



## **Strategic and competitive analysis of Vodafone Faroe Islands**

**Which strategy would be most optimal for Vodafone Faroe Island,  
to achieve highest competitiveness, growth and profitability?**

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# **Master's Thesis**

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**Strategic and competitive analysis of Vodafone Faroe Islands**

**Which strategy would be most optimal for Vodafone Faroe Island, to achieve  
highest competitiveness, growth and profitability?**

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**Gøta, 1. september 2015**

## **Declaration of Research Work Integrity**

This work has not previously been accepted in substance for any degree and is not being concurrently submitted in candidature of any degree. This thesis is the result of my own investigations, except where otherwise stated. Other sources are acknowledged by giving explicit references. A bibliography is appended.

By signing the present document I confirm and agree that I have read RU's ethics code of conduct and fully understand the consequences of violating these rules in regards of my thesis.

**Gøta, 1. september 2015**

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# Abstract

During the last many decades, there has only been one tele communication supplier on the market in the Faroe Islands. This is a company, which is own 100% of the state and has by law had a monopoly in the Faroes tele market until 1998.

In 1999, a tele communication company called Kall was founded as a direct effect of the change of the regulations on the telecom market in the Faroe Islands that made it easier to enter and compete in the tele industry. Kall has had huge challenges since it was founded. It was up against a giant market leader. Kall tried to get customers by using the discount strategy and set out to target young customers and female customers. In 2007, Vodafone Island saw an opportunity to enter the Faroese market and bought 100% of the shares in Kall.

Vodafone Faroe Islands was the new company that was going to change the strategy compared to Kall.

Vodafone is a premium brand, so Vodafone was rebranded from being a discount product and service player, to a high end brand.

In this thesis the author is going to do a strategic analysis, by looking into micro and macro environment, in order to see and analyze the current strategy.

By the end of the thesis, the author is going to come to a conclusion on the current strategy and make recommendation to possible changes or back up the current strategies.

**Keywords:** *Strategic Analysis, Competitive Advantage, Vodafone Faroe Islands, Tele Com Industry, PESTLE, Porter's five forces, Value Chain, SWOT, Generic Strategies.*

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# 1. Introduction

Faroe Islands is a small country with only about 48.000 inhabitants, so it is a very small market to operate in. But on the other hand, Faroe Islands is a country with a high living standard, where the technology is a big indicator. For many years, the Faroese people only have had one supplier of telecom services on the market. Føroya Tele is the name of the telephone company and it belongs 100% to the state. So you could say that Føroya Tele has been a monopoly on the market for several years, which was decided by law in the Faroese parliament. You would think that this was a position that Føroya Tele was very satisfied with, but no. The customers wanted to get the best price and service on the market, but could not get it because of the lacking competition in that industry. In 1999, the Faroese parliament changed the law that allowed free competition in the telecom industry. Suddenly another telecom company called Kall was born; this was of course good news for the customers.

Later in 2008, Kall was rebranded to Vodafone. Vodafone is struggling to get a decent market share and so far it has been a big challenge, because the company is up against a really strong market leader, called Føroya Tele.

Vodafone has been a good alternative for the telecom customers in soon two decades, but still Vodafone is up against a huge competitor that is state own has made it very difficult for Vodafone, by the many threats they are faced with on the macro-environment.

To be able to get a picture of the state that Vodafone is in. We have chosen in this thesis to do an analysis of the company, where we take strategic issues in consideration, both in the macro environment and the micro environment. By undertaking these issues and formulate a research question that states which strategy and competitive advantage should be most in favor to Vodafone on the Faroese market. I hope to get to a conclusive research that benefits the company for future competition in the industry.

## **2. About Vodafone Faroe Islands**

This chapter is going to define some of micro environmental descriptions of Vodafone Faroe Islands like: Profile and history, mission, vision, concept and strategy, organization structure, financial performance and product and services

### **2.1. Profile and history**

Vodafone Faroe Islands is a company that offers products and services of telecommunications on the Faroese market. The company was founded back in 1999 as a direct effect to the change of the telecom regulations that the Faroese Government undertook, in order to make it easier for new companies to enter the market of the Faroese telecom industry. When the company was established in 1999, it had the name “Kall”. Kall means to get a phone call in Faroese.

At first the company tried to get license to become a wholesaler with the only telecom company on the market as a supplier, but Føroya Tele as the company is called, were not willing to meet the proposition from Kall. In 2001, Kall began to sell telecom services. At first it was only possible to buy subscriptions of home telephone services, but in 2003, the company was proud to be able to offer customers broad band internet services. When the Government in the year of 1998 changed the regulations on competing in the telecom industry, it allowed this new small company called Kall to have lower prices than the big competitor. This was the only way of giving Kall a chance to survive on the market. The Government gave Kall a time limit of three years to have the right to sell for lower prices than the competitor, so by 2006 Kall had to be able to compete on same terms as the rest of the industry. In 2007, the growth in the market stagnated and Kall had to revise what was best for the company in these hard times. Vodafone Island was one of the companies that had been holding an eye on Kall and decided to buy 100% of the stocks in Kall. This was a strategic investment, because Vodafone Island had a really strong brand, with a very strong global company behind. Since Vodafone Faroe Islands became a part of Vodafone International, it has had a huge preference in having easier and more profitable services that it can offer all over the world.

## **2.2. Mission**

When the company was established back in 1998, their value and strategy was based up on a mission. The old mission has been active from the establishment of the company until year 2015. This is the mission that Kall came up with back in 1998: “To be able to serve the best service, being an innovative company and become the leader in telecom services in the Faroe Islands” (Um Vodafone, n.d. Mission). But since the company was rebranded, the board and director have been working on a new more up to date mission statement for the company. Their new mission contains factors like being able to cover a wide range of telecom offers and services, also by having an international perspective. (Langaard, personal communication, August 11, 2015).

## **2.3. Vision**

The vision of the company is also old and does not match with current business concept, but is being revised as we speak. The vision is: “We see ourselves as delivering very good communication services and products, supported by the best customer services on the market” (Um Vodafone, n.d. Vision). Vodafone is also changing the vision because of changed strategy in the company. The new vision is about being able to give customers the best experience, like for instance when customers look at Vodafone’s homepage, when they enter our shops, when they call an our accountant. The new vision is all about having the customer in the center (Langaard, personal communication, August 11, 2015).

## **2.4. Business concept and strategy**

Vodafone Faroe Islands as the company is called today had a quite different strategy and concept back in the days. Kall was determent to compete on prices from the beginning of its establishment. Kall was a so called discount brand that tried to offer customers as cheap services and products as possible. This was the parameter that should lure customers from Føroya Tele. From 1999 to 2007, the discount strategy was over, because of vertical integration from Vodafone Iceland. When Vodafone Iceland purchased 100 % of the Kall stocks, the company was to see some big structural changes. The new company called Vodafone Faroe Islands had to rebrand the company

from being Kall “The discount concept” to Vodafone, which has a really strong brand all over the world, see webpage outline in figure 1.



Figure 1 - Webpage outline Vodafone Faroe islands (Vodafone, n.d.).

## 2.5. Organizational structure

Vodafone Faroe Island is a limited company that is own 100% by Vodafone Iceland. Vodafone Iceland has a franchise deal with Vodafone International (Langaard, personal communication, August 11, 2015).

Even if the organizational chart outline (figure 2) looks as if it is more vertical than horizontal, Vodafone Faroe Islands has a very flat organization process, where there is a very short way from the top to the bottom of the hierarchy (Bygnaður, n.d.).

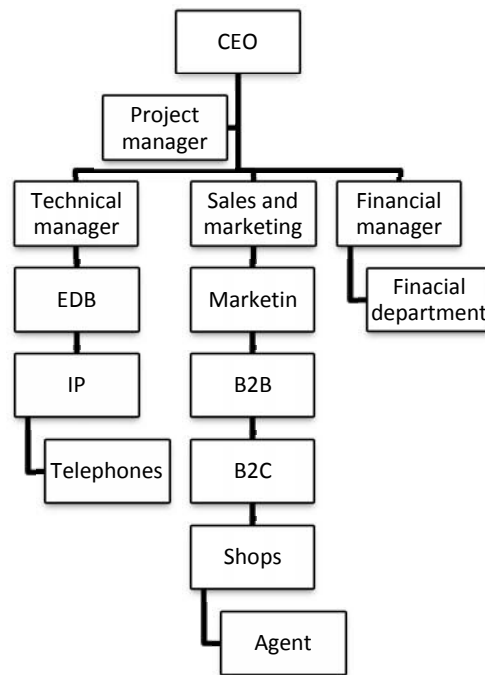
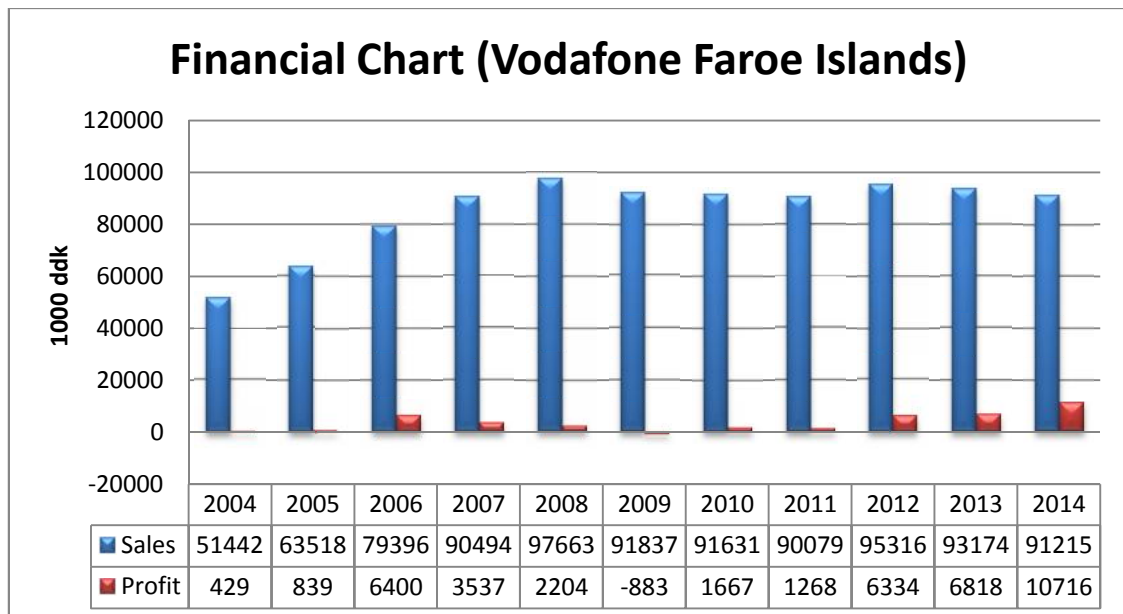


Figure 2 - Organizational chart for Vodafone Faroe Islands.

## 2.6. Financial performance

According to the financial report, Vodafone Faroe Islands have reached the biggest profit in history in the year 2014. In 2012 and 2013, the profits of earnings reach to respectively 6.3 and 6.8 million DDK. In 2014, the profit after taxes had reached to an impressing 10.7 million DDK, which is a result of rationalizing many of the internal processes in the company (Kall P/F - Ársfrásøgn 2014, n.d.).

The financial chart (figure 3) illustrates the company's financial performance from 2004 until 2014 (Rakstur 2005 – 2014, n.d.). The numbers from 2004-2007 are related to the Kall company. Here we can see an increase in sales that stops in 2007, when Vodafone Iceland decides to purchase the company and rebrand it. The huge global financial crisis is also to be seen in the Faroe Islands, which is one of the factors to resulting in a deficit in the annual report in 2009.



