers, which is the goal for Expekt.com in Denmark. There will be a big problem if Expekt.com gets much bigger in Denmark, which in the end will create a big barrier of entry. (Johanna Paulsson, Manager for Denmark)*

Porter says that there are companies that gained due to their early entry into the market, and the experiences they gained created a entry of barrier. This is true if we look at what Hans-Erik and Expekt.com did in the Swedish and Norwegian market. Michaels Porter's discussion about entry of barriers is of great importance for a company to consider, because it helps them to get a bigger understanding of the profitability of the industry. Nevertheless, what Porter discussed as a entry of barrier with: economies of scale, proprietary product differences, capital requirements, and absolute cost advantages did not have such a relevance for an e-commerce company as Expekt.com. Barriers of entry still exist and are important to consider when looking at the chances of getting into a new industry. However, the emergence of the Internet has given the online sports betting industry new types of barriers of entry. Barriers of entry will always exist, but they will take form in various shapes and may evolve as new markets emerge and business standards transform. When it comes to online betting, the Internet has created various new forms and taken away numerous barriers of entry that did not exist before the Internet was institutionalized.

These entry of barriers will proceed, and new barriers will arguably continue emerging. As new partnerships are formed and new practices of e-commerce evolve, hence so will the new barriers. From issues of legalization, to business

to business (B2B) practices, this will affect the realm of future online sports betting. Another aspect to consider will also be availability of .com domains and even the popularity that each name brings with them. New countries are also creating new boundaries of website hosting, taxation, and Internet laws and these too shall be the molding of future entry of barriers. As mentioned earlier, costs always play a roll in any kind of business, but with the advent of new Internet technologies and services, a site's increased offerings will therefore eventually increase costs dramatically. As more competitors enter the market, a static site is not enough any longer. Customers demand usability and flash, to fully enhance their browsing experiences. This then makes it more demanding on websites to keep them updated and fresh, as well as technological and administrative costs which will accompany these new features. So in retrospect, many companies and markets have yet to experience the new barriers, which will emerge in coming years.

## **5.2 The power of buyers**

The second of the five-forces will be represented by the power of the buyers. The stronger the power of buyers is, the less profitable the industry is according to Porter.

### **5.2.1 From our observations**

The Internet has given buyers access to a global population of suppliers. Buyers have great opportunities to search for products and services that offer the best value. (Guthrie and Austin, 1996) When Expekt.com was trying to get established in the North American market, the sports betting customers had already so many companies to choose between. The customer via their computer, today, has around 1000 companies to choose between, as well as there being a tremendous amount of information in the market that helps the customer to find what he/she is looking for. The buyers know that the Internet gives them the chance to change to a better online betting supplier in an easier way if they are not satisfied with: the products, services, or prizes they get from

their existing supplier. This could be compared to many other industries where the switching costs for buyers from one developer's property to other properties can be relatively high.

The Internet can give the buyer more power in many ways and David Dickinson and Chris Bauschka support that. They say that Internet has created the shift of power to the customer. More than ever, customers make demands that go beyond price cuts. They want order, and status, anytime, anywhere. They expect quick answers to technical questions, and they evaluate suppliers on their ability to reduce customers' "total supply chain cost." This is true when discussing the online betting industry where companies need to have their company on the Internet open 24 hours a day with customer support always available. We could see that the power of buyers is incredibly high, when they have so many options. They can change the supplier of the sports betting whenever they want, without the extra effort of time or money.

We decided to see if Expekt.com could do something in the United States to decrease the power of the buyers. The first idea that we came up with was to see if we could gain favour with the public through the new products and services on the online betting market, rather than seeing what the competitors were selling when it comes to products and services. We thought we could create new products on the sports betting market by educating and communicating with the people. We created a few different products for online betting and thought it possible to educate the American customer with a totally new concept, while at the same time focusing on the what the American customer was demanding in the form a of financial gain. New ideas are welcome additions in the enormous world of the Internet. However, creating a totally new business without any proven benefits could prove catastrophic. Customers may welcome your company's changes, but they are not dummies when it comes to obtaining the greatest advantage that they possibly can. Therefore, changes must be made gradually if one is trying to decrease the power of the buyers.

Another way to decrease the power of the buyers was to obtain exclusive licenses to certain games. We decided to see if there was a chance to create betting pools, which is a product where you could gamble with fake money. There could be a contest each week where customers can choose the winning team, and the winner of the contest would then receive a prize of the week. This process could be repeated the following week. This is a free and legal technique that could become a great new marketing and legal tactic. Making the games easy to win would be beneficial to the business, as the customer, or potential new customer would have a chance of continually winning without loss. This technique would help to catch the customer's attention, in having the customer experience online sports betting. It would not only increase business, but also increase popularity of the site, and bring in more Internet traffic on a regular basis. This in return would help bring in a steadier flow of new customers and increase the turnover and value of the site. The result of a promotion like this could be highly beneficial. The customer's odds would be much better in the free betting pool, where he/she begins to believe that he/she is a natural born winner, and might therefore venture into giving the actual betting a try and become a new customer.

Another option to decrease the power of buyer was to attract a specific customer group with a special product and service that would make it difficult for our chosen target group to change to a competitor. We therefore decided to see if Expekt.com could create a product developed for collegiate students as a primary target group. Many of Expekt.com's competitors in the United States wanted their customers to bet for significantly higher amounts of money, by having rules that they could not bet for less than X dollars. We decided to create a product for the collegiate students that was easy to understand and cheap to use. The strategy was to get as many collegiate students as possible and show them how to have fun without gambling for a lot of money. If this target group could be captured, then it would not only be of great importance for the day, it would also be beneficial for long-term strategic goals.

Porter states that companies' choice of buyers is a very important strategic decision. A company can improve their strategic position by choosing buyers who have a small chance to change suppliers and are not price sensitive. Could that theory really have substance, when the Internet gives the online sports betting customer all the information they need to change suppliers if they are not satisfied? The answer is that the Internet gives the customer more information, but you can still as a company, with the right strategy and tactics, lead the customer to your business and create a value that makes it difficult for him/her to change to a competitor.

The power of the buyer is likely to be high when the cost of switching a supplier is low or involves little risk, according to Michael Porter. We could see that online betting creates more power for the buyers, because they have a bigger opportunity to choose their supplier and there is cost and price comparison available at all times. The switching costs are very low because it does not cost anything to change your supplier, and it does not take a customer much time to do that. The sports betting customers are increasingly willing to switch, as he/she gets more comfortable with the technology around the products and services, as well as how to use them. However, we saw that this is something that most sports betting companies are aware of, which is why they are trying to create different kinds of promotions and customer loyalty programs that keep the customer loyal to the company.

### ***5.2.2 From the other markets***

The power of buyers in the online betting industry is almost the same everywhere. The managers from the Nordic countries saw the problem with the power of buyers. This was seen as a threat from the beginning, but the managers saw it after a while as an opportunity to really understand what the customer wants. There was a chance now for Expekt.com to create different campaigns, new products, and promotions to keep the customers loyal to Expekt.com. The goal is to create a database of loyal customers that likely will come to trust their legitimacy. But according to Johanna, the manager for Denmark, there remain problems to solve the power of buyers:

*Today, Denmark has about 500 customers, but why did they choose Expekt.com? That is an important analysis you have to make and that is something we haven't really made. It's important to have that in consideration when you do marketing campaigns and promotions but unfortunately the financial resources and time haven't been there for us to make these kinds of analyses.*

Veli Piltonen, who is the manager for Finland, is of another opinion about how much power the Finnish customer has:

*There is not very much competition in Finland yet when it comes to online betting. I know what the Finnish customer demands when it comes to products and services for online betting but I don't know why the customer chooses Expekt.com. I haven't made a further investigation about that because we are getting new customers every day. Maybe it could be of importance to make an analysis of the customers in Finland.*

What can be seen from our observations and the interviews is that Expekt.com has gained a lot of market share in the Nordic countries because of the early entry into the market. However, the managers have not thought of what power the customer has and their possibility to change from Expekt.com to a competitor at no cost. The importance of keeping the customer loyal to the company or the value of having a customer loyal has not been seen as a particularly important factor.

We think that this is not unusual for an e-commerce company like Expekt.com. Many e-commerce companies as Expekt.com have gained market share because of being the first ones into the market, or that the market potential has been incredibly high. These companies have received a customer base, but they have forgotten what power the customer has, and that the customer can change suppliers any time. There have not been many resources committed to keeping the customers loyal to the company. Following along the same lines, no energy

has been exerted into formulating an analysis that would help the companies to better understand what is demanded of them to keep the customer satisfied.

## **5.3 Rivalry**

Rivalry is the third variable in Porter's five-forces model. The stronger the competition is, the less profitable the industry is. Rivalry will exist when a company feels that they have to do something to put their company in a better position. The most competitive conditions will be those in which: entry is likely, substituting becomes a threat, and buyers or suppliers exercise control.

### ***5.3.1 From our observations***

Before we tried to see how Expekt.com could be established in the United States, we made a diligent effort in trying to learn about the competitors, and how they were working to recognize the competition in the United States. Sports' betting has been regulated in the United States for many years, and it has only been legal to gamble in Nevada, where Las Vegas is located. Other forms relating to the distribution of sports betting in the past were linked in some way to organized crime or other means of illegal activity.

Gambling through the Internet offers new and better access to something that American consumers demand in spades. The rivalry among the betting companies has increased through the Internet and globalisation. American customers have many options when it comes to choosing who they want as an online bookmaker. A gambler can choose from a growing list of World Wide Web sites operating in more than a dozen Caribbean, European, and South Pacific nations.

We tried to analyse all the online betting companies, and we found that many were very similar to each other when it comes to: services, products (different sports to bet on, different betting options, how you can make your bet, etc.), and the functionality of the website. The American sports betting companies

know what the American customers demand, which makes them all somewhat similar.

The online betting industry has been very attractive because of a relatively low cost of entry and profit margins that produce high-volume. The necessary equipment and software to start a company are very low, and the operating costs are roughly the same whether you have 100 or 10000 customers.

