Exploring strategic options at Firm X
development of a roadmap for the future

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Exploring Strategic Options at Firm X: Development of a roadmap for the future

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Management Summary

Firm X is a small, but growing internet start-up company which business is to generate lead for financial products and online trading products. Their mission is to unite supply and demand. Supply is defined as the products or services offered by Firm X' partners, while demand is referred to as the market-demand by consumers. In uniting supply and demand, Firm X exploits several websites containing quality, and fully original content, regarding the products and services provided by its partners. Recent developments in the market of online consumer credits and the characteristics of this market leads to problems in assuring a revenue stream and therefore future company growth, leading to the assumption that a change in the strategy is needed.

Research Questions and Deliverable

The key question in this research is *"which strategic options are available for Firm X regarding the online consumer credit market and which options will be favourable taking into account business case with different scenarios?"* If this question is answered properly it is possible to create the main deliverable of this master thesis project: *a structural framework/roadmap for the future of the online consumer credit segment of Firm X, in which an overview of the different strategic options is provided based on business cases in different scenarios*. The options included in this framework have to generate a total revenue of €1,000,000 in 2015. In order to arrive at the answer of the main question and subsequently development of the roadmap, a set of sub-research questions is investigated:

Research Question 1: *"Which different strategic options can firms choose to implement according to the academic theory?"*

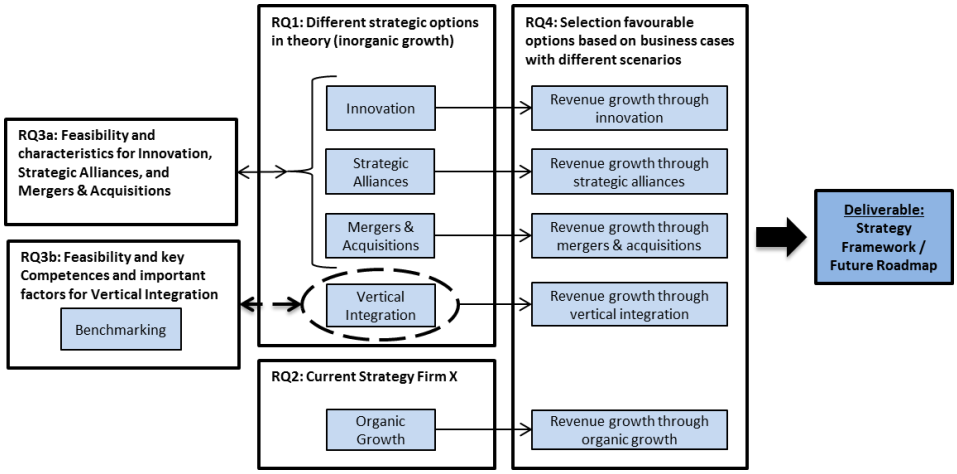
Research Question 2: *"What is the current strategy of Firm X and how are both the internal and external environment characterized?"*

Research Question 3a: *"Is growth through innovation, strategic alliances, or mergers & acquisitions feasible and what are the key factors to take into account when using these strategies?"*

Research Question 3b: *"Is growth through vertical integration feasible and what are the key factors to take into account when using this strategy?"*

Research Question 4: *"Which strategic options will be favourable for Firm X taking into account business cases with different scenarios?"*

The focal point in this thesis is the strategy of vertical integration, since this strategy has never been investigated by Firm X before. The relations between the different research questions and the main deliverable can be found in the figure below.



Methodology

The research type used in this thesis is exploratory research because the objective of this thesis is to investigate strategic options for Firm X and the objective of exploratory research is to gather preliminary information which helps to define problems. Therefore exploratory research was very well suited for this master thesis project. The results obtained in the exploratory research were used as inputs for the decision making method in order to deliver the final thesis objective; the strategy framework/roadmap for Firm X. Since all the strategic options investigated in this thesis are different, a multi-case study perspective is chosen to analyse each option separately.

The majority of the data was collected by doing desk research. For answering the first research question use was made of databases containing academic literature, while the data for the other research questions was mainly collected by searching in documents, archival records, historical company data, and interviews with the CEO.

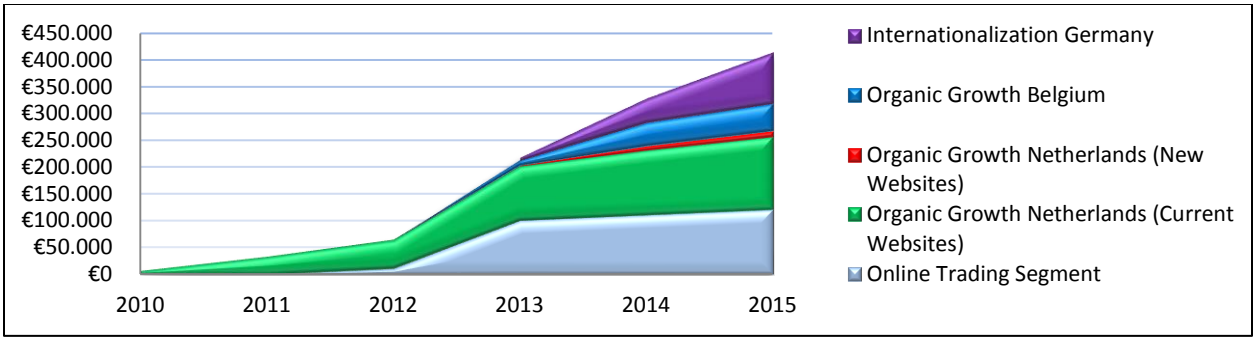
Analysis & Results

In analysing the current strategy of Firm X it was concluded that the strategy could be best described as differentiation focus; the strategy is focussed because a certain target group is concentrated on when writing the content. The strategy is differentiated because the provision of relevant high-quality new content is a core competence which distinguishes Firm X from its competitors. After performing a SWOT analysis and translating the results into the Ansoff-matrix the strategic options to be investigated in the remainder of the thesis were decided on. This decision was also based on the findings in the theoretical framework. For the remainder of the thesis the strategic options organic growth, innovation, strategic alliances, mergers & acquisitions, and vertical integration were further investigated. The focus was on the option of vertical integration, since this option never was investigated by Firm X, and therefore little knowledge about it was available. During the internship at Firm X, the option of geographical expansion of the online credit websites to Germany was also investigated.

Although organic growth showed promising revenue potential it was not enough to cover the complete revenue target. In investigating the remainder of the strategic options, geographical expansion to Germany came forward as a feasible and interesting option, as well as the option of a strategic alliance with Search Engine Y regarding displaying Service 1 Search Engine Y advertisements on the websites of Firm X. Affiliate campaigns were shown to be less profitable then Service 1 Search Engine Y advertisement and therefore were not a preferred option. Mergers & acquisitions were found to be infeasible since no suitable acquisition targets could be identified. The option of vertical integration proved to be very risky and does not fit in well in the strategy of Firm X. Additionally it is very hard to generate a positive net financial result with vertical integration.

Option selection and roadmap creation

All the strategic options investigated in this master thesis project were assessed based on four criteria: contribution to the 2015 revenue target, the net present value of an option, the amount of risk carried by an option, and finally the strategic fit of an option. The assessment resulted in the inclusion of four option into the final roadmap: the organic growth strategies for current and new websites in the Netherlands, the organic growth strategy for websites in Belgium and the internationalization strategy for Germany. Additionally the revenues generated in the segment of online trading are included in the roadmap, even though these revenues are assumed in a broad manner. The vertical integration strategy was ranked worst of all strategies, mainly because the (high) negative net present value and the large amount of risk carried by the option. The revenues of the options in the future roadmap is depicted below.



As can be seen the revenue target for 2015 cannot be reached with the current set of selected options. The selected portfolio will generate a total revenue of about €415,000, 41.5% of the pre-set target. One important note to mention here is that the revenue for the Germany strategy is projected negatively on purpose since the uncertainty of the performance. If the strategy turns out to be more successful than projected, this means that the revenue of the internationalization to Germany could double or even triple in value. With the additions of these extra revenues the target on one million will still not be reached, but the gap towards the million will be reduced.

Recommendations & Future research

The key recommendations based on this thesis research are that Firm X should continue with investing the current portfolio of websites in the online consumer credit segment. Secondly it is important for the strategies of organic growth to allocate the available resources, the text-writers responsible for the provision of new content on websites, with great care. Third, it is important to update relevant content on all websites once in a while, since this is highly appreciated by Search Engine Y and will therefore positively influence the position of a website in Search Engine Y, and therefore its generated revenues. Fourth it is advisable and quite easy to optimize the Service 1 Search Engine Y advertisement settings for all the websites. Finally the actual performance of the geographical expansion to Germany should be monitored very closely and compared to the performance modelled in the projection model. Possible directions for future research are the investigation of the internationalization strategies for additional countries, since there seems to be a lot of revenue potential in other markets, and looking for other business segments which can fill the gap in revenues.

Limitations

Four limitations can be distinguished. The first limitation is that only one of the two business segment of Firm X is investigated, which leads to an incomplete picture. A second limitation is that the research performed is fully customized towards Firm X and it is therefore hard to generalize the results for other companies or for a complete industry. Third, the main research method used in this thesis is desk research, while there are many other methods available which could have led to more diversified information. Finally the possibility of sampling bias occurs in the selection for firm for the benchmark analysis, since only firm for which (financial) data is available are selected, and this might possible lead to a non-perfect sample.

Preface

This Master Thesis Report is the result of the graduation projected which I have performed at Firm X in Utrecht. The graduation project is the final stage in the Innovation Management master program at the TU/e in Eindhoven and was supervised by the department of Innovation, Technology Entrepreneurship, and Marketing (ITEM). The graduation project provided me a great opportunity to translate the knowledge gained during both the bachelor- and the master program into practice.

I would like to use this chapter to articulate my gratitude to the individuals involved in the master thesis project. First of all I would like to thank Myriam Cloodt, my first supervisor from the university. Her academic expertise and her knowledge and expertise in the field of strategic options provided me a lot of guidance and structure for completing my master thesis project. Additionally she was enthusiastic about the research project during the whole graduation trajectory and continuously provided very useful feedback which enabled me to get this thesis to a higher level. I would also like to thank Elise Meijer, my second supervisor, for her enthusiasm about the project and her useful feedback.

Third I would like to express my gratitude to the CEO of firm X, my supervisor at Firm X. He made me part of the team of Firm X and encouraged me to participate in the decision making process and motivated me to come up with own ideas and initiatives, which were always appreciated. His experience as a business analyst not only significantly improved the quality of my thesis, but also helped me personally in the development of both professional and business skills. I really enjoyed working at my thesis project at Firm X the last six months!

Finally I would like to thank my parents. Mom and Dad, you always supported me during my study and always had confidence in me. You always motivated and encouraged me during the course of study and the graduation project.

Willem Drissen, July 2013

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1. Introduction

In this master thesis project new strategic options for Firm X are investigated in order to sustain future growth for the firm. In this introductory chapter a brief description of the company is given, hereafter a definition of the company problem will be provided followed by the research questions and the main objective of this master thesis. The chapter concludes with an outline of the remainder of this report.

1.1 Company Description

Firm X is a small, but growing internet start-up company located in Utrecht. Their business is to generate leads for financial products and online trading. Their mission is to unite supply and demand. Supply is defined as the products or services offered by Firm X' partners, while demand is referred to as the market-demand by consumers. In uniting supply and demand, Firm X exploits several websites containing quality, and fully original content, regarding the products and services provided by its partners. The generation of leads is often referred to as affiliate marketing: a company advertises and promotes products of the partner company on its website(s) and receives a commission for each sale the partner company realizes (Duffy, 2005; Mariussen, Daniele, & Bowie, 2010).

Besides the affiliate marketing based on commission payments, another pillar in the business model are the earnings from Search Engine Y advertisements (Service 1 Search Engine Y). Companies can pay Search Engine Y for online advertising opportunities. Search Engine Y will then place company advertorials on websites, like those exploited by Firm X, and Firm X receives a payment as soon as a website visitor clicks on the advertisement. The core competence in Firm X' current business model is the regular provision of related content on the exploited websites. On average, about 200 new articles are published each month. The articles are written in a way which incentivises website visitors to click, either on a Search Engine Y advertisement or on an advertorial of an affiliate partner, and thus to generate as many leads as possible. The simplified version of the business model is visualised in Figure 1.

Figure 1: Business model Firm X

1.2 Problem Definition

In this section the main problem is identified and the aspects which are important in this problem definition are elaborated on. The problem definition is leading in the selection of the key question in this thesis and its matching research questions and key deliverable for Firm X.

When focussing on the affiliate marketing channel in the online consumer credit business, Firm X provided leads for roughly 25% - 30% of the payday loans issued by their business partners in the second half of the year 2012. When translating these percentages to the total Dutch online small consumer credit market, leads generated by Firm X were responsible for 5% - 7% of the total number of new online credits issued in the Netherlands. This makes the option of vertical integration, offering online payday loans by Firm X, interesting to investigate. The online credit market is however characterized by a small number of providers. Additionally the number of providers fluctuates because some of the providers were forced to shut down their activities due to legal issues. This makes it hard to assure revenue streams through affiliate marketing and makes it also hard to increase the number of leads generated each month, and thus to increase the market share in the small consumer credit market. Besides the affiliate marketing channel, Search Engine Y advertorials provide quite a significant stream of revenues. Since it is not possible to fully control all the variables related to this revenue stream; it is for example not possible to know how the Search Engine Y algorithm will evolve over time, and how the cost-per-click evolves over time, it is of key importance to optimize the websites according to the Search

Engine Y policy. All factors implicate a change in strategy in the current channel of affiliate marketing is necessary and maybe adaptation in the Search Engine Y advertorial channel might lead to improvements. The problem definition and its important aspects are visualised in Figure 2. The boxes marked blue represent the important aspects for the revenues generated through affiliate marketing, while the purple boxes represent the important aspects for the revenues generated through the Search Engine Y advertisements. As can be seen, uncertainty in the overall revenues is the aspect leading to uncertainty in total market share in the online consumer credit market and the possible stagnation of the future growth of the company.

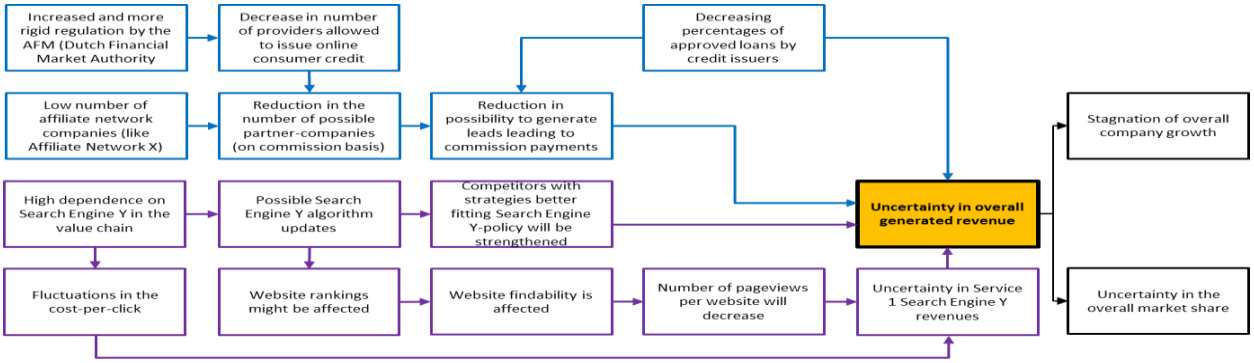

Figure 2: Problem definition and its important aspects for thesis project Firm X

1.3 Research Questions & Research Objective

As seen in section 1.2, the main problem for Firm X is that current market developments and market characteristics lead to problems in assuring a revenue stream and therefore future company growth, as well as the firm's (indirect) market share in the small online consumer credit market, is affected. A change in the strategy regarding the affiliate marketing channel seems required and furthermore adaptations in the way to assure Search Engine Y-advertorial revenues might be necessary. Therefore the key question in this research will be:

"Which strategic options are available for Firm X regarding the online consumer credit market and which options will be favourable taking into account business cases with different scenarios?"

In order to investigate the problem as stated above and find a solution for this problem, the key question will be subdivided into four research questions. The first research question will be answered using literal findings, while the other three research questions will be answered based on information and data retrieved in the observation phase, the data collected in the field and the results of the analysis performed on the data collected in the field. The four research questions are defined below and are visualized in Figure 3.

Research Question 1: *"Which different strategic options can firms choose to implement according to the academic theory?"*

Research Question 2: *"What is the current strategy of Firm X and how are both the internal and external environment characterized?"*

Research Question 3a: *"Is growth through innovation, strategic alliances, or mergers & acquisitions feasible and what are the key factors to take into account when using these strategies?"*

Research Question 3b: *"Is growth through vertical integration feasible and what are the key factors to take into account when using this strategy?"*

Research Question 4: *"Which strategic options will be favourable for Firm X taking into account business cases with different scenarios?"*

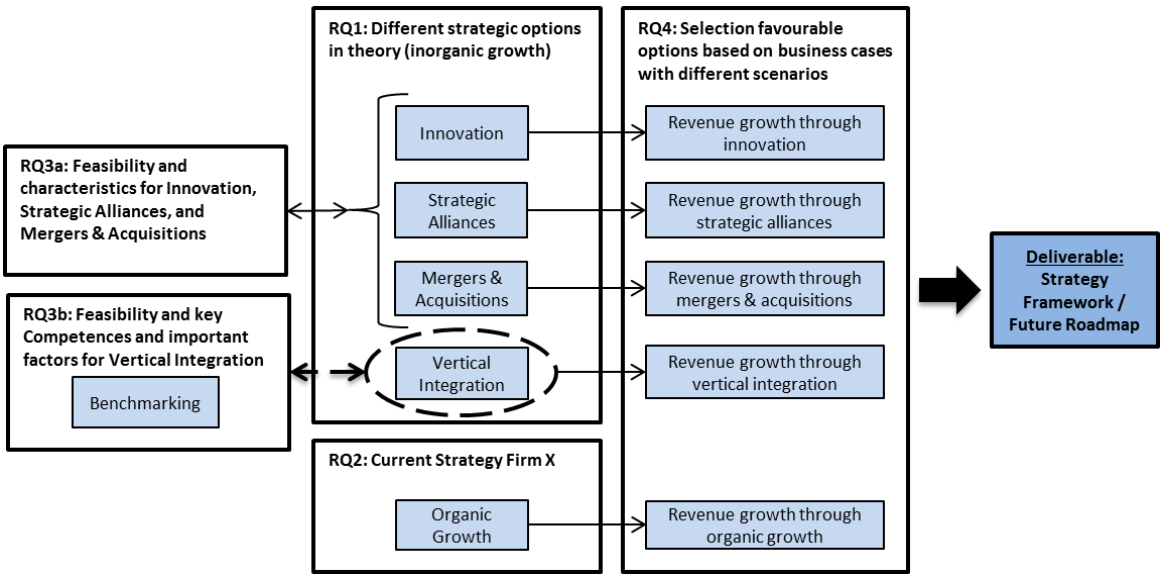

Figure 3: Relations between Research Questions and Final Deliverable

The results and answers to each of these research questions will be used to provide Firm X a structured framework wherein an overview of the different strategic options is given. This overview will be based on the business cases and different scenarios as used in research question four. In the framework both qualitative and quantitative measures and argumentation will be used. One important note is that the strategic options will also be compared with organic growth. The framework can be seen as a strategy roadmap for the total revenue in the future in the online consumer credit segment. The company goal is to reach an overall revenue of €1,000,000 in 2015. The main objective of this thesis project can thus be defined as:

Developing and delivering a structural framework/roadmap for the future of the online consumer credit segment of Firm X, in which an overview of the different strategic options is provided based on business cases in different scenarios.

1.4 Report Outline

This introductory chapter provided a brief description of the company and the main problem. Based on this problem definition the key research question was defined and additional research question were decided on. Additionally the main deliverable of the thesis was discussed.

The remainder of this report will be structured as follows. In chapter two the theoretical framework will be presented. As seen in the description of the first research question, the findings of this theoretical framework will be used to answer this question. Chapter three elaborates on the methodology used in this thesis project. The conceptual model, the research methods used, the methods of data collection, the methods of data analysis, and the quality of the research will be elaborated on. The analysis and results are covered in chapter four. In this chapter the current strategy, the strategic possibilities of organic growth and the strategies of innovation, strategic alliances, mergers & acquisitions and finally vertical integration are discussed. Research questions 2, 3a and 3b can and will therefore be answered in the fourth chapter. Chapter five elaborated on the selection and choice of strategic options which are favourable for Firm X. Additionally these options are included into the future strategic roadmap for Firm X. This means that research question four can be answered in this chapter and that the final deliverable is presented in the fifth chapter. The thesis report ends with a conclusion and discussion; herein recommendations, limitations and future research directions will be provided. Additionally a reflection on the research questions and final deliverable is provided.

2. Theoretical Framework

In this chapter the theoretical framework, which will be used to answer the first research question and to get insight into the matter, will be explained. The increasingly competitive environment that characterizes many industries makes it important for firms to define and develop their strategies with great care. Firm's core competences and capabilities are key determinants in the description of their strategy. When setting out future goals, future missions and visions, situations can occur where current competences are not sufficient to meet those plans. This means a change in the strategy is required. Besides organic growth other options outside the firm's boundaries exist. This chapter provides insight into these options. Section 2.1 contains a description of the company strategy and methods to analyse the firm's environment. In section 2.2, the innovation paradigms, and the shift from 'closed-' towards 'open innovation' will be discussed. Section 2.3 describes strategic alliances; definitions, motives and underlying theories, different forms, a strategy towards successful alliances and alliance performance will be discussed. Section 2.4 contains definitions, advantages and disadvantages, underlying theories, considerations in the decision making process, different forms and alternatives, and results in practice of vertical integration. Since mergers & acquisitions play an important role in vertical integration, these will be briefly discussed in section 2.4. It will be shown that the two strategies can be used to get comparable outcomes, but the approach and road towards these outcomes are different.

2.1 Company Strategy

The essence in successful competition within an industry is the firm's strategy (Jones, 2007). Strategy can be described as a specific pattern of decisions and actions that managers take to use core competences to achieve a competitive advantage and outperform competitors (Chandler, 1962). Jones (2007) states that a company uses its strategy to develop or use its core competences. He divides core competences into specialized resources and coordination abilities. Specialized resources include functional resources, representing employee skills, and organizational resources, representing attributes that provide competitive advantage to the firm. Coordination ability refers to value maximization through coordinating the functional and organizational resources. In determining the strategy it is important to investigate both the internal, and the external environment. Several methods to get insight in these environments exist. Based on the results of these analyses the core competences a firm lacks, the existing opportunities, and threats in the market can be defined. In order to obtain these competences or being able to capitalize on the opportunities or reduce threats and risks, other choices in the firm's strategy might be necessary.

A method often used in analysing the firm's internal business environment is the SWOT analysis; herein the strengths, weaknesses, opportunities and threats of a firm are analysed. Key in this analysis are the core competences a firm possesses (Duysters, van den Oord, & Post, 2003), or the firm characteristics (Varadarajan & Cunningham, 1995), which include the product-market diversity, the size and resource position, and the corporate culture. According to Das & Teng (1998) not only the firms' competences, but also the resources whereupon the competences are based are important. According to Peyrefitte et al. (2002) the key factor in the analysis of a firm's internal environment is its strategic core/centre of gravity. The strategic core refers to the position in the value channel where the firm started its operations and created its core competences and dominant logic (Peyrefitte, Golden, & Brice Jr, 2002; Peyrefitte & Golden, 2004). The core competence is defined as: "the firm's unique combination of financial, managerial, and organizational capabilities that enables it to do some things particularly well (Peyrefitte & Golden, 2004, p. 247)". Dominant logic can be viewed as "the fundamental aspect of organizational intelligence and the information filter that shapes responses to environmental change (Peyrefitte, Golden, & Brice Jr, 2002, p. 218)".

In the external analysis, the firms' business environment and its trends and developments are being analysed (James, 1985; Duysters, van den Oord, & Post, 2003). A commonly known model to

perform such an analysis is Porter's (1979) five forces model, which includes industry competition between an industry's existing firms, the threat of new industry entrants, the bargaining power of customers, the threat of substitute products or services, and the bargaining power of suppliers (Porter, 1979). A second method often used to examine the external business environment is the PESTEL-analysis. In the PESTEL-analysis, political, economic, social, technological, environmental and legal factors are taken into account. As can be seen this method is not completely different than the five forces model. Therefore the PESTEL-analysis is often used as a complementary method. The external environment is considered of key importance in a firm's strategy by many researchers.

After analysing the current strategy, the vision- and mission development regarding the future of the organization can start. This vision and mission will be based on the results obtained in both the internal and external analysis performed in the first two steps (Duysters, van den Oord, & Post, 2003). After determining the future plans for the organization, the next step is to investigate the key competences and resources necessary to meet these future plans. The firms' shortcomings can be identified using the results of the internal and the external analyses. The analyses furthermore enable companies to investigate the growth paths available. Based on these growth paths the firm decides in which direction its strategy should be headed. The growth paths are often modelled in the Ansoff-matrix; herein business markets and company products are ranked in new and existing ones. This results in four different quadrants: market penetration when current products in current markets are referred to, market development when current products are being introduced in new markets, product development when new products are being released in current markets, and finally diversification when a new product is introduced in a new market (Hussey, 1999). Based on the analyses of the current strategy and the future mission and vision, projects can be categorized into one of these actions. If the firms current competences are not sufficient to execute the goals specified in the future strategy, other ways to reach these goals are necessary. One way to do this is through innovation, in which new products or services are being developed. Second, partnerships with other companies can be thought of. Finally the lacking competences can be acquired, for example through mergers & acquisitions and vertical integration. These three modes will be thoroughly discussed in the next sections.

2.2 Innovation Paradigms

This section discusses the innovation paradigms. First, the Closed Innovation paradigm, the 'classical' innovation approach used by the majority of companies before the introduction of the Open Innovation paradigm, is presented. Additionally, reasons why the success of the Closed Innovation approach decreased and therefore was increasingly abandoned are described. Second, the Open Innovation paradigm, and the importance of a firm's business model, will be elaborated on.

2.2.1 Closed Innovation paradigm

The underlying philosophy of the Closed Innovation paradigm is that "successful innovation requires control" (Chesbrough, 2003b, p. 36). This means companies have to generate their own ideas and develop them, market them, distribute them, service them, finance them, and support them on their own, in order to be successful. This indicates that firms are (almost) completely self-reliant, because firms cannot be sure about the quality of innovations of other firms,

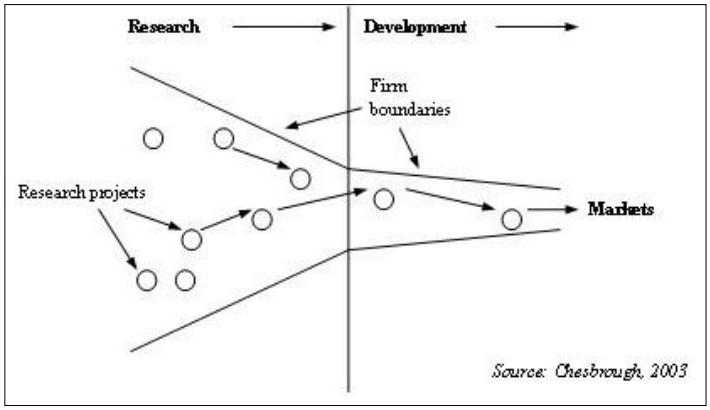

Figure 4: The Closed Innovation Model (Chesbrough, 2003a)

availability of innovations of other firms and the capability of ideas of other firms (Chesbrough, 2003a). The Closed Innovation model is displayed in Figure 4.

As can be seen all the processes and actions taken in the innovation-process are performed within the firm boundaries. The reason why this paradigm worked so well for many companies is because of the virtuous circle (Figure 5). This circle starts with an increased investment in R&D by the firm. This leads to fundamental technology breakthroughs which, on their turn, lead to new products and features. These new products and features will lead to increased sales and profits through the existing business model and these increased profits enable the firm to invest more resources in R&D.

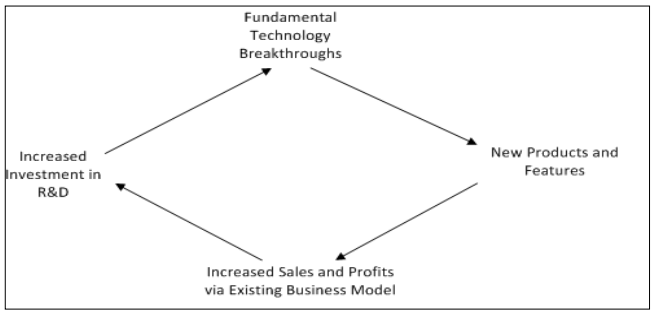

Figure 5: The Virtuous Circle (Chesbrough, 2003a)

Although the Closed Innovation paradigm worked very well for many companies, at the end of the twentieth century some factors set in which disturbed the mechanism of the virtuous circle. The first factor was the rise in number, and mobility, of highly experienced and skilled employees, which made it hard for companies to control their ideas and knowledge. Secondly the presence of venture capital grew enormously, which made it possible to finance ideas that were not utilised by the R&D facilities of large firms. Additionally the fast time to market required for many products and the fact that both customers and suppliers became more knowledgeable made it hard for firms to strictly follow the Closed Innovation paradigm (Chesbrough, 2003a; Chesbrough, 2003b). Since firms could not manage to keep its resources and developments completely within the boundaries of their firms, they were not always able to increase their R&D investments and thus increase their innovation effort. Chesbrough (2003b) states: "the company that originally funded a breakthrough did not profit from the investment, and the firm that got the benefits did not reinvest its proceeds to finance the next generation of discoveries (Chesbrough, 2003b, p. 36)". This suggests a new paradigm was desirable.

2.2.2 Open Innovation paradigm

The erosion effects of the Closed Innovation paradigm enabled a shift towards a new paradigm; Open Innovation. The Open Innovation paradigm assumes that: "firms can and should use external as well as internal ideas, and internal and external paths to market, as they look to advance their technology and that internal ideas can also be taken to market through external channels, outside a firm's current businesses, to generate additional value" (Chesbrough, 2004, p. 23). The Open Innovation model is visualised in Figure 6. As can be seen the Open Innovation model differs quite a lot from the Closed Innovation model shown in Figure 4. In the Open Innovation model the boundaries of the firm are transparent. This transparency has two advantages, first external ideas are allowed to flow into the company in order to develop better products for the current market, and second, internal ideas are allowed to flow out of the company in order to develop products in other firms, for example a spin off to serve a new market. The next sections

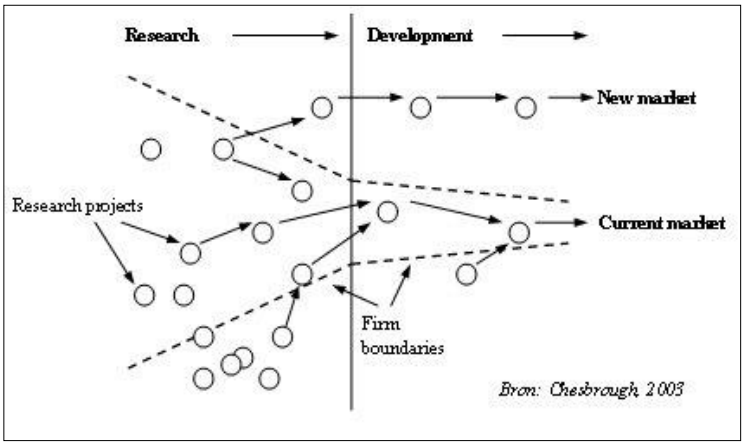

Figure 6: Open Innovation Model (Chesbrough, 2003a)

will describe how the internal R&D should be managed in this paradigm, and the big role the business model plays in being a successful company. The focus will be on these aspects because, first, the shift from closed to open innovation makes the way of dealing with internal R&D vital. In the Closed paradigm internal R&D was the only option for a firm, whether in the Open paradigm other ways of R&D are possible, meaning the organization of internal R&D in the Open Innovation paradigm is important. The business model is important, since it is the mediator between the technical inputs and the economic outputs, in other words, to be successful as a company a proper business model is priceless.

2.2.2.1 New rationale for internal R&D

As stated in the previous section about the erosion effects of the Closed Innovation paradigm, the business and knowledge landscape changed. To successfully implement the Open Innovation paradigm, it is important that firms adapt themselves to this new environment, especially the change in internal R&D is important. Chesbrough (2003a) states internal R&D should be organized in a way which enables a company to be able to handle four important principles. First the firm has to be able to identify, understand, select from, and connect the wealth of available external knowledge. Second the internal R&D department should be able to fill the gaps in external developed knowledge. Third, both internal and external knowledge have to be integrated for forming complex knowledge-combinations to create new architectures and systems. Fourth, extra revenues can result by selling internal ideas to external firms, so they can use them in their systems.

2.2.2.2 Business model

Complementary to the new rationale for internal R&D is the modification of the business model in order to be successful in the Open Innovation paradigm. A business model represents: "the method of doing business by which a company can sustain itself – that is, generate value. The business model spells out how a company makes money by specifying where it is positioned in the value chain" (Chesbrough & Rosenbloom, 2002, p. 533). According to Chesbrough (2003a), a company can create and capture value form their technologies in three ways. First by using the new technology in its current business, second by licensing technologies to other firms and third by launching new ventures using technology in new business markets.

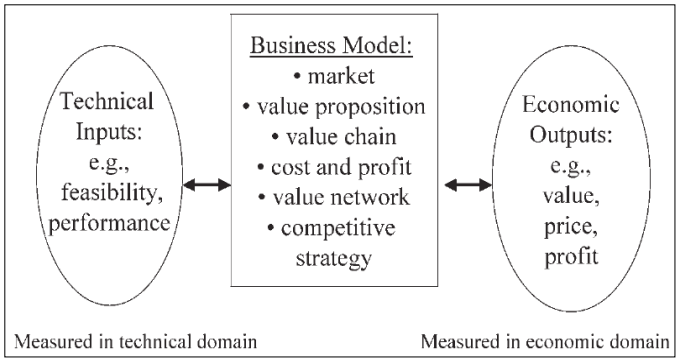

Figure 7: The Business model (Chesbrough & Rosenbloom, 2002; Chesbrough, 2003a)

The business model contains six functions; the value proposition, the market segment, the value chain, the cost structure and target margins, the value network and the competitive strategy (Chesbrough & Rosenbloom, 2002; Chesbrough, 2003a). The most important role of the business model is the mediating role between the technical domain of inputs and the social domain of outputs; this can be seen in Figure 7. According to Chesbrough (2003a) the realization of economic value from a technology does not depend on the characteristics or superiority of a technology, but on the business model which is chosen by the company owning the technology.

Given the fact that the business market is extremely dynamic, it is important for companies to avoid both the cognitive - , and the potential trap. The cognitive trap is a situation in which the firm misses a better business model because it conflicts with the firm's current business model. The potential trap refers to firms becoming entrenched in their current business model, disabling them to recognize the information that may point to a different and perhaps better business model (Chesbrough, 2003a).

This means that a business model's success has positive and negative effects. These negative effects arise with the rise of the counterproductive cognitive-, and the potential trap.

2.3 Strategic Alliances

This section deals with the phenomenon of strategic alliances. Strategic alliances are one of many forms of inter-organizational cooperation and they are useful for several business purposes and became increasingly popular during the years. In his 1985 article, James states that the changing business environment led to the fact that alliance strategies are becoming the rule rather than the exception. Lei & Slocum (1991) also found that the number of alliances formed between multinational companies has increased, and also the number of alliances types has increased. It seems that because of the importance of alliances in the business environment, the strategic alliances itself also evolved and became multi-typed. Research by Duysters et al. (1999) confirms the findings by Lei & Slocum (1991). Additionally, research by Duysters et al. (2004) and Duysters & Heimeriks (2005) reveals that strategic alliances also increasingly contribute to the market value of a company. In 2001, approximately 30% of the companies stated that at least 40% of their market value came from alliances. The expectations are that in the future, approximately 65% of the companies will get at least 40% of their market value out of strategic alliances. This large increase shows that strategic alliances are increasingly seen as a key element in a firm's strategy. A study on management tools (Rigby, 2005), shows that alliances are among the top ten of most widely used tools by top executives. 63% of the top executives use strategic alliances as a management tool and they are satisfied with the outcomes of the strategic alliances wherein they participate (Rigby, 2005). These results confirm that strategic alliances indeed became the rule rather than the exception and that they are regarded as a key element in a company's strategy.

This section provides: definitions of strategic alliances, motives and underlying theories to form strategic alliances, the different forms of alliances, the process of alliance formation, and a short section about the performance of strategic alliances in the real world.

2.3.1 Definitions

During the years a lot of research is performed on strategic alliances and a lot of articles about it are published. This also means that the definition, or elements in the definition, changed or are extended over time. Parkhe (1991), defines strategic alliances as: "relatively enduring inter-firm cooperative arrangements, involving flows and linkages that utilize resources and/or governance structures from autonomous organizations, for the joint accomplishment of individual goals linked to the corporate mission of each sponsoring firm" (Parkhe, 1991, p. 581). In his 1993 article, Parkhe adds to this definition that: "these arrangements are often characterized by inherent instability arising from uncertainty regarding a partner's behaviour and the absence of a higher authority to ensure compliance" (Parkhe, 1993, p. 794). Varadarajan & Cunningham (1995) make a small addition to Parkhe's (1991) definition. They state that not only individual goals linked to the corporate mission of each firm are important, but also common goals the firms engaged in an alliance have.

Up to this point the definitions described almost all were related to equity based and relatively long-lasting relationships. In their article published in 1997, Osborn & Hagedoorn argued that more flexible, evolution-oriented non-equity forms of strategic alliances are more effective in certain situations. This insight adds to the former definitions that strategic alliances are also flexible and evolution-oriented. Another definition used for strategic alliances is provided by Gulati (1998), in his article he states: "strategic alliances are voluntary arrangements between firms involving exchange, sharing, or co-development of products, technologies, or services" (Gulati, 1998, p. 293). Gulati's view, exchange of different kinds of information is a key element in strategic alliances, is confirmed by Stuart (2000), who argues that strategic alliances are access relationships. This view is, at least for technology alliances, supported by the definition used by Hagedoorn & Duysters (2002): "strategic technology alliances are those modes of inter-firm cooperation for which a combined innovative activity or an

exchange of technology is at least part of an agreement (Hagedoorn & Duysters, 2002a, p. 168)". Another important aspect is that it is not necessarily an agreement between two organizations, but also more organizations can be involved. This is explicitly mentioned in the definition used by de Man & Duysters (2005). Duysters & Heimeriks (2005) use a definition similar to the definitions stated above but they add that all companies involved in the strategic alliance maintain their own corporate identity.

As can be seen the definitions used by scholars during the years are all interrelated and build upon each other. Using all the definitions it can be stated that strategic alliances can be defined by several elements: it is an inter-firm arrangements between two or multiple companies; it is aimed at satisfying both common and individual company goals; it is a voluntary, flexible and evolution-oriented organizational form; it includes the exchange, sharing, or co-development of products, technologies, or services; the success is dependent on uncertainty in a partner's behaviour; and finally, the companies participating in the strategic alliances maintain their own identity.

2.3.2 Motives and Underlying Theories

This section discusses the reasons why firms engage in strategic alliances, and consists of two parts. First, the main reasons for companies to engage in strategic alliances are described. The second part covers the general theories which are often used in the strategic alliance literature. This part also shows in which theory the reasons mentioned in the first part can best be categorized.

2.3.2.1 Motives to form strategic alliances

In the literature a lot of reasons to form strategic alliances are discussed. James (1985) argues that the reason for alliance formation is the change in the business environment including economic conditions, high costs, the globalization of business and the increasing political control. James (1985) states that five major reasons for alliance formation can be distinguished. The first one is market access, which deals with market entry barriers like local conditions and start-up costs in new market. Second, technology acquisition and control is an important reason because the use of new technology is becoming increasingly important and, as stated in chapter 2.1.1, solely internal R&D is not the most efficient way to acquire new technologies. Financial support is the third reason, since alliances can be used for funding major new R&D projects which are too expensive for one firm to perform. A fourth reason is that alliances allow companies to be able to compete in the market they are operating in. The last reason is that political insurance leads to the fact that the chance to survive in the market is higher when an alliance is formed.

Although Kogut (1988) describes joint ventures, which is a specific alliance-type covered later in this chapter, he provides some interesting insights regarding reasons to ally. First, the transaction costs motivation is important. According to the transaction cost approach, firms choose their way of how to transact based on the minimum of the sum of production and transaction costs (Williamson, 1981). According to Williamson (1981), the production costs between firms can be different because of scale of operations, learning, or proprietary knowledge. The transaction costs imply costs for writing and negotiate contracts, administration cost and stabilizing relationships between companies. Often both these costs can be lowered when companies engage in a strategic alliance. The second motivation is the strategic behaviour that leads firms to try to enhance their competitive positioning or market power. Finally, the quest for organizational knowledge or learning that results when one or both partners want to acquire some critical knowledge from the other, or one partner wants to maintain its capability while seeking another firms' knowledge, is important (Kogut, 1988).

In addition to the arguments mentioned above, Hamel et al. (1989) argue that time is an important aspect regarding the ability to improve production efficiency and quality control. Furthermore the protection of the competitive position in the home market, raising entry barriers for new competitors, and the ability to broaden a firm's product line or fill product line gaps, are seen as strategic alliance

motives (Varadarajan & Cunningham, 1995). Stuart (2000) on the other hand claims alliances are in first instance access relationships and therefore the only reason to enter them is learning potential.

The various reasons to form alliances are nicely summarize by Colombo (2003), who mentions three main motives. The first one covers efficiency reasons, including sharing of costs and risks, specialization of tasks within the alliance, and production capacity. The second one covers competitive reasons including market-survival ability, reducing rivalry, and creating entry barriers for new entrants. The third one covers strategic reasons, like entry in new markets or products and acquiring new knowledge (Colombo, 2003). In the literature these reasons are often described and categorized using theories. The most important theories are explained in the next section.

Additionally, the motives mentioned can also be categorized in exogenous and endogenous reasons. Exogenous reasons include factors outside the company boundaries which force or motivate firms to engage in strategic alliances. Motivations which can be placed in this category are political insurance, as mentioned by James (1985), Lyons (1991) and Sambasivan & Yen (2010), and the competitive reasons, as summarized by Colombo (2003). Endogenous reasons can be seen as motivations to form alliances which originate within the boundaries of a company. The efficiency and strategic reasons as summarized by Colombo (2003) can be seen as endogenous reasons.

2.3.2.2 Theories used in strategic alliances

Over time research provided and explained various theories that have been used in alliance research. An overview of these theories is given in the articles by Ireland et al. (2002) and Duysters et al. (2004). Although these theories all have been applied in the strategic alliance research, there is a difference in how often they are used. The two most important theories which apply on the situation at Firm X, transaction costs theory and the resource-based view, are explained.

According to Williamson (1991), the transaction cost theory states that the reason for firms to enter a strategic alliance should be based on the minimization of the sum of its transaction costs and its production costs. The transaction costs include the costs made in negotiation with partners, monitoring partner performance, while the production costs include the differences in scale of operations, learning and proprietary knowledge between firms. Strategic alliances are more effective than the market when they provide lower transaction costs (Ireland, Hitt, & Vaidyanath, 2002). Section 3.2.1 showed that reasons regarding costs and financial motivations are important. All these reasons could be classified as reasons originating from the transaction costs theory.

In the resource-based view, strategic alliances can be viewed as access relationships regarding the resources of other firms, and are used to gain competitive advantages which otherwise could not be realized (Das & Teng, 2000). In other words, “the resource-based alliance formation argument suggests that firms use alliances to locate the optimal resource configuration in which the value of their resources is maximized relative to other possible combinations” (Ireland, Hitt, & Vaidyanath, 2002, p. 427). Thus, alliances are used to gather resources that create firm-value, since the firm is not able to create these resources itself. Das & Teng (1998) name four critical resources which firms can bring to an alliance: financial, technological, physical, and managerial resources. The strategic reasons described by Colombo (2003) could be classified within the resource-based view.

2.3.3 Forms and Characteristics

As already mentioned before, strategic alliances are a formal strategy to deal with resource interdependencies, but not the most formal strategy possible. Strategic alliances can be used as a strategy for several business purposes. This section covers the different forms and its characteristics.

As mentioned in defining strategic alliances, they are a flexible and evolution-oriented organizational form. This statement suggests that multiple forms of strategic alliances are available, and indicates that these forms changed over time or that new forms are being developed over time.

James (1985) names eight different forms of strategic alliances: licensing, marketing agreements, joint ventures, franchising, private label agreements, buyer-seller arrangements, common standards, and consortia. Lyons (1991), however, only identifies three types; licence agreements, supplier arrangements and joint ventures. The licensing arrangements and joint ventures are also named by Lei & Slocum (1991), but they distinguish, as James (1985), consortia as an alliance form. Duysters & Hagedoorn (2000) classify different modes of cooperation based on its organizational interdependence, and found six different modes: joint ventures and research corporations, joint R&D, minority investment, customer-supplier relations, technology exchange agreements, and one-directional technology flow. The organizational interdependence is large in joint ventures and research corporations, and low in one-directional technology flows. In his comparative research of the resource-based theory and the transaction-cost theory, Yasuda (2005) studied four alliance types: technology licenses, joint R&D, sourcing agreements, and joint ventures. Jones (2007) classifies strategic alliances on their formality: joint ventures, minority ownerships, networks, and long-term contracts. Joint ventures are the most formal form of strategic alliances.

Varadarajan & Cunningham (1995) define strategic alliances based on their structure, and argue two options are possible: "a distinct corporate entity to which the alliance partners commit agreed upon skills and resources and in which each of the alliance partners hold an equity position, or a distinct inter-organizational entity to which the alliance partners commit agreed upon skills and resources" (Varadarajan & Cunningham, 1995, p. 284). Basically they distinguish between equity and non-equity inter-firm agreements, a view also used by Osborn & Hagedoorn (1997), Gulati (1998), Hagedoorn (2002), Colombo (2003) and Schildt et al. (2005). Gulati (1998), however, adds that equity forms, in which joint ventures are the most formal form, are almost like hierarchical control features of organizations and that non-equity forms have almost none hierarchical controls. Besides this distinction, Colombo (2003) further divides non-equity agreements into bilateral and unilateral forms. Bilateral forms contain some of the coordination and incentive aligning mechanisms typical for equity forms, while unilateral arrangements lack these mechanisms. Bilateral agreements include arrangements which main aim is to share production and/or distribution facilities, while unilateral agreements include licences and technology transfer agreements (Colombo, 2003). Grant & Baden-Fuller (2004) do not use the terms equity and non-equity arrangements, but they distinguish contractual agreements and ownership links as different alliance-forms.

This overview shows that similar alliance-types are often mentioned. The main difference is that some authors first distinguish between equity and non-equity form before classifying different forms in each category, while others just name the different forms. Both approaches lead to the conclusion that the four key forms of strategic alliances are joint ventures, minority investments, networks, and long-term contracts. The consortia, named by James (1985) and Lei & Slocum (1991) can be classified as minority ownerships. When looking at the structure of a prominent consortia type, the keiretsu, it can be seen that it is a network of companies. Despite this structure, the keiretsu is discussed in the minority ownership section. Licensing arrangements, knowledge and technology transfer relations, and supplier relationships can be viewed as long-term contracts.

2.3.4 Process and Performance

In this section, first, important aspects in the alliance formation process are described. These aspects increase the chance that the alliance performance will live up to the expectations. Second, an overview of alliance performance and its development in the past decades is presented. Finally, the main reasons why alliances (might) fail are mentioned and discussed thoroughly.

2.3.4.1 Alliance Formation Process

In their manual regarding strategic alliances, Duysters et al. (2003), describe five important stages for successfully managing a strategic alliance: the organizational strategy, the alliance strategy, the

selection of the alliance partner(s), the implementation and putting the alliance into operation, and finally the management and evaluation of the strategic alliance. These five stages will be taken as leading aspects which are needed for, and/or increase of, alliance success. As will become clear, al lot of elements described in section 2.1 will be referred to.

2.3.4.1.1 Organizational Strategy

Four main purposes can be distinguished in the organizational strategy: identifying important trends and developments, identifying strengths and weaknesses of the organization, identifying shortcomings in the organization, and finally based on the three prior purposes, set a strategy to deal with the shortcomings (Duysters, van den Oord, & Post, 2003). In order to fulfil the purposes adequately, several steps have to be followed. The first one is the external analysis, the second one covers the internal analysis and the third step considers the vision- and mission development regarding the future of the organization, and finally the selection of a proper strategy. To meet shortcomings a firm has three options: autonomous growth, mergers and acquisitions, and alliances. Every option has its own characteristics regarding risk, time, availability of resources, and required change; meaning a firm has to decide carefully which options fit their strategy best (Duysters, van den Oord, & Post, 2003).

2.3.4.1.2 Alliance strategy

The alliance strategy includes two goals: the determination of the overarching alliance strategy, and the determination of the strategy for each separate alliance (Duysters, van den Oord, & Post, 2003). In order to reach these goals five steps have to be taken into account. The first step is designing the optimal alliance portfolio. The second step is the management of the alliance portfolio. Herein the added value by a specific alliance is defined. Alliances which do not provide specific added value need to be terminated (Duysters, de Man, & Wildeman, 1999). Third, alliances motives are identified and can be subdivided into internal and external motives and pro-active and reactive motives. A combination of these motives leads to a SWOT-analysis, wherein the strengths, weaknesses, opportunities, and threats for each alliance will be analysed (Duysters, van den Oord, & Post, 2003). Steps four and five are determining the strategy for the alliance and identify its added value (Duysters, van den Oord, & Post, 2003). The characteristics of each alliance-form will be compared to the SWOT-analysis and result in a choosing a specific strategy.

2.3.4.1.3 Partner selection

The partner selection serves two goals: optimal alliance partner selection, and establishing an agreement of understanding and principles (Duysters, van den Oord, & Post, 2003). In order to reach these goals, seven steps are important. The first step is to set up a long list of potential partners. The second step is to determine an optimal partner profile. Main drivers in this profile are the alliance strategy, alliance motives, and the added value proposition. Key point in determining the profile are management, financing, research & development, production, marketing & distribution, and alliance capabilities (Duysters, van den Oord, & Post, 2003).

Based on the first two steps, the short list of partners can be derived in the third step (Duysters, van den Oord, & Post, 2003), and only contains partners which meet the profile created in the second step and were listed on the long list. The fourth step is the analysis of fit, in which the compatibility of the partners on the short list will be determined. The alliance capabilities of a potential partner are also important here. If the possibility to collaborate is limited, it is important to figure out the shortcomings and see if these can be overcome. The fifth step is the analysis of the risk and efficiency of the alliance. Here, not only financial efficiency, but also market growth potential, organizational capacity, innovative efficiency, and advantages over competitors are important (Duysters, van den Oord, & Post, 2003). Das & Teng (1998) divide risk into relational risk and performance risk. Relational risk “is concerned with cooperative relationships, or the probability that the partner does not comply with the spirit of cooperation” (Das & Teng, 1998, p. 25). Performance risk “refers to the probability that intended

strategic goals of an alliance may not be achieved, even though cooperation between the partners is satisfactory" (Das & Teng, 1998, p. 25). It is important to consider both types of risk and be aware of the difference between the two types. Now the favourite partner can be selected from the short list and negotiations can start. The goal is to investigate if a successful collaboration agreement is possible.

Aforementioned steps result in a Memorandum of Understanding and Principles, which displays a general overview of the aspects confirmed upon in the negotiations and includes the strategic intention, the goals and the operational principles of alliance (Duysters, van den Oord, & Post, 2003). Research suggests firms are aware of the importance of partner selection procedures and that about 52% of the companies use them (Duysters & Heimeriks, 2005).

2.3.4.1.4 Implementation and Operationalization

This phase has two goals: the formation of a plan where the collaboration is being elaborated, and the collaboration formalization (Duysters, van den Oord, & Post, 2003). To reach those goals, a specific plan for collaboration and legal contracts should be set up. As the name indicates, the specific plan contains the details of the collaboration based on the Memorandum of Understanding and Principles. The importance of the specific plan is confirmed by other researchers. Hamel et al. (1989), state that companies have to determine their skills and technologies which they contribute to the alliance with great care, while Lyons (1991) emphasizes the importance of defined goals and objectives. Additional to the specific plan, companies engaging in an alliance have to develop safeguards against unintended transfers of information. This can be done by a detailed allocation of accountability and responsibilities (Lyons, 1991). Duysters et al. (2003) use the term legal contracts to refer to this allocation of accountability and responsibilities. A legal contract can vary in its complexity and this complexity is also linked to the type of alliance chosen.

