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The Fight for Shelf Space

- Regional Meat Producers Facing Retail Labels

Bachelor Thesis within Business Administration

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Abstract

Sweden has experienced a surge in retail labels within the food industry the last decade and this increase has meant great changes within the meat industry. Producer brands have been faced with issues of strategy formulation and changing power structures that has affected small- and medium sized companies more than others. The purpose of this thesis is to, from a small- and medium sized producer perspective; investigate the impact the increase in retail label products have on selected producer brand producing companies in the Swedish meat industry and if they constitute a major threat to the producer brands. Furthermore, the thesis addresses issues such as the present structure of the industry and future views of the meat industry.

Method

A qualitative research method was used in order to investigate the impact of the increase in retail labels. Interviews were conducted with three cured meat producers operating in the region of Småland. Furthermore, a market leading producer and representatives from the market leading retailer was also included in the study to gain a deeper understanding of market conditions.

Results

The results of the interviews shows an industry that is mature and experiencing slow and sometimes even declining growth where companies are pretty much set in their ways. The fiercest competition, over shelf space, is between producers with similar strategies instead of between producers and retailers. The increase in retail labels has meant a drastically reduced shelf space for producers to compete over. However, the three producers have taken steps in order to secure that the threat from retail labels is kept at a minimum. Nevertheless, new retail labels that will be closer to producer brands in terms of quality and price are coming. These are seen as a greater threat than the existing labels.

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1 Introduction

This chapter will present the background, specify the problem and state the purpose upon which the thesis is based. Furthermore, it will define a few key expressions, and explain the disposition of the thesis.

1.1 Background

Retail label food products, which are products sold with the retailer's brand on it, have existed for a long time. In the US, one can trace it back to the 19th century when it developed from bulk commodity staples (Fitzell, 1992).

Retail label as we picture it today has emerged within the large food chains in Europe, especially in the UK. The market leaders in the UK, Sainsbury and Tesco have a retail label presence that constitutes more than 60 percent of their annual sales. In the US, things have changed dramatically during the last decades where Wal-Mart has popped up as one of the great food retailers (Fitzell, 1992).

In Sweden, there has been an escalating trend among the grocery stores to create their own brands, for example Blåvitt and ICA-handlarnas (Ossiansson, 1997). Blåvitt was the first retail label to reach the shelves of Konsum. The products of this brand were generics, distinguishable by their blue and white packages, which only provided the most basic of value for a very low price. At first, the food chains produced on their own. However, this changed and now the production has mostly been outsourced to independent producers. Thus, the strategy of the retailers has switched to a greater focus on the core business.

The aim of the food chains is to offer product in various price segments and of various quality in order to satisfy the needs of their different customers. Doing this, however, existing producers face this new competitor, which they might find hard to battle as the distributor itself backs it up. Therefore, it is not hard to believe that the increase in retail label goods in supermarkets has increased the competition for brand producing companies.

1.2 Food Retailing Market in Sweden

In order to understand the impact of retail label products and the market in which the brands producers operate, a review of the Swedish food retailing market is needed.

In Sweden, the three food retailing giants ICA, Coop and Axfood dominate the food market both on supermarket and on convenient store level. ICA has 35.7 percent of the market of convenience goods; Coop has 16.2 percent and Axfood 13.3 percent (COOP, 2005). Next after the three is Bergenhahls with 5.4 percent of the total market (Axfood, 2005). The market has lately also attracted the German hard discount retailer Lidl, developing towards increasing offering of low priced products, since these new chains have established on the Swedish market by building up new food stores instead of acquiring already existing ones.

Today the food retailing market still is quite cemented in its old habits with traditional stores and corner shops together totaling more than 70 percent of the market share. However, the market tendency is working against these traditional stores and for the discount- and hard discount stores (Axfood, 2005). In their annual report of 2005 Coop expect the

hard discount stores to have doubled its sales during the period, this due to the aggressive set up of new stores.

Supermarkets and large stores with wide range of products have also increased its market share according to both the reports of Axfood and Coop. Even here, the trend in low priced food is evident (Coop, 2005).

1.3 The Cured Meat Industry

The Swedish cured meat industry is built up by numerous small- and medium sized producers as well as the large companies; Pärsons, Scan and Sardus (Sardus, 2006a). However, retailers such as Coop, ICA and Axfood have become a new addition to the market with their own labeled meat. This has changed the nature of competition of for producers as much retailer shelf space is now occupied by the retailers themselves. This new competition can mean trouble for producers as retailers are their customers at the same time.

1.4 Problem

In the light of the growth of retail labels in the food industry, producer brands have faced an increase in competition from lower priced substitute goods. To stay strong in the future the companies might find it necessary to refine their strategy or to take on new ones. Market leading brands and niche products have different views on the threat from retail labels and are likely to consider different strategies. Market leaders need to find ways to protect their market share, while niche companies might consider deepening their niche strategies.

In Sweden, three retailers control most of the food retailing market. Could it be that the power of these retailers will increase even more as brand producers are faced tougher competition from retail labels? Will producer brands have to agree on less advantageous terms of business stated by the retailers? Another issue concerns the intra-competitional situation between brand producers. It may be so that producers just ignore the threat of retail labels and concentrate on fighting for market shares with their local rivals.

The retail labels have adopted the concept of vertical integration into the cured food industry. This means that their control of the supply chain now spans over a greater width, from slaughtering to packaging and retailing.

This area of study is interesting due to the fact that the regional brand producers might disappear due to a shake-out in the market. A scenario like that would make the industry more homogenous, with fewer types of products for the consumer. Thus the perspective of this thesis is from the brand producer's point of view.

1.5 Purpose

The purpose of this thesis is to, from a small and medium sized producer perspective; investigate the impact the increase in retail label products have on selected regional producer brands in the Swedish meat industry and if they constitute a major threat.

1.6 Definitions

Chark	Swedish term for cured meat products and provisions.
Counter	Display case on which goods can be shown. In the shop there are cool counters for ice cream and meat products. Some stores have manual counters where staff serve the customers' individual demand of specific products, usually cheese, and fresh meat or fish.
Cured meat products and provisions	The type of refined meat products that could be used on sandwiches, such as sausages, liver pâté and roast beef. The Swedish word is chark, which appears in the names of the producers as well.
Ibin	Referring to the last mentioned reference source.
National brand	Producer brand distributed nationally.
Producer brand	A brand owned by the producer – include both well known nationally or internationally distributed products, as well as products distributed regionally or locally.
Retail label	A brand owned by the retailer, the distributor. Morris (1979) defines it as consumer products produced by or on behalf of, distributors and sold under the distributor's own name or trademark through the distributor's own outlet.
Store chain vs. Retail chain	A store chain operates below a retail chain, for example Willys and Hemköp which both belong to Axfood.

1.7 Research Questions

What kind of threats does the increase in retail labels represent for brand producers?

What does the structure of the cured meat industry look like?

What strategies have the producer brands in the meat industry adopted to cope with the threat of retail labels?

How is the future for the producer brands in the meat industry and the market perceived?

2 Frame of Reference

This chapter presents the theoretical framework which the analysis later will utilize and apply on the empirical findings.

In order to understand the industry several theories have been developed through the years. Industry analysis is often connected with Michael Porter and his Five Forces Analysis. The five forces analysis is an effective tool to use to get an overview of an industry and the different actors within the supply chain as well as distinguishing what constitutes an attractive industry. Furthermore, one can use Porter's Generic Strategies in order to connect the industry and the market(s), and last it is possible to get an even deeper analysis of the market by dividing the actors into strategic groups, identifying the fundamentals of the market competition.

However, Porter's theories about industry attractiveness have been subjected to criticism due to its basic assumption that firms, in an industry, are homogenous in terms of resources controlled and strategies pursued. Furthermore, if heterogeneity would occur it would be short-lived, as resources are believed to be highly mobile between firms. The criticism has developed into the ideas of the so-called resource-based view (RBV). Barney (1991) has given the most fundamental contributions to this view. He believes that firms within an industry indeed can be heterogeneous, with respect to their resources, and that this heterogeneity can be lasting due to the high mobility of resources. This implies that individual firms can have sustained competitive advantage over their competitors based on their resources if they are valuable, rare, imperfectly imitable and non-substitutable (Barney, 1991).

Grant (1991) developed a more dynamic view of sustained competitive advantage. Grant adds capabilities, which is the management and combination of resources, and claims that they are the real basis for sustained competitive advantage. Both Barney's and Grant's contributions are a part of the RBV tradition. However, Porter's Five Forces analysis is still used in this thesis as it gives a good overview of the industry.

After the industry forces have been covered, along with the generic strategies and strategic groups, the frame of reference describes the different retail labels and their development as well as implications for the Swedish food industry. Discussions about dispersion and presumed consequences of retail labels as well as producer brand strengths are added to deepen the understanding of labels and brands. Producer brands in relation to available strategic options are finally discussed.

2.1 Porter's Five Forces

The competition in the food retailing industry can be grasped using Michael Porter's model of the five forces. This model will help answering the research question about the industry structure. According to Porter (1980) a competitive strategy is formed by relating the company to its environment. Since the firms within a specific industry usually are affected equally by the forces outside of that industry, the different solutions to overcome these problems is the key to stay strong in the competition.

The model can explain the meat industry and the development of it; why there has been an increase of retail labels. It will also give a hint of the extent to which the increasing retail label trend has had an impact on the power of the different parts in the supply chain.

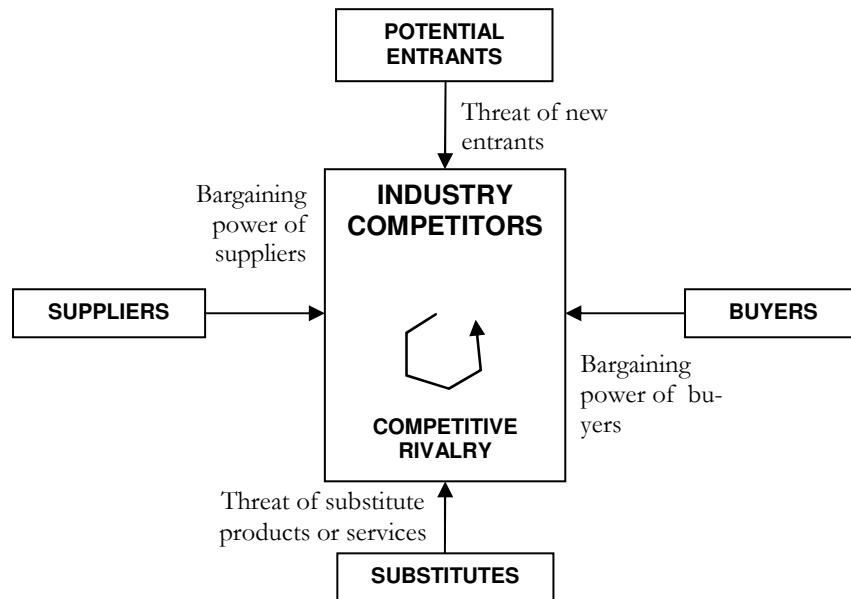


Figure 2-1 Porter's Five Forces

Porter (1980)

The model consist of four forces; threat of entry, threat of substitutes, bargaining power of buyers, bargaining power of suppliers, which all together forms the fifth force, the competitive rivalry. Together the five forces determine the intensity of the competition in an industry, but the different forces are stronger in some industries than in others (Porter, 1980). In the case of the regional meat producers the most important forces are the bargaining power of buyers and suppliers and the more or less ever standing force of the rivalry among existing firms.

2.1.1 Threat of Entry

The threat of entry into an industry depends on the barriers to entry, which is associated with the level of competition in the market. If an entrant can expect that the existent players in the market will react harsh on new entrants it is less likely that the entrant will consider entering the market in the first place. But if a new entrant however enters into the industry, it causes not only an increase in competition due to the addition of production capacity. New entrants also tend to be filled with the desire to gain market share fast, which might be expressed by competitive pricing and fierce marketing campaigns (Porter, 1980). The barriers that can hinder this desire are;

- *Economies of scale that give companies cost advantages when producing large volumes*
- *If products in market is highly differentiated*
- *There are high capital requirements for entry*
- *High switching costs for customers*
- *The access to distribution channels is limited or controlled by incumbents*
- *Legal restraints on competition*
- *Cost advantages independent of scale*

2.1.2 Threat of Substitutes

Goods that fulfill the same need of the customer that your product does are considered to be substitutes. What mostly differentiates a product from its substitutes is the price-performance, meaning the benefit the customer receives related to the price paid. Thus, the threat of substitutes might push towards the use of low-cost ways of producing, such as using cheaper materials or ingredients. Porter (1980) argues that an industry as a whole may use collective actions to reposition its products towards substitutes, by using heavy and sustained marketing campaigns. Furthermore, there are different kinds of substitution. Product-for product substitution happens when customers chose products from other industries instead. Substitution of need occurs when a product becomes unnecessary because of technological development. The last type of substitution is called generic substitution and takes place when customers decide to make do without the product and spend their money on something else because their disposable income is not large enough.

2.1.3 Bargaining Power of Buyers

Buyers in a market have a bargaining power when dealing with the suppliers. The extent of a buyers bargaining power depend on things such as how important a specific buyer is to the supplying firm. If the organization is a major customer to the supplying firm, and thereby consume a large deal of the supplying firms overall production, the bargaining power can be used by the buyer to influence prices negatively. Porter (1980) state that the power of the buyers within an industry is high depends on a couple of given characteristics;

- *Buyers are concentrated or purchase large volumes relative to seller sales*
- *The products buyers purchases from the industry represent a significant fraction of the buyer's costs or purchases*
- *The products buyers purchases from the industry are standard or undifferentiated*
- *Buyers faces few switching costs*
- *Buyers earns low profits*
- *Buyers pose a credible threat of backward integration*
- *The industry's product is unimportant to the quality of the buyer's products or services*
- *The buyer has full information*

2.1.4 Bargaining Power of Suppliers

Suppliers can use their power by threats of higher prices and lower quality. The power of the suppliers increase if they are more concentrated then the companies they sell to. The power of the suppliers also increases if there are no substituting products on the market that buyers can use. If the industry that the buyers operate in is not one of the most important markets for the suppliers it can also mean more power to the suppliers as well as if there are high switching cost if buyers want to use another supplier. Moreover, when high switching costs exists the buyer does not have the possibility to play different suppliers against each other. Vertical integration can also be a threat to the buyers. This risk means that the supplier can become a competitor if they do not get what they want (Porter, 1980).

