

Case Overview

Authentrex S.A. is an online travel agency, with multiple online sales channels, based in Huelva, a city in Southwestern Spain, close to the border with Portugal.

The company was established in 2005 by two partners, Mark Walker and Carmelo Ferrera.

Neither of the two partners had experience in Internet technology and only one of the partners, Mr. Ferrera, had any experience or background in tourism (he was the owner of a campsite). Both of them, however, had experience with start-up businesses of different types.

The company has been financed entirely with private capital, without grant aid of any description, and at present (2010) is reaching break even point, despite the adverse financial situation in Spain.

The original idea for the company was based on the belief that both Internet technology and tourism are growth areas and, once combined with the correct focus, could provide a winning business formula.

The company took two years to set up. The official launch of the first online platform www.visithuelva.com took place in July 2007, and today it is a fully fledged and operational specialist online travel agency dealing with all aspects of travel and tourism for the province of Huelva and, to a lesser extent, some nearby and better-known destinations such as Seville, Cadiz and the Portuguese Algarve. This pre-launch time was spent almost entirely on research before any staff members were employed, systems developed, web pages published, or suppliers contracted, and before the central office opened in Huelva.

Travel products include simple online accommodation bookings (hotels, holiday apartments, country cottages, campsites and hostels), activities, tours, visits and entrance tickets plus transport, principally airport and train station transfers. By combining these simple online travel products, they can offer a full range of complex holiday packages of their own creation (accommodation + activities and tours + transport), providing diverse travel experiences.

Being a destination specialist, with local knowledge, local contacts and direct contracts with local suppliers, has allowed them to develop a strong group department which takes care of all arrangements for group travel. The group travel products start with simple single duration activities and tours, more complex day trips involving more than one travel product, and finally complex travel arrangements for groups which include accommodation, transport, guides, restaurants and activities. Main group customers are schools, universities, companies and associations.

The subject of this case study is the conceptualization and setting-up of a fully developed destination travel web, and the design of its strategy.

Teaching Objectives

4. To discuss the process of strategy formulation and the various internal and external factors and stages involved, including SWOT analysis.
5. How does or should a company adapt to constant change? Discussion of the elements involved in a process of strategic change.
6. The difference between the strategy originally intended and the one actually implemented.
7. To show the importance of innovation for success and how the creation of a "blue ocean" is possible, that is to say, how to create a market space by identifying an unserved market segment or set of customers, and delivering to them a compelling new value proposition. (See the book titled "Blue Ocean Strategy", by W. Chan Kim and Renée Mauborgne).
8. To explain the different types of generic and growth strategies.
9. To highlight the importance of leadership and organizational culture for strategy implementation.

Target Audience

This case study has been designed for the disciplines of Strategic Management, at undergraduate level.

Teaching Approach

Students could be arranged in a variety of scenarios. For instance, a number of teams could be involved in a fact-finding mission on IT and Tourism, replicating the role played by Mr. Walker as the main developer of the company under study. Another team could integrate all the material, making a synthesis presentation.

Theoretical Background

Although strategy as a concept probably arose in connection with military operations, its application to business is relatively recent, since it was not until 1948 that Von Neumann and Morgenstern initiated the use of formal strategy in the corporate world with their game theory.

Today strategy has come a long way, up to the status of being considered as one of the cardinal points of business management. This is not the place to compile a list of all the different approaches to the concept of strategy that have been proposed in the specialist literature, but we will highlight those features on which general agreement exists, which are the following:

- Strategy constitutes an interactive process between the company and its environment. By means of the strategy, the company attempts to match its business organisation to the situation and circumstances in which its business activities are undertaken.
- Strategy implies proposing one or more long-term objectives, to which the company commits not only its current resources but also the resources that it is going to generate in the future.
- Strategy is associated with the establishment of policies and short-term objectives, to which the appropriate resources are consequently allocated.
- Strategy seeks to defend and improve the competitiveness of the company, and to this end, the nature and structure of the company, its business units, and operating practices can and should be questioned.

In addition, almost all coincide in considering strategy as the means for foreseeing and directing the growth of the company.

We can complete this compendium of characteristic features with a series of illuminating comments on the classic concept of strategy in business:

- Strategy is the result of a process driven from the top of the organisation.
- Underlying the formulation of strategy is the more fundamental process of risk assessment.
- It is a field of management that is both science and art: a science in so far as the formulation and subsequent implementation of a strategy requires scientific knowledge and techniques; and an art because creativity and communication play a fundamental role in it.
- Strategy is designed to achieve certain basic objectives.
- Strategy-making must take into account and study the relationships between the environment and the competencies of the company.
- The strategy determines the courses of action necessary to reach the objectives. When the strategy is made by a formal procedure, it is materialised in specific plans and policies.
- To put a strategy into operation necessarily requires the assignment of resources, particularly finance, which are formally specified in the corresponding programmes and budgets.