2.3.4.1.5 Management and evaluation

The last phase described by Duysters et al. (2003) is the management and evaluation of the alliance. Herein it is ensured that the alliance guarantees an increase in value and that the alliance results are measured. Based on these results, the alliance might possibly be adjusted. In order to reach these goals it is important to determine the criteria of evaluation, measure the results of these criteria and eventually adjust the alliance if the results are not in line with the expectations or goals in the Memorandum of Understanding and Principles and the specific plan determined earlier on.

One way to determine the criteria of evaluation is using Anderson's (1990) input-output continuum. The main idea is that the output side contains result measures, like financial measures, and that the input side covers variables that create or determine the result measures. "Inputs represent what the organization is doing and how it is struggling to achieve eventual results (outputs)" (Anderson, 1990, p. 23). Anderson (1990) classifies harmony among partners, morale, productivity, financial resource indicators, adaptiveness, and innovativeness as inputs. The structure of the model implies that weak inputs result in bad output performance, hence the input variables can be considered as long-term oriented, while the output measures are rather short-term oriented. Ireland et al. (2002) state that "effective alliance management requires integration of partners' cultures and the skills of the human capital involved with an alliance" (Ireland, Hitt, & Vaidyanath, 2002, p. 437). Viewed in the input-output continuum, these factors can be seen as harmony among partners. Research in alliance-management led to an interesting outcome in the sense that effectively managing an alliance can be viewed as a form of value creation and thus as a competitive advantage for the company (Anand & Khanna, 2000; Ireland, Hitt, & Vaidyanath, 2002). Based on the criteria set and the results following these criteria it is important to periodically review the results together with your partners (Duysters, van den Oord, & Post, 2003). Based on these evaluations, it has to be determined if the alliance will continue as specified in the Memorandum of Understanding and Principles and the specific plan, or if adaptation or complete termination is a better option. In case of alliance adaptation, the partners have to renegotiate the

alliance. This basically means that they have to start over beginning at the sixth step in the partner selection phase, which is the negotiation step (Duysters, van den Oord, & Post, 2003).

2.3.4.2 Strategic alliance performance

Now it is time to review alliance performance in the real world. Additionally, major reasons for alliance failure will be mentioned and finally, some failure prevention mechanisms will be discussed.

One important aspect to review is the success-rate of alliances. Research shows that, although strategic alliances are meant to create win-win situations for all partners involved, the mortality rates always have been very high. Roughly seen, about 50 – 60% of the alliances can be seen as a failure (Duysters, Kok, & Vaandrager, 1999). Other studies provide similar results; failure rates range between 40 – 70% (Duysters, Heimeriks, & Jurriëns, 2004; Duysters & Heimeriks, 2005; de Man & Duysters, 2005). The most used performance measures are related to financial, relational, and/or learning effects (Duysters, Heimeriks, & Jurriëns, 2004). The performance measures used to regard an alliance as a failure already give an indication of the failure-reasons. An overview of failure reasons reported in the literature will be given below.

One reason mentioned is the fact that companies enter alliances with hidden agendas, meaning they do not operate in favour of the alliance, but only in favour of themselves (Duysters, Kok, & Vaandrager, 1999). A second reason is the possibility that an alliance creates a potential competitor is or strengthens an existing competitor (Duysters, Kok, & Vaandrager, 1999). A third reason for alliance failure is a lack of trust between the partners (Ireland, Hitt, & Vaidyanath, 2002; Duysters & Heimeriks, 2005), and since trust suggests that "a partner's actions will meet expectations, including the absence of opportunistic behaviour" (Ireland, Hitt, & Vaidyanath, 2002, p. 438), it has a great influence on alliance-performance. A fourth reason is the mismatch of a partner's strategy (Duysters & Heimeriks, 2005); this means that partners often fail to align their strategic intentions regarding their joint activities. A fifth reason is the partners' inability of to deliver expected competences (Duysters & Heimeriks, 2005). Reasons four and five are also related to the 'hidden agenda' reason and to the relational risk. Sixth, operational problems are mentioned, meaning that, for example control management and production procedures are not living up to the expected standards (Duysters & Heimeriks, 2005). Seventh, the cultural part in the alliance is named as a reason for failure (Duysters & Heimeriks, 2005; Sirmon & Lane, 2004; Sambasivan & Yen, 2010). According to Sirmon & Lane (2004), culture can be divided into national-, organizational-, and professional culture. National culture refers to deeply set values that are shared by the members of a nation, organizational culture forms a type of social control identifying appropriate behaviours and attitudes for firm members to display, and professional culture exists when people who are employed in a functionally comparable occupation share a set of norms and beliefs related to their occupation (Sirmon & Lane, 2004).

A lot of failures mentioned above can be avoided if the five stages to form a strategic alliance described in section 2.3.4.1 are performed adequately. If the alliance agreement is determined in great detail and is completely aligned between the partners, there is a higher possibility that expectations will be met and a lower probability of hidden agendas and opportunistic behaviour. Furthermore trust between partners will be positively impacted and trust-building will continue when partners act according to the agreements made in the contract.

2.3.5 Conclusion

This section provided a general review of strategic alliances. In the introduction it was shown that strategic alliances are becoming increasingly important and are used frequently by firms and serve a lot of different business purposes. Strategic alliances can be classified as a rather formal form of collaboration compared to other possibilities. Within strategic alliances there are a lot of different options, meaning alliances can be made as formal or informal as the company engaging in it wants.

Over the years the definition of strategic alliances has been modified slightly, also caused by the evolution-oriented nature of alliances, which makes alliance structures change over time; hence the definition. Summarizing all the definitions it can be concluded that strategic alliances can be characterised as inter-firm arrangements between two or multiple firms; it is aimed at satisfying both common and individual company goals; it is a voluntary, flexible and evolution-oriented organizational form; it includes the exchange, sharing, or co-development of products, technologies, or services; the success is dependent on uncertainties in a partner behaviour; and finally, the companies participating in the strategic alliances maintain their own identity.

Hereafter it was shown that companies enter strategic alliances for different reasons and that these reasons are being explained using several theories. Colombo (2003) provides a nice summary of these reasons. First there are efficiency reasons, which include sharing of costs and risks, specialization of tasks within the alliance, and production capacity. Secondly there are competitive reasons, which include being able to survive in the market, reducing rivalry, and creation of entry barriers for new entrants. Finally there are strategic reasons, like entry in new markets or products and acquiring new knowledge. The four main theories used are the transaction cost theory, the social network theory, the resource-based view, and finally the relational view.

Based on the general overview of all types of strategic alliances described and discussed in the literature, it can be concluded that four forms are most frequently used by firms. These four forms are: joint ventures, minority investments, networks, and long-term contracts.

In order to make a strategic alliance successful it is important that the formation process is undertaken with great care. This formation process was described in the final section and includes five stages: the organizational strategy, the alliance strategy, the selection of the alliance partner(s), the implementation and putting the alliance into operation, and finally the management and evaluation of the strategic alliance. Although such a formation process exists; alliance performance in the real world is not that optimal yet. In the last part of chapter two, main reasons for alliance failure were discussed and some failure prevention mechanisms were mentioned briefly.

2.4 Vertical Integration

In this section vertical integration will be described. Over the years vertical integration has become an important strategy often used by firms. As Bhuyan (2002) argues: “vertical integration has become an important business strategy to respond to the needs of a consumer-driven marketing system (Bhuyan, 2002, p. 61)”. Other reasons why vertical integration has become an important and frequently used strategy is that history shows that firms prefer making products in-house, rather than buying them in the market-place (Harrigan, 1984). This is referred to as the ‘make-or-buy’ decision. The reasons to use vertical integration are constantly changing over time (Mpoyi, 2003). Mpoyi (2003) distinguished three key time periods in vertical integration history. At the end of the nineteenth century vertical integration was used to create economies of scale and scope, eliminate competition, and reduce market transaction costs. Around the 1950s, vertical integration served a more defensive purpose, as it was used to ensure supply of materials. The final decades of the twentieth century were characterized by increasing competition and made it hard to find one clear integration strategy. This shows that vertical integration has evolved over time and it can be used to serve different purposes.

Mpoyi (2003) furthermore found that the level of vertical integration in an industry influences the vertical integration decision of a firm. Firms often copy the strategies of their competitors without a proper internal and external analysis. Case-studies and historical evidence further showed that there are limitations on the level of integration a firm can perform. If the threat that a single firm might become a monopolist in a market occurs, legal boundaries might arise in the vertical integration process. Several case-studies show that the US antitrust authorities prohibited integration efforts for this reason (Bhuyan, 2005; Chen & Riordan, 2007).

As can be seen, vertical integration is a strategy which changed over time, both in its form and motivation and also in the performance outcomes. As this section will show, the decision towards vertical integration is not a straightforward one. Firms considering this strategy will have to perform some proper analyses and make choices before a final decision regarding integration can be made.

This section defines vertical integration; discusses advantages, disadvantages and underlying theories; internal and external business environmental issues to take into account when deciding on vertical integration; different forms of vertical integration; the role of mergers & acquisitions; and finally some results observed in the real world practice.

2.4.1 Definitions

Vertical integration has been used as a managerial innovation by firms for quite some time (Harrigan, 1984), and therefore several definitions emerged over time. Balakrishnan & Wernerfelt (1986) refer to Porter's (1980) definition, who describes vertical integration as: "the combination of technologically distinct production, distribution, selling and/or economic processes within the confines of a single firm (Porter, 1980, p. 300)". This definition can be interpreted as a strategy where firms decides to include their suppliers and/or their distribution channels (Jones, 2007), and thus get ownership control over two or more sequent and independent stages in the value chain (Fronmueller & Reed, 1996; Jaffee, 2001). Another way to define vertical integration is as a strategy wherein a firm 'put more of one's eggs in one basket', meaning that a firm dedicates itself to one specific industry instead of diversifying in other industries (Shackman, 2007). Vertical integration is frequently described as a 'make-or-buy' decision (Vallespir & Kleinhans, 2001), because it has to be decided how many supply chain activities to occupy. This refers to the trade-off companies face regarding their activities; perform them internally ('make') or externally ('buy') (Bhuyan, 2002). Harrigan (1986) however states that vertical integration is more than just a 'make-or-buy' decision, since it requires companies to acquire capabilities that are beyond the scope of their core business.

As the definition by Jones (2007) implies, vertical integration can take place in two 'directions'. As Peyrefitte et al (2002) state: "vertical integration occurs when a firm produces its own inputs or owns its distribution channel (Peyrefitte, Golden, & Brice Jr, 2002, p. 217)", and thus has control over the production of its outputs or finished products (Mpoyi, 2003). Integrating with a supplier is referred to as backward vertical integration, which can be seen as "acquiring stages of production that are successively closer to their source of ultra-raw material (Reed & Fronmueller, 1990, p. 716)". When integrating with a distributor, a firm engages in forward vertical integration, which refers to acquisition of stages closer to the consumer or lower down the value chain (Simonet, 2007; Cadeaux & Ng, 2012). Instead of backward and forward integration, the terms upstream vertical integration (Chen & Riordan, 2007) and downstream vertical integration (McGuire & Staelin, 1983; Rangan, Corey, & Cespedes, 1993; Baake, Kamecke, & Normann, 2004; Staelin, 2008) are used; the term downstream or upstream is defined based on the integration direction in the value chain.

Although the definitions differ slightly, they all lead to the conclusion that vertical integration is a business strategy in which a firm acquires upstream and/or downstream activities in the value chain. This means that vertically integrated firms decide to perform certain activities in-house rather than depending on the activities performed by others in the market-place.

2.4.2 Motives, Disadvantages and Underlying Theories

This section discusses the reasons why firms want to engage in vertical integration. Additionally the disadvantages of vertical integration will be outlined. Since the academic literature often uses theories which back-up motives to engage in vertical integration, these will also be discussed.

2.4.2.1 Motives (advantages) to engage in vertical integration

Harrigan (1984) argues advantages can be separated into internal and competitive benefits. Internal benefits include cost-, and time-benefits. Costs are reduced because of eliminated steps, reduced duplicate overhead, and reduced inventory. Time savings are realised due to decreased communication on details and negotiation time. Competitive benefits include avoidance of input-, service- and market-foreclosure, improved marketing- or technology intelligence (Simonet, 2007), differentiation opportunities, control of economic environment, and the creation of synergies.

Mahoney (1992) uses four motivational categories. The first one is transaction cost consideration, meaning that firms choose their way of how to transact based on the minimum of the sum of production and transaction costs (Williamson, 1981). The second category consists of strategic considerations. These are related to increasing barriers to entry, as Balakrishnan & Wernerfelt (1986) also stated, and the foreclosure of competitors. Third, output and/or input price advantages are important, and were also named by Harrigan (1984) and Balakrishnan & Wernerfelt (1986). Fourth and last are uncertainties in costs and/or prices, which are related to the transaction cost element, but also to uncertainties in, for example, quality of external market-parties. In the case of vertical financial ownership, Mahoney (1992) states that this strategy often is chosen in order to minimize negotiation-, adaption-, and monitoring costs, and enforce buyer-supplier relationships.

The advantages referred to in the two paragraphs above are related to vertical integration in its complete form. Porter (1980), Fronmueller & Reed (1996), and Bhuyan (2005) distinguish between backward-, and forward vertical integration. Backward integration leads to an increase in (production) efficiency, increased value added margins, partial foreclosure of supply markets, reduction of cost due to more information about supply conditions and prices, and finally, improvements in product and process quality. Porter (1980) argues that differentiation is also an advantage of backward integration. Forward integration leads to greater potential for differentiation, acquiring more accurate downstream market information, optimize marketing functions needed, and access to distribution channels (Porter, 1980). The first two of these advantages lead to an increase in economic rents. Wise & Baumgartner (1999) simply state that firms engage in forward vertical integration because the more downstream along the value chain a company goes, the more revenue there is for the company.

Klein & Murphy (1997) view vertical integration as a self-enforcing contractual agreement, which means that vertical integration will lead to 'new' forms of contracts, which are, compared to the non-integration solution, contracts between 'own' business units instead of 'market-place' business units. Because the contracts between 'own' business units are less specified and less complex than contracts between 'market-place' business units, the flexibility of the firm will increase. This flexibility advantage is confirmed by Vallespir & Kleinhans (2001). An advantage not covered yet is related to the switching costs consumer may have. Valetti (2004) states that firms face a trade-off between selling their product at relatively high prices via retailers or whole-sale, or if they vertically integrate, sell their products at lower prices and make profit based on repeat-purchases.

To conclude this section, the overview of advantages by Naik et al. (2010) will be used. First, companies can increase their profit, because vertical integration enables them to generate both upstream and downstream profit. Second, new business opportunities can arise since vertical integration gives a firm control over a larger part of the supply chain. Third, vertical integration gives firms competitive advantages in that they can increase industry entry barriers by the increased control over resources. Finally, vertical integration gives companies an incentive to invest in assets which would not be invested in by suppliers or distributors, with whom companies have contracts.

2.4.2.2 Disadvantages of vertical integration

Besides the advantages of vertical integration, there are also disadvantages. Harrigan (1984) divides them in two categories: internal costs and competitive dangers. Internal costs consist of the increase in overhead needed to coordinate the integrated firm, excess capacity because of low scale production, and no synergies because of poor organization of the integrated firm. The competitive dangers include the fact that obsolete processes may be continued, the creation of exit barriers because of a 'lock-in', information cannot be obtained from suppliers or distributors anymore, intentional synergies may be overrated, and the fact that managers proceed with the integration, even if they have not thoroughly investigated the appropriate way to vertically integrate.

Mahoney (1992) provides three disadvantages of vertical financial ownership, which display a number of similarities with Harrigan's (1984) work. The first relates to bureaucratic costs, which refer to implementation costs of vertical integration. Since vertical integration often requires new skills and capabilities, because of inexperience in upstream or downstream activities, these have to be acquired (D'Aveni & Ravenscraft, 1994). This acquisition may lead to relatively high internal costs. Jones (2007) states the costs of operating the business may exceed the costs of forming an alliance with other firms. Second, there are strategic costs, meaning it becomes harder to access information and tacit knowledge that specialized suppliers or distributors have. Finally production costs can be disadvantageous if the minimum efficient scale of production cannot be reached.

Bhuyan (2005) argues vertical ownership integration may be a potential threat to competition in both input and output markets, and may influence prices negatively. Building hereupon, Naik et al. (2010) state that a firm can lose the option of bargaining a lower price with a supplier, since vertical integration rules out other suppliers. Furthermore Naik et al. (2010) argue that vertical integration can lead to an investment-lock-in effect. This means that a downstream business units' demands require investments, which otherwise might not have been performed.

2.4.2.3 Theories used in vertical integration

In the literature describing vertical integration, a large number of theories are referred to. These theories are the transaction cost theory, agency theory, knowledge-based theory, resource-based view, and the structural contingency theory. In this section the most important theories for Firm X will be described. This description will be connected to literal findings regarding vertical integration.

The knowledge-based theory is highlighted as an important theory in vertical integration by Peyrefitte et al. (2002). The knowledge-based view argues that knowledge, and this can be different kinds of knowledge, is the key resource in considering strategy. According to Peyrefitte et al. (2002) the knowledge-based theory builds upon the transaction cost theory in a way that the decision whether to integrate can be analysed in terms of the utilization of knowledge in the firm itself. The trade-off here is to investigate if integration enables more efficient access or leverage of knowledge, or if access to knowledge via contracting in the marketplace is a better option. This investigation includes an analysis of all the intangible assets a firm possesses, such as a firm's business model for the specific market (Teece, 2010), organizational learning, brand equity, or a reputation giving the firm competitive advantage (Peyrefitte, Golden, & Brice Jr, 2002).

In the resource-based view, a firm is considered as a collection of resources, capabilities and competences (Simonet, 2007; Gulbrandsen, Sandvik, & Haugland, 2009). Resource are referred to as "those tangible and intangible assets which are tied semi-permanently to the firm, such as brand names, in-house knowledge of technology, employment of skilled personnel, trade contracts, machinery, efficient procedures and capital (Wernerfelt, 1984, p. 172)". When applying this theory to vertical integration, it can be stated that firms search for opportunities where they can benefit from the resources forming their strategic core to explore new market opportunities (Simonet, 2007; Gulbrandsen, Sandvik, & Haugland, 2009). The level of closeness between resources needed for vertical

integration activities and resources needed for current activities is important when considering the resource-based view (Gulbrandsen, Sandvik, & Haugland, 2009). As can be seen the resource-based view and the knowledge-based theory are closely related.

In contrast to the resource-based view, where the firm's internal environment is the key factor, the structural contingency theory takes into account the firm's external environment. When defining structural contingency theory very basically it can be stated that there is no 'right' way to manage and organize a firm, but that success and effectiveness are strongly related to the amount of 'fit' between the firm and its environment (Venkatraman, 1989). Additionally structural contingency theory is related to the effect of environmental conditions on the effectiveness of inter-organizational coordination and structures (Cadeaux & Ng, 2012).

As the explanation of these theories shows, some theories can be used in tandem, while other theories are contradicting each other on key factors. Anyway, each of the theories, and also the advantages and disadvantages described earlier in this chapter, lead to important considerations to take into account for managers when deciding on the vertical integration strategy. These considerations will be thoroughly discussed in the next section.

2.4.3 Considerations in the Decision Making Process

In the previous section the motives in favour and the motives against implementation of vertical integration were outlined. Furthermore the theories described could give managers insights in elements they have to consider in the decision making process. This section covers the main considerations regarding implementing the vertical integration strategy described in the academic literature. First the considerations will be defined in a broad way according to the framework set out by Harrigan (1984, 1986). Secondly the internal business environment and the considerations which have to be taken into account in this view are outlined. The focus here will be on the firm's strategic core. Finally the considerations firms have to make regarding their external business environment are covered. A key model in this part will be the five forces model developed by Porter (1979).

2.4.3.1 Considerations broadly defined

Viewing the decision to vertically integrate broadly, Harrigan (1984) states that the key in using vertical integration is "recognizing which activities to perform in-house, how to relate these activities to each other, how much of its needs the firm should satisfy in-house, how much ownership equity needs to be risked in doing so, and when these dimensions should be adjusted to accommodate new competitive conditions (Harrigan, 1984, p. 641)". This key concept led to a framework of dimensions in vertical integration. The first dimension is the breadth of integrated activities undertaken, which refers to the number of tasks a firm performs in-house. The second dimension is the number of stages of integrated activities, which means the number of stages in the total value chain that are integrated within the firm. Third, the degree of internal transfers for each vertical linkage, referring to the ratio of in-house performed activities and activities performed by an outside market-party (contractual agreements) are important (McGuire & Staelin, 1983; Staelin, 2008). The final dimension is the form of ownership used to control the vertical relationship, which is displays the firms' invested equity in a vertical integrated stage (Harrigan, 1984; Harrigan, 1986).

As can be seen these dimensions refer to both internal and external business activities. As seen previously, both environments are important. The next two sections provide detailed information for both environments related to considerations in the vertical integration decision.

2.4.3.2 Considerations related to the internal business environment

After setting out the broad considerations, this section describes the most important elements regarding the firm's internal business environment. As stated in section 2.1, it is important for a firm to have a clear overview of its strategic core. The detailed information about the strategic core compared to the information about the vertical integration strategy will provide very useful insights for the

management of the firm. Now it can be established whether there are gaps in the managerial knowledge, which benefits and costs the vertical integration will bring the company, and what types of organizational learning are necessary. Furthermore it can be established if vertical integration far from the strategic core is desirable and consequently which method of implementation is best.

Balakrishnan & Wernerfelt (1986) and Mahoney (1992) state that bureaucratic costs and production costs can be considered as internal costs in vertical integration. The bureaucracy costs are referred to as additional costs because of the addition of more stages to a firm's value chain. Furthermore, bureaucracy costs are mentioned as an important element in the transaction cost theory (Williamson, 1991). Production costs arise when firms decide to produce certain products or inputs in-house instead of contract-buying them in the market-place. These costs are important to consider since they might be relatively high because the firm might not be able to reach economies of scale and scope that a market-place firm can reach (Mahoney, 1992).

Gulbrandsen et al. (2009) argue that asset specificity, closeness to the current core competences and the tacit knowledge present in a firm are key factors in a firm's vertical integration strategy decision. Teece (2010) adds to these factors the capabilities of a company, which he defines as the intangible assets a company possesses. A key intangible asset to a company is its business model; hence the firm has to gain sufficient insights into its value propositions to its customers and the design of the firm (Teece, 2010). Concluding this section it can be stated that: "firms should continually map and identify the competencies they possess, or can acquire, and evaluate what kind of activities they are capable of performing within the firm in order to provide benchmarks for assessing the costs of external contracting (Gulbrandsen, Sandvik, & Haugland, 2009, p. 100)".

2.4.4.3 Considerations related to the external business environment

As described in section 2.1, Porter's five forces model is a commonly used technique to describe the external business environment. The strength or weakness of each of the five forces can be used as a motive to proceed with vertical integration or to cancel vertical integration intensions.

Besides the factors included in the five forces model, other elements are important in the external business environment of a firm. Balakrishnan & Wernerfelt (1986) and Mahoney (1992) state that vertical integration may incur market transaction costs and strategic costs. The market transaction costs are related to the transaction cost theory. The strategic costs are related to the loss of access to information and knowledge of market-place companies, with whom the firm might have had contracts (Mahoney, 1992). These costs occur when a firm decides to acquire these activities in-house, since then they do not have the contracts with the outside firms. Before proceeding with the vertical integration strategy it is important to gain insight into both the market transaction costs and the strategic costs.

Concluding the important considerations regarding the external business environment of a firm it can be stated that the structural contingency theory is important in the decision process. Harrigan (1984, 1986), Balakrishnan & Wernerfelt (1986), Vallespir & Kleinhans (2001), and Peyrefitte et al. (2002) all argue that an accurate overview of the industry structure of a firm is of key importance in the decision making process. Harrigan concludes her 1984 paper with the sentence: "As competitive conditions change, so too must the firm's vertical integration strategy (Harrigan, 1984, p. 650)".

2.4.4.4 Conclusions

In contrast to the applicability of the structural contingency theory on the considerations in the external business environment, the resource-based view is more applicable to the considerations regarding the internal business environment. Based on the review of the consideration in both the internal and external business environment it is hard to say which 'of the two environments' is more important. Viewing the literature concerning the vertical integration strategy decision, both environments are important and must be thoroughly understood by the firm's management. The next section discusses the different forms of vertical integration and briefly discusses mergers & acquisitions.

2.4.5 Different Forms and Alternatives

Harrigan (1984) states firms have to decide on the form of ownership when choosing a vertical integration strategy. This implies that different forms of vertical integration exist. In this section these forms will be discussed first. Since the strategic option of vertical integration is often performed by means of mergers & acquisitions, the second part contains a brief review of this business phenomenon.

2.4.5.1 Different forms of vertical integration

Harrigan (1984) distinguishes four different forms in the vertical integration strategy. The first type is non-integration, which means that no shifts in ownership take place and that the transaction can be seen as a contract. The second form is the quasi-integration, which refers to the fact that a firm does not need to fully own another channel in the value chain. The ownership can vary in a way that every existing form in between long-term contracts and full ownership can be classified as quasi-integration (Porter, 1980; Harrigan, 1984). In considering quasi-integration over full integration it is of key importance to consider the total benefits of quasi-integration compared to the reduction in cost over full integration (Porter, 1980). Third, Harrigan (1984) defines taper integration, meaning a firm is integrated, either backward or forward, but still gets/or distributes some products through market-place suppliers or distributors. Porter (1980) states that there is room for flexibility in this strategy, and that the optimal degree of taper-integration depends on "the size of the expected market fluctuations and the extent of probable imbalances between stages created by expected technological change and other events (Porter, 1980, p. 320)". The fourth and final form is the full integration alternative, which means that one firm fully owns two or more stages in the value chain.

In their 2009 case study, Pop et al., refer to vertical integration as vertical marketing systems, and distinguish three types. First, there is the corporate vertical marketing system wherein the adjacent steps of the channel are owned by one firm. The administered vertical marketing system is characterized by the maintained ownership and autonomy by individual firms in the channel, but the most powerful firm in the channel leads and controls. The last type is the contractual vertical marketing system, which refers to relationships between firms based on contracts and legal agreements, and is comparable to the non-integration form described by Harrigan (1984).

Wise & Baumgartner (1999) discuss four forms. The first three forms are purely related to the offering of new products or services. The first form is embedded services, in which several traditional downstream services are built into the product and it is up to the consumer to use these services. Comprehensive services offer customers additional services to the existing products. When these services are offered together with the existing products as one solution, the company engages in the third form; integrated solutions. The final form differs from the first three, because it is targeted at the control of the distribution channel, meaning the firm acquires control over distributors and engages, in fact, in forward vertical integration (full integration).

2.4.5.2 Mergers & Acquisitions

This part contains a very brief description of mergers & acquisitions (M&As), since it is a commonly used strategy to implement strategies both on the horizontal and the vertical level. As seen in the general introduction, M&As represent the most formal inter-firm form of cooperation.

When companies merge with, or take over, another company, the exchange of resources shifts from between firm exchanges to within firm exchanges (Jones, 2007). Firms can take over firms in industries where they are already present or in other industries to decrease their dependence on the external environment (Hagedoorn & Duysters, 2002b). A merger occurs when two firms of equal sizes decide to proceed as one company (Jarell, Brickley, & Netter, 1988), while an acquisition refers to the event where the dominant firm acquires the smaller firm (Sutton, 1980).

Considering the advantages and disadvantages of vertical integration, the trade-offs made for M&A decisions are very well comparable. When engaging in an M&A, a firm will face extra expenses and risks,

because it has to manage new business activities. The further away from the firm's strategic core these activities are, the higher the costs and the risks will be (Hagedoorn & Duysters, 2002a; Jones, 2007). On the other hand, companies have to take into account that M&A-partners are not too similar to their own strategic core, while this could harm the possibility to acquire new knowledge and capabilities (Cloodt, Hagedoorn, & Van Kranenburg, 2006). Another important variable in the choice for M&As is the previous level of experience firms have in the process; the higher this level, the more firms can experience a growing learning curve regarding this strategy (Trautwein, 1990). The motives to engage in M&As are in a high extent comparable to the motives for vertical integration. These motives include economies of scale and scope, increase in market power (Healy, Palepu, & Ruback, 1992), diversification opportunities (Datta, 1991), and acquiring new knowledge and capabilities (Cloodt, Hagedoorn, & Van Kranenburg, 2006).

As can be seen in this short review of mergers and acquisitions, there is a lot of overlap with the findings regarding vertical integration. The fact that the motives, advantages and disadvantages of M&As are similar, or at least closely related, confirms that M&As can perfectly be used to execute a vertical integration strategy. Following the definitions for both vertical integration and M&As, it depends on the size of the firm which is being integrated relative to the size of firm engaging in vertical integration, to see the transmission either as a merger or as an acquisition.

2.4.6 Results in Practice

After discussing the definitions, the motives and disadvantages, the underlying theories, important considerations in the decision making, and the different forms of vertical integration strategy, it is now time to see how all these elements fit in the real world. This section contains the results of case studies performed by researchers. These researches investigated general cases, cases focussing on firms in the manufacturing industry, and cases focussing on companies in the fast moving consumer goods industry.

The general results imply that vertical integration is favourable when investments in specific assets reduce uncertainty, added value downwards through the entire value chain is high, capital market are highly developed, and a firm wants to create differentiation advantage. Results considering firms in the manufacturing industry lead to the conclusions that vertical integration is a good strategy if the threat of substitute products is low and industry-competition is low. Further interesting outcomes are that vertically integrated firms can expect to economize on expenditures, and that vertical integration is more effective than economies of scope and scale. The results in the fast moving consumer goods industry are contradictory. On the one hand it is shown that vertical integration does not create advantages through product differentiation and efficiency gains, while on the other hand it is shown that these gains could be reached using a vertical integration strategy. One conclusion that can be drawn is that brand loyalty among customers is a very important and can be increased due to integration. The most important results from the other specific industries are that within-stage integration negatively influences firm performance, closeness to present activities and asset specificity are positively related to vertical integration, and finally that the level of new tacit knowledge needed is negatively related to the vertical integration strategy decision.

2.4.7 Conclusion

This section provided a general overview of vertical integration. It was shown that vertical integration is a popular business strategy and that vertical integration has many forms. Reasons why firms engage in vertical integration are divers and depend on the direction of the integration.

Since vertical integration is not a static phenomenon, the definition has been changed over time and some elements were added to the definition. Vertical integration can best be defined as a business strategy in which a firm acquires upstream and/or downstream activities in the value chain. This means that vertically integrated firms decide to perform certain activities in-house rather than depending on the activities by others in the market.

Advantages of vertical integration are used by firms to define their motivation to engage in a vertical integration strategy. The advantages are nicely summarized by Naik et al. (2010) who state that through vertical integration firms can increase their profit by including upstream and downstream profit. Firms can create new business opportunities through the increased control of the supply chain. Vertical integration creates entry barriers by increased control over resources, and finally provides companies an incentive to invest in assets which would not be invested in by suppliers or distributors, with whom companies have contracts. The main disadvantages of vertical integration include bureaucratic costs, strategic costs and production costs, and can possibly fully rule out the benefits of vertical integration. The main theories which were used to back up either advantages or disadvantages are the transaction cost theory, the agency theory, the knowledge-based view, the resource-based view, and finally the structural contingency theory.

The main considerations to take into account in the vertical integration strategy can be classified in two major categories; external environment considerations and internal environment considerations. The external environment of a firm is often described using Porter's (1979) five forces model, while the internal environment is often sketched based on the strategic core and the core competences and capabilities of a firm. When considering vertical integration it is very important to take both types of consideration into account and not focus on only one of the two. As stated before, vertical integration can take place in different forms. These forms include: contract-based solutions, quasi-integration solutions, taper integration and full integration. Practical and case-study results of vertically integrated firms show that some theoretical advantages are present in the business-world, but some practice-results show disadvantages. The review in practice reveals that type of industry and the capabilities the firm possesses are important. This confirms that firms have to map both their external and internal environments in great detail before being able to take a well-considered decision regarding its vertical integration strategy.

2.5 General Conclusion

In this chapter the strategic options which can theoretically be chosen from are thoroughly discussed. Insights into definition, motives, advantages and disadvantages, underlying theories, different forms, alternatives, strategy frameworks, important considerations in the decision making process, and results and observations in the real-world are provided. Additionally, innovation paradigms and the shift from 'closed innovation' towards 'open innovation' are described. Finally, a brief explanation of M&As, is provided. The starting point of this literature review, however, is the firm's strategy.

Where the closed innovation paradigm solely focussed on organic growth options and carrying out the innovation process within the boundaries of the firm, the shift towards the open innovation paradigm allowed other strategic possibilities to become an option. The shift took place because of the changes in the external environment which made closed innovation less effective. The external environment also shows to be of key importance in both strategic alliances and vertical integration.

Since internal and external resources both became important in the open innovation paradigm, different forms of collaborations between firms resulted. These forms differ in their formality and in level of collaboration. As seen in this chapter, the strategic alliance approach is less formal than the vertical integration strategy and also the level of collaboration in vertical integration is higher than in strategic alliances. This occurs because strategic alliances are formed for inter-firm partnerships regarding one business-unit or a single project, while the vertical integration strategy refers to inclusion of a complete channel of the value chain to the existing company; often through an M&A.

When viewing the motives and underlying theories for both strategies, it can be seen that the motives to engage in an alliance or in integration display more similarity than the advantages and disadvantages of both strategies. These are not always aligned and sometimes contradict each other. The underlying theories, on the other hand, show some overlap; transaction cost theory and the

resource-based view are considered as key theories in both options. The general tendency in this literature review is that the strategic alliance strategy is different from the vertical integration strategy. However, since both strategies can be executed in different forms, there is a whole palette of options within the range of the two strategies, which makes the strategies related after all. This relatedness can be explained in a way that the strategies can be seen as complementary.

Results in practice for both strategies show mixed results, come case-studies provide success stories, while on the contrary, also large failures are reported in the academic literature. The key outcome from these observations is that before choosing a certain collaboration strategy, the firm has to get detailed insights in its internal and external environment. Additionally, the firm has to have a very clear understanding of its goals and expectations that should result from the collaboration. Furthermore, when implementing and operating a certain strategy, the company has to ensure that the process is constantly monitored and evaluated over time, and make adaptations if required. This monitoring and evaluating should include the performance, as well as the behaviour of the partner, in case of an alliance, or in the case of vertical integration, the newly acquired business chain. Sometimes it is better for both companies involved to end collaboration, instead of proceeding the partnership and magnify the resulting disadvantages. Finally, and in line with the previous statement, is that costs incurred in a certain strategy have to be known as accurately as possible. High costs may completely nullify the benefits a strategy can provide and therefore these costs have to be estimated in detail, but should also be monitored constantly.

The chapter shows that, besides organic growth, there are multiple inorganic strategic options which can be interesting for Firm X. These strategic options will be investigated in the remainder of this thesis. The results and feasibility of each of the options of innovation, strategic alliances, mergers & acquisitions, and vertical integration will be described in chapter 4 of this report, as well as the strategic opportunities within organic growth. Before continuing with the description of all the different strategic options, first the underlying methodology of this master thesis research is elaborated on.

3. Methodology

In this chapter the methodology of the master thesis will be described. First the conceptual model is presented. In this model a structured connection is made between the problem statement, the research questions and the main deliverables of this thesis research and the relevant literal concepts discussed in chapter 2. Hereafter the research methods used are elaborated on. In the third section the process of data collection, and a short description of which data is collected, will be given. Section four discusses the methods used to analyse the data collected during the master thesis project. The chapter ends with an explanation how the quality of the research is accounted for.

3.1 Conceptual Model

In this section the conceptual model of the master thesis project will be outlined; herein all the relevant theoretical concepts discussed in chapter 2 are presented. Based on the problem statement defined in section 1.2 and the research questions and project objective defined in section 1.3, the relations between the different concepts are modelled. The conceptual model consists of two parts. The first part is the conceptual project design, which contains the subject of analysis, a set of theoretical perspectives required to study the problem, and a diagnosis and exploration of solution directions (van Aken, Berends, & van der Bij, 2007). Since the purpose of the master thesis is to provide a solution for a certain business problem, the diagnosis and exploration of solution directions are not specified yet, as they follow from the complete thesis project. The conceptual project design can be found in Figure 8.

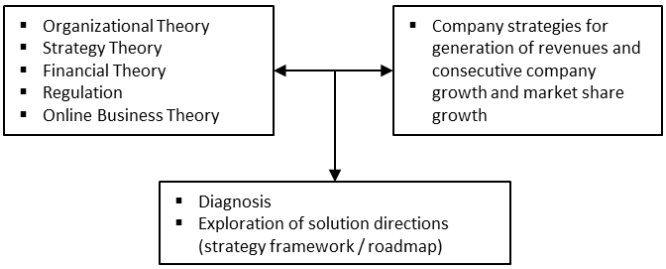

Figure 8: Conceptual project design thesis project Firm X

The subject of analysis is depicted in the right-hand box, and is related to the problem definition and key research question defined in section 1.2. The box on the left-hand side includes the theoretical perspectives which are used in the project. In order to reach both a satisfying diagnosis and satisfying solution directions, it is important to ensure a continuous discussion between theory and practice in order to exploit the theory-based approach to problem-solving (van Aken, Berends, & van der Bij, 2007).

The second part in this section is the translation of the aspects in the conceptual project design into a detailed conceptual model, wherein those aspects are connected with the findings described in the chapter 2. Furthermore the aspects defined in the problem statement and in the research questions will be used. The detailed conceptual model can be found in Figure 9. The key sources identified in the literature review are assigned to the elements in Figure 9.

As can be seen, the five theoretical perspectives included in the conceptual project design are also used in the model in Figure 9. Most of these theoretical perspectives are focussed on in a more detailed approach by assigning the different literal findings to the relevant theory. The problem definition is integrated in the model by showing that it is the leading aspect in the change in company strategy. Finally the research questions and the thesis objective are also integrated in the conceptual model.

The change from the current strategy to a new strategy is, as stated before, triggered by the problem definition, and categorized under strategy theories. To define the current strategy (research question 2), both the internal and external company environment are important. These two elements can be guided back to organizational theories. Chapter 2 showed that companies can reach their

strategic goals either by organic / autonomous growth or by inorganic growth. The box visualising the strategy theories shows that both growth options are not static options and that there exists a certain range between the options. In this range, innovation, strategic alliances, vertical integration, and mergers & acquisitions are found to be methods to reach strategic goals. The information in the 'strategy theories'- box was used to answer the first research question in chapter 2.

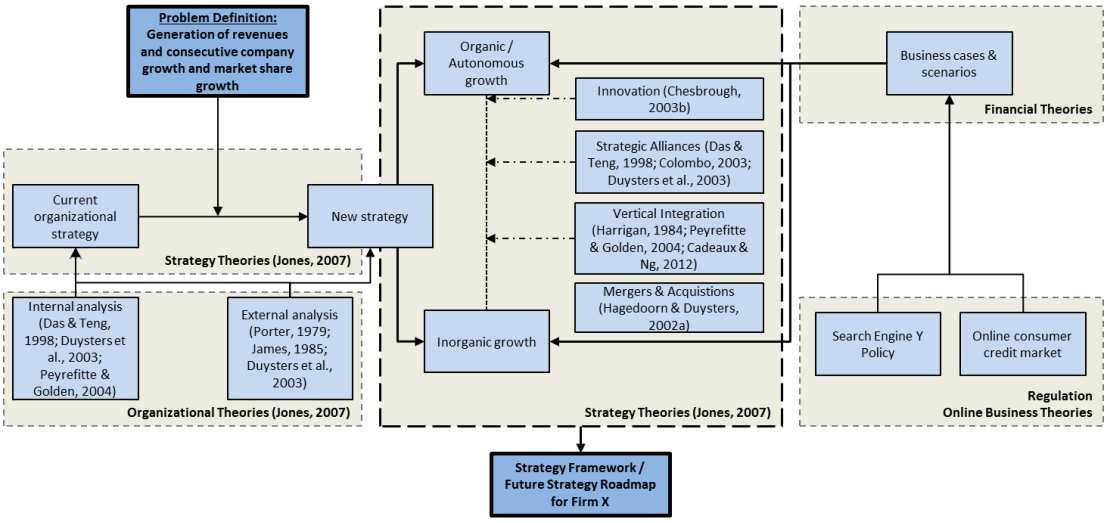

Figure 9: Detailed conceptual model thesis project Firm X

The online business theories (right-bottom of Figure 9) provided insight into the structure and characteristics of the online consumer credit market. The findings regarding the regulation in this industry also contributed to the knowledge of this market. Both these findings were useful in answering research questions 3a and 3b. As stated in chapter 1, the answers to the first two research questions and the field data which will be collected in this master thesis project were used to answer research questions 3a and 3b. The final research question deals with realistic and relevant business scenarios needed to evaluate the different strategic options. These business scenarios are based on the findings regarding the online consumer credit market structure and its characteristics and the specific regulation for this market. The business scenarios are furthermore be defined using financial concepts.

As seen in chapter 2, a lot of theories are used in describing the different strategic options. Viewing the conceptual model, it can be seen that the most important aspects are related to the firm's internal and external environment and to financial considerations. This implies that the most important theories for this thesis project are the resource-based view (Das & Teng, 2000) and the structural contingency theory (Cadeaux & Ng, 2012). In order to deliver the key objective of this thesis project; a structural framework/roadmap in which an overview of the different strategic options is provided based on a business case in different scenarios, the findings of research question four are connected to the findings in the 'strategy theory'- box. Mapping these two aspects leads to the thesis' main objective: a structural overview framework / roadmap of the different strategic options for Firm X.

3.2 Research Type

Before defining the data used to answer the research questions and eventually arrive at the final thesis deliverable, it is important to consider the type of study best suited for this research. According to Shields & Tajalli (2006) research can be used to serve five purposes: exploration, description, gauging, decision making, and explanation. Each of these types is classified based on their purpose, research questions involved, micro-conceptual framework, research methodology, and statistical techniques. This classification can be found in Table 1. In section 3.2.1 and 3.2.2, the research purpose and the type of study for this thesis project will be described.

Research Purpose	Research Question	Micro-Conceptual framework	Research Methodology	Statistical Techniques
Exploration	Anything goes: what, when, where, why, who, how, or any combination of the above	Working hypotheses	Usually qualitative techniques: field research, structured interviews, focus groups, document/ archival record analysis	Qualitative evidence may not be statistical But anything goes, any type of statistical analysis possible
Description	What	Descriptive categories	Survey and content analysis	Simple descriptive statistics: mean median, mode frequency distribution, percentages, t-statistics
Gauging	How close is process/policy to an ideal or standard? How can x be improved?	Practical ideal type	Case study, survey, content analysis, document analysis, structured interviews	Simple descriptive statistics: mean median, mode frequency distribution, percentages, t-statistics
Decision making	What is the best decision? Which approach?	Models of operations research	Cost benefit analysis, cost effective analysis, linear programming, decision tree, etc.	Quantitative techniques of operations research
Explanation	Why	Formal hypothesis: if x then y	Usually quantitative, experimental and quasi experimental design, survey, existing data analysis	t-statistics, correlation, chi-square, analysis of variance, simple and multiple regression

Table 1: Different types of Study (Shields & Tajalli, 2006, p. 318)

3.2.1 Exploratory research

The major objective of this thesis project is to find out what strategic possibilities there are for Firm X to maintain future company growth and increase in market share. The research process can therefore best be characterized by an exploratory research, since the objective of exploratory research is to gather preliminary information that will help to define problems. On the other hand it is of key importance to, eventually, provide a strategy roadmap. This strategy roadmap can be linked to the research purpose decision making, but the procedure for decision making, as described in Table 1, can only be performed after the exploratory study. The other types mentioned in Table 1; description, gauging and explanation could not be used in this thesis because the micro-conceptual frameworks described for these types cannot be extracted from the objectives of this thesis and the aspects described in the first three section of this research proposal.

Concluding it can be stated that in this thesis project an exploratory research method was used, but that the results derived using this type were used as inputs for the decision making type in order to deliver the final thesis objective; the strategy framework/roadmap for Firm X.

3.2.1 Case study research

Taking into account the problem defined in the problem statement, the type of research questions formed, the different aspects depicted in the conceptual model and the fact that the research took an exploratory form, a case study was found to be the best form to perform the master thesis research. As stated in Yin (2003a; 2003b) a case study research is especially suited for exploratory research questions and research wherein the scholar has limited options to control related events and the phenomenon studied can be regarded in the real-life context. As the previous sections indicate, a case study was appropriate for investigating the problem concerning Firm X.

An important element in all research, and therefore also for a case study research, is the unit of analysis. The unit of analysis represents the actual source of information (Yin, 2003a; Yin, 2003b), and

should be carefully selected in order to prevent the collection of non-relevant data (van Aken, Berends, & van der Bij, 2007). As mentioned in the company and problem description, the segment whereupon the research will focus is the online consumer credit market. It is therefore important to investigate this market and the role Firm X plays or can play in the future. The unit of analysis chosen is therefore Firm X' strategy regarding the online consumer credit market.

A case study can either involve single or multiple cases (Yin, 2003a). This specific research can be seen as one case or as multiple cases depending on the perspective taken into account. When the complete strategy framework/roadmap is seen as one case, a single case study is represented. When, however, every strategic option within the roadmap is seen as a separate (business) case, a multiple case-study is more representative. In order to get more detailed insights into the final roadmap, and to be able to draw conclusions for each separate business strategy, a multiple-case perspective is more appropriate and was therefore chosen.

3.3 Data Collection

This section names and describes the data which had to be collected in order to answers the research questions in the second section, and how this data was collected. In section 3.1, the data necessary to adequately answer the research questions was already briefly discussed. Now the necessary data will be explained in detail and furthermore the appropriate methods used to collect the data are described. Following Table 1 (Shields & Tajalli, 2006), research methodologies for explorative research include: field research, interviews, focus groups, and document/archival record analysis. When specifying sources of evidence for case studies, Yin (2003a) distinguishes between documents, archival records, interviews, direct observations, participant observation, and physical artefacts. As can be seen some overlap exists. A large number of these methodologies are used in this master thesis research. In the next paragraphs a description of the methodologies used in this study will be provided. A more structured overview of the data and methodologies can be found in Table A 1, in Appendix A.

In providing an overview of the strategic options available to a company, the findings described in chapter 2 were used. This literature can be found in the online databases accessible via the library of the University of Technology in Eindhoven. In the search for relevant scientific papers use was made of searching using important keywords, and the so called 'snowball' method. The 'snowball' method means that sources referred to in key articles found using important keywords, are used as additional literal findings (van Aken, Berends, & van der Bij, 2007). As shown in Figure 9, both the internal and external environment are important in describing the current strategy of Firm X. During the firm's introduction program and the observation phase, information regarding the internal and external environment was collected. This information was completed by interviews with the company owner.

Key in answering research questions 3a and 3b is a competitor analysis and an investigation of the companies issuing online consumer credit. The data needed for these actions was gathered by doing research on the internet and making use of publications and reports taking into account the industry. In order to get insight into the structure of the market, and to collect information about financial matters, use was made of databases like ORBIS ©. When viewing important factors in the strategy decision process, regulation is a key aspect. To get familiar with the relevant regulation use was made of the Dutch laws regarding financial products. Information about this regulation is found on websites of the Dutch government and the Dutch financial market authority (AFM). Furthermore information regarding this topic was found in publications by the authorities itself or by independent research companies.

The final research question covers the use of relevant business cases and business scenarios. These are based on historical data of Firm X, the Dutch market and information of other countries. Based on the historical data, realistic future predictions are made and these future predictions are used to design proper business scenarios. Research methodologies for decision making provided in Table 1, like cost benefit analysis and cost effective analysis are used in creating business scenarios.

The final step in this thesis is to combine the findings about the competitors, credit issuers, and the designed business scenarios in order to create a strategy roadmap for the future for Firm X. The goal of this roadmap is to provide information regarding the steps or measures which should be taken into account in order to reach pre-set goals and targets regarding company growth and/or market share.

3.4 Data Analysis

This section describes which methods are used to analyse the collected data. As stated before, the data in this research is mainly qualitative. This means that it is of key importance that the data is coded in a proper manner so that it is possible to use the data in answering the research questions and derive conclusions. The data regarding industry competitors are coded which enabled a ranking according to their relative strength. The data of online payday lenders was coded similar for each company which enabled a decent comparison between the companies and led to the possibility to derive important variables for the benchmark analysis for the fourth research question.

Besides the qualitative data, quantitative data was also collected. For example the data collected for the investigation of the opportunities within organic growth. Some improvement possibilities in the organic growth strategies, as will be discussed in chapter 4, are based the statistical methods of t-test, since the effects after the implementation of an improvement opportunity could be measured immediately and the effect size therefore could be tested statistically. Other quantitative data collected are the financials of the foreign online payday lender which are used in the benchmark study. This data was mainly analysed using financial methods, as described in Table 1. The analysis of the data is structured in a more detailed way in Table A 1, in Appendix A.

All the data collected during the data collection phase is documented in detail when it is used in the analysis of the strategic options. Each time data is used for a future projection or in the assessment of the feasibility of an option it is ensured that the source is included and that the method of analysis is made clear. In general it can be stated that all data is analysed keeping in mind the main objective of this thesis: developing a strategic roadmap for the future for Firm X.

3.5 Research Quality

Just like the quality for a product or production process has to be vouched for, the same holds for a research study. In their handbook considering problem solving in organizations, van Aken et al. (2007) distinguish three important elements in the quality of research: controllability, reliability, and validity. When considering case studies, Lin (2003a) names construct validity, internal validity, external validity, and reliability as important quality tests. Since the type of research in this master thesis is a case study; the elements by Lin (2003a), supplemented with the controllability element named by van Aken et al. (2007), will be considered as important. Additionally Lin (2003a) names tactics which can be used to ensure that a research lives up to the expectations of the four tests he names. These tactics can be found in Table 2 and will be used in the detailed description of the tests.

Tests	Case Study Tactic	Phase of research in which tactic occurs
Construct validity	Use multiple sources of evidence	Data collection
	Establish chain of evidence	Data collection
	Have key informants review draft case study report	Composition
Internal validity	Do pattern matching	Data analysis
	Do explanation building	Data analysis
	Address rival explanations	Data analysis
	Use logic models	Data analysis
External validity	Use theory in single-case studies	Research design
	Use replication logic in multiple-case studies	Research design
Reliability	Use case study protocol	Data collection
	Develop case study database	Data collection

Table 2: Case Study Tactics for Four Design Tests (Yin, 2003a, p. 41)

3.5.1 Controllability

The purpose of research controllability is to ensure that a study can be replicated by another scholar, who can yield the same results using the same methodologies (van Aken, Berends, & van der Bij, 2007). The most important aspect leading towards this goal is to provide descriptions of the methods used to collect and analyse the data as detailed as possible. Furthermore it is vital to present results as precisely as possible and to avoid vague statements in the research conclusions.

In this master thesis study the data collection and analysis is described in great detail so that it can be seen how data is collected and how certain insights are distracted from the data. Since the data is coded it is also documented in a clear way. Besides the usage of data, assumptions are made for some analyses in the thesis. If an assumption is used, it is ensured that an explanation for the choice for a certain assumption is provided. Additionally the conclusions are presented in a clear way and in precise statements in the final strategy framework/roadmap.

3.5.2 Reliability

Research reliability refers to the independence of particular study characteristics related to the study outcomes, and therefore replication in other studies (Yin, 2003a; van Aken, Berends, & van der Bij, 2007). This independence is often referred to as bias of a study. In general four potential sources of bias can be distinguished: the researcher, the instruments, the respondents, and the situation (van Aken, Berends, & van der Bij, 2007).

These different forms of bias in a research can be reduced by standardization of procedures regarding data collection, for example structured interviews, using multiple respondents and sources of data, and the collection of data in different circumstances.

As seen in section 3.3, multiple sources of data are used in this thesis project. Since the thesis project lasted for five and a half months it was ensured that data was collected in different moments in time and thus circumstance bias is minimized. Respondent bias can unfortunately not be ruled out, since the respondent mainly consulted, for example in defining the assumptions, is the CEO of Firm X. As Yin (2003a) suggests (see Table 2), reliability in a case study can be ensured using a case study protocol and a developed case study database. In this master thesis project each of the strategic options was approached in a similar way in order to be able to compare the different options, which can be seen as some sort of protocol. The same holds for the case study database.