**Figure 3 - Financial chart for Vodafone Faroe Islands.**

The rebranding of Kall, where the concept is changed from discount services to high end services also has to win over the customers. In 2010, the company is proud to announce a profit again. The annual report from last year the performance has been increasingly a success (Kall P/F - Ársfrásøgn 2014, n.d.).

## 2.7. Product and service

Vodafone is a really strong and recognized brand all over the world, which make the customers more demanding in getting better products and services compared to before the rebranding of the old business concept by Kall. Since Vodafone Iceland purchased Kall, the company has gone from discount products and services to a business model that the customers had to get used to. Slowly the customers have become aware of the changing image Vodafone has brought to the company.

Vodafone offer products like mobile memberships, data for telephones, iPads, Internet and home telephone memberships.

Vodafone's head office is situated in the capital of Faroe Islands, called Torshavn. In the same town Vodafone has chosen to have an outlet in the biggest shopping mall in the Faroe Island. Vodafone also has an outlet in the second most crowded part of Faroe Islands, called Saltangará in Eysturoy. These outlets are a part of Vodafone's strategic

plan to be as close to the consumer as possible, to be able to keep the service level as high as possible.

Vodafone has since it was rebranded from Kall, changed the way that customers feel about the company. Now it is all about giving customers added value through services and products. This can only be done by having a strong brand and an internal strong value chain, where all departments and resources are updated, and work professional related to each other.

Compared to Kall, Vodafone is targeting a much bigger segment with many more and better services for the customers, who are of course willing to pay for this value added concept.

Because of Vodafone being market challenger on the market, where it's competitor Føroya Tele is the market leader, you should think that Føroya Tele was the first mover with the products and services on the market, but in fact Vodafone is often bringing new ideas and products to the market. For instance, this year Vodafone launched as the first of these telecom companies the 4G net. This was revolutionary both for Vodafone as a company, and also for the customers that suddenly had a huge modern technology service offered by Vodafone and not Føroya Tele. The services and products that Vodafone and Føroya Tele offer to the Faroese telecom market are very similar, so these two companies have to differentiate other ways, which we will look into later in the thesis.

### 3. The market situation

This chapter will cast a light on the domestic market situation in the Telecom market in the Faroe Islands. We will take a look at the market size, trends, market share and products.

#### 3.1. Market

In Faroe Islands market size is divided by products and share in the telecom industry. Figure 4, shows the market size for mobile phone user in the Faroe Islands. In 2014, Vodafone had 29% of the market, while Føroya Tele had 71% of the market.

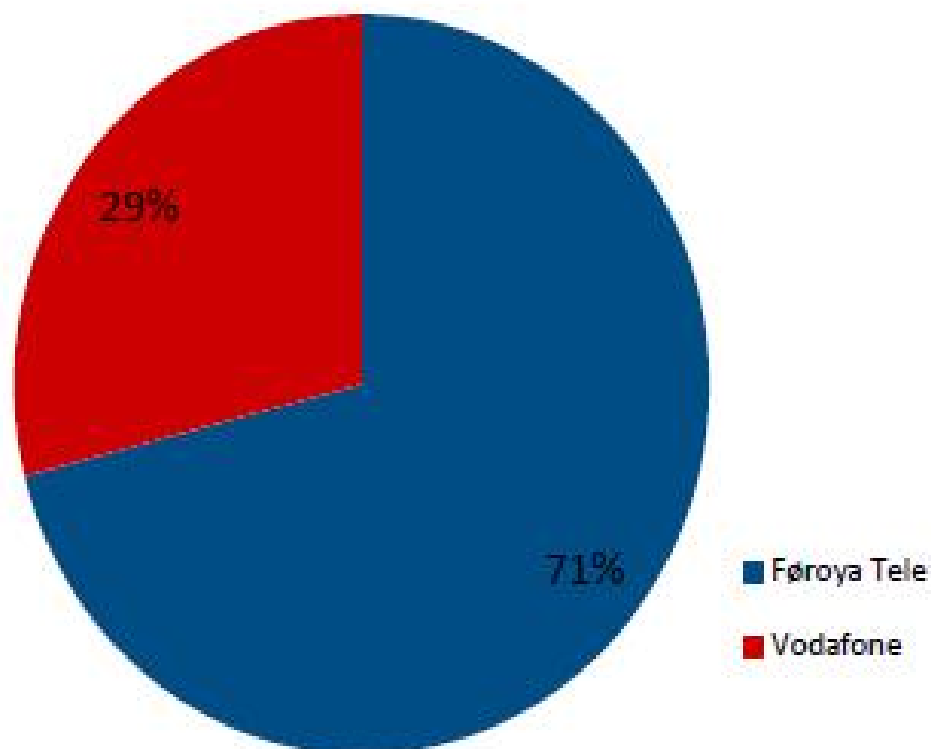


Figure 4 - Market size in the telecom industry (Fjarskiptiseftirlitið, 2014).



In figure 5, we can see how new customers have entered the market, from 2007 to 2014; there have been an increasing number of subscribers from 51.141 to 61.388. These numbers show that the subscriber mass has grown by 2.7% each year.

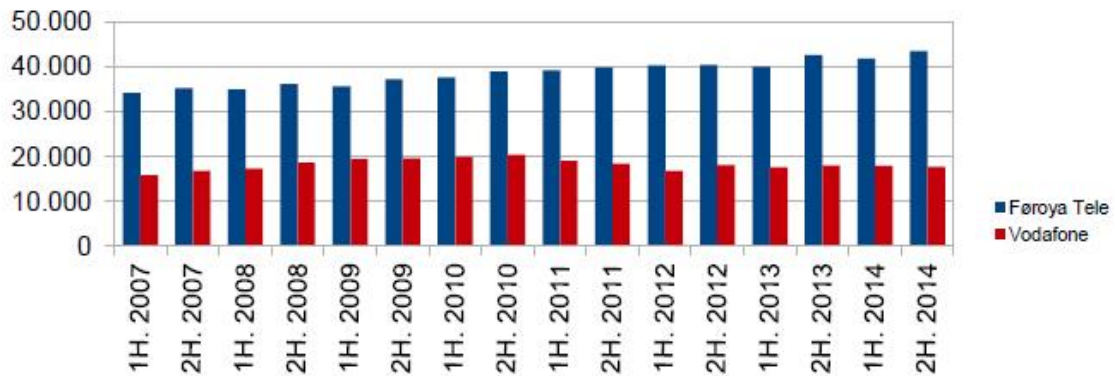


Figure 5 - Mobile Telephone: Post- and Prepaid Subscript. (Fjarskiptiseftirlitið, 2014).

By analyzing figure 6, we can see that in this portfolio Vodafone has had an increasing outgoing Domestic Traffic by 18.3%, while Føroya Tele has had a decline of 11.1%.

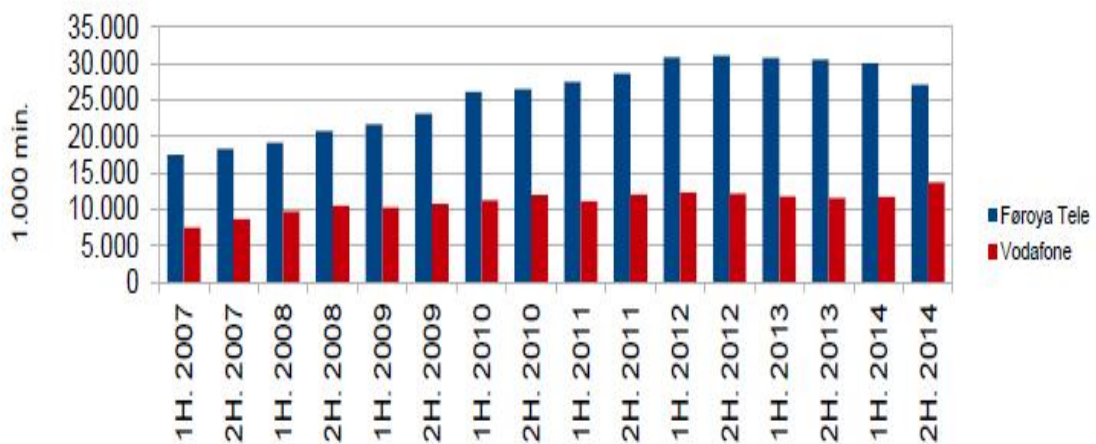


Figure 6 - Mobile Telephony - Outgoing Domestic Traffic (Fjarskiptiseftirlitið, 2014).

Figure 7 shows the outgoing international traffic from year 2007-2014. Here we can also see a big difference in comparing the year, 2007 to 2014, where the market share of Vodafone increased from, 19.3% in 2007, to 35.4% in 2014. The reason for this huge success is being able to buy services from Vodafone International. Vodafone Faroe Islands launched a new service (product) called RED, where you can as their customer call from Faroe Islands to almost every mobile or home telephone around all of Europe. This has been a great success as we can see in figure 7.

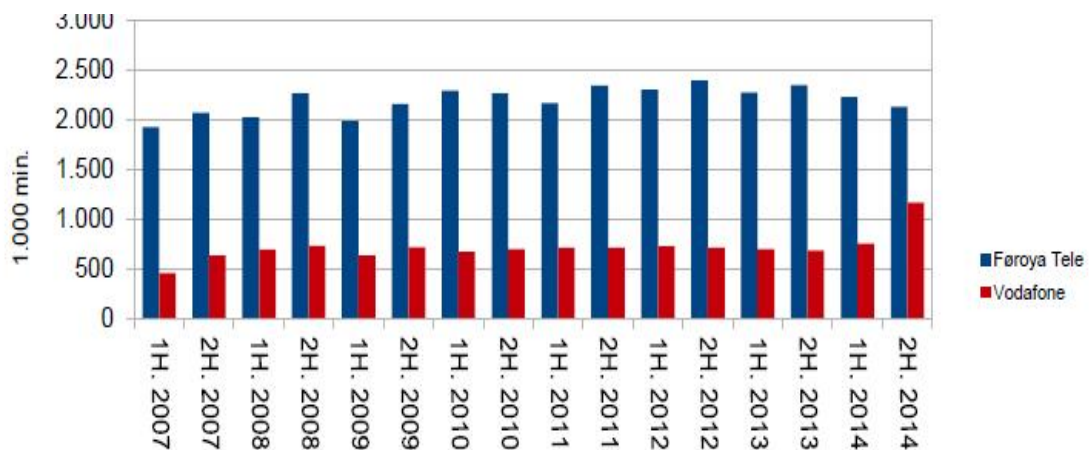


Figure 7 - Mobile Telephony - Outgoing International Traffic (Fjarskiptiseftirlitið, 2014).

Figure 8, describes the number of 2G/3G data being up and downloaded from 2007-2014. As we can see, this is a product that does more or less not exist up to 2010, but then from 2010 until 2014 it has been a product which has given Vodafone and Føroya Tele a new service to compete about. From 2010, we can see a big increase up to 2014. If we analyze the increase of market share in 2014, we can conclude that Føroya Tele went up with 37% from the year before, compared to Vodafone that went up with 178% from 2013-2014. The market share in 2014 was 73% owned by Føroya Tele and 27% owned by Vodafone.