Considering the “a priori” character of strategy, it needs to be recognised that, in reality, the strategies carried out by companies do not usually fully match what was originally intended. It has been confirmed empirically that there is almost always a gap between the strategy contemplated in the company’s plans and that actually put into practice, as demonstrated by an “a posteriori” analysis of its actions. These actual actions are normally determined only partially by the strategy initially formulated; the other part is determined by the need to respond to new events, to react to unforeseen changes in the

company’s business environment.

Therefore, an adequate definition of strategy must consider two dimensions: strategy is an intention, an “a priori” guide to action; but strategy is also formed by a set of consistent decisions and behaviour that can be appreciated “a posteriori”.

In this context, five different types of strategy can be defined:

- Intended strategy: this is intentional, formulated in anticipation that certain conditions will exist.
- Strategy carried out: this is the sequence of decisions and actions that show consistency with stated goals, over time, whether originally intended or not.
- Emerging strategy: this is that part of the strategy carried out that was never explicitly formulated.
- Deliberate strategy: this is that part of the intended strategy that is carried out.
- Strategy not carried out: this is that part of the intended strategy that was never put into operation, either because it was formulated on the basis of unrealistic expectations or of erroneous judgments about the environment, or because, over the passage of time, unforeseen changes took place that made it inadvisable to put it into operation.

Therefore, although strategy can be conceived as an intention delimited “a priori” (deliberate strategy), it must be recognised that any strategy actually carried out will, for sure, have an emerging component, due to the growing dynamism of the business environment.

With regard to the question of whether a strategy should be formalised and stated explicitly, there are many empirical studies confirming that the use of a formalised and explicit strategy is associated with significantly better results than when a strategy is implicit and less formalised.

In summary, we can say that a company’s strategy makes explicit the general objectives of the company and the basic courses of action required for their achievement, in accordance with current and prospective resources and competencies of the organisation, with the underlying ultimate goal of attaining its optimum positioning in its own socioeconomic environment. In practical terms, the goal usually translates into ensuring the long-term satisfaction of all the stakeholders.

Additionally, it could be said that, by developing a particular strategy, what the management of the company is really aiming to do is to generate desirable change in the company, to move it into a better situation or condition than its initial or current state. But the value of the strategy as a means of making that change operative essentially lies in a series of factors that condition its formulation and implementation, and that raise various difficulties, particularly:

- The limited and uncertain information available on the future evolution of the business environment, and the capacity and intentions of the competitors.
- The limited availability of resources, actual and prospective, and the risks of committing them irreversibly.

- The need to coordinate the actions of individuals.

It is symptomatic that the interest in strategy and the need for it are intensified in processes of expansion of the company and in contexts of economic crisis that put its survival in danger. This is due to the complexity of the two contrasting situations, both in respect of the environment or competitive context in which the company operates (the external dimension of the problem) and in respect of the company itself as an organisation and, in consequence, in respect of its management (the internal dimension). When the management is not capable of adapting to these complexities, the most notable effects are usually the following:

- Ineffectiveness of the management techniques being applied in the organisation up to that time.
- The tendency to pursue short term and partial solutions, through not understanding or not confronting the deeper problems.
- Internal crisis in the organisation in the face of the persistence of the problems, and the growing tension that is generated in the group leadership.

Only the correct formulation of the company's strategy will enable it to confront these situations with any real chance of success. In this line, Strategic Management presents itself as a style of management based on the "strategic problem", which can be understood as the identification of the strengths and weaknesses of the company together with the external threats and opportunities confronting it; strategic management will translate these key factors into a series of challenges (that is, proposals for the necessary and urgent adaptations of the organisation to the changes of the environment) and impacts (understood as the effects caused by those changes on the company's prospects for achieving its objectives).

It can be said that today the management of business organisations is conducted in the framework of a style of management by anticipation of change, and assessment of risk, known generally as Strategic Management. In this framework, the environment, understood in its widest sense, figures as the basic point of reference for directive action. The goal is that all the operations undertaken by the business should have their ultimate justification in the achievement of the best possible coupling and coherence between the company and the world around it.