3.5.3 Validity

Validity refers to the relationship between research results and the way towards these results, and can be divided into construct validity, internal validity, and external validity (van Aken, Berends, & van der Bij, 2007).

Construct validity refers to the correct identification of operational measures for the concepts being studied (Yin, 2003a). According to van Aken et al. (2007) there are two important aspects in construct validity: the concept should be covered completely and the measurement should have no components that do not fit the meaning of the concept. In order to meet those requirements, three ways are available (see also Table 2): using multiple sources of evidence, establishing a chain of evidence, and study review of key informants. In this thesis project multiple sources of evidence were used. A chain of evidence is created by the linkage between data findings and literature and by inter-data relationships. Finally construct validity is ensured by frequently sharing of thesis material with the project supervisors; hence ensuring periodical reviews.

Internal validity concerns conclusions about the relationships between phenomena (van Aken, Berends, & van der Bij, 2007). A key aspect in ensuring internal validity is theoretical triangulation, which refers to viewing a problem using several theoretical perspectives (van Aken, Berends, & van der Bij, 2007). In this thesis project, each strategic option is reviewed using the resource based view, and the structural contingency theory and elements of financial theories; hence theoretical triangulation. Yin

(2003a) provides four tactics to ensure internal validity in a case study: pattern matching, explanation building, addressing of rival explanations, and using logic models. These tactics are mostly related to an explanatory case study. Since this thesis project is exploratory, these tactics are not very useful. For this thesis report the theoretical triangulation is the most important in ensuring internal validity.

The final form of research validity is external validity, referring to the extent study results can be generalized to other cases (van Aken, Berends, & van der Bij, 2007). Since this project is specified towards a specific market segment and related to a single unique company (Firm X) it is very hard to generalize the results completely and external validity can therefore not be ensured for this master thesis project. The only aspects which can be generalized are the theoretical findings which are being used, as Yin (2003a) mentions (Table 2).

3.6 Conclusion

In this chapter the methodology used in this master thesis study was elaborated on. First the conceptual model containing the key elements of the study was described. Hereafter some inside into the type of research used in this thesis was provided. Next the data collection methods and the methods of analysis were discussed and the chapter ended with an explanation of the research quality.

The next chapter covers the analysis and result part of the thesis. In chapter four, the different strategic options in relation with Firm X are discussed. Additionally the feasibility of each of the options is investigated, as stated in research question 3a and 3b. Furthermore the internal and external analysis are briefly discussed followed by an elaboration on the options of organic growth.

4. Analysis & Results

In this chapter the actual analysis of the data collection during the data collection will be elaborated on and the results will be discussed. In the chapter 4.1, the current strategy of Firm X will be explained by making use of the internal and external analysis. Chapter 4.2 discusses the organic growth opportunities available for Firm X and the future revenue potential of these options. In chapter 4.3, the strategic options of innovation, strategic alliances, and mergers & acquisitions are investigated and their feasibility is assessed. During the course of the thesis the option of geographical expansion / internationalization appeared to be an interesting strategic option. This option is also described in section three. Chapter 4.4 discusses the main strategy to be investigated in this master thesis; the strategy of vertical integration, and assesses its feasibility. The strategies described in this chapter are used as input for the strategic option selection, which will be the topic of chapter 5.

4.1 Strategy Firm X

In this section the current strategy of Firm X will be outlined. In determining a company's strategy both the internal and external environment are important, as seen in chapter 2. After the review of the company's environments a SWOT analysis is made and future business opportunities are identified. These opportunities are on their turn translated into future business paths for Firm X, which are used as a guide for the following steps in the master thesis research. The information regarding the current strategy of Firm X was retrieved during the company's introducing presentations and during the observation phase, wherein interviews with the firms' CEO were held, and discussions between all the employees regarding company strategy took place. Additional information was gathered by doing desk research using internet as the most important source of information.

4.1.1 Internal Analysis

Chapter 1.1 already provided a short introduction about Firm X and its business model. In viewing the business model and creating a complete overview of the internal structure of Firm X the business model canvas by Osterwalder & Pigneur (2009) is used. In this canvas, nine key building blocks defining a company's business structure can be identified: customer segments, value propositions, channels, customer relationships, revenue streams, key resources, key activities, key partnerships, and cost structure. The building blocks for Firm X can be found in Figure 10.

The detailed description of the different building blocks can be found in Appendix B. In Appendix B the company structure will be described, as well as the resources available to Firm X and the core competences will be indicated. Additionally the customers of Firm X will be given attention to. Furthermore the current portfolio of Firm X is elaborated on and the performance of this portfolio will be analysed. As stated in chapter 1.1, Firm X is active in two business segments, small online consumer credits and online trading products. These two segments are analysed separately in Appendix B. Besides the revenues described in the performance analysis, it is important to consider the cost-structure of Firm X. This cost-structure can also be found in Appendix B. The last topic described regarding the internal analysis are the growth opportunities. By making use of the BCG-matrix, the two business segments are ranked based on their market growth (potential) and their market share (potential). The segment for online consumer credit can be identified as partly a cash cow and partly a potential star, while the online trading product segment is more a potential star and question mark. More details about these topics can be found in the thorough description available in Appendix B.

<table>
<tr>
<td rowspan="2"><u>Key Partners</u>
• Search Engine Y
• Affiliate Network X
• Online Broker X

(NOTE: Search Engine Y serves both as a supplier and a customer, therefore it is special partner.)</td>
<td><u>Key Activities</u>
• Provision of new content on the websites.
• Market research; discover new markets, new opportunities in existing markets.
• Keeping websites up to date and optimize according to Google policy.</td>
<td rowspan="2"><u>Value Proposition</u>
Uniting supply (of online loans and online trading products) with market demand (consumers) through unique and relevant content.

(Search Engine Y appreciates this approach to create value and 'rewards' Firm X with decent positions in the search results.)</td>
<td><u>Customer Relationships</u>
• Websites are aimed at the self-service, content is intuitive and straightforward.
• Content can be seen as automated service, the content is the information for the customer.</td>
<td rowspan="2"><u>Customer Segments</u>
• Online Consumer credit maret is served through advertising networks: Affiliate Network X and Search Engine Y.

• The online trading product market is served by online brokers: Online Broker X, Online Broker Y, Online Broker Z.</td>
</tr>
<tr>
<td><u>Key Resources</u>
• Intellectual; website domains, partnerships with customers.
• Human; finding new opportunities in dynamic market, writing of content.</td>
<td><u>Channels</u>
Internet; the content serves a the pre-"sale" information and as the after-"sale" support and extra training and information.</td>
</tr>
<tr>
<td colspan="3"><u>Cost Structure</u>
• Fixed Costs (Office Rent, Maintenance of few Websites)
• Variable Costs (Domain Costs, Back-linking Costs, Wages of programmer, text writers, and interns)

• Synergies in costs: future costs will presumably not be linear to the increase in revenue.</td>
<td colspan="3"><u>Revenue Streams</u>
Advertising networks
• Fee per lead (in case of affiliate-partner through Affiliate Network X)
• Cost per click (Service 1 Search Engine Y advertorials)
Online brokers
• Fixed payment per qualified trader.</td>
</tr>
</table>

Figure 10: The Business Model Canvas (Osterwalder & Pigneur, 2009) of Firm X

4.1.2 External Analysis

The external analysis for Firm X contains the positioning in the value chain, an analysis of competitors, and in the case of Firm X the dependency on its key customers, and especially the role Search Engine Y plays in the business model. As already seen in chapter 2, scholars analyse a firm's external environment based on the trends and developments outside the company boundaries (James, 1985; Duysters, van den Oord, & Post, 2003), and important models used to perform this analysis are the five forces model (Porter, 1979), and the PESTEL model. These two models will also be incorporated in the external analysis of Firm X. To get more insight into the external environment of Firm X, its positioning in the value chain is very important. The value chain of an industry can be described as the set of activities through which a product or service is created and delivered to the end consumer (Porter, 1985). In the value chain for the industry wherein Firm X is operating the focus will be on the offering of a service, since Firm X does not offer physical products by themselves, since these end-products or end-services are delivered by the customers of Firm X: the online credit issuers and online brokers. The value chain of Firm X can be found in Figure 11.

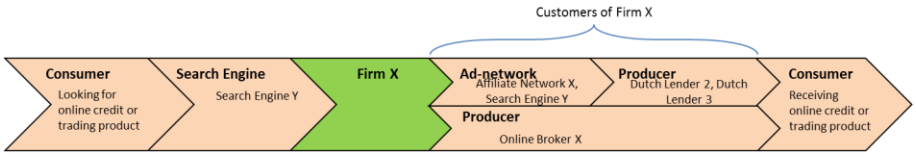

Figure 11: Value Chain Firm X

As can be seen the value chain starts and ends with the end-consumer. In first instance the consumer who is looking for an online consumer credit or an online trading product will use an internet search engine as a starting point. Search Engine Y is the search engine used by the majority of the consumers. Possibly a consumer will visit one of the websites of Firm X, because one of these websites is displayed as a result for the search-query on Search Engine Y. Depending on the business segment two options in the value chain can be distinguished. For the online consumer credit segment the consumer

first has to 'pass' the Ad-network chain to arrive at the online consumer credit issuer. The Ad-network is either Search Engine Y or Affiliate Network X, as explained in the internal analysis. This shows that Search Engine Y has a double role in the online consumer credit segment; it serves both as a supplier and a customer of Firm X. The Ad-networks directs customers to an online credit lender, either an affiliate (Affiliate Network X) or a company advertising in Search Engine Y (Service 1 Search Engine Y). The lender finally decides if an online credit is provided to a consumer. For the online trading product segment the consumer is directly led to the website of an affiliate broker, in this case Online Broker X. This means there is no intermediate chain, as in the online consumer credit segment, before the consumer enters the website of the 'producer'. As seen in the internal analysis, a commission is paid as soon as the consumer converts into a qualified trader. For this moment it is clarified what position Firm X occupies in the value chain. The next section provide brief descriptions of the five-forces model, the role of Search Engine Y and the political threats (PESTEL model)

4.1.2.1 Five Forces Model

The ratings for each of the forces in the five force model (Porter, 1979), as described in section 2.1 for the online consumer credit segment for Firm X can be found in Figure 12. The forces of the online trading product segment can be found in Appendix C. For the online consumer credit segment the threat of existing competitors is not that high for Firm X. Although this market is very fragmented and a lot of companies have implemented similar business models as Firm X, they do not often have strategies aimed at the long term and do not seem to be lasting competitors (see Appendix C). The barriers to enter for new potential competitors are rather low, but to create a growing business, a new entrant has to invest in new content for the websites and in other techniques like backlinking. Since the investment in new content will only pay off after a certain amount of time, the threat of new entrants can be classified as neutral. The threat of substitute products or services is not very high, since there are no real alternatives to small online consumer credits and it is questionable if these will be available in the future. Things are different when viewing the power of suppliers and customers. As seen in the value chain, Search Engine Y serves both as a supplier and a customer, and therefore the dependence on Search Engine Y is very high. Besides Search Engine Y as a customer, Affiliate Network X is also a customer. Since the number of online lenders in the Dutch market has decreased (AFM, 2013b), and Affiliate Network X thus offers a lower number of affiliate campaigns, the dependence on only a few credit issuer's increases. Looking at the demand for small online consumer credit, it can be stated that this is unchangeably high and does not create a threat for Firm X' business model. Since Search Engine Y is indicated as an important force, the next section describes the role of Search Engine Y in more detail.

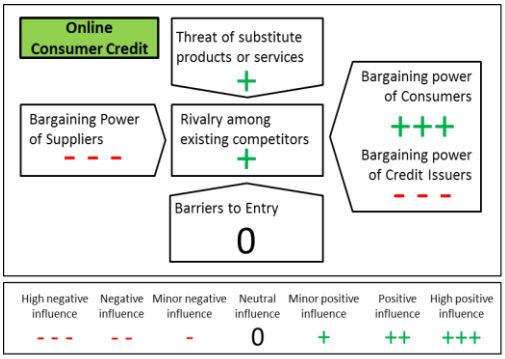

Figure 12: Five Forces online consumer credit

4.1.2.2 Search Engine Y

As stated in the value chain review and in the five forces model, Search Engine Y is of key importance in the business model of Firm X. Especially as a 'supplier' of new website-visitors Search Engine Y is pivotal. On first sight this might not seem like a problem since Search Engine Y is by far the most frequently used search engine in the world and is a company that will be operating for the next foreseeable future. The danger in a high dependence on Search Engine Y can best be illustrated using the two most recent algorithm updates executed by Search Engine Y and its effect on the performance of websites in general.

In the last year two major updates in the Search Engine Y algorithm have taken place: the Panda- and the Penguin-update. The essence of these updates is that websites containing low-quality content and non-relevant content will not be as ranked as high in the search results as previously. Low-quality content is specified as duplicated content, content purely based on a high amount of included key-words, and content wherefore a lot of linking-mechanisms are used. These artificial methods have been proven to be very successful in increasing the rankings of a website. Since Search Engine Y experienced these mechanisms violated the ranking of websites containing high-quality, high-relevant, and original content, they decided measures were necessary; the algorithm was revised. The recent updates changed the Search Engine Y-definition of quality-content. According to the new algorithms, website content can be seen as quality content when: content is original, contents contains data and in-depth reports, content provides decent analyses and insights; websites are regarded high quality-websites when they contain at least 30 pages of well-organized core content, which is updated on a regular basis; the use of link-building activities is still acceptable, the links have, however, to be of high quality and should lead to or led from high-quality websites (Sawyer, 2011; Scott, 2011; McDougall, 2012; Sweeney, 2012).

Since Firm X publishes original and relevant quality-content, the portfolio of websites was not harmed significantly. As stated in the internal analysis, two large websites, however, were harmed by the Search Engine Y updates. When taking a further look at these websites it can be stated that these websites were added to the portfolio through acquisition and that these websites contained a high amount of artificial link-building mechanisms to influence its ranking. The drop in performance of these websites can thus be explained by Search Engine Y's new criteria for its search engine algorithm. Since all the other websites of Firm X, currently, meet the Search Engine Y requirements, the high dependency on Search Engine Y is not problematic. However, if Search Engine Y updates in the future are designed based on new criteria, which are not met by the current website-strategy of Firm X, then there might be a big problem. When the performance of all the websites in both portfolio segment drops in a similar way as the two acquired websites, then a drop in total revenues of about 75% follows.

The dependence on Search Engine Y as a customer is also important to consider. As shown in Appendix A, the revenues generated through Service 1 Search Engine Y advertisements contribute significantly to the total revenues. Since these revenues are largely dependent on the cost-per-click, which is determined by Search Engine Y, Search Engine Y's influence in this chain of the value chain is also significant. It is not known exactly which factors determine the cost-per-click, but it can however be assumed that the number of providers of online consumer credit who pay to advertise in Search Engine Y has a positive influence on the cost-per-click. As seen in the internal analysis and in the five forces model, the number of providers of small online consumer credits has decreased over the past months. If this decrease continues, it might also harm the cost-per-click Firm X receives, and consecutively the total revenue generated by Firm X. The PESTEL analysis further reviews why the number of online consumer credit lenders decreases at this moment.

As this review on the updates executed by Search Engine Y shows, the Search Engine Y- and Service 1 Search Engine Y-based model still works quite well for Firm X at this moment, since they meet all the requirements Search Engine Y set in their new search engine algorithm. Although there are no indications yet that these requirements will change on short notice, it is a risk that the dependence on Search Engine Y is high.

4.1.2.3 Political threats

The political factor refers to the stability of a countries' government and stability in the regulation. For Firm X especially the regulation is important, and, as the name suggest, regulation can also be allocated to the legal factor. As mentioned a few times already in this chapter, legal changes forced some issuers of online credit to terminate their activities in the Netherlands. This was one of the main

reasons the revenues through the Affiliate Network X affiliate program dropped. The regulation regarding financial matters in the Netherlands is regulated and monitored by the Finance Ministry (Ministerie van Financiën) and the Financial Market Authority (AFM, Autoriteit Financiële Markten). When issuers of small online consumer credits started operating in the Dutch market, there were no laws for consumer loans lasting less than three months; the exact products these companies were offering. This meant that these companies did not need a licenced approval of the AFM to operate in the Dutch market. Furthermore they were not restricted to the legal maximum interest rates which could be charged for consumer credits lasting longer than three months. In 2011, the law was changed in a way that payday-loans also had to meet the same requirement as all the other consumer credits (AFM, 2011). This change in regulation forced payday lenders to change their interest-rates and to get a licenced approval of the AFM. Since not all companies succeeded in this change, the number of companies offering small online consumer credits in the Netherlands decreased significantly. For the future more strict regulation is not excluded, so the threat for the current business model of Firm X viewing legal and political factors is quite high. The other PESTEL factors are elaborated on in Appendix C.

4.1.3 Current and Future Strategy

In section 4.1.1 and 4.1.2 the internal- and external business environment of Firm X were described. Using these results (and the results displayed in Appendix B), key factors for Firm X can be outlined in a SWOT-analysis (Figure 13). This matrix provides an overview of strengths and weaknesses of the company and of the business opportunities and threats there might be. After the SWOT-analysis the competitive strategy of Firm X will be determined and the opportunities will be used to see which future strategies can be implemented to sustain company growth. These growth paths will be displayed in the Ansoff-model. The identified growth paths will be used as input for the research direction in this master thesis research.

Strengths
- High level of segmentation
- Approach which functions well in the Google search engine algorithm
- Growing amount of traffic
- Growth in revenues
- Big and reliable business partners
- Low level of competition at this moment
- High and constant target group of consumers looking for products in the online consumer credit segment and the online trading product segment

Weaknesses
- High dependence on Search Engine Y, also in the future
- Currently a high dependence on Online Broker X
- Dependence on number of possible affiliate partners in the online consumer credit segment
- Difficult to adapt search engine optimization strategy
- Earnings-model for online trading segment contains a lot of steps

Opportunities
- Optimize findability in Search Engine Y search results, for example through paid advertisements
- Optimize performance of current portfolio of websites through use of (statistical) information
- Expansion of one or both segments to foreign markets
- Addition of new credit issuers as partners
- Option of vertical integration (issue credit yourself)

Threats
- More strict regulation by the AFM
- Fluctuations in the cost-per-click
- Change in the search engine algorithm of Search Engine Y
- Investments by competitors in their long-term strategy
- Negative development in the euro-dollar exchange rate (Online Broker X revenues are in dollars)

Figure 13: SWOT-analysis Firm X

Viewing the strengths of Firm X it can be noted that they serve a certain target group of customers, namely customers looking for small consumer credit or online trading products. As seen in the internal analysis the strategy to reach these customers is to provide high quality and relevant content which provides the information the consumers are looking for and which incentives them to proceed to the products of one of the business partners of Firm X. Placing these characteristics in the generic competitive strategies described by Porter (1985), it can be stated that the competitive strategy of Firm X is best described as differentiation focus. The strategy is focussed because a certain target group is concentrated on when writing the content. The strategy is differentiated because the provision of relevant high-quality new content is a core competence which distinguishes Firm X from its competitors. The other strategies described by Porter (1985) are cost leadership, differentiation, and cost leadership focus. Since Firm X' key activities are not aimed at cost leadership, the first and third strategy does not fit the characteristics of Firm X. Differentiation assumes a broad group of consumers, but since the existence of a very specific group of

customers, differentiation focus describes Firm X' competitive strategy the best. Adjacent to the SWOT-analysis it is important to discuss the "issues" of the SWOT analysis, which are a combination of internal and external factors that are important for the company strategy. The issues show which strengths can be used to grasp opportunities or reduce threats and which weaknesses may be problematic for the opportunities or may increase the threats. The issues which could be identified are being provided with a ranking and can be found in Appendix D.

As argued in chapter 2.1 the findings in the SWOT-analysis can be proceeded into the Ansoff-matrix. Together with the results of the current strategy and the future mission and vision, projects can be categorized. The Ansoff-matrix for Firm X can be found in Figure 14.

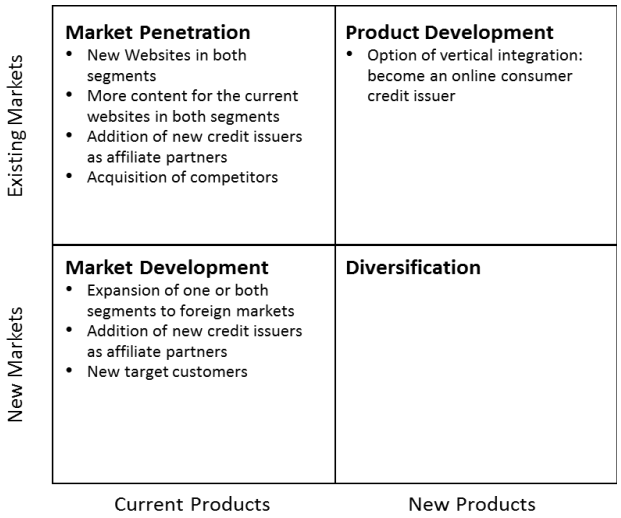

Figure 14: Ansoff-matrix Firm X

Taking into account the possible growth paths in the Ansoff-matrix, a few strategic options can be distinguished. In the upper-left quadrant the strategic options of innovation (new websites, more content), strategic alliances (new credit issuers as affiliate partners), and mergers & acquisitions can be obtained. In the lower-left quadrant the strategic options innovation and internationalization (new target customers) and strategic alliances (new credit issuers as affiliate partners) can be obtained. The options of expansion of current activities to foreign market can be classified as geographic expansion, but can also be (partly) seen as innovation. Finally, in the upper-right quadrant, vertical integration can be obtained. In the remainder of this master thesis research the strategic options innovation, strategic alliances, mergers & acquisitions, and vertical integration will be further investigated. The focus will be on the option of vertical integration, since this is an option never investigated by Firm X, and therefore little information is known about it. During the internship at Firm X, the option of expansion of the online credit websites to Germany was also investigated. Together with the results of the projected revenue forecasts of the other strategic options, the future revenue roadmap and the contribution of each of the strategies to the total revenue for Firm X can be completed.

4.2 Organic Growth opportunities

Organic growth can be defined as opportunities for business growth through the optimization or development of existing products or business activities. For Firm X this means that organic growth can be realised through the optimization of the current portfolio of websites and by adding new websites to the portfolio. The new websites are similar to the current websites taking into account the content of the websites; the new websites are also related to the online consumer credit market. This section will thoroughly discuss both strategies. First the optimization of the current portfolio will be outlined and second the creation of new websites will be elaborated on. The optimization of the current portfolio will be used in predicting the future growth opportunities of the current portfolio of websites and its belonging revenues. The future revenues for the new websites will also be projected.

4.2.1 Optimization of current portfolio

Besides the SEO techniques (see section 4.1.2.2), other options to optimize websites and consecutively increase revenues can be identified. These options are related to modifications in the Service 1 Search Engine Y advertisements, which can be chosen by the owner of a website. Since the possibilities for modification are all built-in by Search Engine Y, they all meet the requirements as stated

in the Service 1 Search Engine Y Policy by Search Engine Y (Google, 2013a). At this moment it is possible to modify the size of the advertisements, the position of the advertisements on a website-page, and the advertisement appearance. The size and position of an advertisement can be chosen out of a set array of possibilities. The advertisement can appear as a text-advertisement, a picture-advertisement, or a text/picture-advertisement.

Since there is no general evidence which set of possibilities delivers the best performance and since variation per website is possible, it is a process of trial and error to identify the best strategy for the website(s). During the course of this thesis a few modifications for the advertisements were tested, meaning each time a certain advertisement-variable was altered, this modification was left 'running' for a few weeks, and hereafter the time-interval with the modification was compared a similar time-interval without the modification. For a proper comparison it is important that the time frames have the same length and start on the similar day of a week. To see if (significant) differences could be identified, independent t-tests were performed. The independent t-test is used since there is no certainty that the same customers visit the websites in both time-intervals; the group of people differs in both conditions (Field, 2005). The modifications, the results of the modifications and the tests for significance will be described in the next sections. The statistics displayed for the t-test are: the mean and standard error for each variable in each time frame, the t-statistic, the significance, and the effect size.

4.2.1.1 Advertisement size

The first variable which was modified is the size of the advertisement. Prior to the change, each article-page on a website contained three Service 1 Search Engine Y advertisements; the allowed maximum (Google, 2013a). One of these three advertisements, however, was smaller in size than the other two. The hypothesis was that if the size of this advertisement would match the other two advertisements, a higher click-through-ratio could be realised. To test this hypothesis, the click-through-ratio of two time frames was compared to each other using an independent t-test. The time frames chosen are January 24th – February 2nd and February 21st – March 13th. The change was implemented at February 20th.

To get a complete overview, the change was applied on all the four big websites in the portfolio. These websites are chosen because they generate the majority of the traffic and therefore possible effects are highly likely to be observed. Besides the differences for the modified advertisement, differences for the other two advertisements are also monitored, as well as the click-through-ratios for the complete website. This is done because the gain in performance for one advertisement might be the loss for another. The results from the independent t-test can be found in Table 3. The three different advertisements are labelled as 'top', 'middle', and 'bottom', referring to their position on the webpage.

Firm X website 1			
Advertisement	**Time Frame I**	**Time Frame II**	**Results**
Top	M=6.79 ; SE=0.23	M=6.55 ; SE=0.19	t(4)=0.830 ; p > .05 ; 0.38
Middle	M=11.28 ; SE=0.54	M=11.53 ; SE=0.41	t(4)=-0.372 ; p > .05 ; 0.18
Bottom	M=3.14 ; SE=0.22	M=4.80 ; SE=0.26	t(4)=-4.884 ; p < .05 ; 0.93
Combined	M=21.15 ; SE=0.87	M=22.88 ; SE=0.40	t(4)=-1.805 ; p > .05 ; 0.67
Firm X website 2			
Advertisement	**Time Frame I**	**Time Frame II**	**Results**
Top	M=11.57 ; SE=0.49	M=10.18 ; SE=0.37	t(4)=2.253 ; p > .05 ; 0.75
Middle	M=5.99 ; SE=0.19	M=7.51 ; SE=0.36	t(4)=-3.709 ; p < .05 ; 0.88
Bottom	M=3.35 ; SE=0.06	M=5.98 ; SE=0.13	t(4)=-46.094 ; p < .05 ; 0.99
Combined	M=20.90 ; SE=0.36	M=23.57 ; SE=0.24	t(4)=-6.188 ; p < .05 ; 0.95
Firm X website 3			
Advertisement	**Time Frame I**	**Time Frame II**	**Results**
Top	M=11.10 ; SE=0.46	M=10.19 ; SE=0.43	t(4)=1.448 ; p > .05 ; 0.59
Middle	M=5.71 ; SE=0.36	M=5.69 ; SE=1.00	t(4)=0.013 ; p > .05 ; 0.00

Bottom	M=3.20 ; SE=0.16	M=5.42 ; SE=0.37	t(4)=-5.418 ; p < .05 ; 0.94
Combined	M=20.01 ; SE=0.28	M=21.30 ; SE=1.58	t(4)=-0.805 ; p > .05 ; 0.37
Firm X website 4			
Advertisement	**Time Frame I**	**Time Frame II**	**Results**
Top	M=11.10 ; SE=0.69	M=9.89 ; SE=0.20	t(4)=1.684 ; p > .05 ; 0.64
Middle	M=6.79 ; SE=0.45	M=6.54 ; SE=0.58	t(4)=0.335 ; p > .05 ; 0.17
Bottom	M=4.02 ; SE=0.22	M=6.29 ; SE=0.37	t(4)=-5.271 ; p > .05 ; 0.93
Combined	M=21.91 ; SE=0.87	M=22.72 ; SE=0.48	t(4)=-0.816 ; p > .05 ; 0.38

Table 3: Results t-test for effect of advertisement size

The results of the t-test show that three out of four of the 'bottom'-advertisements score significantly higher on the click-through-ratio after the change in size. This increase however led to a decrease in click-through-ratios for the other advertisements ('top' and 'middle') for most websites, although these changes are not significant. One interesting observation is that the click-through-ratio for the 'middle'-advertisement on Firm X website 2 increased significantly after the change for the 'bottom'-advertisement was implemented, however no reasonable explanation can be thought of. The most important conclusion which can be drawn from the analysis is that the overall click-through-ratio is higher for all websites after the implementation. The only significant result is found for Firm X website 2, but the changes for the other websites all show moderate to high effect sizes, meaning the change in the 'bottom'-advertisement has had an effect in the increase in the total click-through-ratio. The ratios are increased by 1.73%, 2.67%, 1.29%, and 0.81%, indicating an average increase of 1.63% in click-through-ratio is possible by changing the advertisement size.

A key note for the modification of the 'bottom'-advertisement is that in changing the size, Firm X' programmer also changed the appearance of the advertisement from text-only to text/picture. This means the observed improvement in the click-through-ratio can be caused by both the changes. The effects of modifications in advertisement appearance are described in the next section.

4.2.1.2 Text/Picture advertisements

Initially all the Service 1 Search Engine Y advertisements shown on the websites of Firm X appeared as text-only advertisements. As stated in the previous paragraph, another variable which can be modified is the appearance of the advertisement. It is interesting to see if a change to a text/picture-advertisement leads to an increase in the click-through-ratio for the advertisements. Since the 'bottom'-advertisement was already changed to the new appearance; the only modification made for this test was the change from the text-only to the text/picture setting for the 'top'- and 'middle'-advertisement. The appearance of the advertisements was changed on May 14th 2013. The two time intervals which will be used for the t-test comparison are April 23rd 2013 – May 14th 2013, and May 15th 2013 – June 4th 2013. The websites used for the analysis are the big four websites in the portfolio of Firm X. Results of the t-test can be found in Table 4. The results in the table represent the combined 'top'- and 'middle'-advertisement.

Before discussing the results of the analysis, it is important to mention that some other modifications occurred before the first time frame and that these modifications also may influence the performance of the advertisements. The results of the analysis therefore have to be interpreted with caution. The other modification represents the addition of a (general) extra page with Service 1 Search Engine Y advertisements where to a lot of article website-pages link directly. This could harm the performance of the advertisements on the article-pages since many visitors may continue to the new created webpage. The addition of this new page will also be dealt with in section 4.2.1.4.

Website	Time Frame I	Time Frame II	Results
Firm X website 1	M=17.14 ; SE=0.78	M=16.54 ; SE=1.06	t(4)=0.457 ; p > .05 ; 0.22
Firm X website 2	M=14.79 ; SE=0.89	M=13.43 ; SE=1.13	t(4)=0.944 ; p > .05 ; 0.43
Firm X website 3	M=9.25 ; SE=0.35	M=10.65 ; SE=1.30	t(4)=-1.041 ; p > .05 ; 0.46

Firm X website 4	M=12.98 ; SE=0.16	M=12.09 ; SE=1.21	t(4)=0.734 ; p > .05 ; 0.34

Table 4: Results t-test for effect of advertisement appearance

The results in Table 4 are rather surprising, since they indicate that the click-through-ratio for the 'top'- and 'middle'-advertisement decreases because of the change in appearance. Only for the website Firm X website 3 an increase can be observed. The effect sizes of the changes are low to moderate, meaning it is hard to conclude if the modification actually had an effect. The changes in click-through-ratios are -0.60%, -1.36%, 1.40%, and -0.89%, indicating an average decrease of -0.36%. This decrease can also be caused by the creation of the new general Service 1 Search Engine Y advertisement website-page, as indicated earlier.

For the website Firm X website 1 it is however possible to test the effect of the change in appearance when the new separate website-page is excluded. For this website, the statistics from the Service 1 Search Engine Y account are integrated within the Service 2 Search Engine Y account. This integration enables getting insights about all the statistics of each separate webpage (pages whereon the articles, the content, are displayed). As stated earlier, some article-pages refer directly to the new web-page with a link, while other article-pages do not provide this link. For each page it can easily be checked whether this link exists. For the 20 best performing websites without this link, the click-through-ratios for the time frames April 23rd – May 14th and May 15th – June 4th are compared. In the first time frame the advertisements were displayed as text-only, while in the second time frame the advertisements appeared in the text/picture format. The average click-through-ratio in the first time frame was 28.85%, while the click-through-ratio in the second time frame was 31.73%; an absolute increase of 2.88%. Besides the intuitive analysis, a statistical analysis is also possible. Since the group of participants, namely the set of webpages, are identical in both time-frames, a dependent t-test can be performed (Field, 2005). The results of the t-test imply that no significant increase can be obtained in the click-through-ratio for the webpages before the change ($M = 28.85$, $SE = 7.95$), compared to after the change ($M = 31.73$, $SE = 10.32$, $t(19) = -1.284$, $p < .05$, $r = 0.28$).

The reason the statistical analysis shows no significant effect is mainly caused by the large standard deviation for both samples, meaning a large variation of click-through-ratios in both time frames is found. The effect size is quite low, but the intuitive analysis shows that an actual increase in click-through-ratio can be obtained. Therefore it is concluded the click-through-ratio increases by 2.88% by changing the advertisement appearance from text only to text/picture. The next section however deals with the option of modifying the advertisement-position on a website-page.

4.2.1.3 Position of advertisements

As a client of Service 1 Search Engine Y, Search Engine Y sometimes offers advice for increasing website performance. One advice was changing the position of the 'middle'-advertisement and position it on the right-side of the 'top'-advertisement. In order to see if this proposition was true for the websites of Firm X, a test was designed. Two websites were included as test-websites: Firm X website 4 and Firm X website 5. The interesting part about these websites is that Firm X website 4 does have the added extra webpage with Service 1 Search Engine Y advertorials, as briefly explained in the previous section, whether Firm X website 5 does not have this extra webpage. This means this test can also be used to see if there possibly is an indication that the creation of the extra webpage harms the click-through-ratios of the advertisements on the article website-pages.

The change was implemented on April 18th. The time frames used in the t-test analysis are March 8th - April 18th and April 19th - May 30th. The results are presented in Table 5.

Website	Time Frame I	Time Frame II	Results
Firm X website 4	M=8.39 ; SE=0.34	M=6.51 ; SE=0.19	t(10)=4.543 ; p < .05 ; 0.82
Firm X website 5	M=14.26 ; SE=1.09	M=14.45 ; SE=2.33	t(10)=-0.072 ; p > .05 ; 0.02

Table 5: Results t-test for effect of advertisement position

For Firm X website 4 a significant drop in the click-through-ratio is found, while Firm X website 5 shows a very small (non-significant) increase. Although the general Service 1 Search Engine Y advertisement page on Firm X website 4 might have harmed the performance of the article webpages it can be concluded that the change in position has a negative effect on the click-through-ratio. The average decrease in the click-through-ratio observed in this analysis equals -0.85%. The next section goes further into detail for the addition of the extra general Service 1 Search Engine Y advertisement page where a lot of article website-page directly link to.

4.2.1.4 Additional Service 1 Search Engine Y advertisement page

As stated in the previous sections, a new page containing Service 1 Search Engine Y advertisements was added to a few websites in the portfolio of Firm X. A lot of articles on the websites (content) provide a direct link to this page and statistics from the Service 1 Search Engine Y and Service 2 Search Engine Y accounts show that a lot of visitors are indeed visiting this new page. Therefore the question rises whether the creation of this new page has led to an increase of the total click-through-ratio for all the Service 1 Search Engine Y advertisements on the website (all pages included). The way to find out if an effect can be observed is not as straightforward as the analyses in the previous sections. For the four biggest websites: Firm X website 1, Firm X website 2, Firm X website 3, and Firm X website 4 the new page already exists for a longer time, but it served as the 'platform' to display the advertorials of the affiliate partners. At the moment when no affiliate-campaigns were offered any more, these advertorials were replaced with Service 1 Search Engine Y advertisements. This means that the page already existed and generated traffic before the time Service 1 Search Engine Y advertisements were placed, and it is therefore impossible to find time frames which can be used to make a decent comparison. Since the similar analysis as in the previous sections is not possible, other methods had to be found.

The first method is to consider websites where the previous method can be applied. These websites have a clear implementation-date of the new page and this page was not used for affiliate advertorials at any time. The two websites are Firm X website 6 and Firm X website 7. The new page for these websites was introduced on January 2nd 2013. The two time frames used to analyse the effect of the change are: October 2012 – December 2012 and January 2013 – March 2013. The results of the analysis are summarized in Table 6. The presented numbers reflect the click-through-ratio for the complete website.

Website	Time Frame I	Time Frame II	Results
Firm X website 6	M=18.87 ; SE=1.26	M=22.30 ; SE=0.44	t(4)=-2.575 ; p > .05 ; 0.79
Firm X website 7	M=18.56 ; SE=2.03	M=19.82 ; SE=2.84	t(4)=-0.361 ; p > .05 ; 0.18

Table 6: Results t-test for effect of Service 1 Search Engine Y advertisement page

The addition of the new page did not lead to a significant effect, but for both websites an increase in the click-through-ratio can be observed; for the website Firm X website 6 the effect size is high which indicates that the increase could be explained by the addition of the new page. The average increase of the click-through-ratio equals 2.35%.

The second method to investigate the effect of the new page is not based on a statistical method, but is more intuitive. As stated before, the Service 1 Search Engine Y and Service 2 Search Engine Y account are integrated for the website Firm X website 1, which enables additional analysis methods to be. As stated earlier, some article-pages refer directly to the new web-page with a link, while other article-pages do not. For each page it can easily be checked whether they have this link. The idea behind the method used is that the click-through-ratios of pages which do not provide a link towards the new page are collected and an average of these ratios is computed. The next step is to lookup the click-through-ratio for the complete website Firm X website 1 and to subtract the average click-through-ratio of the webpages without the direct linkage to the new page. The value resulting from this subtraction

gives a rough estimate of the additional click-through-ratio which is generated by the addition of the new web-page. The time periods used in this second method are April 2013 and May 2013. In this period the average click-through-ratio for the complete website equalled 30.27%. In determining the average click-through-ratio for the web-pages not linking to the new page, the twenty most visited article-pages not containing a direct link were included in the sample. The average click-through-ratio for these twenty pages equalled 29.16%. Subtracting this value from the average click-through-ratio of the complete website shows an increase of 1.11%. This value indicates that the addition of the new page indeed leads to a higher click-through ratio. This increase is a bit lower than the increase obtained in the first method. If the average increase of the two methods is taken into account, the addition of the new web-page indicates an increase of about 1.93% in the click-through-ratio.

4.2.1.5 Advertisement modifications - conclusion

The previous sections described which modifications are implemented in the preceding months. The choices for certain modifications were not based on prior evidence but were implemented based on intuitive thoughts and on advice by Search Engine Y. Using the trial and error methodology it was tested whether the modification resulted in the desired effect. The results indicate that not all the modifications turned out successfully. Especially the change in position for the 'middle'-advertisement was not successful. The change from text-only to text/picture advertisements provides mixed results, but since the negative effect is close to zero and for one website the positive effect was quite high, the modification gets the benefit of the doubt. Especially the results obtained for the webpages of Firm X website 1, where the new advertisement-page was left out, indicate a positive effect. Since the new advertisement-page was left out, these results are used for the further analysis. The other two modifications (change in size of the 'bottom'-advertisement and addition of the new Service 1 Search Engine Y advertisement page) resulted in an increase for the click-through-ratio. When all positive modifications are taken into account, an absolute increase of 6.44% in the click-through-ratio can be realised. To illustrate the effect these advertisement modifications could have on the click-through-ratio of a website a visualisation is provided in Figure 15. It is assumed that the click-through-ratio before the changes is 20%; the average click-through-ratio for new websites shortly after the launch.

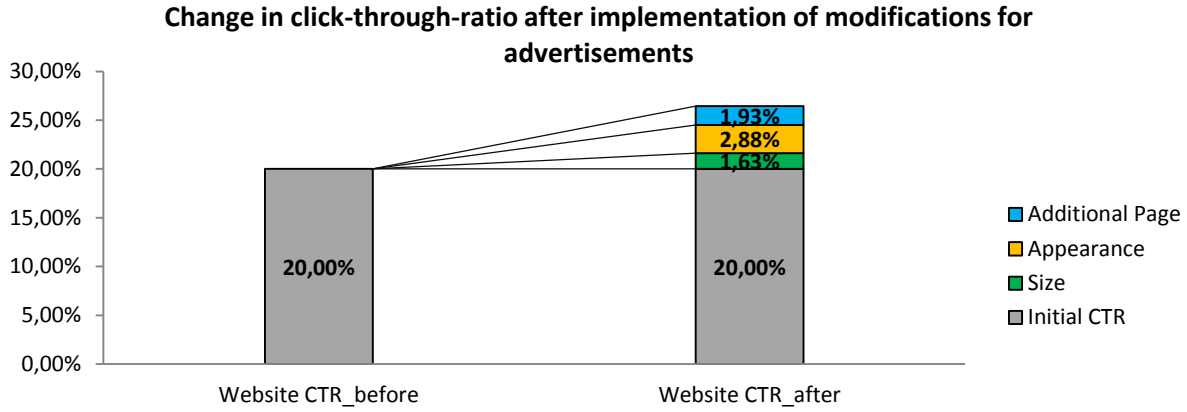

Figure 15: Graphical representation of effects of modifications on click-through-ratio

4.2.2 Creation of new websites

Besides the optimisation of the current websites in its portfolio, the other main strategy used by Firm X to sustain growth and increase in revenues is the creation of new websites. Over the course of time Firm X has developed a specific process to indicate opportunities for new websites and to translate these opportunities to the actual development of new websites. The next paragraph describes this process in detail. After this description the performance of new websites will be analysed. The goal of

this analysis is to create a model which can be used to project the future revenues of new websites. The projected revenues will be used in the future roadmap for Firm X.

4.2.2.1 Process of the creation of new websites

The process creating new websites contains eight steps, which will be described in this section. It has to be noted that the process is not based on literal references or historical pre-set business models; the process is created through the business experience of the CEO of Firm X. Another important note is that a lot of the steps in the process are decided on by making use of the statistics which are available through the different Search Engine Y accounts or web tools available to Firm X. These accounts and tools will also be mentioned when they are used in a certain step.

The process starts with market research. The aim of this market research is to identify interesting key word combinations which are entered by visitors in the search engine of Search Engine Y and which led to a visit to one of the existing websites of Firm X. These combinations of keywords can be found using the statistics displayed in the Service 2 Search Engine Y account. Another option to identify interesting combinations of keywords is to consult the Service 4 Search Engine YAffiliate Network X. This tool shows how often a certain combination of key words is searched for monthly. For the current portfolio the Dutch and Belgian market are the markets which are taken into account. The findings of the first step lead to the second step, which is the decision if the search volume for identified keywords or combinations of keywords is high enough to qualify as interesting. The minimum is set to 100 search queries per month. It is of key importance that this amount is equalled, even for a large combination of keywords; otherwise it is highly likely that the possible monthly search requests for a new websites will be too low.

If a combination of keywords passed the requirement of the second step, the third step is to check the availability of a domain-name with the exact same order of words as the combination of keywords. Business experience shows that for the Dutch market only .nl and .com domains turn into (high) performing websites. For the Belgian market .be and .com are relevant. If the domains are available they should be licensed and the process of new website development can continue. The fourth step is performed by the programmer employed by Firm X. In this step the standard template will be installed on the newly acquired domains. A template is a pre-set format wherein the basic structure of the new website is already incorporated. This structure can easily be filled in with content by the owners of the website, which is the next step in the process. Step five is the provision of content to the new website. This step actually contains four sub-steps and especially the first one is quite labour-intensive. The first part of this step is writing the content (articles) which will be uploaded to the website. When a new website is launched the installed base of content for that website should be around 20 articles. During the process of writing the articles it is important to keep in mind that the keywords which are present in the domain-name also should be referred to in the articles, because this leads to higher content-relevance for the website. The second part is to ensure that some general site articles, like pages describing terms and conditions, and copyright infringement, are uploaded to the website. Third the layout for the homepage should be determined and a new logo should be created. Finally the footer and the sidebar of the website should be optimized for SEO purposes. The best strategy here is to include keywords related to the topics written about in the articles.

The next step, step six, is to actually integrate the Service 1 Search Engine Y advertisements on each article-page of the website. As stated before three Service 1 Search Engine Y advertisements per page are allowed and the user has several options to modify the appearance of the advertisements. The inclusion of the advertisements can be performed directly from the Service 1 Search Engine Y account. Next, the website is added to the Service 2 Search Engine Y account of Firm X and reported to Service 3 Search Engine Y. The inclusion of the new website in the Service 2 Search Engine Y account is important in order to be able to monitor the performance and to measure key statistics for the website. Service 3

Search Engine Y is informed about the new website since the visibility of a new website in the search results of Search Engine Y will increase as the website is indexed by Search Engine Y, which can be done as soon as a new website is reported to Service 3 Search Engine Y.

The actual creation and launch of the new website is completed when the first seven steps are performed. When the website is actually online and running the statistics and its performance can and should be monitored closely. The statistics gathered from both the Service 1 Search Engine Y and Service 2 Search Engine Y account can be used to determine the success of the website. The determination of the success can be used in the decision whether more content should be written for a website. If a new website shows promising results and has potential for growth, new content should be added, while less attention should be given to a website when the performance is below average.

The process of creating new websites has been performed many times and therefore a lot of information regarding the performance of newly created websites is available. These statistics can be used to project the possible future revenues and subsequently the contribution to the total company revenue of the new websites. This projection will be given and described in detail in the next section.

4.2.2.2 Performance of newly created websites

When discussing the creation of new websites and projecting its future contribution to the revenue, a distinction between Dutch and Belgian websites is made. This is done because the Belgian market is relatively new to Firm X; the current Belgian websites are only online for a few months. This means that the growing potential for new Belgian websites is higher than for new Dutch websites, since the Dutch market already indicates signs of inter-website cannibalization. For the Dutch market it is also not very likely that new top-performing websites will be launched, whether in Belgium these will exist in the portfolio of new websites. For the Dutch websites, the current portfolio is more important for the future revenues, as will be discussed in the next section.

4.2.2.2.1 New Dutch websites

In analysing the performance of new Dutch websites, the new websites launched in 2013 up to this point are taken as a point of reference. The most important variables for these websites, used to determine performance, are retrieved from the Service 1 Search Engine Y account. Based on this data and assumptions made about the future growth of a website the model to predict the performance up to and including the year 2015 was made. The input-variables, and its sources, used for the model and the assumptions made can be found in Table 7. An important note to make is that the increase in the click-through-ratio which could be obtained by implementing the modifications suggested in the first section of this chapter is incorporated in the assumption for the click-through-ratio of new websites.

Input-variable	Value	Source used to determine value
Total number of new websites each month	2	Consultation with CEO
Total number of pageviews new website in first month	300	Historical data Service 1 Search Engine Y-account
Increase in monthly number of pageviews in the first three months	4.00%	Historical data Service 1 Search Engine Y-account & assumption based on business experience
Increase in monthly number of pageviews after the first three months	-10.00%	Historical data Service 1 Search Engine Y-account & assumption based on business experience
Click-through-ratio	26.44%	Historical data Service 1 Search Engine Y-account & analysis of increase by modifications in advertisement-settings
Cost per click	€0.47	Historical data Service 1 Search Engine Y-account (May)
Domain costs per year per website	€9.10	PcExtreme.nl
Number of articles per new website	20	Consultation with CEO
Workload for one article (in hours)	0.80	Consultation with CEO
Hourly wage writer	€10.00	Consultation with CEO, Randstad

Table 7: Input variables projection model new Dutch websites

In order to develop a future roadmap for Firm X, a projection for the next 30 months for the new Dutch websites is made. This means the implementation of this strategy starts in July 2013. The value of this strategy is mostly based on the revenues which can be generated. It is however also important to consider the costs which have to be made for the creation of the websites. The revenues are based on the number of pageviews each month, which is represented by the pageviews of the previous month, multiplied by the belonging increase rate, as given in Table 7. To calculate the number of clicks, the number of pageviews is multiplied by the click-through-ratio. The revenue is calculated by multiplying the number of clicks by the cost per click. The costs for a new website are represented by the wages required to write the content and the costs for licencing the website-domain. The costs for licensing the website-domain have to be paid each year, while the costs for the content are paid for once. An important note to make is that the process before the actual launch takes about one month, therefore the costs for building a website occur one month prior to the month where the first revenues flow in. Both the monthly revenues and costs for the projection period of 30 months are displayed in Figure 16. As can be seen, the revenues increase in the first 24 months and stabilize afterwards. The costs only increase after 11 and 23 months, since then the licenses for the website-domain have to re-paid for the already existing websites. The first time the revenues exceed the costs is in month 5, indicated that the strategy of new Dutch websites becomes profitable rather quickly. The projection for the revenues and costs of launching new Belgian websites will be discussed in the next paragraph.

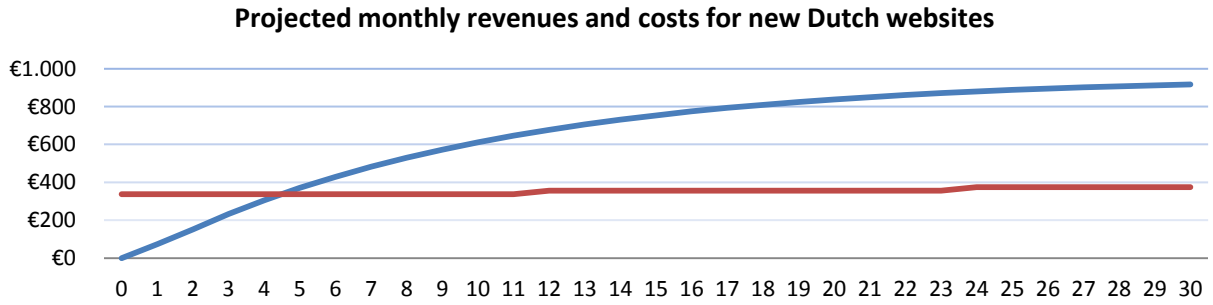

Figure 16: Projected monthly revenues and costs for new Dutch websites

4.2.2.2.2 New Belgian websites

As stated before, the projection for the new Belgian websites is a bit more complicated than the projection for the Dutch new websites, since it is highly likely that some top-performing websites will be present amongst the new websites introduced in Belgium. This is the case since Firm X is new to the market and just recently started its activities.

At this moment four websites are running in Belgium. Two are performing in such manner suggesting they become top-performing websites. Therefore, these two websites are modelled as top-performing websites, while the other to be developed websites are considered websites displaying average performance. This distinction results in two different sets of growth rates for the pageviews, which will be shown later on. The total number of websites which will be developed for the Belgian market in the next 30 months equals 62. Since the Dutch portfolio of 120 websites contains five top-performing websites, the assumption of two top-performing websites for the Belgian market, is justified, when the ratio of top-performing website is taken into account.

The assumptions for the top-performing websites in Belgium are based on the available data for the existing websites and on the pageview-pattern observed for Dutch top-performing websites. The pageviews are assumed to increase rapidly in the first six months, and to stabilize afterwards. The number of pageviews in the first month is based on historical data. The model-assumptions for the new websites with average performance are based on the historical data of the average performing websites in Belgium and the Netherlands. As with the projection for the new Dutch websites, the increase in the

click-through-ratio which could be obtained by implementing the modifications suggested in the first section of this chapter is incorporated in the assumption for the click-through-ratio. All the input-variables for the Belgian projection model can be found in Table 8.

Input-variable	Value	Source used to determine value
Total number of new websites each month	2	Consultation with CEO
Total number of pageviews new website in first month	383	Historical data Service 1 Search Engine Y-account
Increase in monthly number of pageviews in the first three months	22.00%	Historical data Service 1 Search Engine Y-account & business experience
Increase in monthly number of pageviews after the first three months	-10.00%	Historical data Service 1 Search Engine Y-account & business experience
Total number of top-performing websites in first month	2	Historical data Service 1 Search Engine Y-account, consultation with CEO
Number of pageviews for top-performing website in first month	360	Historical data Service 1 Search Engine Y-account
Increase in monthly number of pageviews in first six months	65.00%	Historical data Service 1 Search Engine Y-account & business experience
Increase in monthly number of pageviews after six months	0.00%	Business experience & consultation with CEO
Click-through-ratio	26.44%	Historical data Service 1 Search Engine Y-account & analysis of increase by modifications in advertisement-settings
Cost per click	€0.78	Historical data Service 1 Search Engine Y-account (May)
Domain costs per year per website	€9.10	PcExtreme.nl
Number of articles per new website	20	Consultation with CEO
Workload for one article (in hours)	0.80	Consultation with CEO
Hourly wage writer	€10.00	Consultation with CEO, Randstad

Table 8: Input variables projection model new Belgian websites

Identical to projection for the new Dutch websites, a projection for 30 months in the future is made for the new Belgian websites. This means the start of this strategy is in July 2013. The computation of the revenues and the costs is similar to the methodology used for the new Dutch websites, which was explained in section 4.2.2.2.1. The revenues and the costs for the projected months can be found in Figure 17. As can be seen the revenues show a steep curve in the first six months. This occurs because the two top-performing websites are projected to grow very fast in the first six months and stabilize afterwards. The revenue growth after the first six months stabilizes after 24 months. Furthermore it can be seen that the revenues exceed the costs after the first month of operation, meaning the Belgian websites pay off very quick. The overall conclusion is that the addition of Belgian websites will contribute to future revenue growth. Viewing the costs for the strategy, profitability is also certain.

