

HAVE WE GOT A FUTURE?



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During the last 10 years, he has combined his professional work for the ceramic sector with that of Assistant Professor of Marketing and Market Research at Universitat Jaume I, Castellón. At present, he is member of the Castellón College of Economists, where he particularly pursues actions related to marketing and market research. Some years ago, it was precisely his interest in these fields that led him to join the board of directors of the Castellón Marketing Club, a Club of which he is a charter member.

1. INTRODUCTION

Before we begin, a preliminary explanation is needed. This paper is not of the scientific nature that is one of the hallmarks of this international conference called Qualicer. This paper is an attempt to present a series of data, facts and even theoretical constructs that may help to reflect on our present and future capacity for competing in a global environment.

Answering the question on whether we have got a future means answering multiple questions. Several of these are linked with our own sectoral essence and, therefore, related to the strength of our cluster, our know-how, the quality of our human resources, our skills and resources or the strength of our structures. Others will be in the micro-field, i.e. in the field of the individual enterprise. In both senses, it could be very interesting to see what we did in the past, if we enjoyed and/or suffered situations similar to the present one and what we did to endure them.

Other questions will inevitably have to do with the international situation. Others again will be about our competitors' evolution: How are they developing? With what product quality? At what price levels? What are their areas of influence? What is their coverage rate of the domestic market? Current and potential control of distribution channels, etc? In short, whether they are in a position to compete with us. But, who is actually competing with us? Or rather, whom are we actually competing against?

In order to reflect on our sectoral essence, I shall briefly review the concept of the cluster or industrial district, a feature inextricably linked to our industry.

To reflect on the competition, I shall first tell a couple of anecdotes which I shall later expand upon using theoretical constructs.

Let's begin.

2. ABOUT CLUSTERS AND THEIR RELATION WITH INNOVATION

We owe the first contribution on industrial districts to Alfred Marshall (1925), a subject that subsequently drew the attention of various disciplines (Geography, Strategy, Sociology, Economic Politics, etc.), which led to multiple concepts for describing this phenomenon. Among these, industrial district (Becattini, 1992) and industrial cluster (Porter, 1998) received considerable academic attention. We shall look at their definitions, after briefly explaining the origins of these concepts.

Marshall (1925) considered two possible production modes. On the one hand, the production mode based on large, vertically integrated production units. On the other, the production mode based on the concentration of many small-sized factories specialising in the different stages of a single production process in one

or several localities. Unlike his contemporaries, he rejected the conclusion that the concentration of all production operations in one place and a high level of vertical integration would produce results that were systematically better than those that would be obtained with production methods that were more scattered in the region and less integrated.

Marshall's arguments (1925) on the goodnesses of an industrial district for companies were grounded on the existence of external economies (also called economies of agglomeration or Marshallian economies), which materialised in the presence of qualified human resources, specialist suppliers and technology *spillovers* (Krugman, 1991).

At the end of the 1960s, a number of Italian economists noticed two phenomena that drew their attention. On the one hand, in some areas of Italy, large (public and private) companies operating in sectors with a high capital intensity and/or high technology were showing signs of a decline, and small manufacturing companies were appearing. On the other, these small companies in these agglomerations were technically equipped for the work they were doing, at levels that were similar to those of the large competing companies.

These facts captured the attention of Becattini who, among others, took up the industrial district concept again at the end of the 1970s, offering one of the most extended definitions in the literature on an industrial district. Some years later, Porter (1998) would also concern himself with the concept, giving another definition with wide-ranging repercussion in the literature on industrial districts and clusters.

Giacomo Becattini (1992:62) defined the industrial district as a "socioeconomic entity that is characterized by the active presence of a community of people and a population of companies in a natural and historically limited area".

In turn, Porter (1998:197) defined clusters as "geographic concentrations of inter-connected companies, specialised suppliers, service providers, firms in related industries and associated institutions (e.g. universities, standards agencies and trade associations) that compete but which also cooperate".

In the literature, we tend to find that both concepts are used as synonyms. In a strict sense, however, they are not exactly the same. While Porter's definition implies that a cluster can be created by deliberate actions, the industrial district is a product of an environment's conditions.

In any case, I shall use either of the two terms as synonyms in this paper.

According to Porter (1998:213), clusters affect competition in three ways: firstly, by raising the productivity of companies that belong to it or of their constituent sectors; secondly, they have a positive effect on the capacity for innovating and, hence, on the capacity for raising productivity; finally, they encourage the creation of new companies, which supports innovation and expands the cluster.

Porter (1998) lists a series of advantages in relation to innovation for companies located in industrial districts:

- A faster and clearer perception of customers' new needs and future trends.
- In comparison with an isolated company, a company located in an industrial district has advantages when it comes to perceiving new possibilities in technology, production, or marketing, mainly due to the permanent relationship it has with other companies in the industrial district, to personal contacts, or even to direct observation.
- Greater flexibility and capacity for quickly responding to customers' detected needs or to the innovation opportunities detected. Belonging to a district accelerates the purchase of new components, machines, and other elements needed to develop innovations.
- The competition among companies located in a district is a very driver for innovation.

Despite these conclusions, Porter (1998) also recognized that belonging to a cluster could adversely affect innovation if companies kept to traditional practices and rigid approaches that prevented innovation (lock-in effect). One of the lines pursued in the literature is the role of certain stakeholders in the industrial district to avoid this declining situation.

Inter-company relationships in an industrial district can help companies up to a certain point but, beyond that point, such relationships can jeopardise company innovation capacity. Faced with this phenomenon, some businesses search for knowledge outside the frontiers of the industrial district.

In this sense, the literature stresses the role of leading companies (e.g. Lazerson & Lorenzoni, 1999), which are typically large and technologically advanced companies (Albino & Garavelli, 1999) and are considered drivers of cluster development.

