THE HYBRID COMPETITIVE STRATEGY FRAMEWORK

A managerial theory for combining differentiation and low-cost strategic approaches based on a case study of a European textile manufacturer

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<tbody>
<tr>
<td>AD</td>
<td>Alpha-Denim</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>CON</td>
<td>Congruence analysis</td>
</tr>
<tr>
<td>COV</td>
<td>Co-variational analysis</td>
</tr>
<tr>
<td>EBITDA</td>
<td>Earnings Before Interest, Taxes, Depreciation and Amortization</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>P&amp;L</td>
<td>Profit and Loss</td>
</tr>
<tr>
<td>RAP</td>
<td>Resource Allocation Process</td>
</tr>
<tr>
<td>ROA</td>
<td>Return on Asset</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Research and Development</td>
</tr>
<tr>
<td>SG&amp;A</td>
<td>Selling, General &amp; Administrative Expense</td>
</tr>
<tr>
<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organization</td>
</tr>
<tr>
<td>VRIO</td>
<td>Value, Rarity, Imitability and Organization</td>
</tr>
<tr>
<td>X</td>
<td>Independent variable</td>
</tr>
<tr>
<td>Y</td>
<td>Dependent variable</td>
</tr>
<tr>
<td>Mm</td>
<td>Millions of metres of Denim fabric</td>
</tr>
<tr>
<td>Per/m</td>
<td>Per metre of Denim fabric</td>
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Abstract

The fact that we have entered turbulent times has been a central theme in the recent strategy literature. Turbulent environments are commonly described by increased competitive intensity, disruptive changes in the industry structure, volatility of demand, and unpredictability of customer behaviour, alongside instability of economic, social and political factors. In such a context, the adoption of traditional approaches to strategy, which assumes a relatively stable world, have been questioned by new approaches. Mixed strategy, which emerged as a contingency option to Porter’s generic strategies model, defends that in a turbulent environment the simultaneous pursuit of the low-cost and differentiation approaches is fundamental for the short-term performance and long-term survival of the firm. A vast corpus of literature supports the benefits of adopting a mixed approach strategy: several empirical studies have proved that a combination of low-cost and differentiation strategic elements establishes a firm’s performance superiority over the pure strategy choice. The mixed literature has concentrated on the performance linkage and on the debate countering the pure strategy approach, however very little attention has been paid to the challenges presented by the mixed strategy implementation. In fact, despite the rich empirical literature, it is still not clear how firms that adopt a mixed strategy may successfully integrate the inherent contradiction of the low-cost and differentiation approaches.

The aim of this study is to investigate how a firm has been implementing the mixed strategy approach, unveiling its managerial characteristics and to generate a proposed managerial framework that could serve as a guide for further implementation. This study approaches the subject of mixed strategy implementation on three levels: environment, strategy definition and making process, and value chain activity. After having elucidated several ambiguities related to the concept of mixed strategy present in the literature and having proposed a normalized definition, this study investigates through a unique case study approach, an in-depth explorative process using causal process methods the managerial implication of the mixed strategy. Several characteristics are revealed from the unique case study and represent a major contribution to the field of strategy management. Furthermore, a managerial framework is proposed which could serve as support in the implementation of a mixed strategy.
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Dedication

This dissertation is dedicated to my wife, Rita Germano.
Chapter 1 – Introduction

1.1 Research background

The scope of this research is centred on the study of the adoption of mixed strategy, also known as combination, hybrid or dual strategy (Markides and Charitou, 2004; Pertusa-Ortega, Molina-Azorín and Claver-Cortés, 2009; Claver-Cortés, Pertusa-Ortega and Molina-Azorín, 2012). Since the success of Porter’s generic strategies model, a long debate has existed between two points of view: the proponents of Porter’s model, who defend that the pursuit of both low-cost and differentiation strategies by a firm would result in a poor performance situation called “stuck-in-the-middle”, and the proponents of the adoption of mixed strategy, which involves a combination of low-cost and differentiation elements, and who defend superior performance over the pure strategy adoption.

At the centre of this debate, the concept of trade-offs has been playing a key role as it could be considered the central part of the coherence of a strategy (Magretta, 2012). Trade-offs are determined by choosing one strategic dimension to the detriment of the other. In the trade-offs paradigm, opposed strategic dimensions could not be pursued at the same time without creating some sort of inefficiency in the firm’s value chain (Porter, 1980b, 1996). This is because strategic positioning, such as differentiation and cost leadership, involves contradictory activities and resources allocation that are mutually exclusive. In fact, the choice of a differentiation strategy usually requires an emphasis in product innovation, customer customization, service differentiation and premium image to sustain a premium price. In contrast, a low-cost strategy usually requires an emphasis on limited product and service scope, standardization, efficiency through economy of scale and learning curve to achieve a lower cost. Consequently, any firm that does not choose one type of strategy, or tries to implement the two simultaneously, will find itself in a poor performance situation, referenced to as stuck-in-the-middle (Porter, 1996).

Numerous empirical studies defend this point of view (Dess, Carolina and Davis, 1980; Aulakh, Kotabe and Teegen, 2000; Thornhill and White, 2007). In fact, a firm that chooses a particular position in an industry, which should be by low-cost or differentiation approaches, could sustain a competitive advantage based on two types
of sources: the attractiveness of the industry associated to the barriers that could offer protection (Porter, 1981, 1996) and the set of unique resources that were developed internally that could offer protection through heterogeneity and imperfect mobility (Barney, 1991; Amit and Schoemaker, 1993; Peteraf, 1993). Consequently, the rules of trade-offs associated with the industry idiosyncrasy, which shape the strategic choices of this firm, remain valid while these industry characteristics remain unchanged (Spanos and Lioukas, 2001). In such a context of predictability and stability, it is recommended and sensible that a firm concentrates its focus on one strategic dimension and specializes in a few competencies.

Conversely, in a turbulent environment marked by a high level of competition, instability of demand and fast transformation of the industry, the rules of trade-offs lose their importance, because at best they have a temporary validity (D’Aveni, 1995; D’Aveni, Dagnino and Smith, 2010). Consequently, a firm in such a context is forced to deploy a more complex and dynamic approach to strategy (Chakravarthy, 1997). The modern era of globalization, high speed and instability has been at the origin of this need. In fact, many authors argue that business environments have been much more dynamic, unstable and competitive. These turbulent environments are commonly described by increased competitive intensity, disruptive changes in the industry structure, volatility of demand, and unpredictability of customer behaviour; alongside instability of economic, social and political factors. In these uncertain business environments, firms have been compelled to adapt to survive and to maintain their financial performance. In such a context, the adoption of traditional approaches to strategy, such as the positioning school, which assumes a relatively stable world, has been questioned by the emergence of the mixed strategy alternative, which seems to be more suitable for adaptation.

An extensive body of theoretical and empirical studies endorses the pursuit of a combination of the low-cost and differentiation strategy approach (Phillips, Chang and Buzzell, 1983; Hill, 1988; Murray, 1988; Beal and Yasai-Ardekani, 2000; Proff, 2000; Spanos, Zaralis and Lioukas, 2004). Additionally, several studies demonstrate that firms that have adopted a mixed approach in a dynamic environment have presented a superior or at least equivalent performance compared to pure strategy options (Pertusa-Ortega, Molina-Azorín and Claver-Cortés, 2009).
Also, the process of making strategy is of high relevance for the study of mixed strategy. If a mixed strategy is linked with a turbulent environment we expect that the strategy making process to have a more emergent nature, characterized by autonomous behaviour at the lower level of management (Burgelman, 1983). Several studies of strategy making process such as the Intel’s case studies demonstrate that different models of strategy making process could be adopted in different environmental conditions (Burgelman, 1996, 2002). According to Burgelman (Burgelman, 1996), there exist at least two canonical models: The rational-actor and internal-ecology model. The traditional approach to strategy such as the Porter’s generic strategies model tends to be part of the design school of strategy, which shares several similarities with the rational-actor model (Porter, 1980a). Consequently, the investigation of the type of strategy making process model associated to the mixed strategy adoption is of fundamental importance.

1.2 Research problem and questions

The mixed literature has focused predominantly on the performance linkage and to the debate of countering the pure strategy approach. However, little attention has been paid to the challenges that the mixed strategy implementation present. In fact, despite the rich empirical literature, it has still not been elucidated how firms that adopt a mixed strategy may successfully integrate the inherent contradiction of the low-cost and differentiation approaches, escaping from the stuck-in-the-middle outcome. Consequently, the mixed strategy literature leaves several gaps of empirical research involving the process of adoption and implementation, as we will see in the next chapter.

Converse to existing mixed strategy empirical studies, this study does not aim to investigate the performance aspect of a firm that adopts a mixed strategy. Its main research objective is related to the implementation aspects of the mixed strategy adoption, particularly in exploring and unveiling the managerial characteristics and practices that firms have developed in order to solve expected trade-offs between low-cost and differentiation strategic approaches, as well as maximizing possible synergic benefits. The central research problem here is to understand and explore the implementation of mixed strategy. This research problem unfolds on three levels of
the strategy management: Level 1 – the environmental characteristics that are associated with the adoption of a mixed strategy; Level 2 – the strategy making process associated with the adoption of a mixed strategy; and Level 3 – the implementation characteristics at the firm value chain activity, which include organizational characteristics and middle management roles. We state the main research questions on each of these levels as follows:

- Level 1: What are the main reasons that have caused a firm to adopt a mixed strategic approach instead of a pure differentiation or pure low-cost strategic approach?
- Level 2: How is a mixed strategy adopted? What are the characteristics of the strategy making process of a mixed strategy?
- Level 3: How has the firm solved the inherent conflicts associated to trade-off dilemmas of the mixed strategic approach and extracted synergic value? What main competencies and managerial roles have been developed to manage a mixed strategic approach?

1.3 Chapter outline

This thesis contains nine chapters, with the empirical findings presented in chapters 5, 6 and 7, covering the three levels of the investigation respectively. In chapter 8, we suggest a managerial framework that has the objective to serve as guide for managers in the adoption of mixed strategy.

Chapter 2: Literature Review and Conceptual Framework

This chapter reviews the existing literature related to mixed strategy theory. We start with a review of Porter’s generic strategies model that is at the foundation of the mixed school (Porter, 1980a). We clarify the diverse conceptual ambiguity that exists around the mixed strategy definition and suggest an enhanced and more precise definition of the mixed strategy in order to support this study. We explore the literature of mixed strategy through the linkage with environmental factors, business models, organizational design and strategy making process fields. Then, we justify the main gap found in the literature review, which is the absence of managerial elements in order
to implement the mixed strategy approach and justify the main research questions stated above.

Chapter 3: Research Methodology

This explains the philosophical assumption and methodological implications in relation to a qualitative single case study approach used in this research as the main empirical approach. In particular, the process of data collection, data analysis, and the ethical issues elicited from carrying out interviews are discussed. Furthermore, research methods used during this study such as congruence analysis and causal process tracing are explained and justified.

Chapter 4: Presentation of the single case study and choice validation

We briefly introduce the current case study and its business environment in order to give an initial understanding of the context research to the reader. We also bring a short storyline of the firm’s environment and strategy change for the period 2005-2013 in order to introduce the context of the mixed strategy adoption and support the ensuing chapters of causal process analysis.

Chapter 5: The causal mechanisms of a mixed strategy adoption

This chapter investigates Level 1 and 2 of the analysis (environmental factors and strategy making process). We investigate at length through a causal process tracing method, the complex causal mechanisms so as to explain the adoption of a mixed strategy by the current case study. Our analysis confirms several environmental factors associated with the adoption of mixed strategy as confirmed in existing literature. The main environmental factors are: disruptive events that suddenly change market conditions, high levels of competition, volatility of customer behaviour, increase of customer price sensitivity, and an increase of market uncertainty. We also identify new environmental factors such as the commoditization effect of product and service. Additionally, our analysis brings a higher degree of precision in its description of the causal process mechanisms that exists between those environmental factors in determining the adoption of a mixed strategy by the firm’s case study. Moreover, we
elucidate the evolution of the strategy making process from a strong rational-actor model to a more internal-ecology model.

Chapter 6: Mixed strategy implementation at the firm's strategy market level

This investigates Level 3 of the analysis (business strategy definition level). It describes the characteristics of the mixed strategy formulation, in particular in considering the management of a dual market approach, dual value proposition and definition of integration between the two strategic approaches of low-cost and differentiation. Moreover, we investigate the relationship between mixed strategy and strategy flexibility. We reach several important findings, including that the mixed strategy formulation is a combination of intended and emergent approach, and that pure strategy adoption hypothesis has a fundamental regulatory role. We also emphasize that for the implementation of a dual approach at the strategy definition level, it is necessary to define clear complementary roles in order to avoid conflicts of direction. This derives, we additionally espouse, from the necessity to control a certain degree of flexibility between those roles in order to let the strategy adapt to the environment dynamically.

Chapter 7: Mixed strategy implementation at the firm's value chain activity level

This chapter investigates Level 3 of the analysis where we describe the characteristics of the mixed strategy implementation at the value chain level. We reveal several important findings relating trade-offs management and organizational structure between the differentiation and low-cost elements of mixed strategy implementation. Here, we contribute the solutions of trade-off in order to enhance synergic benefits of the mixed implementation combining cross-inverted stretched tension between differentiation and low-cost approaches and the solution of trade-off at different levels of the firm’s value chain activity. We also identify several organizational competencies such as: measuring precisely customer perception and the impact of change of the value proposition; measuring the overall result of the trade-off equations; capability in managing the balance between differentiation and low-cost strategic approaches at several levels of the organization, and capability in controlling the flexibility of the mixed strategy approach. We also elucidate several enabling conditions and a
managerial role in order to champion strategy alternatives in horizontal exchange at
the operational level of the trade-off solution associated to the mixed strategy making
process. Enabling conditions are: An Extended departmental consciousness, an
Organizational altruism and a Shared vision. These enabling conditions are associated
with a managerial role of integration and conciliation in order to facilitate the
emergence of trade-off solutions.

Chapter 8: A managerial framework for mixed strategy implementation
Based on the particular findings of the current case study we suggested several other
distinct situations of the mixed strategy adoption as well as propounded a managerial
framework for strategy implementation. The suggested managerial framework
elucidates all the possible mixed strategy implementation alternatives and
recommends possible managerial implications.

Chapter 9: Conclusion
Finally, we bring a brief summary of the findings of this study describing the research
limitations and suggesting several avenues for future research.
2.1 Chapter introduction

In this literature review we will focus on the characteristics of the mixed strategy implementation in existing works rather than the performance issues which have been largely debated. We will attach particular attention and dedicate an important part of this chapter on the concept of mixed strategy that in our opinion present several ambiguities that need to be clarified before undertaking a study which involves a profound explorative approach based on causal process methods. Then after proposing a normalized definition of the mixed strategy we will explore its relationship with environmental factors, types of business model adoption, organizational characteristics and strategy making process. Finally, after having formalized the main gaps found in the literature we will raise several research questions that this thesis will address.

2.2 Defining and clarifying the concept of mixed strategy

Business strategy has been one of the most debated subjects in the management field, consequently an impressive amount of business strategy typologies exists, of which the oldest dates back to the 1960s. In an extensive literature review 29 business strategy typologies were examined from the period 1965 to 2004 (Sumer and Bayraktar, 2012). The authors, after having meticulously compared each approach, concluded in an integrative typology that summarizes the 29 typologies studied in four main strategic dimensions: cost strategies (cash flow maximization and cost leadership), differentiation strategies (marketing, innovation and general differentiation), focus strategies (focus-differentiation, focus low-cost, general focus), hybrid or mixed strategy and no definite strategy. Their contribution was important to enrich and integrate all the typologies in one whole approach. However, their conclusion as an integrative model was very similar and close to the original Porter’s generic strategies model with the exception of the mixed strategy (Porter, 1980a). Before Porter’s model of 1980 most typologies were exploring strategies through forms of differentiation, either by a market or product approach in a growth
perspective. Low-cost approaches were explored through cost minimization mostly used in recessive environments, a turnaround situation or harvesting for abandonment. Porter was the first to propose the cost leadership as a strategy to increase market share and create competitive advantage (Porter, 1980a). Porter was also the first to make clear the relevance of uniqueness characteristics of a differentiation strategic approach (Porter, 1980a). Porter’s contribution was extremely relevant in the field of business strategy because of the clarity of its conceptualized model by having centred his typology on two clear centrally opposed approaches (Ormanidhi and Stringa, 2008).

An important conclusion that we extracted from this literature review (Sumer and Bayraktar, 2012) is the fact that the two central concepts of a business strategy in terms of mechanisms for a firm to create value and competitive advantage are the differentiation and low-cost approaches. Despite the fact that the 29 typologies analysed take different approaches, all of them have in common value generation through differentiation or through a cost minimization or both. Consequently, we will centre our study on these two fundamental concepts to understand the mixed strategic concept. For this we centred our investigation based on the Porter’s generic strategies model as it seems to have the most complete and clear approach that involves the two fundamental concepts of business strategy of differentiation and low-cost (Porter, 1980a). In this section, we will first review and explain the Porter’s generic strategies model, followed by an investigation of the different definition and approaches of the mixed strategy model. Ambiguities of these two strategic models will be exposed and clarified in order to suggest a more precise definition for the mixed strategic approach.
2.2.1 The Porter’s generic strategies model as the foundation of the mixed strategic approach

2.2.1.1 The Porter’s generic competitive strategy of differentiation

As explained by Porter, firms that choose a differentiation strategic approach create competitive advantage by offering a product or service with unique attributes (Porter, 1980a). This unique offer associated with a customer that is more willing to pay a premium price allows the firm to sustain superior profit. The uniqueness of the offer creates two barriers for a rival to enter the market. Firstly, it reduces the bargaining power of the customer because there are no other offers that allow comparison. Consequently, customers tend to be less sensitive to price and more loyal to the firm’s offer (Murray, 1988). Second, as the Resource Based View’s (RBV) proponents have elucidated, the uniqueness attributes of the offer are difficult to be imitated by a rival (Barney and Hesterly, 2012). Protected by these barriers, the firm that adopts a differentiation strategy easily sustains superior margin, even if it has to manage a superior cost. Porter explains that a firm should explore differentiation through several dimensions, such as product and services attributes, but also brand image, advertising intensity, sales distribution, supplier linkage or any value chain activities that could result in the perception of uniqueness by customers (Porter, 1985). Then a differentiator exploits to the maximum all possible activities of its value chain that could be translated as uniqueness in the customer’s perception. In the differentiation approach the perception of uniqueness by the customer is the central point of the strategy. Porter exposes uniqueness as an absolute concept, where uniqueness denotes something that only one firm possesses and which another firm’s offer could not match through similar characteristics (Porter, 1980a).

2.2.1.2 The Porter’s generic competitive strategy of cost leadership

As explained by Porter the firm that chose a “low-cost” position is cost minimization oriented, offers a simple offer with no-frills, exploits intensively a value logic based on economies of scale, and has a strong managerial focus on cost control (Porter,
Two barriers protect its cost advantage: first, by attaining the lowest cost in the industry sustained by its capability of exploiting operational efficiency through economies of scale, scope and learning effect. Second, by delivering a simplified offer to its customers who are highly sensitive to price and do not give importance to other value attributes (Murray, 1988). Theoretically, firms that adopt this position can always beat the competition based on price as it is sustained by the lowest cost. Porter explains that a typical low-cost producer exploits all activities of its value chain as sources for its cost advantage (Porter, 1985). Consequently, simplification, standardization of the offer is primordial to avoid operational complexity that could reduce the benefits coming from the economies of scale and scope. It is fundamental for a low-cost producer that wants to achieve the cost leadership position in its industry, that the minimum efficiency scale level should be high (Hill, 1988), and be achieved by a large market share, preferentially greater than half of the market, mainly if there is presence of rivals with similar size and financial capacity. With a greater market share than rivals, the low-cost producer will be capable of achieving economies of scale greater than any competitors and sustain the lowest cost in the industry.

We summarize the Porter’s generic strategies model, contrasting the two fundamental ways of competing (Porter, 1980a) (Table 1). We broke down each strategic approach in a strategic orientation that could also be translated by a market goal and have the main role to define the positioning of the firm against rivals’ offers, a value proposition that has the purpose to offer a value to customers and are associated to a price strategy, and finally a value chain resource and activity approach that has the purpose to sustain the strategic orientation and value proposition. It is important to note that a business strategy should define these three aspects of the firm’s management and are integrated at different levels of the firm in order to create strategic coherence.
Table 1: Summary of Porter’s generic competitive strategies. Compiled and summarized from Porter (1980, 1985).

<table>
<thead>
<tr>
<th>Strategic orientation</th>
<th>Porter's generic cost leadership competitive strategy</th>
<th>Porter's generic differentiation competitive strategy</th>
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<tbody>
<tr>
<td>Value proposition</td>
<td>Low-cost producers typically sell standard no-frills</td>
<td>A differentiator should be truly unique at something or</td>
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<tr>
<td></td>
<td>products. A Low-cost leadership positioning is market by</td>
<td>be perceived as unique if it is to expect a premium price.</td>
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<td></td>
<td>a simplification of the offer in order to preserve the low-</td>
<td>Consequently, it choose attributes that are different from its rivals'.</td>
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<td></td>
<td>cost approach through the firm value chain. The firm that</td>
<td>A Differentiator focus on one or more attributes that many customers in an industry perceive as</td>
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<td></td>
<td>can achieve and sustain overall cost leadership will have</td>
<td>important, and uniquely positions itself to meet those needs. It position its premium price above its rivals' offers</td>
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<td></td>
<td>an above-average performance in its industry which will</td>
<td>in the proportion of the customer's uniqueness perception.</td>
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<td>allow to command prices at equivalent or lower prices</td>
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<td>than its rivals. A cost leader must achieve parity or</td>
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<td>proximity in the bases of differentiation relative to its</td>
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<td></td>
<td>competitors, while it maintain a lower price.</td>
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<tr>
<td>Value chain activity</td>
<td>A low-cost producer must find and exploit all sources of</td>
<td>A differentiator must find and exploit all sources of</td>
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<td></td>
<td>cost advantage. They place a considerable emphasis on</td>
<td>uniqueness that could be perceived and valued by its</td>
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<td></td>
<td>reaping scale or absolute cost advantage on all sources.</td>
<td>customers. Any firm's value chain activity that could be</td>
</tr>
<tr>
<td></td>
<td>Economies of scale, scope, learning effect, proprietary</td>
<td>perceived as unique by the customer. Product features</td>
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<td></td>
<td>technology, preferential access to raw materials,</td>
<td>and performance offered, services provided, intensity of</td>
</tr>
<tr>
<td></td>
<td>simplification and standardization of product, reduced</td>
<td>an activity adopted such as brand advertising, content</td>
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<td></td>
<td>overhead or any activity of the firm's value chain that</td>
<td>and technology employed of an activity, quality of inputs</td>
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<td>could contribute with a cost and expenses reduction.</td>
<td>procured, procedures governing the actions of personnel</td>
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<td>in an activity, skill and experience level of personnel</td>
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<td>employed and training provided. Also, linkages within</td>
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<td>the value chain, supplier linkages and channel linkages</td>
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<td>could be sources for uniqueness.</td>
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2.2.1.3 Scope of Porter’s generic strategies

Porter defined two possible scopes for a strategic approach (Porter, 1980a). The scope could correspond to the broad market of the industry, meaning that the offer does not target a specific segment of consumption but has the objective to attend the majority of the consumers. Or the scope could be narrow, which means that the firm will focus on a smaller segment of consumer, offering a specific need that normally corresponds to a market niche. In the two scope cases, a value proposition should be clear about the value that it delivers. In the case of the low-cost approach in a narrow scope (focus strategy), the low-cost approach is done by defining a simple offer to a market niche, where economies of scale and scope will not be present due to the small market share size of the narrow focus.

In our understanding, the scope defined by Porter does not alter the main characteristics of the adoption of a differentiation or low-cost strategic approach, as on both scope levels the firm had to make a choice on a value proposition that defined a simple limited offer in order to achieve the lowest cost of the industry (broad scope) or a niche market (focus scope) (Porter, 1980a). For the differentiation approach, the firm should offer a unique value proposition for a large number of customers (broad scope) or a specific unique attribute of a value proposition tailored to a very small group of customers (focus scope). In both situations, the firm has to make a choice on its value proposition to define a differentiation or low-cost strategy.

2.2.1.4 Trade-offs, “stuck-in-the-middle” trap and the strategy formulation in Porter’s generic strategies model

The concept of trade-off has been playing a key role in the Porter’s generic strategies model as it could be considered the central part of the coherence of a strategic choice (Magretta, 2012). Trade-offs are determined by choosing one strategic dimension to the detriment of the other. The concept of focusing on a few competencies is not new to Porter, and was defended earlier in the industrial marketing field. In fact, since the seventies, industrial researchers such as Skinner (Skinner, 1996) was defending that manufacturing strategic approaches should define a clear focus, based on the argument that no factory can do well at everything and that it was necessary to focus on a few
core competences (Corbett and Van Wassenhove, 1993). Similarly, in the Porter strategy trade-off paradigm, opposed strategic dimensions could not be pursued at the same time without creating some sort of inefficiency in the firm’s value chain (Porter, 1980a, 1996). This is because strategic positioning, such as differentiation and cost leadership, involve contradictory activities and resources allocation that are mutually exclusive. In fact, the choice of a differentiation strategy usually requires an emphasis in product innovation, customer customization, service differentiation and premium image to sustain a premium price. In contrast, a low-cost strategy usually requires an emphasis on limited product and service scope, standardization, efficiency through economy of scale and learning curve to achieve a lower cost. Consequently, the firm that does not formulate a clear strategy intent in choosing differentiation and low-cost orientation will find itself in a poor performance situation, referenced as “stuck-in-the-middle” (Porter, 1996).

Numerous empirical studies defend this point of view (Dess and Davis, 1982; Aulakh, Kotabe and Teegen, 2000; Thornhill and White, 2007). In fact, a firm that chooses a particular position in an industry, which should be by “low-cost leadership” or “differentiation” approaches, could sustain a competitive advantage based on two types of sources: the attractiveness of the industry associated to the barriers that could offer protection (Porter, 1981, 1996) and the set of unique resources that were developed internally that could offer protection through heterogeneity and imperfect mobility (Barney, 1991; Amit and Schoemaker, 1993; Peteraf, 1993). Consequently, the rules of trade-offs associated with the industry idiosyncrasy that shape the strategy intent of this firm, remain valid while these industry characteristics remain unchanged (Spanos and Lioukas, 2001). In such a context of predictability and stability, it is recommended and sensible that a firm concentrates its focus on one strategic dimension and specializes in a few competencies, because once the position has been taken by the firm no other player will be capable of occupying the same position in the market. Additionally, trade-offs have a fundamental importance for a firm’s strategy formulation.

Analysing the descriptions of the use of trade-off by Porter (Porter, 1985, 1996), revisited and confirmed more recently by Magretta (Magretta, 2012), it is much more a rational analysis where choice should be made a priority between option choices (differentiation, low-cost or stuck-in-the-middle) rather than an emergent strategy.
formulation where strategy is defined through an autonomous behaviour (Burgelman, 1983).

2.2.1.5 Disambiguation between Porter’s generic strategies model and operational efficiency

Frequently, strategy intent has been confused with operational efficiency execution. The case has been made famous with Porter’s celebrated criticism of the Japanese firm that was achieving high performance through operational efficiency and not necessarily following a strategy (Porter, 1996). In fact, exploitation of economies of scale, scope and learning effect are not sufficient to characterize a low-cost strategic approach. Achieving excellence in operational efficiency is not a strategy. The core of strategy resides in the fact that the firm has to make choices (Porter, 1996). Any firm with “good” managerial practices should undertake operational efficiencies.

A strategy is defined by the activities of the firm’s value chain that have been chosen to be pursued to sustain a competitive advantage. Consequently, these activities chosen by the firm as “strategic”, should be reflected in the firm’s value proposition in terms of value attributes perceived by customers. Thus, a firm that chooses a low-cost strategic approach should offer a simple and limited value proposition in order to achieve the lowest cost in the industry. This simplified and limited value proposition will certainly favour the exploitation of operational efficiency through economies of scale, scope and learning effect due to a simpler value chain activity, which will result in an overall low-cost.

A firm that chooses differentiation as a strategy with a value proposition that emphasizes uniqueness on certain attributes will involve a higher cost due to the aggregation of value on certain activities of the value chain. However, once the configuration of the differentiated attributes of its value proposition has been defined, the firm should exploit operational efficiency on its value chain activity. For example, if the value proposition is characterized by a high variety of product range in order to bring differentiation through a large scope of options, independently of the additional complexity at the operation that increases cost, the firm should optimize its efficiency respecting the definition of the differentiation value proposition. In conclusion, all strategy chosen involves two fundamental parts: one that defines the attributes of the
value proposition that could receive a differentiation or low-cost approach and another part that defines the activities that support the value proposition characteristics of the strategy. A firm that emphasizes activities on its value chain without a corresponding choice on its value proposition that could be perceived and valued by customer is not a strategic approach.

2.2.1.6 Competitive advantage through the differentiation or cost leadership specialization

The main benefit of choosing one of Porter’s competitive strategic dimensions is achieving excellence in a few competencies through specialization (Porter, 1980a). In fact, when a firm specializes all its value chain activities in only one type of strategic approach, in addition to the inherent advantage of simplification and gains of operational efficiency, the specialization brings the opportunity to develop the best skills in certain activities once excellence has been reached by the firm, which could be difficult to imitate by other players. If these competences are protected by certain types of barriers, then the benefit of the specialization becomes a sustained competitive advantage in relation to others competitors.

2.2.2 Criticism of Porter’s generic strategies model

2.2.2.1 Limitation of Porter’s generic competitive strategy of differentiation

Limitation of scope for differentiation: As Hill and Murray explained, a differentiation strategy depends on certain exogenous factors such as product scope complexity, diversity of customer characteristics and degree of customer loyalty to a rival’s offer (Hill, 1988; Murray, 1988). In fact, if the product offers a small scope of complexity the chance to explore uniqueness on certain attributes will be limited. On the other hand, the greater the scope of the product in terms of complexity, the greater is the space to develop and combine several attributes in a unique way. Uniqueness could be achieved also by exploring the diversity of customer’s tastes and needs. If the target market is rich in customer diversity, then the differentiator could personalize its generic offer to several customer segments in order to create uniqueness for each
group. At the extreme end of this idea, the differentiator could customize its offer to each particular customer, if this one is willing to pay a higher price. Conversely, if the target market is characterized by a commoditized need and diversity of consumption does not exist then the scope for differentiation would be very limited. Finally, if the differentiator is capable of exploring a sufficient relevant scope for differentiation, it will still depend on the behaviour of customers that would be capable of recognizing a superior value that justifies the cost to change their consumption habits. That could be measured through the inertia factor, the degree of satisfaction and loyalty that targeted customers have in relation to a rival’s offers. If the cost of transaction in changing the offer and the degree of satisfaction and loyalty to rivals’ offer are high, then even if the differentiator has a unique offer it would be difficult to attract a relevant number of customers.

Limitation of the degree of uniqueness: The concept of differentiation is fully centred on the idea of uniqueness of the offer in comparison to other competitors’ offers. Uniqueness is a complex concept as it depends on the perception and needs of customers, and each customer tends to have their own particular perception and needs that could vary in time. However, as Hill tells us, the degree of uniqueness could be measured through a conjoint analysis, a marketing technique that measures the elasticity between added value attributes and price of an offer (Hill, 1988). However, in the original description by Porter of the concept of uniqueness this one is presented as an absolute property that guarantees exclusivity to the differentiator (Porter, 1985). Nowadays, if each competitor’s offer is unique in a certain way, the power of differentiation based on absolute uniqueness is more a theoretical concept than a practical reality. Furthermore, with the increase of players in most markets, offers tend to be similar and equivalent in terms of their whole objective and purpose of attending a central customer’s need.

For example, if we compare the Apple iPhone and the Samsung Galaxy, two mobile smartphones that compete in the same marketplace, we can spot several important differences of attributes. The Apple iPhone has several attributes that could be considered unique such as its own operational system, its own Apple store full of applications designed exclusively for its operational system. Also, the Apple iPhone
is unique due to its particular design that combines simplicity and elegance. However, when we compare it with the Samsung Galaxy smartphone, all those Apple iPhone unique attributes could be matched by an equivalent one of the Samsung Galaxy. The Samsung Galaxy that runs on the open operational system Android, has a store full of similar applications, where most of the software’s producers launched a version of their application for the Android system. Consequently, the power of uniqueness associated to the exclusivity of the operational system and application store of Apple is reduced due to an equivalent offer on the android platform. Additionally, the design of the Samsung Galaxy, as with several other mobile smartphone players, is very similar and consists in a rectangular touchable screen with a few command buttons: an equivalent design and usability of the Apple iPhone. Finally, the two products offer equivalent functionality in terms of attending the extensive needs that customers expect to be provided on a smartphone.

This emblematic example demonstrates how the power of uniqueness is not an absolute concept, but something that we should measure in degree. Thus, in the differentiation strategy, the higher the degree of uniqueness, the greater is the effectiveness of the differentiation and vice-versa. A firm that centres its strategy on a unique value proposition in an environment characterized by a proliferation of options for the same core customers’ needs, should experience difficulty in sustaining a price much higher than the average market price due to a limitation of the power of uniqueness of its offer.

### 2.2.2.2 Limitation of Porter’s generic competitive strategy of cost leadership

*Limitation of economies of scale:* The cost leadership strategy is mainly based on the concept of achieving the lowest cost in the industry. Here, the competitor that chooses this strategy position could pursue the lower cost by reducing the complexity of its offer and by this capture a relevant market-share in order to achieve important economies of scale. Then the premise of the leadership through the lowest cost is to achieve a share of the market greater than all other competitors in order to reach the lowest cost by the greater effect of economies of scale. As Grant explains, there exists a threshold level of market-share, where above it, gains of economies of scale are
minimal (Grant, 2016). A study presented by Hill demonstrates that market share thresholds in most North American industries are relatively low, leading to several competitors in each industry to achieve an equivalent cost advantage through economies of scale with a share lower than half of the market (Hill, 1988). Consequently, Hill concludes that in most markets there is no unique “low-cost” leadership position, which weakens the premise to sustain a competitive advantage exclusively based on low-cost leadership market logic.

Limitation of economies of scope, learning curve effects and preferential accesses: A cost leadership player could also achieve a lower cost by economies of scope, learning effects and preferential access. Economies of scope allow sharing fixed manufacturing cost across several product lines, lowering the overall unitary production cost by a higher cost dilution effect. Learning effect refers to the experience that firms acquire before other players, improving operational efficiency by learning best managerial practice, such as reducing machine setup time and reducing product defects or process errors. Preferential access to raw material and distribution channel could offer a cost advantage by having access to resources at a lower price than other competitors.

Hill and Murray demonstrated also that economies of scope, learning curve and preferential access could often have a limited effect for a player to be the leader through the lowest cost (Hill, 1988; Murray, 1988). In fact, economies of scope could be reduced due to the increase of complexity brought about by the introduction of new product lines. These new products could reduce the benefit of the dilution effect of the fixed cost due to a higher operational complexity. Learning curve effects depend on the novelty and complexity of operational processes. If the processes are well known and mature in the industry, then it is highly probable that their learning curve has already been captured by several players, and could not offer a significant cost advantage. Also, if the processes are too simple, these will be easily dominated by several players who would achieve an equivalent learning curve thereby quickly eliminating a possible cost advantage. Finally, preferential access to raw material or distribution channels could be rare as in the phenomenon of present-day globalization, access to raw materials tend to be widely offered through multiple options of distribution channels and could be easily acquired for an equivalent price. Also, to avoid a concentration of buyer power it is usually common that a supplier reduces the
price difference between players to avoid dependence on a few buyers, which results in a lower cost advantage for a firm that pursues the cost leadership.

2.2.2.3 Trap of specialization in the Porter’s generic strategies model

Several scholars have seen strategic specialization as a trap in a more dynamic environment where the stability of barriers that protect the competitive advantage, become unstable or are invalidated. In fact, Miller defends that a too specialized strategic focus could be dangerous, as market and consumer needs and tastes evolve, and a too narrow strategy could lead a firm to failure due to a lack of fitting in with a moving environment (Miller, 1992).

The differentiation trap: The differentiation trap is characterized by a player that focused all its resources in differentiating its offer from rivals, which resulted in a higher cost than the market average and in an offer already extremely differentiated with a high degree of uniqueness. This player has a loyal customer segment that is willing to pay a higher price because it appreciates and recognises the added value of its offer. Also, the targeted customer segment is sufficiently relevant to sustain the profitability of the firm and compensate its higher operative cost. However, if a change occurs in the behaviour of its customers due to an increase of rivals that are capable of offering something similar at a cheaper price, then this competitor could lose a substantial part of its customer base. In this case the firm will not have developed the competence of keeping a lower cost by reducing the cost of its offer.

The low-cost trap: The low-cost trap is very similar to the differentiation trap but in an opposite direction. This is the case of a player that has reduced its offer to a very basic low quality in order to achieve the lowest cost and offer the lowest price. For the same reason, if its customer segment is attracted by a rival’s offers that are capable of offering something for a similar or close price as a better value proposition with more added value, then subsequently this firm will be in the trap of the low-cost specialization and will not have developed the necessary competence and resource to aggregate differentiation value to its offer.
2.2.3 The mixed competitive strategic approach

2.2.3.1 The mixed strategy definition

Mixed strategy is broadly defined as a combination of differentiation and low-cost competitive strategy. This business strategic approach has also been referred to by the following synonyms: dual strategy, combination strategy, blended strategy, hybrid strategy, hybridity and hybridization. Even though the term hybrid strategy seems to be the most commonly used, for the purpose of this thesis we will use the term mixed strategic approach used originally by Miller (Miller, 1992). The definition of the mixed strategic approach in the literature is very simple and consequently very imprecise. What we do know is that a mixed strategy implies necessarily in the use of a differentiation and a low-cost strategic approach based on the original definition of the Porter’s generic strategies model (Porter, 1980a). Consequently, the excess of simplicity of the mixed strategy definition gives margin for a wide range of interpretation that leads to ambiguity. Despite this ambiguity of the core concept of the theory of mixed strategy, some research has been done, many of them based on precise statistical methods that have the purpose to demonstrate that a firm that adopts a mixed strategic approach achieves under certain conditions superior performance, rather than a firm that adopts a pure strategic approach. The pure strategic approach or strategic purity has been used most recently to make clear the distinction with a mixed strategic approach. A pure strategy is one which emphasises only one strategic dimension, either differentiation or low-cost.
2.2.3.2 Competitive advantage through combination of differentiation and low-cost

Advantage through strategy complexity: Mixed strategy has been defended as a more complex strategic architecture than pure strategic approach as it involves several strategic focuses. The idea was first defended by Miller, who claimed that a firm that implements a mixed strategic approach will benefit from a non-imitation advantage compared to other competitors that have a pure strategic approach (Miller, 1992).

Advantage through strategy flexibility: Mixed strategy has also been associated with a greater strategy flexibility, which enables a better adaptation and fit to a dynamic environment, whereas a pure strategic approach has more difficulty to change due to a greater rigidity (Miller, 1992).

2.2.3.3 Risk of mixed strategy

The risk and disadvantage of the mixed approach is mainly related with the declaration of Porter which stated that a simultaneous implementation of a dual focus on an opposed strategic approach will lead the firm to a poor performance situation called stuck-in-the-middle (Porter, 1985). As we have already seen on a first approach, the low-cost and differentiation strategic approach involves contradictory focus and resources allocation. However, the Porter’s proponents had not elucidated the several possible situations related to the “stuck-in-the-middle” outcomes. We suggest that there are at least two situations: a firm that is stuck-in-the-middle because neither a low-cost or a differentiation strategic approach is fully or really pursued; and a firm that is “stuck-in-the-middle” because it had intensely pursued the two strategic approaches with a high managerial intensity, but did not solve the trade-off dilemma which resulted in value destruction or inertia due to a high conflicting managerial context.
2.2.3.4 Disambiguation of the concept of mixed strategy

*The taxonomical paradigm approaches:* As Campbell-Hunt explains, the Porter’s generic strategies model is based on a taxonomical paradigm, a hierarchical structure of classification that defines mutual exclusion of class memberships. In the taxonomical paradigm, types are pure and a member of the class cannot participate in two classes at the same time (Campbell-Hunt, 2000). In the taxonomical paradigm of the Porter’s generic strategies model, a firm’s strategy adoption is classified among one of the options of the model: cost leadership, differentiation, focus or stuck-in-the-middle (Figure 1).

![Figure 1 - A taxonomical representation of the Porter’s generic strategies model.](image)

Similar to the Porter’s generic strategies model, the Miles and Snow typology also follows a taxonomical representation (Miles *et al*., 1978). In the Miles and Snow typology, four types are defined: Defenders, Prospectors, Analysers and Reactors (Figure 2). While the Miles and Snow typology takes a different approach which emphasises organizational behaviour and competitive advantage, the model shares several commonalities with the Porter’s generic strategies model (Hambrick, 1983; Parnell, 1997). The Defender type shares several similarities with a firm that has adopted a Porter’s cost leadership strategy (Porter, 1980a). The Prospector type is very
similar to a firm that has adopted a Porter’s differentiation strategy and the Reactor is similar to a firm that is in a “stuck-in-the-middle” situation. The differences reside in the definitions. In the Porter’s generic strategies model, the firm that adopts a cost leadership reaches the lowest cost in its industry to achieve a competitive advantage (Porter, 1980a), while the Defender is a firm that minimize risk, do not explore new opportunities and focus in extracting the maximum benefits from its existing resources, which indirectly allow it to reach a low-cost, but not necessarily the lowest of the industry as a competitive advantage. Conversely, the Prospector has a strong focus in exploring new opportunities, developing new products and investing in R&D and marketing activities, which to some degree match some aspect of the Porter’s differentiation strategy, because product innovation and investment in R&D tends to offer a unique value to customer (Porter, 1980a). However, the idea of uniqueness as a competitive advantage is characteristic of the Porter differentiation strategy and not cited in the Prospector definition. The Reactor and “Stuck-in-the-Middle” share the concepts of a firm that have not chosen any strategy type and ended in a poor performance situation. The Analyser does not correspond with any type of Porter’s generic strategy model (Porter, 1980a), and could be considered a first version of the modern mixed strategy definition because it combines both Defender and Prospector types.

Figure 2 - A taxonomical representation of the Miles & Snow strategy types.
We identified other definitions of mixed strategy that follows a taxonomical approach, however it was not declared explicitly as a typology or model. Proff defends three types of mixed strategy implementation: sequential hybrid strategies (one location but temporally consecutive); multifocal hybrid strategies (at the same time but in different locations); simultaneous hybrid strategies (at the same time in one location) (Proff, 2000). In the same vein, Niederhut-Bollmann and Theuvsen identified a German firm in the Brewing industry that separated the mixed implementation using two distinct brands (Niederhut-Bollmann and Theuvsen, 2008).

Limitation of taxonomical approach: The main defect that exists with the taxonomical representation is the claim of the mixed strategy’s proponents who defend that a mixed strategy exists and combines simultaneously elements of the cost leadership and differentiation strategic approaches. Despite that, the Miles and Snow´s Analyser types fit some of the characteristics, and the mixed strategy adoption is mainly based on the Porter’s model. Other descriptions seem widely incomplete: Proff identifies a typology only on the value chain implementation, without considering the strategy formulation, while Niederhut-Bollmann and Theuvsen are too superficial in their description (Proff, 2000; Niederhut-Bollmann and Theuvsen, 2008).

The dimensional paradigm approaches: Proponents that defend a combination of low-cost and differentiation strategic approach felt the need to use another conceptual paradigm to represent more fairly the mixed strategy concept, and distinguish the mixed strategy from the “stuck-in-the-middle” situation (Campbell-Hunt, 2000). In the dimensional paradigm, low-cost and differentiation strategic approaches are used as dimensions of a space. This paradigm follows principles of modern linear algebra where a two-dimensional space is constructed based on two vectors that form an angle of 90 degrees, meaning that there are representatives of two independent sets of elements (Durbin, 2009). In this approach, the low-cost and differentiation are two strategic approaches that could be mixed to form a new combination of mixed strategy. Despite the fact that it has not been clarified in the literature, we identified three variants of dimensional paradigm for the representation of the mixed strategy.

The measure of discrete relative position: The low-cost and differentiation dimensions are not used as a continuum, but the dimensions are composed normally by three partitions defined as lower, equivalent and higher. These space partitions refer to the measure of the firm’s strategy adoption in relation to the average position of the main
or direct competitors. In this space, a mixed strategy is defined by a firm that has achieved simultaneously the lowest cost/lowest price and the highest customers’ perceived value in relation to competitors. A good example of the adoption of this conceptual paradigm of mixed strategy is the Bowman’s strategy clock model (Johnson et al., 2003) (see: Figure 3).

**Figure 3** - A space matrix based on the dimensional paradigm with a discrete relative position. Compiled by the authors based on the principles of the Bowman’s strategy clock model (Johnson et al., 2003).
Limitation of the discrete relative position: The main problem with this representation is that there is only one position that fits the mixed strategy approach. The firm should be simultaneously superior in the two strategic dimensions to characterize a mixed strategy approach. This view is too restrictive, as there could exist several positions for the mixed strategy adoption. As Manev et al. and Hill et al. explain through the efficiency frontier curve, there are several positions between a pure low-cost and differentiation adoption that characterize a mixed strategy adoption (Hill, Jones and Schilling, 2014; Manev et al., 2015).

The measure of strategy intensity emphasis: Here the two strategic dimensions are used as a continuum space allowing an unrestricted scope for the mixed strategy design on a space matrix (Parker and Helms, 1992; Miller and Dess, 1993). Combining the two dimensions we obtain multiple strategy combination of cost and differentiation, which characterize several positions of mixed strategic approach. The strategic dimensions of low-cost and differentiation are measured by the intensity of emphasis on activities or use of resources that characterize the strategic approaches. Consequently, a firm adopts a mixed strategy when it simultaneously has a high emphasis on both low-cost and differentiation strategic approaches. Once using this dimensional approach to represent a mixed strategy it is necessary to clarify an ambiguity between the mixed and stuck-in-the-middle strategic approach.

Mixed strategy proponents have highlighted with great emphasis the distinction that exists between a stuck-in-the-middle and mixed strategy adoption often confused in literature. In fact, Porter does not make clear if the “stuck-in-the-middle” situation is the result of a lack of choice where the firm is “stuck-in-the-middle” because it was incapable of formulating a clear strategic intent, or if the “stuck-in-the-middle” outcome is the result of conflicting activities resulting from a dual intense and simultaneous focus on differentiation and low-cost (Porter, 1980a, 1985). To clarify the ambiguity, mixed strategy’s proponents restricted the “stuck-in-the-middle” situation to a firm that neither emphasizes differentiation nor low-cost, and defined a mixed strategy as a firm that simultaneously emphasizes differentiation and low-cost. We represented depending on the emphasis (low, high) on differentiation and low-cost strategic dimensions how the mixed strategy proponents positioned the pure strategic approaches, mixed strategy and “stuck-in-the-middle”. Mixed strategy’s proponents use this dimensional paradigm also to define the pure strategic approach, which is
defined by a high emphasis on one of the dimensions while a low emphasis on the other (Figure 4).

Limitation of the strategy intensity emphasis: However, it is important to note that despite using the dimensional paradigm to position the mixed strategy in relation to pure approaches and stuck-in-the-middle, the mixed strategy could still be a poor performer, even if the firm has a high emphasis in both the low-cost and strategic approach, due to the conflicting nature of the two approach premises. In fact, several studies test the level of strategy intensity on the low-cost and differentiation strategic dimensions by measuring activities and resources utilization, which do not necessarily characterize a strategy formulation and adoption. In fact, a firm could not have a defined strategy and have several departments undertaking important emphasis in lowering the cost while increasing the creation of unique value through differentiation initiatives. In this situation, a firm could be classified as high in both strategic dimensions however it does not have a defined strategy and could be in a poor performance situation suffering from a high level of inefficiency due to important conflict between the two sets of contradictory activities.
The measure of principal strategy criteria: This is a variant of the continuum dimensional approach, but in this case pure strategy options are classified as having the main emphasis in one of the strategic dimensions. This is done by determining a value for the relation of the emphasis of one dimension in relation to the other (Thornhill and White, 2007; Manev et al., 2015) (Figure 5). Thornhill and White justify this approach based on the argument that the idea of absolute purity does not exist, and that all firms that have adopted a pure strategy have some emphasis on the other strategic approach. In this representation, the mixed strategies are classified with the “stuck-in-the-middle” options, where a mixed strategy has an equivalent or near equivalent relationship between the low-cost and differentiation strategic approach and also the “stuck-in-the-middle”, but with less intensity.

Figure 5 - A representation of pure, mixed and "stuck-in-the-middle" strategies following a dimensional paradigm of principal strategy criteria (Thornhill and White, 2007; Manev et al., 2015).

Limitation of the measure of principal strategy criteria: The main limitation of this representational paradigm is that the pure strategy and mixed strategy approach are confused. In fact, there is evidence in the literature that a mixed strategy adoption is not necessarily characterized by an equivalent balance of strategy intensity between the two strategic approaches. A firm that has adopted a mixed strategy could have
chosen one strategic dimension as its main strategy while it uses the second strategic approach as a complementary strategy. Miller and Friesen in an empirical study, discovered that certain firms have a main differentiation strategy but also pursue an auxiliary cost leadership strategy, by having a high score on the classification of the two dimensions, but only on specific variables for the low-cost dimension (Miller and Friesen, 1986). Below, we classified the main works found in the literature following the type of Hybrid strategy paradigm (Table 2).

<table>
<thead>
<tr>
<th>Authors</th>
<th>Definition of the combination of differentiation and low-cost strategic approaches</th>
<th>Paradigm</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Miles et al., 1978)</td>
<td>Define Analyser as a strategic profile that combine Defender (cost oriented) and Prospector (differentiation oriented) opposed strategic profiles. The analyser combines both the strength of the Defender (minimize risk, optimization of the existent resources) and the Prospector (exploit new product and market opportunities).</td>
<td>Taxonomical</td>
</tr>
<tr>
<td>(Hambrick, 1983)</td>
<td>Efficiency is separated into two distinct concepts. Cost efficiency defined as the degree to which costs per unit of output are low and asset parsimony defined as the degree to which assets per unit of output are few. Differentiation is identified as value added, product innovation and marketing expenditures. Hambrick tested two types of combined strategy approaches under a resource allocation perspective: the combination of differentiation and cost efficiency and differentiation and asset parsimony.</td>
<td>Strategy intensity emphasis dimensional</td>
</tr>
<tr>
<td>(Phillips, Chang and Buzzell, 1983)</td>
<td>The combination of product higher quality and lower cost. Measure the relative product quality (superior, equivalent, inferior to competitors) and the relative direct cost (% of unitary cost compared to competitors).</td>
<td>Discrete relative position dimensional</td>
</tr>
<tr>
<td>(Miller and Friesen, 1986)</td>
<td>Measure relative product quality, product innovation, firm’s image and marketing expenditures in comparison to competitors as differentiation and measure lower price than competitors, newness of plant and equipment, capacity utilization and investment in plant and equipment effectiveness as cost leadership. Identification of two types of mixed strategy: Differentiators that also pursue an auxiliary cost leadership strategy, where the cost leadership strategy is characterized by newest plant, better than average capacity utilization and a lower average unitary cost than competitors. And low-cost leadership player characterized with very low price and low-cost but with important emphasis in marketing expenditures.</td>
<td>discrete relative position dimensional</td>
</tr>
<tr>
<td>(Hill, 1988)</td>
<td>Firms that simultaneously pursue both a differentiation and a low-cost strategy could achieve a competitive advantage. Two types of mixed strategy were proposed: Differentiation to achieve low-cost and a firm that achieved a low-cost position that invest in differentiation to achieve a competitive advantage.</td>
<td>discrete relative position dimensional</td>
</tr>
<tr>
<td>(Murray, 1988)</td>
<td>Exogenous preconditions for a differentiation and cost leadership generic strategy are not mutually exclusive. Firms combining both the product differentiation and cost leadership strategies as a viable strategy.</td>
<td>discrete relative position dimensional</td>
</tr>
<tr>
<td>(Kim and Lim, 1988)</td>
<td>Differentiation is defined as product differentiation, new product development, high priced product, marketing expenses and image building. Low-cost approach is defined as pursuing operating efficiency, cost advantage in raw material and economy of scale. Differentiators use cost leadership strategies and cost leaders use significant elements of differentiation.</td>
<td>Strategy intensity emphasis dimensional</td>
</tr>
<tr>
<td>Source</td>
<td>Description</td>
<td>Strategy intensity emphasis dimensional</td>
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<tr>
<td>Robinson and Pearce, 1988</td>
<td>Identify two types of mixed strategy approaches: One that emphasizes mainly differentiation (brand identification, channel influence, innovation in marketing and new product development) with efficiency (trained personnel, strict quality control, process innovation and lower cost per unit). Another that simultaneously emphasizes a deficiency strategy and a service differentiation (extensive customer service, industry reputation, high-price segments).</td>
<td></td>
</tr>
<tr>
<td>Wright et al., 1991</td>
<td>Hybrid strategies combine low-costs and differentiation elements. Firms pursuing a hybrid strategy have a dual emphasis: they emphasize efficiency (low-costs) and differentiation. Low-cost approach is defined as emphasis in lowering cost through R&amp;D initiatives, high capacity utilization, low manufacturing and low relative direct cost. Differentiation approach is defined as emphasis in product R&amp;D expenditures, advertising, use of higher pricing policies.</td>
<td>Strategy intensity emphasis and discrete relative position dimensional</td>
</tr>
<tr>
<td>Miller, 1992</td>
<td>A mixed strategy is one that combines aspects of differentiation (brand image, high quality, product innovation) with cost-effectiveness.</td>
<td>Strategy intensity emphasis dimensional</td>
</tr>
<tr>
<td>Miller and Dess, 1993</td>
<td>Define a strategy framework composed by a dimensional approach of relative cost and relative differentiation in comparison to competitors. A mixed strategy adoption is one with a superior emphasis in the two dimensions than competitors.</td>
<td>discrete relative position dimensional</td>
</tr>
<tr>
<td>Parnell, 1997</td>
<td>Based on the Porter’s Generic strategies model and Miles and Snow’s typology, define the balancer-combination strategy that attempts to combine attributes of prospector-differentiation (seek superior performance through innovation and first-mover advantages) and defender-focus (seek to produce low-priced products and services efficiently for a niche).</td>
<td>Strategy intensity emphasis dimensional</td>
</tr>
<tr>
<td>Bowman and Ambrosini, 1997</td>
<td>Measure the strategy orientation on emphasis on two dimensions: differentiation and cost-efficiency. Hybrid strategy is the combination of high emphasis simultaneously on both dimensions. Hybrid strategy is defined by a firm that pursues both cost and differentiation priorities.</td>
<td>Strategy intensity emphasis dimensional</td>
</tr>
<tr>
<td>Proff, 2000</td>
<td>Hybrid business unit strategies combine the competitive advantage of low-costs and differentiation. Define three types of hybrid strategy: sequential hybrid strategies (one location but temporally consecutive); multifocal hybrid strategies (at the same time but in different locations); simultaneous hybrid strategies (at the same time in one location). Defends that a separation of low-cost approach and differentiation is possible at the value chain activity choosing one department for one focus and another one for another focus.</td>
<td>Taxonomical</td>
</tr>
<tr>
<td>Gopalakrishna and Subramanian, 2001</td>
<td>Hybrid competitive strategies: emphasize both cost-based competitive strategy (achieving lower cost than competitors, making product more cost-efficient, improving time required in coordination of various product, performing analysis of cost, improving utilization of available equipment, improving availability of equipment) and differentiation-based competitive strategy (introducing new products, differentiating services from competitors, offering a broader range of products than competitors, utilizing market research to identify new products)</td>
<td>Strategy intensity emphasis and discrete relative position dimensional</td>
</tr>
<tr>
<td>Parnell, 2002</td>
<td>Combination strategy is defined as a strategy that combines advantages of all types of strategies characterized by a cultural blend of change, flexibility and efficiency, technological leadership and marketing expertise. Identified as difficult to implement with risk of being “stuck-in-the-middle”.</td>
<td>Strategy intensity emphasis dimensional</td>
</tr>
<tr>
<td>Spanos, Zaralis and Lioukas, 2004</td>
<td>Hybrid strategy is defined as the combination of the following dimensions low-cost emphasis, marketing differentiation emphasis and technology based differentiation emphasis.</td>
<td>Strategy intensity emphasis dimensional</td>
</tr>
<tr>
<td>Kim, Nam and Stimpert, 2004</td>
<td>Hybrid strategy combines more than one of Porter’s generic strategy.</td>
<td>Strategy intensity emphasis dimensional</td>
</tr>
<tr>
<td>Reference</td>
<td>Description</td>
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<tr>
<td>(Thornhill and White, 2007)</td>
<td>Define differentiation approach as product leadership dimension (developing new products and services, undertaking R&amp;D, total quality management, developing new operating techniques) and low-cost approach such as operating excellence (reducing operating costs, improving coordination with customers and suppliers, reorganizing the work process, improving measures of performance). Define that strategic purity is relative, marginal trade-offs between low-cost and differentiation are required. Strategy purity is defined as a main emphasis on one of the strategy dimensions, while hybrid strategy is defined as an equivalent emphasis on both dimensions.</td>
<td></td>
</tr>
<tr>
<td>(Johnson et al., 2003)</td>
<td>Based on the Bowman’s strategy clock, Johnson et al, define hybrid strategy as a firm that achieves simultaneously a higher customer perceived value and a lower cost than competitors.</td>
<td></td>
</tr>
<tr>
<td>(Wu, Lin and Chen, 2007)</td>
<td>Hybrid strategy is defined by the combination of low-cost and differentiation. Low-cost strategic approach is defined as productive efficiency (average employee productivity) and differentiation strategic approach is defined as technological differentiation (R&amp;D intensity measured by level of expenses).</td>
<td></td>
</tr>
<tr>
<td>(Li and Li, 2008)</td>
<td>Dual strategy combines differentiation strategic approach (superior relative product, uniqueness of product, brand power a difficulty to imitate, differentiation through marketing initiatives) and low-cost strategic approach (relative lower manufacturing cost, operational efficiency initiatives, economy of scale, cost-leadership position).</td>
<td></td>
</tr>
<tr>
<td>(Acquaah and Yasai-Ardekani, 2008)</td>
<td>A combination competitive strategy is defined by a high simultaneously emphasis of both cost leadership (offering a broad range of products, operating efficiency, offering competitive prices, forecasting market growth, emphasizing control of operating and overhead costs, innovation in production process, emphasizing high quality product) and differentiation (developing new products, refining existing products, emphasize high priced market segments, improving customer service, innovation in marketing, advertising and promotion, building and improving company brand, offering specialty product, effective control of distribution channel).</td>
<td></td>
</tr>
<tr>
<td>(Niederhut-Bollmann and Theuvsen, 2008)</td>
<td>Hybrid strategies are defined by the combination of different generic strategies. Identify one type of hybrid implementation through brand separation (one for premium market and one for low-cost market).</td>
<td></td>
</tr>
<tr>
<td>(Pertusa-Ortega, Molina-Azórín and Claver-Cortés, 2009)</td>
<td>Hybrid strategies combine efficiency (low costs) and differentiation elements (measure strategy emphasis on several variables).</td>
<td></td>
</tr>
<tr>
<td>(Leitner and Guldenberg, 2010)</td>
<td>Combination strategy is defined by firm that combines a cost-efficiency and a differentiation strategy by quality or product innovation simultaneously.</td>
<td></td>
</tr>
<tr>
<td>(González-Benito and Suárez-González, 2010)</td>
<td>Companies that place a mixed emphasis on both generic strategies. Separate the business intent from the value chain activities and capabilities. Define a low-cost strategic approach as (to reduce operating costs, to optimize the utilization of capacity and resources), to offer lower prices than competitors) a differentiation strategic approach as (development of new products, use advanced technologies, develop firm's image and reputation). Manufacturing strategy and capabilities is defined as follow: low-cost capabilities (labour productivity, Productivity of manufacturing resources, low manufacturing costs, low inventory levels, high utilization of manufacturing resources) and the flexibility capabilities (flexibility to adapt capacity, wide range of products and options, capability to introduce changes in products, rate of introduction of new products).</td>
<td></td>
</tr>
<tr>
<td>Source</td>
<td>Description</td>
<td>Strategy intensity emphasis dimensional</td>
</tr>
<tr>
<td>--------</td>
<td>-------------</td>
<td>-----------------------------------------</td>
</tr>
<tr>
<td>(Sumer and Bayraktar, 2012)</td>
<td>A hybrid strategy aims at supplying much more monetary value to customers by combining low costs and high levels of differentiation</td>
<td></td>
</tr>
<tr>
<td>(Claver-Cortés, Pertusa-Ortega and Molina-Azorín, 2012)</td>
<td>Hybrid competitive strategies are defined by firms that emphasize both low costs and differentiation</td>
<td></td>
</tr>
<tr>
<td>(Baroto, Abdullah and Wan, 2012)</td>
<td>A combination competitive strategy involves a high level of emphasis on both cost-leadership and differentiation strategies simultaneously. A hybrid strategy seeks simultaneously to achieve differentiation and low-price relative to competitors.</td>
<td>Discrete relative position dimensional</td>
</tr>
<tr>
<td>(Dekker, Groot and Schoute, 2013)</td>
<td>A firm pursues a mixed strategy when it has a high emphasis on both low-cost and differentiation strategies. Differentiation strategic approach is defined by high emphasis on flexibility (product innovation, and capability in attending customer needs), customer service (attend customer in a reliable delivery time, high quality and customized products and services). Low-cost strategic approach (efficient use of firm resources in order to offer low-cost product).</td>
<td>Strategy intensity emphasis dimensional</td>
</tr>
<tr>
<td>(Manev et al., 2015)</td>
<td>Hybrid strategy is defined as the simultaneous emphasis on cost containment and value creation. Cost leadership approach is defined by (improvement in productivity and operational efficiency, lowering production cost through process innovation). Differentiation approach is defined by (emphasizing strict quality control, meeting customer requirements and tastes, emphasizing that customer needs come first). Hybrid as an equilibrated balance between the two models while pure approach is dominant in one of the dimension.</td>
<td>Principal strategy criteria dimensional</td>
</tr>
<tr>
<td>(Gabrielsson, Seppälä and Gabrielsson, 2016)</td>
<td>Hybrid strategy is the combination of differentiation and low-costs to achieve sustained competitive advantage. Differentiation strategic approach is defined as (reputation as differentiator, introduction of new products a marketing practices, introduce new product faster than competitors) and low-cost strategic approach is defined as (low-cost leader reputation, benefits from economies of scale and learning)</td>
<td>Strategy intensity emphasis dimensional</td>
</tr>
</tbody>
</table>

Table 2: Listing of the literature of the diversity of the mixed strategy definitions and their classification of conceptual paradigms.
Another ambiguity is in relation to the concept of operational efficiency. The low-cost approach of the mixed strategy is often confused with efficiency. Indeed, as we have described several times, a low-cost strategic approach involves the pursuit of lowering the cost through the firm’s value chain, which implies undertaking activities and allocating resources to optimize process, to extract profit from economies of scale, scope, learning effects and preferential access. But as Porter explained, these are normal and common activities that should be undertaken by any firm, even a firm that took a pure differentiation strategic approach (Porter, 1996). In fact, a firm that has adopted a differentiation approach should pursue operational efficiency respecting the differentiation strategy definition, or in other words, that the efficiency optimization is a secondary objective that is subordinated to the primary objective which is delivering a differentiation value proposition. This is why operational efficiency is not a strategy because it could be undertaken in any circumstance: it is not a competitive strategy choice; it is a managerial practice.

Unfortunately, the large majority of the works on mixed strategy seem to have ignored this distinction, and the low-cost element of the mixed strategy is often defined and described as operational efficiency initiatives. This is most common in empirical works that took a dimensional paradigm with a strategy intensity emphasis. Hambrick states the low-cost strategic approach as cost efficiency (the degree to which costs per unit of output are low) and asset parsimony (the degree to which assets per unit of output are few) (Hambrick, 1983). Kim and Lim associate the low-cost strategic approach to the pursuit of operational efficiency, cost advantage in raw material and economies of scale (Kim and Lim, 1988). As we have seen, Hill and Murray have demonstrated that a differentiator may achieve indirectly economies of scale if its differentiated value proposition experiment leads to sales success and acquisition of market share (Hill, 1988; Murray, 1988). Cost advantage of raw material seems to depend on a good procurement strategy and capability in negotiating, and there is no reason why it could not be undertaken as well by a differentiator. Robinson and Pearce identify the low-cost approach with efficiency initiatives such as trained personnel, strict quality control and process innovation, which also could be activities easily found in a firm that has adopted a differentiation strategy (Robinson and Pearce, 1988).
Wright et al. simply use efficiency and low-cost approach as synonyms (Wright et al., 1991).

The same ambiguity has been made with the differentiation approach. Commonly, differentiation has been identified with high expenses in marketing and communication, product development, and serving a high-priced product or segment (Hambrick, 1983; Kim and Lim, 1988; Wright et al., 1991). However, we expect that a firm that achieves a strong position with a cost leadership strategy, also has high expenses in marketing to communicate its low-cost offer against differentiators, that it invests in product R&D to offer product with low-cost to their customers. Conversely, the offer of an expensive product to a Premium segment is not an exclusive measure of differentiation, as a differentiator could have a simple and cheap product but with unique characteristics.

This is the case for example of the German pen manufacturer Lamy, that produces affordable pens, but with a unique design, or the home furniture retailer Ikea that offers affordable furniture with a simple but unique design and concept. We compiled several other works that made the same ambiguity in the measure of independent variables tested for characterizing the use of a mixed strategic approach (Table 3). A firm that was classified as high in both low-cost and differentiation strategic approach variables will be considered as a firm that has adopted a mixed strategic approach. We separated the variables between the low-cost strategic approaches from the differentiation strategic approach. We tagged each variable between what we understand that could be simply a managerial best practice (MP), such as an operational efficiency initiative or a marketing improvement initiative, from what could be a competitive strategic choice (CS). For example, the following variables, minimization of general and production costs, process automation, productivity improvement, standardization of cost tested by Pertusa-Ortega on the low-cost strategic approach could be related simply with a managerial best practice of operational efficiency rather than a competitive strategic choice (Pertusa-Ortega, Molina-Azorín and Claver-Cortés, 2009). We can conclude the same with several other studies that have the same absence of precision in their study, such as reducing operating costs and reorganizing the work process from Thornhill and White (Thornhill and White, 2007), or improving the productivity of the manufacturing system, modernizing manufacturing and lowering manufacturing costs from Santos et al. (Santos-Vijande, López-Sánchez and
Trespalacios, 2012). In fact, as we have seen before, a strategy consists mainly in choices that the firm make and does not make, independent of the strategic choice any firm should undertake for best practice management in order to achieve operational efficiency and marketing sales performance.

<table>
<thead>
<tr>
<th>Empirical Works</th>
<th>Variables used for the low-cost approach of the mixed strategy</th>
<th>Variables used for the differentiation approach of the mixed strategy</th>
</tr>
</thead>
</table>
| (Thornhill and White, 2007) | • Reducing operating costs - MP  
• Improving co-ordination with customers and suppliers - MP  
• Reorganizing the work process - MP  
• Improving measures of performance - MP | • Undertaking R&D - MP  
• Total quality management - MP  
• Developing new operating techniques - MP |
| (Kim and Lim, 1988) | • Continuing concern for lowest SG&A expenses - MP  
• Lower Price - CS  
• Emphasis on intangible asset including patent - MP  
• Economy of Scale - MP  
• Efficient procurement - MP | • Broad product range - MP  
• New product development - MP  
• Extensive customer service capabilities - MP  
• Expenditure on R&D - MP  
• Response to market - MP  
• Early to catch on to customer needs - MP  
• Image building of firm and product - MP  
• Delivery Speed - MP |
| (Wright et al., 1991) | • High Process R&D expenses (improve efficiency of manufacturing and distribution) - MP  
• Low manufacturing expenses - MP  
• Low relative direct costs - MP  
• Low advertising expenditures - MP  
• High capacity utilization - MP  
• Low price - MP | • High Product R&D expenses - MP  
• High advertising expenditures - MP  
• High manufacturing expenses - MP  
• High relative direct costs - MP  
• Low process R&D expenses - MP  
• Low capacity utilization - MP  
• High price - MP |
| (Santos-Vijande, López-Sánchez and Trespalacios, 2012) | • Optimizing capacity utilization - MP  
• Negotiating the best price when buying raw materials - MP  
• Modernizing manufacturing - MP  
• Improving the productivity of the manufacturing system - MP  
• Lowering manufacturing costs – MP | • Providing extensive services before and after sale - CS  
• Adopting new marketing techniques - MP  
• Offering differentiated products - CS  
• Offering a broad product line - MP  
• Emphasizing company's brands - MP  
• Offering high quality products – CS |
| (Pertusa-Ortega, Molina-Azorin and Claver-Cortés, 2009) | • Minimization of general costs - MP  
• Minimization of production costs - MP  
• Lower costs than competitors - CS  
• Economies of scale - CS  
• Process automation - MP  
• Productivity improvement - MP  
• Lower prices than competitors - CS  
• Cost standards - MP  
• Minimization of advertising expenses - CS | • Intensive promotion - MP  
• Intensive sales force - MP  
• Advertising campaigns - MP  
• Brand image - MP  
• Complementary services - MP  
• Level of Advertising costs (%) - CS  
• Market share - MP  
• Frequency of product innovations - MP  
• Higher quality or performance - MP |
<table>
<thead>
<tr>
<th>Authors/McParticipants</th>
<th>Cost Centricity - MP</th>
<th>No. of Incremental Innovations - MP</th>
<th>Frequency of Process Innovations - MP</th>
<th>No. of Patents - CS</th>
<th>Delivery Speed - MP</th>
<th>No. of Radical Innovations – MP</th>
</tr>
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<td></td>
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<tr>
<td>(Acquaah and Yasai-Ardekani, 2008)</td>
<td>Operating Efficiency - MP</td>
<td>Developing New Products or Services - MP</td>
<td>Upgrading or Refining Existing Products - MP</td>
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<td></td>
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<tr>
<td></td>
<td>Offering Competitive Prices for Products and Services - MP</td>
<td>Emphasizing Products or Services for High Priced Market Segments - MP</td>
<td>Improving Existing Customer Service - MP</td>
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<tr>
<td></td>
<td>Forecasting Market Growth in Sales - MP</td>
<td>Innovation in Marketing Products and Services - MP</td>
<td>Building and Improving Brand or Company Identification - MP</td>
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<tr>
<td></td>
<td>Emphasizing Control of Operating and Overhead Costs - MP</td>
<td>Emphasizing High Quality Standards or High-Quality Service - MP</td>
<td>Offering Specialty Products - MP</td>
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<tr>
<td></td>
<td>Innovation in Production Process or Service Offerings - MP</td>
<td>Effective Control of Distribution Channels – MP</td>
<td>Improving Productivity of the Manufacturing System – MP</td>
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<tr>
<td></td>
<td>Emphasizing High Quality Standards or High-Quality Service - MP</td>
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<tr>
<td>(Li and Li, 2008)</td>
<td>Optimizing Capacity Utilization - MP</td>
<td>Compared to Competing Products, Our Products Offer Superior Benefits to Customers - CS</td>
<td>Making Products and Services More Cost-Effective - MP</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Negotiating the Best Price when Buying Raw Materials - MP</td>
<td>Our Products are Unique and Nobody but Our Company Can Offer Them - CS</td>
<td>Modernizing Manufacturing – MP</td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Modernizing Manufacturing – MP</td>
<td>We Take Great Efforts in Building a Strong Brand Name—Nobody Can Easily Copy That - CS</td>
<td>Improving the Productivity of the Manufacturing System – MP</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Improving the Productivity of the Manufacturing System – MP</td>
<td>We Successfully Differentiate Ourselves from Others through Effective Advertising and Promotion Campaigns - CS</td>
<td>Lowering Manufacturing Costs - MP</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Lowering Manufacturing Costs - MP</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Gopalakrishna and Subramanian, 2001)</td>
<td>Achieving Lower Cost of Products and Services than Competitors - CS</td>
<td>Introducing New Products/Services - MP</td>
<td>Differentiating Services from Competitors - CS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Making Products and Services More Cost-Effective - MP</td>
<td>Offering a Broader Range of Products/Services than the Competitors - CS</td>
<td>Utilizing Market Research to Identify New Products and Services - MP</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Improving Time Required in Co-ordination of Various Products/Services - MP</td>
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<tr>
<td></td>
<td>Performing Analysis of Cost Associated with Various Products/Services - MP</td>
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<tr>
<td></td>
<td>Improving Utilization of Available Equipment and Product/Services - MP</td>
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<tr>
<td></td>
<td>Improving Availability of Equipment and Auxiliary Products/Services - MP</td>
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</table>

Table 3 - Compilation of independent variables used to measure mixed strategic approach in empirical studies.
2.2.3.6 Discussion and contribution on the concept of mixed strategy

In the literature listing that we have made we found several definitions of the mixed strategy that lead to different interpretations. In summary, the concept of mixed strategy is today very vague and ambiguous. If we have to explain to someone what is a mixed strategic approach, we will be limited to say that it is a strategic approach that combines low-cost and differentiation elements, which could also be any managerial activity or resource allocation that involves operational efficiency and marketing improvement. Operational efficiency and marketing improvement are common activities used by any firm that produces a product or offers a service and have to operationalize, sell and deliver to customers. Consequently, we can deduce based on the definitions that we found that the great majority of firms follow a mixed strategic approach. Using common sense that doesn’t sound true. Or mixed strategy is a very rare situation where a firm achieves simultaneously the lowest cost and the highest value perceived by customers, which seems to be the other extreme, and is probably not correct. If the definitions led to the conclusion simultaneously that any firm could have adopted a mixed approach or very few firms have adopted it, we also have an ambiguity with the concept of pure and mixed strategic approach.

In fact, as has been stated by Grant, the pure strategic approach is where one or another dimension is exclusively used in the firm does not really exist (Grant, 2016). In accordance with this, Porter advises that neither a low-cost leadership nor a differentiation strategic positioning should be absolute or extreme. He defends that a firm that adopts a low-cost leadership cannot ignore differentiation, as we can confirm in the passage below:

A cost leader, however, cannot ignore the bases of differentiation. If its product is not perceived as comparable or acceptable by buyers, a cost leader will be forced to discount prices well below competitors to gain scales. This may nullify the benefits of its favourable cost position.

(Porter, 1985, p.13).
In the same vein, he defends that a differentiator cannot ignore the cost approach, as we can confirm in the passage below:

A differentiator, therefore, must always seek ways of differentiating that lead to a price premium greater than the cost of differentiating. A differentiator cannot ignore its cost position, because its premium prices will be nullified by a markedly inferior cost position. A differentiator thus aims at cost parity or proximity relative to its competitors, by reducing cost in all areas that do not affect differentiation.


As we have seen, this imprecision of the distinction between a pure strategic and mixed strategic approach is present in important empirical works such as the one done by Thornhill and White, which tested the pure and mixed strategic approach on a large sample of multi-industry Canadian firms (Thornhill and White, 2007). In their comparative performance evaluation between the pure and mixed strategic approach, purity is defined by emphasizing one dimension of strategy relative over the other, where one of the strategic dimensions has a weight of at least 80%. Then they define mixed strategy by firms that give a weight under 80% of one strategic dimension. The problem with the definition of Thornhill and White is that it oversimplifies by assuming that a main emphasis on one strategic dimension characterizes a pure strategic approach (Thornhill and White, 2007). A firm could have combined two strategic approaches where one is the main strategic approach and the other the complement. This emphasis could be in the relation of 80% for the primary strategic focus and 20% for the secondary strategic focus. In reality, this is not the weight of the emphasis that should determine if the firm has adopted a pure or mixed strategy, but how the two approaches have been integrated in a strategic coherence. Consequently, Thornhill and White could have tested a firm tagged as pure strategic adoption while in reality they have a mixed strategic intent. The central problem that is in the origin of the ambiguity between pure and mixed strategic approach, is that no empirical works explain how the two strategic approaches are combined and integrated in a
coherent strategy formulation, in order to define if we are leading with a pure or mixed strategy implementation.

2.2.3.7 A proposition of normalization of the definitions of mixed strategy

Based on our understanding of the literature review, we will suggest here a proposition of a more precise definition for the mixed strategy approach, one that could avoid ambiguity with the pure strategic approach and the managerial practice of operational efficiency and marketing improvement but not so restrictive as the relative lowest cost - highest customer perceived value defined by the Bowman typology. To define clearly what exactly is a mixed strategy the firm must necessarily need to choose both strategic approaches. This means that the strategy formulation should be reflected in all the levels of the firm, which are the value proposition, the value driver that links the value proposition to the firm’s value chain activity, the two sets of activities that support the low-cost and differentiation approach, and the set of activities and capability to solve conflicts from trade-offs and the organizational design to manage the two approaches. We can observe in the table below (Table 4) the difference of definition between the mixed strategic approach and the pure strategic approach.
Table 4 - A proposition of definition on four levels of strategy formulation to define the boundary between the mixed and pure strategic approach.

<table>
<thead>
<tr>
<th></th>
<th>Mixed strategic approach definition</th>
<th>Pure strategic approach definition</th>
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</thead>
<tbody>
<tr>
<td><strong>Value proposition</strong></td>
<td>The value proposition should represent the dual focus or by two-separated value propositions or by a value proposition that integrates the two strategic focus.</td>
<td>The value proposition should represent only one strategic dimension.</td>
</tr>
<tr>
<td><strong>Value Driver</strong></td>
<td>There exists two sets of value drivers. The set that supports the differentiation approach and the set that supports the low-cost approach</td>
<td>There exists only one set of value drivers. The one that supports the strategic dimension of the pure choice.</td>
</tr>
<tr>
<td><strong>Value chain activity</strong></td>
<td>The two sets of value drivers link to two sets of activities in the firm’s value chain. It should have necessarily an approach of solving conflicting activities.</td>
<td>There exists only one set of activities that support the value drivers of the pure strategic approach. That does not mean that several initiatives of operational efficiency and marketing improvement could not be undertaken. However these managerial best practices should be aligned with the pure strategic approach, and are subordinated to it.</td>
</tr>
<tr>
<td><strong>Organizational design</strong></td>
<td>The two sets of activities, where each one support a strategic focus has reflection on the organizational design</td>
<td>Organizational design is oriented exclusively to support the pure strategic choice.</td>
</tr>
</tbody>
</table>
2.3 Exploring the characteristics of the mixed strategy adoption

2.3.1 Mixed strategy adoption and environment

The aim of this section is not to demonstrate if the mixed strategic or pure strategic approaches are superior, but to understand in which type of context they fit better. Contrasting with the pure strategy adoption that is more related to a stable environment, hybrid strategy has been associated with a turbulent, dynamic and volatile environment. Turbulent environments require flexible combinations of strategies (Kim and McIntosh, 1999). The competence of combining harmoniously “low-cost” and “differentiation” elements brings flexibility and a capacity for adaptation to an unpredictable and complex business context. Miller advises about the risk of adopting a too simple strategic repertoire (Miller, 1992). An excessively narrow strategic focus could lead to failure by having a too simple offer, to ignore important consumers´ needs, to be easily imitated by rivals and to make difficult the adaptation to a business context changes. Consequently, the study of mixed strategy has been to some degree related to a turbulent and dynamic business environment.

