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**NETFLIX AND ITUNES CASE STUDY RESEARCH ON BLUE
OCEAN STRATEGY**

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ABSTRACT

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<p>The objective of the thesis was to present different schools of strategy and the blue ocean strategy in particular.</p> <p>Two main questions of the research where the importance of creative thinking while developing a strategy and how a strategy influences the structure of a firm.</p> <p>The topic of this research is important because it provides an alternative for the most common view of a strategy as positioning and therefore choosing between differentiation and low cost focus.</p> <p>A method which was used is a case study approach where two companies, Netflix and iTunes were analyzed.</p> <p>The key results were, inter alia, that value innovation can be a reason of a success of a company, provided that a firm is able to keep the competitive advantage by constant development.</p>		

<p>Key words blue ocean strategy, case study, iTunes, Netflix, strategy, ten schools of strategy</p>

ABSTRACT

CONTENTS

1 INTRODUCTION.....	1
2 BACKGROUND KNOWLEDGE	2
2.1 The Design School - strategy formation as a process of conception	3
2.2 The Planning School - strategy formation as a formal process	4
2.3 The Positioning School - strategy formation as an analytical process	5
2.4 The Entrepreneurial School - strategy formation as a visionary process.....	8
2.5 The Cognitive School - strategy formation as a mental process	9
2.6 The Learning School - strategy formation as an emergent process	9
2.7 The Power School - strategy formulation as a process of negotiation.....	11
2.8 The Cultural School - strategy formation as a collective process.....	12
2.9 The Environmental school - strategy formation as a reactive process.....	13
2.10 The Configuration School - strategy formation as a process of transformation	14
2.11 Blue ocean strategy	17
3 RESEARCH QUESTION & METHOD.....	23
3.1 Research questions	23
3.2 Case study method	23
4 RESULTS	26
4.1 Netflix - Introduction	26
4.2 Applying Blue Ocean strategy tools.....	27
4.3 Summary	29
4.4 iTunes - Introduction	29
4.5 Applying blue ocean strategy tools	30
4.6 Summary	32
5 CONCLUSION	34
REFERENCES.....	36
FIGURES	
FIGURE 1. Growth share matrix	6
FIGURE 2. Porter's generic strategies	7
FIGURE 3. The emergent strategy	10
FIGURE 4. Model of an entrepreneurial organization	15
FIGURE 5. Model of a machine organization	16
FIGURE 6. Model of a professional organization	16
FIGURE 7. Model of a diversified organization.....	17
FIGURE 8. The four actions framework	19
FIGURE 9. Eliminate-Raise-Reduce-Create Grid	20
FIGURE 10. Strategy canvas of [yellow tail]	20
FIGURE 11. Eliminate-Raise-Reduce-Create Grid for Netflix	27
FIGURE 12. The strategy canvas for Netflix in the initial stage	28
FIGURE 13. Eliminate-Raise-Reduce-Create Grid for iTunes	30
FIGURE 14. The strategy canvas for iTunes in the initial stage	31
FIGURE 15. The strategy canvas for iTunes nowadays	32

1 INTRODUCTION

Nowadays, setting up a new business is relatively easy. Therefore, depending on a sector, the threat of new entrants is high and markets in general are highly competitive. When the environment resembles a battle field, there is a need for a plan, a strategy how to win and reach the goal. We can learn from the history that in many cases smart allocation of resources and a cohesive set of actions were a decisive factor to a victory.

Applying this metaphor into the business world, strategy is often a deciding factor for the success or the loss of a company. For these reasons plenty of definitions and schools of strategy were created. One of them, a blue ocean strategy is worth mentioning. What distinguishes this concept from others is its highlight on thinking outside the box while developing a new strategy and focusing on the company itself instead of benchmarking.

The objective of the research and the thesis is to broaden the knowledge of the author on the subject of strategy and its applicability in firms. In order to do so I have chosen two research questions and analysed two companies to draw conclusion from them. The approach I have used is a case study method. I have used blue ocean strategy tools and applied them into practise.

My thesis contains five chapters. The second one introduces the background knowledge of my research, definitions of strategy, ten schools of strategy and the blue ocean strategy. The third chapter shows my research questions and explains the methodology I have used while analysing my cases. In the fourth chapter I present results of my analysis and draw conclusions from it. I recapitulate my thesis with a conclusion where I summarize the subject area, the results and their applicability and limitations.

2 BACKGROUND KNOWLEDGE

There are plenty of definitions of strategy. Rumelt describes it as a “coherent action backed up by an argument”. It contains both, careful planning and action. The core of a strategy consists of three elements: a diagnosis, which is the basic understanding of the nature of the challenge; a guiding policy, a plan how to cope with the challenge and a coherent set of actions to put the guiding policy into practice. (Good strategy/Bad strategy, 2011.)

Mintzberg created 5 P’s of strategy (plan, ploy, pattern, position, perspective), each presenting a different approach. In planning the highlight is put on analysis, ploy is about dealing with the competition and strategic maneuvers, pattern resembles the approach presented and followed in the past, position shows how vital it is to fit well in the marketplace, perspective illustrates the importance of organizational culture in shaping the strategy. (Mind tools, 1996-2017.)

In the article “What is strategy” Porter shows the difference between operational effectiveness and strategy. Whereas both are significant in improving the company’s performance, the role of strategy is undeniable. According to Porter, the main idea in strategy is to be different than the rivals and to maintain it. It can be done by focusing on different activities or doing them in a different way. (Porter 1996.)

From the given definitions the importance of a strategy in an organization is clear and noticeable. Therefore, choosing the right path to follow, conducting analysis with the profound knowledge and understanding of the environment, company itself and developing the competitive advantage is paramount.

First of all, in this chapter I will focus on the background knowledge of my thesis which is the book “Strategy Safari” written by Henry Mintzberg, Bruce Ahlstrand and Joseph Lampel (2009) describing ten schools of strategy. Secondly, I will write about blue ocean strategy in the context of one of those schools.

2.1 The Design School - strategy formation as a process of conception

This strategy school is one of the most influential concepts. Many other schools were created due to the development of the ideas introduced here.

The main assumption of this theory is that strategy is a link between both the internal and external environment (Mintzberg, Ahlstrand & Lampel 2009, 24). One of the most well-known and most used tools to analyse it is SWOT analysis, which stands for strengths, weaknesses, opportunities and threats. Two first letters of this acronym are meant to find the strong and weak points of the company (the internal environment) and the last letters help to find the conducting factors in the surrounding or obstacles which could prevent from the desired plan to develop (external environment).

Having analysed the situation and gained the profound understanding of the internal and external factors, it is possible to formulate a strategy which is seen as a response to the surrounding environment (Mintzberg et al. 2009, 26). In this strategy school it is vital that the process of making strategy is strictly connected with thinking and the knowledge has been learnt, it is not a natural skill. Furthermore, in this concept there is only one person responsible for the development of strategy, it is a chief executive officer, all the responsibility and the decision making process lays in his/her hands.

When it comes to the strategy itself, it has to be kept simple so that everyone involved in the implementation process can understand it. Moreover, it has to be clear and easy to be explained. At the same time it has to be detailed and planned carefully since this strategy school has a clear division between formulation and implementation process. After the first stage has been completed, introducing changes is no longer possible. Therefore, emergent strategy is not well seen in this concept. Emergent strategy occurs when, for instance, there has been unforeseen change in the external environment and additional, unplanned action has to be taken in order to overcome the unexpected situation (Mintzberg et al. 2009, 30).

In conclusion of the design school, it has both merits and drawbacks. To my mind, careful analysis leading to the profound understanding of the situation is a big advantage of this strategy, the simplicity and easiness in articulating it to others is also a big plus. However, depending on the industry, the environment can be more or less predictable and the highly unpredictable environment makes the profound understanding not possible. Therefore, there has to be a room for emergent strategy, planning

cannot be separated from action. Secondly, if so much pressure is put on the planning it may be challenging to keep the strategy simple.

2.2 The Planning School - strategy formation as a formal process

Formal process. The planning school. Having read those words it becomes obvious that the main concept of this idea was to formalize the process of formulating a strategy and to put pressure on data analysis. In the contrary to the design school, which was about thinking and adapting knowledge to formulate a strategy, the planning school focuses on setting the objectives first. The distinct feature for this concept was to differentiate goals from strategy (Mintzberg et al. 2009, 48).

Secondly, in the formal process, like in the conception process, the assessment of internal and external environment takes place, but here it is called auditing. The whole process of auditing consists of a list of checklists and tables to fill. All the steps were made in order to have a control, to try to foresee the future and prepare for it (Mintzberg et al. 2009, 52).

In the evaluation phase once again analytical tools and calculations were made in order to assess the strategy. Most of the analysis was connected to financial calculations.

In contrast, the implementation stage is less formalized than the formulation and evaluation. In this phase the main step is to decompose the strategy into small substrategies. Long term plan consists of plenty of short term actions (Mintzberg et al. 2009, 65).

The main critique of this approach was the formalized approach in formulating the strategy. In the constantly changing environment it is not possible to follow the same steps in constructing a strategy. Moreover, the strategy planners were focusing only on the data, calculations without analyzing the situation by themselves. "Strategy Safari" writers have come into conclusion that the concept would be suitable as one of the tools in formulating a strategy rather than strategy itself.