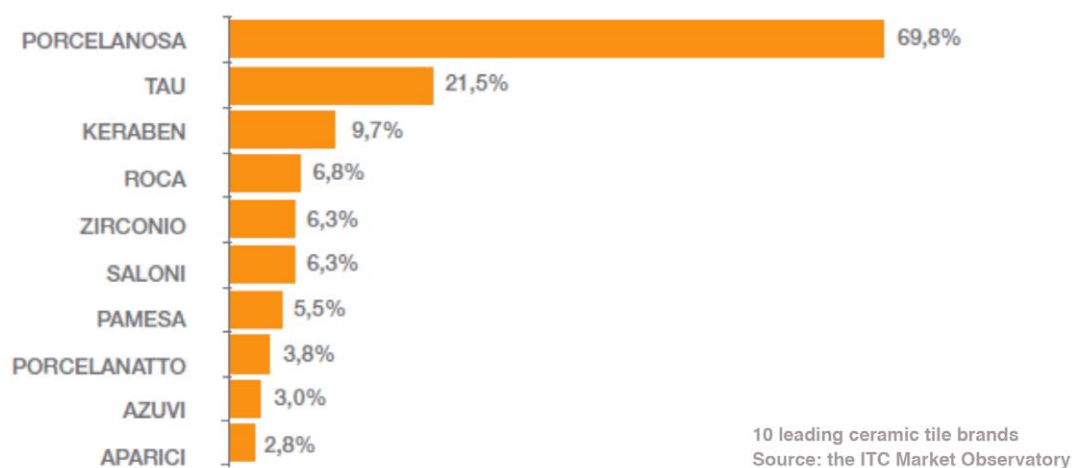


Figure 1.

In recent years, these companies have aroused a growing interest, and have been highlighted as gatekeepers of knowledge (Morrison, 2008) or technological gatekeepers (Giuliani & Bell, 2005), which we could translate into Spanish as “guardianes de conocimiento” or “guardianes de conocimiento tecnológico”. For simplicity’s sake, we shall simply use the word gatekeeper to refer to these stakeholders.

Morrison (2008) suggests that these organizations, which act as intermediaries, have the following functions: search for information, decoding/translation and, finally, knowledge transfer and dissemination.

The search function is the skill for capturing external sources of knowledge that may be relevant for the company.

The decoding function has to do with the company’s skill for translating and transmitting the knowledge obtained to the company’s different units.

Finally, the transfer function is the skill for disseminating the knowledge accumulated by the company to other members of the district through formal and informal mechanisms, business relations and collaborations based on formal agreements.

In view of these functions and the stakeholders that form part of an industrial district, it may be inferred that this intermediary role can be played by both private companies (that participate in some activity of the production process) and local institutions (McEvily & Zaheer, 1999).

3. A COUPLE OF ANECDOTES

The first goes back about three or four years, and occurred in the framework of a conference on the furniture sector’s situation, organized every year by AIDIMA, the furniture technology centre. At that conference, I attended a lecture the beginning of which I found highly instructive. The speaker was an American specialist in distribution channels. Once he had been introduced, he appeared on the stage carrying a simple foldable wooden chair. He unfolded it and sat on it while he began to explain that he had arrived in our Region one day before the conference, that he had had the opportunity to walk around Valencia and enjoy the wonderful weather and gastronomy we have here. He had so much time that, out of his devotion to his speciality, he decided to visit a few distributors in the area. He entered a Carrefour store (or a similar hypermarket) where he bought the foldable chair that he was sitting on at that precise moment. The chair cost him about one euro. At that moment, he asked the approximately 500 people in the audience, national businessmen from the furniture sector, if they would be capable of manufacturing it at that price, even without a margin. In fact, he wondered if these businessmen would even be able to get the wood needed to

make the product at that price. Well, do we have to ask ourselves this question? Is our industry capable of competing against *low-cost* countries? To do so, we have to analyse scenarios in which we assess our control, quality and quantity of our raw material supply sources; in which we assess the logistic movements of our international low-cost competitors, in which we assess the different transport costs, etc. But this is only part of the story.

For the other part of the story, I am going to discuss a second anecdote which will allow me to introduce another approach. This comes from my participation in a recent market research project. In the framework of that project, I interviewed different businessmen. One of these was one of the founders of "The Singular Kitchen", a franchise of kitchens created about just 4 years ago and which, the owners claim, has become the leader in its sector on the domestic market. Its success is based on a tight marketing policy in which all points of its strategy are aligned in the same direction. The different communication-supporting formats used by the brand encourage consumers to consult the corporate Web site: the main source of information for consumers, but also for the company itself. The hits received on this Web site are analysed by the Marketing Department, which allows them to establish, for example, the new population cores that present the clearest business opportunities, or to complement the information they obtain through the added sales in order to refocus their product portfolio towards those models that prove to be the most attractive according to the number of "clicks". This company has differentiated its offer in three sectors linked to three different price levels and it competes directly in the principal distribution channel for kitchen furniture, a channel with significant pressure on prices directly related to Asian competition. Well, here comes the good part of the anecdote. This company is supplied by a German high or medium-high range manufacturer with a highly mechanized production process. "By a German manufacturer?" I asked. "Wouldn't it be more competitive to draw your products from Asia?" His reply was categorical and it was based on the following parameters: price and confidence. Price = a necessary but insufficient condition. The price cannot lie outside a competition range unless you are competing in the elite niche. The key issue in this relationship is confidence in the supplier, based on the production capacity, among other matters, and the ensuing certainty of supply, on the supplier's quality assurance, which allows the supervising costs of the product purchased to be minimized, and on the ease of assimilating new models. And finally, as a result of all the above, the certainty of a long-term relationship.