2.3.1.1 Mixed strategy adoption in environments characterized by dynamism, hypercompetition and high market attractiveness

Li and Li, explain how the Chinese economy characterized by a fast-growing demand, highly fragmented markets, lack of infrastructure, institutional voids and frequent disruptive changes, make it difficult for the establishment of new foreign firms, mainly the ones that follow a pure low-cost approach (Li and Li, 2008). Foreign firms have more difficulties to adopt a low-cost approach against domestic firms, because the liability of their foreignness increases their operational, production and new product development costs. Domestic firms have inside knowledge of the particular rules of the complexity of the Chinese economy and consumption culture, which enables them to operate with more efficiency and at a lower cost. Also, as Chinese markets have a very low level of concentration, due to a high diversity of cultural and consumption patterns, it is more difficult to achieve economies of scale which could sustain a leadership in cost. These constraints imply that firms can lose their advantage in pursuing a low-cost strategy in a less concentrated and highly complex market that is
characterized by many smaller competitors and widespread opportunistic behaviours. Finally, they conclude in their study that foreign firms should follow a combination approach of differentiation and low-cost in order to offer added value product at a very competitive price, mainly for multinational firms that should balance between cost and quality to perform better in the complexity of the environment.

Baack and Boggs, through a theoretical investigation of the use of strategy by multinationals in emerging markets reach a similar conclusion (Baack and Boggs, 2008). Based on deductive reasoning supported by examples of the literature, they argue that several characteristics such as institutional deficiencies, lack of well-established political and legal institutions, poor communication and distribution systems and a general lack of technology development, infrastructure, and unskilled labour can lead to costly distribution and production problems. Additionally, low income customers and complex markets that experience frequent political and financial crises, unstable capital flow and high interest rates, high inflation and volatile currencies, increase the complexity of formulating a pure strategic approach. In these environments, a cost leadership strategy seems very difficult to establish by international companies that should pursue instead a multiple strategic approach involving differentiation and low-cost elements.

Gopalakrishna and Subramanian, explain how India was suddenly transformed from a protected-stable to an open-hypercompetitive business environment after the launch of an economic program of liberalization in 1991 by the government that had the objective of accelerating growth and foreign investment (Gopalakrishna and Subramanian, 2001). They conclude that due to the elimination of market protection and a sudden increase of competition, firms that had adopted a mixed strategic approach demonstrated superior performance over the ones that had adopted a pure approach. They justify these results by the fact that firms that have adopted the mixed approach are more flexible and adaptable to the fast changing, unstable and hypercompetitive new environment.

Acquaah and Yasai-Ardekani, describe a very similar situation in Ghana, a Sub-Saharan African economy that has been transforming its economy from state-controlled to a free market capitalist system, through the elimination of protectionism barriers, adoption of free trade policies, creation of market-friendly institutions and
integration to the global market economy, and highly intensified competition. However, the business environment suffers from poor infrastructures, institutional voids, and lack of resources such as raw materials, easy access to capital at a reasonable cost, managerial and technical talents (Acquaah and Yasai-Ardekani, 2008). The income level of the majority of consumers remains very low, despite having been exposed to a great variety of new foreign value-added products. Local firms have suddenly been thrown into a fast-changing, fast-growing and hypercompetitive context, whereas the ones that have adopted a combination of differentiation and low-cost presented a better performance than the ones that adopted a pure low-cost approach, and at least an equivalent performance compared with the ones that adopted a pure differentiation strategic approach.

More recently, Manev et al. studied a large sample of new venture firms with less than six years’ existence in the Bulgarian economy that has also passed recently through a process of market liberalization and privatization (Manev et al., 2015). They explain that in the initial stages of the reform, business environments were characterized by extreme uncertainty and social instability, institutional hiatus and resource scarcity, which forced entrepreneurs to succeed by self-help in a fight for survival. The results of their studies revealed that the great majority of the firms of the sample adopted a mixed strategy with superior performance over the firms that have adopted a pure strategy. A new small firm cannot follow a pure low-cost approach due to a difficulty in achieving advantage in economies of scale, scope, learning effects and preferential access, but also because of resources scarcity and market inefficiencies. Also, it is equally difficult for a new small firm to pursue a pure differentiation approach due to a naturally small scope for differentiation, as the Bulgarian market is not well developed and offers little access to strategic resources for differentiation such as innovation technology and knowledge. Additionally, consumption is characterized by a low purchasing power due to low incomes, which in turn makes consumers highly price sensitive. Consequently, customers are simultaneously demanding low priced products with a certain degree of differentiation, which they conclude favours the adoption of a strategic approach that combines both differentiation and low-cost. Also, they conclude that due to the highly dynamic and unstable Bulgarian business environment, that requires strategic flexibility and the mixed strategic approach offers better performance of balance between efficiency and flexibility.
2.3.1.2 Mixed strategy adoption in environments market by volatility, hypercompetition and low market attractiveness

Spanos et al., led an empirical study using a large sample of manufacturing firms in the Greek economy for the period 1995-1996 (Spanos, Zaralis and Lioukas, 2004). They explain how a culture of historical uncertainty in the Greek industries, due to the disruptive period of World War II followed by a civil war between 1945-1949, established a culture of hesitant industrialization. Greek manufacturers are mainly family ownership firms that tend to be small, characterized by a lack of resources and managerial know-how, weak internalization, where their few competitive advantages remain in producing basic products supported by a low labour cost advantage. In 1990, the entry of Greece into the European Union (EU) through the Maastricht treaty, characterized a loss of market protection for Greek firms, which resulted in a great loss of competitiveness. Greek manufacturers suffer from better European competitors on differentiation positioning, and Asian competitors on low-cost positioning. The main problems of Greek firms competing against foreign competitors are: lack of financial and technological resources, out-dated production methods, inadequately trained personnel, low labour productivity, passivity in marketing, concentration of power and control in the hands of top management, autocratic management styles, limited use of management and strategy making tools. Despite the fact that the entry into the EU open market has forced an improvement in competitiveness through modernization and increase of efficiency, it has been practically difficult for a Greek manufacturer to sustain a pure differentiation or low-cost approach against the invasion of low-cost products and high technological innovation products. In addition, even though the Greek economy is considered an advanced economy with high incomes, the purchasing power of Greek consumers has been falling rapidly, which characterizes a need for added value but at a lower price.

The empirical study of Spanos et al. revealed that the group of manufacturing firms that have adopted a mixed strategic approach combining differentiation and low-cost have the better financial performance over the ones that have adopted a pure approach or stuck-in-the-middle (Spanos, Zaralis and Lioukas, 2004). Furthermore, they found that in the group of the mixed strategy adopters, the low-cost dimension has the greater
positive influence on performance, which could indicate that firms that have adopted a mixed strategic approach chose the low-cost approach as a primary strategic focus. They concluded that due to the hostile conditions of the Greek business environment, a mixed strategy adoption is maybe the only feasible and attractive strategic alternative for Greek firms to survive in a recessive economy associated with a highly competitive environment and with very limited capacity for investment.

Pertusa-Ortega et al., established an empirical study on the Spanish economy with a large sample of firms from several manufacturing and service sectors, measuring and comparing mixed, pure and stuck-in-the-middle strategic approaches (Pertusa-Ortega, Molina-Azorín and Claver-Cortés, 2009). They considered that the Spanish environment was highly competitive, turbulent and uncertain. They used in their studies three groups of control variables for measuring the effect of the environment on a firm’s performance. They measured the degree of turbulence composed by uncertainty of the strategies followed by competitors, uncertainty of demand and uncertainty of customer tastes; the degree of dynamism of the environment resulting from rapid technological change, processes, products, distribution, changes in suppliers’ activities, and the degree of business opportunities created by the dynamism of new customers, markets and competitors. The study revealed that in these circumstances Spanish firms that pursue a mixed strategic approach are associated with higher levels of performance compared to the ones that adopted a pure or “stuck-in-the-middle” strategic approach. Additionally, they demonstrated that in the group of the mixed strategy adopters, the firms that have adopted simultaneously the three strategic dimensions of innovation differentiation, marketing differentiation and low-cost have the highest performance level. Finally, they discovered that the differentiation innovation is the more relevant dimension among the others, which means that firms that have adopted a mixed strategy with the three strategic dimensions gave more emphasis on differentiation innovation, which could be their primary strategic focus.

Wu et Al. ran a study on a large sample of firms from 32 industries in 30 countries composed of mainly developed economies in the Americas, Europe, Asia and Australia. The focus of their study was the period 2001-2002 marked by a global economic downturn (Wu, Lin and Chen, 2007). They characterized this period as a recessive business environment characterized by a lack of exploitable market
opportunities and fiercer competition associated to a high degree of uncertainty. In
their test, the group of firms that have adopted a mixed strategic approach
demonstrated superior performance over the ones that have adopted a pure strategic
approach or have not adopted a strategic orientation at all. Additionally, they
concluded that at the time of an economic downturn, a steady stream of devotion to a
strategic orientation rather than erratic attempts to survive has a better result.

Their findings highlight that the sensible response is the persistence of strategic
behaviour, which creates stability by reinforcing the firm’s prior strategic orientation.
In addition, they also found that in the mixed strategic adoption the more use of
strategic dimensions, then the greater the benefit, which is in alignment with the
finding of Pertusa-Ortega et al. (Pertusa-Ortega, Molina-Azorín and Claver-Cortés,
2009). Conversely, they found that the low-cost dimension through an efficiency focus
has the greater positive contribution, which lead to the deduction that in an economic
downturn, a firm that has adopted a mixed approach with a primary focus of low-cost
reinforced by other differentiation approaches should present one of the best
performances.

Proff made an analysis of the German automotive industry focusing on a case study of
the Volkswagen car manufacturer (Proff, 2000). He explains how growing pressure of
international competition and a change in the supply and demand condition lead
Volkswagen to adopt a mixed strategic approach. On the supply side, forecasting and
planning were becoming more difficult due to uncertainty associated to an increase of
discontinuity and shortening of product cycles. Additionally, plant size was falling due
to an over production capacity on the global automotive market, which brought
limitation to a pure low-cost approach based on economies of scale. In fact, according
to data raised by the study, the global production overcapacity was estimated at 20%
in 2000 and for the period 1980-1995 the average plant size was reduced by 30%. On
the demand side, the demand for new cars was declining and requirements were
converging, but the pluralisation of life styles was increasing product differentiation
and customization. Additionally, the requirement for better equipment had increased
on all models including the more popular and entry-level car segments. To respond to
this recessive environment, market by uncertainty, pressure on cost, increase of
competition associated to a scenario of offers greater than demand, increase of
customer requirements for differentiation and added value equipment, Volkswagen
adopted a mixed strategy approach that involved sharing a production platform across several car brands from Super-Premium to Entry-Level car segments. The mixed strategic approach allowed reducing cost while increasing differentiation and bringing higher flexibility to balance the demand fluctuations between the diverse production lines.

2.3.1.3 Mixed strategy adoption and competitive factor

Studies on mixed strategy have also considered specific market-environmental factors, mainly in relation to competitive intensity. In fact, competitive intensity is considered one of the most important factors contributing to environmental hostility (Dess and Beard, 1984; Zahra and Covin, 1995). The literature suggests that firms need to engage in a greater level of entrepreneurial activities, such as exploration, strategic renewal and innovation as environmental hostility intensifies (Zahra, 1993; Zahra and Covin, 1995). In accordance with this, some studies have tested the relationship between competitive intensity and mixed strategy adoption and its effect on a firm’s performance. Acquaah and Yasai-Ardekani employed market competitive intensity as a control variable to prove that under high competitive intensity firms that adopt the mixed strategy are superior in performance to those firms that adopt the pure or “stuck-in-the-middle” strategic approach (Acquaah and Yasai-Ardekani, 2008). Auh and Menguc tested the effect of competitive intensity on a firm’s performance by a dual strategic approach in the Australian market: they demonstrated that as the level of competition increases, Defenders and Prospectors tend to choose a more balanced approach between exploration and exploitation, which matches the mixed strategy assumption of effectiveness (differentiation-exploration) and efficiency (“low-cost”-exploitation) approaches (Auh and Menguc, 2005).
2.3.1.4 Discussion and contribution of the mixed strategy adoption and environment

At first glance, a common environmental background of hypercompetition, instability and uncertainty seem to unify the adoption of a mixed strategy. In fact, several studies demonstrated empirically that firms that have adopted a mixed strategic approach in such a context revealed a better performance. These studies often justify that the capability of flexibility and adaptation associated to the mixed strategy implementation allow a better fit to these turbulent and uncertain business environments. They defend that a pure strategic approach seems to be inadequate due to their greater rigidity and over simplistic strategic approach. This is the case of the Emerging economies that have been marked by long periods of state-control and insulation, which characterized a stable and predictable environment. Recent liberalizations and a switch to a free capitalist market system transformed these markets into a very fast-growing, changeable and unstable business environment. Several contradictory elements joined together made these environments too complex for a pure strategic approach. On the one hand, market liberalizations have triggered a fast-growing demand accompanied by fast consumption changes and an increase of competition both from local and foreign players. On the other hand, these economies are still suffering institutional voids, resource scarcity and lack of infrastructure, high inflation rate, and a high risk of political and economic crisis. These elements make the whole environment very unstable and unpredictable for the adoption of pure strategic approaches despite there being an important potential for market growth.

We can observe similar justifications in highly developed countries where the environment presents similar characteristics such as hypercompetition, instability of demand and a recessive market where the adoption of a pure low-cost strategy has been associated with the worst performance results, mainly because a low-cost approach needs a very stable environment in which to plan, refine, improve and optimize its value chain in order to reach a lower cost (Miller, 1988). In general, pure differentiation strategic adoption seems to demonstrate a better performance than pure low-cost adoption, because there exists a latent reprised demand for added value products. In the situation where the consumer could afford a premium price, it is easier for a differentiator to lead in an unstable environment as it has a greater margin and can more easily transfer high cost to the premium price. However, this situation tends
to characterize a focus strategy adoption as the great majority of consumers of emerging economies are characterized by low purchasing power. Consequently, the mixed strategic approach was reported as the one that presented the best performance in most of the studies. A firm that has adopted a mixed approach could offer sufficiently differentiated products at a lower price and can adapt easily in the event of instability of the environment by balancing its mix between differentiation and low-cost approach.

However, with the exception of a few studies that isolate specific independent variables for measuring the relationship of the degree of competition in the adoption of mixed strategy, the great majority of these studies do not establish a direct relationship between these specific environmental factors and the adoption of mixed strategy. If on the one hand these studies prove statistically that the mixed adoption presents a better performance over a pure strategic approach, then on the other hand, the assumptions of the causal mechanisms between the environmental factors that make the environment unstable, turbulent and uncertain, with mixed strategy’s properties of flexibility and adaptation are merely logical hypothetical speculations. These are “Straws-in-the-Wind” causal inferences of hypothesis that need to be better demonstrated and explored (Collier, 2011). We suggest that further studies are made through case study methods; explore the causal relationships that exists between the factors that make the environment turbulent, unstable and uncertain with the mixed strategy adoption and the capability of flexibility and adaptation.

Furthermore, we perceived that there is a different set of environmental factors that are associated to the adoption of a mixed strategy. We separated two groups of studies that despite sharing the same core factors such as hypercompetition, dynamism, instability and uncertainty of the environment seems to present different behaviour depending whether the demand is scarce or abundant.

Our suggestion is to distinguish in these further studies two environmental situations. One is related to the adoption of mixed strategy in a fast growing and changing market accompanied by an increase of competitive intensity (Gopalakrishna and Subramanian, 2001; Acquaah and Yasai-Ardekani, 2008; Li and Li, 2008). In this situation, the firm that reached a strong position in one of the two strategies may lead by improving the position of the other (Hill, 1988; Pertusa-Ortega, Molina-Azorín and
Claver-Cortés, 2009). Hill theoretically defends this with a firm positioned originally as differentiation, which attains an important market share and enjoys the benefits of economy of scale, scope and learning curve (Hill, 1988). This is possible in a fast-growing market where the initial simple differentiation focus is used as a lever for the low-cost approach. Additionally, for this firm to make the efforts, investments, and risks in implementing an additional low-cost approach to its differentiation strategy, pressures from the environment should come from an increase of competitive intensity. However, the present studies do not make the process of the strategy adoption and its link with specific environmental factors clear.

The second situation is related to the adoption of a hybrid strategy in a mature-declining market. Highly competitive, this market could become turbulent because of uncertainty provoked by volatility of demand or supply. This is much more a survival aspect of hybridity than the growing perspective. In this situation, the market does not allow the benefit of efficiency associated with an increase in volume, because gains in market share are limited or not possible. Uncertainty of demand and supply could brutally affect the offer that will demand a change in the strategic approach. Then a hybrid approach could bring the necessary flexibility for adaptation.

In his case study of the German automotive industry, Proff identified six turbulent environmental factors that had been influencing the automotive industry which lead to the adoption of a hybrid approach (Proff, 2000). On the demand side: a stagnating demand for new cars; an increasing practice of providing the full range of equipment as standard rather than as optional, reducing profit; and the increasing demand for niche product, increasing complexity and cost. On the supply side: an increase of differentiation of product lines with more variety of models; an overcapacity and a decentralization of production had brought an increase of complexity. Despite that we have few specific descriptions of the mixed adoption related to these specific configurations of environmental factors, and some evidence that we described in studies such as Wu et al. during economic downturns (Wu, Lin and Chen, 2007), Pertusa-Ortega et al. in the Spanish mature economy (Pertusa-Ortega, Molina-Azorín and Claver-Cortés, 2009) and Spanos et al. in the recessive Greek economy (Spanos, Zaralis and Lioukas, 2004), a lack of precision justifies a specific study approach of mixed strategy adoption in these specific contexts. In these particular contexts, one of the environmental factors not clearly tested in empirical studies is the volatility of
demand and changes of preferences of consumers. In fact, as Proff explained, changes in customer price sensitivity should require a hybrid approach (Proff, 2000). Hill and Murray demonstrated in their theoretical studies that customer price sensitivity and the importance given to other attributes are directly related to the adoption of a hybrid approach (Hill, 1988; Murray, 1988).

Additionally, the empirical studies that related the higher performance of mixed adoption in specific environmental contexts, do not explore the characteristics of the mixed adoption. In the description of the studies we perceived that it is highly probable that a firm defined different roles for strategic dimensions in the mixed strategy implementation. It appears that one of the dimensions has a primary role while the other has a complementary role. Despite that, this fact is not made clear in the studies, which could explain the findings of the works of Thornhill and White that several firms that have superior performance has 80% of their focus concentrated on one of the strategic dimensions while the remaining 20% is for the other strategic dimension (Thornhill and White, 2007). It could also explain how these firms have solved the inherent contradictions that exist in adopting a mixed strategy. Unfortunately, not one of the empirical studies explains how the firm has solved the trade-offs that exist between the two strategic dimensions. We suggest that further investigation should explore in a deep case study analysis the mixed strategy implementation in order to understand how strategic dimensions are combined and integrated in order to avoid contradiction and generate superior benefit through their integration.
2.3.2 Mixed strategy adoption, firm and industry characteristics

Additionally, we looked at environmental factors in the literature as to whether a certain firm or industry characteristics have a tendency to be associated with the adoption of mixed strategic approach. We looked at the firm’s age, size and business types and explored the diversity of type of industry including manufacturing and service sectors. We found that mixed strategy has been adopted by a great diversity of firms taking into account age, size, and business types in a wide spectrum of manufacturing and service sectors, demonstrating that the mixed strategy adoption appears not to be specific to a particular firm or industry characteristics. For the firm’s characteristics, the adoption varies from large and multinational firms (Gopalakrishna and Subramanian, 2001; Baack and Boggs, 2008; Li and Li, 2008; Pertusa-Ortega, Molina-Azorín and Claver-Cortés, 2009) to small and medium sized firms (Gopalakrishna and Subramanian, 2001; Leitner and Guldenberg, 2010) and also from well-established firms (Pertusa-Ortega, Molina-Azorín and Claver-Cortés, 2009) to new venture firms (Manev et al., 2015). Additionally, the mixed strategic approach was tested on pure e-commerce and brick & click firms (Kim, Nam and Stimpert, 2004).

The mixed strategy has been tested in a great variety of industries as the empirical studies in emerging and developed economies cited earlier have a large sample of firms of several manufacturing and service sectors. Complementing this broad approach, some theoretical and empirical works focused the study of a mixed strategy implementation on specific industries such as the Retail industry (Cappel et al., 1994), Aviation industry (Vidović, Štimac and Vince, 2013), Computer manufacturing industry (Parnell, 1997) and Automotive industry (Proff, 2000).
2.3.3 Mixed strategy adoption and types of business model

We identified several types of mixed strategy business models in the literature. In fact, the combination of a differentiation and low-cost approach could be achieved by different configurations, which could involve several business units and a certain degree of sharing value chain activities. We identified three main types of business, which we called mixed strategy full-separation, semi-integration and full-integration.

2.3.3.1 Mixed strategy adoption with a full separated business model

The central idea behind a full separation of a mixed strategy implementation is when a firm that already has a business unit implemented with a pure approach decides to implement the other pure approach in a fully separated business unit. In this case the primary activities of the two business units, one focused on a pure differentiation and the other focused on a pure low-cost approach are completely separated. This full separation of the primary activities of each strategic approach allows a full specialization for each type of value, delivering the best that could be achieved in uniqueness for a premium price and the other a basic offer for the lowest cost. The physical separation of each firm and value chains avoids conflict between the two antagonistic approaches and guarantees their positioning and identity. The benefit of implementing a dual pure strategic approach is to be capable of delivering two-value propositions of extreme characteristics with consistency, and to acquire synergies of cost and capabilities by sharing the support activities composed by the firm’s infrastructure, human resource management, technology development and procurement. Additionally, a firm could decide to run a dual pure strategic approach in order to explore new opportunities or to fight a possible rival that could attack the original firm’s business in the future. However, the central reason for the full separation of the primary activities of the value chain is the incompatibility between the two approaches (Porter, 1985).
Markides and Charitou in their study of competing with dual business models exemplify this mixed strategy business model with the case of Nescafé and Nespresso of Nestlé (Markides and Charitou, 2004). Nestlé, that was already well established in the mass instant coffee market with its brand Nescafé, decided to launch in the early 1990s, Nespresso, an upmarket Premium brand of coffee for young urban professionals. After Nespresso had cannibalized part of the sales of Nescafé and team conflicts were reported due to antagonistic culture values and attitudes of team management, Nestlé decided to completely separate the two businesses. In fact, Nescafé was based on a fast-moving consumer goods manufacturing model using large retail supermarket chains as a distribution channel, while Nespresso was based on a luxury consumer goods manufacturing model using exclusive club and store chains as distribution channels. Markides and Charitou emphasize that the success of Nestlé was mainly due to the high degree of separation and the greater autonomy that each business was given such as having their own CEO, budget, resources and having the freedom to develop its own culture. However, it is not very clear if the separation was due to a different managerial culture that needs a change management stage, or if the separation was the result of insurmountable trade-offs between the two businesses, as the study does not go into depth regarding these types of details. We hold the same impression when Markides and Charitou described the case of HSBC branch separation in the UK between traditional HSBC Midlands and HSBC First Direct. Conflicting trade-off was not reported for the reason of the separation, but the simple fact that they have sufficient market and profitability for the two business models and that it was easier to separate rather than take the risk through the complexity of the integration process (Markides and Charitou, 2004).

2.3.3.2 Mixed strategy adoption with a semi-integrated business model

An alternative approach of the dual pure strategic approach is the semi-integration solution. In this mixed strategy business model, the differentiation and low-cost approach are separated into certain primary activities of the value chain and integrated in others. The most common configuration is to find a separation of marketing, sales and customer service activities while operations such as production and logistics are integrated. This is the case of Volkswagen that shares several brands positioned in six
segments from luxury to popular entry-level passenger cars across four manufacturing platforms (Proff, 2000). While each brand has their marketing, sales and customer support areas to give the necessary identity and distinction for Audi, VW, Skoda and Seat, manufacturing activities were shared across a few platforms that present a high degree of integration of body frame, front and rear axles, wheels, engine, gearbox, steering, brakes, seats and heating system. Car differentiation was mainly concentrated on the car body where the total production cost represents only 40%. Sharing most of the manufacturing activities where the cost is higher allowed Volkswagen to achieve important synergies such as economies of scale and scope, but also to gain flexibility in a turbulent European market characterized by a declining and volatile demand and over production capacity. Unpredictability of the business environment is better managed by having shared several consumer segments needs on a few production platforms where fluctuation of sales volume between segments could be compensated.

2.3.3.3 Mixed strategy adoption with a full integrated business model

The third mixed strategy business model is when differentiation and low-cost are implemented in the same business unit. This model implies a full integration of the primary activities of the value chain. Then the two approaches are mixed at a lower level, often at the attributes level of the same product. Markides and Charitou exemplify this type of mixed business model with the case of the Swiss watch manufacturer SMH (Markides and Charitou, 2004). In the middle of the 1970s, the Swiss watch industry was seriously threatened by cheap quality Japanese products such as Seiko and also the North American watch product such as Timex. Swiss share of the global world market declined from 48% in 1965 to 15% in 1980. At the time, sales of the Swatch group (SMH) were deeply affected. In response to the Japanese low-cost product, the Swatch group decided to adopt a mixed strategy approach at the product level, eliminating attributes that were less relevant for the customer perception which could reduce the cost and increase differentiation on other attributes such as style and design that in turn could increase value perception. Gillette adopted a similar mixed strategy integration solution against the threat of low priced disposable razors that presented similar performance. Gillette launched in 1994 a disposable razor product with a lubrication strip that presented superior performance at a competitive
price, which allowed Gillette to maintain a share of 45% of the disposal market.

2.3.3.4 Discussion and contribution of the mixed strategy adoption and types of business model

Despite the fact that the literature provides some detailed examples, the relationship that exists in terms of precise factors between the environment of the mixed strategy configurations adoption, and the business model adoption is not so clear. Mainly in the semi-integrated and full-integrated business model, it is not clear how the firm that adopted a mixed strategy fully integrated in a firm’s value chain activity has solved the inherent contradiction of the two contradictory approaches. We suggest that these business model configurations and their implementation characteristics associated to the mixed strategy formulation in a specific environmental context, should be studied and described in detail in a case study, in order to have a clear understanding of the nature of the mixed strategy implementation.
2.3.4 Mixed strategy adoption and organizational design

The organizational design literature has been marked by two central concepts: the “mechanistic” and “organic” structure approach (Burns and Stalker, 1961). These two approaches correspond to two conflicting views on how to configure a firm in terms of the division of labour, the degree of centralization of control and command, and the degree of formal rules and processes in task activities.

2.3.4.1 Mechanistic organizational form and Porter’s low-cost leadership strategy

The mechanistic structure approach relies much more on the high degree of centralization, formalization, hierarchy and division of tasks. Rules and processes are prescribed and clearly defined and documented. With a strong hierarchical command, the top management centralizes most of the decisions. Tasks are well defined and normally highly specialized by activities. For these reasons, the mechanistic structure has been associated with the pursuit of efficiency. In fact, formal processes, centralized decisions, and specialized tasks reduce variability, bringing a more stable environment and allowing the optimization effect of efficiency through alignment. Mechanistic structure has been associated with a firm that pursues a pure strategic approach of low-cost, as the control of cost and the culture of efficiency is the cornerstone for these firms to create competitive advantage (Miles et al., 1978; Porter, 1980a). Through the eyes of the organizational learning approach, the mechanistic structure has been associated with exploitative activities that involve a reuse of the existing knowledge in order to increase efficiency, also referred to as incremental innovation by technological approach.

2.3.4.2 Organic organizational form and Porter’s differentiation strategy

Conversely, the organic structure approach relies much more on the high degree of decentralization, informality, and autonomy with less specialization of activities. Rules and processes are defined in a more informal way as direction or support and are adaptable by each organizational unit. Decisions tend to be decentralized and
managed by a loose structure. Tasks tend to be less partitioned and more generalist. All these characteristics allow a more flexible organizational behaviour, which allows it to adapt to dynamic environments. For this reason, an organic structure has been associated with a firm that pursues a pure strategic approach of differentiation, as the decentralized decision processes and informality allow experimentation and a better fit with the diversity and dynamism of the environment, which is fundamental in the creation of a uniqueness value which attributes to the sustainability of a competitive advantage based on such an approach (Miles et al., 1978; Porter, 1980a). Through the eyes of the organizational learning approach, the organic structure approach has been linked to the explorative activities that involve use of new knowledge by experimentation in order to increase flexibility and adaptation. Exploitation has also been referred to as radical innovation by technological approach.

2.3.4.3 Combination of mechanistic and organic organizational forms

Based on these two central constructs, several scholars defend that a firm need to implement a combination of the mechanistic and organic approach, and solve the inherent trade-off of the two contradictory approaches. Some scholars defend that firms need the organic approach to create innovations and a mechanistic approach to implement and deploy them. For example, Adler, Goldoftas and Levine define the combinations of both mechanistic and organic forms through four main mechanisms: meta-routine, routine-enrichment, routine-switching and routine-partitioning to attain both superior efficiency and superior flexibility (Adler, Goldoftas and Levine, 1999). Sheremata describes how the existence of contradictory structural elements increases the success of new product development (Sheremata, 2000). In a study based on 22 supervision work units of a manufacturing and insurance company, McDonough III and Leifer found that both mechanistic and organic structures are used simultaneously to deal with certain and uncertain environment factors (McDonough and Leifer, 1983).
2.3.4.4 Organizational characteristics of mixed strategy implementation

However, the literature about the organizational characteristics of mixed strategy implementation is almost non-existent. Proponents of the combination school (mixed approach) have been much more concerned in demonstrating that the use of a mixed strategy is superior, or at least equivalent in performance compared with the positioning school (pure approach). A recent study published by Claver-Cortés et al. relates the organizational structure characteristics of a hybrid firm with their performance (Claver-Cortés, Pertusa-Ortega and Molina-Azorín, 2012). They found that in firms that have adopted a hybrid approach, centralization has a negative influence on performance and that formalization has a positive influence, revealing that in a certain way, the hybrid adoption requires a certain combination of mechanistic form (formalization) and organic form (autonomy).

2.3.4.5 Discussion and contribution of mixed strategy adoption and organizational design

Additionally, an important issue for the hybrid approach is the effective versus the efficiency of these types of organizational implementation. In fact, using separated dual structures to manage simultaneously the low-cost and differentiation approaches could significantly increase fixed cost, as it will involve two teams, with the additional need of a supervision structure. On the other hand, integrated structures that are enriched or that switch, involve a lower fixed cost, as the same team is used to accomplish the two focuses, but it may not be so effective as the structure may not be able to work correctly, to have the necessary specialization to accomplish the tasks correctly, or to lose performance by the conflicting nature of the tasks. Adler, Goldoftas and Levine explain the intrinsic limitation of these options: Meta-routines could create a loss of focus by “goal displacement” or organizational rigidity by rejection. Switching implementation could be related to a loss of performance or abandonment of execution (Adler, Goldoftas and Levine, 1999).
2.4 Strategy making process as a way to study mixed strategy implementation

Strategy adoption and formulation is characterized in the literature by two canonical perspectives. The first and older one defends that strategy should be defined before implementation, by a top-down process where a firm’s top management defines the firm’s strategic planning and choice, such as which customer segments the firm will look after, what will be the value propositions offered, and what are the capabilities and resources necessary. This view of the intended strategy, defined through a rational process of planned choices, where decisions are made on analysis of a select group of executives, has its origin in the industrial organization perspective and in the design school of strategy, and in parts of the RBV school, where in this last, the strategy definition process focuses on the competencies and resources analysis (Hitt, Ireland and Hoskisson, 2012). On the other hand, Mintzberg and Waters defend that strategy came much more from a bottom-up process (Mintzberg and Waters, 1985), where medium and low levels of managers have the freedom to experiment and participate in the firm’s strategy definition, bringing ideas and innovation that shape the firm’s strategy through unplanned shift and autonomous actions (Hitt, Ireland and Hoskisson, 2012). Mintzberg and Waters defined this last approach of strategy as an emergent process, where strategy choices and formulation emerges from the daily operation (Mintzberg and Waters, 1985).

According to Mintzberg’s strategy development model, a deliberate strategy is derived from a planned strategy and integrated with the emergent strategy to form the realized strategy. Several scholars defend that the emergent strategic approach is mainly adequate in a turbulent and unpredictable environment (Hill, Jones and Schilling, 2014). In fact, a turbulent business environment would make any planned and intended strategy result in failure, as the dynamic and unpredictability nature of the change of environment will invalidate the rigidity of planned actions. Nowadays, Mintzberg’s strategy development model could be integrated to the field of strategy process.

In contrast to strategy content, strategy process is the field that studies how strategy is made. As Hutzschenreuter and Kleindienst demonstrate in their extensive literature review of the field, strategy process is made of several different lines of research,
which could include the influence of antecedent factors on the process making and their linkage with outcomes (Hutzschenreuter and Kleindienst, 2006). Such factors could include environmental characteristics, the firm’s strategy context such as history and heritage, size and age, organizational characteristics and performance. Additionally, to the antecedents and outcomes factors, several streams of research focus their studies on processes and issues characteristics, on strategist’s personal and cognitive context and on the characteristics between process and outcome linkages. Also, these lines of research have been done on different levels, such as individual, group and organizational level.

As it is not the objective to do an extensive literature review of the field of strategy process, and considering the large number of competing and overlapping models (Hart, 1992; Hutzschenreuter and Kleindienst, 2006), we chose to limit our investigation to the study that approaches strategy process at the organizational level, particularly centred on the managerial elements that characterize the strategy making process on sufficiently large and complex organization at multi-levels management, and with their interlaced iterations across several cycles of strategy change. We elected the Bower-Burgelman (B-B) process model (Noda and Bower, 1996) as a key theoretical model for this review as we believe that this model is adequate to understand the strategy making process of the mixed strategy approach in large and complex organizations over long periods of time.
2.4.1 The Bower model

The B-B model was firstly introduced by (Bower, 1970) and then further extended by (Burgelman, 1983). Originally, Bower introduced a model in which there were three processes: definition, impetus and structural context. Definition and impetus are mainly bottom-up processes where lower managerial levels define the content of strategy (definition) and select a relevant project to propose, to sponsor, and to approve funding (impetus). Definition and impetus processes are oriented by current concept of strategy controlled through structural context, which is made of managerial mechanisms by the corporate level to shape lower managerial behaviours under the definition and impetus process development. Structural context is mostly made of administrative mechanisms that corporate management can use to influence the perceived interests of the strategic actors in the organization. Corporate management use organizational structure configurations, degree of formalization of positions and their relationships, criteria for project screening, measures of managerial performance and rewarding systems and orientation of middle managers for entrepreneurial initiatives as one of the administrative mechanisms that characterize the structural context process.

Consequently, structural context is mainly a top-down process that allows the corporate managerial level to control the deployment of an intended strategy. The Bower model brings the benefit of a strategic corporate direction that, once received by lower managerial levels, is characterized by the specific knowledge of operational managers that should have the ability to translate a broad strategic orientation into specific market/product strategies. Discrepancies of the structural context and definition process could surge as specific operational manager knowledge could differ from the current concept of strategy. Then, the main role of middle managers is to verify and choose the projects with the greater accordance and propose them to top management level. However, these sponsored projects, even with small discrepancies, are of high consistency with the existing concepts used in the strategic planning system of the firm (Burgelman, 1983).
2.4.2 The contribution of Burgelman to the Bower model

Burgelman noticed that firms have a reservoir of entrepreneurial potential at lower managerial levels which he called autonomous strategic behaviour (Burgelman, 1983). Autonomous strategic behaviour in contrast to the induced strategic behaviour described by the Bower model, introduces new concepts of strategy at the definition process and conceives new business opportunities that escape from the selective effect of the current structural context. At the impetus process, autonomous strategic behaviour is characterized by middle managers formulating new business activities, trying to convince top management to support them by engaging in project championing efforts to mobilize corporate resources. If such autonomous strategic initiatives are successful, they could alter the current strategy concept at the corporate level. In contrast to the structural context, Burgelman defends the existence of a strategic context which is made of the efforts of middle managers to link autonomous strategic behaviours at the market-product level into the firm’s concept of strategy (Burgelman, 1983). Middle managers should have the capabilities of making sense of autonomous strategic initiatives at the operational level, formulating workable and attractive strategies that could be understood by the top management level. They should also engage in political activities to convince top managers to rationalize and accommodate the strategy initiatives to the current concept of strategy, putting their reputations for good judgment and career at stake (Noda and Bower, 1996). In the Intel case of DRAM exit strategy, Burgelman gives us an illustration of a strategic context in practice (Burgelman, 1996). With the fall of the demand from Intel’s DRAM business unit, product managers started to redirect the plant capacity to other business such as microprocessors, which by that time had a small share in sales but with a high client demand. Also, the microprocessor business started to gain more focus from Intel’s top management because of the autonomous initiatives of an Engineer that convinced the manager of the microprocessor division to sponsor the project of buying a microprocessor patent from a client in order to develop new microprocessor products (Burgelman, 1996).
2.4.3 The Bower-Burgelman revised model

More recently the Bower-Burgelman model was revisited and extended by Bower and Gilbert (Bower and Gilbert, 2005). In this review, the focus was centred on the resource allocation, and the model was renamed as Resource Allocation Process model (RAP) (Figure 6). The RAP model has its focus on the way that resources are allocated in the firm, as once the firm’s resource allocation process is understood, it is easier to understand how strategy is made and how to create a better strategy. In the RAP model, a force perspective is used to explain influence that the two main processes of definition and selection could suffer. Forces are separated by internal forces such as structural and strategic context and external forces such as product market and capital market context. Product market refers to the external influence powerful clients have on the firm’s resource allocation process, and capital market refers to the external influence of investors and capital market community on the firm’s resource allocation process.

In our view, the main contribution of the reviewed RAP model from the Bower-Burgelman model (Bower and Gilbert, 2005) is to have identified the set of forces that influence definition and selection as separate from the processes they shape and linked this with the realized strategy. Also, the feedback of the realized strategy, as its fit to the environment to the definition and selection process through the external and internal forces, gives a new dynamicity of the model in terms of strategy change and change in strategy process configuration.
Figure 6 - The RAP model (Bower and Gilbert, 2005) – Compiled by the author.
2.4.4 The need of integration between autonomous and induced strategic behaviour

With the addition of the strategic context process to the Bower model (Bower, 1970), Burgelman highlighted the need of integrating two internal forces that shape the firms’ strategy making process (Burgelman, 1983). In fact, if on one hand top management use the structural context to manipulate the deployment of corporate strategy concept and in a certain way to bring autonomous behaviour under control, on the other hand, middle management use strategic context as a way to alter the strategy concept at the corporate level. This is a confrontation between strategy stability and change. Strategy stability has the objective of reducing variability through coherence and continuity in corporate strategy, whereas strategic planning systems have the function to guarantee the correct allocation of crucial resources in accordance to the current strategy concept of the firm. Conversely, strategy change is supported by the need of strategic renewal that emerges from the operational level in order to achieve a better environmental responsiveness. Maintaining a correct balance between these fundamentally different requirements presents a major challenge for top management (Burgelman, 1983).

The need of a balanced integration between autonomous and induced strategic behaviour is better explained in the comparative study of (Noda and Bower, 1996), regarding the development of the cellular market by two telecom operators in the US market in the period 1985-1995. Two companies that were created from the breakup of AT&T, Bell South and US West, explored a new market opportunity of cellular wireless communication in different but similar territories. Bell South had the better performance in the domestic cellular market because it had a superior integrated middle and top management level around an iterated process of resource allocation determined by the stage of evolution, supported by successive positive feedback of the strategy process results. Despite that, in the early 1980s, the cellular market demand was highly uncertain, Bell South started with a clear strategic direction of concentrating their resources on the core business of telecommunication, where wireless telecommunication would be a business complement to the actual core business of wired communication. Also, the corporate level was extremely active in the integration and management of the autonomous initiatives of its cellular business unit. For example, a corporate team was responsible for analysing and helping the development of the project suggested by the managers of the business unit. A clear
link of that is the close integration between the corporate development team and the chief strategist of the business unit. However, despite having a strong centralization of the decision-making process, the initial structural context did not overly restrict the autonomous behaviour of middle managers. The structural context determined favourable conditions of development, setting positive financial goals for five years, and focused the strategy on a growth share market in the long term, giving time to the business unit to develop the cellular business correctly. While the cellular business returned positive results quickly, top management created a greater confidence which allowed them to reinforce a strategic context where middle managers had the opportunity to champion their new projects of market cellular development. Additionally, the strategic context altered the corporate strategy concept, turning the cellular business into one of the core businesses and creating a specific team at the corporate level to support the wireless project in others subsidiaries. If on the one hand the structural context allowed the development of autonomous initiatives on the cellular market, on the other hand it controlled the level of diversification, restricting initiatives that were completely out of the telecommunication scope. The right balance between increasing and restricting variability of the strategy scope simultaneously, as well as letting autonomous initiatives alter the corporate strategy direction, while controlling through structural context the limit of this alteration, allowed Bell South to adapt correctly to the new, unpredictable fast-growing cellular market. Conversely, its sister company, US West, suffered since the beginning from a too generic strategy definition, and a disconnection of the strategy process making between top management and middle managers. If on the one hand the US West business unit had all the autonomy for defining and developing its cellular strategy, then on the other hand the corporate level imposed very strong conditions on the financial result, demanding a high net income in the short term, which conditioned the strategy making process of the business unit on an equivocal cream-skimming strategy. Consequently, poor results of the US West business unit, prevented middle managers in gaining impetus for their initiatives by the top managers who were highly sceptical of the potentiality of the cellular market.
2.4.5 Strategy process as an evolutionary process of firm’s strategy adaptation

The Burgelman studies of the Intel corporation (Burgelman, 1996, 2002), which has been the case used to develop the B-B model, was marked by two different periods: the period (1980-1990), characterized by the exit of the DRAM business and the progressive migration of the activities to the microprocessor business under the CEO Gordon Moore, and the period (1990-2000), where CEO Andrew Grove transformed the PC microprocessor into the core business of the firm. These two periods of the same firm are of great interest as they explore two very different patterns of strategy making process that could be compared and contrasted.

The period marked by the exit of the DRAM business is characterized by an internal-ecology model of strategy making, where the more relevant initiatives were in exiting from the DRAM business and in developing the microprocessor business. Middle and operating management had a crucial role in developing autonomous strategic initiatives that resulted in the exit from the DRAM business before the firm’s top management was capable of recognizing the necessity. In the exit DRAM period, top management had a less relevant role, being limited to the formalization at the end of the exit of the DRAM business, fact already initiated years before by lower levels of management. Several mechanisms of internal selection played an important role, such as at the product production level, since market demand and profitability rules at the manufacturing process determined the natural and progressive migration from the DRAM to the microprocessor business. Also, the set of core competences that sustained the DRAM business was able after reconfigurations to sustain the microprocessor business. In summary, the strategy making process of this period was marked mainly by a disagreement between top management and the operational levels. Operational levels developed several autonomous initiatives in accordance to the loss of competitiveness of Intel in the DRAM segment and the natural growth of the microprocessor segment. Burgelman classified this as an internal-ecology strategy making, because autonomous strategic behaviour, strategic context, middle management impetus and internal selection for scarce resources played the determinant roles in the strategy change, while intended strategic behaviour directed and controlled by strategic context and corporate strategy concept have a very low influence and was very passive (Noda and Bower, 1996).
In a different way, during the period (1990-2000), where Intel developed the microprocessor in the PC market as its core business, it is characterized by a rational-actor model of strategy process (Burgelman, 2002), where the CEO, Andrew Grove, used the structural context process to implement a strong intended strategic behaviour across the firm. His leadership approach was in persuading and selling the corporate strategy concept personally to the management team, setting clear objectives, and using strategic planning, organizational structure and resource allocation administrative mechanisms. Then, structural context played a key role in aligning strategy with implementation. Strategic autonomous behaviour of middle and operational managers was restricted to the scope of the development of the PC market. Any initiatives out of the scope were not supported and developed by the structural context, which considerably restricted the entrepreneurial freedom of exploring new product and markets. Managers that developed a project inside the corporate strategic scope were encouraged by top management, while managers that developed a project outside the strategic scope were put aside. Burgelman called this type of strategy making process as strategy vector (Burgelman, 2002). On the one hand, Grove’s strategy vector gave Intel the opportunity to drive its external environment, which was the development of the PC market, where Intel occupied a leadership position several years ahead of its competitors. On the other hand, the narrowly induced strategy reduced the capacity for new business development, where Intel’s autonomous strategy process had become less able to exploit new business opportunities, characterizing a lack of strategic context. Burgelman named the continuous successfully narrowed strategy vector in the PC market as a co-evolutionary lock-in that lead to Intel’s strategy inertia (Burgelman, 2002).

The two different periods of Intel’s strategy making, clearly illustrate how two very different strategy process patterns are used to allocate resources in a specific environment situation. The internal-ecology strategy process pattern is characterized by a stronger strategic context determination and autonomous behaviour from middle management. Based on the Intel case, we can deduce that the internal-ecology strategy process pattern appears to be more adequate when the efficiency of the corporate strategy in clearly reading the environment and in setting strategic directions is compromised. In fact, in the DRAM exit strategy making process, the strategic context mostly implemented and defined the corporate strategy concept by itself, and in some situations acted outside the rules defined by structural context.
Conversely, the rational-actor model strategy process pattern is characterized by a stronger structural context determination, with top management acting actively on the intended behaviour of middle management. In the Intel case, it appears that this control and centralization of the strategy making process by top management, was corresponding to a very clear strategic vision of the promising future of the microprocessor PC market. Consequently, top management wanted to reduce the variability of strategy content out of the defined scope, concentrating the resource allocation on it.

However, if we carefully follow the description of the two situations we can observe that each strategy making process has some inconvenience. In the internal-ecology strategy making process of the DRAM exit business, the process took too many years, putting at risk the long-term survival and performance of Intel. The disconnection between the middle and top management level on the strategy content made the task of strategic change more complicated and risky, allowing part of the strategy change to be determined by the hand of luck. As Andrew Grove confessed, if top management had recognized sooner the need to exit the DRAM business, the transition to the microprocessor segment would have been quicker assuring a better entry condition for Intel (Burgelman, 1983). On the rational-actor model of strategy making process pattern of the PC market, the very strict structural context eliminated the act of exploring business opportunities out of the narrow scope of the PC market, characterizing a strategic inertia for the long term.

We deduced that the extreme situation of internal-ecology or rational-actor based patterns should be avoided, and that a certain equilibrium should exist between these two antagonists’ modus operandi that shape the firm’s strategy making. There is a balance that should be managed between either more or less autonomy in strategy development that top managers should control carefully. These different configurations of the strategy making process should also correspond to different environmental situations as we testified in the two different periods of the Intel case study. Floyd and Lane suggested an initial classification of four degrees of competition, from stable to hypercompetition, where in a stable environment, the strategy making process tends to be more centralized, intended to follow a rational-actor model, where the firm develops a competence of deployment at the lower managerial level, while in a turbulent environment, the strategy making process tends to be more decentralized and autonomous, meaning an internal-ecology model, where
the firm develops a competence of modification or redefinition at the lower managerial level (Floyd and Lane, 2000).

We conclude that a successful firm in adapting to a changing environment must alter the model of their strategy process, managing the balance between the two canonical models of rational-actor and internal-ecology strategy making process. Floyd and Lane suggest that the firm could alter stages between deployment, modification and definition competences in strategy renewal (Floyd and Lane, 2000). It is even possible that a firm can use more than one model simultaneously in different market/product scope. We deduce that a firm that has to manage alteration of style and type of competences of their strategy making process, should have developed certain dynamic capabilities (Eisenhardt and Martin, 2000) in making these competence modifications with an efficient adaptation to the environment. In our review, the dynamic capability of alteration of strategy making process model remains an unexplored sub-field of research. As we have seen, mixed strategy adoption is associated with a dynamic business environment, consequently firms that have adopted a mixed strategy should have developed a dynamic capability in managing changes in the strategy making process characteristics. It is an objective of this research to explore the presence of dynamic capability associated to change of strategy making process characteristics.
2.4.6 Strategy process and the relevance of middle management role

One of the implications of these two different styles of strategy making process is that they require a very different role of middle managers in the strategy making process (Floyd and Lane, 2000). Autonomous behaviour requires entrepreneurial risk taking for a certain degree of strategy direction, leadership, strategic vision and ambition from middle managers. This could not match the profile of disciplined executer and rule follower of a middle manager that would be necessary in a more intended context with a focus on strategy deployment role. It is difficult for a manager to completely change their profile and competencies, mainly because of long periods of incremental change that demand low entrepreneurship and limited creativity and risk taking. The sudden necessity of disruptive change of the strategy content could not be correctly addressed by the profile of managers who are used to mainly deploying strategy than in defining new ones.

The importance of the roles played by the lower managerial level in the strategy making process has given rise to the development of studies on the impact of the middle manager agency on the organizational strategy process. Strategy agency is defined as purposive action by middle managers capable of reflecting on the conditions of their activities, and hence, also of transforming those conditions (Giddens, 1986). In this vein, Mantere unveils how top management role expectations enable different aspects of strategy agency (Mantere, 2008) (Table 5).
<table>
<thead>
<tr>
<th>Role expectation</th>
<th>Aspect of enabled agency</th>
<th>Enabling conditions</th>
</tr>
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<tbody>
<tr>
<td><strong>Top-down</strong></td>
<td>Implementing Ability to perceive implemented objectives in the light of previous activities. This creates a sense of incremental progress in work, as strategic objectives form a coherent narrative from past to present.</td>
<td>Narration Top managers open up the internal logic of thought processes leading to the selection of strategic direction, linking it to past experiences.</td>
</tr>
<tr>
<td><strong>Top-down</strong></td>
<td>Implementing Ability to use strategy as a tool in practical, situated problem solving. This creates a sense that strategy is useful in everyday work.</td>
<td>Contextualization Top managers make an effort of linking strategy to relevant work contexts.</td>
</tr>
<tr>
<td><strong>Top-down</strong></td>
<td>Implementing Ability to see everyday work as useful to strategy. This creates a sense that everyday work is valuable and meaningful.</td>
<td>Resource allocation Middle managers receive explicit Top management authorization to make changes to everyday work. Resource allocation reflects changes needed in everyday work. Respect Top managers acknowledge the value of everyday work as implementation activity, and as such relevant to strategy.</td>
</tr>
<tr>
<td><strong>Top-down</strong></td>
<td>Facilitating Adaptability Ability to experiment and creatively develop work activities. This creates a sense of creativity and freedom in work.</td>
<td>Trust Top managers encourage new ideas, as well as open communication regarding success and failure in experimentation.</td>
</tr>
<tr>
<td><strong>Bottom-up</strong></td>
<td>Synthesizing information Ability to feed-back past experiences regarding strategy realization, helping strategy to adapt. This creates a sense of continuity in work and a sense of involvement in strategizing.</td>
<td>Responsiveness Top managers respond to feedback, communicating success and failure of past actions.</td>
</tr>
<tr>
<td><strong>Bottom-up</strong></td>
<td>Championing alternatives Ability to present new ideas impacting the organizational future. This creates a sense of being in control of one’s fate.</td>
<td>Inclusion Top managers invite and expect middle management to participate in planning. Refereeing Top managers react to new ideas, refereeing between ideas.</td>
</tr>
</tbody>
</table>

Table 5 - Example of Enabling conditions of Strategy agency in Manager’s role (Mantere, 2008)
2.4.7 Strategy process and mixed strategy

Despite a well-developed and vast literature, we did not find empirical studies that explore the strategy making process of mixed strategy implementation. We believe that the strategy making process should be of a very relevant importance and understood in the case of a mixed strategy implementation. As we have seen, such a strategy adoption that combines contradictory approaches corresponds to a more turbulent and unpredictable environment. Mixed strategy should be more dynamic than the pure strategy approach as the simultaneous combination of differentiation and low-cost approaches could be altered in order to adapt to a more dynamic environment. Consequently, dynamic management of role modification, definition and deployment of the strategy making process should be of particular relevance for mixed strategy implementation. In fact, mixed strategy has been associated with a very turbulent and uncertain environment. In a turbulent environment, competences of strategy making process could change drastically due to the need of adapting to very different external conditions. These external conditions could require alternation between competence deployment, modification and definition. Planned strategy characterized by a competence deployment mode could be altered by disruptive change of the environment, forcing a switch to competence definition and competence modification mode of strategy making process. It is a central objective of this study to explore such an evolution of the strategy making process modes across several periods of adaptation to turbulent environment in the mixed strategy adoption perspective, and to detect the presence of dynamic capability associated to the management of strategy making process characteristics changes. We will address those research objectives through the statement of research questions in the following section.
2.5 Literature’s gap formalization and research questions

2.5.1 Gap formalization

Despite numerous amounts of theoretical and empirical works in the field of mixed strategy, there is very little knowledge present in the literature about the managerial implication of the adoption of such a strategic approach. In fact, most of the mixed strategy proponents seem to have only focused on the subject of performance comparison with the pure strategic approach, and left unknown how these firms that have adopted a mixed approach have done it, providing managers and practitioners with no managerial guidelines for the adoption of the mixed strategic approach. Consequently, the subject of mixed strategy managerial implementation is of high relevance due to the central argument that pure strategy proponents defend, that the pursuit of a dual strategic focus by a firm lead to failure due to conflicting objectives and managerial practices, and that in some ways firms that have adopted the mixed approach should have found useful managerial practices to solve these inherent conflicts. We claim that the study of the managerial implication of the mixed strategy is a central gap in the literature.

2.5.2 Research questions

Based on the central gap of the literature, we address several research questions that have the function to guide the research. The first research question is to understand what are the reasons and factors that have taken the firm to adopt a mixed strategy approach instead of a pure strategic approach. We state the following research question:

RQ1: What are the main reasons that have caused a firm to adopt a mixed strategic approach instead of a pure differentiation or pure low-cost strategic approach?

We understand that the reasons that lead to a mixed strategy adoption could be mainly exogenous of the firm and related to a particular configuration of environmental factors such as the one described in the reviewed literature which are: competitive intensity, customer volatility, market munificence, scope for differentiation and scope for low-
cost. However, a firm could adopt a mixed strategy for other endogenous factors where the synergies generated by the combination of the two strategic approaches generate a competitive advantage or a superior performance over a pure strategic approach as Murray theoretically stipulated (Murray, 1988).

Associated with the cause that led to the adoption of a mixed strategy, it is also very relevant to understand how the process of strategy making was conducted. As we have seen, there are two canonical models of strategy making process. One is based on the rational-actor model, which results from a pre-defined, centralized and intended strategy making process, and the other is based on the internal-ecology model, focused on a more autonomous behaviour, decentralized and emergent strategy making process. The pure strategic approach of the Porter’s Generic strategies model (Porter, 1980a) that comes from the design school, is a much more rational-actor based model approach of strategy making process than an internal-ecology one. On the other hand, evidence found in the literature demonstrates that the mixed strategy has been adopted in dynamic, uncertain and turbulent environment, where we expect a certain decentralization and importance of autonomous behaviour from lower managerial level (Floyd and Lane, 2000). Consequently, it is highly probable that the process of mixed strategy adoption has the characteristics of an internal-ecology model.

However, this does not mean that the rational-actor model was not present. As we have hypothesized, the firm that has adopted a mixed strategy approach in order to adapt to a turbulent environment could have managed alternation between rational-actor and internal-ecology model of strategy making process in order to dynamically adjust its competence to the environment. This continuous adjustment of the strategy making process mode could reveal the development of a dynamic capability through a learning experience. The lack of empirical research on the subject of strategy making process of mixed strategy approach demands to state the following research question:

RQ2: How is a mixed strategy adopted? What are the characteristics of the strategy making process of a mixed strategy?

Once the main characteristics of the mixed strategy adoption process have been identified, it is fundamental to understand how a firm that implemented a mixed
strategy has integrated the differentiation and low-cost strategic approach in a coherent positioning and strategy policy. Therefore, we state the following research questions:

RQ3: How has the firm been integrating the two strategic approaches of differentiation and low-cost in a coherent and unified strategy formulation that involves market positioning and internal strategy policy definitions?

Once the mixed strategy formulation process has been clarified, an important issue raised in the literature review is the management of the trade-off and the solution of managerial conflicts between the differentiation and low-cost strategic approach at the firm’s value chain activity level. Also, we expect that the firm derived important synergies resulting from the integration of the two strategic approaches. We state the following research question:

RQ4: How has the firm solved the inherent conflicts associated to trade-off dilemmas of the mixed strategic approach and extracted synergic value?

Finally, it is fundamental to understand what types of capabilities (skills) the firm has had to develop to efficiently manage the mixed strategic approach. We state the following research question:

RQ5: What main competencies and managerial roles have been developed by the firm’s managers in order to manage a mixed strategic approach?
2.6 Conclusion

In this chapter we concentrated on close attention to the definition of the mixed strategy. As we demonstrated, conceptualization of the mixed strategy is superficial and presents several ambiguities. We highlighted these anomalies and proposed a normalized concept in order to support this study. Gaps involving the implementation of the mixed strategy at the strategy definition level, as at the value chain level, was formalized and allowed us to propose a conceptual theoretical model in order to support the chapters of analysis.
Chapter 3 - Research methodology

3.1 Chapter introduction

This chapter opens with a brief discussion on the philosophical assumptions grounding this study in terms of its ontological and epistemological foundations. Thereafter, research objectives, questions and approaches are presented. Methodological choices such as the single case study approach are justified as the methods for its selection and validation. After presenting the data analysis plan, we present and explain the main methodologies used for the analyses. These brief explanations and justification of the methods selected for this study will provide the reader with a better understanding of the next chapters.

3.2 Philosophical assumptions

Philosophical assumptions guide researchers in setting up the appropriate methodologies for their research (Creswell et al., 2007). In this section, we will explain the ontological and epistemological foundations adopted in this study, in order to support the methodologies chosen and presented in the next sections.

A long debate has been established in science on the nature of what is reality. On the one hand, we have the realism perspective that has a concrete view of the world and, independently if the observation has a direct or indirect correspondence to the phenomena being observed, defends that the process of observation does not have any influence on the phenomena being studied. On the other hand, we have the relativism perspective that perceives the world as mutable and understands that the process of observation influences the object of study. This traditional debate has been transferred into the domain of social science in two central ontological positions that are representationalism and relativism.

Representationalism found its origin in the realism perspective of natural science but with an internal perspective, the internal realism position, which understands that the world is concrete, however it admits that it is not possible to have a direct access to the phenomena in the process of observation (Easterby-Smith et al., 2008). Relativism
In social science derives from the relativism perspective of natural science and assumes that different observers may have different perspectives and that the truth about a phenomenon could vary depending on place and time (Collins, 1983).

In this study, we adopted the critical realism point of view, an intermediate ontological position between the two extreme perspectives of representationalism and relativism. Critical realism perspective recognizes social conditions as having real consequences whether or not they are observed by social scientists. However, critical realism also recognizes that concepts are human constructions. Easton (Easton, 2010), based on the work of Sayer, summarizes the main characteristics of critical realism as follows: the world exists independently of our knowledge of it; our knowledge of the world is imperfect and limited when it needs to establish a valid relationship between knowledge and the subject of study; knowledge is not valid continuously in time as concepts can change, however it is also not discontinuous as there is no radical rupture of validity of the same concept across time; knowledge could be influenced by social necessity and interest associated with the process of observation which alters its nature; the world is complex and not composed by simple atomic components, which are dynamic and active, consequently knowledge cannot grasp all the complexity of the elements of the world.

In summary, different to relativism and aligned with representationalism, critical realism ontology assumes that there exists a reality independent of the observers. However, it differs from the naïve view of representationalism that believes that this reality could be directly accessed and controlled, and critical realism defends that the knowledge of this reality is socially constructed and consequently does not directly represent the reality but a representation of it among several. Critical realism resolves the contradictory approach between representationalism and relativism by arguing that this knowledge construction based on a reality independent of the observer cannot exist by itself without the proper existence of the reality (Easton, 2010). Consequently, critical realism has been used as an ontological position in case study research that enables a deeper understanding of reality through social interaction and a construction approach through methods such as interviews. In fact, contrary to the statistical approach that assumes certain constructs as a-priori true to running a large survey in order to collect data in search for correlations between independent and dependent variables, the case study is particularly useful to merge into reality by social interaction.
where new constructs emerge. We believe that an ontological approach based on critical realism will be necessary to understand the complexity of the nature of the mixed strategy concept that has been oversimplified and misunderstood by empirical studies, which adopted a realist ontological positioning through statistical empirical studies. Statistical empirical studies described in the literature review chapter test the concept of mixed strategy defining it simply by the combination of differentiation and low-cost elements. These studies have used a very imprecise definition of the reality and should have reached an imprecise conclusion, because we understand that the mixed and pure strategy construct could be confused in an interview or during data collection.

Critical realism understands that reality is socially constructed however, external reality is the foundation for this construction. Consequently, critical realism takes into account that social phenomena are intrinsically meaningful and that this meaning is not only externally descriptive but also composed by them. In the critical realism point of view, meaning has to be understood and cannot be measured or counted. As in the empirical domain of reality, events can occur that are not fully understood, or perceived, or that are understood or perceived differently by observers, as critical realism usually relies on several sources of information, and seeks to test reality through the eyes of different theoretical models to evaluate alternative explanations, and to reach a common understanding of meaning (Easton, 2010). Consequently, we approach critical realism ontology using epistemological principles of social constructionism that involve construction of meanings, reflexivity between the elements of the empirical domain and the observer, using techniques such as social conversation with individuals, using analysis approaches that are sense-making in establishing the causal relationship between elements of the empirical domain with constructive purpose (Easterby-Smith et al., 2008).

3.3 Research design

3.3.1 Research objectives

As we have seen in the previous literature chapter, the study of the managerial implication of the mixed strategy is a central gap in the literature. It is the main
objective of this thesis to fill that gap, investigating empirically managerial practices of firms that have implemented a mixed approach and generalizing a framework that could serve as a guide for most of the mixed strategy implementation situations. Through this research and its outcomes, we hope to contribute to the strategy management field by enriching knowledge in the practice of mixed strategy adoption.

### 3.3.2 Research approach

#### 3.3.2.1 A case study methodological research approach

The research questions that we elaborate to achieve the research objective are of the type “why” and “how”, which require an investigative explanatory approach (Yin, 2009). Consequently, we decided to adopt a case study methodology for the empirical research of this thesis. As we have seen, there already exist important amounts of studies that have tested using statistical methods the superiority of the mixed strategy approach over the pure approach, at least, in certain circumstances. Robustness of the statistical methodology and the amount of empirical quantitative study in the literature brings great confidence that the mixed strategy is a viable competitive strategic approach. Despite that, we know very little about its managerial and implementation characteristics. Quantitative methods are more appropriate when there are few and known variables, which are composed by several points of data, and that the subject of the study is the correlation between these variables (Yin, 2009). In other words, in quantitative research the boundaries between the phenomenon and the context are well delimited, with controlled and well known independent variables. Then the focus of the quantitative research is on the correlation of the independent variable (X) with the dependent variable (Y). Ultimately, the statistical approach does not prove causality but frequency, with probabilistic confidence that when X occurs then Y occurs (Hall, 2008; Blatter and Haverland, 2012). However, there is the perception in managerial science that statistical methods applied to large numbers of cases provide better ground for causal inference. Conversely, several researchers defend that in a small number of cases, systematic process methods could be used to track complex social mechanisms and support the development of theory-oriented explanations (Hall, 2008; Yin, 2009; Blatter and Haverland, 2012).
This is the case of this study, where independent variables that are associated to the mixed strategy adoption seem to be much more complex in their structure and interaction. Consequently, the boundaries that separate the mixed strategy adoption phenomenon from its context seem to be too complex for the quantitative approach. Our literature review revealed that the adoption of a mixed strategy is associated with complex and challenging business environments, very often described as turbulent, hypercompetitive, volatile and uncertain. However, the mixed strategy’s researchers limited themselves in choosing these contexts of mixed strategy adoption broadly, often by selecting a geographic locality, such as a country with specific social and economic characteristics, or choosing a specific period, such as an economic recession or disruptive change in market conditions. The different environmental factors and their dynamic perceived as turbulent and challenging appear to be extremely complex for these researchers to isolate these factors in independent variables to be inserted in a quantitative model. In fact, explaining the complex causal chain of factors involving level of competition, consumer behaviour, market demand influence, a firm’s competencies and managerial characteristics that ground the mixed adoption and comparing them with pure strategy alternatives, seem to be too complex for a quantitative model, at least at first glance when the conceptual foundation of the mixed strategy theory lacks precision and leads to ambiguous interpretations.

Additionally, phenomena such as trade-off dilemmas, their solutions and associated synergic benefits have also been avoided in quantitative studies. Despite the fact that the main debate revolves around the trade-off dilemma and the possible benefit of synergies, mixed strategy proponents have surprisingly completely ignored the most relevant part of the study of mixed strategy adoption possibly due to methodological limitation. As Hall describes, the task of producing quantifiable measures of the relevant variables requires such oversimplification in quantitative research, that the resulting proxies deform reality beyond reasonable limits (Hall, 2008). Consequently, following the recommendation of Yin, in this type of situation of complex social phenomena, we selected the case study approach to be more appropriate, as it allows a profound understanding through qualitative methods of the causal relationship that exist between the context and the phenomenon (Yin, 2009). The nature of our research question also demands an explanatory approach as the main objectives require a causal explanation of the environmental and managerial elements that are associated with the
mixed strategy adoption. However, exploration and description are not eliminated and will be used throughout the analysis to give support to the main explanatory conduction.

3.3.2.2 Single case study research approach

After a review of the method of the multiple case study option, we decided to use a single case study research approach. In fact, multiple case studies are more appropriate for cross analysis between cases or intertemporal comparison of the same case, when different variations of the independent variables are compared to sustain a specific outcome (Yin, 2009). The multiple cases study approach has also been tagged as co-variational analysis (COV) (Blatter and Haverland, 2012). The COV approach uses different cases to systematically compare the variation of values of the independent variable (X) with the variation of values of the dependent variable (Y). Normally, COV analysis is used when the researcher wants to know the effect of a specific factor on the outcome, such as does X imply Y? If we were interested for example in knowing if different configurations of environmental factors affect the type of adoption of a mixed strategy, in this case our main research questions will be such as: Do different business environments affect the mixed strategy formulation and implementation? The multiple cases study is a valid approach for the study of the mixed strategy implementation, as the literature review revealed evidence sustaining that there should exist several types of mixed strategy contexts for an adoption. However, as we have seen, the foundation of the mixed strategy theory scarcely exists and the main concepts are not sufficiently well defined in the literature. Consequently, it is very difficult to select several firms that have adopted different types of mixed strategy in order to make a cross-case analysis, if we are not sure a-priori what is a mixed strategy.

The risk of selecting a firm that has a pure strategic approach and undertaking important marketing improvement or operational efficiency initiatives could invalidate the cross-cases comparison because of variation on the dependent variable. In fact, as Blatter and Haverland defend, COV analysis is indeterminate and not adequate when more than one independent variable co-varies with the dependent variable, or when the measurement and classification of variables is not clear or ambiguous (Blatter and Haverland, 2012). In this case tracing the chain of causes between the independent
variables that explain the outcome seems more appropriate, and require a single case study approach. A single case study approach implies a systematic process analysis (Hall, 2008), where the analysis is Y-centred, which means that the researcher is interested in the many and complex causes of a specific outcome (Y) and not so much in the effects of a specific cause (X). In this kind of research question where the research tries to understand the “why” and the “how” X implies Y, instead of the “does” X imply Y, it is natural that the research concentrates on a single event, or case study to understand the complex and intricate mechanism that explains the phenomenon and leads to theory generalization.

Consequently, the single case study approach requires analysis that traces the mechanisms for necessary and sufficient conditions that lead to a specific type of outcome, or simply, to more closely understand the theory based mechanisms that actually link causal factors to outcomes (Blatter and Haverland, 2012).

Therefore, we concluded that it is more adequate to use a single case study to ensure the foundation of the mixed strategy theory before going through a multiple case study approach. For this reason, we decided on an extreme situation in order to guarantee that we are truly studying a mixed strategy implementation and not a type of pure strategic approach. Consequently, the case chosen should demonstrate evidence that it is in a situation where both pure differentiation and low-cost strategic approaches were not valid options, and that the mixed strategy adoption is the only feasible strategy implementation. Once it is certain that the context where the firm is inserted does not allow a pure strategic approach, it will be necessary to prove that the firm is not in a stuck-in-the-middle situation. We believe that by using this extreme situation we can study the mixed strategic approach in its full utilization and deployment, extracting findings that could serve as a foundation for the generalization of the mixed strategy theory.

3.3.2.3 Method for selecting the case study

For selecting the single case study, we defined the configuration of environmental factors that ensure the adoption of a mixed approach. We defined exogenous factors that invalidate a firm to sustain a competitive advantage through pure differentiation
or pure low-cost approaches, and endogenous factors that together guarantee that the firm is not in a stuck-in-the-middle situation (Table 6). These exogenous and endogenous factors have been defined from the literature review, and full definitions of them are described in the congruence analysis located in the appendix.

<table>
<thead>
<tr>
<th>Main characteristics of a pure low-cost strategic approach</th>
<th>Endogenous Factors</th>
<th>Exogenous Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size of customer target segment</td>
<td>Limited</td>
<td>False</td>
</tr>
<tr>
<td>Differentiation through product scope complexity</td>
<td>Limited</td>
<td>False</td>
</tr>
<tr>
<td>Differentiation through customer characteristics diversity</td>
<td>Limited</td>
<td>False</td>
</tr>
<tr>
<td>Level of customer loyalty</td>
<td>Limited</td>
<td>Limited</td>
</tr>
<tr>
<td>Customers are low price sensitive</td>
<td>Limited</td>
<td>Limited</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Main characteristics of a pure differentiation strategic approach</th>
<th>Endogenous Factors</th>
<th>Exogenous Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ability to read customer needs</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Ability to sustain superior price</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Ability to manage drivers of uniqueness</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Ability to manage cost drivers through the firm’s value chain</td>
<td>High</td>
<td>High</td>
</tr>
</tbody>
</table>

*Table 6 - Endogenous and exogenous criteria to choose the single case study.*
The sampling of the firm that could match those criteria was defined on a-priori knowledge of a firm’s characteristic that was in the scope of accessibility for the research. Several other firms could match the requirement but were not necessarily easy to access. For the firms that we have the possibility to access we checked the one that could match those characteristics by analysing information of the firm mainly accessible through internet, by interviewing managers and consultant specialists of industries. A total of ten firms were candidates for the case study, but only one clearly matched all the criteria of the case study selection and was interested in conducting the research. Another firm demonstrated interest but did not match all criteria clearly.

3.3.4 Level of analysis

To attend the research questions using a single case study approach, we defined two levels of analysis (Figure 7). The first level is defined by the managerial processes that define the adoption of the mixed strategy in relation to its environment. This level has a particular emphasis on the exogenous factors of the firm however, it could also involve endogenous factors such as a firm’s competencies, resources and managerial characteristics. Its objective is to answer the research questions RQ1 and RQ2 that are focused on the investigation of the mixed strategy formulation and adoption to fit the environment, for which the firm of the case study is inserted. The second level of analysis is defined by the managerial processes that define the implementation of the mixed strategy in relation to the firm’s resources and structures. This level has a particular emphasis on the endogenous factors of the firm however, it could involve the exogenous factors involved in the first level analysis. Its objective is to answer the research questions RQ3, RQ4 and RQ5. The focus of this last analysis level is to investigate the strategy formulation and implementation at the value chain activity level and to explore strategy definitions, management and organizational structures associated to it.
<table>
<thead>
<tr>
<th>CONTINUOUS OF THE CASE STUDY</th>
</tr>
</thead>
<tbody>
<tr>
<td>A configuration of environmental factors that favour the adoption of a Mixed strategic approach</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CASE STUDY</th>
</tr>
</thead>
<tbody>
<tr>
<td>A firm that has adopted a mixed strategy in detriment of pure strategic approach options</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EMBEDDED UNIT OF ANALYSIS 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mixed Strategy and Environment fit</td>
</tr>
<tr>
<td>Analysis of case study firm’s organizational processes and practices which involve strategy process adoption, strategy fit to the environment and strategy definitions.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EMBEDDED UNIT OF ANALYSIS 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mixed Strategy and firm implementation</td>
</tr>
<tr>
<td>Analysis of case study firm’s organizational processes and practices which involve the design and implementation of value propositions, value chain activities and organizational structures.</td>
</tr>
</tbody>
</table>

*Figure 7 - Case study project – A unique case study with an integrated multiple unit analysis approach.*
3.4 Research execution

3.4.1 Data collection

3.4.1.1 Primary data collection

Choice of interviewees: To understand the mixed strategy formulation and implementation, we first arranged a telephone meeting with the case study firm’s CEO, to define which managers will be necessary and available to be interviewees and give further support during the research. We asked for at the very least an executive manager of each primary process of the firm’s value chain. In particular, the most relevant processes, which were the marketing and commercial departments, the product R&D department, and supply chain and manufacturing departments. Additionally, we had interviews with support departments such as finance & accounting and quality management. We preferred fewer interviewees with long and in-depth interviews rather than many interviewees with more superficial and short interviews. The main reason for this is that the executive manager that we chose as an interviewee would have an in-depth knowledge of the operation and of the strategy formulation and implementation in each department and in their own department. They would also have participated in all the steps of strategy formulation in the past five years and were responsible for their implementation. Therefore, the richness and quantity of information available to them was very rich and took considerable time due to the complexity of the subject that involved an important number of relations between exogenous and endogenous variables. Consequently, instead of confirming several times the same single data with many interviewees, we preferred instead an in-depth analysis for a complex set of data using the different perspectives of a few senior interviewees.

Semi-structured interviews: The survey followed a semi-structured interview method. First, the CEO sent an email to each selected manager explaining the purpose of the research and its importance for both the academic and management field. Subsequent to the CEO’s communication, we sent a presentation of the research that explained the purpose of the study with the guiding questions for the interviews. The interview plan was supported by several definitions and explanations to help the understanding of the main concepts involved. The interview plan was composed of a part of generic
questions about the firm common to all participants, and a part that was particular to their area of management. Despite the fact that the interview plan was well structured, conduction of the interviews was used as a guide and did not necessarily follow the sequences and all questions used. We gave priority during the interviews to reach the logical development of the subject in collaboration with the interviewees. Interviews were organized in two stages (Table 7). The first stage focused mainly on the objective to confirm that the firm’s case study selected was actually a mixed strategy adoption, addresses the first research question and to understand broadly its implementation. Interviews were held personally at the work place of the manager. More strategic interviews such as those with the CEO, R&D director and marketing director were broken into two parts, with an interval of half an hour to give us the chance to analyse the first set of questions and to adapt the next series of questions depending on the answer and the development of the interviews.

Based on the first stage, and after having coded and categorized the data, we started to construct a structural model of the case study mixed strategy characteristics, then we moved on to a second stage of interviews to confirm certain findings and further understand certain implementation characteristics to complete the answer of the second research question regarding the implementation aspect of the research.
<table>
<thead>
<tr>
<th>Stage</th>
<th>Place</th>
<th>Interviewees</th>
<th>Language</th>
<th>Quantity of interviews</th>
<th>Approximately Total Duration (hours)</th>
<th>Scope of the interview</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Spain</td>
<td>Chief Executive Officer</td>
<td>Spanish</td>
<td>2</td>
<td>2h</td>
<td>Company History &amp; Strategy change; Company Culture</td>
</tr>
<tr>
<td>1</td>
<td>Spain</td>
<td>Product R&amp;D Director</td>
<td>Spanish</td>
<td>2</td>
<td>2h</td>
<td>R&amp;D Strategy</td>
</tr>
<tr>
<td>1</td>
<td>France</td>
<td>Marketing Director</td>
<td>French</td>
<td>2</td>
<td>2h</td>
<td>Industry, Market segments &amp; competitive Strategy</td>
</tr>
<tr>
<td>1</td>
<td>France</td>
<td>Commercial Manager</td>
<td>French</td>
<td>2</td>
<td>2h</td>
<td>Customers &amp; Commercial management</td>
</tr>
<tr>
<td>1</td>
<td>Spain</td>
<td>Finance &amp; Accounting Manager</td>
<td>French</td>
<td>2</td>
<td>2h</td>
<td>Cost Structure, Cost and Value chain Analysis, Profitability Volatility and Resilience</td>
</tr>
<tr>
<td>1</td>
<td>Spain</td>
<td>Quality Manager</td>
<td>Spanish</td>
<td>1</td>
<td>1h</td>
<td>Quality, Customer Perception and Satisfaction</td>
</tr>
<tr>
<td>1</td>
<td>Spain</td>
<td>Supply chain Manager</td>
<td>Spanish</td>
<td>1</td>
<td>1h</td>
<td>Supply chain flexibility and adaptation; Supply Efficiency</td>
</tr>
<tr>
<td>1</td>
<td>Spain</td>
<td>Industrial manager</td>
<td>French</td>
<td>1</td>
<td>1h</td>
<td>Industrial flexibility and adaptation; Production Efficiency</td>
</tr>
<tr>
<td>1</td>
<td>Spain</td>
<td>Product R&amp;D Manager</td>
<td>Spanish</td>
<td>1</td>
<td>1h</td>
<td>Product and Service Innovation management</td>
</tr>
<tr>
<td>2</td>
<td>Video conference</td>
<td>Marketing Director</td>
<td>French</td>
<td>2</td>
<td>2h</td>
<td>Strategy formulation, value proposition design, trade-off dilemma and solution, synergic benefits, organizational structures</td>
</tr>
<tr>
<td>2</td>
<td>Video conference</td>
<td>Supply Chain Manager</td>
<td>Spanish</td>
<td>1</td>
<td>1h</td>
<td>Trade-off dilemma and solution, synergic benefits, organizational structures</td>
</tr>
<tr>
<td>2</td>
<td>Video conference</td>
<td>Product R&amp;D Manager</td>
<td>Spanish</td>
<td>1</td>
<td>1h</td>
<td>Trade-off dilemma and solution, synergic benefits, organizational structures</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total</td>
<td></td>
<td>18</td>
<td>18h</td>
<td></td>
</tr>
</tbody>
</table>

*Table 7 - Interview plan achieved for the first and second stage.*
3.4.1.2 Secondary data collection

The primary data was enriched and complemented by valuable and precise secondary information. The firm provided most of it, but we also had access to important market research reports that were crucial to understanding the dynamics of the industry. The multiple sources of information helped the process of triangulation where primary data was confirmed and complemented using these secondary data sources.