Factors that increase the bargaining power of suppliers:

- *The group of suppliers consists of a few organizations, which are fewer and more concentrated than the customers it sells to.*
- *No substitutes to their products*
- *The buyer is not important to the supplier*
- *The product is very important to the buyer*
- *The product is differentiated, which raises switching costs*
- *Suppliers have availability to engage in forward integration*

2.1.5 Rivalry Among Existing Competitors

Competition within the industry depends on the number of firms in relation to the number of customers – the more companies competing, the tougher the competition. A close link to the number of competitors is the capacity of the industry. If the industry is able to produce more than the market demands it means more competition. Another factor when evaluating the rivalry among existing firms is the growth of the market.

Methods that are used in the rivalry are tactics such as advertising campaigns, price wars, product introductions and better service. The rivalry among firms can be good as well as bad for the industry. When the competition is focused around advertising and branding it can increase the market, but more important is that the companies differentiate themselves from each other which means that buyers do not see the products from different companies as substitutes. Therefore the competition might get lower. When the rivalry is focused on price it is often negative for the industry. Lowering the prices often means that margins get lower. There can also be positive effects coming out of price wars such as increase in efficiency (Porter, 1980).

Intensive rivalry among firms can be the result of different factors;

- *Many or similar competitors*
- *Slow industry growth*
- *Fixed/ storage costs are high*
- *Lack of differentiation/ switching costs*
- *Economies of scale comes in large increments*
- *Diverse competitors*
- *High stakes for involved firms*
- *Large exit barriers*

2.2 Generic Competitive Strategies

The theory of generic strategies will help answering the research question about adopted strategies of the brand producers. Establishing basic competition strategies is useful as it shows how the producers have positioned themselves on the market.

It is often said that retail labels and producer brands have different strategies. Retail labels are associated with lower quality, but decent value for money. These kinds of basic strategies were studied by Michael Porter in the 1970-80s, but are still seen as valid.

The two differently marketed types of products; producer brands and retail labels, can be linked back to Porter's generic competitive strategies (Porter, 1980). Porter talks about three major strategies, these are; differentiation, cost leadership and focus strategy. A development of these generic strategies was made by Faulkner & Bowman (1995) to give a better explanation of the different strategic options a company can make based on perceived added value and price. This framework is called the strategy clock and shows eight market positions a company can fill, where three of these are destined for failure. However, as said, the Faulkner & Bowman (1995) framework basically encapsulates Porter's generic strategies and it is these that will be described in detail now.

The differentiation strategy suggests the focus on uniqueness. It is all about giving the customer the little extra, which can be achieved by having competences in areas such as marketing, product development, engineering, service and distribution. By having those competences the company can differentiate the product or service in terms of for example image, technology, features or/and customer service. The differentiation strategy leads to better brand loyalty, which leads to a lower price sensitivity. Thus, products focused on a differentiated uniqueness are most likely to be producer brands, or high-level retail labels for that matter (Porter, 1980).

The negative side of differentiation is that it is difficult to get a large market share. A differentiated product is often associated with some sort of exclusivity, which would fade away with a too large market share. It is also important to be able to explain the reasons why there is a difference in price compared to competitors, which often is the case with differentiated products.

The cost leadership strategy concerns efficiency and implies that by cutting costs as much as possible the management will gain in more flexibility with pricing since the margins will be higher. This does not necessarily mean the same thing as a low price strategy, even if it makes it possible to pursue such an approach. An implementation of a cost leadership strategy does however require the production volume to be large enough to make an advantage through low marginal cost achievable, even if this also can be achieved using good access to raw material. A negative side with the cost leadership strategy is that a company often has to deal with big losses in the beginning of the implementation. These losses occur when the company tries to build up the required market share (Porter, 1980).

The third strategy is the focus strategy, which can be combined with the differentiation strategy or the cost efficiency strategy. Focusing means that the company selects one or a few markets to focus on. The targeted market can be based on buyer groups, segments of a product line or a geographical location. The advantages of having a focus strategy are that the company can better understand and satisfy the needs of the particular market by customizing its product and communication. By introducing a focus strategy, the total market declines but hopefully the focus market will be prone to buy the new product. The focus strategy is always about the balance between total turnover and profitability (Porter, 1980).

Quite straightforward, retail label production can be connected to the idea behind a cost leadership strategy, since it deals with large volumes, competitive pricing and production costs being held back. Furthermore, the focus strategy is what both the brand producers and food retailers are after, and thus this basic strategy is as well as the other two fundamental when trying to grasp the different strategies today.

2.3 Strategic Group Analysis

Strategic groups can be used to give an idea of which competitors in an industry that are closest to a company in terms of strategy and resources. This is important as they are likely to be the company's most direct competitors and target the same segments. Strategic group analysis will be used to answer the question of adopted strategies.

Even if the retail labels and the producer brands are in the same industry, are they competing with each other? The concept of strategic groups was developed by Hunt (1972) after observations of the home appliance market. He started out with the belief that all companies in an industry would prefer to pursue the same optimal strategy as they were all faced with the same market conditions. However, Hunt found that companies instead are clustered together in groups wherein all companies choose to pursue similar strategies. Porter (1980) developed the concept further.

Michael Porter (1980) has studied the different parts of industries and by using this theory; it is possible to investigate if the retail labels really are a threat to the producer brands. Industries can be divided into different strategic groups, according to Porter. These groups contain companies with the similar business plan/strategy. Companies within the group are the ones that really compete with each other. When there is more than one strategic group within an industry, the competitive rivalry is often not the same for all firms within the industry. This does not mean that there are forces within the industry that have an impact on all companies.

There are a number of ways to identify strategic groups within an industry or sector. One popular method is to use a two dimensional and plot the organizations according to the two most significant dimensions within the industry. In the case of the meat industry as well as many other industries one can use quality and price as the two dimensions.

By using the strategic group concept one can more easily understand who is competing with whom. It can also tell us how likely or difficult it is for an organization to move from one strategic group to another. Some groups may have barriers to entry. By using the concept it is also possible to identify opportunities and threats – it might be better to move to another group where competition is weaker.

When conducting a strategic group analysis it is possible to see which type cured meat companies competes with others by dividing all firms into groups based on their imposed strategy. Such an analysis would also answer the question if there is a general difference between retail labels and producer brands.

2.4 Retail Labels and Producer Brands

This section start out with a discussion about the different types of retail labels, and then continues with the developmental stages that retail labels go through, as well as comments about the spread of retail labels in Europe and especially Sweden. Last is a discussion of the presumed consequences of an increase in retail labels. These concepts are crucial in determining if retail labels pose a threat to producer brands as well as what the future might hold in store for producers.

This ends the notions of retail label and producer brands are then covered. Brand producers have an array of strategic options, in dealing with retail labels, available to them. Producer brands also have certain strengths over retail labels that are difficult to imitate. Fi-

nally, retail label production by brand producers is investigated. This part of the frame of reference holds theories that are useful in determining the strategies in use by producers.

2.4.1 Retail Labels

There are various types of retail labels from the same retailer available in the market; Ossiansson (2004) has included an outline, summarizing the cornerstones of retail branding and the identity behind the different kinds of retail labels. Understanding the ways to build, differentiate and market a retail label it is easier to grasp the fundamentals behind the struggling between retail labels and producer brands.

To understand the present situation of the food market as a whole and the cured meat market in particular, it is also of great value to know about the history and the dispersion of retail label and some of the discussions and disagreements that has been about the observations. Even more, such historical facts are necessary when trying to analyse the future progression of the retail label and producer brand competition in the Swedish cured meat market. After all, this development has already taken place in other parts of the world, and the future development in Swedish is thus the past some place else – the history tends to repeat itself.

In addition, the different stages of retail label would be important to take into consideration when trying to make an analysis about the present and future state of the market condition in Sweden.

2.4.1.1 Identities for Retail Brands

Ossiansson (2004) summarize the cornerstones of retail branding and the paths a retail label can take when striving to increase customer experience of the stores offering and the satisfaction of its products. Six different types of what this thesis refers to as retail labels are distinguished and grouped into three categories; own identity, retail chain identity and store chain identity. In each category is each one label type and one brand to be found, the difference between them much bound to brands having more of an emotional identity that communicate a products identity and an image, while label merely has a visual identity which often is just the package in itself. A retail brand thus is easier to compare on equal measures with a producer brand, while a retail label is cheaper, less unique and more has difficulties to establish a closer consumer relationship. Notably, in this thesis retail label is used as a term to sum up all different kinds of retail brands and labels.

Sub-brands enhance corporate identity, and its character are simply dependent on the concept on decide to built to define the good. So it could be read between those lines that the actual name of a sub-brand advises how close the brand is to the store chain and thus how well the store might manage and take care of the sub-brand. Retail sub brands are according to Ossiansson (2004) those most similar to producer brands, with added values such as quality, health or ecological production. Quality wise they stand up to the class of any other good, even that of the market leader. Basically a retail brand could hold any identity of a producer brand without being that close connected to the retailer at all. An example of a retail sub-brand is ICA's Skona which is an environmentally focused detergent (Ibin, 2004).

The retail sub labels (retail chain identity) are those low price products aimed to offer an easy, straightforward and uncomplicated product, with a decent, acceptable quality. Neither here is the name of the label closely associated to that of the store chain, even though consumers tent to identify the store offering the product line quite easily since each chain has

its own retail sub label offering goods in almost any category in the store, as for ICA the most recognized label is Euro Shopper (Ibin, 2004).

The higher quality retail products would be retail chain brands, which are directly linked to the identity and name of the store chain, such as ICA and ICA Gott Liv. These products have more of a value-adding, good quality purpose, and possess the means of building a stronger, closer unique relationship with the consumer. Since the product line also share the name of the retailer the good will of the company is invested into the products, making the customer satisfaction even more important (Ibin, 2004).

Last in the line of retail brands is store chain brand, which would be like retail chain brand but with the name of the store chain instead of the whole retail chain. In Sweden, Willy would be a store chain whereas Axfood would be the retail chain. This type of brand does not fit the organizations of neither ICA nor COOP (Ibin, 2004).

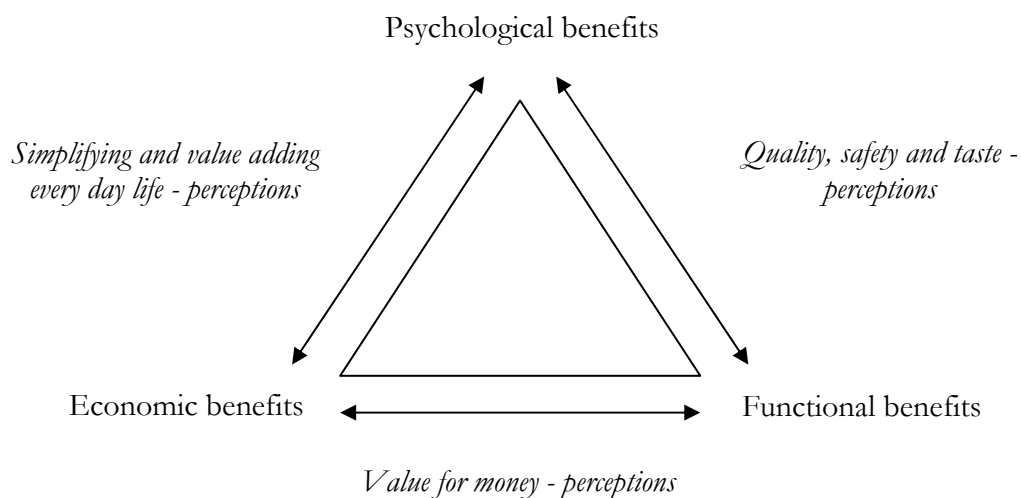


Figure 2-2 Ossiansson's Triangle of Psychological Benefits

Ossiansson (2004)

Summarizing these different kinds of retail labels, Ossiansson (2004) formulate three cornerstones based on three basic aspects of how to create retail label customer value. Those three cornerstones would be; functional, economic and psychological benefits. The retail brands, which are more quality focused products than the retail labels, include all those cornerstones and thus the consumer obtains all three consumer benefits (Ibin, 2004). Barry (2001) has a similar view, concluding that there are five pillars of successful retailing operation. By focusing on the total customer experience, the retailers can connect with the customers on an emotional level. Included in the customer experience is customer value, fair price setting, and store convenience through finding the goods the customer is after.

2.4.1.2 The Different Generation Stages of Retail Labels

Retail labels have different characteristics. Some brands have seen heavy investments; others are less innovative and can be considered as mere copies of existing producer brands. Therefore, price and quality differs with level of investments. Laaksonen and Reynolds (1994) suggested that retail labels will go through a developmental stage. They found four stages. Wileman & Jary (1997) however describes five types of retail labels. These five types

are considered as stages in a development that, over time, takes a brand from a basic beginning (low price, simple quality) and moves it to a leadership position (heavily invested, high quality). The framework for retail label development will be presented in order to distinguish the different types of retail labels that exist in Sweden. Furthermore, it is useful when evaluating the threat of certain retail labels to the chosen producers.

In Wileman & Jary (1997), the authors consider there to be five stages in the development of retail labels. The development starts at *generic* products, that requires small investments and are low on quality and price (relative to producer brands). These brands often come in simple packaging with generic names, e.g. Toothpaste. A Swedish equivalent is Blåvitt, introduced by Coop. The second stage is *cheap* store brands. Still low on investments, these brands are similar to existing producer brands in packaging and name. However, they are still mediocre copies that are offered at discounted prices. The third stage is reached when the store offers *re-engineered low cost* retail labels. These are similar to the second stage, but differ on the point of investment. The retailer invests in examining where you can cut costs in product features and packaging while still delivering a functional product to the consumer. With the fourth stage, *par quality* brands, the quality of the products are equal to or very close to producer brands. Also, the price is closer to producer brands than before but still somewhat lower. The last stage of development takes store brands to a whole new level. *Leadership* brands drive innovation and market activities. These brands have high quality, and can hold a price equal to and often above that of a producer brand. However, the investments made are very high as costs in design, development and quality controls are high (Wileman & Jary, 1997).