Strategic Management has thus become the instrument for ensuring that the company adjusts appropriately to the changes in the environment in which it operates. In essence, this system of management aims to identify precociously the relevant external and internal changes, so that rapid response can be configured and put in place, so that the impacts of these changes should cause the minimum degree of surprise and disruption.

It is believed that a management system cannot be efficacious in the long term if it is not imbued with a «strategic attitude» by which

the corporate leaders move from «strategic thinking» to identifying the «strategic problem» of the company, and from there to adopting a well-defined «strategic posture» for confronting it; this seems to be the best way to propitiate management decisions and action fully consistent with the characteristics and evolution of the company's environment. These four concepts can be considered the cardinal points of Strategic Management, as the style that must underlie and inspire the way of managing business organisations today.

As has been said, Strategic Management is a style of management that puts emphasis on the precocious identification of external changes, as a prelude to responding actively to the dynamism and increasing complexity of the business environment. Therefore, it is not a question of «holding the lid down» on the problems hitting the company from a turbulent environment: it is setting out to find and meet them.

The strategic attitude, fundamentally concerned with the company's environment, should not be understood as an attempt to detract importance from the internal workings of the company as a focus of management attention, but rather as the complementing and widening of this focus by looking outwards to issues arising in the wider world outside the company. The point to realise is that the external factors (such as the characteristics of the competition, the structure of the sector, the general economic conditions, the evolution of technology, etc.) are as important as the internal factors (leadership, organisation structure, corporate culture, human resources, etc.) for the success of the company. It goes further, in fact, because the two viewpoints need to be in tune with each other.

Analysis of the Teaching Objectives

1. To discuss the process of strategy formulation and the various internal and external factors and stages involved, including SWOT analysis.

Before the formulation of a strategy, a strategic analysis is needed, which is formed by two different components: one internal, the other external.

In the internal analysis, the aim is to determine the competitive position of the company by identifying its strengths and weaknesses. On the other hand, the external analysis is done in order to determine the industry attractiveness by discovering the number and nature of the threats and the opportunities represented by the business environment.

The strengths, weaknesses, threats and opportunities found in this case are the following:

Strengths

- Technology: it is considered a strength because of all the characteristics it possesses (the possibility of selling every type of product, direct contracting, supplier interface, customer interface, agency interface, shopping list, audit to adapt supply to

demand, translation tools, currency conversion, multiple sales platforms, multiple payment models). The SEO obtained by the company has great relevance in this respect.

- Personally known suppliers: they have built a good relationship with them when dealing with them one by one to evaluate and contract their services.
- Call center: this increases the customers' trust and confidence, although it is a company based on the Internet.
- Quick reaction to supply and demand: the website is continuously being updated to satisfy the clients' needs.
- Complex packages: they sell special and exclusive products that nobody else has.
- Independence from the public sector: no subsidies have been sought from government or public agencies, deliberately in order to have full autonomy in its actions.
- Entrepreneurial spirit: the personality of its leader is considered a real strength of the company. Sometimes the character is more important than the business itself, and Mark Walker has demonstrated that he's not afraid to take calculated risks.

Weaknesses

- Insufficient marketing budget: they need more funds in order to increase the investment in promotion activities.
- Maintaining supplier relationships is very time consuming.
- Contracting good staff needs skill and judgment: employees are multitasking, so it is difficult to classify them into simple labor categories.
- Laborious product configuration: exclusiveness in the variety of products offered requires huge doses of imagination, and this activity is time consuming.
- Web/Internet dependent: the company depends on the Internet supplier as it is based on this new technology. This means that if there is any problem with the net server, the business cannot function, period.

Opportunities

- Undiscovered tourist destinations: Huelva is "virgin territory", presenting many opportunities to take advantage of.
- No competition: there are no similar companies able to offer such a range of products and service.
- Public funded project: the regional government is doing a similar project for the region. Could Visithuelva.com become the official provider for this area?
- International markets: by acting through the Internet, and multilingually, the company has an easier access to potential customers irrespective of their geographic location in the world.
- Threats
- Lack of leadership in the local industry: they have admitted that support from the local government is essential to exploit

its potential.

- Public funded project: as mentioned, the regional government is a strong potential competitor for Authentrex.
- Well-established competitors, but for hotel bookings only.

The SWOT analysis is decisive at the point of defining the strategy the company is going to follow. Depending on the conclusions drawn in this phase, the company will opt for one particular strategy against another.

2. How does or should a company adapt to constant change? Discuss the elements involved in a process of strategic change.