4. THE 5 COMPETITIVE FORCES MODEL FOR THE SPANISH TILE INDUSTRY

In 1980, Michael E. Porter, professor at the Harvard Business School, published his book, *Competitive Strategy*, which was the result of five years' work in industrial

research and became a milestone in the conceptualization and practice in the analysis of industries and their competitors.

Porter used the 5 competitive forces model to evaluate and understand the sources of competition in an industry or sector. These 5 competitive forces are as follows: threat of potential competitors, threat of substitute products, bargaining power of suppliers, bargaining power of customers, and competitive rivalry.

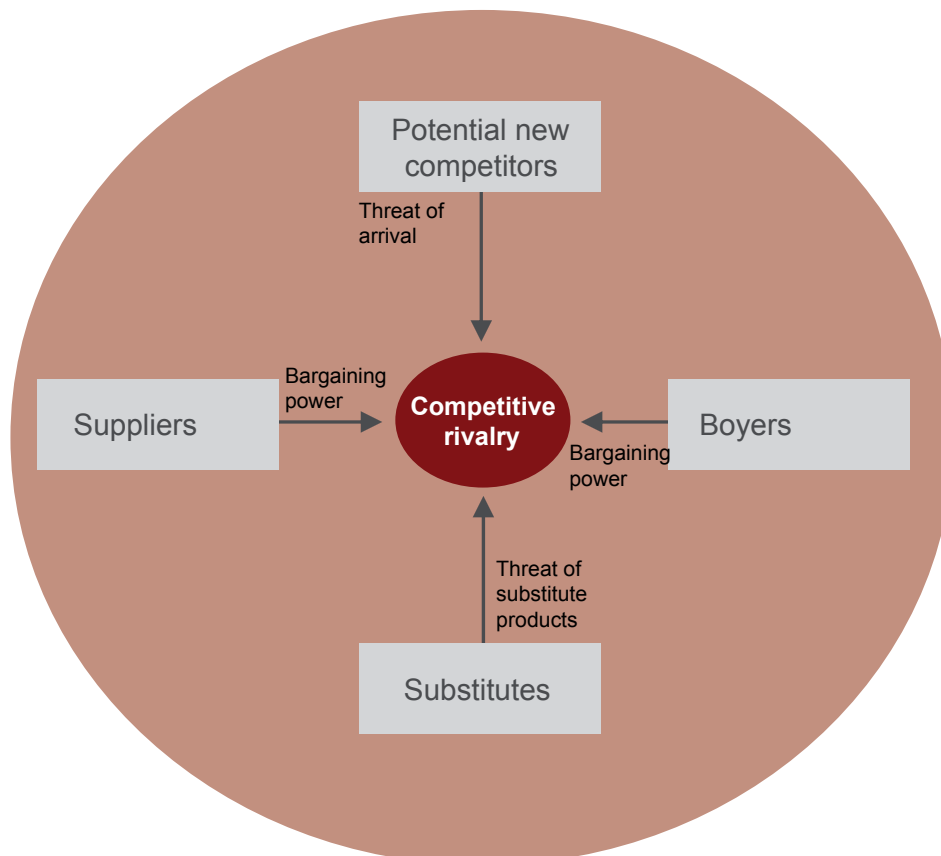


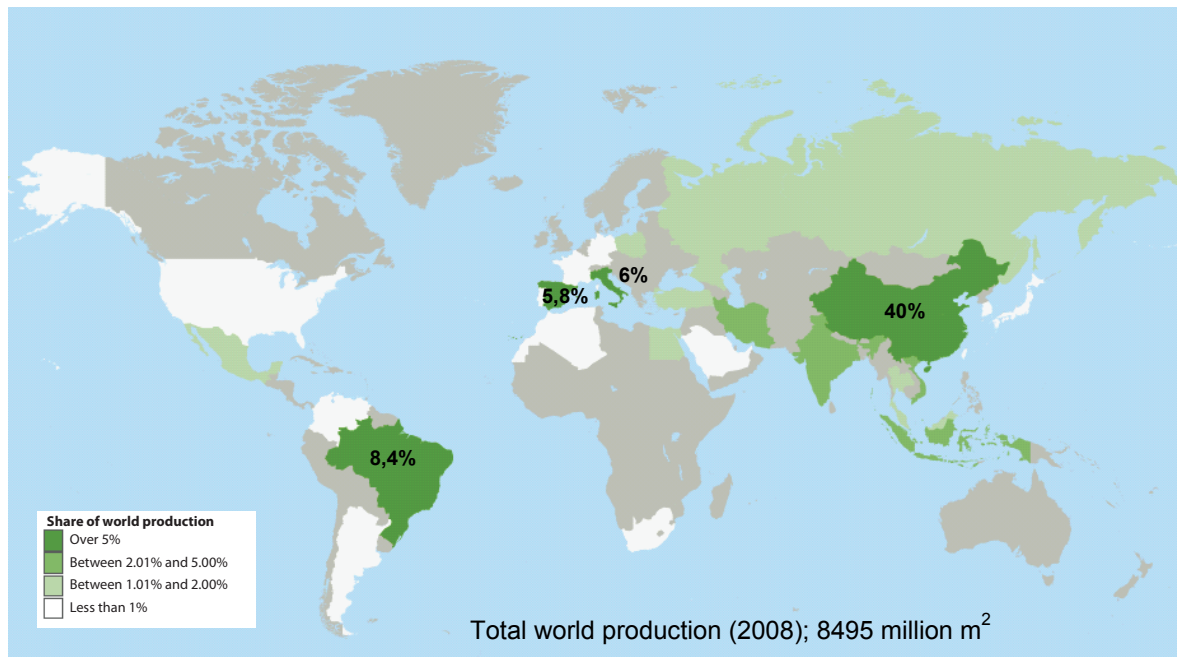
Figure 2. 5 competitive forces model (Porter).