2.4.1.3 The Dispersion of Retail Labels

In Sweden, the spreading of retail labeled goods has increased during the latter years but in continental Europe, the story is different. Already by the mid 90s, the UK food chain Sainsbury has had 54 percent of its total sales coming from retail labels, and its competitor Tesco had 41 percent of sales (Quelch & Harding, 1996). The researchers continue to describe that the huge success of retail labels in Europe compared to US partially derive from the structural differences between the two. In the west European countries national chains dominate the grocery retailing, where in the US the largest single actor in the market had about six percent of national supermarket sales in the mid-90s when they published their article. This thought can be translated to the Swedish conditions, where there are a few strong national and international store chains dominating the food retailing market.

In 2003, researcher Ulf Johansson was by the impression that Sweden probably was in the second generation of retail labeled goods (i.e. the quasi brand stage in the Laaksonen and Reynolds, 1994, framework). Sainsbury by then clearly found themselves in the fourth generation of the development stages, having different retail label product lines in the following product value groups; superior, standard, value, healthy eating/low fat, organic, and last children (Nordiska Ministerrådet, 2003).

Today, Swedish grocery chains have developed their retail label offering in the same direction. ICA, for example, offers product lines, standard, value, healthy eating (with clearly stated levels of calories, fat, sugar, salt and fibers), organic, and last environmentally friendly washing products. They also have specific product lines with food from different parts of the world such as ICA Asia and ICA Italia (ICA, 2006).

2.4.1.4 Presumed Consequences of the Increase in Retail Labels

The question whether the invasion of retail labels is nothing but hurtful for the existing producer brands is not as apparent as one might believe. According to Ulf Johansson, researcher at Lund International Food Studies, a retail label can even increase the interest in a specific product group when launching its new alternative product. It is also too soon to tell if retail label tend to decrease the range of products offered by shaking out the inefficient smaller firms from the market, or if it affect the product differentiation in the larger markets, even though it polarizes the suppliers between brand and retail labels. (Nordiska Ministerrådet, 2003).

Most of the debate concerning retail labels has been about the pricing on groceries and then usually the presumed a cut in prices, and thus negative effect on producer brand margins, that an increase in retail labels would cause when entering a product group or market (Nordiska Ministerrådet, 2003). The price effect of retail labels is however not clear. Ward, Shimshack, Perloff & Harris (2002) show that the branded producers might raise their prices when facing an increasing market share of retail label products. However, the overall grocery price level is left unaffected or is decreased due to the fact that an increase in retail label market share does not make the retail label prices decrease. Thus, Ward et al. reason that producer brand prices rise but the lower retail label prices of the increasing retail label market share levels out the difference.

2.4.2 Producer Brands

In order to cope with retail labels the producer brands have developed strategies to fight them. This has been studied by Hoch, who has found five different strategies producer brands use. Hoch's studies have later been used as a starting point for Anselmsson and Johansson (2005), when they studied the Swedish market.

2.4.2.1 Strategic Options for Producer Brands

As well as there are different kinds of retail labels, there are also different ways for producer brands to cope with them. Hoch (1996) considers there to be five basic strategies for producers to deal with retail labels. He also points out that while retail labels are sometimes tough competitors to producers, the retailers that have developed these brands are also their customers. Thus, the matter of choosing strategy is sensitive, and could destroy buyer-seller relationships. Furthermore, the usefulness of a certain strategy depends on the size of the company. Some strategies might suit larger companies better than smaller. The strategies of Hoch (1996) will be presented in order to distinguish which strategies the chosen producers have decided upon, and which consequences their choices can have.

The first strategic option for a producer is to *wait-and-see*, i.e. "business as usual". Investing heavily in marketing and market research when signs of an increase in retail labels are evident might not be the best way of acting. However, this option does not mean that producers should ignore the development of retail labels and dismiss it as a fad. It entails producers to follow the development closely and constantly evaluate the threat from retail labels.

The next option is to *increase the distance from retail labels*. Increasing the distance is done either by offering customers more for their money or something new and improved. While keeping the price constant you add value by adding features to the product or perhaps changing the packaging. Offering something new and improved means that producers in-

invest in product development and innovation so they will be able to come up with new products or improving the quality of the existing ones.

Reducing the price gap is the third option available. Instead of differentiating the producer brand, as in the second option, the producer could try to come closer to the retail label in terms of price. However, this strategy has a larger effect on smaller producer than on market leaders; studies by Hoch (1996) show that large firms are less price sensitive. Therefore a reduction in price on large firms' products would not result in any significant increase in sales. The situation is opposite for smaller producers. However, Hoch (1996) also warns that producer brands should be careful in trying to compete with retail labels on price as it is the main thing retail labels are superior in.

The fourth option is a "*Me too*" strategy. This means that the producer decides to imitate the retail label by introducing a so called "value flanker", a brand equal or often below that of the retail label in both price and quality. The intent is to compete with the label without lowering prices of the premium brand. Moreover, the company can make use of its excess manufacturing capacity. However, there are many risks to consider with this strategy. First, the new brand might take market shares from the original, higher priced brand. As the margins are greater for the premium brand the company could start to see heavy losses if sales decline. Second, the costs of the producer will rise as the new brand will need extensive marketing to gain a foothold. Finally, the producer runs a high risk of being associated only with their low quality product which could hurt the image of the premium brand.

The final strategy is to *produce retail labels*. Instead of fighting retail labels producers can choose to embrace them, and also manufacture these labels themselves. By utilizing excess capacity, a producer is able to supply retailers. The costs of manufacturing is lower than for their own brands as they use raw material of lower quality and less refined processing. Furthermore, costs of distribution, advertising and sales promotion are covered by the retailers instead.

These are basic strategies that are not mutually exclusive and variations of the different strategies are possible.

2.4.2.2 Applying Hoch to Swedish Conditions

There has not been much research on the development of retail labels in Sweden. Anselmsson & Johansson (2005) however, have made a thorough investigation of it and it provides important information when it comes to the strategies of the producer brands. Anselmsson & Johansson (2005) use the theory used by Hoch and apply it to Swedish conditions and the Swedish market.

The producer brands have given the wholesalers and their retail labels too much power, according to Anselmsson & Johansson (2005). The wholesalers are now acting as competitors to the producer brands. In order to cope with the retail labels the producer brands in Sweden use four main strategies to fight back. The strategies have been collected from research by Hoch and one can see that producer brands in Sweden use similar strategies to those used in other countries. Anselmsson & Johansson (2005) found four strategies where Hoch found five and those are;

- Wait and see
- Extend the difference
- Me-too

- Reduce the difference in price

There are about 25 percent of the Swedish producer brands, which use the strategy to wait and see. Thus, one can see a pattern that the more retail labels there are within a segment the more inclined the producer brands are to develop a more active strategy towards retail labels. A more surprising fact is that 40 percent of the producer brands do not have a strategy in the competition with retail labels.

The most popular strategy in the fight against retail labels is to extend the difference between the products. Ways of doing this is by marketing communications and different packaging.

It is often said that the increase in retail labels within the Swedish food industry has meant lower prices even from the producer brands, but according to Anselmsson & Johansson (2005) only one tenth of the producer brands have lowered their prices. These two strategies, reduce the difference in price and me-too, means that the producer brands would expose themselves to a great risk, because the competition would be fierce from the retail labels. When the producer brands get more similar to the retail labels, there is no longer any reason for the supermarkets to keep them on the shelves.

2.4.2.3 Producer Brand Strengths

Quelch and Harding (1996) present a line of reasons why producer brands hold an advantage towards retail label. First, they claim that the purchase process favors brand-name products – brands exist because it helps the consumer to understand the quality of the good and thus make the selection process a lot easier, so consumers still find the comfort and security of branded products valuable.

Brand-name goods have a solid foundation on which to build current advantage since they have built their brands and accumulated a high level of recognition over time. However, the strength of brands depend on the strength of the economy, as the economy recovers from recession advertising and promotion increase and regain consumers who now have more money to spend due to the prospering economy.

Retailers need the producer brands to differentiate their store and to promote their offerings. Stores must offer well known producer brands in order for the customers to feel that the store carry a full length of products, and not only their own retail label. Thus, the producer brands are valuable for the retailers, since they have the ability to attract consumers to the store.

According to Quelch and Harding (1996) there is a thin line when using retail labels where an excessive emphasis on retail labels sooner or later dilutes their strength. Even though name recognition usually is a good thing, stretching the store brand name throughout a whole product line tend to make the customers think that the store cannot possibly live up to their quality expectations within all these different product categories. A solution is to create sub-brands for each respective category, but this corresponds more to large retailers who sell almost everything such as Wal-Mart, because the level of retail label within ICA or Coop is yet focused to food products.

About two to four products in every product group fail when retail label manufactured goods enter the competition. The market-leading brand however, is usually quite unharmed by the new entrant (Nordiska Ministerrådet, 2003).

2.4.2.4 The Pros and Cons of Retail Label Production

The producer brand producing companies who also produce retail labels product lines is very hush-hush about that part of its business. This is not very hard to understand due to the power the big food retailers impose, and the damage that can happen for a firm if it becomes unable to distribute its goods through the channels of the food retailers. The question is if retail label production is a good or a bad thing for a brand producer to do; if the pros are greater than the cons.

A hard thing with producing retail label goods is that it might over time increase the vulnerability if losing the food retailer as a customer. The retail label production often starts out as a way to fill up excess production capacity, which may seem as a nifty solution at that point of time. Quelch and Harding (1996), however, argue that manufacturer might soon find itself taking orders for additional retail label goods in product groups where its own brand is weak. This second step might not seem unreasonable, may lower the unit manufacturing and distribution costs of the company's production as a whole. But apart from using excess capacity the retail label production now increase its importance for the company and take a step away from being just some additional production on the side.

The next step of the now taken dangerous path would be to take retail label orders in the same product categories as the own producer brand. From the producer perspective orders placed well in advance facilitate the planning of the production, thus this kind of excess making of retail label goods can have a smoothing effect on production over time. Quelch and Harding (1996) imply that this thought of optimizing planning to maintain full production might be severe for the company's strategy. They believe that there is a danger of getting confused by the good part of the deal, and forgetting about the part where the retail label product most likely start to cannibalize on its producer brand substitute.

3 Method

This chapter describes the thesis approach to the field of interest and the method used to gather the information needed to fulfill the purpose.

3.1 Quantitative and Qualitative Research

In scientific research, two paradigms are discussed and used; quantitative and qualitative research. Both paradigms have their advantages and disadvantages.

Quantitative research is often referred to as “real” research. It has its foundations in logical positivism, which considers scientific knowledge to be the only “true” knowledge. Furthermore, logical positivism states that some knowledge can be reached by deduction without any prior experience. In quantitative research, the researcher seeks to predict and measure a phenomenon by the use of standardized methods. By investigating a sample drawn from a larger population, the researcher can then generalize (Patton, 2002).

Qualitative research usually lack quantification methods, and is instead driven by investigations of real life, situation-specific settings. These investigations are based upon a naturalistic or so-called interpretive approach. This kind of research strives towards illumination and understanding as opposed to the quantitative aim of prediction and generalization (Patton, 2002).

For finding answers to the research questions and thus fulfilling the purpose of the thesis, the authors chose a qualitative approach. The research questions looks for responses to changes in the market and especially responses of certain companies. These are clearly context-specific questions that can best be answered by the use of qualitative research. The authors wanted to investigate how the emergence of retail labels has affected certain producer brands and how they in turn have coped with these effects. The authors wish to put light on the differences and the similarities of the companies’ responses and search for the meanings of these. In addition, the intent of the study is also to distinguish what strategic options the producers have. These options are measures to be taken in order to cope with retail labels. Thus, a qualitative study is most useful for this thesis. Furthermore, the study has been done using a case study approach.

3.2 Case Study Research and Interviewing

In Gillham (2000), a case is defined as:

- a unit of human activity embedded in the real world;
- which can only be studied and understood in context;
- which exists in the here and now;
- that merges in with its context so that precise boundaries are difficult to draw.

A case is investigated, using a case study, to find answers to some previously stated research questions. This investigation can be undertaken using a number of ways to gain an understanding of the chosen context.

Interviewing is a term that entails numerous approaches to gain this understanding. The range of different interviews spans from unstructured to structured interviewing tech-

niques. Completely unstructured interviews involve observation of other people talking to each other, without them being aware of this. The technique is used when the researcher want observe people in their natural setting to be certain that no bias can appear. On the other extreme, there is the completely structured interview with simple, specific and closed questions (Gillham, 2000).

This study of producer brands and their responses to retail labels uses an interviewing approach that is found in the middle of the previously defined extremes, but with a tendency to the unstructured interview. This kind of interviewing is called the “elite” interview (Gillham, 2000). The term “elite” is used because the person being interviewed is somewhat of an authority figure. This authority comes from the person’s vast knowledge and experience within the area of research. He/she is an expert in the field and is likely to know more about it than the interviewers. The reason for the interview to be somewhat unstructured is that these experts, with their authority and experience, will know what questions that should be asked. They will know what is interesting and deals with these issues on a daily basis. Furthermore, they will not be keen on answering a lot of questions that they consider naïve and uninteresting. The interviewers will instead act as guides that steer this authority figure towards certain topics that they wish to be addressed. In addition, the experts usually want a certain degree of control over what will be written, as direct quotations from the interview often will be used in these studies (Gillham, 2000).

“Elite” interviewing was used in this thesis because the authors acknowledge their limited knowledge of the industry and considers the experience and wisdom of the business leaders to be invaluable. Therefore, the authors wished the interview to be quite unstructured and let the leaders have a certain freedom. Still, many fundamental questions were asked that had a clear contribution to this study. These broad questions can be found in the interview guide located in the appendix.