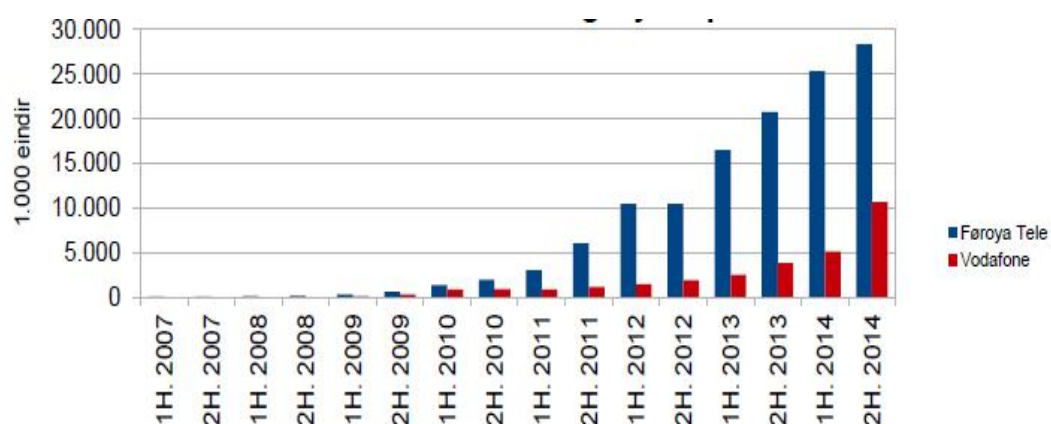


Figure 8 - Traffic for 2G/3G - Number of Mb Up/Download (Fjarskiptiseftirlitið, 2014).

When we look at all subscribers of line fixed net, there is to be seen an overall decline in users from 2007 to 2014 (figure 9). In 2007, there were 22.621 subscribers and compared to 2014 the number had reached down to 17.308 subscribers. Vodafone has about 20% of these subscribers, while Føroya Tele has about the remaining 80%.

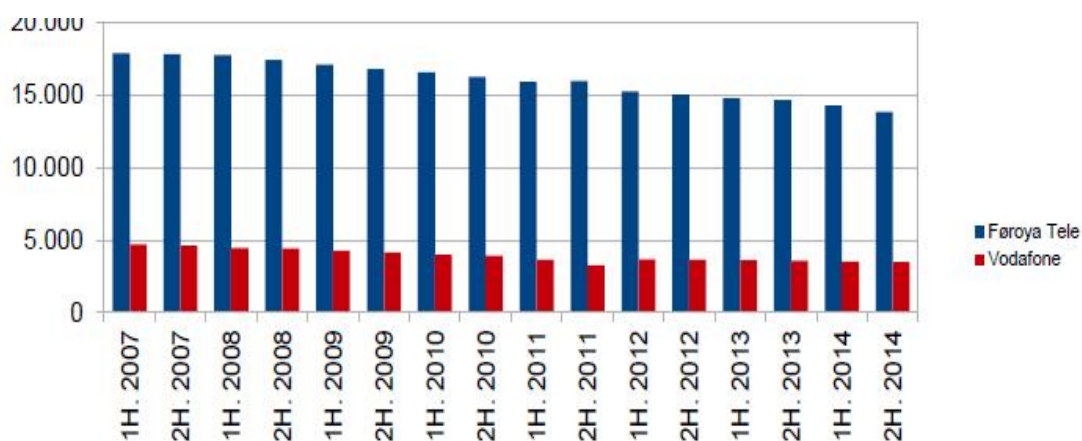


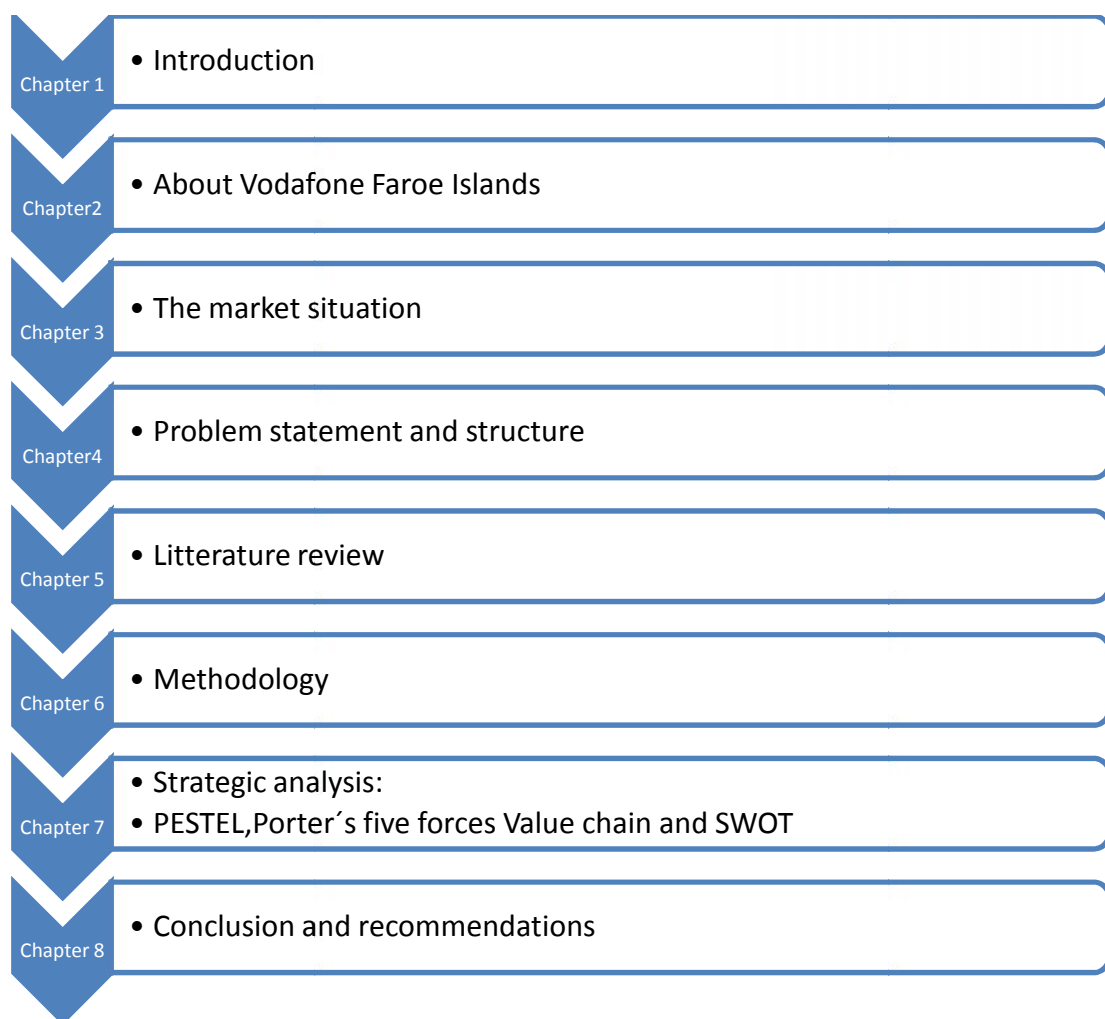
Figure 9 - Subscriber Lines Fixed Network/Market Share (Fjarskiptiseftirlitið, 2014).

## 4. Problem Statement and structure

The objective question is:

**Which strategy would be most optimal for Vodafone Faroe Island, to achieve highest competitiveness, growth and profitability?**

**Thesis structure illustrated in figure 10**



**Figure 10 - Master's thesis structure.**

In chapter one (Introduction) I am going to share a light on what the master thesis is all about and try in a short way to describe what is the problem issue and how the author of the thesis is going to solve the problem, which is formulated as a research question.

In chapter two there is an overview of the company, business concept, financial performance and a competitive scope of the market in the Faroe Islands.

Chapter three is about scope of the current market situation, with Vodafone and Føroya Tele as competitors on the Faroese market.

Chapter four (Problem statement and Structure) is built on the problem statement and which objective question is going to be relevant throughout the Master's Thesis.

Chapter five is going to be about literature review that is relevant to this thesis. In the literature will be a description on theories and tools used to understand and analyze strategy and competitive advantage.

Chapter six will define which methodology and research approach is relevant to this Master's Thesis.

Chapter seven is a conduct of strategic and competitive analysis, where the PESTEL model is used to analyze the macro environment. Then there is an industry analysis where Porters 5 forces are used. Also a look into the micro environment and do a value chain analysis to be able to look at the within resources to get an inside knowledge of the competitive advantages and disadvantages Vodafone is faced with.

Chapter eight is based up on which conclusion is drawn after analyzing the Vodafone Faroe Islands. We are going to focus on future scenarios and recommendations.

## **5. Literature review**

In order to understand the objective question of the thesis, literature was gathered that is relevant to the academic work and theories made on subjects concerning Business Strategy and Competitive Strategy.

When choose a literature review, there are a number of alternatives to consider. First type of literature is an intergraded review research that gives information about previous research in the area. Where there is a need to consider which relations among variables are relevant in the research. The second type a theoretical review where you look at several theories and argue which is the most relevant. Third type is more a background review of a literature that gives an inside of an issue or industry, where the content of the date is data for the research (Cooper, 1989). The fourth type is one of the less used, called annotated bibliographies and is more a tool used in the process as it provides the bibliographic citation to works and then a summary of the work (University of California, Santa Cruz, 2013).

In order to understand the subject of the thesis, we must look into some of the literature that is written and said about “Strategy and Competitive advantages”. In this case I find one author, is Michael E. Porter that is most relevant to look into academic published material that will share a light on understanding some of the key elements in this research.

### **5.1. Strategy and competition**

According to Porter (1980), strategy is often a used term for any plan or program, but all in all Porter refers strategy to be a result in superior economic performance. Porter’s definition on Strategy is not descriptive, but normative. He says that you have to focus on where you want to be in the future, and not so much on the decision making that brought you there. Porter believes that in order to any good strategy to pass, you have to cover five tests (Porter, 1980).

### Porter's five tests are:

- **A UNIQUE VALUE PROPOSITION.** Are you offering distinctive value to a chosen set of customers at the right relative price?
- **A TAILORED VALUE CHAIN.** Is the best set of activities to deliver *your* value proposition *different* from the activities performed by rivals?
- **TRADE-OFFS DIFFERENT FROM RIVALS.** Are you clear about what you *won't* do so that you can deliver *your* kind of value most efficiently and effectively?
- **FIT ACROSS THE VALUE CHAIN.** Is the value of your activities enhanced by the other activities you perform?
- **CONTINUITY OVER TIME.** Is there enough ability in the core of your strategy to allow your organization to get good at what it does, to foster tailoring, trade-offs, and fit? (Porter, 1980).

The value proposition is the element of strategy that looks outward at customers, at the demand side of the business. The value chain focuses internally on operations and answers three questions (figure 11). Strategy is fundamentally integrative, bringing the demand and supply sides together.

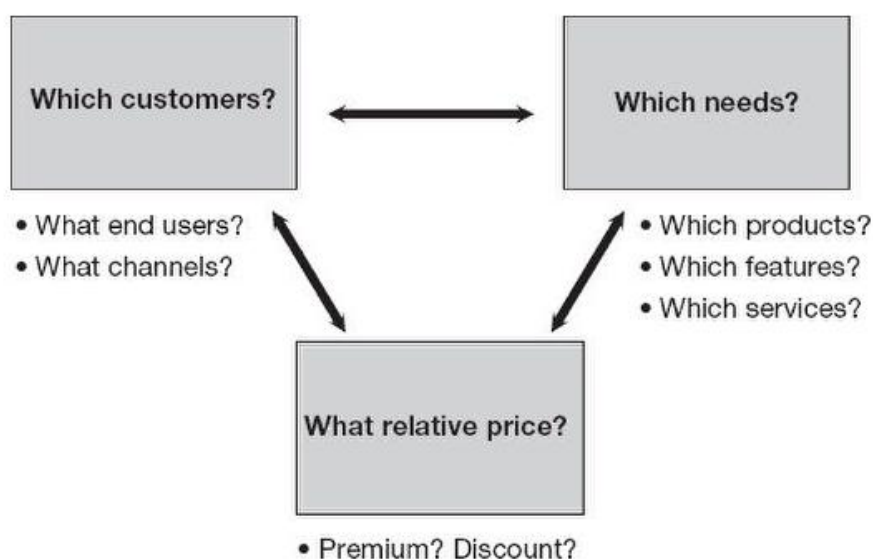


Figure 11 - The value proposition (Magretta, 2012).