From hereon, multiple questions arise that can help define the strategies to be pursued, such as: Which aspects of the organization's environment are the competitive forces boosting? Will they probably change? In what way? What is each competitor's position with respect to these competitive forces? What are their strengths and weaknesses with respect to these key forces? Do managers have a manoeuvring margin to influence competing forces? Can entrance barriers be created? Can the bargaining power be increased with respect to suppliers and buyers? Are there ways of reducing competitive rivalry?

WE CAN STOP BRIEFLY TO ANALYSE SOME OF THESE ASPECTS

With regard to the **arrival of new competitors**, domestic production has been increasing in an almost uninterrupted way since the 1970s to meet the strong domestic and international demand. On the other hand, we have witnessed the forceful emergence of new producers like China or Brazil on the international scene in the last few years, endangering the privileged position that Spain and Italy's

market shares have traditionally maintained.



Source: *Ceramic World Review*, number 85 (2009).
Figure 3 .

We are currently going through a situation that is similar to the one we experienced four decades ago. The increase in oil prices in 1973, along with the saturation of the domestic market, obliged businessmen to adopt a much more aggressive policy of penetration into foreign markets than had previously been pursued.

Los fuertes descensos que bimestre a bimestre se han dado en las ventas y cartera de pedidos, junto a la mayor resistencia para evitar retrocesos drásticos en la producción, han ido aumentando los stocks de productos acabados que han sido calificados de excesivos en el transcurso del año por porcentajes del sector nunca inferiores al 70%. La necesidad de medios de pago unido a las fuertes dificultades crediticias, han dado lugar a un proceso continuado de descenso en los precios de venta que, en bastantes casos, se sitúan por debajo de los costes de producción (afectados por aumentos en los combustibles y energía eléctrica, pago de impuestos, creciente volumen de impagados, mayores costes generales de fabricación...) con lo que va decapitalizándose progresivamente el sector, disminuyendo su rentabilidad e implicando cambios importantes en la estructura del capital de las empresas.

The strong drops in sales and in the order books that have occurred every two months, along with the greater resistance to avoid drastic set-backs in production, have gradually increased the stocks of finished products which have been described as excessive throughout the year due to percentages of the sector that have never been lower than 70%. The need for means of payment, along with the strong difficulties with credits, have led to steadily falling sales prices which, in quite a few cases, are below production costs (affected by rises in fuel and electric energy costs, tax payments, a growing volume of unsettled payments, higher general manufacturing costs, etc.), so the sector is progressively becoming decapitalized, its profitability is dropping and this is causing significant changes in the structure of corporate capital.

Source: *Diario Mediterraneo*. April 4th, 1976. "Slight reactivation in the tile sector".
Figure 4.

In addition to this geographic expansion, the crisis also made it necessary to address two problems: increased energy costs, and the need for technology upgrading and independence. The first problem was solved by replacing fuel oil with gas, while the second required a "technological independence" process in which both private companies and other key actors in the field of research took part.

The creativity and engagement of these organizations laid the groundwork to drive the Spanish ceramic sector again.

With respect to the **bargaining power of customers**, it is advisable to reflect on aspects like their degree of concentration, the cost entailed in changing suppliers or the existing threat of backward integration. Note that customers of ceramic tile manufacturers may be considered to include both the ceramics and construction materials distribution sector and the end consumer.

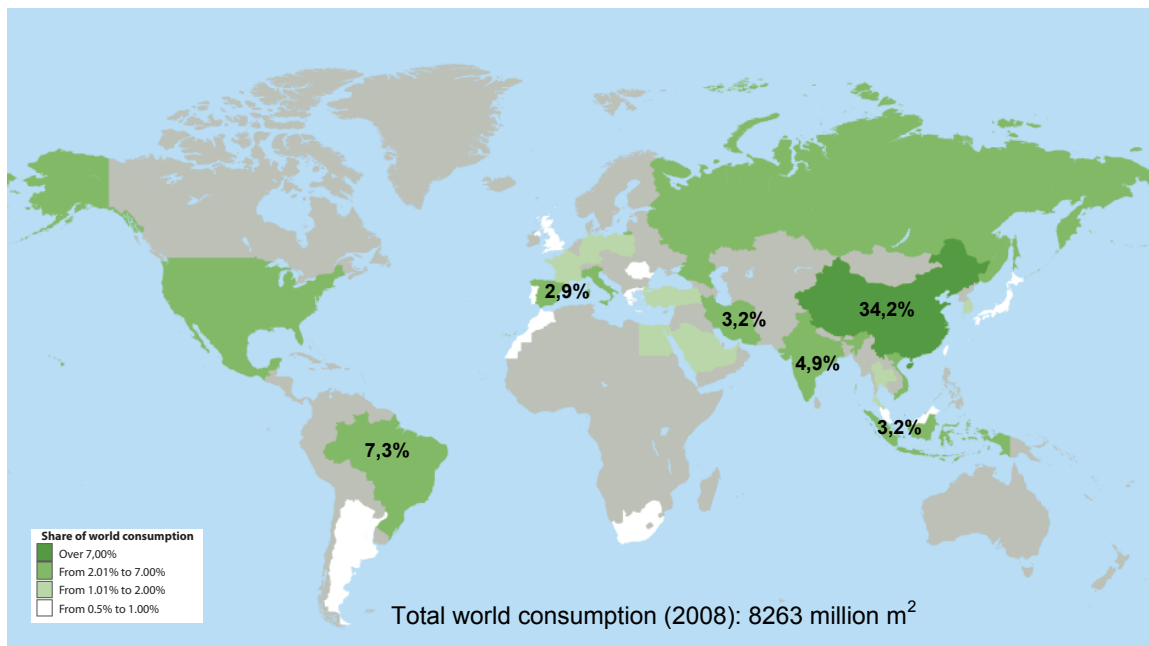
The ceramics and construction materials distribution sector is made up of

numerous companies, which may be estimated at about 12.000, spread across the country. This sector, which is traditionally fragmented, is currently restructuring and beginning to organize itself through its recently created distributors' business association, ANDIMAC. The economic crisis has slowed down or even paralysed certain expansion initiatives in Spain of large international distribution groups, while it seems to be heightening the importance of purchasing groups. In any case, in the short or medium term, the sector is heading towards becoming a much more professionalised and concentrated channel, which will not necessarily be as loyal to tile as standard practice has been to date.