Firm’s documents: We had access to a wide range of the firm’s documents, such as financial statements, market research, consulting reports, managerial reports, steering committee meetings, competitors and market positioning analysis, organizational structures, sales force meetings as memos of internal projects covering the period 2005-2014. The sum of these files supplied by the executive managers composed a database of 351 documents (approximately 450 megabytes of data). This database of extremely rich and detailed documents allowed us to enrich the coding process from the transcriptions of the interviews and provided a large support of evidence.

Market data: Information of market data where the firm was inserted was accessed through specific reports, much of it provided by Euromonitor and Tradingeconomics.com.

Internet data: Some data such as reports and business news on the firm, competitors and market was widely obtained through sources provided by Google search on internet.
Memos: After and during the interviews, and the analysis of the data, several memos were written to summarize pre-findings, concepts and ideas. These memos were used during the analysis stage as a source of information. A first idea map was made summarizing the important elements that compose the mixed strategy adoption and was very useful to guide the analysis stages. The full idea map can be checked in the appendix.

3.4.1.3 Access to the field and ethical issues

Access to the field: Most of the firms sampled had a type of accessibility through previous business and work relationships. The research of this thesis had a consulting relationship with the firm of the case study, which allowed a deep knowledge of the company and trusting relationships with the senior managers.

Confidentiality: The case study firm’s managers were very open and generous in supplying crucial company information for this research. However, as they had to supply highly strategic information about the firm, absolute confidentiality was required, where the name of the firm and the name of the managers could not be revealed. For this reason, we used a fictitious name in this study instead of the real name of the firm. Given that highly sensitive information about the firm was used in the research, we took the precaution that no other type of information revealed by triangulation or evidence could lead to the deduction of the real firm’s name. A final version was examined by the senior manager of the firm and approved for publication.
3.4.2 Data analysis

3.4.2.1 Data analysis plan

We will separate the data analysis into three phases (Table 8). A first pre-analysis phase has the objective to validate the single case study selection as a firm that has implemented a mixed strategy approach. As we have already seen, for this pre-phase we will use a congruence analysis approach. Then, once the firm’s case study has been validated, we will enter through the data analysis phase A, which is divided into two stages. The objective of phase A is to organize the data collected for phase B where the causal process tracing analysis will be run. In stage 1 we construct the storyline of the firm’s case study in the period of relevance for the scope of the analysis. Then in Stage 2 we use a predefined coding process based on the conceptual model proposed and open coding for identifying new constructs in order to prepare the causal process tracing analysis. Data analysis from phase B has the main objective to explore the characteristics of the mixed strategy implementation through causal process tracing methods. In stage 3, we will identify the main causal mechanisms linked to construct the mixed implementation, and in stage 4 we will justify these causal mechanisms as necessary and sufficient conditions for the characteristics of the mixed strategy implementation. Finally, in stage 5 we will generalize the mixed strategy theory from the particular characteristics of the case study.
<table>
<thead>
<tr>
<th>Pre-analysis Phase</th>
<th>Data Analysis Phase A</th>
<th>Data Analysis Phase B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objective</td>
<td>Confirm the mixed strategy premise by eliminating rivals’ theories.</td>
<td>Explore case study firm’s storyline, identifying and discovering constructs.</td>
</tr>
<tr>
<td>Data</td>
<td>First data of interviews and secondary data available.</td>
<td>In-depth interviews from the first phase of data collection; Memos; archival data, documents.</td>
</tr>
</tbody>
</table>

Table 8 - Data analysis plan
3.4.2.2 Data analysis methods

Transcription process: Primary data interviews were recorded in verbatim using a tape recorder and transferred to a computer. Audio files were sent to two transcription professionals, one native French speaker for interviews in French and one native Spanish speaker for interviews in Spanish. Transcription was carefully revised, comparing the audio with the text in order to check the fidelity of the transcription. Correction of the transcription was done when necessary after having checked the misunderstanding with the transcription professionals. The transcriptions of the interviews were uploaded in Nvivo software to initiate the coding procedure.

Coding process: We started the coding process based on predefined codes extracted from the literature reviews, mainly based on the conceptual model proposed at the end of Chapter 2 (Saldaña, 2015). The transcription was first coded with these constructs. Then, in a second round we complemented the first coding stage with an open coding approach. Finally, we joined together codes of constructs that have the same nature of meaning under categories, in order to facilitate the visualization of the main constructs that compose the mixed strategy adoption and implementation. A full list of the codes and categories can be found in the appendix.

Validity of the case study selected through a congruence method: To ensure the validation of the case study we used a congruence analysis approach (CON) based on pre-interviews with the CEO of the firm and the marketing director, the main executives responsible for the firm’s strategy. We also used an original set of the firm’s documents supplied and data obtained through internet. A CON approach is a small-N research design in which the research uses a case study approach to provide empirical evidence that supports the explanatory relevance of one theory in relation to the rival’s theories (Blatter and Haverland, 2012). The strength of the explanatory relevance of the theoretical approaches to the case study is measured using specific propositions defined a-priori and existent in the literature. The type of question that the congruence analysis answers is: Does theory A provide a better explanation in comparison to rival theories? For this study, the objective of the congruence analysis is to measure the explanatory relevance of the mixed approach in relation to pure differentiation, pure low-cost and stuck-in-the-middle strategic approach. However, as we have seen, we do not have a precise definition in the literature of the mixed strategic
approach, consequently we will concentrate the congruence analysis in measuring the explanatory relevance of the rival’s theories.

According to Blatter and Haverland, a crucial case has the highest relevance for the theoretical discourse if it is a “very likely case” with respect to dominant theories, and at the same time if it is a “very unlikely case” with respect to an alternative theory, and if the case analysis leads to clearly stronger results for the alternative theory than for dominant theories. Considering this, we checked the degree of crucialness of the unique case selected for this study. For this, we followed a method of classification of the degree of crucialness described by Blatter and Haverland (2012, p.199) (Table 9).
The level of crucialness of the case study selected has been defined as “Very Strong” or at least “Strong” because we expect that at least two of the three dominant theories are “Very Likely” to fit the context conditions, but due to a-priori perception from the case study pre-selected for this analysis, we believe that these dominant theories will not be confirmed. Furthermore, the strength of the case study’s relevance is reinforced because the description of the context conditions does not sustain the adoption of the alternative theory, but due to a-priori perceptions we believe that the alternative theory will be confirmed. The full congruence analysis of the dominant and alternative theories can be checked in the appendix.

<table>
<thead>
<tr>
<th>Context Conditions</th>
<th>Pure Differentiation Strategic Approach</th>
<th>Pure Low-Cost Strategic Approach</th>
<th>Stuck-in-the-Middle Outcome</th>
<th>Mixed Strategic Approach</th>
<th>THEORETICAL RELEVANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Likely</td>
<td>Very</td>
<td>Very</td>
<td>Very</td>
<td>Very</td>
<td>Very Strong/ Strong</td>
</tr>
<tr>
<td></td>
<td>Unlikely</td>
<td></td>
<td>Like</td>
<td>Unlikely / Likeliness Unclear</td>
<td></td>
</tr>
</tbody>
</table>

Table 9 - Test of the crucialness of the case study selected. Source: created by the author based on the definition of degree of crucialness defined by Blatter and Haverland (2012).
3.4.2.3 Investigating and explaining the mixed strategy adoption through a causal process tracing method

Justification of the use of a causal process tracing approach for this study: The main method used in this study to answer the research questions RQ1, RQ2, RQ3 and RQ4 is a causal process tracing analysis (CPT). As Hall defends, small-N research designs can be valuable for causal inference in the field of management studies and social science, especially if a systematic process analysis is followed as a methodology (Hall, 2008). For a systematic approach, we decided to choose the CPT method among others because we understand that it is more adequate to analyse the complex chain of causal mechanisms while keeping robustness of the validity (Collier, 2011).

As described by Blatter and Haverland (2012, p.106), “causal-process observations” are more appropriate than “variable-scoring observations” or “data-set observations”, when the objective is to understand the causal relationships of factors (independents variables) that result in a specific outcome (dependent variable). In this type of situation, the specific sequence of events identified in space and time as causal conditions is crucial to understanding the nature of the outcome. Additionally, the causal process tracing approach is specifically appropriate for “tracing the combination and interaction of divergent causal factors in the process that leads to an outcome” (Blatter and Haverland, 2012, p.84).

We believe that the CPT approach fits the objective fixed by the research questions because the congruence analysis revealed a very complex environment with several factors such as a high level of competition, recessive market growth and volatile consumer demand. We suspect that the interaction and combination of these factors, maybe with the influence of others, are the cause for the mixed strategy adoption. In this study, it is fundamental to understand the reasons and elements that led to the adoption of a mixed strategic approach, because as we have identified previously in the literature review chapter, the adoption of a mixed strategic approach presents several challenges, such as managerial complexity and the risk of low performance due to a contradictory agenda. Consequently, a firm should have strong motives to adopt such a strategic approach. Additionally, we want to understand if the choice of the mixed strategy was deliberately planned or if it emerged from a learning experience from the adaptation of the environment.
Purpose of a causal process tracing analysis: CPT approach is an analytic tool for constructing descriptive and causal inferences from evidence (Collier, 2011). Among the several purposes that a CPT approach could be used, we are particularly interested in this study to use it for gaining insights into the causal mechanism of the mixed strategy adoption, to discover new hypothesis and generalize assumptions. As Blatter and Haverland stated, the CPT approach is particularly useful in tracing the combination and interaction of divergent causal factors in the process that leads to an outcome (Blatter and Haverland, 2012). The CPT approach separates complex causal inference into two types: the causal conjunction and the causal chain. A causal conjunction is composed by a configuration of multiple causal conditions that interact together on a time interval to produce specific outcomes. In the causal conjunction, the interaction of the causal condition does not have specific sequences or order to produce the outcomes. These interactions could be additive when the sums of their actions are necessary and sufficient to produce the outcome or interactive, when interaction between the causal condition occurs in order to produce the outcomes. On the other hand, a causal chain is a configuration of causal conditions that form the necessary and sufficient conditions to trigger other configurations of causal conditions in a chain that results in the outcome. In this study we will use these two different types of causal configurations, looking for a specific temporal order of causal condition (causal chain) or looking for a specific condition that has to be present at the same moment to be causally effective (causal conjunction).

Application of CPT analysis: CPT analysis could be used to search for necessary and sufficient conditions that lead to a specific type of outcome, or it could be used to understand the theory-based mechanisms that actually link causal factors to outcomes. Consequently, in CPT analysis it is fundamental to measure the strength of the causal inference by determining if the causal conditions are necessary and sufficient to explain the outcome. Following Blatter and Haverland, necessary and sufficient conditions are defined as follow:
Necessary condition: a causal factor (X) is a necessary condition if the outcome (Y) occurs only if X exists. However, Y does not always have to occur if X exists.

Sufficient condition: a causal factor (X) is a sufficient condition if the outcome (Y) always occurs when X exists. However, Y can also occur when X does not exist.

(Blatter and Haverland, 2012, p.92-93)

Collier proposes four different tests to measure the strength of the hypothesis that are supported by the causal inference. These tests are called “Straws-in-the-Wind”, “Hoop”, “Smoking-Gun” and “Doubly Decisive”, also called by other scholars as “Confession”. The tests are classified according to whether passing the test is necessary and/or sufficient for making the inference (Collier, 2011). The “Straws-in-the-Wind” test does not match the necessary and sufficient criterion for accepting or rejecting a hypothesis, and it only slightly weakens the rival hypothesis. Normally this test is used to give an initial assessment. Differently, the “Hoop” test establishes a necessary condition, but not a sufficient one, consequently it cannot confirm the hypothesis but can eliminate a rival hypothesis. Conversely, the “Smoking-Gun” test establishes a sufficient condition but not a necessary one, consequently it can strongly support a given hypothesis and weakens a rival hypothesis. Finally, the “Doubly Decisive” or “Confession” test meets both necessary and sufficient conditions to confirm the hypothesis and eliminate alternatives ones.

In this study, we use the different causal inference tests in two approaches. With the main objective to establish a broad description, we firstly used a storyline approach (Blatter and Haverland, 2012) that describes in a temporal sequence the main events that explain the adoption and implementation of the mixed strategy by the case study firm. The main objective is to present the whole context of the case and the main independent variables. In this descriptive inference, we do not have the objective to convince and to prove a proposed hypothesis but to slightly weaken other possible alternatives. Consequently, we use several “Straws-in-the-Wind” and “Hoop” tests
that do not eliminate other possible alternative hypothesis but weakens them. Then we separate specific events to further deepen the analysis. In this case we use stronger causal inference tests such as “Smoking-Gun” and “Confession”.

In these tests, we try to eliminate a possible rival’s hypothesis or at least, substantially weaken them. These more rigid tests are strategically used specifically in very relevant phenomena linked to the adoption of mixed strategy. An important characteristic of the CPT approach is that contrary to the COV approach, we do not assume that (X) variable is a necessary and sufficient condition for the outcome, but we determine that a plurality of causal conditions is necessary to be jointly sufficient for the outcome. In fact, CPT analysis is always looking for causal conditions that are individually necessary, but in combination with others are sufficient to validate the hypothesis.

_CPT analysis, hypothesis and a-priori knowledge:_ The CPT approach is composed of several elements. As a CPT approach requires finding diagnostic evidence that provides the basis for causal inference, it is necessary to use previous knowledge in order to identify this evidence. Then a-priori knowledge is used to present a hypothesis in order to validate causal inference mechanisms. Collier identifies three main sources of a-priori knowledge being: conceptual frameworks, recurring empirical regularities and theories (Collier, 2011). Conceptual frameworks are sets of connected concepts, often complemented by broad ideas of how the concepts can be operationalized. Recurring empirical regularities are patterns of causal relationships between factors and an outcome that has been found repeatedly. Theories refer to explanatory models that can explain why the causal relationship between the factors and the outcome occur.

We used these types of sources of a-priori knowledge to support the CPT analysis in a variety of ways. First, we extracted a conceptual framework from the literature review that identifies the main concepts that are associated to the mixed strategy implementation. We know from the literature review that exogenous factors such as competitive intensity, customer volatility, market munificence, scope for differentiation and low-cost are associated with the adoption of a mixed strategy, and that a firm should follow a decision process to adopt a strategy that results in a strategy formulation and implementation. In the case of the mixed implementation, we know that it should involve the assessment of conflicting activities from the firm’s value chain, and to explore synergies in order to justify the adoption of the mixed strategy.
Additionally, we have established during the literature review that customer value proposition, value chain activities and organizational design should be involved in the design of the mixed strategy implementation.

We approached recurring empirical regularities in two ways. First by the identification of causal inference that are present in the literature or in other types of research such as market research sources. This last one was important to confirm that certain market phenomena such as competitive situation and customer behaviour exist independently of the case study, confirming these regularities as a phenomenon. Also during the interviews with the managers, we excluded causal inference based on exception. Consequently, all phenomenon described by the case study firm’s managers are confirmed as regular, because they have been valid for several years and in the vision of the managers they should be valid in the long run. Finally, we did not use a-priori explanatory theoretical models because we did not find them in the literature and we understand that one of the objectives of this study is to extract explanatory models and propose theories.

**CPT approach and management field:** Causal mechanisms have been studied in broad sciences such as Physics, Chemistry, Engineering, Biology, Medicine, and social interactions. Despite being widely used in policy sciences, social causal mechanism approaches have been used in management science to explain organizational phenomena such as studying co-operation between firms, business model adoption, organizational changes, and the evolution of conglomerates (Mason, Easton and Lenney, 2013). An important example which demonstrates that CPT could be applied to managerial situations, is the work of Bygstad that studies the causal mechanisms of innovation processes in information system infrastructures. With a single case study approach, Bygstad revealed two self-reinforcing mechanisms, one innovative and a second of service, that reinforce the use of existing products and create new ones based on a common information infrastructure (Bygstad, 2010).

However, despite the broad use of social causal mechanism approaches through a greater diversity of business and managerial fields, we did not find at the present time a study of causal social study in competitive strategy formulation and implementation. However, we consider that the field presents the same social complexity as these other studies and could be quite appropriate to use this type of approach.
3.4.2.4 Mixed strategy exploration through a possibilistic generalization approach

The hypothesis confirmed or deduced from the CPT analysis could suffer from the limitation of being highly particular of the case study. In fact, the chain of causal conditions linked to the outcome should be extremely specific to the case study of the study, limiting drastically its generalization. Some scholars affirm that it is impossible to generalize from a single case study, and that the CPT approach could be used at best to inspire managers and practitioners to adapt the particular knowledge of the case study in their own particular situation (Stake, 1995). However, Blatter and Haverland defend that it is possible to use an approach of inducing possible other causal inference configurations and deducing their possible outcomes (Blatter and Haverland, 2012). This method, called possibilistic generalization, consists of inferring all the possible causal configurations, based on the particular causal configuration of a case study. As Blatter and Haverland explain, the single case study approach has a very different objective regarding generalization than the co-variational approach on small-N cases, or statistical generalization on large-N studies. On co-variational studies of small-N cases, the objective is to generalize the finding of one particular causal configuration of a case study by confirming the finding with other case studies that present the same causal configurations. Similarly, statistical tests on large-N cases have the objective to deduce outcomes based on a population that presents the same independent variables. In the last, the generalization is due because the population presents a reliable sample of a larger population. Conversely, in a single case study approach, the objective is to specify the set of causal configurations that make specific outcomes possible.

The set of potential causal configuration, other than the ones derived from the single case study, is based on an inductive logical process that allows it to raise all the logical possible combinations of causal factors based on the contextual meaning of the single case study and on theoretical reasoning. In this study, once the particular causal configuration of this case study has been clarified, supported and proved, we will induce all the other possible configurations of mixed strategy adoption and implementation possibility in order to propose a complete theoretical framework of the mixed strategy.
3.5 Conclusion

In this chapter we introduced the philosophical assumptions as the methodology that has been chosen for this study. This research chose an explorative approach based on a single case study, using causal process tracing method for unveiling causal mechanisms that can explain the characteristics of a mixed strategy implementation. We also present the research plan that will structure the next chapters of analysis.
Chapter 4 - Presentation of the single case study and choice validation

4.1 Introduction

In this chapter, we will briefly present the firm of the case study and its market environment. Then following the methodology of the Causal Process Tracing (Collier, 2011; Blatter and Haverland, 2012) we will start our analysis by describing the storyline of relevant facts involving the strategic perspective of Alpha-Denim for the period 2005-2013, where a major event occurred and is related to the outcome in 2013 of the adoption of a mixed strategic approach by Alpha-Denim. In fact, a comprehensive storyline provides a deep understanding and helps to identify the key events and facts that were determinant to the outcome. We will present here a brief summary of the Alpha-Denim storyline that led to the adoption of a mixed strategy in order to support further CPT analysis. A full and detailed description of the storyline supported by some evidence of “Smoking-Gun” types in order to ensure validity and robustness of the CPT Analysis’s inferences are available in the appendix section. We recommend the reader to peruse this detailed description in order to familiarize themselves with all the elements involved in the adoption of the mixed strategy by Alpha-Denim.
4.2 Presentation of the company case study and its business environment

4.2.1 A brief presentation of the firm’s case study

The case study is based on one of the leading European denim fabric manufacturers for the Jeanswear apparel market segment with its headquarters based in Spain. Its main purpose is to manufacture cotton based fabrics for fashion brand apparel customers that produce Jeanswear pants and apparels for consumers. The case study firm’s typical customers are Jeanswear brands such as Wrangler, Lee, Levi’s, Diesel, True Religion, G-Star, 7 For All Mankind, but also Fast fashion popular brands such as Zara, GAP, Forever 21 and C&A. In order to preserve the confidentiality of the firm we will refer to it during this study with the fictitious name Alpha-Denim.

In 2014, BuySellSignals, a financial research company that provides equity assessment for more than 48,000 companies evaluated the Alpha-Denim group as Spain’s 2nd largest apparel, accessories & luxury goods company by market capitalization. The Alpha-Denim group is composed of several business units with a total of seven manufacturing plants located in Europe, Africa, Central and Latin America. In the 2014 financial end of year statement, Alpha-Denim group reached a total operating revenue (turnover) of €246 million with more than five thousand employees. In 2014 the Alpha-Denim group was classified as a very large public limited company (S.A.) under the industry classification for weaving of textiles (CNAE (2009) – Primary code: 1320).

With a general headquarters based in Europe, the firm had in 2014 three business units located in Spain, Brazil and the United States that looked after three continental Jeanswear markets: The European and African Jeanswear markets, the Brazilian and Argentinean Jeanswear markets, and the North American and Mexican Jeanswear markets. For the purpose of this study we will consider only the European business unit restricted to the European Jeanswear market and we will refer to this business unit

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1 BuySellSignals report – 11-28-2014
as simply Alpha-Denim. Six departments compose the Alpha-Denim structure for the European Jeanswear market as we can observe below (Figure 8):

![Figure 8 - Alpha-Denim organizational structure in 2013 (Source: Based on the firm’s organizational structure charts).](image)

European business unit CEO: Referenced in this study also as general director or simply CEO, this is the manager responsible for the P&L results of the European business unit. He reports directly to the Alpha-Denim group’s chairman.

Sales, commercial and marketing departments: Managed by the sales, commercial and marketing directors, these departments are responsible for selling Alpha-Denim products in different markets and to manage the customer relationship. This department is also responsible for the marketing strategy of the firm.

Innovation, research and development department: Led by the R&D director, this department is responsible for introducing product innovation, to design the product collection and to develop new fabric technology. They are also responsible for all the manufacturing and industrial research and innovation.

Manufacturing department: Led by the Alpha-Denim plant general manager, the department is responsible for the plant operation from the physical inbound deliveries of raw materials, spinning, dyeing, weaving, finishing and quality production processes, through to the physical product delivery.
Supply Chain department: Led by the Supply Chain manager, this department is responsible for planning and controlling the flow of material and product through Alpha-Denim’s value chain.

Financial and Administrative department: Led by a manager, the department is responsible for financial and accounting reports and in managing investment and capital turnover.

Human resources department: Led by a manager, the department is responsible for human resources, and the firm’s relationship with trade unions.

4.2.2 Brief presentation of the European Jeanswear market

According to Euromonitor market research, the Jeanswear market is composed of four segments: Economic Jeanswear (also referenced as Popular), Standard Jeanswear, Premium Jeanswear and Super-Premium Jeanswear. In this study we consider the Super-Premium Jeanswear segment as a sub-segment of the Premium segment. In 2012, the total Jeanswear market of the main European countries accounted for 206 million pairs of jeans. The Premium segment which is characterized by jeans sold at a price in excess of €70 accounts for 18.3% of the total market or around 37.7 million pairs of jeans. However, this market share could vary significantly country by country:

3 Euromonitor Jeanswear Segment Definition

Economy jeans: Economy products are located at the bottom end of the price range. These will include private label and unbranded products often sold through grocery and mixed retailers. Economy jeans also form part of value-clothing retailers’ offerings. Examples include Primark (UK), Forever 21 (US), Kik (Germany) and Kiabi (France).

Standard jeans: Standard jeans include all brands with price positioning between economy and premium. These are usually the most popular jeans brands in a given country. Brands are allocated to this price platform on a country by country basis based on the leading (benchmark) brand, and as such, one brand may be positioned differently in more than one country. However, brands which are typically considered to be standard include Levi’s, Wrangler and Lee.

Premium jeans: This category includes brands which are considered premium due to their higher price and higher quality positioning. Brands are allocated to this price platform on a country by country basis and as such, brands such as Levi’s and Wrangler may be considered as premium in some countries. However, brands that are typically considered to be premium include G-Star, Diesel and Jaeger.

Super premium jeans: This category includes brands that are located at the top end of the price range. Super premium brands are often considered as fashion and status symbols and are often sold through high-end department stores or high fashion boutiques. Examples of brands include 7 For All Mankind, True Religion and Rock & Republic.

Source: Global Denim trends: will the growth fade away? (Euromonitor, August 2011)
the share of the France Premium segment is around 11%, 12% in Spain, whereas the share of the Premium segment is 31% of the UK Jeanswear market and 24% of the Italian market. The sub-segment Super-Premium represents a much smaller share of the total market and accounts for 3.1%. In summary, more than 80% of the market demand is concentrated in Standard or Economy jeans that are essentially characterized by basic product consumption. Competition for denim fabric in the Western European market takes two forms: competitors from Asian countries that offer a basic denim fabric at a very low price and satisfy the great majority of the entry price Economy Jeanswear, and the regional production of Denim fabric, mainly located in Turkey and Italy, that targets the Standard and Premium markets. In 2012, the capacity of the regionally produced denim fabric was around 195 million metres of Denim fabric, considering that five main players represent around 140 million metres (70%). These five main players have a very well developed differentiated product line and target the Premium segment as a strategic market. Isko and Candiani could be considered the direct competitors of Alpha-Denim with a strong focus on product differentiation and the Premium Jeanswear segment. Isko has a manufacturing capacity of 42 million metres and Candiani a manufacturing capacity of 26 million metres. Alpha-Denim’s market context suffered a disruptive change in 2005 with the introduction of a new chapter of the Doha round of the General Agreement on Tariffs and Trade (GATT) that came into operation in 2011.

The outcome of this was that the trade agreement brought a substantial reduction of tariffs and other trade barriers for imported Asian textile products in the European market. The liberation of those trade barriers allowed the introduction of very low-priced textile products in the European market by Asian low-cost competitors. The European textile industry was not prepared for this radical change, and most of them lost their competitive advantage and profitability very quickly, as they were not capable of competing against extremely low-priced products by the Asian textile manufacturing companies who have the benefits of very low labour costs and the use of modern and highly efficient textile machinery. It is important to note that the Asian competitors mainly entered the basic textile product market which according to Euromonitor data corresponds to 90% of the total textile market. Many European

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4 Source: Alpha-Denim’s Strategic plan – Market data EU – POPA 2012-2016 – Slide 56.
5 Source: Global Denim trends: will the growth fade away? (Euromonitor, August 2011)
textile manufacturing companies could not compete and had to close their operation. Alpha-Denim has been successful in adapting to this new and turbulent environment, but with important strategic changes and a substantial reduction of its plants’ productive capacity.

4.3 Presentation of a short storyline of the firm’s case study

Our historical description starts in 2005 when an important event disruptively changed the rules of the European Jeanswear market. At the time, the European Jeanswear market was protected by tariff barriers, which allowed a moderated level of rivalry between local players. Alpha-Denim had an important production of 26 million metres of denim fabric per year, and was one of the major denim producers in Europe. Positioned with a standard quality denim fabric offered at a competitive price, Alpha-Denim used to be one of the preferential suppliers of major European customers such as Levi’s and Fast fashion retailers such as Zara.

On 1st January 2005, the World Trade Organization (WTO), which is responsible for establishing trade rules between nations, removed the remaining quotas of textile product imports of the members of the General Agreement on Tariffs and Trade (GATT). The signature of the agreement was immediately followed by an invasion of Asian textile products in the European market that disruptively altered the business landscape, increasing abruptly the level of competition. In fact, the European Jeanswear market was inundated by quality Jeanswear pants offered at a very low-price. Asian manufacturers had the advantage of relying on a regional and cheap source of cotton, the principal raw material used in the production of Jeanswear apparels, and a very low cost of labour. Finished Jeanswear apparels were sold directly to the Apparel retail and Fast fashion sector, eliminating the denim fabric manufacturer and the apparel Jeanswear producer. The event was disruptive for denim fabric manufacturers, mainly for the low-cost player such as Alpha-Denim which lost important market share in Fast fashion clients.

To confront this new reality, during a period of adaptation where plants were closed and moved to locations where labour cost was lower, Alpha-Denim decided to
completely switch its strategic positioning by migrating to the manufacturing of sophisticated denim fabric for the Premium Jeanswear brands. In order to accomplish this strategic change, the firm invested in new equipment allowing production of innovative denim fabrics such as the Denim Therapy collection, based on a denim fabric technology that provides aesthetical and comfort benefits for the body. A more sophisticated collection was launched in 2011, the Denim Couture collection, which was considered one of the most sophisticated and delicate denim fabric for superior Premium Jeanswear garments for several years. In this year Alpha-Denim won an award for its excellent premium quality collection, establishing the brand as a premium player in the European denim market. However, the European Jeanswear market presented several difficulties for Alpha-Denim. First, when the firm decided to focus on the Premium segment, several players such as the Italian TRC Candiani denim fabric manufacturer were already established with a solid position since the 2000s. In addition, the effect of Asian product high volume producers, such as the Turkish denim fabric manufacturers, also rapidly migrated part of their production to the Premium segment, drastically increasing the competition in this market. Furthermore, the European Premium Jeanswear segment was characterized by customer volatility due to the recurrent economic downturn.

All these elements, as well as the rise and adoption of a Fast fashion consumption culture, turned the Premium Jeanswear segment into a very uncertain environment in which to sustain a pure differentiation strategic approach. Despite this fact, Alpha-Denim concentrated all its focus and resources on the premium approach, but a combination of poor in-house efficiency, customer demand volatility, increase of competition and market contraction resulted in 2013 in the failure of Alpha-Denim’s pure differentiation strategic approach. Consequently, Alpha-Denim decided to contract a consultancy firm to review its strategic approach. After a diagnosis of the situation the firm identified two sources of inefficiency:

1) Inefficiencies caused by pursuing the highest level of product differentiation at any cost;

2) Inefficiencies caused by an increase of production complexity and loss of managerial focus on operational efficiency.
In fact, the adoption of the differentiation approach had two negative effects on the firm’s performance. First, the excessive pursuit of the highest quality and sophisticated denim fabric in order to capture the prestige of the premium perception, drastically increased the cost of the denim fabric, and consequently very few clients were able to pay the higher price. Secondly, the increase of product variety due to the innovative process dramatically increased the manufacturing complexity, reducing the gain of scale and scope, and increasing the unitary cost. In this context, Alpha-Denim decided to adopt a mixed approach in order to be more flexible in adapting to the uncertainty of the market. In the following section and chapters, we will unveil the characteristics of the mixed strategy adopted by Alpha-Denim through a CPT approach.
Chapter 5 - The causal mechanisms of a mixed strategy adoption

5.1 Introduction

The main objective of this chapter is to answer the following research questions:

RQ1: What are the main reasons that have caused a firm to adopt a mixed strategic approach instead of a pure differentiation or pure low-cost strategic approach?

RQ2: How is a mixed strategy adopted? What are the characteristics of the strategy making process of a mixed strategy?

Following the methodology of the causal process tracing (CPT) (Collier, 2011; Blatter and Haverland, 2012) we will start this CPT analysis supported by the evidence brought through the storyline process and proceed through two causal process tracings. One that has the objective of elucidating the causal mechanisms associated with the failure of the original Alpha-Denim’s pure low-cost strategic approach, and another that has the objective of elucidating the causal mechanisms associated with the failure of the adoption of a mixed strategic approach. Causal process tracing will be based on “confession” and “counterfactual” argumentation in order to ensure the strength of the causal inferences deduced.

In order to address the second research question, we will examine the evolution of the characteristics of the strategy making process that Alpha-Denim adopted over four periods from 2005 to 2013. Under the Bower-Burgelman model perspective (Noda and Bower, 1996) a discussion on the characteristics of the strategy making process that resulted of the adoption of a mixed strategic approach will be presented.
In summary, this chapter outlines some environmental factors necessary for the adoption of the mixed strategy. These are:

- Disruptive events that suddenly change the market conditions
- High levels of competition
- Volatility of customer behaviour
- Increase of customer price sensitivity
- Increase of market uncertainty

We also identify a new environmental factor not described in the literature, but which is also necessary for the adoption of a mixed strategy namely:

- Commoditization effect of product and service

Thus, this chapter outlines the required conditions for the adoption of a mixed strategy approach. In fact, it is the combination of the necessary factors described above that together proves sufficient for the adoption of a mixed strategy by the firm used in this case study. In so doing, this chapter gives the first simultaneous account of the factors responsible for the adoption of a mixed strategy and which invalidate the pure differentiation and low-cost strategic approaches.

Furthermore, we explored the characteristics of the strategy making process by Alpha-Denim in the adoption of the mixed strategy. We identified that Alpha-Denim’s traditional way of defining strategy was characterized by a centralized, intended and bureaucratic strategy making process based on a rational-actor model directed by top management (Burgelman, 2002). This corresponds to a process based on a strong structural context that shaped an intended strategic behaviour on lower levels of management. However, feedback of a partial fit of the pure differentiation adoption with the competitive environment allowed the emergence of autonomous behaviour. First initiatives championed by lower levels management resulted in experimentation of a contingency low-cost approach under the main differentiation strategy. Volatility of the environment provoked variation of the strategy making process adoption, with intercalation between competence deployment and competence modification sub-processes of the strategy renewal (Floyd and Lane, 2000). This resulted in a learning process which culminated in a definitive adoption of the mixed strategy. This chapter
particularly extended the field of strategy making process with the following contribution:

- To adapt correctly to the dynamicity of the competitive environment, Alpha-Denim developed a dynamic capability in managing alteration between competence deployment and competence modification sub-processes adoption, which involve altering the degree of bureaucratic and clan controls in managing the conflict of a change of strategy. This dynamic capability was the result of a learning process by experimenting different situations with different strategy making process patterns.

- We identified that an excess of alignment across the managerial level on the strategy content, characterized by the absence of conflict, resulted in a poor fit of the realized strategy with a mature competitive environment. We then concluded that in such an environment a permanent minimum level of tension in the strategy making process is necessary in order to have a better adaptation.

- We identified that conflict in strategy change happens not exclusively in vertical exchange, but also in horizontal exchange between individuals and departments at the operational level.
5.2 Analysing the causal mechanisms that resulted in the adoption of a mixed strategic approach by Alpha-Denim

Following the methods of CPT described by Blatter and Haverland (Blatter and Haverland, 2012), we will analyse the storyline of Alpha-Denim looking for two types of causal mechanisms: the causal conjunction and the causal chain. Causal conjunction is described when several factors are necessary to be present at the same time, and for that, the simultaneous union of their effects is sufficient to determine the outcome (dependent variable). While the causal chain is related to a specific sequence of factors that happen during a period. The factors are individually necessary, but together and in the right sequence are sufficient to determine the outcome.

The analysis of Alpha-Denim’s storyline revealed the existence of at least three groups of causal mechanisms that could explain the adoption of a mixed strategic approach. The causal mechanism that explains the breakdown of the firm’s original pure low-cost strategy in 2005, the causal mechanism responsible for the failure of the adoption of a pure differentiation strategy in 2012, and the causal mechanism responsible for the adoption of a mixed strategic approach in 2013.
5.2.1 Causal mechanisms responsible for the breakdown of Alpha-Denim’s original pure low-cost strategic approach

The elimination of the tariffs on textile imports in Europe (GATT agreement) in 2005 (Factor 01), in conjunction with the capacity of Asian denim manufacturers to offer similar quality jeans at a lower price than European manufacturers (Factor 02), and influenced by an increasing throwaway fashion culture, which is characterized by consumers that tend to give more importance to price than brand and quality added-value attributes (Factor 08), allowed Asian products to capture an important share of the European popular Jeanswear brands market, segments of the market composed by mainly price sensitive consumers (Factor 03) - (in 2012, Alpha-Denim estimated that Asian imports have 70% of the total market.⁶ At this time, Alpha-Denim, one of the major European manufacturers of basic denim fabrics, positioned itself with a pure

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⁶ Source: Alpha-Denim’s Strategic plan – Market data EU – POPA 2012-2016 – Slide 57.
low-cost strategic approach in relation to local competitors, was unable to reach an equivalent or lower price than Asian competitors, who were able to offer a similar quality denim fabric at a lower price. Consequently, Alpha-Denim’s competitive advantage based on a lower cost vanished (Factor 06), which resulted in an important loss of market share in the popular Jeanswear segment over the next years. The low-cost competitive advantage of Asian manufacturers resides in a lower labour cost and the access to cheaper raw materials which together represents 70% of the total cost of a denim fabric (appendix 2 - A comprehensive story line of a mixed strategy adoption - Table: industrial performance comparison 2012-2013) and based on interviews, on Alpha-Denim’s annual statement reports and Euromonitor reports⁷, it seemed quite difficult for a European manufacturer to overcome the cost advantage of Asian manufacturers. Consequently, Alpha-Denim could not surpass the Asian manufacturers’ competitive advantage with a pure low-cost approach, even if it tried to increase other elements of its low-cost strategy such as increasing operational efficiency or simplifying its offer.

It is improbable that increases in operational efficiency will surpass the low-cost advantage of Asian manufacturer, because even if Alpha-Denim increased its volume, which is quite difficult with the entry of Asian imports and the European low market growth, gains of scale will not compensate the advantage of Asian manufacturers based on cheaper raw materials such as cotton and a labour work force that represents most of the cost (appendix 1- Congruence analysis). Also, if Alpha-Denim oversimplifies its offer in order to reach a lower cost, Fast fashion customers could not accept the downgrade of quality, because they demand a minimum product quality and finishing aspect level. Therefore, we consider that factors 01, 02, 08 and 03 are individually necessary and as a causal conjunction, sufficient together to lead to the outcome 06 (Figure 9). The added effect of these factors as a conjunction is sufficient for the failure of the pure low-cost strategic approach. Furthermore, as there exist competitors with a lower cost than Alpha-Denim who cannot be surpassed by European players, the opening of the trade barriers with the tax removal which used to protect the European Jeanswear market against Asian imports competition, and finally,

⁷ Source: Global Denim trends: will the growth fade away? (Euromonitor, August 2011)
a preference by consumers for a cheaper product due to the growth of a throwaway fashion culture allowed the rapid growth of Asian imports.

We confirm these findings with several external factors described here that explain the loss of the competitive advantage based on a pure low-cost approach, that was also described in the literature, however in a more hypothetical and generic way. For example, the disruptive change in the trade agreement that enabled an important increase of competition from the Asian producers is similar to the context described by Gopalakrishna and Subramanian, which explains how India was suddenly transformed from a protected-stable to an open-hypercompetitive business environment after the launch of an economic program of liberalization in 1991 (Gopalakrishna and Subramanian, 2001). It is also very similar to the elimination of protectionism barriers and the adoption of free trade policies that suddenly increased competition described by Acquaah and Yasai-Ardekani in Ghana (Acquaah and Yasai-Ardekani, 2008). Despite the contexts being different, the situations are similar, and a sudden event that disrupted the rules of the industry could suddenly invalidate a pure strategic approach. However, the work of Gopalakrishna and Subramanian (Gopalakrishna and Subramanian, 2001) and Acquaah and Yasai-Ardekani (Acquaah and Yasai-Ardekani, 2008) use these exogenous factors as a contextual environment in order to study the relationship of a mixed adoption with performance, but do not explain with causal mechanisms why the firm that used a mixed strategy has a better performance than a firm that has adopted a pure approach. Here, we provide a logical explanation to explain the low performance of a firm that adopted a pure low-cost strategy associated to a loss of protection barriers followed by a sudden increase in competition.
5.2.2 Causal mechanism responsible for Alpha-Denim’s failure in adopting a pure differentiation strategic approach

5.2.2.1 Comoditization effect on Premium Jeanswear brands

Asian low-cost denim fabric offers (Factor 02), together with Popular brands and Fast fashion retailers low-cost fashion garment offers, that provide cheaper Jeanswear pants (Factor 03) and influenced by the throwaway culture of consumption (Factor 08), has been reducing the power of Premium Brand Jeanswear and their capacity to create a perception of superior value based on unique and special finishing aspects. Asian manufacturers, together with Fast fashion retailers have been imitating and reproducing with ease, special washing finishing processes with a lower quality than Premium Jeanswear products, but with a similar visual aspect, characterizing an effect of commoditization of the Premium Jeanswear product (Factor 04). In fact, the washing aspect of a low-cost Fast fashion jeans compared to a Premium jeans brand
look very similar. The main difference resides in durability. The Fast fashion jeans will lose the characteristics of the washing aspect in a few months of use, while the Jeanswear product brand could last for several years. This is because Jeanswear brands use a better denim structure fabric, and a more expensive dyeing process that deeply impregnates the blue indigo essence inside the cotton yarn, which enables a better and longer stability of the washing effect produced during the laundering process.\(^8\) But with the increase of the throwaway culture of consumption, where consumers prefer to pay less for a pair of jeans because it will be discarded soon, the advantage of a superior visual quality aspect of premium Jeanswear for a long duration of use at a higher price is diminished. Additionally, offers from e-commerce retailer outlets, selling end-of-collection denim premium products, are helping to reduce the power of the Jeanswear brand to sustain higher prices for their premium jeans.

This effect of commoditization from a Popular market segment to a Premium market segment, where a premium product is commoditized because of a change of consumer behaviour, influenced by imitation from a low-cost product over a premium product, was not described in the literature as a causal factor for the adoption of the mixed strategy, but was cited broadly by hypercompetitive and temporary competitive advantage proponents such as D’Aveni (D’Aveni, 1995) and McGrath (McGrath, 2013), who described the blurring phenomenon between market segment boundaries, where an excess of rivalry provokes competition between product segments that did not exist before or was irrelevant. This is also associated to customers that change their behaviour more frequently and are less loyal. Uncertainty and volatility of customer behaviour associated to the adoption of a mixed strategy has been advanced theoretically by Hill and Murray, and we confirm it here with empirical evidence (Hill, 1988; Murray, 1988). See figure above for a graphical representation of the commoditization effect on premium Jeanswear brand market (Figure 10).

5.2.2.2 Increase of consumer price sensitivity and demand volatility on the Premium Jeanswear brand market

Economic downturns and recessions (Factor 07) affect the purchasing behaviour of consumers that tend to reduce their expenditure for fear of an increase of unemployment. Consequently, this effect of economic uncertainty provokes a high volatility of consumer confidence (Factor 09). The combined effect of a high volatility of consumer confidence (Factor 09) and commoditization of Premium Jeanswear brands (Factor 04), increases the price sensitivity of the Premium Jeanswear consumers (Factor 10), who are less loyal to the Premium brand and tend to change their purchasing behaviour by buying cheaper Jeanswear pants depending on the situation. In fact, during a recessive period, consumers tend to be more price sensitive, and the perception of a product similar in visual aspect to a premium Jeanswear product at a lower price could switch some Premium brand consumption to more popular brands, characterizing a temporary reduction of demand, causing uncertainty and volatility in the demand for the Premium segment (Factor 11). As we have seen, during an economic recession, consumers are less willing to pay an expensive price
for Premium brand jeans, which results in a sudden shrinkage of the Premium market size (Factor 14). Our findings are in accordance with several explanations of environmental factors described in the literature. For example, Wu et al. discovered that the adoption of a mixed strategy has a better performance result during an economic downturn (2001-2002), mainly for firms originally positioned as pure low-cost that have adopted a mixed approach (Wu, Lin and Chen, 2007). Additionally, our findings support the volatility of demand and customer behaviour described by Proff in the German automotive industry during a recessive economic environment where demand could change drastically (Proff, 2000). See figure above for a graphical representation of causal chains responsible for the European Premium Jeanswear market to be volatile, unstable and unpredictable (Figure 11).

5.2.2.3 Increase of competition in the Premium Jeanswear market

Figure 12 - Causal chains that make the European Premium Jeanswear market more competitive.
The same convergence of factors (01, 02, 08→03), which undermined the Alpha-Denim’s competitive low-cost position, had been affecting other European producers with similar positioning, such as the Turkish producers, who decided to increase their premium offer in order to escape the Asian threat (Factor 5). Consequently, the level of competition in the Premium Jeanswear market had been increasing (Factor 12) by the entry of new players, reaching a situation of near market saturation, where offers are frequently greater than demand depending on the volatility of the demand.9 The increase of rivalry of premium players, shorter product cycles and an increase in the frequency of product launches and investment in innovation (Factor 15), where products are substituted more frequently in order to faster renew their differentiation effect quickly vanished due to the easiness of imitation. An increase of consumer price sensitivity (Factor 10) in conjunction with a high level of competition (Factor 12), and influenced by the commoditization effect of the premium product (Factor 04), triggered a fall of the premium product average price (Factor 13). The premium Jeanswear price reduction (Factor 13), associated to an increase of cost due to more investment in innovation (Factor 15), made the Premium segment less profitable and more complex to manage (Factor 16).

Despite that, we have several empirical works that demonstrated that a mixed strategy approach has a superior performance over a pure strategic approach, that are normally associated with Premium customer segments, this being the first time that a causal effect has been described where a pure differentiation approach is not viable due to the uncertainty of its environment. Here, despite having several exogenous factors that make the European Premium Jeanswear market into a hostile and uncertain environment, such as the volatility of the demand, the central factor is the increase of rivalry. An increase of competition was described by mixed school proponents as one of the main factors that support the adoption of a mixed strategy. Our findings are in line with these studies (Proff, 2000; Spanos, Zaralis and Lioukas, 2004; Auh and Menguc, 2005; Acquaah and Yasai-Ardekani, 2008; Pertusa-Ortega, Molina-Azorin and Claver-Cortés, 2009). Proff was the only one that gives a description of the association of the demand volatility with the increase of competition associated to the adoption of the mixed strategy (Proff, 2000).

9 Source: Alpha-Denim’s Strategic plan – Market data EU – POPA 2012-2016 – Slide 57.
However, this description was only descriptive since it lacked sufficient empirical evidence or a formal empirical approach. The other works that isolated the degree of competition as an independent variable did not describe the complexity of causal mechanisms that we described here. In addition, to confirm the relationship of an increase of competition and demand volatility with the adoption of the mixed approach, this is the first time that it has been demonstrated in a Premium segment oriented to differentiation. See figure above for a graphical representation of causal chains that make the European Premium Jeanswear market more competitive (Figure 12).

5.2.2.4 Increase of uncertainty in the Premium Jeanswear market

![Causal chains that make the European Premium Jeanswear into a very uncertain environment.](image)
Economic downturns and recession (Factor 07) results in a very slow or negative growth demand for the Premium segment (Factor 17), while the chain of factors (09 → 10 → 11) characterize sudden market size shrinkage (Factor 14). The combination effect of the conjunction chain of factors (12 → 13, 15 → 16) responsible for making the Premium segment into a hypercompetitive environment, added to a low growth market (Factor 17) that presents a sudden reduction of demand due to unpredictable changes in consumption (Factor 14) are necessary conditions, and in conjunction characterize a very uncertain environment in which to establish a pure differentiation strategy by a firm (Factor 18). In fact, a firm that enters the Premium market will have to fight against rivals already very well established, and that have a high degree of innovation and efficiency. Product innovation will be quickly imitated, reducing the uniqueness effect of the differentiation offer. Highest added-value Premium products cannot be sold at too high a price in relation to the average market price due to the tendency of price reduction and commoditization of the Premium brands. Due to few opportunities of growth, saturation of offers, and uncertainty of the consumption behaviour that could suddenly switch to a cheaper Jeanswear product, a strategy based purely on a Premium market seems very risky.

Increase of uncertainty has been described very broadly in the literature but often cited by mixed strategy proponents as a factor that is associated with the adoption of a mixed strategy (Proff, 2000; Wu, Lin and Chen, 2007; Pertusa-Ortega, Molina-Azorín and Claver-Cortés, 2009). A relevant description of uncertainty and the adoption of a mixed strategy has been done by Spanos et al. (Spanos, Zaralis and Lioukas, 2004). They led an empirical study on a large sample of manufacturing firms in the Greek economy during the period 1995-1996. They explain how a culture of historical uncertainty in the Greek industries, due to the disruptive period of World War II followed by a civil war between 1945-1949 established a culture of hesitant industrialization. Here we confirm that many proponents describe in a very broad way that environmental uncertainty is associated with the adoption of a mixed strategy, but it is the first time that it has been done specifically on a Premium segment that supports a pure differentiation strategic approach. See figure above for a graphical

10 Examples: Isko, Ortega, Gap, Candiani
representation of causal chains that make the European Premium Jeanswear into a very uncertain environment (Figure 13).

5.2.3 Causal mechanisms responsible for Alpha-Denim to adopt a mixed strategic approach

The loss of the low-cost position by Alpha-Denim resulted in a significant loss of market share between 2005-2009, where the firm’s production was reduced from 26 million to 13 million metres of denim fabric, due to its inability to compete against Asian players in the Popular brand market, and not having the competence to compete in the Premium segment. In fact, the extremely narrow pure low-cost strategy presented vulnerability in the new scenario, permitting no other option than to reduce its production size. Also, the specialization of the low-cost pure strategic approach reduced the chances of the firm quickly adapting to a differentiation approach (Factor 19).
This empirical observation is in accordance with what was predicted in the literature review by Miller, where it warned us of the trap of a very narrow and specialized pure strategic approach in a dynamic and competitive environment (Miller, 1992). On the other hand, if the firm already had a mixed strategic approach, competency in product innovation and the ability to create uniqueness, it would enable a quicker adaptation to the disruptive Asian invasion, transferring part of its volume to the Premium segment, and gaining the time advantage over other local competitors with a pure low-cost approach. However, due to the perception of invincibility and the supremacy of the Asian competition in the more Popular brand Jeanswear market, Alpha-Denim decided to pursue a pure differentiation strategic approach (Factor 20) by the beginning of 2006. However, due to a slow process in achieving a distinctive differentiation position in the Premium market, the firm decided in 2007 to implement a contingency initiative of offering a low-cost product line (Factor 21) to the Popular brand, in order to recover part of the share lost in this market. That was possible because of the advantage that Alpha-Denim had in being a local supplier in relation to an Asian producer. In fact, Alpha-Denim could supply Fast fashion customers quicker than Asian producers when the demand by Fast fashion customers was unpredictable and they needed faster replenishment based on demand. Nevertheless, this volume is small, not planned, and can only fill part of the plant capacity.

In 2011, after launching two highly sophisticated Premium product lines with media recognition, and helped with a moderate growth of demand in the Premium market, Alpha-Denim, based on a belief of the success of a pure differentiation approach decided to abandon less profitable customers of the entry level Standard brand and Fast fashion segments to concentrate its production in the Premium Jeanswear segment in order to increase profitability and stabilize its position (Factor 22).

Despite an improvement in financial results, Alpha-Denim’s differentiation approach was highly inefficient (Factor 23), with several Premium products with low performance, and an extensive increase in costs due to the increase of production complexity associated to the increased product variety, and by a loss of managerial focus on cost and efficiency. However, this moderate financial improvement reinforced a belief in the pure differentiation strategic approach as a definitive solution and the firm planned the budget of 2012 with an increase of volume based on the Premium product line and market. However, in 2012, a new economic recession
drastically affected the Premium Jeanswear demand, and Alpha-Denim was unable to fill its plant capacity with its Premium products (Factor 24). The lack of sales volume resulted in a higher product cost due to a low utilisation of plant capacity, and associated with the already instituted inefficiency due to the increase in the complexity of the differentiation approach, Alpha-Denim recorded its worst financial performance in its history (EBITDA -23%), characterizing the failure of its pure differentiation strategic approach (Factor 25). In fact, the gap between the planned production volumes of the budget of 2012 compared to the real sales demonstrated how much Alpha-Denim was wrong in its prediction and was mistaken to bet everything on its premium product line and Premium brand customers.

Due to negative results in 2012 (Factor 24), associated with the intention of implementing a pure differentiation strategy (Factor 22), the perception of the uncertainty and volatile characteristics of the Premium Jeanswear market (Factor 18), the understanding that the only focus for a differentiation strategic approach is not sufficient without a focus on efficiency (Factor chain 23→25), by virtue of the fact that a pure low-cost strategic was impossible (Factor chain 01, 02→03→06→19), but with a positive experience of temporarily combining differentiation and low-cost initiatives (Factor 21), and with the help of a consultancy firm, Alpha-Denim decided to implement a mixed strategic approach (Factor 26).

The relevant contribution to the field is that no works demonstrated a situation where neither a low-cost nor a differentiation strategic approach was possible and that the only feasible strategy was a combination of two strategic approaches. See figure above for a graphical representation of causal chains that resulted in the adoption of a mixed strategic approach by Alpha-Denim (Figure 14).
5.2.4 Necessary and sufficient conditions that explain the adoption for a mixed strategy by Alpha-Denim

In the figure below we summarized in a unified graph representation the whole set of causal mechanisms associated to the adoption of a mixed strategy by Alpha-Denim. As Blatter and Haverland explain, the required necessary and sufficient conditions to support a hypothesis is done by joining several individual factors that are necessary alone and that together are sufficient (Blatter and Haverland, 2012). We will demonstrate here that the several sets of complex causal chains are necessary and that together are sufficient to explain the adoption of the mixed strategy by Alpha-Denim. The increase of competition in the Popular Jeanswear market, characterized by an aggressive rivalry from Asian imports, associated to a recessive European recessive that increased demand volatility, triggered several effects in the Premium Jeanswear market that made this segment too uncertain in which to establish a pure differentiation strategy. The increase of competition in the Popular Jeanswear market and uncertainty in the Premium segment invalidated the adoption by Alpha-Denim of a pure low-cost or pure differentiation strategic approach. Consequently the mixed strategy adoption was the only viable solution.

The increase of competition in the Popular Jeanswear market was a necessary and sufficient condition to invalidate the pure low-cost adoption. We can stipulate that Alpha-Denim could have had a poor managerial performance of its low-cost strategic implementation, however we indicated some evidence in the storyline that Asian competitors have a superior competitive advantage in achieving a lower cost due to specific exogenous factors that are present in their countries of manufacturing. Also, several other European players with a similar position to Alpha-Denim did not survive, demonstrating that Alpha-Denim had one of the best managerial practices.

An increase of competition and demand volatility in the Premium segment are necessary and sufficient conditions to invalidate a pure differentiation approach. The two factors are necessary together. In fact, if we consider the increase of competition with a stable and predictable customer behaviour, rather than the strategy of Alpha-Denim in specializing in a highly differentiated product should have worked. However, the unpredictability of the demand and the behaviour of the consumer
provokes a sudden loss of demand which with the additional effect of increased rivals’ offers, creates a situation of saturation with an unexpected loss of sales and the impossibility of filling plant capacity. On the other hand, demand volatility without an aggressive level of competition, could be manageable since even if there is uncertain consumer behaviour, the fact that there is less rivalry will determine a situation of market munificiency, where there are still enough sales for sustaining the differentiation approach. We could argue that the impossibility of establishing a pure differentiation strategy is related to an inefficiency by Alpha-Denim in reaching the necessary level of differentiation. However, we quoted evidence that sustains and corroborates that Alpha-Denim produced one of the most sophisticated and distinct Jeanswear fabric, receiving several official recognitions (appendix – 2). See figure below for a graph representation of all the causal mechanisms that resulted in an adoption of a mixed strategic approach by Alpha-Denim for the period 2005-2013 (Figure 15).
Figure 15 - Graph representation of all the causal mechanisms that resulted in an adoption of a mixed strategic approach by Alpha-Denim for the period 2005-2013.
5.2.5 Discussion and contribution

As we can conclude, Alpha-Denim’s environment is highly turbulent and uncertain. We demonstrated the necessary and sufficient conditions to explain and justify the adoption of the mixed strategy in detriment to the pure strategic approach alternatives.

We confirmed that exogenous factors such as a disruptive event that change suddenly and drastically alters the rules of the industry, an aggressive level of competition, uncertain customer behaviour, volatility of demand and a recessive market context are some of the main causes for the adoption of the mixed strategy. As we demonstrated there are several references to these exogenous factors present in the mixed strategy literature, however these are broadly cited and not justified.

Additionally, to confirm these exogenous factors with the adoption of the mixed strategic approach, our description is much more precise as it explains the complex causal mechanisms that exist between these factors and the failure of the pure strategic approaches. In fact, this is the first study that has demonstrated in deep detail that neither a pure low-cost nor a pure differentiation strategic approach was feasible or too risky. Other empirical studies that utilize statistical methods demonstrated that firms that have adopted a mixed approach over the pure options have a superior performance. Here we demonstrated in this extreme situation that there is no other feasible strategy adoption other than the mixed alternative.

We also found new exogenous factors not described by various scholars, but broadly described by proponents of the hypercompetition and temporary competitive advantage, such as the commoditization in the Premium market provoked by a combination of a change in customer behaviour, intense competition from Popular segments where low-cost rivals achieved a similar product aspect through imitation but at a lower price. Hypercompetition proponents have described this phenomenon as a blurring effect between market segment boundaries. This exogenous phenomenon associated to the adoption of the mixed strategy could be considered as a new finding.

Despite that, the study of the causal mechanisms chain associated to the adoption of a mixed strategic approach of this particular case study cannot be generalized due to possible equifinality and causal heterogeneity. In fact, as Blatter and Haverland (2012, pg.80) warn us, it is possible that in another context and for another firm, the same set of causal factors could result in another outcome (causal heterogeneity), or that another
configuration of causal mechanisms could result in the same outcome (equifinality). For example, it is highly probable that a firm originally positioned as differentiation could have gone on the inverse path, achieving first a pure low-cost strategic approach before stabilizing in a mixed strategic approach. However, we believe that the understanding of the specific factors that are at the root of the adoption of a mixed strategy approach by Alpha-Denim should be a useful learning source for other managers that are facing a similar situation, and can learn by using a configurational thinking process that leads to a possibilistic generalization, and consequently can guide in the process of designing a mixed strategy approach for another case.

We believe that other configurations of causal mechanisms are associated to the adoption of a mixed strategy. As we have said, we chose on purpose an extreme situation where no pure strategic approach was feasible. However, several scholars in their empirical studies describe a context where both a mixed strategy and a pure strategy are feasible, but that the mixed strategy presents a better performance. We believe that there exists a configuration of causal mechanisms that do not invalidate the pure approach but sustain the adoption of the mixed approach as a better option in the long run. We will explore these possibilities in chapter 8.
5.3 Analysing the evolution of the strategy making process of Alpha-Denim that resulted in the adoption of a mixed strategy approach

We will divide this into four periods in order to understand the evolution of Alpha-Denim’s strategy making process that resulted in the adoption of a mixed strategic approach. The period (2005-2006) where Alpha-Denim was seeking to achieve a differentiation position in the Premium Jeanswear market, the period (2007-2009) when Alpha-Denim tested a low-cost product line using the differentiation strategy, the period (2010-2011) when the differentiation strategy seemed to work and the period (2012-2013) when a definitive failure of the differentiation strategy culminated in the adoption of a mixed strategic approach. For this analysis, we followed the Bower-Burgelman model (Noda and Bower, 1996), where top management (Corporate Level) is represented by the chairman and board of directors, middle management is represented mainly by the Chief Executive Officer of the European business unit, simply referenced as CEO and operating management is represented by departmental directors and senior managers.

5.3.1 Period (2005-2006) - Implementing a differentiation strategy

5.3.1.1 Definition process

As we have seen, since 2005 a disruptive change in the environment completely altered the competitive landscape of the European Textile market. Structural elements such as the entry of Asian competitors undermined the Alpha-Denim strategy based on a pure low-cost approach. The Alpha-Denim low-cost strategy concept was such a strong belief across top and middle management, that a complete disappearance of Alpha-Denim’s competitive advantage was totally unexpected as the CEO related during the interview:

…I asked myself many times, how it was possible that from 2005 to 2006 the share of Asian product increased so much. It was like that they were waiting for the 1st January 2005 to start invading the European market not with denim fabrics, but with Jeanswear pants ready to be sold. The crisis was brutal.
The sudden and strong failure of Alpha-Denim’s low-cost positioning demonstrated to top management that the actual firm competencies in achieving a lower cost through production of a high volume of basic Jeanswear fabric was no longer feasible as the CEO describes below:

…We had a very competitive cost, with big volume and very well located, with several plants in Europe and Africa. We had a good moment. However, since 2005, our cost positioning vanished. Our volume was reduced and consequently our cost increased, and we lose our competitive advantage.

A new strategy formulation was necessary, one that would radically change the actual strategy concept of the firm. Alpha-Denim decided to adopt a pure differentiation strategic approach. The motive to adopt the pure differentiation strategy was to escape from the threat of the Asian low-cost offers, its initial reasoning being based on the belief that Alpha-Denim could not compete anymore with basic Jeanswear product, as Asian competitors had a stronger competitive advantage allowing them to achieve a lower cost and sustain a lower price. Consequently, differentiation seemed a logical solution to reposition the company. At this time, the Italian TRC Candiani denim fabric manufacturer was the leader in the Premium Jeanswear segment, and despite having an average higher cost was capable of sustaining a superior price in the market due to the prestige and quality of its products. Alpha-Denim’s top management started to use TRC Candiani as a leader and inspiration in order to achieve a differentiation position in the Premium Jeanswear market.

At the end of 2005, the chairman of the board justified the need of a strategy repositioning, mainly looking for ways of differentiating Alpha-Denim’s offer in relation to the Asians low-cost competitors. Two directives for differentiation were focused on: an increase of product innovation and increase of customer focus for the Premium brand Jeanswear segment through a segmented offer of products and services. The chairman describes the future direction as following:

…Production flexibility and quick response will be key to the future of this market. Manufacturers must be able to offer an immediate response to customer demands, which require more than before, an
The idea of achieving a differentiation position in the Premium Jeanswear segment was also a common belief across middle and operating managers, mainly because it was very obvious. Every manager could look at TRC Candiani and see a model to follow. However, top management believed that competition was fierce in the Premium Jeanswear market because European differentiation players had been present for a long time. Consequently, top management believed that Alpha-Denim should achieve a very high level of sophistication in order to conquer a strong position in the Premium market. At the end of 2006, the chairman of the board announced the new mission and positioning to the shareholders and market, as we can testify from an extract of the annual 2006 report:

Mission: Produce and sell high-quality, innovative fabrics and provide a specialized speed-to-market service for the products of denim around the world.
The formulation of Alpha-Denim’s differentiation strategy followed a very planned and organized design approach to the strategy in accordance to the traditional way that the firm formulated strategy. At this time, Alpha-Denim was a firm with a strong centralized decision process, mainly inherited from its cost control culture of its low-cost strategy. Strategic decisions were used to follow a well-planned workflow structured by a budget plan over five years and reviewed annually. The CEO coordinated the making of the strategic budget with middle managers following strategic directions defined by top management.

For the implementation of the differentiation strategy, top management directed new resource allocations. They requested that the CEO hire a director of R&D specialized in the Premium Jeanswear market. At this time, the Italian tradition in Jeanswear fashion was the most sophisticated and highly regarded in the European market. Furthermore, the Italian style was responsible for the vintage concept of Jeanswear through specific washing processes. The new R&D director was a specialist in the Italian fashion Jeanswear, bringing with him an in-depth knowledge of the type of demand from Premium Jeanswear clients. Top management considered the hiring of the R&D director to be one of the most strategic decisions in order to achieve a strong differentiation position. In the following years the R&D director made important investments in new machines, mainly at the finishing process where most of the differentiation was added to Jeanswear fabric.
5.3.1.3 Strategic context

The strategy concept of differentiation was directed by top management and deployed by the CEO and operating teams. Their belief was based on achieving a high degree of differentiation through technological innovation. As TRC Candiani was considered the best differentiator in the European market being positioned as the Italian vintage style of Jeanswear fabric, Alpha-Denim decided on a technology differentiation positioning. Manufacturing highly technological fabrics, Alpha-Denim could bring new possibilities for the development of collections aimed at Premium brand clients. Moreover, top management was focused in adding differentiated services such as speed in launching new products and a higher integration of the R&D team with the client’s product development in order to create client intimacy. Integrating the Alpha-Denim product development with the client product development was a belief that could differentiate Alpha-Denim from other competitors, such as being faster in delivery and flexible with lot size production and customizations.

The development of the strategy concept was mainly led by top management with the help of external partners such as strategy consulting firms. The middle and operating management level was not able to provide autonomous initiatives that could be championed and proposed to top management. This was mainly because the disruption of the low-cost approach was a strong conceptual rupture, and they did not know how to develop new ideas, primarily because they had followed a centralized strategy concept of low-cost for many years that changed very little until 2005. However, most operating managers in the company sympathized with the idea of following a differentiation approach as it seemed to be very logical and coherent.
With financial resources allocated by top management for the implementation of a differentiation strategy based on a technological approach, the new R&D director implemented initiatives of research development in new finishing processes, and in developing a new sophisticated type of thread composed by yarns of cotton, elastane and polyester. This type of tri-blended yarn was not an exclusive innovation of Alpha-Denim, but very few players were able to achieve it with a high quality. The tri-blended threads allowed the fabric to stretch with resistance, adapting the Jeanswear pants to the contour of the body and recover its original size without losing elasticity and shape. The tri-blend technology received a lot of visibility and credibility from Premium brand clients. Then, the R&D director together with the commercial and R&D team developed the Denim Sensation collection, a Premium product collection based on the tri-blend technology with a special finishing process that was beneficial for the skin, such as cellulite reduction. The Sensation collection was championed with trials managed in partnership with Alpha-Denim’s close Premium brand clients. After that the CEO supported and defended the success of the collection trial to top management which subsequently approved its production on a large scale. The CEO had no difficulty in promoting the Sensation collection as it was in line with the strategy concept defined by top management, which was developing a Premium product line based on innovative technology for the Premium segment. In a certain way, top management had vectorized this development of the Sensation line by conditioning the CEO to hire an R&D director with a specific profile in the Premium segment and in allowing the use of financial resources for specific investment in new equipment.

This type of mechanism in the determination of the structural context of hiring specific human resources to guarantee the execution of the strategy, was similar to the Intel case described by Burgelman (Burgelman, 2002). In the Intel case the CEO Andy Grove, promoted a natural selection of human resources by changing the positions of senior managers in the company that had a low alignment with the strategy concept by senior managers that were strongly aligned.
5.3.1.5 Product market and Capital market

Regarding the external forces that influenced the making of the strategy process during this period, top management was being pressured by investors and shareholders that were highly dissatisfied with the performance of the company and demanded a clear plan of strategy deployment. In a certain way, this pressure shaped the behaviour of the top management executives in elaborating a differentiation strategy in a centralized and indented way.
Summary of the making strategy process of the period (Figure 16)

<table>
<thead>
<tr>
<th>Definition</th>
<th>Selection</th>
<th>Strategic Context</th>
<th>Structural Context</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Corporate</strong></td>
<td>Pure low-cost strategy was no longer possible. Differentiation should be the solution. Italian TRC Candiani started to be seen as an example of a successful differentiation strategy.</td>
<td>Approval of Sensation product line.</td>
<td>Emphasis in achieving a high degree of product sophistication and uniqueness in order to sustain a differentiation position in the Premium Jeanswear market.</td>
</tr>
<tr>
<td><strong>Middle</strong></td>
<td>It is necessary to conquer a relevant share in the Premium Jeanswear market and to develop a Premium product line with a high level of differentiation.</td>
<td>CEO presented and defended the Sensation product line with the tri-blend technology.</td>
<td>Low capacity in defining a clear strategic direction to the new situation. However, the pursuit of differentiation makes sense.</td>
</tr>
<tr>
<td><strong>Operating</strong></td>
<td>Focused in achieving the highest level of differentiation possible through technology innovation.</td>
<td>Initiative of R&amp;D director that with R&amp;D team developed a new technology of threads, mixing cotton, elastane and polyester yarns, which allowed the development of the Sensation product line.</td>
<td>Low capacity in defining a clear strategic response to the new situation. However, the pursuit of differentiation makes sense.</td>
</tr>
</tbody>
</table>

- Centralization in setting a clear strategic goal: conquer a relevant share of the Premium segment.
- Investment in advanced wiring and finishing technology. R&D department.
- Investment in marketing for the Premiumization of the brand.
- Hired an R&D Director specialist in the Jeanswear Italian Fashion segment with a strong knowledge and heritage of the Premium Jeanswear tradition.

- Major activities
- Strong drivers

CEO presented and defended the Sensation product line with the tri-blend technology.
5.3.2 Period (2007-2009) - Testing a low-cost product line under a differentiation strategy

5.3.2.1 Definition process

In 2007, despite a low performance of the Premium product line, top management still believed in the high potential of the Premium market and kept a strong focus on achieving a high degree of sophistication in their differentiation approach. However, the CEO took the decision to develop a more basic and low-cost denim fabric. The request to introduce a basic low-cost option in the collection was reported several times by the sales team as they were struggling to sell the premium fabric product. Several sales representatives had reported to the commercial director that if on the one hand the demand for sophisticated and expensive denim fabric product was low, then on the other hand, Medium brand clients and Fast fashion retailers were demanding basic Jeanswear fabrics. The commercial director had identified that the resupply of basic product to Fast fashion retailers from Asian and Turkish competitors was sometimes too slow during the collection period. In fact, to plan a collection based on an imported product, it was necessary for Fast fashion retailers to place their orders with manufacturers several months before the collection. If during the collection the stock ran out, the time was too short to resupply stores based on imports, as the manufacturing and international transportation took several weeks to arrive to the stores. As it was, the manufacturing facilities of Alpha-Denim were very near the European Fast fashion retailer distribution centres, so it was easy for them to manufacture a Denim fabric and deliver it very quickly.
5.3.2.2 Structural context

However, Alpha-Denim’s strategic directions and resources allocation was focused in manufacturing sophisticated denim fabric for the Premium Jeanswear market. During the product planning meeting organized by the R&D department at each collection development, the commercial director and salespeople had been defending a low-cost denim fabric product line in order to attend the sales demand from Fast fashion retailers and other popular Jeanswear brands. However, R&D was contrary about developing such basic products. Their concern was that the basic low-cost products would degrade the premium image on which the company had spent an enormous quantity of effort and resources to develop during the past years. During the interviews, the R&D director expressed the fact that he considered that the low-cost product line was not desirable but a necessary initiative as he testifies below:

…We utilize the low-cost product line when we are short in sales. When there is no sales volume we should do something. This is a temporary production in order to increase sales when the Premium line is not selling enough. If you are not capable to sell your Premium line, then what do you do to sell more fabric metre? You reduce the price. What do we do in order to reduce our price? Through cost reduction on the fabric.
5.3.2.3 Selection process (Impetus)

Supporting the initiatives of the commercial director, the CEO convinced the R&D director to develop such products only to help fill plant capacity and reach a better unitary cost. One of the exigencies of the R&D director in accepting to produce the low-cost line was to sell it to a very limited number of clients in order to limit possible damage to the image. The commercial director agreed and dedicated a specific salesperson per territory to sell the basic low-cost line. By doing this the basic product line would not be generally available to the market as it would not be available to the general sales representatives. The middle management team’s belief was that low-cost production was a temporary situation and that the expectation for the next year was that the Premium market should have recovered from its recessive situation. The explanation of this contingency strategy in order to fill the plant capacity and achieve a better unitary cost and improve profitability was minimized with the top management to avoid excessive concern. The CEO managed to demonstrate to top management that it was a very temporary situation until the recovery of the Premium market and that possible damage to the premium image had been isolated with managerial mechanisms.

5.3.2.4 Strategic context

Top management interpreted the low-cost experimentation as more of an operational than a strategic issue. For this reason, not much relevance was attributed to it since it did not alter the actual strategy concept. For the CEO and commercial director, the successful experimentation of the low-cost product highlighted the relevance of the Fast fashion retailers, and that maybe both the premium and low-cost product lines could be managed simultaneously which would open the opportunity to meet a larger market demand. Attending simultaneously the Premium and Middle brands, as well as Fast fashion retailers with different product lines could increase the chance to optimize plant capacity which would provide an overall lower production cost. However, the R&D team believed that managing two opposed product lines was too complex for the plant processes, which could increase cost and damage quality and slow the delivery service. Additionally, for the R&D director, image damage was one of the major dangers in implementing both low-cost and differentiation initiatives.
5.3.2.5 Product market and Capital market

Continuous pressure for positive results by investors and shareholders could have influenced top management executives in accepting the low-cost experimentation, improving results in the short term as a way to deliver some good news to the market. Also, these pressures influenced top management to look for a new strategy alternative such as a merger with an important player of denim fabric manufacturer in order to reduce the level of debt.
Despite a poor performance of the Differentiation approach, the belief is that the Premium market will recover soon. We should persist in our differentiation strategy.

Low-cost product experimentation was tolerated as it was an isolated situation and temporary need.

Limited low-cost production was seen as an operational issue with no strategic relevance.

Keep the team focused on the Differentiation approach, continuing allowing resources in Premium product development and insuring R&D plan execution.

The strategy of the firm continues to be the pursuit of a strong differentiation position in the Premium market.

Experimentation of a low-cost product line brought positive results and had no impact on the Differentiation image of the firm.

Control of the impact of the Low-cost Approach on the Differentiation strategy.

Maybe a combination of low-cost and Premium product lines is viable as a definitive strategic approach.

R&D: We could not manage low-cost and Premium approach together because it is too complex at the manufacturing plant and that could bring damage to the brand image of differentiation.

Limited number of clients will receive the low-cost offer.

A sales team will be dedicated to the offer of the low-cost product.

Initiatives of the Commercial director to bring the demand of Fast-fashion retailers for low-cost product with a fast service delivery.

Operating: Fast-fashion seems too important to be excluded from the firm’s strategy.

Limited number of clients will receive the low-cost offer.

A sales team will be dedicated to the offer of the low-cost product.
5.3.3 Period (2010-2011) – When the differentiation strategy seemed to work

5.3.3.1 Definition process

During the period 2010-2011, the Premium market demonstrated a stronger demand with a recovery of the European economy and increased customer confidence. Consequently, the production of the basic product line was no longer necessary as demand for premium Jeanswear fabric could fill the plant capacity bringing a huge increase in profitability. This fact was interpreted by top management as the success of the cumulative efforts and persistence of the differentiation strategy investments and initiatives during the previous years. Top management took advantage of the situation to increase investment in its differentiation approach with the objective of achieving a high degree of uniqueness through product technological innovation as the chairman expressed below:

…The company is present in this region with its plant in …, Morocco, which has been receiving investments for modernization and expansion. … The markets were segmenting and the products should respond to different demands, consequently spinning, weaving and dyeing manufacturing processes were experiencing changes due to finishing aspects that customers wanted to obtain. Finishing processes that incorporate soft touch and brightness to the fabrics are increasingly well appreciated among consumers who since the end of the 20th century look first of all for the differentiation. Also, the market starts to work with new materials and with lighter fabrics. All this results in the emergence of a multitude of variants in the garments, such as faded, broken and used, stamped… a world of variety which until a decade ago was dominated by uniformity.
For the CEO and the commercial team, the increase in demand for the Premium Jeanswear market was understood as definitive and permanent, so the shutdown of the low-cost production was understandable: the firm needed to use its full capacity to attend the premium clients.

5.3.3.2 Structural context

With the increase of resources allocation on the differentiation strategy, and the high demand for premium products, the R&D team started to develop highly sophisticated products such as the Couture line, a super high quality, delicate and fine Jeanswear fabric that allows the manufacture of Jeanswear apparel with the style of the French Haute Couture tradition. The Couture line was seen internally as the most differentiated product line ever made by the firm and one of the most sophisticated Jeanswear fabric in the European market.

5.3.3.3 Selection process (Impetus)

The championing of the Couture collection came from the R&D director who sustained its production despite an extremely higher unitary cost and restricted target market consumption. The R&D director argued that the Couture collection would have a positive effect on the Sensation Premium product line increasing their differentiation perception by clients and supporting a higher price and higher sales. Due to favourable market conditions, the idea was accepted by the CEO who gained the collection approval with top management due to its high alignment with the corporate strategy concept.
5.3.3.4 Strategic context

Strategic context was mainly marketed by the increase of focus and specialization on the differentiation approach. Overall managerial levels were aligned with this, and inclusively the commercial team. However, the commercial director warned that Fast fashion customers were too important in the market to be abandoned. In fact, the shutdown of the low-cost line production involved losing important Fast fashion customers.

5.3.3.5 Product market and Capital market

Temporary release of the pressure by investors and shareholders due to the improvement of the market demand and firm’s performance provided more confidence for top management executives to focus greater investment on the differentiation strategy.
### Summary of the making strategy process of the period (figure 18)

<table>
<thead>
<tr>
<th>Definition</th>
<th>Selection</th>
<th>Strategic Context</th>
<th>Structural Context</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Corporate</strong></td>
<td>Recovery of the demand for Premium product and positive results confirmed the correct direction of following an increasing specialization in the Premium market</td>
<td>Approval of the Couture Collection</td>
<td>Increase of Differentiation approach. We need to achieve a high level of Premium product sophistication. Keep the team focused on the Differentiation approach, continuing allowing resources in Premium product development and insuring R&amp;D plan execution.</td>
</tr>
<tr>
<td><strong>Middle</strong></td>
<td>Demand for Premium product could fill the Plant capacity. No reason to manufacture low-cost product.</td>
<td>Supporting the Couture collection with Top management</td>
<td>Differentiation strategy is working. Acceleration of the R&amp;D development plan.</td>
</tr>
<tr>
<td><strong>Operating</strong></td>
<td>R&amp;D: What are the highest Product differentiations that we can achieve? Commercial: Premium demand is high</td>
<td>R&amp;D: Development of the Couture collection. The most sophisticated fabric that Alpha-Denim has ever produced. Commercial: support for selling and offering sample of the Couture collection</td>
<td>Commercial: with the exit from important Fast-fashion clients, we are losing an important access to a large market. Focus on the quality control.</td>
</tr>
</tbody>
</table>
5.3.4 Period (2012-2013) - Definitive failure of the differentiation approach and adoption of a mixed strategy

5.3.4.1 Definition process

In 2012 the European market suffered a new recession and the Premium market demand plunged again, resulting in a strong negative operational result for Alpha-Denim. With the sudden shrinking of the Premium demand and the absence of Fast fashion retailers, Alpha-Denim was unable to fill its plant capacity, resulting in an important increase of the unitary production cost. With this last event, top management lost their confidence for a strategy based only on a differentiation approach due to the extreme uncertainty involving the Premium Jeanswear market. At the middle and operating management level, the R&D team recognised that an excessive sophistication and product differentiation will bring marginal sales, and started to think that the right solution was the development of a Premium product line with differentiation but at a cost that allowed them to maintain a competitive price as the R&D manager describes:

...Our goal is to have a premium collection, a collection that adds value to our products. This is the main goal, but without losing sight of cost reduction or the lowest possible cost we can reach, because right now, with very high prices, we cannot compete.

Meanwhile, the commercial team was defending a return to an entry level low-cost product line in order to re-engage with important Fast fashion retailers that had a more predictable and stable demand. The commercial director defended the strategic importance of the Fast fashion retailers for the company during the interviews when we asked if it is possible that Alpha-Denim would go back to a pure differentiation approach as we can confirm below:

...We already did and it was a mistake. We did it in 2011 when we had actually a huge demand for premium products. So, looking to the
short term, we made 100% premium of sales for achieving a maximum margin on the short term. And when the market was hardest we had no products in the heart of our customers and suddenly, we had a lot more difficulties to recover a share in important clients.

5.3.4.2 Structural context

With the failure of the differentiation strategy, top management lost focus and strategic direction in the European business. They started to work on an international merger strategy believing that synergies on an international platform could be the solution to face Asian competition. With this in mind, the middle and operating managerial level was able to take more autonomous initiatives in the European business. For the European business unit, top management limited their participation in establishing profitability objectives in the long term.