### **A distinctive value proposition**

The first test called a distinctive value proposition is all about creating value: “A difference in relative price or relative costs that arises because of differences in the activities being performed” (Magretta, 2012).

### **Which Customers?**

A value proposition is often used in how to choose the right customer segments first and then finding the relative price and needs. Some value proposition is aimed at serving one or multiple segments. Customer segmentations are good part of any industry analysis (Magretta, 2012).

### **Which needs?**

It is very important to find out which needs the company is trying to fulfill. Strategy is built on a unique ability, to a particular need of a subset of needs. Often the feature of the product or service is one of the factors of having a unique ability. The value proposition is based on needs appeal to a mix of customer who might defy traditional segmentation. The company's customer will be defined, by the common need or set of needs they share at a given time, instead of belonging to a clear demographic category (Magretta, 2012).

### **What relative price?**

Sometimes relative price is the most important leg of the triangle, see figure 11. Some propositions target customers over priced in the industry. By eliminating unnecessary costs, a company could be in a better position to winning over customers.

The first test in of strategy is defined by whether your value proposition is similar to you competitor or not. If a company is trying to sell and serve the same customers and meet the same needs and sell at same prices, then you have no strategy according to Porter (Magretta, 2012).

### **A tailored value chain**

In strategy methodology, you always think of value proposition as number one. But the second test of strategy is often overlooked. Inside knowledge of what the customer needs are very important, but the company also has to consider strategy and competitive advantages in the activities inside the company. The company has to decide if it wants



to perform activities differently than its competitors or rather choose to perform different activities compared to competitors.

According to Porter, not every single activity has to be unique. To be able to achieve a competitive advantage, a company must deliver its distinctive value through a distinctive value chain. The value proposition is focused on the customer compared to the value chain, which focuses on internal operations (Magretta, 2012).

### **Trade offs**

The third test called tradeoffs is “the strategic equivalent of a fork in the path. If you take one path, you cannot simultaneously take the other”.

Products or activities are not just different, where there are tradeoffs, they are inconsistent.

If we take Ikea as an example, Ikea is a huge global company, which controls its own supply chain. This makes it easier for producing a certain product at a certain cost, which makes the opportunity to make tradeoffs. Ikea also carries a narrow style of range and variation in their product portfolio, which is focused on the Scandinavian market. Ikea is also known for its tradeoffs by telling the customer to help themselves and thereby get a cheaper product. Ikea makes tradeoffs by not outsourcing any kind of shipment or warehouse store, but on the other hand have locations in their own outlets, which also is a factor of keeping the products as cheap as possible (Magretta, 2012)?

### **Fit across value chain**

*Porter says that fit means “the value or cost of one activity is affected by the way other activities are performed” (Magretta, 2012).*

According to Porter, it is important to analyze how fit activities in a value chain are related to each other. Porter says that often competitive success can be explained by having one core competence. He says that this is not how strategy works. Good strategies do not rely on just one thing or one choice. Good strategies often depend on many things and making interdependent choices. Fit is a definition of getting competitive advantage of a strategy by lowering costs or raising customer value and price. Fit also helps you to make your strategy more sustainable, with higher barriers of imitating the company's value chain (Magretta, 2012).

**Continuity over time**

The fifth and final test of strategy is continuity over time, where continuity is the enabler. According to Porter, the essence of continuity is viral. Critics often argue that companies do not change over time, but according to Porter, there are too many companies out there that change too much and for the worse (Magretta, 2012).

Continuity reinforces a company's brand, its reputation and its customer relationships. It also helps suppliers, channels and others related to the company in one way or another to contribute to a company's competitive advantage. Continuity of strategy does not mean that a company should stand still. As long as there is stability in the value proposition there can and should be enormous innovation on how it is delivered (Magretta, 2012).

## **6. Methodology**

In chapter 6 is focus on an analysis of research approach, research strategy and data collection.

### **6.1. Research Approach**

The research is both positivist and interpretive. Positivist research is when the researcher is independent and separate from the essence of the study. The researcher sets out to identify some universal truths, by examining research question using empirical methods and find relationships that will exist irrespective of the context. This method argues that any analysis is based up on objective explanation and description. By using objective measures, this approach aims to be factual and precise (Collis, & Hussey, 2009).

The most relevant in this thesis is using interpretivist research. This method argues that phenomena cannot only be analyzed in an objective way, because the researcher affects the outcome of the research. Reality is socially constructed and is subjective (Veal, 2005). Three researchers could in reality be examining the same issue but get to very different conclusion, because of their individual involvement. When using interpretivist approach the researcher becomes fully involved with the individual subjects, where analysis is subjective and result based on perceptions. This generally involves qualitative research (Collis, & Hussey, 2009).

There are two approaches of conducting a research, which is either inductive or deductive research (Saunders, 2009). Inductive research is often referred to as a bottom up research, while deductive research is referred to as top down research. Inductive research is focused on from a specific case or observation to general law. Inductive approach is often conducted without any theoretical background where it is not so important to have a prior knowledge about literature of framework (Johannessen, 2005). Deductive approach on the other hand is a research framework that needs you to focus on existing theories and be able to conclude logical findings.

The author of this thesis has chosen the deductive approach, because of its more exploratory way to do the research.

## **6.2. Research strategy**

Finding the right research design is very important in how to answer the objective research question. The choice of the design is stated in what and who is the subject of the research and how should the research be conducted. There are many types of research designs; Grounded theory, case study, experiment survey, action research etc. (Johannessen, 2009). To be able to do a sufficient research, Yin (2003) argues that the case study research is a design used to gather as much information as possible In this case where the research is going to be a mixture of explorative and descriptive, it is definitely the right design to use.

## **6.3. Data collection**

When we talk about ways of collecting data, there are two types to be explored. These are quantitative and qualitative data. These two types of collecting data are very different from each other. Quantitative is used when you as a researcher have to collect data that can be measurable in numbers after analyzing the research. Qualitative data is on the other hand more used to measure texture or softer information (Johannessen, 2005).

When you collect data you also often hear the terms primary and secondary data. Primary data is often collected by the researcher himself, by using experiments, interviews, surveys etc. Secondary data is often used when the researcher is gathering data that has already been collected by others; Articles, textbooks, journals etc. (Johannessen, 2005).

In this thesis we are going to use qualitative research and focus on both primary and secondary data collection, because the thesis is going to be a mixture of in depth interviews combined with some relevant statistics that is a part of answering the objective question.

## **7. Strategic analysis**

In this chapter we are going to do a strategic analysis of the macro and micro environment concerning Vodafone Faroe Islands.

Strategic analysis: “is the process of conducting research on the business environment within which an organization is operates and on the organization itself, in order to formulate strategy” (BNET Business dictionary). Professor Les Worrall says it “is a theoretically informed understanding of the environment in which an organization is operating, together with an understanding of the organization’s interactions with its environmental order to improve organizational efficiency and effectiveness by increasing the organizations capacity to deploy and redeploy its resources intelligently” (Cimaglobal, 2007).

In this chapter we will scan the macro environment using the PESTLE analysis, where political, economical, sociological and technological factors are analyzed. Next we are going to look at Porter’s five forces, which is theoretic tool to analyze the competition between companies in the industry. Third analyzing tool we are going to look at is a tool that often is used in the micro environment to understand how activities within a company create value for the customers. We off course refer to the Value chain analysis. Last in this chapter we are going to gather all relative information’s and put them in a SWOT analysis box to try finding out strengths, weaknesses, opportunities and treats’ the company has to face.

### **7.1. PESTLE**

In the late 60’s, Arnold Brown (1960) who works for institution of life insurance in the USA came up with STEP “Strategic trend evaluation process”. This analysis tool was again modified in the 70’s, where it was called STEPE analyses. Today we know it best as PESTLE. PESTLE is a shortening for: Political, Economical, Social, Technological, Law and Environmental issues (Morrison, 2013).

### **7.1.1. Political**

The Faroese Government has eight ministers led by the Prime Minister. The minister of trade and industry is above telecommunications and competition policy, with their own regulations, legislations and agencies.

In 1999, the Faroese Government actively changed the regularity framework of competition, which was supposed to raise the living standards for the citizens in Faroe Islands (Sutherland, E. 2010).

When the Faroe Islands was compared to OECD countries, Faroe Islands was doing quite good on ICTs, but did not completely meet the standards on broadband compared to other Nordic countries (Sutherland, E. 2010). Something had to be done from the political side of view. The Government did take actions and began working on issues to get the optimal competition on the market by:

- Putting the necessary resources into the digital signature project
- Stimulating the adoption of broadband
- Creating a Master's level degree program
- Integrating ICTs into the education system
- Working towards e-Government (Sutherland, 2010).

The Government also took the first step to overlook the monopoly of the Faroese telecom, to ensure that everyone in the society had equal rights to access the infrastructure network (Sutherland, E. 2010). By doing this the industry would get a healthy competition.

Faroe Islands, which is a society with democracy as a fundamental factor in the law in the parliament has been criticized for many years of having too many public affairs in the business industry. After analyzing these accusations, the Government came to the conclusion, in 2001, that it was the largest owner of business companies that competed with private companies (Sutherland, E. 2010). Realizing that this was not a healthy way of ruling a society, the Government made a regulatory statement:

- To safeguard taxpayers assets
- To develop the financial infrastructure
- To achieve broader ownership in Faroese businesses
- To insure the tax payers assets (Sutherland, E. 2010).

After these regulations a new tele company was born called Kall or as we know it today Vodafone.

### 7.1.2. Economic

The economic situation on the market that Vodafone Faroe Island operates in is very relevant to examine in order to get the right knowledge and future predictions on how Vodafone will be affected to conjectures of the economy. These are factor like consumer spending, price index, inflation, GDP etc.

In figure 12, the **GDP change in % to the left and DDK to the right**. As we can see on the graph, the GDP has been increasing from the Global economic crises in 2008. In 2008, Faroe Islands had an annual GDP of 12 Billion DDK compared to 2014, where the annual GDP was about 15 Billion DDK. This is good news for the companies in Faroe Islands like Vodafone, because of the increasing consumer spending on services and goods.

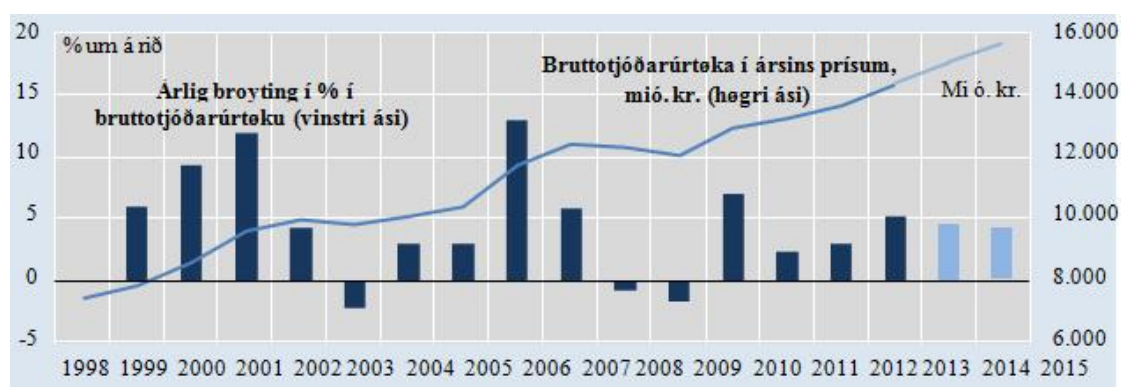


Figure 12 - GDP and DDK measured each year from 1998-2015 (Figgjarmálaráðið, 2015).