We see that there is a relatively small chance to compete with a cost leadership that Porter is talking about. Cost leadership, according to Porter, means that the company achieves, or seeks to achieve the position of the lowest cost producer or supplier to its markets. A common misunderstanding is that this means the lowest price supplier, however the lowest cost producer has the ability to price below competitors and during severe price competition still have profits margins that are advantageous. As Porter says: “The cost position gives the company a defense against rivalry from competitors, because its lower costs mean that it can still earn returns after its competitors have competed away their profits through rivalry.”

We think that the sports betting industry is not the right industry in which to compete with a cost leadership strategy. There are two reasons for that. The customers do not demand a supplier of sports betting that puts their efforts into cost reduction and good prices. The customers choose a supplier of sports betting through security, trustworthiness, and service. The customer wants to know that they will get paid in a quick manner if they win, rather than getting the best deal. The online betting market is new right now, so the American customers do not have complete trust in the online betting companies, at this time. If the customers in the future are fully satisfied with online betting, and they trust this new business, then it will be interesting to look at the future strategy of cost leadership.

If we change the discussion from cost leadership to differentiation, one firm can reduce the threat of rivalry by differentiation. They can do this by offering

a highly differentiated product or service that enjoys a quasi-monopoly in that segment of the market. This forces an interested buyer to buy the product from the particular firm. (Porter, 1980, 1985, 1996) Yet on the other hand, you might think that the online bettors are served with a global market of suppliers, thus increasing the chance of finding a similar product or service as the highly differentiated one. The online betting industry is still very new, which is why there are some companies that have created a differentiated product or service that few have hardly noticed. However, we found one online betting company that we think has differentiated their products and services in a superior way. The company is called Sportsinteraction.com, who differentiates their strategy by offering the customers more value and options when it comes to: services, products, and feedback. A prime example of this is evidenced by when the customer has a winning bet, Sportsinteraction.com will e-mail the customer notifying them of such.

Sportsinteraction.com also offers a wide array of games to bet on. The customer may bet on anything as basic as: hockey, football (American), soccer, basketball, or baseball; to anything as obscure as: snooker, or Gaelic Games. In all they offer 15 different sports to gamble on. They also offer a toll free number in North America to help solve any questions. For those people not in North America, fret not because they respond very efficiently to all e-mails they receive in a quick and timely manner.

### ***5.3.2 From the other markets***

There are, according to Porter, markets that have different kind of competitive conditions. They can be tough or friendly. Nevertheless, it is important to be aware of your competitors. In the past it was relatively easy to tell who was a competitor and who was not. Today, it is harder to distinguish competitors from collaborators from suppliers from buyers. The rule breakers understand that rivalry is not as simple as it used to be. For many companies, it is getting harder and harder to tell the good guys from the bad guys.

One of the primary problems here is that in each market, the source of the competitor is sometimes unclear. As mentioned earlier, there are over a thousand gambling companies worldwide and many are competing for similar markets. However, due to strict legal restrictions, many companies who target a specific market cannot be based in the respective country, therefore moving them offshore. Although the company feels like the work of a specific nation's group, is it really?

For example, if a country is trying to market in Sweden, it will have to do certain things to appeal to the Swedish gambler. The Swedish gambler will look for a company that does not necessarily have the best odds, but for the site that is perhaps geared for him/her and has the most Swedish feel to it. The competitive angle to this is that every gambling website can try to cater to, and have that Swedish feel for the gambler in Sweden. A little work here, and some Swedish consulting can provide that extra push to either make or break the company. Although Americans would like to bet from an American based site for security and faith issues, they cannot due to legal issues. Many offshore companies have a large American clientele, but they all do one thing right, they look and feel like an American company, run by Americans.

Therefore, this is what Expekt.com has done. They have either hired people from the specific nation that they are interested in entering into, or someone with a lot of experience in the new market nation. Although this attempts to solve problems, sometimes all it does is generate problems. The focus of a company may be lost in this Internet exchange, or strategy may have to be radically altered for penetration of the particular market. Through communication with the managers, it has seemed that this could be a problem area for Expekt.com currently. We have not been so sure if the strategy is the same for each manager, as well as being uncertain of the clarity of the focus of the tasks. At times, it has seemed that they are winging the situation and hoping for the best.

In terms of hiring many people of different nationalities for respective markets, this has made the market more competitive overall, and other companies will have to do something similar in order to compete in all markets. This can be a tough, competitive situation and may up the ante for future Internet firms wishing to penetrate markets. Having a site in other languages may not be enough for the customer any longer, but the feeling that elements of nationalism will only bring positive attributes to the vitality of the site. This in turn will alter how the company will have to function, and therefore affect its overall strategic approach.

And as these companies penetrate other markets, they seem to be located in similar locations, all the meanwhile trying to achieve sometimes similar, but many times different goals. Many betting sites are currently located in the U.K. (Expekt.com), as well as the Caribbean, Australia, and other legal nations. Hence, it will be a fierce fight for market share in each nation being that many companies cannot locate themselves in their desired markets. This will result in a tougher fight for customers, and differentiation will be key.

In Expekt.com's case, they will have to work harder each year to maintain their strength in Scandinavia, while still trying to expand into other markets. Through the hiring of distant employees, maintaining the company strategy may become increasingly difficult. This may make it more difficult to keep up to date with who the competitors are, when competition emerges with a fresh presence and begins to dilute markets. Therefore, the rivalry between companies will strengthen as they try to maintain a presence. However, in this ever-changing market, companies will not have to present themselves in traditional manners, as trust in the Internet builds and content increases. Since many low-key companies are offshore, the customer will merely have to choose impulsively which one initially appeals to them as the best choice.

#### **5.4 The power of suppliers**

The fourth five-force variable is the power of the suppliers. The stronger the power of suppliers is, the less profitable the industry is.

### **5.4.1 From our observations**

Porter discusses how suppliers can be very powerful in an industry. Suppliers can exert bargaining power by raising prices or reducing the quality of purchased goods. A supplier group may be powerful due to: its domination of a few companies, by virtue of supplying a unique product, not having to contend with substitute products, posing a credible threat of integrating forward into the industry's business, or because the industry is not an important customer of the supplier group. (Porter, 1980. 1985. 1996) With the Internet, the threat of suppliers gets even less, since the buyer now has access to suppliers worldwide, competition between suppliers is heightened, costs are driven down and product quality increases. It can also occur in the opposite way, because the Internet has given the suppliers access to the worldwide market. There can be minimal sales costs, so suppliers can compete with larger companies.

Referring to the online betting market, we could see that the power of suppliers has started to increase during the last couple of months. It has to do with the changing conditions of the suppliers that the online betting companies are using for external help such as technique, financial, and legal services. Today, these suppliers are more aware of which partner or supplier they look for cooperation with. They have become much harder and more aware of what kind of companies they are selling their products and services to. Before the e-commerce was so popular, the online betting companies could lease or buy support or products for their business on credit. Presently, they have to pay their suppliers with cash because the suppliers are concerned whether or not the online betting companies will be broke. This has created a more natural competitive environment where we can see the how important and strong the suppliers can be, and how they can have a high amount of power, which Porter refers to in his theoretical framework.

#### **5.4.2 From the other markets**

The online betting companies are very much dependent on a few important suppliers. Within the sports betting industry, good suppliers are essential to make sure everything is working properly, from where the customer makes a bet, to where he gets paid out. Most of the online betting companies have a competence level within the organisation when it comes to bookmaking and marketing, which means that there are companies who are suppliers of: important technique, expertise, and equipment.

*Many of our competitors are focusing on what they think are their core competence as it relates to marketing and bookmaking. The technique behind their business is not their core competence, which is why they have chosen to operate via external partners. Unibet.com, one of our competitors, buys their technique products, services and expertise from external partners. These companies are missing valuable knowledge about the technique. We have chosen to have the self-sustaining competence of the knowledge of the know how of the technique within the company. (Hans-Erik Borjes, manager Sweden and Norway)*

*When we started Expekt.com, we saw a lack of products and services that was easy to use, convenient, and technically well-developed, as far as the online betting industry was concerned. We decided as an overall strategy to develop the best functional website, through internal competence, together with the best partners as Oracle etc. This would give the customer the chance to feel secure, and still maintain a convenience when they are using Expekt.com's services and products. In the beginning, we put a lot of effort into trying to understand the customer and then developing the technique to that. Having the technical competence within the company makes it easier for us to develop the products and services after the customer's demands are evident. It is easier and faster to service the demands of the people, since the technical work is all in internal at Expekt.com. (Christian Haupt, CEO Expekt.com)*

Expekt.com handles much of the technical work from inside the organisation, but they have partners who handle a few things, and with Expekt.com's self-sustaining competence, they know when to change partners if everything is not going as it was supposed to do. Expekt.com reduces the risk of having their site down, by having the technical competence within the company. There are strategies behind the choice, which have given Expekt.com the chance to decrease the power of suppliers. They are not dependent on other suppliers as much as their competitors.

*In 1999, The Swedish monopolistic company of sports betting, Svenska Spel, paid 60 million dollars to one IT company (Icon), to make a functional website that could handle online betting. They failed to do that efficiently and as a result, Svenska Spel lost a lot of money and time. (Hans-Erik Börjes, Manager for Norway and Sweden)*

## **5.5 Substitute**

The last but not the least of the five-forces is substitution. The stronger the substitution in an industry is, the less profitable the industry is according to Porter. (1980, 1985, 1996)

### **5.5.1 From our observations**

When we were looking at the power of substitute products or services, we did not really find anything that could be of great pertinence for an online betting company. We tried to see if we could find something in our industry that was relevant to substitution.

The people who are attracted to the sports betting market are those people who are attracted to excitement and also have a dream to win fast and easy money. That is something that has become a reality in the stock market during the last years, especially during the dot com boom in 1999, where suddenly a lot of people started to earn fast money, even if this has presently started to go in the

opposite way. Could there be a chance that the stock market could have an affect on the sports betting market, and do these two similar industries compete with each other?

We realized after the sports betting industry had been analysed, that the stock market and the sports betting market differed in many ways, especially when it came to the target group, as it relates to the customer. In the United States, there are basically two targeting groups that are interesting to look at for an online sports betting company. The first target group is a young conglomerate of people who are interested in gambling. This target group has only a couple of dollars to gamble with. They do it for fun, as they see gambling as a form of entertainment. The other target group is the normal gambler. The normal gambler is usually a male between 20 and 60 who has accrued enough money to comfortably gamble comfortable amounts of money within the sports betting industry. This target group consists of the lower or the middle class of the American people. People that are hoping to further themselves through their knowledge of gambling.