The CEO implemented certain rules in order to guarantee levels of profitability. He knew that if the Fast fashion retailers represented a too large a share in the sales mix, the company would lose an important part of its profitability. For this he defined a maximum limit for the share of sales of low-cost product line for Fast fashion retailers. He also defined a minimum limit for the share of Fast fashion retailers so as to ensure some of their sales, being strategically important to sustain the mixed strategy approach. Structural determination of the low-cost approach was also made by limiting the number of low-cost products offered and by providing a higher commission payment when sellers sold the Premium line.
After the lesson learned during the period 2010-2011 when the firm focused on a pure
differentiation approach, profitability had been managed by middle and operating
management not in the short term but in the long term. It was more important to have
consistent and good profitability than to maximize profitability in a particular period
but unable to be profitable in another. The commercial director expresses this
managerial direction when he was talking about the importance of keeping a strategic
share in important Fast fashion retailers:

...It is better to accept losing a little bit of margin, but to remain
significant for some customers that are loyal to the core products of
the market. Because in fact for them it is very difficult to substitute a
product that is at the centre of their assortment rather than a
peripheral product. And that is really important. So, we must still
maintain a share of the low-cost product.

5.3.4.3 Selection process (Impetus)

With the support of the commercial director, the CEO managed to convince the R&D
director and top management to adopt definitively a basic low-cost product line. The
commercial director brought evidence from the sales team that all the client segments
had a demand for basic low-cost denim fabric. The Fast fashion retailers needed a local
manufacturer that could supply a basic product line very quickly in order to be a
complementary alternative to imported products. Premium clients needed some basic
products to complement their premium offer, and Popular Medium brand clients
wanted to have cheaper fabric options in order to be more competitive in face of the
Fast fashion retailers. With this market intelligence, the commercial director
demonstrated that the isolation of sales and the fear of damaging the premium image
were groundless. With these elements, the CEO was able to convince top management
to alter the pure differentiation strategy to a mixed strategic approach, despite the
reluctant position of the R&D director.
5.3.4.4 Strategy context

The CEO was convinced that a mixed strategy was the only viable and definitive solution for Alpha-Denim. He directed operational teams in all departments to integrate the two approaches of differentiation and low-cost. Operating teams started to find solutions in order to solve trade-off dilemmas and extract synergic benefit from the mixed strategic approach. After the merger, top management perceived that international synergies were practically non-existent because client and value chain was local and not global. Since top management did not have a new strategy direction they were more open to the mixed strategy approach for the European business unit.

5.3.4.5 Product market and Capital market

A worst year performance in 2012 added a lot of pressure on top management, as the market started to question the viability of Alpha-Denim as a differentiator player in the European market.
Summary of the strategy making process of the period (Figure 19)

<table>
<thead>
<tr>
<th>Corporate</th>
<th>Definition</th>
<th>Selection</th>
<th>Strategic Context</th>
<th>Structural Context</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Premium market was too uncertain; Differentiation strategy resulted in a too narrow market size.</td>
<td>Top management was convinced to adopt definitively a mixed strategy approach.</td>
<td>Other initiatives such as a merger with an important Jeanswear manufacturer did not work. Not sure what strategy we need to adopt.</td>
<td>Favoring operational profitability over strategy fundamentalism. Focus on profitability in the long term.</td>
<td></td>
</tr>
<tr>
<td>Middle</td>
<td>Combination of low-cost product and Premium product line is the solution in the short term to survive.</td>
<td>CEO defended the adoption of a definitive mixed strategy approach with top management and R&amp;D Director demonstrating its profitability advantage.</td>
<td>A mixed strategy approach seems to be a viable and definitive solution.</td>
<td>Optimization of profitability is the rule that defines the mix between low-cost and Premium product line. Control of the Low-cost sales share that should be limited to 25%. Guarantee a minimum share in important Fashion retailer clients even if that means a non-maximization of profitability on the short term.</td>
</tr>
<tr>
<td>Operating</td>
<td>R&amp;D: An overly excessive product differentiation results in very high cost and a very restricted market demand. We should develop differentiated product at a competitive cost. Commercial: We should come back with the low-cost product line as Fast-fashion retailers are their demand and are more stable.</td>
<td>Commercial director demonstrates that all client segments need both differentiated and low-cost product lines, reinforcing the idea of the benefit of synergy of the mixed strategy.</td>
<td>Trade-off solutions are possible and profitable.</td>
<td>Limited SKU offer on the Low-cost strategic approach. Sales reward payment was higher on Premium line than on Low-Cost line for salespeople.</td>
</tr>
</tbody>
</table>
5.3.5 Discussion and contribution

5.3.5.1 Evolution of the strategy making patterns as an adaptive process to fit the environment and development of a dynamic capability in altering strategy renewal sub-process as a result of a learning process

One of the interesting aspects of the Alpha-Denim case study is the adaptation of the strategy making process to a very turbulent and uncertain environment over a relatively short period of time and that most of the same managerial team was unchanged. Consequently, the evolution of the strategy making pattern with the environment was mostly characterized by a learning process of the same management team, rather than by change of management style, as it is the case in the successive periods of Intel case studies, where different strategy making patterns correspond to different CEO management styles (Burgelman, 1996, 2002).

Alpha-Denim started with a very centralized model of strategy making process characterized by a strong top-down intended strategic behaviour. Directed by top management, strong mechanisms of the structural context such as investment and resources allocation allowed the deployment of a strategy concept of differentiation. However, a partial fit of this intended strategy enabled the emergence of autonomous strategic behaviour from operating and middle management. Autonomous behaviour gained relevance and recognition from top management with improvement of its strategy fit to the environment. Successive poor strategy fit of the rational-actor model with the environment pursued by top management resulted in the adoption of a strategy making process with characteristics of an internal-ecology model (Burgelman, 2002). Decentralization of the strategy concept definition to lower managerial levels and rules of profitability maximization in the long run, drove the allocation of resources more dynamically and with a better fit to the environment.

At the top management level, the focus of the strategy process switched from defining the content of the firm’s strategy, to defining a strategic direction that could guide the definition of strategy content by lower managerial levels. Consequently, the degree of differentiation or composition between low-cost and differentiation approach was left to the middle and operating level. Instead, top management concentrated in defining strategic directions such as market share or profitability strategy. Lower management
gained the freedom to define the composition of the mixed strategic approach with the condition that they guarantee the firm’s profitability in the long term. Top management learned the type of role that it has in the strategy making process, whereas the middle and operating management level learned to define the right strategy content based on the proximity of their experience with the operation and market demand.

In accordance to the model of sub-processes renewal proposed by Floyd and Lane (Floyd and Lane, 2000), we classified each of the four periods in order to understand role management changes across the learning process and strategy making evolution. Alpha-Denim’s environment changed very quickly from stability to turbulence due to an increase of competitive intensity. We classified the environment of Alpha-Denim as mature competition since the core technologies of textiles underlying the fabric product and production process remain essentially unchanged (Floyd and Lane, 2000). Consequently, environmental turbulence and uncertainty come mainly from a high level of product market competition pushing cost reduction and customer segmentation. In the tables below (Table 10 ; Table 11), we can see that the strategy making process oscillated between competence deployment and competence modification until the definitive implementation of the mixed strategy. This is in accordance with the assumption advanced by Floyd and Lane, where in a mature competition environment strategy renewal is characterized by competence of deployment and modification. We then confirm the following proposition advanced by Floyd and Lane:

…When product markets are dynamic and factor markets are stable, a combination of bureaucratic and clan controls decrease strategic role conflict.

(Floyd and Lane, 2000); pg., 169.
We have enriched the literature of strategy process by demonstrating how the interaction of these two sub-processes of strategy renewal interacted across a learning process, from reliance on bureaucratic controls to reliance on bureaucratic, and clan controls for managing role conflicts. In the mixed strategy definitive implementation, clan control and the managerial conflict between R&D, the commercial and production team was fundamental to have a quick response to the dynamicity of the market. An important contribution of Alpha-Denim’s case is having demonstrated that by adapting to an increasing competitive and uncertain environment, bureaucratic controls of the structural context directed by top management have changed in nature from strategy content definition to strategy policy definition, and that responsibility of autonomous behaviour increased together with clan control over the strategy content definition, characterizing a decentralization of this. Additionally, this process of adaptation of the characteristics of the strategy making process was not planned or intentional but the result of a learning process. As we have said at the beginning, the same key executives passed through the four periods, consequently the result of this learning is the development of a dynamic competence in adjusting the strategy making process depending on the situation. Top management learned the degree of intervention that it should have in the definition/modification of the Alpha-Denim strategy content, while the middle and operating level learned to be more autonomous in defining/modifying the strategy content of the firm. The dynamic change of the strategy process pattern where top management’s behaviour could become more bureaucratic (a migration to competence deployment sub-process) or less bureaucratic (a migration to competence modification sub-process), and in the lower managerial level in accepting that, depends on the common experience and knowledge that the Alpha-Denim team acquired.
<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Implementing a differentiation strategy</td>
<td>Testing a low-cost product line</td>
<td>Total focus on differentiation</td>
<td>Definitive mixed strategy adoption</td>
</tr>
<tr>
<td>Environment and Strategy Fit</td>
<td>Sudden increase of competition undermined the low-cost competitive advantage. Alpha-Denim low-cost approach could not longer sustain the firm.</td>
<td>Partial fit of the differentiation strategy due to highly competitive and recessive environment.</td>
<td>Failure of the pure differentiation strategy due to a new recession environment. Good fit of the Mixed strategic approach.</td>
</tr>
<tr>
<td>Definition Process</td>
<td>Top management defined that the new corporate strategy concept is achieving a high degree of differentiation.</td>
<td>Top management kept focus on Differentiation while middle and operating managers experimented the need of a low-cost product line.</td>
<td>Top management intensified the focus on differentiation. Low-cost product line was stopped as it was no longer necessary to fill the plant capacity with volume.</td>
</tr>
<tr>
<td>Selection Process</td>
<td>A Premium collection was championed by the R&amp;D team and supported by the CEO.</td>
<td>Championing of a low-cost product line in order to fill plant capacity by CEO and Commercial director.</td>
<td>R&amp;D team developed a highly sophisticated and expensive premium product collection.</td>
</tr>
<tr>
<td>Strategic Context</td>
<td>Middle and operating management level accepted easily the corporate strategy concept of differentiation as it seemed very logical. There is no divergent concept defended by low level of management.</td>
<td>Top management and R&amp;D team kept focus on Differentiation and considered the low-cost experimentation an operational temporary need. CEO and Commercial director considered the low-cost test more strategically relevant.</td>
<td>Managerial level aligned with the idea of a working differentiation strategy. However, Commercial director warned of the risk of quitting Fast-fashion retailers.</td>
</tr>
<tr>
<td>Structural Context</td>
<td>Strong centralization of strategy design and definition. Strategy as a vector deployed by Top management was guaranteed by resource allocations such as R&amp;D department and alteration of the plant configuration by acquiring new machinery.</td>
<td>Centralization is still present but relaxed: control of the low-cost experiment and continuity of resource allocation on the differentiation strategy.</td>
<td>Continuity of resource allocation on the differentiation strategy. Focus on quality control of the Premium line.</td>
</tr>
<tr>
<td>Managerial level alignment of Strategic behaviours</td>
<td>Operating managerial level was mainly characterized by an intended strategic behaviour. Autonomous strategic behaviour that are not aligned with the corporate strategy concept was nonexistent, because lower level of management was not capable of articulating one. No conflict across levels tends to a perfect alignment.</td>
<td>First autonomous initiative that diverged from the corporate strategy concept with the low-cost experiment. First conflicting strategic views surged between managerial level but also at the same level across department. There is a certain degree of misalignment across managerial levels and department.</td>
<td>Reduction of conflicting point of views between and across managerial levels and increase of alignment. Increase of centralization of command by the Top management.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Autonomous behaviour in developing a mixed strategy and altering the corporate concept of strategy is more relevant than the intended behaviour. Strategy concept conflict exists across departments and managerial levels but are reduced by a strong alignment around profitability.</td>
</tr>
</tbody>
</table>

Table 10 - Evolution of Alpha-Denim strategy making process for the period 2005-2013.
<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementing a differentiation strategy</td>
<td>Testing a low-cost product line</td>
<td>Total focus on differentiation</td>
<td>Definitive mixed strategy adoption</td>
</tr>
<tr>
<td><strong>Top management roles</strong></td>
<td><strong>Top management roles</strong></td>
<td><strong>Top management roles</strong></td>
<td><strong>Top management roles</strong></td>
</tr>
<tr>
<td>Directing: Top management was defining the differentiation strategy and directing its deployment by resources availability</td>
<td>Recognizing: Top management recognized that temporarily the differentiation strategy should be implemented with a contingent low-cost approach.</td>
<td>Directing: Top management reinforced the direction on the differentiation approach.</td>
<td>Recognizing: Top management modified its focus from defining strategy content on differentiation to defining strategy policy based on profitability in long term, supporting the mixed approach definition since its content was in order with the profitability principles.</td>
</tr>
<tr>
<td><strong>Middle management roles</strong></td>
<td><strong>Middle management roles</strong></td>
<td><strong>Middle management roles</strong></td>
<td><strong>Middle management roles</strong></td>
</tr>
<tr>
<td>Implementing: CEO was mainly responsible for the implementation of the differentiation strategy</td>
<td>Synthesizing: CEO played an important role in synthesizing the low-cost initiatives to Top management to be accepted</td>
<td>Implementing: CEO eliminated low-cost product offer and refocused the team on a differentiation approach.</td>
<td>Synthesizing: CEO defended the implementation of the mixed approach with Top management as a definitive approach. Facilitating: CEO redefined the roles of departments around the mixed strategy approach in order to guarantee the better Mixed strategy approach.</td>
</tr>
<tr>
<td><strong>Operating management roles</strong></td>
<td><strong>Operating management roles</strong></td>
<td><strong>Operating management roles</strong></td>
<td><strong>Operating management roles</strong></td>
</tr>
<tr>
<td>Conforming: Operational team was accepting the differentiation strategy with great harmony as there was no conflicting point of view</td>
<td>Adjusting: Temporary adjustment to the operation was done to accommodate the low-cost product line. In the Commercial department implementation of a specific sales team. At the Plant, separation of production line for low-cost product in order to achieve high volume. At the R&amp;D department: an outdated Premium fabric was simplified and suffered quality reduction in order to offer temporarily as a low-cost option</td>
<td>Conforming: Commercial department accepted the end of the low-cost offer with the hope of the growth of the Premium demand</td>
<td>Adjusting: Commercial team tested an integrated approach of sales forces and client segment on the mixed approach. R&amp;D team worked on its de-off solution while production team made plant modification to accommodate definitively a mixed product-line approaches</td>
</tr>
<tr>
<td><strong>Strategy Renewal Sub-process</strong></td>
<td><strong>Strategy Renewal Sub-process</strong></td>
<td><strong>Strategy Renewal Sub-process</strong></td>
<td><strong>Strategy Renewal Sub-process</strong></td>
</tr>
<tr>
<td>Competence deployment</td>
<td>Competence modification</td>
<td>Competence deployment</td>
<td>Competence modification</td>
</tr>
<tr>
<td><strong>Conflict Management</strong></td>
<td><strong>Conflict Management</strong></td>
<td><strong>Conflict Management</strong></td>
<td><strong>Conflict Management</strong></td>
</tr>
<tr>
<td>Very low level of conflict during this period due to a high alignment of the strategy concept across managerial levels. More enforced deployment was necessary by Top management in order to execute quickly the change due to performance results. Bureaucratic control reduces possible level of conflict.</td>
<td>Level of conflict increased mainly between Commercial and R&amp;D department. CEO played an important role in reducing conflicts in horizontal exchanges between the two teams. Clan control gains relevance for conflict reduction.</td>
<td>Level of conflict reduced due to the end of the low-cost offer. However, Commercial director considered it a mistake to exit from important Fast-fashion retailers. Increase of bureaucratic control reduces conflict.</td>
<td>Level of conflict increased at operating level between departments due to the nature of the mixed implementation. R&amp;D department becomes responsible as the facilitator. Clan control gains relevance for conflict reduction.</td>
</tr>
</tbody>
</table>
During the second period (2007-2009), when Alpha-Denim was testing a low-cost product line under its differentiation strategy, and in the last period (2012-2013) when Alpha-Denim adopted definitively a mixed strategy, we can observe that the harmonious alignment that existed across the managerial levels on the intended differentiation strategy had been broken in order to change the strategy content defined by the structural context in a mixed strategy through an autonomous strategic behaviour. This observation of the role of the autonomous behaviour in changing the strategy content was in accordance to the findings of Burgelman in the Intel case of the DRAM exit strategy (Burgelman, 1996).

However, in the case of Alpha-Denim, we can observe a new phenomenon. Burgelman defends that the autonomous strategic behaviour is mainly a bottom-up process, where middle management supported by operating level elements, try to convince and change the defined strategy content by top management (Burgelman, 1983). The interaction of opposite positions in the strategy definition and impetus process described by Burgelman confront different managerial levels in vertical exchanges (Burgelman, 1983). We found similar evidence in the Telecom case study of (Noda and Bower, 1996).

In the Alpha-Denim case, the CEO had to manage the definition and impetus process vertically with top management, but also horizontally, at the operating level, with other senior managers such as the R&D and commercial departments. This finding is in accordance with Floyd and Lane where they hypothesize that conflict management is more likely to happen between individuals at operational levels (Floyd and Lane, 2000). We state that the need of impetus at the same managerial level in a horizontal exchange of the autonomous strategic behaviour and strategic context is a new contribution of this case study to the Bower-Burgelman model (Noda and Bower, 1996).
5.3.5.3 The risk of excessive strategic alignment between managerial levels

During the first period (2005-2006), to implement the differentiation strategy Alpha-Denim’s top management and CEO established a strong commitment across all managerial levels around a pure differentiation strategy concept, where the vision was to achieve one of the highest differentiation positions in highly sophisticated Jeanswear fabric products. Despite the strong enforcement of top management and the CEO in setting the element of the strategic intended behaviour, there was a very low level of conflict with autonomous strategic behaviour, because the content of the strategic context was highly aligned, if not totally superimposed with the element of the structural context. In our investigation and review of the evidence, we believe that there are two main motives for this strong alignment around the differentiation strategy concept. First, the differentiation strategy adoption seems a natural move to make as the low-cost positioning was undermined by Asian low-cost imports. Everybody at Alpha-Denim could easily accept it because it seemed very obvious that to escape from the Asian threat, such a differentiation strategic approach should be adopted. Secondly, in order to avoid a bankruptcy situation, a strong spirit of collaboration unified employees across different managerial levels in a battle for survival. In fact, as several similar European players had already gone bankrupt, the common fear that was shared by Alpha-Denim’s employees was the loss of their jobs. The strong enforcement around the implementation of the differentiation strategy by top management and the CEO was very similar to the case of the Intel strategy as a vector, when Intel’s CEO Andy Grove was strongly and actively promoting and influencing behaviour around a focused strategy on the PC market segment (Burgelman, 2002). However, in the Alpha-Denim case, we do not have the repression of autonomous strategic behaviour as it was described by Burgelman (Burgelman, 2002). In fact, in the interviews reported by Burgelman, several middle managers complained of the too restrictive focus around the microprocessor PC market, and the lack of autonomy in developing initiatives of microprocessor products in other types of market (Burgelman, 2002).
However, in the Alpha-Denim case, this strong and excessive alignment, and the absence of an autonomous strategic behaviour that could be capable of adjusting the actual strategy content in accordance to the market demand, resulted in an excessive emphasis on the differentiation approach. In the pursuit of excellence in differentiation and to place Alpha-Denim among the few manufacturers positioned in the Premium market, Alpha-Denim exaggerated the sophistication of its product, and did not perceive the relevance of the cost dimension. Manufacturing highly sophisticated and differentiated products at a very expensive cost drastically reduced the number of clients that were willing to pay for it. We concluded that the poor fit with the environment of the differentiation strategy was provoked by a strategy making process characterized by an excessive alignment of strategic and structural context elements. This is because the operating and middle levels of management were in total synchronicity with the top management beliefs around the strategy concept of pursuing and achieving a pure differentiation strategy, that no one in the company perceived other elements of the external context, such as the importance of keeping a competitive price and the limitation and volatility of the European Premium Jeanswear market demand. We characterize this situation as an absence of tension of norms, beliefs and priorities in the role of managerial levels in renewal sub-processes, but not due to strong bureaucratic controls, as defended by Burgelman in the strategy as vector behaviour in the case of Intel (Burgelman, 2002) or by Floyd and Lane in their description of the competence deployment sub-process (Floyd and Lane, 2000), but due to a strong shared belief around the strategy concept across the company.
5.4 Conclusion

The causal process tracing analysis had the objective of revealing the causal mechanisms that explain the adoption of a mixed strategy approach by Alpha-Denim. We identified a complex chain of causes-consequences that led Alpha-Denim to the adoption of a mixed strategic approach. Two perspectives explain the reason of the mixed strategic adoption. The first one is related with environmental characteristics, such as the high level of competition, volatility of customer demand, product commoditization effect, among others. The second one is related with the development of dynamic capability in managing the changes of its strategic making process. Alpha-Denim’s management team learned from experience of the pure low-cost and differentiation strategic adoption and its fit with the environment, to balance strategy deployment and strategy modification sub-process in strategy renewal in order to optimize the fit of the realized mixed strategy.
Chapter 6 - Mixed strategy implementation at the firm’s strategy market level

6.1 Introduction

As we have just seen in the previous analysis, Alpha-Denim adopted a mixed strategy as a process of adaptation to a very turbulent and uncertain environment. The mixed strategy adoption demands the simultaneous management of a differentiation and low-cost approach. There are two important levels of management for the mixed strategy implementation, which are the strategy definition level and the value chain activity level. In this chapter, we will explore the implementation of the mixed strategy by Alpha-Denim at the strategy definition level, which involves competing in several market segments composed of antagonistic customer needs, and also involved designing at least two customer value propositions, one oriented to differentiation and another to a low-cost offer. Defining a dual market strategy that involves two contradictory positioning and value propositions raises several managerial challenges. As Porter and Magretta warn, the adoption of a dual positioning could lead to confusion that either customers could not understand the value proposition of the firm, or that the firm’s employees could not understand how to implement the firm’s strategy (Porter, 1996; Magretta, 2012). We try to answer the following research question:

RQ3: How has the firm been integrating the two strategic approaches of differentiation and low-cost in a coherent and unified strategy formulation that involves market positioning and internal strategy policy definitions?

A possible hypothesis for a harmonious integration between the two contradictory strategic approaches is defining distinct roles in order to avoid a direct conflict, where one strategic approach is the main strategy of the firm, while the other has a complementary role. We detected during the literature reviews descriptions that could lead to the inference that the utilization of primary and complementary role exists, however these descriptions do not explicitly cite this (Spanos, Zaralis and Lioukas,
Once the combination between the differentiation and low-cost approach has been defined, the main question that remains is if this combination between the two strategic focuses is a rigid definition or if it is more dynamic, and accepts a certain degree of flexibility. Several scholars defend that strategy flexibility, which enables dynamic alterations of the original strategy definition, and is more adequate to adapt to turbulent and uncertain environment (Johnson et al., 2003; Matthyssens, Pauwels and Vandenbempt, 2005; Roberts and Stockport, 2014). Proff describes a case adoption of a mixed strategy in the German automotive industry, which defends that the mixed strategy brings higher flexibility to balance the demand fluctuations between the diverse production lines (Proff, 2000). This adaptation to the demand fluctuation raises the hypothesis that the combination between the differentiation and low-cost approach are not rigid but more dynamic, and could be altered to adapt to unpredictable changes of the environment.

As a contribution of this chapter, we unveiled that the case study firm has a role definition that avoids overlapping of functions between the two strategic approaches that reduce market positions, internal direction ambiguities and enhance complementarities. Finally, we demonstrated that these empirical findings came to contradict theoretical assumptions defended by Porter’s Generic strategies model scholars (Porter, 1980a). Moreover, we identified that strategy flexibility is an important characteristic of the mixed strategy definition. The flexibility of balancing between the two strategic approaches, reconfiguring the strategy definition composition is crucial for a firm that has adopted a mixed approach to adapt to a turbulent and uncertain environment. These findings have enriched the general assumption of the literature that strategy flexibility is associated with a dynamic environment, by demonstrating that this assumption is particularly relevant for a mixed implementation. An important finding that was not described in the literature is that the degree of flexibility in the strategy definition should be controlled. A too excessive flexibility of one of the sides of strategic approaches could harm the performance of the mixed strategy implementation.
6.2 Combining differentiation and low-cost market approaches

6.2.1 The differentiation approach of Alpha-Denim’s mixed strategy

The aim of the Alpha-Denim differentiation approach is to serve customers that have as their core business the production of differentiated and added value Jeanswear. As they need to differentiate their products in a market defined by high competition, an increase of consumer price sensitivity, the commoditization effect, price erosion and shortened product cycles, they are always chasing the latest innovation of denim fabrics that could bring new aesthetic and wearing properties, and consequently create a degree of uniqueness to their brand in comparison with the product offered by more Popular brands or private labels of Fast fashion retailers. In a broad way, these customers tend to be more loyal, less price sensitive and give more importance to the properties of innovative sophisticated denim fabric. However, there is an important difference when we look at a segment level. Super-Premium and Premium brands are mostly characterized by small Jeanswear producers, which explore niches of the Jeanswear fashion market, are less price sensitive and the most loyal customer, characterizing small volumes of sales with a potentially high margin generation. To attend these customer segments, Alpha-Denim offers a high degree of product innovation with four collections per year and intermediate launches that bring unique sophisticated denim fabrics. Most sophisticated innovations, ones that involve new technology of threads and fabric structures are concentrated for these customers, which are complemented with a service of flexibility that allows them to place small orders of between 1000 and 5000 metres.

The differentiation approach is also composed of the second brand Jeanswear reputation from the Standard segment. These customers also seek to differentiate their brands, but as they do not have the strength of a Premium brand they cannot charge a high price for their Jeanswear pants, consequently they need a denim fabric with a differentiated aspect at a competitive price. For these customers, Alpha-Denim offers a range of product with standard fabric structure that concentrates the differentiation and innovation in the finishing aspect of the product. These customer segments represent the great majority of the customers of Alpha-Denim with a share in sales of 77% (2013). Average gross margins of the Super-Premium and Premium customers are around 28%, while for the Standard customer segment are around 24%.
Consequently, the differentiation approach is the main part of the Alpha-Denim’s strategy in terms of sales volume and profitability. We can confirm that the differentiation approach is the main component of the Alpha-Denim’s strategy with the testimonials of the marketing director and sales manager as below:

…But all the strategy is based on the development of R&D, product innovation and positioning in the premium market because this is where we can really sustain the firm's profitability.

…Our main strategy is based on the product collection development and innovation.

– Alpha-Denim marketing director

…For us, our offer is essentially concentrated on the premium products. Then, all our strategy should be oriented to the Premium market because this is where we can earn a living and become a perennial company.

– Alpha-Denim sales manager

The differentiation approach also has the role to define the image of the firm in the market. Alpha-Denim communicates an image of differentiation and innovation to characterize and define its brand.

6.2.2 The low-cost approach of Alpha-Denim’s mixed strategy

The aim of the Alpha-Denim low-cost approach is to serve customers that have as their core business a basic fashion throwaway style Jeanswear apparel that are offered for a low price. This segment is characterized by entry-level Standard brands and private labels from Fast fashion retailers. They attend to consumers who are highly price sensitive that look for basic quality fashion Jeanswear for a low price. For this reason, the main attribute of Alpha-Denim’s low-cost value proposition is the offer of denim fabric at a competitive price. Despite that, Alpha-Denim cannot compete on price with
Asian imports, but it can offer superior quality denim fabric at a very competitive price with a service of reactivity. Product offered for these segments are more basic in composition than the sophisticated denim fabric offered to the Premium segment. Also, out of season and old products that the Premium and Standard customers do not buy anymore are offered to these clients that appreciate a quality product for a lower price.

Alpha-Denim also offers a reactivity service which is fundamental to competing against Asian imports. Reactivity is a service offered by Alpha-Denim that allows a Fast fashion retailer to order a volume of denim fabric on demand without planning and to be delivered in a very short time. Fast fashion retailers use this service to replenish stores very quickly, a service that Asian competitors are unable to provide due to the distance of their production facilities. These customer segments represent the smaller part of the customer base of Alpha-Denim with a share in sales of 23% (2013). Average gross margin of these customers is around 6%, a lower gross margin if compared with the customers from the differentiation approach. The central objective of the low-cost approach of the Alpha-Denim’s strategy is to have a complementary role, mainly to be a volume complement to the premium and standard customer segments in a turbulent environment in order to keep a low cost by filling the plant capacity. We can confirm the complementary role definition in Alpha-Denim’s strategy very clearly in the testimonial of the marketing director below:

…The low-cost approach is a complement to reduce our cost by filling the manufacturing plant. …We do not have a main low-cost strategy by itself. Because if we base our core strategy on a low-cost approach, we will fill the manufacturing plant but we will not earn a profit. This is the reason why the low-cost approach is a complement.
The low-cost approach has the clear role of optimizing and keeping a low-cost by a complement in volume, consequently the image of competitive price is not communicated in marketing campaigns, but is part of the commercial approach taken by Alpha-Denim’s salespeople, who communicate the pricing policy customer by customer. Indeed, complementarity between the two market approaches is defined into a price strategy. As the low-cost market approach has a main objective of bringing complementary volume, an aggressive price is necessary to enter into Fast fashion retailers, and to compensate the managers’ measure of the value perception delivered to Premium customers by charging higher prices and then recover the lost margin caused by the volume sold to the Fast fashion retailers, as the commercial manager confirms below:

You need aggressive prices to enter Fast fashion customers. On the other hand, you need to charge a high price to the premium customers. Much higher prices. As you can recover the loss of margin.

We bring a summary of the characteristics of the two market approaches with their clear strategic role and complementarity (Table 12). We can observe that the two market approaches have been designed to avoid overlaps and to create complementarities. The two market approaches concentrate on very distinct groups of customers that have fundamentally distinct needs. Also, the clear role of each strategy avoids the possibility of loss of performance associated to confusion or an unclear definition of the strategic approach.
One of the central dilemmas of the two-market approaches is the risk of product cannibalization. Consequently, the first time that Alpha-Denim decided to launch a contingency low-cost product line to temporarily satisfy the Fast fashion retailers in 2007, Alpha-Denim’s top management and CEO decided to segregate a sales team to exclusively sell the low-cost product line in order to avoid a risk of sales cannibalization of the dual focus of the mixed approach. But the structural separation revealed to be a failure, because customers from the Premium and Standard segments were interested in acquiring a small part of the low-cost product line, while the Fast fashion retailers were also interested in acquiring a small part of the Premium product line, as the marketing director explains below:

This strategy was abandoned. That was a failure. But, it is true that at the beginning we have a strong concern about sales cannibalization. We thought about launching Alpha-Denim low-cost
product line using the same sales team for the same customers, we will cannibalize the Premium product line sales.

We can verify below (Table 13), that the Premium market acquired 37% of the low-cost product line, while the Popular market acquired 25% of the Premium product line in 2013.

<table>
<thead>
<tr>
<th></th>
<th>Alpha-Denim Premium product line sale share</th>
<th>Alpha-Denim Low-Cost product line sale share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premium market</td>
<td>75%</td>
<td>37%</td>
</tr>
<tr>
<td>Popular market</td>
<td>25%</td>
<td>63%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

*Table 13 - Distribution of the Alpha-Denim product line across Premium and Popular markets in 2013. (Source: compiled from sales product database).*

Contrary to the belief that a huge sales volume of Premium products could migrate to the low-cost product line, both markets used part of the other line to complement their collections, creating a synergy of sales rather than a cannibalization effect.
6.3 Capability in managing the balance between differentiation and low-cost strategic approaches

6.3.1 Managing the balance between differentiation and low-cost market segment

To keep a balance of sales share between Premium customers and Fast fashion retailers is a key element of Alpha-Denim’s mixed strategy. On the one hand, the differentiation market approach is supported by Premium and Standard customers and who are the main market from which Alpha-Denim makes its main volume and profitability. On the other hand, the Premium and Standard customer segments are revealed as being too uncertain and volatile to sustain Alpha-Denim’s strategy in the long run, consequently, to maintain a strategic share in Fast fashion retailers in order to optimize plant capacity in a turbulent environment is equally relevant. Choosing to leave the Fast fashion retailers during a period of increase in the Premium market in order to maximize profitability could be disastrous in the long run for the firm’s profitability. This is what happened during the period 2010-2012, when Alpha-Denim decided to concentrate its strategy on the differentiation approach. That increased profitability in 2011, but as soon as the Premium market plunged into a new recession, Alpha-Denim no longer had the Fast fashion retailers to guarantee a minimum volume in sales to fill its plant capacity. The marketing director confirms this when he was explaining the impact in 2012 of not having the volume of important customers that Alpha-Denim abandoned in 2011, as we can confirm below:

…We already did and it was a mistake. We did it in 2011 when we had actually a huge demand for premium products. So, looking to the short term, we made 100% premium of sales for achieving a maximum margin on the short term. And when the market was hardest we had no products in the heart of our customers and suddenly, we had a lot more difficulties to recover a share in important clients.

In fact, once an important customer such as a Fast fashion retailer is abandoned, it is very hard to return to their collection. Since this customer has adjusted their collection
with products of other competitors, recapturing a share of its sales demand will require altering their collection approach and to replace other competitors. The marketing director explains below how it is complicated to abandon and return with an important product line for customers such as Fast fashion retailers. Consequently, he sustains that it is better to not optimize the margin independent on the improvement of the Premium market and to always keep a minimum strategic share in these customers in order to be able to optimize the plant capacity when necessary:

...It is better to accept losing a little bit of margin, but to remain significant for some customers that are loyal to the core products of the market. Because in fact for them it is very difficult to substitute a product that is at the center of their assortment rather than a peripheral product. And that is really important. So, we must still maintain a share of low cost product.

On the other hand, if Alpha-Denim concentrates too much share on the Fast fashion retailers, the plant capacity will be filled mainly with a product of low margin. Consequently, Alpha-Denim could not achieve enough gross profit to sustain its general expenses, and presents a negative operational result. Below, the marketing director explains the risk of concentrating too much volume in the low-cost market approach, and confirms that the low-cost market approach should be a complement:

Because if we base our core strategy on a low-cost approach, we will fill the manufacturing plant but we will not earn a profit. This is the reason why the low-cost approach is a complement.

As an example, he considers the share of the low-cost market approach of 22% in 2013 as too high for the firm. In fact, he considers that the optimum balance for the firm’s profitability is something around 15% of share for the low-cost market approach, which will be enough to keep a strategic relationship in Fast fashion retailers, and will enable them to fill most of the plant capacity with the differentiation market approach, which will provide more profitability.
Last year for example, so we ended the year with a share of low-cost products that we need to consider exactly the figures, but maybe approximately 18% to 20% of total sales. This is too much. Because in this case we lose too much margin with the low-cost offer. So yes, if we can stabilize around 15%, is much better. There you go. It enables us to have a complementary assortment, but without losing part of our margin, which is provided by the premium products.

However, the dynamic management of sales share between the differentiation and low-cost market approach is a very complicated and an ambiguous managerial task. As the premium demand is very uncertain and volatile, customers from these segments tend to place the order at the last minute to be sure about the market trends. On the other hand, Fast fashion retailers that have a more stable and predictable demand tend to place the great majority of their sales orders two to four months before the Premium customer. This difference of order placement requires being capable of anticipating the Premium market growth in order to define the share of sales to be taken with the Fast fashion retailers. The marketing director explains how much this task of balancing the mix between the Premium and Fast fashion retailer is challenging, as we can testify below:

If you take too many orders with low-cost customers and if the market goes, well, we will spend all our margins with low-cost sales order and we will not have the capacity to produce for the Premium market. And if the market is bad, we have to balance it with low-cost products and you see, that's exactly what I told you, for example, I took few low-cost orders this time because we thought that the market would increase. So, if the market actually restarts, we keep our prices, we try to make margin and we will not take too many low-cost orders, otherwise, we will eat all our capacity and when the orders from the Premium customers will come, we will not have any more capacity. And as I told you, for two months, the market was very slow to restart. We did not have a Premium market that increased as we thought. Consequently, we had two terrible months because we did not take enough low-cost orders. We made a decision based on inputs that we
received from the market, and we thought that the market would restart soon. Then, optimizing production capacity, it is not always clear, because, actually, we have to anticipate market demand in three, four months.

As we can conclude, Alpha-Denim has very clear strategic roles defined, where the differentiation market approach is the main strategy, while the low-cost market approach has a complementary role, but no less relevant. This role definition and complementarity allows defining a clear strategy direction using two strategic approaches initially highly contradictory in their nature. However, the well-defined strategic roles do not mean that the mixed strategy approach is rigid and static. It accepts a certain degree of flexibility where the mix between the two strategic approaches could change up to a certain limit, allowing the firm to adapt dynamically to an unpredictable environment. With this management style the firm developed a central competency in optimizing the balance between the two approaches in order to maximize profitability in any environmental circumstances.
6.3.2 Managing the balance between differentiation and low-cost product line

Another important element of the mixed strategy definition of Alpha-Denim is to manage the balance between the differentiation and the low-cost approach at the product line level. As we have seen, Alpha-Denim works with three lines of products: Premium denim fabric, Standard denim fabric and a low-cost product line. The low-cost line of Alpha-Denim is an extremely basic quality denim fabric designed mainly for Fast fashion, and its approach and purpose is to be the cheapest Alpha-Denim fabrics that do not change over time. Conversely, the Premium and Standard product lines suffer important reformulation every new collection by removing product and introducing new ones. In this move to the greater added value product mix, Alpha-Denim could decide if it will put greater accent on innovation and added value, or if it will go through a cost approach, trying to keep a good product differentiation aspect while simplifying and reducing added value in order to present a cheaper product. This balance of the level of added value and degree of uniqueness depends on the receptivity and needs of customers, and if the market is more demanding for innovation and added value Jeanswear, or if the market is recessive and will accept more basic Jeanswear at a lower price. In fact, the marketing director explains below that the market could be more or less demanding for product innovation as we can confirm below:

You have periods when the market is very focused on innovation and other periods when the market is less focused on innovation, so if you want, it is not linear. ...If the market is in a somewhat depressed period, there is often less innovation because customers often seek to lower the cost, and they will be less innovative. On the other hand, when the market wakes up, there is more innovation, because there is more creativity.

Moreover, he defines that the main challenge is to find the right equilibrium between offering differentiation while keeping a low cost.
If you want, it's all the challenge to find the balance between being able to offer a premium perception without blowing your costs and being completely out of the market.

Achieving the right balance between product differentiation and low-cost is a strategic objective to remain competitive. The R&D manager explains that the two extremes should be stretched to the maximum limit in order to reach the maximum differentiation with the lowest cost possible simultaneously.

…Our goal is to have a premium collection, a collection that adds value to our products. This is the main goal, but without losing sight of cost reduction or the lowest possible cost we can reach, because right now, with very high prices, we cannot compete.

The excess in one strategic dimension, product differentiation or low-cost will bring a huge disequilibrium to the mixed approach, as too much differentiation will increase the cost too much, and a too low-cost will characterize a too basic product line. The marketing director explains below how this extreme on one strategic dimension was negative for the firm when the focus was too extreme on differentiation:

So, if you want, that is all the balance effect that we are looking for with R&D managers, where it actually happened, at some point in time we were innovating too much in all directions but after all, that increased a lot the cost at the industrial level, because we arrived with too many threads and fabric structures that had marginal sales.
6.4 Understanding the organizational mechanisms involved in the management of a dual strategy market approach

As we have seen, to find the right balance between the mix of the differentiation and low-cost market approaches involves a great amount of uncertainty and in taking ambiguous decisions. To manage this uncertainty and ambiguity, Alpha-Denim uses a combination of decentralized collaborative activities across the departments, and centralized control mechanisms to take the final decision. We describe next the main step of this process, which is co-ordinated under the responsibility of the marketing director.

First, the marketing research department identify the trends of the European Jeanswear market collecting economic data and projections from Economic institutes such as Eurostat, Euromonitor and other specialised entities in the Jeanswear sector. Macroeconomic data from Eurostat is used to trace the major trends of the market in terms of growth and size. Then specific market data of the textile and Jeanswear market are used to refine these trends in a much closer and precise projection. The relevant information that the marketing research department collects is the mix between the share of the sourcing from Asian and local suppliers.

Analysing the development of the share of the sourcing origins allows identifying if customers are supplying their collection more from Asian products or more from local products. If the trend reveals that the share of local supply is increasing, then it is a good indicator that the Premium market is in expansion. In fact, as local suppliers are more focused in serving the Premium segment, an increase of supply from local producers will reveal a more optimistic consumer that will spend more on a Premium-fashion Jeanswear pants. Conversely, if Jeanswear brands tend to supply their collection more from Asian producers then that is a signal that the Premium market is more recessive. Next, the data is structured in reports and sent to the commercial department (Factor chain 01→08).

The commercial department also receives inputs directly from customers during the convention for the launching of the season’s collection (four per year). During this event, customers and the sales team, but also Alpha-Denim employees from other departments such as R&D and quality, share impressions and information regarding
the trends of the market. Salespeople demonstrate the options in the collection and annotate intentions of sales orders from the customers. This information, which is not a confirmed order, is vital to evaluate the mood and the perception of the customers about the Jeanswear market trends. Also, during the collection convention all the Alpha-Denim employees that have a relationship with the customer, measure the perception of the customer mainly if they are more interested in product innovation with sophisticated finishing process, or if they are more interested in cheaper denim fabric. Then, at the end of the day, the marketing director and commercial manager collect the impressions of the Alpha-Denim employees that have participated in the event (Factor chain 02→08). Additionally, the marketing director and commercial manager continuously collect information and impressions from the quality department, evaluating the type of interaction that they have had with the customers. Certainly, if premium customers are more concerned and rigorous with quality, this demonstrates that the market is harder for them and could indicate a reduction of the demand. These qualitative data are summarized in reports by the commercial department (Factor chain 03→08). A similar process happens with the sales team where the marketing director and commercial manager continuously collect data and impressions from sales teams (Factor chain 04→08). Additionally, the R&D department uses meetings with material suppliers to collect important information about the market. Depending on the new technological developments that the suppliers are working on and their intention of investment in new technology in the short term, and their order intentions, the commercial department could deduce if the Premium market will be more demanding or not. Also, the R&D director and manager use their regular meetings with the customer’s R&D employees to collect important information about their market perceptions and development projects. Then the R&D department collects this information (Factor conjunction 05,06→07) and sends it to the commercial department (Factor chain 07→08). Finally, the commercial department organizes all the qualitative and quantitative data, and prepares the sales convention.

At the sales meeting the marketing director presents to the main managers and sales teams the result of the mapping of the market in terms of general trends and impressions. Then small groups are organized by market and have to analysis the trends, giving a diagnosis about the trends, the competition using justifications and evidence, and propose a suggestion for market strategy. The marketing director and
manager collect all the suggestions and analysis made by the groups for further analysis (09→08). Based on the diagnostic and analysis made by the groups, the marketing director simulates some scenarios with the planning manager to figure out what will be the firm’s profitability on the next collection, taking into consideration different versions of mix between the differentiation and low-cost market approaches (Factor chain 08→10). Based on these simulations the marketing director chooses a scenario of mix between differentiation and low-cost market and presents the justification to the executive meeting of Alpha-Denim (factor chain 10→11). Based on the feedback of the executive meeting the marketing director, together with the CEO, take the final decision of the mix composition, and how many orders they will take from the Fast fashion retailers as the marketing director describes below:

It is agreed between the CEO and myself. So, if you want, it is more centralized on us. We know that at some point we may take orders for Fast fashion retailers... But until now, you see, actually, when we present the figures each month, it has always been better than our targets in terms of price, but it was often worse in terms of volume.

This decision is delivered to the planning department that creates a detailed production plan for the next four months (Factor chain 11→12). The production plan is revised between the planning and industrial department for optimization of allocation and improvement efficiency opportunities, and executed by the industrial department (Factor chain 12→13). The commercial department monitors the entry of sales orders from the Premium segment, and depending on the development of the sales demand make adjustments to the balance of the mix between the differentiation and low-cost approach (Feedback Factor chain 14→12) (Figure 20).

In conclusion, we can observe that the decentralized collaborative activities are crucial to reduce the uncertainty associated to the forecast of the business environment, as well as the ambiguity in taking the decision of the mix between differentiation and low-cost market approaches. In fact, to reduce uncertainty it is important to collect information, market signals and impressions from a multiple source approach that combines qualitative and quantitative data as well as human perceptions. After that, collaboration and decentralization is essential to give the freedom of each person to
use their work routine to collect crucial data from their particular market and point of view of the business. With much richer information and the participation of several managers and employees, as well as customers and partners (suppliers), it is possible to reach greater precision in conjecturing the demand, and guessing if the market will be more oriented to a premium demand or to a low-cost demand. On the other hand, the decision process of the mix between the differentiation and low-cost market approaches are centralized and severely controlled. This is because the balance between the two market approaches drastically affects the firm’s profitability. As we have seen, the balance is delicate, and a small disequilibrium on one side or the other could undermine the firm’s operational result. For this reason, the marketing director centralizes with him the co-ordination of the process and the decision of the balance mix optimization. Once the mix between differentiation and low-cost market approaches has been defined, the marketing director uses three main mechanisms to manage it. First, he controls how many products are offered from the low-cost product line, as we can verify below in his testimonial from an interview:

Exactly. But then it is our responsibility to give a direction as well. That is why we voluntarily limited Alpha-Denim low-cost product collection to 8-10 items, when Alpha-Denim premium product collection has 70-80 items.

Second, to keep the control over the share of the low-cost market approach, Alpha-Denim uses a reward mechanism with the sales team in order to focus the team in selling the product with higher profitability, and to avoid selling too much to the Fast fashion retailers. Then the share of the Fast fashion retailer is managed by the reward mechanism and centrally by the marketing director who has defined a sales share target for the Fast fashion retailers:

There is a bonus payment for selling Alpha-Denim Premium line. Therefore, our salespersons are paid double when they sell a premium product in comparison to a low-cost product. So, there is a sales policy that directs the salespeople to focus on the Alpha-Denim Premium line.
Third, the marketing director controls on a daily base the orders that are placed and the share of each market approaches. If he perceives that the Premium market is improving he tries to reduce the orders from Fast fashion retailers, and if conversely, he perceives that he will not make the planned premium volume, he will activate the sales team to increase orders from the Fast fashion retailers. Below the marketing director explains how dynamic this management is and how tight and centralized is the control of the balance mix between the differentiation and low-cost market approaches:

So, 2-3 months before, we see the sales order book status and depending on the level and situation of our sales orders, we will be willing to enter this market or not. …That depends if we need to fill the plant capacity or not. And we take into account the sales order from the low-cost customers that we already took initially. So, if you want, this is a much more unplanned demand that enables us to optimize our production capacity.
Figure 20 - Graphic representation of the causal process tracing in managing the balance between the differentiation and low-cost market approaches.
6.5 Discussion and contribution

6.5.1 Defining and managing the dual strategic focus through clear and complementary roles

If on the one hand it has been sustained in the literature that for a firm to maintain a pure strategic approach could be a very risky choice because of a too narrow focus, then on the other hand, the combination at the strategic level of a differentiation and low-cost approach that involves attending several value propositions to a diversity of customers could be characterized by a lack of focus and direction. As stated by Porter (Porter, 1996), a firm’s strategy should be capable of setting well-defined internal goals and policies that are associated to a clear positioning. Magretta warns that trying to attend several distinct customers’ needs simultaneously could result in a poor performance and in not attending any customer fully due to a lack of focus (Magretta, 2012). He emphasises that defining a strategy is mainly by defining which customer segments and value propositions the firm will not serve. As we have seen, Alpha-Denim’s mixed strategic approach involves dealing with several customer segments that present a diversity of needs, some considered opposed, such as two extremes of Super-Premium and Economic customer segments.

In fact, the Super-Premium segment is composed of small denim Jeanswear manufacturers demanding low volumes of sophisticated denim fabric, with a high rate of innovation and low-price sensitivity, while handling Fast fashion retailers from the low-cost segment involves large volumes of basic quality denim fabric at a very low price. Despite this diversity and contrasting customer profiles, the firm has defined very clear value propositions for each group of customers. For the external perspective of the strategy definition, which involves the definition of offer and brand communication, the differentiation approach is the main or primary strategy. The main market approach of differentiation has the clear goal of defining the entity of the firm, its brand image and positioning in the market. The main strategic approach also has the largest product range and share of sales. Its objective is to create volume and margin.

On the other hand, the Economic market approach has a complementary role. The low-cost value proposition represents a smaller share of sales, and is composed of a simple
product line and few customers. Its role is complementary to the main differentiation strategy in order to optimize the plant capacity and keep a lower cost.

An important finding that we can deduct from the case of Alpha-Denim’s implementation is the fact that roles are defined in a way to avoid conflicts and facilitate synergic benefit from role complementarity. For example, the differentiation approach is responsible for the image and positioning of the firm in the market. For this the firm communicates an image of premium denim product, investing in marketing initiatives that promote an image of differentiation. Consequently, the low-cost approach will not have a positioning nor a marketing campaign in order to avoid conflicting the communication plan. The low-cost offer marketing will be worked customer by customer by the sales team that will offer the low-cost product line to specific customers. The two approaches utilize completely distinct and separated communication channels to avoid any possible confusion of the firm’s image and positioning. However, as Premium customers incorporate a small part of their mix with a low-cost product line and Fast fashion retailers buy a small part of the premium product, Alpha-Denim’s salespeople have the ability to mainly offer the Premium product line to the Premium customer, competing with the low-cost product line when necessary. To offer the low-cost product line to Fast fashion customers implies a minimum acquisition of premium product, while Alpha-Denim communicates to the whole market a differentiated image. Also, there is competition between the two approaches at the manufacturing process, because the objective of the firm is to sell premium products that are complemented by the sales of low-cost products in order to fill the remaining unfilled plant capacity.

Contrary to Porter and Magretta’s warning (Porter, 1996; Magretta, 2012), an important contribution of this study is to have demonstrated that it is possible to manage simultaneously two antagonistic strategic focuses, and that a solution for that is to define a complementary strategic role to avoid conflicts and to enhance synergy. However, the role should be well defined, highly complementary and rigorously managed in order to avoid a loss of focus and direction.
6.5.2 Mixed strategy and strategy flexibility

Strategy flexibility has been defined as the capability to swiftly change directions and strategically reconfigure markets, products and resources (Johnson et al., 2003). Several scholars defend that this ability in adapting the firm’s strategy definition is crucial for creating competitive advantage in a turbulent and uncertain environment (Johnson et al., 2003; Matthyssens, Pauwels and Vandenbempt, 2005; Roberts and Stockport, 2014), whereas the firm that follows a rigid strategy approach tends to present a poor adaptation to change. In line with this view, Miller affirms that one of the main weaknesses of a pure strategic approach was that it is too rigid (Miller, 1992). In fact, a firm that adopts a pure strategic approach develops only one of the competitive advantage competencies: the excellence in achieving uniqueness through differentiation or mastery in reaching a low-cost through efficiency and simplicity. As we have seen previously, in a turbulent environment where customer behaviour is unpredictable and demand volatile, a pure strategic approach is too static and unable to adapt to different situations of the one that its single competency allows it to perform. This limitation represents a major trap for a firm, as was the case for Alpha-Denim.

In the case of the adoption of a mixed strategic approach, as the firm reaches a high level of ability in the two competences, it is easier to change the focus and balance between the two in order to adapt to a change of the environment. Consequently, an important difference with a traditional pure strategic approach is the dynamic aspect and flexibility property of the mixed strategic approach. While the pure strategic approaches are much more static as they have only one strategic component normally protected by barriers that guarantee their competitive advantage, the mixed strategic approach is much more dynamic in nature, where the mix between the two strategic components changes in accordance to the environment as a natural adaptive behaviour.
Johnson et al. make the distinction between three types of firm flexibility: operational, tactical and strategic (Johnson et al., 2003). Operational flexibility involves the ability in managing fluctuations in demand, raw material shortages, and equipment or process failure by promptly improvising solutions. Tactical flexibility involves the ability to change product design and mix in response to fluctuations in demand or market imperfections, while strategic flexibility involves the creation and maintenance of possible strategic options that could be used in the future by the firm. At the very least we have identified the presence of strategic and tactical flexibility. At the strategy level, the share between differentiation and low-cost market approaches could vary within a defined range, in accordance with the need to adapt to demand fluctuations and consumer changes of behavior. This flexibility of the market share is necessary to guarantee sales volume in any market situation. Consequently, the possibility to use low-cost volume in order to fill the plant capacity is an option of strategic contingency for an unpredictable future. On the tactical level, managers give more managerial focus and attention to differentiation activities or low-cost activities depending on whether the market demands more innovative and sophisticated products or simpler and cheaper products. We confirm here what some mixed strategy scholars were stating, that the mixed strategy is more flexible and consequently has a better fit to dynamic and turbulent environments. We have enriched the existing literature on this point with an extremely well explained mechanism example of how this flexibility works.

6.5.3 Controlling the flexibility of the mixed strategy, a combination of rational-actor and internal-ecology strategy making process model

A mixed strategy allows a greater flexibility due to the benefit of having developed two sets of competencies associated to the differentiation and low-cost approaches. Consequently, the firm has the possibility to explore market opportunities based on these two sets of competencies. Changes in product composition or mix, increasing or lowering the cost in order to adjust the offer as we described in the balanced product line, could be considered a tactical flexibility linked to a strategic flexibility which is the constant balance between the two differentiation and low-cost market approaches. In fact, when the environment favours the differentiation initiatives, Alpha-Denim starts to explore and scan opportunities of increasing differentiation through innovation and increments of value perception. Conversely, when the environment is
characterized by an economic downturn, Alpha-Denim starts to explore and scan opportunities of lowering cost, through product simplification and manufacturing standardization. The unexpected alteration of focus in exploring opportunities of differentiation and low-cost approaches, match the definition of market flexibility, which is defined as following:

A firm’s ability to quickly change directions and reconfigure strategically, particularly with regard to products and markets, becomes crucial if it is to succeed and achieve sustainable competitive advantage. We refer to this notion as market-focused strategic flexibility ((Johnson et al., 2003); p.74).

However, strategy flexibility proponents put too much accent on the advantage of strategic flexibility over strategic rigidity. They missed the debate that an excess of strategic flexibility could lead the firm to be without a frame of common purpose, objective and direction, and cause the firm to undertake several initiatives that are not necessarily aligned. In our study, we found some empirical evidence that an excess of strategy flexibility, such as excess of product innovation explorative initiatives, or an excess of low-cost exploration, could unbalance the mixed strategy approach and lead to a poor adaptation with the environment. Alpha-Denim developed several important mechanisms to control the flexibility of the mixed strategic approach. In our analysis, we evidenced a managerial behaviour of discipline and rigour that characterizes an important control of the role definition between the two strategic approaches. This discipline of keeping a balance of around 80% of sales share for the differentiation approach and 20% sales share for the low-cost approach is very strong, as the firm’s profitability depends on this equilibrium. This discipline is guaranteed by three managerial routines:

- A careful sales planning process that tries to guess an unpredictable demand;
- A reward mechanism that incentivizes the sales team to focus on the differentiation market;
- Control of sale orders of Fast fashion retailers from the Economic customer segment.
This rigorous control of the mix between the two strategic approaches is done exactly to avoid a lack of focus and direction. In fact, a very high share of the low-cost market approach would harm the Alpha-Denim image of differentiator and drastically decrease profitability.

We did not find either theoretical or empirical works of strategy flexibility that explore this aspect of excess of flexibility, and possible mechanisms of control. It is a major contribution of this study to explain how the mixed strategic approach requires strategic flexibility, but also requires certain control mechanisms in order to avoid excess and a loss of strategic focus.

However, flexibility and control in the mixed strategy implementation of Alpha-Denim was done mainly by the middle management level. As we have seen before, Alpha-Denim migrated from a very centralized and intended strategy making process highly controlled by top management to a more decentralized strategy making process where autonomous behaviour of the lower managerial level gained relevance. Consequently, different from the case study of Intel’s memory DRAM exit strategy (Burgelman, 1996) where the entire strategy process relies on autonomous behaviour of the lower managerial level, in the case of Alpha-Denim a combination of intended and autonomous behaviour regulates the definition of the mixed strategy approach. This model configuration of strategy process is very similar to the description of the Bell South case study, depicted by Noda and Bower where top management and middle management found a harmonious equilibrium between the rational-actor and internal-ecology making process model (Noda and Bower, 1996).

In Alpha-Denim’s case study, top management has defined strategy direction and guidelines such as prioritizing profitability in the long run. Middle management then control other elements such as the mix of low-cost and differentiation product line, the share in Fast fashion retailers’ customers in order to optimize the profitability in the long run. Operating levels are used as a source of information and knowledge in order to estimate the demand of a very unpredictable environment. In this, operating managers have the opportunity to participate in the emergence of the modification of the mixed strategy. However, the alteration of the content of the mixed strategy is centralized at the middle management level with the CEO and the support of the commercial director.
6.5.4 Mixed strategy, flexibility and performance

An important conclusion of this adaptability and flexibility characteristics is that the mixed strategy approach does not have the objective of maximizing profitability in the short term, but much more than that, it is able to generate an acceptable level of profitability in a turbulent environment in the long run.

Consequently, Alpha-Denim does not optimize the margin by extracting the maximum profitability from a period of economic munificence and fill the plant with its Premium products, abandoning the less profitable customers from the Economic segments. Instead, Alpha-Denim has decided strategically to always keep a share in important entry-level brands and Fast fashion retailers in order to be capable of filling the plant capacity under any market circumstance. Despite that, the mixed strategy approach does not allow maximizing profitability in the short term, but guarantees existence and profitability in the long run in a turbulent environment, which is not the case of a pure strategic approach that tends to present failure when the turbulent environment invalidates the barriers of protection responsible for profitability. This is an important difference with the traditional competitive strategic approach that seeks to generate profitability above the industry average through sustained competitive advantage based on a pure strategic approach. In this case, the mixed strategy approach is revealed to have a central role of guaranteeing the long-term survival of the firm in a hostile and turbulent environment, rather than chasing maximum profitability. In this strategy of survival and adaptation, the complementary low-cost strategic approach reveals to be fundamental.
6.6 Conclusion

This chapter had the objective to investigate the strategy definition level of the mixed strategy adopted by Alpha-Denim. We unveiled important findings at this level of implementation involving the use of role definition and complementarity in order to manage a dual strategic focus that in the case of Alpha-Denim involves the management of a dual value proposition. Additionally, we also identified an important relationship between the mixed strategy implementation and strategy flexibility. The main findings of flexibility properties of the mixed implementation involve the management of a certain degree of control in order to avoid excess of one strategic approach over the other. This corresponds to a combination of the rational-actor and internal-ecology making process model where top management define strategy policies, and the lower managerial level are sufficiently autonomous to adjust the strategy content in order to achieve a correct fit to the environment.
Chapter 7 - Mixed strategy implementation at the firm’s value chain level

7.1 Introduction

The central objective of this chapter is to answer the following research questions:

RQ4: How has the firm solved the inherent conflicts associated to trade-off dilemmas of the mixed strategic approach and extracted synergic value?

RQ5: What main competencies and managerial roles have been developed to manage a mixed strategic approach?

Alpha-Denim’s operating management team found two main solutions to solve the central trade-off dilemma between increasing product differentiation while simultaneously keeping a low-cost. These are:

- Substituting expensive materials by cheaper ones where customer value perception is lower;
- Reducing product variety at the manufacturing processes where production cost is higher and perceived value low, while increasing product variety at the manufacturing processes where production cost is lower and perceived value high.

This chapter puts forward research findings of an important practice of aligning solutions to trade-off dilemmas brought about by the implementation of the mixed strategy. We identify that a trade-off solution has five main characteristics:

- Exploring opportunities between real and perceived value: trade-off solutions involve unveiling opportunities between real added cost value and the customer perceived value, increasing differentiation in activities where cost is low and customer’s perception value is high, and reduce cost on activities where cost is high and customer’s perception value is low.
- Cross-inverted stretched tensions: trade-off solutions involve avoiding an overlapping focus on the same activities, while stretching the limit of the lowest possible cost and highest differentiation possible.

- Solving trade-offs at the low level of the firm’s value chain activity: trade-off dilemma could be solved by looking for a solution at a very low level of the firm’s value chain. A trade-off dilemma at the activity level could be solved by combining differentiation and low-cost approaches at sub-activity levels.

- Releases a chain of synergic effects: solving trade-off dilemma releases a synergic effect brought about by the benefits of adding the differentiation and low-cost approaches. We demonstrated in this study that in certain situations the solution of a trade-off dilemma could trigger a chain of mutually synergic effects, generating a cycle of increasing benefit of the mixed strategy implementation.

- Measuring the total benefit of the trade-off solution: we identified that when trade-off solutions are designed, side effects appear as a resultant of the trade-off solution. We underline that the loss of value resulting from the side effect could be mitigated, but that these mitigation initiatives increase the cost of the trade-off solution. Consequently, we propose an equation that takes into account all the variables of the trade-off solution and guarantees that the final resulting value will be greater than the value brought about by a pure strategic approach.

We also explore the role management associated to the strategy process at the operating management level, and we identified several enabling conditions and a new managerial role that facilitate horizontal exchanges in order to champion strategy alternatives:

- First, we found that championing activity outcomes are the result of a complex collaborative social activity at the operating level, guided and supported by middle management. Rather than the isolated work of an individual, championing is the results of interaction between departments in order to find an elegant strategy solution to a managerial dilemma that involves opposed points of view. For this, several enabling conditions are necessary such as an
Extended departmental consciousness, an Organizational altruism, a Shared vision and a role of conciliation and integration.

- An Extended departmental consciousness is a necessary cognitive condition that departments need to acquire. Extended departmental consciousness is the consciousness of the impact of the department’s own target and action on the other departments which is revealed as being fundamental in the trade-off solution.

- An Organizational altruism is a behaviour that we have identified in the resolution of trade-offs where a department gives preferences and favours as a global benefit rather than prioritizing or focusing solely on its departmental target and benefit. Organizational altruism revealed to be fundamental to facilitate the common agreement between departments around a trade-off solution.

- A Shared vision: A common purpose, objective and goal have the function to facilitate integration and conflict resolution between the departments. Defining the strategic direction in prevailing the firm’s profitability in the long run, is an important driver to facilitate the emergence of trade-off solution.

- A moderating role of integration, balancing and conciliation is necessary to moderate the tensions between departments. This conciliator role is fundamental in leading to the trade-off solutions and was developed by the R&D department as an agency rather than a functional perspective.

Finally, we identify several organizational competencies that are associated with the mixed strategy implementation which are:

- Competency in measuring precisely customer perception and the impact of change of the value proposition;
- Competency in measuring the overall result of the trade-off solution;
- Capability in managing the balance between differentiation and low-cost strategic approaches at several levels of the organization;
- Capability in controlling the flexibility of the mixed strategy approach.
7.2 Trade-off solutions at the core of the mixed strategy implementation

7.2.1 Substituting expensive materials by cheaper ones where customer value perception is lower

One of the solutions explored was to substitute the use of materials that have a greater share in the cost composition of products. To create sophisticated products Alpha-Denim was using strategic suppliers to manufacture complex threads that it did not have the equipment to manufacture. One of the solutions was to replace these expensive threads by internal production. However, the substitution by the production of internal equivalent threads was not of the same quality. The difference was associated with the type of cotton fibres used in the tri-blend threads. The hairstyle cotton that an external supplier was able to use in the making of tri-blend threads gave a better aspect in the finishing process. The combed cotton fibre that Alpha-Denim used in the substitute tri-blend threads gave a more porous touch and a faded aspect to the fabric. Despite this loss of quality, the internalization of the tri-blend threads had the potential to provide an important cost reduction due to a lower production cost than the suppliers’ purchase prices. Additionally, the internal production would help to fill plant capacity at the spinning process thereby optimizing the unitary cost of transformation by a better use of the available resources such as cost of labour, energy, and equipment depreciation. The R&D manager describes the situation below and emphasises the relevance that the substitution had in total cost reduction:

There is a situation, where the objective of developing product is in conflict with the objective of keeping a low cost at the factory. A very clear example that we had recently was a very tiny thread hairstyle that we cannot manufacture in our plant and that we have to purchase externally. Then we purchased machines to manufacture this kind of very tiny threads. However, due to our manufacturing installations, we cannot produce it in hairstyle, but only combed. At the end, we make a sample manufacturing the tiny threads using the combed method, and it cost us 1 euro cheaper per metre.
Considering that in 2012-2013 the main stream of Alpha-Denim’s product portfolio was using tri-blend technology, and that the average production cost in 2012 was €3.70 per metre, a reduction of €1.00 per metre was very relevant. In fact, we can observe that an important part of the cost reduction from 2012 to 2013 was due to a reduction of the cost of raw material (Table 14). The cost of raw materials is composed mainly by cotton fibres and external threads purchased from suppliers and account for 40% of the total production cost. The internalization of tri-blend threads was mainly responsible for the reduction of 14% of the cost of raw material from 2012 to 2013. Additionally, the internalization of the production had an effect on the total cost of transformation that was reduced by 13%. We will see later that other important factors were also at the origin of the important reduction of the cost of transformation.

<table>
<thead>
<tr>
<th>Production Cost</th>
<th>Cost Structure (2013)</th>
<th>2013</th>
<th>2012</th>
<th>13x12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total cost (€/m)</td>
<td>100%</td>
<td>€3.25</td>
<td>€3.70</td>
<td>-12%</td>
</tr>
<tr>
<td>Cost of raw material</td>
<td>40%</td>
<td>€1.31</td>
<td>€1.53</td>
<td>-14%</td>
</tr>
<tr>
<td>Cost of finishing material</td>
<td>13%</td>
<td>€0.42</td>
<td>€0.42</td>
<td>-2%</td>
</tr>
<tr>
<td>Total Cost of transformation (Labour, Energy, Maintenance and depreciation)</td>
<td>47%</td>
<td>€1.52</td>
<td>€1.75</td>
<td>-13%</td>
</tr>
</tbody>
</table>

Table 14 - Alpha-Denim production cost structure 2012-2013 (Source: Table summary compiled from managerial reports of the firm 2012-2013).

However, this reduction in production cost by internalizing the manufacturing of the tri-blend technology threads was followed by a loss of quality and aspect, which characterizes the trade-off that exists between increasing product quality in order to create uniqueness and simplifying it in order to reduce cost. The R&D manager explains below the conflict imposed by the trade-off that existed at the time to take the decision of degrading quality to achieve a lower cost at the risk of damaging Alpha-Denim’s differentiated high-quality image with Premium customers. The conflict was managed at the department level, between the manufacturing department that has the mission to simplify processes and lower the production cost, while the marketing department was responsible with the R&D department to create a superior quality product in line with the demand of customers. Based on the CEO’s general direction
of achieving a lower cost with minimal impact on the premium image, the R&D department had the responsibility to solve the trade-off dilemma between maintaining product differentiation and achieving a lower production cost, as the R&D manager describes below:

Then, here we had a trade-off: when you compare the threads that we used to purchase externally with the substitute one that we produced internally, there is a difference of quality and aspect of the fabric. We had to decide to lose this differentiation of quality and better aspect, to have a gain of cost reduction that was, very, very, very important. I had a conflict to solve, where I have to decide in my department on the quality and final aspect of the product and the manufacturing department and the general direction that we wanted to produce all the threads internally in order to achieve an important gain in cost. Then this is the type of trade-off to solve.

The risk of using the substitute threads was a rejection of the customer mainly at the Premium and Super-Premium segments that was very exigent with quality. To mitigate this side effect, Alpha-Denim reduced the porous aspect by applying a specific resin to the fabric at the finishing process in order to make it more polished. The result was not equal, but very similar to the fabric with tri-blend threads purchased externally. Additionally, the marketing director completely understood through interviews with customers how much better they perceived the difference of quality between a fabric manufactured with hairstyle cotton type tri-blend threads and the combed cotton type tri-blend threads produced internally. The R&D manager discovered that most of the customers from the Standard and Premium segments cannot really perceive any differences or that the ones perceived were not relevant for them. Most of the customers paid much more attention to new types of finishing aspects and new types of colours that could bring uniqueness and refresh their collections. Despite that, a small group of very exigent and specialist customers can tell the difference and that the loss of quality could be relevant for them. The R&D manager reports the fact as following:
Some customers perceive and use this difference of quality aspect. The customers that are very, very exigent, or customers that are very specialist, can perceive the difference between the product with the internal threads and the product with the threads purchased externally. However, it is a very small group. The rest of the majority of customers did not perceive any difference.

Then the R&D manager explains what is in the balance of each side in taking the decision that the trade-off imposes, and considered that the impact on sales and margin due to a possible loss of customers will be minimal compared with the relevant gain in margin of the cost reduction. Additionally, he explained that the cost reduction was reinforced by filling the capacity at the spinning process, and consequently better utilising the available resources, which help in lowering the unitary cost of production, as we can verify below:

Consequently, we need to balance with two elements: a small share of customers that can perceive the loss of quality aspect, against an important gain in cost reduction for us. Considering this, the decision is worth the risk. Then we opted to produce all the threads internally. Additionally, to the gain in margin, the internal production of threads helped us to fill the plant capacity, which also optimizes our cost.

Finally, the R&D manager summarises below how the trade-off was solved. By comparing the two opposed values, and choosing the one that had more relevance and fewer risks for the business:

We solved this trade-off by perceiving that the value of the cost reduction or in margin that we will obtain on the product was much more relevant than the value loss of quality aspect that was lower.
When we asked about the impact on Premium customers of the substitution of thread, the marketing director answered that in the short term, because most of them did not perceive a great difference, it was possible to maintain the same price level, and consequently increase the margin:

We had in the Denim Couture line a lot of different threads to compose the product mix. We bought a thread that is called “cotton hairstyle”. It is a thread of better quality. What we have done is to substitute these purchased threads by internal production. We degraded a little the product quality, the product is worse than before, however we maintained the same price strategy and positioning, consequently we increased our margins... In the short term, it is much better because we sell our product at the same price making more margin, in the long run that could be a little dangerous, because we have a product with a lower quality than before, however we are making more profit and filling the plant capacity.

However, he warns that in the long run this strategy could be dangerous as competition could explore this and change the perception of the customers, offering products of better quality for the same price. The solution of the trade-off is not without any side-effect in the long run, despite the increase of profitability. Another possible side-effect in the long run reported by the marketing director is the limitation of the differentiation possibility. The elimination of the option of using external technological threads or other expensive materials limits the innovation and could degrade the firm’s differentiation approach in the long run. Below, the marketing director expresses the need to constantly balance the trade-off in order to not go further in one extreme or the other, as it is declared below:

The problem is to keep a high level of innovation without turning the development too poor. This is not an easy task. Since we use less external threads we are more restricted in terms of product innovation. It is necessary to find a balance between the two... It is not easy. On one side, we will raise our cost using external threads and being more innovative, on the other we reduce our cost, but we
will be less innovative. It is necessary to find the balance between the two. There is no white or black solution. It is necessary to find a way between the two.

In the figure below, we summarize on a graph representation the causal mechanism that explains the relationship between trade-off dilemma, solution, side effects synergic benefits and mitigation plan (Figure 21).

Figure 21 - Graphic representation of the causal mechanism of the trade-off solution of substituting expensive materials by cheaper ones where customer value perception is lower.
7.2.2 Reducing product variety at the manufacturing processes where production cost is higher and perceived value low, while increasing product variety at the manufacturing processes where production cost is lower and perceived value high

Another important trade-off between product differentiation and low-cost identified by Alpha-Denim was the complexity brought about by the variety of different types of product. As seen before, a denim fabric passes through several manufacturing processes to be ready to be sold to Jeanswear brand manufacturers.

The main stages of manufacturing a denim fabric are spinning, dyeing, weaving and finishing. The spinning stage is responsible for the creation of threads that compose the denim fabric structure. As already stated, a denim thread could be very simple and composed by a string of 100% cotton fibres, or much more complex like the tri-blend technology which is a thread of complex string structure composed of cotton, elastane and polyester. As was reported before, complex threads are much more complex and costly to produce than basic 100% cotton threads. Also, to manage a large number of different types of string at the spinning stage increases the cost considerably due to the complexity in configuring the production line each time for a different type of thread. As it is impossible in terms of equipment investment and plant space to have a dedicated line for each type of threads, most of the equipment that composes the spinning stage are shared between several types of thread production, mainly the equipment related to the pre-spinning and post-spinning phases. Spinning a thread is a dedicated process that involves several sub-processes in preparing and shaping the raw cotton fibres in yarns, and those yarns are then composed and transformed into threads that acquire the correct properties of elasticity, resistance and colour absorption in order to be dyed and weaved. Consequently, each time that a different type of thread is produced, several hours of equipment cleaning, preparation and configuration are necessary.

At the weaving process, the situation is very similar, as weaving denim fabrics demands hours of preparation on the weaving machines. After dyeing, threads are curled into coils. Hundreds of threads are necessary to weave a denim fabric. Consequently, all these denim thread coils need to be fixed on the weaving machine
to be interlaced to form a fabric frame. Preparing a weaving machine is in part a manual task and takes several hours of labour work. Consequently, each time that a new thread or a new type of fabric structure is used, the weaving machine needs to be stopped, cleaned, prepared and configured. This cost of preparing the weaving machine is called the setup cost and has an important weight in the total production cost as it directly affects the productive performance of the machine. In this passage below extracted from interviews, the planning manager explains to us that a high setup cost of the weaving machine is related mainly with the variation of the quantity of threads of the fabric:

A vital example of weaving is to unify families of articles, although composed by different threads, have the same number of threads. ...If we have several items that share the same number of threads, for example 4,880 threads, setup will be less costly. That can be threads of different size such as 12, 16 or 14 conventional frames... Never mind. The prohibitive cost of weaving is the total change of the weaving machine loom. If we get the same number of threads is a simple join, when we change the beam where the threads need to be connected, which can be around an hour and a half or two hours, then we begin to weave a new fabric. If there is a change in the number of threads, then we have to remake the beam connection fully. It can take 18 to 20 hours. If we talk to you in euros, for an average price of setup, would be around 450 to 500 euros.

If you perform too many setups, the weaving process will present a poor performance because its production will be lower for the same fixed cost of labour, energy, maintenance and depreciation. Consequently, increasing the number of setups lowers the productivity which measures the production over the fixed capital used, the weaving performance which measures availability of the equipment, or how much time the machines are working compared with their total time available for production and the speed of weaving. The R&D manager explains this increase of cost related to the complexity due to a high variety and gives us a real example below:
It is more complex because I have more references; I have more setup of weaving and spinning. It is more complicated. Now, right now, for example, I give you a real case this past month: I think we had 40 different frames in the weaving room. That for the factory is much more complicated to handle.

Additionally, increasing the number of setups drastically increases the risk of defects as manual tasks increase the risk of setup errors. A thread coil not properly configured at the weaving machine could drastically increase the weaving point failure rate, which will in turn increase the cost due to production of second quality product.

On the other hand, the variety of threads and fabric structures are an important source of differentiation and allow creating new types of apparel with unique wearing properties and aesthetical aspects. The R&D manager expresses the trade-off that exists between product differentiation supported by a high variety and in keeping a low cost. He explains that when a new product concept is developed, ideally new types of threads, structures and finishing materials are used in order to bring the highest level of differentiation and uniqueness. However, that implies a very high cost as we can confirm below:

Because, ideally if we use completely new threads, structures, colours and resins, that would give us a very dramatic differentiation, but at a very high cost.

The situation related above was confirmed when we analysed the performance of the Denim Couture line, which is one of the most complex and sophisticated denim fabrics manufactured by Alpha-Denim, but which reached a very high cost and resulted in a low level of sales or negative margin. Part of the poor performance of the Denim Couture line and other product lines of Alpha-Denim is related to a very high level of complexity at the manufacturing process due to a huge variety of different types of thread and fabric structure as explained by the marketing director:
If you want, it's complicated for us, for example, when we do a new product development that involve a new kind of threads, is that in general, we are on production lots of approximately 30,000 meters, so, it is much more complicated to launch more products in production, and especially after, it is much more complicated in terms of management of the manufacturing, the stocks and all that, and all the costs incurred that happens behind…

In fact, production lots at the spinning and weaving process should be sufficiently large to take up a high fixed setup cost. Consequently, the greater the production lots, the higher the dilution of the fixed setup cost across the unitary cost of the production lot. The size of the production lot is defined by optimizing the relationship between the unitary cost per metre and the fixed cost of the setup.

In the case related above, 30,000 metres of denim fabric is the optimum average lot size at the weaving process. It is a big volume if we consider that most of the orders of the Standard and Premium customers are much smaller than this. A very high variety of types of threads and fabric structure will break the demand into smaller sales orders, which could have two negative effects on cost. First, if the production lot is smaller than the recommended optimum size lot, the cost of the product will increase drastically, because the fixed setup cost will be spread over fewer metres of denim fabric, causing an increase of the unitary production cost. Second, if the optimum lot of production is respected, but the sales order is smaller than it, then a large volume of finished denim fabric will not be sold and will increase the stocks to look after future sales orders of the same product, substantially increasing the need of working capital and its cost, and increasing the uncertainty if the stock would be sold in the future for the same price. When the variety of types of thread are increased and fabric structures, then the chances are reduced to attend several customer sales orders with a single lot of production, because sales orders have products that require different types of threads and structures and it is necessary to break the production into several smaller lots, which consequently increases the number of setups.
To exemplify clearly the effect of setup cost on the total product cost we made a simulation of two scenarios (Table 15). In scenario A we looked at a production lot of 10,000 metres of denim fabric composed by a single item, a single lot of production and a single weaving machine setup. While in scenario B, we see the same 10,000 metres of denim fabric, but composed by 10 different items, which corresponds to 10 lots of production and consequently will demand 10 weaving machine setups. Despite that, the two scenarios have an equivalent production cost, the total unitary product cost of scenario B (€3.90) which has more setups, is 18% higher than the total unitary product cost of scenario A (€3.31) that has only one machine setup. If we consider the average net sales price in 2013 of €3.70 per metre, we can conclude that scenario B will present a negative gross margin.

<table>
<thead>
<tr>
<th>Scenario A</th>
<th>Scenario B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quantity of production lot</td>
<td>1</td>
</tr>
<tr>
<td>Total production volume (metres)</td>
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</tr>
<tr>
<td>Number of setups</td>
<td>1</td>
</tr>
<tr>
<td>Average unitary production cost per metre (2013)</td>
<td>€3.25</td>
</tr>
<tr>
<td>Average setup cost (transaction cost per metre) (2013)</td>
<td>€1.52</td>
</tr>
<tr>
<td>Average unitary Cost of opportunity per metre (2013)</td>
<td>€0.42</td>
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<tr>
<td>Total unitary setup cost per metre</td>
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<td>Production equivalence of an average setup of 20 hours (metres)</td>
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<td>Total production cost without setup</td>
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<tr>
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<tr>
<td>Total unitary product cost per metre</td>
<td>€3.31</td>
</tr>
</tbody>
</table>

Table 15 - Illustrative simulation of variation of setup cost of a weaving machine. (Source: compiled by the author and based on cost information derived from interviews and the firm’s documents).
Consequently, on the one hand if we want to reach a low-cost, it is necessary to drastically reduce the diversification of the types of thread and fabric structures at the spinning and weaving process where setup cost is higher however, that will markedly reduce the differentiation to the customer, and the Alpha-Denim product portfolio will risk being too homogeneous, which could lead to a loss of customers from the Premium segment that seek to differentiate their collections from the Standard and Popular segments with unique product attributes. On the other hand, if we increase the differentiation through a wider variety of types of thread and fabric structure, we will be creating a high degree of uniqueness for the Premium segment but at a production cost that will be unacceptable, being too high for the Standard and Popular segment customers, and even for some customers at the bottom level of the Premium segments. Thus, the trade-off dilemma is characterized as:

How to create a high degree of differentiation through product variety while achieving a low-cost?