The unemployment of people in the Faroe Islands went down from 5.5% in 2012, to 3.9% in 2014 (figure 3). This is a very positive trend in the society. Back in 2011, the unemployment was 7% and net immigration to the Faroe Islands was negative, but in 2014, the net immigration turned to positive numbers, now there are more people moving to the Faroe Island than leaving it (Figgjarmálaráðið, 2015).

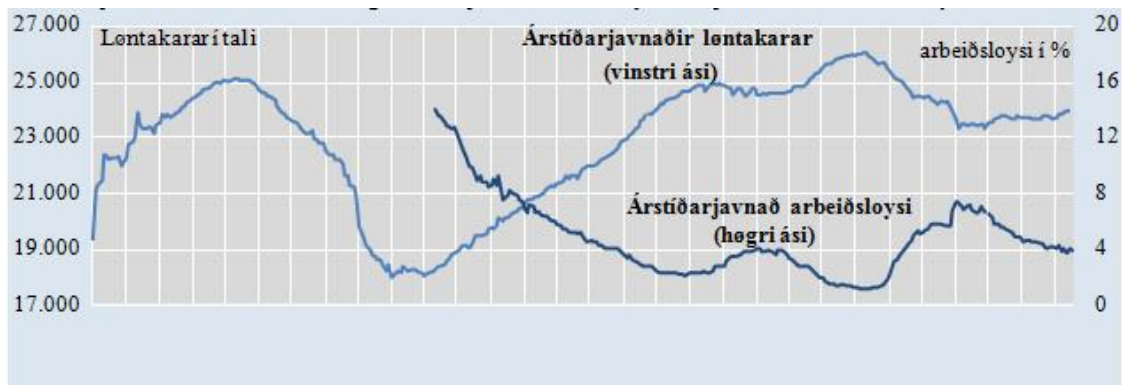


Figure 13 – Employment the left and % of unemployed to the right (Figgjarmálaráðið).

When analyzing graph on figure 14, we can see that the consumer prices have declined from 2013 and ahead. When we look at the macro factors that play a big role in this Faroese economic development, there is to be seen that the oil prices are historical low and the interest rates are also historical low. Due to the very low inflation rate, where people can buy goods and services at an affordable price is a very positive development. All in all we can say that as a result in the decline in consumer prices in 2014 and 2015 people can buy more of goods and services and that is resulting more spending on the telecom market, which is positive for Vodafone Faroe Islands (Hagstova Føroya, 2014).

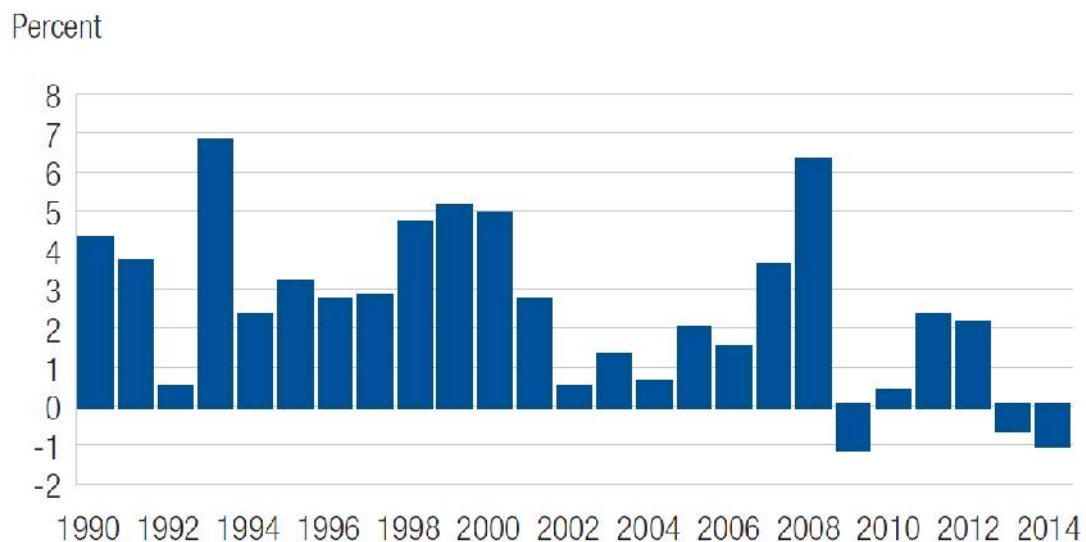


Figure 14 - Consumer price index, annual average rates (Hagstova Føroya, 2014).



### 7.1.3. Socio cultural

When we look at the demographic and cultural composition in the Faroe Islands, we see a society that is very homogenous in terms of that the people in the Faroe Islands are raised up in a country that does not have multicultural composition as a background. This gives the companies a better chance to know its customers segment and target groups.

According to the CEO, (Langaard, personal communication, August 11, 2015). Kall's target group was young people and focused female gender and mostly B2C<sup>1</sup> customers, since the company started and until 2007, when Vodafone Iceland bought Kall and rebranded the company to Vodafone Faroe Islands. Since 2007, Vodafone Faroe Islands have changed the strategic approach by choosing to attract B2B<sup>2</sup> and families; these are the main customer segments. So, why is Vodafone trying to get to these new segments? (Langaard, personal communication, August 11, 2015), says that it is a target group that is not so conservative thinking and price sensitive as for instance elder and younger people.

According to the graph in figure 15, Vodafone is most interested in reaching out to the people who are from 25-59 years of age. This is 43% of the total population. (Hagstova Føroya, 2014).

	Males	Females	Total	Females in pct.
Total	25 161	23 543	48 704	48.3
0-6 years	2 330	2 186	4 516	48.4
7-14 years	2 949	2 840	5 789	49.1
15-17 years	1 104	993	2 097	47.4
18-24 years	2 366	2 052	4 418	46.4
25-59 years	11 031	9 894	20 925	47.3
60-66 years	2 045	1 911	3 956	48.3
67 years +	3 336	3 667	7 003	52.4

Figure 15 - Gender and age groups 1st of January 2015 (Hagstova Føroya, 2014).

According to graph in figure 16, Faroe Islands have had a negative net immigration, every time the Faroese society has been in an economic crisis. In 1992, Faroe Islands had an economic crisis that is the biggest of its kind for decades, which resulted in

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<sup>1</sup> Business to Consumer

<sup>2</sup> Business to Business

negative net immigration of about almost 1000 people. If we look at the global economic crisis that took place in 2008, we can see that many 100 people more left the country compared to the mass of people that entered the country.

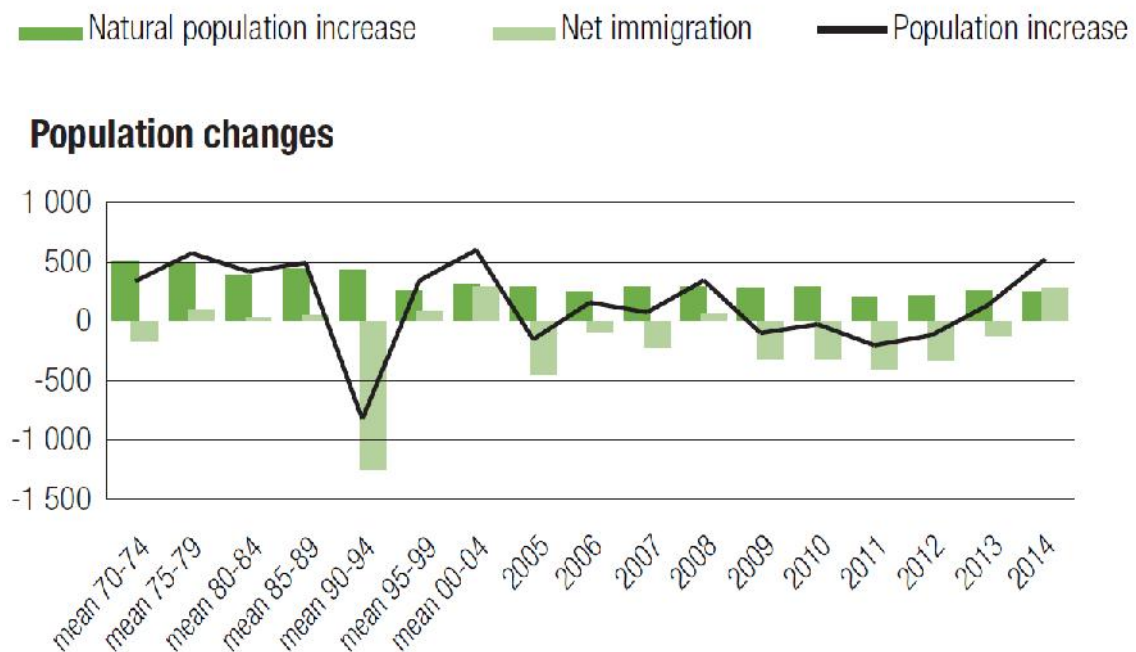


Figure 16 - The Faroese population change from 1970 – 2014 (Hagstova Føroya, 2014).

Right after the crises the Government began proactive to bring in projects that should lead to getting a healthy combination of the demographic composition of people living in the Faroe Islands.

The major demographic problem that the Faroese Government has had throughout the last years is young people leaving the country to study, whereas only 50% of these young people return to Faroe Islands. This leaves the Faroese society with huge problems as the older people are increasing in numbers compared to the younger people in there working life cycles (Hagstova Føroya, 2014).

As we can see on the figure 16, the Government has done something right, because in 2014, the Faroese society had positive net immigrations of about 400 people (Hagstova Føroya, 2014).

This is of course good for the society, as most of the immigrations are young people coming home again, after studying in foreign countries all over the world. This brings more people on the labor market and the consumer spending on goods and services

increases, which is in the interests of companies like Vodafone CEO (G. Langaard, personal communication, August 11, 2015).

#### **7.1.4. Technology**

The telecom industry is very dependent, on bringing the newest technology to the market as fast as possible. The customers are very demanding, when it comes to owning the newest technology and also which service is offered on the market. This has made the competition level for Føroya Tele and Vodafone very intense. The phone companies compete on having the first move to the market with new services or new products and when that happens, the other one has to copy or are act creative to be able to keep and get new customers.

On 22 of January 2015, Vodafone announced that they were continuing growing the 2G/3G net. At the same time a transmitter was switched on in Runavík<sup>3</sup>, which makes it possible for customers in that geographic area to get a better and faster 3G on their mobile phone. Vodafone also updated 3G in another geographic customer related area that is named Sandoy<sup>4</sup>, which on one of the eighteen islands in Faroe Island.

Later in 2015, on the 2 of June, Vodafone was proud to announce that it could offer its customers 4G technology, which is an upgraded version of 3G (Langaard, personal communication, August 11, 2015). This allows the customers to get data in at a very high speed.