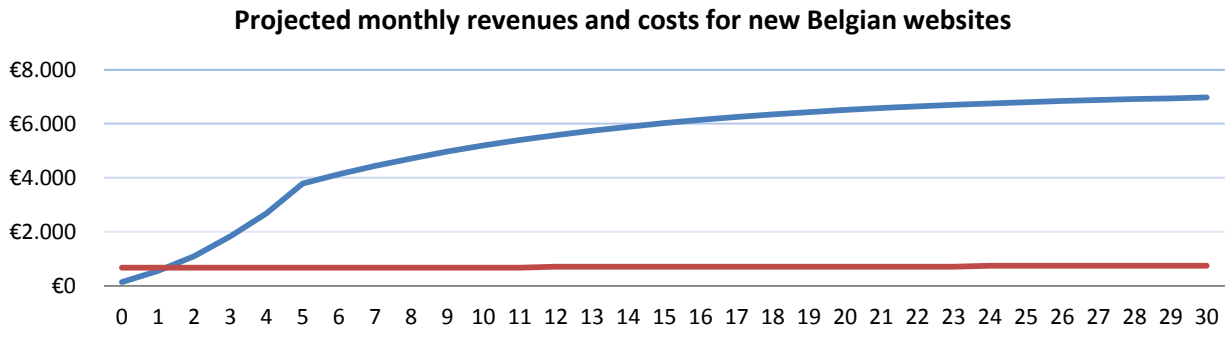

Figure 17: Projected monthly revenues and costs for new Belgian websites

The analysis of the addition of new Dutch and Belgian websites insinuates that Belgian websites have a bigger impact on the revenue than Dutch websites. For the new websites this is true, but as stated before the new Belgian websites represent the whole portfolio of Belgian websites, because of the recent market entry. To get insight into the impact on the revenue of the whole portfolio of Dutch websites, the growth potential of the current websites is discussed in the next section.

4.2.3 Current portfolio of Dutch websites

The current portfolio of Dutch websites has grown steadily the past, as was already shown in the chapter 4.1. This growth, however, was also triggered by the addition of new websites. For the projection of the next 30 months, the current portfolio will not be expanded, but the growth has to be achieved by the websites which are exploited at the end of May 2013. Since the provision of new content for the best performing websites in the portfolio will continue, it is expected and assumed that the current performance can be maintained in the future and that even a slight growth can be expected.

For the future projection, the current amount of clicks is taken as a starting point for the analysis. This number has to be slightly modified since the advertisement modifications are not implemented on all websites yet. The modifications are already implemented on the top-performing websites. The contribution of these websites to the total amount of monthly clicks is roughly 75%. This means 25% of the current clicks can be increased by implementing the advertisement modifications for the average-performing websites. The number of clicks taken as a starting value for the model is calculated as follows: The total number of clicks in May 2013 totalled 17,800; 25% of these clicks are provided by the average-performing websites (4,450). Historical data shows that the click-through-ratio for an average site is about 20%. This means that the set of average-performing websites had a total of 22,250 (4,450/0.20) pageviews in May 2013. With the modifications of the advertisements a click-through-ratio of 26.44% can be realised, meaning the number of clicks which can be generated out of 22,250 pageviews increases to approximately 5,800. The total starting value of the number of clicks for the projection will therefore be: 75%*17,800 + 5,800 = 19,150. All the input-variables used, as well as the sources used to gather those values, are represented in Table 9.

Input-variable	Value	Source used to determine value
Total number of new websites in the current portfolio	120	Historical data Service 1 Search Engine Y-account
Total number of clicks on websites in current portfolio in the first month	19.150	Historical data Service 1 Search Engine Y-account & analysis of increase by modifications in advertisement-settings
Increase in monthly number of clicks	1.00%	Historical data Service 1 Search Engine Y-account & assumption based on business experience
Cost per click	€0.47	Historical data Service 1 Search Engine Y-account (May)
Domain costs per year per website	€9.10	PcExtreme.nl
Monthly number of new articles written for complete portfolio	80	Consultation with CEO
Workload for one article (in hours)	0.80	Consultation with CEO
Hourly wage writer	€10.00	Consultation with CEO, Randstad

Table 9: Input variables projection model current portfolio of Dutch websites

Table 9 shows the number of clicks is expected to increase with 1.00% each month. The revenue from these clicks is calculated by multiplication with the cost-per-click. The future costs for the current portfolio are based on the costs of writing 80 new articles per month. Since the number of websites does not increase over time, the costs for re-licensing the domain only occur in month 7 and month 19 of the scenario (January 2014 and January 2015). Because the costs for maintaining the current performance of the portfolio are low and the revenues are very high, the contribution of the current portfolio to the future revenue and profit is quite high, as is shown in Figure 18.

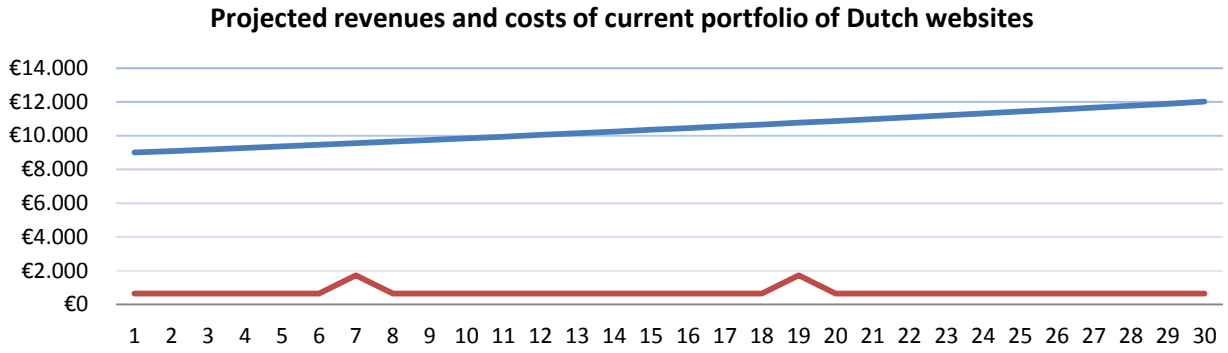

Figure 18: Projected revenues and costs of current portfolio of Dutch websites

4.2.4 Organic Growth - Conclusion

This chapter discussed the growth in revenue which can be generated through organic growth. The level of growth is based on projections made for each of the different organic growth options, and these projections are based on historical data and assumptions based on business experience and data gathered using information from third parties. The actual contribution in revenue of the organic growth options is visualised in Figure 19. As can be seen organic growth significantly contributes to the revenue target which was set for the end of 2015 by the owner of Firm X.

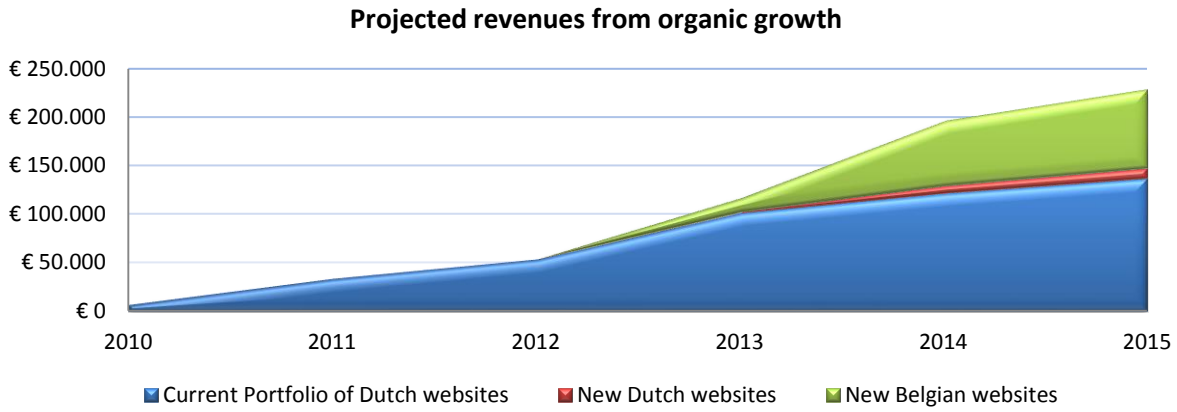

Figure 19: Projected revenues from organic growth until 2015

Since the organic growth cannot fully realise the revenue targets (€1,000,000 in 2015), other options to fill the gap have to be investigated. The investigation of these options will be described in the next two chapters. First the options of innovation, strategic alliances, and mergers & acquisitions are described. Second, the option of becoming a payday lender, vertical integration, is elaborated on.

4.3 Growth through internationalization, strategic alliances, and mergers & acquisitions

In this section, the strategic growth options (besides organic growth and vertical integration) which could possibly be implemented by Firm X are investigated. The options being investigated are internationalization (innovation), strategic alliances, and mergers & acquisitions. The aim is to consider the feasibility of the different options and to survey the key factors which have to be taken into account when using the strategies. The internationalization option covers the expansion of current activities to foreign markets. The data which was collected to determine the feasibility of each option was very specific for each option. There is however also made use of 'general data' which is used for each option. This is the data collected for the online consumer credit market. For this topic, data was collected about

the size of the potential market, the profile of customers, the companies (credit lenders) operating in the market, and the regulation. These items were, in the first place, investigated for the Dutch market, but are also being collected as much as possible for other countries. It has to be noted, however, that the information concerning other countries (but also the information for the Dutch market) will be mainly used in the benchmark scorecard in chapter 5, where vertical integration will be discussed.

4.3.1 Internationalization

As shown in the Ansoff matrix in the section 4.1.3, expansion of the current business activities to foreign markets is classified as market development. This means that new markets are targeted with the service currently exploited. One important note to make is that Belgium (as described in section 4.2.2.2.2) also represents a foreign market. Websites for the Belgian market are however not seen as fully-fledged internationalization, since especially the language and, in a lesser extent, the topics of the content are similar to the Dutch websites. This led to the choice to indicate the creation of new websites for the Belgian market as organic growth, while websites for other countries are referred to as internationalization and can also be linked to incremental innovation since minor changes are applied.

Since geographical expansion is not defined as a focal point in this research, the section describing the option will be based on one single business case. The option is included in the report because the earlier research performed by a student for Firm X indicated large growth potential in foreign markets. The methodologies used and conclusions derived in that research will be briefly discussed in the next paragraph. For the business case, the German market is chosen since the results indicated it to be the most interesting market for expansion. The major reason geographical expansion is mentioned in this thesis report and eventually used in the strategy roadmap for Firm X is to investigate if geographical expansion can contribute significantly to the future revenues of Firm X and if further research regarding this strategic option is necessary in the future.

4.3.1.1 Selection of foreign markets

As stated before, this part of the analysis of geographical expansion was performed by another internship student at Firm X, and this paragraph displays the results of that particular research. In order to classify a country as an interesting target for geographical expansion, several variables were investigated and ranked based on their strength or potential for each country. These variables are: the (current) cost-per-click for Service 1 Search Engine Y advertisements, the level of competition in the market segment, the already existing market for the online consumer credit segment, the costs of writing content for the websites, the growth potential of the market in the country, the business models used by websites already active in the market, and finally the size of the population as an indication for the total size of the market for online consumer credits.

The analyses indicated four countries as interesting expansion opportunities: Germany, the United States, the United Kingdom, and France. In choosing the most interesting country for the business case development, the collected data regarding the market in other countries was used. The two indicators which favoured Germany over the other three countries were that the number of competitors and the quality of the competitors offering websites similar to those of Firm X was not very impressive. Additionally, the number of payday lenders in Germany is very low, indicating that websites of Firm X do not have to compete with websites of the actual credit issuers. For comparison, in Germany, currently one payday lender is active, while in the United States 22,000 payday lenders can be identified (Bianchi, 2012), and in the United Kingdom about 240 payday lenders are operating (Office of Fair Trading, 2013a; Osborne, 2013). Germany was chosen over France because of the higher cost-per-click and the larger potential market size (Themen Portal, 2013). The business case performed for geographical expansion of current activities to Germany is elaborated on in the next paragraphs.

The regulation for Service 1 Search Engine Y-advertisement based websites does not provide any problems in all the four countries. For German websites in general, however, some differences are

found compared to Dutch websites. German internet users are more comfortable if a website provides some clear statements about the security of website visitor data (Datenschutz; protection of customer data) and statements that website owners are not responsible for information provided by third parties. An investigation of similar German websites shows that web-pages dedicated to these issues are set-up with clear information and references to media related laws (Bundesministeriums der justiz Deutschland, 2007). These pages also have to be generated for the German websites of Firm X.

4.3.1.2 Business case Germany – projection model variables

For creating the business case for Germany, both historical data about the performance of Dutch and Belgian websites, as well as assumptions are taken into account. These assumptions are based on data about the German market and chosen in consultation with the owner of Firm X. Furthermore the assumptions are based on business experience from the past.

The sample of websites used to gather historical data consists of 18 newly created websites (16 websites for the Dutch market, 2 websites for the Belgian market) which are closely related to the domains which can be acquired for the German market, and are also closely related to the topics which will be covered by the German websites. For the selected websites; the pageviews, the number of clicks on Service 1 Search Engine Y advertisements, the cost-per-click, and the revenues of the last 14 months are analysed. Since some websites only exist for a few months, only data for the first few months of operating could be included in the analysis. For the projection for the expansion to Germany, the historical number of pageviews and the historical click-through-ratio of the sample of websites were used as input variables. These historical numbers were taken as an indication, for the actual input variables earlier business experience and information about the internet market in Germany were also taken into account. For the number of pageviews it was chosen to analyse the historical pattern. An important number which was taken into account in projecting the pattern for Germany is the compounded monthly growth rate. The compounded monthly growth rate represents the month-on-month growth of a certain variable over a number of months (Farlex Financial Dictionary, 2012). The number of pageviews of the historical sample shows a quite typical pattern: a large increase from the first to the second month, a decrease until month 10, and an increase which stabilizes until the 14th month. Information about the German market however, shows that, on average, it takes longer for a website in Germany to receive a big boost in performance, therefore a small growth in the first six months, a moderate increase in months seven and eight, and a decrease after month eight for the number of pageviews is projected for the German market. The starting assumptions are displayed in Table 10.

Besides the variables based on historical data, there are input-variables which are based on data collected by consulting third parties and input-variables which are assumed in consultation with the owner of Firm X. The variables, together with its consulted sources, are presented in Table 10.

Input-variable	Starting value	Source used to determine value
Average number of pageviews in first month for new website	150.00	Historical data Service 1 Search Engine Y-account, prior business experience, and consultation with CEO Firm X
Average growth rate for new website in first six months	2.00%	Historical data Service 1 Search Engine Y-account, information about German market
Average growth rate for new website in months seven and eight	25.00%	Historical data Service 1 Search Engine Y-account, information about German market
Average growth rate for new website after month eight	-8.00%	Historical data Service 1 Search Engine Y-account, information about German market

Average click-through-ratio for new websites	22.00%	Projection organic growth options, historical data Service 1 Search Engine Y-account, information about German market
Number of new websites launched each month	8	Consultation with CEO Firm X
Cost-per-click Germany	€ 1.04	Service 4 Search Engine Y
Hourly wage German text-writer	€ 11.25	Randstad (employment agency)
Domain costs + extra fee for Germany (Domicile)	€ 16.94	PcExtreme.nl
Regulatory check for Germany (one-time only)	€ 1,000	Dexport.nl
Article check when hiring new employee (once per year)	€ 100	Consultation with CEO Firm X
Number of German text writers	2	Consultation with CEO Firm X
Weekly working hours	16	Consultation with CEO Firm X
Number of articles produced each week	20	Consultation with CEO Firm X

Table 10: Input-variables projection model business case Germany

Prior business experience shows that some websites are growing faster and are performing better than others. For the expansion to Germany it is also likely that some websites will show above average performance. Since, as stated before, it will take quite some time for websites to become visible in the German version of Search Engine Y, a slight growth is projected for a top-performing website in the first six months. Historical data for the Netherlands shows that top-performing websites are growing very fast for a time period of six months. For the German market, is it therefore projected that this steep growth occurs in the second six months of operation. After the first year, the top-performing websites will stabilize / grow at a very small rate. Based on company data, it is assumed that a top-performing website exists among twenty newly launched websites. The starting values of the input variables for the top-performing websites can be found in Table 11.

Input-variable	Starting value	Source used to determine value
Average number of pageviews in first month for new top-performing website	150.00	Historical data Service 1 Search Engine Y-account, prior business experience, and consultation with CEO Firm X
Average growth rate for new top-performing website in first six months	4.00%	Historical data Service 1 Search Engine Y-account, information about German market
Average growth rate for new top-performing website in second six months	65.00%	Historical data Service 1 Search Engine Y-account, information about German market
Average growth rate for new website after twelve months	1.00%	Historical data Service 1 Search Engine Y-account, information about German market
Average click-through-ratio for new websites	22.00%	Projection organic growth options, historical data Service 1 Search Engine Y-account, information about German market

Table 11: Input-variables top-performing websites projection model business case Germany

4.3.1.3 Business case Germany – scenarios

As stated in the paragraph above, the projection for the German market is (partly) based on historical company data. Since there is no certainty that the performance of the websites in Germany will be similar, it is important to take into account different scenarios. The variables which will be varied in the different scenarios are the initial number of pageviews, the projected average growth rates and the click-through-ratio. All the other variables will be the same in all scenarios, since they are can be accurately predicted and no insecurities in the values will appear.

Although the potential market size in Germany is much larger than in the Netherlands or Belgium, the online payday loan market is relatively new in Germany. Therefore the best case scenario chosen for Germany equals the starting values for the input-variables as given in Table 10. The variables mentioned above are decreased by 20% in the worse-case scenario and are decreased by 10% in the base-case scenario. These adaptations are determined in consult with the owner of Firm X. The scenarios are chosen to be rather negative on purpose. An article by Roxburgh (2003) shows that strategy-scenarios are often sketched too positive. Negative and a wide range of scenarios are considered a better approach (Roxburgh, 2003). Table 12 shows the modified values for each of the three scenarios.

Input-variable	Worse-case scenario	Base-case scenario	Best-case scenario
Average number of pageviews in first month for new website	120.00	135.00	150.00
Average growth rate for new website in first six months	1.60%	1.80%	2.00%
Average growth rate for new website in month seven and eight	20.00%	22.50%	25.00%
Average growth rate for new website after month eight	-9.60%	-8.80%	-8.00%
Average growth rate for new top-performing website in first six months	3.20%	3.60%	4.00%
Average growth rate for new top-performing website in second six months	52.00%	58.50%	65.00%
Average growth rate for new top-performing website after twelve months	0.80%	0.90%	1.00%
Average click-through-ratio for new websites	17.60%	19.80%	22.00%

Table 12: Values for input-variables in different scenarios

4.3.1.4 Business case Germany – projection

In order to develop a future roadmap for Firm X, forecasting the revenues up to and including 2015, the German business case is made for the next 29 months. This way the geographical expansion to the online consumer credit segment in Germany could start in August 2013.

The projection for the German business cases covers two important issues, the projected revenues and the projected costs which should be made in order to generate those revenues. The first step in projecting the revenues is to model the total number of pageviews which can be expected each month. The pageviews for each month are calculated using the starting value of the number of pageviews in the first month and use the growth rates assigned to the different time frames. The total number of pageviews includes the pageviews of all the websites which are in operation at that particular month. The second step in projecting the revenues is to add all the projected pageviews for all new websites operating in each month. Third, these total number of monthly pageviews should be multiplied by the 'average click-through-ratio for new websites', as displayed in Table 12. This results in the total number of clicks on Service 1 Search Engine Y advertisements each month. The final step in calculating the projected revenue is to multiply the total amount of monthly clicks by the cost-per-click (Table 10) determined for Germany. The revenues for each scenario as a function of time can be found in Figure 20.

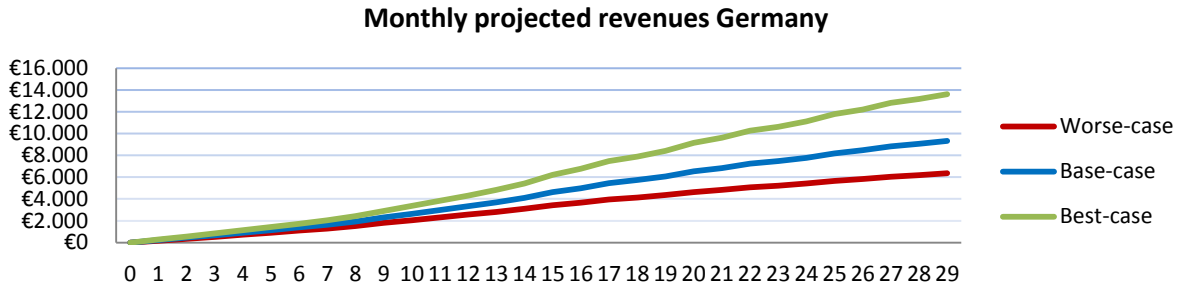

Figure 20: Monthly projected revenues business case Germany

As can be seen in Figure 20, the best-case scenario yields the highest revenues, while the worse-case scenario results in the lowest revenues. The monthly revenues generated by websites in Germany containing Service 1 Search Engine Y advertisements are in a range of € 6,400 to € 13,600 at the end of 2015.

Besides the revenues it is also important to take into account the costs which have to be made generate these revenues. The costs for the launch of eight websites each month include the costs of writing the content, and acquiring the domain and domicile. Since websites are launched every month, these costs will be constant each month and equal: (4 * 2 * 16 * €11.25) + (8 * €16.94) = €1,575.52. Since it takes about one month to build a set of eight websites, the first month were the costs of €1,575.52 occur are month zero. This is this case because the websites have to be live in the first month. After 12 months (and 24 months) the domains and domiciles for the websites created in month zero will have to be paid again, since they have to be paid for every year. The costs for month 12 till month 23 will therefore equal €2,111.44 + (8 * €16.94) = €1,711.04; and for month 24 till month 29 the costs will equal €1,711.04 + (8 * €16.94) = €1,846.56. Other costs which also have to be paid in month zero are the costs for the control of the German regulation. This is a one-time payment of €1,000. The costs for checking the articles when hiring a new employee are estimate to equal €100. On average, one new text writer is hired each year. The costs per month are equal for all the scenarios. When these costs are subtracted from the revenues, the monthly profit for the geographical expansion to Germany can be determined; this profit can be found in Figure 21.

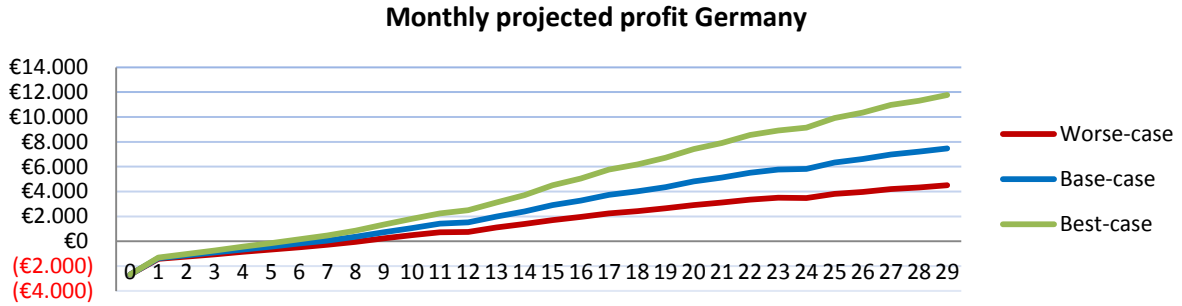

Figure 21: Monthly projected profits business case Germany

As can be seen in Figure 21, each scenario will be profitable fairly quick: the worse-case after 7 months, the base-case after 5 months and the best-case after 4 months. The monthly profit at the end of 2015 ranges from €4,500 in the worse-case scenario to €11,800 in the best-case scenario.

4.3.1.5 Internationalization – conclusion

As the previous sections indicate, there are many possible target countries which are interesting options for geographical expansion. The business case for Germany actually shows that the revenues can be increased on short notice when expanding the current business model to Germany. Profitability

of the expansion is also projected to be a realistic prospect. Only if the worse-case scenario would become reality it might take a long time before the expansion strategy for Germany becomes profitable.

The business case for Germany shows that geographical expansion can indeed increase both revenue and profits for Firm X, for future research it is therefore very interesting to create similar business cases for other countries. Another interesting future research direction is to investigate if affiliate-campaigns are available in those countries and how the performance of such campaigns would be compared to the option of Service 1 Search Engine Y advertisements.

Currently the process of expanding business to Germany is started by Firm X, since the results from the business case projected performance results which triggered the strategic option to be implemented. The websites which will be launched in the first months can be analysed shortly after their implementation since the results of Service 1 Search Engine Y advertisements will be visible quite soon. It is of key importance to monitor the performance closely and to see if the performance is in line with the projections made in the business case. If the performance is off the projection made, then the projection should be modified in order to get a better view on future revenues and profits which can be expected in the German market segment.

4.3.2 Strategic Alliances

In section 4.1 it was mentioned that part of its revenues are generated through affiliate marketing campaigns and the other part of the revenues are generated by earning a cost-per-click for the Service 1 Search Engine Y advertisements displayed on its websites.

The affiliate payments are based on the number of successful leads generated by a website exploited by Firm X. A lead can be considered as successful if an online consumer credit lender actually provides a loan to a consumer. The revenue-analysis of the complete portfolio of Firm X, however, shows a significant drop in the affiliate earnings. Two major reasons for this decrease can be indicated. The first reason could be found in the stricter regulation implemented by the AFM (Dutch financial authority) and the Dutch Finance Ministry. This new regulation led to a decrease in online consumer credit lenders and consecutive a decrease in affiliate programs available. The second reason is that historical data shows that the percentage of rejected applications rose, meaning more applications are needed to get the same amount of approved loans.

Since these affiliate relationships are in fact strategic alliances, and strategic alliances are theoretically seen as a well-functioning business strategy, it has to be considered as a serious option for Firm X and a thorough analysis of potential revenue increase has to be performed.

In the analysis of the affiliate program option, it is important to consider a few key factors. First, the availability of affiliate programs is important. If affiliate programs are not or only limited available, it is less likely that this strategic option will contribute to the total revenue of Firm X. Second the regulation regarding online consumer credit and affiliate-marketing activities is important. In addition to these laws implemented by the Dutch government, the policy used by Search Engine Y to use their services should be consulted. This is important since Search Engine Y is by far the most commonly used search engine and therefore has a large impact on the business model of Firm X, which already was obtained in the value chain. Finally the revenue potential of an affiliate campaign should be determined. The next sections elaborate on these three key factors and the feasibility of strategic alliances will be assessed.

Besides the affiliate companies as possible partners in strategic alliances, Search Engine Y is the other big business partner as an advertisement-network, as already visualised in the value chain of Firm X. The option of using the Service 1 Search Engine Y advertisement-network for all the websites in the portfolio will be discussed after the affiliate-program option is elaborated on. The analysis of the Service 1 Search Engine Y option contains several key factors. First and foremost the general Search Engine Y Policy and the Service 1 Search Engine Y Policy are of major importance since Search Engine Y serves

both as a supplier and a customer in this strategic option. The second important aspect is also related to Search Engine Y, namely the optimization of the websites according to the Search Engine Y Algorithm. Quite a lot of information regarding this topic was provided in section 4.1.2.2, and will be referred to in this section. Finally, the revenue potential of the Service 1 Search Engine Y advertisements for the websites should be determined. The strategic option of Service 1 Search Engine Y advertisements will be discussed in the next paragraphs, but first the affiliate-program option is elaborated on.

4.3.2.1 Strategic Alliances – affiliate campaigns and regulation

Chapter 4.1 already showed that the revenues generated through strategic alliances in the form of affiliate campaigns dropped significantly at the end of 2012 and in the beginning of 2013. From March 2013 on, the situation regarding affiliate revenues got even worse because all the affiliate campaigns were cancelled because of legal issues. Up to this moment Firm X had done business with three different partners, Dutch Lender 2, Dutch Lender 8 and Dutch Lender 3. The first two partners terminated their affiliate campaigns around November 2012 and Dutch Lender 3 was forced to shut down at the end of March 2013. For Firm X this meant that the affiliate-campaigns on its websites did not generate revenue any more, hence these campaigns were replaced with Service 1 Search Engine Y advertorials, just like is the case on new websites added to the portfolio, as described in chapter outlining organic growth opportunities. The companies decided or were forced to shut down their activities because of stricter regulation by the AFM and the Dutch Ministry of Finance (AFM, 2011). Especially the legal maximum interest rate for online consumer loans led to difficulties for the lenders. They were not able or willing to change their interest rates and were therefore not able to issue credits any more. After all, interest earned on loans represents the revenue of the online credit lender. If this revenue decreases while the costs stay the same, the profit of the company can decrease or even become a loss and will force the firm to shut down activities. This obviously also meant that the affiliate campaigns were terminated.

At the end of May 2013, Affiliate Network X, the affiliate-network with whom Firm X cooperates, announced a new affiliate campaign by EU Lender 1. EU Lender 1 is Europe's market leader in the segment of small online consumer credits (Ferratum Group, 2013). Viewing the portfolio of Firm X, actually two campaigns might be interesting for Firm X. Since Firm X exploits both Dutch and Belgian websites, the EU Lender 1.nl and EU Lender 1.be campaign can contribute to a growth in the total revenue for Firm X. In order to assess the feasibility of this strategy, the possible revenues which can be generated using these campaigns have to be determined. This analysis will be discussed in section 4.3.2.2. Besides the EU Lender 1 campaign, no other affiliate programs are available. Dutch Lender 2 and Dutch Lender 8 state on their websites that they also offer affiliate campaigns, but after approaching these companies, they stated that they would shut down their business on short term notice and that the affiliate-campaigns are not available anymore.

The regulation was already briefly discussed above. This regulation is, however, not static and the AFM announced even more strict regulation and close supervision of the lenders operating in the online consumer credit market (AFM, 2013b). This means that there is no certainty in the availability of these affiliate campaigns for the future. Besides the 'legal' regulation it is also important to consider the Search Engine Y policy regarding structure and use of websites, since, as seen in the value chain, Search Engine Y is a key firm for Firm X. The only relevant issue of the Search Engine Y policy for the affiliate campaigns is that the website visitor can separate the affiliate-advertorials from the Service 1 Search Engine Y advertorials (Google, 2013a). This requirement can easily be met by ensuring that a separate web-page is created whereon just the affiliate-advertorials are displayed and no single Service 1 Search Engine Y advertisement is displayed. Considering the affiliate programs there is one last type of regulation which is important, and that is the Dutch cookie regulation. In June 2012 a new section regarding the treatment of cookies was incorporated in the Dutch Telecommunication law (DDMA, 2012). A cookie is defined as a set of small files which are stacked on a computer and can be viewed by

the browser when an end user opens an internet webpage (DDMA, 2012), and these cookies contain limited information about the end user. Before June 2012 these cookies were collected without asking the end user for permission; the new section in the Telecommunication law mandates websites to ask end users if they accept the fact that their cookies are collected. The problem of this cookie-law for websites generating revenues through affiliate marketing is that Affiliate Network X, the affiliate-network partner of Firm X, allocates the lead-payment to the website which provided the lead based on the cookies attached to the lead. If cookies are not automatically attached to the generated lead, problems in the allocation of lead-payments may arise. This problem was also referred to by internet experts and affiliate marketing experts and therefore the law was adapted in May 2013 (Ministerie van Economische Zaken, 2013). Affiliate-cookies will now again automatically be created and the correct payment for leads is now ensured again.

Now that the key characteristics and issues to take into account for affiliate campaigns are outlined, the total revenue potential for Firm X can be determined.

4.3.2.2 Strategic Alliances – revenues from affiliate campaigns

As mentioned in the previously, it is necessary to display the affiliate campaign advertorials on a separate web-page in order to meet the requirement specified in the Search Engine Y Policy. For the biggest four (Dutch) websites in the portfolio this separate page is already available since these websites have been generating leads for affiliate partners in the past. The complete Dutch portfolio, however, contains about 50 websites, so for these websites the new page has to be created. These pages do not exist for the four Belgian websites in the portfolio. In order to analyse and project the revenues for the complete portfolio properly, an assumption regarding the visitors for such a page, if existed, has to be made. This assumption is based on historical data for the separate page available through the data for the four biggest Dutch websites in the complete portfolio: Firm X website 1, Firm X website 2, Firm X website 3, and Firm X website 4. Before starting with the actual projections for the revenue contribution in both markets, the structure of the affiliate-model and to route towards payment is shown. This affiliate model is displayed in Figure 22, while the explanation of the arrows leading to a new step in the process is provided in Table 13.

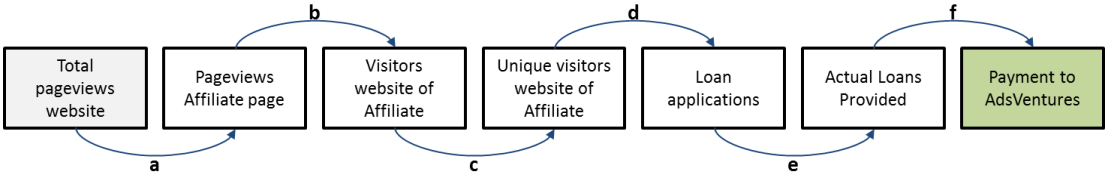

Figure 22: Affiliate Model for Firm X

Arrow	Description	Value	Data-source Netherlands	Data-source Belgium
a	Percentage of total pageviews which convert to pageviews for Affiliate page	34%	Service 1 Search Engine Y-account Firm X (historical data top four Dutch websites)	Historical percentage for the Dutch websites
b	Click-Through-Ratio to website of Affiliate company	20%	Affiliate Network X-account Firm X (historical data)	Historical percentage for the Dutch websites
c	Percentage unique visitors	85%	Affiliate Network X-account Firm X (historical data)	Historical percentage for the Dutch websites
d	Percentage of visitors which applies for a loan	5%	Affiliate Network X-account Firm X (historical data)	Historical percentage for the Dutch websites
e	Percentage of loans which is approved	45%	Affiliate Network X-account Firm X (historical data)	Historical percentage for the Dutch websites
f	Payment for each approved loan (in €)	NL: €14.00 BE: €10.50	Affiliate Network X contact person Firm X	Affiliate Network X contact person Firm X

Table 13: Description of the arrows in the Affiliate Model for Firm X

The process in Figure 22 contains a lot of steps, which means that there is a lot of uncertainty in the final predictions made for this strategic option; a slight change in one of the percentages may cause a significant change in the final outcome. However, since the percentages are based on historical data gathered in the Affiliate Network X-, and Service 1 Search Engine Y-accounts of Firm X, it can be stated that the assumptions are pretty accurate. The starting number for the model, the total pageviews of the websites, is based on the historical values of May 2013, gathered from the Service 1 Search Engine Y-data available for Firm X' portfolio. The estimated affiliate payments for Firm X for both the Dutch and Belgian websites are inserted in the affiliate model, as displayed in Figure 22, and the results are depicted in Figure 23.

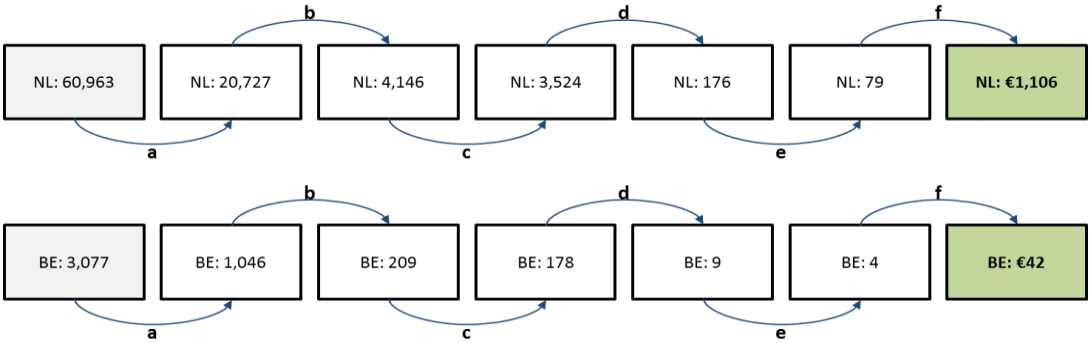

Figure 23: Estimated monthly Affiliate payments for Firm X

The total monthly revenue generated through the option of strategic alliances via an affiliate program is €1,106 for the Dutch websites and €42 for the Belgian websites, which lead to a total revenue contribution of €1,148. An important note which should be made to this revenue contribution is that it only represents the revenue generated through the separate pages whereon the affiliate advertorials are displayed. All the other pages on the websites (the pages where the content and articles are displayed) contain Service 1 Search Engine Y advertisements and these pages will also significantly contribute to the revenue for a website.

4.3.2.3 Strategic Alliances – Service 1 Search Engine Y and regulation

As argued before, the relationship with Search Engine Y is special. Since Search Engine Y serves as a supplier and a customer for Firm X, it is important to consider guidelines and policies for both roles Search Engine Y plays.

Starting with the supplier side; the higher the websites in the portfolio of Firm X are displayed in the search results by Search Engine Y, the more visitors a website will generate. As outlined before, the position in the search results and the value Search Engine Y assigns to a website depends on several issues. The strategy used to meet these issues is Search Engine Optimization (SEO). Aspects that are considered as important for the SEO of a website are thoroughly discussed by internet experts and even Search Engine Y developed a starters guide with SEO tools and tips for website developers. The advice internet experts provide was already discussed in the strategy chapter of this thesis, but the most important findings are that content is the most important feature of a website and will have the biggest impact on the SEO. Website content can be seen as quality content when: content is original, contents contains data and in-depth reports, content provides decent analyses and insights; websites are regarded high quality-websites when they contain at least 30 pages of well-organized core content, which is updated on a regular basis; the use of link-building activities is still acceptable, the links have, however, to be of high quality and should lead to or led from high-quality websites (Sawyer, 2011; Scott, 2011; McDougall, 2012; Sweeney, 2012). In addition to website content and its important characteristics, the Search Engine Y SEO starters guide provides some extra interesting issues: improvement of URL structure, easy navigation of the website, optimize the use of images, and ensure

website is applicable for use in mobile devices (Google, 2013b). If Firm X manages to fulfil these requirements as good as possible, the probability that their websites will be displayed higher in the search results, increases.

When Search Engine Y is viewed in the role of the customer, the Service 1 Search Engine Y policy (Google, 2013a), provides the most important regulation for Firm X. In the Service 1 Search Engine Y policy it is stated that: each web-page may at most contain three Service 1 Search Engine Y advertisements, links to other websites or partners should have a significantly different appearance in order to prevent confusion, incentivise visitors to click on Service 1 Search Engine Y advertisements is forbidden, and only the standard advertisement formats as pre-set by Search Engine Y may be used. These are not all regulations stated in the Service 1 Search Engine Y policy, but the most important ones for Firm X. The websites in the current portfolio are all designed in compliance with the Service 1 Search Engine Y policy, so if this policy does not change dramatically, there should be no difficulties for Firm X.

In order to be able to make a good comparison between the Service 1 Search Engine Y strategy and the Affiliate-program strategy, an important distinction in the analysis for the Service 1 Search Engine Y scenario has to be made. As stated in the section where the affiliate-program option was discussed, the advertorials of affiliate partners will only be displayed on a separate page on the websites, while all the other (article)-pages will contain Service 1 Search Engine Y advertisements. The analysis for the Service 1 Search Engine Y revenues will therefore contain of two revenue streams. One stream represents the Service 1 Search Engine Y revenues for the advertisements on the (article)-pages on the website, and will thus not be included in the comparison between the two strategic alliances options. The other stream of revenues, the revenues generated by Service 1 Search Engine Y advertisements on the separate web-page, will be compared with the affiliate-program revenues.

4.3.2.4 Strategic Alliances – revenues from Service 1 Search Engine Y

Before the actual calculation, it first has to be determined how the revenue stream for the separate page will be projected. Since the only data available in the Service 1 Search Engine Y-account of Firm X for separate pages comes from the top four Dutch websites, these will be used to determine the projections for all the websites in the portfolio. For the websites Firm X website 1, Firm X website 2, Firm X website 3, and Firm X website 4, the actual revenues for the separate page of the month May 2013 can be retrieved. This is the case since Service 1 Search Engine Y advertisements are being displayed on these pages from the moment when there were no affiliate-campaigns available anymore (in March 2013). The revenues generated by the advertisements on the separate page are divided by the total revenues generated by a website in order to determine the per cent contribution of the separate page to the total revenues. Since the total Service 1 Search Engine Y revenues for all the other websites is available in the Firm X' Service 1 Search Engine Y account, the revenues that could be generated by the separate page can be calculated using the revenue-percentage determined earlier.

The total revenue of the four biggest Dutch websites in May 2013 equalled €4,097.58, while the total revenue generated by the separate web-page equalled €2,146.01. This means that 52% of the total revenue for a website can be allocated to the separate web-page. This 52% is used to calculate the revenue which can be generated for the other websites in the portfolio, given the fact that they would have such a separate-page. The total revenue generated by the Dutch websites in the portfolio (the four biggest websites included) equalled €6,458.51; which leads to a projected revenue for the separate page of €3,382.48. For the Belgian websites the total revenue generated in May 2013 equalled €534.47; which leads to a projected revenue for the separate page of €279.92. The total revenue contribution of Service 1 Search Engine Y advertisements on the separate-page of the websites would therefore be €3,662.40.

One important note to be made for the Service 1 Search Engine Y advertisements is that the revenue which can be generated from them is highly dependent on the cost per click handled by Search

Engine Y. This was already mentioned and explained in the chapter where the strategy of Firm X was set out. The cost per click used to calculate the revenues in this scenario is the cost per click of May 2013, this value is chosen because it represents the most recent number available and is therefore the most accurate value to calculate the projected revenue of the strategic option of Service 1 Search Engine Y advertisements.

4.3.2.5 Strategic Alliances – conclusions

This section showed two different options regarding strategic alliances. One partner which will always be involved is Search Engine Y. Search Engine Y always serves as a supplier for leading customers to the websites of Firm X, whether these customers visit the pages with Service 1 Search Engine Y advertisements or the web-pages containing affiliate program advertorials. Additionally Search Engine Y also always is involved as a customer since all the websites of Firm X contain Service 1 Search Engine Y advertisements. The only difference between the two strategic options distinguished as strategic alliances, is whether the extra website-page contains an affiliate campaign advertorial or Service 1 Search Engine Y advertisements. In case of Service 1 Search Engine Y, Firm X is fully dependent on Search Engine Y, whether by using affiliate campaign advertorials the dependence is a bit more diversified.

When considering the total revenue potential of an option it can be stated that two constructions are possible: the first one includes Service 1 Search Engine Y advertisements on the (article)-pages of the website and an affiliate-campaign advertorial on the separate page, while the second construction has Service 1 Search Engine Y advertisements all the pages of the website. The total revenues sum up to: €4,478.58 for the first construction, and sum up to: €6,992.98 for the second construction, meaning the revenue potential of the second construction is a lot higher.

4.3.2.6 Strategic alliances – link with literature

The alliances described in this section can be seen as value increasing mechanisms for both parties involved. Firm X uses the big network of Search Engine Y and the large span of control Search Engine Y has as a search engine to get as much visitors on its websites as possible. Search Engine Y on the other hand takes advantage of the internet users which visit the websites, built and maintained by Firm X, and click on the Service 1 Search Engine Y advertisements. Firm X receives a share of the revenues generated by Service 1 Search Engine Y advertisements, but the majority of the revenues are for Search Engine Y. This means Firm X and Search Engine Y have an inter-firm arrangement, share their products and services, and both profit from the arrangement. These indicators are in line with the definitions of strategic alliances provided in chapter 2. When Firm X cooperates with an online consumer credit lender through an affiliate program via Affiliate Network X, almost the same analogy as for the Search Engine Y relationship holds. Firm X uses the network and reach Affiliate Network X has as the number one affiliate network in the Netherlands, while Affiliate Network X enjoys the bests of the leads generated by the websites developed and maintained by Firm X. When a direct affiliate campaign with a lender of online consumer credit would be decided on then the lender would benefit from the leads generated through the websites of Firm X and Firm X would benefit from the fact that the lender offers certain services to their customers.

The alliances described above can best be classified as long-term contracts, since besides the contractual agreement, no further connections between the firms are present (Jones, 2007). The motivations for an alliance can be mainly found in the resource-based view (Das & Teng, 2000). For the partners a contractual agreement with Firm X is more effective since they do not have the capabilities, skills and experience of building websites with relevant content, which Firm X has. Firm X, on the other hand, does not have the resources to create a large network and a big span of control amongst the internet-users by themselves.

In the partner-selection, the choice for Search Engine Y is very obvious and not very questionable, since Search Engine Y is, with a market share of 93%, by far the most used search engine in the Netherlands (NowNederland, 2013). Therefore selecting Search Engine Y as a business partner was not really based on selection criteria. When selecting possible partners for affiliate campaigns on the other hand, some elements described in the alliance formation process, developed by Duysters et al. (2003), are useful. The organizational strategy of Firm X plays an important role in recognizing the need for other strategic options besides organic growth. In selecting the partner it is furthermore important that there is a fit between the product offered in the affiliate campaign and the content available on the websites. It is for example not interesting to place affiliate advertorials of non-content related products. As seen in the previous paragraph the financial benefits of the affiliate campaign also have to be compared to the revenues from Service 1 Search Engine Y advertisements. The analysis in section 4.3.2 resulted in an alliance with Search Engine Y for both the supplier and customer side in favour of the alliance with Search Engine Y on the supplier side and a combination of Search Engine Y and Affiliate Network X on the customer side.

4.3.3 Mergers & Acquisitions

For the option of an acquisition, the list of the websites of competitors, as presented in the chapter about the strategy of Firm X is used as a starting point. The list of competitors is chosen because these companies are conducting their business in the same segment as Firm X, the small online consumer credit market, and can therefore lead to an increase in market share for Firm X if they can be acquired. In order to qualify as an interesting acquisition target, a website has to meet several requirements, which will be elaborated on in the next paragraph. The second paragraph deals with the actual determination of the feasibility of acquiring one or several websites of competitors. The final paragraph concludes the section about mergers & acquisitions.

4.3.3.1 Mergers & Acquisitions – target requirements

When investigating if a website of a competitor is an interesting acquisition target, several aspects are important. First, the domain name has to be relevant or matching the topics of the content which will be written for the website. If the domain name matches topics covered in the content, it means that the domain name presumably will also match quite a lot of search queries used in Search Engine Y. Research shows that domain names containing exact search queries are likely to appear high in the search results (Google, 2013b), and thus increase the chances that the acquired website can generate pageviews and consecutively contribute to the revenues. Another important check for the domain names is the amount of search traffic for the exact keywords used in the domain. Using the Service 4 Search Engine Y, the monthly search-actions for keywords can be retrieved. The more frequent a certain set of key-words is searched for, the more interesting the domain is.

Secondly it is important to have a thorough understanding of past SEO strategies and especially backlinking techniques used by the owners of a website. As seen in the chapter describing Firm X' strategy, Search Engine Y uses an algorithm to assess the quality of a website and this quality label is also based on the SEO techniques used, and on the backlinks and backlinking techniques which are used. SEO techniques not related to high quality content, high quality social media references, and high quality ingoing and outgoing links are seen as bad and will harm the positioning of a website in the Search Engine Y search results (McDougall, 2012; Sawyer, 2011; Scott, 2011; Sweeney, 2012). This means a suitable acquisition target has a proper SEO / backlinking history, or has not used such techniques at all, so that it is completely modifiable to integrate the current techniques used by Firm X. The first two criteria show that applicable acquisition targets for Firm X have to be reasonable similar to the strategic core of Firm X, this is a bit contradicting to findings in the literature review regarding M&As, but since the key competitor strategy is differentiation focus, it is not advisable to acquire firms which are (far) off the strategic core of Firm X, as argued by Cloodt et al. (2006). The idea of acquisitions

in the Firm X case is not so much knowledge acquisition, but more the increase of the total online platform whereon the current strategy can be applied in order to boost the current market shares and revenues, as stated by Healy et al. (1992).

The third criterion is the growth potential of an acquisition target. This depends both on the strategic fit within the current portfolio, as described in the first two criteria, and on the cannibalization threats. The cannibalization threats represent the threat that the performance of websites in the current portfolio may be harmed because of the acquisition of a new websites. This cannibalization occurs most often if the domain names of two websites are almost identical, meaning the extra revenue generated through the acquisition may partially disappear because of the drop in revenue of a website in the current portfolio. These negative side-effects have to be accounted for in the acquisition decision.

Where the first three aspects can be fully assessed without consulting the website owners, things are different when the website visitors and its belonging revenues are taken into account. Since the websites are privately owned entities, no public information about the performance is available. Therefore the owners of the websites will have to be contacted to acquire the information for this fourth criterion. Sometimes it is however possible to retrieve this information using an online platform where both buyers and sellers of websites can meet and start-off the negotiation phase.

After the information of the fourth criterion is retrieved the offer price for the website can be determined. This offer price is almost always calculated based on a multiple of one month's revenue. The multiples can range from 6x to 48x depending on the potential of the website from the buyer's point of view. Sometimes the acquisition-price is already given when information regarding the fourth criterion is provided. In this case the buyer has to consider the price given by the seller and possible negotiations can take place.

4.3.3.2 Mergers & Acquisitions – target selection

When all the information described in the preceding paragraph is available, it should be thoroughly considered if the extra revenue which can be obtained by acquiring a website of a competitor cannot be generated if Firm X would launch a new website itself. This way there is no acquisition fee which has to be paid and there are certainly no presence of harmful backlinks and bad SEO strategies. The downside of creating a new website compared to acquiring an existing one is that an acquisition candidate is already assessed by Search Engine Y and given a certain rank which may lead to instant revenues since the website already ranks high in the search results, while for a new website this process approximately takes two weeks. Another reason for acquiring a competitor's website is the unique or valuable domain-name of the website. Viewing the creation of new websites, there is a lot of data available within Firm X which makes it possible to make a good comparison between the acquisition strategy and the organic growth strategy. Information regarding the creation of new websites was provided in the chapter describing organic growth opportunities.

Following the four criteria above, several potential acquisition targets can be found. An overview of these targets is given in Table 14. The classification used for ranking the websites is identical to the classification used in the competitor analysis displayed in Appendix C. The variables left out of the analysis are the 'amount of content' and 'most recent content', since these can easily be adapted when the website is acquired. 'Content relevance', however, is included in the analysis since non-relevant content is part of the SEO strategy of a website and may be harmful in the future. The 'type of website' is also left out, because the websites of credit lenders are no acquisition targets for Firm X. The variables still included are related to pageranks and backlink-profiles, which are important in assessing the qualification as an acquisition target. In contrast to the analysis in the strategy chapter, where the variables were only classified on a five point scale, this time the real number for each variable will be given in addition, since those provide more insight for each website. In Table 14, (A) refers to the pagerank of a website, (C) refers to the number of backlinks of a website, (D) refers to the number of

unique rooted domains, (E) refers to the pagerank of the backlinks and (F) refers to the relevance of the content. The numbers in brackets represent the original data.