Changes are inevitable and are happening continuously. When we are talking about a company that is growing and expanding itself, like Authentrex, it is really important to deal with new circumstances as new projects, clients, opportunities... are continuously coming up.

Due to its technology base, its size and the character of its leadership, the company has been able to react very quickly to what customers are looking for. Change has become something of a daily reality, part of the company's "DNA". In a dynamic industry such as tourism, Authentrex has been obliged to create innovative travel products, because that is what customers are now requesting. Furthermore, the Internet and tourism makes possible many different product combinations, and the more product combinations a company has, more variables it has to play with in order to adapt to constant change.

The system can be adapted for practically every type of travel product, and the business plan is continuously reviewed and updated.

The fact that a company has few employees could be a good point for overcoming resistance to change. Normally, in an organization people are afraid and do not like changes. So, when a change becomes dramatically necessary, the company also has to deal with customers and suppliers in order to change its organizational routines and try to achieve the same level of efficiency in that new situation. For that reason, the few employees the company has could be to its advantage in being capable of adapting to new circumstances.

Finally, they are aware that it is really important to continue investing in research, technology and training in order to be competitive and innovative, because this is the only way to adapt to new circumstances and survive.

3. The difference between the intended strategy and the implemented one.

The intended strategy is the strategy planned by a company after conducting the strategic analysis; in other words, it is a premeditated intention: it states the ways in which the company is going to act to achieve its objectives. On the other hand, the implemented strategy is the strategy that has actually been carried out – most likely with varying degrees of success.

The difference between the two types of strategy lies on the difficulties at the point of implementation. Normally, it is easier to carry

out the analysis and plan what needs to be done than to put into action the particular strategy that has been defined and agreed. Some of the obstacles Authentrex had to face were:

- Although they were conceived to be a web travel agency, they had to set up in a physical location with face-to-face services; a fully virtual company was not sufficient to give credibility to the firm.
- From the technological perspective, it was hard to find what they were looking for. Consequently, they had to conform to a standard, but customizable, product.
- During the course of the implementation of their strategy, they came up with new ideas which were the origin for the creation of projects different from the one they had in mind at the beginning.
- They have difficulties in drawing up staff labor contracts, because essentially every employee does every job: they cannot specialize in just one particular function. The company's "modus operandi" is the antithesis of traditional job demarcation.
- At the beginning, they wanted to exploit the destination of Huelva. Now, they are expanding the geographical area covered.
- The initial project was the creation of an alliance with the local authorities, but such a deal has been incredibly difficult to make.

4. The importance of innovation for success and how the creation of a "blue ocean" is possible.

Nowadays, innovation is becoming more and more important. With technology and markets changing very fast, there is a continual pressure to devise new and better products, processes and services faster.

In the case of Authentrex, the combination of these two elements (the Internet and tourism) has become an innovative, brilliant and successful idea: two modern concepts working together in the creation of a new way of delivering tourism services.

However, not only the product is important, but also the place where the new business should be set up. The concept of "blue ocean" could be interesting for explaining the reasons why Huelva was chosen, as a market space with an unserved set of customers, willing to receive a compelling new value proposition, and few if any competitors.

A "blue ocean" -see the book titled "Blue Ocean Strategy", by W. Chan Kim and Renée Mauborgne- is a market that can be developed by expanding boundaries or launching new industries; that is to say, it is a virgin territory that has not been exploited yet, an autochthonous place where customers are not being satisfied and where there are no relevant competitors.

Huelva was seen by Carmelo and Mark as a blue ocean. Some of the possible elements that make Huelva an attractive place are: the

natural resources (beaches, Doñana, etc.), traditions, weather, gastronomy, proximity to Portugal, etc...

5. To explain the different types of generic and growth strategies.

There are two main approaches in the literature to classifying generic strategies: Porter's approach and Ansoff's approach.

The first author distinguishes among three generic strategies: differentiation, cost leadership and segmentation.

In this case study it is clearly possible to identify the segmentation strategy in all projects Authentrex is carrying out, as the company is trying to target special segments of the market and not the whole market. For instance, Visitdonana targets adventurous tourists who are looking for wildlife, the natural environment and unspoilt places; Divertigrupos is aimed exclusively at groups of travelers, not individuals.

Nevertheless, although the general strategy is segmentation, within one particular segment the company is following a differentiation strategy by offering exclusive packages and, at the same time, cost awareness because Authentrex sets equal or lower prices than their competitors without forgetting the quality of their services.

From Ansoff's perspective, four different strategies can be distinguished according to the type of product and the type of market a company is trading in: market penetration, market development, product development and diversification.