This made it very clear to us that the stock market could not be seen as a substitute product and service to the online betting industry, because in the stock market there is more money involved and the stock market's customer group is commonly represented by the upper class of the American society.

By neglecting the stock market, and probe further alternatives of substitution, we come to what Porter has to say: "Doing without can be thought of as substitute; certainly for the tobacco industry this is so." (Michael Porter, 1980)

Why should you make a bet on different sport's activities, is just watching the game on the television not enough? This will never occur, because gambling has a huge tradition and people love to gamble.

*Americans love to gamble. Having already embraced traditional games of chance, they will almost certainly extend a warm welcome to the Internet*

*gambling. At least 56% of Americans gambled in 1995. By current estimates Americans gambled more than \$600 billion in 1998--nearly \$2,400 for every man, woman, and child. (Taken from our business plan)*

In general, Porters discussion about substitution and its importance for the attractiveness of an industry is of relevance for companies in general. Especially for an e-commerce company because of the Internet, which gives the customer many options to search for similar products and services to what they are looking for. Yet when we are talking about the betting industry, we do not think that Porter's discussions about substitution are of relevance.

### ***5.5.2 Information from the other markets***

We refer this to our own observations, (5.6) because the substitution in the online betting market does not differ from market to market. We did get the same information from the interviews that we received from our own observations.

## **5.6 Another strategic approach.**

We have up to this point shown with the study of Expekt.com, that the strategic framework by Michael Porter is not fully suitable for the Internet based e-commerce business. That is a reason why we are trying to find out if there is a possibility to complement Porter with another strategic approach to make the existing strategy schools viable for other e-commerce companies. The strategic school represented by Hamel and Prahalad will be put to the test.

Expekt.com decided in the beginning of year 2000 that they wanted to expand their business into the United States' market. We used Porter's five-forces to examine the sports betting industry and its attractiveness. The five-forces model gave us a hint about the possibility of Expekt.com to emerge into the online betting industry in the United States. At the same time, this gave

Expekt.com a chance to formulate a competitive strategy that could be used in achieving entry into the United States' market.

The industrial analysis was very beneficial for Expekt.com, when it gave us the opportunities and the threats present within the American market. In November of this year, Expekt.com decided to wait with their implementation of their service in the United States, due to the limited time and resources they had. There were a few conditions that had changed within the organisation, and expanding their market to include the United States was not the primary goal for Expekt.com, even if that was the case a couple of months before November. The analysis resulting from Porter's theories showed that the online sports betting industry in the United States is very profitable, which is why you as a company should try to enter the market. Nevertheless, internal conditions had changed and the United States' introduction of Expekt.com had to wait. Here is what Christian Haupt, Expekt's founder and CEO had to say:

*“The rules and conditions in this industry are changing all the time. We don't know what tomorrow will look like, but we try to plan for the future at a 6-9 month perspective when it comes to strategy and 6 months to the operational level.*

What did we miss by using Porter's strategic framework? Prahalad and Hamel mean that the industrial analysis typically fails to provoke deeper debates about who we are as a company, or who we want to be in the future. They have a really important point to make with their critique of the industrial analysis (five-forces). Sure, the industrial analysis gave Expekt.com a perception of the market place in the United States right now, but what about the future. The industrial analysis could help Expekt.com to get their feet on the ground, but it provides no insight into whether or not this will lead to a beneficial strategic position. All the analysis can do is tell one how the market should or should not react to various dilemmas that present themselves in the constantly changing future. What Prahalad and Hamel are trying to say is that when companies are establishing their business, they rarely look long term, rather they look short

term and hope to build from there. If Expekt.com had realized what Prahalad and Hamel are trying to say, maybe they would have been better prepared for long-term thinking. Expekt.com will save time and resources in this way.

Porter's industrial analysis is very important to have. However, the companies have to keep it known that even if the industry looks profitable, they have to know where they want to go. They must have some kind of idea of what it is they are hoping to achieve. This is something that was lacking perhaps with Expekt.com and Porter does not take this into consideration. Johanna Palsson, the Danish manager makes this clearly evident with her quote:

*"We don't plan so much for the future. We try to get things done at the actual moment. We have so much to do, so the future planning is something we can do when we get the time."*

However, this is often the case when a company is just beginning. If the company does not delegate enough time and resources to the present, they will not be around to reap any financial benefits in the future.

The above also can be discussed the other way around. Many e-commerce companies such as Expekt.com, in our case, have stepped into a totally new market that has not existed before. The opportunities are incredible with a high chance of profitability. These new conditions have given Expekt.com as well as many other e-commerce businesses a chance to take a big market share in a relatively short time. The chance of growing quickly includes awareness about the future and the up and coming trends.

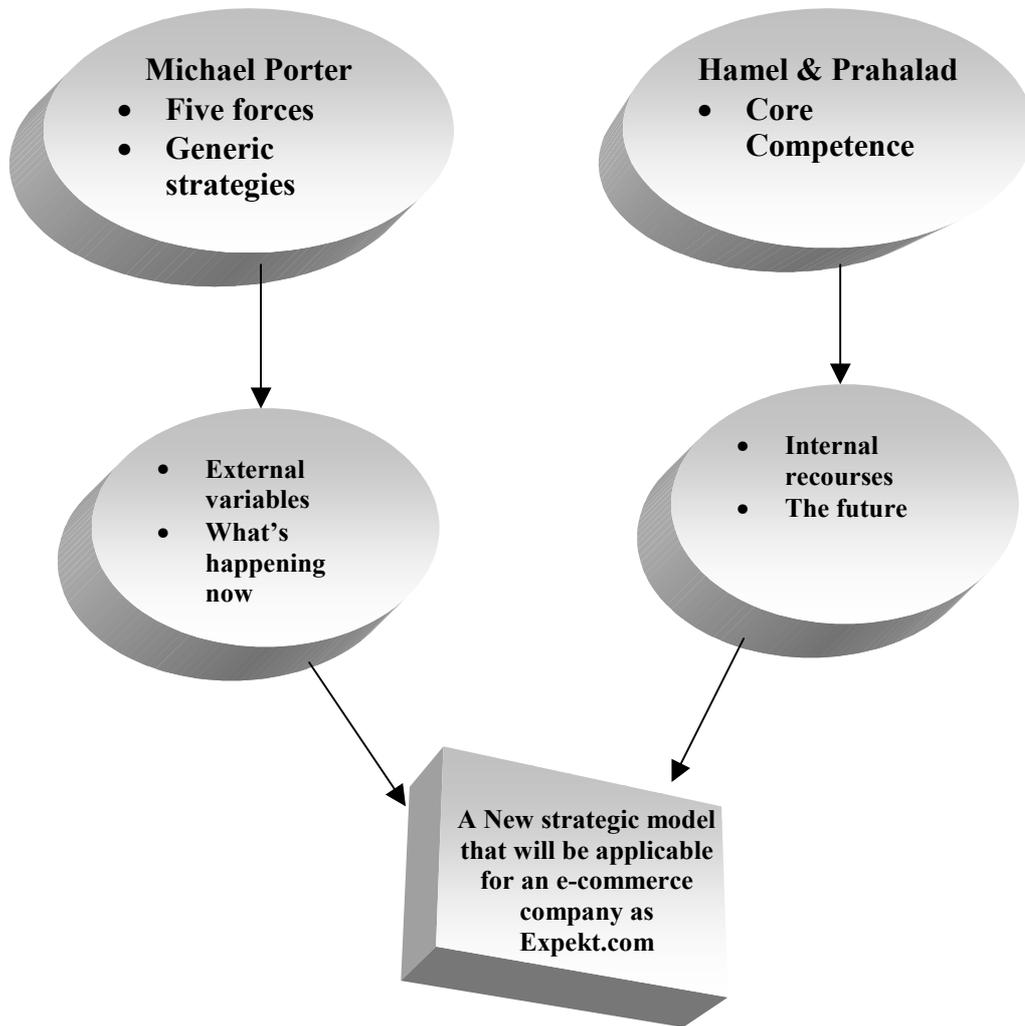
*Things that we wanted to do in Sweden, three to four months ago, we can all laugh about today. Things are changing so fast, so we have to look more at the future to be updated as to what is happening to maintain our competitive position. (Hans-Erik Börjes)*

Prahalad and Hamel say that it is not enough to have a strategy to compete in the existing markets, rather companies have to develop strategies about the

future market, the potential markets all the while looking at the size and shape of tomorrow's opportunities. Compare this to Porter who focuses more on what is happening today. We think that Porter's rational thinking and importance of seeing the industry today could create more of a value for Expekt.com and many other e-commerce companies. How the industry looks today is as important as looking at the future and especially to these new industries that are very risky. We think that Porter's industrial analysis neutralizes Expekt.com as well as many other e-commerce company's future plans, because it can assist them in realizing the importance of knowing what is happening today. By using the ideas about the importance of the future and what is currently happening, we think an online betting company (or e-commerce company) can receive a great combination of ideas in what is happening today as well as tomorrow.

Porter's industrial analysis has helped Expekt.com to realize that the online betting industry in the United States is an attractive industry. However, we have to be aware that it has not helped much in building a great company. In this respect we have Prahalad and Hamel, who complement Porter's theory so it becomes viable for an e-commerce company, such as Expekt.com

To summarize, we think that you can take the best ideas from the two different schools and apply them to Expekt.com. The following model exemplifies what we mean:



Source: Own Model

## **6. Conclusions**

Our thesis would not have been written if we had not recently experienced the last few years of the entrance of the Internet, and what it has done with the current business environment. We have explained what the Internet can do for a company, or what the Internet can create as a new mode of business. The old economy and industrial traditional companies have been expanded in our ever-present world with new concepts, as the new economy and e-commerce companies emerge. We have been intrigued of what the Internet has done for the business world, and we therefore asked ourselves what has happened with the traditional business models that the business community has been using for years.