To solve the trade-off dilemma, Alpha-Denim’s middle and operating team evaluated the production cost at each main stage of manufacturing and the impact of increasing product variety at each of these stages on the value perception of the customers. It was then that Alpha-Denim’s middle discovered that most customers perceived a higher differentiation value of variety at the finishing stages than at the spinning and weaving stages. Additionally, they discovered that the cost of production was much cheaper at the finishing processes than at the weaving processes. The R&D manager describes the solution of the trade-off as follows:

Another solution is to try to concentrate the differentiation drivers in the most important concepts, as I said before, which for me are the colour and finish, applied to articles in which we have a very tight cost (which doesn’t need to differentiate or spinning or structure), differentiation is made only in dyeing and finishing. That's the solution to the dilemma, because it is not easy to maintain this differentiated product and reducing the cost, or achieving lower costs. It’s not easy.
As we can confirm in the R&D manager’s testimonial above, the solution to achieving at the same time a high degree of differentiation through product variety and keeping a lower cost is to concentrate the differentiation initiatives at the finishing process, where new types of colour and resins could be created and applied. These also, in his opinion, are the most relevant attributes for customers when he refers to ‘the most important concepts… for me are the colour and finish’.

The setup of a finishing machine is much simpler than the setup of a weaving machine. In fact, as we have seen before, a weaving machine demands hours of preparation due to the delicate task of configuring the hundreds of delicate thread coils on the machine. On the other hand, to setup a finishing machine is much simpler and faster: with a previous preparation of the colours that will be used, it simply demands cleaning and a change of colour tanks that will be applied on the next lot. Consequently, the minimum production lot size of a finishing machine is much smaller than the production lot of a weaving machine, which is around 1,000 metres against 30,000 metres of the weaving machine. The R&D manager considers the cost of setup for the finishing machine much more acceptable as we can confirm below:

> The cost of changing the color is a lot more acceptable. Because these colors, first, they are colors that I have ready in my portfolio. I don't have to create a new color. I already have it. Then, all you have to do is diversify colors with the same structure and the same yarns.

The marketing director confirms the same view, and reinforces that when, the approach of differentiation by increasing variety is concentrated at the finishing process, the manufacturing is much simpler in terms of management, which reduces the overall cost. Additionally, he confirms that customers have a high perception value of finishing aspects, which reinforces the focus of differentiation at this stage of production.

…So, when we concentrate the product innovation development at the finishing, so, for us, internally, the management is much simpler, and it allows us to reduce our costs a lot in terms of production, end-
to-end, then, this is exactly what we try to do. Additionally, that has the advantage that the customers have a higher perceived value of the finishing aspects. This is where we can make really more different aspects.

Comparing the variety of the product composition mix at each stage of the production process in the period 2008-2013 we can observe that before, the variety was much more concentrated in the initial stages of the production where the cost is higher such as spinning, dyeing and weaving, while the finishing stage presented a very low variety level. We can see that at the beginning of 2013, the mix of variety through the production value chain was inverted, where the initial stages such as spinning, dyeing and weaving suffered important reductions of variety, while the finishing stage received an important increase of options. Despite the important reduction of threads and fabric structures, the total possible product assortment range increased dramatically due to the large scope of combination provided by the increased variety of finishing (Table 16).

<table>
<thead>
<tr>
<th>Production stage</th>
<th>Variety (in quantity)</th>
<th>2008</th>
<th>2013</th>
<th>Variation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spinning</td>
<td>Threads</td>
<td>53</td>
<td>35</td>
<td>-34%</td>
</tr>
<tr>
<td>Dyeing</td>
<td>Warp Threads</td>
<td>81</td>
<td>39</td>
<td>-52%</td>
</tr>
<tr>
<td>Weaving</td>
<td>Fabric structures</td>
<td>97</td>
<td>52</td>
<td>-46%</td>
</tr>
<tr>
<td>Finishing</td>
<td>Colours and resins</td>
<td>2</td>
<td>16</td>
<td>700%</td>
</tr>
<tr>
<td>Final product</td>
<td>Possible product assortment range</td>
<td>194</td>
<td>832</td>
<td>329%</td>
</tr>
</tbody>
</table>

*Table 16 - Development of the product mix composition of Alpha-Denim for the period 2008-2013. (Source: Extracted from product mix composition development – R&D department).*

The marketing director maintained this direction during interviews in August 2015, where he explains that most of the new product developments are concentrated at the finishing stage, which was one of the main causes of cost reduction while Alpha-Denim did not lose its capability in presenting an important variety of new products, sustaining its differentiation approach simultaneously.
When we launched our new collection last month we can check that the majority of our new product developments were coming from the finishing process. Approximately 80% of the new products were developments of new types of finishing, while the rest of the 20% of the new developments were coming from new threads or dyeing. That allowed presenting a lot of new products on the market, without increasing the manufacturing complexity, consequently without increasing our cost and stocks.

The reduction of the variety of threads and fabric structures demanded a drastic revision of Alpha-Denim’s portfolio of products that were highly complex but still profitable, were eliminated and substituted as the marketing director confirms below:

In the last two years, we took over that direction. And if you want, there are various product lines that allow us to reduce our costs, because precisely, they bring more homogeneity in terms of construction. Consequently, we need to quit some kind of collection items that brought margins but were complicating too much at an industrial level.

Despite the high differentiation at the finishing stage through a great variety of colours and resins, a side effect of this trade-off solution is greater homogeneity across the product portfolio of the fabric properties mainly in terms of wearing and moulding of the Jeanswear, because most of the final products share the same and smaller base of threads and fabric structure types. This increase of homogeneity could greatly undermine the perception of customers from the Premium segment, which tends to give more weight to unique attributes than other customer segments. To mitigate this risk, the introduction of new threads and fabric structures was concentrated and dedicated to the Premium segment that will receive unique products first before other customer segments. Also, the Premium segment was low price sensitive and could afford the higher initial cost of the development of the new threads and structures.
Additionally, the analysis of the simplification of thread varieties was done at the lowest possible level of the value chain activity. This is verified in the testimonial of the planning manager when he explained that this is the variety of number of threads that have the highest impact on cost and not the variety of types of threads. In fact, this is the number of threads that imply a more complex and time-consuming machine setup. Consequently, a specific number of varieties of thread types could be maintained which allow having a certain degree of differentiation of fabric structure without a prohibitive cost. Bringing the trade-off dilemma to the lowest level possible in the value chain activity, allows finding a better integration between achieving a certain degree of differentiation while keeping a low-cost, which helps to reduce the impact of the side effect.

For customers from the Standard segment that also value differentiated products but cannot afford the higher cost of new developments for the structure of the product, old fabric structures which have already been cost optimized and the investment amortized, were recycled with new colours and resins which allowed Alpha-Denim to present new and fresh products using old fabric bases but bringing a good level of differentiation while keeping a low cost. The R&D manager describes this as below:

> What we are trying to do is to use fabric bases that already are older in our collection... Then we can use those items that already have a lifetime production consolidated, their cost has been optimized and it is very tight. In these articles, we try to apply differentiation to try to extend the life of the article but to a higher level of differentiation, so that we can still win additional margin, have more benefit with this product. It is a way of trying to solve the dilemma of having at the same time product differentiation and achieve a low cost.

In the figure below, we summarize on a graph representation the causal mechanism that explains the relationship between trade-off dilemma, solution, side effects synergic benefits and mitigation plan (Figure 22).
Figure 22 - Graphic representation of the causal mechanism of the trade-off solution.
Identification of chain of synergic effects: The solution of reducing variety at the production process with the highest cost and lower perception of value and increasing at the stage of greater perception and lower cost, allowed optimizing two other synergic effects. One of them is related with something that Alpha-Denim’s commercial director named flexibility. Flexibility is a service provided by Alpha-Denim to small premium customers, mostly Super-Premium customers or small “boutique” of Jeanswear brands. These customers have the advantage of being very low-price sensitive, however they demand a high differentiation on small sales orders that are in a range of around 1,000 to 5,000 metres. Attending these customers with a high variety of products based on spinning and weaving stages was very expensive, because their average production lot size was much below the recommended average lot size of 30,000 metres for the weaving process. Despite the fact that they can afford the higher production cost, attending such small orders was impacting on the whole productivity of the plant and increasing the average production cost for all the products and customer segments.

With the simplification of the variety of threads and fabric structures it was now possible to run huge volumes of the same base product and make the differentiation at the finishing process. Because the finishing process minimum lot size is much smaller, it is possible to easily look after orders of small volumes such as 2,000 or 3,000 metres. The marketing director explains below how the solution of the trade-off has at the same time reduced the cost, increased the perception of variety differentiation and increased flexibility, which is taking care of small customer sales orders.

This is another advantage to keep a low cost. This is flexibility. I mean all the innovation that we can do at the finishing process, allow us to create a family of product that share the same base. Then, we do the differentiation at the last stage of the manufacturing process which is the finishing process. And this is a huge advantage for us, as we can obtain an enormous quantity of differentiated products, practically on demand, as lots of production at the finishing process are much smaller, consequently we can do lots of production of 1000, 3000, 4000 metres for each customer. Consequently, we are more innovative as we can practically create unique product for each
customer. That brings a lot of differentiation. Additionally, this also an advantage of cost as we can produce biggest volume at the spinning and weaving process of the same product base and make all the differentiation at the finishing process. We win in cost and we win in flexibility.

Additionally, the solution of focusing the variety at the finishing stage also contributed to enhancing another service provided by Alpha-Denim and fundamentally relevant for Fast fashion retailers. The Alpha-Denim commercial director named this service reactivity and it consists in attending on demand, without planning, a sales order and delivering it in a very short period of 2 or 3 weeks. Considering that the spinning, dyeing and weaving stages demand at least 4 to 6 weeks it is quite impossible to service reactivity without a huge stock of readymade products. Before simplifying its variety of threads and fabric structures, Alpha-Denim was unable to look after such customers or kept a huge stock of ready products of all types, which involved a huge working capital cost and an important risk of having to sell part of the balance of stocked production at a very low price. With the simplification of threads and fabric structures and the increase of variety at the finishing stage, it is now possible to run large production lots of the same few fabric bases, stock them before the finishing as semi-produced products, and once a sales order is received from a Fast fashion retailer, put it into production at the finishing process, which can be done in a short period of 1 to 2 weeks. As we will see, to provide reactivity is fundamental in the Alpha-Denim mixed strategy to guarantee a share in Fast fashion retailers. The stock made in anticipation of semi-finished fabrics will be more homogeneous in terms of structure, which helps to deal with the Fast fashion orders without planning, as the same fabric structure can be utilised in a large range of finishing.
7.2.3 Understanding the dynamic relationship between trade-offs and synergic benefits through causal process tracing

A turbulent environment characterized by a high uncertainty requires the adoption of a mixed strategy (Factor 01), which in turn requires attending a diversity of customers from Premium Brand to Low-cost Fast fashion retailers (Factor 02). Offering product to Premium and Fast fashion customers created a trade-off dilemma of simultaneously achieving a high degree of differentiation and low-cost (Factor chain 01 → 02 → 03). The combination effects of the trade-off solution of substituting the external threads by internal production (Factor 04), associated to the trade-off solution of reducing product differentiation at the costlier productive stage (spinning and weaving) while increasing product differentiation at the cheaper productive stage (finishing) (Factor 05), allowed reaching an overall lower productive cost (Factor 06). The increase of
differentiation in the finishing aspect of colours and resins, in combination with achieving an overall lower cost, allowed Alpha-Denim to offer product with greater differentiation aspects at a more competitive price to the middle brand Jeanswear customers that value simultaneously a differentiated product at a lower price, and consequently increased the share and profitability of Alpha-Denim in the Standard segment, which is the most important customer segment of the European Jeanswear market and composes the major part of Alpha-Denim’s mixed strategy (Factor chain 04, 05, 06→14) (Figure 23).

Additionally, the trade-off solution that simplified the product complexity at the costliest productive stage (Factor 05) allowed an increase in the service of flexibility (Factor 08). In fact, with the displacement of the product differentiation variety at the finishing process, it is easier and cheaper to attend small orders from Premium and Super-Premium customers, as the minimum lot size at the finishing stage is much smaller than the minimum lot size of the weaving stage. Consequently, Alpha-Denim was able to take care of small orders from Premium customers, and charge a higher price for this service. The combination effects of increasing the flexibility service that allowed them to look after small sales orders from the Premium segment and bring new small Super-Premium customers that could not be attended before, in association with the overall product cost reduction that increased profitability in the Premium segment (Factor 07), enabled them to achieve a higher profitability in the Premium segment (Factor chain 08, 09, 07→15) (Figure 23).

The trade-off solution that simplified the product complexity at the costliest productive stage (Factor 05) allowed an increase of offer and efficiency of the reactivity service (Factor 10). In fact, with the displacement of the product differentiation variety at the finishing process, it is faster and cheaper to attend unplanned orders from the Fast fashion retailers. Fast fashion retailers, which are mostly served by the Asian imports, used to place complementary sales orders during the season with local suppliers if delivery could be done in a short lead-time. With the reduction of the complexity of thread and fabric structures it is easier to form a homogeneous stock of semi-finished products and satisfy unplanned orders from Fast fashion retailers that have to wait for the production lead-time only at the finishing stage. In fact, the finishing process tends to take 1 to 2 weeks to be completed which allows fast order deliveries.
The combination effect of an increase of reactivity (Factor 10) with the overall productive cost reduction (Factor 06), that allowed them to offer a more competitive price, allowed Alpha-Denim to recover a share of the strategic Fast fashion customers (Factor 12), thereby enabling them to optimize the plant capacity (Factor conjunction of chains (06 \rightarrow 11 \rightarrow 12), (10 \rightarrow 12) \rightarrow 13). In fact, customers from the Popular segment have a sales volume much more resilient to a turbulent environment than the Standard and Premium segments. Consequently, the sales volume of Fast fashion customers has the role of complementing in volume when the sales volume coming from the Standard and Premium customers is not enough, hence optimizing Alpha-Denim’s plant capacity. The continuous optimization of the plant capacity in any market situation allows the firm to sustain an overall lower production cost (Factor 06) which characterizes a virtuous cycle. However, Fast fashion represents a very low profitability in comparison to other customer segments, but this loss of margin is compensated by the increase of margin from the Premium segment (Factor conjunction 09, 07 \rightarrow 15) (Figure 23).

7.2.4 Discussion and contribution

The literature of the mixed strategy has been far too concerned with the performance debate, mainly in attempting to prove that a firm that adopts a mixed strategic approach has superior performance over a firm that adopts a pure approach, at least in a turbulent environment. However, both theoretical and empirical studies ignore the central subject of a mixed strategy that uses the solution of the inherent trade-offs that a mixed implementation present. Porter has been very emphatic in affirming that a trade-off is a strategic bifurcation, where one way or the other needs to be chosen (Porter, 1996). In fact, firms that are not capable of choosing one side or the other of a trade-off are doomed to a stuck-in-the-middle situation, where they will suffer poor performance due to a nullity effect by having not chosen any way, or by trying to pursue the two ways simultaneously. Magretta reaffirmed this point of view in a recent review of the Porter competitive advantage model, where trade-offs are the decisive and central elements of a strategy, and strategic choice of one side or the other of the trade-off should be made (Magretta, 2012).
Our analysis confirmed that in fact trade-offs play a central role to a firm’s strategy definition. However, different from a pure strategic approach where one side of the trade-off should be chosen, our analysis demonstrated that in the mixed strategic approach trade-offs should be solved.

In fact, Alpha-Denim was confronted by important trade-offs between the differentiations and low-cost approaches of its mixed strategy. The main trade-offs were the conflict between a quality aspect of its mainstream portfolio product and cost of raw materials; variety of product portfolio and cost of complexity at the manufacturing processes. These contradictions in a first analysis appeared to be irreconcilable. Conversely from the prediction of the defenders of the pure strategic approach, Alpha-Denim’s managers found efficient solutions where extreme situations of differentiation and low-cost approaches that have a low added value was eliminated, and a more centred solution was found integrating a differentiation value while achieving a low cost.

We identified several important managerial elements in this management of the trade-off dilemma and solution design, which have not been described together before and associated to the implementation of a mixed strategy. However, it is possible that isolated, and not necessarily associated to a mixed strategy implementation, some element could have been described in the literature. For example, the reduction of cost through acquiring equivalent cheaper raw material is a common practice of lean management. It is also a common practice to optimize the cost of machine setups in the process of manufacturing standardization and simplification. However, the great originality of the finding is not this specific isolated managerial practice, but in which context it is used. Consequently, the trade-off management described above is a complex set of managerial practices that should exist together in order to implement a mixed strategy. Next, we will list the relevant managerial elements identified with the practice of managing trade-offs and designing integrative solutions that enable synergic benefits and highlight central findings.
7.2.4.1 The mixed strategy trade-off management practice

The mixed strategy trade-off management practice involves several tasks, such as identifying the trade-off dilemma. The trade-off dilemma apparently emerged in the company through an existing conflict between departments at the time that the mixed strategy was implemented. However, it appears that the R&D department is formally responsible for managing the conflict of the trade-off. Designing a trade-off solution also seems to involve identifying and measuring the impact of side effects and to design a plan of mitigation of these side effects. Consequently, it appears that a formal managerial routine of identifying the trade-off dilemma, designing a solution, identifying side effects, measuring the impact of side-effects and designing a mitigation plan seem to be a logical set of activities. Additionally, the incremental cost related to the implementation of the mitigation plan should be confronted with the synergic benefits in order to decide if the trade-off solution will aggregate additional values. Further on we will demonstrate the main characteristics of this managerial practice.

We identified two types of trade-off solutions that could be used together in a complementary way. One is related to avoiding the overlapping of a dual managerial focus of the differentiation and low-cost on the same attribute or activity of the firm value chain. The second is related with the level of analysis and implementation of the trade-off solution.

Cross-inverted stretched tensions: a trade-off solution involves avoiding an overlapping focus on the same activities, while stretching the limit of the lowest possible cost and highest differentiation possible: It appears that the integration of the differentiation and low-cost approaches involve the avoiding of overlapping the focus on the same attribute or activity. In this trade-off solution design, the integration was possible because where the cost is high the customer perception is relatively low, which opens an opportunity to reduce the cost to the limit of the customers’ perception. In fact, if all the activity of the value chain was to have similar impact when cost is reduced or increased on perceived value or vice-versa, there would be no benefit in implementing a mixed approach. This is because there are activities of the value chain that have a high cost with a low perceived value, or the potential for a high perceived
value for a low cost and which the mixed strategy could generate an additional added value.

This study described in detail at least two solutions that follow this logic. The first one was the identification of expensive materials, such as the external technological threads and the assessment of their corresponding importance in the firm’s value proposition. Alpha-Denim’s middle and operating management discovered that they could replace the threads by equivalent ones of inferior quality, and consequently cheaper, because the great majority of the customers did not perceive the value of the differentiation aspect of them. The second solution described was a reduction of product variety in the manufacturing process where the cost was higher and perceived value lower in comparison with product variety in other manufacturing processes, where the cost was lower and perceived value higher. In fact, the reduction of threads and variety of denim fabric at the spinning and weaving processes allowed an important cost reduction, while the increase of variety at the finishing aspect allowed a greater perceived value to a low increase in cost.

This finding could appear similar to the product platform approach where several products of a manufacturing plant share the same set of components and differentiation is mainly made at the product design and accessories stage. Robertson and Ulrich describe in their article of the planning product platforms in the automotive industry the existing trade-off between distinctiveness and commonality, where the solution was to increase commonality of automobile components that are invisible to the customer, and increasing distinctiveness of automobile components that are highly visible to the customer (Robertson and Ulrich, 1998). Consequently, several automobiles share the same platform (body frame, front and rear axles, wheels, engine and gearbox), while they are distinct in their car body. However, in its managerial nature and context, the product platform strategy is much more an “economy of scope” than a mixed strategy adoption. In fact, the main goal cited by Robertson and Ulrich was a resource efficiency approach as we can confirm in this passage extracted from their article:
Effective planning for product platforms allows a company to deliver distinctive products to the market while conserving development and production resources.

(Robertson and Ulrich, 1998, p.1)

In contrast, in the case of Alpha-Denim the solution implemented at the production processes has the clear objective to stretch the two extremes of differentiation and low-cost to achieve the maximum possible benefit. This stressful situation of pushing the limit of the extreme is necessary because Alpha-Denim’s survival depends on reaching the lowest possible cost with the highest level of differentiation in order to attend very antagonistic customer needs. This managerial practice of stretching to the maximum the benefit between differentiation and low-cost is expressed very clearly by the R&D manager below:

…Our goal is to have a premium collection, a collection that adds value to our products. This is the main goal, but without losing sight of cost reduction or the lowest possible cost.

Stretching the two extremes of the trade-offs in order to extract the maximum benefit was well demonstrated in the case of the substitution of the expensive external threads. In our analysis, we showed how the Alpha-Denim managers identified the limit that they could reduce the quality of their product with a minimal impact on customer value perception.

This managerial practice of pushing the two approaches to the limit at a low level of the value chain activity was not described in the literature and is one of the major contributions of this study. In fact, the great benefit of implementing a mixed strategy on a fully integrated value chain is to explore the maximum benefit that could be achieved in lowering the cost and increasing differentiation simultaneously, which is different from an economic scope approach where the objective is to optimize the use of resources without necessarily stressing differentiation and low-cost approaches. Consequently, we state the following definition:
Main Trade-offs once identified should be divided into low-cost and differentiation drivers. Attributes and activities tagged as low-cost should offer the opportunity to have a relevant reduction on overall cost while a minimum impact on overall customer value perception, while attributes and activities tagged as differentiation should offer the opportunity to have a relevant increase on overall customer perception value while a minimum impact on overall cost increase. Then low-cost and differentiation tagged components should be pushed to the limit of rupture of the opposed element. Low-cost components should have their cost reduced until the limit that the impact on differentiation value becomes relevant, and differentiation components should have their perceived value increased until the limit that the impact on overall cost becomes relevant.

However, the stretching managerial practice associated to the trade-off solutions is not free of risk. In fact, we identified several side effects associated to the solution of the trade-offs implemented by Alpha-Denim. In the internalization of sophisticated threads, the risk was to impoverish the premium product line too much, and affect the differentiation approach of Alpha-Denim well perceived by more Premium Jeanswear brand customers. A similar side effect was identified in the solution of reducing the variety of threads and fabric structure at the spinning and weaving manufacturing stage, where the risk was to make the Premium product collection too homogenous by sharing a very narrow fabric structures options. This is because Alpha-Denim’s managers were capable of measuring very precisely the impact of the trade-off solution on the customer value perception that the risk associated to the side effects could be evaluated and mitigated. In the internalization of threads solution, Alpha-Denim concluded that most of the customers did not perceive the differences of a downgrade of quality, due to using some finishing technique to reduce the impact on the visual aspect. For the product variety displacement solution, Alpha-Denim concluded that the increase of variety in the finishing aspect was more important than the loss associated to the impoverishment of a variety of type of fabric structure. Again, the impact will be mostly relevant for the High Premium customer. To mitigate the risk associated to the many Premium customers, Alpha-Denim decided to direct the few
remaining innovative developments in threads and fabric structure firstly to these customers, since they will have the highest degree of perception of preserved uniqueness. While the mainstream market composed of Standard Jeanswear brands were receiving new product collections with a renewed finishing aspect on old denim fabric structure.

_level of implementation of trade-off solutions: _Originally, Porter designed his strategy model defined by two dimensions: the competitive advantage dimension composed by either a differentiation or low-cost approach, and the scope dimension composed by a generic or a focused market scope (Porter, 1985). In its model of four possible options, Porter states that the level of the implementation is at the business unit level, meaning that the firm should implement a competitive advantage approach at the entire firm’s value chain activity as its value proposition. In other words, either the firm’s value chain activity is entirely differentiation oriented or entirely low-cost oriented. Proff in his analysis of a mixed strategy adoption in the German automotive industry suggests that it is possible to implement both a differentiation and a low-cost approach at the departmental level of the firm’s value chain, where some departments are differentiation focused while others are low-cost focused (Proff, 2000). Then he concludes that this separation is possible if the relationship of customer value perceived and corresponding cost are different through these departments of the firm’s value chain, as we can confirm in a passage extracted from his article, below:

…This separation is possible if the customers put a greater value on some of the elements in the value chain than on others, and if this then leads to a bigger increase in benefits but not, at the same time, to a bigger increase in costs. The larger increase in costs is likely to fall on production while the largest increase in benefits will occur in the marketing sales areas.

(Proff, 2000, p. 546)

Our findings confirm that the differentiation and low-cost approaches could be segregated through the firm’s value chain in a single business unit as Proff anticipated. However, we revealed with this case study that the dual strategic approach has been implemented at a much lower level than the departmental level. Our analysis
demonstrated that most of the departments have to manage both strategic approaches at an activity level. For example, the Alpha-Denim marketing department has to manage a dual value proposition, one corresponding to a market differentiation approach while the other to a market low-cost approach. The production department should on the product dimension produce a differentiated product line and low-cost product line, while on a process dimension, specialize the spinning and weaving processes of production with a low-cost approach, and the finishing and quality processes with a differentiation approach. This approach of the mixed strategy implementation at the activity level has been determined by an analysis of the value proposition at an attribute level. For example, when the marketing department had to evaluate the impact of quality lost due to thread substitutions and the impact of standardization of fabric structure variety on the customer perception, it has to break down the value proposition in attributes and understand which attributes have a greater weight of the perceived value of customers and which attributes are less relevant. Doing this, the marketing department allowed the R&D department to approach the broken-down value proposition in attributes and to choose a focus for each of them: differentiation or low-cost. Finishing aspect such as colour or special touch given by resin received a differentiation approach, while threads and fabric structure received a low-cost approach.

An important contribution of this study is to clarify and demonstrate that the differentiation and low-cost approach could be made at a very low level in the firm’s value chain. We believe that the lower the level, the better the precision in the trade-off management, smaller side effects and greater synergic benefit. Because at a lower level it is possible to design better fitting solutions between the two approaches. For example, in our analysis we demonstrated that at the activity level the weaving manufacturing process received a low-cost focus while the finishing process received a differentiation focus. Consequently, the variety of fabric structures has been simplified and reduced while finishing aspects have been increased. But in fact, Alpha-Denim was implementing some solutions at a lower level. Evidence demonstrated that when we analyse processes at a lower level, we can also break down activities and attributes into smaller elements and apply the mixed approach. For example, the fabric structure variety could be separated into two dimensions: quantity of threads and variety of threads. The planning manager explained in his interview that it is the variety
of the quantity of threads that has the greatest impact on cost, while the variety of type of threads has a lower impact. Despite that, the weaving process has received a low-cost focus by a direction to reduce the denim fabric variety, and at a lower level, we can consider that the variety of threads received a low-cost focus, while the variety of the type of threads receive a differentiation focus, which allows a certain degree of fabric structure differentiation while maintaining a low cost. This example is illustrated in the figure below (Figure 24).

Consequently, when we work at a lower level it is easier to reduce the impact of side-effects. In this case the side effect is a much greater homogeneity of product due to the standardization of denim fabric structure that could harm the differentiation value proposition mainly with the Premium customers. However, this side effect has a lower impact when we do the mixed approach at the lower level. In fact, a certain degree of product differentiation could be achieved through denim fabric structure variety by
increasing the diversity of the type of threads while keeping the same quantity of threads.

We also state that a lower level of implementation of the mixed strategy involves a higher level of managerial complexity and requires a higher degree of managerial capability, involving a very precise accounting system that can manage the cost at a very low level of the value chain, and also a very good pricing management practice and system that can manage the customer perception value in small attributes.

Complex system of mutual reinforcement of synergic benefits: An important discovery of these analyses is that associated to the trade-off solution, was the release of a complex system of mutual reinforcement of synergic benefits. In fact, the reduction of variety at the costliest stage of the manufacturing process associated to the reduction of expensive thread materials allowed an overall cost reduction which allowed a return of profitability in the Standard and Premium segments, and a return of sales share in Fast fashion retail, which in turn allowed optimizing plant capacity in any situation of a turbulent environment, and guarantee a sustained overall lower cost in the long run. Additionally, the simplification of variety of the costlier manufacturing processes released a greater agility and efficiency in delivering service flexibility and service reactivity, two important value-added services to sustain profitability in the Premium segment and sales share in Fast fashion retailers. Consequently, we can state that the decision of solving the trade-off in comparison to the option of choosing one side of it is defined by the following statement:

The sum of the benefits of trade-off solutions of a mixed strategic approach should be greater than the highest isolated benefit of a pure strategic approach minus the total cost and impact of mitigated side-effects.

We consider that the described managerial practice of solving trade-offs, stretching benefit to the limit, mitigating side effects and enhancing synergic benefits is a major contribution to the field of mixed strategy adoption.
7.2.4.2 Core competencies associated to the mixed strategy trade-off management practice

*Trade-off solutions demand a dynamic managerial capability*: Trade-off solutions are not static and definitive. A trade-off solution that has a positive result in the short run could have a negative consequence in the long run. This is due to the dynamism of the environmental factors that are associated to the trade-off dilemma. Consequently, the effectiveness of the trade-off solution should be monitored frequently and reviewed if necessary. In this review, managers expressed the need to constantly re-evaluate the balance of differentiation and low-cost elements.

*Competency in managing the trade-off tension*: In the management of trade-off below, the R&D department seems to play a role of integration of the trade-off tension between the manufacturing and marketing departments that have opposed and contradictory views. In a certain way, the trade-off management follows the organizational structure of Alpha-Denim’s departmental areas. The conflict between the operations and marketing departments is not new and a natural conflict due to the opposed objectives of the activities of these areas. However, the fact that one department assumes the role of integrating and solving these conflicts seems something that has not been described in the literature, at least not in the literature related to the implementation of mixed strategy.

*Competency in measuring precisely customer perception, cost and overall results of the trade-off solution*: The managerial practice of finding trade-off solutions involves a very precise and low level of management through the firm’s value chain activity. In fact, identifying attributes of value proposition and associated activities requires a very precise measure of value brought by either a differentiation or low-cost approaches.

A very precise measure of the perception of customers on a specific attribute was fundamental to defining the impact of possible side effects, to design a mitigation plan and finally evaluating the final results of the trade-off solution. It is equally relevant in being capable to measure the cost on each small step of the firm’s value chain, in particular the manufacturing processes. Identifying activities that have a high impact on cost is fundamental to designing the trade-off solution, because activities with a higher cost are candidates to be reviewed and simplified in order to lower the cost.
A trade-off solution could only be a viable solution at a very low level of the firm’s value chain activity. Consequently, if the firm is not capable of measuring precisely value at a very low-level, it is not possible to measure the impact of the synergic effect precisely. Additionally, trade-off solutions allow several synergic benefits that generate value for the firm. However, due to the need to mitigate side effects, additional cost, expenses and investment may be necessary. Managers should have a total value assessment of the trade-off solution and not only of the synergic benefits. Managerial competencies in measuring value precisely at a very low-level of the value chain and to be capable of measuring the total cost and benefit of a trade-off solution is a major contribution of this study not described in the literature of mixed strategy before.
7.3 Organizational characteristics associated to the mixed strategy at the value chain

As we have seen in the literature review, there are two main canonical approaches to organizational form, which are the organic and mechanistic approaches. We have also seen that pure differentiation strategic adoption tends to be associated with an organic structure form, while a pure low-cost strategic adoption tends to be associated with a mechanistic form. To understand the organizational characteristics associated to the implementation of the mixed strategy we will use a causal process tracing approach. As Blatter and Haverland defend, causal process tracing could be an effective tool to describe and reach a deep understanding of the complex system of causal mechanisms (Blatter and Haverland, 2012). We will now show the causal mechanism that characterizes the trade-off management associated to the mixed strategy implementation, which we extracted from interviews and the firm's documents. This process of trade-off management involves three main departments: commercial, manufacturing and R&D and a higher managerial presence represented by Alpha-Denim’s Steering Committee composed of Alpha-Denim’s top management and CEO. Two steps characterize the trade-off management process: the formalization of the trade-off dilemma and the trade-off solution design as we can see in the figure below (Figure 25).
Figure 25 - Graphic representation of the causal process tracing in managing the Trade-off solution.
7.3.1 Formalization of the trade-off dilemma

First, Alpha-Denim’s Steering Committee composed by the CEO and top management defines clear overall targets for the firm’s profitability. Then these objectives for the firm’s profitability are broken down into specific targets for each department of differentiation and low-cost strategic approaches by the CEO. The industrial department receives its manufacturing efficiency and quality targets since it also receives the production unitary cost target (Factor 03). The commercial department receives the inputs of sales volume and gross margin (Factor 02); in addition, it receives several demands from the customers about new developments and product variety increases as consumption trends (Factor 04). The R&D department receives targets for the cost of the development of new products, while from the other departments, pressures, suggestions and requirements. The commercial department will require increases in product variety or new product developments based on the market demand and on its margin and sales volume targets. On the other hand, the industrial department will require simplification of product variety and an increase of standardization in product development in order to achieve its target of production cost and quality. Finally, the R&D department receives the contradictory demands from the commercial and industrial departments, but restricted by its own departmental target of cost of research and development (Factor conjunction 01, 02, 03 → 05). At this time, the trade-off dilemma is formalized and centralized in the R&D department that has to develop new products, increase variety, while reducing the production cost.

7.3.2 Definition and design of trade-off solutions

The R&D department works for several weeks in solving the trade-off dilemmas where managers of the department have interactions with the commercial and industrial departments, and also with suppliers in order to find solutions to the trade-off dilemmas. The marketing director explains below the intensity of the participation of its department in the activities of the R&D department, by participation in the product development meeting where trade-off dilemmas are discussed intensely:
Because we always attend product development meetings. So, every month, we have product development meetings with R&D and sales. So, if you want, the commercial department should provide inputs from the market that R&D should evaluate.

Finally, the R&D department proposes the solutions of the trade-offs dilemma to the commercial and industrial departments (Factor chain 05 → 06). The trade-off solutions are analysed separately in each department in order to evaluate the impact of the side effects and to find mitigation action plans for them. For example, in the solution of the internalization of purchased threads, the marketing director, with the commercial manager, made an in-depth survey with customers to evaluate the impact on the perception of the change of product quality. Each department works in mitigating the side effects of the solutions or in suggesting alternatives (Factor chains 07→09; 08→10). At this point, to avoid an important conflict between the departments, where each department could give more weight to its side, it is important that each department has a profound understanding of the impact of the solution on the other departments. For example, the commercial department should make clear the impact on the cost and industrial complexity in increasing product variety, as well as requiring product that requires expensive materials. On the other hand, the industrial department should understand that a very simple product line could have an important impact on sales and gross margin. Below, the marketing director explains the high intensity of integrated and collaborative routines between departments. In his testimonial we can see that he has a very good balance of the implications of the commercial as well as the industrial point of view:

Exactly. We always work together, if you want, the whole collection structure is worked jointly together with marketing and R&D. Mainly with a target of product variety and also simplification, actually. If there are items that generate little sales that are very complicated, we eliminate them very quickly; whereas before, some years ago, we used to keep them in the collection for a very long time. So, that was complicating the manufacturing management.
However, this is the role of the R&D department to facilitate the understanding between the department’s contradictory points of view, acting as an integrator and conciliator, as the R&D manager explains below:

We do integration between marketing, sales and production. We coordinate the decisions. This is a role of conciliator. We certainly tell them what we see, the real facts, then we expose the reasons why we would believe that decision is good for the company to move from one product to another.

Below in this testimonial of the R&D manager, we can understand the type of routine that the R&D department has in achieving the trade-off solution. Demands that are too extreme from the commercial or industrial departments, such as too much differentiation that imply a very high cost or a very low cost that imply a too simple product collection, should be avoided and brought to an equilibrium. This routine requires a capability from the main R&D leaders of managing simultaneously the contradiction between departments’ requirements that have to find the right balance and integration between differentiation and low-cost. They need at the same time to bring awareness of the necessary equilibrium to the managers of other departments as they have to gently give a direction toward a solution.

Normally the commercial department asks for all product types. They ask for fabrics for men in all weights, rigidity and stretch, consequently they ask the same for fabric for the women’s line, in all weights with different levels of elasticity. The product range is very large, so the challenge is to define guidelines for the commercial department, because our factory is restricted to a capacity of 12 million meters. So, what we have to do, to our production capacity, is to define how many products we can do. Because of course we could produce everything, all the products that we want, but that would be unmanageable. We must, based on the inputs of sales and marketing, establish a strategy for product development and variety, that concentrate on a few key developments.
The conflicting points of views that are inherently associated to the trade-off solutions seem to be natural and part of the work routine. The marketing director describes below that it is normal to lead with conflicting interests and that it is a shared vision across departments that allows finding solutions:

You can also have conflicting interests. Take the commercial; finally, what they want is to keep a good product and do not want to buy cheaper threads or to develop cheaper threads. So, if you do not have a global vision that guides, directing that we will do that because, indeed, we will reduce the cost, time and all that, but it may abort.

The CEO shares the same point of view, that conflict exists, but it is a common objective that is shared across departments around attending correctly the demand of the costumer. And attending the customer is mainly attending the customer of the Standard segment, which has the major weight in sales, which consists of delivering differentiated quality product at a competitive price. This common objective allows the integration of the different and opposed departmental perspectives around a common objective:

First, I believe that all departments are integrated into our customer project. We can have or there are some conflicts with the manufacturing department for example. But at the end I think the target is clear for everybody.

The CEO describes this in summary, that the organizational structure of Alpha-Denim has a great flexibility, where managers are free to take their own decisions, guided by clear targets and directions defined a-priori, as we can testify below:

I would describe as a flexible structure... This is not a cast structure, but a flexible structure, in which each manager is free to make their own decisions, because it was clear to each of them what are the targets. We meet one day per month, we review all the data... I mean, there’s a pretty obvious implication of the objectives, goals, on problems. And then, I’m so over everything. I get a bit of everything
and see everything. I give freedom for them to decide, as they are involved. I believe that this is a flexible structure.

The marketing director gives an example of how this freedom controlled by well-established targets works:

Rather than a post-control, the goals are set a-priori, for example, R&D receives an objective of quantity product development reduction in order to cut costs. The CEO asked them to reduce the number of tests of product development, then once they have agreed on the number of tests accepted, then they respect the target, there is a monthly follow-up of the number of tests that have been done. We will not go into details of the cost of each development trial, as they have a new cost target to respect. Consequently, costs are reduced, but they simultaneously have all the freedom to do the product development trial that they want.

However, the implementation of the mixed strategy by implementing the trade-off solutions has brought limits to the freedom of creativity and development of the R&D department that in the past used to be freer and had no restriction to develop product as the R&D manager reports below:

I think that before we were more flexible when it comes to develop a product, because the perspective of cost was not considered. But since we are working simultaneously in developing product while keeping a low cost, this flexibility has been reduced. We have to adjust more to the cost targets. I remember that 10-15 years ago when I started working, we used to develop products without taking into account the cost. We just used to develop, develop and develop. However, in the last 3-4 years, we changed a little bit of the mentality, in fact more than this, we are controlling more the cost, consequently the flexibility of development has been decreased.
However, the increase of control from the CEO and restriction of development is not a forced command. The R&D manager explains below that he is still free to develop whatever he wants, but as he knows the target of the firm and the condition of the demand, he will only develop a product that attends at the same time the two requirements of differentiation and low-cost. This is not control through enforcement but through awareness of what is understood and believed to be right for the company:

Let's see. I have the freedom. To me the CEO would not prohibit anything. I can build whatever I want, but it is what we talked before, it has to be for a logical and correct cost; because I can develop a fabric to go to the moon, but at the end, if it is too costly, it will not serve for nothing. It will not serve for our customers. Then, now, when I develop, I have two things that must be taken into consideration (differentiation and low-cost). But no one forbids me anything. I realize by myself that if I came to an illogical cost that will kill the product before its birth, because the product will not have a chance.

Finally, the R&D department receives the feedback of the commercial and industrial departments, integrating and conciliating the views and suggestions (Factor conjunction 09, 10→11). Then the R&D department evaluate the impact of synergic benefits, side-effects, cost of mitigation plan and decide if the trade-off solution should go for a revision with the departments (Factor chain 11→06), or if the trade-off solutions are approved and could be tested through prototypes (Factor chain 11→12). If after several cycles of trade-off solution design, the R&D department could not match the profitability target established with the other departments, then the situation goes to the Steering Committee that should review the strategic direction of the mixed strategy and its profitability targets (Factor chain 12→01).
7.3.3 Discussion and contribution

As we have seen previously, Alpha-Denim’s strategy making process used to be very centralized by top management, following a rational-actor model (Burgelman, 2002), where strategic behaviour of the lower managerial level used to be strongly influenced and directed in order to reduce variability of strategy change. In such a model, middle and operating managers followed functional roles described by the competence deployment process (Floyd and Lane, 2000). The CEO was mainly focused in implementing the strategy defined by top management while at operating levels, department directors and managers were mainly conforming to the implemented strategy. With the adaptation to the environment, Alpha-Denim migrated from a differentiation strategy to a mixed strategy approach. But also, the process making model migrated from the rational-actor model to a more internal-ecology model (Burgelman, 2002), where autonomous strategic behaviour from the lower level gained importance in modifying the firm’s strategy. With this, strategy definition and selection processes were mainly decentralized from top management to the middle and operating level, matching functional roles described by the competence modification process (Floyd and Lane, 2000). Lower managerial levels gained the responsibility to define and select the components of the mixed strategy, subsequently the conflict associated to the strategy making process concentrated on horizontal exchanges at the operating level. As we have described, the mixed strategy adoption requires a very dynamic approach of strategy modification where it is necessary to constantly manage the trade-off of the implementation between the low-cost and differentiation strategic elements in order to optimize profitability in the long run. This micro-strategy management requires several roles between departments in order to adjust the strategy and to champion important modifications, such as the launch of a new collection or the acquisition of new industrial equipment.

Role expectations and strategic agency at the lower managerial level have been described mainly in vertical exchanges of middle managerial level with top management (Mantere, 2008). We confirm that we have found evidence of role expectations and enabling conditions of strategic agency described by Mantere in vertical exchanges with the CEO and top management, and operating managers with the CEO (Mantere, 2008). Additionally, we found new role expectations and enabling conditions that are related with conflict management in horizontal exchanges at the
operating level. Conflict management in horizontal exchanges was predicted by Floyd and Lane but not described in terms of strategy agency (Floyd and Lane, 2000). Next, we will describe those findings.

7.3.3.1 Championing alternatives emerge from horizontals exchanges

Trade-off analysis and solution process in the mixed implementation define how the low-cost and differentiation strategic approaches will be integrated in order to maximize profitability in the long run. Despite that, we are in a competence modification rather than a competence definition process perspective (Floyd and Lane, 2000). Modification of the content of the mixed strategy approach requires championing alternatives of composition of low-cost and differentiation elements which involve client segmentation, product and service characteristics, industrial technology and configurations such as marketing communication and campaigns. Obviously, there are strategy policies that were setup by top management such as that to keep a minimum and respect a maximum share in Fast fashion retailers, to produce differentiated product at a competitive price and to optimize profitability in the long run. But these are broad strategic definitions that could be addressed by several types of mixed strategy alternatives. The responsibility of defining what types of product, for which clients are wholly with the CEO and his operating team. As we have seen, after the approval of the budgetary plan that defines sales, margin and profitability target, the CEO split these corporate targets into departmental targets, which provoked a formalization of the trade-off between departments. However, championing alternatives did not emerge insularly in each department, but through a collaborative process across departments led and mediated by the R&D department. Consequently, the championing role expected by top management demanded much more than inclusion and refereeing as enabling conditions described by Mantere in vertical exchanges (Mantere, 2008). Our evidence demonstrated that the championing role involves a social collaboration activity between departments rather than the isolated work of individuals, contradicting some points of view defended by Mantere (Mantere, 2008). Furthermore, that championing alternatives could not be possible in a departmentalism perspective. Rather than that, the mixed strategy trade-off solution involves several departments in order to be solved. We identified that several new enabling conditions are necessary in horizontal exchanges in order that the R&D
department could formalize a trade-off solution and that mixed strategy alternatives could be championed to the top management through the CEO. We describe these new enabling conditions and roles as follows.

7.3.3.2 Extended departmental consciousness

At Alpha-Denim, like many other large and complex companies, each department has a clearly defined functional role. The commercial department is responsible for the selling and client relationship functions, while the production department is responsible for the manufacturing and distribution functions and R&D for innovation and product development functions. In theory, these functions are distinct and complementary, and if well performed by each department the company should achieve an optimized efficiency of departmental integration. However, all these departmental functions are deeply intertwined with each other. In fact, if R&D does not conceive products that clients demand, the sales department will have great difficulty in its selling activities. Furthermore, if R&D develops products that clients want, but are too complicated or costly to produce, the production department will not be able to deliver those products at a competitive price, or with the required quality in the specified time. If production is not able to achieve the correct manufacturing efficiency or to deliver the correct quality, sales and/or cost will be severally affected. If salespeople from the sales department are not able to achieve a minimum volume of sales orders, the production department will not be able to fill plant capacity which will increase drastically unitary cost. In a certain way each department has a constraining effect over the other ones.

Consequently, departments could not have a narrow view, and they need to understand the elements involved in other departments. In a mixed strategy implementation which involves trade-off solutions, this extended departmental consciousness is more relevant as the solution demands a deep understanding of other departments’ business elements. As we have seen in our description of the trade-off solutions at Alpha-Denim, the commercial department should have a profound understanding of the manufacturing limitation and possibilities in order to translate adequately market demand in product request. On the other hand, the production department should have an in-depth understanding of the clients’ demand, and to be aware of the degree of variety and complexity of product that should be produced. This extended
consciousness that crosses the departmental border is a fundamental enabling
condition in order to facilitate the emergence of a trade-off solution in the design of
mixed strategy alternatives. In our evidence of the Alpha-Denim case, Extended
departmental consciousness facilitates the interacting narrative of strategy (Barry and
Elmes, 1997) in horizontal exchanges, and in the construction of a common conscious
sense-making (Balogun and Johnson, 2005) around the emergence of a firm’s strategy
at the lower management level (Table 17).
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<th>Aspect of enabled agency</th>
<th>Enabling conditions</th>
<th>Representative quotes</th>
<th>Justification</th>
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<td>Ability in perceiving all the aspects involved in a business problem, considering other points of view than the own department perspective</td>
<td>Extended Departmental Consciousness</td>
<td>“The problem is to keep a high level of innovation without making the development too poor. This is not an easy task. Since we use less external threads we are more restricted in terms of product innovation. It is necessary to find a balance between the two... It is not easy. On one side, we will raise our cost using external threads and being more innovative, on the other hand we reduce our cost, but we will be less innovative. It is necessary to find the balance between the two. There is no white or black solution. It is necessary to find a way between the two”. (Marketing Director)</td>
<td>The Marketing Director, who is mainly responsible in achieving sales targets, has a very good perception and understanding of all the business aspects involved and not only its own departmental point of view. He understands very clearly that an increase in product innovation and variety offered to clients as a differentiation approach, has an impact on the increase of complexity at the manufacturing, and consequently could increase the overall unitary cost.</td>
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<td>If you want, it's complicated for us, for example, when we do a new product development that involves a new kind of threads, is that in general, we are on production lots of approximately 30,000 meters, so, it is much more complicated to launch more products in production, and especially after, it is much more complicated in terms of management of the manufacturing, the stocks and all that, and all the costs incurred that happens behind... (Marketing Director)</td>
<td>The Marketing Director demonstrates a precise perception and understanding of the impact of commercial/marketing business elements on the complexity on other departments and on the cost, despite that his main departmental target is defined by sales turnover and does not have a direct involvement with cost.</td>
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7.3.3.3 Organizational altruism

To have a good understanding of the business from another department’s perspective as an extended departmental consciousness is not a sufficient condition to solve a trade-off. Departments should also be capable of achieving their full departmental potential and efficiency in order to reach a common optimized result for the company. If the sales department wants to deliver the highest level of differentiation possible for the client, that could harm production’s efficiency and the firm’s profitability. In the same vein, if production wanted to achieve its maximum manufacturing efficiency, the product could be too simple and the variety too narrow to attend the market demand. Consequently, departments should avoid ego-centrism behaviour and adopt an organizational-altruism one. As we have seen, this organizational-altruism, where a department accepts a condition that does not directly match the departmental target and benefit, but which increases the benefit to the firm, is fundamental in order to reach the right trade-off solution and to overcome departmental conflict in the design of a trade-off solution. At Alpha-Denim, Organizational altruism is facilitated by the incentives system, the weight of EBITDA (Earnings Before Interest, Tax, Depreciation and Amortization), which is the operational measure of profitability, which have a greater weight than other departmental indicators such as sales targets for the commercial department or manufacturing efficiency targets for the production department. The Organizational-altruism that we identified as an enabling condition for mixed strategy design (Table 18), is in line with part of the definition of strategy agency given by Mantere where he states:

“…By ‘strategic agency’, I am referring to an individual’s capacity to have a perceived effect upon the individual’s own work on an issue the individual regards as beneficial to the interests of his or her organization”

Mantere (2008), pg. 297-298
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<th>Aspect of enabled agency</th>
<th>Enabling conditions</th>
<th>Representative quotes</th>
<th>Justification</th>
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<td>Ability in finding the right strategy solution in order to maximize the company benefit over the own departmental advantage</td>
<td>Organizational Altruism</td>
<td>“Consequently, we need to balance with two elements: a small share of customers that can perceive the loss of quality aspect, against an important gain in cost reduction for us. Considering this, the decision is worth the risk. Then we opted to produce all the threads internally. Additionally, to gain in margin, the internal production of threads helped us to fill the plant capacity, which also optimizes our cost.” (R&amp;D Manager)</td>
<td>Here, the R&amp;D manager describes how the R&amp;D department has a clear perception of a trade-off dilemma to be solved, completely detached of its departmental ego-centric point of view. The original objective of the R&amp;D department is developing and launching new and innovative products. Here it is clear that the R&amp;D department assumed the responsibility to mediate solutions that involve elements outside its own departmental original responsibility.</td>
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<td>Ability in accepting to decrease its own departmental benefit in order to increase the benefit of another department, for the overall advantage of the company</td>
<td>Organizational Altruism</td>
<td>“In the last two years we took over that direction. And if you want, there are various product lines that allow us to reduce our costs, because precisely, they bring more homogeneity in terms of construction. Consequently, we need to quit some kind of collection items that brought margins but were complicating too much at an industrial level”. (Marketing Director)</td>
<td>The Marketing Director demonstrates that he accepted to give up certain product lines that are relevant for the commercial department in order to reduce complexity at the manufacturing department.</td>
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7.3.3.4 A shared vision

A shared vision is necessary to facilitate and direct collaboration between departments in the strategy modification and alternative selection processes (Table 19). As the CEO and R&D manager testified, common objectives and transparency of the firm’s target and strategy direction are fundamental to create a culture of participation and collaboration around a common direction. If direction and strategic drivers are multiple and contradictory in their origin, that would make it difficult to promote collaboration and conflict solving between departments in the strategy making process. At Alpha-Denim the shared vision is mostly spread and maintained across departments by the CEO in order to facilitate the integration between departments in the trade-off solution.
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<th>Enabling conditions</th>
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<td>Shared goal, strategy direction and vision facilitate conflict resolution between departments</td>
<td>Shared Vision</td>
<td>You can also have conflicting interests. Take the Commercial point of view for example: finally, what I want is to keep a good product and I do not want to buy cheaper threads or to develop cheaper threads. So, you need a global vision that guides, directing what we will do and saying that we need to reduce the cost, otherwise that could not work. (Marketing Director)</td>
<td>The Marketing Director explains the importance of a shared vision across the company in order to facilitate conflict resolution in Mixed strategy trade-off solution.</td>
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<td>Shared goal, strategy direction and vision facilitate autonomous behaviour at operating level</td>
<td>Shared Vision</td>
<td>First, I believe that all departments are integrated into our customer project. We can have or there are some conflicts with the manufacturing department for example. But at the end I think the target is clear for everybody. (CEO)</td>
<td>The CEO expresses the importance of a common frame of objectives and strategic direction over the possible conflicting activities existing between departments.</td>
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<td>Shared goal, strategy direction and vision facilitate autonomous behaviour at operating level</td>
<td>Shared Vision</td>
<td>I would describe as a flexible structure... This is not a cast structure, but a flexible structure, in which each manager is free to make their own decisions, because it was clear to each of them what are the targets. We meet one day per month, we review all the data... I mean, there’s a pretty obvious implication of the objectives, goals, and problems. (CEO)</td>
<td>The CEO expresses the importance of common shared objectives and vision which are aligned every month with all departments. This shared vision enables decentralization of strategy change decision.</td>
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7.3.3.5 A role of conciliation and integration

In the trade-off management, the R&D department has a crucial role of integrating the two antagonistic approaches of differentiation and low-cost, co-ordinating the collaboration between departments, balancing and integrating the conflicting views of each side in order to find an elegant and viable solution that attends the mixed strategic approach directions and financial targets. The R&D department has a finely equilibrated view between the differentiation and low-cost approaches. It understands equally and very well both points of view of offering a unique product and service to customers, and the requirement for manufacturing standardization and simplification in order to achieve a low-cost. Of all the Alpha-Denim departments we could certainly say that the R&D team had the most extended departmental consciousness. Consequently, it developed a unique capability within the company of managing the contradiction, and in finding the right balance and integration between the two strategic approaches due to its equally deep understanding of each side. This role of conciliation and integration developed by the R&D department and facilitated by the CEO is fundamental to allow the championing of mixed strategy alternatives. It extended the functional role of the department, officially defined as innovation and product development, to assume a role of agency in the strategy making process at the operational level (Table 20). The R&D department is one of the best examples of “ability to act differently” in regard to the functional role expected by top management (Mantere, 2008).
<table>
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<th>Aspect of enabled agency</th>
<th>Management Role</th>
<th>Representative quotes</th>
<th>Explanation</th>
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<td>Managing conflicting departmental point of view in championing strategy solution</td>
<td>Integrating and facilitating conflict resolution between department for championing strategy alternatives</td>
<td>“Then, here we had a trade-off: when you compare the threads that we used to purchase externally with the substitute ones that we produced internally, there is a difference of quality and aspect of the fabric. We had to decide to lose this differentiation of quality and better aspect, to have a gain of cost reduction that was, very, very, very important. I had a conflict to solve, where I have to decide in my department on the quality and final aspect of the product and the manufacturing department and the general direction that wanted to produce all the threads internally in order to achieve an important gain in cost. Then this is the type of trade-off to solve”. (R&amp;D Manager)</td>
<td>The R&amp;D Manager explains the type of decision he had to facilitate between the Commercial, Manufacturing department and CEO’s direction in order to solve conflict and to champion the best strategy alternative.</td>
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7.4 Conclusion

The objective of this chapter was to explore the implementation of Alpha-Denim’s mixed strategy at the firm’s value chain activity level. Additionally, we wanted to understand the organizational structure characteristics. We used a causal process approach to explore and reveal the characteristics of trade-off management, which is intrinsically related to the mixed implementation. We firstly revealed a process of identification of the trade-off dilemma, the trade-off solution, the side effects and mitigation action plan as the main elements of the trade-off management as a resolution. Also, we identified that in the case of Alpha-Denim, a complex combination of mutual reinforcing synergic benefits released by the trade-offs solution was at the foundation of the advantage of the mixed strategy. Furthermore, we revealed important managerial characteristics such as techniques in order to reduce conflict and enhance synergies, such as in which level of the value chain implementation the mixed approach could be managed. Finally, we revealed several new enabling conditions and a new strategy agency role, that are necessary in horizontal exchanges between departments in the championing of alternatives for the constant adjustment and modification of the mixed strategy approach of Alpha-Denim.
8.1 Introduction

As we have seen in previous analysis, Alpha-Denim adopted a mixed strategy approach due to a certain set of environmental factors. We have also seen that the mixed strategy implementation in this environmental situation is associated with managerial characteristics at the strategy definition, value chain and organizational levels of the firm. In fact, Alpha-Denim, which adopted a full-integrated mixed strategy in a single business unit, had to define a very clear strategic role for each strategic component, had to solve main trade-off dilemmas and maximize synergic benefits at its value chain, and had to implement complex organizational forms. These managerial elements combined together compose the mixed strategy framework adopted by Alpha-Denim. However, the Alpha-Denim case presents a very particular situation, as the firm was chosen specifically in a situation where neither a pure low-cost or differentiation strategic approach was possible in order to ensure and maximize the findings of the study. In fact, the analyses demonstrated that Alpha-Denim’s survival and profitability rely fully on the mixed strategic approach.

The central goal of this chapter is to explore the managerial implication of a mixed strategy adoption under other circumstances than the ones of the Alpha-Denim case study. For this we will use a possibilistic generalization method (Blatter and Haverland, 2012), in order to support extrapolation of other mixed strategy implementation and raise hypothesis over their managerial practice implications.

The possibilistic generalization process allows, based on a particular situation, to induce other possible situations through logical reasoning. The literature review revealed evidence that mixed strategy approaches have been adopted in other environmental situations and in different business model configurations. These other situations could be characterized by other sets of environmental factors and we will specifically try to answer the following question:
In which other environmental situations should a mixed strategy be adopted?

For environmental generalizability, we identified in the literature different possible business model configurations to the mixed strategic approach, which involve different degrees of the firm’s value chain activity integration. We will explore the relationships of these different types of business models with the environmental situations answering the following questions:

What are the possible types of business model implementation of a mixed strategic approach? How are these different business models related to the different environmental situations?

Exploring the generalization on these two dimensions (environment and business model), we hope to construct a theoretical space that will represent all the possible different perspectives of the mixed strategy adoption. Then equipped with the mixed strategy space we will explore how managerial practice of the mixed strategy implementation could diverge from the particular case of Alpha-Denim. For this we will follow the same three levels that we have been following in the analysis which are: strategy definition, value chain activity, and organizational design. We will try to answer the following questions:

What are the managerial characteristics at the strategy, value chain and organizational level of each mixed strategy adoption perspective? What are their most adequate strategy making processes to be adopted?
8.2 Extrapolating distinct types of mixed strategy implementation

8.2.1 Mixed strategy and the environmental dimension

We will start our exploration of possible environmental situations where a mixed strategy could be a valid strategic approach based on the particular situation of the Alpha-Denim case study. As we want to construct a dimensional axis that will compose a two-dimensional space, and that we know Alpha-Denim is an extreme situation, we will induce the other extreme opposed situation and verify if it exists for a viable adoption of the mixed strategic approach. Then, between the two extremes that form the environmental dimension, we will look to adoption in a possible intermediate situation.

From literature reviews and congruence analysis we discovered the main elements that link the mixed strategy adoption with the environment. We will summarize these environmental factors into five categories: the market munificence characterized by the market size, the market growth rate and stability; the scope for sustaining a competitive advantage through differentiation characterized by the level of product complexity, customer taste diversity, customer loyalty and low price sensitivity; the scope for sustaining a competitive advantage through achieving a low-cost characterized by the achievement of economies of scale, scope, learning effects, preferential access and by a customer that gives more weight to price than value attributes; the level of rivalry defined by the quantity of competitors, the degree of overlapping of offers and the level of protection mechanisms against imitation, and the demand volatility characterized by the level of stability and predictability of customer purchase behaviours.

As we have seen, Alpha-Denim adopted a mixed strategy in a very hostile and turbulent environment, in which the main characteristics were a recessive market, a highly volatile demand, an aggressive level of rivalry, a product commoditization effect that together characterize a high degree of uncertainty. These environmental characteristics undermined the original low-cost positioning of Alpha-Denim but also invalidated the adoption of a pure differentiation approach. In fact, the pure differentiation approach revealed to be unsustainable in the long run due to highly volatile customer behaviour. The most important conclusion of the situation in which Alpha-Denim adopted a mixed strategy, is that neither a pure differentiation nor a pure
low-cost approach was sustainable, therefore the mixed strategy was the only possible option. In this context, the mixed strategy has a role to adapt to a very rugged landscape (Levinthal, 1997), where the central objective is to survive, stabilizing the firm’s operation and profitability rather than generating high profit through sustainable competitive advantage by achieving excellence in one of the pure strategic approaches. We named this situation of mixed strategy adoption the adaptation perspective, because we understood that the degree of environmental uncertainty is too high to adopt a pure strategic approach that could result in a firm’s failure. As we described in previous analysis, the main advantage of adopting a mixed strategy in a very uncertain environment is the flexibility that the mixed approach offers in terms of adaptation.

Using the Alpha-Denim case as a starting point of reasoning, we deduced the other extreme of the adaptation perspective, where the degree of certainty of the environment is very high. In this situation, customer behaviour is stable and predictable, markets offer a generous demand growth, superior performance through differentiation and/or low-cost achievement are very relevant, with important protection mechanisms that sustain competitive advantage of a pure strategic approach. Even though competition exists, a moderate level of rivalry characterizes this market, which avoids situations of an excess of overlapping among competitors. This is the environmental situation that justifies a pure strategic approach because sufficient elements exist for creating the competitive advantage of the firm, and barriers or mechanisms of protection that guarantee its sustainability in the long run. We named this situation the diversification perspective of a mixed strategy adoption because a firm in this situation, which already has a pure strategic approach well established, could choose to develop the other pure strategic approach in order to diversify its product or service portfolio for increasing value generation by exploring other market opportunities. In this situation, the need to adopt a mixed strategic approach is not to adapt to a very dynamic and uncertain environment, but to explore new market opportunities by diversifying its operation. Between the two extremes of the adaptation and diversification perspective, we deduced that there should exist a situation in the middle where the firm has a well-developed pure strategic approach, but the sustainability of this one in the long run is threatened. In terms of environmental characteristics, the demand is still growing but rivalry is increasing associated to a
tendency of customer loyalty uncertainty. In this situation, the firm could explore options of complementing its original pure positioning by developing elements of the opposed strategy in order to guarantee competitiveness and reinforce its original position in the market. We named this intermediate situation the reinforcement perspective. We summarize these three environmental situations as below (Table 21).

<table>
<thead>
<tr>
<th>Environmental Situation</th>
<th>Alpha-Denim case study</th>
<th>Opposed environmental situation of Alpha-Denim case study</th>
<th>Intermediate environmental situation of Alpha-Denim case study</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market attractiveness</strong>&lt;br&gt;(Market Size, growth rate and stability)</td>
<td>Market is mature, characterized by volatility between low growth and recession. Market size is reducing, not enough or too risky to sustain a unique pure strategic approach.</td>
<td>Market offers relevant munificence by its large size and growing rate. Market is characterized by a growing demand, stable and predictable.</td>
<td>Market offers relevant munificence by its large size and growing rate. Market is characterized by a growing demand.</td>
</tr>
<tr>
<td><strong>Scope for sustaining a competitive advantage through differentiation</strong>&lt;br&gt;(Product complexity, Customer taste diversity, Customer loyalty, Low price sensitivity)</td>
<td>Product and service offer a limited scope of complexity, customer taste diversity is limited. Customer shows low loyalty and high price sensitivity.</td>
<td>Product and service offer a large scope of complexity and customer taste is rich in diversity. Customer loyalty is high and price sensitivity is low.</td>
<td>Product and service offer a large scope of complexity and customer taste is rich in diversity but loyalty tends to be low and price sensitivity high.</td>
</tr>
<tr>
<td><strong>Scope for sustaining a competitive advantage through low-cost</strong>&lt;br&gt;(Economies of scale, scope and learning effect, preferential access, high price sensitivity)</td>
<td>Many firms easily achieve equivalent advantage of economies of scale, scope, learning effect and preferential accesses. Customers are highly price sensitive but also give high importance to value attributes.</td>
<td>Economies of scale, scope, learning effects and preferential accesses are achieved by few players. Customers are highly price sensitive and do not give weight to other attributes.</td>
<td>Economies of scale, scope, learning effects and preferential accesses are still very relevant but achieved equivalently by many players. Customers are highly price sensitive and give also importance to value attributes.</td>
</tr>
<tr>
<td><strong>Level of rivalry</strong>&lt;br&gt;(Quantity of competitors, degree of overlapping and level of protection mechanisms against imitation)</td>
<td>High quantity of players characterizing a situation of offers greater than demand. High overlapping of offers among competitors with a high level of imitation due to low mechanisms of protection.</td>
<td>Low to moderate quantity of players with very few overlapping of the offers. Demand is greater than the offers.imitation is limited due to strong and stable protecting mechanisms that guarantee competitive advantage in the long run.</td>
<td>An increase of competition due to new entrants that are capable of providing a similar offer at a lower price or a superior offer to an equivalent price. Overlapping among competitors is increasing due to a loss of effectiveness of protection mechanisms.</td>
</tr>
</tbody>
</table>
Demand volatility (Stability and predictability of customer behaviour)

<table>
<thead>
<tr>
<th>Customer behaviour and demand are very unpredictable and change easily.</th>
<th>Customer behaviour and demand are stable and predictable.</th>
<th>Customer behaviour and demand are very unpredictable and change easily.</th>
</tr>
</thead>
</table>

Pure versus mixed strategic approach

| Pure strategy is not possible or too risky due to a high degree of environmental uncertainty. If possible, pure strategy adoption results in a very limited market or low firm performance. mixed strategy adoption could be the only possible strategic approach (as in the case of Alpha-Denim), or it is adopted because it has a better response in terms of flexibility and adaptation to the unpredictable, turbulent and hostile environment. In the long run, a firm that has adopted a mixed strategy has a better accumulated performance than a firm that has adopted a pure strategic approach due to the advantage of the adaptive capability of the mixed strategy. | Pure strategy allows achieving profit higher than the industry average because the environment favours the creation of a competitive advantage based on a strategy specialization. In the long run, a firm that has adopted a pure strategy has a better performance over a firm that has adopted a mixed strategic approach due to the performance maximization brought by the sustained competitive advantage. A mixed strategy could be a viable option in a diversification perspective by separating two businesses each one with a distinct pure strategic approach. | Either pure and mixed strategic approach are possible, but the performance of the firm that has adopted a pure strategic approach is threatened in the long run because of an increase of competition associated to a changing customer behaviour undermines the sustainability of their competitive advantage. Firm could adopt a mixed strategy approach in order to reinforce and protect their original positioning. |

Proposed mixed strategy perspective

| The mixed strategy is adopted due to its better adaptive capability than a pure strategy. We will call this type of adoption of mixed strategy the adaptation perspective. | The mixed strategy is adopted in order to explore new market opportunity of the original pure strategic approach of the firm. We will call this type of adoption of mixed strategy the diversification perspective. | The mixed strategy is adopted in order to complement and reinforce an original pure strategic approach. We will call this type of adoption of mixed strategy the reinforcement perspective. |

| Table 21- Environmental situation generalized from the particular case study of Alpha-Denim for the adoption of mixed strategy. |

8.2.2 Mixed strategy and the business model dimension

As we have seen in the literature review chapter we identified three possible business models that could be applied to a mixed strategy adoption. From the study of Markides and Charitou on dual business model management (Markides and Charitou, 2004), we extracted the full-integration and full-separation business model. In the full-separation model, the primary activity of the firm´s value chain such as logistics, operations, marketing, sales and customer service are totally separated into two structures in order
to separate the strategic approaches. Normally this solution is adopted when the conflicting characteristics of each pure strategic approach are much higher than the synergies brought by integrating them. The full-integration business model is exactly the inverse situation, where the firm profits from important synergies by integration of the two opposed strategic approaches on the common primary activities of the value chain and suffers from minimal conflicts.

This is the case of Alpha-Denim, where production, marketing and sales activity are common between the differentiation and low-cost approaches. An intermediate situation of a semi-integrated solution could be deduced from the study of Proff, where it is described that part of the primary activities are separated, while parts are integrated depending on the synergy and conflict characteristics (Proff, 2000). However, these references of the literature lack precision of the types of activities that are separated and integrated. We brought here a higher precision when we define that the level of integration that is relevant for the mixed strategic approach are the primary activities that define a strategy configuration. We understand that the integration of the support activities of a firm’s value chain are not directly linked to the strategy definition, consequently we assume that in any situation of a mixed strategy implementation support activities are integrated. We suggest the degree of integration characterized by the full-separation, semi-integration and full-integration of primary activities as business model possibilities of a mixed strategy approach, and summarize them in the table below (Table 22).
8.2.3 Verifying the degree of independences between the environment and business model dimensions

Despite the fact that we can perceive a high degree of correlation between the two dimensions, for example the survival perspective with the full-integrated business model or the diversification perspective with the full-separation business model, seem to be intuitive configurations, each dimension is totally independent from the other. The adoption perspective is related with environmental characteristics that are outside the firm, whereas the business model perspective is internal and is strictly related to the choice of integrating the mixed strategic approach in the primary activity value chain level. Consequently, the space constructed by these two dimensions is valid, and the nine possible situations are distinct from each other.
8.3 Proposition of a space matrix of mixed strategy implementation

Based on the proposition of the environmental and business model dimension, and using deductive logic reasoning, we will next cross each environmental situation with each business model in order to verify what the specific characteristics of each combination are for a mixed strategy implementation. We will try to support each situation with cases from the literature or from our knowledge and experience. This deductive logic reasoning will first follow the environmental dimensions of adaptation, reinforcement and diversification perspectives, and for each one of these perspectives we will explore the three possible business model adoptions which are: full-separation, semi-integration and full-integration. The space of possible mixed strategy implementation using the three environmental situations, and the three business model types is summarized in the space map below and characterize nine possible situations (Table 23).

<table>
<thead>
<tr>
<th>Business model options for a mixed strategy adoption</th>
<th>Diversification</th>
<th>Reinforcement</th>
<th>Adaptation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full-Separation</td>
<td>A firm diversifies its corporate portfolio exploiting differentiation and low-cost approach through two separated business units. The firm profits from moderate synergies on support activities.</td>
<td>A firm creates a separated business with the opposed strategic approach in order to protect the market of the original business against competitors.</td>
<td>A firm creates a new business totally separated from the original one with the opposed pure strategic approach while the original business is abandoned.</td>
</tr>
<tr>
<td>Semi-Integration</td>
<td>A firm diversifies its business portfolio by a major integration on the operations activities, while it keeps Marketing, Sales and Customer Service activities separated.</td>
<td>A firm reinforces its competitive position by a huge integration on the operations activities, while it keeps Marketing, Sales and Customer Service activities separated.</td>
<td>A firm survives in a very hostile environment by integrating most of the primary activity on a mixed approach while it keeps some primary activities separated to avoid significant conflicts.</td>
</tr>
<tr>
<td>Full-Integration</td>
<td>A firm diversifies its product portfolio by exploiting differentiation and low-cost approaches through two different product lines on the same value chain activity.</td>
<td>A firm reinforces its competitive position by applying a mixed strategic approach on all the primary activities of its value chain in order to maximize synergic benefits.</td>
<td>A firm survives from a very hostile environment by applying a mixed strategic approach on all the primary activities of its value chain in order to maximize flexibility and synergic benefits.</td>
</tr>
</tbody>
</table>

Table 23 - Mixed strategy map characterized by nine possible implementations.
8.4 Inducing characteristics of the mixed strategy adaptation perspective

In the adaptation perspective (right-hand column of: Table 23) the firm that either selected a pure differentiation or a pure low-cost strategic approach has its original positioning invalidated. That could be because of drastic change in demand or by competitors that have achieved a leadership that could not be beaten. Additionally, the opposed pure strategic positioning is also unsustainable. Alternatively, the firm has the option to migrate from one pure positioning to the other extreme (Gehani, 2013).

A pure differentiation strategic approach is mostly impracticable due to insufficient sustainability of exogenous factors such as: size of premium demand not enough or too volatile; not enough level of product scope complexity or easily imitated by rivals; low level of customer loyalty that changes its purchase behaviour frequently; customers that give importance to both added value attributes and low price; and an accelerated and shortened product cycle market by incremental innovation that has a short effect of uniqueness. A pure low-cost strategic approach is mostly impracticable due to insufficient sustainability of exogenous factors such as: low effect or non-existent economies of scale, scope, learning effects or preferential access to inputs, channels and technology; and customers that are highly price sensitive but also give importance to added value attributes.

8.4.1 Mixed strategy making process under an adaptation perspective

The adaptation perspective should be marked by a disruptive combination of events that suddenly invalidate the firm’s competitive advantage and requires an abrupt and important effort of radical strategy change initiatives. In the case of Alpha-Denim, the firm had to change from a pure low-cost to a mixed strategy with differentiation as the main strategic dimension and focus, while the low-cost strategic dimension assumed a complementary role. During the period of adaptation, the firm had to explore, learn and develop the opposed strategic dimension, which in the case of Alpha-Denim was differentiation.

As the need for change in the adaptation perspective is radical we cannot expect that a firm inserted into a hostile environment jumps to an optimized mixed strategy
implementation in one step. There exists a learning period, with important challenges 
and difficulties that involve serious risk of failure and even bankruptcy. Because a 
firm’s original competencies are invalidated, the firm will have to invest all its focus 
in developing as soon as possible competencies of the other strategic dimension, and 
it is expected that an overemphasis in the other extreme occurs which could 
temporarily characterize the loss of performance in the original strategic dimension. 
This is most likely to happen if the radical adaptation occurs through substitution of 
part of the middle and operating management team. Indeed, a quick way to acquire the 
competency of the opposed strategic dimension is by contracting experienced senior 
level managers from the industry. However, an important change of the managerial 
team could imply a loss of important cultural characteristics of the firm, such as 
competencies of the original strategic dimension that should have an important role in 
the mixed strategic adoption. Consequently, the strategy making process of a mixed 
strategy in an adaptation perspective should be marked by disruptive changes rather 
than incremental ones. These disruptive changes could be made by a more rational-
actor model, if top management have a clear view of the mixed strategy requirements. 
A rational-actor model characterized by a strong vectorization from top management, 
following a deployment competence strategy renewal modus operandi (Floyd and 
Lane, 2000), should be the best strategy making process style to follow due to the short 
time of adaptation and important decision to take in resource allocation. Grounded on 
the experience of Alpha-Denim case study, if a mixed strategy approach had been 
adopted earlier by top management, then the firm would have reached a better position 
in the European Jeanswear market. However, once the new mixed strategy is 
implemented, top management should migrate from the rational-actor model to a more 
internal-ecology model, decentralizing the strategy content to the middle management 
in order to have a better dynamic adjustment of the strategy fit to the environment. 
This implies adapting the deployment competence to a modification competence of 
strategy renewal modus operandi.
8.4.1.1 Flexibility as the main advantage of a mixed strategic approach in an adaptation perspective

As we have seen, the Alpha-Denim mixed strategy adoption has in its core strategy to satisfy multiple customer segments, from small Premium boutique Jeanswear brands to large Fast fashion retail chains. Attending such a large diversity of needs requires being capable of filling the plant capacity in any market situation because these segments have antagonistic characteristics and behave differently, where an increase of sales of one segment could compensate a fall in sales in another segment. Thus, the main advantage of Alpha-Denim’s mixed strategy is to be able to adapt to an unpredictable environment. In this context of uncertainty, competition is relevant but is not the central issue of concern. The lack of market munificence associated to a highly volatile demand is the central challenge of Alpha-Denim. The mixed strategy better suits this type of environment than a pure approach because of its flexibility properties. Flexibility allows adapting dynamically to the rugged environment, which guarantees the best possible profitability in the long run, to the detriment of not maximizing profitability in the short term. This characteristic of strategy flexibility is better addressed by a strategy making process characterized by modification competence in strategy renewal roles, where operating levels are constantly adjusting the content of the strategy to the dynamicity of the environment.

8.4.1.2 Type of business model adoption under an adaptation perspective

As a mixed strategy has the main objective to manage an unpredictable environment, mainly on the demand side, the firm seeks to share the maximum resources through the greater demand diversity in order to reduce inefficiency due to the unstable environment. For these reasons, the business models of full-integration should be the most appropriate to fit this environment.

Alpha-Denim gives a good illustration of a full primary activities value chain integration of a mixed strategic approach. Differentiation and low-cost approaches are managed in an integrated way across all the central primary activities. With these synergies between the two approaches they could be maximized because managers are capable of solving and managing the conflicting nature of the trade-offs. Also in the
full-integration in the adaptation perspective, it is expected that synergies of primary activities integration are much greater than conflicts, or the firm should adapt its value propositions to maximize the synergic advantage of the mixed approach. This is what Alpha-Denim’s middle and operating management team have done when they decided to reduce differentiation of fabric yarn variety and increase differentiation on finishing processes where the cost was lower. The semi-integration of the primary activities should also be a viable solution in the adaptation perspective however, it should be used only if the conflict or risk to the business in a specific primary activity is much greater than synergic benefits.

At the beginning of the adoption of the mixed strategic approach, Alpha-Denim’s top management decided to create a specific sales team to manage the low-cost approach for fear that low-cost products could replace the sales of the premium products. The separation was also regional and by customers to avoid any type of sales conflicts between the two value propositions. However, the commercial director discovered that the low-cost offer will not take sales from the premium offer, and that most of the customers that acquired the premium product were also interested in buying additional low-cost products in order to complement their offer with a more basic option. Independently of the full-integrated or semi-integrated solution, under the adaptive perspective it is important that the two strategic approaches of differentiation and low-cost share the maximum of resources possible in order to optimize strategy flexibility, allowing resources and focus to be quickly balanced among the two strategic focuses efficiently.

The full-separation business model where all the primary activities are separated does not seem to be an efficient solution in the adaptation perspective. In fact, if the firm decided to allocate distinct resources on logistics, production, sales, marketing and customer service primary activities, it will not benefit from the strategy flexibility properties which allows a firm to adapt dynamically to the volatile and unpredictability nature of the environment, which will result in an inefficient use of the resources of one of the strategic approaches. In a low margin business, this solution could lead to negative profitability by a higher cost and higher fixed expenses resulting in bankruptcy in the long run. An alternative situation for the use of a mixed strategy with a full separation of primary activity in a mixed strategy adoption is when the firm decides to use the original business, which has been presenting an important loss of
performance, to develop a new separated business with the opposed strategic approach of the original. In this case, the firm uses the mixed strategic approach to migrate from one pure positioning to the other one. However, this rare situation is only possible if the new pure strategic approach sustains it by itself alone.

8.4.1.3 Managing trade-off under an adaptation perspective

Trade-off management is crucial to the mixed strategy success in an adaptation perspective, because the firm depends on the success of the two strategic approaches to be successful in its challenging and hostile environment. Consequently, independent of whether we are in a full-integrated or semi-integrated business model, the creation of synergies between the two approaches is central. For this reason, the management approach is to maximize the integration between the value drivers linking differentiation and low-cost in order to extract the maximum benefit. This means that differentiation value attributes of the value proposition should be reviewed, and their importance to customers revisited in detail. Here it is crucial to measure with precision how the differentiation attributes of a value proposition really are relevant to customer perception. Added value delivered with a low or non-existent corresponding customer perception should be reduced or eliminated in order to reduce cost.