The interviews were conducted with the CEOs of each company, with two exceptions. The exceptions are a retail label strategist and cured meats responsible at ICA. The respondents had been given a brief explanation of the purpose of the study and some of the major questions as well prior to the interview. These interviews were conducted on the company premises, with three exceptions. The interview with the manager of Sardus Chark & Deli AB was conducted by telephone. In addition, the people from ICA were also contacted via telephone. Furthermore, each interview was tape-recorded as well as written down directly. More information about the interviews and the companies are found below. Finding companies and hence respondents for these interviews was done through a selection process described next.

3.3 Industry and Company Selection

The purpose of the thesis is to investigate the impact of the increase in retail labels have had on producer brands. Many product groups have experienced the arrival of retail labels the last decade and are now facing tough competition. However, each industry is different when considering the industry structure. Thus, producers from different industries will have diverse strategic options available to them depending on the industry character. This means that findings from companies in one industry will probably differ from findings from companies of another industry. Therefore, the authors have chosen to focus on one industry, the Swedish meat industry. The interest was to interview a number of producers of this sector. By producers, the authors mean companies that are producing cured meat

products such as for instance; sausages, meat for sandwiches, and pork brawn. These products are then sold either directly to retailers or to wholesalers, but does either way end up in the counters of the stores alongside the retail labels.

The choice to focus on the Swedish cured meat industry was motivated by the complexity of the industry character. Taste, use of raw material, origin and processing are some factors that differentiate brands from each other. This can be compared with a product group such as muesli and cereals where the contents are quite much the same. Cured meat products are thus interesting as it gives the producers many options for competing with retail labels. In addition, the meat industry has been widely debated in the media for quite some time. For example, voices have been raised questioning the development towards a more centralized and standardized distribution of cured meat. The changes are argued to be damaging in many respects, e.g. from an environmental as well as economic life perspective.

Furthermore, the authors are interested in giving the study a regional perspective. Therefore, the authors selected four small and medium-sized companies (SMEs) that are located in the region of Småland. Each company is different in size and has presumably responded to the increase in retail labels in their own unique way. One of the positive aspects of targeting SMEs is the openness you get. The CEOs are relatively easy to get hold of and it is not impossible to arrange a meeting. Thus, the interviews were conducted with the managers, who often are the owners, of the four companies. The companies are Vaggeryds Chark AB, Börjes Chark AB, Sardus Chark & Deli AB, KJ:s Chark AB.

However, it is important to note that Sardus Chark & Deli AB differs from the other companies. It is a subsidiary company to Sardus AB, which is a market leader within several fields of cured meat products and provisions, and thus one of the major companies in the sector. However, Sardus Chark & Deli AB is producing in the Småland region at Pasterjkökets facilities in Tranås. The main idea of including this company in the study is that they have a bigger view of the industry, and perhaps a clearer knowledge about retail label implications. This view can then be related back to the perceptions of the SMEs.

Börjes Chark was chosen because they are considerably smaller than the other companies. The authors wanted to hear the views of the micro firm manager as their prior beliefs were that they had been the ones most exposed to the increase in retail labels. Vaggeryds Chark was selected because they are a medium-sized company with a good reputation. Additionally, they are very visible in the stores of Jönköping and are positioned as selling premium-priced products. The company is clearly on the right path and the authors wanted to find out how this had been made possible. KJ:s Chark is included because they have recently bought a competitor and has therefore, seemingly, an expansion plan.

In addition to the four companies, a retail label strategist on ICA has been interviewed. The idea behind including this interview was to gain knowledge of the objectives that ICA have with their retail labels and to possibly learn about their future directions. In addition, a cured meat responsible at ICA was interviewed to confirm the comments made about market conditions by the producers.

3.4 Data Collection

This study consists of both primary and secondary data. According to Ghuari, Grønhaug, & Kristianslund (1995) primary data is used when not enough secondary data can be collected to fulfill the purpose of a scientific research. Secondary data, on the other hand, is information that has been collected by others for a different purpose. The primary data

comes from the conducted interviews, which lay the basis for the empirical work. The secondary data in this case is the information found about the Swedish meat industry. The secondary data has enabled the authors to gain knowledge about the chosen industry. This data is also used in support to the empirical findings.

3.5 Data Analysis

The process of analyzing collected data is complex and involves many different stages. The first step is to organize the data into easily retrievable information. Second, it is important to categorize the data under certain headings and deciding what is relevant and what is not. This move makes it easier to single out patterns and differences in the data. When this is done it is easier to find relationships with the other data that has been collected from the other cases. The next step is to make interpretations of the findings and relationships and put value in them. Consequently, it means making assumptions and relating the findings to existing knowledge and hopefully creating own theoretical frameworks (Daymon & Holloway, 2002).

A final notion on the different stages of data analysis is made by Patton (2002). Qualitative analysis should be meaningful, useful and credible. Meaningfulness is achieved when the conclusions you draw can be directly related to the questions that was asked. Presenting interpretations that are clear and understandable makes the analysis useful. Credibility refers to how well the conclusions will manage to withstand a careful examination. This is related to the concepts of validity and reliability research, which is developed below.

The process of data analysis in this thesis was conducted in the following way. After the interviews had been conducted, they were carefully transcribed and the notes that had been taken were added. Then, the data was sorted and categorized. This was done to get a clearer picture over what had been answered, and what could be considered as relevant information. The sorted and relevant information can be found under the heading “Empirical findings”.

In the process of interpreting the results the authors found several similarities as well as differences in the assumptions and strategic moves that the selected companies had made about and in response to retail labels. This gave the authors an opportunity to explore the relationships between the firms in question and generate interpretations. These interpretations are found under the heading “Analysis”.

With respect to the last stage of data analysis the authors can only hope that readers think meaningfulness and usefulness has been achieved after reading the conclusion. However, as credibility is such an important issue in research it will be developed further below.

3.6 Validity and Reliability in Qualitative Research

Reliability and validity in quantitative research means testing the instruments of research used by the researcher. These are the tools and techniques used to generate empirical findings. When testing reliability and validity of a qualitative study, it is still the instruments of research that are tested. However, there is a crucial difference; the instruments in qualitative research are the researchers themselves. Thus, reliability and validity refers to the effort and ability of the researcher. Moreover, testing the quality of qualitative studies requires a different terminology, using the terms credibility, transferability, dependability and confirmability. These terms corresponds to the terms used in quantitative research; credibility-

internal validity, transferability-external validity, dependability-reliability, confirmability-objectivity (Hirschman, 1986).

The term credibility encompasses the fact that reality is context specific; it varies from situation to situation. Thus, there can be no validation of the findings in the positivist sense. Instead, qualitative researchers should try to get their validation from the subject of research itself. Only they can evaluate the findings to be correct from their point of view. In this study, this has been ensured by keeping the data collected and after being sorted and interpreted sent to respective company for confirmation of the findings.

While quantitative research focuses on generalizing from a sample, qualitative research is interested in understanding a certain situation. By illuminating as much of the circumstances of the context as feasible, it might be possible to transfer the gained knowledge onto new settings. Transferability is however not easy because of the difference between the complex settings. Even if this thesis concerns the Swedish meat industry the authors hope to have presented enough detailed results so they can be used in other industries and related to other companies.

Both reliability and dependability refers to the stability and consistency of the research instruments. However, the instruments in qualitative research are the researchers themselves. A way to secure dependability is to have several researchers instead of just one. This ensures that the findings are not interpreted from a single perspective that is based on his or her values and experience. This study is written by three authors and this means that the interpretations will come from the combination of the authors' viewpoints, thus broadening the perspective. Furthermore, the authors have given the findings to peers for reviewing and commenting. This has not produced any opposing views to the interpretations already found by the authors. Consequently, this could be a sign of the dependability of the interpretations.

As the researcher using qualitative methods is absorbed in the process, it is hard to obtain the same objectivity of the quantitative methods. However, the findings and interpretations still have to live up to some standards. This confirmability implies that conclusions drawn must be supported by the data, and follow a clear logic. Furthermore, it is important that prejudice and judgmental comment be left out of the conclusions. It is hard to judge whether the authors have been conducting the research without bias and influencing the process. The authors have tried to be as open as possible, with the studied companies, in the process of acquiring the data. Furthermore, the authors have carefully developed the questions for the companies so that they are not closed and value-loaded.

4 Empirical Findings

This chapter presents the empirical data gathered through personal communication from interviews held with representatives from each respective company.

The empirical findings are based around interviews with three regionally produced brands; Vaggeryds Chark, Börjes Chark and KJ:s Chark. Further interviews have been conducted with Sardus Chark & Deli, a market leading producer, in order to gain a kind of bird-perspective to questions on the industry level. Last, two interviews has been done with ICA representatives, with insight in the cured meat division, and the other who is a retail label strategist. Altogether this should give both the over all picture to the industry and market, as well as views from the retailer-, the large scale producer- and the small producer perspectives.

4.1 Vaggeryds Chark AB

Interview the 23rd of October, 2006, with Christer Gustafsson, Part-Owner.

Vaggeryds Chark AB was founded in 1962 in Vaggeryd, a small city situated 40 km south of Jönköping, as a small butcher's shop specializing in quality meat products. Since then the firm has changed owners and emerged into a modern, well equipped manufacturer of cured meat products. The product line ranges from meat for sandwiches (mainly sausages) to hot dogs and pork brawn. The company presently employs twenty-five workers and has a turnover of about 55 million SEK. The growth has been steady the last few years and is expected to continue in the near future.

Today the firm is owned by two persons with an equal share. They have chosen to split the tasks between them so that the administration and sales task is handled by Christer Gustafsson, leaving his companion as head of production. This part of the study has been carried out through an in-person interview with Christer Gustafsson.

4.1.1 Production and Market

Vaggeryds Chark distributes most of their products by themselves. The main market is found within a geographical area of fifty kilometers around Vaggeryd, where the largest customers are convenient stores and supermarkets. They do however also deal with some wholesalers, some schools, and a couple of renowned restaurants.

The main focus of the company is product quality. The meat in their products comes from the finer parts of the animal, and the amount of it is higher than in most of the competing products. Gustafsson explains that the difference between high and low quality products lies in the amount of meat content and richness of fat and additives. Low quality products have low meat content which is offset by their richness of fat and additives instead. Additives such as potato flour binds water which makes it possible to make sausages made of mostly fat, additives and water. Furthermore, Gustafsson continue by commentating on how producers can cut costs by substituting certain raw materials. When an animal has been slaughtered it is time to cut it up and make ready the parts to be processed into finished products. Some parts of the animal are considered finer than others and are therefore sold at a higher price. However, when making sausages it is possible to use other, less fine parts. For instance, when processing the slaughtered animal compressed air is used to blow away fat, membrane and sinews from the bones. These pieces that normally is not used to

anything, is now pounded into a mix that can be used as a base in sausages. Gustafsson establish that manufacturers that sell lower priced products use raw materials like this to cut cost. Using methods such as these is something Vaggeryd Chark will never submit to, according to Gustafsson.

The dissimilarity between high and low quality sausages does not necessarily show when comparing the two in the store. However, when frying for example a sausage such as Swedish falukorv it is more easily noticed that the cheaper sausage contain more liquid which turn into steam, leaving the it considerable more shrunken and less tasty.

“You get what you pay for, maybe you could find a fine quality product for a cheap price in temporary offering, but it would be more of an exception to the rule.” Christer Gustafsson (personal communication, 2006-10-23)

The Swedish Meat Industry Association, which is a national industry organization representing the meat industry in Sweden, organize an event called the Swedish Cured Meat Championship (Chark SM). Vaggeryds Chark’s has done well in this contest receiving prizes for the products taste and high quality.

For a local brand producer it is very difficult “get in” and sells to a single and local supermarket. The space left in an individual store is limited when the retail labels have taken their dedicated meters. In other words this means that there is a quite restricted amount of shelf space left for the producer brands and local producers to compete for.

“If you look at the shelf space today and compare with the situation 10-15 years ago the situation for us has changed dramatically. When the retailers have taken their piece of the cake there is only about 8-10 % left to compete for.” Christer Gustafsson (personal communication, 2006-10-23)

Gustafsson tells an anecdote which happened when he tried to launch his line of products at a local supermarket; arriving with a vast number of products, the store owner looked at Gustafsson like he was crazy enough to believe that the store would actually be able to fit all those products in the cold counter. But Gustafsson got to pick three goods that the store owner would try to sell on trial, and today that specific store carries the whole line of products.

Regarding developing strategies to compete with retailers’ retail labels, Vaggeryds Chark has been cautious. The situation is complicated by the fact that the retailers are not just competitors but customers as well. Having strategies that involves fighting the progress of retail labels head on would not be favorable to the company. The most important thing is to nurture the relationships they have with retailers, according to Gustafsson.

Vaggeryds Chark has never thought of being a producer for retail labels for many reasons; the margins are very small, you expose yourself; the production is focused on quantity rather than quality and there is a very high risk that you one day may lose your only customer when dealing with such large accounts. Thus, the idea driving retail labels sort of goes counter to that of dealing with locally produced quality products.

Gustafsson has witnessed the success of the retail labels in the market, and the effect it has had. The competition between retail labels and producer brands has not necessarily become tougher. Instead it is the competition between producer brands that have become fiercer due to the increase in retail label products, a struggle where Gustafsson has seen the failure of some local producer brands due to the rougher climate on the market. Therefore, it is not a question of developing strategies for fighting retail labels that is on the top of the

agenda for Vaggeryds Chark but to differentiate its products from the other similar ones in the market. Producer brands have to battle each other for the little shelf space that is left since the products are competitors for the space that is left for the specific type of products, which for Vaggeryd would be high-end, locally produced cured meat products.