The economic downturn has affected the ceramic materials and construction materials distribution sector, which has seen its sales drop by 30% between 2008 and 2009, according to data from the ITC Market Observatory. The average drop for 2010 could be around 20% (though in the central and northern markets this could come close to 30%, while on the Mediterranean coast and in the south the average drops are not expected to exceed 15%). In this context, reductions in staff and sales outlets have become common in the last few months. Although some companies have not withstood the crisis and have had to close down, others have sought internationalisation.

The companies that have traditionally focused on the market for new building construction are the ones that are suffering most intensely the paralysis of the market, though the consumer crisis is equally affecting companies that work in the reform and restoration sector. ANDIMAC's expectations with respect to the building construction market for the 2010-2012 period suggest that, in the entire country, materials will be supplied only to build about 120.000 houses.

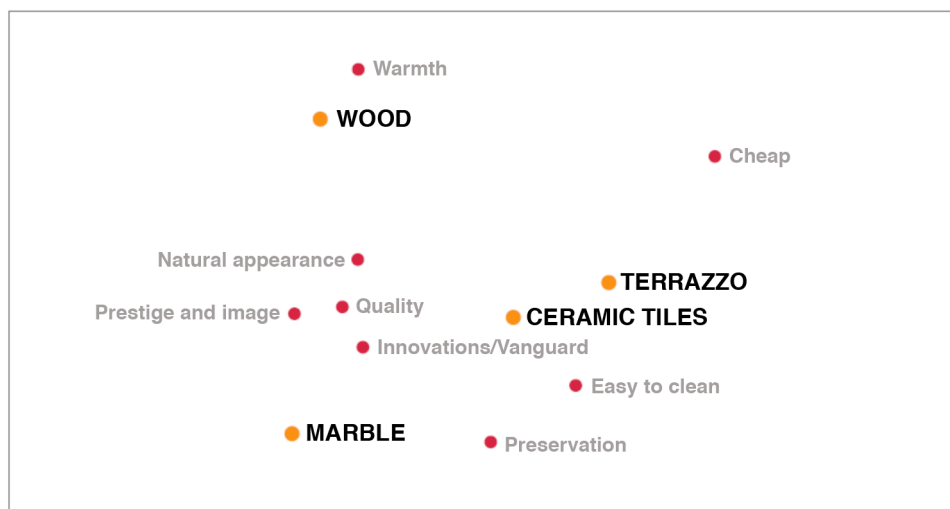
On the other hand, as indicated above, the end consumer, both in Spain and in the rest of the world, also deserves special attention. The report on the coverings consumer, drawn up by the ITC Market Observatory, may furnish some points of interest when it comes to analysing the end consumer. Why do consumers change coverings? Do the same needs exist regardless of the geographic area? What sources do they consult and what are the most significant ones? What company brands do they recognize? What attributes are associated with the ceramic product? And with other competing products? Who takes part in the purchase decision? What is the average outlay? In which areas are the main consumers to be found? And what type of families? Are the consumers satisfied? Would they repeat their purchase?



Source: Ceramic World Review, number 85 (2009).
Figure 5.

Depending on the answers to these questions, companies will need to consider possible strategies. Is it advisable to invest in a brand? Is it necessary to go beyond commercial trade shows to become known? Can they create a segmented offer based on consumers' special characteristics?

On the other hand, closely linked to competition, are the **substitute products**. What are these products? Through information produced by the Market Observatory, we know the perception and positioning of classical products that substitute tiles and what end consumers' expectations are with respect to their fields of use.



Source: Positioning of the most used products in Spain. 3rd edition of study on the Coverings Consumer. ITC Market Observatory.
Figure 6.

Beyond the foregoing, do other products exist that can compete with us in the future? For example, can compact quartz endanger the presence of ceramics in homes? Obviously, the answer is not just linked to a technical comparison of the materials. Nor even to a comparison from the consumer's point of view. The answer lies in the own competitive structures of the producers of these substitute products, with special attention to their marketing strategies.

With regard to the **bargaining power of suppliers**, it is advisable closely to watch the evolution of machinery builders, and trims and third-fire products manufacturers, as well as frit, glaze, and ceramic colour producers.

The *machinery sector for the ceramic industry* includes a large variety of equipment and components which are not always clearly identified. In general, their structure can be defined in terms of the following sub-sectors: Transport of materials, Milling, Kilns and dryers, Glazing lines, Printing machines, Filters, Packaging and palleting, Control and automation, Cutting and polishing, etc.

The machinery and capital goods sector for the ceramic industry in Spain has evolved significantly in the last five years, and has gone from being an auxiliary sector of workshops to being manufacturers of specialised ceramic technology in different parts of the production process. It mainly works for the Spanish tile sector, and adopts specialisation as a general strategy. This sector currently generates over 20% of its business in international markets.

In 2008, these companies created direct employment for 2046 jobs, which meant an increase of 32% with respect to 2005. This fact was accompanied by an increase in the turnover from 287 to 336 million euros, though there was a 5,1% drop with respect to the sales obtained in 2007.

With regard to the geographic distribution of the companies, 85,5% are located in the Valencia Region, most being found in Castellon province, serving the companies that produce ceramic floor and wall tiles in the area.