2.3 The Positioning School - strategy formation as an analytical process

The positioning school takes a very special place among other schools. Its impact on the development of numerous theories is undeniable. It consists of both the design and planning school and also has added some paramount substance. While the previous schools put pressure on the strategy formulation process, this one focuses on a strategy itself. The distinguishing factor of this concept is positioning. Positioning occurs when the company analyses the marketplace, its competitors and based on their internal analysis it can place (position) itself somewhere in the market. In order to make this happen the company uses certain, usually one of limited numbers of categories of strategies, called generic. (Mintzberg et al. 2009, 82.)

Likewise in the military situations, the companies were occupying certain positions and defending them from the competitors. Moreover, as in the battlefield, the marketplace is seen as a place of unstoppable fight where the firms are looking for an opponent's mistake to take their market shares. Therefore, many ideas in this concept are directly taken from the military strategy.

Secondly, the positioning school has created plenty of opportunities for consulting companies. The planning school has given them tools to conduct plenty of calculations and analyses (Mintzberg et al. 2009, 90). Together with positioning which could take place in any industry, the consulting firms started playing an important role in the business arena. For instance, the Boston Consulting Group has created a growth share matrix which has become one of the most well-known tools in the positioning school (FIGURE 1).

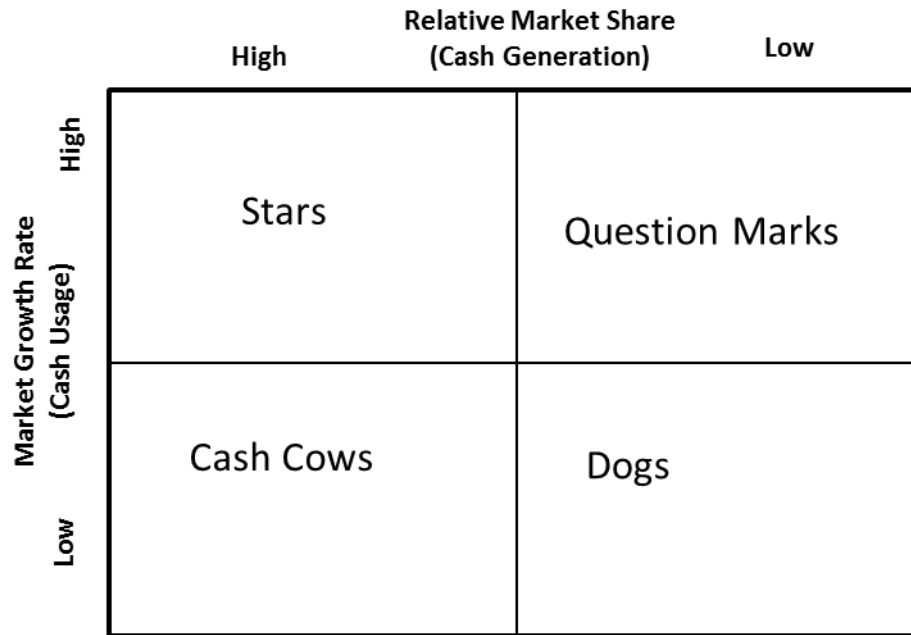


FIGURE 1. Growth share matrix. (adapted from NetMBA.com)

The matrix contains of the mix of internal and external analysis. The least profitable position is a “dog”. Even though it may generate profit, most of it or sometimes exceeding amount has to be reinvested again. The “dog” has no potential value. The most ambiguous position is a “question mark”. It has a low market share but on the other hand high growth. It requires constant investment; otherwise it becomes a “dog”. At the same time it has a chance to become a “star”. In most of the cases it generates profit and still has a growth potential. Eventually, it becomes a “cash cow” which generates a lot of profits but doesn’t require additional investment. For the proper functioning company it needs to have products from all of those positions, apart from the “dog”. It needs “cash cow” to generate cash, a “question mark” to invest cash and a “star” to be a market leader and finally become another “cash cow”. Depending on the position of the product, there is an adequate strategy ready to be implemented (Mintzberg et al. 2009, 93).

Finally, the positioning school is about Michael Porter’s work. Usually, positioning is related to Michael Porter. Subsequently, Michael Porter is related to positioning. It is not possible to describe the positioning school without mentioning Porter’s work and his undeniable contribution to it. His most famous models are: Porter’s model of competitive analysis, Porter’s generic strategies and Porter’s value chain. For the purpose of my thesis I will focus on Porter’s generic strategies (FIGURE 2).

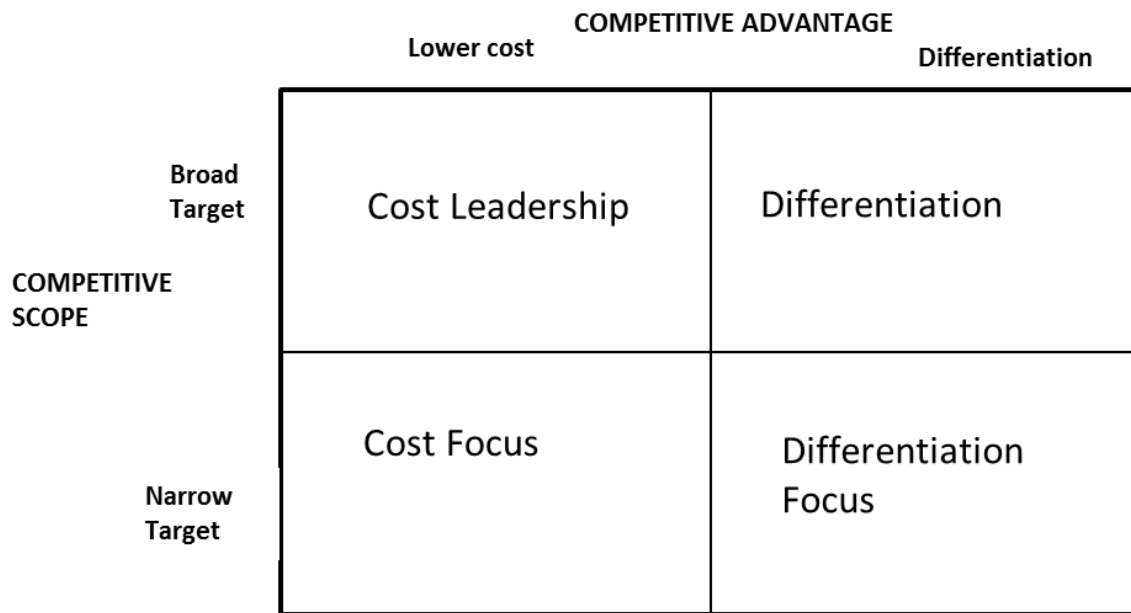


FIGURE 2. Porter's generic strategies. (adapted from Management Technology Policy)

According to Porter there are two ways of obtaining the competitive advantage: one is cost leadership and another differentiation. The first option is relatively easy to define. For the big number of customers the price of a product or service plays a major role in the decision making process. Therefore, to some extent, the lower price is the higher chance a product/service will be chosen. When it comes to the differentiation, a product/service has to possess some distinct features which will distinguish it from the competitors' offer. Porter claims that a company has to focus on one of the options; trying to obtain both at the same time is not beneficial. Another important factor is, like in the whole positioning school, that the driving force for this model is the competition; the desired place is before the competitors (Mintzberg et al. 2009, 100).

The positioning school definitely has some positive sides. While previous schools focused on the strategy formulation process, this one has combined both and at the same time looked at the strategy from a different angle. It put a big focus on competition, comparing it to the battle field. Consulting companies have created many useful matrixes to analyze the situation of the clients' businesses. However, having combined design and the planning school also has some disadvantages; it cumulates drawbacks of both of them. Likewise the design school, it separates planning from acting. Moreover, the tendency of strategies which depend on positioning is a negative situation as well. The authors of the

book believe that the most successful strategies combine analysis and creativity, in this school there is no room for creativity nor emergent strategy.

2.4 The Entrepreneurial School - strategy formation as a visionary process

The entrepreneurial school consists of two important factors: a leader and a vision. In this concept strategy is seen as a bridge between a leader and his or her vision. Leader is usually a person with a strong character who can do the decision making process by himself/herself. Moreover, most of the formulation of a strategy occurs in the leader's mind and is connected to the before mentioned vision. The process of creating the strategy is not formalized like in a planning or positioning school. The entrepreneurial school is mostly related to the design school and the responsibility of the chief executive. (Mintzberg et al. 2009, 124.)

In 1973 Mintzberg has listed the characteristic of a leader in strategy making. He has suggested four dimensions. Firstly, the driving factor for the entrepreneurial company is the need for looking for opportunities, the firm does not think about the potential obstacles. Secondly, all the responsibility lies with the leader. Thirdly, the organization is not afraid of dramatic maneuvers and risk. Moreover, the most important factor for the company is growth, since the leader is driven by the need of achievement. (Mintzberg et al. 2009, 125.)

When it comes to vision, there is no one simple explanation for it. Vision is said to be a factor that makes the company unique. Vision is also a way a leader can picture the future of the company. Vision helps as well in the coordination of work in the company. If everyone shares the vision they will go in the same direction, under a supervision of the powerful leader.