4.1.2 The Future

The threat of an increasing level of retail labels in the market is evident, but is not seen as overwhelming to Gustafsson. As they target different market segments it is possible for both to coexist. However, the picture might change. Gustafsson believes that if a new high-end retail label would be introduced, that is much closer in price and quality to the products of Vaggeryds Chark than the present retail label products are, it would pose a greater threat. At present, the gap between the products of Vaggeryds Chark and the available retail label products is large, in terms of quality, taste and price – but if the gap would be reduced customers might find the new retail label attractive enough to switch. Nevertheless, this progress is not directly feared in the company. Vaggeryds Chark still has its unique touch and support from customers, something a retail label will never get easily.

4.2 Börjes Chark AB

Interview the 16th November, 2006, with Thommy Persson, Part-Owner.

Börjes Chark AB is a small butcher facility located in Aneby, about 50 kilometers east of Jönköping. The firm has four full-time workers and a part-time worker. The owners and brothers, Thommy Persson and Håkan Persson, are included in this small staff. The company presently has a turnover of around 5.5 million SEK.

In 1987 a butcher and slaughterhouse called Lindahls closed down in Aneby, leaving Börje Persson and his son Håkan Persson without work. Two years later, in 1989, they decided to start their own business in the available premises and began to process easier products that could be done without using expensive machinery, such as black pudding. During the visit at Börjes Chark the authors interviewed Thommy Persson, who joined the company a few years after the startup.

4.2.1 Production and Market

In the beginning of the 90s Börjes Chark broadened their production and started to cut up cattle and pigs, which still is a part of their business today, selling chunks of ready to cut beef and pork to stores that have a manual staffed meat counter. Today they also make sausages and ham for sandwiches, and sell them locally within an area of about fifty kilometers around Aneby. Producing retail labels would be impossible for such a small firm; a retail label supplier basically has to be able to supply enough to cover the need for that label in the whole of Sweden.

The company grew steadily during most of the 90s, but the growth was broken by the increase in retail labels and the changing market conditions. Since then the company has experienced a steady stagnation instead as well as being forced to let people go. However, Persson think the situation has stabilized the last couple of years and feels that retail labels will not increase in the near future. During the more prosperous years they cut up about fifty pigs and five cattle per week, but today the amount are down to about half. The reasons are two, first the food stores has quit having meat chopped into customer preference

at in store meat counters. Instead, they buy pre-packaged meat from the retailer's central distributor. Second, the increase of retail labels has made it harder to sell products in stores that have a limited amount of shelf space. Before the stores used to have a certain amount of producer brands and products produced locally aside from that offering. Today the retail labels are the major products in the stores, and then the producer brands have an assured amount of the shelf space. The room left for small scale, locally produced products is certainly limited and not easy to overcome.

Persson feels that the major means of competition is the price, and the only way to lower prices, disregarding having high production volumes, is to use cheaper ingredients in sausages. Thus lowering the production price by using meat from abroad or recipes with less meat and more of for example potato flour which binds water. He thinks people disregards quality to a large extent. Getting people to value quality instead of bargains is his mission.

Börjes Chark has kept fairly constant prices over the years and has not tried to lower them in order to get a larger volume. Persson is confident that customers recognize quality when they see and taste it. Moreover, a small reduction of prices would not have any discernable effect. Only a large price cut could increase volumes, but it would be impossible in relation to their cost level to get any profits then.

In this fierce competition it is hard to stand out and sell products made from regionally produced cattle and with high levels of meat, a bit more expensive food as it is. Furthermore, consumers are also very price-sensitive which in turn makes it even more difficult to argue why they should buy the locally produced products. Interview polls done are often pointing in the other direction, customers claim that ecologically and locally produced food is what they want – but sales are not showing this as confident as the word does, Thommy Persson claims.

Börjes Chark has not developed any direct strategies to compete with retail labels. The owners feel that the rivalry is with other small and medium sized manufacturer and not big retailers.

“We can only fight for the small piece of the cake that is left when the retailers have taken their large slice.”
Thommy Persson (personal communication, 2006-11-16)

4.2.2 The Future

As for the future, Persson hope for a change back to the manual in-store meat counters. Stores today look almost identical to each other; each chain has a set of different store concepts, these concepts are however merely about the amount of goods offered and how wide the assortment is. Persson feel there is an opportunity for the stores that find themselves to be just like any other store, to take the step and reinstate the service into the food stores and start handle meat manually and selling to suit each customer's individual preferences. A few stores he is dealing with have taken this step back to how it once was in most stores.

On the question if Persson believes that the level of retail label today is at a somewhat long term rate or if it will continue to increase with more high-end products, he finds himself a little bit unsure, but recaps to the fact that profit lies in the margins and that the retail labels mostly seems to be a mean of getting the customers to the store. Sometimes prices on retail label products seem so low that the profits must be close to inexistent.

If you look at the prices for Falukorv in some stores you can't believe how low it is. Almost impossibly low. You start to wonder what's really in it." Thommy Persson (personal communication, 2006-11-16)

As for his own sales, they could be higher, he reasons. The sales could always be higher, but in the end it is about the customers' preferences and habits. And as long as customers focus on prices in order to save some when buying food such as meat, but then the minute after happily take a bag of, in comparison expensive, chips down from the shelf – then it seems like a tough call to pursuit.

4.3 KJ:s Chark AB

Interview the 4th of December, 2006, with Jörgen Keinwall, Owner.

KJ:s Chark AB is a meat company, which operates in Stockaryd and Sävsjö. Jörgen Keinwall started the business in Stockaryd 1988 and in 2005 KJ:s acquired Ludvig Sörensen AB, another small cured meat producer situated in Sävsjö. These two parts of the company are today run as separate entities, with Keinwall handling daily business in both of them. KJ:s Chark and Ludvig Sörensen operate in the same industry, but produce different products.

Most of the products are distributed through wholesalers, but recently Keinwall have started to sell directly to supermarkets as well and there has not been any problems convincing store owners to carry his products. In order to consolidate the production power between KJ:s Chark AB and Ludvig Sörensen AB a new brand has been developed called *Småländska Charkeprodukter*. It is with this brand he plans to market and associate his products from now on, having two separate production units to produce the goods.

4.3.1 Production and Market

The most important change within the industry the last decade has been the new EU-regulations. There are much more costs involved in meat production nowadays, not only by having to test for diseases such as BSE (Bovine Spongiform Encephalopathy or commonly known as mad cow disease), but also due to regulation how a production facility should be constructed, and the far-reaching chain of traceability where every single product should be possible to trace back to the exact origin. Because of the importance of quality and much due to heavy regulations, Keinwall has recently decided to hire a Quality Manager, who is going to be responsible for making sure that regulation is followed and that the production quality is reached and developed.

Keinwall has previously manufactured retail label products but decided to discontinue this when the quality standards wanted became too low and the heavy price focus too evident. It did not fit with his beliefs, and he claims that it is not impossible to make decent quality products and sell them for a reasonable price. In order to produce retail labels at such low costs as the discount stores are requiring one simply has to sacrifice too much of meat producing skills and replacing ingredients in order to make something which looks like a sausage, but does not taste like one, Keinwall reasons.

The attitude of Keinwall is that he is willing to sell cheap but not “crappy” products. This is also the mind-set behind the own new locally produced producer brand, *Småländska Charkeprodukter*, which gives customers the desired decent quality at reasonable prices. The brand name is taken from the name of the region in which the products are produced. It is a two-way reference to what the product brand stand for, both carrying the name of the re-

gion, and the association to the common beliefs that people living in this region live economically. The products of *Småländska Charkprodukter* are supposed to be within the middle segment, which means good quality to a decent price, and the focus should be on value for money – while many other companies overcharge their products, something they can manage to do because they have a strong brand.

4.3.2 The Future

Keinwall has a very positive view of the future, one has to like to do business, and believe that it is possible to compete with retail label products. Important components are reliable deliveries, quality-focus and continuously introducing new products and flavors.

When it comes to competition, competition and moneymaking in itself is not so important, the drive of Keinwall is not the money but to do business and develop new products. And after all, most of the profit disappears through taxes anyway. He agree that he is more of an entrepreneur, and the company recently won the title *Company of the Year* in Sävjö – winning prices are not that important though.

KJ:s Chark produces the products it feels like producing and generally do not have any problems receiving the margins they want.

“One simply has to find products that do not require an extensive amount of manual labor, and thus manage to keep fixed costs low”. Jörgen Keinwall (personal communication, 2006-12-04)

As for the meat supply, KJ:s buys from producers in Sweden, Denmark, Germany and Brazil. Much of the Swedish meat is more expensive than foreign meat, even when taking quality into consideration, and from Keinwall’s point of view the customers do not seem to find it that important to buy Swedish meat when they actually make the purchase. People in general do not seem to have no problem eating foreign meat when they are on vacation abroad, and most restaurants in Sweden use foreign meat and have done so for years, why should cured meat products be any different, he reasons.

As for the future Keinwall see a reaction to the strong focus on price, some sort of a counter reaction with focus on quality and also high-end products. Supermarkets are now, or will soon start, bringing the manual deli counters back so that the customers will receive better service for a little extra in price – and also have the possibility to purchase KJ:s roast beef in optional amounts. Another sign of this trend is that discount stores previous focused only on prices, lately have become interested in more quality products, products with a little more quality than those chains are known for. One might see it as a path to where the store chains start to look more equal and alike each other.

4.4 Sardus Chark & Deli AB

Interview the 6th of December, 2006, with Pelle Hjalmarsson, CEO.

Sardus Chark & Deli AB, a subsidiary company of Sardus AB, is a leading producer of cured meat products for sandwiches such as liver pâté, and controls about 21% of the Swedish cured meat market (Sardus, 2006a). The company was formed as a new business unit in 2005, when joining the Sardus branches and well-recognized brands Charkdelikatesser and Pastejköket. The strategic reason behind the restructure was mainly savings

from synergies between the businesses, and a future mix of the two categories of cured meat products and delicacies (Sardus, 2006b & Personal Communication).

Sardus AB, which is listed on the Small Cap Stockholm list of the Nordic Exchange, consist of five different branches, where Sardus Chark & Deli is the largest with a turnover of 883 MSEK (and a 49 MSEK profit), compared to a total turnover of Sardus of 2017 MSEK. The other companies within the group are offering products such as cheese, easy-to-go meals, and frozen foods – all sharing the Sardus vision of being the Nordic specialist on sandwich-meat, -ham and -cheese, delicacies and easy-to-go meals (Sardus, 2006a).

4.4.1 Market, Production and Strategy

Pelle Hjalmarsson notes that the concentration of power still remains within the industry of everyday commodities. ICA still has a major share of the market, despite the penetration of foreign low price and discount. The presence of retail label has been recognized to a larger extent and reached a level where it is, and will continue to be a big part of the product offering. During recent years, the focus of producer brands has been based on the importance of making the businesses more effective in order to fulfill the demand in the market, for example lower prices and the increasing in retail label competition.

In addition, there has also been a certain polarization where local producers have not been knocked out to the extent that might have been expected. On the contrary, some they have strengthened their position in some store chains. The producers who are neither local nor national keep struggling, and are losing battle ground to the local and national producers – the key is to be either a solid local producer, or a strong national producer.

“When one enters such a restructuring like the cured meat industry, it is a mean to survive as a national producer, or to become a Nordic producer, or even a European producer.” Pelle Hjalmarsson (personal communication, 2006-12-06)

Sardus Chark & Deli produces retail label and has done so for many years. It is a strategic issue that is tackled in different ways by brand producers. Today the range of products offered is wide, and there is a lot of excess capacity in the industry, so the chains can easily find producers willing to produce retail label products even if some producers would not want to produce.

There are no big advantages getting one’s producer brand products into the stores by specifically producing retail labels, but with more integrated store chains that might be the case in the future. The assortment of the store chains today are not as integrated as it could be, there is still a lot of room for the individual ICA store owner to choose what products to include in the offering. In an integrated market the assortment and price would be decided on a higher level and then pushed out to every single store, and thus making it easier for a producer brand to enter all the stores in one chain, and not just the ones that decide on themselves to carry the products. The opportunities for store individual decision making is according to Hjalmarsson, much larger in Sweden than in the rest of Europe.

As for distribution of its products, Sardus Chark & Deli distribute their products through a wholesaler and have done so for a long time. The smaller subsidiary companies to Sardus Chark & Deli could be seen as production units, and distribute their products jointly through parent company. Most of the range of products is to be found in stores all over Sweden, but some specific products such as the Norrboda sausage is for the most part regionally limited to Småland and Västergötland.

Continuous refinement to the largest extent of the products is the most effective way to secure a position towards retail labels. Apart from the actual product, the packaging is an important tool to separate a product and making it easier to distinguish on the shelf. New packaging techniques can hold the identity of uniqueness towards a simpler retail label product. In order to sharpen the focus on a decided few Sardus Chark & Deli has decided to cut down on the number of brands, which is something that has come to be quite usual within convenience goods today.

4.4.2 Prioritized Products and Changing Consumption Patterns

Health and convenience is some of the most prioritized areas for Sardus Chark & Deli. Health will most certainly become even more in focus in the future, especially when talking about “eating healthy” and to exercise on the spare time. Hjalmarsson mentions the late success in the sales of cook books in Sweden, and interprets it as an increased interest for food and food inspiration rather than that the customers actually plan to put the recipes to the test on a daily basis. The interest for food will most likely continue for the foreseeable future, for instance there is a difference in consumption between weekdays and the weekend.

During the weekday the customers value faster food that is partially prepared or easy to put together to a full dish, whereas on the weekends they tend to choose slow food and go for quality and more luxurious products. This pattern is fundamental when building and developing a category of products, from surveys one try to figure out consumer patterns and then aim products for different wants, such as the difference between weekday and weekend consumption.

Hjalmarsson feels certain that there will be an increased activity in the premium segments in the future, where the consumer is prepared to pay a little more for specialties, such as foreign delicacies. This progress comes from the continental Europe where the manual meat counters are filled with regional as well as foreign delicacies. The future return of manual counters in Sweden will contain these kinds of products and not the ordinary products like they used to. Before those counters were filled with ordinary cheese, potato salad and similar basic products, products that did not really need to be sold over the counter. Instead the counters will be a sort of top of the line deli desk. The demand for such products is observed already today, where smaller deli stores with a concentrated assortment on chocolate, cheese or tea have popped up even in medium sized cities. In the future larger stores will also try to meet this demand for such delicate products.