Evolution of the sector (data in millions of euros)				
	2005	2006	2007	2008
Companies	72	71	70	62
Jobs	1550	1695	1805	2046
Turnover	287	309	354	336

Table 1.

According to a report by AVEC-Gremio (Valencian Ceramics Association) drawn up by the ITC market research unit, in 2006, the *trims and third-fire products sector* consisted of 52 companies that produced 7 million items that year, with average sales of 4,5 million euros.

The main products sold by the sector are listels and decorated bases. These represent 80% of the products sold. These companies, 73% of those that make up the sector, tend to work with bases manufactured by third parties, i.e. supplied by their own customers or bought from other suppliers.

The sector sells 90% of its products in the domestic market, mainly in Castellón: 84% of its sales are in this province. The sector's main customers are ceramic tile manufacturers, which account for 86% of its sales.

Of the production planning, 93% is made on order. Marketing actions not usually performed and the products reach the end customer with a brand that does not belong to the producer.

In 2006, the average number of workers was 34, of whom almost 60% were women. The number of workers in the sector is estimated at almost 2500 people.

In October 2008, a source from AVEC-Gremio stated that, in the previous two years, the drop in the sector's production had caused 21% of the companies in the third-fire sector to close, and the labour force adjustment plans had led to a 32% reduction of hired personnel. The sector is going through a delicate situation owing to the drop in the tile manufacturing sector, through which the products marketed by these companies are offered on a worldwide basis.

In the current situation, the companies must face a fall in orders by the tile manufacturers. The series produced are smaller and are conditioned by a growing pressure to maintain and even to lower prices.

Only a few years ago, the Spanish *colour, frit and glaze manufacturing* sector had attained its current position of world leader. The efforts dedicated to R&D+i (Research&Development+innovation) and the competitiveness achieved helped Spain to overtake Italy, which had traditionally pioneered the manufacturing of these products.

This sector is characterized by a strong commitment to innovation, and it devotes an important part of its resources to research, working in close cooperation with the tile manufacturers. The quality and competitiveness of the resulting products has been one of the elements that explain the increase in the quality and performance of Spanish ceramic tiles.

However, this sector has been characterized by a significant commitment to internationalization, as shown by the fact that it exports abroad over 60% of its production. The main receiving countries are Italy, Egypt, Portugal, Morocco, Germany, Poland, Russia, Indonesia, the United Arab Emirates and Algeria. Some Spanish companies from this sector are even present in Italy, Brazil, Indonesia, China and Mexico.

Therefore, this sector is the only "supplier" sector that has actually gone beyond the cluster. On the one hand, this means that the bargaining power of

Spanish tile manufacturers is reduced with this supplier; on the other hand, however, it is also a supplier that is gaining experience and knowledge through its work with tile manufacturers from all over the world, experience and knowledge that, due to the sector's origin and share structure, ends up being concentrated in the Castellon cluster for the cluster's benefit.

YEAR	EXPORTS	SALES IN SPAIN	TOTALS
2005	532.378.757	379.354.912	911.983.669
2006	602.635.503	430.503.364	1.033.138.869
2007	641.500.704	456.047.030	1.097.547.739
2008	700.275.000	387.334.000	1.087.609.000

Table 2.

With respect to the fifth and last force, **competitive rivalry** in the industry, we find ourselves with a sector made up of a small number of companies and business groups.

This is an extraordinarily internationalized sector with regard to sales, both by the volume and targeted countries involved.

There is a fairly homogeneous behaviour with respect to market strategies, where the presence in the ceramics and construction materials distribution channel is fought out with very similar product portfolios, differentiation mainly being sought through aspects related to commercial areas such as promotion or price.

The sector makes most of its sales in new building construction, though the effects of the crisis are already leading to a turn towards renovation work.

There is little business initiative aimed at locating production in the target markets, so the impact of factors like the competition of low-cost countries or unfavourable exchange rates is very high in certain regions of the world.

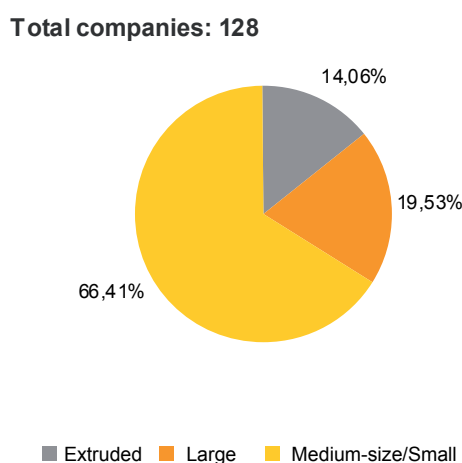


Figura 7. Source: Tile manufacturing population in Spain. 5th edition. Report on Annual Competitive Position of Ceramic Tile Manufacturers. ITC Market Observatory.

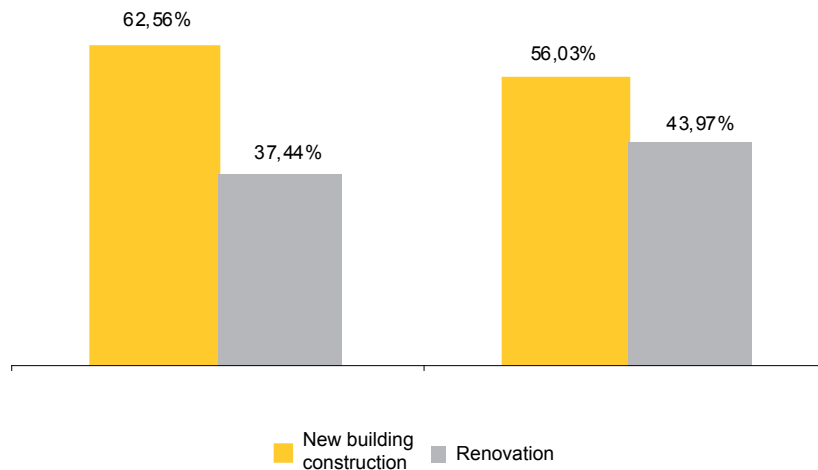


Figura 8. Source: Percentage of total sales of bases (m²) for new building construction or renovation. Domestic market. 5th edition. Report on Annual Competitive Position of Ceramic Tile Manufacturers. ITC Market Observatory.