- Market development. Authentrex is expanding its business into other areas, not only Huelva, but Cadiz, Seville and the Algarve, offering their current brands and services for these additional places.
- Product development. They are introducing new products such as Visitdonana, Divertigrupos... into their current market.
- Diversification. They are launching these new brands or services into new markets, not only in the provinces previously mentioned.

6. To highlight the importance of leadership and organizational culture for strategy implementation.

When a company has a strategy, this means that it has direction, a path to follow. However, this direction means nothing if there is no single obvious person able to guide everyone and motivate people. That is a leader.

Of course, a leader has to have certain qualities and abilities, such as the ability to listen and to communicate the key ideas, to influence others, to show passion, to have patience, ...

Great leaders start out with a firm belief. A leader must believe in what he/she is going to achieve. And this is something that Mark and Carmelo (the two architects of this company) did very well. They believed in their initial idea from the very beginning of the story. And even though there were lots of difficulties (no knowledge and experience, etc.), they looked for ways to overcome those obstacles, because they believed in their initial "big idea".

The organizational culture is a blend of the values, attitudes, experience and customs of an organization, the ways a company's owners and employees think, feel and act.

Firstly, there was no experience at all at the beginning. It was developed by them in conferences, talks... and is being continuously increased.

Talking about attitudes, we can say that both, Mark and Carmelo are fully committed to the company. They were not looking for a quick profit: they had a long term view and project. They were looking for something very different, a challenge, a difficult but demanding and exciting goal.

There are plenty of values that can be identified in this case study. Firstly, there is personal enrichment and almost spiritual wellbeing. The new values were to learn about the local customs and traditions, to come in contact with local people and to respect and appreciate the cultural differences. That is the natural and cultural environment. And actually one of the future directions will be to create a travel experience based on these values of natural tourism and respect for the environment. Everything they do is following the idea of being close to the customer. They wanted to give a value added service and not simply compete on prices or commodities.

Finally, other possible perspectives for this case study are:

- How important is the entrepreneur's previous professional experience (as opposed to personality and motivation)? Should this experience necessarily be within the same industry? Is business experience transferable from one industry to another? Do you think a multidisciplinary approach is more likely to produce high quality business innovation than a narrowly specialized approach?
- Should innovation in business necessarily have a technological basis or are there other forms of innovation that are just as valuable? (product style innovation, novel customer relations, marketing, management styles...).
- Does a company with a technological base necessarily enjoy a competitive advantage?
- If so, what competitive advantages does an online company enjoy over and above a traditional offline company? Is there such a thing as an offline company these days? Would a totally offline new company be attractive to customers who actively dislike the Internet?
- How does being an online company affect the different aspects of the company on a day-to-day basis, from marketing & management to customer relations and product innovation?
- Does public sector patronage (grants and subsidies) strengthen or weaken business initiative? (short, mid and long term, both for an individual company and the industry as a whole).
- How qualified is the public sector to decide which initiatives would be economically viable and therefore should receive

grant aid?

- Tourism is a mosaic of interconnected tourism companies, public services, environmental factors, cultural identity. Does this imply that a public-private partnership is the only viable way to optimize tourism's potential in a destination?
- Is a public-private partnership a utopia or a possible reality in Huelva? If so what are the key success factors?
- What should the role of the public sector be in the tourism industry (with or without a partnership)? Under what circumstances is it necessary for the public sector to intervene in tourism and create publicly-run tourism companies?

Basic Bibliography

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Final Note

The "Leadership Summit on the Future of Business Education" (which has been held in New York City on February 1, 2011) has addressed, as one of its key themes, the need to teach a new kind of decision-making. In the document released by the summit convener –The Aspen Institute, Business and Society Program - the following text can be read: "Prompted in part by a question about the most important learning outcomes for business education, participants repeatedly cited critical thinking skills and say they see a gap here in graduate preparedness. Critical thinking includes the ability to look beyond 'the right answer', to appreciate and integrate different views and aspects of an issue, to navigate uncertainty and complexity, and to better understand the consequences of decisions, in the short and long term, and within and outside the firm. How to build these skills? How can business schools infuse more dynamism into curriculum, introduce more 'context' and help students 'integrate'?" As one of the proposals, case studies that introduce a degree of ambiguity common to real-world decisions have been encouraged. This is the contribution being pursued with this particular case study on Authentrex.

More at: <http://www.aspenbce.org/documents/Feb%201%20Summary%20Final.pdf>