There have been, during the twentieth century, a wide variety of business models that have emerged to help explain how to formulate and implement strategy. One of the most popular strategic schools came from Michael Porter, in 1980. The message with Porter's theory was to state how important it was to determine the industry's attractiveness in where your company should compete, because it could therefore give the company a chance to help determine a competitive strategy.

This leads us to our problem questions: To what extent are the existing strategic schools from Michael Porter relevant for e-business companies? More specifically, was Porter's five-forces model suitable for the Internet based e-business companies? If this is not the case, might there be a need to complement Porter's theory with other approaches in order to make it viable for other e-commerce companies. We will in this final chapter conclude this thesis with the most important findings from our study of Expekt.com.

### **Barriers of entry**

The entry of barriers are one of the five-forces variables to consider when deciding if the industry is attractive or not, according to Porter. We have seen

that the barriers of entry have not disappeared because of the entrance of the Internet, and barriers of entry still exist in the online betting industry. However, we have noticed that the emergence of the Internet has given the online betting industry and Expekt.com new types of barriers of entry, in comparison to what Porter is talking about.

Nevertheless, we can see that Porter's theory of entry barriers is relevant and of importance. When a new industry is being explored, because of a big market potential, even if it has nothing to do with the Internet, there will be a few barriers of entry. However, later when the competition increases, the margins and profits will be reduced; and more barriers of entry are created. It does not matter what kind of industry we are talking about. We think that barriers of entry will always exist, but the relevance and the content of it depends on what industry the company is operating in and how mature the industry is.

### **Power of buyers**

There is no doubt about the high power of buyers in the online betting industry. We could see that online betting creates a high power for the buyers because they have a big opportunity to choose suppliers and there is significant cost and price comparison available all the time. The switching costs are very low because it does not cost anything to change your supplier and it does not take a customer much time to do that. The customers have a lot of choices, which in turn means that the customer has a lot of bargaining power. When the customer does business over the Internet, there are no personal contacts, which means that the customer is anonymous in a way that might show a lower level of loyalty towards the supplier.

Porter meant that a company can improve their strategic position by choosing buyers who have a small chance to change suppliers and are not price sensitive. We did not see that this had a big relevance from the beginning because the customer had so many options to choose suppliers, and the online betting companies did not do anything to keep the customers. However, during the last

couple of months, the industry has started to mature in some sense and there has been for that reason, new conditions in the online betting industries. There has been a split where there have been companies who have disappeared, and on the other hand where some companies have experience immense growth. Those who have become bigger have started to realize and understand the bargain power of the buyer and they are trying to do things for that reason to decrease the power of the buyers.

These companies who are still left, have therefore started to create different products, services and loyalty programs that make it more difficult than ever before for the customer to change supplier in a easy way. Is this possible to do when the Internet gives the customer all of the information they need to change suppliers in a fast and simpler manner? The answer is that the Internet gives the customer more information, but you can still as a company, with the right strategy and tactics, lead the customer to your business and create a value that makes it difficult for him/her to change to a competitor. Porter's ideas have now achieved a relevance, when you as a company, can do something about the power of buyers, even though the Internet currently exists with an abundance of information.

So, we can summarize and say that the Internet has created more options, but the online betting companies who are the winners are those who now have started to realize that the customer has a high power and at the same time is trying to do something about it with a properly chosen strategy. We see that these companies are becoming bigger and bigger and that the power of supplier are decreasing, even due to the Internet's existence. This was not necessarily the case from the beginning in this industry when everybody wanted to take a piece of the cake, and many just thought that the most important issue was to be the first with new ideas. That's not the case anymore, because increased strategic thinking among the Internet companies are producing more positive results daily. There has been a shift from acquiring more customers, to keeping and maintaining the customers that you already have.

## **Rivalry**

There are according to Porter, markets that have different kind of competitive conditions. It can be tough or friendly, but it is nevertheless important to be aware of your competitors. Much of the discussion about Porter's five-forces has emphasised the notion of competition and the competitive nature of an industry or market. We have been noticing two things about Porter's ideas about rivalry within an industry that do not have the same relevance or meaning for Expekt.com as an e-commerce company.

In the past it was relatively easy to tell who was a competitor and who was not. Today it is harder to distinguish competitors from suppliers and buyers. The current rivalries are not as simple as they used to be. The Internet has created so many new attractive industries, which has given everyone who wants to get into the market a chance to try. This has given the companies a more difficult situation in seeing the differences from the good guys from the bad guys. In what respect are the serious companies considered the bad ones? The sports betting industry was very attractive because of a relatively low cost of entry and profit margins that soared volumes. The operating costs were roughly the same whether you had 50 or 5000 customers. This attractive industry created so many new companies connected to the online sports betting industry, which made it difficult from the beginning to get a clear picture of the competitive situation. You could notice many companies from the beginning of the online betting industry, but you did not know at that time which companies that would continue to grow and succeed.

The other thing that Porter differs on when it comes to rivalry compared to our experiences is how Porter emphasized the notion of competition and the competitive nature of an industry or market. Advantages may not always be achieved by just competing. Partnership or alliances between potential competitors or between buyers and sellers are likely to be advantageous when

the result of partnerships give greater added value to an organisation than merely operating singly.

Another discussion Porter has, is how a company can, for example, compete with cost leadership. The cost position gives, according to Porter, the company a defense against rivalry from competitors. We don't think this strategy fits an e-commerce business within the online betting industry, because this industry is still in a situation where customers choose a supplier of sports betting after security, reliability and service. The customers do not demand a supplier of sports betting that puts their efforts into cost reductions and better pricing. The customer wants to know that they get paid in a timely manner if they win money, instead of only obtaining the best deal. The online betting market is relatively new with a lot of different kinds of suppliers of sports betting, so the American customer does not have an absolute trust within the betting companies. If the customers in the future are fully satisfied with online betting and they trust this new business, then we think it can be interesting for the online betting companies to look at the strategy of cost leadership.

### **The power of suppliers**

The power of suppliers can be looked upon from two different angles. With the Internet the threat of suppliers becomes even less, since the online betting companies now have access to important suppliers worldwide. More competition therefore increases the quality of the products and services from the suppliers. It can also be the opposite way because the Internet has given the suppliers access to the worldwide market, which decreases the competition.

### **Porter discussed with the critical school**

Some industries are inherently more profitable than others and the sports betting industry in the United States is one of them. If we look at Porter's theory, it is best to build a great company in an attractive industry. Porter's five-forces have helped us directly to understand the opportunities in the online

betting industry and it has also given us ideas of what Expekt.com could do in the United States, in terms of strategy. However, the five-forces model did not help us to build a great company with the right internal resources that could succeed in the United States. So in that respect, we have Prahalad and Hamel who contribute other perspectives with their ideas.

Even due bearing in mind the positive things with the five-forces model, there remain some question marks. We know how the industry looks like today, thanks to Porter's five-forces analysis where Expekt.com competes within, but it is very difficult to say how tomorrow will look like, even if we focus just on the legal aspects, competitors and what the customers want. Even if the industry has started to mature, the industry is constantly changing. Therefore, we have Prahalad and Hamel who contribute with their ideas about the importance of being aware of the future.

We want to end this thesis by saying that Porter's thoughts about his theory and the five-forces are still the same today with modifications, even due to the entrance of the Internet. Porter's theory fulfills a very important purpose when it identifies the forces which affect the level of competition in an industry, but it does at the same time miss several important issues about the future and the internal organisation, which Prahalad and Hamel bring up.

Nevertheless, this thesis has to be finished by a statement from Collins (1996), which we think summarizes Porter in a positive manner and what he has contributed with, regardless of company and environment.

“To use Porter's five-forces model before entering a new industry is like mountain climbing: you can have a great team of gifted climbers, but it makes no sense to launch blindly up the side of a cliff without considering the realities of the mountain. Where are the natural lines of ascent? Where are the objective hazards, like rock fall? What are the weather patterns? What other climbing teams do we need to worry about? What type of rock will we encounter? Sure,

if you ignore the external environment, you might get lucky and succeed anyway, but then again, you might end up dead. (Collins, 1996)

This means that we think the five-forces always will be important to consider, but have to be complemented by ideas with what's happening tomorrow, as well as how our organisation looks like and works internally.

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## **Appendix 1**

### **A summary of the business plan for Expekt.com in US**

#### **1 Internal Analysis**

##### The Company

Expekt.com Ltd. business idea is to provide the market with interactive online betting services on the Internet. The goal is to be the leading private online Internet betting service on the Scandinavian market within three years. The new possibilities with the Internet open up a new market window for betting in Scandinavia. The market is today strictly regulated and only a limited number of state-owned companies are allowed to run betting operations. By running the operation from the UK, Expekt.com Ltd will offer a very competitive alternative to the state-owned operations, taking advantage of the more liberal regulations and taxation of betting operations. The Scandinavian sports betting market is worth approximately 380 million GBP. The prediction is that in three years time 10% of the revenue will originate from Internet online betting. The goal is to have a 25% market share of the Internet sports betting in three years, i.e. about 10 million GBP with 10.000 active clients. The potential for Expekt.com Ltd looking at a future global expansion is enormous. It is easy to add new markets and build up a large local market share with small additional investments. That's the way Expekt is looking to go into the North American market.

## **2. External Analysis**

Market Analyses

### **Traditional betting**

Most states in US forbid operating gambling operations or devices, excepting certain legalized operations such as lotteries, horse racing, or riverboat gaming that varies state- by state.

A map of the United States in 1960 would have shown one legal casino state, Nevada. It would have shown no lottery states. To be sure, it would have shown many horse tracks and some dog tracks, but all of the legal betting would have taken place at each track itself and would have involved only races run at the track.

Of course, a different map from 1960 -- one that indicated where gambling actually was occurring -- would have shown bookies, and football pools, and number runners, and poker games virtually everywhere and casinos in many places. Gambling was illegal but pervasive, and most of it was linked in some way to organized crime.

A map of the United States today shows much more in the way of legalized gambling. Eleven states now allow commercial casinos to operate. We hear most frequently about Nevada and New Jersey, but all of the rest are states in the nation's heartland: Illinois, Indiana, Iowa, Mississippi, Louisiana, Colorado, South Dakota, Michigan, and Missouri.