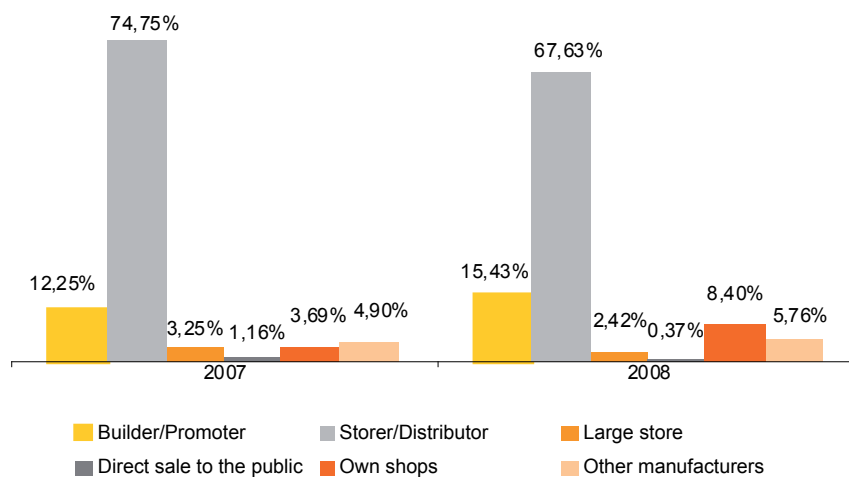


Figura 9. Source: Distribution channel used in Spain. 5th edition. Report on Annual Competitive Position of Ceramic Tile Manufacturers. ITC Market Observatory.

5. STRATEGIES FOR THE CLUSTER – STRATEGIES FOR COMPANIES

However, the survival and success of the organizations' strategies do not only depend on the capacity for responding to competitive pressure in the business environment, but also on each organization's strategic capacity. These pressures lead to reasons for trying to apply some strategies instead of others:

- Reasons related to the environment: adapting new strategies to a changing business environment.
- Reasons related to capacity: extending and using an organization's resources and competences.

These reasons describe and explain both the directions of the strategy's development and its methods of development.

In his book, *Competitive Strategy*, Porter described competitive strategy as offensive or defensive actions of a company to create a defensible position within an industry, actions that responded to the five competitive forces.

Although each company chooses different routes, the question lies in the fact that, for a given company, its best strategy should reflect how well it had understood and acted in the scenario of the circumstances that corresponded to it. This approach can be transferred from a micro-perspective, focused on the individual company, to a sectoral perspective, of our cluster. Therefore, we should be performing the exercise for the competition from an international viewpoint.

Porter identified three generic strategies that could be used individually or as a whole for creating that defensible position in the long term, which would surpass competitors' performance. These three generic strategies were:

- Leadership in low total costs.
- Differentiation.
- The approach.

5.1. Leadership in low total costs.

Achieving the lowest cost structure in comparison with competitors and obtaining a high sales volume are the main points of this strategy.

Therefore, service, cost reduction through more experience, efficient building of economies of scale, rigid cost control (particularly of variable costs) are items of constant strict scrutiny. Customers with a marginal return must be avoided and it must be attempted to minimize costs in research and development areas, sales manpower, advertising, personnel and, in general, in every operating area of the company.

If the company manages to achieve a low cost position, this is expected to enable it to obtain profits that are above the industry average and to protect it from the five competitive forces. Insofar as competitors fight by reducing their prices, its profits become eroded until those that remain at the level closest to the most efficient competitor are eliminated. Obviously, the least efficient competitors are the first to suffer competitive pressure.

The achievement of a position of low total cost often requires a relatively high market share or some other type of advantage, such as access to raw materials. It could also require a product design that makes it easy to manufacture, maintaining a wide range of related products to spread the cost among these and supplying the largest customer sectors to ensure sales volume. On the other hand, putting in place a low-cost strategy tends to involve large capital investments, aggressive prices, and reduction in profit margins in order to acquire a larger share of the market.

5.2. Differentiation.

A second strategy is to create something for the product or service that is considered unique in the entire industry. Differentiation is considered the protection barrier against the competition because of brand loyalty, which should lead to less sensitivity to price. Being different means sacrificing market share and becoming involved in costly activities like research, product design, high-quality materials, or enhanced customer service.

However, this situation of incompatibility with the strategy of low-cost leadership has not occurred in all industries, since there are businesses that have been able to compete with low costs and prices comparable to the competitors'.

5.3. The Approach.

The third strategy consists of concentrating on a specific group of customers, on a segment of the line of products or on a geographic market. The strategy is based on the premise that the company is capable of serving a smaller strategic target group more efficiently than competitors with a broad coverage. As a result, the company becomes differentiated by attending better to the needs of that specific target market or by reducing costs in serving that market, or both.

Porter's three generic strategies are alternatives, viable ways of facing competitive forces. The company that fails to develop its strategy in at least one of these principles is trapped in the middle, located in an extremely poor strategic position (a company with high prices for products considered as low quality). Porter described this type of company with flaws in its market share, in its capital investment, and with a limited manoeuvring capacity for carrying out the low cost, differentiation or approach strategy.