Using Mintzberg's 5 P's of strategy in this concept strategy is seen as perspective, an organization's fundamental way of doing things. (Mintzberg et al. 2009, 13). Likewise other schools, this one also has merits and drawbacks. The undeniable advantage is fast decision making process. If the whole power and responsibility is in one person's hands it does not take much time to coordinate the action of consensus or group discussions. The strong leadership is crucial when the company is new or encounters major obstacles. In the contrary, if one person decides about everything, the unexpected unavailability can cause serious problems.

2.5 The Cognitive School - strategy formation as a mental process

The cognitive school presents entirely different view of strategy in comparison to the previous schools. Instead of highlighting the formalization of the processes, putting a lot of attention into competition and the conventional way of thinking it proposes to focus on the strategist. His/her mind and the decision making process is in the center of this concept, how it becomes biased and how to diminish it. It is also the first school where the psychological side has been analyzed and given importance. (Mintzberg et al. 2009, 150.)

Another important impact of this school is the theory about the human's perception of environment. The cognitive school assumes that the capacity of our brain is limited under psychological frames. We believe that the environment has been constructed; there are strict boundaries of it that cannot be crossed. However, in this concept it is argued that it is not true. We are the ones who construct the environment, markets; we are the ones who set the rules. Therefore, we are also the ones who can change them and implement new ideas. (Mintzberg et al. 2009, 153.)

Moreover, contrary to the positioning school, here the importance of competitors is questioned. Rather than analyzing the opponents' situation it is rather suggested to focus on the information from the environment and to interpret in the company's own way.

Due to its ambiguity and not formalized structure, the cognitive school is difficult to define. Strategy is seen as a perspective that arises in the strategist's mind. It can be problematic to work on it in groups since it's an idea, concept that is not entirely defined. Creativity and "thinking outside the box" is crucial in this school. It shows the significance of the creativity and new, not formulated before thoughts instead of relying on hard data and calculations, like previous schools.

2.6 The Learning School - strategy formation as an emergent process

The learning school claims that the environment is much more complexed and hard to predict than the first schools believed. Taking this assumption into account, the strategy making process becomes far more challenging. The main idea of this concept is to learn from the past experience and therefore, to learn by doing. It is also said that not only strategists should be involved in the strategy formulating process but also people who will be affected by the change. (Mintzberg et al. 2009, 176.)

In this concept so called proactive behavior is favored, a company should analyze the past, think what went wrong and what was right and try to keep those positive aspects while formulating the next strategy. A business should create the changes, not just simply react to them. That is why this school puts a lot of importance into the emergent strategy. What was initially planned, an intended strategy cannot be fully implemented due to unexpected factors and part of it is not realized. The kept part, deliberate strategy, is affected by the emergent which is the reaction for the changes (FIGURE 3). In the next strategy planning the previous emergent strategy will become intended strategy, a company is learning from its mistakes, learning by doing. (Mintzberg et al. 2009, 180.)

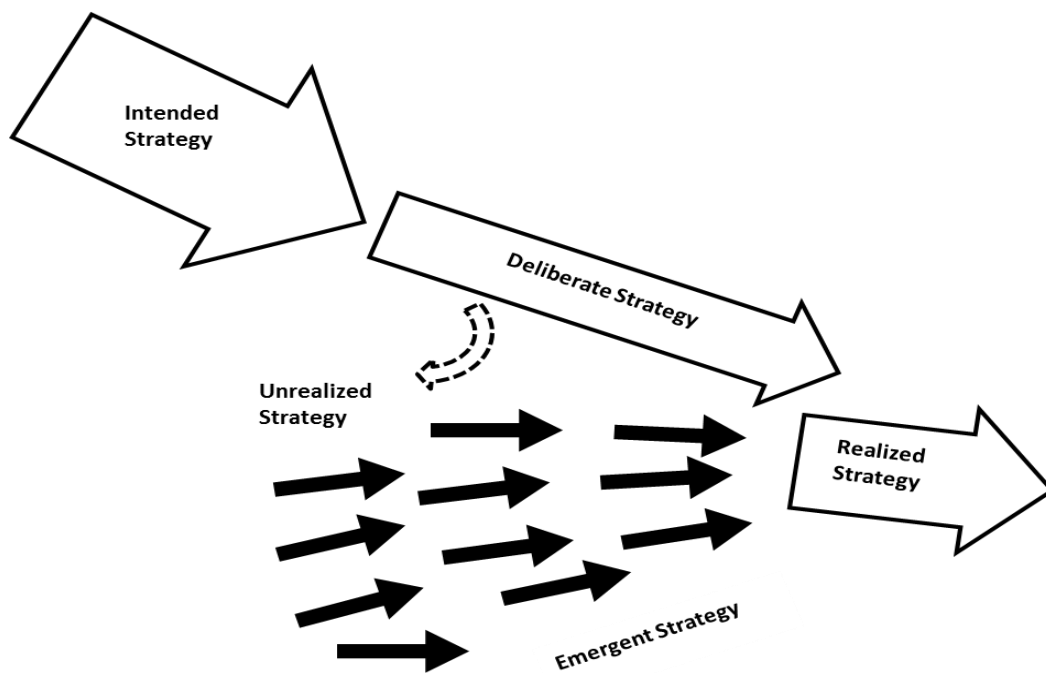


FIGURE 3. The emergent strategy. (Adapted from Mintzberg et al. 2009, 30)

In the design school SWOT analysis was one of the most important tools. At first, the company should find its strengths and weaknesses and then think how to make use of them. Here it is said that what seems right in the theory, the analysis of the company before acting, may not always turn to be correct. A company will not know the successfulness of the strategy before it tries to implement it, it combines thinking and acting. (Mintzberg et al. 2009, 190.)

In the positioning school competitive advantage could be obtained either by low cost policy or differentiation. Both of those features were closely related to the product/service itself. However, the learning organization supports deriving it from the way the company operates, the structure of the organization, the processes behind the product/service. (Mintzberg et al. 2009, 195.)

Moreover, the concept of learning organizations has been introduced as well, mainly because of the work of Peter Senge and his book “The fifth discipline” (Senge 1990). In a learning organization the process of learning is formalized, this kind of organization has learnt how to learn. The company not only does work on the development on a product/service but also on the organization’s structures, behaviors within the company and constantly tries to improve it. All of those factors matter while formulating a strategy and the decision making process.

The learning school also has some potential disadvantages. Firstly, due to the learning process and the importance of the input of many people in formulating a strategy the strategy itself might be blurred and not clear. Some companies need a clear vision and strong leadership, for instance in case of crisis, and this school does not provide it. Moreover, if everyone’s decision is taken into account the whole process might be too long and the potential opportunities may be lost.

2.7 The Power School - strategy formulation as a process of negotiation

What distinguishes the power school is the highlighted importance of politics in the organization and its big influence on strategy and its execution. This approach is similar to the positioning school. There the economic aspect was the most important one and a company was trying to position itself in the market. In this case, politics plays the leading role. The authors of the “strategy safari” divide the concept of this school into two major parts: micro and macro power. (Mintzberg et al. 2009, 235.)

In the first one, employees are no longer solely intangible assets. Some of them may have some authority in an organization and therefore might influence the formulation of a strategy process for other purposes than the welfare of a company. In this school an organization is seen as an arena where the strongest one wins and tries to diminish the competition. A creation of strategy is seen as a bargain or a compromise among the most powerful people in the company rather than a rational plan coming from careful analysis. (Mintzberg et al. 2009, 240.)

Macro power consists of plenty of connections between a firm and its surrounding. On a daily basis a company has a contact with many other entities and can use its position to influence them. The main point is how to manage those contacts in a successful way, for example by being careful with a disclosure of information. The less competitors/suppliers and other influential groups know about the situation of a firm the better. A company may pretend to do some maneuvers and mislead them. Using

Mintzberg's 5 P's of strategy, it would be a ploy. On the other hand, a company must learn how to survive in an environment of constant interdependencies. It is not always possible to have impact on others. Then, all members of a network cooperate together; it is also visible in the strategy formulation process. This concept is called a collective strategy. (Mintzberg et al. 2009, 250.)

A big strength of the power school is a way it perceives employees and their impact on the organization. They have their own beliefs and aspirations and not always a firm is on their first place. This real picture helps to understand the complex situation within a company and potential obstacles while formulating a strategy. Notwithstanding, role of power in an organization is exaggerated in this school. Since strategy is not only about power.

2.8 The Cultural School - strategy formation as a collective process

Contrary to the power school, the cultural school focuses on the organization as a whole. It has its roots in anthropology. Before, the concept of culture was used to describe nations, characteristic groups sharing similar ideas, beliefs. However, this description fits organizations as well and this fact is very important while formulating a strategy. (Mintzberg et al. 2009, 264.)

Often culture determines the way we see and interpret the world. Therefore, it also affects the way we perceive the external environment of a company which influences what decisions we make. The significant role of culture in a company is undeniable. The authors of the "strategy safari" describe as a "tissue in a human body which binds the bones of organizational structure". (Mintzberg et al. 2009, 266.)

The process of creating a strategy is based on the interaction within an organization, the beliefs of a group. Those beliefs are learnt through assimilation to the existing culture of a company. In most cases there is no official introduction to the culture, the process is not formalized. Using Mintzberg's 5 P's of strategy, in this case it would be a perspective, a culture; the vision of a company determines a strategy.