On the other hand, low-cost attributes of the value proposition should be revisited and their customer value re-evaluated. Opportunities of increasing added value without increasing cost in the same proportion could exist which might allow charging a higher price with a lower cost and increase value generation. In the adaptation perspective, the practice of managing trade-off is to stretch the limit of increasing differentiation while reducing cost in order to maximize profitability. We suggest a managerial practice for that. Once the value drivers of differentiation and cost are defined, the Key Performance Indicators associated to these value drivers should be stressed in opposed directions simultaneously.
8.5 Inducing characteristics of the mixed strategy reinforcement perspective

From the Alpha-Denim mixed strategy case study, we could infer another type of situation if we induce another configuration of factors. As we have seen in the adaptation perspective, the central challenge is the unpredictability of demand and a lack of market munificence normally characterized by a recessive market and overcapacity of the industry. But the environment could be unpredictable and turbulent but still present market growth opportunity. In this case the firm did not have its original positioning of either differentiation or low-cost invalidated. Instead, an increase of competition is threatening the stability of the elements that sustain its competitive advantage in the long run. This firm could adopt a mixed strategy approach in order to reinforce its original positioning (central column of: Table 23). The difference with the adaptation perspective is that the firm adopts a mixed strategy approach to increase or protect its market share in an increasingly competitive environment that still presents opportunity of growth.

8.5.1 Reinforcing an original pure differentiation strategy with a low-cost approach

Exemplifying this perspective of mixed strategy adoption, Hill defends theoretically that in certain conditions a firm positioned as differentiation could experience a growth of market share due to its initial focus on differentiation and acquire the benefit of the cost advantage (Hill, 1988). This is more likely to happen under the following circumstances: when consumers’ commitment to the products of rival firms is low, when market growth is high, when market structure is fragmented on the demand side, when the production process is new and complex, and when economies of scale and scope exist. Using the advantage of its differentiated brand image associated with a consumer not so loyal to other rivals’ offers, this firm could reduce its premium price to reach the larger part of the market consumers. Then supported by a growing market, the increased volume could bring economies of scale that reduce the unitary cost and surpass the additional cost caused by differentiation. A fragmented market could allow the firm to attend different types of consumption needs, and create a portfolio of
differentiation offers for each consumer segment, acquiring the benefit of economies of scope. Also, complex and new productive processes will complement the cost advantage bringing the benefit of the learning curve effect.

It is more likely that this firm will take the effort and risk to increase the complexity of its strategy, adding a low-cost approach in a growing market as a mechanism to protect its original competitive advantage based on differentiation against an increasing competitive intensity coming from imitators. In fact, an increase of competition is characterized by a proliferation of similar offers in the market. Despite the complexity of the resources and capabilities of the firm’s differentiated offer, which makes it difficult to imitate, access by rivals to knowledge, technology, talent and best practice is not impossible. Knowledge, talent, and new technologies can be easily acquired in the globalized and integrated environments of today. In this case, rivals would reach a comparable offer, not an exact one, but sufficiently equivalent in terms of attributes to be comparable. With a multiplicity of choice, the less loyal customers could tend to give more importance to a less expensive offer that has similar value attributes than the offer by the differentiation firm. The increase of a rival’s offers also strengthens the customer’s bargaining power, pressuring down the average price of the industry, which should provoke an erosion of industry average price and challenge the stability of the firm positioned as differentiation.

Wright et al., exemplify this type of situation with the case of Federal Express that occurred in 1992 (Wright, Kroll and Parnell, 1998). After having been a leader in its segment with a pure differentiation strategic approach, the company experienced a loss of consumers who switched to imitators offering a similar service for a lower price. Federal Express reinforced its position by increasing its differentiation through the offer of new types of service such as “Just-In-Time” transport and online order tracking, while it was simultaneously lowering its cost through technological-efficiency initiatives to maintain a competitive price.
8.5.2 Reinforcing an original pure low-cost strategy with a differentiation approach

In a growing market, a firm could choose the low-cost strategy to attain an important share of the market and gain the benefits of scale, scope and learning curve before their rivals. Once established with an important share of the market, the firm will benefit from financial resources to invest in differentiation in order to reinforce its leadership position and create protection against competitors (Hill, 1988; Pertusa-Ortega, Molina-Azorín and Claver-Cortés, 2009). This is possible if in this market, consumers are initially more sensitive to price and as far as the demand side develops they also give importance to other attributes. Additionally, the growing market should also have a minimum degree of fragmentation and the product and service sold by the firm should present a minimum scope for differentiation. Otherwise, in a non-fragmented market, dominated by highly commoditized products or characterized by customers that give importance only to price, the addition of a differentiation strategy could increase the marginal cost without an equivalent increase of marginal revenue. Walmart is an interesting case of a retail store that started with a pure low-cost strategy, with a strong focus on cost control and efficiency, gained an important market share through developing an efficiency competence in supply chain and strengthened its leadership position through differentiation initiatives such as offering a broad assortment and adding new services (Dess, Lumpkin and Eisner, 2003; Baroto, Abdullah and Wan, 2012).

Another example of reinforcement perspective used by a firm originally positioned as low-cost is the case of the evolution of the airline industry where several pure low-cost players have been adopting a mixed strategy approach. Vidović et al. explain in a paper that analyses the evolution of the airline business model in Europe, how traditional low-cost airlines (LCA) are adopting a mixed strategic approach (Vidović, Štimac and Vince, 2013). A more turbulent and competitive environment market by a recessive and saturated market has increased the rivalry between full network service airlines (FNSA) and LCA on the medium-haul market. The cost advantage of approximately 50% that LCAs traditionally had against FNSAs has been reduced because of an increase of efficiency and positioning change of FNSAs in a need to adapt their offer to the dynamism of the European aviation market, but also by volatility of fuel prices and increased costs of airport services. These pressures on cost
and reduction of the cost advantage have forced LCAs to reinforce their original low-cost positioning with differentiation elements according to the authors. Confirming this switch of LCAs to the mixed strategy adoption, a report from Sabre airline solutions, a leading technological firm in the aviation industry, explained that while price remains a key competitive factor, it is no longer the sole driver of LCAs’ business strategies. While LCAs continue to maintain the focus on achieving a low-cost for compensating rising costs of the industry, they are complementing their original positioning with new services, enhancing customer experience, crossing international borders, offering specific long-haul flights and expanding channel distribution with travel agencies. The new LCAs’ business model was defined as the combination of cost-saving methodologies of a pure low-cost airline with the service, flexibility and route structure of a FNSA. The report emphasizes that despite the increase of the differentiation offer and complexity of the business model, it is necessary to keep a central focus in maintaining costs at the lowest level possible, which remains the core business of LCAs.

8.5.3 Mixed strategy making process under a reinforcement perspective

Different to the adaptation perspective that is marked by a sudden loss of the original strategic positioning and requires a radical strategic change, the reinforcement perspective should be characterized by an incremental adjustment process. In the reinforcement perspective, the original pure strategic positioning of the firm is still valid, and the development of the opposed strategic dimension comes in order to reinforce an original strategic positioning. This reinforcement should be undertaken in an incremental way so that it does not harm the original strategic positioning. If the firm is originally positioned as differentiation then the introduction of the low-cost approach should be done preferentially, firstly on activities of the value chain or attributes of the value proposition that do not directly touch the ones that sustain the original differentiation approach. For example, by implementing incrementally the low-cost approach of the mixed strategy, middle and operating managers have the opportunity to learn and develop the new competency of low-cost without risk of

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performance loss. Once middle and operating management level has dominated the first stage of the mixed strategy implementation, the firm could undertake the low-cost approach on core activities of the business. By incremental stages, the firm reinforces the main and original positioning pushing to the limit of its consistency, reaching the point of optimum profitability of the mixed approach. Using an analogy, the same reasoning is valid to the situation where the firm is originally positioned as low-cost and reinforces it with a secondary differentiation approach.

Consequently, a more internal-ecology model is recommended in a reinforcement perspective of mixed strategy making process. As the adaptation is incremental, the lower managerial level has a better position to take a decision and choose a sequence of resource allocation that does not involve disruptive change and is more aligned with a need of continuous micro-strategy change and adjustment. However, top management should keep control over certain policies, such as protecting the core activities of the original positioning of the firm to avoid damaging it. The modification competence should correspond best to this type of strategy renewal modus operandi, as the complementary strategy is applied in layers based on a sequence of learning actions of micro-strategy changes.

8.5.4 Type of business model adoption under a reinforcement perspective

The firm could implement a reinforcement perspective both on a semi-integrated or full-integrated business model, as these two business models have an important integration of the firm’s primary activities, and the benefit of the reinforcement could be achieved.

A good illustration of a reinforcement perspective of a mixed strategic approach on a semi-integrated business model is the case study described by Proff, where operation activities of manufacturing are integrated and activities of marketing, sales and customer service are separated (Proff, 2000). The decision to segregate certain activities remains on the level of conflicts that could exist (Markides and Charitou, 2004). In the case of Volkswagen, the separation of marketing, sales and customer service was done to guarantee the isolation and distinction between the several car brands. However, where the cost is mostly significant, at the production activities (60% of the total cost), integration was stressed to its maximum. Through the semi-
integrated solution, the firm keeps differentiation through its several car brands’ unique characteristics, while important gains of cost saving and efficiency improvement was achieved with its product platform sharing strategy, reinforcing its competitiveness.

The case of the low-cost airlines (LCAs) described earlier is a good example of a reinforcement perspective of a mixed strategy approach on a full-integrated business model. In this approach LCAs adopt a complementary differentiation approach to their main low-cost strategy on the same value proposition based on five activity issues: network, fare structure, partnerships, sales-distribution and operations\textsuperscript{12}. For example, Southwest airlines focus the main low-cost approach on operations activity, operating a restricted aircraft fleet composed of a controlled mix of narrow and wide body models, keep a low cost of partnerships by using limited code sharing, and finely controls its cost of route complexity by using a mix of combined short and long haul flights, while it focuses a high differentiation approach on sales and distribution activities using a network of travel agencies and corporations, and uses the airlines global distribution system in order to maximize the reach of its offer to wider consumer segments.

However, what would drive the full or semi-integration options is the benefit of the synergic effect of integration versus the risk that the integration presents to the business. For example, an important Brazilian low-cost denim fabric player, which asked to keep confidentiality, reported that it implemented a complementary differentiation approach with a premium product line in a full-integrated way. It was successful in product development and manufacturing activities where teams were able to develop a high-quality fabric while keeping efficiency and cost low, but were not able to capture the premium price with their customers. Middle management identified two problems that occurred with the mixed strategy implementation. The first one is that the brand of the firm was too characterized with the low-cost image, and customers had difficulties in associating the brand to a premium product compared to a differentiation offer from other competitors. The second was that the sales team did not change its approach for selling the differentiated product that requires sales competencies involving fashion Jeanswear products and market tendency expertise.

\textsuperscript{12} The evolution of the airline business model – Sabre report 2011 – www.sabreairlinesolutions.com
Middle managers concluded that a semi-integrated business model should have been adopted firstly, creating a dedicated brand and sales team for the premium product line, while primary activities operations are fully integrated. Once the brand reputation developed and the sales team has mastered the competencies of the differentiation sales approach, the firm should advance in the mixed strategy implementation, adopting a full-integrated business model in order to capture cost efficiency and customer cross-selling synergies.

The reinforcement perspective should have a small effect for firms that pursue a mixed strategy through a full-separated business model. In fact, two independent business units which share a mixed strategy with a full-separation implementation, where the two strategic approaches are separated into two distinct business units, each one with its own primary activities and only the support activities are shared, will not correctly match the premises of the reinforcement perspective. As the two approaches of differentiation and low-cost are separated into distinct businesses the reinforcement of a primary strategy focus with a complementary approach could not be achieved. Additionally, the share of support activities between the two business units does not appear to be sufficient support for reinforcement, as they will represent the smaller part of the resources and consequently of the cost. However, a firm could choose only the market aspect of the reinforcement perspective, where a separated business with a strategic complementary positioning of the firm’s original one is created for protection purposes. The reason for doing this is a response to the threat of possible rivals that could dominate an adjacent segment, for example a low-cost segment next to the original firm’s differentiation segment or vice-versa. In fact, if a rival enters and grows in an adjacent segment it could create a competitive advantage through economies of scale and directly attack the firm’s original positioning by offering a similar offer at a lower price. An example of a fashion brand player that entered the Popular market and that now threatens the position of Premium brand fashion players is the case of Michael Kors and Kate Spade who have experienced significant growth and are capturing sales share against traditional luxury brand players such as Gucci and Louis Vuitton. 

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8.5.5 Managing trade-off under a reinforcement perspective

In a reinforcement perspective, the trade-off management approach should be different from an adaptation perspective. As we have said, the mixed strategy adoption corresponds to the objective of reinforcing an actual pure strategy. As the primary pure strategy is the main strategy of the firm and it is still sustainable, at least in the short term, the driver that sustains this main strategy should be handled with caution.

8.5.5.1 Managing trade-off when reinforcing an original pure differentiation strategy with a low-cost approach.

In this situation, the value drivers of differentiation are the sustainability of the main strategy and they should not be altered. The first step is to identify all the activities that are directly related with the differentiation attributes that sustain the value proposition and isolated those activities from the trade-off analysis because we assume that the main strategy in a reinforcement perspective is valid and should not be questioned. Then once isolated, the central activities that sustain the main pure differentiation strategic approach and other activities should be revisited with the low-cost strategic approach. The central idea is to reduce the value offered on attributes and associated activities that are not directly related to the main customer value proposition.

We identify two groups of activities that are candidates to be analysed in the trade-off approach. The group of activities that are linked to attributes perceived by customers but less relevant than main attributes of the main differentiation strategy. In this case the cost of these attributes should be lowered until the time that they present a relevant change in customer perception and behaviour. The other group is the activities that are not linked to value attributes or perceived by customers. In this last case, cost should be reduced to the minimum on these activities where it is expected it will have an irrelevant impact for the firm on possible customer loss. We can compare the different approaches of trade-off management and the type of mitigation plan that could be adopted in the table below (Table 24).
### Table 24 - Trade-off approach in a reinforcement perspective where differentiation is the strategy to be reinforced.

<table>
<thead>
<tr>
<th>Activities that are linked to essential value attributes for customer perception</th>
<th>Trade-off approach</th>
<th>Trade-off benefits and side effects</th>
<th>Trade-off mitigation action plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exclude these activities from the trade-off approach.</td>
<td>No additional benefit and no side effects.</td>
<td>No need of mitigation action plan.</td>
<td></td>
</tr>
</tbody>
</table>

| Activities that are linked with value attributes perceived by customers but have a lower relevance than essential activities | Lower the cost gradually while monitoring the impact on customer perception and change of behavior purchase. Stop lowering the cost when the impact on customer starts to be relevant. | Benefit of lowering the cost should be undertaken gradually with measure on the change of customer perception. A marginal loss of customers should be accepted, if the benefit of lowering the cost is much more relevant for the firm. | To avoid the negative perception of loss, centric value attributes should be reinforced through communication initiatives or by increasing their added value, if this last does not represent a too high increase in cost. The mitigation plan could be temporary and used just during the time of the change until the customer gets accustomed. |

| Activities that are not linked to value attributes or perceived by customers | Achieve the lowest possible cost. | The benefit of lowering the cost should be much more important than the risk of loss of customers. | No need to elaborate mitigation plan because the possible loss of customer should be irrelevant for the whole company’s sales. |

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### 8.5.5.2 Managing trade-off when reinforcing an original pure low-cost strategy with a differentiation approach.

In this situation, the overall low cost achieved in all value chain activities are associated to a lower price positioning in the market. In order to reinforce the main low-cost strategy with a complementary differentiation strategy, the firm should identify the attributes that could have a relevant impact on customer perception, with a low impact on cost increase in order to not harm its original low-price position. We recommend first identifying all the perceived attributes other than price and classifying them in two groups. The first group is composed by the attributes that are relevant to the customer perception, but the increase in the cost would have a substantial impact on the original low-cost strategic approach, resulting in an increase of the price position. In this case, the firm should evaluate the value proposition of rivals and verify if its overall value proposition is still more attractive (offering equivalent value for a lower price or more value for the same price). The second group is composed by the attributes that are relevant to the customer but have little impact on the firm’s overall cost, and the price positioning would not be altered. In this last case, the firm should
certify how much of the attribute is relevant in the value perception of customers to know if the added value with the small increase in cost will represent an increase in sales, which could compensate for the loss of gross margin in detriment to an increase of profitability. This approach of offering more for the same price could also be used as a retention mechanism to guarantee market share in an increasingly competitive environment.

8.6 Inducing characteristics of the mixed strategy diversification perspective

Contrary to the adaptation and reinforcement perspectives of the mixed strategy implementation in the diversification perspective, the firm does not suffer from a difficulty of sustaining a competitive advantage on a pure strategic approach. Instead, the environmental determinants favour the adoption of a pure approach that leads to the development of competitive advantage based on strategic specialization and emphasizing one of the strategic focuses. Consequently, the reason why a well-established firm on a pure strategic approach will adopt a mixed strategy is to diversify its business, accessing new markets and exploring new opportunities.

8.6.1 Mixed strategy making process under a diversification perspective

In the diversification perspective (left-hand column of: Table 23) the main purpose of the firm is to explore new markets or customer segments, launching new products that have the opposite strategic approach than the original business. Consequently, the primary mechanism of value generation is not a synergic effect between the integration of two strategic approaches, but it is the independent value generated by well-designed business based on a pure strategic approach. In this situation, the new business based on an opposed strategic approach to the original business of the firm should be planned, prototyped, launched and developed. The firm is in a comfortable situation and normally has the necessary resources to create this new business in a well-planned way. This could happen either in a more rational-actor or internal-ecology strategy making process model, depending on the culture of the firm.
8.6.2 Type of business model adoption under a diversification perspective

However, the major risk resides in the cultural force of the strategic approach of the original business that could not easily accept the opposed strategic positioning of the new business. For this reason, most of these diversification operations that involve a very contrasting strategic approach are created separately or separated very soon from the original business. As an example, we return to the case of Nestlé, with Nescafé and Nespresso studied by the work of Markides and Charitou that we described in the literature review (Markides and Charitou, 2004). After having created Nespresso, a differentiation approach of brand coffee inside Nescafé, Nestlé decided to separate the two divisions due to cultural and managerial conflicts and few opportunities of synergies. In fact, as in the diversification perspective, the two businesses tend to emphasize the characteristics of the pure strategic approach of each opposed positioning, primary activities of each business are very specialized on each strategic approach which reduce the opportunities of sharing the same resources and increase the risk of managerial conflicts. As each business with its pure strategic approach is capable of generating sufficient profit to sustain its own structure of resources, there is a-priori no reason to generate a high risk of conflicts to capture part of the efficiency coming from the shared resource. Instead, independency of primary activities seems more adequate in order to specialize the resources according to each business need. Then, in a diversification perspective the level of conflicting strategic focus and resources utilization and the risk that is involved for the business is the main driver to decide which business model to adapt. Consequently, a firm could decide to adopt a semi-integrated or full-integrated business model if it understands that the conflicting activities are very low, and it is easier to develop the new strategic approach in the same value chain primary activities.

8.6.3 Managing trade-off under a diversification perspective

As we have seen before in a diversification perspective, the main objective is to have strong, dual pure approaches in order to establish a strong differentiation value proposition in one market, and one of the low-cost leader value propositions in the other market. Here it is more important to characterize clearly and independently the
distinct value proposition than creating synergies between them. For this reason, the synergic benefit should be a second priority and lower than in the adaptation and reinforcement perspectives. The trade-off solution should be limited to the possible activities that could be integrated without harming the differentiation approach on one side and the low-cost approach on the other side. If integration destroys more value on each individual approach than the value created on the integration on both then value chain activities should be separated.

8.7 Recommendation in identifying the correct environmental situation

To conclude, we will make some recommendations for managers to follow as guidance in adopting a mixed strategy approach. The first step is to have clarity about the characteristics of the environment. A very precise understanding is necessary in assessing the degree of sustaining a competitive advantage with a pure strategic approach and the motive in adopting a mixed strategy. If the actual strategic positioning is no longer capable of generating sustainability in the long run to the firm, the other pure strategic approach should be assessed carefully. If the firm is already in an adaptation perspective, it is highly possible that the opposed pure strategic approach is not sufficient itself to support the firm also. In this case, the firm should strongly evaluate the option of adopting a mixed strategy directly in a full-integrated model. If the firm still has a good position in the market but felt threatened in the long run, then a reinforcement perspective should be evaluated. In this case, depending on the urgency of the implementation, the firm could choose a gradual implementation starting by integrating the primary activities with little risk of conflicts and to adopt a full-integrated business model in a more advanced stage. Finally, if the firm is inserted in a diversification perspective, then it is more important to assess the risk of conflict. If the risk is very low, then the firm should implement the business in an integrated way, otherwise it is recommended to separate the two strategic approaches.

In the table above, we placed in the mixed strategy map the firms cited in this session and identified in the literature. Several mixed strategy adoption situations were not identified in the literature and classified as “not found”, which presents opportunities
for further research. However, we believe that the cases identified cover the most relevant situations of the mixed strategy map (Table 25).

<table>
<thead>
<tr>
<th>Business model options for a mixed strategy adoption</th>
<th>Diversification</th>
<th>Reinforcement</th>
<th>Adaptation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full-Separation</td>
<td>Not found</td>
<td>Not found</td>
<td>Not found</td>
</tr>
<tr>
<td>Semi-Integration</td>
<td>Not found</td>
<td>Not found</td>
<td>Not found</td>
</tr>
<tr>
<td>Full-Integration</td>
<td>Not found</td>
<td>Not found</td>
<td>Alpha-Denim case study</td>
</tr>
</tbody>
</table>

*Table 25 - Example of mixed strategy implementations extracted from the literature.*
8.8 Conclusion

In this chapter, based on the particular case study of Alpha-Denim, we extrapolated a space matrix of mixed strategy possible adoption situations composed by two dimensions derived partly from the literature. We characterized the situation of Alpha-Denim as an adaptation environment perspective mainly determined by the fact that neither a pure low-cost nor a pure differentiation approach was possible. Using a possibilistic approach, we imagined the opposite situation where both pure approaches are valid and sustainable, which we named the diversification perspective. Finally, we stipulated that an intermediate situation where a pure strategic approach is still valid but not sustainable in the long run should exist, which we named the reinforcement perspective. These three very different situations in adopting a mixed strategy were explored in terms of managerial implication of their implementation, using the Alpha-Denim case study as a starting point, enriching with literature and personal experience. For each perspective, we recommended how to proceed in terms of implementation, strategy making process characteristics, business model configuration as in trade-off managements. These guidelines could be useful tips for managers to identify which perspective best fits their situation and in implementing the mixed approach successfully.
Chapter 9 - Conclusion

9.1 Introduction

In this last chapter, we will summarize the main findings and theoretical contribution of this study. We also state research limitations and avenues for future research.

9.2 Main contribution of this study

9.2.1 Contribution to the field of strategy management

9.2.1.1 Mixed strategy and environmental factors

This study, based on a single case through causal mechanism investigation methods, allowed unveiling several characteristics of the implementation of a mixed strategy approach. Several elements of the mixed strategy that were assumptions or simply “Straws-in-the-Wind” inferences found in the literature were confirmed through CPT robust method. Several others were discovered by this study and brought important contributions to the field of mixed strategy implementation. Next, we summarize these findings.

We confirmed several environmental factors that were necessary for the adoption of the mixed strategy such as:

- Disruptive events that suddenly changed the market conditions
- Increase of competition
- Volatility of customer behaviour
- Increase of customer price sensitivity
- Increase of market uncertainty

We found new environmental factors that were not described in the literature and necessary for the adoption of the mixed strategy such as:

- Comoditization effect of product and service
One of the original contributions of this study is having unveiled the sufficient conditions for the adoption of a mixed strategy approach. In fact, it is the combination of the necessary factors described above that together were sufficient for the adoption of a mixed strategy by the firm of the case study. Also, this is the first time in the literature that we have described simultaneously the factors responsible for the adoption of a mixed strategy and that also invalidated the pure differentiation and low-cost strategic approaches.

The linkage between these environmental factors and the adoption of mixed strategy confirm what several scholars have theoretically defended. Our investigation and use of causal process tracing methodological approach allowed us to explain the mechanisms that exist between the environmental factors, the loss of competitive advantage based on a pure strategy and the fit of a mixed strategy to these environmental factors. Consequently, based on this particular case study we can affirm that the firm inserted in such an uncertain and turbulent environment should adopt a mixed strategy approach rather than a pure approach.

9.2.1.2 Mixed strategy and strategy making process

Furthermore, we explored the characteristics of the strategy making process by Alpha-Denim in the adoption of the mixed strategy. We identified that Alpha-Denim’s traditional way of defining strategy was characterized by a centralized, intended and bureaucratic strategy making process based on a rational-actor model directed by top management (Burgelman, 2002). This corresponds to a process based on a strong structural context that shaped an intended strategic behaviour on lower level management. However, feedback of a partial fit of the pure differentiation adoption with the competitive environment, allowed the emergence of autonomous behaviour. First initiatives championed by lower level management resulted in experimentation of a contingency low-cost approach under the main differentiation strategy. Volatility of the environment provoked variation of the strategy making process adoption, with intercalation between competence deployment and competence modification subprocesses (Floyd and Lane, 2000). This resulted in a learning process which culminated in a definitive adoption of the mixed strategy. This chapter particularly extended the field of strategy making process with the following contribution:
To adapt correctly to the dynamicity of the competitive environment, Alpha-Denim developed a dynamic capability in managing alteration between competence deployment and competence modification sub-processes adoption, which involve altering the degree of bureaucratic and clan controls in managing the conflict of a change of strategy. This dynamic capability was the result of a learning process by experimenting different situations with different strategy making process patterns.

We identified that an excess of alignment across the managerial level on the strategy content, characterized by the absence of conflict, resulted in a poor fit of the realized strategy with a mature competitive environment. We then concluded that in such an environment a permanent minimum level of tension in the strategy making process is necessary in order to have a better adaptation.

We identified that conflict in strategy change happens not exclusively in vertical exchange, but also in horizontal exchange between individuals and departments at the operational level.

We also explored the role management associated to the strategy process at the operating management level, and we identified several enabling conditions and a new managerial role that facilitate horizontal exchanges in order to champion strategy alternatives:

- First, we found that championing activity outcomes are the result of a complex collaborative social activity at the operating level, guided and supported by middle management. Rather than the isolated work of an individual, championing is the results of interaction between departments in order to find an elegant strategy solution to a managerial dilemma that involves opposed points of view. For this, several enabling conditions are necessary such as an Extended departmental consciousness, an Organizational altruism, a Shared vision and a role of conciliation and integration.

- An Extended departmental consciousness is a necessary cognitive condition that departments need to acquire. Extended departmental consciousness is the consciousness of the impact of the department’s own target and action on the other departments which is revealed as being fundamental in the trade-off solution.
• An Organizational altruism is a behaviour that we have identified in the resolution of trade-offs where a department gives preferences and favours as a global benefit rather than prioritizing or focusing solely on its departmental target and benefit. Organizational altruism revealed to be fundamental to facilitate the common agreement between departments around a trade-off solution.

• A Shared Vision: A common purpose, objective and goal have the function to facilitate integration and conflict resolution between the departments. Defining the strategic direction in prevailing the firm’s profitability in the long run, is an important driver to facilitate the emergence of trade-off solution.

• A moderating role of integration, balancing and conciliation is necessary to moderate the tensions between departments. This conciliator role is fundamental in leading to the trade-off solutions and was developed by the R&D department as an agency rather than a functional perspective.

9.2.2 Contribution to the practice of strategy implementation

The central objective of this study was to enrich the managerial practice of mixed strategy. In my personal experience as a consultant, firms and executive managers do not have a managerial guideline for implementing mixed strategy, consequently they are normally trapped by the dichotomist thought in adopting a low-cost or differentiation approach. This deep study in the Alpha-Denim case revealed how a firm could successfully implement a mixed strategy and go beyond the simple implementation of a pure strategy. As we have seen, firms could overcome the apparent trade-off presented by the simultaneous implementation of a differentiation and a low-cost strategy approach and release hidden synergic benefits, and below we highlight the main managerial recommendations:

• Exploring opportunities between real and perceived value: trade-off solutions involve unveiling opportunities between real added cost value and the customer perceived value, increasing differentiation in activities where cost is low and customer’s perception value is high, and reduce cost on activities where cost is high and customer’s perception value is low.
• Cross-inverted stretched tensions: trade-off solutions involve avoiding an overlapping focus on the same activities, while stretching the limit of the lowest possible cost and highest differentiation possible.

• Solving trade-offs on the low-level of the firm’s value chain activity: trade-off dilemma could be solved by looking for a solution at a very low level of the firm’s value chain. A trade-off dilemma at the activity level could be solved by combining differentiation and low-cost approaches at sub-activity levels.

• Releases chain of synergic effects: solving trade-off dilemma releases synergic effect brought about by the benefits of adding the differentiation and low-cost approaches. We demonstrated in this study that in certain situations the solution of a trade-off dilemma could trigger a chain of mutually synergic effects, generating a cycle of increasing benefit of the mixed strategy implementation.

• Measuring the total benefit of the trade-off solution: we also discovered that when trade-off solutions are designed, there are many times when its existence causes a loss of value which we defined as side-effects of the trade-off solution. We identified that the loss of value resulting from the side-effect could be mitigated, but that these mitigation initiatives increase the cost of the trade-off solution. Consequently, we suggested an equation that considers all the variables of the trade-off solution and guarantees that the final resulting value will be greater than the value brought about by a pure strategic approach.

Additionally, we identified some organizational competencies that are associated with the mixed strategy implementation which are:

• Competency in measuring precisely customer perception and the impact of change of the value proposition;

• Competency in measuring the overall result of the trade-off solution;

• Capability in managing the balance between differentiation and low-cost strategic approaches at several levels of the organization;

• Capability in controlling the flexibility of the mixed strategy approach.
Finally, during this research, I have enriched my personal experience by discovering new knowledge in the strategy field and in having the opportunity to validate their functioning in this case study. An important finding for myself was the discovery of the strategy process field. It was important to understand how the evolution of the strategy making process of Alpha-Denim resulted in the adoption of a mixed strategy by a learning process that combined rational-actor and internal-ecology models of the strategy making process. The application of the concepts of strategy process in my consultant activities has been very enriching and helpful.

9.3 Research limitations

These findings are limited to the case study and to other very similar case study situations, which have the main characteristics where neither a pure differentiation nor low-cost strategic approaches are possible. Even in such a situation it is not guaranteed that the firm could generate profit for its sustainability in the long run.
### 9.4 Directions for future research

#### 9.4.1 Future research in the field of strategy process

An important contribution of this case study is to have demonstrated the evolution of the strategy making process of a firm in a continuous way, with the same managerial team, in a relatively short period of time. In the studies of Intel’s case (Burgelman, 1996, 2002), Burgelman describes distinct periods with different top management teams that adopted different strategy making process models. The Intel case studies were helpful in describing two very different situations, highlighting the functioning mechanisms of an internal-ecology model in one case (Burgelman, 1996) and a rational-actor based model on the other case (Burgelman, 2002). In the study of the Cellular market, Noda and Bower demonstrate how the strategy making process could lead a firm’s realized strategy to success or failure after successive iterated processes of resource allocation of the same model of strategy making process (Noda and Bower, 1996).

Alpha-Denim’s case study has enriched the field with the adaptation of a strategy making process from a more rational-actor model to a more internal-ecology model. We found some evidence that Alpha-Denim has developed a dynamic capability in managing the alteration of the strategy making process, balancing a more rational-actor and internal-ecology model depending on the environmental conditions. However, in our observation this dynamic capability is in part more intuitive than conscious from Alpha-Denim’s top management team. Consequently, some managerial mechanisms of this dynamic capability are not yet formalized and procedural. We state that an interesting future avenue for research in the field of strategy making process is to unveil the characteristics of this dynamic capability in altering the type of model of strategy making process of a firm in accordance to the change of the environment, in order to achieve a better fit of realized strategy. We suggest the following theoretical framework for these future studies (Table 26), where dynamic capability of strategy process management is an outcome of the successive changes in the strategy making process of the firm in order to maximize its fit to a dynamic business environment.
Table 26 - A suggested theoretical framework for the study of dynamic capability of strategy process management.
9.4.2 Future research in the practice of mixed strategy implementation

In this study, we used an in-depth analytical approach in a single case study to understand the mechanism of the mixed strategy implementation. Based on this particular case study, we suggested a matrix map with nine other possible situations for the adoption of mixed strategy. Based on this, we classified the particular case of Alpha-Denim as an adaptation perspective with a full-integration business model. Further studies should confirm the adoption of a mixed strategy under a reinforcement and diversification perspective.

Finally, we suggest that future research explores the performance measurement model of a mixed strategy implementation. Mainly in defining KPIs for each strategic approach through the firm’s value chain, and integrating them to the trade-off solution and remuneration managerial model of the firm’s top management.

9.5 Conclusion

We will close this chapter by highlighting the continuing importance of the Porter’s Generic strategies model as a central theory in the strategy field (Dess, Carolina and Davis, 1980). Despite that, recent scholars of the strategy field have been affirming that the Porter’s Generic strategies model (Porter, 1980a) is out-dated as it is too rigid for a turbulent environment however the proposed mixed strategy theory of this study, in a certain way, rescues the original foundation of the differentiation and low-cost value generation concept. This theory could be seen as a modernization of the Porter’s Generic strategies model (Porter, 1980a) for a turbulent environment.
Appendices

Appendix 1 – Congruence analysis for the validation of the single case study

Appendix 2 – A comprehensive storyline of a mixed strategy adoption

Appendix 3 – Letter of presentations, interviews structure, memos and coding information
Appendix 1 – Congruence analysis for the validation of the single case study

Introduction

As we have explained in the methodology research chapter, we used a congruence analysis to confirm if the case selected had already adopted a mixed strategy. For that we expect that the result of the congruence analysis disconfirms the pure differentiation, low-cost and stuck-in-the-middle strategic approach and confirms the mixed strategy adoption. In the table below, following the methodology suggested by Blatter and Haverland (2012), we tested the crucialness of the case study by the context conditions contrasted by the empirical results expected on the congruence of the rivals’ theories.

<table>
<thead>
<tr>
<th>Context Conditions</th>
<th>DOMINANT THEORIES</th>
<th>ALTERNATIVE THEORY</th>
<th>THEORETICAL RELEVANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pure Differentiation Strategic Approach</td>
<td>Pure Low-Cost Strategic Approach</td>
<td>Stuck-in-the-middle Outcome</td>
</tr>
<tr>
<td></td>
<td>Very Likely</td>
<td>Very Unlikely</td>
<td>Very Likely</td>
</tr>
<tr>
<td>Empirical Result Expected</td>
<td>Disconfirmation</td>
<td>Disconfirmation</td>
<td>Disconfirmation</td>
</tr>
</tbody>
</table>

Table AI – Test of the crucialness of the case study selected (Source: created by the author based on the definition of degree of crucialness defined by Blatter and Haverland (2012)).
We will now proceed with a detailed argument to justify this classification for each theory.

**Short description of the company case study context conditions**

The business context of the company Alpha-Denim suffered a disruptive change of market in 2005 with the introduction of a new chapter of the Doha round of the General Agreement on Tariffs and Trade (GATT) started in 2011. On this occasion, the trade agreement brought a substantial reduction of tariffs and other trade barriers for imported Asian textile products in the European market. The liberation of those trade barriers allowed the introduction of very low-priced textile products in the European market by Asian low-cost competitors. The European Textile industry was not prepared for this radical change and most of them lost their competitive advantage and profitability very quickly as they were not capable of competing with such a low-priced product of the Asian textile manufacturing companies, who have the benefits of a much lower labour cost and the use of modern and highly efficient textile machinery. It is important to note that the Asian competitors mainly entered the basic textile product market, that according to Alpha-Denim market research data corresponds to 70% of the total textile market.\(^\text{14}\) Many European Textile manufacturing companies could not compete and had to close their operation. Alpha-Denim has been successful in adapting to this new and turbulent environment, but with important strategic change and a reduction of its plants’ productive capacity.

**Expectation of congruence of pure differentiation strategic approach to the case study**

The adoption or reinforcement of a pure differentiation strategic approach appears to be the most logical move by the company Alpha-Denim. With the invasion of the Asian low-priced products in the basic market, Alpha-Denim should have reduced its production size and focused on innovative and the premium denim product line for Fashion brand customers. Therefore, with a more sophisticated and unique product

\(^{14}\) In 2012, Alpha-Denim estimated a total EU market of 508 Millions of Jeanswear pants, where 353 Millions came from the Asian importation. (Alpha-Denim Annual Plan 2- EU Market data POPA 2012-2016 – Slide 57).
line, Alpha-Denim should be capable of charging a superior price in the higher range of the denim product and capture a significant part of the remaining 10% of the European Denim market. Despite higher costs due to a diseconomy of scale, superior product quality and an increase in R&D and marketing expenses, it is expected that the firm’s new positioning should be profitable. Two barriers should protect this position: the first one is that Asian producers are focused on basic denim product with a low degree of innovation and complexity to simplify the manufacturing process, maintaining cost at the lowest level. The second is that to offer an innovative and premium product it is necessary to have a close relationship with Fashion Brand customers to understand their needs and to be integrated with the style and fashion trends used in their product collection. This “customer intimacy” requires being locally near to understand the complexity of the European Fashion market and to be capable of integrating the R&D team with the customer’s team that design the collection. For such logical reasoning, we expect that the congruence of the pure differentiation strategic approach thesis to the context conditions is “very likely”.

**Expectation of congruence of pure low-cost strategic approach to the case study**

The adoption or reinforcement of a pure low-cost strategic approach appears to be the most unlikely option that should be adopted by the company Alpha-Denim. With the invasion of the Asian low-priced product, it seems impossible to compete on the same price level and still remain profitable. This is because of the importance of the participation of the labour cost in the total product cost that accounts for almost 30%. With a very low labour cost in Asia compared to a very high labour cost in Europe, it seems very difficult for Alpha-Denim to compensate this difference with manufacturing process efficiency. Furthermore, the Asian textile industry, which is more recent in industrial history than the European textile industry, has the benefit of a more modern and efficient manufacturing machinery, which allows them to achieve higher productive rates than European firms. For such reasons, a direct competition of the Alpha-Denim basic line product with Asian competitors seem very difficult to be successful, therefore its adoption seems a very unlikely scenario.

**Expectation of congruence of “stuck-in-the-middle” outcome to the case study**
As explained before, the “stuck-in-the-middle” outcome is not an intended strategic adoption by a firm, but an undesired outcome resulting from a confusing and unclear strategic choice. It is very likely that Alpha-Denim did not adapt its strategic approach sufficiently quickly or in a clear way to the new competitive environment. To have not positioned as a pure differentiator player in the market since the beginning, the firm should have lost this position to other local players that were also trying to reposition themselves in relation to the low-cost Asian competitors. Due to inertia, the firm found itself stuck between a too late and now risky option to enter the differentiation game, and to try to compete on price with the Asian competitors that have a far lower cost for the reasons already described. Additionally, as described by Porter (1980), it is highly probable that conflicting strategic directions should have resulted in a contradictory organization and blurred the firm’s culture, which results in a loss of efficiency. This situation is very likely to exist and explain why so many European denim textile players disappeared from the market a few years after the entry of the Asian competitors.

Expectation of congruence of mixed strategic approach to the case study

It is highly improbable that Alpha-Denim during the process of adapting its strategy to the new competitive environment had tried to beat the Asian invasion with a differentiation and a low-cost strategic approach simultaneously. As we described before it’s very likely that the firm had adopted a pure differentiation approach, but very unlikely that this firm had adopted a pure low-cost approach because of the strong position that the Asian competitors had acquired as the lower cost players. A firm that simultaneously adopts a mixed strategic approach should be capable at the same time of compensating the increase of cost and expense of the differentiation approach and sustain a low price in the market through gains of economy of scale and manufacturing efficiency, an improbable situation considering that the size of the company had slightly more than halved during the period 2005-2011, from 30 million metres of denim fabric production to 14 million metres capacity per year.

A) Identifying the components of the pure differentiation strategy theory
The central objective of a differentiation strategy is the creation of a perception of uniqueness so the firm could differentiate itself from competitors, reducing the customer price sensitivity and, by having reduced the comparison between competitors’ offers, charging a superior price. The creation of uniqueness can be done through several dimensions (Porter, 1980b, 1985) such as product attributes, quality and service.

The original idea of uniqueness value of the differentiation strategy defined by Porter (Porter, 1980b, 1985) has been extended by Grant (Grant, 2016) to the concept of added value that attends the needs of the customers. This is because in a world saturated with offers it is quite impossible to offer an absolutely unique product or service: in a context of hypercompetition, many products and services despite being unique in some aspect (design, quality, functionality, etc.), are mostly substitutable. To use an example in the mobile phone industry, the Apple iPhone has many features that could be considered as unique compared to their main competitors, such as the design, the operational system, the ease of use, and the applications store (Hill, Jones and Schilling, 2014). Despite all these unique features the iPhone is totally substitutable in features and functionality by its main rival Galaxy Samsung. Meaning that if there exists a degree of uniqueness from the Apple iPhone this one is not strong enough to have exclusivity in the attendance of a customer’s need. Grant stated the following as an adjustment of the definition of differentiation:

Differentiation strategies are not about pursuing uniqueness for the sake to be different. Differentiation is about understanding customers and how our product can meet their needs.

(Grant, 2016, p. 247)

Consequently, the core concept of the theory of a pure differentiation strategic approach should be:

Core Concept – CC: a firm uses a pure differentiation strategic approach when it has made the choice to compete exclusively on the capability to create an offer perceived at least as rare and valuable by
a group of customers that are willing to pay a superior price over other competitor options.

This core concept is accompanied by a series of peripheral concepts that complement and give consistence to the theory. These peripheral concepts could be separated into exogenous and endogenous requirements for sustaining the consistence of the pure differentiation strategy theory.

1) Exogenous requirements for a differentiation strategic approach

We identified several exogenous preconditions in the literature for the feasibility of a pure differentiation strategy being:

- A sufficient market size of the customer target group;
- A sufficiently complex product scope;
- A sufficient diversity of customer characteristics;
- A reasonable level of customer loyalty;
- Low price customer sensitivity

**Market size of the customer target group:** For a firm to sustain a pure differentiation strategic approach, it is a precondition that the customer segment targeted by the differentiated offer is sufficiently representative in population size as the firm should be able to cover its fixed costs and expenses to achieve a minimum profitability. For example, a minimum market size should be necessary to ensure for an industry the sufficient production scale to cover the minimum fixed cost structure, considering the inevitable loss of market share taken by similar competitor’s offers. If the firm doesn’t reach a minimum productive scale, fixed cost could be prorated in too few unit productions, raising the price of products to an unacceptable level even for a customer that is very low sensitive to price. Although Porter (1980b, 1985) did not express this basic requirement explicitly, it is implicitly implied when he argued that a firm could sustain profitability exclusively through the pursuit of a differentiation approach. We understand that minimum market size of the customer target group is a necessary
precondition for the pursuit of a pure differentiation strategic approach but not sufficient by itself, and we state the following proposition as part of the theoretical framework:

Proposition EXP1: a sufficient market size of the customer target group is a necessary precondition to sustain a pure differentiation strategic approach.

**Level of product scope complexity:** An important precondition for differentiation is the level of product scope complexity. Indeed, as Grant (2016) stated, a successful differentiation strategy depends on the idea of exploring the space of possibilities related to the need of the customers. The more complex are the features of the product and the interactions with the customer; the greater is the strength and benefit of the differentiation approach. A product or service with a very simple scope tends to be commoditized and compete mainly on price, allowing few possibilities to explore characteristics that could bring a certain degree of uniqueness. Ultimately, a firm could choose to play differentiation in several dimensions such as product design, quality and features; brand image, and additional services, and bring uniqueness through a combination on several dimensions of the offer (Porter 1980, 1985; Grant, 2016). Murray (1988) identifies that differentiation based on quality, reliability and service is more durable than differentiation based on product features because usually it is more difficult to sustain. Indeed, product design and other features could be easily imitated by technological equivalence, but quality and service depends upon on-going, day-in, day-out attention throughout the organization. Consequently, we state the following proposition:

Proposition EXP2: a minimum product scope complexity is a necessary precondition to sustain a pure differentiation strategic approach.

**Customer characteristics diversity:** Another dimension for supporting a differentiation approach is the variety of customer characteristics that can be expressed in diversity of tastes and preferences of behavioural consumptions. As stated by Hill
even a product with a very limited scope could be differentiated if it is sold to
different user groups, if the psychological characteristics of consumers within or
across user groups are diverse. The degree of diversity of customer characteristics is a
contingency option for a low product scope for differentiation and by this means it is
a necessary precondition for the adoption of a pure differentiation strategic approach.
Thus, we state the following proposition:

Proposition EXP3: a minimum diversity of customer characteristics is a
necessary precondition to sustain a pure differentiation strategic approach.

Level of customer loyalty: a minimum level of customer loyalty is a necessary
condition to sustain a differentiation strategy. This customer loyalty could be sustained
by the strength of the uniqueness characteristics of the offer or by the cost of switching
to rival offers (Hill, 1988), or by a combination of the two. If the level of customer
loyalty is too low, the firm could be forced to engage in a price war with rivals to retain
customers. In this situation, the firm would have to lower its price to a critical level,
which could not be sufficient to account for the cost structure associated to the
differentiation approach. We state the following proposition as a necessary condition:

Proposition EXP4: a minimum customer loyalty is a necessary precondition to
sustain a pure differentiation strategic approach

Low price customer sensitivity: A necessary condition to sustain a differentiation
approach is that a customer gives sufficient importance to other product attributes
rather than price, or in other words that customer price sensitivity is relatively low
compared with the sensitivity of other attributes of the offer. In fact, a differentiation
strategy is necessarily anchored on the uniqueness characteristics of offer attributes
other than price. The differentiation strategy is only viable if a customer gives
sufficient weight to these attributes in relation to price (Murray, 1988). Consequently,
we state the following proposition:
Proposition EXP5: importance to attribute other than price given by customers is a necessary precondition to sustain a pure differentiation strategic approach.

2) Endogenous requirements for a differentiation strategic approach

We identified four endogenous preconditions in the literature for the feasibility of a pure differentiation strategy that are related to the competency of the firm to differentiate its offer:

- Ability to read customer needs;
- Ability to sustain superior price;
- Ability to manage drivers of uniqueness;
- Ability to align the firm’s value chain to customer

**Ability to read customer needs:** A necessary condition for a differentiation strategy is the firm’s skill at differentiating its products and services (Hill, 1988). This firm’s ability depends on two exogenous factors: the product scope for differentiation and the diversity of consumer characteristics. The more complex are the product characteristics, the larger is the scope for differentiation, and the greater is the possibility of the firm to explore uniqueness. However, as stated by Grant (2016), the firm should have the ability to read customer characteristics, and to respond with internal activities that can support such differentiation. We state the following proposition:

  Proposition EDP1: the ability to read customer needs is a necessary precondition to sustain a pure differentiation strategic approach.

**Ability to sustain superior price:** One of the central concepts of a differentiation approach is to be able to charge a premium price as a counterpart for the superior value delivered through the uniqueness characteristics of the differentiation offer Porter
This ability is closely related with a competency of evaluating the perception of the value delivered from the customer’s point of view, and to set the price near to the limit of what the customer perceives as reasonable to afford, to capture all the potential of profitability of the differentiation approach. A too high price could generate a very expensive image and result in customer erosion. A too low price could not be sufficiently high to support the cost structure of differentiation or allow a very small margin and results in an unsustainable profitability.

Proposition EDP2: the ability to sustain superior price is a necessary precondition to sustain a pure differentiation strategic approach.

**Ability to manage drivers of uniqueness:** To be capable of reading customer needs is a necessary condition but not sufficient. The firm should be capable of identifying inside its value chain, sources of activities that could generate the uniqueness and added value that could attend those needs (Grant, 2016). As Porter (1980, 1985) defines, a differentiation strategy rests on a specific firm’s activities that create the uniqueness of the offer. If the firm is not capable of attending those needs effectively, the offer will be very similar to rivals’ offers and superior price will be very difficult to sustain, undermining the effectiveness of the differentiation approach. Additionally, as markets become more and more dynamic and competitive, a firm’s offer requires to be renewed frequently. Rivals of the firm could reach an equivalent offer at a lower price or could even reach superior differentiation through a new technological process or marketing techniques. If the firm doesn’t renew sufficiently frequently the uniqueness characteristics of its offer, the advantage based on a differentiation approach could vanish. Although it is not a necessary precondition in the short term, it seems very necessary in the long term. Consequently, we state the following proposition:

Proposition EDP3: It is a necessary condition for a firm to sustain a differentiation strategic approach, to have the ability to identify,
select, develop and renew activities that deliver the characteristics of uniqueness of the differentiation offer.

**Ability to align the firm’s value chain to customer:** Grant (2016) defends that for a firm to pursue a differentiation strategy it is fundamental that the firm’s value chain should be aligned with the customer segment targeted. This alignment implies at least a customer focus in all the areas of activity that directly support the differentiation offer. Otherwise, a highly disconnected firm’s value chain will not be able to respond effectively to change of consumptions and preference of the customers and result in a loss of market share. Consequently, we state the following proposition:

Proposition EDP4: the ability to align strategic activities of the value chain with the customer is a necessary precondition to sustain a pure differentiation strategic approach.

**Formulation of the theory of a pure differentiation strategic approach**

Theory (PDSA) = CC *

\[ \text{exp1} \ast (\text{exp2} + \text{exp3}) \ast \text{exp4} \ast \text{exp5} \ast [\text{edp1} \ast \text{edp2} \ast \text{edp3} \ast \text{edp4}] \]

**b) congruence analysis of the pure differentiation strategic approach theory to the selected case study**

**Congruence analysis of the endogenous preconditions for differentiation**

**Market size of the customer target group:** As stated in the literature review, we identified that a minimum munificent market conditions such as market size, stability of demand and growth opportunity should be necessary preconditions to sustain a pure differentiation strategic approach. We will now verify if the empirical evidence of the case study selected confirm or deny the following proposition:
Proposition EXP1: a sufficient market size of the customer target group is a necessary precondition to sustain a pure differentiation strategic approach.

During the interviews with the top management and after confirmation of the market and the firm’s data analysis, it was very clear that the Premium Jeanswear segment in Western Europe is a limited, hypercompetitive, volatile and recessive market, and consequently it seems very difficult and risky to pursue a pure differentiation strategic approach based on it. This claim is based on four sets of evidence:

- The European Premium Jeanswear segment demand is small in size compared to other segments such as the Economy and Standard segments;
- This is a very competitive market segment, with many important players where the total offer of these greatly exceed the size of demand;
- This is a very volatile market segment as the demand could shrink suddenly due to an economic downturn;
- This is also a market that presents an historical development of stagnation and decline of demand.

The European Premium Jeanswear market – a small and limited market segment: According to Euromonitor market research, the Jeanswear market is composed of four segments: Economy Jeanswear, Standard Jeanswear, Premium Jeanswear and Super-Premium Jeanswear.\(^{15}\) In this study we consider the Super-

\(^{15}\) Euromonitor Jeanswear Segment Definition

Economy jeans: Economy products are located at the bottom end of the price range. These will include private label and unbranded products often sold through grocery and mixed retailers. Economy jeans also form part of value-clothing retailers’ offerings. Examples include Primark (UK), Forever 21 (US), Kik (Germany) and Kiabi (France).

Standard jeans: Standard jeans include all brands with price positioning between economy and premium. These are usually the most popular jeans brands in a given country. Brands are allocated to this price platform on a country by country basis based on the leading (benchmark) brand, and as such, one brand may be positioned differently in more than one country. However, brands which are typically considered to be standard include Levi’s, Wrangler and Lee.

Premium jeans: This category includes brands which are considered premium due to their higher price and higher quality positioning. Brands are allocated to this price platform on a country by country basis.
Premium Jeanswear segment as a sub-segment of the Premium Segment. In 2012, the total Jeanswear market of the main European countries accounted for 206 million pairs of jeans. The Premium segment which is characterized by pants sold at a price higher than €70 accounts for 18.3% of the total market or around 37.7 million pairs of jeans. However, this participation could vary significantly country by country: the share of the France Premium segment is around 11%, 12% in Spain, while on the other hand the share of the Premium segment is 31% of the UK Jeanswear market and 24% of the Italian market. The sub-segment Super-Premium represents a much smaller share of the total market and accounts for 3.1%. In summary, more than 80% of the market demand is concentrated on Standard or Economy jeans that are essentially characterized by basic product consumption.

The European Premium Jeanswear market – a very competitive market segment: Competiton of denim fabric in the Western Europe market takes two forms: competitors from Asian countries that offer basic denim fabric, very low priced and attend the great majority of the entry price Economy Jeanswear, and regional producers of Denim fabric, mainly located in Turkey and Italy, that target the Standard and Premium market. In 2012, the capacity of the regional production of denim fabric was around 195 million metres of Denim fabric, considering that five main players represent around 140 million metres (70%). These five main players have a very well developed differentiated product line and target the Premium segment as a strategic market. Isko and Candiani could be considered the direct competitors of Alpha-Denim with a strong focus on Product differentiation and the Premium Jeanswear segment. Isko has a manufacturing capacity of 42 million metres and Candiani a manufacturing capacity of 26 million metres. In conclusion, there is much more capacity of

and as such, brands such as Levi’s and Wrangler may be considered as premium in some countries. However brands that are typically considered to be premium include G-Star, Diesel and Jaeger. Super premium jeans: This category includes brands that are located at the top end of the price range. Super premium brands are often considered as fashion and status symbols and are often sold through high-end department stores or high fashion boutiques. Examples of brands include 7 For All Mankind, True Religion and Rock & Republic.

Source: Global Denim trends: will the growth fade away? (Euromonitor, August 2011)

production than market demand for the Premium Jeanswear segment in Western Europe. This clearly characterises a context of hypercompetition.

The European Premium Jeanswear market – a very volatile market segment: the European market is also characterised by a high volatility of demand. This is due mainly to an economic downturn that affects consumer confidence and alters its pattern of consumption. European consumers during an economic downturn tend to reduce their purchases of Premium high priced non-essential items, and alter part of their needs to more basic and economical items. This is especially true in Jeanswear consumption where the main value difference that exists between a Premium Jeanswear in relation to an Economy Jeanswear is mainly sustained by the power of the brand name rather than quality or functional product attributes. A report from a study headed by Euromonitor in 2011 clearly exemplifies this consumption behaviour:

Volatility impacts more the Premium segment – Super-Premium jeans, which are an extension of the Premium segment, had been experiencing rising growth. However, the global economic downturn has impacted this segment and both volume and value share has contracted slightly over 2008-2010... Super-Premium jeans market is quite volatile as consumer spending on discretionary items suffers during difficult economic times. It is not easy to justify spending upwards of US$200 on a pair of jeans, however it can be viewed as a special treat purchase.

This volatility, first represented by the high variation of the European consumer confidence index tends to be replicated through the value chain of the industry. In fact, very volatile demand increases the unpredictability for retailers and manufacturers to forecast sales and plan their supply needs in terms of orders and deliveries. The study of the variation of orders from retailers placed with suppliers by the statistical department of the European Commission clearly illustrate this situation: as we can see

for example from January to July 2011 where the orders placed with suppliers presented a variation of -40 percentage points in the UK market. Similar behaviour could be observed in other main European countries such as France, Italy, Spain and Germany.\(^\text{18}\) This high volatility and unpredictability has also been reported by Alpha-Denim’s top management as perceptions and feelings of uncertainty about the demand and business environment. This is clearly expressed in a declaration made by the CEO of the company during a presentation to the executive board members in January 2013:

The uncertainty and lack of visibility are the characteristics of the European market.

CEO – Alpha-Denim

**The European Premium Jeanswear market – A stagnated-recessive market segment:** In general, European markets are characterized by a recessive economic situation with very low or negative growth rate. This is no different for the Textile clothing industry that historically presents a very low growth rate. According to Euromonitor market research, we observe a similar behaviour for the Jeanswear market, where from the period 2006-2012 this market presented an average annual growth rate of +0.06% (CAGR) from 205.5 million to 206.2 million pairs of jeans.\(^\text{19}\) Consequently, the European Jeanswear market does not present opportunity of growth, and could be classified as technically stagnated-recessive. In the same period, the Premium Jeanswear segment presented an average annual growth rate of +0.29% (CAGR) from 37.1 million to 37.7 million pairs of jeans, a better result than the whole Jeanswear market, but very near to a technically zero growth market. However, it is important to notice that the German market mostly sustains this positive growth rate. The average annual growth rate of the Premium segment market without Germany presents a negative growth of -0.53% (CAGR) on the period.

\(^{18}\) Source: Variation of orders placed with suppliers – Eurostat Report Period of 2010-2013
\(^{19}\) Source: Galeazzi consulting Strategy and Marketing diagnostic – 2013 slide 367.
The combined effect of limited demand, hypercompetition, volatility of demand and recessive growth of the Premium Jeanswear segment on the adoption of a pure differentiation strategy approach by Alpha-Denim: In 2013, Alpha-Denim had a manufacturing capacity of 13.2 million metres of denim fabric, and held 6th position in the regional players behind Isko (42.5 million metres), Candiani (26.4 million metres), Orta (26.1 million metres), Gap (24.1 million metres) and Bossa (19 million metres). Total regional manufacturing capacity was estimated at 195.2 million metres of denim fabric mostly directed to the Standard and Premium segment. The Economy Jeanswear segment was mostly dominated by Asian imports, and we could consider that there exists a high level of competition on the entry-level price between regional manufacturers and Asian imports. For this reason, the regional manufacturers are mainly concentrated on the upper level of the Standard segment and Premium segment. Consequently, the Premium segment is of strategic interest for most regional manufacturers that seek an opportunity to sustain superior margin through its exploitation. Main players such as Isko, Candiani, Orta, Gap and Bossa have a well-developed and diversified assortment of value added and differentiated products to attend the premium demand. Isko and Candiani could be considered the most active players and competitors in the Premium segment with an important capability of innovation. According to an official company market estimation document, it is necessary that an average of 1.25 metres of denim fabric is used to produce a pair of jeans. Considering that the Standard and Premium segments account for 50% of the total market or 106 million pairs of jeans, the total target market for regional players is approximately 133 million metres of denim fabric. If we consider the total regional manufacturing capacity of 195.2 million metres of denim fabric, then we clearly have a regional overcapacity of manufacturing in comparison with the size of the market demand. This overcapacity of manufacturing is extended to the Premium segment, which has an estimated demand of 47 million metres (37.7 million pairs of jeans x 1.25 metre), compared to a manufacturing capacity of 69 million metres, considering that only the two main players in the Premium segment are Isko and Candiani. The combination of a small market size and over manufacturing capacity depict a context

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of hypercompetition characterized by an accelerated pace of product innovation and pressure on price. When we add the effect of volatility that could suddenly reduce the size of the market with the reduced perspective of market growth, it seems very risky for a firm with a capacity of 13.2 million metres to sustain a pure differentiation approach. In fact, if Alpha-Denim should concentrate its focus on the Premium segment, this firm should have 28% of share of the total of 47 million metres of premium demand, a very difficult task considering the level of existing rivalry.

This hostile and inhospitable business context is reflected in the company’s premium product performance. Despite a strategic and managerial focus on the differentiation product line, this one accounts for only 20% of the total sales of the firm, or 7% of market share of the Premium segment. Consequently, we conclude that the empirical evidence doesn’t support the proposition EXP1.

**Level of product scope complexity:** As stated in the literature review, we identified that a minimum product scope complexity is a necessary precondition to sustain a pure differentiation strategic approach. Product scope complexity is characterized by the diversity of attributes that the product provides but also customer services that are associated with it. The greater is the complexity and richness of product attributes and services associated, then the greater are the possibilities for exploring uniqueness and create differentiation. We will now verify if the empirical evidence of the case study selected confirm or deny the following proposition:

Proposition EXP2: a minimum product scope complexity is a necessary precondition to sustain a pure differentiation strategic approach.

For this analysis, we will separate the product scope complexity into product attributes and customer services attributes.

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**Product attributes scope complexity:** A denim fabric could be classified as an intermediate textile product that is used for the making of apparel for the end user, mainly of Jeanswear. According to an official company document on product performance, the complexity of the denim fabric product could be analysed on two dimensions: the fabric structure which is characterized by the type and complexity of fibres and the fabric finishing which is characterized by the type of finishing process.\(^{23}\)

The most basic denim fabric structures are composed by simple cotton threads, while the most complex denim fabric structures are composed of multiple threads of different natures such as compositions of cotton, polyester and elastane.

The main idea of increasing the fabric complexity is to add properties. Polyester fibres add resistance to the cotton threads while elastane gives flexibility and elasticity. The combination of resistance and flexibility allows a variety of possibilities for the making of clothing, and these are mostly associated to the fit and modelling characteristics of the jeans. For example, the greater is the level of elastane in the fabric structure composition, then the better are the properties of the jeans to adapt to the shape of the consumer’s body. The weight and density of threads of the denim fabric structures are also attributes of the product scope complexity. Heavier threads and lower density threads of the denim fabric structure are less complex and simpler to manufacture. Conversely, lighter threads and higher density threads of the denim fabric structure present a greater complexity and demand specific machines and competencies to be manufactured: they normally increase the complexity of the manufacturing process because thinner threads are delicate and demand a careful manipulation in the weaving process.

The second dimension of product complexity refers to the finishing of the denim fabric, and according to Alpha-Denim product managers is the part that offers the greatest possibility for product differentiation. Finishing refers to a series of processing operations, normally based on the application of chemical materials and chemical treatments of the denim fabric, to improve its appearance, handling and functional properties. More specifically, a finishing process could improve the appearance and feel of the fabric, increase wearing comfort by making the fabric shrink or create resistance. Finishing of denim fabric could be for aesthetic purposes like colours, blue

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\(^{23}\) Source: Commercial Diagnostic Jeanswear Europe – May 2013 – Slide 14
tonalities, parchment decoration and texture appearance. One of the most successful aesthetic finishing processes is the application of resins that give the appearance of leather to the denim fabric. However, finishing of denim fabric could be for functional reasons such as wearability, mechanical resistance, easy care, wettability, washability, deformability, water repellent, waterproof, antibacterial, antifungal and more recently for skin-care treatment purposes such as the Denim Spa moisturizing jeans launched by Wrangler: an anti-cellulite denim which comes packed with caffeine, algae and retinol, ingredients that claim to reduce the appearance of “orange peel” skin. One of the most important elements of differentiation is the quality of the application of the indigo dye that gives the blue colour appearance to the jeans. A specific process and quality of indigo dye application are fundamental for the washing process applied on the denim fabric by Jeans’ manufacturers to give the aged aspect to the jeans.

In summary, we can conclude that a denim fabric has several attributes such as complexity of the structure fibre of threads, weight and density of threads and finishing processes that give a large variety of possibility and attends several and different needs related to the use of a pair of Jeanswear. The most basic denim fabric is composed by 100% cotton fibre, with heavy threads and low-density structure with no finishing process and doesn’t offer additional attributes in addition to its raw and basic blue aspect. Conversely, the most complex denim fabrics are made of threads composed by several fibres such as cotton, polyester and elastane, with lighter threads and high-density structure with several applications of finishing processes, and offer several superior added value attributes such as comfort, softness, resistance, skin aspect and specific texture such as leather imitation. This large scope of possibility has been sustaining a relatively high rate of product innovation in the industry and has been helping Denim fabric manufacturers to create a certain degree of uniqueness to their products.

**Customer service attributes scope complexity:** The second group of attributes that could enhance the scope for complexity and support a differentiation approach are related to the customer service. customer service could be divided into delivery, pre-

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24 Source: Dailynews 2013 – Lizzie Jagger teams up with Wrangler for Denim Spa moisturizing jeans.
sales services, after-sales services, tailor-made production, reactivity and flexibility. Basic services are the ones that the customer considers inherent or naturally implied in the commercialization of denim fabrics, so as to have a quick lead time delivery and basic after sales support that help with technical specifications of the denim garment for the washing process, and the cut and sew process of jeans making. We do not consider that such basic services are scope for differentiation because these are offered by all players in the industry and normally customers are not willing to pay more for them. Conversely, special services such as consulting pre-sales and after-sales could be an interesting path for differentiation. Fashion and denim trends could be offered and embedded in the denim fabric collection at the pre-sales stage and help customers to choose the correct denim fabric to create their collection of jeans. Also, a technical consulting service could be offered at the after-sales stage, mainly in supporting customers with the washing process of the denim fabric.

As the washing process of a denim fabric is complex and requires specific knowledge for manipulation, the denim fabric producer could help their customers to produce the best washing results on their product because they have already made those tests previously in the laboratory. However, those practices of aggregating a pre-sales and after-sales consulting service have more effect for emergent countries such as in Latin America where the level of customer specialization is lower than in Europe, as it is reported by a document of the Alpha-Denim branch in Brazil. Europe is marked by very specialized jeans makers that normally do not need such consulting help because they already have their fashion trends research department and washing laboratories.

Despite this, two other services offer better scope for differentiation, which are reactivity and flexibility. Reactivity refers to the capacity that the firm has to quickly attend to an unplanned retail order in a very short time. This is particularly relevant for Fast fashion retail customers that need great agility to complement and adapt their collection according to sales performance. commercial managers of Alpha-Denim reported that to have the capacity to attend an unplanned order and deliver the product in 4-6 weeks could be considered a differentiated service, because few players have the capacity to do it. Flexibility refers to the capacity to attend to very large and very small orders simultaneously. This competence is specifically relevant for the small Premium brand retailers that are willing to pay more but order very small quantities of denim fabric. Flexibility is also considered a differentiated service because the
competence to attend very small and large orders in the same plant present many planning and manufacturing challenges at the plant level.

In conclusion, we consider that the combination of product and customer service attributes offer a sufficient scope complexity to support a differentiation approach, however this effect is reduced due to intense rivalry characterized by a high level of imitation and equivalent offers. Consequently, we consider that the proposition EXP2 is partially confirmed.

Diversity of customer characteristics: As stated in the literature review, we identified that a minimum variety of customer characteristics such as diversity of tastes and preferences of behavioural consumptions are necessary preconditions to sustain a pure differentiation strategic approach. We will now verify if the empirical evidence of the case study selected confirm or deny the following proposition:

Proposition EXP3: a minimum diversity of customer characteristics is a necessary precondition to sustain a pure differentiation strategic approach.

Another way to seek uniqueness and create differentiation is through the exploitation of the diversity of customer characteristics. European consumers of Jeanswear are very diversified in consumption preferences mainly due to a multiple cultural environment of different countries that are very close geographically but very distinct by their culture and habits of consumption. For example, Alpha-Denim managers reported that Italian consumers give a lot of importance to the washing aspect of jeans, and that it is an important part of a Fashion style culture, conversely, the German consumer prefers more sober jeans characterized by uniform dark blue colours. Diversity is also represented by age, gender and power of purchase. European women customers are a particularly rich source of diversity of consumption, as the jeans in Europe are an important fashion clothing item that are associated with a great diversity of fit, modelling and aesthetical appearance. A Euromonitor study clearly exemplifies opportunities based on segmentation of customer characteristics that should be
pursued as an alternative to the recessive market in 2011.\textsuperscript{25} We extracted here two examples of segmentation based on consumer characteristics.

**Mature women could be the sweet spot for jeans NPD in mature markets** – As developed markets enter a new era of austerity, the challenge for jeans manufacturers is not simply to keep prices competitive but to improve segmentation. Mature women, for example, remain a largely untapped opportunity. Jeans have historically been associated with youth, but the world's developed markets (as well as much of Eastern Europe) are characterized by ageing demographics, and mean ages are set to rise over the next five years,

**Plus size investment** – Obesity is on the increase in Western markets and as a result there are vast numbers of consumers that feel excluded from mainstream fashion. The wide range of shapes and sizes in the plus size category has tended to be an obstacle to apparel development, but jeans, by virtue of their flexibility of shape and cut, are potentially better suited than most forms of outerwear to building a stronger plus size position.

This rich diversity of consumption is reflected in the market brand segmentation that range from large Fast fashion retail store chains such as Zara to Premium Brand Jeans producers to high fashion boutiques such as True Religion and 7 for all Mankind. However, most of this diversity of consumption is captured mainly by jeans makers, which explore such diversity through brand positioning and jeans modelling, design and fit. For Alpha-Denim, this diversity represents a smaller option of products differentiation, and as we have seen is easily imitated by competitors. In conclusion, we consider that the European Jeanswear market presents sufficient customer characteristics, however the exploration of such an opportunity for differentiation is

\textsuperscript{25} Source: Segmentation is Key as tougher times loom for Denim – Euromonitor 07 September 2011.
limited by the position of Alpha-Denim as a denim fabric producer, and is restricted
to product differentiation which already presents a weak support in sustaining a pure
differentiation approach. Consequently, we conclude that the proposition EXP3 is
partially confirmed.

**Level of customer loyalty:** As stated in the literature review, we identified that a
minimum customer loyalty is a necessary precondition to sustain a pure differentiation
strategic approach. We will now verify if the empirical evidence of the case study
selected confirm or deny the following proposition:

Proposition EXP4: a minimum customer loyalty is a necessary
precondition to sustain a pure differentiation strategic approach

For the analysis of the level of customer loyalty, we will consider two aspects. First
the strength of the uniqueness attributes of the firm’s offer, and secondly the
customers’ cost of switching to rival offers.

**Strength of the uniqueness attributes of product offer:** The uniqueness degree of
Alpha-Denim’s offer could be divided into two parts: product attributes and customer
service attributes. As we have seen before physical attributes of a denim fabric could
be analysed in two dimensions: the complexity of the denim fabric and the complexity
of the finishing process. Alpha-Denim has been reaching a very high standard of
product innovation in both dimensions. One of its most sophisticated products is
composed of complex threads composed by three fibres of cotton, polyester and
elastane carefully interlaced. This type of thread gives many interesting properties to
the denim fabric like stretch with durability and comfort of wearing.

Alpha-Denim also has a track record of innovation in the finishing process: it was one
of the first to launch in the market a denim fabric with a resin that gives a leather aspect
to the Jeans. Alpha-Denim is also reputed to be one of the Denim manufacturers with
one of the best indigo colour quality, which is very important in the washing process.
In 2010, Alpha-Denim was given an award by the magazine Actualidad Económica for one of the fashion industry’s most innovative launches within the awards for the “100 best ideas of 2010”. Alpha-Denim received this award for a collection of denims incorporating high performance treatments beneficial for the body, in particular giving a feeling of well-being. It was the first denim to integrate a technology of bioceramic complex created by combining 30 metal oxides that give a series of physiological benefits. The bioceramic complex absorbs the infrared light produced by the sun and recovers the energy produced by our own bodies. This synergy helps our cells recover their ideal balance and gives a pleasant feeling of warmth and well-being.

This technology had previously been applied to high-end technical garments. Now Alpha-Denim has had the challenge of introducing this complex technology in denim, transferring all its benefits to everyday clothes. Alpha-Denim is also a pioneer in sustainability innovation, and launched a line of products that reduces water consumption in the manufacturing process. Alpha-Denim has another four innovative collections, and it annually renews a minimum of 20% of its product line. Despite that, Alpha-Denim has created a respected image as a denim innovator and presents interesting differentiated denim fabric for the fashion industry; the perception of the CEO is that other competitors have at least an equivalent or better reputation and innovation capacity.

In this CEO’s testimonial, we can see clearly that despite Alpha-Denim having been the first mover in innovation and create differentiation before competitors, this one was easily imitated and surpassed by aggressive rivals:

Products based on resins have also been launched by Isko. There was also pioneering in this concept, and they sold important volumes of resin type. We have already launched resin product before them, however Isko was an aggressive competitor and captured significant market share in this segment.

Even traditional denim differentiators such as the Italian denim producer Candiani have been surpassed by other aggressive rivals that have pushed the limit of the Denim
industry in innovation for differentiation, as we can see in this explanation of the CEO of Alpha-Denim:

Nowadays Candiani is not anymore, the most differentiated Denim manufacturer in Europe. Now, for me is Isko. It is Turkish. This becomes another world. We really can say that they found new elements of differentiation. They set some assumptions in denim, and developed fabric really differentiated, in such way that they have set up in some cases imitation barriers, because we didn't have the technology and the knowledge that they used at the time.

However, competition on differentiation reached a limit, and many competitors that use a differentiation approach as a strategy reached equivalence and maturity in such a way that there are very few differences between them, as we can verify with this perception of the CEO of Alpha-Denim:

Despite this, in the last three years I can't say which one of us is the most innovative and have the unique differentiation. Because at the end, all the products are mature and the products of Isko are also becoming mature.

In conclusion, our perception is that Alpha-Denim has a very good level of differentiation with an important capacity of innovation in new product types and technology as we can find with the line of denim fabric based on bioceramic complex technology. However, due to an important level of competition, many others competitors can reach similar results of uniqueness through imitation, or other ways of differentiation. Therefore, we believe that the strength of uniqueness of product attributes has a relative and attenuated effect on customer loyalty. Because Brand fashion customers can find an abundant diversity of options of premium and differentiated denim fabric, differentiation on product attributes does not seem to be a sufficient condition to retain customer loyalty.
Strength of the uniqueness attributes of customer service offer: Another dimension capable of creating uniqueness through value attributes is the offer of customer service. As we have already seen, there is basic service such as standard delivery lead-time and standard quality level that is normally served by all the competitors. However, we identified during the interviews with CEO and operating directors and managers of Alpha-Denim two important distinctive additional services that appear to present uniqueness. One of them is something that the manager calls reactivity, or the capacity to attend an unplanned order and deliver it in a very short time. The manager of Alpha-Denim considers that the delivery of such orders in 4-6 weeks could be considered as a differentiation since few rivals are capable of delivering it. Also, flexibility was mentioned as the capability to attend very large and small orders simultaneously. Small orders are considered key with very small Premium brand customers that are willing to pay a premium price, but by reason of their small production order of very small quantities of denim fabrics. However, this last one appears to be the strongest attribute for creating uniqueness, as reported by a commercial manager of Alpha-Denim:

For example, the French market is characterized by a diversity of small Premium brands… And for me what is of interest is to attend these small brand customers that will give you orders of 1 to 1,500 metres of denim fabric, as I will charge a price of €5.50 to €6.50 the metres. … These small brand customers, Isko or other competitors will not go there as they only take orders superior of 3,000 metres, below this quantity, that is not interesting for them to serve a customer.

This uniqueness associated to this capacity to serve the small customer is associated with a strong level of loyalty as reported forward by the same manager during the interview:
Let's say first that the small customers are “loyal”. So, the advantage that you have with this type of customer, it is that they will come again systematically for you, and in all the seasons they will put new orders, Kenzo is a small premium brand customer that is a good example of that.

**Customer cost of switching to rival offers:** The cost for the customer to switch to another competitor’s offer could also be an element that sustains loyalty. Alpha-Denim sells denim fabric to Brand customers that transform this fabric into Jeanswear for the consumer. There is a proliferation of denim fabric available on the market, and plenty with a premium quality at a competitive price, so access to the denim fabric is easy and not expensive. For a jeans producer to switch to another denim fabric supplier demands a new process of homologation and laboratory tests, which requires a certain time and involves a certain cost, as well as sample material having to be produced. On the other hand, many of the brand customers work with more than one provider, so these tests have already been made. Also, as the collection changes in an important way from one season to another, it is implied that these homologations in the laboratory have been selected on a regular basis, consequently the cost exists already for those who want a Jeans producer to switch occasionally from one supplier to another.

In conclusion, based on our view during the interviews we believe that the cost for a customer to switch the denim fabric provider is relatively low. In conclusion, our analysis revealed that despite the fact that Alpha-Denim has a good level of product differentiation, this one is not sufficient to have a strong attribute of uniqueness that could be perceived by the customer as so important and of rare value that it will create loyalty. The main reason is that the market is hypercompetitive, and the offer of high premium quality of denim fabric is abundant in the market. Also, the cost of switching doesn’t appear to be high, which increase the hypercompetition context between denim producers. However, a special service such as flexibility, or the capability to attend very small orders appears to be an attribute that sustains a certain degree of loyalty among small brand customers, who are in the majority characterized by the Premium brand. However, the importance of these customers is small compared to the productive capacity of Alpha-Denim to sustain by them a strategy of differentiation.
Consequently, we conclude that the proposition EXP4 is partially confirmed.

**Low price customer sensitivity:** As stated in the literature review, we identified that customers should give sufficient importance to attributes other than price to sustain a pure differentiation strategic approach. We will now verify if the empirical evidence of the case study selected confirm or deny the following proposition:

Proposition EXP5: importance to attribute other than price given by customers is a necessary precondition to sustain a pure differentiation strategic approach.

As defined by Euromonitor, the market is structured into Economy, Standard, Premium and Super-Premium Jeanswear segments. We will consider for this analysis the Premium and Super-Premium Jeanswear which corresponds to the target segments of a differentiation denim manufacturing player. Premium and Super-Premium brands such as G-Star, Diesel and Jaeger are characterized by high quality, sophisticated and fashioned Jeanswear. The average price for a Premium Jeanswear start from €70, and a Super-Premium Jeanswear from €150. Premium brand customers that attend the Premium and Super-Premium Jeanswear consumers are very low or not sensitive to price, because they give much more importance to other product attributes such as quality, appearance and fabric innovation. One of the most important attributes for them is to be capable of making denim fabric aligned with the fashion trends that they are planning to use in their collection. Such alignment requires a research of the latest fashion trends from Alpha-Denim’s marketing department and also a close relationship with the R&D department, and with the product designers of the Jeanswear brand customers. Also, service attributes are extremely relevant such as being capable of attending very small and unplanned orders. An Alpha-Denim commercial manager describes the price sensitivity of these Premium brand customers as following:

Well, they are not price sensitive. Honestly, not at all. No, because they market their products at a very high price, if you want, they give
very low importance to our price. In general, they don't buy the
denim fabric. They buy finished jeans that they saw in our collection.
Sometimes one of them asks about the price, but you see, there is no
need for negotiation: it is me that impose my prices. Very rarely one
premium brand customer will say: Hey, could you make a better
price? it is expected to be very rare.

As described in this testimonial, for these types of customers the sales team of Alpha-
Denim do not simply present a catalogue with sample of fabrics, but they show an
entire collection of finished Jeanswear with different styles, cuts, and washings. A
unique denim fabric could create many finished Jeanswear products depending on the
type of washing that the fabric receives. Alpha-Denim salespersons are trained to
demonstrate the full range of possibilities that a fabric could enable. Then a Premium
brand customer could plan its collection based on the sample collection that Alpha-
Denim developed as a sales catalogue for each specific season.

However, Premium brand customers are not completely isolated from price volatility,
as reported by Euromonitor on the study of Denim market in 2011 where the Super-
Premium brand seemed to be affected by the economic downturn in Europe.

...Conversely, Western Europe will see unit price falling, which may
suggest a shift away from the strong interest in Super-Premium and
towards Premium jeans, which might be perceived as better value.