The speed of broadband is getting faster and faster for each year and customers demand higher speed every day. The organization for telecom has analyzed the consumer habits, from year 2011 and came to the conclusion that subscribers have gone from the small subscriber offers to bigger ones. Only 633 subscribers, which are 3.7% of subscribers, had a broadband service that had a speed of 2Mbit/s or less. About 65% of the subscribers had a broadband with speed between 2 and 10Mbit/s, while 31% had a broadband speed over 10 Mbit/s (Fjarðskiftiseftirlitið, 2013).

FT Tøkni, which is a state owned whole seller, is announcing that the new technology VDSL2 makes it possible for customers at Vodafone to get a new service later this year. VDSL2 is a broadband which has a speed over 50 Mbit/s.

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<sup>3</sup> Runavík is a town placed in Eysturoy

<sup>4</sup> Sandoy is one of the 18 islands belonging to Faroe Islands

### **7.1.5. Law**

One of the biggest issues in the macro analysis is the laws and regulations that affect Vodafone doing business in the Faroe Islands.

In the 90's, many of the western countries in Europe were open to a new law that could allow private companies to get a chance to enter the telecom industry (Sutherland, 2010). This was a success, going from monopolies to a free competition on the market. It resulted in many operators in the market, which made a healthy competition with lower prices and better services for the customers.

The Faroe Islands adopted this trend success in 1997, where the Government began to allow liberalistic ideology to be a part of the new telecom industry reform. This law made by the Government makes it possible for new entrepreneurs to enter the telecom industry. But they only the right to sell services and products, while the Government still rules the fundamental regulations on net-law. (Fjarlskiptiseftirlitið, 2013).

Faroe Islands has had a competition law for some years now, with a competition authority ruled by the Business and Industry Ministry of Faroe Islands. The Government adopted a law in 2007, which sat a focus against anti-competitive behavior and abuse of market dominance (Sutherland, 2010).

The Government has/owns the National Telecommunications Agency, which is responsible of regulating the laws in the telecom industry (Sutherland, 2010).

### **7.1.6. Environment**

The environmental side of Vodafone is off course, something that is included in the corporate strategy. It is very important that Vodafone abbeys every law on environmental issues that the Government realizes. All the service cars that Vodafone has as materiel operation tools are small cars with very little pollution ability.

Vodafone also wants to be green as almost all the other companies in the Faroe Islands, also because this gives companies an added value in better image.

## 7.2. Porter's five forces

Porter's five forces is a theory and tool that is used to analyze competition in a certain industry, where the company operates. The theory was developed in 1979, by Michael E. Porter of Harvard Business School. This is a framework assessing and evaluating the competitive position and strengths of a business organization (Porter, 1980).

The five forces theory is based on five forces that determine the competitive intensity and attractiveness on the market. It identifies where strengths are in a current competitive position and which position a company may look to move to.

Five forces are often used to analyze if new products or services are profitable. By determine where the power lies the theory is also often used to identify areas of strengths, to improve weaknesses and avoid mistakes (figure 17).

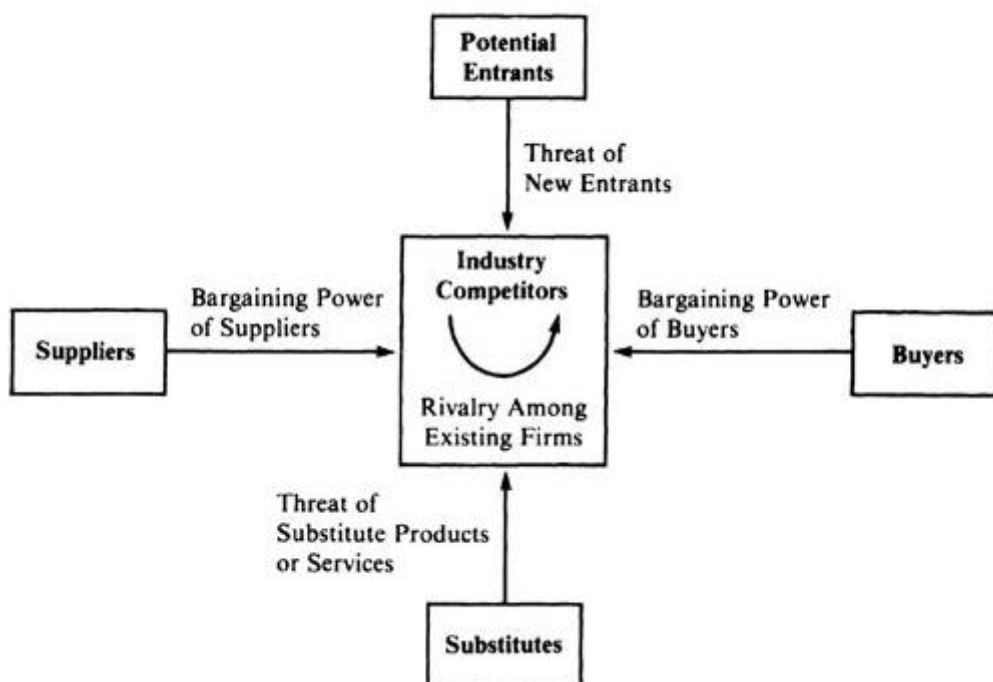


Figure 17 - Porter's five forces (Porter, 1979).

According to Porter 1980, there has to be determent the company's profitability, by analyzing its industry attractiveness. By doing this Porter has come up with a theory and analysis tool, which makes it easier for a company to determine industry profitability.

The five forces analyze prices, cost, investments etc.

### **Power of suppliers**

- Number of suppliers
- Size and strength of the supplier
- The differentiation of the supplier

### **Power of buyer**

- Each individual buyer in focus
- The cost of buyer switching from one supplier to another
- Numbers of buyers.

### **Competitive rivalry**

- Number of competitors on the market
- Different products and prices

### **Threat of substitution**

- Customers have other alternatives
- Reduce of supplier power
- Reduce of attractiveness

### **Threat of new entry**

- Profitable market
- High and low barriers
- Capital requirements (Cimaglobal, 2007).

#### **7.2.1. Bargain power of suppliers**

The suppliers in an industry are more powerful than the buyers, when the suppliers can reduce the profit of the buyer through a more advantageous pricing limited quality of the product or even have unstable costs to the buyer (Porter, 1980).

Suppliers are often differentiated or concentrated, and if there are few suppliers on the market the bargain power increases to an advantage for the suppliers. Buyers are also less likely to switch suppliers if there are large costs associated with switching.

## **FT net**

Vodafone's biggest supplier of products and services, which is to be sold to the end user is a company called FT net. In June 2005, the Vodafone's competitor Føroya Tele was transformed to Concern Company, with daughter companies called FT Net and FT Samskifti (Langaard, personal communication, August 11, 2015). This was a decision from the Government to be able to give Vodafone and others the same rights on the market as Føroya Tele had. FT Net is a state owned company under Føroya Tele that sells net services to tele operators, like broadband, lines, and server hosting etc.

It is of course very unfortunate that Vodafone's biggest supplier is a part of the company that Vodafone competes with. FT net are operating in Føroya Tele's head office and therefore Føroya Tele can see every move that Vodafone does, when it buys services from FT Net. Vodafone also argues that the price given to Føroya Tele has been in their favor (Langaard, personal communication, August 11, 2015).

One of the biggest issues is the price Vodafone has to pay FT net for termin prices. In 2002 the EU commission stated that it would enhance a so called SMP regulator, which has the purpose to regulate service prices of companies that had a major advantage in its size on the market. This would allow other companies to enter the market of Tele communications. The Faeroese Government never adopted this law, which made it difficult for Vodafone to buy services from FT net, at same prices as the market leader Føroya Tele. But the competition authority is very strict on regulation and does not tolerate any advantages given to Føroya Tele in terms of buying from FT Net (Langaard, personal communication, August 11, 2015).

One other issue is that the prices that FT net has to offer its customers are much too high compared to other countries in Europe. If we compare to the prices in Denmark, FT Net is about 45% lower in prices than FT net. This is soon to be regulated, so the end costumers can get a more affordable price (Fjardskiftiseftirlitið).

So all in all, the bargain power of the supplier called FT Net is not that strong, because it is state owned and being regulated by the state, to get a fair competition on the market.

## **Phone Products**

When Vodafone is choosing its suppliers on phones and iPads, the supplier definitely has a weaker situation on bargaining power compared to when the company was called Kall. Vodafone Iceland which owns Vodafone Faroe Islands, has a close relationship with Vodafone International, so the products bought by this huge concern gives better deals and prices, where the supplier has a weaker bargain power than its buyer which is Vodafone.

### **7.2.2. Power of Buyer**

The buyer has often a very lucrative situation, on the market, if it is more powerful than its supplier. The effects are often measured in reduced prices, better contracts and better service from the supplier to the buyer (Porter, 1980).

If a buyer purchases a huge amount of goods or services, the seller will do more to keep the buyer as a customer.

According to Langaard (personal communication, August 11, 2015), Vodafone is targeting the B2B and B2C segments. These segments are mostly families when it comes to B2C and all companies in the B2B segment.

There is of course a huge difference in bargain power of a company, compared to individually families, but both segments are important to the business.

The competition between Vodafone and Føroya Tele, to get more business customers is very intense, which makes it an advantage for the customers in having a stronger power in bargaining. Customers often call one of the competing companies to ask for prices and services and then call the other company to see if it can match the offer or get a better deal (Langaard, personal communication, August 11, 2015).

Since the Government decided to get a more liberated law in the telecom industry, the consumer has got a greater bargain power, because there are now two companies competing instead of one with a monopoly (Langaard, personal communication, August 11, 2015) which is not a good scenario for the customers in the Faroe Islands.



### **7.2.3. Competitive rivalry**

What are the indicators of competitive rivalry? Some of the main issue: Price, innovation, marketing, service level, product improvement among others.

If there are many companies competing in a market, the outcome will be in favor for the end user. But if there is only one company in the field, it is called monopoly which is in favor for the company.

In Faroe Islands we have two Tele companies competing on the market that are Vodafone Faroe Islands and Føroya Tele. Føroya Tele is state owned and has been operating alone on the market for centuries. While Føroya Tele has been operating it has almost decided on its own what the prices and service level should be. It was a situation where the customers had now bargain power what so ever.

Since Vodafone entered the market, the customers have gotten more bargain power because of the rivalry that has become a reality between Vodafone and Føroya Tele.

It is almost impossible for a small company to enter the market where the existing company is state owned and has been on the market for decades like Føroya Tele has.

From a monopoly on the market there now is a duopoly, Vodafone and Føroya Tele are competing for the same small amount of customers.

When Kall was on the market from 2001 to 2007, it tried to get customers from Føroya Tele by having a different image and concept. This was done by profiling itself as a company offering discount goods and services, while Føroya Tele was seen as a premium brand. Since Kall was rebranded in 2007, these two companies are very similar to the customers, offering same prices, same services etc. Both of these companies are a high premium brand, so it is all about how the companies promote and reach out to the customers with their products and services (Langaard, personal communication, August 11, 2015).

### **7.2.4. Threat of substitution**

In Faroe Islands, if you as a customer want to buy a product or a service that you need from one of the Tele com companies on the market, you will not think of anything in the same portfolio to substitute the products with. All in all, there is no narrow substitution product that can offer the same as the products bought from the Tele Com

store. Yes, you can buy an iPad from a store that does not offer subscription to a broadband or data, but the tele companies see product like an iPad not their core business strategy sales.