Sixteen more states, most of them west of the Mississippi River, have casinos owned by Native American tribes. This trend began with a Supreme Court decision in 1987 that declared that state governments have no jurisdiction over Indian lands. Congress passed a law two years later that said if a state allows commercial casinos, race tracks, or video poker parlors to operate, it must allow any Indian tribe that has land within its borders to operate a casino.

The amount of money involved in gambling today is enormous. In 1997, \$600 billion was legally bet in America. That betting generated \$50 billion in profits to businesses and revenues to government. \$16 billion of that \$50 billion came through lotteries, the only form of gambling that a majority of Americans admit to having engaged in, even though lotteries offer the worst odds of any common form of gambling. Commercial casinos earned \$20.5 billion. Indian casinos earned \$6.7 billion. Race tracks earned \$3.75 billion.

In dollar terms, legal gambling is bigger than movies, bigger than spectator sports, bigger than theme parks, bigger than all the profits earned by all the books, magazines, and newspapers published in this country put together.

Sport betting is another form of gambling and that is only legal in Nevada where we are familiar with Las Vegas. Sports betting has been banned by the federal government from being legalized anywhere else.

Las Vegas is growing and if the city continued to grow at the same rate, every American would have his or her own hotel room in the city by the year 2075.

However the glory days might soon be over for them, too, since the games are no longer so profitable due to the growing competition of Internet betting.

Because of the entrance of Internet, betting has become a business idea through the Internet. Nevertheless, we look further into it in the next headline about the betting market throughout the Internet.

### ***Online betting***

Gambling through the Internet offers new and better access to something that American consumers demand in spades. Lawmakers and prohibitionists try to stop gambling through the Internet but they can't neither effectively stop Internet gambling nor justify their attempts to do so.

Only three states (Illinois, Louisiana, and Nevada) currently have laws specifically banning Internet gambling. It is considered illegal elsewhere based on a 1961 Federal law banning interstate sports betting over the telephone and

numerous state laws banning gambling in general. The collection of gambling debts is also considered unenforceable in most states.

In 1999, there were 139 sports betting sites. One web site alone has links to 1,000 Internet betting sites. Most of these are not operated by organized crime but rather are licensed in foreign countries.

In November 1999, there was one conference held in Washington D.C about betting. The event held hundreds of entrepreneurs hoping to set up sites, a hundred people trying to sell hardware and software, and the rest were FBI or state attorneys general. This gives a clue how betting has become a big issue when the Internet has made an entrance into the market.

Gambling online is now popular enough to cut into the profits that states and municipalities make from selling lottery tickets and collecting casino taxes. But any attempts by the U.S. government to ban Internet gambling will fail, predicts the Cato Institute, a think tank in Washington, D.C.

"The architecture of the Internet makes prohibition of online gambling easy to evade and impossible to enforce," writes law professor Tom W. Bell, author of a recent Cato study, *Internet Gambling: Popular, Inexorable, and (Eventually) Legal*. If the government tries to shut down Internet gambling sites, those businesses will simply move their operations to countries such as Australia or New Zealand, where online gambling is already legal, says Bell.

Fifty-six percent of Americans gambled in 1995, wagering \$600 billion, including \$100 billion in illegal sports betting. In 1996, state and municipal governments collected \$3 billion in casino taxes and sold \$43 billion worth of lottery tickets. But now the Internet offers new ways to satisfy the age-old human desire to gamble: 100 gambling sites that generate approximately \$1 billion in revenues.

Bell predicts that, while prohibitionists could succeed in passing legislation to ban the Internet trade, the enforcement problem will make cyber gambling impossible to stop. Consumer demand for online gambling will continue to grow, generating political pressure for legalization. And state government

legislators, frustrated at watching potential revenues flow to other countries when cyber gamblers skirt the law, will have a great interest in legalizing online gambling so they can impose taxes on the proceeds.

The House of Representatives defeated a bill in August 2000 that would have banned most forms of online gambling. In typical fashion, proponents of the Internet Gambling Prohibition Act, sponsored by Rep. Bob Goodlatte (R-Va.), predicted crime, bankruptcy, addiction and general debauchery if the measure didn't pass. But consumers who gamble on the Internet risk only their own money, and do so well within their rights.

This is not the first time that Congress has attempted to enact ill-considered Internet legislation. With the Communications Decency Act, lawmakers bet they could outlaw indecent speech on the Internet. The Supreme Court struck down the law as unconstitutional. Lawmakers tried to recoup their losses by outlawing Internet speech that might be "harmful to minors," but again lost in court.

Despite this losing record, politicians won't give up. Sen. Jon Kyl (R-Ariz.) secured passage earlier this year of his own Internet Gambling Prohibition Act, a bill very much like Goodlatte's. Both bills put you at risk of four years in jail and \$20,000 in fines if you run your office's Final Four betting pool via e-mail - - but not if you have your office mates phone in or hand deliver their picks. Both bills thus discriminate against Internet users.

The proposed laws also violate states' rights. Proponents argue that the goal is merely to update the Federal Interstate Wire Act of 1961, which makes it illegal to use telephone lines to place bets or engage in other gambling activity. But while the Wire Act applies only to calls across state lines, the Kyl and Goodlatte bills would apply to all Internet messages -- even those that only go across the hall. Furthermore, the Wire Act wisely declines to prohibit gambling communications that begin and end in states that allow gambling, whereas Kyl-Goodlatte would put all Internet gamblers at risk of federal prosecution -- even for Internet gambling that violates no state law.

Suppose, for example, that California and Nevada allow certain types of gambling commerce across their shared border. The Kyl-Goodlatte legislation would nonetheless threaten that interstate gambling if participants used the Internet (but not if they used the phone). Where does Congress get the authority to prevent neighboring state from easing restraints on their cross-border commerce? Granted, Congress has constitutional authority to "regulate Commerce...among the several states." Properly construed, however, that clause empowers Congress only to liberate interstate commerce from local restraints. It certainly does not empower Congress to crush commerce between consenting states.

How the future will look like for online betting can only one guess, but there are a lot of different opinions and predictions about the online betting in the future. American cops can do little to stop the explosion in legal gambling sites based in other countries. Such services can already set up shop in Australia, Antigua, Austria, Belgium, Costa Rica, the Dominican Republic, Grenada, Honduras, Liechtenstein, Mauritius, Vanuatu, and Venezuela, among other places. This growing number of overseas havens guarantees that, regardless of domestic policies, U.S. consumers will have access to Internet gambling.

## **Competitor Analyses**

The technological, legal and market expertise serves as a barrier of entry for new players. The competitors, and potential competitors, substitute competitors can be divided into three categories:

### ***Traditional gambling business***

The gambling businesses are located in the states in the US where gambling is legal. As mentioned earlier, eleven states now allow commercial casinos to operate. Not surprisingly, the old boys' network, of licensed, land-based gambling businesses do not welcome competition from this worldwide digital network. They aren't losing much money to it yet. But they will soon, and they know it. They have to do something.

The only reason to still continue to have betting in casinos is the likeliness of a betting winner to stay to gamble in the same casino. Compared with betting on the Internet, Las Vegas where sports betting is legal, still has a good reputation among betting people, for it always pays the wins in cash, whereas brokers on the Internet are never totally trustworthy.

### ***Online betting***

Online betting has exploded in recent years, growing from virtually zero into a \$1.2 billion business. Over the next two years, it's expected to balloon to more than \$3 billion. Some hundreds of Web sites are devoted to gambling, and that number grows daily. We present here the most important competitors and why we think they are important to consider and be aware of.

Before that we will present a research based on what the US customers want from Expekt's competitors in US. The research are done by thousands of surveys done by "Football, betting guide 2000" newspaper. The most important characteristics as an online betting company is experiences, customer services, and handling of funds, rules and technology.

[www.sportsinteraction.com](http://www.sportsinteraction.com).

A Canadian sports betting site that seems to be focused on the North America Market. Sports Interaction, located in Kahn Awake Mohawk Territory in Canada, covers all the important US sports that are of significant betting importance.

[www.caribsports.com/fb](http://www.caribsports.com/fb)

Licensed out of Antigua, Carib is one of two Internet sports betting companies, which met all of the criteria mentioned above. They have excellent experiences, customer services, handling of funds, rules and technology according to the survey done by "Football, betting guide 2000". They have the best website and the most functional one.

[www.bethorizon.com](http://www.bethorizon.com)

They are a professional and well-run company, which has earned its reputation as one of the best in the online betting business in US. One of the best according to the “Football, betting guide 2000”.

[www.cybersportsbet.com](http://www.cybersportsbet.com)

This company has a clear focus on the US Market.

[www.sportingbet.com](http://www.sportingbet.com)

Sportingbet.com is a fully regulated online British sports bookmaker. They cover all the major sports and they also have US sports that includes Professional and College Football, Baseball, Basketball and Hockey.

[www.easybets.com](http://www.easybets.com)

They are licensed and recognized by the Free Trade Zone of Antigua, as a sports betting company, to transact sports betting services worldwide. They have all the main US sports.

[www.betvsi.com](http://www.betvsi.com)

This company are licensed and regulated to operate worldwide. They run their operations to San Jose, Costa Rica (offshore). They have all the US sports.

None of these companies and their competitors is located in the US because of the legal aspect. There are barriers of entry here for online betting companies who often try to establish themselves in countries like Antigua, etc. These companies must pay an annual licensing fee of between \$50,000 and \$75,000, undergo rigorous personal and credit investigations, and post bonds, some as high as \$500,000, to ensure that they can pay off winners.

The Internet companies that we have described above have all the most important sports to bet on for the American customer. They all look fairly similar when you look at their content, supply of sports and betting options and marketing campaigns to attract consumers. The major differences are their websites, how they are built and their functionality.

***Substitute business***

With gambling there is a dream to win fast and easy money. That is something that has become a reality in the stock market. We see this business as a threat to sports betting because they take customers from the sports betting industry. It could also be the other way around.

## Customer Analyses

### *Why gamble*

Most gamblers consider excitement as the main reason for gambling. Sports betting is often used to “spice up” some kind of sports event that is televised. For example, sports betting activity shows a large increase during major sports events such as the FIFA World Cup, the Olympics and the Ice Hockey World Championships. Other major reasons for gambling are fellowship with other players and escaping from every-day life.