4.4.3 Beliefs about the Future of the Industry and Market

As for the increase in retail labels, Hjalmarsson believes that retail labels will continue to grow within certain segments, but the pace will not be as hectic as the past. There will however always be room for both local and national producers. Local producers might even continue to have a strong position in their regional market as the customers may know who the owner is and where the factory is situated. With that in mind there will be a balance even in the future between producer brands sold nationwide and locally produced products.

“I am convinced that local producers will continue to operate within the cured meat industry” Pelle Hjalmarsson (personal communication, 2006-12-06)

It will probably not enter any new local producers, the probability of some exits is more likely to happen – it all quite dependent on the integration of selection in the store chains and their ability to centralize their assortment decisions. The more the chains centralize their assortment selections the tougher the competition gets for the local producers. Sardus Chark & Deli, as a brand producer and market leader in many segments, would of course hold a more integrated market as an advantage, since a company in their position would know how to manage and draw the benefits from such an environment.

The hard part for some local producers to overcome, Hjalmarsson reckons, is to change the processes in order to comply with the regulations of the European Union, such as traceability and health safety. Some smaller producers are great in their achievement to comply with these regulations, but other smaller producers have not had the same pressure to for example rebuild their facilities.

4.5 ICA Sverige AB

ICA Sverige AB is the largest retail chain of convenience goods, with a market share of 39.5 percent and turnover of 71 663 MSEK (ICA, 2006a).

Today, Swedish grocery chains have developed their retail label offering in the same direction. ICA, for example, offers the product lines, Euro Shopper (standard), ICA (value) and ICA Gott Liv (healthy), with clearly stated levels of calories, fat, sugar, salt and fibers. They also carry organic retail brands, and environmentally friendly washing products. Last, there are specific product lines with food from different parts of the world such as ICA Asia and ICA Italia (ICA, 2006c).

4.5.1 The Cured Meat Category

Interview the 12th of January, 2007, with Niclas Ensäter, Purchasing Manager of Cured Meat & Provisions.

4.5.1.1 Trends in the Cured Meats and Provisions Category

The most evident change in the cured meat counters during the last years has been the introduction of the sliced cured meat products in the late 90s, early 21st century. These products has come in different shapes, from folded in a way very much reminding of the old meat counters, to more modern vacuum packs.

Today however, the most ongoing trend is that of health products. Most brands have some line differentiated to health, Scan has “Må Bra”, ICA has “Gott Liv”, Pastejköket a sport liver pate, even Viktväktarna are associated with a line of cured meat products.

*“The trend of the health products is quite interesting.
The cured meat category usually feels quite ancient –
or has felt so before – there has been falukorv [sausages] and black pudding,
or at most; sausages reminding or foreign products because of the seasoning.”*

Niclas Ensäter (personal communication, 2007-01-12).

Another trend has been the premium products, with higher meat content than the rest in the category. There is a willingness to pay for quality in Sweden today, and this category will probably remain, expand, and evolve new concepts.

As for the manual counters, individual stores who have the customer base to do so might try to build a sort of market-hall feeling into the store. But on a larger scale, the new form of the previous manual counters is to be half or semi manual and carrying centrally packaged products. One tries to restore an original and genuine environment, but in a more modern way, with staffing more focused to give recommendations and advices instead of only selling.

4.5.1.2 The Selection of Products

Since ICA includes a lot of stores run as individual companies, the final decision of the selection of products is up to the particular store manager. But ICA does have category management running on central level – working on giving a complete offering to satisfy the customer needs - and also including analyzing tactics and preparing promotion campaigns. The idea behind using category management is to save the individual store some time and effort buying, and instead let them focus on selling. Using such a support function and focusing on selling has shown to be successful during the latter years. However, the individual store can still opt to carry the products they want, for example; a great deal of stores includes locally produced products in order to make the selection a little more interesting.

The distribution between the different types for cured meat products; retail labels, producer brands sold nationwide and locally produced brand, differ from store to store and region to region. As for retail labels, the willingness to buy retail labels is high. Eight of ten consumers are positive towards retail labels, and they feel that the products match their expectations in terms of the price.

4.5.2 ICA and Retail Labels

Interview the 19th of December, 2006, with Carina Harler, ICA Retail Label Strategist.

ICA's objective with offering retail label products is to broaden the selection of goods available for the customer to choose from. The assortment should include products in different price segments and goods diverse characteristics in order to meet the diverse needs of the customers. There should be products for all kinds of conditions and occasions.

The specific products groups where retail label products have done very well are fruit & vegetables and meat. Within fruit & vegetables there is not many alternatives since the store chains have created the supply chains needed to buy and import from countries around the world – and thus controlling their own supply. As of meat products the “consumer packed” products today is the norm, where it is almost impossible to buy ham or raw meat over counter. Instead the cured meat products are sold in sliced and air tight packages. This way of handling meat products has also increased the best before dates and thus made it possible to carry a wider selection of products, making the offering greater than before.

As of now the increase in health oriented products is the most evident one. More products with various health certifications are entering the market in most products groups, and the range of ecological products has also increased and continues to do so. Harler believes that this increase is not only due to the consumer's personal health, but also a feeling of contributing to something greater, like the regional aspects of locally grown products in near surroundings and the state of the earth.

“The most important thing is a wide range in the selection of products, so that the consumer can get everything from strong producer brands to retail labels worth its prize, to more unique retail labels, to low price retail labels.” Carina Harler (personal communication, 2006-12-19).

ICA has no concrete goals concerning the size of retail label share in relation to sales. The most important objective is to offer a wide selection of goods for the customer to choose from. In addition to that ICA tries to develop retail label products that they feel other supplier lack in their range of products. Then there is the possibility of acting in a broader sense, offering a whole new range of retail labels as they have done with their health oriented product line; “Gott Liv”.

5 Analysis

This chapter contains the authors’ analysis and reflections on the empirical findings, with a focus on answering the research questions in order to fulfilling the purpose of the thesis. During the analysis the previously presented theoretical frame of reference will be utilized.

The analysis will be structured in accordance with the research questions that were stated in the introduction. They are as follows:

- What kind of threats does the increase in retail labels represent for brand producers?
- What does the structure of the cured meat industry look like?
- What strategies have the producer brands in the meat industry adopted to cope with the threat of retail labels?
- How is the future for the producer brands in the meat industry and the market perceived?

5.1 The Threats of Retail Labels

This section of the analysis is dedicated to answering the first research question; what kind of threats does the increase in retail labels represent for brand producers?

As was stated in the background, there has been an increase in retail labels, both in terms of market share and number of labels, in the Swedish cured meat industry. This has led to large consequences, especially for small-and medium sized companies. What are the threats of this proliferation?

5.1.1 Retail Label Differentiation Applied to Producer Brand Generic Strategies

Applying the thoughts of Ossiansson (2004) and the different stages of retail labels by Wileman & Jary (1997) on the retail label product offering of ICA, one can tie the different retail label products lines to the different identity strategies. By then using ICA as an example, the different retail labels could be connected to the notion about perceived retail label threat. Doing this, the intrusion of retail labels could be more visualized. The degree of similarity between the different lines of retail labels and its corresponding equivalent among the local producer brands would tell the intensity of the threat the retail labels might pose

to the producer brands. It is important to note that ICA's brands are only used as an example; the other retailer chains also have labels that uphold similar positions in the market.

5.1.2 Development Stages and Identities of ICA's Retail Labels

The simplest of ICA's retail labels would be the hard discount Euro Shopper brand, which according to Carina Harler (personal communication, 2006-12-19) is produced by a cooperation between nine European retail chains. Euro Shopper is a low-priced product offering a standard product with acceptable quality. Keinwall, did previously produce for an Euro Shopper equivalent label but discontinued due to the lack of interest on their part, not trying to produce decent quality with respect to price. Instead the focus of the brand was to continuously cut costs and thus making it impossible to uphold the level of quality that Keinwall desired. Euro Shopper and equivalents would according to the definitions of Wileman & Jary (1997) be considered as the second step in the five stages of development; cheap store brands.

ICA's own retail chain retail label simply named ICA would be the next level, offering a good quality for a decent price. In terms of Wileman & Jary (1997) it adheres more to the third level of re-engineered low cost retail labels, delivering a functional product for a slightly lower price. The gap between these types of products and producer brands is smaller in terms of both price and quality, but still quite far off.

Last, the most refined and differentiated of their retail labels would be the ICA Gott Liv product line. This should be put in the fourth level of par quality brands among the five stages of Wileman & Jary (1997). Par quality brands are of equal or very close to comparable products, and with a price closer to its corresponding producer brands. These three brands are important in making sure that customers have a range of options to choose from, as was stated by Harler.

By incorporating all these product strategies the retailers' alternative goods approach the producer brand in the most obvious differentiation options. Meaning that next to a great number of goods there is a retailer alternative lying in the counter. From a consumer point of view it might therefore be tempting to switch product when making the final decision in the store, even if this was not planned at all. The sum of this is that the retail labels can exist in the store without the customers really thinking about them, then when it comes down to the decision making on buying a specific product, they can affect the buying behavior on the expense of the more recognized producer brands. Thus, the retail labels can draw benefits from the goodwill of the well-known brands.

The idea behind having such a range of brands is that stores should be able to offer brands that cover the whole demand spectrum. Customers should be able to choose from retail labels and producer brands in most product categories and price classes. However, as was indicated by the managers these retail labels have certainly taken up quite a lot of shelf space, making it harder to market their own products. The competition between producer brands has increased because of this, making the power of retailer over producers is greater than before. With their increasing power over the distribution chain, they are the ones who can set the conditions for the market.

Another negative change due to the increase vertical integration has been the removal of the manual counter. A complete centralization of the distribution has meant that pre-packed meat is now the paradigm for retailers. Stores hardly do the customized cutting of meat anymore and this has led to loss of sales, especially for Börjes Chark.

The increase in retail labels is a new threat to the brand producers, next is a wider analysis of how the industry now is constructed.

5.2 Industry Structure

This section of the analysis is dedicated to answering the second research question; what does the structure of the cured meat industry look like?

This section tries to give an idea of how the Swedish cured meat industry can be looked upon with the help of Porter's Five Forces. The different brand producers are presented in this force analysis as a representation of the typical firm that is subjected to all industry forces.

5.2.1 Threat of Entrants

As Porter (1980) indicates, economies of scale can be a barrier to entry due to the fact that it is difficult and costly for entrants to build up large volumes at once. It is however not necessary to have a large production for manufacturers in the meat industry, it also possible to have a differentiation focus and produce locally. However, ICA, Coop and Axfood all have large centralized production facilities that enable them to reach substantial cost savings. These efficient plants give them a cost advantage over brand producers.

Capital requirement of entry is another barrier stated by Porter (1980). It is hard and involves a great deal of risk to start up a business when heavy investments are required. In the cured meat industry it is necessary to have facilities for the production which are in line with the EU regulations. The producer brands in this report find that the regulation is quite challenging, and Jörgen Keinwall at KJ:s Chark describe the modernization as a continuous struggle, with always having some part of the facilities under reconstruction, still he is proud to meet the standards.

Access to supply or distribution channels constitute an additional obstacle of entry. This barrier has grown larger during recent years. For example ICA has started to engage further in backward integration, as of late buying a slaughterhouse in order to guarantee supplies and secure margins that otherwise would go to the middleman or brand producer. Companies wishing to produce products with only Swedish meat find themselves in an industry where there is a meat shortage, according to Keinwall. If vertical integration continues it might evolve to a threat against the effective market of Swedish meat. In addition, the integration locks out smaller brand producers since the retailers favorites their own retail labels.

According to Porter (1980), another barrier to entry is the customer and supplier loyalty. The distributors of producer brands are wholesalers and supermarkets, and it is easy to conclude that they adapt the range in accordance with the preferences of the consumers. But since they control the market place, they are also able to influence the consumption behavior of consumers. There are many different types of consumers; many of them are just loyal to the price tag, meaning that they buy the cheapest product on the shelves. Those have been a target for the retail labels focusing on price. However, other consumers continue with their old shopping habits because of satisfaction with their producer brand. The key to raising customer loyalty is to differentiate the offering as much as possible. Differentiation leads to high switching cost, meaning that consumers are retained on a much higher level as they have a great deal to lose on switching brand. In the meat industry,

switching costs are not low enough to make it all about prices and not high enough for customers to loose big on switching brand.

In summary, high capital requirements, legal constraints, limited access to distribution channels and are present in the industry. All these factors, give a picture of an industry with a low threat of entrants. It is highly unlikely that new, big actors that can make a difference will enter the market. Small competitors might of course enter, but the market is so mature that it will be hard for them to gain any sizeable market shares from the incumbents.

5.2.2 Threat of Substitutes

According to Porter (1980), there are three different types of substitution; product-for-product, substitution of need and generic substitution. A product-for-product substitute is when a good from another industry gives the same result as the existing product. If one consider the sandwich meat part of the market, there are many substitutes to find. Cheese, caviar and marmalade are examples. On the other extreme we have minced meat, which e.g. would be hard to substitute if the customer is interested in making meatballs for instance. Some parts of the market are thus more sensitive to substitutes than others. However, the price differences need to become very large if this substitution effect is to take place, the difference between cured meat and other industry's products is too great. The second type of substitution that Porter (1980) mentions is the substitution of need. If product-for-product substitution was unlikely to happen, this is even more unlikely. The probability that something would substitute the need for cured meat products would only happen if people generally became vegetarians.

The third type of substitution, generic substitution, can also be considered to be extremely weak. The generic substitution is based around the competition of the disposable income, which in this case means that food would have a lower priority than something else. Taking food into consideration; it would be very unlikely that consumers started to prefer other goods instead of ordinary food. To sum up, the threat of substitutes to cured meat products is exceptionally low.