#### **7.2.5. Threat of new entry**

The Tele Com Industry and market is very small in the Faroe Islands with only about 48.700 inhabitants. There are two players on the market right now, one market leader which is Føroya Tele and the other one a market challenger which is Vodafone. These two companies have 100% of the market divided by 30% for Vodafone and 70% for Føroya tele (Fjarlskiptiseftirlitið, 2013).

Vodafone and Føroya Tele have each its own net system, which is really expensive for a new player to buy. It takes a huge capital to enter the telecom industry (Langaard, personal communication, August 11, 2015).

If there was a third company entering the market, it would demand very big financial investments, lots of human resources, many laws and regulations to keep etc. So, the odds of a third company managing in the market is unlikely (Langaard, personal communication, August 11, 2015).

### **7.3. Value Chain**

When an internal micro analysis is being measured of a company's competitive advantage, it's not possible to look at the company as whole. The added customer value is performed by all departments in a company (Porter, 1980).

Every company has activities that contains, design, production, sales and marketing and support, which can be analyzed in a value chain.

Value is the amount buyers are willing to pay for what a company provides them. Value is measured in total revenue. A company's profitability if the value it creates exceeds the cost of creating the value. The value chain consists of value activities and margin (Porter, 1980).

By examining all the activities in a company and how they interact you will be able to conclude the sources for competitive advantage (Porter, 1980).

Figure 18 shows an illustration of several activities being performed in a company. Every company has its own value chain which reflects on the company's history, strategy and economic performance.

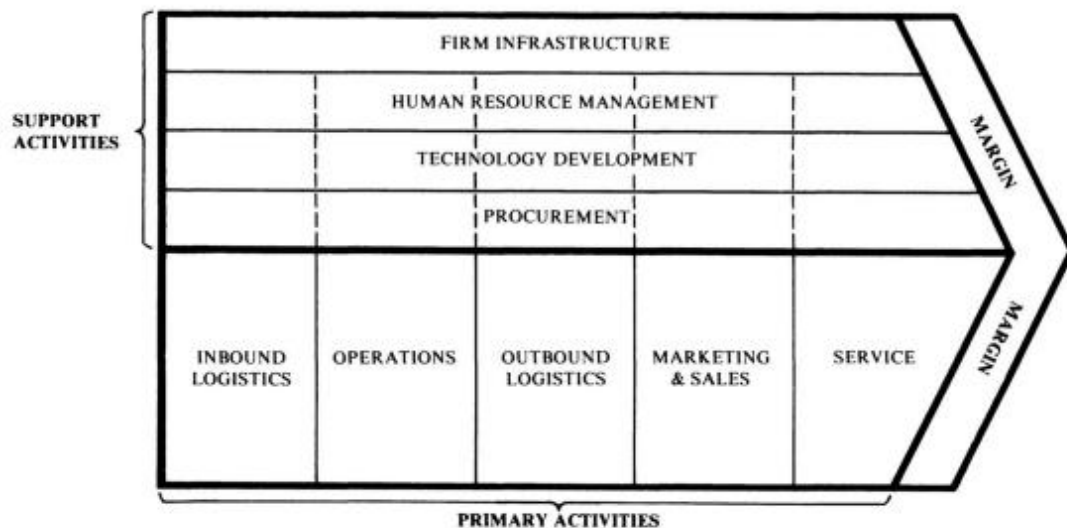


Figure 18 - Porter's value chain (Porter, 1980).

### Primary activities

- **Inbound Logistics.** Activities associated with receiving, storing, and disseminating inputs to the product, such as material handling, warehousing, inventory control, vehicle scheduling, and returns to suppliers
- **Operations.** Activities associated with transforming inputs into the final product form, such as machining, packaging, assembly, equipment maintenance, testing, printing and facility operations
- **Outbound Logistics.** Activities associated with collecting, storing, and physically distributing the product to buyers, such as finished goods warehousing, material handling, delivery vehicle operation, order processing, and scheduling
- **Marketing and Sales.** Activities associated with providing a means by which buyers can purchase the product and inducing them to do

so, such as advertising, promotion, sales force, quoting, channel selection, channel relations, and pricing

- **Service.** Activities associated with providing service to enhance or maintain the value of the product, such as installation, repair, training, parts supply, and product adjustment.

### **Support activities**

- **Firm infrastructure.** Includes activities like Planning, finance, legal, Government affairs, general management and quality management. The infrastructure supports the entire chain
- **Human resource management.** Includes activities like, hiring training, developing, recruiting. It supports both primary and support activities
- **Technology development.** Includes every value activity embodies technology like procedures, know how, or technology in process equipment
- **Procurement.** Includes supplies, materials, buildings, office equipment etc. Purchased inputs are relevant is every value activity including support activities (Porter, 1980).

#### **7.3.1. Vodafone's value chain**

The activities in the value chain at Vodafone Faroe Islands are very important part of the objective strategy. Vodafone is very fortunate to be a part of a global company called Vodafone International. If we look at the primary activities in the inbound section and analyze them, there is too being seen that the three first inbound logistics, operations and outbound logistics are technical services. That Vodafone is buying from suppliers like Ft net and other suppliers, which is operated and then sold out as subscriber's license to the end customers.

According to Vodafone Faroe Islands marketing and sales has a very high priority in the value chain. This is the department where we reach out to the segments and target groups with our sales and marketing champagnes. Vodafone uses about 2.5% of their net income for the annual marketing budget.

Service has also a really high priority at Vodafone. The new strategy builds on having customers in the center of every activity. So when you are a customer at Vodafone you will get the opportunity to talk directly to the person in the staff which is relevant for an individual problem of product or service. This means that you can actually as a consumer call the CEO and ask questions if necessary (Langaard, personal communication, August 11, 2015).

The staff at Vodafone Faroe Islands is the most important resource in the value chain. Many of the employees have been in the company from before it was rebranded. She is convinced that this factor plays a huge role in having the success criteria that the company needs in a strong competition (Langaard, personal communication, August 11, 2015).

## **7.4. SWOT**

"SWOT analysis is a basic, straightforward model that provides direction and serves as a basis for the development of marketing plans. It accomplishes this by assessing an organization's strengths (what an organization can do) and weaknesses (what an organization cannot do) in addition to opportunities (potential favorable conditions for an organization) and threats (potential unfavorable conditions for an organization). SWOT analysis is an important step in planning and its value is often underestimated despite the simplicity in creation. The role of SWOT analysis is to take the information from the environmental analysis and separate it into internal issues (strengths and weaknesses) and external issues (opportunities and threats). Once this is completed, SWOT analysis determines if the information indicates something that will assist the firm in accomplishing its objectives (a strength or opportunity), or if it indicates an obstacle that must be overcome or minimized to achieve desired results (weakness or threat) (Morrison, 2013).

Figure 19 is a SWOT box where both macro and micro issues of Vodafone Faroe Islands are defined.

In the macro environment we look at opportunities and threats and in the micro environment we look at strengths and weaknesses.

Strengths	Threat
<ul style="list-style-type: none"> <li>• Brand</li> <li>• Value chain</li> <li>• Global opportunities</li> <li>• Know how</li> <li>• Mobile company</li> </ul>	<ul style="list-style-type: none"> <li>• Føroya Tele</li> <li>• Law barriers</li> <li>• New comers</li> <li>• Economic crises</li> <li>• Aggressive marketing</li> </ul>
Weakness	Opportunities
<ul style="list-style-type: none"> <li>• Small organization</li> <li>• Small company</li> <li>• International brand</li> <li>• New in the industry</li> <li>• Few outlets</li> </ul>	<ul style="list-style-type: none"> <li>• First movers</li> <li>• New law</li> <li>• New segments</li> <li>• Product development</li> </ul>

Figure 19 - SWOT BOX for Vodafoen Faroe Islands.

### Strengths

Vodafone Faroe Islands has a really strong brand, which is a global brand that every possible consumer is familiar with. The “Know How” that Vodafone Faroe Islands can benefit from being a part of a bigger concern is off course a huge advantage.

If we look away from the big perspective where Vodafone Faroe Islands is a part of a big concern, Langaard (2015) stated that “the value chain is the main reason for the added value to the end customers and the CEO together with the chairmen are always trying to realize the objective goals that are in tread with the strategy that the company is working towards” (Langaard, personal communication, August 11, 2015).

Vodafone is also very mobile, because of its small organization. “This strength is because then there is always a possibility to adapt the value chain and strategy very fast, when for instance customer trends are changing (Langaard, personal communication, August 11, 2015).

## **Weakness**

Vodafone Faroe Islands is a very small company compared to its competitor, both in human resources and capital equity. Vodafone also only has a few outlets throughout the country compared to Føroya Tele. This makes it easier for Føroya Tele to be close to the customers and this is of course an advantage for the end users, who don't have to transport themselves long ways to get products and service in the Tele Com Industry.

Vodafone Faroe Islands is a very young company compared to Føroya Tele and by the fact that Føroya Tele has been alone in the industry, has given the company many advantages. Føroya Tele is owned 100% by the state, which also makes it difficult to compete on the same level.

## **Threats**

There are of course many threats in a small vulnerable society like the Faroe Islands. Føroya Tele is owned by the state and is always a threat if they choose to be aggressive in its strategy to steal customers from Vodafone. The macro environment in the Faroe Island is changing, where the economy in the society is pretty elastic.

## **Opportunities**

The Government is announcing that early in 2016, a new law that makes it easier for Vodafone to compete, because the new law is protective towards smaller companies in the industry, where the market dominator cannot abuse its situation as a market leader (Langaard, personal communication, August 11, 2015).

Vodafone was quicker to launch the 4G technology than the market leader Føroya Tele. This shows that Vodafone is becoming the first mover of product and services compared to having the role as a market challenger.

## **8. Conclusion and recommendations**

After having analyzed the micro and macro environment, that surrounds Vodafone Faroe Island and referring to the objective question of the thesis the conclusion is that the current main strategy of Vodafone Faroe Island, is beneficial for the company and stakeholders. The company had a record high net profit in 2014 of 10,716 million DDK. Compared to 2013, where the company had a net income of 6,818 million DDK. The reason why there has been an increase in net income from 2013-2014 is according to Langaard, (2015). a strategy to rationalize the routine of the daily operations inside the company, but also by having gotten better contracts from the suppliers. This is absolutely a financial strategy that has worked and earned more money to the shareholders.

Vodafone is operating in a homogeneous market where the segments are very alike. This makes it difficult to target a specific segment, but Vodafone has a market strategy that targets B2B customers and families. These are the right target groups to appeal to, because the families are not as price sensitive as young teenagers and older people. The B2B segment is a big segment that Vodafone has due to its effort in their strategy got bigger market share in the last couple of years (Langaard, personal communication, August 11, 2015).

The products and services that Vodafone and Føroya Tele have to offer are very similar. Both companies have a premium product and service, which makes it very difficult to decide on which supplier one should choose buying from. This is of course a problem for Vodafone because of its size and a resource, Vodafone has to differ in one or another way.

Due to the strategic analysis in the thesis, Vodafone is trying to use branding and personal feelings as their strategy to differ from Føroya Tele, Which has been very successful parameter to compete on until now.

### **Recommendations**

When the direction and chair of board choose a certain strategy, it is for the reason to maximize the return of investment for the shareholders. It is all about choosing the right path for the company to be successful. In order to be successful the company has to discover its core competence and key success criteria's so that it can achieve the objective goals that the company was established on from the beginning of operations.



## 8.1. Competitive advantage strategy

According to table 2, is the resources and capabilities in a company shaped to the distinctive competencies lead to chosen cost advantage or difference advantage to create value to the end customer.