On the other hand, putting culture as such an important factor can cause some drawbacks. When the company's way in doing things is rooted very deeply, introducing any change is almost virtually impossible. When there is such a collectivity it is probable that the group will be resistant to any different point of view. In this case the process of unlearning is very important. Unlearning means to gradually

stop being accustomed only to a certain way of doing things. The concept of change management is very important as well, in order to conduct and implement a change in a proper way. (Mintzberg et al. 2009, 275.)

Moreover, culture diversity is a very challenging and important topic in a time when companies become international. They have to adjust structure and culture of a company to a place where employees have different beliefs than in the home country. Therefore, the way a firm works successfully in one place cannot be simply shifted to another. Likewise, this situation may be compared with two different firms existing in one environment. The same environment does not mean that all companies will have similar culture. Culture is unique for each organization and it may cause problems in a situation of mergers and acquisitions.

2.9 The Environmental school - strategy formation as a reactive process

As the title of the school suggests, in the environmental school the external environment plays a key role. The so called environment consists of all the things happening outside the firm and influencing the situation of it. In this concept an organization responds to the situation taking place in the environment, it presents a reactive approach rather than proactive. (Mintzberg et al. 2009, 286.)

When it comes to strategy, in this school the emphasis is put on the period of formatting a company. Then the structure and goals are defined and in the later phases a company is only responding to the situation outside. According to this theory it is not possible to have any impact on the surrounding. The condition of surviving or not depends only on the external factors, like in an ecosystem, only the strongest will survive.

The contingency theory assumes that there is no one good way to manage an organization (Mintzberg et al. 2009, 290). One of the most important factors influencing a company is the external environment. Mintzberg has divided dimensions in the environment into four groups: stability, complexity, market diversity and hostility. (Mintzberg et al. 2009, 291.)

In the first category environment can be stable or dynamic. In the first situation due to the unchanged situation in the external environment of a company there is no need to shift the firm's actions in any other direction. However, the situation doesn't always remain the same. There can be unforeseen

changes in the law affecting operations of an organization or simple change of the customer's preferences. Secondly, the surrounding environment can be complex or simple. In the simple one in the manufacturing process any sophisticated knowledge is not needed and therefore it simplifies its actions.

On the other hand, manufacturing some products requires more advanced actions which has an influence on the company's operations. When it comes to market diversity, due to the specifications of a product, some organizations must operate in several markets and others can simply exist in one integrated market. Last category, hostility, describes conditions in which a firm has to operate. In some situations the demand for a product is big and there is not much competition so the company doesn't have to fight for its position in the market. On the contrary, environment can be also highly competitive and an organization has to take it into account while planning its actions.

In conclusion, the importance of the external environment is irrefutable and the environmental school shows it. However, there is a critique that this concept has taken the role of the company's surrounding too far. Not all firm's operations depend on what is happening outside. Companies not always choose the reactive behavior over the proactive one and in fact in most cases the second move is more favorable.

2.10 The Configuration School - strategy formation as a process of transformation

The most important words of the configuration school are: transformation and configuration. In this concept depending on the internal and external environment a company has a certain structure, skeleton. With growth or significant change of the surrounding a firm has to transform from one structure to another and strategy makes the shift possible to manage and handle. Likewise, transformation is a repercussion of configuration. (Mintzberg et al. 2009, 302.)

What distinguishes this school is its flexible approach to the strategy formulating process. Taking into account the configurations in each stage a different method or school of strategy is favored. Since in each stage in a company's life cycle it needs different set of actions of strategy, leadership and decision making process. Mintzberg has described various configurations of structures and I will present some of them. (Mintzberg et al. 2009, 305-320.)

The entrepreneurial organization (FIGURE 4) presents the organizational structure in its initial stage. As presented on the picture there is usually a division between a chief on the top and the rest of employees. The boss is in charge of most of the decisions; he or she is a clear leader. This approach is advantageous in quick decision making and avoiding the long bureaucratic processes. This structure of an organization is also chosen in a case of crisis when a strong and visionary leadership is needed. As the name of this structure suggests the entrepreneurial school is the most suitable one.

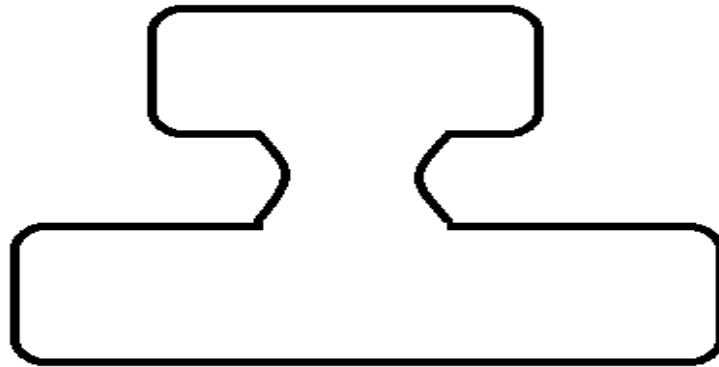


FIGURE 4. Model of an entrepreneurial organization. (adapted from: Mintzberg et al. 2009, 305)

The machine organization (FIGURE 5) shows a company in a mature stage of high job specification and standardization. Comparing to the previous structure, the present one has added two “arms”. One stands for a technocratic staff which is responsible for planning the work for others and another belongs to the support staff which provides help, such as public relations, legal counsel, etc. At the same time there have been created space for the middle managers to supervise the work of employees, the chief’s tasks have been reduced. In this situation strategy formulation is mostly compared to planning.

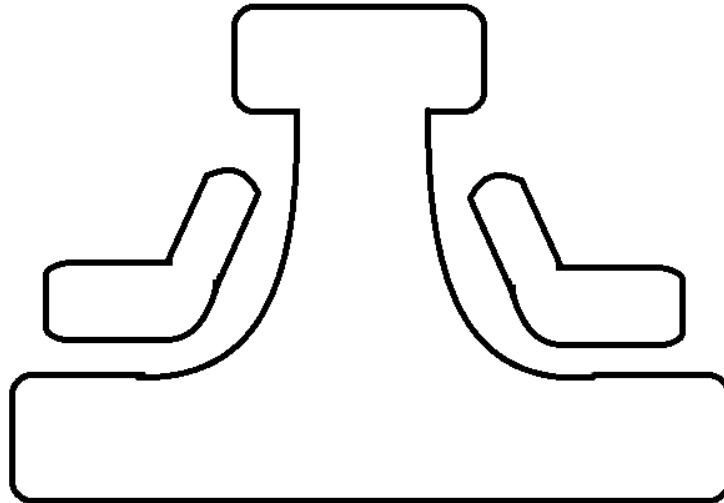


FIGURE 5. Model of a machine organization. (adapted from: Mintzberg et al. 2009, 306)

The professional organization (FIGURE 6) distinguishes from others with a highly trained employees. Therefore, there is no longer need for the control of the middle management. From the same reason the technocracy group has been reduced. However, the number of supporting employees has been increased. In this case the most fitting strategy school would be the learning one.

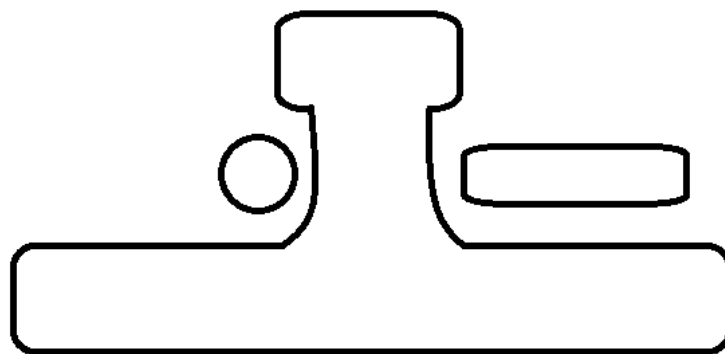


FIGURE 6. Model of a professional organization. (adapted from: Mintzberg et al. 2009, 307)

Diversified organization (FIGURE 7) consists of numerous divisions within a company. The division might be based on the geographical area of operations or the specified products. The divisions are independent, the only thing they have in common is a loose administrative structure. What is interesting in this kind of configuration is that each division can have a different approach to the strategy formulation and follow different patterns.

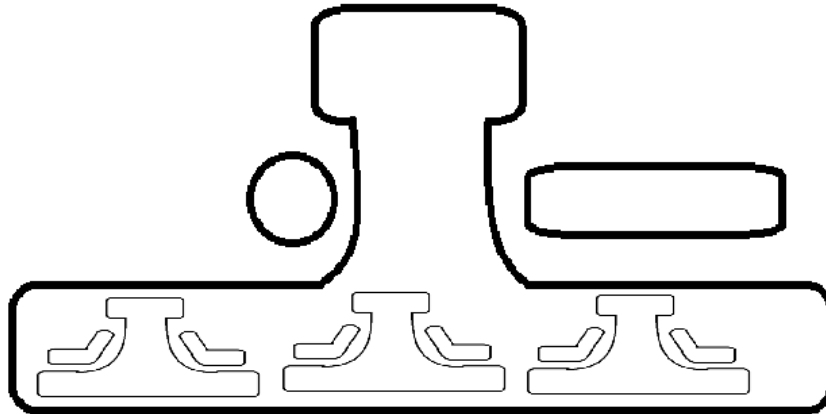


FIGURE 7. Model of a diversified organization (adapted from: Mintzberg et al. 2009, 307)

To recapitulate the description of this concept, it is a kind of supplement to the previous schools and theories. It formulates a skeleton which can be filled with the ideas from other schools. It also proves that in each situation of a company a different approach can be applied. Notwithstanding, the configuration school has been criticized of being too universal and not sophisticated enough to match the existing firms and their situations. It has been shown that the real organizations don't follow those structures, they mix them. This school is also a contrary to the contingency theory that there is no one simple way of running the firm, in this concept there are a few ways but not enough of them, the reality is more complex.