5.2.3 Bargaining Power of Buyers

The buyers in the cured meat industry are for the most part the end customers, but also the distributing retail chains. There are different circumstances that decide the power of the buyers; the first one stated by Porter (1980) is the concentration of buyers. Few buyers mean that they have large power over their suppliers. Buyers, in reference to consumers of cured meat, are countless and have therefore no real power to influence suppliers. Retailers on the other hand are not as numerous, if you see them from the individual store perspective. However, it is possible for decisions to be taken on the corporate level that would impose constraints on individual stores purchasing, e.g. to deal only with suppliers of a certain quality standard. In that respect, buyers are highly concentrated in the meat market.

Distributors that sell the producer brand products to the consumers are retail chains. Since these chains have many different brands to choose from and are not dependent on any individual producer, there is a major power of the retailers over the brand producers. An indication of this is that the brands producers are dependent on the retailers to carry their products. The brand producers need to influence and promote their products trying to convince the retailers to include them in their range of products. An example of this would be the anecdote told by Christer Gustafsson representing Vaggeryds Chark explaining the

resistance when first trying to convince the store owner that his products were worth trying, a resistance Gustafsson finally succeeded to overcome.

The second factor when it comes to the retailers bargaining power is the switching costs. If switching supplier is associated with large costs for the buyer they lose power. However, for a wholesaler or supermarket that buys cured meat products the switching costs can be seen as insignificant – it all comes down to the consumer demand. Furthermore, as the products that producer brands sell to retailers represent such a small percentage of the total assortment, it is highly unlikely that consumers will change store just because it stops selling a special brand. The producer brands in this report express that this means that most accounts are associated with uncertainty, one have to be prepared to lose a contract at any day. Thus, it is important not to place all eggs in one basket and become too dependent of a single retailer. Vaggeryds as well as KJ:s have lost substantial accounts causing setbacks which have taken some time to recover from.

The last important factor of buying power stated by Porter (1980) is the risk of backward integration. This means that the buyer either starts up production themselves or acquires a production company. Backward integration can be seen within this meat industry as retail labels have entered the market. These product lines represent a major part of the shelf space in the supermarkets, which is something the brand producers in the report complain about. There is too limited space left for producer brands on the shelves, and as for the in store promotion producer brands often generally gets the least attractive shelves in the supermarkets, according to Christer Gustafsson. Furthermore, Börjes Chark has been struck hard by the centralization of the cutting and packaging of meat, which has rendered a much smaller customer base.

To sum up, the bargaining power of buyers is moderate to high. Some of the factors that constitute high buyer power, according to Porter (1980), are not present e.g. standardized products and low profits. However, the most important factors, such as low switching costs and backward integration, are visible and give buyers moderate to high power over the brand producers in the study.

5.2.4 Bargaining Power of Suppliers

The driving forces when it comes to power of the suppliers are very similar to that of the buyers. In the case of the companies in the thesis they have different strategies and starting points when it comes to suppliers. Vaggeryds Chark has chosen to only sell Swedish meat and have to pay a premier price for that. Christer Gustafsson says that their overall strategy is based on having high quality products and they believe that having only Swedish suppliers is a guarantee for that. By cutting down the market of suppliers in this way, the suppliers gain power since the competition decrease when Swedish suppliers do not have to compete with foreign suppliers.

KJ:s Chark has suppliers in Sweden, Denmark, Germany and Brazil. According to Jörgen Keinwall the meat produced in other countries is not of a lower quality, this is just a common misconception among the Swedish population. Choosing this strategy KJ:s gain power since there are more suppliers to choose from when also buying in the foreign markets. However, generally speaking, the meat industry has not got a vastly greater concentration of suppliers than of buyers.

The second factor that determines the bargaining power of the suppliers is the switching costs, which in this industry can be considered to be low. The input to brand producers is

pretty much standardized. Slaughtering and breeding methods are quite similar, which generate similar raw meat. Therefore, manufacturers can change supplier without facing high switching costs.

Forward integration is an important basis for power. Suppliers that can and are looking to move into manufacturing poses a great threat. However, this must be seen as very unlikely in the meat industry. Manufacturing requires very different and costly facilities, as well as skills and capabilities that are not present on the supplier side. Supplier-led acquisitions are a possibility, but it is not very common.

The bargaining power of suppliers can be seen as average. The concentration of suppliers is not greater than the concentration of their customers. Furthermore, switching costs are moderate and the buyers are very important to suppliers. Forward integration is not an issue as well. However, there are no real substitutes available and the input is very important to the buyer.

5.2.5 Competitive Rivalry

The rivalry between the competitors in the industry is often seen as the biggest threat to an individual organization, and the degree of rivalry can be examined by studying five different factors. The first factor stated by Porter (1980) is the extent to which the competitors are in balance; the threat is larger if the competitors are of equal size, because then firms might strive to take the lead in the industry. In the case of an industry where the actors are different in size they have often adapted to the situation, and do not attempt to take another company's position.

The meat industry today it is built up by companies of different sizes. The market is controlled by a few large producers like Sardus and Scan, and then there is a substantial amount of small local producers. But apart from the big actors, retail labels have come to play a major part within the industry through the increased competition in the retail distribution channels.

The second factor that determines the competitive rivalry is the growth rate of the industry. It is easier to grow when the industry is growing as a whole, but in a mature industry, such as the cured meat, one has to take market shares from other companies. The major actors in the market could also grow by expanding their markets internationally, which Pelle Hjalmarsson included in the future strategy of Sardus Chark & Deli. But at the same time the big ones pose as delightful prey for international giants who want to penetrate the Swedish market – when the easiest way to grow is through acquisitions it is a game of eating or to be eaten.

High fixed costs are the third component of competition within the industry, and can result in price wars when companies invest in production units which produce volumes that are larger than the demand. Within the cured meat industry the fixed costs are medium sized. Costs incurred by maintenance of the machinery and other facility related costs are high, while the amount of labor varies depending on the type of production. Jörgen Kleinwall says it is within his strategy to minimize fixed costs, especially when it comes to the size of the organization, therefore KJ:s chooses to produce products which are not labor intensive.

The fourth issue described by Porter (1980) is high exit barriers, which means that leaving the industry might involve costs as the equipment used might be very specialized and thus hard to divest. In the cured meat industry the exit costs can be considered to be of medium

size. High cost can appear when trying to sell the facilities and machinery, because demand might be low.

Differentiation is the last aspect of competitive rivalry. In a market where most products are undifferentiated the customers can pick the cheapest, and this leads to tougher competition among producers. In the cured meat industry there is tough competition among popular products like falukorv, which are supposed to have somewhat the same qualities and flavor regardless of producer. All three; Christer Gustafsson, Thomas Persson and Jörgen Kleinwall, are however suspicious when it comes to the methods used by retail label companies to produce these products, usually sold at a very competitive price. If taking the meat prices into account it is impossible to produce for such low prices, if not changing the content or cutting margins. In general however, the meat products in the industry are highly differentiated and ranges from cheap store brands to premium priced delicatessen. In this respect, competitive rivalry is not very intense when products are differentiated.

The intensity of rivalry among the competitors in the cured meat industry can be considered to be moderate. A slow market growth coupled with medium exit barriers and medium fixed costs intensifies the rivalry among firms while high differentiation and many companies of varying size keep the rivalry restrained. In this mature market, competitors are pretty much set in their ways. The competitive rivalry among different companies of varying size in the industry is moderate; there is no dramatic struggle for market shares. Smaller companies are not trying to challenge the bigger one like Sardus and Scan. However, within certain groups of companies in the industry there is a much more intense struggle. These groups are called strategic groups and they will be covered in the next section after the strategies of the companies within these groups has been described.

5.3 Strategies Against Retail Labels

This section of the analysis is dedicated to answering the third research question; what strategies have the producer brands in the meat industry adopted to cope with the threat of retail labels?

As shown in earlier parts of the thesis there has been an emerging threat from retail brands. In order to fight back, strategies have to be put into action by the producer brands. Generic strategies, by Porter (1980), provide basic information about the companies' strategies. Strategic options by Hoch (1996) will complement these generic strategies. By combining these two, it will be possible to create strategic groups in accordance with the generic as well as the specialized strategies.

5.3.1 Vaggeryds Chark

So what strategies have the different producer brands developed? The first company in the report is Vaggeryds Chark. In terms of generic strategies, by Porter (1980), it is uncomplicated to conclude that Vaggeryds has a strong differentiation strategy, where the extra value for the consumer is the products fine quality. The high quality cured meat products is produced no matter if retail price will become the highest in the product category. It all comes down to enlighten the customers what the extra value received for that higher price represents.

If it was uncomplicated to apply generic strategies to Vaggeryds Chark, it is not any harder to apply Hoch's (1996) strategic options for producer brands as it is very clear. By increasing the distance from retail labels the brand producer can, according to Hoch, improve the

perceived value of its products. This can either be done by having packaging out of the ordinary or by higher quality production. Vaggeryds have chosen this strategy, which implies that, the company increases the difference from retail labels. The distance between Vaggeryds and retail labels can be seen in quality as well as in the augmented product offering.

However, Vaggeryds quality focus is not only one of producing high priced quality products – their intention of being a premium brand can be seen throughout the organization, especially looking at their production facilities. The facilities in which the production takes place are very modern with machinery that is top of the line.

Ultimately, Vaggeryds stand as a solid local quality producer, and while cultivating this strive throughout the company; they manage to differentiate themselves to a point where they for the time being probably should feel safe, at least from the aspect of product imitation. What remains is the continuing battle for an ever increasing market share. But if an increase in the interest for food will transform in an over all interest in fine cured meat products – then Vaggeryds should have the means to succeed to continue in their growth.

5.3.2 Börjes Chark

Börjes Chark is more difficult to position in terms of their generic strategy; with their diverse business. It is fair to say that Börjes production has a less of a thought through strategy, probably they neither possess the ambition nor the financial means to invest in reformulating their business plan, trying to regain what they have lost in the restructuring of the cured meat industry. In order to improve their standing they would need to seek new ways; meet the new type of demand in the market.

If one is to position Börjes Chark according to Porter's (1980) generic strategies, it can be concluded that Börjes strategy has implemented a focused differentiation strategy. It is focused because they only market their products to a limited geographical area. It is easier to apply Hoch (1996) to Börjes, because it is a clear case of *wait-and-see*. This strategy means that one continues to do business as usual regardless of the retail label invasion and it is exactly what Börjes Chark has done. The company continues to produce the same products in hope that their market will regain strength. And there are some signs of a better future because more and more supermarkets start to reinstate their manual counters, which is positive news for Börjes who specializes in selling cured meat products for manual counters. A strategy like this one might be appreciated by the loyal consumers who still want what they have always bought and Thommy Persson from Börjes have heard people say that they also want to have the manual counters back.

However, there is an apparent risk with not developing one's strategy when the business environment is changing, which is the risk of fading out. What might seem to be a secure path, postponing the strategic change to meet the new environment, is not a good long term solution since the risk of fading out is worse than acting and then having to adjust the strategy incrementally.

Reasons for choosing a strategy like this can be many. One is the belief that retail label production is just an ongoing trend that will fade away, and that the demand will sooner or later go back to normal. It can also be an over-belief in one's own products - that they will stand the competition from new products with an updated and focused strategy. Last, it could be that the management is too production focused and forget to analyze the current state of the market. Börjes Chark probably belongs to the latter.

A more active effort in building a brand identity could differentiate their products further instead of more or less hoping that the wind soon will change for the better.

5.3.3 KJ:s Chark

KJ:s generic strategy is situated somewhere between differentiation and cost leadership. When it comes to the production, costs are kept low by having a slim organization and producing products which are not labor intensive. However, KJ:s differentiate itself by producing special products with for example wine flavor and also by creating a new brand which Jörgen Kleinwall has high hopes for. It is also fair to say that KJ:s differentiate from the no-frills retail labels by having a somewhat higher quality of the products.

The increase in product quality should stretch as long as it motivates the higher costs, but the products should for that sake not be plain and ordinary. Doing so, KJ:s differentiates itself by combining decent pricing with quality worth its price while producing products which no other company produces, like roast beef flavored with wine. Thus, they seek to provide additional value for its customers than other comparable mainstream products in the price range do.

The most interesting part of KJ:s generics strategies however, is the quite brilliant idea of uniting the two production units by letting them produce products marketed as the new brand *Småländska Charkeprodukter*. Automatically, this brand incorporates both the regional connection and includes the preconceived opinion of the region being economic, and KJ:s manages to strengthen its corporate brand through its product offering.

In terms of Hoch's (1996), the strategies of KJ:s fit in with the *reduce the price level*-strategy. Trying to reduce the price gap might be a successful strategy if one can succeed in maintaining the brand reputation. All people want to do good deals when they are spending money, and thus search for products which give great value for money. Like before, the crucial part is to communicate the brand value and its advantages to the customers. But, there is also a danger in reducing the price gap to retail labels. Retailer might react strongly and take action against this brand since it can be seen as a threat. Such actions can be to give the brand very unfavorable shelf positions, where customers hardly look, or simply take away the brand all together. From previous discussions, it is also clear that stores wish to give customers a fair range of options within each product group and price segment. But if they feel that KJ:s brand is too similar to other products they might see no need for keeping it.

5.3.4 Generic Strategies of Others in the Industry

In order to put the brand producers generic strategies in perspective, the strategies of Sardus Chark & Deli and the retailers is also presented.

Sardus Chark & Deli is based on a clear cost leadership strategy and that can be said for the other major players in the meat market as well, both Pärson and Scan follows this strategy. For Sardus Chark & Deli this means a focus on driving down unit costs as the volumes are great. Furthermore, their strategy towards retail labels is different from the three brand producers. They have chosen to produce retail labels in order to deal with excess capacity. The implications of this can be grave as they might become too dependent on the revenues this part of their business provides them with. If they were to loose the contract, it could be impossible to replace this loss in the short term. Furthermore, this production can cannibalize on their own products, by requiring resources and skills needed elsewhere. Sardus

Chark & Deli need to scrutinize this deal on a regular basis and weigh the pros and cons of continued retail label production.