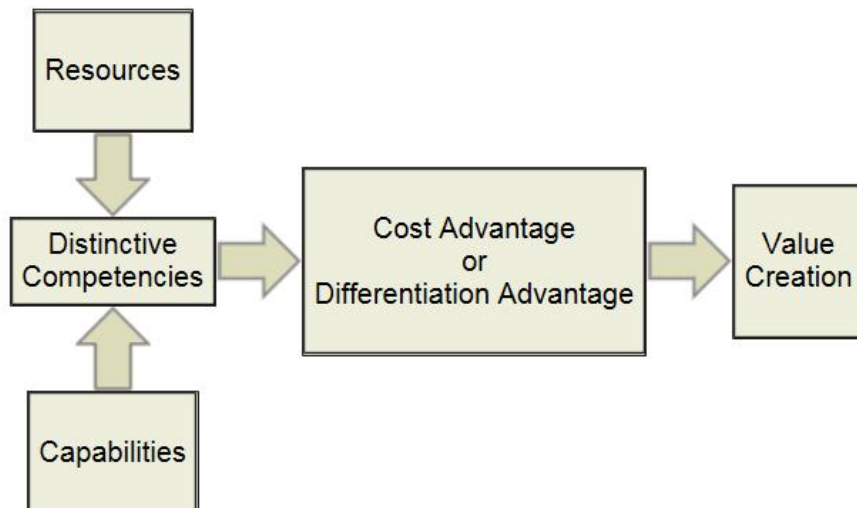


Figure 20 - A model of Competitive Advantage (Porter, 1980).

According to the value chain at Vodafone, its strategy is to be unique in service and give customers a personal experience when selling goods and services. This is a strategy that has worked very well so far. But Vodafone could maybe think about branding its operations more local, so the conservative customers choose Vodafone instead of Føroya Tele.

## 8.2. Porter's Generic Strategies

(Porter, 1980) often argues that there are three factors playing a role in company's strength which are cost Leadership, differentiation and focus (figure 21).

<i>Target Scope</i>	<i>Advantage</i>	
	Low Cost	Product Uniqueness
Broad (Industry Wide)	<b>Cost Leadership Strategy</b>	<b>Differentiation Strategy</b>
Narrow (Market Segment)	<b>Focus Strategy (low cost)</b>	<b>Focus Strategy (differentiation)</b>

Figure 21 - Porter's Generic Strategies (Porter, 1980).

The future strategy at Vodafone Faroe Islands (when it was called Kall) was, Focus Strategy, where Kall was targeting a narrow segment like teenagers and women.

The current strategy at Vodafone Faroe Islands is Differentiation Strategy, where there are many segments as target groups, but Vodafone is trying to differentiate itself with a optimal Value Chain so that the added value in the outbound is value added to the highest level for the end customers.

This is of course the right strategy for Vodafone. The market is small, so to be able to get a decent market share compared to Føroya Tele, Vodafone has to have a broad group and segments to target.

Vodafone also has to take advantage of its strong brand and franchise giver, by selling products to Faroese customers that travel all around the world. By offering global product packages, Vodafone can get another segment to sell goods and services.

### 8.3. Ansoff Matrix

Igor Ansoff (1957) presented a matrix in 1957, which is called Ansoff Matrix. This is a matrix that is used measure present and potential products and markets. These are the product-market combinations:

	Existing Products	New Products
Existing Markets	Market Penetration	Product Development
New Markets	Market Development	Diversification

Figure 22 - Ansoff Matrix (Ansoff, 1957).

- **Market Penetration**-the company is aiming at growth with the existing products in current market, trying to increase market share
- **Market Development**-the company tries to grove by using existing products for new market segments
- **Product Development**-the company is focusing on developing new products for an existing market
- **Diversification**-The company seeks to develop new products for a new market (Ansoff, 1957).

Looking at the current strategy at Vodafone Faroe Islands, the company has gone from being a discount dealer to a premium brand dealer on the Faroese market.

Vodafone is always seeking to develop new services (products) to achieve a competitive advantage on the market.

The newest development is 4G product that it offers its customers with a big success. Vodafone has also developed a package called RED, which is a product where you pay

a monthly fee, where you can use you phone by calling, texting and data download. Red Young is one of the newest successes at Vodafone, where young under 18 years can pay a small monthly fee and use the phone for ours.

Vodafone Faroe Islands should maybe think about develop new product for new markets for segments that are somehow connected international to the Faroese society. This can be done by doing a contract on working global together with Vodafone International.

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## **10. Appendix**

## **10.1. Appendix A - List of Interview Questions and Answers.**

### **1. Question. What is Vodafone's mission?**

**Answer:** The mission has been the same from 1998 when the company was founded and up until now. But we are actually in speaking moment changing our mission statement. The old mission is still visual on our homepage. "To be able to serve the best service, being an innovating company and become the leader in telecom services in the Faroe Islands". The new mission is about to be able cover a wider range of telecom offers and have a international scope in offering services. So the big issue in our new Mission is to be able to offer services to people have any interaction with in the Faroese communication system.

### **2. Question. What is your Vision?**

**Answer:** We still have the old Vision published on our homepage. "We see ourselves delivering very good communication services and products, supported by the best customer services on the market". But this vision is also about to change, as we are speaking. The new vision is going to be focused on giving the customers very good experiences. She gave some examples....when people look at our homepage, when they enter our shops, when they call in to speak to the accountant etc. You can say that our new vision is having the customer in the center.

#### **a. Question. Do you conduct any research on customer satisfaction?**

**Answer:** Yes, we are connected to a global market research company that send out questionnaires and analyze the answers in search of doing things better for the customers.

### **3. Question. What kind of company structure is Vodafone Faroe Islands?**

**Answer:** Vodafone is 100% owned by Vodafone Iceland and Vodafone Iceland is a franchise taker from Vodafone International. Vodafone Faroe Islands is a limited company.

#### **4. When was the company founded?**

**Answer:** It was founded in 1999, as a direct effect of the change of regulations on the telecom market in Faroe Islands that made it easier to establish a company in the telecom industry. Kall which was the name of the company before it changed to Vodafone, tried to get a license to become a wholesaler with Føroya Tele as supplier, but got a now from the state. In 2001, the company began to sell telecom services, at first it was only possible to by subscription on home tele services and in 2003 Vodafone could offer customers broad band for the internet services. To be able to establish a good start on the market, the state gave Vodafone permission to have a lower price than the Føroya Tele. This was a deal that was held until 2006 where the two companies should have the same competition rules. In 2007 the company did not have any growth but was stagnated and then Vodafone Island saw an opportunity to buy the company and rebrand Kall to Vodafone. Since then the company has had huge preferences in having a strong international company and brand to lean on. This has made services cheaper, easier and more profitable. Since Vodafone Faroe Islands became a part of a big international company, it can offer services all over the world. Kall was rebranded to Vodafone Islands in 2008.

#### **5. Question. Which of these four p's do you build your business concept on? Price, Promotion, Place, Product.**

**Answer:** When the company was founded, Kall tried to position itself as a supplier of cheap services and products. Kall tried to be attractive for new customers by having low prices at all times. When Kall was rebranded in 2008 and became a part of Vodafone, the concept had to be change, because you do not identify Vodafone as a low budget company. This was really strange for the customers, because even if the name was changed from Kall to Vodafone, customers had to get used to that they were not able to sese the company as a low budget company but a strong brand that was able to give customers much more for their money. Since the company was rebranded in 2008 to Vodafone, the company has been were aggressive in their marketing so all in all we can say that from being most focused on the price concept the new rebranded company is putting lots of resources to promote the company and products.

**6. Question. What is your market share? Are you marketing challenger or follower?**

**Answer:** We consider Vodafone to be market challenger on the Faroese market. The company has gone from having only about 10% in 2006 to having 30% of the market share in 2015. The biggest growth is customers buying mobile telephone memberships.

**7. Question. Annual result was better in 2014 compared to 2013 where the turnover was higher. What is the cause?**

**Answer:** We reduced cost in many of the agreements we have with under suppliers and cut some of other costs inside the company, and then we have focused on selling services and products that give us the highest profit.

**8. Question. Where do you see Vodafone on a position card compared to Føroya Tele?**

**Answer:** We and the customers feel that Vodafone and Føroya Tele are very similar to the customers. We are both premium brand companies and focus on the same segments.

**9. Question. When you as the CEO of the company chose a strategy, is it difficult to get it to work on the tactical and operative level?**

**Answer:** Yes it is very difficult to engage the staff in every little change in our strategy, because the company is not that big, which makes it very difficult to intervene with the staff's daily routine. We have a book for everyone in the staff to read and learn the politics in our company.

**10. Question. Now it is seven years since you rebranded the company. Has it been a success?**

**Answer:** Vodafone is a strong international brand, so it did not take long for the market to identify the brand, but we want the people to be more emotional attached to the brand. We want the customers to look at it as an international brand and at the same time to see it as their local choice of telecom products.

**11. Question. How come that Vodafone the first on the market with 4G services to the customers?**

**Answer:** That is because we are a part of a big concern called Vodafone International. This gives us a huge preference in adopting the newest trends on the global markets. From first of January a new law which benefits us in more fair competition, by limiting abuse of marketing leaders.

**12. Question. Are you actively doing lobby work to get a better market situation?**

**Answer:** Yes we have to do a lot of lobby work to be able to compete on a fair market.

**13. Question. If we look at segments like b2b and b2c. Which is your biggest segment?**

**Answer:** In the beginning we almost just had services to private customers because our services did not reach every geographic place in Faroe Islands. But now we have many business customers even if Føroya Tele has a bigger market in the segment. Kall's target group was women and young people, but since the company was rebranded Vodafone have families and business people as their number one customers. Old people are very conservative thinking and do not want to change supplier, so they are very difficult to get a hold on. But the young and the old are the customers that are most price sensitive, so it is a segment that comes in second.

**14. Question. Do you have a flat or deep organization?**

**Answer:** One of our benefits is our very flat organization structure, where there is not a long way from bottom up to top and the opposite. This way decisions can be made instantly with no waiting time for customers or staff.

**15. Question. Does Føroya Tele benefit from being own by the state?**

**Answer:** Yes, very much so, because the telecom regulation organization is under the business ministry and so is Føroya tele. So you can say that the faroes business minister in ruling both, which gives Føroya Tele a huge benefit. Føroya Tele also has a daughter company called FT net where we buy many of our services from. The director in FT net is a part of the chair committee at Føroya Tele, so he will always know and can forward information's that is unhealthy for us in terms of competition.

**16. Question. Is there basis for a third telecom company on the market?**

**Answer:** No, there is not, because we are two player on the market today with two nets, instead of having just one net for both of the companies, so I do not see any upcoming company being established with its own net, which is too expensive.

**17. Question. SWOT?**

**Answer:** Our biggest internal weaknesses are that we do not have the same size of resources compared to Føroya Tele. Føroya Tele has bigger staff, more outlets, more departments etc. Our strengths are that we are very mobile company where the disconnection makings are very fast. Opportunities are for instance the new law which is active from first of January in 2016, where we as a smaller company than Føroya Tele are more protected from abuse from the market leader. It is also possible now for customers to change Tele Company and hold on to your phone number. We see that as an opportunity for us. Threats are of course if there is a third company on the market or if Føroya Tele chooses to be very aggressive in their strategy with for instance by lowering the prices for a long period.

**18. Question. How do you do when you promote a service or a product?**

**Answer:** First we decide which campaign to run, and then we seek Medias to get our message out to the customers. We use about 2.5% of our turnover in marketing resources.

**19. Question. Do you measure if spent money on marketing actually is profitable?**

**Answer:** No we do not make any analysis on that, we only see how many customers are buying our products after a marketing campaign.