Competitor	(A)	(C)	(D)	(E)	(F)	Total
Competitor Firm X 1	4 (3)	1 (7)	5 (85.71%)	4 (2.3)	3 (3)	3,4
Competitor Firm X 2	3 (2)	4 (603)	1 (4.64%)	3 (1.9)	3 (3)	2,8
Competitor Firm X 3	2 (1)	1 (68)	2 (23.53%)	4 (2.0)	4 (4)	2,6
Competitor Firm X 4	2 (1)	5 (1155)	1 (2.51%)	3 (1.5)	2 (2)	2,6
Competitor Firm X 5	2 (1)	1 (143)	2 (38.96%)	3 (1.0)	4 (4)	2,4
Competitor Firm X 6	4 (3)	1 (59)	1 (11.86%)	3 (1.8)	2 (2)	2,2
Competitor Firm X 7	3 (2)	2 (375)	2 (33.87%)	2 (0.5)	2 (2)	2,2
Competitor Firm X 8	1 (0)	1 (41)	2 (34.15%)	4 (2.4)	2 (2)	2,0
Competitor Firm X 9	2 (1)	3 (407)	1 (4.67%)	2 (0.8)	2 (2)	2,0
Competitor Firm X 10	1 (0)	1 (23)	1 (13.04%)	2 (0.1)	4 (4)	1,8
Competitor Firm X 11	2 (1)	1 (82)	2 (25.61%)	2 (0.2)	2 (2)	1,8
Competitor Firm X 12	1 (0)	1 (2)	5 (100.00%)	1 (0.0)	1 (1)	1,8
Competitor Firm X 13	1 (0)	1 (71)	1 (2.82%)	1 (0.0)	4 (4)	1,6
Competitor Firm X 14	1 (0)	1 (38)	1 (18.42%)	2 (0.4)	2 (2)	1,4
Competitor Firm X 15	1 (0)	1 (0)	1 (0.00%)	1 (0.0)	1 (1)	1

Table 14: List of potential acquisition targets

As can be seen in Table 14, the first criterion reduced the original list (see chapter about strategy) of competitors to a total of 15 potential acquisition targets. The domain names of the selected websites all represent the topics of the content which is provided on websites by Firm X.

The next step in the process of acquisition target selection is to get further inside into the history of the backlinks and into the SEO strategy of a website. Starting with the backlinks, two variables are important, the total number of backlinks and the percentage of unique rooted domains. As stated in the strategy chapter, a high percentage of unique rooted domains is seen as a positive sign, even if the number of backlinks is very high. This leads to the assumption that a high count of backlinks combined with a low percentage of unique rooted domains is a bad characteristic for a website. Based on this combination of characteristics, the websites Competitor Firm X 2, Competitor Firm X 4, Competitor Firm X 9, and Competitor Firm X 13 are eliminated from the sample. When looking at the SEO strategy of the firm, the relevance of the website content is the most important variable. The websites with a content relevance-value of two or lower will be deleted as possible targets. This elimination leaves the following domains as possible targets: Competitor Firm X 1, Competitor Firm X 3, Competitor Firm X 5, and Competitor Firm X 10. Before proceeding to the next step, the website Competitor Firm X 5 is also removed from the sample since prior business experience shows that .eu domains do usually not rank high in Search Engine Y and therefore do not lead to pageviews and consecutive revenue. This brings the sample back to three possible acquisition targets: Competitor Firm X 1, Competitor Firm X 3, and Competitor Firm X 10. One final test to see if the domain names are interesting is to check the keyword combination in the Service 4 Search Engine Y. The results from the Service 4 Search Engine Y show that 'direct geld' has 210 monthly search requests, 'vandaag geld lenen' has 73 monthly search requests, and 'snel geld lenen zonder bkr' has 720 monthly search requests. For a domain to be interesting, the usual cut-off point is around 200-300 search requests each month. This means that the websites Competitor Firm X 1 and Competitor Firm X 3 remain the only two suitable acquisition targets.

Taking the cannibalization threats, the third criterion, into account, it can be stated that the number of websites in the current portfolio containing the keywords 'lenen zonder bkr' is already quite high. The website Competitor Firm X 3 is highly likely to cannibalize the other websites and since the premium to acquire the website is (presumably) higher than the net increase in revenue, as will be shown later on. The website Competitor Firm X 3 is therefore no longer an appropriate target. The same analogy holds for the website Competitor Firm X 1.

The high premium to acquire a website can best be illustrated with an example. The Dutch website www.sitedeals.nl is an online marketplace where sellers and buyers of domains and websites meet. This platform contains information about some of the websites originally included in the acquisition target sample. The average price which is asked / or paid for a website is around 20 to 30 times the monthly revenue. This means the payback time of such an investment is relatively large, meaning a high risk is incorporated in the investment, especially for a fast moving business like the internet business. After discussing this analysis with the owner of Firm X, it was concluded that acquisition of other websites is not a good option at this moment, and this strategy will not contribute to an increase of the revenues. This decision was also based on experiences of prior acquisitions in the past. Some of those did not pay off as expected and the performance of the acquired websites decreased significantly over time. This decision also means that the fourth criterion, consulting the owners of websites, will not be done since there are no appropriate acquisition targets left after the first three criteria.

4.3.3.3 Mergers & Acquisitions – conclusion

As can be seen in section 4.3.3.2, the selection criteria set in section 4.3.3.1, led to the fact that no appropriate acquisition targets could be selected. Even if some appropriate targets could be selected it is highly questionable if it acquisition would be a good strategy. This is mainly caused by the relatively high price paid in such an acquisition and subsequently the large investment payback period. This makes acquisitions of websites unfavourable for Firm X, at least at this moment.

4.3.4 Feasibility of strategic options

In this chapter the strategic options of internationalization, strategic alliances and mergers & acquisitions were discussed. The individual sections dedicated for each separate option explained the characteristics of a certain option in the context of Firm X, showed which steps have to be taken into account when determining the choice for an option and finally provided an indication of the contribution to the company's revenue. For the options of internationalization and acquisitions also an indication of the costs was provided. The costs made by Firm X in a strategic alliance were already discussed in the cost structure which can be found in Appendix B.

This chapter shows that, in essence, all the options described are feasible, but as indicated, not all options are likely to contribute equally to the total revenue, and therefore some options will be more favourable than others. In chapter 5, the best options for Firm X will be determined.

When considering the most key factors to take into account when analysing the different options, it is important to constantly keep the current competitor strategy and the core competences of Firm X in mind. The core competence of Firm X is the provision of high-quality and high-relevant content on its websites and the competitor strategy is differentiation focus. These characteristics of the current strategy indicate that market potential, level of competition, cost-per-click or earnings per lead are key factors in selecting countries for geographical expansion. For strategic alliances the fit of products offered by possible partners with the content provided on Firm X' websites, the earnings per lead, and the future perspective of possible partners, especially related to regulatory issues, can be seen as the key factors in analysing strategic alliances. In selecting targets for acquisition, the domain name and SEO and backlinking techniques used by the acquisition target have to be in line with the current portfolio of Firm X. On the other and it is important to indicate the threat of cannibalization and to ensure that the fee paid in an acquisition is not too high. These items represent key factors in determining the option of acquisition. Only if the key factors summarized in this paragraph, and described in more detail in the sections above, provide favourable conditions for Firm X, then a strategic option can be seen as interesting.

4.4 Growth through vertical integration

In this section the strategic option of vertical integration and its feasibility will be discussed. As an introduction the chapter starts with a brief description of what is meant by vertical integration in the business context of Firm X. Additionally the reason why this strategy is interesting for Firm X will be elaborated on. Section 4.4.2 is dedicated to the Dutch payday market and the online consumer credit issuers which are, or have been active in the market. The aim of this section is to describe the situation regarding payday lending in the Netherlands. A similar approach is followed in section 4.4.3, but now foreign markets and their online consumer credit issuers are taken into account. Aspects which are discussed in section two and three include the market structure, payday loan characteristics, regulation in the market, and the lenders active in the market.

The lenders which are active in the markets described in the section 4.4.2 and 4.4.3 will be used in the section 4.4.4, where the benchmark will be created. In this benchmark four main steps can be distinguished. The first step is to select firms to include in the benchmark. Secondly, data for these firms for several variables will be collected or determined. The third step is to analyse the data of the selected firms. The final step of section four is to use the previous steps of the section and define the average values for the selected variables, these averages will be used as the main benchmark to see if vertical integration is a realistic option for Firm X.

In section 4.4.5 the situation if Firm X would engage in vertical integration is described. Topics which will be discussed are: additional competences needed, fit with the current strategy, regulatory and other environmental issues, revenue potential and incurred costs of the strategy, and finally the net present value and investments required for vertical integration. The overall assessment of the feasibility of vertical integration for Firm X is discussed in section 4.4.6.

4.4.1 Vertical integration for Firm X

The strategic option vertical integration was already thoroughly discussed in chapter 2.4. The relevant issues and concepts of vertical integration were however described in a broad and general manner. This section contains two major objectives, first, the concepts discussed will be tailored to the situation of Firm X, and secondly the reasons why vertical integration is an interesting option for Firm X are discussed.

As described in chapter 2.4, the strategy of vertical integration implies the inclusion of suppliers or distributors in the value chain (Jones, 2007), and is classically seen as the make or buy decision a firm has to make (Vallespir & Kleinhans, 2001). The integration can take place either backward of forward, referring to the integration direction in the value chain (Reed & Fronmueller, 1990; Peyrefitte, Golden, & Brice Jr, 2002). Since other business chains are acquired it is often the case that capabilities beyond the scope of the core business have to be acquired as well (Harrigan, 1986). The information gathered using the different literal references results in the definition that: Vertical integration is a business strategy in which a firm acquires upstream and/or downstream activities in the value chain. This means that vertically integrated firms decide to perform certain activities in-house rather than depending on the activities performed by other in the market place. Since Firm X' perception of vertical integration is the shift from a lead-generator for online payday lenders, towards an actual provider of online consumer credits, the strategy can be described as forward vertical integration, since the integration brings Firm X closer to the final consumer (Simonet, 2007; Cadeaux & Ng, 2012) . If the value chain (Figure 11) is taken into account, the vertical integration decision will eliminate the 'customers of Firm X' from the value chain and the end consumer will be directly connected to Firm X. It is highly likely that, as Harrigan (1986) stated, Firm X has to acquire new competences, which might be beyond its current strategic core. These new competences will be discussed in section 4.4.5.1.

Advantages and disadvantages of vertical integration were discussed in section 2.4.2.2. To answer the question why vertical integration is an interesting option for Firm X, the advantages are more

important than the disadvantages. When the feasibility of the option is assessed in section 4.4.6, the findings regarding disadvantages become useful. Considering the current value chain (Figure 11), it can be seen that Firm X generates leads for the 'producers' / payday lenders through either the advertisement network of Search Engine Y or the advertisement network of Affiliate Network X. After analysing the statistics in the Affiliate Network X account and after consulting the employees of Affiliate Network X it was estimated that Firm X generated leads for approximately 25% - 30% of the payday loans issued by one of the largest payday lenders in the Netherlands in the second half of the year 2012. Taking into account the total number of payday lenders and the estimates for the total number of online loans issued (Vennekens & van der Bij, 2009), it is estimated that leads generated by Firm X were responsible for 5% - 7% of the total number of new online credits issued in the Netherlands. This shows that the market share of Firm X is quite large and it could be interesting to become a payday lender itself. An additional reason the option of vertical integration is interesting, is the fact that many customers (25% - 85%) take out additional loans after the first one (Vennekens & van der Bij, 2009). In the current business model Firm X does not profit from these repeat customers, as the actual payday lender wherefore the initial lead was generated does. If online consumer credits would be issued by Firm X the benefits of repeat customers could be fully reached.

Advantages of forward integration mentioned in section 2.4.2.1 include better access to, and more accurate, downstream market information, optimization of the marketing functions needed, and access to the distribution channel (Porter, 1980). These advantages can also be projected on the situation of Firm X. If Firm X implements forward vertical integration they can use the feedback of their customers to improve their websites. Furthermore the distribution channel, namely the issuing of online consumer loans, becomes available to Firm X. If Firm X decides to issue payday loans by itself it is more closely positioned to the end consumer. Wise & Baumgartner (1999) state that the more downstream along the value chain a firm goes, the more revenue can be made, because of higher margins. This analogy also applies for Firm X. A final similar advantage found in the literature is the revenues which can be made from repeat-customers (Valletti, 2004).

The benefits described show that vertical integration might indeed be an interesting option for Firm X. It was, however, shown before that a lot of payday lenders had to modify their business models in the Netherlands or were forced out of the market completely, mainly because of stricter regulation by the AFM. The structure, history, and expected future of the Dutch payday market are important aspects to take into account in the decision towards vertical integration. In other words, the external environment is of great importance in the decision. This analogy can be linked to the structural-contingency theory, as mentioned by Venkatraman (1989) and Cadeaux & Ng (2012). In this theory it is argued that external factors are pivotal in the success of a firm. Since the regulation is an external factor on which cannot be influenced by the online payday lenders, this will have an effect on the effectiveness of inter-organizational coordination and structures (Cadeaux & Ng, 2012).

4.4.2 Dutch payday loan market

In this section several important aspects related to the payday market in the Netherlands will be discussed. The section starts with an overview of the market characteristics. Secondly the online payday loan characteristics are discussed. Hereafter the regulation and its big influence on the Dutch payday market will be clarified. Fourth, the companies competing in the market are described. All these four aspects will be elaborated on, keeping in mind an historical perspective, since the aspects evolved over time. The section ends with some concluding remarks and prospects for the future.

4.4.2.1 Market characteristics

Small online consumer credits, or payday loans, were introduced to the Dutch market in 2007 when, the Finnish rooted company EU Lender 1 entered the market. In the beginning of 2008 five additional issuers started their business (Vennekens & van der Bij, 2009). It is estimated that around

25,000 payday loans were issued in the year 2008 (Vennekens & van der Bij, 2009), and this number has increased to 250,000 in 2009 (Algemeen Dagblad, 2011). This shows that the market was growing at quite a fast rate and that there seems to be potential in the Dutch payday lending market.

Since the introduction of this lending product there were several developments which influenced the structure of the market. Especially the regulation by the AFM played a major role in this change, as will be elaborated on in section 4.4.2.3. An approximation of the number of payday loans issued in 2011 is made based on the financial data available for the companies which were active in 2011 (see Appendix E). Approximately 240,000 payday loans were issued in 2011, which means a slight decrease observable compared to 2009. This decrease is confirmed by a research performed by the NIBUD (Dutch national institute for budget counselling). In this research, 44% of the respondents claimed they had taken out a loan with a maximum of €500, while this fraction dropped to 29% in 2012. The percentage of respondents which had taken out loans up to €2000 on the other hand increased from 16% to 18% (NIBUD, 2013). The decrease in small loans taken out may be due to the decrease in supply.

The companies offering payday loans in 2012 decreased even further, mainly because of regulatory issues (AFM, 2013b), and therefore it is not expected that the number of loans issued will increase. The assumption for the remainder of the investigation of the feasibility of vertical integration is that the total market for payday loans in the Netherlands is 240,000 loans each year.

4.4.2.2 Payday loan characteristics

A general characteristic of payday loans is that money is quickly available to consumers and that the loan amounts are lower compared to traditional loans at banks (Vennekens & van der Bij, 2009; Stango, 2012). Additionally the payday loans last only for a short period of time.

Research by Vennekens & Van der Bij (2009) shows that the average amount of a payday loan issued in the Netherlands is €230. The majority of the payday loans issued amounts between €100 and €500 euro. The loan period is 24 days on average, and the interest charged is normally between 20% - 25% of the loan amount. Using these numbers and the values of the number of payday loans issued described in the previous part, it can be stated that the total Dutch payday market value equalled €5,575,000 in 2008 and €57,500,000 in 2009. The future projection, based on the calculation for 2011, is a total amount of outstanding loans of €55,200,000.

Before a loan is issued by a payday lender several indicators are being assessed, like the proof of income and the creditworthiness of an applicant. On average about 80% - 90% of the loan requests are denied. These figures lead to the conclusion that in the future about 1,600,000 applications for payday loans will be made each year. Even though the customers are checked for their capability of paying back the loan, 20% - 25% of them are not able to pay back their loans in time, or pay back at all. As indicated in the previous section, Dutch payday lenders to profit from returning customers, given the fact that 25% - 85% of the customers takes out additional loans (Vennekens & van der Bij, 2009).

4.4.2.3 Regulation

As mentioned earlier, the regulation plays a major role in the developments in the Dutch payday loan market. In the Netherlands all the rules and laws regarding financial activities are constructed by the financial market authority, the AFM, and the Ministry of Finance. The AFM is the legal organization which monitors the financial markets and if rules and laws are violated or if consumer interests are harmed significantly (AFM, 2013a). The most important law in the field of consumer credits is the 'Wet financieel toezicht (Wft) (Wet op het financieel toezicht, 2013)'; the 'financial monitoring law'. In this law it is described which requirements lenders have to meet and which conditions for their interest charges are allowed. Since the first arrival of a payday lender to the Netherlands, some important changes in the Wft have taken place. Additionally the AFM has taken measures against payday lenders. The next paragraphs describe these changes and actions in detail.

Payday loans are loans of a small amount of money with a short duration in time, less than three months. When payday loans were introduced to the Dutch market in 2007, loans with such a short duration were excluded from the Wft. This meant that there were no restrictions for the interest rates which could be charged for a loan and the payday lenders were not bounded by laws. This led to complaints from traditional lending companies who are bounded by maximum interest percentages. The trade organizations of other credit issuers and the NIBUD demanded that the annual percentage rate payday lenders charge should be mentioned in order to provide transparency (Vennekens & van der Bij, 2009). Furthermore there were complaints by several consumer organizations and members of parliament (Ministerie van Financiën, 2009; Kassa, 2011) that charged interest rates by payday lenders harmed consumer interests and that the AFM should take measures against these firms. Additionally awareness about the financial dangers of such loans was created among consumers (Kassa, 2011).

Driven by these signals, the AFM investigated the payday loan market and the companies competing in it. The investigation resulted in changes in the Wft, which should lead to clear rules for payday lenders and more protection for consumers. From 1 June 2011 onwards, all loans, including the short term loans like payday loans are included in the Wft (AFM, 2011). This means that the maximum annual percentage rate which is allowed to be charged for a loan equals the legitimate maximum of 15%. For a 15-day loan, this means that the interest which legally can be charged equals 1.15 ^ (15/365) = 0.58%; or €0.58 for a €100 loan. This is a lot less than the interest rates used before (ranging from 15% to 30% for a 15-day loan). Besides the changes in the Wft, the AFM requires payday lenders to have an AFM license when operating in the Dutch market (AFM, 2011). Before receiving a licence, the AFM thoroughly checks the company. First, the quality and reliability of the management and the board of directors is determined. Secondly the integrity and the execution of the business strategy are reviewed. Third, the transparency of the management and the structure of the company are taken into account. Finally, the firm has to be connected to the BKR (Bureau Krediet Registratie), the Dutch agency which monitors the creditworthiness of customers (AFM, 2013c).

With the modifications in the Wft, the AFM hoped to exclude the payday lenders who charge too much interest from the market. Practice shows that the AFM monitors the payday market very closely to ensure that the payday lenders operate by the law. In their 2012 annual report, the AFM reports that detailed investigation of the payday lenders operating in the Dutch market resulted in the license revocation of the majority of the seventeen payday lenders included in the research. The license suspension was either forced by the AFM or suspended on request of the lender itself. The investigation furthermore led to adaptation or complete termination of activities by fourteen firms (AFM, 2012a). Only a few of them are still operating in the Dutch market. Besides the suspension of a license, there are two examples of other measures taken by the AFM. Two companies issuing payday loans received a non-compliance penalty because their services conflicted with the Wft (AFM, 2012b; AFM, 2012c). The annual report furthermore states that new, similar, investigations will follow in the course of 2013.

4.4.2.4 Payday lenders in the Dutch market

Since 2007, several payday lenders exploited business activities in the Netherlands. In the first years of the existence of the Dutch payday market, six lenders could be distinguished: EU Lender 1, Dutch Lender 1, Dutch Lender 4, Your Finance BV, Dutch Lender 6, and Dutch Lender 7 (Vennekens & van der Bij, 2009). In the year before the change in the Wft, 2010, some other lenders entered the Dutch market, whereof Dutch Lender 2 and Dutch Lender 3 are the most important ones.

After implementing the changes in the Wft and introducing the obligatory AFM license, the AFM actively monitored the Dutch payday market. In 2011 and 2012 a total of seventeen payday lenders have been investigated by the AFM. They concluded that fourteen companies charged too much interest and these companies had to adapt or terminate their activities. The 2012 investigation is still running

and for 2013 new investigations are announced (AFM, 2013b). This suggests that every time a new firm enters the market, the AFM immediately monitors it very closely.

At this moment there are only four lenders active in the Dutch market: EU Lender 1, Dutch Lender 1, Dutch Lender 5, and Beautiful Day B.V.. The customer service of Beautiful Day B.V., however, mentioned that they would shut down their business on short term notice, which leaves only three lenders in the Dutch market. Of these three lenders Dutch Lender 1 is the only one with an AFM license. Dutch Lender 5 currently offers payday loans without charging any interest and therefore they are not part of the Wft. Companies charging 'unremarkable costs' for their services are not covered by the Wft. 'Unremarkable costs' are defined as costs charged for a service which are too low to be defined as costs. Costs are 'unremarkable' if they are less than 1% of the total credit amount per year and if they costs are less than €50 per year (AFM, 2013e). EU Lender 1 offers its services to Dutch consumers operating under an English licence and are seated in London. In this case there is no need for an AFM licence, since EU Lender 1 is seated in another member of the European Union, and it satisfies the requirements of the English laws (AFM, 2013d). An important note which has to be made here is that the AFM is still allowed to take measures against companies operating from another EU country if the services provided by those firms harm the interests of the Dutch consumers (AFM, 2013d). At this moment EU Lender 1 is offering payday loans at interest rates which do not exceed the legal maximum. However, in order to receive a loan, a customer has to have someone vouching for the customer. If this is not possible, the customer can buy a guarantee at the company Guarantee Firm 1 (Ferratum, 2013). Global Guarantee OU is subsidiary of JT Family Holding OY, which is also the owner of the EU Lender 1 Group (ORBIS © Database). EU Lender 1 considers this guarantee not as a cost; the AFM however defines costs for payday loans as all costs the consumers have to pay to the lender in order to receive an online payday loan (AFM, 2013e), meaning the AFM does not share the opinion of EU Lender 1.

The inclusion of payday loans in the Wft, the newly announced investigations, the announcement that the AFM wants to 'clean up' the payday lending market in the Netherlands (AFM, 2013b) and the fact that the AFM can take measures against payday lenders operating from other EU-member states if the interests of the Dutch consumers are harmed (AFM, 2013d), raises the question whether the current business models of these companies will be sustainable in the future.

4.4.2.5 Dutch payday loan market - conclusion

This section showed that the size of the payday loan market has increased since 2007. It is however not expected that the market will grow from now on since the number of payday loans issued in 2011 is similar to the number of payday loans issued in 2009. Combining these observations with the increased regulation for payday lenders and the increased monitoring and sanctioning by the AFM, it is not likely that the market will grow further. Besides these two reasons, a third reason which indicates stagnation in the growth can be identified. Comparisons between general lending mechanisms in Dutch and foreign markets showed that other loans or bank overdraft are relatively cheap, and accessible for a large group of customers, in the Netherlands. This makes it less likely that a lot of people will turn to, often higher priced, payday loans (Swenson & Noble, 2009; Vennekens & van der Bij, 2009) .

4.4.3 Foreign payday loan markets

In this section several important aspects related to the payday markets in the foreign countries will be discussed. First, the characteristics of the foreign payday markets will be outlined. Hereafter a short part will be dedicated to the characteristics of the payday loans issued in those markets. Third, the regulation regarding payday loans in foreign countries will be elaborated on. The fourth part covers the payday lenders competing in the market. Some concluding remarks end the section.

4.4.3.1 Market characteristics

Companies offering online payday loans started their business in the European countries around 2006 (Vennekens & van der Bij, 2009). Offline payday loans and shops offering these loans have been

around a longer time, especially in the United States and in the United Kingdom (Vennekens & van der Bij, 2009; Bourke, Horowitz, & Roche, 2012). Because offline payday lending still represents the majority of the market in the United States (73%) (Bourke, Horowitz, & Roche, 2012), payday lending in the United States is left out of the remaining study, since this thesis focuses on the offering of online payday loans. The countries with the most developed online payday markets are the United Kingdom, Finland, Sweden and Estonia. These four countries will be included in the rest of the analysis and will also be used in the benchmark, which will be elaborated on in the next section.

The market for online payday loans grows very fast in the United Kingdom. A total of 8.2 million new loans were issued in 2011/2012, representing a total market value of £2.2 billion; a large increase compared to the market value of £900 million in 2008/2009 (Office of Fair Trading, 2013a). There are 240 online payday lenders in the UK (Osborne, 2013), whereof the three biggest firms account for a market share of 55%. These three companies are UK Lender 1, UK Lender 2, and UK Lender 3 (Office of Fair Trading, 2013a; Bowers, 2013; Wage Day Advance, 2013; Payday UK, 2013). These companies will be used in the benchmark. The Finnish market for payday loans is characterized by a relatively large number of lenders compared to its size. The number of firms competing totals 60, while the market size in 2011 totalled 1,400,000 issued loans with a total value of €320 million (Hiirsalmi, Lampio, Sallinen, & Vesterinen, 2012). The Swedish market is a bit smaller than the Finnish market, with an average number of 800,000 to 1,300,000 loans issued each year (Kronefogden, 2013). The number of online payday lenders is with a total of 277, however very large (Scancomark, 2012). The Estonian market is the smallest market researched in this thesis, with around 130,000 issued payday loans in 2007. The market is however growing at a fast rate of around 20% per year. Two dominating firms can be distinguished in the Estonian market; the EE Lender 1 with a 55% market share, and EU Lender 1 Estonia with a 30% market share (Vennekens & van der Bij, 2009).

4.4.3.2 Payday loan characteristics

Similar to payday loans in the Dutch market, payday loans in foreign markets are characterized by the quick availability of money to the consumers and that the loan amounts are lower compared to traditional loans at banks (Vennekens & van der Bij, 2009; Stango, 2012). Additionally the payday loans last only for a short period of time.

The average lending amount of a Finnish payday loan is comparable to the Dutch loans; the average payday loan amounts to €229 (Hiirsalmi, Lampio, Sallinen, & Vesterinen, 2012). For Sweden and Estonia no data regarding the average amount lend are available. When the websites of the payday lenders in these countries are taken into account, a lot of similarities with the Finnish websites can be found when considering the amounts which can be lend. It can therefore be assumed that the average loan in these countries will also be around the €229 value. The amount of loans which cannot be paid back is a bit higher than in the Netherlands; in Sweden for example, one out of six consumers is not able to pay back a payday loan (Scancomark, 2013). Figures about returning customers are not available, but it is highly likely that, just as in the Netherlands, the average consumer takes out multiple payday loans per year. After consulting the websites of the online payday lenders in Finland, Sweden, and Estonia it can be stated that the average interest charged for a loan equals about 20%-25% of the loan amount, just like in the Netherlands. The characteristics of payday loans in the United Kingdom are not described yet because the payday loans in the United Kingdom differ significantly from the payday loans in the other countries and will therefore be discussed in the next paragraph.

Whether normal online payday loans are issued to a consumer and the consumer has to pay back the loan plus the interest after the loan period; payday loans in the United Kingdom can be rolled over, meaning the loan can be extended. This extension is not without costs, since the amount of interest which has to be paid for the extension is the same as the amount of interest which has to be paid for the original loan. For example, when a £100 payday loan with a £25 interest charge is rolled over once, the

amount which has to be paid after the lending period and the additional roll-over period totals £150, in other words, the interest charge doubled. Research shows that one out of three loans is rolled over and that 50% of the revenues a payday lender generates can be assigned to these rollovers (Office of Fair Trading, 2013a). The average payday loan in the United Kingdom amounts for €327 which is higher than in the other countries reviewed. The lending period and the interest charged for a payday loan are also higher than for the other countries: 30 days and 25% - 30% of the loan amount, respectively (Office of Fair Trading, 2013a). In line with the other countries are the multiple loans per year which are taken out on average, this means the firms in the United Kingdom also reap the benefits of returning customers.

4.4.3.3 Regulation

In section 4.4.2.4 it was shown that regulation plays a major role in the Dutch online payday loan market. As will become clear in this part, regulation is not really a big issue in the United Kingdom, Finland, Sweden, and Estonia. At this moment there are only indications that there might be legal boundaries in the future, but it will take some time before these are being implemented.

In the United Kingdom there are no legal restrictions for interest rates which can be charged for loans (Reifner, Clerc-Renaud, & Knobloch, 2010). This enables payday lenders to charge high interest rates. The lenders, however, have to obey the Consumer Credit Act (Office of Fair Trading, 1974). The Act states that lenders have to assess the creditworthiness of a consumer before issuing a loan. Additionally, the lenders should meet standards when advertising for loans; the advertisements should be informative and it has to be ensured that consumers are not misled. Pre-contract credit information and explanations should also be made available to the customer (Office of Fair Trading, 2013a). Besides the Consumer Credit Act, the Office of Fair Trading set up an 'Irresponsible Lending Guidance' which states that lenders should assess the consumers' affordability of a loan and that customers have to be fully informed about the rollover-option and its consequences (Office of Fair Trading, 2013a).

Restrictions on interest rates are also not present in the Finnish payday lending market (Reifner, Clerc-Renaud, & Knobloch, 2010). As in the UK, this enables lenders to charge high interest rates for their products. Recently, however, there are indications that the Finnish parliament is preparing legal restrictions for payday lenders; from June 2013 onwards an interest rate percentage cap of 50 percentage points above the reference interest rate will be implemented (Yle Uutiset, 2013a; Yle Uutiset, 2013b). Besides the upcoming regulation regarding interest rates, other regulation was already in place, like transparency in the annual percentage rate charged, transparency in marketing activities, and personal pre-contract information (Vennekens & van der Bij, 2009). In Sweden there are also no restrictions regarding the interest rates charged for online payday loans. Additionally the lenders are not required to perform credit checks before issuing loans (Reifner, Clerc-Renaud, & Knobloch, 2010). Data shows that around 70,000 people were put in debt by payday lenders in 2012 (Scancomark, 2013) and that the Swedish Consumer Association asked for stricter regulation for these online payday lenders (Vennekens & van der Bij, 2009). Up to this moment, however, there have not been taken actual measures. Before 2009, there were no restrictions for the interest rates charged by Estonian payday lenders (Vennekens & van der Bij, 2009). In 2009 however, the maximum percentage rate was set to 63.9% per year (Reifner, Clerc-Renaud, & Knobloch, 2010). This measure was taken because the unregulated online payday loan market led to a lot of problems in the Estonian society.

This section showed that the regulation in other European countries is not as strict as in the Netherlands. Especially the interest rate caps, which are not present at all, or significantly higher than in the Netherlands are interesting to consider in the remainder of this study.

4.4.3.4 Payday lenders in foreign markets

As stated in the first part of this section, there are a lot of payday lenders active in the United Kingdom, Finland, Sweden, and Estonia. For each country the most important online payday lenders are identified using popular Search Engine Y search queries with combinations of online payday loan

terminology. Payday lenders appearing on the first two or three pages of Search Engine Y were investigated. The list of companies active in the foreign payday market can be found in Appendix F. In this list the country, the company name, the possible loan amounts, the lending period, and the representative Annual Percentage Rate are displayed. In line with the findings in the regulation part, the annual percentage rates in the United Kingdom and Finland are the highest ones.

The list of companies displayed in Appendix F is used as input for the company selection for the benchmark. As far as possible it is investigated which companies are the key firms in each market, and these are included in the benchmark study. Another criterion for inclusion in the benchmark study is that financial data of the company should be available. Financials were collected using annual reports and the information provided in the ORBIS© database. The detailed selection procedure will be elaborated on the in section 4.4.4, where the benchmark study is discussed.

4.4.3.5 Foreign online payday loan markets - conclusion

This section described the most developed and most important online payday markets in the European Union. First it was shown that the markets in the United Kingdom, Finland and Sweden are larger than the Dutch market, while the Estonian market is of similar size. Secondly the characteristics of the online payday loans were discussed and it was shown that the loans are similar in all countries, except for the United Kingdom, where roll-overs of online payday loans are possible.

The regulation in the investigated countries is much less stricter as in the Netherlands; especially the lack of restrictions regarding the interest rates charged is a major difference, which leads to high interest rates charged by the lenders, as shown in Appendix F. Finally it is shown that the number of firms operating in the online payday markets in the United Kingdom, Finland, Sweden, and Estonia is higher than in the Netherlands. A selection of these lenders will be used in the payday lender benchmark analysis, which is the topic of the next section in this chapter.

4.4.4 Benchmark payday lenders

This section describes the benchmark study of the foreign payday lenders. The selection of the firms included in the analysis will be discussed in section 4.4.4.1. The variables and ratios used in the analysis are mentioned in section 4.4.4.2. For each variable a definition and an explanation why the variable is included in the analysis will be provided. The reason ratios are used in the final benchmark analysis is that the firms included in the study are different in size and operate in different markets. Therefore the absolute numbers are not suitable for a decent comparison. Section 4.4.4.3 contains the actual comparison of the firms; this comparison results in the average costs of issuing online payday loans, and this value will be used in designing the scenario of Firm X as an online payday lender.

4.4.4.1 Firm selection

The starting point for the firm selection is the list of firms identified in analysing the foreign payday loan markets (see Appendix F). Before including a firm into the analysis, a set of criteria was set up to ensure that only relevant firms and firms for whom enough information is available are included. The first criterion is that the firm should issue online payday loans only or that a clear distinction between online and offline payday loans can be made in the available data. Secondly the financials and other relevant information about the firm should be available. If this is not the case then it is not possible to analyse the firm. Third there should be information available about the number of loans issued by a company or the market share of the firm. This information should be available to enable calculations about the revenues and the costs per issued loan for a certain firm. If information about market shares is not directly available it should be possible to derive these market shares by using other available data.

Based on these criteria a total of fourteen firms is found to be suitable for analysis. For the United Kingdom, the three biggest online payday lenders are included: UK Lender 1, UK Lender 2, and UK Lender 3. EU Lender 1 FI, EU Lender 2 FI, and EU Lender 3 FI represent the Finnish market, while EU Lender 1 SE, SWE Lender 1, SWE Lender 2, EU Lender 2 SE, SWE Lender3, and SWE Lender 4 are the

Swedish companies included in the sample. The final two companies are Estonian payday lenders: EU Lender 1 EE, and the EE Lender 1. In the next section the variables and ratios included in the benchmark analysis are discussed.

4.4.4.2 Benchmark variables

In this part the definition for each variable used in the benchmark analysis is given (see Table 15). The real life company values for the variables can be found in Appendix G.

Variable	Explanation
Revenues	Total earning made on services provided, in this case interest received over the payday loans
Cost of Goods Sold	Costs made by a lender for providing the payday loans
Operating Expenses	Other costs made by the lender in order to operate its business
Operating Profit (EBIT)	Earnings Before Interest and Taxes; revenues received on operations minus the costs made
Financial Revenues	Interest or rent earned for owning an asset or property
Financial Expenses	Interest or rent paid for owning or renting an asset or property
Pre-Tax Profit	EBIT plus the financial revenues, minus the financial expenses
Taxes	Profit tax paid to the government
Profit after Taxes	Pre-Tax Profit minus the Taxes paid
Number of FTEs	Number of Full-Time Employed people at a payday lender
Employee wages	The total amount of money spent on employee wages
Number of Loans issued	The number of payday loans issued by a firm in a year

Table 15: Variables used in the benchmark analysis

The most important reason the variables mentioned in Table 15 are included in the analysis is that the ratios which will calculated to compare the companies require these variables as input. The ratios are used to get an indication of the profitability and efficiency of a company and to see how much a firm earns per loan and what costs it has to make in order to issue one loan. The ratios used in the benchmark study are displayed in Table 16 and its values can be found in Appendix G.

Ratio	Explanation
EBIT % Revenue	Net profit margin (Atrill & McLaney, 2006); relates the net profit for the period to the sales revenue during that period. Used to measure the profitability of a firm.
Pre-Tax Profit % Revenue	Similar as above but now are the interest revenues and expenses added or subtracted from the EBIT. Used to measure the profitability of a firm (Atrill & McLaney, 2006).
Average Wage Employee	The Employee wages paid divided by the total number of FTEs. Calculated to see if this wage would be realistic in the Dutch scenario.
Revenue per Employee	The total revenue divided by the total number of FTEs. Used to measure the efficiency of a firm (Atrill & McLaney, 2006).
Revenue per new loan issued	Total revenues divided by the total number of loans issued. Calculated as a measure for profitability of a loan.
Revenue per loan which is rolled-over (UK only)	Total revenues received on roll-over divided by the total number of loans rolled over. Calculated as a measure for profitability of a roll-over.
Costs per new loan issued	Total costs (costs of goods sold and operating expenses) divided by the total number of loans issued. Calculated as a measure for profitability of a loan.
Costs per loan which is rolled-over (UK only)	Total costs (costs of goods sold and operating expenses) received on roll-over divided by the total number of loans rolled over. Calculated as a measure for profitability of a roll-over.

Table 16: Ratios used in the benchmark analysis

4.4.4.3 Benchmark analysis results

When analysing the variables and ratios for each company, as defined in Table 15 and Table 16 and represented in Appendix G, interesting findings can be observed. Taking into account the two profitability measures (EBIT % Revenue and Pre-Tax Profit % Revenue), it can be concluded that there are some differences between the countries analysed. When the averages of the two profitability

measures are calculated, the results show that Estonian companies are the most profitable ones. The averages can be found in Table 17.

Country	EBIT % Revenue	Pre-Tax Profit % Revenue
United Kingdom	24.07%	21.81%
Finland	31.76%	30.38%
Sweden	19.50%	16.42%
Estonia	39.45%	37.35%

Table 17: Profitability ratios per country

One reason for the higher percentage profitability ratios in Estonia are the low costs spent on employee wages. The average wage in Estonia equals €27,272, while the wages in the United Kingdom, Finland, and Sweden are €48,061; €50,551; €53,506 respectively. Lower wages are reflected in the higher profitability margins and it can be stated that such low wages are not feasible in the Netherlands. The wages in the Netherlands will be more in line with the wages in the other three countries. Profitability ratios as in Estonia will therefore not be realistic for the Dutch scenario. For this reason the Estonian companies are not taken into account in the further analysis.

The low profitability ratios for companies operating in the Swedish online payday market are not caused by extremely high costs, but can be attributed to the relatively low revenues which are generated for each loan. One reason the firm revenues in Sweden might be lower is that the number of firms operating in the market is very high compared to the size of the total market, as already mentioned in section 4.4.3.1. The revenues and costs for each loan issued are going to be discussed later on; first the efficiency measure will be taken into account.

The efficiency of a payday lender included in the sample is measured by the revenue generated per employee. The companies operating in the United Kingdom (UK) are most efficient reaching a per employee revenue of €1,867,243, while the firms in Finland and Sweden, with €620,657 and €529,498 per employee respectively, score much lower. As mentioned in section 4.4.3.2, 50% of the revenue in the United Kingdom can be assigned to loans which are rolled over. Since this option does not exist in Finland and Sweden, it is not surprisingly that the revenue per employee in the UK is higher. However, even if roll-overs are not taken into account, firms in the UK still score best on the efficiency measure.

The most important results of the benchmark analysis for Firm X are the revenues which can be generated for each loan and the costs which have to be made when issuing an online payday loan. Especially the costs are of major importance since these can be used as an input variable for the vertical integration scenario for Firm X. As already indicated in section 4.4.2, the revenues in the Dutch market will not be as high as in the foreign markets investigated in the benchmark study, since the regulation regarding interest rates in the Dutch market is much stricter. The revenues and costs per newly issued loan can be found in Table 18. For the United Kingdom a distinction is made between newly issued loans and loans which are rolled over. It is quite clear that the profitability of firms operating in the United Kingdom can almost fully be assigned to loans which are rolled-over.

	United Kingdom	Finland	Sweden
Revenue per new loan	€31.77	€57.10	€22,82
Revenue per loan rolled-over	€95.32		
Total revenue per loan	€127.10	€57.10	€22,82
Costs per new loan	€33.63	€40.49	€19.36
Costs per loan rolled-over	€30.14		
Total costs per loan	€63.77	€40.49	€19.36
Average loan amount	€327	€229	€229
Revenue per euro lend	€0.39	€0.25	€0.10
Costs per euro lend	€0.20	€0.18	€0.08

Table 18: Benchmark results for revenues and costs per loan issued

As can be seen in Table 18, the revenues per euro lend are the highest in the United Kingdom and the lowest in Sweden, the same holds for the costs made for each euro lend. The average costs for each euro lend equal €0.15 for the United Kingdom, Finland and Sweden. For the vertical integration scenario for Firm X, this number is used as an input value for the projection model.

The data collected through the ORBIS © database unfortunately does not distinguish between the different types of costs made. The only costs which are mentioned separately are the labour costs and sometimes the costs of goods sold. In the majority of the cases, however, it was only possible to retrieve the costs in general. Therefore the costs in the model for the projection for Firm X will also be listed under an all-embracing cost-variable.

4.4.4.4 Conclusion

In this section the benchmark study of the payday lenders in foreign countries was elaborated on. First the method of selecting firm for inclusion in the sample was discussed. Secondly the variables and ratios used to analyse the different firms were presented and finally the most important results of the analysis were presented. All the data gathered for the individual companies is projected in Appendix G, and all results shown in the section above are based on these data. The most important conclusion of this section can be found in the costs the average foreign online payday lender has to make for each loan issued. These costs will be used as an input value for the vertical integration projection model for Firm X. This model, and the further analysis of Firm X as an online payday lender operating in the Dutch market, are the subjects of the next section of this chapter.

4.4.5 Firm X as an online payday lender

Now it is time to focus on the scenario with Firm X as an issuer of online payday loans in the Dutch market. Section 4.4.4, where the benchmark of the foreign payday lenders was discussed, already provided some useful information for setting up this scenario. There are, however, more aspects which should be taken into account. Some of these aspects are related to external factors, like the AFM regulation, while other factors are related to the firm Firm X itself. It is, for example, important to consider the required competences for providing services belonging to the business activities of a payday lender. Additionally the strategic fit with the current activities should be examined. Besides the aspects mentioned so far, a key aspect is the profitability of the strategy; is Firm X able to earn back its investments, in other words can the revenues exceed the costs incurred in the strategy?

These questions will all be answered in the next sections. First, the competences needed and the availability of these competences to Firm X is discussed. Secondly the strategic fit with the current business activities is elaborated on. Third, the external threats which are present, like regulatory issues are described. The final section discusses the financial aspects of the strategy of vertical integration. Aspects like the revenues, costs, and net present value will be described.

4.4.5.1 Required competences

This section describes the competences which are needed to function as an online payday lender and which additional actions have to be performed by Firm X to master these competences. Before starting with the descriptions and explanation of the actions and competences, it is important to define the services which can be expected of an online payday lender. Based on this definition the corresponding competences and actions to be performed can be identified.

An online payday lender is expected to receive and audit customer requests for loans. Auditing a request consists of several activities, like checking the creditworthiness and the identity of a customer, and the affordability of the requested loan amount. When a loan is approved, the requested amount has to be paid out to the customer. In order to be able to make these payments, capital funds are necessary. Besides auditing loans requests and providing the loans, customer service is another important feature of an online payday lender. The website which is used by customers to apply for a loan should be well-ordered and user friendly. Furthermore the website should adequately inform the consumers about the

offered product/service and its conditions. Additionally an online payday lender should provide 'physical' customer support, meaning that employees should be hired to answer customer calls or reply to questions asked by e-mail or post. Finally an online payday lender has to be able to actively monitor the status of the loans issued and verify if a loans are paid back in time, if a payback reminder has to be send to the customer, or, in the worst case, a collection agency has to be called in.

To be able to perform the activities described above, Firm X has to hire new employees. The first action to be performed is to create a website with all the functionalities an online payday lending websites should have: user friendly interface to apply for a loan, well-ordered information and abilities to contact the consumer service. This action can be performed by the programmer currently employed by Firm X. This employee is responsible for the websites of Firm X and should also be able to develop a website matching the requirements described above. Secondly the monitoring of the loans outstanding and the status of these loans is important. The best and efficient way to monitor this is by using an automated database in which new loans can be added and loans which are paid back are automatically deleted. Ideally this database is connected to the lending website so that customer details and information are inserted in the database immediately. Since the development of the database is an activity which has to be performed before the online payday lending business is put into operation, the database development is a onetime activity. Therefore it is best to hire a freelance software programmer for this job. For auditing the loan requests however, full-time employees are needed, since loan-requests will be made continuously it is important to have enough qualified employees. The customer service also requires the hiring of full-time employees in order to process questions and problems of customers regarding the services/products offered.

Taking into account the number of employees hired by firms in the benchmark study and the number of loans issued by these firms it is possible to estimate the number of employees Firm X has to hire. Taking into account the Dutch market size it is estimated that two administrative employees, who will audit the loan requests, are needed. Also one employee who will be in charge of the customer service will be necessary. The costs carried by these extra employees will be covered in section 4.4.5.4.

The extra employees required to operate as an online payday lender are one part of the required competences for Firm X. As stated in section 4.4.2, Firm X will have to apply for an AFM license and has to set up an account at the agency where the creditworthiness of potential customers can be verified (BKR). These are two major competences which have to be acquired to be able to operate as an online payday lender in the Dutch market. The criteria which have to be fulfilled by Firm X to receive an AFM license are discussed in section 4.4.2. Besides the AFM license and the BKR-account it is advisable to hire a legal expert who can ensure that all regulation available for the online payday lending sector is taken into account carefully and that no laws are broken by Firm X. Just like the database software programming, this will be a one-time job which can be performed by a jurist or lawyer.

A final important competence or better stated, a requirement, for issuing online payday loans, are financial funds to be able to pay out the loans to the customers. These loans have to be funded before the first revenues arrive, since the loan amount and associated interest payments are paid back after the lending period. This funding can be done using capital funds of the company itself, or by using bank-loans or an investment firm to finance them. Since Firm X is a start-up firm and does not have a lot of capital reserves, external funding mechanisms have to be found. The financial projection of the vertical integration strategy and the external, especially the regulatory, factors will play a key role in the decision of external investors to fund the payday loan operations. The regulatory issues will be discussed in the section 4.4.5.3, while the financial projection is the topic of section 4.4.5.4. First, however, the strategic fit of vertical integration with the current business activities will be elaborated on.

4.4.5.2 Strategic Fit

As defined in the Business Model Canvas (Figure 10), the value proposition of Firm X is to unite supply and demand through unique and relevant content. Its key activities within this value proposition are the provision of new content on its websites, doing market research, and keeping websites up to date and optimize them according to the Search Engine Y algorithm.

When Firm X becomes an online payday lender, the value proposition does not necessarily have to change since the current websites can still be used to fill the knowledge gap between supply and demand. The major difference is, however, that the supply side is now represented by Firm X and not by Affiliate partners or Search Engine Y. This means that the revenue streams completely change in the vertical integration scenario. Currently revenues are generated by the Service 1 Search Engine Y advertisements displayed on the websites in the portfolio of Firm X. At the moment that Firm X becomes a payday lender itself, these Service 1 Search Engine Y advertisements will be replaced with advertorials of the Firm X' online payday lending website and there will be no revenues from Service 1 Search Engine Y anymore. Another change would be that the topics written about have to be modified to exactly match the actual products and services offered by the payday lending business of Firm X. This might reduce the output of content since the number of topics suitable to write about might be decreased. There might thus be a lack of synergy between the current topics and future topics written about.

Although the value proposition might not change that much, the core nature of the company changes from an internet firm to an online financial institution. Since this change is quite drastic, it is questionable if the option of vertical integration is not too far off the current strategic core. This idea is strengthened by the fact that the current activities in the online trading product segment remain unchanged and there will be, essentially, two strategic cores for Firm X. The reasoning was also used by several scholars, who state that, within vertical integration, firms should search for opportunities where they can benefit from the resources and competences forming their strategic core (Simonet, 2007; Gulbrandsen, Sandvik, & Haugland, 2009). Although some resources and competences of the current strategic core of Firm X can be used for the vertical integration option, the change in the nature of the company seems a bit too drastic.

Becoming a payday lender, viewing the internal business environment, seems not to be a good option for Firm X. The next part discusses the external business environment and its effects on the vertical integration strategy. As will be shown, the regulatory issues play the biggest role.

4.4.5.3 External threats

In reviewing the external threats of the introduction of vertical integration for Firm X, both the five forces model (Porter, 1979) and the PESTEL model are important (see section 4.1).

When taking into account the five forces for Firm X after implementation of the vertical integration strategy, a few changes can be observed. First, the bargaining power of credit issuers vanishes, since there is no dependency on other online payday lenders if Firm X becomes an online payday lender itself. Second, the rivalry amongst existing competitors increases since in the new strategy not only the other affiliate and Service 1 Search Engine Y websites of competitors compete with Firm X, but also the websites of the other payday lenders in the Dutch market. The other forces remain the same as in the original strategic analysis. The factor in the PESTEL model which is most important for Firm X as an online payday lender is the political factor. As already stated in section 4.4.2.3, the regulation for payday lenders operating in the Dutch market has become stricter the last few years. Additionally the AFM announced that payday lenders will be monitored closely and that it hopes to successfully clean up the market (AFM, 2013b). The annual interest rate cap which is put in place makes it very difficult to generate a lot of revenues on short term loans. It can therefore be assumed that the revenue streams which can be realised are rather small. Another option to consider is to set up a construction similar to

the one EU Lender 1 Netherlands uses (section 4.4.2.4) and offer products to the Dutch consumer while based in another European Union member state. The sustainability of such a strategy is however questionable since the AFM still is allowed to take measures against companies operating from other EU-countries if the interests of the Dutch consumers are harmed (AFM, 2013d).

It can be concluded that the threat of strict regulation is important in Firm X' decision to become an online payday lender. Section 4.4.5.4 provides insights into the impact of the regulation and the required competences on the financial projection of the vertical integration strategy.

4.4.5.4 Financial projection model

In this section the vertical integration scenario is viewed from a financial point of view. The revenue potential for Firm X in the Dutch market as well as the accompanied costs will be discussed thoroughly. To measure the current value of the vertical integration strategy, the net present value for several time intervals is calculated. In the net present value method: "the present value of all cash inflows is compared to the present value of all cash outflows that are associated with an investment project (Seal, Garrison, & Noreen, 2006, p. 403)". The present values are used because in the basic principal of finance says: 'a euro in the future is worth less than a euro today'.

Before the actual projection model will be shown, first, decisions regarding the input variables have to be made. Most of these variables are based on calculations using several data sources, while other input variables are based on assumptions: both are explained in Table 19.

Variable	Value	Source	Additional Explanation
Size of Dutch market (number of payday loans)	240,000	Calculation (see Appendix E)	Based on a breakdown calculation based on financials Guarantee Firm 1
Starting market share Firm X	7.50%	Assumption	Consultation with CEO, based on leads generated for affiliate partners in 2012
Yearly growth in the market share for Firm X	2.50%	Assumption	Consultation with CEO, absolute growth value
APR which is legally allowed	15.00%	AFM (AFM, 2011)	
Average amount lend per payday loan	€230.00	IOO report (Vennekens & van der Bij, 2009)	
Average lending period of a payday loan	24 days	IOO report (Vennekens & van der Bij, 2009)	
Costs of getting an AFM license	€8,600	AFM (AFM, 2013c)	One-time costs
Costs for developing the database	€6,000	Assumption	Based on a workload of 100 hours at an hourly wage of €60
Lawyer costs for regulatory check	€5,000	Assumption	Based on a workload of 50 hours at an hourly wage of €200
Costs per loan issued (per € lend)	€0.15	Average costs determined in benchmark study	The wages for the three additional employees and office rent are included in €0.15 per € lend
Percentage of defaults	15.00%	IOO report (Vennekens & van der Bij, 2009)	Percentage of loans which is not paid back
Discount rate	30.00%	Assumption (QFinance, 2013)	Used for NPV calculation, strategy assumed as moderately risky

Table 19: Input variables and assumptions vertical integration strategy

The variables and assumptions displayed in Table 19 are used as input for the projection model of the vertical integration strategy. Instead a projection up to 2015, as for the other strategic options described earlier in this thesis, a projection up to 2018 is made for the option of vertical integration since it is important to see how the revenues, costs, and NPV develop in the long term.

The financial projection model is structured as follows. First the number of loans issues yearly by Firm X is determined using the total Dutch market size and the projected market share of Firm X.

Secondly the number of loans whereon interest will be earned is calculated by taking into account the percentage of defaults. The third step is to calculate the interest which can be charged for an average loan. Equation 1 is used to calculate these values.

$$Average\ amount\ of\ interest\ received\ per\ loan = \left(\left((1+APR)^{\left(\frac{Average\ lending\ period\ of\ a\ payday\ loan}{365}\right)}\right)-1\right) * Average\ amount\ lend\ per\ payday\ loan \quad \text{(Equation 1)}$$

The next step is to calculate the total revenues which can be generated by issuing payday loans. This value is calculated by multiplying the number of payday loans whereon interest is received with the average amount of interest received per loan. These steps cover the revenue side while the next steps cover the cost side of the model. In the year prior to the first year of operation three types of costs can be distinguished: the costs made for applying for an AFM license, the costs made for developing the automated database, and costs for the regulatory check, as described in section 4.4.5.1. The costs for loans issued recur every year and can be seen as variable costs.