In conclusion, the Premium brand customer segment is usually low-price sensitive and
used to giving importance to attributes such as quality, design, pre-sales consulting
and services. Despite that, in certain economic conditions part of the segment tends to
be more price sensitive. We conclude that the proposition EXP4 is positively verified
for the Premium segment, but partially confirmed as the extent of the market low price
sensitivity does not give sufficient support to sustain a pure differentiation strategy.
2) Congruence analysis of the exogenous preconditions for differentiation

**Ability to read customer needs:** As stated in the literature review, we identified that a minimum ability in reading customer needs is a necessary precondition to sustain a pure differentiation strategic approach. We will now verify if the empirical evidence of the case study selected confirm or deny the following proposition:

Proposition EDP1: the ability to read customer needs is a necessary precondition to sustain a pure differentiation strategic approach.

During the interviews, we identified some evidence that Alpha-Denim are strongly oriented to the market and developed an ability to read the needs of its customer and to stay connected to them. The main departments with a central role in reading the needs of customers are: marketing, sales, research & development and quality. Marketing has the role to identify the needs of the different customer segments, understanding the trends of the different type of consumers and their consumption behaviour, and preference of Jeanswear consumption. This market research and trends are usually used in conventions and sales meeting where salespersons present the project of the new collection to the product R&D department of the customers. Then Alpha-Denim receives confirmation of an intention of order of new denim fabrics or suggestions of modification or new products. After that, the R&D department collects all the feedback and inputs and develops the new collection.

Interaction with the customer to read and understand their needs also happens on a daily basis, and in this case the sales department has an important role to continuously read the evolution of preferences of the customers. Salespersons collect feedback and demands from them as reported by one of the sales managers that expressed the need to be constantly connected to the customer in a very competitive and dynamic market:

…We got feedback. You know, we have customers that come to tell you: are you going to develop a product like that? Or, have you a product like this? Maybe that one my Turkish competitors would have it, and we will have it only in the next season, or two seasons
after and the product will be already dead. In this business, you have to be very connected to the market.

This feedback is compiled by the salespersons once a month and a meeting with R&D and the sales team are settled to evaluate these demands and decide new product launches. Despite that, the cycle of product innovation is defined four times a year corresponding to one collection for each important season (Summer, Fall, Winter and Spring), the market has been very dynamic mainly because of the level of rivalry and the volatility of demand, that Alpha-Denim has been introducing punctually intermediate product launches between collections to respond more effectively to the dynamism of the needs of customers. The marketing director describes in this testimonial how the collaboration with the R&D team is:

…We attend systematically the product development meetings. Each month we have meetings with the R&D product team. Our role is to bring the view of the market and the inputs of our customers to the R&D team.

Consequently, this constant reading of the needs of the customer by the sales department and alignment with the R&D allow an effective response in terms to introduce the right product with the right timing as it is described by one of the commercial managers:

…I believe that this new product is very current, because it is very stretched and that responds to the demand, to the market. This is a product specifically for women. We are in a good timing. We get the product that the market wants at the right moment.

Consequently, we conclude that the proposition EDP1 is confirmed.
Ability to sustain superior price: As stated in the literature review, we identified that a minimum ability in sustaining superior price is a necessary precondition to sustain a pure differentiation strategic approach. We will now verify if the empirical evidence of the case study selected confirm or deny the following proposition:

Proposition EDP2: the ability to sustain superior price is a necessary precondition to sustain a pure differentiation strategic approach.

During the interviews, we identified two ways of sustaining superior price corresponding to a superior value delivered, being the product and customer segment perspective.

Sustaining superior price through product segmentation: As it has been seen before, the quality of a denim fabric product could be analysed through two dimensions: the complexity of the fabric structure, and the complexity of the finishing process that the fabric receives. Based on a company document of product category analysis (Commercial_Diagnostic_Europe_V6.pdf - slide 16), the fabric structure dimension is defined by three levels of complexity: fabric composed by threads of 100% of cotton, heavier and less dense in construction, called 100% cotton fabric; fabric composed by a structure of cotton and elastane threads, called stretch fabric: the greater is the share of elastane in the composition, the greater is the capacity of the fabric to be stretched; fabric composed by threads of cotton, elastane and eventually polyester, but of better quality, lighter and denser in construction, presenting a more delicate and sophisticated fabric of denim called Couture.

The finishing dimension is defined by two categories of finishing process: the fabric that received no finishing or very basic finishing process, and the fabric that received a special finishing process such as special resins, such as the one that imitates a leather appearance or the one composed by bio-organic elements with physiological properties. Then the most basic denim fabric product is the one with a 100% cotton structure and with a basic finishing process, and the most sophisticated and complex
denim fabric is one with a Couture structure that received a special finishing process.
In 2012, the average unitary cost of the most basic group of denim fabric was €3.95 per metre of fabric, while the most sophisticated group of denim fabric was €4.24 per metre. The average selling price of the most basic group of denim fabric was €4.32 per metre, while the average selling price of the most sophisticated denim fabric was €5.15. As we can see, the difference of cost between the most basic and most sophisticated denim fabric group was 7%, while the difference in price was 19%, demonstrating that Alpha-Denim is capable of sustaining a superior relative price on the most sophisticated group of products. This capacity of sustaining superior price allows them to make double the average gross margin (18%) on the more sophisticated group in comparison to the most basic group (9%).

**Sustaining superior price through customer segmentation:** The other approach that Alpha-Denim has been using to sustain superior price is by the segmentation of customers. Alpha-Denim has segmented its customers into three distinct groups: Customers of high volume, normally characterized by more Popular Jeanswear brands and Fast fashion retailers that demand mainly basic fabric product at a low price and normally attend the Economy Jeanswear segment of consumers; Intermediate Jeanswear customer brands of intermediate volume that require a certain degree of product sophistication at a competitive price and normally attend the Standard Jeanswear segment of consumers; and the customer composed of Premium brand less sensitive to price, which requires highly sophisticated and differentiated denim fabric and attends in most cases the Premium and Super-Premium Jeanswear segment of consumers.

In 2012, 20% of the Alpha-Denim customers were from the Popular Jeanswear brand and Fast fashion retailers and accounted for 78% of the turnover with an average price of €4.40 per denim fabric metre, while the Premium brand customer segment represented 50% of the total customers and accounted for 6% of the firm’s turnover with an average price of €4.71, which resulted in a gross margin of 17% for the Premium brand customer segment, compared to 10% gross margin for the more Popular brand and Fast fashion retailers segment. Despite that, the Premium customer segment is less representative in turnover, having a share of 10% in the gross margin of the firm. Sustaining a higher price in the Premium segment is achieved by delivering superior value to these customers, which is a composition of a high quality...
differentiated product offer to service such as flexibility (attending small size order) and reactivity (attending unplanned orders on a short delivery time). Alpha-Denim charges a superior price by the level of sophistication of the product and by the level of service delivered: the policy of price takes into account the level of product sophistication, the latest product and also order size and on demand orders.

Consequently, we conclude that the proposition EDP2 is confirmed.

**Ability to manage drivers of uniqueness:** As stated in the literature review, we identified that a minimum ability in identifying, selecting and renewing the uniqueness of the offer is a necessary precondition to sustain a pure differentiation strategic approach. We will now verify if the empirical evidence of the case study selected confirm or deny the following propositions:

Proposition EDP3: It is a necessary condition for a firm to sustain a differentiation strategic approach, to have the ability to identify, select, develop and renew activities that deliver the characteristics of uniqueness of the differentiation offer.

As already stated, the firm creates differentiation by two ways: unique attributes of product and service. For the unique attributes of product, Alpha-Denim is constantly researching and developing new types of denim fabric. As we have seen there are two dimensions that could be explored to create product differentiation: the fabric structure, mostly defined by thread technology, and the finishing process which is based on the application of resins on the fabric with specific compositions for aesthetic and functional purposes. However, after the interviews, and as we already have seen, differentiation of product has a limited effect and doesn’t guarantee exclusivity due to many other competitors that have the capacity to create products with similar characteristics or equivalent effects. For this reason, it is necessary to constantly renew the product differentiation, and this is done by the continuous work of the R&D department composed of 20 specialists that research and experiment new types of denim fabric. Strategic alliances with suppliers of technological threads and chemical
components, also in the development of new products, are a valuable source of renewing the uniqueness of the product offer.

On the service side, as noted, Alpha-Denim has two attributes that bring a certain degree of uniqueness, which are the flexibility and reactivity capability. These services as we have seen are well explored and also priced, and bring a certain degree of uniqueness to the global offer. However, the creation of new and unique services is more difficult in the European market. In fact, two other options that Alpha-Denim could explore are offering consulting services on the pre-sales and post-sales. Consulting services on pre-sales are characterized by offering fashion and design consulting to help customers create their collection. Consulting services on post-sales are characterized by offering knowledge and techniques on the washing process of the denim fabric. These two consulting services are well explored by the business unit of Alpha-Denim of South America, where customers recognize and need such services. However, due to the high level of maturity and specialization of the European Jeanswear market, most of the Alpha-Denim customers are specialized in fashion trends and design, and use specialized consulting firms for innovation in washing techniques.

Consequently, we conclude that the proposition EDP3 is confirmed.

**Ability to align the firm’s value chain to customer:** As stated in the literature review, we identified that a minimum ability in aligning the firm’s value chain to customers is a necessary precondition to sustain a pure differentiation strategic approach. We will now verify if the empirical evidence of the case study selected confirm or deny the following proposition:

Proposition EDP4: the ability to align strategic activities of the value chain with the customer is a necessary precondition to sustain a pure differentiation strategic approach.

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26 Source: Galeazzi Diagnostic commercial Brazil - 2013.
As we have seen previously, Alpha-Denim developed the ability in reading customer needs that allow launching the right product with the right timing. However, this is not a sufficient condition. To be capable of attending the customers’ needs the value chain of the firm needs to be aligned with this demand. Departments such as sales, R&D, quality, planning and production should be capable of receiving the inputs of the demand and to attend it efficiently.

As already mentioned, the sales department has an important role in reading the demand on a daily basis and after consolidating it to pass this information to the R&D department. For this, the sales department has a salesperson located in each important market. The importance of having a local and native salesperson that shares the same culture and business context of the local customers are regarded as fundamental for this alignment by the marketing director as follows:

…Our salespeople are fully independent. They work from different countries and manage their markets from A to Z, and come to the headquarters very punctually. Then, effectively, we are totally decentralized, that allows having people from each country’s culture that live in the country and live with their clients.

The R&D department has a central role in this alignment, as they are responsible for acquiring the information directly from the customer by frequent meetings with the customer’s R&D team, but also from the sales department, and to translate into product that could be produced efficiently by the manufacturing department. For that reason, the R&D and manufacturing team work together in a very close relationship testing the prototype of the new product, to reach the necessary standard of quality and objective cost for the success of the commercialization.

Consequently, the alignment of the manufacturing department to attend the specific needs of each customer segment is a clear strategic direction that should prevail over the manufacturing policies of efficiency optimization by simplifying and standardizing the productive processes. This message is clearly expressed in this passage extracted
from an interview with the CEO where he was explaining the need to better attend the North European market that presents distinct needs.

…My message now is that we need to break with the manufacturing policy and we need to focus on the market. If the North European market has specific characteristics, then we need to adapt our product for this market. Or we need to start a process of development of a specific product line, that will complicate the plant, complicate the quality, without no doubt, but, at the end, what we need to do is to attend this market. And we will solve internally how to attend it.

Consequently, we conclude that the proposition EDP4 is confirmed.

C) Identifying the components of the pure low-cost strategy theory

The main aim of a pure low-cost strategic approach is to achieve one of the lowest costs of the industry. When the firm reaches the lowest cost, it achieves a cost leadership position (Porter, 1985). However, many scholars have demonstrated that there is no unique low-cost position in an industry and that several players could achieve equivalent cost position (Murray, 1988). Consequently, we will consider in this study a firm that adopts a pure low-cost strategy as one that competes by attempting to achieve one of the lowest costs of the industry. As stated by Porter (1985), a firm that pursues a low-cost strategy typically has a broad scope, serves many segments of the industry and tends to commercialize basic standard products with limited functionalities that normally attend the great majority of basic needs. A firm that pursues a low-cost strategy tends to exploit all possible sources of cost advantage including, tight cost control, extremely low overheads, cost reduction through economy of scale, scope, learning effects and preferential access to raw materials, process technology and distribution channels. Consequently, the core concept of the theory of a pure low-cost strategic approach should be:
Core Concept – CC: a firm adopts a pure low-cost strategic approach when it has made the choice to compete exclusively on the capability to attain and maintain one of the lowest overall costs of its industry.

This core concept is accompanied by a series of peripheral concepts that complement and give consistence to the theory. These peripheral concepts could be separated into exogenous and endogenous requirements for sustaining the consistence of the pure low-cost strategy theory.

1) Exogenous requirements for a low-cost strategic approach

We identified five exogenous preconditions in the literature for a firm to sustain a pure low-cost strategy:

- A high price customer sensitivity;
- Preconditions for economies of scale;
- Preconditions for economies of scope;
- Preconditions for economies due to learning effect;
- Preferential access to inputs, distribution channels and process technology.

**High price customer sensitivity**: Conversely from the customers of a differentiation strategic approach that used to give importance to attributes other than price, in a low-cost approach, customers tend to give minimal weight for functional and quality attributes and give all the importance to price. Consequently, low-cost players tend to deliver minimalistic value propositions in products very low priced (Porter, 1980b, 1985). This minimalistic offer approach is in line with the low-cost strategy that focuses on achieving the lowest possible cost. In fact, a simpler offer allows achieving low-cost through the elimination of added value attributes that have a minor weight for the customer perception, but also by standardization and simplification of manufacturing process, as simpler products are easier to produce (Porter, 1985). Murray (1988) highlighted the relevance of the high price customer sensitivity for the success of a low-cost strategic approach, however it emphasized that it is a necessary
but not a sufficient condition for adopting a low-cost position. Consequently, we state
the following proposition as a necessary condition for sustaining a pure low-cost
strategic approach:

Proposition EXP1: high price sensitivity characterized by customers
that give most importance to price compared to other product
attributes is a necessary precondition to sustain a pure low-cost
strategic approach.

Preconditions for economies of scale: Economies of scale have been reported as one
of the major durable basis for a low-cost strategic approach (Porter, 1980b, 1985; Hill,
1988; Murray, 1988; Grant, 2016). Economies of scale are achieved when unitary cost
is reduced while output volume increases. According to Grant (2016), economies of
scale arise from three principal sources: technical input-output relationships,
indivisibilities and specializations. Technical input-output relationships correspond to
gain of productivity related to an increased volume, where output increase is greater
than input increase. Indivisibilities correspond to resources and activities that do not
vary while output varies and their cost could be spread over the larger volume of
output, reducing the average unitary cost. Specialization corresponds to a greater
division of labour avoiding time loss from switching activities, increasing efficiency
through learning, and greater mechanization and automation. Additionally, Hill (1988)
highlights that economies of scale could be at the plant or firm level.

Besanko et al. (2009) describe that in a wide range of industries, when volume
increases the average unitary cost is reduced until it reaches the Minimum Efficiency
Scale level (MES), where beyond, increasing volume does not bring significant
additional cost reduction or in certain cases the increase in complexity associated to
the larger output volume could bring diseconomy of scale. Additionally, Porter
(1980b, 1985) highlights that the pursuit of economies of scale of a low-cost firm is
associated with an important relative market share in comparison to competitors, in
order to use the lowest cost associated to a higher output volume as a competitive
advantage. However, because in most industries the MES level is relatively low (Hill,
1988), it is expected that many competitors achieve equivalent gains of economies of
scale from a certain level of market share. Consequently, a precondition to sustain a low-cost strategy based on economies of scale is that the firm’s industry should be characterized by a high level of minimum efficiency scale, represented by an important relative market share compared with competitors. Theoretically, as Murray (1988) explains, in this condition the MES level should be represented by a market share superior to half of the total market to guarantee the lowest possible cost based on economy of scale for the low-cost firm that achieved this position. Therefore, we state the following proposition for adopting a pure low-cost strategic approach:

Proposition EXP2: The Minimum Efficiency Scale level of a firm’s industry should demand a high relative market share to allow a relevant cost advantage in pursuing a pure low-cost approach.

**Preconditions for economies of scope:** Economies of scope refer to increasing the variety of products sharing the same infrastructure of resources (Besanko *et al.*, 2009). Sharing the same set of resources and assets allows creating additional value without a corresponding additional cost (Hill, 1988; Grant, 2016). In a case study of the German automotive industry, Proff (2000) demonstrates how Volkswagen has simplified its platform technology to reduce cost, sharing several brand vehicles through a reduced number of platforms allowing cost reduction by reducing technological diversity and component parts. Conversely, if the firm needs additional facilities, equipment, know-how to introduce new varieties of product, then economies of scope are not viable because the new product line will bring additional costs. Usually it is expected that there will be an occurrence of an important increase in the overall cost, as new frameworks of resources and assets increase the managerial complexity and would demand additional overheads and specialists. Consequently, we deduced that a precondition for achieving economies of scope for a low-cost positioned firm is to be capable of producing a variety of products sharing the great majority of its existing framework of resources and assets. We state the following proposition as a precondition for sustaining a pure low-cost approach:
Proposition EXP3: the firm’s industry should allow a high degree of economies of scope through resources and assets sharing across product lines to sustain a pure low-cost strategic approach.

**Preconditions for economies due to learning effect:** Economies from learning effect have been reported as one of the basis for sustaining a low-cost strategic approach (Porter, 1985; Murray, 1988; Hill, 1988; Grant, 2016). The learning curve, also called the experience curve, refers to a reduction of average cost with the accumulated amount of production over time. Because repeated routines and tasks allow workers to learn, with accumulated knowledge and know-how, those workers acquire experience that result in an improvement of the process and better prediction of variability of manufacturing processes, resulting in fewer errors and gain of quality and efficiency. The learning curve is not restricted to operation and manufacturing activities and should be extended to R&D, sales and marketing activities as well (Besanko et al., 2009). Hill (1988) identified two requirements that could reduce or enhance the effect of the learning curve on cost reduction: these are the age and complexity of the process. Learning effects tend to be greater in new processes not well established in the industry and in complex processes. Evidence reported by Hill (1988) suggests that learning effects are greatest during the start-up period associated with a new plant or process. Conversely, learning effects decline or die out with the maturity of the process. Additionally, Hill (1988) declares that learning effects will be insignificant no matter how complex is the process, if this has been long established in the industry. Therefore, we state the following proposition as a precondition for sustaining a pure low-cost approach:

Proposition EXP4: a firm should exploit learning effect through sufficiently new and complex processes to sustain a pure low-cost strategic approach.

**Preferential access to inputs, distribution channels and process technology:** preferential access has been pointed out as another important basis for sustaining a
low-cost strategic approach (Porter, 1980b, 1985; Hill, 1988; Murray, 1988; Grant, 2016). Preferential access could be of three main types: preferential access to inputs, distribution channels and process technology. Preferential access to inputs refers generally to an exclusive access to a raw material, or to an exclusive purchase price condition with suppliers. Porter (1985) highlights the importance for a low-cost player to enhance bargaining leverage through purchasing policies. Preferential access to distribution channels refers to an exclusive access to suppliers, sales channels and operational locations. Porter (1985) highlights the importance of controlling location that could bring reduced labour rates, logistical efficiency and supplier access. Finally, preferential access of process technology refers to the access of new types of productive technological equipment and processes that could enhance productivity and reduce cost. The cost advantage that a preferential access brings should in a certain way be controlled and restricted, otherwise other players having the same preferential access will reach an equivalent gain of cost and the advantage will be nullified (Murray, 1988). Therefore, we state the following proposition as a precondition for sustaining a pure low-cost approach:

Proposition EXP5: a firm should exploit cost reduction through preferential access to raw materials, distribution channels and process technology to sustain a pure low-cost strategic approach.

2) Endogenous requirements for a low-cost strategic approach

We identified four endogenous preconditions in the literature for the feasibility of a pure low-cost strategy, and are related to the competency of the firm to reach and maintain an overall low-cost:

- Ability to simplify the offer;
- Ability in reducing cost through management;
- Ability in optimizing capacity utilization;
- Ability in managing cost drivers through the firm’s value chain.
**Ability to simplify the offer:** a low-cost strategic approach is not based exclusively on the construction of efficient-scale facilities, vigorous pursuit of cost reduction through experience and tight cost and overhead control, but it is also based in offering a certain value to a customer that gives more importance to price than other attributes. Consequently, the low-cost firm should develop an ability in identifying and removing from its offer the set of attributes that are less relevant for the customer in exchange for offering a lower price. Porter (1980b, 1985) describes the concept of offering simple products with “no-frills” and highlights examples of successful low-cost players. The design of the product should take into account simplifying the manufacturing in order to maintain a lower cost and ease the gain from economies of scale, scope and learning effect. Therefore, we state the following proposition as a precondition for sustaining a pure low-cost approach:

Proposition EDP1: a firm should have developed the ability to identify less relevant attributes and simplified to the limit of the acceptable product quality in order to offer one of the lowest costs and sustain a pure low-cost strategic approach.

**Ability to implement a cost oriented management culture:** As we have seen in the exogenous proposition statements, to sustain a low-cost strategic approach it is necessary that the firm’s industry allows preconditions that enable economies of scale, scope, learning effect and preferential access. However, these economies of cost would only be possible if the firm has the managerial skills to exploit such advantages. Murray (1988) refers to these skills as quality of management of the low-cost player. Additionally, as stated by Porter (1980b; 1985), successful low-cost players develop a culture of tight cost control policies that result in maintaining a minimum necessary overhead structure. Therefore, we state the following proposition as a precondition for sustaining a pure low-cost approach:

Proposition EDP2: a firm should have developed abilities in maintaining a low-cost through managerial initiatives of operational
efficiency by having developed a culture of tight expenses control policies in order to sustain a pure low-cost strategic approach.

**Ability to optimize capacity utilization:** As described by Porter (1985), capacity utilization, which is distinct from economies of scale, refers to the ability of the firm to optimize a pre-established manufacturing capacity plan with output. Grant (2016) describes the importance of the ability of optimizing capacity utilization in cyclical industries that present high variations of demand. Also, the ability in anticipating capacity plant adjustments in a turbulent environment, such as recessive economies marked by important shortfalls in demands is highlighted by Grant (2016) as a strategic competency for a low-cost player. Therefore, we state the following proposition as a precondition for sustaining a pure low-cost approach:

Proposition EDP3: a firm should have developed abilities of optimizing capacity utilization in order to sustain a pure low-cost strategic approach.

**Ability to manage cost drivers through the firm’s value chain:** As described by Porter (1985), a low-cost player should have developed a set of skills in managing the cost driver through its value chain to be able to pursue a low-cost strategic approach. Among several skills described by Porter (1985), we retain the most important which are: ability in identifying the main activities and drivers that mostly influence the overall cost through the value chain; ability in allocating and measuring the cost associated to these activities, and ability in identifying the linkages that exist between activities across the value chain and influence the cost. Therefore, we state the following proposition as a precondition for sustaining a pure low-cost approach:

Proposition EDP4: a firm should have developed managerial skills of identifying central activities, drivers, linkage that influence mostly the overall cost in order to sustain a pure low-cost strategic approach.
Formulation of the theory of a pure low-cost strategic approach

Theory (PLCSA) = CC *

[exp1*exp2*exp3*exp4*exp5] * [edp1*edp2*edp3*edp4]

D) Congruence analysis of the pure low-cost strategic approach theory to the selected case study

Congruence analysis of the endogenous preconditions for low-cost

**High price customer sensitivity**: As stated in the literature review, we identified that customers should mainly give importance to price over other product attributes in order to sustain a pure low-cost strategic approach. We will now verify if the empirical evidence of the case study selected confirm or deny the following proposition:

Proposition EXP1: high price sensitivity characterized by customers that give most importance to price compared to other product attributes is a necessary precondition to sustain a pure low-cost strategic approach.

As already explained before, the European Jeanswear market is divided into four segments: Economy Jeanswear, Standard Jeanswear, Premium Jeanswear and Super-Premium Jeanswear. We will consider for this analysis the Economy and Standard Jeanswear which corresponds to the target segments of a low-cost Denim manufacturer player.

Economy Jeanswear products are located at the bottom end of the price range, which include private labels and unbranded products sold through grocery, mixed retailers
and Fast fashion retailers such as Primark (UK), Kik (Germany) and Kiabi (France). Standard Jeanswear products are represented by Intermediate or Medium brands. These are usually the most Popular Jeanswear brands with price positioning between economy and premium such as Levi’s, Wrangler and Lee.

Customers that attend mainly the Economy Jeanswear segment, mostly Fast fashion retailers, are exclusively price sensitive: they require the minimum standard quality and give importance only for low price. The testimonial of one of the commercial managers exemplifies this situation very well:

…Our Fast fashion customers, they think only in low price. Apparently, they make very medium quality jeans because the only thing that matters is the price. They will not value our proposition because they don't consider in saying to themselves: Hey! Let’s buy this denim fabric from Alpha-Denim because it is a better product, because is in the fashion trend and we will sell it!

On the other hand, Medium brand customers that attend the Standard jeans segment tend to present equilibrium behaviour between price and other product attributes. They also have basic products that compete with the higher range of the Economy Jeanswear segment and products that compete with the lower range of the Premium segment, consequently they need quality and a differentiated product at a competitive price. An Alpha-Denim commercial manager describes these customers as following:

…Here you get a mix of price and product attributes. They are less price sensitive compared to the Fast fashion retailers and they give more importance to other product attributes. …In their collection, they always have a low-price product, consequently price will be important, but most of their products are focused to differentiate themselves from the Fast fashion retailers.
Alpha-Denim has developed a specific line of product for those Fast fashion customers that are essentially price sensitive, offering a more basic, lower priced quality. Additionally, Alpha-Denim offers old and out-of-season Premium denim fabric to the Standard Premium customer in order to offer quality at a lower price.

In conclusion, we can consider that there are two customer segments with characteristics of high price sensitivity: The Fast fashion customer segment gives importance only to price and demands very basic products with a threshold quality level; the Medium brand customer segment that combines a demand of quality and a certain degree of differentiation, and demand more basic, lower priced denim fabrics for their lower range products. As they compete directly with the Fast fashion customers, they are also very pricing sensitive. Customer price sensitivity as an existing precondition is positively confirmed, however, sustaining a strategy only based on low priced products for these segments does not appear to be a reasonable strategy as the firm will enter into a price war with Asian competitors, which have a better capacity to lower their price. Consequently, we conclude that proposition EXP1 is partially confirmed.

**Preconditions for economies of scale:** As stated in the literature review, we identified that a firm’s industry should demand a high minimum efficiency scale size in order to achieve a cost advantage and sustain a pure low-cost strategic approach. We will now verify if the empirical evidence of the case study selected confirm or deny the following proposition:

Proposition EXP2: The minimum efficiency scale level of a firm’s industry should demand a high relative market share to allow the firm an important cost advantage in pursuing a pure low-cost approach.

At the plant level, the minimum efficient scale (MES) defines the plant size necessary to reach the optimum point of output and average unitary cost. A study reported by Hill (1988), on the comparison of MES through different industries in the US illustrates the necessary size of market share to reach the MES level. Some industries
require important market share to reach the MES level, while others require very small market share. For example, the Refrigerator industry requires a market share of 14% and the Tobacco industry requires a market share of 6.5% to reach the MES level. Conversely, others industries require very small market share to reach the MES level, such as the Glass Bottles with 1.5% and the Bearings industry with 1.4%. The Textile fabrics industry requires the smallest market share of the study, only 0.2% to reach the MES level, demonstrating that many players could reach equivalence of scale economies in the Textile industry. Additionally, the increase in cost at 1/3 of the MES corresponds to 7.6%, a relative low increase, considering that it could be compensated by other types of gain such as having a smaller overheads structure and expenses with the reduced size. Considering this, Alpha-Denim has a relative important production share of 7% in comparison to their local competitors, demonstrating that in the regional competitive landscape Alpha-Denim should probably have reached equivalent cost advantage related to economies of scale effect.

Additionally, the cost structure of Alpha-Denim reveals a small share of fixed cost. In fact, considering the production cost without depreciation, variable cost composed by materials, energies and direct labour force account for 89% of total cost, while fixed cost composed by indirect labour work force, maintenance and other plant administrative expenses account for 11% of total cost.\(^{27}\) If volume increases, the spread of fixed costs would have a small effect on the total cost reduction because they are less relevant. On the other hand, variable costs are mainly composed by materials, electric and oil energies, which account for 80% of total cost.

There are two reasons why variable costs will not bring relevant economies of scale as volume increases: first, because most of them are composed by commodities such as cotton, the prices of which are defined by the market and vary mostly by the rules of offer and demand, and other external factors. In these conditions, the volatility of commodities could nullify any gain of cost reduction acquired through better purchase price negotiation with the increased output volume. In fact, if we look at the international cotton price index we can observe a history of high volatility.\(^ {28}\) If we consider the recent history, the international cotton price reached 211 cents/lb in March

\(^{27}\) Extracted from Analysis of profitability and cost Alpha-Denim Europe – 1st semester of 2013

\(^{28}\) NYMEX Cotton price index 2006-2014 – tradingeconomics.com
of 2011, whereas it was below 50 cents/lb in March 2009. Commodity price variations are usually transferred to the sales price by textile manufacturers, however in a recessive market such as the European Jeanswear market, this transfer of commodities cost volatility to sales price is more difficult to execute as customers are more price sensitive. Consequently, textile manufacturers often have to absorb an increase of cost due to commodity price increases, reducing their profit margin. In conclusion, any important impact in cotton variation that accounts for 32% of total cost could override any gain through scale of economy due to increase in productivity. Second, due to its relative important purchase volume and by the fact that most important commodities such as cotton are purchased together with other business units of the group, Alpha-Denim should have already reached optimum purchase prices through negotiation using its bargaining power with suppliers. Then, additional gains through bargaining power due to an increased output of volume should be less relevant.

Specialization through a higher labour division as stated in the literature is another source of economies of scale, however due to its existing high production volume, Alpha-Denim already have a high level of labour specialization. Workers at the plant level are specialized by department such as wiring, weaving, finishing, inbound and outbound logistics, production planning and maintenance. Also, workers are specialized by process in each department. For example, nine processes compose the wiring department where workers are specialized in the main tasks of each process (opening - 3 workers, teasels - 6w, dressing – 6w, rover - 15w, cv ring - 18w, open ring – 3w, reel – 18w, wires vaporizers – 3w, rubber calendering – 18w).

Consequently, increased volume input will increase the direct labour force in the plant, but an increase in the labour force should be less relevant as the plant already presents a high degree of specialization.

At the firm level, economies of scale should also be less relevant as fixed expenses such as marketing expenses; general expenses and overheads structure have a small share compared to the total cost of production. Marketing expenses account for 1.5% of net revenue, while overheads structure and administrative expenses account for 8% of net revenue. Using data from a main competitor of Alpha-Denim that accounts for

29 Extracted from Alpha-Denim - Corporate Diagnostic 21-05-2013 slides 21 to 48.
30 Extracted from Alpha-Denim - Corporate Diagnostic 21-05-2013 slides 825 to 842.
a production volume 2.8 times greater than Alpha-Denim, we can observe that general administrative expenses and overheads structure account for 10% of net revenue, revealing that a higher output volume also involves a correspondingly higher increase in fixed expenses due to the increased complexity of management related to the output volume increase. Finally, the important share of the depreciation cost of Alpha-Denim that accounts for 15% of total cost, reveals important investments that have been made in recent years in new and modern machinery and technological upgrades, such as weaving and finishing processes, demonstrating that possible gains through technological efficiency have already been captured.

In conclusion, the pursuit of a pure low-cost strategy by Alpha-Denim based on economies of scale does not appear to be a reasonable strategy because of three main reasons: firstly, as we have demonstrated, in the textile industry it is relatively easy to attain the MES level which brings equivalence of economies of scale among several competitors that have captured a minimum market share level. Several local competitors such as Isko, TRC Candiani, Orta and Bossa should have reached such a minimum MES level considering their important level of production. Secondly, at the plant level, as fixed costs have a small share in total cost the gain of cost reduction through spread of fixed costs while output volume increase will be small. Thirdly, variable costs, which are mainly composed by commodities, will not be significantly reduced while outputs increase, because gains based on bargaining power on purchase price inputs have already been captured, and that commodities material has a high share in total cost, the price of which are dictated by external factors. Additionally, an historically high volatility of commodities material such as cotton could nullify any gain coming from economies of scale based on purchase price reduction while output volume increases. Finally, at the firm level, gains coming from cost reduction related to spread of marketing and administrative expenses are less representative, and examples from an efficient competitor do not demonstrate such gains while output increases, on the contrary, it tends to demonstrate diseconomies of scale.

On the other hand, a pure low-cost strategy will involve an important capture of market share over local competitors but also over Asian imports. Such increases of share in a

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31 Bossa statement of income 2012
32 Alpha-Denim investments of Budget reports 2013 and 2014
recessive market will demand an important reduction of sales price that are already at a low level. Such a strategy does not seem to be possible as reduction in prices would be much more important than the gain in economies of scale, which as we have concluded should be at best very limited. Consequently, we conclude that there are no sufficient prerequisites to sustain a pure low-cost strategic approach based on economies of scale, and proposition EXP2 is not confirmed.

Preconditions for economies of scope: As stated in the literature review, we identified that a firm’s industry should allow a high degree of economies of scope in order to achieve a cost advantage and sustain a pure low-cost strategic approach. We will now verify if the empirical evidence of the case study selected confirm or deny the following proposition:

Proposition EXP3: the firm industry should allow a high degree of economies of scope through resources and assets sharing across product lines to sustain a pure low-cost strategic approach.

There are three strategic processes for a textile denim fabric manufacturer to explore economies of scope: the wiring, weaving and finishing processes. The wiring process consists in creating cotton yarns from cotton raw material, and creating multiple types of threads, mixing the cotton yarns to other types of threads such as elastane and polyester. Diversity in threads creation allows the production of a diversity of fabric structure that allows distinct properties of comfort wearing and also in visual aesthetics to Jeanswear apparels. The weaving process is the central process of a denim fabric manufacturing. Combining different types of threads allows creating different types of fabric structures, however each fabric structure demands a specific configuration of the production line due to the material, resistance and elasticity characteristics of each fabric. Finally, the finishing process consists in applying chemical treatments to the fabric to increase its resistance and flexibility or to give a specific aesthetical aspect.

Wiring and weaving are considered the less automated and more complex processes, while the finishing process requires higher automation and less complexity. In the
wiring process, each type of thread demands a final line specialized to it, and increases the risk of contamination, a crucial key factor of quality. Also, the weaving process demands an important setup cost, as each time that an article that has a different fabric structure is introduced in production, several hours are necessary to setup the hundreds of threads to the weaving machines’ comb.

Finally, the finishing process, made by fully-automated machines, consists in preparing a mixture of chemical substances and filling the machine tanks for the desired application on the fabric. Each process allows economies of scope; however, the cost of setup and complexity of the wiring and weaving processes are very high, consequently a product line characterized by a high diversity of types of threads and fabric structures will significantly increase the firm’s total cost. A firm that pursues a pure low-cost strategy should drastically reduce the diversity of threads and fabric structures in order to simplify the complexity and reduce the number of setups in costly processes. Then economies of scope could be reached by having fewer threads and fabric structures and a diversity of finishing type. However, oversimplifying the types of threads and fabric structure could significantly reduce the product differentiation and innovation capacity of the firm. In such a situation, the firm should be restricted to customers that give less importance to quality and differentiation attributes and more sensitive to price.

In conclusion, we deduce that the industry characteristics enable significant economies of scope, however to pursue such economy would restrict the firm to offer more basic and simple products. We partially confirm the proposition EXP3.

**Preconditions for economies due to learning effect:** As stated in the literature review, we identified that a firm’s industry should allow the learning effect through sufficiently new and complex processes in order to achieve a cost advantage and sustain a pure low-cost strategic approach. We will now verify if the empirical evidence of the case study selected confirm or deny the following proposition:
Proposition EXP4: a firm should exploit the learning effect through sufficiently new and complex processes to sustain a pure low-cost strategic approach.

As explained above, at the plant level, the three main processes of wiring, weaving and finishing present a high degree of complexity, and depends on the acquisition of specific knowledge through learning mainly by practice. Wiring is specifically complex as the transformation of raw cotton material to cotton threads is complex, and depends on nine sub-processes, where the greatest risk is the contamination of threads by cotton material residuals in the air. Cotton contamination drastically affects the fabric quality and provokes an interruption of the process at the weaving and finishing stages for cleaning impurities in order to avoid visual imperfections. Reducing contamination depends on a series of process adaptations for isolating sub-processes and depends mostly on the care of workers during the process management.

Weaving is also a very complex process and despite the fact that the weaving machines have a high level of automation, the setup step is completely manual and depends fundamentally on workers’ skills and experiences. A manager of the weaving process reported that it is necessary for a worker to have at least 4 to 6 months training in order to learn how to setup a weaving machine correctly. Because thread coils are composed by hundreds of threads, it is a distinctive ability to be capable of connecting these threads correctly to the weaving machine without crossing line and giving the right tension to the thread to avoid breaks during production. Weaving machines depend also on a complex fine-tuning to optimize efficiency and to avoid breaks of threads.

Finally, the finishing process is the less complex as machines are fully automated and the setup step is simpler and quicker. Setup processes of finishing machines consist in the mixture of chemical substance following pre-defined recipes, and in choosing pre-programmed machine configurations. Despite the high complexity of the wiring and weaving process, these are very old processes in the textile industry, and today are not strong sources for cost advantage through the learning effect. All Alpha-Denim’s competitors that have several dozens of years of practice should have acquired the knowledge of these processes. Finishing processes are much more recent in the history of Denim fabric manufacturing. However, the process could be considered low
complex due to the simplicity and automated level of the machines. Consequently, we conclude that the core process of the denim fabric industry does not present sufficient preconditions for sustaining a pure low-cost approach based on learning effect, and that proposition EXP4 is not confirmed.

**Preferential access to inputs, distribution channels and process technology:** As stated in the literature review, we identified that a firm should exploit cost reduction through preferential access in order to achieve a cost advantage and sustain a pure low-cost strategic approach. We will now verify if the empirical evidence of the case study selected confirm or deny the following proposition:

**Proposition EXP5:** a firm should exploit cost reduction through preferential access to raw materials, distribution channels and process technology to sustain a pure low-cost strategic approach.

We will analyse the preferential access that Alpha-Denim might have developed or could develop in order to achieve a low cost.

**Preferential access to labour force:** preferential access to labour force could bring an advantage in cost through a cheaper labour wage, or by the access of a specialized workforce that reduces the cost of training and learning curve associated to turnover rate. Alpha-Denim decided in the 1990s to transfer its manufacturing plant from Europe to Morocco in order to have access to a cheaper labour wage. Consequently, Alpha-Denim has a cost advantage over Denim Manufacturers that remain in Western Europe where labour wages are much higher. This is the case of TRC Candiani that maintains all its manufacturing activity in Italy and consequently has been suffering with higher costs, as reported by a manager of Alpha-Denim. Alpha-Denim also has a labour cost advantage over Turkish competitors, however the Turkish competitors have the advantage of being inside a larger textile economy, a textile cluster in Turkey that receives incentives and investments from the government. Consequently, the Turkish competitors have access to a more prepared and specialized workforce,
reducing its learning curve and training investment for labour turnover. Despite this, Alpha-Denim as a Western European firm and Turkish denim manufacturers cannot compete on labour cost with imports of Asian manufacture that have access to a much cheaper labour cost.

**Preferential access to inputs:** preferential access to input for a firm that pursues a low-cost strategy refers mainly to have access to cheaper raw materials than competitors. As we have seen, materials are responsible for an important part of Alpha-Denim’s cost (64% of total cost without depreciation). Despite that, Alpha-Denim has an important production volume, and centralizes some buying of raw materials such as cotton with other business units in order to increase bargaining power, cost advantage on raw material are marginal, because main raw materials are considered commodities and follow the price dictated by market conditions. Asian competitors probably have the better preferential access to raw material such as cotton, as Asian countries represent the highest production of cotton in the world. China represents 24% and India 22% of the world cotton production. Such preferential access should give a cost advantage at least by reducing logistic cost due to the proximity of the production source.

**Preferential access to technology process:** preferential access to technology process could bring cost reduction through acquiring equipment or productive practices that increase efficiency. In the textile industry, every Denim manufacturer has access to machine and technological suppliers, however, government programmes that incentivize investment in technology could favour some competitors. This is the case with Turkish textile manufacturers that receive fiscal incentives if investments in new technology are made.

In conclusion, preferential access to a cheaper labour workforce and raw materials such as cotton are mainly valuable for Asian competitors and have a limited effect for sustaining low-cost for local Denim manufacturers. Consequently, we conclude that

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33 2011 – Tradingeconomies.com
preferential access does not provide sufficiently strong support for Alpha-Denim to adopt a pure low-cost strategy approach and that proposition EXP5 is not confirmed.

2) Congruence analysis of the endogenous preconditions for low-cost

**Ability to simplify the offer:** As stated in the literature review, we identified that a firm should have developed the ability to simplify its offer in order to sustain a pure low-cost strategic approach. We will now verify if the empirical evidence of the case study selected confirm or deny the following proposition:

Proposition EDP1: a firm should have developed the ability to identify less relevant attributes and simplify to the limit of the acceptable product quality in order to offer one of the lowest costs and sustain a pure low-cost strategic approach.

During the interviews with the top management team we identified three main practices that reveal ability in simplifying the offer in order to achieve a product low-cost and that gives sufficient support to confirm the proposition EDP1.

**Offering a basic product:** As we have seen before, Alpha-Denim offers a variety of products where product added values depend on the complexity of two-dimension scopes: fabric structure and fabric finishing. Alpha-Denim launched a product line oriented to the Economy Jeanswear segment in order to capture sales from the upper price range of the Fast fashion brand customer, and the lower range price of medium brand customers from the Standard Jeanswear segment. These products are mainly composed by 100% cotton threads with a simple and cheaper finishing process. However, the cost difference of 7% is small in comparison to the most sophisticated and expensive fabric produced by Alpha-Denim.

**Reducing product complexity:** Alpha-Denim’s managers are constantly looking for opportunities to reduce product complexity and quality in order to lower cost, increase
competitiveness and profitability. Most recently, they have substituted outsourced expensive technological threads with internal manufacturing threads. This change of threads significantly reduced the cost of certain products and allowed setting a more competitive price. Change of threads represented a reduction of fabric structure quality, however loss of quality perception by customers was minimized by offering a more competitive price and redirecting this offer to specific customers who were more price sensitive.

**Extending the product life cycle:** The life of certain products has been extended by offering these products to Fast fashion customers, whereas new product launches are offered to Premium Brand customers. Minor modifications of quality and aspect are made, and then products are renamed and offered to Fast fashion at a lower price. As the cost of R&D and the initial higher cost of production has already been amortized in the beginning of the product’s life, these products normally have a relatively lower cost compared with new launches and can accept a lower price. On the other hand, Fast fashion customers have access to more sophisticated denim fabric that corresponds to their upper price range Jeanswear.

**Ability to implement a cost oriented management culture:** As stated in the literature review, we identified that a firm should have developed abilities in reducing cost through management practice in order to sustain a pure low-cost strategic approach. We will now verify if the empirical evidence of the case study selected confirm or deny the following proposition:

Proposition EDP2: a firm should have developed abilities in maintaining a low-cost through managerial initiative of operational efficiency as in having developed a culture of tight expenses control policies in order to sustain a pure low-cost strategic approach.

**Maintaining a lean organizational structure:** Due to historical economic downturns and disruptive situations, such as long periods of falling demand, Alpha-Denim’s top
management has learned how to maintain a lean organizational structure. This ability was acquired with experience, and has been regarded as a key survival point in a turbulent environment as the firm’s CEO testifies, who explains that this ability in maintaining a lean organizational structure was not present at the beginning and had to be learned:

…Because in 2005 we begin to get smaller, but we maintained the structure. We started to reduce production, but we remained with the same overhead; thus, at the end, the fixed costs were strangling the company. Our level of sales was reduced, but we continued to have the same structure. At the beginning of 2007-2008 we started a process of six years of reducing the structure to the size that we have now. This is a key component for the firm nowadays.

All possible “organizational fat” corresponding to margin of slack was eliminated in preference to the rigors of operating at maximum efficiency. In this testimonial, the CEO describes having reached the limit of a lean structure where he evaluates the need to reinforce the structure for adding new competencies:

…But we have reached the level of our competencies. We have reduced so many people, that some of the problems that we have now is a deficiency of knowledge, because many seniors quitted the firm with the restructuring process, and now we have reached a limit where we need to recover some skills. To remain with some premium customers such as Diesel, we need to incorporate more elements of control, analysis, industrial rigor, and that means more people.

In summary, during the interviews it was clear that the top management has learned how to maintain the structure at the minimum level with the maximum efficiency, and to know exactly what corresponding value an increase in the structure will bring.
Continuous operational efficiency improvement: In order to maintain its competitiveness, the firm continuously undertakes initiatives of cost reduction and operational efficiency improvement. Cost reduction and operational efficiency improvement started more intensively after 2005, when competition increased significantly with the entry of the Asian import products. However, the firm has a history of important initiatives such as delocalization of the plant from Western Europe to North Africa in the 1990s in order to have access to a lower labour wage. We extracted from several firms’ documents a list of the last important efficiency improvement and cost reduction initiatives:

Between the periods of 2010-2012 the firm undertook important efficiency improvement and cost reduction initiatives such as:

- Implementation of a strategic planning process of supply chain that has as its main objective the integration of several value chain activities such as: sales forecasting, supplies, inbound logistics, inventory, production planning, quality control and outbound logistics; in order to improve lead time, total cost, working capital, flexibility and reactivity.

- Implementation of a strategic sourcing management model that allowed a cost reduction of 9% on categories such as energy, oil, threads & fibres, indigo, chemicals, facilities, transport and general expenses.
In 2013 the firm undertook an important restructuring project which brought results such as:

- Reduction of indirect cost of plant structure in order to reach the benchmark of one indirect worker for every three direct workers on the plant. Indirect structure plant was reduced by 13%.
- Reduction of production cost by manufacturing internally technological threads that used to be outsourced. The cost of external threads & fibres was reduced by 49% contributing to a reduction of total cost of 14%.
- A reduction of overheads structure of 53% where the overheads structure passed from a share of 19% of the total firm’s headcount to 10%.

**Cost control as a corporate culture:** During the interviews with the top management, it was clear that each manager gives careful attention to cost and expenses control. The value produced by each activity and employee is very clear in the mind of the executive members. This culture of “no-frills” and lean structure are well described by the marketing director when he describes the use of an organic structure where employees are more independent, but also where they have less support and have to be multitasking:

…Because you could have a very low cost by using an organic structure as you reduce also general expenses associated with the structure. We do not have the culture of heavy hierarchical structure. We only have two levels of management, so it is a very lean structure with low expenses where people are more independent and manage everything from A to Z, without needing a heavy structure with them. Finally, I think to have a very lean structure is a crucial point.

In summary, we conclude that there is sufficient support to confirm that the firm has developed a cost oriented culture and that the proposition EDP2 is confirmed.
**Ability to optimize capacity utilization:** As stated in the literature review, we identified that a firm should have developed an ability of optimizing capacity utilization in order to sustain a pure low-cost strategic approach. We will now verify if the empirical evidence of the case study selected confirm or deny the following proposition:

Proposition EDP3: a firm should have developed abilities in optimizing capacity utilization in order to sustain a pure low-cost strategic approach.

During the interviews with the managers, capacity utilization appeared as a central subject to the firm’s profitability and survival. Due to the high volatility of the market, where a sudden fall in sales could occur, it is necessary to have contingent strategies to optimize the plant capacity that represent a constant fixed cost. In this case, the direct workers of the plant should be considered as a fixed cost as you cannot fire and contract employees in the short term. Electric energy could also be considered as fixed in the short term, as it is contracted in bulk mode for a certain period, representing a fixed cost whatever, if it is used or not. Consequently, despite the high share of materials that could be considered a variable cost, capacity utilization has an important impact on the cost. Based on an analysis of the monthly cost for the period 2013, we can observe that the variation of production drastically affected the total production cost: comparing the lowest volume month with the highest we can see that the cost increased by 33% in the month with the lowest volume. In this case we used a seasonality month where sales volume fell drastically and is four times lower than average.

One of the main strategies that the firm developed is to work with all the customer segments of the Jeanswear market, as the behaviour of these segments could be very different. Super-Premium, Premium and the Standard segment offer a better opportunity of profitability, however its customer demand is very uncertain and volatile. On the other hand, the Economy Jeanswear segment most characterized by Fast fashion retail chains used to be more stable and certain in demand, however profitability used to be very low. Capacity optimization demands a constant
assessment of the situation of the market and the utilization of the actual capacity as it is reported by the marketing director:

…We manage the orders placed for 2 or 3 months forward and according to the status of the orders already placed we will accept to enter this market or not depending if we are required to fulfil the plant or not. All of this considering the already low-cost customer share. This is a timely demand that provides an opportunity to optimize our production capacity.

An important integration between the commercial and industrial team are coordinated by the planning department that always tries to optimize plant capacity with profitability and working capital. In certain situations, the firm decides to not attend certain orders because of their very low profitability and increase their finished product stock for future demand. This ability demands a fine assessment of which product could be produced for stock in anticipation of an uncertain demand. In summary, we conclude that there is sufficient support to confirm that the firm has developed a competency in optimizing capacity utilization and that the proposition EDP3 is confirmed.

**Ability to manage cost drivers through the firm’s value chain:** As stated in the literature review, we identified that a firm should have developed an ability to manage cost drivers through the firm’s value chain in order to sustain a pure low-cost strategic approach. We will now verify if the empirical evidence of the case study selected confirm or deny the following proposition:

Proposition EDP4: a firm should have developed managerial skills of identifying central activities, drivers, linkage that influence mostly the overall cost in order to sustain a pure low-cost strategic approach.
Based on the interviews with the executives we identified several cost drivers of strategic relevance. Managers highlighted the importance in maintaining a simple production process, in optimizing capacity utilization, in optimizing the sourcing supplies, and in maintaining a lean overheads structure. Those drivers appeared to have a central role compared with other cost reductions and efficiency initiatives, demonstrating indirectly a correct ability in identifying relevant drivers of cost for the business. We will summarize the reason and managerial practice of each of these drivers:

Maintaining a simple production process: As explained before, the ringing and weaving manufacturing processes present great complexity and delicacy, and to be managed are highly dependent on human skill, knowledge and experience. Product mix that involves a higher variety of threads and fabric structure dramatically increases the complexity of the manufacturing process and the number of machine setups. Setup at the weaving process is particularly costly, as a weaving machine needs several hours to change the line production of an article. Managers pay particular attention to the relationship between the number of finished articles versus the number of fabric structures. The greater the number of finished articles per fabric structure type, the lower is the plant complexity, and the fewer are the number of machine setups which consequently reduces total cost of production and increases overall quality and reliability. The simplest plant processes allow the lowest level of error, increasing the overall quality of output and reducing the cost, by reducing the volume that needs to be sold with a high level of defect at a price below the production cost.

Optimizing capacity utilization: As we can see above, capacity utilization is particularly relevant for Alpha-Denim, since despite having a high share of variable costs in the short term of a production plan, the fixed costs effect is relevant because several variable costs cannot be quickly disengaged once planned and acquired. Optimizing capacity utilization seems to be at the heart of the Alpha-Denim strategic approach that uses a subtle mix of customer segment types to optimize the capacity utilization of the plant.
Maintaining a low cost of supplies: As material supplies such as cotton, chemicals, and also a third material such as threads and fibres represent the most important share of the cost, Alpha-Denim gives particular attention to maintain such costs under control. Some raw materials that are common to the business units are purchased together by a strategic sourcing team in order to increase bargaining power and have access to the best suppliers and opportunities. More recently, Alpha-Denim undertook a reduction of external threads, internalizing its production and dramatically reducing the total production cost.

Maintaining a lean structure: A flat hierarchy with decentralized decision-making and more independent employees that have a multi-tasking approach to work, was reported as a key strategic factor in maintaining an overall overheads low cost. Maintaining a lower cost of overheads revealed to be relevant due to the high volatility and uncertainty of the demand.

In summary, we conclude that there is sufficient support to confirm that the firm has developed an ability to identify, choose and manage cost drivers through its value chain and that the proposition EDP4 is confirmed.
E) Conclusion of the congruence analysis

The central objective of the congruence analysis was to verify the level of affinity that the two concurrent theories of differentiation and low-cost strategic approach have on the empirical case study of Alpha-Denim. For this, several constructs of each theoretical approach have been identified in the literature and confronted with empirical evidence of the case study to measure their congruence. The level of congruence was classified after an assessment based on logical reasoning, as confirmation, disconfirmation or partially confirmation. The constructs in the literature were grouped in exogenous preconditions, which correspond to external conditions of the firm, and in endogenous preconditions that correspond to internal conditions of the firm. The congruence of one theory over the other is strongly confirmed if all the endogenous and exogenous preconditions are confirmed and most of the endogenous and exogenous preconditions of the rival theory are denied.

Results of the congruence of the exogenous preconditions: In summary, both theoretical approaches of differentiation and low-cost demonstrated a low level of congruence with exogenous preconditions. On the differentiation strategic approach side, the combination of volatility, limited market size, limited growth and high levels of rivalry appear to be the central reason why Alpha-Denim cannot sustain a pure differentiation approach, however other important exogenous factors give little support. Product scope complexity which originally offers good support for differentiation due to the wide range of possibility of variation and innovation of threads, fabric structure and type of finishing processes are seriously undermined by the ease of imitation and an excess of similar offers from competitors who launch hundreds of new products every year.

The degree of diversity of consumer characteristics considered initially high due to an increase of segmentation of the Jeanswear market has more effect for Jeanswear brand customers as a source of differentiation than for Alpha-Denim, which is a fabric denim producer. For Alpha-Denim, the high diversity of consumption has a more limited effect as elements such as brand positioning, fit and design of jeans are mostly captured by Jeanswear Brands. Consequently, for Alpha-Denim, the high consumer diversity is mostly translated in new products, which we have seen is mostly undermined by
competition that has the capacity to quickly imitate and launch very similar products. Price sensitivity of the Premium Jeanswear segment customers is initially considered low as these customers give the most importance to other attributes such as product quality, innovation and services.

However, sustaining a pure differentiation approach on low price sensitivity is undermined by volatility, as during a period of economic downturn price sensitivity increases significantly, reducing the demand of the Super-Premium, Premium and also part of the Standard Jeanswear customers. Consequently, price sensitivity would give support on a very small part of the Premium segment. Customer loyalty gives little support for sustaining a differentiation approach because the strength of the uniqueness attributes of the product offer is undermined by the easiness of imitation by competitors. However, the capability in attending very small customer orders appears to be the strongest attribute of uniqueness for Alpha-Denim. Unfortunately, this attribute is valid for only a part of the Premium segment, and cannot give sufficient support for sustaining a differentiation approach as the demand is too small.

On the low-cost strategic approach side, high price sensitivity from customers is the main factor that supports a pure low-cost approach. However, this high sensitivity is mostly characterized by the economy and lower range product of Standard Jeanswear segments. Customers of this segment are mainly dominated by Fast fashion retailers that only give importance to price and very little importance to other product attributes such as quality and innovation. Consequently, this segment is dominated by Asian competitors that offer basic quality products for a very low price. Despite the precondition of customer high price sensitivity, it seems very improbable for Alpha-Denim to sustain a pure low-cost strategic approach serving mostly the Economy and low range Standard Jeanswear segments, due to competition with Asian low-cost competitors. Economies of scale that are usually one of the strongest supports for a low-cost approach was revealed as a very weak support, as the minimum efficiency scale in the textile industry is low and several competitors should have reached equivalent cost advantage due to economies of scale. Additionally, an analysis of Alpha-Denim’s cost structure revealed a very small share of fixed cost, reducing the effect of gain through spread of fixed cost while output increases. Variable cost, mostly composed by material commodities are mainly determined by external factors and
suffer from the influence of volatility reducing possible gain through better suppliers’ negotiation based on output increase.

At the firm level also, the low share of general expenses and comparison with competitor’s benchmark does not reveal gain of scale as output increases. At a first glance, economies of scope presented a strong support for a pure low-cost approach, however to achieve such economies of scope would force Alpha-Denim to drastically reduce the variety and complexity of product, pushing them into direct competition with Asian products in the Economy and Low Range Standard Jeanswear segments. Economies due to learning effect were revealed as a very weak support as despite a high process complexity, such processes are very mature and mostly dominated by several competitors in the industry. Finally, preferential access to inputs, channels and technology was not confirmed as a support for a pure low-cost approach mostly due to the fact that most local competitors have equivalent access and Asian competitors have better preferential access to a cheaper labour force and materials.

**Results of the congruence of the endogenous preconditions:** In contrast with the low level of congruence of the exogenous preconditions, both theoretical approaches of differentiation and low-cost demonstrated a high level of congruence with endogenous preconditions. On the differentiation strategic approach side, Alpha-Denim demonstrated solid competencies in differentiating its offer. Departments such as marketing, sales and R&D developed a strong ability in reading the customer needs and preferences, while R&D play a central role in the alignment of the firm to the customers. The combination of customer readiness and alignment results in having the right product, at the right time, for the right customer. In addition, Alpha-Denim demonstrates a clear ability in sustaining superior price through product and customer segmentation. Value-added product and Premium brand customer segmentation sustain important superior price that result in a higher gross margin in comparison to the Basic product and Popular-Medium customer segments. Additionally, Alpha-Denim demonstrates evidence of an important capability of creating uniqueness through product innovation and customer post sales service. Despite a huge effort in renewing drivers of uniqueness through product innovation, the effect of this uniqueness seems to be attenuated by equivalent offers from competitors. In addition, the effect of uniqueness through service differentiation seems to be stronger, a phenomenon of a mature market predicted by Murray (1988). Few competitors are
capable of offering a service such as flexibility and reactivity probably because of their complexity and daily base management attention. However, the scope and renewing possibilities of these services appear to be limited by market limitations.

On the low-cost strategic approach side, Alpha-Denim demonstrates strong competencies in achieving and maintaining a low-cost approach. Alpha-Denim demonstrated a well-developed ability in simplifying its offer in order to achieve a lower cost. Simplification of the offer is achieved through three different approaches: development of a specific line of product with more basic features, initiatives of product complexity reduction and extending the life of a mature product. Alpha-Denim demonstrates a particularly well-developed capability in optimizing capacity utilization that revealed to be strategic as demand is uncertain and volatile. A constant assessment of the status of demand and a close integration between different teams appear to be at the centre of this important competency. Alpha-Denim also demonstrates the ability in having implemented a cost oriented management culture. This culture is mainly defined by continuous initiatives of operational efficiency improvement in order to achieve and maintain a low cost. But also, the firm revealed a culture of lean structure with “no-frills” expenses. Maintaining a lean overheads structure demonstrated to be strategically relevant to maintain a low overall cost due to the uncertainty and volatile demand. Finally, Alpha-Denim demonstrates a solid ability in identifying, selecting and managing strategic cost drivers: we identified that Alpha-Denim give central attention in simplifying its offer, optimizing its capacity utilization, maintaining a simple manufacturing process and in achieving a very lean structure.

In conclusion, several external factors appear to be at the origin of the low congruence level of the exogenous preconditions for differentiation and low-cost. Uncertainty and volatility of demand associated with a high level of rivalry appear to have an important causal influence. Additionally, the levels of industry maturity, easiness of imitation as an absence of preconditions of economies of scale, learning effect and preferential access contributes significantly to this low level of congruence of the exogenous factors of both strategic approaches. Despite the low level of congruence of exogenous
preconditions, the analysis revealed a high level of congruence of endogenous preconditions for the differentiation as for the low-cost strategic approach, demonstrating that it is necessary for two theories to fully explain the case study. In the table below, we present a summary of the congruence analysis.
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<thead>
<tr>
<th>Exogenous Factors</th>
<th>Level of congruence of the pure differentiation strategic approach</th>
<th>Endogenous Factors</th>
<th>Level of congruence of the pure low-cost strategic approach</th>
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<tr>
<td></td>
<td>Size of customer target segment</td>
<td>Ability to read customer needs</td>
<td>High price customer sensitivity</td>
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<td></td>
<td>Level of product scope complexity</td>
<td>Ability to sustain superior price</td>
<td>Preconditions for economies of scale</td>
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<td></td>
<td>Level of customer characteristics diversity</td>
<td>Ability to manage drivers of uniqueness</td>
<td>Preconditions for economies of scope</td>
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<td></td>
<td>Level of customer loyalty</td>
<td>Ability to align the firm’s value chain to customer</td>
<td>Preconditions for economies due to learning effect</td>
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<tr>
<td></td>
<td>Low price customer sensitivity</td>
<td>Final assessment of endogenous analysis</td>
<td>Preferential access to inputs, channels and technology</td>
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<td></td>
<td>Ability to read customer needs</td>
<td>Ability to simplify the offer</td>
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<td></td>
<td>Ability to sustain superior price</td>
<td>Ability to implement a cost oriented management culture</td>
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<td>Ability to manage drivers of uniqueness</td>
<td>Ability to optimize capacity utilization</td>
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<td>Ability to align the firm’s value chain to customer</td>
<td>Ability to manage cost drivers through the firm’s value chain</td>
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<td>Final assessment of endogenous analysis</td>
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Conclusion of the congruence analysis on the “stuck-in-the-middle” and mixed strategic approach: As defined in the literature review, a “stuck-in-the-middle” strategic approach is characterized by a firm that neither choose differentiation nor low-cost approaches, consequently this firm did not develop strong competencies in differentiating its offer or in achieving a low-cost. Conversely, a firm that adopts a mixed strategic approach has a strong emphasis in differentiation and low-cost simultaneously, and consequently should have developed strong competencies in differentiating its offer and in achieving a low-cost. The results of the high level of congruence on both differentiation and low-cost endogenous preconditions seriously weaken that, while Alpha-Denim could have adopted a “stuck-in-the-middle” strategic approach and strongly support that it had adopted a mixed strategic approach.
Appendix 2 – A comprehensive storyline of a mixed strategy adoption

Introduction

Following the methodology of the causal process tracing (Collier, 2011; Blatter and Haverland, 2012), we will start our analysis by describing the storyline of relevant facts involving the strategic perspective of Alpha-Denim for the period 2005-2013 when a major event occurred and is related to the outcome in 2013 of the adoption of a mixed strategic approach by Alpha-Denim. In fact, a comprehensive storyline provides a deep understanding and helps to identify the key events and facts that were determinant to the outcome. During the storyline, we will present some evidence of “Smoking-Gun” types in order to ensure validity and robustness of the inferences presented. Then, supported by the evidence revealed through the storyline process we will proceed through the causal process tracing analysis (CPT) in the following chapters.

2005: The year that Alpha-Denim loses its low-cost position on the European Denim fabric market

We will start our CPT analysis from 2005 when a major event occurred in the European Jeanswear market. On 1st January 2005, the World Trade Organization (WTO), which is responsible for establishing trade rules between nations, removed the remaining quotas of textile product imports of the members of the General Agreement on Tariffs and Trade (GATT). The signature of the agreement was immediately followed by an invasion of Asian textile products into the European market that disruptively changed the business landscape. Prior to 2005, the quotas established by a previous round of GATT were around 18% of import products to be integrated into the European market (Based on 1990 trade).  

In this context the share of product imported from an Asian country was relatively low, and local players were in a relatively competitive equilibrium of supply and demand. At the time, Alpha-Denim had an important production of 26 million metres of denim fabric per year, and was one of the major denim producers in Europe. Positioned with a standard quality denim

fabric offered at a competitive price, Alpha-Denim used to be one of the preferential suppliers of major European customers such as Levi’s and Fast fashion retailers such as Zara. The CEO describes Alpha-Denim’s positioning in 2005 as following:

Fundamentally, we were a cost and operational efficiency company with limited differentiation. In a certain way, we were followers, but with a competitive position.

If Alpha-Denim was a much more low-cost player focused in maintaining a simple manufacturing process with few product innovations, then on the other hand other players such as the Italian Candiani were mainly focused in offering differentiated offers through unique types of denim fabrics and innovation. Despite not offering a differentiated product, Alpha-Denim was capable of sustaining a competitive position through a low-cost position as the CEO describes:

We were a company that had a good competence in managing resources. Low cost was achieved through operational efficiency and also through a lower labour cost of the plant located in Africa and Spain. In comparison with the Italian players we had a lower cost. We were more competitive.

European denim fabric producers were mainly focused in supplying regional demand as their products were not competitive in international markets mainly due to a higher labour cost in comparison to Asian manufacturers. The total elimination of quotas for imports was a disruptive event for local players as they were not prepared to face an aggressive invasion of standard quality Jeanswear pants from Asian manufacturers. Important Fast fashion retailer chains such as C&A and Zara, among others in the entry-level brand of the Standard Jeanswear segment redirected the great majority of their purchases to Asian imports, which presented a cheaper product for similar quality to the consumers. The event was described as an important disruption in the business environment as the CEO reported during interviews:
In 2005, the agreement of GATT was signed, which means the liberalization of imports, mainly textiles from Asia. That became the end of our local industry. The fact is that we were not any more competitive. Asian volume increased from 100 million jeans to reach 300 million jeans. Those additional 200 million came almost at once: that was 240 million of denim fabric metres produced less in Europe.

At the end of 2005 the chairman of the board released a very clear message to the shareholders regarding the severity of the situation for Alpha-Denim, as we can confirm from this passage below extracted from the annual report:

The textile sector has been specially punished by the effect of the massive invasion of Asian imports, mainly from China. The volume of these imports has passed all the acceptable limits, with pricing that characterizes a real dumping.

Finally, in his last paragraph of the message at the end of 2005, the chairman described a new competitive landscape for the next ten years that would demand an important change of positioning from Alpha-Denim:

We must keep in mind that some emerging countries have the capacity to manufacture very competitive basic fabrics: in 2005, the share of Chinese denim apparel imports almost tripled. And if we consider that in 2015, the same country will be responsible for 25% of consumption of luxury goods in the world, we need to understand that the map of protagonists’ countries not only of production but consumption will change. We have therefore to reposition.
In summary, the disruptive invasion of the low-cost Asian imports completely eliminated the competitive advantage that Alpha-Denim had in the European market. Alpha-Denim, like other similar European players, was more affected than the Italian European denim fabrics producers positioned as differentiation, because it used to be the regional basic denim fabric supplier. Asian low-cost products had a very similar quality in comparison to Alpha-Denim’s product, but were offered at a very low price. During the interviews, the CEO describes the loss of competitiveness as following:

We had a very competitive cost, with big volume and very well located, with several plants in Europe and Africa. We had a good moment. However, since 2005, our cost positioning vanished. Our volume was reduced and consequently our cost increased, and we lost our competitive advantage.

2006-2010: The period where Alpha-Denim was pursuing differentiation in order to survive

At the end of 2005, the chairman of the board expressed the need to reposition the firm, mainly looking for ways of differentiating Alpha-Denim’s offer in relation to the Asian low-cost value proposition. Two directives for differentiation were focused on: increase of product innovation and increase of customer focus for the Premium brand Jeanswear segment through a segmented offer of products and services. The chairman describes the future direction as following:

Production flexibility and quick response will be key to the future of this market. Manufacturers must be able to offer an immediate response to customer demands, which require more than before, an offer of differentiated products of high quality in smaller lots… The cost of adaptation involves the development of differentiated products and the ability of the manufacturing structure to allow a greater diversity of fabric types, responding in advance to what
customers will demand. We will have to be capable of previously to integrate with the fashion designers of these companies, in order to generate new products. That will be the responsiveness ability of the tissue maker that will insure its survival on the market.

At the end of 2006, the chairman of the board announced the new mission and positioning to the shareholders and market, as we can testify from an extract of the annual 2006 report:

Mission: Produce and sell high-quality, innovative fabrics and provide a specialized speed-to-market service for the products of denim around the world.

However, without its low-cost competitive advantage, and unable to switch quickly to a differentiation position, Alpha-Denim was forced to reduce in the short term its manufacturing capacity and overhead structure in order to fit the production capacity and firm size to a new market reality, as is reported by the chairman in the annual 2006 report:

At the same time, we had to implement an extensive restructuring of our production platforms, shutting down the Alginet unit (Valencia, Spain) and the industrial activities of the textile business for household, as well as significantly reduce the headcount due to the shrinking of the weaving mill in Navarres (Valencia, Spain), as well as in the overall structure.

The period of 2006-2010 was a time where the firm made an enormous effort in increasing its differentiation seeking for a position in the upper level Standard and Premium Jeanswear segment. For this the firm undertook several initiatives to increase the level of the uniqueness of its offer. In 2006 the firm made important investment in
new equipment, mainly at the finishing process, with the objective of increasing its product differentiation. Inherited from its low-cost positioning, Alpha-Denim had at the time a plant focused on the production of a huge volume of basic finishing and quality denim fabric mainly based on the indigo colour with few possibilities for product differentiation. As the chairman of the board described in its new strategy directives, the ability to juggle a diversity of variety of demands that involve diverse finishing processes was perceived for the first time as a key success factor to recover competitive advantage:

The Company is present in this region with its plant in Settat, Morocco, which has been receiving investments for modernization and expansion. This unit favours Alpha-Denim compared with other European producers’ due to more competitive cost.

The markets were segmenting and the products should respond to different demands, consequently spinning, weaving and dyeing manufacturing processes were experiencing changes due to finishing aspects that customers wanted to obtain. Finishing processes that incorporate soft touch and brightness to the fabrics are increasingly well appreciated among consumers who since the end of the 20th century look first of all for the differentiation. Also, the market starts to work with new materials and with lighter fabrics. All this results in the emergence of a multitude of variants in the garments, such as faded, broken and used, stamped... a world of variety where until a decade ago was dominated by the uniformity.

In fact, before the 21st century basic coloured indigo fabric with very standard quality mainly dominated the Jeanswear market. Since 2000, a diversity of threads and material innovation appeared in the world, in a certain way as a response to the growth of the Asian producer of Basic Jeanswear, and also promoted by Premium brands that wanted to improve the Jeanswear as a Premium fashion apparel. However, since the beginning of the 21st century, Alpha-Denim preferred to concentrate on simple products, with a very simple manufacturing process and avoided increasing
complexity with new types of technological threads and finishing processes. Italian and Turkish denim fabric manufacturers then started to position themselves as more sophisticated and value aggregated denim manufacturers.

For example, the Italian denim fabric producer TRC Candiani, focused on the Premium production of high quality denim fabric following the vintage indigo blue jeans tradition highly regarded by the Italian Premium brand such as Diesel. Additionally, since the beginning of the 21st century some Turkish producers, such as Isko, invested in new manufacturing equipment to create new types of threads and finishing processes in order to create new types of technological fabrics, mainly with the idea of creating Jeanswear with a stretch property and new visual aspects. On the other hand, Alpha-Denim was part of the group of denim fabric producers that preferred to concentrate in what they were good at: producing large volumes of Basic Standard denim fabric mainly composed of simple cotton threads with standard finishing processes. When Alpha-Denim decided to turn and focus all its efforts to differentiation by the end of 2005, we have to consider that several regional players were already well positioned in the Premium market occupying several distinct positions of differentiation.

Alpha-Denim also invested in renewing faster its product offers. For this it increased the number of collections launched per year to accelerate the introduction of new unique products as the CEO reported in 2006:

Both the Denim lines as well as the Sportswear Flats now have four collections per year, instead of the two traditional ones of summer and winter, in order to offer new intermediate options to the garment makers. This way Alpha-Denim meets the market’s need for speed and dynamism, offering greater frequency of new products.

This increase of agility associated to an increase of product complexity was supported by initiatives of improvement undertaken by the entire supply chain as reported by the CEO in 2006:
Various projects to increase productivity and improve performance are being carried out, which covers the entire supply chain, in order to consolidate the innovative, superior image of excellence in the services provided, flexibility, and agility in meeting the continuous and growing market demands.

In 2007-2008, the firm continued to improve its differentiation strategy, launching new technological products. Important investments in new equipment at the finishing process in the previous year allowed them to create differentiation through uniqueness of the colour of the Denim fabric as it is described by the CEO in the annual reports of 2008:

In order to meet this challenge, we now have the new installations in Morocco working at full production. The new dyeing line is one of the most complete and versatile in the world and allows products to be produced with colours and shades that are hard for competitors to copy. Colour is the soul of denim and, therefore a key element for the brands when deciding which product to use for a specific garment.

Another source of differentiation with a high degree of uniqueness is the integration of Alpha-Denim’s R&D team with the product design team of key Italian Premium customers, that allowed developing the product together and ensuring a high degree of uniqueness for Alpha-Denim. Also, the high premium limited edition was another way of offering a product with a high degree of uniqueness for a few Premium customers as described by the CEO in the annual reports of 2008:

Italy, with a well-established Premium brand industry, remains the main European market for Alpha-Denim. Our R&D team works closely with the country's leading brands and therefore helps to develop differentiated items. We are known for our Vintage collection and for high performance fabrics. …In addition, and to
consolidate its image on the market, Alpha-Denim has launched the new Vision collection with top-of-the-range items. Special mention should be made of the Shuttle Denim launch, made using old shuttle looms and what could be called “Special Edition” denim.

However, in 2007, Alpha-Denim took the initiative to launch two product lines oriented to the Basic low-priced Jeanswear segment. The central idea was to capture a share in the entry-level Standard segment and Fast fashion retailers in order to guarantee a certain volume of production. In fact, economic recession in Europe associated to the commoditization of the market provoked by the Asian competition brought uncertainty in the demand of the Premium market. Alpha-Denim established those lines as a complementary strategy to its main differentiation strategy in the Premium segment, as the CEO reported during interviews:

Alpha-Denim’s Sensation product line is Premium, the objective of the company, positioned in brands, is the main and fundamental strategy. But in 2007 we set Alpha-Denim’s Basic product line at the beginning as an instrument to sell to the low-priced markets... But in the process of market degradation as a result of imports… we create a new line Sound of Thunder, which is cheaper, more price aggressive… I mean, we had three segmentations: Premium, as an essential objective; Alpha-Denim Basic product line... and Sound of Thunder, with a clear focus on fast-fashion or low-prices customers.

2006-2010: The period that the Premium Jeanswear market turned into a turbulent environment

In addition to the disruption in the Jeanswear market provoked by the invasion of low-cost product, several others factors were contributing to turn the Premium Jeanswear market into a turbulent environment marked by a high demand volatility, hypercompetition, low growth and consequently very uncertain. In fact, the economic situation of the European market had been characterized by a general recession and a
very stagnant demand. From 2005 to 2015 the quarterly GDP rate of the Euro area has been systematically under or near 1% of growth with several long periods of negative growth rate. Also, this economic stagnation was characterized by a recessive period with a decrease of GDP as it was during the period 2008-2010, where the GDP reached -3%, and the period from 2011-2013.

![Euro Area GDP Growth Rate](http://www.tradingeconomics.com/euro-area/gdp-growth)

Figure Ai– Quarterly evolution of the Euro area GDP rate in %. 2005-2015

(Source: http://www.tradingeconomics.com/euro-area/gdp-growth)

Additionally, the economic recession had a direct impact on consumer confidence since GDP has a direct impact on the jobless rate. Consequently, the fear of unemployment alters the confidence of the consumer in the economy and its stability on their job, which could trigger a reaction of reducing consumption in order to preserve resources in case of unemployment. The economic recession and uncertainty has an amplified negative effect on consumer confidence, which tends to be more pessimistic, at least in the Euro area. As we can see in the below graph, for the period 2005-2015, the confidence index has been constantly below zero, meaning that the consumer systematically lacked confidence about the future of the economic situation. We can observe a direct correlation in periods of negative growth of GDP such as from
2008 to 2010 where the confidence index reaches -35, the lowest index of confidence over the period, also coinciding with the lower GDP rate.

Figure Aii – Evolution of consumer confidence in the Euro area from 2005-2015. The Consumer ESI measures consumer confidence on a scale of -100 to 100, where -100 indicates extreme lack of confidence, 0 neutrality and 100 extreme confidence


A low level of consumer confidence directly affects the level of consumption in two ways: reduction of consumption and migration to low-priced products due to higher price sensitivity. As we have already reviewed in previous analysis, the Premium Jeanswear segment is more affected by demand volatility, mainly because in a recessive economic period, consumers tend to switch their purchases to cheaper products, as we can testify from this passage of the Euromonitor study:

Super-Premium jeans market is quite volatile as consumer spending on discretionary items suffers during difficult economic times. It is not easy to justify spending upwards of US$200 on a pair of jeans, however it can be viewed as a “special treat purchase”.
Conversely, Western Europe will see unit price falling, which may suggest a shift away from the strong interest in Super-Premium and towards Premium jeans, which might be perceived as better value.

Additionally, the general negative confidence during the period could be translated in a phenomenon of volatility of sales volume. In figure Aiii we can observe the high and low variation month to month over the period 2005-2015. As we can observe, retail sales have a high degree of volatility of sales, bringing a high degree of uncertainty for manufacturers, such as Alpha-Denim.

![EURO AREA RETAIL SALES MOM](http://www.tradingeconomics.com/euro-area/retail-sales)

Figure Aiii – Evolution of retail sales month to month (%) over the period of 2005-2015 in the Euro area. Source: [http://www.tradingeconomics.com/euro-area/retail-sales](http://www.tradingeconomics.com/euro-area/retail-sales)

The volatility of sales for the retail sector directly affects the orders to the manufacturers which in turn tend to be also very volatile. However, manufacturing production tends to be more planned, and when lacking sales orders from the retailers, the manufacturers tend to create stock to avoid the loss of resources already engaged in factories.
This business context of uncertainty of demand has been affecting the Jeanswear market as well, in particular the Premium segment which is more volatile than the Standard and Economy segment. In 2005, the Alpha-Denim CEO reported that in addition to the increase of competition from the Asian products, a recessive demand explained the loss of sales as we can confirm in this passage from the annual report:

To all joined a slight stagnation in the Consumer Goods garments made with denim, especially during the second semester of the year, so that the channel is saturated and the demand has retracted significantly… Alpha-Denim net sales were negatively affected by the situation of a saturated market due to massive Asian imports.

Periods of economic recession and shrinkage of demand have been very common since 2005, and in a more intensive way during the crisis of 2008-2009 as we can confirm in this paragraph extracted from the annual report of 2008:

Figure Aiv – Evolution of the monthly rate of manufacturing production year to year (%) over the period 2005-2015 in the Euro area. (Source: http://www.tradingeconomics.com/euro-area/manufacturing-production)
In this recession environment that we are all aware of, demand worldwide has fallen dramatically in nearly all sectors. Textiles has not remained untouched by this scenario, even though the impact of the crisis has been felt in different ways in different geographical areas… Things were gloomier in Europe and USA. In the first case, it was due to demand shrinking and the delay in the new installations in Morocco becoming operational.

The economic crisis continued to affect the activity of the firm during 2009, where the chairman clearly expressed a perception of uncertainty about the actual market situation related to a significant drop in consumption, amplified by a high level of competition, as we can testify from a paragraph extracted from the annual report of 2009:

The global financial crisis has hit some sectors very hard and ours has been particularly impacted by the effects of the liberalisation of markets, which has made it especially vulnerable. In this context, it is difficult to transmit positive messages, but it is in this very type of situation when companies began to show their real worth…. Turnover fell by 18.7% in 2009 compared to 2008 due to the sharp drop in consumption, the prevailing uncertainty and the sharp drop in the chain's inventories.