2.11 Blue ocean strategy

In the positioning school Michael Porter presented the generic strategies where a company had to position itself in the market by implementing either differentiation or low cost strategy. The purpose of it was to successfully operate in the existing market. Blue ocean strategy presents the opposite view.

Blue ocean strategy has its roots in the cognitive school where one of the main assumptions was that the market is bounded only in our minds, the rules to play are not set, and we are the ones who create them. Therefore, focusing on benchmarking and trying to outperform the competition is not relevant. Instead of tracking competitors' moves, in this concept it is suggested to put customers in the centre of attention. Understanding customers' needs and being able to adapt new tools and ideas to satisfy the

potential demand is a key in blue ocean strategy. Using the knowledge what customers value and on a basis of it creating a new market space is called value innovation. Value innovation allows the company to be different from the rivals and in the contrary to the positioning school it pursues differentiation and low cost at the same time, the reason behind it will be explained later. This strategy provides tools and frameworks to discover the distinguishing values and to formulate a successful strategy.

Kim and Mauborgne have outlined three characteristics of a good strategy (Kim & Mauborgne 2005, 80-83). The first one is focus, a company should put its efforts in certain, previously outlined directions. Otherwise the strategy will not be clear and the actions will not be coherent. Secondly, a firm should present unique values which will distinguish it from the competitors and convince customers to choose its product. Last but not least, a company should have a compelling tagline. This characteristic combines two previous ones. If there is a focus it will be easy to say in few words what are the most important values of an organization. With high differentiation a firm will be able to create a catchy tagline to attract the customers.

When it comes to tools and frameworks, blue ocean strategy has developed three main ones to present the main assumptions of it. Creating new values in the industry is not easy and it not only is a matter of thinking but also a careful analysis (Kim & Mauborgne 2005, 90-92). First of all, a company has to take into consideration the four actions framework (FIGURE 8).

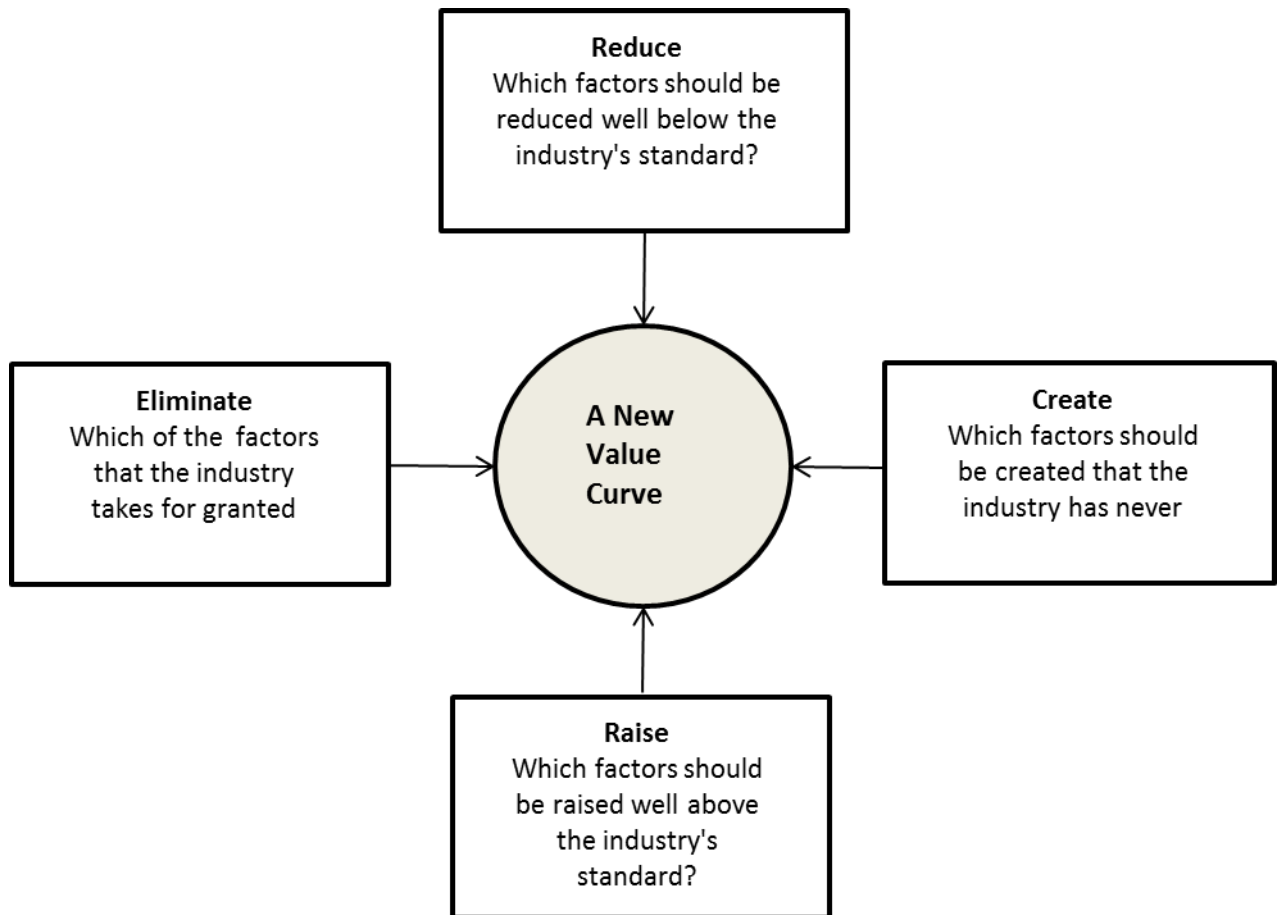


FIGURE 8. The four actions framework (adapted from: Kim& Mauborgne 2005, 90)

The four actions framework (FIGURE 8) shows four questions which a firm wanting to develop this strategy must find answers to. First of all, looking at the industry from the traditional point of view, there are typical factors which companies follow but they have never tried to challenge them. Some of them might not be necessary to invest in and in fact they may distract the organization's attention and it would be better to eliminate them. Subsequently, from the same reasons some factors should be reduced in comparison to the competitors. In the contrary, some values might be ignored by the industry but worth investing in. Lastly, some factors should be created from scratch, which have never been present on the market before. This explains why value innovation pursues both differentiation and low cost. From this framework it is clear that new ideas are to be implemented, the distinguishing factor is added. However, at the same time a company has to reduce some activities which are not essential for the operations but the industry takes it for granted. This approach brings cost reduction. (Kim & Mauborgne 2005, 120.)

When the analysis is ready it is put into the eliminate-reduce-raise-create grid which gathers responses to the questions from the four actions framework (FIGURE 9).

<p>Eliminate</p> <p>Enological terminology and distinctions</p> <p>Aging qualities</p> <p>Above-the-line marketing</p>	<p>Raise</p> <p>Price versus budget wines</p> <p>Retail store involvement</p>
<p>Reduce</p> <p>Wine complexity</p> <p>Wine range</p> <p>Vineyard prestige</p>	<p>Create</p> <p>Easy drinking</p> <p>Ease of selection</p> <p>Fun and adventure</p>

FIGURE 9. Eliminate-Raise-Reduce-Create Grid. (adapted from: Kim & Mauborgne 2005, 91)

When the factors are analyzed they are put in the strategy canvas (FIGURE 10) and compared with the competitors' situation.