### *Primary Client*

The primary client of Expekt.com Ltd has the following characteristics:

- Male
- 20-40 years old
- Interested in sports
- Needs information to be able to bet
- Bets a little more than the average gambler
- Has gambled a few years and on different types of games
- Open to new forms of gambling
- Prefers to bet on televised events

## **SWOT-Analyses**

This strategic plan addresses the following key strengths, weaknesses, threats and opportunities for Expekt.com:

**Strengths:** Competitive, Wide variety of bets offered, strong in Scandinavian market

**Weaknesses:** Weak in US market, Small and relatively weak, American sports knowledge is minimal

**Threats:** US law, competitive market, UK based, US laws are ever changing

**Opportunities:** Sports betting popular, massive growth in market expected, large US audience to take, many people currently bet online.

## **3 Implementation Plan**

This implementation plan for Expekt.com in US includes two very important stages.

### **Project plan (Internal Plan)**

This plan will tell Expekt.com how we get from where we are today without a website to a fully working website, linked to the US market.

The Project plan consist of the activities (different kind of sports) that we want to have on the US website. Information will be available for Expekt.com bookmakers where they can find good information about the lines, etc.

Time limit (when should things be finished, when do we want the odds, which week should these things be finished for the US market, etc.)

What kind of resources we need through Expekt.com, and when and how much.

## **Action Plan (External Plan)**

This plan tell us how we should get customers to Expekt.com, get them to stay and how we can achieve the highest level of satisfaction among our clients. The action plan includes the following things:

- **COMPETITIVE BUSINESS STRATEGY**
- **MARKET STRATEGY**
- **CRITICAL SUCCESS FACTORS**

## **4 The Project Plan**

We will here explain the following things:

Priority list, what kind of sports we want on the website.

Explanation of the odds and systems

Time limit, when do we want the odds?

Different kind of bets that are wanted, explanations of these, and where the bookmakers can find good information.

Priority list

NFL Lines

Future Lines

Conference winners

Division winners

Weekly bets (As in use by sportsinteraction.com, and sportingbet.com.) (As in other sports bets being offered by Expekt.)

Single Bets

Teasers

Over/under Bets

Parlay Cards

College Football Lines (Started)

Future Lines

Conference winners

Division winners

Weekly bets (As in use by sportsinteraction.com, and sportingbet.com.) (As in other sports bets being offered by Expekt.)

Single Bets

Teasers

Over/under Bets

Parlay Cards

Baseball playoffs (October)

Future Lines

Conference winners

Division winners

Weekly bets (As in use by sportsinteraction.com, and sportingbet.com.) (As in other sports bets being offered by Expekt.)

Single Bets

Teasers

Over/under Bets

Parlay Cards

NBA Lines (October)

Future Lines

Conference winners

Division winners

Weekly bets (As in use by sportsinteraction.com, and sportingbet.com.) (As in other sports bets being offered by Expekt.)

Single Bets

Teasers

Over/under Bets

Parlay Cards

### College Basketball Lines

Future Lines

Conference winners

Division winners

Weekly bets (As in use by sportsinteraction.com, and sportingbet.com.) (As in other sports bets being offered by Expekt.)

Single Bets

Teasers

Over/under Bets

Parlay Cards

### WNBA (Next Season)

Future Lines

Conference winners

Division winners

Weekly bets (As in use by sportsinteraction.com, and sportingbet.com.) (As in other sports bets being offered by Expekt.)

Single Bets

Teasers

Over/under Bets

Parlay Cards

### ***Explanation of betting***

Over/under: Betting that the game will have a total of points over or under a set number. It is the combination of both teams' scores.

Bets against the spread: Betting on a team with a plus or minus of points depending if they are considered the favorite or underdog. Their final score, plus or minus the spread, against the other teams score will determine the winner of the bet. This is paid out as a straight bet minus our commission.

Teaser bets: This is the same as the bet above but two things are different. First the bettor decides (American and College football) which team to bet and then receives an extra 6, 6 ½, or 7 points in addition to the teams' final score. Secondly since this makes the bets easier to win the odds are then readjusted for this point adjustment. The payouts are less, but the bet is easier. This type of bet is usually done in a minimum of two to fifteen bet card.

Parlay Cards: This is a tempting bet by offering a better payout to the customer that links several bets together. The payout of course is higher, but the risk is greater. All bets must be won on the card to receive the payout.

Parlay 2 Teams, bet amount

Parlay 3 Teams, etc

Date	#	Team	Money	Line	Total
09/05/00	1	Mets	-	□ -1.5 □	Over 9 □
19:05 ET	2	Reed	123	(+125)	(Even)
		Reds	+11 □	+1.5 (-□	Under 9 (-□
		Hrnisc	3	145)	120)
		h			
09/05/00	3	Diamd	-	□ -1.5 □	Over 7.5 □
19:40 ET	4	Bk	120	(+125)	(Even)
		Johnso			
		n			
		Braves	+11 □	+1.5 (-□	Under 7.5 (-□
		Glavin	0	145)	120)

Round robin: This is a card like a series of small parlay cards. Most common here are 3, 4, and 5 team round robins. For example in a three team round robin, if player 1 bets on teams A, B, and C to cover the spreads, he will have three parlay bets pairing A and B, A and C, and B and C. If the player loses one of the three games picked, two of the cards will lose. If the player loses two games, all bets lose. Player must therefore win all three to make money. Winning one of the three bets, but two of the three games will still result in a loss for the player. Usually in Tijuana casinos, the bet is a minimum \$30, \$10 for each two-teamer. This is a great moneymaker, for payout looks high, the game is popular among gamblers in the States and our profits are good.

### ***Marketing ideas of different betting options and games***

The more betting options we offer the better for us it will be. If we offer all options possible our customers will never need to go to another competitor and we will retain them of course. Various bets are key here.

For legal and free fun, running betting pools could be a good idea. We could advertise football (or all sports) pools in a legal and free manner (possibly). But nonetheless this would potentially attract visitors, and they wouldn't have to feel obligated to pay. These pools could be used to hand out prizes from other sponsors, or from profits, and/or awards, and updated weekly with possibly a grand prize given out at the end of the year. This is free and legal and could be a great new marketing and legal tactic. The following is an example of a classic football pool Eric used to love to play in High School:

There are 14 NFL games every weekend (Sunday) and one Monday Night Football game. You must pick the winner in every game, without the spread. You then receive points for each game you pick correctly, in the point slot you put it in. If you pick team A in the top slot and you win you would then receive 14 points, team B in the second slot 13 points, team C in the third slot 12 points, etc. Whoever has the most points therefore is the winner. If there is a tie it is decided by who had pre-picked the winner of the Monday night game

and which player was closer in pre-guessing the final score. The winner of the contest would then receive a prize of the week and we would do it again the following week. We can legally draw hits by this method (pretty sure) and hopefully advertise for it. We could also create partnerships and larger market and volume of new hits every month. This could also be done for all the major sports, like NFL, Baseball playoffs throughout the playoffs (pre-guessing through the World Series winner), all Baseball, NBA, and NHL games on a given Sunday, NBA and NHL Playoffs, College basketball's March Madness, etc. The following is an example of a betting pool:

By the way each team can only be picked once. The order of placement of each team is chosen by the player. (The chart is uneven, quick, and messy, but gets the point across.)

Team E vs. F:	14.	Team F	W	Received: 14 Points
Team C vs. D:	13.	Team C	W	13 “_____
Team A vs. B:	12.	Team A	L	0_____
Team G vs. H:	11.	Team G	W	12
Team I vs. J:	10.	Team J	W	11
Team K vs. L:	9.	Team K	L	0
Team M vs. N:	8.	Team N	W	9
Team O vs. P:	7.	Team O	W	8
Team Q vs. R:	6.	Team R	L	0
Team S vs. T:	5.	Team T	L	0
Team U vs. V:	4.	Team V	L	0
Team W vs. X:	3.	Team X	W	3
Team Y vs. Z:	2.	Team Y	W	2
Team 1 vs. 2:	1.	Team 2	L	0

Monday night Match:

Team 3 vs. Team 4: I pick Team 3 by a final score of 24-10.

This customer would then have a point total of 72 points, and if tied for the lead, the winner would be decided first if they picked the winner, and then by how close they actually were to the final score of the game.

This is a great game, free, and quite popular. When Eric used to play they would have twenty or thirty guys all pitch in a dollar, and the winner would take the pot. Perhaps they could also offer this as a betting game. It is a no lose situation because every contestant would pay maybe one dollar, five dollars, or 10 dollars, and the winner would receive the pot minus our commission. They would only be acting as a game administrator.

We feel this is a good money idea and wont cost us anything if the customers bet against others. This idea can also be applied to many sports, but works best for NFL. (Just remember if used elsewhere, where the idea came from. Don't forget about E.)

### ***Explanation of the odds and systems***

Let us try to simplify things here. As explained in the following section the odds line is set by cash flow based on teams variables, weather, injuries, strengths, home field advantage, etc. To summarize, the line is set at a certain number of points difference between two teams. Lets say for example the San Francisco 49ers are favored by 7 points versus the San Diego Chargers at San Francisco. So as stated, the line is +7 if you bet the Chargers, and -7 if you bet the 49ers. As you already know, the individuals who set the lines are skilled professional bookmakers, with inside connections and tips, and are usually from Vegas or Atlantic City (the two betting meccas of the US). The weight of the bookmakers from Vegas are tremendous, so the lines they set are usually reflected in the other point spreads available around the country. The money line on the action goes as follows. It's Monday evening and the early action has been \$100,000 on the Chargers with 7 points and only \$60,000 action on the 49ers minus seven points. So there will an adjustment in the line. Although on paper, through formula and careful observation, the 49ers may be

avored by seven, the bettors saw it differently. So the line will take an adjustment usually in  $\frac{1}{2}$  point increments until the action is even on both sides. By eventually dropping the line to the Chargers +6 and the 49ers -6 the action of betting evened out in time for the game on Sunday with each team taking \$300,000 of action. Now the money line is even and the house achieved its goals. Half the money will win and half will lose but the house will always win. The house will take all the losing money and take an additional 5-9% of the top for the winning money. This gives the house a guaranteed take, and they don't care what the outcome will be in the game because the money is guaranteed if the game results in a win of more or less than six and seven points for the 49ers.