In addition to the increase of competition, the invasion of Asian low-cost imports had triggered an effect of commoditization of the Premium fashion brand. In fact, the Asian low-cost offer associated to a recessive market has been altering the behaviour of consumer consumption, switching their consumption to more basic and affordable Jeanswear. Consequently, to remain competitive, Jeanswear brands lowered their selling price in an effort to retain consumers. In this paragraph extracted from the annual report of 2005, we can testify clearly that the Asian imports affected the
Premium brand, referenced here as the “most important European brand” by the chairman of the board:

…Sales of the most important European brands have been equally affected by the turmoil of the market due to the massive entry of Asian Jeanswear pants…

In sequence, the chairman expresses the clear idea that the perception of superior value of the premium fashion Jeanswear has been seriously affected:

This situation has affected the totality of the European producers, although the solidity of the Denim Jeanswear as a fashion product…

In the paragraph extracted from the annual report of 2010, the chairman of Alpha-Denim reports an average price reduction of 10% due to the Asian competition of low-cost products on its target authentic market, an entry level of the Premium Jeanswear brand:

In relation to the Denim and flat market behaviour in the year, initially the main highlight is that the Denim market in general (and the European in particular) was characterized in the first nine months by the continued stiff competition of the importation of low-cost ready-made garments from Asia (India, Pakistan, Bangladesh, and mainly China). …The impacts were not only on the volume of sales, but the prices also dropped 10% in relation to the previous year.

…The year was not favourable for the European and American Denim producers, due to the continued competition with low-cost garments imported from Asia that not only affected the basic
segment, but also harmed the authentic segment, which only began to recuperate in the last months of the year.

The commoditization effect of the Denim Jeanswear comes also from the effect of the increase of the throwaway fashion culture. Despite the high durability of Jeanswear pants, the increase of competition and excess of offers in the market have shortened the product cycle. Consequently, new product launches are more and more frequent, introducing new designs and fashion trends. This high degree of product renovation forces consumers to renew their clothing more often, and consequently as the apparel is used less than before, consumers want to pay less for it as it doesn’t need to be of high quality and durable for a long time. A study of Euromonitor from 2011 on the Jeanswear global market describes this phenomenon as follows:

It appears that denim (despite its innate durability) was being priced as part of the “throw away” fashion culture, with unit prices falling over the entire review period.

This throwaway culture is also amplified by the increase of Fast fashion channels that offered low priced fashionable garments with a high degree of renovation such as Zara, as we can confirm in the passage below of the same Euromonitor study:

Rapid expansion of Fast fashion chains will further trigger volume growth as consumers will be more inclined to purchase trendy, low-priced jeans more often.

The phenomenon of Jeanswear commoditization is also amplified by a process of imitation of the washing process that gives the final aspect of the Jeanswear, mainly the vintage Italian aspect. An interview with a specialist of the Jeanswear sector explains that specialized laundry firms have been achieving similar effects of the Premium Jeanswear brand using Economy Jeans. Consequently, Fast fashion retailers
are able to offer the Premium Jeanswear appearance on basic Asian denim fabric, as we can confirm from this paragraph of the report:

Laundries throughout the world have invested heavily to improve their washing equipment and skills so that they could emulate the washes of the Premium brands. The fabric mills did the same. In addition, consumers’ disposable income fell. A result of these events were jeans that looked like Premium models appearing in stores such as Gap, American Eagle, H&M and Zara. Instead of using Italian, American or Japanese fabrics, these retailers sourced from Turkey, China or Morocco. And although they called their jeans “Premium,” the products were far from it.

Source: Apparel Insiders. What is a Premium Jean?
In addition, this practice has been used by online discount retailers that offer Premium Jeanswear at a cheaper price, as we can confirm from this passage of the Euromonitor study:

Another factor impacting the slowdown of Super-Premium jeans are online retailers. Websites such as Asos or Net-A-Porter are often selling Super-Premium jeans at a significant discount. As such, the consumers of Super-Premium jeans are purchasing it at a premium or sometimes standard price point.

In conclusion, the combined effects of a high degree of competition from Asian imports that offer very low-priced Jeanswear products at an equivalent quality of Standard ones, and the “throwaway” culture that forces a more frequent renewal of product, and the promotional initiatives of Fast fashion retailers and outlets, has been reducing the perceived premium value of the more sophisticated and value-added Jeanswear product, characterizing what we call a commoditization effect on the Premium segment.

Another effect triggered by the entry of the Asian low-cost products is the displacement of the Turkish denim producers that had at the time an important share of the Denim European market in the Standard and Economy Jeanswear segments, and the Premium segment. In fact, with the unbeatable Asian low-cost competitive advantage, the Turkish denim fabric manufacturers also moved to a differentiation approach with important investment in technological innovation. A report on competitiveness of the Turkish textile industry (EMIS report, 2013) revealed that the Turkish denim manufacturers followed a differentiation strategy in order to protect their share of the European market against the Asian competitors. This move increased the level of competition in the Premium segments, increasing the offer on an already volatile and recessive demand market:
With the recent removal of international trade barriers for China, the Turkish textile sector has started losing its labour cost advantage and in order to maintain its competitiveness, many local producers have moved toward new designs, fashions and quality labels, targeting higher income customers. The decision by the European Union to enter Free Trade Agreements with supplier countries for the sector, such as India and South Korea, is also affecting the local textile sector. In order to support international expansion, the Turkish government has launched the Turquality programme, which is designed to provide assistance in marketing, quality upgrade and strategic positioning.

2010-2011: The period that Alpha-Denim focused on a pure differentiation strategic approach

During the period 2005-2009 the performance of Alpha-Denim decreased significantly. From a sales volume of more than 26 million metres of denim fabric in 2004 with an EBITDA of 15%, this reduced to 13 million metres in 2009 where the firm’s operational performance resulted in an EBITDA of -15%. Despite this, the firm was investing heavily in a differentiation approach, the entry into the Premium segment being a hard and difficult task due to already well-established players in the market with highly sophisticated offers. Additionally, as we have seen, the Premium segment was a challenging market as it was characterised by low growth, an increase of rivalry and increase of demand volatility.
In 2010 the European Jeanswear market experienced a relative growth that brought hope for the company’s future. The Premium and Standard Jeanswear markets, which are the target markets of Alpha-Denim, increased by 9% from 132 to 144 million pairs of Jeanswear in relation to 2009 (Alpha-Denim’s market estimation – POPA 2012-2016.ppt). This improvement in demand resulted in an increase of sales for Alpha-Denim, and which apparently confirmed the right strategic direction in focusing on a differentiation strategic approach. The CEO of the company expressed the fact as a consolidation of the differentiation approach by Alpha-Denim, and defined this as a turning point for Alpha-Denim, expressing that the firm had found its way with the new positioning based on differentiation:

After a number of years defined by a global recession and the major restructuring of Alpha-Denim, 2010 signalled a clear turning point for the company, with a significant upturn in almost all our figures. Alpha-Denim posted record figures in both turnover and EBITDA in 2010, embarking upon a road to recovery that should be confirmed in business year 2011.

In fact, the central belief of Alpha-Denim’s top management for the survival of the firm in this hostile environment, is an increasing focus and specialization in product and service differentiation of denim fabrics. The CEO reports that creativity and demand anticipation as the central competences that Alpha-Denim’s team should


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<td>ni</td>
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<td>6.4</td>
<td>13.1</td>
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develop to achieve a more sophisticated product innovation, as we can testify in this extract from the annual statement of 2010:

Whereas last year we highlighted the commitment of the different areas that make up the company, as well as the thorough and detailed work each one of them had undertaken to implement a major internal reorganisation, this year we should like to focus on the importance of creativity and foresight as two of the main values that have accompanied the development of the collections presented in each one of the markets. From highly innovative products such as Denim Therapy, to new designs like the Denim Couture line, with a totally fresh approach to denim fabric, focusing on premium customers and fashion brands at the highest level, where the presence of denim fabrics is increasingly taking centre stage.

Consequently, Alpha-Denim invested heavily in sophisticated and highly added-value denim fabric collections. Alpha-Denim launched the Denim Therapy collection, which was at the time the most sophisticated product innovation ever made by the company. As a result of the new investments made in equipment at the finishing process, the R&D team was able to work with different materials to apply resin to the denim fabric in order to add aesthetical or functional properties. The Denim Therapy product line was focused on giving a sensation of comfort and well-being when wearing the Jeanswear. Alpha-Denim won an important prize for its innovation, demonstrating its capacity to create a unique product, as was reported by the CEO in the annual report of that year:

The magazine Actualidad Económica has awarded the collection Denim Therapy by Alpha-Denim a prize for being one of the most innovative launches in the fashion sector, as one of the awards given in the celebration of the ‘100 best ideas in 2010’. Alpha-Denim has received this prize for its Denim Therapy collection, a range of denim
fabrics that includes high-performance treatments that have beneficial effects upon the human body, especially regarding the feeling of wellbeing.

By the end of the year Alpha-Denim launched a second collection for 2011. We can consider it as one of the most differentiated denim fabrics ever made. It was composed of very tiny threads with a composition of cotton and elastane, weaved into an extremely dense and tight fabric structure. This delicate and sophisticated denim structure allows making a new variety of garments with a very sophisticated fashion aspect. We can consider with the launch of the denim Couture line that Alpha-Denim reached the status of being one of the best Premium denim fabric manufacturers in the world. The event was reported in the annual report of 2010 as following:

The Denim by PV Paris trade show was the setting chosen to launch the first collection of ‘Denim Couture by Alpha-Denim’ in December 2010. An exclusive collection of articles of the highest quality, with more sophisticated features, softer textures, refined structures and a careful choice of finishes and details. A clear commitment shown by Alpha-Denim to the development of highly differentiated fabrics that refreshes the traditional view of denim with new and more sophisticated options, which have been extremely well received by the market. Through the launch of the collection Denim Couture by Alpha-Denim, the company extends its commercial offer with designs targeting customers specialising in denim, as well as leading fashion brands. This is a collection that pays homage to the precepts of haute couture and its true ‘savoir faire’, recovering and adapting its same ideals to urban fashion.

The sales recovery of Alpha-Denim didn’t come exclusively by increases in market demand, but also through the market gap left by other local competitors that went bankrupt, or that had to significantly decrease their size due to financial difficulties,
which is a consequence of the excess of offers in relation to demand and saturation of the European market, as the CEO related in the next paragraph of the annual report of 2010:

In Europe, a recent increase in the demand for fashionable brands and the growth in our market share is due to the weakness of certain competitors which has boosted the recovery in sales.

In fact, the combination of a high level of rivalry and market saturation factors characterized a very hostile business environment where few players were capable of surviving. In this declaration of an interview with the marketing director, the European manufacturers that survived the crisis were already the ones focused on the Premium segment or the ones that had adapted their strategy such as Alpha-Denim:

More than half of local players died since 2004 in our business. For example, one of the most important Italian producers, Legler, went bankrupt. Two players in France perished very soon. Hellénique in Greece and Uquo in Belgium died last year. Most of the European manufacturers perished in the last ten years. Maybe 30% of the regional players survived. The only ones that stayed were the ones that were capable of adaptation or the ones that had a high premium positioning such as Candiani.

In 2010, Legler, one of the largest Italian manufacturers, was financially incapable to continue operating, and to avoid a total bankruptcy, sold its manufacturing installation to a Russian textile group (Legler reference). Additionally, Hellenic, the most important Greek denim manufacturer, was passing through a very difficult financial situation, and had to reduce its size significantly.

With the improvement of the market demand and the gap left by these competitors, Alpha-Denim was able to sell 18 million metres of denim fabrics, an important
recovery of sales volume in comparison to 2009 (+38%). Despite better sales and an overall better result in operational performance, the EBITDA persisted negative (-2%). Part of this negative performance resulted from a very high cost (€3.16) in relation to the selling price (€3.12), generating a negative gross margin (-1.2%), demonstrating that the focus on the product differentiation approach was too costly in comparison to the price that the average Alpha-Denim customer was willing to pay.

At the end of 2010, and despite the fact that the firm’s strategy still required adjustment to overcome the negative gross margin and negative EBITDA, the CEO expressed very clearly his belief and confidence in pursuing a pure differentiation strategic approach, in order to succeed and create competitive advantage against other competitors in the Premium market:

The future success of Alpha-Denim is now based on upholding a series of key aspects that set us apart from the rest of our competitors. These involve maintaining a focus on differentiated denim, being a leader in product and service innovation, having cost efficient and competitive production platforms that are close to the end market, meeting customers’ expectations in terms of speed and service, fine-tuning the structure of human and financial capital.

2011 was a year with a very slow growth. Alpha-Denim’s target markets increased 4%, from 144 to 150 million pairs of Jeanswear. Due to this difficult demand scenario and the continuous high level of rivalry, and in order to increase profitability and consolidate a position in the Premium market, the firm decided to reduce its production, focusing mainly on its Premium product line. In the annual report of 2011 the CEO confirmed the strong focus on highly differentiated denim fabrics as the central strategy of the firm, accompanied by a reduction of production capacity with an increase of profitability.
We have firmly committed the company to differentiated products with higher added value, restricting production to competitive locations closer to major customers and markets as a strategy for the future. We have fewer production plants but those we have are more profitable and we are already beginning to reap the benefits.

Despite the macroeconomic slowdown suffered in 2011, Alpha-Denim has continued to log positive growth rates. This revenue growth accompanied by a significant improvement in margins has reduced losses for the year by 36.6%. This overall improvement in the figures confirms the success of the strategy to concentrate on the more differentiated denim business, placing Alpha-Denim in an ideal position to face the challenges of coming financial years.

Moreover, analysing the key performance indicators from the statement income report of 2011 (Table AIV), we can confirm a reduction of more than 30% of sales volume, from 18 million metres to 15 million metres of denim fabric sold. Additionally, the firm presented a positive gross margin of 5.1%. Even though the average product cost increased 22.2% in relation to 2010, the firm was able to increase the share of the Premium product line to the Premium customers segment, which resulted in an increase of average sales price of 30.4% in relation to 2010. In fact, in Table AVI, we can confirm that the Premium product line was responsible for 84% of sales share, while the low-cost product line launched in 2007 was responsible for only 16% of sales share. We also can confirm that the average Premium product line price was 34% higher compared to the average low-cost product line.

In 2011, the relative success of the differentiation approach allowed Alpha-Denim to fill its plant capacity mainly with differentiated products for the Premium customer segment. Consequently, the firm decided to reduce the share of Alpha-Denim’s low-cost product line, cutting off important Fast fashion retailers that were pushing profitability down. In fact, that product line was launched as a contingency initiative in 2007 to guarantee a certain volume with low-priced customers and Fast fashion retailers, which were less profitable than the Premium brands. With the success of the
differentiation strategy the firm finally had the opportunity to fill its plant capacity with high value product, which allowed maximum profitability. Consequently, the firm decided to concentrate its production on a differentiation approach characterizing clearly the pursuit of a pure differentiation strategy, as the result of six years of efforts, investments and adjustments. Consequently, grounded on the belief of the success of the pure strategic differentiation approach, Alpha-Denim was projecting in its 2012 annual budget forecast an increase of share in the Premium segment, reaching a gross margin of 9.5% and EBITDA of 7.5% (Table AIV).

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Table AIV – Alpha-Denim Key Performance Indicators for 2010, 2011 and 2012B

Budget forecast
2012: The year where Alpha-Denim’s pure strategy differentiation approach failed.

A new severe recession in Europe marked the year of 2012, which rigorously affected the Premium Jeanswear segment. Alpha-Denim’s sales volume dropped by 7% in relation to 2011 (Table AIV). The fall in sales was accompanied by a reduction of the average sales price from €4.06 per metre of denim fabric in 2011 to €3.78 per metre in 2012. Despite that, the Premium product line mix remained with 86% of share, and the reduction of average product price was explained by an increase of special discounts offered to redirect part of the volume destined for the Premium customer segment to the more Popular customers that wanted to acquire the Premium product at a cheaper price. Consequently, the gross margin of the firm reached a negative 1.6%, more than 10 percentage points below the budget, and 7 percentage points below the 2011 gross margin. Unfortunately, the strategy based on differentiation didn’t appear to protect Alpha-Denim from the volatility of the market in a mainly recessive situation. In this passage of the annual report, the CEO expressed the need to review the firm’s strategy and to have a better focus on efficiency:

2012 was a year for making changes. It was time to stop and take stock; analysing and reviewing everything that had taken place so far, making important decisions allowing us to face the immediate future successfully. Everyone - customers and suppliers - has had to adapt to new working scenarios. The market is imposing new rules, increasingly searching demands, greater streamlining, making us more creative, more effective and competitive every day.

The choice to follow a strategy uniquely based on differentiation in 2011 and to fill the plant capacity mainly with Premium denim fabric, resulted in a decision to ignore less profitable customers that used to be relevant in sales volume. Consequently, with the sharp drop in sales of Premium customers in 2012, Alpha-Denim had to offer a huge discount to sell part of its Premium production, which resulted in a negative gross profit. Additionally, the difference between the sales volume planned in the 2012 budget with the sales actually achieved, resulted in an important negative of 23%
EBITDA due to a dilution of fixed cost and expenses on a smaller base of sales. In this next passage of the annual report of 2012, the CEO expresses the need to adjust the production capacity:

The company is making important adjustments to adapt its production capacity to a drop-in demand in the current market. In the same way, it is moderately optimistic regarding its perspectives for the next few months and is working hard to gain a foothold in a slowly recovering market.

At the end of 2012, the firm decided to contract the services of a consultancy firm to review the strategy of the firm in order to recover profitability:

In order to carry out this adjustment plan, Alpha-Denim has decided to seek external support and take on services from the Brazilian consultancy firm Galeazzi & Associados, a benchmark entity in the consultancy and business management sector in Brazil. The project aims to recover the company’s profitability levels, review the organisational structure and implement a results-focussed management model.

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<td>EBITDA (%)</td>
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Table AV – Alpha-Denim Key Performance Indicator comparison 2011, 2012 and 2012B Budget forecast
2.7 2013: the year when Alpha-Denim undertook an important restructuring and implemented a mixed strategic approach

At the beginning of 2013, Alpha-Denim formed a project team composed of senior managers and experienced consultants in order to recover profitability and establish a new strategic direction. After performing a series of business analysis, the project team reached several conclusions. The most important conclusion that the project team reached is that the European Premium Jeanswear market was a very uncertain environment in which to establish a pure differentiation strategic approach. In fact, to be successful with a differentiation approach, the firm should be able to provide an offer with a high degree of uniqueness, and that customers are willing to pay a higher price for this superior value.

As we have seen, the firm was relatively successful in doing this in 2011, where the market demand presented a growth of 9%, Alpha-Denim had the opportunity to sell most of its product mix with its Premium line (84% of product mix) which allowed it to reach an average sales price of €4.06, 30.4% higher than the average price of 2010. And, despite an increase in cost of 22%, Alpha-Denim reached a positive gross margin of 5.1%. However, due to a new recessive period in Europe, demand for the Premium product had been affected and Alpha-Denim was unable to sell all its planned production in its budget to Premium customers (a reduction of 18% in volume against budget), which resulted in a negative gross margin of 1.6% due to discounts offered.

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>AD Premium product line sale share</td>
<td>84%</td>
<td>85%</td>
</tr>
<tr>
<td>AD Low cost product line sale share</td>
<td>16%</td>
<td>15%</td>
</tr>
<tr>
<td>AD Premium product line average price (€ per/m)</td>
<td>4.56</td>
<td>4.6</td>
</tr>
<tr>
<td>AD Low Cost product line average price (€ per/m)</td>
<td>3.4</td>
<td>3.34</td>
</tr>
<tr>
<td>Price distance of Premium to Low Cost product line</td>
<td>1.34</td>
<td>1.38</td>
</tr>
</tbody>
</table>

Table AVI – Alpha-Denim product line mix evolution 2011-2012
on Popular brands of the Premium product (-7.1% reduction in price in relation to 2011), and cost increases due to insufficient sales volume to fill plant capacity, filled only 93% of planned production (see table X – industrial performance in 2012), added to other operational inefficiencies (+5.3% in cost in relation to 2011). Therefore, the project team concluded that to adopt a pure differentiation strategy, which concentrates most of the sales on the Premium customer, was too dangerous due to the uncertain nature of this market.

A return of an important share in the sales mix of Alpha-Denim of Popular Jeanswear Brands, including the less profitable customers such as Fast fashion retailers, was necessary in order to be capable of compensating a sudden loss of sales share due to the volatility of the Premium demand. After reviewing Alpha-Denim’s customer segmentation (see table AVII), the project team suggested a more balanced mix between the Premium and Popular brand segments. In table AVIII, we can confirm the adoption of this more balanced customer mix approach, as in 2013 the share of Premium Jeanswear brands was reduced by one third, and the share of Popular Jeanswear brands more than doubled.

<table>
<thead>
<tr>
<th>Market</th>
<th>Alpha-Denim Customer Segment</th>
<th>Corresponding Euromonitor Segmentation name</th>
<th>Typical customer example</th>
<th>Alpha-Denim Price Segment Average 2012-2013 (€ per/m)</th>
<th>Price Distance to Super Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Premium Brands</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Super Premium</td>
<td>Super-Premium Jeans</td>
<td>7 for all Mankind, True Religion, Rock &amp; Republic</td>
<td>4.6</td>
<td>1.00</td>
</tr>
<tr>
<td></td>
<td>Premium</td>
<td>Premium Jeans</td>
<td>G-Star, Diesel, Jaeger</td>
<td>4.3</td>
<td>0.93</td>
</tr>
<tr>
<td></td>
<td>Upper-Level Standard</td>
<td>Standard Jeans</td>
<td>Levi’s, Wrangler, Lee</td>
<td>4.0</td>
<td>0.88</td>
</tr>
<tr>
<td><strong>Popular Brands</strong></td>
<td>Intermediate-Level Standard</td>
<td>Standard Jeans</td>
<td></td>
<td>3.8</td>
<td>0.82</td>
</tr>
<tr>
<td></td>
<td>Entry-Level Standard</td>
<td>Standard Jeans and Economy Jeans</td>
<td>Primark, Forever 21, Kik, Kiabi, Zara</td>
<td>3.6</td>
<td>0.79</td>
</tr>
<tr>
<td></td>
<td>Fast-Fashion Retailers</td>
<td>Economy Jeans</td>
<td></td>
<td>3.5</td>
<td>0.77</td>
</tr>
</tbody>
</table>

Table AVII – Alpha-Denim customer segmentation

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>13x12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premium Jeanswear brands market</td>
<td>84%</td>
<td>63%</td>
<td>-29%</td>
</tr>
<tr>
<td>Popular Jeanswear brands market</td>
<td>16%</td>
<td>37%</td>
<td>116%</td>
</tr>
</tbody>
</table>
However, to be capable of restoring their share in the more Popular Jeanswear brand, in particular in the Fast fashion retailers, Alpha-Denim should achieve a lower cost in order to offer denim Jeanswear at a more competitive price. The average cost of its low-cost product line of €3.4 in 2011 and €3.34 in 2012 was considered too high, and was one of the reasons why important customers such as Fast fashion was abandoned. The project team identified two important organizational behaviours that are at the heart of the causes for the loss of the firm’s performance and profitability.
Inefficiencies caused by pursuing the highest level of product differentiation at any cost

In the pursuit of creating uniqueness through product differentiation, Alpha-Denim significantly increased its most sophisticated Premium product line, with the Denim Therapy and Couture collection. To secure a differentiation image among well-established Premium denim fabric brands such as Candiani and Isko, the firm invested heavily in product innovation and development. For example, to create the Couture line, the firm purchased the highest quality technological threads available in the market to try to produce the lightest and most comfortable denim fabric ever made. The acquisition of such expensive threads substantially increased the product cost, but Alpha-Denim’s top management believed that customers would be able to pay the higher price in order to acquire a unique and highly sophisticated product. We can confirm this type of direction and belief in this testimonial of the R&D manager. In fact, the R&D team was mainly focused on the added value of the product that they were creating, and did not consider during the development phase how much this product would cost, and what would be the impact on the manufacturing process, characterising the unilateral focus on differentiation at the R&D department level:

Generally, and before, when we developed new products, we used to only consider the added value, and we did not calculate the cost. But now, so far, we have seen that we also need information about the cost of our product development.

This belief and behaviour of extreme focus on differentiation can be observed in the performance of the Couture line product in 2012 (Table X- Denim Couture product line performance), where several products such as AD-Couture-4317, 4308, 4314, 4335 and 4330 reached a cost much higher than the selling price resulting in negative gross margin. Taking the example of the product AD-Couture-4335, its cost reached €6.99, or 60% higher than the average cost of the Couture line, with a sales price of €5.88, or 15% more than the average price of the Couture line, resulting in a negative gross margin of 19%. During the interview, the R&D manager confessed that the focus on added value and differentiation emphasis should be balanced with the value
perception of the customer, and that a cost focus is always necessary. It is important to keep cost under a certain level and control in order to have a coherent offer, as we can confirm in his testimonial below:

They are not willing to pay so much, so expensive a price for our product. They value the added value of our product, but at some point, you reach a cost level where it is difficult for them to accept and purchase our product. They appreciate the added value, but I believe there is a price limit, which they do not cross because of their budget. In other words, value added, yes; but at a level of cost that our client is able to buy. Because we can develop the world's most innovative fabric, but if it is at a price that our customer cannot buy, it doesn't fit for us. There's a balance, a boundary between. "yes. Value added, but at what cost?" We cannot develop an item that costs 9 or 10 euros, because we would be greatly limiting our customers.

Additionally, the firm pursued differentiation by increasing its product assortment variety, offering many more options to the Premium customer than before. In fact, offering a large product assortment with different fabric structure characteristics and finishing aspects, allows having a better alignment with the diversity of the fashion taste of the Premium brand market, creating a perception of uniqueness. However, the excess of product variety could bring important efficiency issues. An analysis using an ABC curve revealed that in 2012, 50% of the product mix was responsible for only 4% of the whole sales (Group C of table AVII – ABC curve analysis). This group C presented an average sales price of €5.14, significantly higher than other groups, confirming that it is composed mostly of the most expensive and Premium product of Alpha-Denim, as for example the Denim Couture line.
The Denim Couture collection, which as stated before represented the most differentiated and sophisticated Premium collection of Alpha-Denim. Despite being launched in 2010, two years later the collection was responsible for only 11.5% of total firm sales. Also, from the 29 products in the collection, sales were mainly concentrated on a few products, where the first 8 products represented 70% of the sales collection. Most of the rest of the Couture collection products presented a very important gross margin, but with a very low share in sales demonstrating that very few customers were willing to pay such an expensive price.

The project team concluded that in the pursuit of a high degree of differentiation Alpha-Denim created several inefficiencies, such as producing too many products with marginal sales, which increased complexity at the plant level without generating a sufficient value in added gross profit. Also, several differentiated products were revealed to be too expensive to produce, resulting in a negative gross margin or in a very expensive selling price. The consequence for the production side was an excess of product complexity, which demanded frequent interruption of production to change machine configurations (setups), which increased total cost and quality defects. The project team stated in its diagnostic report that the excess of product is at the root of the causes of production inefficiency, as we can verify below:

### Table AVII- ABC curve analysis on product sales volume of 2012

<table>
<thead>
<tr>
<th>Mix (Product items)</th>
<th>Share of sales (in volume)</th>
<th>Average sales price (€ per metre)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group C</td>
<td>50%</td>
<td>4%</td>
</tr>
<tr>
<td>Group B</td>
<td>30%</td>
<td>25%</td>
</tr>
<tr>
<td>Group A</td>
<td>20%</td>
<td>72%</td>
</tr>
</tbody>
</table>

Actual situation: Need to identify and optimize the cost of setup in each step of production, reviewing the quantity of product items and their share in gross profit and volume in sales plan.
Inefficiencies caused by increase of production complexity and loss of managerial focus on operational efficiency

Analyses on operational and production efficiency demonstrated several losses of performance and quality. Investigations into manufacturing processes revealed a high degree of operational inefficiency. At the spinning process, the firm lost 25% of the planned production due mainly to machinery low performance and unavailability

<table>
<thead>
<tr>
<th>Product Code</th>
<th>Share of Sales in Couture collection (Volume)</th>
<th>Sales Price</th>
<th>Sales Cost</th>
<th>Gross Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>AD-Couture-4333</td>
<td>11.6%</td>
<td>€ 5.32</td>
<td>€ 4.68</td>
<td>12%</td>
</tr>
<tr>
<td>AD-Couture-4331</td>
<td>10.6%</td>
<td>€ 4.69</td>
<td>€ 3.81</td>
<td>19%</td>
</tr>
<tr>
<td>AD-Couture-4317</td>
<td>9.7%</td>
<td>€ 4.88</td>
<td>€ 5.33</td>
<td>-9%</td>
</tr>
<tr>
<td>AD-Couture-4308</td>
<td>9.5%</td>
<td>€ 5.19</td>
<td>€ 5.57</td>
<td>-7%</td>
</tr>
<tr>
<td>AD-Couture-4310</td>
<td>7.1%</td>
<td>€ 4.93</td>
<td>€ 3.66</td>
<td>26%</td>
</tr>
<tr>
<td>AD-Couture-4327</td>
<td>6.9%</td>
<td>€ 4.55</td>
<td>€ 3.40</td>
<td>25%</td>
</tr>
<tr>
<td>AD-Couture-4311</td>
<td>6.8%</td>
<td>€ 5.03</td>
<td>€ 3.32</td>
<td>34%</td>
</tr>
<tr>
<td>AD-Couture-4314</td>
<td>5.7%</td>
<td>€ 5.03</td>
<td>€ 5.39</td>
<td>-7%</td>
</tr>
<tr>
<td>AD-Couture-4318</td>
<td>4.2%</td>
<td>€ 5.42</td>
<td>€ 5.17</td>
<td>5%</td>
</tr>
<tr>
<td>AD-Couture-4307</td>
<td>3.4%</td>
<td>€ 6.05</td>
<td>€ 5.19</td>
<td>14%</td>
</tr>
<tr>
<td>AD-Couture-4330</td>
<td>3.3%</td>
<td>€ 4.89</td>
<td>€ 4.99</td>
<td>-2%</td>
</tr>
<tr>
<td>AD-Couture-4322</td>
<td>2.7%</td>
<td>€ 6.46</td>
<td>€ 5.17</td>
<td>20%</td>
</tr>
<tr>
<td>AD-Couture-4313</td>
<td>2.5%</td>
<td>€ 4.20</td>
<td>€ 2.66</td>
<td>37%</td>
</tr>
<tr>
<td>AD-Couture-4329</td>
<td>2.3%</td>
<td>€ 3.87</td>
<td>€ 3.16</td>
<td>18%</td>
</tr>
<tr>
<td>AD-Couture-4315</td>
<td>1.9%</td>
<td>€ 5.42</td>
<td>€ 3.65</td>
<td>33%</td>
</tr>
<tr>
<td>AD-Couture-4328</td>
<td>1.8%</td>
<td>€ 4.59</td>
<td>€ 3.73</td>
<td>19%</td>
</tr>
<tr>
<td>AD-Couture-4309</td>
<td>1.6%</td>
<td>€ 5.60</td>
<td>€ 4.88</td>
<td>13%</td>
</tr>
<tr>
<td>AD-Couture-4326</td>
<td>1.4%</td>
<td>€ 5.99</td>
<td>€ 3.89</td>
<td>35%</td>
</tr>
<tr>
<td>AD-Couture-4324</td>
<td>1.3%</td>
<td>€ 4.69</td>
<td>€ 2.82</td>
<td>40%</td>
</tr>
<tr>
<td>AD-Couture-4312</td>
<td>1.0%</td>
<td>€ 5.63</td>
<td>€ 3.72</td>
<td>34%</td>
</tr>
<tr>
<td>AD-Couture-4325</td>
<td>1.0%</td>
<td>€ 6.78</td>
<td>€ 4.31</td>
<td>36%</td>
</tr>
<tr>
<td>AD-Couture-4321</td>
<td>0.7%</td>
<td>€ 5.50</td>
<td>€ 3.63</td>
<td>34%</td>
</tr>
<tr>
<td>AD-Couture-4334</td>
<td>0.7%</td>
<td>€ 5.13</td>
<td>€ 4.01</td>
<td>22%</td>
</tr>
<tr>
<td>AD-Couture-4320</td>
<td>0.6%</td>
<td>€ 6.76</td>
<td>€ 3.78</td>
<td>44%</td>
</tr>
<tr>
<td>AD-Couture-4316</td>
<td>0.5%</td>
<td>€ 4.40</td>
<td>€ 3.17</td>
<td>28%</td>
</tr>
<tr>
<td>AD-Couture-4323</td>
<td>0.5%</td>
<td>€ 7.75</td>
<td>€ 4.66</td>
<td>40%</td>
</tr>
<tr>
<td>AD-Couture-4335</td>
<td>0.2%</td>
<td>€ 5.88</td>
<td>€ 6.99</td>
<td>-19%</td>
</tr>
<tr>
<td>AD-Couture-4319</td>
<td>0.2%</td>
<td>€ 6.12</td>
<td>€ 4.16</td>
<td>32%</td>
</tr>
<tr>
<td>AD-Couture-4332</td>
<td>0.2%</td>
<td>€ 4.40</td>
<td>€ 3.34</td>
<td>24%</td>
</tr>
</tbody>
</table>

| Share in total sales, average sales price, cost and gross margin | 11.5% | € 5.09 | € 4.39 | 14% |

Table AVIII – Denim Couture product line performance – 2012
caused by too many setups due to frequent changes of thread coils (Table AIX). The worst situation was at the Dyeing process where yarns received the application of indigo. The cost of setup at the dyeing process is excessively time consuming and as a consequence expensive, since crude yarns need to be separated manually on an opener machine in order to apply the indigo dye, and also manually rewound on a coil by a warper machine. Too many thread varieties increase the preparation times of the crude thread coils on openers and warpers after the dyeing process. We can observe in table AIX the important planning and production efficiency loss at the end of 2012 when the analysis was undertaken.

<table>
<thead>
<tr>
<th>Manufacturing Processes</th>
<th>Planned production</th>
<th>Real production</th>
<th>Production efficiency lost</th>
<th>Machine unavailable cause</th>
<th>Machine low performance cause</th>
<th>Low product quality cause</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPINNING (ton)</td>
<td>690</td>
<td>516</td>
<td>-25%</td>
<td>29%</td>
<td>50%</td>
<td>21%</td>
</tr>
<tr>
<td>DYEING (Mm)</td>
<td>OPENERS</td>
<td>6114</td>
<td>533</td>
<td>-91%</td>
<td>85%</td>
<td>14%</td>
</tr>
<tr>
<td></td>
<td>WARPERS</td>
<td>3146</td>
<td>755</td>
<td>-76%</td>
<td>83%</td>
<td>17%</td>
</tr>
<tr>
<td>WEAVING (Mm)</td>
<td>1288</td>
<td>1068</td>
<td>-17%</td>
<td>59%</td>
<td>25%</td>
<td>16%</td>
</tr>
<tr>
<td>FINISHING (Mm)</td>
<td>1656</td>
<td>1030</td>
<td>-38%</td>
<td>27%</td>
<td>68%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Table AIX – Summary of the efficiency losses identified in the main manufacturing processes

In table AIX, we can see the main causes associated to the manufacturing inefficiency. Several problems such as long machine setup times, low machine speeds, and breaks in the threads during production, are associated to an increase of manufacturing complexity provoked by the differentiation approach. In fact, the increase in the variety of fabric structure resulted in too many frequent and long machine setup times, which also led to increasing failures during production and an increase of losses related to quality problems. The overall operational inefficiency was also related to the loss of managerial practice such as correct planning of the necessary material at each step of the manufacturing processes. The project team associated this last one to an absence of managerial focus on cost management.
Table AX – Summary of the main causes related to the loss of production efficiency.

The project team’s final report revealed a need to improve competitiveness through the achievement of a lower cost and suggested a series of action plans for cost reduction and productivity gain. Also, the project team suggested reducing product variety, as several differentiated products had a very low share in sales and which drastically increased the production complexity, thereby increasing the overall production cost by an excessive number of machine setups, caused by too many productions stops due to small batches of production. Furthermore, the project team recommended keeping the differentiation strategy and adding a secondary strategy of low-cost, restoring market share in the Popular brands such as some of the Fast fashion retailers, who could guarantee a complementary volume to optimize the production capacity in a volatile and uncertain environment.

In table AXI, we can observe the result of the action plan. Average production cost in 2013 reached €3.25 or 12% lower than the production cost in 2012. The main cause of cost reduction was by a reduction of the cost of raw material (-14%). This reduction was possible because the project team proposed a substitution for sophisticated threads used in the couture collection and other product lines, and purchased from specialized thread suppliers whose internal production was cheaper. Cost reduction also occurred at the labour level whereby with the use of polyvalence functions, the plant was capable of operating with fewer employees and a reduction of the cost of maintenance by increasing the efficiency of maintenance prevention. Production efficiency was enhanced mainly by optimization of plant capacity. With the mixed strategy approach, Alpha-Denim was capable of filling its plant capacity, reaching 99% of the planned
production, against 93% in 2012. With the simplification of the product assortment, eliminating the variety of products that bring marginal sales and margins, the weaving performance increased with fewer stop times for machine setups. With the longer production lot, the speed of weaving could be increased which boosted the overall productivity. Finally, with better management practice, and less complexity and machine setups, product defects dropped from 14% of total production to 7%.

We can observe a similar effect on the finishing process, with a reduction of colour tonality variability due to a more stable spinning process and an optimization of the production lot due to fewer setups. The stabilization at the spinning process, with fewer thread complexities and better management of the contamination process, also allowed them to reduce the level of weaving point failures per m2 by 14% in relation to 2012. The combination effect of product variety and composition simplification, and better managerial focus on cost control resulted in a reduction of 12% of total production cost.

<table>
<thead>
<tr>
<th>Production Cost</th>
<th>2013</th>
<th>2012</th>
<th>13x12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total cost (€/m)</td>
<td>€ 3.25</td>
<td>€ 3.70</td>
<td>-12%</td>
</tr>
<tr>
<td>Cost of raw material</td>
<td>€ 1.31</td>
<td>€ 1.53</td>
<td>-14%</td>
</tr>
<tr>
<td>Cost of finishing material</td>
<td>€ 0.42</td>
<td>€ 0.42</td>
<td>-2%</td>
</tr>
<tr>
<td>Total Cost of transformation</td>
<td>€ 1.52</td>
<td>€ 1.75</td>
<td>-13%</td>
</tr>
<tr>
<td>Cost of equipment depreciation</td>
<td>€ 0.59</td>
<td>€ 0.62</td>
<td>-6%</td>
</tr>
<tr>
<td>Cost of labour</td>
<td>€ 0.40</td>
<td>€ 0.42</td>
<td>-5%</td>
</tr>
<tr>
<td>Cost of energy</td>
<td>€ 0.46</td>
<td>€ 0.48</td>
<td>-5%</td>
</tr>
<tr>
<td>Cost of maintenance</td>
<td>€ 0.08</td>
<td>€ 0.22</td>
<td>-65%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Production Efficiency</th>
<th>2013</th>
<th>2012</th>
<th>13x12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Productivity (Mm/capital)</td>
<td>25.7</td>
<td>22.7</td>
<td>13%</td>
</tr>
<tr>
<td>Planned capacity utilization (%)</td>
<td>99%</td>
<td>93%</td>
<td>6%</td>
</tr>
<tr>
<td>Weaving performance (%)</td>
<td>91%</td>
<td>84%</td>
<td>8%</td>
</tr>
<tr>
<td>Speed of weaving (rpm)</td>
<td>387.6</td>
<td>373.3</td>
<td>4%</td>
</tr>
<tr>
<td>Density of weaving (beats/cm)</td>
<td>18.0</td>
<td>18.7</td>
<td>-4%</td>
</tr>
<tr>
<td>Spinning performance (%)</td>
<td>92.4%</td>
<td>92.5%</td>
<td>0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Production Quality</th>
<th>2013</th>
<th>2012</th>
<th>13x12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product defect (%)</td>
<td>7.0%</td>
<td>14.1%</td>
<td>-50%</td>
</tr>
<tr>
<td>Out of color range (%)</td>
<td>2.8%</td>
<td>6.1%</td>
<td>-54%</td>
</tr>
<tr>
<td>Weaving point failure / m2</td>
<td>8.5</td>
<td>9.9</td>
<td>-14%</td>
</tr>
</tbody>
</table>

Table AXI – Industrial performance comparison 2012-2013

In the pursuit to achieve a strong position in differentiation in a market with a low rate of growth, and a high level of rivalry by competitors with strong differentiation offers,
Alpha-Denim focused too much on creating sophisticated and unique products, and did not pay sufficient attention and focus in maintaining a low-cost and a high level of operational efficiency. At the end of 2012, Alpha-Denim reached one of the worst negative results in its history with a gross margin of -1.2% and EBITDA of -23%. The results came from a negative combination of the effects of too much effort spent on a differentiation approach that did not bring the corresponding sales and gross margin, and a loss of competitiveness due to an increase in cost by an increase of manufacturing complexity associated to the excessive differentiation focus, and by a loss of managerial attention in maintaining cost control and manufacturing efficiency. Also, by having left the important Fast fashion customers in 2010-2011 to concentrate its production on the Premium segment, the company was unable to fill the plant capacity due to a significant retraction of sales of Premium Jeanswear demand, which substantially increased the product cost and led to a negative gross margin. After having simplified its offer, and expurgated the excess of differentiation with low value generation, and after having implemented cost and efficiency managerial practices, the firm was able to reach a lower cost, which allowed it to increase its market share in the more Popular Jeanswear brand customer segment, fill the plant capacity, and consequently achieve a positive gross margin of 11.5% and a positive EBITDA of 7.6%, the highest results since 2005.

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>13x11</th>
<th>13x12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Volume (Mm)</td>
<td>15.1</td>
<td>14.0</td>
<td>13.7</td>
<td>-9.2%</td>
<td>-2.5%</td>
</tr>
<tr>
<td>Sales Price (per/m)</td>
<td>€4.06</td>
<td>€3.78</td>
<td>€3.70</td>
<td>-8.8%</td>
<td>-1.9%</td>
</tr>
<tr>
<td>Unitary cost (per/m)</td>
<td>€3.86</td>
<td>€3.83</td>
<td>€3.28</td>
<td>-15.0%</td>
<td>-14.6%</td>
</tr>
<tr>
<td>Gross Margin (%)</td>
<td>5.1%</td>
<td>-1.6%</td>
<td>11.5%</td>
<td>6.4pp</td>
<td>13.1pp</td>
</tr>
<tr>
<td>G&amp;A Expense (%)</td>
<td>-7.3%</td>
<td>-7.9%</td>
<td>-6.7%</td>
<td>0.6pp</td>
<td>1.2pp</td>
</tr>
<tr>
<td>EBITDA (%)</td>
<td>-1.0%</td>
<td>-23.0%</td>
<td>7.6%</td>
<td>8.6pp</td>
<td>30.6pp</td>
</tr>
</tbody>
</table>

Table AXII – Alpha-Denim Key Performance Indicator comparison of 2011-2013

The new mixed strategic approach that characterized a new mix of Premium and Popular Jeanswear Brand customers, was also supported by a restructuring of the two Alpha-Denim product lines. The share of the low-cost product line increased from 15% to 31%, while the share of the Premium product line was reduced from 85% to 60%. With the overall cost reduction, the average price of the Premium line was
repositioned from €4.6 to €4.27 in order to offer a Premium product at a more competitive price. The average price of the low-cost product line was reduced by more than 10% and reached a price under €3 per metre, which allowed them to again enter into the Fast fashion retail customers. Finally, the price difference between the two product segments increased, demonstrating a better positioning of the value proposition of each product line. In 2013, the average price of the Premium line was 41% higher than the low-cost product line. (see table AXIII). The success of the new strategic approaches was related by the CEO in the annual statement report of 2013 as following:

Once again, I am writing to you to present the most outstanding facts and figures from the previous financial year and our perspectives for the months to come. We might remember 2013 as a transitional year although also as the year we implemented an analysis and reorganisation process to restore profitability to the business… …in Europe our product continues to be respected and highly valued by the most emblematic denim brands. Within this scenario, Alpha-Denim is continuing the strategic review process it began in 2013, working closely with the prestigious Galeazzi & Associates consultancy firm. The conclusions from this review are already being put into practice by the company and improvements will doubtlessly be seen throughout all processes with economic repercussions in the coming financial years.

In this next passage, the CEO makes clear the new focus of the firm to keep expenses under control and operational efficiency:

These changes undertaken by our company in 2013 also led to reorganising structures in its offices and industrial plants by simplifying processes, making significant productivity and agility improvements.
Finally, in the passage below the CEO expresses clearly the new strategic approach based on a double focus on differentiation and low-cost:

In Europe, investments in quality and service improvements have helped the company to intensify its relationship with strategic customers. Developing an innovative product mix, mainly for female and kids fashion, broadening of the range of Tri-blend technology® by Alpha-Denim fabrics, has helped to consolidate Alpha-Denim’s position in these market segments. The launch of the Fitness Denim® by Alpha-Denim line has made the company a benchmark in male fashion. Along with initiatives to cut costs and improve efficiency and productivity, this work improved results and significantly changed the operative income. The recurring EBITDA reached 4.1 million Euros as opposed to its negative figure in 2012.

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>AD Premium product line sale share</td>
<td>85%</td>
<td>69%</td>
</tr>
<tr>
<td>AD Low cost product line sale share</td>
<td>15%</td>
<td>31%</td>
</tr>
<tr>
<td>AD Premium product line average price (€ per/m)</td>
<td>4.6</td>
<td>4.27</td>
</tr>
<tr>
<td>AD Low Cost product line average price (€ per/m)</td>
<td>3.34</td>
<td>2.97</td>
</tr>
<tr>
<td>Price distance of Premium to Low Cost product line</td>
<td>1.38</td>
<td>1.44</td>
</tr>
</tbody>
</table>

Table AXIII – Alpha-Denim product line mix evolution 2012-2013
Appendix 3 – Letter of presentations, Interviews structure, memos and coding information

Letter of presentation for selection of the case study

The University of Manchester
Manchester Business School

Research Working Title:
A TYPOLOGY FOR THE USE OF COMPLEX STRATEGY
IN DYNAMIC BUSINESS ENVIRONMENTS
A multi-setorial case study

Contact Details:
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Abstract

Business environments have become increasingly dynamic and turbulent. They are characterized by intense competition, more demanding and less loyal customers, but also by high volatility of demand and supply. Companies operating in such situations often see their sources of competitive advantage disappear by an equivalent competition, or by a change in consumption behavior: they are forced to adapt and build new sources of competitive advantage which often have a temporary validity.

As a response to these contexts, new approaches to strategy have been developed, among these some advocate the need for companies to develop core competencies that allow the management of multiple strategic approaches, traditionally regarded as contradictory. Recent academic studies have shown that companies that have the ability to simultaneously implement differentiation and low-cost approach, and to develop skills for efficiency and innovation, have greater resilience in turbulent environments and consequently have better financial performance than companies that remain focused on a single approach.

Despite the empirical evidence of these studies in large samples, little is known about their managerial implications. The objective of this research is to investigate through the case study method, how these companies have adapted to these environments and how they implemented more complex and dynamic approaches to strategy.

Scope and Methods of the Research

To conduct this research I selected two different economic contexts and three types of industry. The selection criteria followed a thorough analysis for studying firms operating in highly dynamic scenarios, which have been successful and have characteristics of using more complex strategies. For the business environment, I selected the European market for presenting a recessionary economic environment with high competition, and the Brazilian market as an emerging economy with high complexity and volatility. The selected industries were retail food and consumer goods, the textile industry and the commercial aviation industry, which traditionally present a high level of competition and demand volatility. Only one company from each industry was selected for the study.

The research method selected was a multiple case study approach, which allowed a greater depth of analysis and the observation of practical application. Also, this method is recommended for the development of new theories by confrontation and comparison of different case studies.
The research consists of a series of interviews with key executives of the company (around 15 interviews), using a semi-structured questionnaire. The interview lasts 1h to 1h30m. The research focuses on three aspects of business strategy management (Figure 1): to understand how the value proposition is designed, to understand how the company renews and optimizes its value proposition and what type of organizational structures have been implemented to deliver this value.

**VALUE PROPOSITION**

A value proposition can combine attributes of differentiation and low cost. This more complex approach of the value proposition can help to keep the level of competitiveness, and to adapt quickly in uncertain scenarios.

Central question: How does the company have combined elements of differentiation and low cost?

**VALUE MANAGEMENT**

In dynamic environments, the value offered needs to be constantly optimized and renewed. A company with core competencies in efficiency and innovation can simultaneously optimize and renew the value delivered at the right time.

Central question: How does the company enhances and renews the value offered?

**VALUE IMPLEMENTATION**

To support a more complex and dynamic approach to strategy, the company needs an organizational structure that allows both control and flexibility.

Central question: How does the company have combined control and flexibility in its organizational structure?

Figure 1 – The research has focus on three different aspects of the business strategy management

**Results and Benefits of the Research**

The survey will help to discover what are the managerial characteristics that the company needed to develop when it used more complex strategies in its business environment. Core competencies and specific organizational structures are identified, and once compared with the contributions of the other case studies of this research, will help in the development of a new framework of competitive strategy to be proposed as a new theory in the academic field.

As a contribution to management practices, a methodology was developed that allows the alignment of the various managerial elements within the use of a more complex strategy. Market segments, value propositions, drivers of differentiation and low cost, and core competencies are aligned with the value chain activities (Figure 2). This method allows us to segment the value chain into two parts: one that contributes to achieving low cost and another for achieving differentiation. Points of conflict and resolution are also identified.
Figure 2 – A methodology that allows the alignment between the company’s strategy and its value chain within the scope of differentiation and low cost.

A detailed final report of the research on the alignment of the company’s strategy identified by the methodology will be available exclusively for the company.

Confidentiality

This research is part of a doctoral dissertation that is owned by the University of Manchester. All company information is strictly confidential and protected by the code of ethics from the University of Manchester. In the research the company name as well as information that may lead to a deduction of the company name will never be revealed, so that the information of the company’s case study remains confidential. The survey content is inserted in the thesis only after verification and approval of the company. If it is of interest, the case study could be made public after the request and approval of the company. In this case, the company can control and choose the type of information and content for publication.

Schedule

The fieldwork will take place in the 2nd semester of 2014. Data collected will be analysed in the 1st semester of 2015. The submission of the final thesis with the following oral defence is scheduled for September 2015.
Interviews plan and guideline

Alpha-Denim
EUROPE
CASE STUDY
Interview guideline
October 2014

1. Introduction for the Interviews
2. Interview Structure
3. Definitions and terms used
1. Introduction for the Interviews
2. Interview Structure
3. Definitions and terms used

Abstract

Business environments have become increasingly dynamic and turbulent. They are characterized by intense competition, more demanding and less loyal customers, but also by high volatility of demand and supply. Companies operating in such situations often see their sources of competitive advantage disappear by an equivalent competition, or by a change in consumption behaviour: they are forced to adapt and build new sources of competitive advantage which often have a temporary validity.

As a response to these contexts, new approaches to strategy have been developed, among these some advocate the need for companies to develop core competencies that allow the management of multiple strategic approaches, traditionally regarded as contradictory. Recent academic studies have shown that companies that have the ability to simultaneously implement differentiation and low-cost approach, and to develop skills for efficiency and innovation, have greater resilience in turbulent environments and consequently have better financial performance than companies that remain focused on a single approach.

Objective of the research

Despite the empirical evidence of these studies in large samples, little is known about their managerial implications. The objective of this research is to investigate through the case study method, how Alpha-Denim Europe have adapted to these environments and how it implemented more complex and dynamic approaches to strategy.
**Scope and Methods of the Research**

To conduct this research, I selected two different economic contexts and three types of industry. The selection criteria followed a thorough analysis for studying firms operating in highly dynamic scenarios, which have been successful and have characteristics of using more complex strategies.

For the business environment, I selected the European market for presenting a recessionary economic environment with high competition, and the Brazilian market as an emerging economy with high complexity and volatility. The selected industries were retail food and consumer goods, the textile industry, and the commercial aviation industry, which traditionally present a high level of competition and demand volatility. Only one company from each industry was selected for the study. **Alpha-Denim Europe has been chosen as a representative for the European environment in an performance recovery perspective.**

The research method selected was a multiple case study approach, which allowed a greater depth of analysis and the observation of practical application. Also, this method is recommended for the development of new theories by confrontation and comparison of different case studies.

The research consists of a series of interviews with key executives of the company (around 15 interviews), using a semi-structured questionnaires. The interview lasts 1h to 1h30m. The research focuses on three aspects of business strategy management (Figure 1); to understand how the value proposition is designed, to understand how the company renews and optimizes its value proposition and what type of organizational structures have been implemented to deliver this value.

---

**Figure 1 – The research has focus on three different aspects of the business strategy management**

**VALUE PROPOSITION**
A value proposition can combine attributes of differentiation and low cost. This more complex approach of the value proposition can help to keep the level of competitiveness, and to adapt quickly in uncertain scenarios.

Central question: How does the company have combined elements of differentiation and low cost?

**VALUE MANAGEMENT**
In dynamic environments, the value offered needs to be constantly optimized and renewed. A company with core competencies in efficiency and innovation can simultaneously optimize and renew the value delivered at the right time.

Central question: How does the company enhance and renew the value offered?

**VALUE IMPLEMENTATION**
To support a more complex and dynamic approach to strategy, the company needs an organizational structure that allows both control and flexibility.

Central question: How does the company have combined control and flexibility in its organizational structure?
Results and Benefits of the Research

The survey will help to discover what are the managerial characteristics that the company needed to develop when it used more complex strategies in its business environment. Core competencies and specific organizational structures are identified, and once compared with the contributions of the other case studies of this research, will help in the development of a new framework of competitive strategy to be proposed as a new theory in the academic field.

As a contribution to management practices, a methodology was developed that allows the alignment of the various managerial elements within the use of a more complex strategy. Market segments, value propositions, drivers of differentiation and low cost, and core competencies are aligned with the value chain activities (Figure 2). This method allows us to segment the value chain into two parts: one that contributes to achieving low cost and another for achieving differentiation. Points of conflict and resolution are also identified.

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Figure 2 – A methodology that allows the alignment between the company’s strategy and its value chain within the scope of differentiation and low cost.
1. Introduction for the Interviews
2. Interview Structure
3. Definitions and terms used

---

**Alpha-Denim Case Study Timeline**

<table>
<thead>
<tr>
<th>PREPARATION</th>
<th>INTERVIEWS</th>
<th>DATA CODING AND STRUCTURING</th>
<th>FINAL REPORT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Understanding the business:</strong></td>
<td><strong>Doing the interviews:</strong></td>
<td><strong>Extracting data from interviews:</strong></td>
<td><strong>Final Case Study Report:</strong></td>
</tr>
<tr>
<td>• Company History</td>
<td>• CEO</td>
<td>• Transportation</td>
<td>• Company’s case study report</td>
</tr>
<tr>
<td>• Industry &amp; Market Analysis</td>
<td>• Commercial director</td>
<td>• Translation</td>
<td>• Main conclusions</td>
</tr>
<tr>
<td>• Customer Segment Analysis</td>
<td>• 2 commercial managers</td>
<td>• Coding</td>
<td>• Case study comparisons</td>
</tr>
<tr>
<td>• Competition Analysis</td>
<td>• Customer Quality &amp; service managers</td>
<td>• Analyses</td>
<td>• Theory building</td>
</tr>
<tr>
<td>• Company's strategy &amp; positioning analysis</td>
<td>• 2 Product &amp; Innovation managers</td>
<td>• Coding &amp; analysis</td>
<td>• Academic contributions</td>
</tr>
<tr>
<td>• Cost Structure Analysis</td>
<td>• Supply chain &amp; Planning managers</td>
<td>• Categories Identification</td>
<td><strong>Company Diagnostic Report (Optional):</strong></td>
</tr>
<tr>
<td>• Financial Statement Analysis</td>
<td>• Production manager</td>
<td><strong>Complementary interviews:</strong></td>
<td>• Analysis of the alignment of the strategy with the value chain activities</td>
</tr>
<tr>
<td><strong>Preparing the interviews:</strong></td>
<td>• Human Resource manager</td>
<td>• On demand</td>
<td>• Company core competencies analysis</td>
</tr>
<tr>
<td>• Summary of data analysis provided</td>
<td>• Finance Controller manager</td>
<td>• By phone/skype</td>
<td>• GAP and opportunities</td>
</tr>
<tr>
<td>• Structuration of questionnaires</td>
<td></td>
<td></td>
<td><strong>Case study report:</strong></td>
</tr>
</tbody>
</table>

- Data collection and analysis will start by 8th September.
- Questionnaires will be sent by 12th October.

- Interviews will be held on the period of 20-24th October.
- Interview takes 1h 30min for each participant
- Total of 13:15 interviews

**Stage I - 6 weeks**

**Stage II - 1 week**

**Stage III - 2 months**

**Stage IV - 4 months**
1. Introduction for the Interviews
2. Interview Structure
3. Definitions and terms used

Introduction to the methodological Framework

Interviews of this case study follow a semi-structured method, who consists of a questionnaire based on previous concepts and constructs.

In the following slides, you will find the framework used and the definitions of the main concept that will be approached during the interviews.
**FIRM STRATEGY ARCHITECTURE**

**MARKET SEGMENTS**

- **CUSTOMER VALUE PERCEPTION**
- **CUSTOMER PRICE SENSITIVITY**

**CUSTOMER VALUE PROPOSITION**

- **PRICE SENSITIVITY**
- **LOW-COST ATTRIBUTES**

**DIFFERENTIATION ATTRIBUTES**

**VALUE CHAIN ACTIVITIES**

- **VALUE DRIVERS**
- **COST DRIVERS**

**INDUSTRY LIFE CYCLE**

- **ENTRY BARRIERS**
- **EXIT BARRIERS**

**DISTINCTIVE COMPETENCIES**

- **SOURCE OF COMPETITIVE ADVANTAGE**
- **SOURCE OF COMPETITIVE ADVANTAGE**

**ORGANIZATIONAL STRUCTURE**

- **ALIGNMENT**
- **FLEXIBILITY**

---

**MARKET SEGMENTS**

### Key Success Factors

- **Customer Value Proposition**
- **Customer Price Sensitivity**

### Customer Value Propositions

- **Price Sensitivity**
- **Low-Cost Attributes**

### Customer Price Sensitivity

- **Customer Value Proposition**
- **Low-Cost Attributes**

---

**INDUSTRY**

- **Industry Life Cycle**
- **Entry Barriers**
- **Exit Barriers**

---

**ENVIRONMENT**

- **Macroeconomic Forces**
- **Industry Turbulence**

---

**ORGANIZATIONAL STRUCTURE**

- **Alignment**
- **Flexibility**
FIRM STRATEGY ARCHITECTURE

VALUE PROPOSITIONS UNDER TURBULENT ENVIRONMENT

Distinctive Competencies: A core competency needs to be specific set of skills or production techniques that deliver additional value to the customer. These enable an organization to access a wide variety of markets. A core competency is distinctive when it improves its competitiveness and is rare.

DISTINCTIVE COMPETENCIES

- Business
- Range
- Flexibility
- Quality
- Efficiency
- Innovation
- Core Capabilities

Readiness refers to the ability of the organization to respond to external environmental events such as customer behaviors, changes, competition, and technology.

Responsiveness refers to the capacity of the organization to identify and seize the core value propositions and develop the capabilities that are important.

Resistance refers to the capacity of the organization to maintain its performance in a turbulent environment.

Innovation refers to the ability of creating new products or processes. They mean a kind of innovation: Product innovation or Process innovation.

Effectiveness refers to the ability of improving the outputs of a production process using the same amount of resources.

FIRM STRATEGY ARCHITECTURE

VALUE PROPOSITIONS UNDER TURBULENT ENVIRONMENT

COST DRIVERS ANALYSIS

Structural Cost Drivers: A suite of organizational factors that determine the effectiveness of the core of a firm's products. These cost drivers affect a firm's long-term performance, which position the firm in its industry and market. Structural cost drivers may change slowly. ERP.

Executive Cost Drivers: capture a firm's management's decision on how much to employ its resources to achieve its goals and objectives. These cost drivers are determined by management policy, strategy, and effectiveness. They use all types of financial resources to improve the performance of people and physical resources will determine the level of success of any business. ERP.
Interview questions guideline

Q1: How do you describe the firm’s business environment in terms of demand, competitiveness and supply? Does it be stable and predictable? Or does it volatile and unpredictable?

Q2: How the business environment has been affecting the firm performance? How your activities are related?

Q3: How do you describe the actual firm’s strategy in terms of the value proposition and positioning? Do you consider it more stable or dynamic? How your activities are related to the company’s strategy change and adaptation?

Q5: In your opinion, how does the firm adapt to changes in the business environment?

Q6: Do you have undertaken or participated in cost improvement initiatives recently? For what purpose?

Q7: Do you have undertaken or participated in value improvement initiatives recently? For what purpose?

Q8: Do you have undertaken or participated in innovation initiatives recently? For what purpose?

Q9: How do you manage contradictory agenda in your area/activities:
   a. Like reducing cost while improving value
   b. Or managing efficiency and innovation activities

Q10: How do you describe the main culture of the firm?
   a. Is it be mainly a culture of efficiency, focused on cost, with high formalism, well-defined process with a centralized management style?
   b. Or does it be mainly a culture of innovation, with low formalism, self-organized cells of work, with a decentralized management style?
   c. Or do you consider that your culture is more complex and is a combination of the two approaches above? Describe how the combination is established. Which process/activities?

Q11: Do you consider that the firm has passed through an important change of strategy and culture recently? Explain the main changes and challenges associated with it?

---

Q1: Do you consider that you have attributes of differentiation and low-cost in the same value proposition? How do you have to integrate it? How frequently have you been altering this balance?

Q2: Do you have different value proposition in your portfolio, one focused on differentiation and the other for low-cost? How do you manage the two approaches? Does any of these value propositions have more importance than the other depending on a specific period of time (under certain specific circumstances)?

Q3: For what reasons have you been developing a combination of differentiation and low-cost approaches in your value propositions? How it has been used in relation to environment, customers and competitors?
Q1: Does customers gave more or less importance for quality attributes depending on contextual circumstances?

Q2: How do you define the customer’s exigencies for product quality? Does the customer is willing to pay more or less depending on the level of quality?

Q3: Does customers demand higher quality and are not willing to pay more for it?

Q4: How do you consider that the quality affect the cost?

Q5: How do you consider that the quality affect value perception?

Q6: What initiatives do you have undertaken to improve product quality? Does it have increased the cost?

Q7: Do you have at the same time to manage cost reduction initiatives without affecting the customer’s perception of quality? How do you have managed/solved it?

---

Q3: How frequently have you been planning change of volume balance between Differentiated and low cost product line? What are the challenges involved?

Q2: In the planning and Forecasting process, how have you been leading with demand and supply turbulence? What type of contingencies have you been using?
Q1: How do you manage the challenges of producing highly differentiated products, which is more complex and demands a small lot of production, with low cost products that are simple and demand large lot of production? In sequence? In parallel? How do you optimize the productive cost?

Q2: Which part of your production process is dedicated to low-cost high-volume production and which one is dedicated to differentiate and low volume production?

Q3: How frequently is the change of volume balances between differentiated and low cost products? Explain the management challenges involved.

Q4: How do you describe your initiatives in product and service innovation? There are for supporting a differentiation approach? How do you differentiate from competitors?

Q5: When you develop new products for differentiation do you consider also a cost approach of it? How do you integrate and solve the contradiction between the two approaches?

Q6: Have you been developing product specifically with a low-cost approach? In which circumstances? For what reasons?

Q7: Does the frequency of launching new products have been accelerated in the last years? Why have you been developing more new products? How it is related to the firm's performance and strategy?

Q8: Have you been anticipating the exit of performing products to launch new ones? Explain why.

Q9: When you are developing a new product what are cost and value drivers that you consider, and in which part of the value chain (refers to a questionnaire of the section value chain analysis).
Q1: In terms of financial management, how do you control the cost and value drivers linkage with the strategy/value propositions?

Q2: Do you do frequently cost drivers analysis through the value chain? For what purpose? Under which circumstances?

Q3: Do you do frequently value drivers analysis through the value chain? For what purpose? Under which circumstances?

Q4: How do you describe the volatility of the firm results?

Q5: How do you describe the volatility of the cost drivers?

Q6: What type of contingencies have you undertaken to lead with turbulence?

<table>
<thead>
<tr>
<th>Firm Strategy Architecture</th>
<th>Industry Forces Analysis</th>
<th>History of Firm's Strategic Change - Zambetta</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Analysis of the Firm's Original Strategy and the Agents of Disruption</strong></td>
<td><strong>Firm's Original Strategy and Competitive Advantage</strong></td>
<td><strong>Agents of Disruption</strong></td>
</tr>
<tr>
<td><strong>Firm's Choices and Positioning</strong></td>
<td>What was the firm's original positioning? What was the main firm's value proposition at the time? What were the firm's key factors that used to sustain a competitive advantage?</td>
<td>Describe why the original firm's strategy lost its competitive advantage. What happened? What factors destroyed the firm's competitive advantage? Describe how it happened.</td>
</tr>
<tr>
<td><strong>Customer Loyalty and Value Perception</strong> (Power of Buyers)</td>
<td>Describe the customer's behavior and value perception at the time, how it correlated with the firm's original positioning?</td>
<td>Describe the role that customers' behaviors and value perceptions had in the loss of competitive advantage.</td>
</tr>
<tr>
<td><strong>Nature of Competition</strong> (Level of Intensity)</td>
<td>Describe the nature of rivalry at the time.</td>
<td>Describe the role of rivalry in the loss of the firm's competitive advantage.</td>
</tr>
<tr>
<td><strong>Firm's Core Competencies</strong></td>
<td>Describe what was the core firm's competencies at the time.</td>
<td>Describe why the core firm's competences did not protect the firm's competitive advantage from disruption.</td>
</tr>
</tbody>
</table>
## Firm Strategy Architecture

### Industry Forces Analysis

#### Analysis of the Industry Characteristics at the Time of the Firm’s Original Positioning

<table>
<thead>
<tr>
<th>Barriers to Invention</th>
<th>Firm’s Original Strategy and Competitive Advantage</th>
<th>Agents of Disruption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Describe what was the barrier to invention of the firm value proposition at the time.</td>
<td>How the barriers to invention are related to the loss of competitive advantage?</td>
<td></td>
</tr>
</tbody>
</table>

| Entry Barriers | Describe what was the entry barrier of the industry at the time. | How the entry barriers are related to the loss of competitive advantage? |

| Exit Barriers | Describe what was the exit barrier of the industry at the time. | How the exit barriers are related to the loss of competitive advantage? |

| Threat of Substitutes | Describe what was the threat of substitutes of the industry at the time and why the firm was so far protected from them. | Describe the role of substitutes in the loss of the firm’s competitive advantage. |

---

### Firm Strategy Architecture

#### Environment

#### Industry Turbulence Analysis

<table>
<thead>
<tr>
<th>Environment Characteristics</th>
<th>Effect on Firm’s Performance</th>
<th>Firm’s Strategic Actions for Adaptation</th>
<th>Firm’s Competitiveness Developed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand Turbulence</td>
<td>Describe the behavior of your customers. Does this change? Are the behaviors predictable? How much of your customer’s behavior can be influenced through your strategies?</td>
<td>Describe the effect of changes in customer behavior on the firm’s performance. What strategies can be implemented to adapt to these changes?</td>
<td>Describe what type of competencies the firm needed to develop or change to adapt to these customer behaviors.</td>
</tr>
</tbody>
</table>

| Supply Turbulence | Describe the nature of the supply chain. Do suppliers have enough flexibility in pricing or availability? How have changes in supply chain behavior affected the firm’s performance? | Describe the impact of changes in supply chain behavior on the firm’s performance. What strategies can be implemented to adapt to these changes? | Describe what type of competencies the firm needed to develop or change to adapt to these supply chain changes. |

| Competitive Turbulence | Do you consider that rivalry is very intense? Describe the nature of competition. Are the competitors diversified? What are the major types of competition? | Describe the effect of changes in rivalry on the firm’s performance. What strategies can be implemented to adapt to these changes? | Describe what type of competencies the firm needed to develop or change to adapt to these competitive changes. |

| Technological Disruption | Do you consider that technological factors have been changing the industry environment? Describe what technological changes have been changing the nature of the game. | Describe the effect of changes in technological disruption on the firm’s performance. What strategies can be implemented to adapt to these changes? | Describe what type of competencies the firm needed to develop or change to adapt to these technological disruptions. |
## INDUSTRY TURBULENCE ANALYSIS

<table>
<thead>
<tr>
<th></th>
<th>READINESS</th>
<th>RESPONSIVENESS</th>
<th>RESILIENCE</th>
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</thead>
<tbody>
<tr>
<td>DEMAND TURBULENCE</td>
<td>Do you consider that the firm have been reacting correctly and at the right time the signals of customer changes?</td>
<td>Do you consider that the firm have been responding correctly and at the right time to customer changes?</td>
<td>Do you consider that the firm have been adapting effectively to unpredictable customer changes?</td>
</tr>
<tr>
<td>SUPPLY TURBULENCE</td>
<td>Do you consider that the firm have been reacting correctly and at the right time the signals of supply changes?</td>
<td>Do you consider that the firm have been responding correctly and at the right time to supply changes?</td>
<td>Do you consider that the firm have been adapting effectively to unpredictable supply changes?</td>
</tr>
<tr>
<td>COMPETITIVE TURBULENCE</td>
<td>Do you consider that the firm have been reacting correctly and at the right time the signals of internalisation of rivals and competitors manoeuvres?</td>
<td>Do you consider that the firm have been responding correctly and at the right time to internalisation of rivals and competitors manoeuvres?</td>
<td>Do you consider that the firm have been adapting effectively to unpredictable internalisation of rivals and competitors manoeuvres?</td>
</tr>
<tr>
<td>TECHNOLOGICAL DISRUPTION</td>
<td>Do you consider that the firm have been reacting correctly and at the right time the signals of technological disruption?</td>
<td>Do you consider that the firm have been responding correctly and at the right time to technological disruption?</td>
<td>Do you consider that the firm have been adapting effectively to unpredictable technological disruption?</td>
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</tbody>
</table>

---

## FIRM STRATEGY ARCHITECTURE

### MARKET SEGMENTATION

**Key Success Factors Analysis**

What are the main characteristics that group customers under the same set of preferences and behaviour?

### Market Segment A

<table>
<thead>
<tr>
<th>SEGMENT DESCRIPTION</th>
<th>ENVIRONMENT</th>
<th>NORMAL CONDITIONS</th>
<th>DEMAND TURBULENCE</th>
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<tr>
<td>PRICE SENSITIVITY</td>
<td>High, Medium, Low</td>
<td>How much the customer is sensitive to price under normal conditions?</td>
<td>How Customer Price Sensitivity is affected under a turbulent environment?</td>
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<tr>
<td>PRODUCT FEATURES</td>
<td>Design, Quality, Functionality, Usability</td>
<td>Which are the product features that customers are willing to pay more?</td>
<td>Does customers are still willing to pay more for those differentiated product features under a turbulent environment?</td>
</tr>
<tr>
<td>SERVICE FEATURES</td>
<td>Pre-Sales and Post-Sales Services, Complement Services</td>
<td>Which are the service features that customers are willing to pay more under normal conditions?</td>
<td>Does customers are still willing to pay more for those differentiated service features under a turbulent environment?</td>
</tr>
<tr>
<td>CUSTOMER INTIMACY</td>
<td>Product Customisation, Service Customisation</td>
<td>Does customers are willing to pay more for Customisation under normal conditions?</td>
<td>Does customers are still willing to pay more for Customisation under a turbulent environment?</td>
</tr>
<tr>
<td>BRAND LOYALTY</td>
<td>High, Medium, Low</td>
<td>Does customers are willing to pay more for Brand Image under normal conditions?</td>
<td>Does customers are still willing to pay more for Brand Image under a turbulent environment?</td>
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</table>
### Market Segment A

#### Differentiation Components

<table>
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<tr>
<th>Product Attribute Analysis</th>
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<tbody>
<tr>
<td>CUSTOMER PRICE PERCEPTION</td>
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<td>PRODUCT DESIGN</td>
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<tr>
<td>PRODUCT QUALITY</td>
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<tr>
<td>PRODUCT USABILITY</td>
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<tr>
<td>DELIVERY SERVICE</td>
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<tr>
<td>CUSTOMER SUPPORT</td>
<td></td>
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<tr>
<td>PRODUCT AND SERVICE CUSTOMIZATION</td>
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</tbody>
</table>

For each category of value describe the attributes that sustain a differentiation approach.

#### Low-Cost Components

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<td>PRODUCT FUNCTIONALITIES</td>
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<td>PRODUCT DESIGN</td>
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<td>CUSTOMER SUPPORT</td>
<td></td>
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<tr>
<td>PRODUCT AND SERVICE CUSTOMIZATION</td>
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</table>

For each category of value describe the attributes that sustain a low-cost approach.

---

### Market Segment A

#### Firm Value Proposition

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<th>Product Attribute Analysis</th>
<th>COMPETITOR A</th>
<th>COMPETITOR B</th>
<th>COMPETITOR C</th>
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<td>CUSTOMER SUPPORT</td>
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</tr>
<tr>
<td>PRODUCT AND SERVICE CUSTOMIZATION</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Describe the firm’s relative position (superior, equivalent, inferior) and which initiatives are planned for each value proposition attribute.

Describe the firm’s relative position (superior, equivalent, inferior) and which initiatives are planned for each value proposition attribute.

Describe the competitor’s relative position (superior, equivalent, inferior) and which initiatives are planned for each value proposition attribute.

Describe the competitor’s relative position (superior, equivalent, inferior) and which initiatives are planned for each value proposition attribute.
### FIRM STRATEGY ARCHITECTURE

#### VALUE CHAIN ACTIVITIES

**Value Chain Analysis**

<table>
<thead>
<tr>
<th>Process Name – Activity Name</th>
<th>Firm Internals</th>
<th>External Competitors</th>
<th>Decision Process</th>
<th>Implementation/Structural Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Efficiency Initiatives for Improving Actual Cost Drivers</strong></td>
<td>What are the initiatives/projects of efficiency in execution or planned to improve the actual cost drivers?</td>
<td>How does the business model change with changes in the industry dynamics?</td>
<td>Explain how the projects/initiatives have been addressed and managed? Is the cost driver addressed centrally or managed by specific teams?</td>
<td>How have the initiatives been implemented? By the same team or different teams? How is the same implemented in different regions?</td>
</tr>
<tr>
<td><strong>Innovative Initiatives for New Sources of Low Cost</strong></td>
<td>What are the initiatives/projects of innovation in execution or planned to reduce the low cost aspects?</td>
<td>How does the business model change with changes in the industry dynamics?</td>
<td>Explain how the projects/initiatives have been addressed and managed? Is the cost driver addressed centrally or managed by specific teams?</td>
<td>How have the initiatives been implemented? By the same team or different teams? How is the same implemented in different regions?</td>
</tr>
<tr>
<td><strong>Efficiency Initiatives for Improving Actual Value Drivers</strong></td>
<td>What are the initiatives/projects of efficiency in execution or planned to improve the actual value drivers?</td>
<td>How does the business model change with changes in the industry dynamics?</td>
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<tr>
<td><strong>Innovative Initiatives for New Sources of Differentiation</strong></td>
<td>What are the initiatives/projects of innovation in execution or planned to create new value drivers?</td>
<td>How does the business model change with changes in the industry dynamics?</td>
<td>Explain how the projects/initiatives have been addressed and managed? Is the cost driver addressed centrally or managed by specific teams?</td>
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</tbody>
</table>

In case of conflict between the efficiency and innovation approach, how has it been solved/reintegrated? Explain the main challenges.

---

#### FIRM STRATEGY ARCHITECTURE

**Value Chain Analysis**

**Step 1 – Value and Cost Drivers Analysis**

<table>
<thead>
<tr>
<th>Cost Drivers Analysis</th>
<th>Structural Cost Driver Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economy of Scale</td>
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</tr>
<tr>
<td>Economy of Scope</td>
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<tr>
<td>Learning Effect</td>
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</tr>
<tr>
<td>Technology Innovation</td>
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<tr>
<td>Process Complexity</td>
<td></td>
</tr>
<tr>
<td>Preferential Access to Raw Material</td>
<td></td>
</tr>
</tbody>
</table>

**FIRM COMPETENCIES**

Describe how cost driver is related to customers and external competitors? Does it support a competitive advantage? Describe what type of competencies that have been developed to manage the cost drivers? How does one compare this competencies with main competitors (portfolio, requirements, intensity)?

---

**FIRM STRATEGY ARCHITECTURE**

**Step 2 – Efficiency and Innovation Approach Analysis**

**Value Chain Analysis**

<table>
<thead>
<tr>
<th>Process Name – Activity Name</th>
<th>Firm Internals</th>
<th>External Competitors</th>
<th>Decision Process</th>
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</tr>
</tbody>
</table>

In case of conflict between the efficiency and innovation approach, how has it been solved/reintegrated? Explain the main challenges.

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**FIRM STRATEGY ARCHITECTURE**

**Step 1 – Value and Cost Drivers Analysis**

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<td>Process Complexity</td>
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<td>Preferential Access to Raw Material</td>
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</table>

**FIRM COMPETENCIES**

Describe how cost driver is related to customers and external competitors? Does it support a competitive advantage? Describe what type of competencies that have been developed to manage the cost drivers? How does one compare this competencies with main competitors (portfolio, requirements, intensity)?
<table>
<thead>
<tr>
<th>Cost Drivers Analysis</th>
<th>STRUCTURAL COST DRIVER ANALYSIS</th>
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<tbody>
<tr>
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<td>FIRM INTERNALS</td>
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<td>CAPACITY UTILISATION</td>
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<tr>
<td>Explain how the cost drivers are relevant for the firm strategy and performance.</td>
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<tr>
<td>For what purpose is it used?</td>
<td></td>
</tr>
<tr>
<td>What are the incentives, undertakings (or planning) to improve its efficiency?</td>
<td></td>
</tr>
<tr>
<td>Describe how this cost driver is related with customers and value propositions?</td>
<td></td>
</tr>
<tr>
<td>Describe how it is related with competition?</td>
<td></td>
</tr>
<tr>
<td>Does it support a competitive advantage?</td>
<td></td>
</tr>
<tr>
<td>Describe how this cost driver is relevant to lead with turbulence or supply? How it is managed?</td>
<td></td>
</tr>
<tr>
<td>Does it support an adaptive advantage?</td>
<td></td>
</tr>
<tr>
<td>Describe what type of competencies that have been developed to manage the cost drivers. How do you compare this competencies with main competitors (superior, equivalent, inferior)?</td>
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<tr>
<td>PLANT LAYOUT EFFICIENCY</td>
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<td>LINKAGE WITH SUPPLIER AND CUSTOMER</td>
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