ICA and the other retailers also have a cost leadership strategy, even more established than Sardus Chark & Deli. Centralized production and a huge volume have enabled ICA to develop a cost leadership that primarily is evident by looking at their low prices. The same goes for Willy's, Hemköp and Coop as well. When groups of companies within an industry compete with similar strategies they are considered to be in the same strategic group. Next is a view of how the industry is divided into these groups.

5.3.5 Strategic Group Analysis

With the gathered analysis about the generic strategies and the special strategies against the retail labels it is now possible to use that information, when placing the producer brands in strategic groups in accordance with the strategies outlined above. The companies have been placed in strategic groups as can be seen below. This means that they are direct competitors and fight for the same customers.

Cost base, in the figure relates to the cost leadership of the generic strategies. Having a low cost base should here be interpreted as through economies of scale or slim and efficient operations being able to manufacture products at low cost. This should not be interpreted as having a low price strategy although many cost leadership companies combine these two.

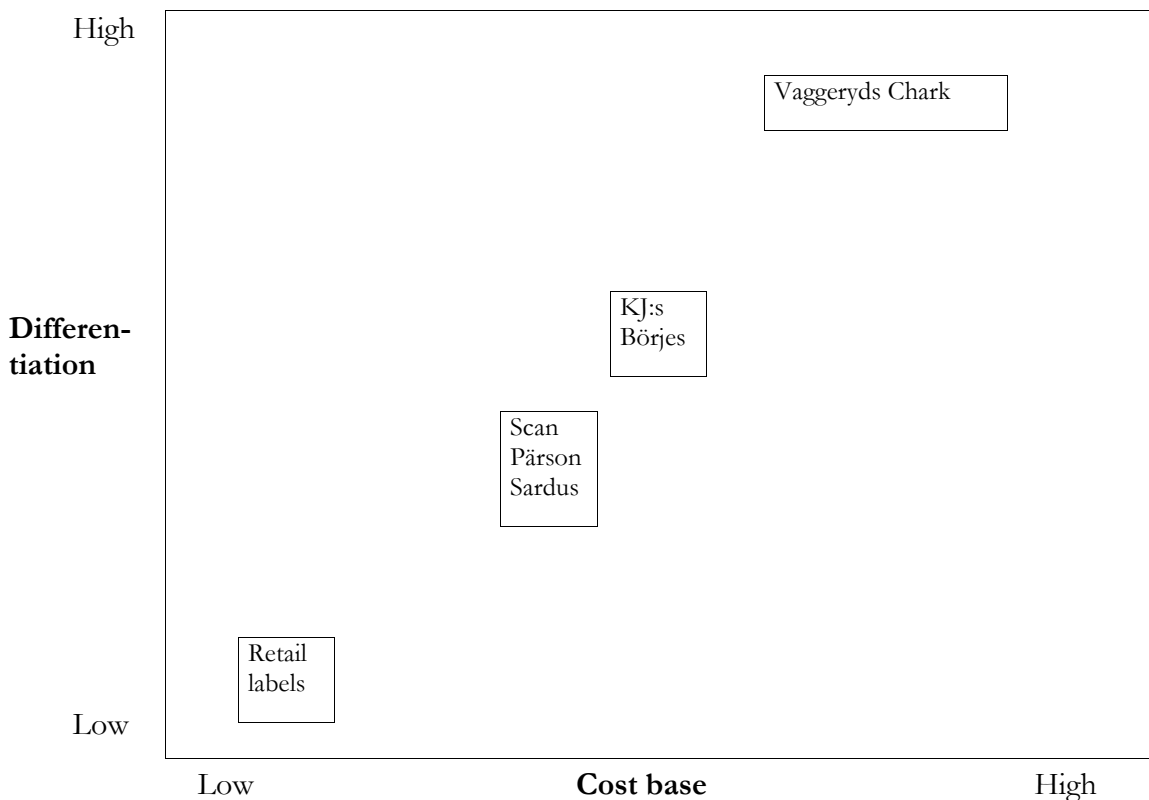


Figure 5-1 Swedish Cured Meat Producers Plotted Into Strategic Groups

The authors own figure

The mainstream retail labels are easy to plot in a strategic group analysis. The objectives with retail labels have been to cut prices as much as possible. However, this has also led to a fairly low differentiation. Consumers are only after price and could choose any other brand if prices only were the same. The cost base is low as they are able to have low unit costs through economies of scale. Observe that retail labels can not compete directly with each other as a chain's labels are not sold in another chains' stores.

A second group consists of companies like Scan and Sardus, which are big producer brands that also produce retail label products for the supermarkets. The thing that is special for these companies' brands is that they are priced a bit higher than the retail label products, but far lower than the premium brands. The differentiation is important for these brands. They offer a perceived value which is greater than retail labels but lower than producer brands. The cost base is low, but not as low as for retail labels. The second group also experience economies of scale, but as the retailers have greater centralization they are able to produce at lower costs.

Producer brands that are focused on the local market primarily with a medium price level constitute another group. These companies sell products which often is a bit more differentiated from the previous group and clearly states that they are produced locally. Börjes Chark and KJ:s Chark can be plotted in this group. They are placed in the middle of the cost base dimension because even if they can not reach the same volumes as previous groups, they have focus on having a lean production.

The last strategic group that can be found in the industry is premium priced brands. Vaggeryds Chark is positioned in this group. They have a high cost base as they require a careful processing coupled with high quality raw materials. As such, the differentiation is also substantially higher than other producer brands and retail labels. Therefore, they target other segments of the market as well.

With all of the previous discussions in mind, it is time to end the analysis with a section on the future implications for brand producers.

5.4 The Future

This section of the analysis is dedicated to answering the fourth research question; how is the future for the producer brands in the meat industry and the market perceived?

So far, retail labels have not been found in the premium price segments in food retailing, but this development is not far off. Vaggeryds Chark, KJ:s Chark and Börjes Chark all considered retail labels to mean tough competition but not direct competition. Instead they are primarily fighting with other brand producers for shelf space. However, if the mentioned development of premium priced retail labels would come true it could mean trouble for the producers. KJ:s Chark are closest the retail labels for the moment. An introduction of premium priced retail labels would close the gap more or less. As such, their strategy of reducing the price gap would be rendered ineffectual. The situation would probably be pictured as KJ:s having a decent quality brand with a price difference, to the new premium retail labels, perhaps as low as 5-10 %. If the premium brand is of considerable better quality, why buy decent quality when you only save as little as 5-10 %?

Börjes Chark which has a focused differentiation strategy coupled with a wait-and-see strategy towards retail labels stands on shallow grounds. Being the only company of the three that has really felt the negative changes the increase in retail labels has involved, Bör-

jes is very sensitive to new changes. Basically, it will lead to the same problems as for KJ:s Chark. The main problem for Börjes however is instead the lack of manual counters. As their business previously was so focused towards selling to stores with manual counters it has meant a sharp decline in their sales. Instead of trying to redefine their business they continue to wait and express hopes for positive changes. As these might come in the near future it can mean a surge for Börjes, but this is not guaranteed.

Vaggeryds Chark which has a differentiation strategy that positions them far away from current retail labels would not be threatened as much as the other brand producers. However, the gap between retail labels might become so small that consumers see no point in buying Vaggeryds Chark's product instead of an almost identical retail label. Thus, they will need to entrench themselves deeper into their strategy of increasing the perceived value of their products. Nevertheless, stores are generally not able to keep extreme premium brands on their shelves. These are instead found in delicatessen stores. Thus, it is important to recognize that the perceived value can not be increased beyond a certain point.

How will the brand producers be able to compete effectively in the future then? As Hjalmarsson, of Sardus Chark & Deli, reckons, the most important thing for all producers is continuous product development. It is the key in securing brand uniqueness and efforts should constantly be made to reevaluate the offering. For Vaggeryds Chark, Börjes Chark and KJ:s Chark this is a lesson to take to heart.

6 Conclusion

The retail labels have a substantial amount of power when it comes to influencing the consumer. The retail chains use different methods of hiding the quality difference that often exist between retail label products and the corresponding products from the producer brands. This can be done by imitating the packaging of a strong brand or placing it next to it on the shelves. The shelf space for meat producers has diminished as a result of the increase in retail labels, which has meant tougher competition between producers instead.

As for the state of the cured meat industry, from a producer brand perspective, it is fair to say that the retail chains have a large amount of power by the fact that they are buyers as well as competitors. Backward integration and low switching costs gives buyers (retailers) a dominant position over producers. Furthermore, there are now signs that the vertical integration can continue even more as ICA bought a large slaughterhouse in order to secure its supply of meat. This means that the retailers can control the supply chain even at an earlier stage than the producer brands.

In terms of strategy the retail label have chosen a strategy based on cost leadership, while the producer brands have chosen different degrees of differentiation. The strategies which seem to be most successful are the ones focused on differentiation. The competition among the companies that focus on a cost leadership strategy is tougher, with retail labels and large nationwide producer brands fighting for market shares. It also seems better to have an active strategy against retail labels than being passive.

In terms of the future the producers see the development of premium retail labels as a threat. Retailers will most likely be able to have lower costs and therefore have the opportunity to lower prices, which could mean that consumers would see no point in buying more expensive brands when the difference is small.

7 Discussion

This section will concern conclusions that are of a more a speculative nature. In addition, the strengths and weaknesses of this thesis are discussed along with ideas for future research.

The empirical findings, supported by the industry knowledge, show that even though the Swedish meat industry is going through great changes, it does not follow the same movement all the time. Instead, it seems to be times when market conditions push for standardization while other times for customization. It appears that when the standardization has reached a certain point, consumers get fed up with getting identical meat repeatedly. Instead, they start to value customization and want a large array of choices even if it means paying more. However, after some time consumers want standardization again. This can perhaps be connected with macro-economical changes such as recessions and booms. When the economy is in recession, disposable income for consumers will decrease and they will be looking for bargains. This would call for a demand for standardized products with low prices. In a boom on the other hand, unemployment is low and people can afford to spend more. They start to value quality and products that give more than just fulfilling the basic need. Thus, it is important for retailers and producers to pay close attention to demand, and be flexible to changes.

The authors can distinguish a few weaknesses with this thesis. First, one can question the sample size. Only three small- and medium sized cured meat companies from the region was interviewed. However, this can be justified by the fact that these companies are the only independent cured meat producers to be found in the region presently, except of one that had no time for an interview. Many companies have disappeared over the last decades and some have been merged, as KJ:s Chark was with Ludvig Sörensen AB recently. Another issue is the depth of the empirical findings that were gathered. It is difficult to get companies to open up and talk about issues such as strategy, but of course it is understandable that they are not so keen on revealing this. As a result, the analysis and conclusions are colored by this lack of depth.

The stronger points of this thesis are the clarity and consistency with trying to answer the research questions and thus being able to fulfill the purpose. The research questions are evident throughout the whole thesis.

Future research within the subject matter could perhaps be studies done solely on the specific areas of producer brand facing retail labels. For example areas such as; shelf space management, pricing decisions and supply chain implications of an increase in retail labels.

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Appendix: Interview Guide

The interviews were held in an open and unstructured manner. Although discussion points were prepared, the interviews mostly passed through informal conversations. Thus, the interview guide shall be read as the outline that was prepared before the meetings in order to keep the discussion on the right track during the interview.

The Interviews

Christer Gustafsson, part-owner of Vaggeryds Chark, 2006-10-23.

Held in the premises of Vaggeryds Chark in Vaggeryd. Duration: 75 minutes.

Thommy Persson, part-owner of Börjes Chark, 2006-11-16.

Held in the premises of Börjes Chark in Aneby. Duration: 45 minutes.

Jörgen Keinwall, owner of KJ:s Chark (and Ludvig Sörensen), 2006-12-04.

Held in the premises of Ludvig Sörensen, Sävsjö. Duration: 60 minutes.

Pelle Hjalmarsson, CEO of Sardus Chark & Deli, 2006-12-06.

Held through telephone. Duration 25 minutes.

Carina Harler, Retail Label Strategist at ICA, 2006-12-19.

Held through telephone. Duration 20 minutes.

Niclas Ensäter, “Purchasing Manager of Cured Meat & Provisions at ICA”, 2007-01-12

Held through telephone. Duration 15 minutes.

Discussion Points

The Three Small Brand Producers

About the company

Brief history, number of employees, turnover, and current view of the industry and market?

The cured meat industry

How has the market of convenience goods changed during late years? How has retail labels affected the business so far? Have the conditions of with the retail chains changed? What about the product margins? What about ideas for the future of the company?

Cured meat products

What the view on the different types of products within the product group? Do they different ones pose as a threat? How to you differentiate your products from the well-known ones being a small producer? Is there an explicit strategy towards retail labels? Is it a loyal group of customers who consume your products?

Sardus Chark & Deli

Sardus specifics

Are the smaller production facilities run as own entities or more like production units? Are the smaller brands Sardus Chark & Deli produces sold in their respective regions or nationwide?

Industry change

How would you describe the development in the industry and market during the late years? What the main cause that there are a lot of acquisitions and restructures in the cured meat industry?

Products and market

How are the products distributed? Do you manufacture retail labels? If so, you are not afraid that they will cannibalize on your own products? Is there an advantage in producing retail labels when trying to get ones producer brand products onto the shelves? Is it an advantage to have a wide product offering the get ones producer brands onto the shelves? Do you think that the manual counters are gone for good or will they return in the future? Has the increase in retail labels made producer brands to go for higher quality like delicacies and prepared foods instead – it feels like there has been a large in those kinds of products lately?

ICA: Retail labels

What is ICA's objective with the retail labels – to widen the product offering with cheaper alternatives, or to offer a complete assortment of retail labels throughout the store? What kinds of retail labels has been the most successful? Are there product categories where retail labels have been more successful? What are the main competitors to the different retail labels?

Will the retail label market share continue to grow? Do you have a set goal how large the retail label market share shall become? Is there a risk that the retail label market share increases too much?

ICA: Cured Meat Products

How has the cured meat division in the retail store changed during the latter years? Have consumer packaged goods affected the cured meat product offering? How is the assortment decided? Will the integration of the assortment of ICA increase in the future?

How has the development of the manual meat counters come about – they disappeared, are the on their way back? Will the manual meat counter of the future be any different?