At a later stage, in his work, *The Competitive Advantage of Nations* (1990), Porter recognized the instability of these three generic strategies and the need for more dynamic models for the market's new circumstances to understand the competitive advantage.

The three generic strategies outlined here belong to the static strategic models that describe the competition at a given moment. The reality is that the advantages only last until our competitors copy or beat them. When the advantages are copied or beaten, they become a cost. The copier or innovator can only use this advantage for a limited period of time before the competitors react. When the competitors react, the original advantage begins to weaken and a new initiative is needed. At this point, it is advisable to reflect on a sector, considering how important the country image is for such an exporting industry like ours. What strategy has the Spanish tile sector mainly followed? How well have we done it? Are we going for costs, differentiation, or the approach? Is our commitment sustainable? Should we change it? Our sectoral response will not only affect our competitiveness but also our present and future image, and it will mark the overall needs for the cluster.

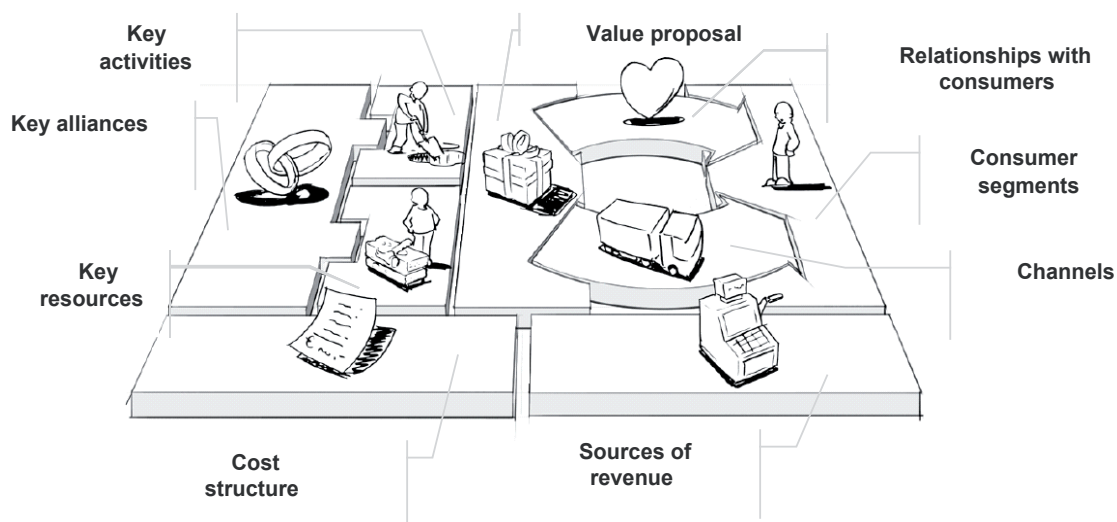
But is it possible to establish a cluster strategy independently of the individual strategies? To reflect on this matter, I am going to introduce a final concept: the business model.

6. THE BUSINESS MODEL

"A business model describes the rationale of how an organization creates, delivers, and captures value."

The business concept was created in 1954 by Peter Drucker, another guru of the business world, in this case of strategic management. Basing her ideas on his work, in 2002, Magretta considered that a good business model was one that responded to the following questions: Who is the customer and what does the customer value? What is the underlying economic logic that explains how we can deliver this value to the customer at the appropriate cost?

Currently, Alexander Osterwalder, together with Yves Pigneur (Osterwalder, Pigneur & Tucci, 2005), define the business model as "a conceptual tool that contains a set of elements and their relationships and that allows the business logic of a specific firm to be expressed. It is a description of the value a company offers to one or several segments of customers and of the architecture of the company and its network of partners for creating, marketing, and delivering this value, while generating profitable and sustainable revenue streams". This definition establishes 9 elements for the business model: value proposal, target customer, distribution channel, relationships, value chain design, essential competences, partner network, cost structure, and revenue model.



Source: Business Model Generation. Osterwalder, A., Pigneur, Y. (2009).

Figure 10.

This approach begins with the consumer segment(s) it is sought to serve. The consumer concept does not exclude organizational markets, which could be, in our case, construction firms. However, in the current situation, it seems quite appropriate to embrace the concept of the pure end consumer. By focusing our initial attention on the consumer, we should be able to capture consumer needs in a more precise way so that we can meet them more efficiently. Also, this approach favours the appearance of market innovations.

Having defined the consumer segments we wish to serve, we define the value proposal that we wish to offer, which has been designed specifically for those segments. We try to satisfy the needs of these consumers and to solve their problems.

The following step is to choose the channels through which we wish to send our proposal. This point includes communication, distribution, and sales channels.

With each consumer segment, we establish certain relationships. This point sets out the types of relationships we wish to maintain with each segment.

Concurrently with this entire approach, the expected revenue streams for the value proposal offered to the consumers are calculated.

From here on, we analyse what we need to achieve the above. We define the key resources and activities, and the required alliances (it may be necessary or desirable to externalize some activities and some resources may be obtained outside the organization). All this will define the related cost structure.

For those of us who are used to working using the value system concept, the “end” of this concept (i.e. the consumer) is seen as its fundamental starting value, in order then to establish the necessary structure. We are used to establishing tile, or building construction, or environment value systems with an offer-driving approach. Through the business model, we open up our scope of action to new business possibilities, always based on our skills and on a competitive analysis.

7. SO, HAVE WE GOT A FUTURE?

In short, the approach enabling reply to this question is grounded on two levels: a sectoral and an individual level. For the sectoral level, we perform the competitive forces exercise, and for the individual level, the business model exercise.

What is the answer? I hope that you can personally attend the presentation where I shall try to gather sufficient elements in order to do so. If you cannot come, you will be able to access the final paper on the ITC Market Observatory Web site (<http://www.observatoriomercadoceramico.com>).

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