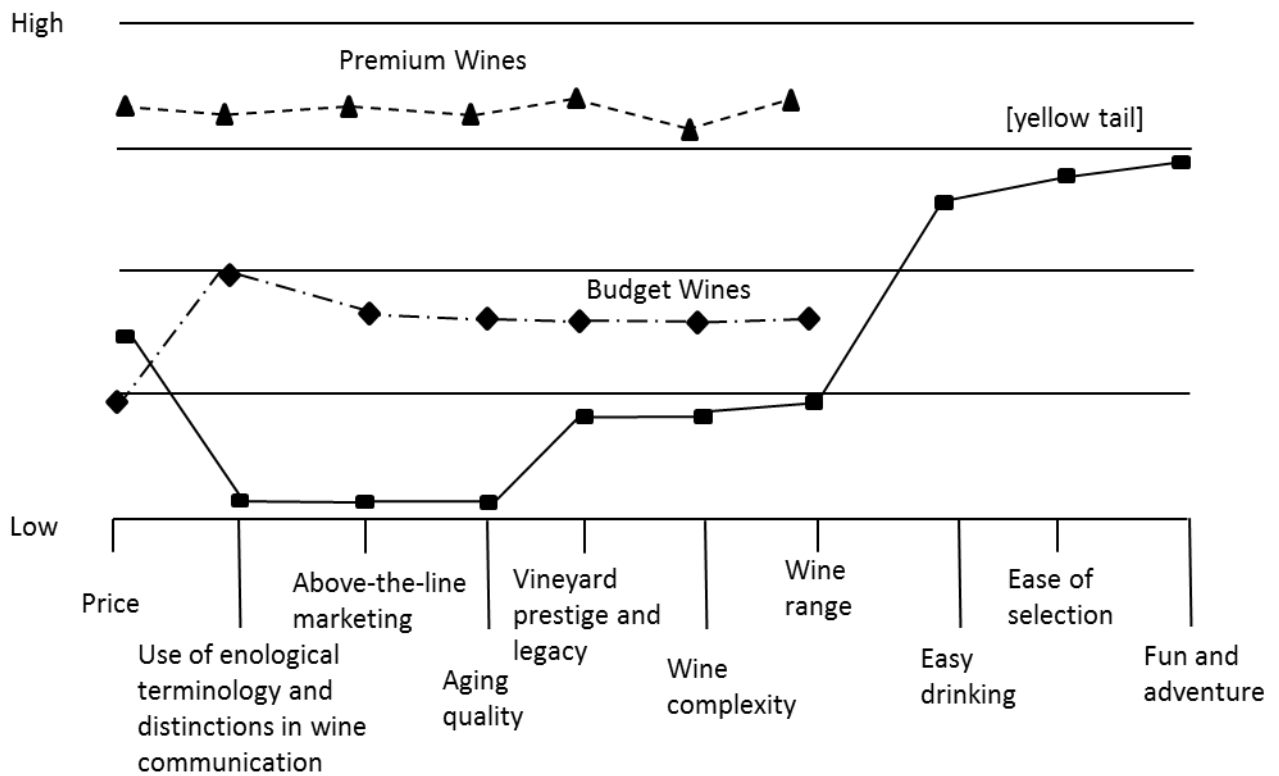


FIGURE 10. Strategy canvas of [yellow tail]. (adapted from: Kim & Mauborgne 92)

This figure presents the strategy canvas of the wine industry in the United States (FIGURE 10). Premium wines belong to the classic group of differentiation and budget wines to low cost group from the positioning school. Both divisions try to benchmark and outperform one another within their category. In contrast, wine called [yellow tail] using the blue ocean strategy is clearly different from all the rivals. The traditional groups follow the same pattern of characteristics in the market. Here it is visible that the environment is constructed and the firms only position themselves in it. However, [yellow tail] has reconstructed the market by proposing new values and therefore, has opened a new ocean with plenty of space to exist in. (Kim & Mauborgne 2005, 125.)

When a company develops and executes the blue ocean strategy new challenges arise. A firm has to deal with the issue of maintaining the ocean blue, not allowing competitors to enter their market and when to innovate again. According to Kim and Mauborgne a company can operate in the created, “blue” environment for ten to fifteen years without turning the ocean red, in other words without too many imitators in the created niche. There are plenty of reasons for it. The major ones are: for the existing companies it is very risky and costly to change the brand image and patents or law prohibits the imitation.

However, sooner or later new companies will enter the market and the competition will start again. In order to prevent this situation from happening an organization should monitor the strategy canvas and when imitators arise, the company should value innovate again and create a new blue ocean following the same steps like before.

Notwithstanding, this theory has some flaws and has been criticized. Kraaijenbrink (2017) has written an article about four risks of blue ocean strategy. He suggests that focusing entirely on customers’ needs can make the company ignore the competition and their actions. This behavior may lead to unawareness that the rivals may be able to switch easily to the potential blue ocean discovered by the company. Another idea was that some markets seem attractive but are not contested because there is no demand for it. Distinguishing concept is not enough to create a successful blue ocean, there has to be a careful analysis behind it, such as right usage of strategy canvas and the four actions framework. On the other hand the strategy canvas shows that there are two main types of rivals, low cost and differentiators which are relatively similar to each other within the divisions. Kraaijenbrink (2017) says

that some industries are much more complex and looking at the market from the simplified angle may cause over generalization and be a potential trap for a company which wants to develop the blue ocean strategy.

Another question is if the competition within red ocean is always a bad idea. Even blue oceans eventually turn red. Then the company should try to value innovate again. However, from some reasons it may not be possible. In this case a firm must be able to exist in a competitive environment and implement strategies which will allow for it. Moreover, some industries still have space for new entrants and some markets are not oversupplied. Creating a blue ocean is not an easy process and might not be the best choice for all companies and therefore sometimes it might be more convenient to operate in an already existing market space.

3 RESEARCH QUESTION & METHOD

The aim of my research is to gain a profound knowledge about strategy and to apply it in practice in analyzing case studies. I have chosen to do so by selecting blue ocean strategy as my main topic of study. This strategy has been introduced recently and with its uniqueness provides a possibility to look into market from a different angle.

The results of my research can be used by companies interested in developing this kind of approach into their business. Other possible readers of my work might be students willing to broaden their knowledge about this particular topic, or strategy on a general level.

3.1 Research questions

The main issues I will be focusing on while analyzing my case studies are: how does blue ocean strategy show in a firm, and the value of a creative approach while developing a strategy. Blue ocean strategy as a theory seems interesting and captivating, however the questions is how it really makes a difference in a company. Another compelling issue is how the actions within a company are related to the chosen strategy.

Moreover, the potential readers of the outcome of my work might not necessarily choose to implement the blue ocean strategy, but with my work I want to highlight how creativity and bringing new ideas are crucial. The ten schools of strategy have presented different approaches in developing a new path which companies will follow. It was shown that focusing only on analyzing data is not enough to come up with a good plan; another factor is needed for that. And this is creative thinking which the blue ocean strategy provides without a doubt.

3.2 Case study method

Case study is, like its name says, a study on a case. It is a research conducted to broaden the scientist's knowledge about a specific subject in a real life scenario. Ghauri (2004) suggests steps which should be taken in order to create a good case study.

First of all, a researcher should wisely choose a subject to study, a question to answer. The case study method is most useful when it answers “why” and “how” questions. It would not be possible to study the number of companies adopting some regulations and conduct a research in only one of those organizations. In this case the best approach would be to ask why those regulations are needed and how they show in a firm. In the case of my research I have decided to answer two questions in the context of blue ocean strategy, how the chosen strategy shows in a firm and the importance of creative in the development of a new strategy.

Secondly, a researcher should choose what case or cases he or she wants to examine. The criteria should contain, inter alia, the choice of a group/company to study, the accessibility of information, the correlation between the selected case and the area of study in the background knowledge of a research and the number of cases. I have selected Netflix and iTunes as my case studies. Both companies belong to the Technology, Media and Telecom sector which characterizes with rapid innovations and therefore, a challenging industry to exist in. In this kind of markets proposing a new value and at the same time proceeding with lowering the costs strategy may be vital in order to gain a competitive advantage. Both companies decided to follow this path and proposed new ideas in within its industries. By selecting those cases I was trying to show what factors decided that after some years one company remained profitable and one did not. When it comes to gathering the data from the internet, I have visited the websites of those firms, read publications in the Harvard Business Review and searched for the articles on other websites. I have also created an account in Netflix and asked opinions of others.

In the analysis of the case study, the first step should be some kind of introduction, for instance a brief history of a company so as to have a basic understanding of a firm and the industry. The next step is to analyze the data and present it and confront it with the research question. In my cases I have described the background of the markets and the history of the companies. Secondly, I have used the blue ocean strategy frameworks to analyze the firms and present the data. For Netflix, I have presented the data for the company in the initial stage and later described the current position of it. In the iTunes part I have showed both the initial and the present stage. The first one proved the success of the chosen strategy and the second one explained the unfavorable current stage of it. In the concluding part I have answered the research questions.

Case study method has both merits and drawbacks. The positive side is the possibility to combine the quantitative and qualitative research. First of all we can ask how many companies adapt certain regulations and then study why some of them were chosen and others not and how they were implemented.

This kind of research gives also a possibility to examine how certain approaches were used in real life situations, not only by studying the theories. On the other hand, Kahneman (2012) argued that researches tend to choose the research question and unconsciously select the case studies in order to confirm the thesis. Notwithstanding, Bent Flyvbjerg disagrees with this thesis saying that by studying a real case cannot be biased (Flyvbjerg 2011). Another general belief says that theoretical knowledge is more reliable than the practical one, Flyvbjerg (2011) in his chapter also tries to prove that real life situations are in fact more valuable.

4 RESULTS

In this chapter I will present two case studies: Netflix and iTunes. Both companies have implemented a blue ocean strategy and currently are on different stages of the strategy cycle. First of all I will describe a history of each firm, how it developed to its present shape and structure. Secondly, I will analyze the company on a basis of blue ocean strategy tools. Lastly, I will answer the research questions mentioned in the previous chapter.

4.1 Netflix - Introduction

Nowadays, most of the people have heard about Netflix and know someone subscribing the platform. It has about 109 million members in over 190 countries (Netflix 2017). All of it started in 1997 by Reed Hastings. The story says Hastings started thinking about setting a company in this industry when he had to pay a fee for late return of a DVD (CNN 2014).