Now that both the revenue side and the cost side of the projection model are defined, the net result can be calculated. The net result is represented by the revenues subtracted by the costs. In order to get an indication in the proportion of costs related to the revenues, a cost-revenue multiple is included in the model. If the value of this multiple is below 1.0, the net result will be positive, while values above the 1.0 mark result in negative net results. The final measure computed in the projection model is the net present value of the total project. Equation 2 shows how the net present value of the vertical integration option can be calculated (Brealey, Myers, & Allen, 2011).

$$NPV = C_0 + \sum_{t=1}^{T} \frac{C_t}{(1+r)^t} \quad \text{(Equation 2)}$$

$where:\ C_0 = the\ initial\ investment$
$C_t = costs\ in\ year\ t$
$r = discount\ rate$
$t = year\ of\ operation$
$T = final\ year\ in\ the\ projection\ model$

Since the future roadmap for Firm X will be made up to and including 2015, two NPVs will be calculated for the option of vertical integration, a 2015-NPV and a 2018-NPV. The 2015-NPV will be used in the roadmap, while the 2018-NPV will be included in the decision about the vertical integration strategy. The financial projection model for the vertical integration, Firm X as an online payday lender in the Dutch market, strategy can be found in Table 20.

The wages for the additional employees which should be hired when implementing the vertical integration strategy are included in the costs of issuing the loans. This approach is chosen since the wages were also included in the total costs for issuing loans derived in the benchmark study.

	2013	2014	2015	2016	2017	2018
Total number of loans in the Dutch market	240,000	240,000	240,000	240,000	240,000	240,000
Market share Firm X	0.00%	7.50%	10.00%	12.50%	15.00%	17.50%
Number of loans issued by Firm X	0	18,000	24,000	30,000	36,000	42,000
Number of loans whereon interest is received	0	15,300	20,400	25,500	30,600	35,700
Average amount of interest received per loan	€2.12	€2.12	€2.12	€2.12	€2.12	€2.12
Total revenues for Firm X	€0	€32,488	€43,317	€54,147	€64,976	€75,805
Total costs for the loans issued	€0	€629,784	€839,712	€1,049,640	€1,259,568	€1,469,496
Costs for the AFM license	€8,600	€0	€0	€0	€0	€0
Costs for regulatory check	€5,000					
Costs for developing the database	€6,000	€0	€0	€0	€0	€0

Net results	-€19,600	-€597,296	-€796,395	-€995,493	-€1,194,592	-€1,393,691
Cost-Revenue multiple	NA	19.4x	19.4x	19.4x	19.4x	19.4x
NPV-2015	-€730,998					
NPV-2018	-€1,690,026					

Table 20: Financial projection Firm X as an online payday lender

As can be seen in Table 20, the net result for this option is negative in each year and the negativity of the net results increases. This results in high negative NPV values. The main reason for this can be found in the cost-revenue multiple which indicates that the costs of issuing online payday loans in the Dutch market are 19.4 times higher than the revenues which can be generated. The strict regulations regarding the interest which can be charged cause these low revenues.

In section 4.4.2.4, the strategy EU Lender 1 uses for the Dutch market was discussed. They offer their products as an UK based firm and enable customers to buy a guarantee to secure their payday loan. In order to see if such a strategy would lead to a profitable business model for Firm X, the option of a UK based payday lending firm is also investigated. The input variables and assumption for this scenario are similar as the ones defined in Table 19, although some values have changed and some variables were added. These changes and additions can be found in Table 21.

Variable	Value	Source	Additional Explanation
APR for loans with guarantee	2,855.44%	Calculation (see Appendix E)	
Costs of getting an OFT license	€784	OFT (Office of Fair Trading, 2013b)	One-time costs
Lawyer costs for legal documents	€10,000	Assumption	Based on a workload of 50 hours at an hourly wage of €200
Percentage of loans with a guarantee	70.00%	Assumption	
Discount rate	70.00%	Assumption (QFinance, 2013)	Used for NPV calculation, strategy assumed to have high risk because of AFM threats

Table 21: Changes and additions to input-variables and assumptions for UK based payday lending

The structure of the model for the UK based payday lending firm is similar to the model for the Dutch based firm. The equations used for calculating the interests received on loans are however slightly different because now a distinction between loans with and without a guarantee has to be made. For loans with a guarantee the APR used equals 2,855.44%, while the APR for loans without a guarantee equals 15.00%. In calculating the total revenues 70% of the total loans issued by Firm X have to be valued at the high interest rate, while 30% has to be valued at the lower interest rate. The financial projection model for the vertical integration as an UK based firm can be found in Table 22.

	2013	2014	2015	2016	2017	2018
Total number of loans in the Dutch market	240,000	240,000	240,000	240,000	240,000	240,000
Market share Firm X	0.00%	7.50%	10.00%	12.50%	15.00%	17.50%
Number of loans issued by Firm X	0	18,000	24,000	30,000	36,000	42,000
Number of loans whereon interest is received	0	15,300	20,400	25,500	30,600	35,700
Average amount of interest received per loan with Guarantee	€57.36	€57.36	€57.36	€57.36	€57.36	€57.36
Average amount of interest received per loan without Guarantee	€2.12	€2.12	€2.12	€2.12	€2.12	€2.12
Total revenues for Firm X	€0	€624,072	€832,096	€1,040,120	€1,248,144	€1,456,167
Total costs for the loans issued	€0	€629,784	€839,712	€1,049,640	€1,259,568	€1,469,496

Costs for the OFT license	€8,600	€0	€0	€0	€0	€0
Lawyer costs	€10,000	€0	€0	€0	€0	€0
Costs for developing the database	€6,000	€0	€0	€0	€0	€0
Net results	-€16,784	-€5,712	-€7,616	-€9,521	-€11,425	-€13,329
Cost-Revenue multiple	NA	1.0x	1.0x	1.0x	1.0x	1.0x
NPV-2015	-€13,400					
NPV-2018	-€15,897					

Table 22: Financial projection for Firm X as an UK based online payday lender

The revenues which can be generated when operating from the United Kingdom are significantly higher than when the firm is Dutch based. Although the NPV values are significantly less negative than in the Dutch based scenario, the net results which can be reached are still negative and will be increasingly negative in the future. This means that, even with the higher interest charged on loans backed up with a guarantee, it is still not possible to create a profitable business model for the Dutch market. The only way a profitable business model can be reached is by either increasing the revenues or decreasing the costs. The likelihood that the costs can be decreased is low and therefore the revenues have to be increased. The revenues can be increased by charging higher interest rates for the guarantee. Taken into account the announcements by the AFM (AFM, 2013b; AFM, 2013d) it is very questionable if higher interest rates would positively influence the longevity of the strategy.

When illustrating the revenues which can be gained per loan issued in the first scenario in a bubble diagram, where the x-axle represents the market size and the y-axle represents the legal allowances, it can be observed that the Dutch market scores very poorly compared to the market in the other countries included in the benchmark. The market size and legal allowances are ranked on a 7 point scale for each country. Since the costs are more or less similar in all countries, the profitability of a payday lending firm is mainly influenced by its revenues. The bubble-chart illustration is displayed in Figure 24 .

As can be seen the UK-market is the biggest one and has the least legal restrictions, and therefore has the highest revenue per loan (the green bubble). The Dutch market is very small and has a lot of legal restrictions; hence a small revenue per issued loan can be generated (the red bubble). The Swedish market (the blue bubble) and Finnish market (the orange bubble) are quite large and little regulation is in place. The general conclusion which can be derived from Figure 24 is that a large market size and a low level of legal restrictions positively influence the generated revenue per loan. Since these two measures are not favourable in the Netherlands, low revenues per loan issued are the result.

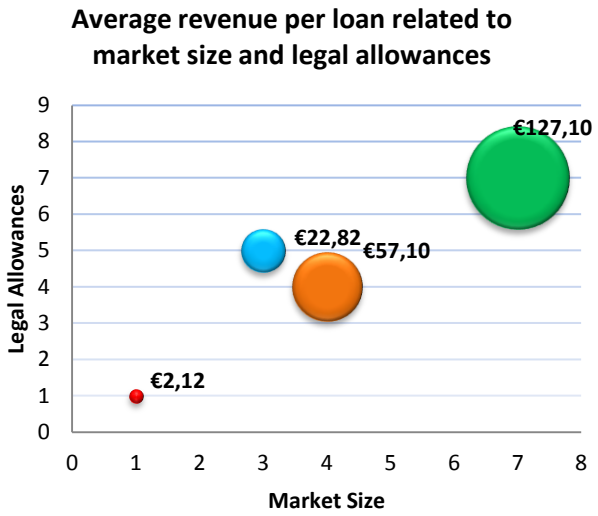

Figure 24: Bubble-chart of revenues per loan in each country

4.4.5.5 Conclusion

In section 4.4.5 the situation when Firm X turns into an online payday lender was discussed. First the required competences were discussed and it was shown that mainly new employees would have to be hired when implementing the strategy of vertical integration. Another important competence which should be acquired is the automated database to monitor the loans standing out. Furthermore an AFM license has to be received and a connection with the BKR has to be realised.

Secondly the strategic fit with the current activities was investigated. At this moment the majority of the revenues are generated by displaying Service 1 Search Engine Y advertisements on the websites. If Firm X becomes an online payday lender itself, these advertisements will not be displayed anymore and the Service 1 Search Engine Y revenues would be eliminated. Additionally it was shown that issuing payday loans it a bit far off the current strategic core and it is therefore not the best strategic option to implement. Besides the internal considerations and the strategic fit, the external environmental issues were also investigated. The regulatory restrictions and announced investigations and actions in the Dutch payday loan market seem to be a large threshold for implementing the vertical integration strategy for Firm X.

The financial forecast did not result in a positive image for the vertical integration strategy, even if the same business strategy EU Lender 1 uses in the Dutch market was taken into account. It appears that it is not possible to turn the strategy into a profitable strategy and therefore it is not favourable to choose the issuing of online payday loans as a future strategic option.

4.4.6 Feasibility of vertical integration

Chapter 4.4 elaborated on the option of vertical integration. In the case of Firm X, vertical integration means that Firm X becomes an online payday lenders itself, instead of just generating leads for other online payday lenders. As seen before these leads are generated through direct affiliate campaigns or through Service 1 Search Engine Y advertisements.

In section 4.4.1, theoretical advantages vertical integration could have for Firm X and how the strategy of vertical integration would look like for Firm X were discussed. Main advantages mentioned are the decrease of dependency on other actors in the value chain and the getting the benefits of returning customers. A major disadvantage was related to the structural contingency theory, namely the external factor of regulations and the AFM. This regulation was further explored in the section 4.4.2. In this section it was shown that the Dutch market is relatively small and there are not a lot of lenders operating in the market. The number of lenders is limited because of the strict regulation and monitoring of the market, while the size of the market is small mainly because of the other options of credit which are available to a large group of customers in the Netherlands.

The markets for online payday loans in foreign countries were described in section 4.4.3. The main differences with the Dutch market are the sizes of the markets, the number of lenders active in the market, and the regulation in the market. Markets in foreign countries are bigger since, sometimes there are more inhabitants, but mostly because a lot of customers do not have access to other forms of credit and therefore turn to online payday loans. The regulation in the other countries is much less strict than in the Netherlands which results in the charge of high interest rates, a high market attraction for new lenders and subsequently a large number of lenders operating in those markets. The companies competing in the foreign countries were investigated in the benchmark study described in the fourth section. An important note to be made is that firms were included in the sample if financial records were available and if it was possible to find information about their market shares. The main goal in this section was to determine the revenues which were generated per loan by those companies and which costs were made in order to generate those revenues. The costs per loan were used as the input-variable for the financial projection of the vertical integration strategy for Firm X.

This financial projection was described in the section 4.4.4. In fact two scenarios for the vertical integration were discussed; first a scenario wherein Firm X offers online payday loans as a Dutch-based firm, and secondly a scenario wherein Firm X, just like EU Lender 1 does, operates from the United Kingdom. An advantage, at this moment, of the second strategy is that no AFM license is required and there is therefore more freedom in choosing the interest percentage rate which can be charged and opportunities to charge costs for additional services, like the guarantees used by EU Lender 1. The results of the financial projection are negative for both scenarios, especially for the first scenario.

Taking into account the findings in these four sections it can be concluded that the theoretical advantages of vertical integration for Firm X cannot be translated into practical advantages. The strict regulation and close monitoring of the AFM combined with the small market size in the Netherlands disables the realisation of a profitable business model for Firm X as a payday lender.

4.5 Conclusion

In this chapter all the strategic options mentioned in chapter 2 were investigated for the specific case of Firm X. Additionally a short overview of the internal and external analysis was provided. Furthermore the organic growth options available for Firm X were investigated. The main goal of this chapter was to draw conclusions about the feasibilities of the different strategic options. The organic growth options were proven to be feasible, especially because they are based on current activities and therefore fit in perfectly. The options of internationalization and strategic alliances were also proven to be feasible. Mergers & Acquisitions are not feasible at this moment because none of the acquisition target matched the requirements set. The option of vertical integration is highly likely to be infeasible since the strategic fit is not very good and the profitability of the option is very questionable.

A criteria-based comparison of the options and the eventual choice of options for the strategic roadmap will be described in the next chapter, chapter 5. The chapter starts with an explanation of the criteria used, followed by an assessment according to these criteria for each option. The chapter ends with the future strategic roadmap for Firm X.

5. Strategic Option selection and Roadmap creation

In the previous chapters several strategic options which can contribute to the future growth of Firm X were investigated and described in detail. These options included: organic growth, internationalization, strategic alliances, mergers & acquisitions, and vertical integration. Although indications about the feasibility of the different options are already provided in the previous chapters, the comparison between the strategic options and subsequently the decision which options are most favourable for Firm X is not performed and documented yet.

The aim of this chapter is twofold. The first aim is to classify the strategic options investigated according to several criteria. Each strategic option is classified on each criterion according to a pre-set scale in order to ensure a proper comparison of the options is possible and a scorecard of all the strategic options can be created. The criteria which are going to be used will be elaborated on in section 5.1. These criteria are selected based on consultations with the CEO of Firm X and are backed up by literal findings as much as possible. Section 5.2 contains the actual scorecard of the strategic options. Based on this scorecard the best options available for Firm X can be selected.

The second aim of this chapter is to provide Firm X a strategic roadmap for the future. In this roadmap the strategic options chosen in the section 5.2 are represented and it becomes clear to what amount the options contribute to the 2015 revenue target of one million euros. If the options selected fulfil the required revenue amount then there is no need to search for extension of the strategic option portfolio. If a shortage is observed, then new options for filling in the gap will have to be sought. The strategic roadmap will be discussed in section 5.3. In section 5.4 the effects on the company value the strategies included in the roadmap have will be discussed. The chapter ends with some concluding remarks in section 5.5.

5.1 Selection criteria

In order to be able to compare the different strategic options described properly it is important that a set of criteria is set up which is relevant for the business of Firm X. This list of criteria was chosen in close consultation with the CEO of Firm X and by performing literature research on the topic. In academic articles and books describing the choice of projects in a portfolio of a company some methods and advices regarding choosing criteria were provided.

In her 2008 book, Schilling describes quantitative and qualitative methods for choosing projects for the firm's portfolio. The three most often used quantitative methods are the net present value method, the internal rate of return method, and the real options analogy (Schilling, 2008). In the NPV method the main question is the current worth of a certain project given the particular level of expenditure, particular levels and rate of cash inflows, and a discount rate (Schilling, 2008; Brealey, Myers, & Allen, 2011). The IRR method on the other hand seeks a project's rate of return given a particular level of expenditure and particular levels and rate of cash inflows (Schilling, 2008; Brealey, Myers, & Allen, 2011). The final quantitative method mentioned is the real option approach. The real option approach as a selection criterion is mainly used as an uncertainty-reducing method. A real option is similar to a financial option contract; "it is a limited-commitment investment in an asset or technology with an uncertain payoff that conveys the right, but not the obligation, to make further investments, when the payoff looks attractive (McGrath & MacMillan, 2000, p. 35)". In short, this means that a project is monitored closely and assessed after a certain time interval before the next investment, or continuation of the option, is decided on. The financial methods mentioned are also described by Cooper et al. (1997; 2001), but more emphasize is placed on qualitative criteria. These will be discussed later on.

For Firm X the NPV method is the most interesting quantitative criterion since it is more interesting to know if an investment is earned back over time and how much an option is worth currently, than to have insights into the IRR. The IRR only is useful if it can be compared to the opportunity cost of capital (Brealey, Myers, & Allen, 2011); it is acceptable to accept an investment project if the opportunity cost

of capital is less than the IRR. Since there is no real insight opportunity cost of capital for Firm X, the IRR method is less useful than the NPV method, but it will be mentioned later on. The real option analogy will not be used as a real criterion in the initial choice for the strategic options, but it is for Firm X important to keep the analogy in mind when monitoring, and deciding on the continuation, the strategic options which are chosen.

Qualitative methods for choosing projects are divided into screening questions by Schilling (2008). The idea of screening questions is that the management team of a firm discussed potential costs and benefits of a project or strategy and uses a set of pre-set questions as input for the discussion. These questions can be related to the role of the customer, the role of capabilities in the firm, and project timing and costs. As can be seen the emphasis in Schilling (2008) is more aimed at quantitative methods, for additional qualitative methods both articles by Cooper et al. (1997; 2001) are consulted. Cooper et al. (1997; 2001) distinguish business's strategy and scoring models as important selection criteria. In the business strategy approach, the idea is that, after deciding on a firm's business strategy, money is allocated to different strategic pillars and that within these pillars a ranking of the different projects is made (Cooper, Edgett, & Kleinschmidt, 2001). The scoring models are characterized by ranking an option based on several pre-set criteria, similar to the screening questions suggested by Schilling (2008). These criteria will be ranked for each option on a pre-set scale, which enables a proper comparison. The criteria can be very specific for each company, but in general five main criteria can be distinguished for a project: the reward, the business strategy fit, the strategic leverage, probability of commercial success, and the probability of technical success (Cooper, Edgett, & Kleinschmidt, 1997; Cooper, Edgett, & Kleinschmidt, 2001). It has to be noted, however, that there is some overlap between the quantitative and qualitative criteria in these scoring models, since the rewards are also measured as financial values.

For Firm X these qualitative criteria are very useful. Especially the criteria mentioned in the scoring models are very suitable to use in determining the best strategic options for Firm X. As discussed in previous chapters, the strategic fit to the current strategy and the core competences is quite important for a strategy to be suitable. Furthermore it is important that a strategic option can contribute significantly to the 2015 revenue target of €1,000,000. This can be seen as the reward as defined by Cooper et al. (1997; 2001). Finally it was shown that the risk of an option is important, especially the regulatory risks and risks of high dependency on other actors.

When the quantitative and qualitative criteria are taken into account, the scorecard used to assess the strategic options for Firm X includes the following criteria: the net present value, the contribution to the 2015-revenue target, the amount of risk, and the strategic fit with the current strategy. In section 5.2 all the strategic options investigated are valued according to these criteria.

5.2 Ranking the strategic options

In section 5.1, the four selection criteria which will be used in the ranking were discussed. In order to be able to compute an average of all the criteria to use in the final decision of which strategic options are favourable, it is important to use equal ranking value for each option. This is ensured by categorizing each criterion according to a five point scale. Since some criteria cannot be directly displayed in a five point scale; the net present value and the contribution to the 2015-revenue target have to be translated to a five point scale value. The translation of the actual numerical values of the criteria to a scaled value for each criterion is shown in Table 23. As can be noted some criteria are already reflected into the five point scale, since they cannot be valued numerically. The criteria which are immediately scaled are the amount of risk and the strategic fit with the current strategy, the revenue-target and the net present value had to be translated into the five point scale.

Criterion	1	2	3	4	5
2015-Revenue Target (I)	< €25,000	€25,000 - €75,000	€75,001 - €125,000	€125,001 - €175,000	> €175,000
Net Present Value (II)	< €0	€1 - €50,000	€50,001 - €100,000	€100,001 - €150,000	> €150,001
Amount of Risk (III)	Very High	High	Moderate	Low	Very Low
Strategic Fit (IV)	Very Low	Low	Moderate	High	Very High

Table 23: Scaling for ranking criteria for the strategic options for Firm X

As can be noted in Table 23, the amount of risk is ranked reversed when compared to the strategic fit. This is done, since the scaling score 5, which represents the lowest amount of risk possible actually is the best score possible. The design of the criteria-ranking ensures that the highest score which can be reached per criterion is a five. The scores assigned to the amount of risk and strategic fit for each option will be based on the sections where those elements were discussed for each strategic option. Although these scores are thus not (fully) based on quantitative data, the sources used to gather information about the two criteria enabled the development of a clear opinion and classification for these criteria.

The two other criteria, the 2015-revenue target and the net present value are based on quantitative numbers. The revenue target is represented by the contribution of a strategic option to the 2015 revenue, while the net present value represents all the cash flows from the time frame 2013-2015. This measure is however very useful since a high contribution to the revenue in 2015 does not automatically mean that an option is the best choice. If the net present value of that particular option is low, or even negative, this means that the costs to generate revenue through that option are above average or even higher than the revenues which can be generated. This led to the conclusion that both criteria should be incorporated in the ranking-method, in order to account for both the upper side (the revenues) of an option, and the lower side (the costs incurred) of an option.

Before providing the scores, as displayed in Table 23, the actual values for the 2015-revenue target contribution, and the net present value for every option will be provided. The segment of online consumer trading products is also included in the analysis, since it also belongs to the business activities of Firm X. As mentioned before, this segment is not investigated in this thesis and therefore the values for the two financial criteria are based on assumptions decided on in close consultation with the CEO of Firm X. The actual values for the two financial criteria can be found in Table 24. For a complete picture, the revenues each option generates in 2013 and 2014, and the IRR are also displayed.

Strategic Option	Revenue 2013	Revenue 2014	Revenue 2015	NPV	IRR
Organic Growth Netherlands (Current Websites)	€101,881	€121,171	€136,539	€248,902	∞%
Organic Growth Netherlands (New Websites)	€1,565	€8,086	€10,538	€7,342	510%
Organic Growth Belgium	€10,326	€44,253	€52,402	€78,836	∞%
Internationalization Germany	€5,127	€45,054	€95,216	€64,906	219%
Strategic Alliances (affiliate campaigns) Netherlands	€12,618	€27,612	€31,113	€42,480	∞%
Strategic Alliances (affiliate campaigns) Belgium	€1,039	€4,557	€5,293	€51	15.5%
Vertical Integration (Dutch-based firm)	€0,00	€32,488	€43,317	-€731,005	-∞%
Vertical Integration (UK-based firm)	€0,00	€624,072	€832,096	-€13,403	-∞%
Online Trading Segment	€100,000	€110,000	€120,000	€252,730	∞%

Table 24: Actual values of financial criteria for each strategic option

The first conclusion which can be derived from Table 24 is that high revenues do not automatically mean that a strategy is profitable. If the two vertical integration scenarios are taken as an example; the 'Dutch-based firm' scenario yield reasonably high revenues in 2014 and 2015, but the net present value of the strategy is very negative. As seen in section 4.4.5.4 this result can mainly be assigned to the very high cost-revenue multiple for this strategy. The revenues for the 'UK-based firm' scenario are the highest of all strategies included in the thesis, since the investment and operating costs for this strategy are, however, even higher than the revenues a negative net present value results. For the organic growth strategy of the current websites in the Netherlands and the organic growth in Belgium an high

net present value can be obtained. This is mainly caused by the low costs these strategies entail. The same analogy holds for the online trading segment, but as stated before, these numbers are purely based on assumptions since the segment was not part of the research performed in this thesis. When taking into account the IRR, it can be seen that some options have an infinite IRR, either positive or negative. This occurs since for some options there are only positive net cash flows, while for some options there are only negative net cash flows. Since a lot of the IRRs are infinite this financial value will not be included as a separate criterion; it does however amplify the findings regarding the NPVs of the options.

The differences in the 2015 revenue contribution and the net present value for each strategic option will also become clear in the criterion ranking. The ranking of each option according to the pre-set criteria can be found in Table 25. A detailed explanation about the rankings per criterion will be provided afterwards. Table 25 also provided an overall score for each strategic option; this enables the choice for the best strategic options for Firm X. In Table 25, (I) represents the 2015 revenue target criterion, (II) the net present value criterion, (III) the risk criterion, and (IV) the strategic fit criterion.

Strategic Option	(I)	(II)	(III)	(IV)	Total Score
Organic Growth Netherlands (Current Websites)	4	5	3	5	4.25
Organic Growth Netherlands (New Websites)	1	2	3	5	2.75
Organic Growth Belgium	2	3	3	5	3.25
Internationalization Germany	3	3	2	5	3.25
Strategic Alliances (affiliate campaigns) Netherlands	2	2	2	4	2.50
Strategic Alliances (affiliate campaigns) Belgium	1	2	2	4	2.25
Vertical Integration (Dutch-based firm)	2	1	1	2	1.50
Vertical Integration (UK-based firm)	5	1	1	2	2.25

Table 25: Ranking of the strategic options

In the next sections a detailed explanation of the scores for each strategic option in each criterion will be provided. Section 5.2.1 discusses the scores for the 2015 revenue targets; section 5.2.2 elaborates on the scores for the net present value of an option; sections 5.2.3 and 5.2.4 focus on the scores on risk and strategic fit respectively. Section 5.2.5 explains the total score for each strategic option, and additionally an advice regarding which options can best be chosen is given.

5.2.1 2015 Revenue Target

The explanation for the scores assigned to each strategic option for the 2015 revenue target is pretty straightforward, since the scoring for this criterion is based on real amounts of revenue which can be generated in 2015. Since the ranking is based on a five point scale the absolute values are not displayed completely in Table 25. As seen in Table 24, the revenue which will be generated in 2015 by the strategic option of vertical integration as an UK-based firm is much higher than the revenues for all the other options. Because of the chosen scaling this strategy receives a ranking value of 5, while the option of organic growth of the current websites in the Netherlands receives a value of 4, even if the revenues are significantly lower. The reason why the scales for the 2015 revenue target are chosen as displayed in Table 23 is that these scales lead to different scores for all strategic options. If the intervals for each score were chosen to be larger, it would have led to low scores for almost all options and one high score for the UK-based vertical integration option. This would have led to an unfair comparison.

Based on the scores on the 2015 revenue target criterion, the best option to choose it the vertical integration strategy as a UK-based firm, followed by the option of organic growth of the current websites in the Netherlands and the Internationalization strategy for Germany.

5.2.2 Net Present Value

The scores for the net present values provide a complete other view on the strategic options that the 2015 revenue target scores did. This occurs since in the net present value analysis technique not

only projected revenues are taken into account, but also projected costs and investments made in a strategic option. The value of the net present value is represented by discounting the free cash flows (revenues subtracted by all the costs made) at a certain discount rate. This discount rate depends largely on the risk of the option; the risk-factor will be elaborated on later on. Another important note to make is that the net present value takes into account the discounted free cash flows of the years 2013, 2014, and 2015, instead of only 2015, as in the revenue target criterion.

Since the measurement time frame and the characteristics of the measurement variable are different, the scaling scores for the net present value are slightly different compared to the scaling scores used for the 2015 revenue target. Because of the inclusion of investments and costs in the NPV, it is possible that the NPV of a strategic option can be negative. If a negative NPV is obtained for an option then the value 1 is assigned to that strategy. For the other scaling factors intervals of €50,000 NPV are used. If a strategy has an NPV of more than €150,000, the value 5 will be assigned to that strategy.

As indicated before, the NPVs for the vertical integration strategies are both either slightly or very negative, even though the revenue potential of both strategies is very promising. As stated before, the main cause for this fact is that the costs which have to be made in order to generate the revenue are very high, and especially for the Dutch-based vertical integration the cost-revenue multiple is extremely high. Other strategic option, on the other hand, show very promising NPVs compared to their revenue contribution in 2015. This is mainly caused by the relatively low costs made to reach the revenues and by the fact that the revenues show a pattern of growth from 2013 to 2015 (see Table 24) while the costs remain roughly constant (section 4.4.5.4). The strategic options showing the most promising net present value results are the organic growth strategy for the current Dutch websites, the internationalization to the German market, the organic growth strategy for Belgian websites, and to a bit lesser extend strategic alliances in the Netherlands.

5.2.3 Amount of Risk

In measuring the risk of a strategic option several factors have to be taken into account, and not all risk-factors are similar for each option. The risk-factor taken into account in assigning a scoring value for the risk of each strategic options are: the dependency on Search Engine Y as a supplier; the dependency on Search Engine Y as a customer; the dependency on Affiliate Network X as a customer; the competition of other websites; the competition of online payday lenders; the AFM- and other regulation; the Service 1 Search Engine Y Policy; the market size of the Dutch payday market; the cost per click earned through Service 1 Search Engine Y; the threat of internal cannibalization; and finally market performance uncertainty. In the following sections, the risk will be clarified for each option separately.

5.2.3.1 Organic growth Netherlands (current websites)

For the organic growth strategy of the current portfolio of websites in the Netherlands, six types of risk can be distinguished. Since the revenues in this strategy are realised through Service 1 Search Engine Y advertisements the dependency on Search Engine Y as a customer is high. Additionally the Service 1 Search Engine Y policy of Search Engine Y play a major role in this strategy since it is important for Firm X to follow all the requirements in this policy very strict in order to be able to continue this revenue generation mechanism. Another threat which can be assigned to this strategy is the fluctuation in the cost-per-click. Since Firm X has no influence on this cost-per-click, it entails a large amount of risk. A variable which influences the level of the cost-per-click can presumably found in the number of online payday lender who advertise in Search Engine Y. If the number of online payday lenders decreases it also means that the possibility of a decrease in the cost-per-click is higher. As seen in section 4.4.2.3, the strict regulation set by the AFM drove many online payday lenders out the market, therefore the AFM regulation is also a risk factor for the organic growth strategy, even though it is an indirect risk. Another risk which can be obtained for this strategy of the current portfolio of websites in the Netherlands is the

threat of competitors holding portfolios of similar websites. Currently this threat is not very high (see section 4.1.2), but if competitors improve their long term strategies this might become a serious risk for this option. Finally the risk of high dependency on Search Engine Y as a supplier is important for this strategy since Search Engine Y is by far the most used search engine, and it is expected to be so in the foreseeable future, and it is therefore important to meet the requirements of the Search Engine Y Search Engine Algorithm and to be able to respond adequately to the updates made in this algorithm.

When assessing the overall risk value for the organic growth strategy of current Dutch websites it can be stated that the risk is moderate, and receives a value of 3. The moderate-label is assigned since Search Engine Y has proven to be a stable business partner, both as a supplier and customer. Additionally the Service 1 Search Engine Y policy does not bring any problems to Firm X. Furthermore the current competitors of Firm X are not a real threat and the AFM regulation only provides an indirect threat for Firm X. The overall risk is set to moderate since a lot of different risk factors can be distinguished despite they do not all have a real big influence.

5.2.3.2 Organic growth Netherlands (new websites)

For the strategy of organic growth of new websites in the Netherlands the same analogy regarding the risk factors holds as for the organic growth strategy of the current portfolio of websites. There is however one additional risk which has to be taken into account in the development of new websites, which is the threat of internal cannibalization. The majority of the websites in the portfolio of Firm X is aimed at the same segment, namely online payday loans. This means that a lot of domain-names of websites and content provided on websites will exhibit a certain level of similarities. These similarities may decrease the visibility in the Search Engine Y search engine results of a website because of the introduction of a new website. This phenomenon is referred to as internal cannibalization. The possibility of this happening can be seen as a risk. On the other hand it is also possible that a new website of a competitor expels a websites of Firm X out of the search results. When viewing from this perspective it is better that a new websites of Firm X replaces an old website than a website of a competitor. This leads to the conclusion that the threat of cannibalization is on hand, but is not as problematic as initially thought. Therefore this risk is not seen as very high, and is the overall assessment of the value for the risk for organic growth through new websites in the Netherlands similar to the risk-value of the organic growth via the current portfolio of websites, namely 3.

5.2.3.3 Organic growth Belgium

The similar risk-factors acknowledged for the organic growth strategies in the Netherlands also apply for organic growth in Belgium. Only the threat of cannibalization does not apply to the Belgian strategy (yet) since Firm X only launched a couple of websites in Belgium at this moment. The regulation of the AFM is also no risk for the business activities in Belgium, since the AFM can only control the Dutch market. This, however, does not mean that there are no legal restrictions in Belgium. Last year the Belgian legislator decided that online payday loans also should be included in the laws for consumer credit ('Wet op het consumentenkrediet') (CLVD, 2012), meaning that the online payday market is also restricted in Belgium. This legalization could have the same effects on the number of online payday loan issuers and subsequently on the cost-per-click as in the Netherlands. Taking into account these findings and the argumentation of the risk-factor for organic growth in the Netherlands a risk-value of 3 is assigned to the strategy of organic growth in Belgium. The risk of market performance uncertainty is low in Belgium because the recently launched websites perform above expectation and it is expected that newly launched websites will also perform accordingly.

5.2.3.4 Internationalization Germany

The characteristics of the strategy of geographical expansion to Germany are similar to the actions performed in the organic growth strategies. The revenue-generation model is similar and also the position of Search Engine Y in the value chain is identical. This means that there also is a great

dependency on Search Engine Y and the Service 1 Search Engine Y related issues, as discussed in section 4.2.3. The other risk-factors mentioned in sections 5.2.3.1, 5.2.3.2, and 5.2.3.3 also apply to the strategy for Germany, with the difference that German laws have to be taken into account instead of Dutch or Belgian rules and regulations.

As thoroughly discussed in describing the three different scenarios for the financial projection of the strategy of geographical expansion to Germany (section 4.3.1) one other important risk-factor has to be kept in mind, namely the risk of market performance uncertainty. The market for online payday loans is relatively new and undeveloped in Germany and therefore it is uncertain if this type of product will be successful in Germany and if there will be a large demand for these loans. Introducing websites similar to the Dutch and Belgian websites will therefore carry some amount of risk for Firm X. The newness of the online payday market also led to a very limited amount of available data which meant that assumptions and different scenarios had to be developed. The risk of market performance uncertainty combined with all the other risk-factors leads to the conclusion that the overall risk for the German strategy is a bit higher than for the Dutch and Belgian organic growth scenarios and is therefore valued as 2 on the 5 scale range as defined in Table 23.

5.2.3.5 Strategic Alliances (affiliate campaigns) Netherlands and Belgium

As shown in section 4.3.2 two types of strategic alliances can be distinguished for Firm X. On the one hand the partnership with Search Engine Y, regarding the Service 1 Search Engine Y advertisements, can be seen as a strategic alliance. On the other hand, the affiliate campaigns with online payday lenders, either direct or via Affiliate Network X, can also be seen as strategic alliances. For both types of alliances some risks can be defined, some of them are similar for both types, while other risk-factors are alliance type specific. The risks incorporated in the Service 1 Search Engine Y strategy were already discussed in in the section above and included the dependency on Search Engine Y as a supplier, as well as a customer, the Service 1 Search Engine Y policy, and the fluctuations in the cost-per-click. When taking into account Firm X' websites whereon these advertisements are displayed, the competitors with similar websites can be seen as a threat. Since the partnership with Search Engine Y is assumed to be the only partnership in the options described above, this section is mainly aimed at the partnerships represented by affiliate campaigns.

For the affiliate partnerships on the other hand, the dependency on Search Engine Y is partly reduced since Affiliate Network X becomes an additional customer. As shown in section 4.3.2, Service 1 Search Engine Y advertisements, as well as affiliate advertorials will be displayed on the websites of Firm X. The risk regarding customers is therefore spread, but an additional dependency is created (Affiliate Network X). If the affiliate partnership is chosen by Firm X it also means that the AFM regulation has a more direct influence on the business of Firm X. This is the case since stricter AFM regulation might force an increasing number of online payday lenders out of business and might therefore decrease the affiliate campaign opportunities. Besides the threat of reducing number of affiliate campaigns, the small size of the Dutch online payday lending market and the high disapproval rate of applications for loans (see section 4.4) limits the leads which can be generated by Firm X, and therefore the revenues generated through affiliate campaigns. This analogy holds both for the Dutch and Belgian affiliate campaigns.

Although the risk on the customer-side is diversified with the inclusion of the Affiliate Network X affiliate campaigns, the affiliate campaigns entails additional factors of risk, both revenue-wise as business-sustainability-wise. This leads to an overall risk valuation of 2 on the five point scale.

5.2.3.6 Vertical integration strategy

Some risk-factors accompanying the strategy of vertical integration; becoming an online payday lender were already discussed in section 4.4.5.3. The risks described are mainly related to the regulation of the AFM which represent a serious threat if Firm X decides to become an online payday lender itself.

Where the regulation in the other strategic options had an indirect risk-effect on the business of Firm X, it has a direct effect in the strategy of vertical integration. If Firm X is not able to meet the requirements demand by regulation, its business can be shut down by the AFM. This analogy holds for the scenario of a Dutch-based firm. If the UK-based firm scenario is taken into account, the threat of the AFM regulation is a not as big, since the English regulation applies to UK-based firms. As discussed in section 4.4.5.3 the AFM is, however, still allowed to take measures against firms who harm the interests of Dutch customers.

Although the AFM regulation provides the biggest threat and therefore the biggest risk for the vertical integration strategy, other risk-factors can be distinguished. The dependency on Search Engine Y as a supplier remains unchanged, and Firm X still has to compete with firms offering similar websites as Firm X does at the moment, since those websites will still be used as a platform to direct customers to the online payday lending website of Firm X. The fact that Firm X becomes an online payday lending leads to an additional competition component, namely the competition with other issuers of online payday loans. Furthermore it was already shown that the market size in the Netherlands is relatively small (see section 4.4.2) compared to other countries in the EU (see section 4.4.3) and therefore the market performance is uncertain.

Taking into account all the risk-factors described above it can be stated that especially the AFM regulation is a major threat for the strategy of vertical integration. When considering the additional risk factors encountered in the strategy of vertical integration it can be concluded that this strategy is the riskiest of all strategies investigated. For the overall risk assessment this means that the vertical integration strategy for both the Dutch-based and UK-based scenario receives a value of 1, meaning the highest risk value possible is assigned to the strategic option.

5.2.4 Strategic Fit

In measuring the strategic fit of the several options investigated several factors have to be accounted for. As seen in section 4.1.1 where the Business Model Canvas by Osterwalder & Pigneur (2009) was determined for Firm X, the value proposition, the key activities and resources are important for Firm X. Additionally the current earnings models have to be taken into account when assessing the strategic fit for an option. Furthermore it was stated that Firm X competitive strategy can best be described as differentiation focus (see section 4.1.2), so this has also be kept in mind in valuing the strategic fit of an option.

The first four strategic options investigated in this research (organic growth through the current portfolio of Dutch websites, organic growth through the development of new Dutch websites, organic growth through Belgian websites, and the internationalization strategy for Germany) all fit in perfectly in the business model canvas and within the competitive strategy of Firm X since the activities exploited in those strategies are exactly similar to the actions performed currently. Therefore these strategies have the perfect strategic fit and receive a score of 5.

The strategic alliances regarding affiliate marketing campaigns for online payday lenders the same analogy holds as for the strategic options described in the previous paragraph. The only difference is that an additional webpage has to be created for the affiliate advertorials of the online payday lenders and the information on this page has to be tailored for the services provided by the affiliate partner. Because of this small limitation the strategic fit of this strategy is valued with a 4.

For the vertical integration option the strategic fit assessment is a little less positive than for the earlier options described. As already discussed in section 4.4.5.2, the value proposition might not change that much, but the core nature of Firm X changes significantly if Firm X turns into an online payday lender. This change is quite far away from the strategic core described in the Business Model Canvas and it is questionable if such a change is desirable. Furthermore the additional resources and competences needed to function as a financial institution are not fully available yet (see section 4.4.5.1).

Taking into account these issues it can be stated that the strategic fit of the vertical integration strategy is not optimal and is therefore valued with a score of 2.

5.2.5 Overall Ranking – conclusions

The assessments of the four criteria for all the options investigated lead to the overall ranking for each of the options. This ranking was displayed in Table 25 in the beginning of this section. When viewing the final scores in the table it can be concluded that the best option is the organic growth strategy through the current portfolio of Dutch websites, with an average score of 4.25. The second place is shared between the organic growth strategy for Belgian websites and the geographical expansion to Germany, with a score of 3.25. In fourth place is the organic growth strategy for new websites in the Netherlands, scoring 2.75 on a 5-point scale.

The option of strategic alliances through affiliate campaigns in the Netherlands and Belgium also receive a reasonable score, 2.50 and 2.25 respectively. An important note for this option is that, as thoroughly discussed in section 4.3.2, the affiliate campaigns lead to a decrease in Service 1 Search Engine Y revenues and are therefore only interesting if the revenues from affiliate campaigns exceed the revenues which could be generated through Service 1 Search Engine Y advertisements. Since Service 1 Search Engine Y is the basis for the all the organic growth strategies and the strategy of internationalization, the affiliate campaign strategies cannot be used in tandem with the other strategies and therefore they are not favourable to include in the portfolio of Firm X.

The final options investigated in this research are the two scenarios for vertical integration. With overall scores of 1.50 for the Dutch-based scenario and 2.25 for the UK-based scenarios these options seem not very favourable to include in the portfolio. Especially the (high) negative net present values and the high risk entailed in both scenarios lead to the conclusion that these strategic options are not feasible and will therefore not be included in the future portfolio of Firm X.

The strategic option which will be included into the final future roadmap for Firm X are the organic growth strategies for current and new websites in the Netherlands, the organic growth strategy for websites in Belgium and the internationalization strategy for Germany. All these strategies will be based on revenues generated through Service 1 Search Engine Y advertisements. The structure of the future strategic roadmap for Firm X after including these options will be discussed in the next section.

5.3 Strategic Roadmap

The main goal for this research was to investigate strategic options for the future which could benefit to the revenue target for 2015. This revenue target was set at €1,000,000. After investigating the different strategic options, the organic growth strategies for current and new websites in the Netherlands, the organic growth strategy for websites in Belgium and the internationalization strategy for Germany were selected as the options which should be included into the strategic roadmap for the future. The strategic options investigated are all options within the segment of online payday loans. As stated in section 4.1, Firm X also exploits activities in the segment of online trading products. For this segment a high-level contribution to the total revenue is estimated, mainly based on assumptions decided on in close consultation with the CEO of Firm X. The contribution of each of the strategic options to the total revenues can be found in Figure 25.

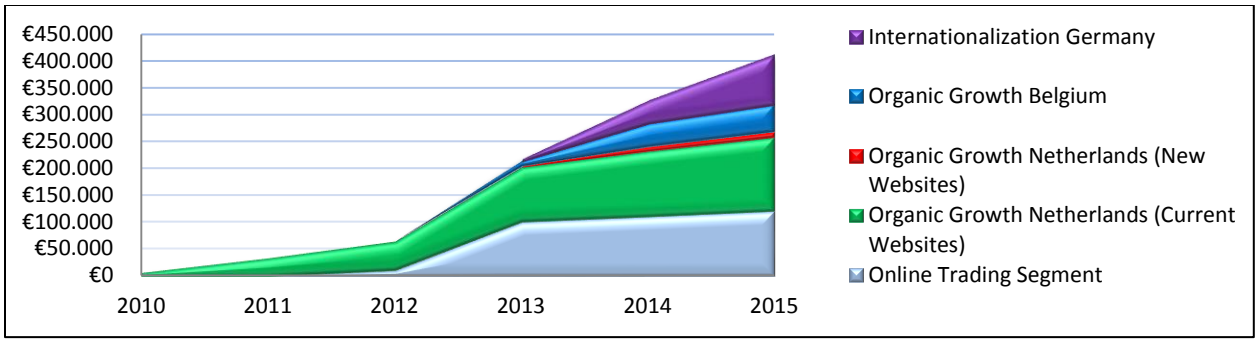

Figure 25: Revenue Roadmap for Firm X

As can be seen in Figure 25, the revenue target for 2015 cannot be reached with the current set of selected options. The selected portfolio will generate a total revenue of about €415,000, 41.5% of the pre-set target. One important note to mention here is that the revenue for the Germany strategy is projected negatively on purpose since the uncertainty of the performance. If the strategy turns out to be more successful than projected, this means that the revenue of the internationalization to Germany could double or even triple in value. With the additions of these extra revenues the target on one million will still not be reached, but the gap towards the million will be closed down.

In section 4.3.1 it was already indicated that more countries might be interesting when considering further internationalization strategies. If three or four countries with the same revenue potential as the German strategy could be added to the portfolio, the revenue target becomes within reach. In order to be able to make accurate projections for these countries, thorough research for these countries is necessary.

5.4 Company Valuation

For Firm X it is important how much value (taking into account the costs) is actually added by including new strategic options to its portfolio. In order to valuate Firm X as a company up to and including 2015, the NPVs of the strategic options, as displayed in Table 24 will be used as reference points. In these net present value calculations, the costs which could be assigned specifically to an option are already incorporated. There are however other, mainly overhead costs, which are made by Firm X (see Appendix B). With the inclusion of new options, these overhead costs will not increase and therefore they stay the same in the future situation when compared to the current situation. For the current situation, the online trading segment and the option of organic growth of the current portfolio are taken into account. New websites in the Netherlands, the Belgian growth option, and geographical expansion to Germany are viewed as new future additions. The NPVs of the current and new situation and the overhead cost can be found in Table 26.

	Current situation	Future situation
Organic Growth Netherlands (Current Websites)	€248,902	€248,902
Online Trading Segment	€252,730	€252,730
Organic Growth Netherlands (New Websites)		€7,342
Organic Growth Belgium		€78,836
Internationalization Germany		€64,906
Total NPV	€501,632	€652,716
Overhead Costs (see Appendix B):		
Office rent	€36,000	€36,000
Maintenance websites	€4,464	€4,464
Programmer	€36,000	€36,000
Interns	€36,000	€36,000
Total Overhead Costs	€112,464	€112,464

Total Company Value	€389,168	€540,252

Table 26: Company Valuation Firm X

As can be seen in Table 26, the overhead costs remain the same even though the new options are added to the portfolio. If only the current activities are continued by Firm X the value of the company in 2015 is estimated to equal €389,168. With the addition of the feasible and favourable options investigated in this thesis the 2015 company value is estimated to equal €540,252; an increase of 38.8%. This means that the value of Firm X as a company can be increased by the inclusion of additional strategic options into the strategy portfolio. This increase is especially interesting since the overhead costs, the fixed costs, do not increase because of the additional activities. The investments required for the new strategic options can all be realised and initiated by using the profits from the current activities performed.

5.5 Conclusion

In this chapter the different strategic options investigated in this research were ranked by uses four criteria: contribution to the 2015 revenue-target, the net present value, the risk of an option, and the strategic fit of an option. After assessing scores for each option on these criteria and explaining why a certain score was provided, four strategic options came forwards as favourable for Firm X and these options were included in the strategic roadmap. These options are: the organic growth strategies for current and new websites in the Netherlands, the organic growth strategy for websites in Belgium and the internationalization strategy for Germany. Besides these options, the other business segment, the online trading products, was also included in the roadmap.

The roadmap displaying the revenues generated up to 2015 shows that the pre-set target is not reached by the activities exploited currently and the strategic options chosen based on the research performed in this thesis. This means that additional strategies which can contribute to the revenues have to be identified. The most feasible option at this moment seems to be the investigation of additional countries to exploit the internationalization strategy. Furthermore there might be possibilities for additional revenue in the segment of online trading products. Finally it was shown that the additional options will lead to an increase in overall company value for Firm X.

Since the least was known about the strategy of vertical integration within Firm X, this was the main strategy to investigate in this thesis. Unfortunately the results of this investigation are not very favourable for this strategy. Although the revenues seem reasonable promising, the costs and risks incurred with the strategy and the lack of strategic fit led to the conclusion that becoming a payday lender in the Dutch market is not a good choice for Firm X.

6. Conclusion & Discussion

This chapter ends the master thesis project report. In this chapter, the answers to the research questions, research methods used in answering the research questions, and the main outcomes relevant for Firm X will be reflected on. In section 6.1, a conclusion of the issues which have been investigated in the research will be provided. The findings of this master thesis are compared to existing knowledge about the topic in the literature in the discussion, in section 6.2. Section 6.3 provides recommendations for Firm X based on this research. In the section 6.4 the limitations of the research will be discussed. Indications and possibilities for further research will be provided in the sections 6.3 and 6.4.

6.1 Conclusion

In this thesis research new strategic options are investigated, assessed on its feasibility, and it is decided which of these options are favourable to include in the future strategic roadmap of Firm X. The reason new strategic options had to be investigated is that the current developments in the market segment of online consumer credits and the characteristics of this market leads to the assurance of revenue streams and therefore future company growth. The main objective of the thesis was to develop and deliver a structural framework/ roadmap for the future of the online consumer credit segment of Firm X, in which an overview of the different strategic options is provided based on business cases in different scenarios. The strategic options in this roadmap should provide a revenue income of €1,000,000 in 2015. Before arriving at this main deliverable, the key question to answer in this thesis is:

"Which strategic options are available for Firm X regarding the online consumer credit market and which options will be favourable taking into account business cases with different scenarios?"

Finding the solution for this question is an extensive process and therefore it as chosen to divide the main question into four research questions:

Research Question 1: *"Which different strategic options can firms choose to implement according to the academic theory?"*

Research Question 2: *"What is the current strategy of Firm X and how are both the internal and external environment characterized?"*

Research Question 3a: *"Is growth through innovation, strategic alliances, or mergers & acquisitions feasible and what are the key factors to take into account when using these strategies?"*

Research Question 3b: *"Is growth through vertical integration feasible and what are the key factors to take into account when using this strategy?"*

Research Question 4: *"Which strategic options will be favourable for Firm X taking into account business cases with different scenarios?"*

After investigating and answering the four research questions in the order of succession as described above, it was possible to answer the main question of the thesis and to develop the main objective of this master thesis research.

For answering the first research question use was made of academic literature regarding company strategy and strategic options. The main finding is that firm should have a clear understanding of their mission and vision statements, the strategic core of the firm and their core competences. If the strategic targets as stated in the mission statements cannot be reached through organic growth, other strategic options have to be considered. Literal findings provide several directions regarding strategic options. First a company can grow through innovation of its products, services, or production processes. This innovation can either take place within firm boundaries, described by the closed innovation paradigm; or in collaboration with other firms, described by the open innovation paradigm. Recent business trends show that open innovation becomes rather the rule than the exception. Besides innovation a firm can

ensure future growth by engaging in partnerships with other firms. These partnerships are often used if certain resources or competences are not available in-house, or if cost benefits can be reached. These partnerships can be seen as a rather informal form of inter-firm collaboration. More formal forms identified in the literature review are mergers and acquisition and vertical integration. As shown in chapter 2, mergers & acquisitions can be used to execute the strategy of vertical integration, but the strategies are not similar. In vertical integration a firm either gains control of the supply side in the value chain or the distribution side in its value chain. The main reasons to integrate vertically are the insurance of quality in supply or distribution, cost-benefits, and an increased level of control. The strategic options which are suited for Firm X according to the literature are organic growth, innovation, strategic alliances, mergers & acquisitions, and vertical integration. Since vertical integration is the least known option by Firm X, this was focal strategy to be investigated in this thesis.

In answering the second research question a thorough analysis of the current strategy of Firm X was performed. Both internal business factors and external business factors were taken into account. For the internal analysis the framework used as a starting point was the Business Model Canvas by Osterwalder & Pigneur (2009). Within this canvas, nine key building blocks defining a company's business structure were taken into account: customer segments, value propositions, channels, customer relationships, revenue streams, key resources, key activities, key partnerships, and cost structure. The main results of this analysis were that the key value proposition of Firm X is uniting supply (of online loans and online trading products) with market demand (consumers) through relevant and unique content. Revenues are generated through affiliate lead generation or through Service 1 Search Engine Y advertisements. This means the content provided on the websites is written in a promotional and informative way. In assessing the external business environment use is made of the five forces model by Porter (1979) and the PESTEL analysis. Results show that dependency on a small number of business partners (mainly Search Engine Y) and political issues are the main threats for Firm X. The current strategy of Firm X can be described as differentiation focus. The strategy is focussed because a certain target group is concentrated on when writing the content. The strategy is differentiated because the provision of relevant high-quality new content is a core competence which distinguishes Firm X from its competitors.