Usually the figure referred to as being the optimal minimum winning percentage the bettor needs to achieve is 61% to break even or make a little money. And at 61%, this is a difficult figure to achieve for almost all bettors, so therefore the house wins almost all of the time.

The house also finds advantages in many times for the underdog to win. Reason being in most NFL games the betting action is heavier on the favorite. (Plus from a social perspective, most people want to root for a winner. Who wants to be associated with a loser, and therefore go through all of the frustration of supporting a loser as well?) As with every sport, any team can win on any given day, and in the NFL there are upsets every weekend. This is a balancing effect for the wagering and works in the houses advantage in the long run.

Now, there is a hitch to this though. One item of caution that must be noted: where the house can lose big is when people middle the action. I will explain this as it pertained to my father several years ago. The Cincinnati Bengals were playing the San Francisco 49ers in the superbowl and the initial line was the 49ers -7. So my father thought the Bengals were a good deal at +7 and he therefore bet them heavy before the line adjustment. Many other people also thought the Bengals were a good deal at that price so all of the action was also

headed their way. After a week and a half though, through all of the action on the Bengals, the line had dropped to Bengals +4 ½. After the line dropped to where he thought it wouldn't go any lower he then bet a similar amount on the 49ers at -4 ½. Now with these two bets if the game was a blow out he was guaranteed a winning ticket minus the commission. He could not lose the game except for his commission. But if the game resulted in a differential of 5 or 6 points for the 49ers in a win, he would win both bets and win big. Well as you may have guessed, this did happen and he won big, winning both bets for a great sum. For most bettors this won't happen, but for the few keen they will win big. So take caution in making too drastic of line adjustments. Giving the bettor too much a chance may result in a loss. (I don't foresee this happening, for this is a rare case and Vegas has tight controls on their lines, but sometimes, you never know, anything can happen.)

### ***Following is a more specific explanation of American betting lines***

#### *Odds primer*

The point spread is the number of points by which odds makers predict the favored team will win. If you bet on the favorite, the margin of victory must be greater than the point spread to win the bet. If you bet on the underdog, you win if the favored team fails to exceed the point spread or if the underdog wins or ties the game outright.

The over/under is the total points odds makers expect both teams to score. You bet on whether the total points scored will be more or less than this number.

A money line, used in the baseball odds, takes the place of a point spread. If the money line were 150, you'd need to bet \$1.50 on the favorite to win \$1.

#### *Football odds explained*

Football odds information includes both a point spread and an over/under number.

The point spread is the number of points by which odds makers predict the favored team will win. If you bet on the favored team, the margin of victory must be greater than the point spread for you to win the bet. If you bet on the underdog, you win if the favored team fails to exceed the point spread or if the underdog wins or ties the game outright. In the example below, the point spread appears after the favored team. Because odds makers update the point spread, the opening and current point spreads are shown, with the opening spread listed first. In the following example, Dallas was favored by 5 points when betting opened, but is currently favored by 7 points.

The over/under is the total points odds makers expect both teams to score. You bet on whether the total points scored will be more or less than this number. In the example below, the over/under number appears next to the underdog.

Dallas        -5/-7  
San Francisco 36 O/U

### *Baseball odds explained*

In baseball, instead of a point spread there is a money line:

Think of the money line in terms of how many pennies you would have to bet to win \$1. If the money line were 150, you'd need to bet \$1.50 on the favorite to win \$1. If you bet on the favorite and won, you would receive \$2.50 (your bet of \$1.50 plus your winnings of \$1.00). To bet on the underdog, you would need to bet only \$1 to win but would only receive \$2.40 because the house takes its commission from the winners of underdog bets. Generally the commission is around \$.10 for money line bets. Because odds makers update the money line, the opening and current money lines are shown, with the opening money line listed first. In the following example, Los Angeles is favored. The opening money line was 150, and the current money line is 149.

The over/under number is used as in other sports. However, sometimes the over or under side of a bet is favored and in these cases there is a money line associated with the over/under bet. In the following example, the over/under

number is 8.5, and an over bet is favored, indicated by the letter "o" following the over/under number. If the under bet were favored, there would be a letter "u" and if neither side is favored, "o/u" appears. If you bet over, you are risking \$1.30 for a \$2.30 payout (\$1 plus your bet of \$1.30) and you win if the combined scores of both teams total 9 or more. If you bet under, you are risking \$1 to win \$1.10 (\$1.30 minus the house commission of \$ .20) and you win if the combined scores of both teams total 8 or less. If neither over nor under were favored, you would risk \$1.20 to win an additional \$1 on either side of the bet.

Los Angeles -150/-149

Cincinnati 8.5 o-130

### ***Expekt.com Sports betting rules:***

All bets must be made and accepted before the advertised start time of the game/event wagered. Any bet placed or received after the official start time of the game or event wagered will be therefore considered void.

#### *NFL and NCAA Football*

-55 full minutes of play needed for wagering purposes.

-If a game is suspended or called before 55 minutes all bets will be considered 'No Action' and therefore be refunded to the original accounts.

-All games will have a winner depending on the spread; if there is a tie the game will result in a 'push' and all bets that push will be refunded.

#### *Major League Baseball Playoffs (October)*

-Each team's starting pitcher is defined for betting purposes as the pitcher that throws the first pitch.

-In the event of a starting pitcher change prior to the game all wagers are considered 'No Action'. All subsequent wagers will therefore be refunded to the customers account.

-Games are considered official after 5 innings of play, or 4.5 innings if the home team is leading.

-If a game is subsequently called or suspended the winner is determined by the score after the last full inning, unless the home team ties the score or takes the lead in the bottom half of the inning of the game being called. The winner then will be determined by the score at the time the game is called.

-When wagering on total runs or run lines, the game must go a full regulation 9 innings, or 8.5 innings if the home team is leading, otherwise it will be a 'No Action' wager and all money will be recredited to the original accounts. Wagers therefore on total runs will be refunded if a starting pitching change occurs prior to both listed pitchers throwing at least one pitch.

#### *NBA and NCAA Basketball*

-NBA - 43 full minutes of play needed for wagering purposes.

-NCAA - 35 full minutes of play needed for wagering purposes.

#### *NHL Hockey*

-55 full minutes of play needed for wagering purposes.

#### *Motor sports*

-Races must be run within one week of the scheduled date for the bet to have action.

-In the event the team or driver the customer bets upon does not start, the bet will be considered activated and there will therefore be no refunds on the bet.

-The official winner after the race is deemed official will therefore be the winner for betting purposes.

-There are no refunds for NASCAR driver match up betting. All the drivers listed in the current bet race start the race for the bet to have action.

*Tennis*

-In the event that a match has started but was not completed, the player progressing to the next round will be deemed the winner.

-In the event a match is called before the first serve all bets are off and all bets will be therefore refunded.

*Horse racing*

-All lines are activated regardless of injuries, scratches, and/or in the event a horse does not start or complete the designated race.

***Official legal rules of Expekt.com***

1. Operation of this sports book is undertaken by Expekt.com, which holds an internet gaming license issued by the government of the United Kingdom.
2. No financial wagers may legally take place in the United States and its territories or possessions.
3. All information received will be held and kept completely confidential.
4. There are no service charges to clients for deposits and withdrawals. Restrictions apply.
5. There is no minimum deposit to open an account with Expekt.com.
6. All currencies bet will not be converted to other currencies but be bet in the original currency in which was deposited.
7. The minimum single bet for American sporting events will be \$5, and the maximum bet will be \$1000 on straight (or single) bets. The minimum bet on combination bets will be \$5 and the maximum is \$100 with a possible payout

not to exceed \$10,000. The minimum bet on future and proposition bets will be \$5 and the maximum bet allowed is \$500 with winning payout not to exceed \$10,000. Funds must be in the account in order to place any wagers.

7. There is no minimum account balance.

8. Players may open an account through credit cards, bank wire transfer, internet banking fund transfer, certified cashiers check, western union or money orders.

9. Players may close their account at any time.

10. When a player opts to deposit into their account, they will be restricted in regards to withdrawals. They will be unable to withdraw until all deposits clear the appropriate crediting and debiting of the payment type.

11. When withdrawing from an account, if the player deposits the funds via credit card, they can only withdraw funds equal to the amount they initially deposited onto their credit card. The rest will be sent via check. But if the client has internet banking the money can also be transferred into the respective clients account.

12. Pay-outs will be received in the form of credit card transactions, checks or bank transfers.

13. Management reserves the right to revise all rules and regulations subject to sufficient notice to the player.

14. Expekt.com also reserves the right to limit and/or refuse any wager.

15. There will be no refunds, changing of wagers, or switching teams after an official wager has been placed.

## **5 Action Plan**

We have a strategy how we think Expekt.com can find key success factors for the American market.

### **Competitive Business Strategy**

#### **Vision**

The promoters' vision of Expekt.com in 3-4 year's time is:

To provide the market with the most interactive and competitive odds available. To be an innovative leader in online gaming not only in the Scandinavian market, but as well in the US market. To provide the bettor with the most competitive odds, the highest service, and the most convenience all while enjoying our services from the convenience of their home or office.

#### **Mission Statement**

The central purpose and role of Expekt.com is defined as:

In the pursuit of customer satisfaction we pledge to offer the most competitive odds sports betting and highest enjoyment possible from using an online betting service. We are offering the widest array of bets, in many countries, to provide the bettor more options and availability in their choice of sports betting. From these factors this will lead the customer to total satisfaction with our services.

## **Corporate Values**

The corporate values governing Expekt.com's development will include the following:

- To provide a secure and friendly sports gaming environment. Through restricting minors our betting is legal and fun for adults governed by the laws of the U.K.

## **Business Objectives**

Longer-term business objectives of Expekt.com are summarized as:

- To maintain and increase the company's strength in the Scandinavian market. To be the number one online betting service in Scandinavia.
- To successfully penetrate and seize a strong share of the US market. To acquire a customer base of 10,000 US customers for each year over the next three years.