Initially Netflix was lending DVD movies by post in a monthly subscription agreement. With time, when the importance and range of the Internet was growing the company has switched into streaming with variety of films and TV series in its offer. In 2013 Netflix has introduced its own series, legally available solely on its platform, “House of cards”. Taking into consideration the cost of producing a show, the move was quite risky; the company invested about \$100 million in the “House of cards”. In the result the show got eight Emmy series awards nominations and Netflix’s stock has tripled in value. (Business Insider 2015.)

Recently, the next step for Netflix was producing movies. Its film, Okja was a first streaming movie in Cannes festival which has caused a discussion about the future of streaming movies and cinemas. Forbes has noticed Netflix’s brave moves by placing it in the fifth place of the most innovative companies (Forbes 2017).

4.2 Applying Blue Ocean strategy tools

When it comes to applying Blue Ocean strategy tools into Netflix in the initial stage, the first thing we should do is to apply the four actions framework. The result of it, the Eliminate-Reduce-Raise-Create Grid (FIGURE 11) will help to proceed with pursuing differentiation and cost reduction at the same time. While analyzing the company it is important to take into consideration the market background, in this case it were stores lending and selling DVDs. Thinking about the existing market, especially its limitations and drawbacks will show the opportunity to create a new path.

<p>Eliminate</p> <p>Stores DVDs Storage capacity</p>	<p>Raise</p> <p>Comfort of watching Easy payment method</p>
<p>Reduce</p> <p>Price for obtaining licenses</p>	<p>Create</p> <p>Unlimited number of movies to watch</p>

FIGURE 11. Eliminate-Raise-Reduce-Create Grid for Netflix

First of all, Netflix has eliminated the stores where DVDs could be bought/borrowed from. Comparing to the competitors in the existing market it was a big move. The company has also resigned from the actual possessing of DVDs, all movies are available online. Therefore, it stopped needing the storage capacity. Moreover, the price of licenses is lower than the cost of purchasing DVDs for the number of customers Netflix has.

When it comes to factors raised above the competitors, the firm has highly increased a comfort of watching movies. Now the customers do not leave home in order to get a movie to watch. What is more, it is possible to close it any moment and later comeback to it and start from the stopped scene. The payment method is also easy, only card number is needed.

Last but not least, Netflix has created online accounts implementing a monthly fee without a limit for watching. The website is also personalized and suggests new movies to watch on a basis of previous preferences.

Looking at the strategy canvas (FIGURE 12), selling stores will be the high cost entertainment and DVD lending stores low cost. Obviously, the cost of watching one movie will be higher when we buy a movie than when we only borrow it. The advantage of purchasing a DVD is that we own it and can watch it again at any given moment. When it comes to a borrowed movie, the ownership is only temporary.

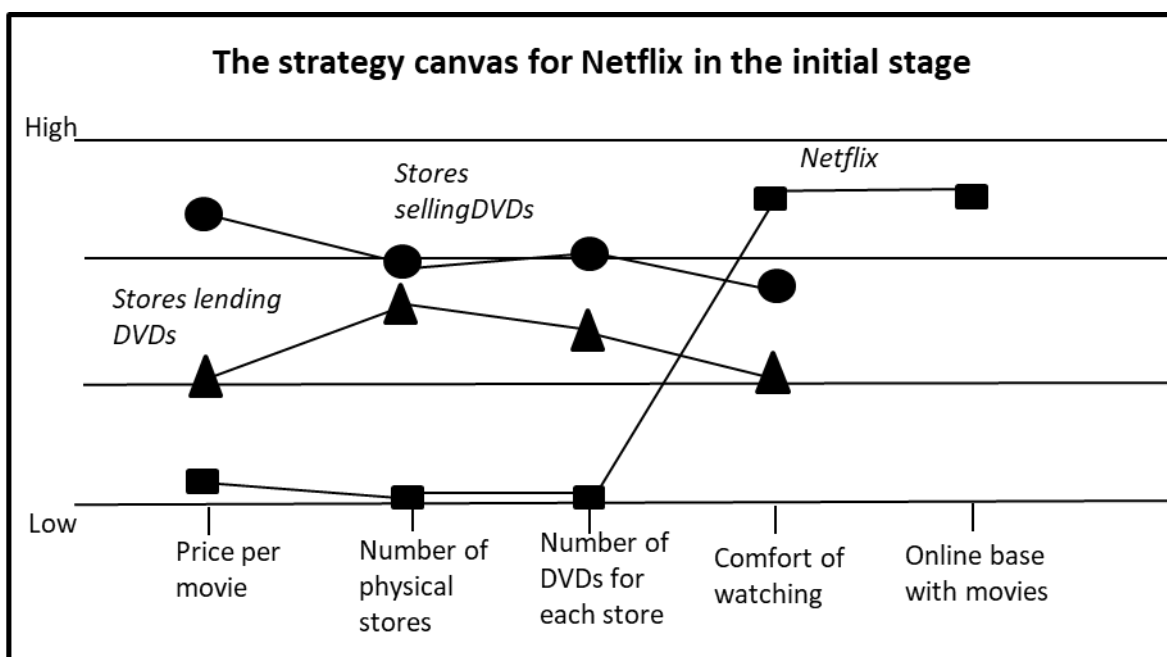


FIGURE 12. The strategy canvas for Netflix in the initial stage

Secondly, both DVD selling and lending stores need physical venues to sell their product. This move generates big costs. Moreover, the stores need to purchase the movies and pay the license. A perk of not buying a DVD is that for the same cost it is possible to watch more movies.

As it is presented, it is a traditional division between the high and low cost focus. This was how the market looked like before Netflix have entered it and changed the rules.

By applying the Eliminate-Reduce-Raise-Create Grid into practice, Netflix has reduced the cost by resigning from the expenses which were not needed to operate on the market. The company has also

diversified itself with the high quality of movies and the easy access to them with an online base of films.

4.3 Summary

Nowadays, Netflix is number one platform for watching movies legally (Forbes2017). Recently Amazon and HBO started offering similar service but the owner of Netflix, Reed Hastings does not consider them as competitors. In the interview for the Guardian Hastings says that the only challenge for Netflix is people's need to sleep, he does not consider any other competitor relevant (Guardian 2017).

According to the blue ocean strategy, he focuses on his own company. Right from the beginning Hastings used his creative ideas to drive the Netflix. The first blue ocean strategy cycle was to offer movies online. With time other companies like Amazon, Hulu, HBO came with the same offer.

Therefore in order to remain competitive on the market, Hastings created a second cycle of a strategy, which was starting to produce its own shows and movies. This behavior proves that creating more than one blue ocean within the same industry is possible.

4.4 iTunes - Introduction

iTunes case describing motivation and implementation of the blue ocean strategy is available on Kim's and Mauborgne's website (2005-2017). The authors state that in the past people who wanted to listen to music from a legal source had to buy a CD. With the development of technology and internet there was no interest in purchasing albums anymore. Music listeners wanted an online access to it and a possibility to play music on their portable devices. Moreover, if someone wanted to listen only to one song of an author he or she had to buy a CD with all the tracks.

This combination of reasons led to a development of illegal music industry. There was no legal alternative. At that point Apple company came up with an idea of introducing iPods, portable devices playing music. What is more, the success of this move caused an implementation of iTunes, a website allowing online purchasing of single songs. It not only did satisfy the major music companies and buyers

wanting to have access to legal music but also provided much better sound quality of the tracks. It turned out to be a huge success.

However, with time other companies started offering music online, some of them, like Spotify or Deezer resigned from charging money for entering their platforms. The created market space has turned red again and in order to stay competitive iTunes should have presented another blue ocean move to remain successful. Unfortunately for the Apple, it did not happen.

4.5 Applying blue ocean strategy tools

As mentioned before, in the beginning Apple noticed customers' need which market could not satisfy and created iTunes, a product which met the buyers' expectations (FIGURE 13). At the same time they have eliminated the need to purchase a physical product, a CD.

Secondly, they have raised an easy access to songs. In the past a customer willing to obtain music from a legal source had to go the store, the only way to owe a song without leaving home were illegal websites. Moreover, with introducing iTunes the price for single purchase has reduced, it became possible to buy a single record.

<p>Eliminate</p> <p>CDs Forcing customers to purchase the whole album Law issues</p>	<p>Raise</p> <p>Easy access to songs</p>
<p>Reduce</p> <p>Price for the purchase</p>	<p>Create</p> <p>Legal online access to songs</p>

FIGURE 13. Eliminate-Raise-Reduce-Create Grid for iTunes

The introduction of iTunes has undoubtedly changed the purchasing music industry. It has managed to combine the features of CDs, its compliance with law, and it gives credits to artists rewarding them for their work (FIGURE 14). Apple also made it possible to purchase legal music online and have on portable devices, such as iPods.