Besides the description of the strategy, the second research question was also concerned with the opportunities of organic growth. It was shown that organic growth can contribute to the 2015-revenue target, but that additional strategic options are necessary.

For research question 3a and 3b the feasibility and revenue potential of the strategic options identified in the literature review was assessed. Besides the strategic options mentioned earlier, the option of internationalization came forward during the process of the internship at Firm X, and was therefore also investigated. Concluding it can be said that not all options were found to be feasible and although some options were feasible they seemed to be less favourable than other strategic options. The option of mergers & acquisitions, for example, proved to be unfeasible since no appropriate acquisition target could be identified based on the pre-set criteria. The options of geographical expansion, however, showed some very promising results after the analysis. The strategic alliance option wherein Search Engine Y (Service 1 Search Engine Y) is used as a collaboration partner proved to be more profitable than a strategic alliance wherein use is made of affiliate marketing. The feasibility of vertical integration was questionable even before its favourability was assessed in the fourth research question, since especially the (external) political aspect proved to be a real problem, and it is not possible to create a profitable business model for the vertical integration strategy.

The strategic options investigated in the first three research questions were assessed and compared to each other in order to answer the final research question. This assessment of the option was based on four pre-determined criteria: the contribution to the 2015 revenue target, the net present value, the strategic fit, and the risks brought forward by an option. The comparison of the different

options was thoroughly discussed in chapter 5 and the organic growth options for Dutch and Belgian websites, in combination with Service 1 Search Engine Y advertisements, were found to be the favourable options for inclusion in the final strategic roadmap. Additionally the option of geographical expansion to Germany was selected as a favourable option. This means that strategic alliances through affiliate campaigns and vertical integration are not favourable for Firm X.

The selected strategies unfortunately do not reach the €1,000,000 revenue target value set as the goal for 2015. This means additional options have to be sought. Advice how the gap in revenue possibly can be filled can be found in the next section, as well as recommendations based on the results of this thesis research.

6.2 Discussion

In this section the findings in this thesis report are placed in a broader perspective and compared with literal findings and observations. A lot of findings in the literature were provided in chapter 2 of this thesis report and these constructs will also be used in this discussion. In this discussion three angles of incidence will be used as leading aspects for the comparison of the results. The first one is related to the company characteristics, the second one is related to the type of industry the company is operating in and the third one is related to the methods used in this master thesis research. The section ends with suggestions for further theoretical research.

Taking into account the first leading aspect, the characteristics of a company, a few similarities and differences with the literal findings in chapter 2 can be observed. Alliances are often referred to as organizational forms which are used for the development of products or services (Gulati, 1998; Stuart, 2000; Hagedoorn & Duysters, 2002a). In the case of Firm X, the alliance with Search Engine Y enables Firm X to use the advertorial network of Search Engine Y and enables Search Engine Y to make use of the websites developed by Firm X. The concluding strategic alliance definition in chapter 2 showed that all parties in an alliance particularly stated that the alliance should satisfy both common and individual goals and that the partnership is voluntary. Since the market share of Search Engine Y is 93% (NowNederland, 2013) and Search Engine Y has thousands of partnerships like the ones with Firm X, Firm X needs Search Engine Y more than the other way around and the dependency on Search Engine Y is thus very high, as shown in section 4.1.2.2. It is therefore questionable if the definition for strategic alliances holds completely. In section 4.3.2.6 it was shown that the strategic alliances of Firm X are best viewed through the resource-based view (Das & Teng, 1998; Das & Teng, 2000) and that the transaction cost theory (Williamson, 1981; Williamson, 1991) used to explain motives for entering strategic alliance by many authors (Kogut, 1988; Ireland, Hitt, & Vaidyanath, 2002) is not usable for Firm X. The alliance process as described by Duysters et al. (2003) is also not fully applicable to the situation of Firm X. Since the market share of Search Engine Y is very high and it is almost impossible to execute the current business model of Firm X without making use of Search Engine Y, the partner selection and the selection criteria mentioned by Duysters et al. (2003) do not hold for Firm X' alliances. The literal findings regarding mergers & acquisitions were mainly based on large high-tech companies where R&D is very important. Since Firm X is not a large firm and R&D is not important for Firm X, the results regarding mergers & acquisitions are somewhat different. In the literature it was argued that acquisition targets should be a bit off the strategic core of a firm since otherwise new knowledge and capabilities cannot be acquired (Cloodt, Hagedoorn, & Van Kranenburg, 2006). As shown in section 4.3.3, acquisition targets for Firm X should be close to its strategic core. This is mainly caused by the competition strategy of Firm X, differentiation focus, meaning activities far off the strategic core are less interesting for Firm X. The theoretical advantages of forward vertical integration are majorly applicable in the Firm X case. If Firm X becomes an online payday lender it is located closer to its consumers in the value chain (Simonet, 2007; Cadeaux & Ng, 2012), it can generate additional value because it is located more downstream in the value chain (Wise & Baumgartner, 1999), and the benefits of repeat-consumers can be reaped on

(Valletti, 2004). When investigating the option in more detail it was found that the integration would be far off the strategic core and that it would cause problems, as mentioned by Gulbrandsen et al. (2009). Additionally the external threats proved to be of major importance, especially the regulatory threat of the AFM, which can be placed in the structural contingency theory, where it is stated that the decision towards vertical integration mainly depends on the external business environment (Venkatraman, 1989; Cadeaux & Ng, 2012).

The second leading aspect, the type of industry Firm X is operating in, also provides both similarities and differences with the findings elaborated on in chapter 2. Two types of industries are important in the business model of Firm X: the internet industry and the online payday loan market. Both these industries are characterized by the fast changes, especially the internet industry because of the Search Engine Y algorithm updates. The speed of the changes in these industries are in line with the industry most often referred to in the literature about strategic alliances, mergers & acquisitions, vertical integration and innovation; the high-tech industry. The uncertainty of the longevity of an online payday lender is in line with the reasoning used by Parkhe (1993), who states that the stability of a partnership is characterized by inherent instability from uncertainty in the behaviour of a partner. Since Firm X' partnerships with firms in the industry described are not based on product development, the literal definitions for partnerships, often based on high-tech firms, do not hold completely. Since there is no product development, the transaction cost theory is also not very applicable. The different forms of strategic alliances, joint ventures (Kogut, 1988; Lei & Scolum Jr., 1991; Yasuda, 2005), minority investments (Duysters & Hagedoorn, 2000; McGrath & MacMillan, 2000), and networks (Duysters, Heimeriks, & Jurriëns, 2004; Jones, 2007) are not recognized in the specific situation of Firm X. The relations with Search Engine Y and/or online payday lenders can be defined as contracts. The contract with Search Engine Y can be seen as a long-term contract as long as the Search Engine Y policy is obliged by Firm X, while the contracts with online payday lenders can be seen as short-term contracts because of the high level of uncertainty in the longevity of online payday lenders in the Dutch market. The characteristics of the markets wherein Firm X operates limit the variability in options regarding strategic alliances. Viewing the findings regarding vertical integration it can be stated that becoming an online payday lender itself can be seen as forward vertical integration and some of the benefits also apply to the industries wherein Firm X operates; returning customers (Valletti, 2004) and increase in market share (Wise & Baumgartner, 1999). The findings in the literature about considerations in the vertical integration decision process cannot all be confirmed for the Firm X case. Asset specificity, closeness to current competences and knowledge in the firm are important (Gulbrandsen, Sandvik, & Haugland, 2009), whether bureaucratic costs and production costs do not play a role (Balakrishnan & Wernerfelt, 1986; Mahoney, 1992). The new employees required, defined as overhead, do play a role in the decision for Firm X. For the external environment the threat of regulation is the most important issue for Firm X, this is not specifically mentioned in the literature, even not as a strategic cost (Mahoney, 1992). Technological instability, as mentioned by Balakrishnan & Wernerfelt (1986) is not important in the case of Firm X, since there is no product development. For vertical integration in practice there has not been performed any research regarding the internet industry or the online lending industry. This thesis research however showed that both the internal and external business environment are of major importance in the decision making process as was also shown for the other industries investigated by scholars. The industries and results included in the literature review in chapter 2 are general results, the manufacturing industry, and the fast moving consumer goods industry.

The final leading aspect in this discussion covers the methods used in this research and in earlier research. Most of the research included in the literature review is describing and uses statistical methods to describe and explain outcomes of alliances and integration strategies of firms or complete industries. In this thesis research an exploratory study set-up was used to investigate and test the feasibility of strategic options for the specific case of Firm X. Additionally the impact of these options on

the future portfolio of Firm X was investigated. Because of the exploratory design it was not possible to use a lot of statistical methods to find causes. In this research use was made of case studies and benchmark studies to predict future performance and feasibility of the different options.

Since the research in this master thesis project was aimed at a single company case, namely the case of Firm X it is not surprising that not all literal findings are applicable. The specificity of the research shows that strategic decisions are very company specific and that strategy decision by other firms in the same industry of firms of the same size can be used as a reference but certainly not as a guidebook or reason to make decision regarding strategy. Since the literature for strategic options is mainly focussed at larger firms and firms operating in the high-tech sector, there are possible additions which can be made to the literature. For future research it can be interesting to investigate the roles and effects of the different strategic options for smaller businesses, like Firm X and for firms operating as a lead generating firm in the internet industry and/or the online payday lending industry. This thesis research furthermore showed that in the large dependency on Search Engine Y in the internet industry. A follow up research regarding the effects of alliances, or other strategies, if collaboration with one or a few companies is more or less mandatory might be interesting.

6.3 Recommendations

The recommendations which can be provided to Firm X based on this research can mainly be found in the final deliverable of this thesis; the strategy framework/ future roadmap. Since this roadmap contains the most favourable strategic options for Firm X of all the options investigated in this thesis, the options selected can be seen as recommended future strategies. This means that Firm X should continue with investing in the current portfolio of websites in the online consumer credit segment. This is referred to in the thesis report as organic growth. Within the strategies of organic growth it is important to allocate the available resources, the text-writers responsible for the provision of new content on websites, with great care. Since it is impossible to provide content for all websites each week, it has to be determined which websites can be seen as star-performing websites and which websites generate hardly any revenues at all. It is advisable to allocate as much resources as possible to the websites which generate the most revenue.

On the other hand it is important to update relevant content on all websites once in a while, since this is highly appreciated by Search Engine Y and will therefore positively influence the position of a website in Search Engine Y, and therefore its generated revenues. This means that a constant deliberation of regular provision of content on all websites and focus on top-performing websites has to take place. The best way to make a decision regarding the allocation of resources to the websites is to monitor both the generated revenue and the date of the last new provision of content. Even for poor performing websites it is important to update the content on a regular base (once in every four weeks). It is however advisable to allocate as much resources as possible to the high-performing websites, since these websites generate the most revenue and therefore contribute significantly to the revenue-targets.

An additional recommendation which can be made and which can be implemented quite easy is to optimize the Service 1 Search Engine Y advertisement settings for all the websites. As shown in section 4.2.1 the different modification could increase the click-through-ratio of a website from 20% to 26.44%. Since the click-through-ratio of websites has a direct effect on the revenue generated by a website, these improvements will immediately contribute to the revenues of Firm X.

Besides these organic growth options, the option of geographical expansion to Germany showed some very promising results and could significantly contribute to the company revenue. Since the future potential of the German market is unknown and the projection made for this market is based on a rather negative scenario it is important to closely monitor the actual performance and compare it to the projection model. If actual data can be collected after a few months of operation, the model can be adapted and the actual revenue contribution of this strategy can be aligned.

The analysis and inclusion of the option in the final roadmap also showed that the options investigated and decided to be suitable will not lead to the targeted revenue of €1,000,000 in 2015. This means that additional strategic option have to be sought and investigated. At this moment it is advisable to focus on internationalization strategies for additional countries, since there seems to be a lot of revenue potential in other markets. Another option is to look for other business segments which can fill the gap in revenue, but this might be not as straightforward as internationalization in the online consumer credit market, since the other segment might be too far off the strategic core and core competences of Firm X.

6.4 Limitations and directions for future research

Just like in any other research some limitations can be observed taking into account this master thesis project. The first limitation is related to the inclusion of just one business segment of Firm X into the analysis. Since only the business segment of online consumer credits is taken into account, the strategic options investigated in this thesis do only apply to this business segment. Viewing the strategy roadmap and especially the projected revenues up to and including 2015, it might be the case that the assumptions made for the revenues of the online trading product segment are not accurate and that the revenue roadmap therefore might look completely different. Since the business segment of online trading products is not included in this research, it can certainly be interesting to perform research regarding strategic options in this segment, in order to get better insights of the revenue potentials in this business segment.

A second limitation is that the research performed is fully customized towards Firm X and that business cased specifically created for Firm X are used in analysing the different strategic options. This makes it very hard to generalize the results for other companies or for a complete industry. The upside of this approach is, however, that the results obtained in this research are very useful for Firm X since they are fully customized.

The third limitation can be found in the research methods used in this thesis. Since the research was characterized by its exploratory nature a lot of desk research was performed, and even though a lot of accurate data was collected this way it might had been useful if other methods of data collection were used. Besides the desk research, a lot of information was gathered by interviewing the CEO of Firm X. In getting a better and more diversified overview of the data it might have been useful to consult industry experts or to schedule interviews with employees of online payday lenders to get better insight into the business models of these companies. A direction for future research can be to include more methods of data collection and to see if the results of this thesis can be backed up with additional proof and if the strategy roadmap and its according recommendations for Firm X would have to be modified.

The final limitation of the thesis research is the sampling bias which occurs in the selection of firms for the benchmark study for the assessment of the vertical integration option. Because of the choice for the criteria which have to be met by a firm to be included (mainly the availability of data) a lot of firms are excluded of the sample, simply because there is no data available for these firms. This strategy may possible not lead to the best sample of firms, but on the other hand if firms were included in the sample and there was no data available at all for these firm, then these firms could not have been analysed. Therefore it is decided to use the methodology described in section 4.4.4 and take the possibility of sampling bias for granted.

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Appendix A

Table A 1 is structured as follows: In the first column the thesis research questions are named. The second column describes the key constructs for each research question. In the third column the most important indicators for each construct are mentioned. Column four describes the data sources which are going to be used to find information about the indicators of the constructs. The fifth column contains the research methods belonging to each construct. The last column defines in which stage of the thesis project actions are performed. When possible, literature references will be made for the different aspects.

Research Question	Constructs & Definitions	Construct Indicators	Operationalization of Construct Indicators (Data)	Research Method	Research Phase
RQ1: Which different strategic options can a firm choose to implement?	Strategic Options Different strategies which can be used as a mechanism to increase future company growth (Jones, 2007)	Strategic Options ▪ Innovation (Chesbrough, 2003b) ▪ Strategic Alliances (Colombo, 2003; Duysters, van den Oord, & Post, 2003) ▪ Mergers & Acquisitions (Hagedoorn & Duysters, 2002a) ▪ Vertical Integration (Harrigan, 1984)	Strategic Options Findings in the academic literature regarding the indicators	Literature Review (van Aken, Berends, & van der Bij, 2007)	Orientation
RQ2: What is the current strategy of Firm X and how are both the internal and external environment characterized?	Company Strategy Specific patterns of decisions and actions that managers take to use core competences to achieve a competitive advantage and outperform competitors (Chandler, 1962; Jones, 2007)	Company Strategy ▪ Business model (Chesbrough & Rosenbloom, 2002) ▪ Mission statement (Duysters, van den Oord, & Post, 2003) ▪ Company structure (Peyrefitte & Golden, 2004) ▪ Revenue streams (Peyrefitte & Golden, 2004) ▪ Target customers (Peyrefitte & Golden, 2004) ▪ Positioning in value chain (Porter, 1980; Chesbrough & Rosenbloom, 2002) ▪ Reaction to external business environment (Venkatraman, 1989; Cadeaux & Ng, 2012) ▪ Future growth paths (Hussey, 1999; Duysters, van den Oord, & Post, 2003)	Company Strategy Internship introduction sessions, Interviews CEO, Search Engine Y, Service 2 Search Engine Y, Service 1 Search Engine Y, Affiliate Network X data	Desk Research & Interviews (Yin, 2003a; van Aken, Berends, & van der Bij, 2007) and Document/ Archival Record Analysis (Yin, 2003a; Shields & Tajalli, 2006)	Orientation / Data Collection
	Internal Environment The within company boundary business environment and characteristics, often referred to as core competences and resources (Das & Teng, 1998; Duysters, van den Oord, & Post, 2003)	Internal Environment ▪ Business model (Chesbrough & Rosenbloom, 2002) ▪ Company structure (Peyrefitte & Golden, 2004) ▪ Customers (Peyrefitte & Golden, 2004) ▪ Revenues (Peyrefitte & Golden, 2004) ▪ Growth (Hussey, 1999; Duysters, van den Oord, & Post, 2003)	Internal Environment Internship introduction sessions, Interviews CEO, Service 2 Search Engine Y, Service 1 Search Engine Y, Affiliate Network X data		

	External Environment The business environment, trends and developments, and the force-field outside the company boundaries (Porter, 1979; James, 1985; Duysters, van den Oord, & Post, 2003)	External Environment ▪ Position in value chain (Porter, 1980; Chesbrough & Rosenbloom, 2002) ▪ Industry competitors (Porter, 1979) ▪ Power of suppliers (Porter, 1979) ▪ Power of customers (Porter, 1979) ▪ Entry barriers (Porter, 1979) ▪ Substitute products (Porter, 1979) ▪ PESTEL factors	External Environment Internship introduction sessions, Interviews CEO, Search Engine Y, Literature, Regulation & Laws		
	Organic Growth Growth which can be realised by extending the current portfolio of activities	Organic Growth ▪ Cost-benefit profile new websites ▪ Cost-benefit profile and future projection current websites ▪ Future growth opportunities ▪ Search Engine Y Policy	Organic Growth Internship introduction sessions, Interviews CEO, Search Engine Y, Search Engine Y, Historical company data Firm X, Service 1 Search Engine Y, Service 2 Search Engine Y, Service 4 Search Engine Y		
RQ3a: Is growth through innovation, strategic alliances, or mergers & acquisitions feasible and what are the key factors to take into account when using these strategies?	Online Consumer Credit Market The market of the small consumer credits issued online, these credits are better known as payday loans	Online Consumer Credit Market ▪ Size of potential market ▪ Customer profile ▪ Companies competing in the market ▪ Regulation ▪ Cross-country differences in competition	Online Consumer Credit Market Research Reports, Statistic agencies, Search Engine Y, Government Law documentation, Historical company data Firm X, Affiliate Network X data	Online Consumer Credit Market Desk Research, (Yin, 2003a; van Aken, Berends, & van der Bij, 2007) and Document/ Archival Record Analysis (Yin, 2003a; Shields & Tajalli, 2006)	Data Collection / Data Analysis
	Incremental innovations / Internationalization Innovations that are (relatively) close to existing practices performed by a firm and do not incur major changes (Schilling, 2008) / Growth realised through the expansion of business activities to foreign countries	Incremental innovations / Internationalization ▪ Cost-benefit profile new websites ▪ Cannibalization threats ▪ Future growth opportunities ▪ Search Engine Y Policy ▪ Foreign market potential	Incremental innovations / Internationalization Historical company data Firm X, Interviews with CEO, Search Engine Y, Service 4 Search Engine Y, Service 1 Search Engine Y, Service 2	Incremental Innovations / Internationalization, Direct Competitors & Affiliate Partners Desk Research, Interviews (Yin, 2003a; van Aken, Berends, & van der	

			Search Engine Y	Bij, 2007)	
	Direct Competitors Companies that generate leads in the online consumer credit market	Direct Competitors ▪ Market-shares ▪ Company value ▪ Growth potential	Direct Competitors Historical company data Firm X, Interviews with CEO, Affiliate Network X data, Search Engine Y		
	Affiliate Partners Companies that issue small online credits, payday loans, to consumers either in the Dutch market or in market in foreign countries	Affiliate Partners ▪ Partner affiliate program ▪ Revenue potential ▪ Regulation	Affiliate Partners Historical company data Firm X, Interviews with CEO, Affiliate Network X data, Search Engine Y		
RQ3b: Is growth through vertical integration feasible and what are the key factors to take into account when using this strategy?	Online Consumer Credit Market The market of the small consumer credits issued online, these credits are better known as payday loans	Online Consumer Credit Market ▪ (Cross-country) Size of potential market ▪ (Cross-country) Customer profile ▪ (Cross-country) Companies competing in the market ▪ (Cross-country) Regulation ▪ (Cross-country) Future perspectives of the market	Online Consumer Credit Market Research Reports, Statistic agencies, Search Engine Y, Government Law documentation	Desk Research, (Yin, 2003a; van Aken, Berends, & van der Bij, 2007) and Document/ Archival Record Analysis (Yin, 2003a; Shields & Tajalli, 2006)	Data Collection / Data Analysis
	Firms operating in the market Companies that issue small online credits, payday loans, to consumers either in the Dutch market or in market in foreign countries	Firms operating in the market ▪ Company size ▪ Profit-Loss account ▪ Revenues ▪ Balance sheet ▪ Cost structure ▪ FTEs ▪ Company structure ▪ Business model ▪ Core competences ▪ Company strategy	Firms operating in the market & Competitor benchmark scorecard ORBIS ©- database, Chamber of Commerce, Research Reports, Search Engine Y		
	Competitor benchmark scorecard Ranking of firms issuing online consumer credit in different countries based on contextual	Competitor benchmark scorecard ▪ Market competition ▪ Related legal issues ▪ Market and customer potential			

	aspects	▪ Business environmental issues			
RQ4: Which strategic options will be favourable for Firm X taking into account business cases with different scenarios?	<u>Business cases</u> Description and evaluation of the future potential of implementing a certain strategic option <u>Scenarios</u> Realistic projections of market development and the sustainability of a certain strategy concerning the business environment	<u>Business cases</u> ▪ NPV of a certain strategy ▪ Internal Rate of Return (IRR) of a certain strategy ▪ Sustainability ▪ Regulatory issues ▪ Growth potential of a strategy <u>Scenarios</u> ▪ Market conditions ▪ Growth projection of market ▪ Growth projection of revenues	<u>Business cases & Scenarios</u> ORBIS ©- database, Chamber of Commerce, Research Reports, Search Engine Y, Government Law documentation, Historical company data Firm X, Affiliate Network X data, Service 1 Search Engine Y, Service 2 Search Engine Y	Desk Research, (Yin, 2003a; van Aken, Berends, & van der Bij, 2007) and Document/ Archival Record Analysis (Yin, 2003a; Shields & Tajalli, 2006)	Data Analysis / Structure Approach

Table A 1: Description of the Data for the Master Thesis Research

Appendix B

In this appendix the detailed descriptions of the issues important for the internal analysis of Firm X are described. The point of departure is Firm X' Business Model Canvas (Osterwalder & Pigneur, 2009), as depicted in Figure 10.

Company structure

Since Firm X is a small start-up firm, it has a small number of employees. Currently the CEO and founder of the company works together with a team of four full-time trainees, and five part-time employees. Four of the part-time employees are concerned with the writing of new content for the websites and one part-time employee is concerned with the maintenance of the websites and software programming. The trainees are students in the last phase of their education and two of them are concerned with marketing related issues and two of them are concerned with aspects related to company strategy, possibilities for geographic expansion and future strategic directions. The company culture is entrepreneurial and everyone is encouraged to participate in business activities and new business opportunities. This leads to a lot of interaction between the employees and a lot of learning potential for everyone. The company-structure is visualized in Figure A 1.

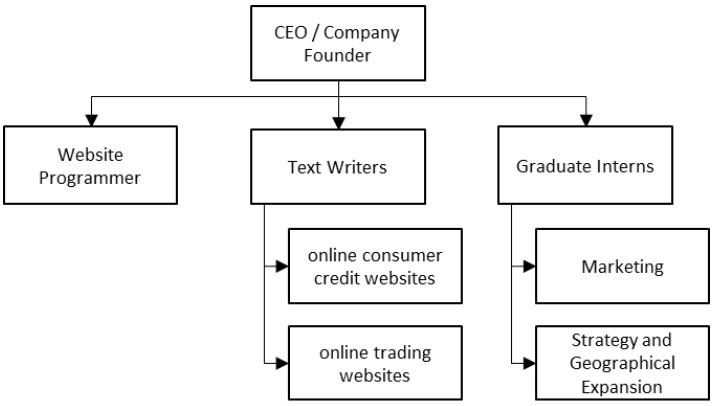

Figure A 1: Organization chart Firm X

Company Resources and Core Competences

The core competences and the resources which are available to a company are of key importance in their business model and for its competitive strength. This was stated by several researchers, as seen in the literature review. When viewing the business model canvas (Figure 10), the company resources also get a prominent place in the business model. The core competences are not explicitly mentioned in this model but can more or less be seen as a combination of a few blocks in the Osterwalder-Pigneur model (key activities, customer relationships, value proposition).

Taking into account Firm X' resources, the most important ones are either intellectual or human or a combination of both. Intellectual resources are represented by the website-domains owned by Firm X and by its partner-relationships. Since the website-domains cannot be used by other companies they can be seen as a kind of patent, and therefore represent an important resource. The partnerships with Search Engine Y, Online Broker X and Affiliate Network X are important because Firm X has profiled itself as a reliable and well performing partner. The human resources are important for Firm X because the experience and expertise of the company owner and the company employees in the business field wherein Firm X is operating enable relative fast recognition of new market opportunities. Since the internet-market is a dynamic market it is of key importance to act quick and accurately to new opportunities, the human resources are important for Firm X. When taking a short look ahead to the core competences, the provision of new and relevant content for the websites, the human aspect here is also of pivotal importance. Using prior experience and knowledge about the market, the employees of

Firm X are able to recognize opportunities for new content and are able to produce content which boosts the revenue streams of the company.

As argued in the previous paragraph, the most important competence of Firm X is the ability to create high quality, highly relevant and new content for its portfolio of websites. The ability to perform analysis of the market and analysis of the performance of the portfolio and recognize new opportunities based on these results represents the fundaments of the provision of new content. As can be seen these analyses are connected to the human resources available for Firm X. The provision of content is a core competence since the large majority of the competitors is not able or not willing to perform this strategy while statistics show the strategy is working well for Firm X.

Customers

As stated in the business model, leads are generated for two types of financial products: online consumer credits and online trading products. Taking into account the online consumer credits, two direct customers for Firm X can be distinguished: Search Engine Y and Affiliate Network X. Search Engine Y's role is special one, as will be showed in more detail in the external analysis in the value chain, since Search Engine Y is a supplier as well as a customer. Search Engine Y is a customer because for each click on a Search Engine Y advertisement on a website exploited by Firm X, Search Engine Y pays Firm X a certain amount of money, the so called cost per click. Affiliate Network X is the biggest affiliate network in the Netherlands wherein companies offering online consumer credits are united and Affiliate Network X manages the affiliate campaigns for these companies. The leads generated by Firm X are monitored, and eventually commission is paid through Affiliate Network X, when a credit loan is assigned and issued to a consumer.

For the online trading products no use is made of an affiliate network as an intermediary, but affiliate campaigns of brokers are directly displayed on the websites exploited by Firm X. The most important customer in this market segment is Online Broker X, the world largest online CFD broker. Additionally, on a much smaller scale, leads are generated for a few other (smaller) brokers.

Concluding it can be stated that Firm X has large and high-quality customers but that the number of customers is low and thus a high dependence on these customers exists. A graphical representation of the customers for each business segment can be found in Figure A 2.

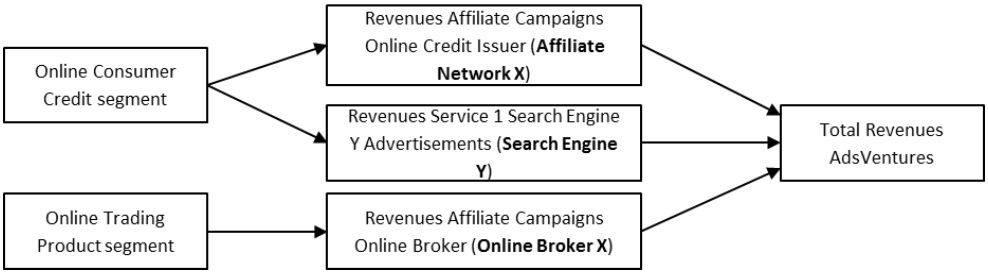

Figure A 2: Customers Firm X per business segment

Portfolio and Performance

In this section the portfolio of websites exploited in both business segments will be reviewed in detail. This review for both the online consumer credit segment and the online trading product segment includes the segmentation of websites within the portfolio, the revenues generated in each segment, and key performance indicators for both segments. The section starts with the online consumer credit and secondly the online trading product segment will be described. Finally the total revenue generated by Firm X will be taken into account.

Online consumer credit

In the online consumer credit segment, Firm X currently exploits 50 websites. The contribution of the websites to the total revenue is very fragmented, as depicted in Figure A 3. This distribution is based on the months January 2012 till January 2013. For the online consumer credit it can be stated that no website generates more than 26% of the total revenues. Even though the presence of a high level of segmentation, five key-websites can be distinguished (see Figure A 3). These websites account for more than 75% of the total revenue.

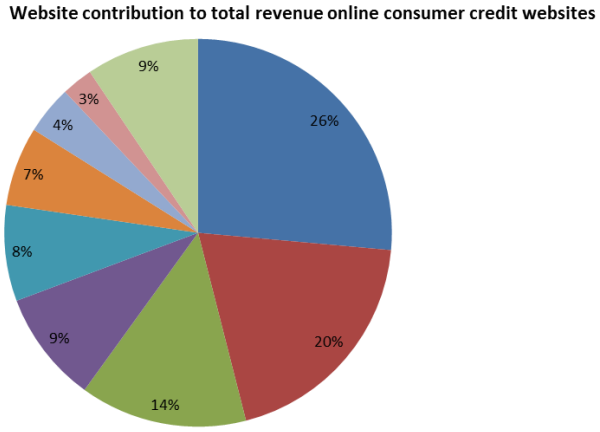

Figure A 3: Website contribution to total revenue for the online consumer credit segment

When viewing the monthly revenue generated in the online consumer credit segment (Figure A 4), a growing trend can be observed. In May and June 2012 however, revenues decreased, which can be explained by the decreased performance of two large websites due to an update in the Search Engine Y search engine algorithm. This update will be discussed in the external analysis. Another important observation is the decrease in total revenue in December 2012 and January 2013. This decrease is caused by the sharp decrease in the revenues generated by the Affiliate Network X-network. These revenues are lower because of the loss of affiliate partners in the Affiliate Network X-network, and a higher degree of rejected consumer credit requests by the credit lenders who were operating in the Dutch market. Both these issues will be discussed in the external analysis. The revenues from the Search Engine Y advertisements, however, keep on increasing. These findings are visualised in Figure A 4.

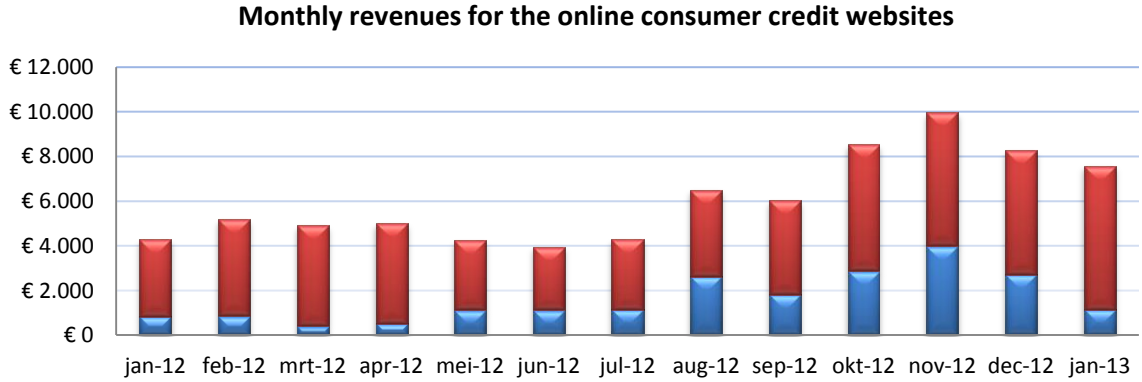

Figure A 4: Revenues for the online consumer credit websites

One of the most important aspects in revenue generation in the online consumer credit segment is the number of pageviews, since the more visitors a website has monthly, the higher the likelihood for a higher number of advertisement-clicks for a website. When viewing the number of pageviews for the

online consumer credit websites in the time-period January 2012 till January 2013 an enormous growth can be obtained. Figure A 5 displays the pageviews in this time interval for the five largest websites in the complete portfolio. As stated before, the performance of some websites was harmed by the algorithm update by Search Engine Y. Figure A 5 shows that the number of pageviews for the website 'geld-en-leningen.nl' clearly dropped from April 2012 onwards. The other four top-websites however were not affected by the Search Engine Y update and their performance keeps increasing.

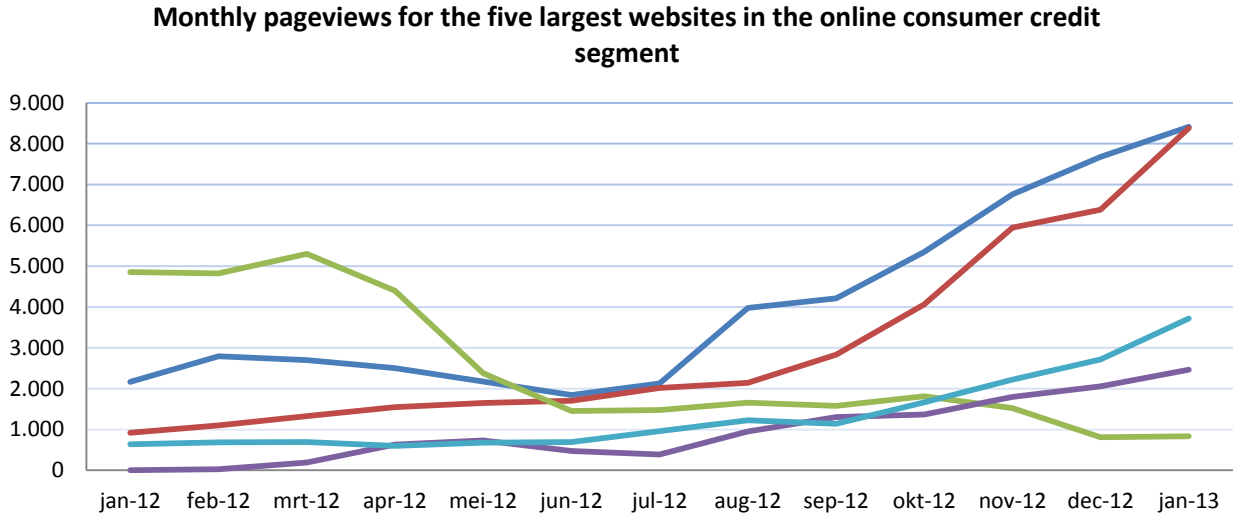

Figure A 5: Monthly pageviews for the five largest websites in the online consumer credit segment

When considering the number of clicks for each of the top 5 websites, a growth pattern similar to that of the pageviews, as depicted in Figure A 5, can be obtained. The number of clicks in the time-frame January 2012 till January 2013 for the top 5 websites are visualised in Figure A 6. It has to be noted, however, that these clicks only represent the clicks on Service 1 Search Engine Y advertorials. This distinction is made because these clicks can directly be referred to as revenues for Firm X.

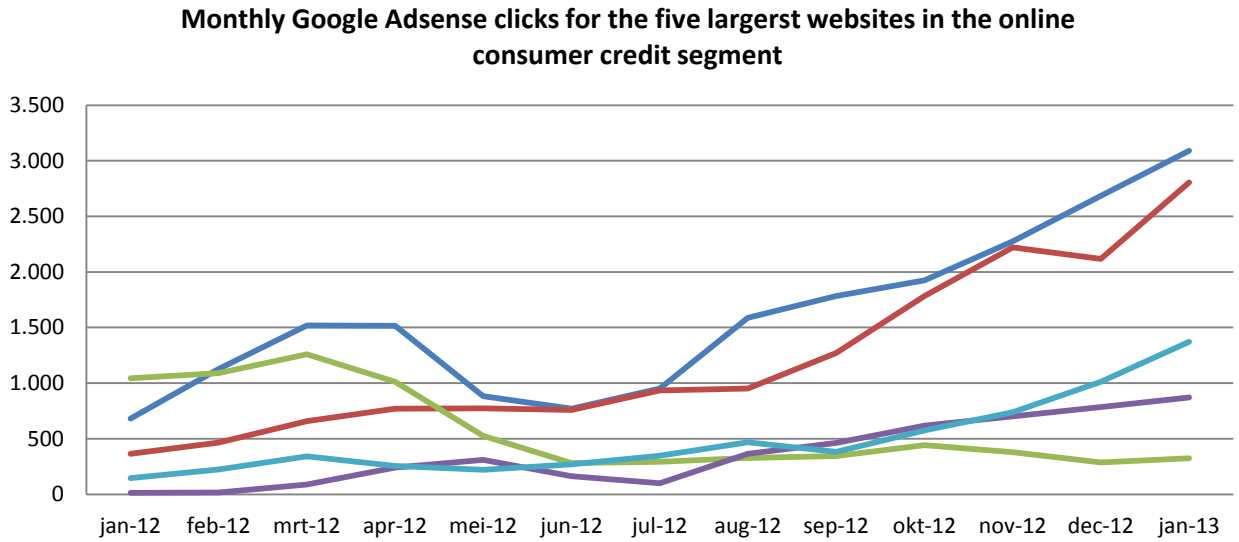

Figure A 6: Monthly Service 1 Search Engine Y clicks for the five largest websites in the online consumer credit segment

The interesting aspect in the increased growth in number of clicks is that this is not directly observable in the revenues generated through Service 1 Search Engine Y advertorials. As seen in Figure

A 4, the revenues generated through Service 1 Search Engine Y advertorials do increase over time, but this increase is not as strong as the increase in the number of clicks. This happens because the cost per click, the measurement representing the payment Search Engine Y provides Firm X for one click, has declined over time. When taking into account the increase in the total number of clicks for the top 5 websites in the online consumer segment, an average monthly increase of 12% can be observed. The cost per click on the other hand has decreased with a monthly average of 4%. These two aspects combined still provide an increase in revenues, but this increase is not linear to the increase in the total number of clicks. The patterns for both the clicks and the cost per click are given in Figure A 7.

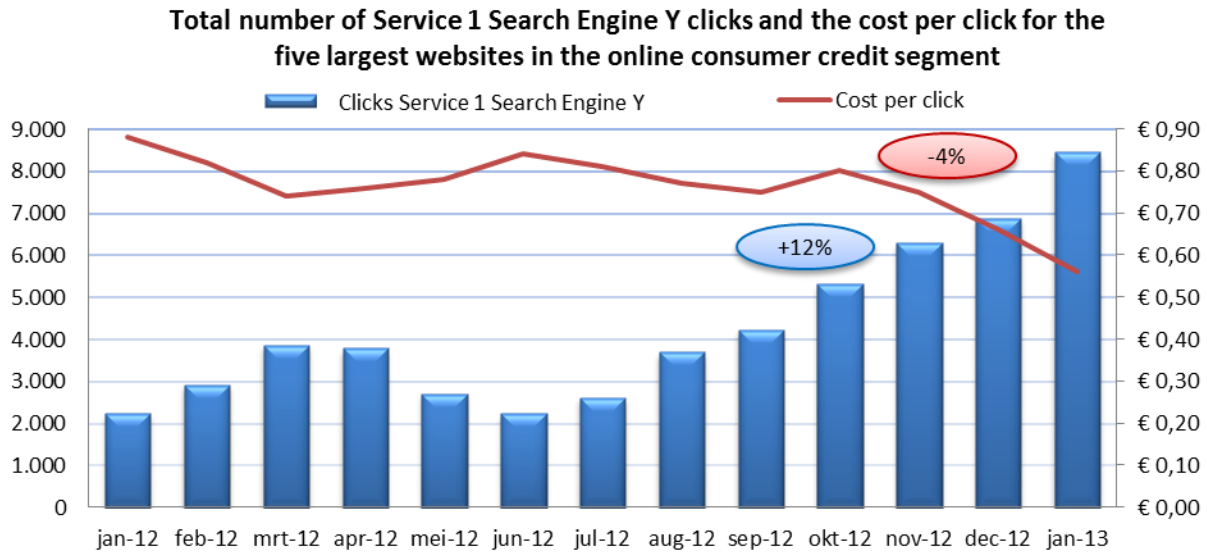

Figure A 7: Total number of clicks and the cost per click for the top-5 websites in the online consumer credit segment

Online trading products

In the online trading product segment, Firm X currently exploits 4 websites. The contribution of the websites to the total revenue is very fragmented, as depicted in Figure A 8. These distributions are based on the months January 2012 till January 2013. For the online trading products no website generates more than 41% of the total revenue, but the large majority of the total generated revenues can be assigned to the three largest websites (95%).

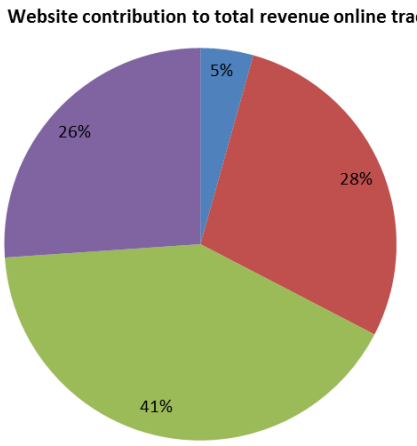

Figure A 8: Website contribution to total revenue for the online trading product segment

For the revenues generated through the online trading product websites, some additional explanation is required. The main objective of the websites in this segment is to guide a visitor towards downloading a demo-version of a trading software programme. With this programme, visitors can practice their trading skills with virtual money. Eventually they can decide to proceed with real-life trading with real money, which means a visitor becomes a qualified trader, and the broker pays a commission to the company which generated the lead, in this case Firm X. The path a website visitor has to follow to eventually become a qualified trader is presented graphically in Figure A 9. The figure also shows the percentages of customers in a certain chain which continue to the next chain in the process. For example: 6% of all the visitors on one of the four online trading product websites continues to the page where one can sign-up for a Online Broker X account.

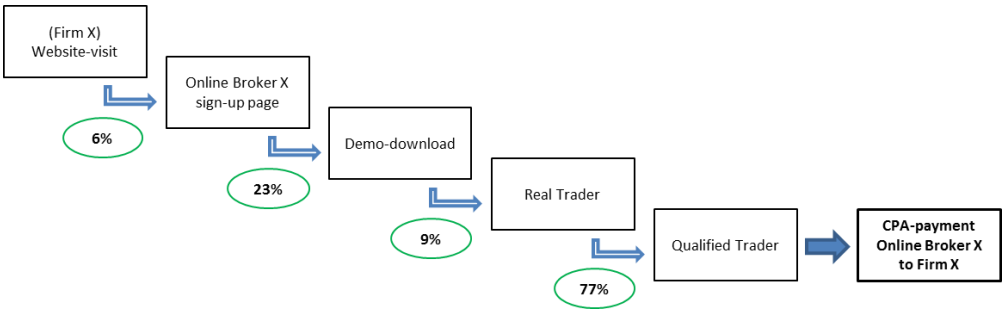

Figure A 9: Process towards a qualified trader

Since the time between the moment a demo-version is downloaded and the moment a visitor becomes a qualified trader is not constant, the growth in revenues for the online trading products does not have a clear pattern. In general, however, the revenues for online trading products show a constant growth pattern, as can be seen in Figure A 10.

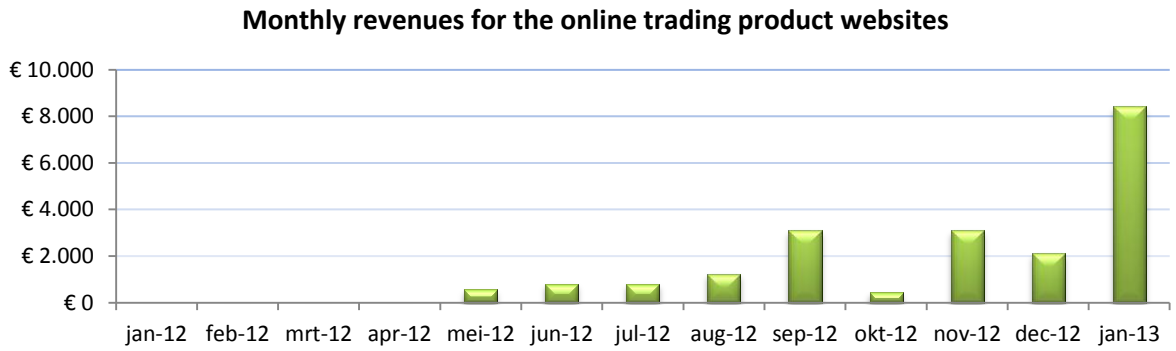

Figure A 10: Revenues for the online trading product websites

In contrast to the websites for the online consumer credit segment, where the number of clicks are the most important reference, the websites taking into account online trading products have the number of downloaded demo-versions, as explained earlier, as a more important characteristic. These demo-versions are downloaded from the websites of the affiliate partners, where to visitors are being led. When viewing the number of pageviews for the online trading product websites, an enormous growth in the time-period January 2012 till January 2013 can be obtained. Since the percentages to proceed to a next chain in the channel (as depicted in Figure A 9) are constant, higher number of visitors will lead to an increase in the number of demo-downloads, and eventually to an increase in the number of qualified traders. The growth in pageviews is visualised in Figure A 11.

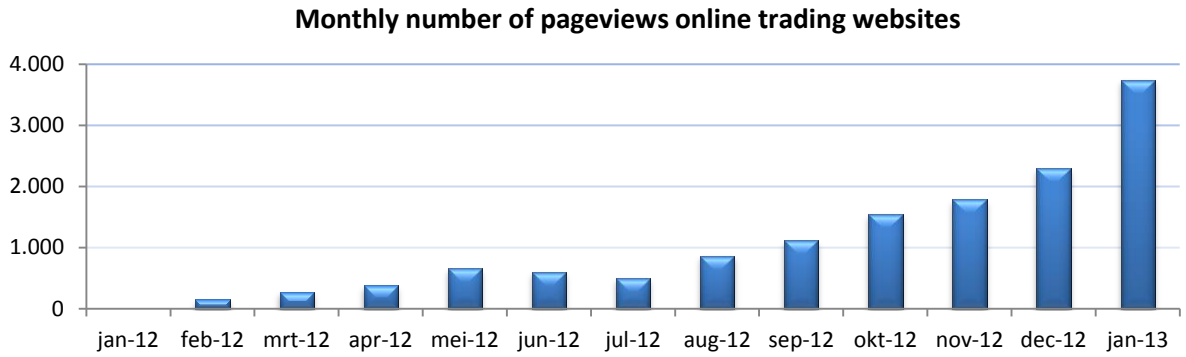

Figure A 11: Monthly number of pageviews online trading websites

Complete portfolio

The revenues for the complete portfolio in January 2012 till January 2013 can be found in Figure A 12. The first observation is that the overall revenues increased. The composition of the total monthly revenue, however, has changed over time. As stated before, the contribution of Affiliate Network X-revenues to the complete revenue generated by Firm X declined from November 2012 onwards. This happened because the number of issuers of online consumer credit dropped and therefore the number of leads generated has been lowered. Another aspect of importance here is the lower approval rate of consumer credits. This aspect will be covered in the external environment analysis. Another important observation in Figure A 12 is that the contribution of revenues generated from the broker Online Broker X started to increase since August 2012, and that the contribution in January 2013 was higher than the Service 1 Search Engine Y-revenues or the Affiliate Network X-revenues.

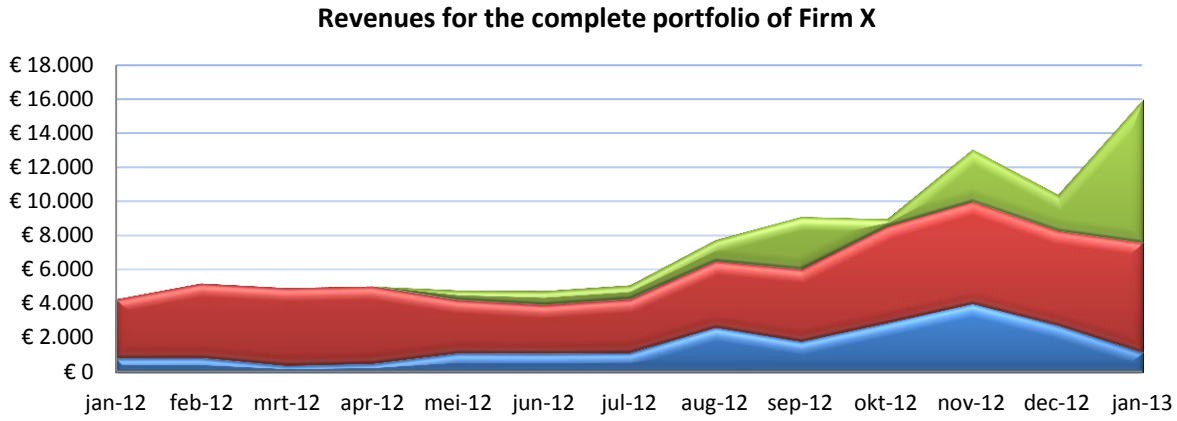

Figure A 12: Revenues for the complete portfolio of Firm X

Cost structure

After reviewing the revenue-structure of Firm X, it is important to review the cost-structure of the firm. The first aspect to take into account is that Firm X is a start-up company and the costs thus may be reasonably high compared to the revenues generated, at least in the first months. With the company growing over time, the costs also have increased. The main cause for this increase is the increase in the number of employees. The costs defined for Firm X represent the cost structure at the beginning of the year 2013, but are predicted to remain constant during the year. The number of pageviews and revenues however are predicted to increase in 2013.

The costs can be divided into fixed costs and variable costs. The fixed costs include the rental costs of the office and the maintenance of a constant number of websites. The variable costs include website

domain costs, and employee wages. The last costs which can be allocated to the variable costs are costs related to back-link activities, performed to increase the probability of high visibility in Search Engine Y's search results. Although these last three cost-categories are described as variable costs, the projection is that these costs will not increase linear to the increase in revenue-related aspects. Especially the salary costs will not grow proportional to the revenue growth, meaning the cost/revenue ratio will decrease in the future. Firm X' cost structure can be found in Table A 2.

Type of Costs	Cost Specification	Monthly costs in €
Fixed	Office rent	€ 1.000
	Maintenance few websites	€ 124
Variable	Domain costs	€ 250
	Back-linking costs	€ 150
	Wages:	
	Programmer	€ 1.000
	Text Writers	€ 2.450
	Interns	€ 1.500
Total Costs		**€ 6.474**

Table A 2: Monthly costs Firm X

Growth opportunities

In this section the growth opportunities of Firm X' current portfolio will be outlined. These opportunities will be based on the generated revenues and pageviews, information about new websites which were launched recently and on the possibility of new customers. The section ends with a classification of the two business segments into the BCG-matrix, a frequently used model to classify products according to two important dimensions; market share and market growth.

As seen in the section where the portfolio of Firm X was described, the number of pageviews and the revenues generated in both business segments increased over time. These are indicators that the current portfolio has opportunities for growth. However, as the data from the website 'geld-en-leningen' shows, an update from Search Engine Y might harm the growth opportunities of certain websites. On the other hand, some recently launched websites show promising data for future growth and indicate that organic growth through new websites can provide additional pageviews and consecutively additional revenues.

Possibilities regarding new customers are hard to indicate at this moment, because, as stated before, the number of issuers for online consumer credit has declined. For the online trading products it can be stated that Firm X has partnerships with other brokers besides Online Broker X, but that these brokers do not generate a lot of revenue for Firm X. Growth opportunities taking into account new business partners in the current business model look rather small and not very promising at this moment, but some extra attention to possible business partners will be given in the external analysis. The growth potential through Online Broker X is however relatively high.

When classifying both segments into the BCG-matrix it can be stated that the online consumer credit segment is more mature than the online trading product segment. The latter however shows more growth potential based on recent revenue growth and increase in pageviews. The online consumer credit however does provide stable revenues and a growing number of pageviews for the websites in this segment of the total portfolio. Furthermore options for new websites show potential for growth. This growth potential can fill in gaps which may be formed by websites performing less, for example through an update in the Search Engine Y search engine algorithm. Taking the BCG-matrix into account, the online consumer credit segment can be seen as a combination of a cash-cow and a potential star, with a reasonably high market share for Firm X. The online trading product segment appears to be a potential star, rather than a cash-cow at this moment, also because of its recent

inclusion in the company's portfolio. The market-share in this segment for Firm X is not as high yet as for the online consumer credit segment. The BCG-matrix for the business segments of Firm X is visualised in Figure A 13.