## **Key Strategies**

Expekt.com will pursue the following critical strategies:

1. Implement new US betting lines
2. Create a structured marketing plan and initiate
3. Create an action plan and initiate
4. Create a niche in the diluted US market to differentiate
5. Search for innovative marketing tactics
6. Find interesting business partners

The following important strategies will also be followed:

1. Create a US legal database
2. Create partnership programs for increased exposure
3. Increase US spending for further promotion
4. Create a better international management structure/communication
5. Look for new forms of financial transactions for US market

## **Major Goals**

Expekt.com will achieve the following key targets over the next 3-4 years:

- To be number one in Scandinavia for online sports betting
- To acquire a market base of 30,000+ strong in the US market
- Recruiting and retaining the best people
- Establishing and retaining key partnerships
- Applying the latest technologies
- Building a successful brand
- Building a long-term relationship with key clients

## **The maxi Media**

Consumers still use offline channels to research, acquire and service what they spend money for online. Expekt.com must recognize the importance of old media and must partner or acquire with traditional advertising and suppliers to attract new customers.

Preliminary advertising in two newspapers, College & Pro newsweekly football and baseball weekly.

## **The mini Media**

### *Internet*

Because of the high traffic on some websites and portals, these media are important for drawing new customers. We will take a further look into the sites and portals where we might find some kind of cooperation.

We will not only look at media directed to our target customer group. Interesting to see what we could do with advertising linked to women and homosexual people.

## **The non-Media**

### *Fliers*

Mass targeted flier system—By direct target marketing through the employment of a mass flier organization, we feel that we can reach a very large and specific audience in the US market. Our proposal entails the help of an agency who is represented in major NFL based cities. By hiring youths through this agency we feel that we can pass out fliers to 20000 cars or more from each NFL game therefore reaching a very specific target audience. Every weekend there are 14 NFL games providing a possibility of reaching 280,000 vehicles on any given weekend. Through the production of fliers, hiring the agency and paying the salaries of the youths, we estimating a total cost of a few thousand dollars each game day. This would be considered very precise target marketing since most people attending the games are young, male and very interested in the game, which is exactly what Expekt.com is looking for in their target audience. And through this method the possibility of reaching and acquiring an enormous customer base is definitely within reach. The figures are mind-boggling. Considering that almost every NFL game sells out every weekend, with an attendance of an average of over 50,000 per game and a minimum of 10,000 cars at each game, making our name and service aware to a million sports-minded Americans before years-

end is not totally out of reach. (I do not have the exact figures of the costs at this moment). I also do not know the exact legalities of this at this moment but we will look into this further, with all optimism of making this happen. If there is a legal violation we will perhaps try to find alternatives in a similar manner or possibilities of working around the laws.

### ***Bulk E-mailings***

Mail out to not only known gamblers but to all Internet users in the American Market. (Cheap, easy, and quick. But we must be careful as to not to lose integrity of the company's name. Through this method we Mcould reach millions of customers if we are effective.)

### ***Leaflets***

Mailed out to known gamblers associated with the online betting industry. (Fairly inexpensive and will reach a large target audience. Could be expensive if done in extreme masses though.)

## **Promotion**

### ***Pyramid marketing through betting credits***

We want to establish a credit system through company and gaming referrals. By this we are implying that we designate initial 20 or so individuals in San Diego and give them code based business cards. For every new bettor that the individual would sign up we would give them a credit of \$5 for a minimum new bettor deposit of \$50 and a credit of \$10 for an minimum initial new customer deposit of \$100. And for the bettor that signs up through our satellite staff member, this individual (new account) would receive a similar incentive of \$5 for a minimum credit line of \$50 and \$10 for a minimum initial credit line of \$100. We feel that if we can print between 50 and 100 cards for each individual this would be a good start and enable one of these 'assistants' to earn up to \$1000 dollars in betting credit. In order for them to receive this credit as payback they must bet a total to the total awarded and they could after then cash it out. Based on this idea, although we stand a possibility of handing out \$20000, if that were to occur that would mean that we would have 2000 new bettors having deposited a minimum total of \$200,000 US dollars into the Expekt account.

### ***Partner Company Program***

We will offer a partner program to companies exactly as our competitor do. Expekts main message to these companies should be that they could earn money without doing anything. By joining our Program they can start earning cash straight away for customers they send to our site. Expekt.com should have the following text on its saite.

### ***What is it?***

The Expekt Partners Program can pay you REAL CASH for the use of your website! Forget the banner programs and all the other click through gimmicks on the net! Expekt wants to make you a Partner in the most lucrative business on the net. Sports Gambling has hit the web and we want you to share be a part of our business.

This is more than fantastic. We will give you up to 30% of the revenues earned from the customers you turn onto [expekt.com](http://expekt.com) - the highest payouts of any sportsbook partnership program of its type.

### ***Refer a friend program***

We have two options here and which of them we decide depends on a few factors. These two options are:

\* Refer three friends to [Expekt.com](http://Expekt.com) and you get \$30. \$10 per person. The same thing that Expekt had in Sweden. What the customer has to do is to give the following information, and that's it.

*Your friend's name.*

*Your friend's Account ID.*

*Your name.*

*Your Account ID.*

We should work different from our competitors when we make the process much simpler. The competitors have so many rules that the customer must follow before he/she can receive money from the company. We skip the rules, give our customer \$30 as soon they fixed three new members. We think people will talk this way, especially when they just spent their lunch break picking up a sack of money.

The second option could be the following. Sign up 10 new customers and receive a free six-month subscription to either Sports Illustrated or the Sporting news (Worth \$30?)(or another major Sports publication). Sign up 25 new gamers to our database and receive either a Palm Pilot organizer (worth \$149.95), Direct TV NFL package (for viewers that have Direct TV, to be able to see every NFL through the season, or another sports package of their choice, such as NBA, NHL, Baseball, etc.)(worth \$149.95), or receive a professional sports jersey of their choice with choice of number and name on the shirt (worth circa \$125). And if someone would be able to sign up 100 customers they could receive tickets for 2 to the 2001 Superbowl (not including hotel or airfare) (worth up to \$600-\$800). (The face value of the tickets is around \$200 each but they are difficult to come by so we may need to buy them from an agency, which could cost more). There is room on the sheet here for more proposals but I think these are strong initial offerings. Although we have the possibility of paying much out in awards, the company would receive thousands and thousands of dollars in new betting accounts

### ***Sponsorship***

We have contact a baseball player to see what we can do together with him. The problem is the financial and the legal situation.

### ***Other ideas for consideration***

A livelier look to the site may be more thrilling, tempting or exciting to US customer market. Things tend to be flashier and more dramatic in the US (perhaps this isn't the key to success but it is worth looking into). By adding more spice to the site, it may come with a wider appeal to American customers. We like the front-page look, but what we mean here is that after the US flag is clicked, on the US page there will be more icons (or menus) for all the US sports showing easily which sports are offered. For example a little Am. Football next to the football bets, baseball, etc. Or another idea would be to have a drop down menu of games to be bet under each sport as in the Canadian

sports site. We know this is cosmetic but it may be well liked and therefore feel more personal to the US customers. Also more emphasis should be put on the US sports on the US page for as you already know the interest for European Sports is relatively low and the news we receive there is even less. These small cosmetic changes are easily done and may be well received in attracting new customers.

Having more sports stories and updates of information towards American sports could also be great for the site would be not just a betting site but also an information source. It would help bettors decide which games and or bets look more appealing to them, and therefore keep them locked to the site longer. This information will make the site more vibrant and lively, indicating an interest in the sports as well as the betting action. This will be an indicator of showing a real interest in keeping our customers pleased, as well as informed.

## **Appendix 2, Interview questions for each marketing manager at Expekt.com**

**The following questions should be seen as a discussion guide:**

Can you give us some Information about yourself, background, title, function in the company etc.

What kind of market analysis did you before you started to work on you market (External analysis)

Which variables in this analysis were most important to consider and analyze? (Customer, Competitor etc, wherever you find as most important)

How did you collect the data of your external analyses?

Why did you choose those variables that you picked in question 3

Same question as 2, 3, 4 but we change External analysis to Internal analysis

How important has the analysis been for you during your working process?

Did you use the companies overall vision, strategy and mission or did you create an own one for Expekt.com for your market.

How much were the owners of the Company involved in this process?

Before you decided strategy for Expekt.com in your market, was that decided after the environmental analyses.

What is your strategy within your market (segment, customer, prize, competitor, service etc)

Before you entered the market, were your strategy well defined or did you use trial-error approach, which means that you try things all the time and after a while you decided Expekt.com strategy and how it should be functioned.

What is your strategy when it comes to prize, product, and quality? Is it important that for example Expekt has the best odds in you market or do you put the resources somewhere else?

Is it important for Expekt.com to position themselves differently from their competitors?

What kind of customers do you want? Have you analyzed that?

Is it important as one of the gurus, Micheal Porter in strategy area says, "strategy is choosing to run a different race (than competitors) because it's the one you've set yourself up to win."

Is it important to have a clear sense of what Expekt.com are trying to do and of how to do it?

What are the key success factors for Expekt.com in your market?

How can you reshape the industry to your advantage, what new functionalities do you want to create for customers, and what new core competencies should be building?

Time perspective when you working with develop strategy, goal with the business.

Do you have a clear focus on the future?

Is it important to be the first with introducing new ideas etc?

## **Interview Questions for the CEO of Expekt.com**

**The following questions should be seen as a discussion guide:**

Information about yourself, background, title, function in the company etc.

How was your strategy from the beginning, when we are talking about products, services, focus, customer etc

What kind of market analysis did you before you started to work on you market (External analysis)

Which variables in this analysis were most important to consider and analyze? (Customer, Competitor etc, wherever you find as most important)

How did you collect the data of your external analyses?

Why did you choose those variables that you picked in question 3

How important has the analysis been for you during your working process?

Before you decided strategy for Expekt.com in your market, was that decided after the environmental analyses.

What is Expekts strategy today? (Segment, customer, prize, competitor, service etc)

Is it important for Expekt.com to position themselves differently from their competitors?

What are the power of the buyers and the suppliers in the online betting industry?

How can you reshape the industry to your advantage, what new functionalities do you want to create for customers, and what new core competencies should be building?

Time perspective when you working with develop strategy, goal with the business?

Do you understand how fast different trends are emerging in different markets around the world?