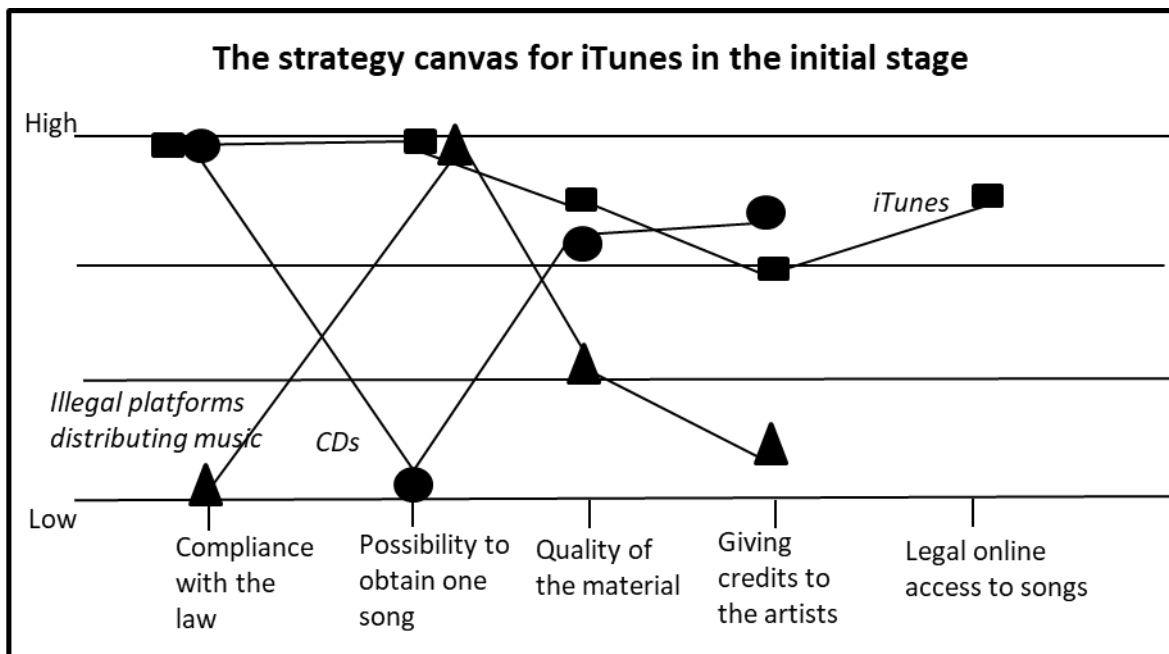


FIGURE 14. The strategy canvas for iTunes in the initial stage

With time other competitors aroused and therefore, Jobs's company was no longer the only player in the market. Competition came up with ideas like easier access to the platform by for instance connecting with Facebook account in order to create a profile in the service (FIGURE 15).

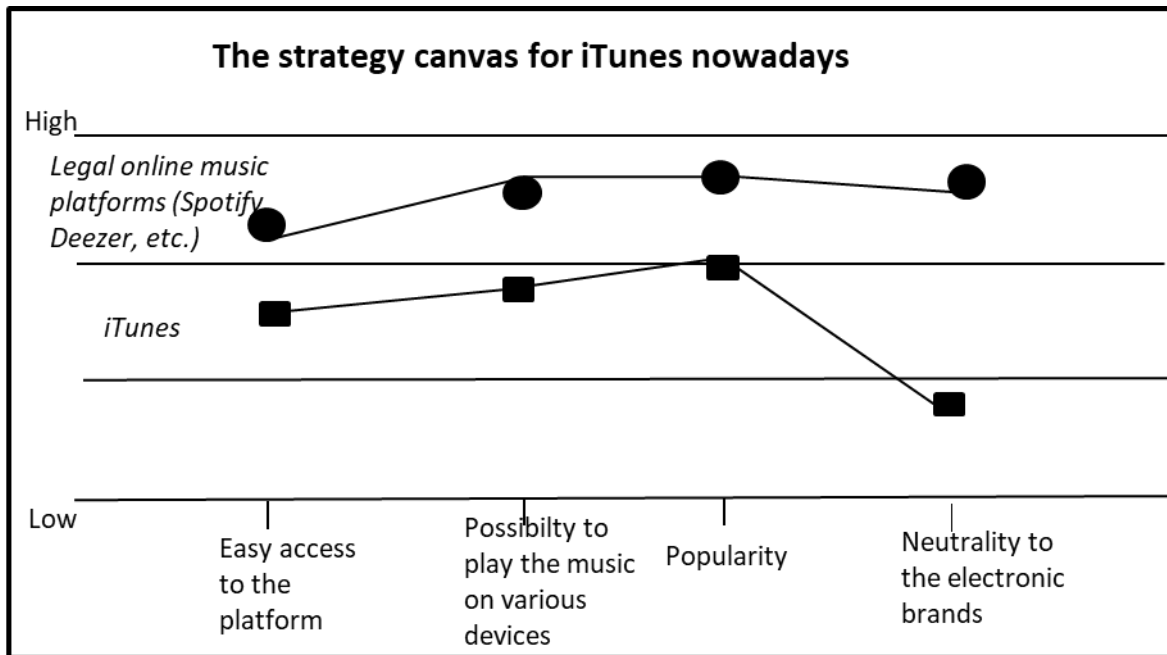


FIGURE 15. The strategy canvas for iTunes nowadays

More importantly, by strict connection with iPhones and in general Apple devices, iTunes automatically lost a big part of a market. Moreover, not all Apple customers were using the purchasing songs website. Spotify or Deezer does not have closer contact with any electronic company, it's neutral. Apple has a strong brand image and not everyone supports it. Altogether with the resignation from charging money Spotify and other platforms took over the online music market.

Another interesting aspect of iTunes case is described in an article "Why Apple music missed a beat" in the Harvard Business Review (Bonchek & Patrick 2015). Electronic industry is seen as one of the most fluctuating, changes here take place rapidly and it is very easy to be left behind by the competition. That is why constant work on improving the product is so crucial in the industry. Bonchek and Patrick also highlight that together with product innovation there should be also thinking innovation. They suggest that lack of development of thinking was a leading reason why iTunes stopped being successful.

4.6 Summary

Creative thinking was a reason why iTunes became successful. Creative thinking, or rather lack of it, was also a reason why Apple was left behind. This case proves that it is not enough to create one blue

ocean and operate in it. Sooner or later competition arises and a company has to come up with another strategic move to remain a big player on the market.

Notwithstanding, in the era of digitalization it is possible to be left behind quickly but at the same time it is easy to regain the position in the industry. Blue ocean strategy tools can be very useful in creating and executing a company's set of actions.

5 CONCLUSION

To recapitulate, the subject of my thesis was to examine the importance of creative thinking and the impact on the overall strategy of a firm in the context of blue ocean strategy. I have chosen those two research questions because usually when we think about strategy and how to develop it, we mainly think about Michael Porter's work and the positioning school. To my mind it is captivating to look at the subject of strategy from a different angle and to propose a new approach which also has positive results.

I have added also the information about ten schools of strategy based on Mintzberg's book, "Strategy Safari". The background knowledge has helped me to analyze the main part of my research which was looking into two case studies, Netflix and iTunes and helped me to understand the complexity of strategy in general.

The aim of the thesis was to broaden the author's understanding of the field of strategy and blue ocean strategy in particular. Moreover, any person interested in this area can find vital information here, proved by cases studies. The method used was case study approach examining two companies. To my mind this approach is the most reliable because I have examined the real case and I was able to show that the theory has its applicability in the real situations.

The first case study, Netflix, created a blue ocean, a niche it could invest in and was able to remain competitive in the market by constant value innovation. In the beginning the company was lending DVDs with a monthly fee instead of paying for each single movie. Later, they have switched to the online platform and started offering its original series, available solely on their website. Recently, Netflix started producing movies and displaying them also only on their channel, not in the cinema. Notwithstanding, iTunes was able to do the same in the initial stage of its activity. It has created a platform where it was possible to purchase single songs without the necessity to buy the whole CD. Unfortunately, with time the company lost its biggest asset and competitive advantage, creative thinking and adaptability to new market rules when Spotify and similar firms entered the market.

The results of my research are based on applying the blue ocean strategy frameworks and drawing conclusions from it. In order to provide more information about the companies, I have used various sources, such as Harvard Business Review and news about both firms. Moreover, the research method

I have used, case study, in my opinion is the most suitable one in this kind of research and can provide the most reliable results. During my research I was looking into two existing companies and have used blue ocean strategy frameworks to analyze the situations of both firms and drawn conclusions from it. With this kind of method I was able to combine the theoretical knowledge I have obtained from books with reasoning and understanding the situation in Netflix and iTunes and proving that the blue ocean strategy really works.

In my research I have focused on companies from the technological field. This market characterizes with a need for constant innovation not to stay behind. Secondly, the environment is highly competitive. My results prove that the blue ocean strategy is vital in this kind of industry. However, in the markets which are not that penetrated and the threat of new entrants is not that high it might be safer to continue the old practice. Since blue ocean strategy is not easy to develop and due to its innovativeness it might provide risk to the company, it could be a limitation to the strategy. Furthermore, my study was focused on environments with rapid changes; therefore my results might not be applicable in that case.

Not to overcomplicate my work, I have decided to narrow down my study into two companies from the same field and to use blue ocean strategy frameworks to analyze them. Additionally, I would like to suggest further areas to study which could complement my research and broad the understanding of the subject. First of all, a financial analysis could be conducted, to see how the strategy shows in the profit of a company, comparing to its competitors in the industry. Secondly, it would be beneficial to examine firms which have created one blue ocean and when it started turning red, how they have reacted to the change. It would show how this kind of approach to strategy prepares companies for the constant innovation and bringing new ideas to the market.

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