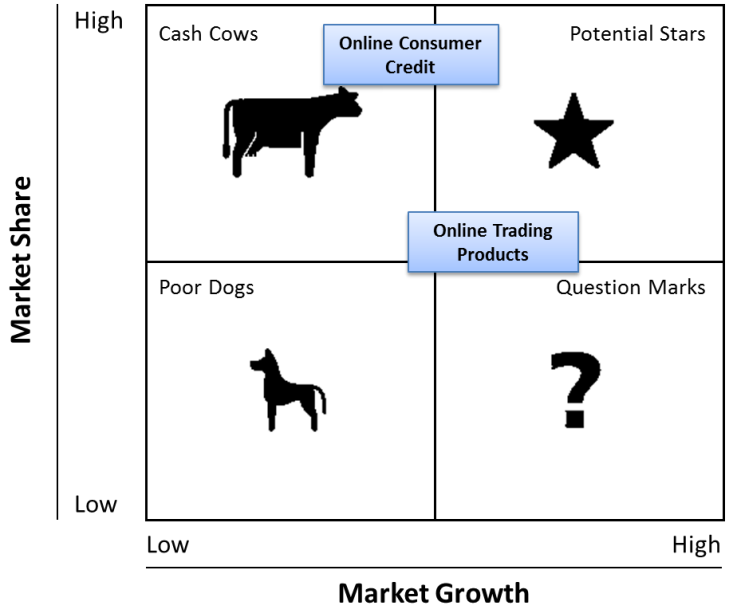

Figure A 13: BCG-matrix business segments Firm X

Appendix C

In this appendix the detailed descriptions of the issues important for the external analysis of Firm X are described. The point of departure is the value chain of Firm X, as depicted in Figure 11.

Five Forces

A commonly known model to perform an external analysis of a company is Porter's (1979) five forces model. The five forces in this model are: industry competition between an industry's existing firms, the threat of new industry entrants, the bargaining power of customers, the threat of substitute products or services, and the bargaining power of suppliers (Porter, 1979). Since the model for the online consumer credit segment was displayed in the main report, only the model for the online trading product segment will be displayed in this Appendix. The impact of each of the five forces will be displayed based on a seven-point scale, where three minuses display a big negative influence of a force on Firm X, and three plusses display a big positive influence of a force on Firm X. The five other scales are in between these two extremes. Figure A 14 shows the ratings for the online trading product segment. The seven-point scale used to rate each of the forces can be found at the bottom of the figure. The ratings and the structure of each of the forces will be explained in detail afterwards.

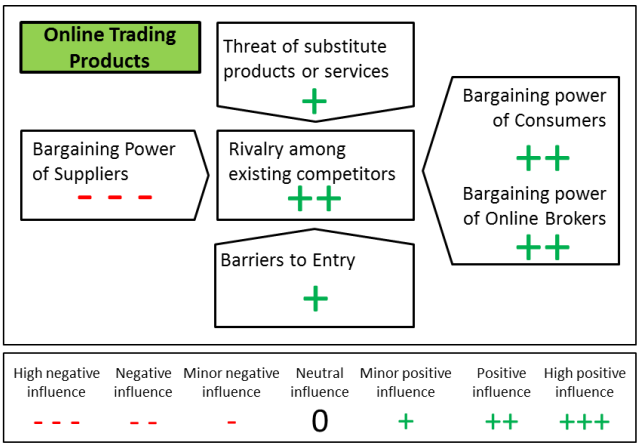

Figure A 14: Five Forces Model for the Online Trading Product segment

For the online trading product segment the threat of existing competitors is minimal. The segment is relatively new, which means that although the segmentation, there are no dominant competitors present in the market. Similar to the competitors in the online consumer credit segment, these companies are not focussed on long term strategies. The barriers to entry in this segment are a bit higher than in the credit segment because it requires more, and more specific content to realize growth. Since Search Engine Y is only a supplier this time, the monopoly position of Search Engine Y now only creates a threat in the supplier force. When taking into account the customers, Firm X has a direct connection with the available online brokers. Although currently the most frequently used partner is Online Broker X, there are a lot of other brokers competing in the market, which decrease the probability that Firm X will be solely dependent on Online Broker X in the future. The demand for online trading products among consumer is more than average at the moment, but is expecting to increase, because of its newness.

Since the analysis reveals that the influence of, and the dependence on Search Engine Y in the current business activities is very high, the next section provides more insights.

Competitor Analysis

In this section, the most important competitors for Firm X in the online consumer credit segment will be described and ranked according to their relative strength. The relative strength of the

competitors in the online trading product segment was already discussed on a high-level in the five forces analysis and since the focal point of this thesis will be the online consumer credit segment, the competitors in the online trading product segment will not be described in this section.

The ranking for the competitors in the online consumer credit segment will take place through qualitative and qualitative measures. Since the provision of new, relevant, and high-quality content is one of the key strengths in the current business model of Firm X and it has proven to be an effective strategy, this will be the key qualitative indicator used to value a competitor. Within this indicator the relevance of the content taking into account the keywords and search queries used to find a website, and the last date new content was published on the website, are important. Taking into account the quantifiable measures to value a competitor, the amount of content on a website, the pagerank assigned by Search Engine Y, and the number of backlinks (and the quality of these backlinks) used by a website, are of key importance. The number of backlinks is important, because these can be seen as artificial methods to influence a website's ranking in Search Engine Y and may therefore not be able to meet the requirements of the Search Engine Y search engine algorithm. For the short term, however, aggressive backlinking by a competitor can increase its relative strength. In addition to the pagerank of the backlinks, the overall quality of a website's backlinks can be measured using the percentage of the backlinks which is represented by a unique root domain. The higher this percentage, the higher the uniqueness of the backlinks is. This indicates higher quality and higher diversity in the backlinking profile of a website, which will be positively reviewed by Search Engine Y.

The queries and key words used to identify competitors are chosen based on the website names of the four most important websites in the portfolio of Firm X. The key-words are: 'minilening', 'lenen zonder BKR', 'snel geld lenen', and 'geld lenen binnen 10 minuten'. As stated before, both quantitative and qualitative measures are used to rank competitors. In order to arrive at a comparable ranking of the websites all the measures are categorized according to a five point scale. The scale classification for each measure is provided in Table A 3.

Measure	1	2	3	4	5
Search Engine Y pagerank (A)	0	1	2	3	4
Amount of content (number of articles) (B)	<10	11-20	21-30	31-40	>40
Number of backlinks (C)	<200	201-400	401-600	601-800	>800
Percentage root Domains (D)	<20%	20%-40%	40%-60%	60%-80%	80%-100%
Search Engine Y pagerank of (top 10) backlinks (E)	0	1	2	3	4
Content relevance (F)	Very Low	Low	Neutral	High	Very High
Most recent content (G)	2009	2010	2011	2012	2013

Table A 3: Scale classification competitor strength measures

The classification of the scales is based on the results found in the analysis. The measure 'content relevance' is a subjective measure and the classification of a website in this measure is based on the perception and judgement of the researcher. The criteria to assign a high value for relevance are however based on the quality of the content and the alignment between the content and the search queries leading to a particular website. The highest rating (5) for content relevance is only provided to the issuers of online consumer credit, since they are the only actors actually offering the product/service the consumer is looking for. The other websites are given rankings ranging from 1 to 4 based on the criteria mentioned earlier. The competitors in the online consumer credit market are listed and ranked in Table A 4. One important aspect described for all competitors, is the type of website. This can be an affiliate-website, a website displaying Service 1 Search Engine Y advertorials, or a combination of both. The final category includes websites of online consumer credit lender.

Website Name	Website Type	(A)	(B)	(C)	(D)	(E)	(F)	(G)	Total
Firm X website 1	Service 1 Search Engine Y	3	5	5	1	2	4	5	3,57
Competitor Firm X 16	Affiliate	5	2	5	1	5	2	4	3,43
Firm X website 2	Service 1 Search Engine Y	3	5	3	1	2	4	5	3,29
Dutch Lender 9	Lender	4	2	1	3	2	5	5	3,14
Dutch Lender 10	Lender	3	2	1	3	3	5	5	3,14
EU Lender 1	Lender	4	2	1	3	2	5	5	3,14
Dutch Lender 2	Lender	4	2	1	3	2	5	5	3,14
Dutch Lender 11	Lender	2	2	1	4	2	5	5	3,00
Competitor Firm X 1	Affiliate	4	2	1	5	4	3	1	2,86
Dutch Lender 12	Lender	3	2	1	2	2	5	5	2,86
Competitor Firm X 5	Affiliate	2	3	1	2	3	4	4	2,71
Dutch Lender 8	Lender	3	2	1	1	2	5	5	2,71
Competitor Firm X 17	Service 1 Search Engine Y	2	4	1	1	2	4	5	2,71
Competitor Firm X 18	Service 1 Search Engine Y	1	5	1	1	1	4	5	2,57
Competitor Firm X 13	Service 1 Search Engine Y	1	5	1	1	1	4	5	2,57
Competitor Firm X 19	Service 1 Search Engine Y	4	1	1	3	5	2	1	2,43
Microcredits.nl	Lender	1	1	1	2	2	5	5	2,43
Competitor Firm X 8	Affiliate + Service 1 Search Engine Y	1	1	1	2	4	2	5	2,29
Competitor Firm X 2	Affiliate + Service 1 Search Engine Y	3	1	4	1	3	3	1	2,29
Competitor Firm X 20	Affiliate	4	2	1	1	1	3	4	2,29
Competitor Firm X 6	Affiliate + Service 1 Search Engine Y	4	1	1	1	3	2	4	2,29
Competitor Firm X 7	Affiliate	3	1	2	2	2	2	3	2,14
Competitor Firm X 3	Affiliate	2	1	1	2	4	4	1	2,14
Competitor Firm X 4	Affiliate + Service 1 Search Engine Y	2	1	5	1	3	2	1	2,14
Competitor Firm X 21	Service 1 Search Engine Y	1	2	1	2	2	2	4	2,00
Competitor Firm X 14	Affiliate	1	2	1	1	2	2	5	2,00
Competitor Firm X 10	Affiliate	1	3	1	1	2	4	1	1,86
Competitor Firm X 9	Affiliate	2	2	3	1	2	2	1	1,86
Competitor Firm X 22	Affiliate	2	5	1	1	1	2	1	1,86
Competitor Firm X 11	Affiliate	2	2	1	2	2	2	1	1,71
Competitor Firm X 12	Affiliate	1	1	1	5	1	1	1	1,57
Competitor Firm X 23	Affiliate	1	3	1	1	1	3	1	1,57
Competitor Firm X 15	Service 1 Search Engine Y	1	1	1	1	1	1	1	1,00

Table A 4: Competitor Scores & Rankings

Table A 4 shows that the two top-websites of Firm X (Website 1 & Website 2) score very well compared to the competitors. The online credit lenders are also included in the analysis but it has to be stated that these websites are not displayed in high positions in Search Engine Y when the used

keywords are entered. The most important competitor according to this analysis is the website Competitor Firm X 16. When taking a closer look at this competitor, it can be obtained that the amount of content on this website is not very high, the site scores high mainly because of its pagerank and the pageranks of its backlinks. If more content will be provided on this website it might become a serious competitor in the future. The content that is available on this website is directed at loans in general, and not especially towards small online consumer credits. If the aspects defined and/or used by Search Engine Y in determining a website's quality and ranking, it can be stated that Firm X seems to have an advantage compared to their competitors, mainly caused by the amount of relevant content on their websites. The analysis again shows that the strategy of Firm X, the frequent provision of relevant and new content on its websites, gives Firm X a key advantage compared to its competitors. The results of the analysis also enable benchmarking of both current and new websites of Firm X to its competitors.

PESTEL analysis

As described in the literature review, the PESTEL analysis takes several environmental aspects into account. These aspects are related to political, economic, social, technological, environmental, and legal factors. When reviewing the online consumer segment of Firm X based on these factors, it can be stated that some factors are more important than others. As already shown in the previous sections, Search Engine Y is a very important actor in the environment of Firm X. Taking into account the PESTEL factors, the dependency on Search Engine Y can best be placed in the technological factor. If something changes in the search engine algorithm or maybe a new search engine becomes very important, this may be a technological threat for Firm X. Another important technology related aspect is the rise in use of tablet or mobile devices to search information on the internet. The capturing of this market might include other approaches than the current business model foresees.

When taking into account the social and economic factors, it can be stated that there is still a demand for small online consumer credits. Given the state of the economy it seems reasonable to assume that consumers will keep seeking for additional money, whether by requesting online credits or by trying to earn money through online trading products. Viewing the social and economic factors, the conclusion is that these factors seem to be positive regarding the future of Firm X.

Appendix D

			External										
			Opportunities					Threats					
			Optimize findability in Search Engine Y	Optimize performance current portfolio	Geographical Expansion	New Affiliate partners (online consumer credit)	Vertical Integration online consumer credit	Regulation AFM	Fluctuations CPC	Search Engine Y algortihm change	Long-term strategy competitors	Exchange Rate
Internal	Strengths	High level of segmentation		3							**5**	
		Approach functions well in current Search Engine Y algorithm			**5**							
		Growing amount of traffic					1		1			
		Growth in revenues										1
		Big and reliable business partners		1								
		Low level of competition (currently)		1							3	
		High and constant target group					**5**					
	Weaknesses	High dependency on Search Engine Y								**5**		
		High dependency on Online Broker X										
		Dependence on low number of affiliate partners in online consumer credit			3	3		3				
		Difficult to adapt Search Engine Optimization strategy								**5**		
		Earning-model for online trading segment contains a lot of steps										

Figure A 15: SWOTi-analysis Firm X

As can be seen in Figure A 15, a total of 15 issues are classified as important. The relations between the internal and external items will be explained in the following tables.

Issue-ranking 5: very important		
Internal item	***External item***	***Explanation***
High level of segmentation	Long-term strategy competitors	Since Firm X exploits a high number of websites and is highly segmented, the threat of better long-term strategies of competitors is ruled out to a large extent.
Approach functions well in current Search Engine Y algorithm	Geographical Expansion	The current strategy of Firm X has proven its value in the Netherlands. This strength can be exploited when grasping the opportunity of geographical expansion.
High and constant target group	Vertical integration online consumer credit	Since Firm X has a reasonable high number of web-site visitors and the demand for online consumer loans is stable, the option of vertical integration is interesting to investigate.
High dependency on Search Engine Y	Search Engine Y algorithm change	Because of the high dependency on Search Engine Y, a change in the Search Engine Y search engine algorithm may cause a lot of harm to the current business model.
Difficult to adapt Search Engine	Search Engine Y algorithm change	Changing the current search engine optimization strategy is not easy, therefore it is important to try to keep the search

Optimization strategy		engine optimization strategy up to date and closely monitor Search Engine Y updates.

Table A 5: SWOTi - issues (ranking 5)

Issue-ranking 3: important		
Internal item	***External item***	***Explanation***
High level of segmentation	Optimize performance current portfolio	Because of the high level of segmentation, there will be some websites which perform below average. When a clear insight in performance indicators for websites is available, Firm X is able to focus on websites matching these indicators and therefore optimize the current portfolio.
Low level of competition (currently)	Long-Term strategy competitors	The low amount of competition (at this moment) decreases the threat that long-term strategy implementation of competitors will harm the performance of Firm X.
Dependence on low number of affiliate partners in online consumer credit	Geographical Expansion	The low number of affiliate partners in the Netherlands favours the option of geographical expansion since there might be more payday lenders operating in foreign countries, and also because the number of credit issuers positively influences the cost per click through Service 1 Search Engine Y advertisements.
Dependence on low number of affiliate partners in online consumer credit	New affiliate partners (online consumer credit)	The opportunity of new possible affiliate partners in the Netherlands is reduced significantly by the low number of possible affiliate partners in the Netherlands. If this decrease continues it may be possible that affiliate marketing in the Dutch market is not interesting anymore and other options (Service 1 Search Engine Y advertisements) have to be considered.
Dependence on low number of affiliate partners in online consumer credit	Regulation AFM	The relation between these two items is a reverse one compared to the other relations, since the increase in regulation by the AFM has led to a decrease in the number of payday lenders in the Dutch market. At the moment it can be stated that the regulation will become even stricter and that the AFM regulation is a serious threat for the market.

Table A 6: SWOTi - issues (ranking 3)

Issue-ranking 1: important to pay attention to		
Internal item	***External item***	***Explanation***
Growing amount of traffic	Vertical integration online consumer credit	The growing amount of visitors on the websites of Firm X and the increasing market share implies that it may be favourable for Firm X to issue credit themselves and make this an interesting opportunity for the future.
Growing amount of traffic	Fluctuations CPC	The decrease in the cost per click for each Service 1 Search Engine Y advertisement is partly compensated for by the growing amount of traffic for the websites. If on the other hand the cost per click increases in the future, then the growth in traffic functions as a multiplier for the revenues.
Growth in revenue	Exchange rate	For the online trading products the revenues are paid out in dollars, so a less favourable dollar/euro exchange rate may lead to a decrease in payments. Since a growth in revenue (paid in dollars) can be obtained in this segment, the exchange rate risk is slightly reduced.
Big and reliable	Optimize	Since the current business partners are big companies are

business partners	performance current portfolio	have proven to be reliable, the opportunity to optimize the current portfolio and to continue current operations is interesting.
Low level of competition (currently)	Optimize performance current portfolio	The low level of competition implies that competitors are not able to execute a strategy similar to Firm X, or are not able to grasp opportunities as Firm X does. This calls for the opportunity to further optimize the performance of the current portfolio and increase market shares.

Table A 7: SWOTi - issues (ranking 1)

Appendix E

This Appendix shows the breakdown analysis of the size of the Dutch payday loan market. The analysis is based on the financials of Guarantee Firm 1, gathered using the ORBIS © database.

Guarantee Firm 1 is the company which provided the guarantees which can be bought to secure a payday loan of EU Lender 1. A research on all the websites of EU Lender 1 in the countries where they operate resulted in the conclusion that these guarantees are only offered to the Dutch and Belgian customers. Financials for the year 2011 are available which means that the revenue figures of 2011 can be used to estimate the size of the Dutch market in 2011.

Along the path from the 'start', the 2011 revenues of Guarantee Firm 1, towards the 'finish', the market size of the Dutch payday loan market, several steps have to be performed and several assumptions have to be made. This appendix shows the calculation step by step and for each assumption an explanation will be given.

Breakdown analysis of Dutch market size in 2011

The total revenues of Guarantee Firm 1 in 2011 totalled to €2,744,273. It is assumed that 2/3 of these revenues were generated in the Netherlands; €1,829,515. The next step in the breakdown analysis is to determine the price of a guarantee for an average payday loan. From the report by Vennekens & van der Bij (2009) it is known that an average payday loan in the Netherlands is €230 and is the lending period equals 24 days. In the terms and conditions of Guarantee Firm 1, the prices for a certain guarantee can be found (Global Guarantee OÜ, 2013). A guarantee for a €200, 15 day loan costs €44.86, while a guarantee for a €200, 30 day loans costs €51.71. A guarantee for a €300, 15 day loan costs €58.28, while a guarantee for a €300, 30 day loans costs €77.56. Using these figures it can be estimated that a guarantee for a €230, 24 day loans costs €55.24.

When the revenues of €1,829,515 are divided by the costs of an average loan; €55.23, it can be concluded that in 2011 33,123 loans backed up with a guarantee were issued in the Netherlands by EU Lender 1. After assuming the percentage of loans backed up with a guarantee to equal 70% and to assume a market share in the Dutch market of 20% for EU Lender 1, the market size for the Dutch market in 2011 is estimated to be 236,595. For the further analyses of the Dutch market, this number is rounded up to 240,000 payday loans issued per year.

Calculation of APR for UK-based vertical integration scenario

The APR (annual percentage rate) which will be used in the UK-based vertical integration scenario is computed as follows:

The legally allowed interest charged for a €230, 24 day loan equals (((1+15%)^(24/265))-1)*€230 = €2.12. The costs of a guarantee for such a loan equal €55.24, as shown above. The total costs for an average loan backed up by a guarantee equal €57.35, which corresponds with an APR of: ((1+(57.36/230))^(365/24))-1 = 2,855.44%

Appendix F

Companies competing in the foreign payday loan markets are listed in this appendix. Not all the firms are represented in this Appendix, but the most important firms for each country are represented in Table A 8.

The exchange rates for the foreign currencies are as follows (Bloomberg, 2013):
GBP/EUR = 1.1693 (British Pound)
SEK/EUR = 0.1147 (Swedish Kroon)

Country	Company	Loan Amounts	Lending Period	Representative APR
United Kingdom	UK Lender 4	£100 - £1,000	1 – 31 days	2,092 %
	UK Lender 5	£250 - £1,000	5 – 45 days	2,403 %
	UK Lender 6	£200 - £750	7 – 31 days	2,300 %
	UK Lender 7	£100 - £500	31 days	2,230 %
	EU Lender 1	£50 - £300	7 – 45 days	2,591 %
	UK Lender 8	£100 - £750	31 – 182 days	2,334 %
	UK Lender 9	£100 - £400	1 – 30 days	1,906 %
	UK Lender 10	£300 - £2,000	1 – 365 days	278 %
	UK Lender 11	£100 - £750	28 days	1,734 %
	UK Lender 12	£100 - £500	31 – 93 days	1,582 %
	UK Lender 13	£50 - £500	30 days	1,734 %
	UK Lender 14	£100 - £1,000	1 – 35 days	4,640 %
	UK Lender 15	£200 - £500	31 – 365 days	2,072 %
	UK Lender 16	£100 - £300	3 – 31 days	2,964 %
	UK Lender 17	£100	7 days	36,894 %
	UK Lender 18	£50 - £1,000	5 – 45 days	2,303 %
	UK Lender 19	£100 - £450	31 days	2,333 %
	UK Lender 20	£100 - £800	6 – 35 days	2,585 %
	UK Lender 21	£10 - £500	30 days	2,333 %
	UK Lender 3	£100 - £1,000	31 days	2,333 %
	UK Lender 22	£100 - £1,500	30 – 90 days	820 %
	UK Lender 23	£50 - £1,000	1 – 30 days	3,613 %
	UK Lender 24	£100 - £1,000	7 – 30 days	819 %
	UK Lender 25	£50 - £500	5 – 150 days	3,635 %
	UK Lender 26	£100 - £500	15 days	4,462 %
	UK Lender 2	£80 - £750	28 days	2,808 %
	UK Lender 27	£80 - £800	28 days	4,334 %
	UK Lender 1	£1 - £1,000	1 – 30 days	4,394 %
Finland	FI Lender 1	€50 - €1,000	14 – 180 days	151 % - 11,498 %
	FI Lender 2	€20 - €1,000	45 days	211 %
	EU Lender 3	€50 - €1,000	14 – 90 days	333 % - 11,478 %
	EU Lender 2	€50 - €1,000	14 – 90 days	333 % - 11,478 %
	EU Lender 1	€50 - €1,000	15 – 90 days	412 % - 5,512%
Sweden	SWE Lender 5	5,000kr – 30,000kr	31 – 2,232 days	10 % - 20 %
	SWE Lender 2	500kr – 10,000kr	15 – 90 days	275 % - 2,334 %
	SWE Lender 1	1,000kr – 15,000kr	365 – 1825 days	24 % - 38 %
	SWE Lender 6	5,000kr – 50,000kr	365 – 1825 days	5 % - 14 %
	SWE Lender 4	500kr – 6,000kr	15 – 55 days	280 % - 18,661 %
	SWE Lender 7	1,000kr – 10,000kr	30 – 90 days	239 % - 5,461 %
	EU Lender 1	500kr – 12,000kr	15 – 90 days	464 % - 8,348 %
	SWE Lender 8	500kr – 10,000kr	30 – 90 days	254 % - 2,694 %

	EU Lender 3	500kr – 10,000kr	30 – 90 days	383 % - 1,411 %
	SWE Lender 9	50kr – 12,000kr	1 – 30 days	0 % - 3,000 %
	SWE Lender 10	5,000kr – 50,000kr	365 – 1825 days	5 % - 14 %
	SWE Lender 11	1,000kr – 20,000kr	365 – 1825 days	14 % - 17 %
	SWE Lender 12	500kr – 5,000kr	14 days	0 %
	EU Lender 2	500kr – 10,000kr	30 – 90 days	383 % - 1411 %
	SWE Lender 13	1,000kr – 6,000kr	1 – 30 days	0 % – 6,000 %
	SWE Lender 14	1,000kr – 4,000kr	30 days	819 % - 2,334 %
	SWE Lender 15	1,000kr – 8,000kr	30 – 90 days	189 % - 1,381 %
	SWE Lender3	1,000kr – 10,000kr	30 – 90 days	362 % - 3,105 %
	SWE Lender 16	1,000kr – 100,000kr	30 – 90 days	189 % - 1,680 %
Estonia	EE Lender 2	€50 - €900	5 – 365 days	0 % - 68 %
	EE Lender 3	€100 - €800	30 days	128 %
	EE Lender 4	€40 - €2,000	14 – 730 days	204 %
	EU Lender 1	€35 - €1,000	15 – 60 days	289 % - 8,348 %
	EE Lender 5	€50 - €1,000	14 – 365 days	819 % - 4,692 %
	EE Lender 1	€50 - €900	5 – 365 days	0 % - 68 %

Table A 8: Online payday lenders in foreign countries

Appendix G

This appendix provides the (financial) variables found for each firm using the ORBIS © database. Additionally the ratios, as defined in section 4.4.4.2, are displayed for each company separately. The Appendix starts off with the firms operating in the United Kingdom; hereafter the variables and ratios for the Finnish, Swedish, and Estonian firms are displayed. For some countries, the market shares and the number of loans issued were not directly available. These figures are calculated using related data which was available. The exact calculations made and assumptions used are also described for each country separately.

Since all the data in the ORBIS © database was provided in US dollars, these had to be converted to Euros. The following exchange rates (Bloomberg, 2013) were used for these calculations:

USD/EUR 2007: 0.6790
USD/EUR 2008: 0.7094
USD/EUR 2009: 0.6977
USD/EUR 2010: 0.7545
USD/EUR 2011: 0.7722
USD/EUR 2012: 0.7565

Payday Lenders United Kingdom

Input variables and assumptions

In 2011, 8.2 million payday loans were issued in the United Kingdom and 55% of the total revenues were generated by the three largest payday lenders (Office of Fair Trading, 2013a). This fact led to the assumption that 55% of the 8.2 million payday loans (4.51 million loans) were issued by the three largest lenders: UK Lender 1, UK Lender 2, and UK Lender 3.

The number of loans issued by UK Lender 1 in 2011 equals 2.46 million (Glass, 2012; Bowers, 2013), which 'leaves' 2.05 million loans for the other two companies. Looking at the financial data available for UK Lender 2 and UK Lender 3, it is assumed that UK Lender 3 issued 70% of the remaining loans, and UK Lender 2 issued 30% of the remaining loans. If the number of loans issued by UK Lender 1 is taken as a reference, it can be stated that UK Lender 3 issues 58.33% of the number of loans of UK Lender 1, and UK Lender 2 issues 25.00% of the number of loans of UK Lender 1.

From the year UK Lender 1 started its business, in 2007; up to 2011 it issued 6.0 million online payday loans (Glass, 2012). The article furthermore states that the growth has been above average and since no real market numbers are available, assumptions for the number of loans issued in the years 2007-2010 have to be made. In order to sum up to 6.0 million loans in five years and taking into account the growth, it is assumed that 484,932 loans were issued in 2007, and that this number grew with 40% in 2008 and 2009, and with 50% in 2010. For the number of loans issued by the other two companies the reference percentage rates, as described above, are used for the calculation.

As described in section 4.4.3.2, payday loans in the United Kingdom can be rolled-over. 50% of the total revenues generated come from roll-overs, while 23% of the total costs can be assigned to roll-overs and one third of all loans are rolled over at least once (Office of Fair Trading, 2013a). This information is important in calculating the average revenues and costs per loan and per loan which is rolled over. The equations used to calculate these values are:

$$revenue\ per\ new\ loan = \frac{total\ revenues * 50\%}{total\ number\ of\ loans\ issued} \quad \text{(Equation A1)}$$

$$costs\ per\ loan\ rolled\ over = \frac{(total\ revenues - EBIT) * 23\%}{total\ number\ of\ loans\ issues * \frac{1}{3}} \quad \text{(Equation A2)}$$

$$costs\ per\ new\ loan = \frac{(total\ revenues - EBIT) * 77\%}{total\ number\ of\ loans\ issued} \quad \text{(Equation A3)}$$

$$costs\ per\ loan\ rolled\ over = \frac{(total\ revenues - EBIT) * 23\%}{total\ number\ of\ loans\ issues * \frac{1}{3}}$$ (Equation A4)

The data gathered using the ORBIS © database and the ratios as described in section 4.4.4.2, are displayed below for UK Lender 1, UK Lender 2, and UK Lender 3.

UK Lender 1	2010	2011
Revenues	€87,093,444	€219,892,444
Cost Of Goods Sold	€45,165,879	€105,063,988
Operating Expenses	€24,110,048	€41,492,623
Operating Profit (EBIT)	€17,816,009	€73,335,062
Financial Revenue	€8,300	€27,799
Financial Expenses	€2,600,007	€1,187,644
Pre-Tax Profit	€16,663,887	€70,701,088
Taxes	€4,698,272	€18,631,642
Profit after Tax	€11,965,616	€52,069,446
FTE	15	21
Employee Wages	€817,124	€1,794,593
Number of Loans issued	1,425,700	2,460,000
EBIT % Revenue	20.46%	33.35%
Pre-Tax Profit % Revenue	19.13%	32.15%
Average Wage	€54,475	€85,457
Revenue per Employee	€5,806,230	€10,471,069
Revenue per new loan	€30.54	€44.69
Revenue per loan rolled over	€91.63	€134.08
Costs per new loan	€37.42	€45.87
Costs per loan rolled over	€33.53	€41.11

Table A 9: Data UK Lender 1 (UK)

UK Lender 2	2009	2010	2011
Revenues	€8,601,246	€18,793,841	€40,852,469
Cost Of Goods Sold	€1,642,386	€3,433,730	€7,989,953
Operating Expenses	€3,475,244	€5,465,598	€13,290,334
Operating Profit (EBIT)	€3,483,616	€9,896,022	€19,572,953
Financial Revenue	NA	NA	€18
Financial Expenses	€27	€40	€17
Pre-Tax Profit	€3,456,406	€9,856,034	€19,573,726
Taxes	€968,408	€2,748,644	€5,222,389
Profit after Tax	€2,487,998	€7,106,636	€14,352,109
FTE	30	58	105
Employee Wages	€1,543,312	€1,582,187	€5,616,211
Number of Loans issued	237,617	356,425	615,000
EBIT % Revenue	40.50%	52.66%	47.91%
Pre-Tax Profit % Revenue	40.18%	52.44%	47.91%
Average Wage	€51,444	€27,280	€53,488
Revenue per Employee	€286,708	€324,032	€389,071
Revenue per new loan	€18.10	€26.36	€33.21
Revenue per loan rolled over	€54.30	€79.09	€99.64
Costs per new loan	€16.58	€19.22	€26.64
Costs per loan rolled over	€14.86	€17.23	€23.87

Table A 10: Data UK Lender 2 (UK)

UK Lender 3	2007	2008	2009	2010	2011
Revenues	€8,695,274	€24,231,685	€46,322,396	€70,913,192	€98,889,476
Cost Of Goods Sold	€2,716	NA	NA	NA	NA
Operating Expenses	€8,800,519	€21,090,462	€30,877,411	€49,920,738	€68,014,604
Operating Profit (EBIT)	-€107,961	€3,140,514	€15,444,985	€20,992,454	€30,874,873
Financial Revenue	€16,975	€15,607	€20,233	€16,599	€550,579
Financial Expenses	€395,178	€1,055,587	€1,057,713	€1,217,009	€329,729
Pre-Tax Profit	-€486,164	€2,100,533	€14,407,505	€19,792,044	€31,095,722
Taxes	-€16,296	€580,999	€4,162,478	€5,528,222	€8,409,258
Profit after Tax	-€469,868	€1,519,535	€10,245,027	€14,263,823	€22,686,464
FTE	32	115	178	232	285
Employee Wages	€2,089,283	€3,284,522	5,765,095	€9,012,503	€12,392,266
Number of Loans issued	282,877	396,028	554,439	831,658	1,435,000
EBIT % Revenue	-1.24%	12.96%	33.34%	29.60%	31.22%
Pre-Tax Profit % Revenue	-5.59%	8.67%	31.10%	27.91%	31.44%
Average Wage	€65,290	€28,561	€32,288	€38,847	€43,482
Revenue per Employee	€271,727	€210,710	€260,238	€305,660	€346,981
Revenue per new loan	€15.37	€30.59	€41.77	€42.63	€34.46
Revenue per loan rolled over	€46.11	€91.78	€125.32	€127.90	€103.37
Costs per new loan	€23.96	€41.01	€42.88	€46.22	€36.50
Costs per loan rolled over	€21.47	€36.75	€38.43	€41.42	€32.70

Table A 11: Data UK Lender 3 (UK)

Payday Lenders Finland

Input variables and assumptions

For the Finnish market exact numbers about the total amount of payday loans issued are available (Hiirsalmi, Lampio, Sallinen, & Vesterinen, 2012):

2008: 1,020,000
2009: 1,100,000
2010: 1,160,000
2011: 1,400,000

To derive the market shares of the payday lenders included in the sample, a few assumptions have to be made. First it is assumed that on average 25% of the loan amount is paid in interest. This percentage is chosen after observing the average interest rates required for a loan on the websites of the payday lenders. The average loan amount in Finland equalled €229 in 2011 (Hiirsalmi, Lampio, Sallinen, & Vesterinen, 2012), meaning that on average €57 is paid in interests. The total revenues earned for the whole market thus equal the number of loans issued per year multiplied by the average interest payment. Dividing the revenues generated by the companies included in the sample by the revenue of the complete market returns the market shares for each firm. It has to be noted that this method results in a revenue per loan which is identical for each firm. The method however enables comparison of the costs made per loan issued. The equations used to calculate the revenue and costs per loan are:

$$revenue\ per\ new\ loan = \frac{Total\ revenues}{Total\ number\ of\ loans\ issued} \qquad \text{(Equation A5)}$$

$$costs\ per\ new\ loan = \frac{(Total\ revenues - EBIT)}{Total\ number\ of\ loans\ issued} \qquad \text{(Equation A6)}$$

The data gathered using the ORBIS © database and the ratios as described in section 4.4.4.2, are displayed below for EU Lender 1 FI, EU Lender 2 FI, and EU Lender 3 FI.

EU Lender 1 FI	2008	2009	2010	2011
Revenues	€7,256,533	€6,674,120	€10,651,924	€7,437,670
Cost Of Goods Sold	NA	NA	NA	NA
Operating Expenses	NA	NA	NA	NA
Operating Profit (EBIT)	€2,837,511	€2,003,814	€3,981,284	€2,714,689
Financial Revenue	€10,797	€7,889	€4,976	€4,996
Financial Expenses	€13,283	€2,958	€2,986	€57,951
Pre-Tax Profit	€2,835,025	€2,008,645	€3,983,275	€2,661,735
Taxes	€25,226	€64,098	€0	€0
Profit after Tax	€2,809,798	€1,944,646	€3,983,275	€2,661,735
FTE	7	8	NA	11
Employee Wages	€113,778	€163,697	€288,643	€277,763
Number of Loans issued	128,626	116,204	187,285	130,270
EBIT % Revenue	39.10%	30.02%	37.38%	36.50%
Pre-Tax Profit % Revenue	39.07%	30.10%	37.39%	35.79%
Average Wage	€16,254	€20,462	NA	€25,251
Revenue per Employee	€1,036,648	€834,265	NA	€676,152
Revenue per new loan	€56.42	€57.43	€57.64	€57.09
Costs per new loan	€34.36	€40.19	€36.10	€36.26

Table A 12: Data EU Lender 1 (FI)

EU Lender 2 FI	2008	2009	2010	2011
Revenues	€7,897,099	€8,359,073	€7,442,615	€10,777,726
Cost Of Goods Sold	NA	NA	NA	NA
Operating Expenses	NA	NA	NA	NA
Operating Profit (EBIT)	€2,452,916	€1,766,272	€534,662	€1,270,871
Financial Revenue	€293,265	€190,287	€401,576	€1,214,165
Financial Expenses	€239,205	€304,919	€464,476	€1,024,818
Pre-Tax Profit	€2,508,975	€1,651,640	€471,761	€1,397,103
Taxes	€752,886	€834,694	€750,190	€946,299
Profit after Tax	€1,756,091	€816,820	-€278,429	€676,206
FTE	12	14	30	19
Employee Wages	€649,049	€995,060	€1,892,669	€2,586,638
Number of Loans issued	139,981	145,541	129,124	188,771
EBIT % Revenue	31.09%	21.13%	7.18%	11.79%
Pre-Tax Profit % Revenue	31.77%	19.76%	6.34%	12.96%
Average Wage	€54,087	€71,076	€63,089	€136,139
Revenue per Employee	€658,092	€597,077	€248,088	€567,249
Revenue per new loan	€56.42	€57.43	€57.64	€57.09
Costs per new loan	€38.88	€45.30	€53.50	€50.36

Table A 13: Data EU Lender 2 (FI)

EU Lender 3 FI	2008	2009	2010	2011
Revenues	€2,579,740	€3,372,133	NA	€13,793,570
Cost Of Goods Sold	NA	NA	NA	NA
Operating Expenses	NA	NA	NA	NA
Operating Profit (EBIT)	€839,180	€1,122,705	NA	€5,559,038
Financial Revenue	€54,300	€82,419	NA	NA
Financial Expenses	€95,765	€93,475	NA	€869,147
Pre-Tax Profit	€798,703	€1,111,648	NA	€4,689,892
Taxes	€79,969	€15,077	NA	€434,573
Profit after Tax	€718,734	€1,096,572	NA	€4,255,319
FTE	NA	9	NA	NA

Employee Wages	€115,511	€160,817	NA	€155,552
Number of Loans issued	45,727	58,713	NA	241,593
EBIT % Revenue	32.53%	33.29%	NA	40.30%
Pre-Tax Profit % Revenue	30.96%	32.97%	NA	34.00%
Average Wage	NA	€17,869	NA	NA
Revenue per Employee	NA	€374,682	NA	NA
Revenue per new loan	€56,42	€57,43	NA	€57,09
Costs per new loan	€38,08	€38,31	NA	€34,08

Table A 14: Data EU Lender 3 (FI)

Payday Lenders Sweden

Input variables and assumptions

Since there is no data available for the number of loans issued each year in the Swedish market, an estimation had to be made. Data regarding the number of unpaid payday loans, however, is available (Kronefogden, 2013). Additionally it is found that one out of six lenders is not able to repay its loan (Scancomark, 2013). Combining these two figures and the assumption that each customer takes out four loans on average each year (Vennekens & van der Bij, 2009), the market size can be calculated. The calculated size of the Swedish online payday lending market for the year 2007 till 2012 is given below:

2007: 610,032
2008: 858,600
2009: 1,116,744
2010: 672,912
2011: 793,536
2012: 1,289,016

Unfortunately, there is no data available about the average amount lend per payday loan in Sweden, therefore it is not possible to use the same analogy to derive the market shares as was done for the Finnish market. Based on the financial information found in the ORBIS © database, especially the revenue figures, an estimation of the market shares for the six Swedish firms included in the sample is made. The market shares for the firms are assumed to be:

EU Lender 1: 15%
SWE Lender 1: 5%
SWE Lender 2: 15%
EU Lender 2: 15%
SMSKredit: 5%
SWE Lender 4: 5%

Equations A5 and A6 are used to calculate the revenues and costs per payday loan. The data gathered using the ORBIS © database and the ratios as described in section 4.4.4.2, are displayed below for EU Lender 1 SE, SWE Lender 1, SWE Lender 2, EU Lender 2 SE, SWE Lender3, and SWE Lender 4.

EU Lender 1 SE	2007	2008	2009	2010	2011
Revenues	€1,168,532	€1,398,230	€2,267,779	€3,229,020	€4,192,014
Cost Of Goods Sold	NA	NA	NA	NA	NA
Operating Expenses	NA	NA	NA	NA	NA
Operating Profit (EBIT)	€401,918	€417,444	€375,839	€371,515	€1,506,461
Financial Revenue	€980	€604	€8,254	€11,769	€21,750
Financial Expenses	€13,789	€12,443	€7,440	€4,947	€4,933
Pre-Tax Profit	€389,034	€405,613	€373,943	€378,262	€1,523,166
Taxes	€92,605	€97,895	€83,640	€75,562	€301,695
Profit after Tax	€296,428	€307,719	€290,303	€302,699	€1,221,470

FTE	2	2	2	6	6
Employee Wages	€86,125	€105,081	€144,605	€184,933	€266,380
Number of Loans issued	91,505	128,790	167,512	100,937	119,030
EBIT % Revenue	34.40%	29.86%	16.57%	11.51%	35.94%
Pre-Tax Profit % Revenue	33.29%	29.01%	16.49%	11.71%	36.33%
Average Wage	€43,063	€52,541	€72,302	€30,822	€44,397
Revenue per Employee	€584,266	€699,115	€1,133,890	€538,170	€698,669
Revenue per new loan	€12.77	€10.86	€13.54	€31.99	€35.22
Costs per new loan	€8.38	€7.62	€11.29	€28.31	€22.56

Table A 15: Data EU Lender 1 (SE)

SWE Lender 1	2007	2008	2009	2010	2011	2012
Revenues	€2,213,822	€1,834,943	€1,948,050	€1,957,202	€1,087,607	€3,254,305
Cost Of Goods Sold	NA	NA	NA	NA	NA	NA
Operating Expenses	NA	NA	NA	NA	NA	NA
Operating Profit (EBIT)	-€155,627	-€290,914	-€53,236	-€275,488	€43,276	€1,153,155
Financial Revenue	€10,481	€7,357	€392	€225	€12,220	€117
Financial Expenses	€14,822	€8,719	€1,471	€67,691	€29,374	€385,431
Pre-Tax Profit	-€159,968	-€292,276	-€54,216	-€342,954	€26,010	€767,840
Taxes	€0	€0	€0	€0	€6,839	-€7,094
Profit after Tax	-€159,968	-€292,276	-€54,216	-€342,954	€619,171	€774,934
FTE	23	20	21	24	1	0
Employee Wages	€1,310,761	€1,117,514	€1,144,516	€1,208,099	€81,058	€3,140
Number of Loans issued	30,502	42,930	55,837	33,646	39,677	64,451
EBIT % Revenue	-7.03%	-15.85%	-2.73%	-14.08%	3.98%	35.43%
Pre-Tax Profit % Revenue	-7.23%	-15.93%	-2.78%	-17.52%	2.39%	23.59%
Average Wage	€56,990	€55,876	€54,501	€50,337	€81,058	NA
Revenue per Employee	€96,253	€91,747	€92,764	€81,550	€1,087,607	NA
Revenue per new loan	€72.58	€42.74	€34.89	€58.17	€27.41	€50.49
Costs per new loan	€77.68	€49.52	€35.84	€66.36	€26.32	€32.60

Table A 16: Data SWE Lender 1 (SE)

SWE Lender 2	2007	2008	2009	2010	2011
Revenues	€1,367,401	€1,504,793	€1,606,479	€1,650,342	€1,773,626
Cost Of Goods Sold	NA	NA	NA	NA	NA
Operating Expenses	NA	NA	NA	NA	NA
Operating Profit (EBIT)	€466,987	€501,356	€327,649	€553,900	€608,997
Financial Revenue	€33,031	€82,106	€100,393	€287,295	€76,685
Financial Expenses	€343,862	€326,335	€524,513	€362,857	€121,867
Pre-Tax Profit	€156,156	€257,126	-€96,471	€478,450	€563,816
Taxes	€34,302	€56,039	€0	€155,285	€111,889
Profit after Tax	€121,855	€201,087	-€96,471	€323,164	€451,927
FTE	6	6	6	1	1
Employee Wages	€234,605	€223,703	€335,590	€60,832	€40,921
Number of Loans issued	91,505	128,790	167,512	100,937	119,030
EBIT % Revenue	34.15%	33.32%	20.40%	33.56%	34.34%
Pre-Tax Profit % Revenue	11.42%	17.09%	-6.01%	9.41%	6.31%
Average Wage	€39,101	€37,284	€55,932	€60,832	€40,921
Revenue per Employee	€227,900	€250,799	€267,747	€1,650,342	€1,773,626
Revenue per new loan	€14.94	€11.68	€9.59	€16.35	€14.90
Costs per new loan	€9.84	€7.79	€7.63	€10.86	€9.78

Table A 17: Data SWE Lender 2 (SE)

EU Lender 2 SE	2007	2008	2009	2010	2011
Revenues	€0	€654,396	€944,809	€1,090,483	€3,152,513
Cost Of Goods Sold	NA	NA	NA	NA	NA
Operating Expenses	NA	NA	NA	NA	NA
Operating Profit (EBIT)	-€3,176	-€153,858	€351,081	€390,294	€851,905
Financial Revenue	€0	€91	€0	€0	€0
Financial Expenses	€0	€13,078	€25,490	€74,551	€330,353
Pre-Tax Profit	-€3,176	-€166,846	€325,590	€315,743	€947,505
Taxes	€0	€0	€132,746	€4,498	€249,233
Profit after Tax	-€3,176	-€166,846	€192,844	€311,246	€698,273
FTE	NA	NA	NA	NA	NA
Employee Wages	NA	NA	NA	NA	NA
Number of Loans issued	91,505	128,790	167,512	100,937	119,030
EBIT % Revenue	NA	-23.51%	37.16%	35.79%	27.02%
Pre-Tax Profit % Revenue	NA	-25.50%	34.46%	28.95%	30.06%
Average Wage	NA	NA	NA	NA	NA
Revenue per Employee	NA	NA	NA	NA	NA
Revenue per new loan	€0.00	€5.08	€5.64	€10.80	€26.48
Costs per new loan	€0.03	€6.28	€3.54	€6,94	€19.33

Table A 18: Data EU Lender 2 (SE)

SWE Lender3	2007	2008	2009	2010	2011
Revenues	€523,945	€1,017,334	€939,221	€862,109	€803,961
Cost Of Goods Sold	NA	NA	NA	NA	NA
Operating Expenses	NA	NA	NA	NA	NA
Operating Profit (EBIT)	€371,494	€411,802	€429,709	€240,406	€237,791
Financial Revenue	€2,011	€182	€0	€2,024	€3,139
Financial Expenses	€106	€9,446	€95,687	€76,799	€62,110
Pre-Tax Profit	€373,293	€402,628	€334,119	€165,630	€178,820
Taxes	€78,449	€136,147	€88,334	€43,516	€47,087
Profit after Tax	€294,845	€266,481	€245,786	€122,114	€131,733
FTE	NA	0	2	6	4
Employee Wages	NA	NA	€92,844	€240,181	€215,032
Number of Loans issued	30,502	42,930	55,837	33,646	39,677
EBIT % Revenue	70.90%	40.48%	45.75%	27.89%	29.58%
Pre-Tax Profit % Revenue	71.25%	39.58%	35.57%	19.21%	22.24%
Average Wage	NA	NA	€46,422	€40,030	€53,758
Revenue per Employee	NA	NA	€469,610	€143,685	€200,990
Revenue per new loan	€17.18	€23.70	€16.82	€25.62	€20.26
Costs per new loan	€5.00	€14.11	€9.12	€18.48	€14.27

Table A 19: Data SWE Lender3 (SE)

SWE Lender 4	2009	2010	2011
Revenues	€444,316	€763,496	€854,188
Cost Of Goods Sold	NA	NA	NA
Operating Expenses	NA	NA	NA
Operating Profit (EBIT)	€30,686	€787	-€14,351
Financial Revenue	€0	€675	€0
Financial Expenses	€0	€112	€337
Pre-Tax Profit	€30,589	€1,461	-€14,575
Taxes	€10,687	€337	€6,727

Profit after Tax	€19,902	€1,124	-€21,301
FTE	2	2	2
Employee Wages	€62,157	€166,979	€185,771
Number of Loans issued	55,837	33,646	39,677
EBIT % Revenue	6.91%	0.10%	-1.68%
Pre-Tax Profit % Revenue	6.88%	0.19%	-1.71%
Average Wage	€31,079	€83,490	€92,886
Revenue per Employee	€222,158	€381,748	€427,094
Revenue per new loan	€7.96	€22.69	€21.53
Costs per new loan	€7.41	€22.67	€21.89

Table A 20: Data SWE Lender 4 (SE)

Payday Lenders Estonia

Input variables and assumptions

There is no exact data available describing the number of loans issued in Estonia. The IOO report, however, states that around 10% of the population in Estonia has a payday loan and that the market is growing at 20% per year (Vennekens & van der Bij, 2009). The Estonian population size was 1,300,000 in 2007 (Estonia, 2013). Combining this information the following market sizes can be derived:

2007: 130,000 loans
2008: 156,000 loans
2009: 187,200 loans
2010: 224,640 loans
2011: 269,568 loans

The biggest payday lender in Estonia, the EE Lender 1, has a market share of 55% (Vennekens & van der Bij, 2009). The other big lender operating in the Estonian market is EU Lender 1. Although no exact figures about its market share are available, it is assumed that EU Lender 1 covers 30% of the market. Again equation A5 and A6 are used to calculate the revenues and costs per payday loan. The data gathered using the ORBIS © database and the ratios as described in section 4.4.4.2, are displayed for EU Lender 1 EE and the EE Lender 1 in Table A 21 and Table A 22.

EU Lender 1 EE	2007	2008	2009	2010	2011
Revenues	€936,002	€1,038,365	€1,019,828	€1,216,279	€1,524,395
Cost Of Goods Sold	NA	NA	NA	NA	NA
Operating Expenses	NA	NA	NA	NA	NA
Operating Profit (EBIT)	€300,614	€281,664	€410,597	€670,378	€918,759
Financial Revenue	NA	NA	NA	NA	NA
Financial Expenses	NA	NA	NA	NA	NA
Pre-Tax Profit	€296,939	€302,990	€433,367	€682,864	€959,298
Taxes	€0	€0	€0	NA	NA
Profit after Tax	€296,939	€302,990	€433,367	€682,864	€959,298
FTE	5	5	4	4	4
Employee Wages	€99,709	€101,885	€84,291	€89,998	€92,869
Number of Loans issued	39,000	46,800	56,160	67,392	80,870
EBIT % Revenue	32.12%	27.12%	40.26%	55.12%	60.27%
Pre-Tax Profit % Revenue	31.72%	29.17%	42.49%	56.14%	62.93%
Average Wage	€19,942	€20,377	€21,073	€22,499	€23,217
Revenue per Employee	€187,200	€207,727	€254,957	€304,070	€381,099
Revenue per new loan	€24.00	€22.19	€18.16	€18.05	€18.85
Costs per new loan	€16.29	€16.17	€10.85	€8.10	€7.49

Table A 21: Data EU Lender 1 (EE)

EE Lender 1	2007	2008	2009	2010	2011
Revenues	€427,467	€764,565	€1,539,073	€2,417,732	€3,102,753
Cost Of Goods Sold	NA	NA	NA	NA	NA
Operating Expenses	NA	NA	NA	NA	NA
Operating Profit (EBIT)	€258,786	€165,385	€606,107	€649,500	€966,918
Financial Revenue	NA	NA	NA	NA	NA
Financial Expenses	NA	NA	NA	NA	NA
Pre-Tax Profit	€256,961	€101,987	€301,132	€649,500	€966,918
Taxes	€0	€0	€26,410	€68,548	€106,629
Profit after Tax	€256,961	€101,987	€274,722	€580,953	€860,019
FTE	13	8	14	15	28
Employee Wages	€118,234	€160,698	€90,482	€136,156	€332,326
Number of Loans issued	71,500	85,800	102,960	123,552	148,262
EBIT % Revenue	60.54%	21.63%	39.38%	26.86%	31.16%
Pre-Tax Profit % Revenue	60.11%	13.34%	19.57%	26.86%	31.16%
Average Wage	€9,095	€20,087	€6,463	€9,010	€11,869
Revenue per Employee	€32,882	€95,571	€109,934	€161,182	€110,813
Revenue per new loan	€5.98	€8.91	€14.95	€19.57	€20.93
Costs per new loan	€2.36	€6.98	€9.06	€14.31	€14.41

Table A 22: Data EE Lender 1 (EE)