



JÖNKÖPING INTERNATIONAL BUSINESS SCHOOL  
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# **Small and Medium Sized Food Producers - how are they affected by the trading blocs and the distributors' own brands?**

A case study of three SME in the food industry

Bachelor Thesis in Business Administration

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## Bachelor thesis within business administration

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**Background:** The Swedish food industry has changed dramatically during the last decades and to become and remain as a player has become a demanding task for several of the small and medium sized enterprises (SME). The trading blocs have increased the development of their own brand (DOB) and this has given the SME new competition but also the possibility to produce these products for the trading blocs. In addition to this the trading blocs have become more and more centralized and to strengthen their position in negotiations and other aspects which are important for the trading blocs.

**Purpose:** The purpose of this paper is to increase the understanding of how the trading blocs, with their development of their own brand, affect the Swedish small and medium sized producers in the food industry. It is also to look into what kinds of strategies that are used by the SME in order to tackle the competition from the distributors own brands.

**Method:** To fulfill our purpose a qualitative approach has been used for this thesis. Seven different interviews have been done, either by phone or face to face, with the three largest trading blocs and with four the SME in Sweden, three producing and one distributing company.

**Conclusion:** The focus on low prices and the trading blocs' stronger, central position on the market have made the competition more intense. To be or remain as a player on the market it is important for the SME to be a supplier to the trading blocs. However, since there are many players striving to become a supplier it is a tough situation and the price becomes an important factor. The trading blocs want low prices and keep pushing the suppliers to keep them low, or even lower them. This price focus is a major issue for the SME, and the DOB have become an important mean for the trading blocs to keep prices low. Due to scenarios like this it is very important for the SME to have strategies in place and the most common and most efficient is the bypass and flanking attack strategies. These two strategies are intense and keep the SME alert when it comes to product development and new innovations.

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# 1 Introduction

The Swedish Food industry is an issue of immediate interest and it is of concern for all people since we are all consumers. The changes in this market over the last decades have influenced all actors; producer, distributors, retailers and consumers. The focus of this study is how small and medium sized producers are affected by the trading blocs and the distributors' own brands. In this section the industry situation and the issue will be presented and the purpose and the research questions will be stated.

## 1.1 Background

The food industry in Sweden has become more concentrated during the last decades and is mainly ruled by three trading blocs, ICA, Coop and Axfood. Together these trading blocs control about 65% of the Swedish food distribution (ICA AB, 2006, Coop Sverige, 2006, Axfood AB, 2006), thus they have a dominant position in this industry.

The grocery stores belonging to the different trading blocs are independent to different degrees to determine what products to keep in the stores. However, the trading blocs have central purchasing centers, handling negotiations and the major communication with the suppliers. Through this central purchasing center larger quantities can be bought and thus forcing the prices down. This might be a more efficient way of doing businesses however it also affects the possibility for new producers to enter the market. Due to this centralized purchasing, smaller producers might become shut out from the trading blocs due to their limited capacity and, as mentioned, hampering the entrance of new producers since the trading blocs are vital customers in the food industry. The products might not be able to enter the assortment of the blocs, or will be removed, since they might not be able to pass the central requirements of the trading blocs (Konkurrensverket, 2000).

In addition to this increased centralized control, the trading blocs have increased the development of their own brands, strengthen their power even more. Managing brands are usually seen as the producers' task. A strong brand has brand equity (high loyalty, name awareness, perceived quality) which gives the producer some advantages since customers expect the brand to be found in most, if not all stores (Kotler, Armstrong, Saunders & Wong, 2001). This kind of advantage can provide the producer with bargaining power and a favorable position at negotiations. However, it appears as if the trading blocs are trying to decrease this strong position of the producers by creating their own brands (Konkurrensverket, 2002). This has led to a more intensive development of the distributors' own brands (DOB). The development of DOB in Sweden did not take off until some years later compared to Europe where it started in the 1980s (Håkansson, 2000). The reason for this, as argued by Anselmsson & Johansson (2006) was probably the Swedish consumer loyalty to the producers' brands.

There are different views concerning the DOB; positive and negative aspects. ICA, Coop and Axfood are positive towards the increase of DOB. An argument often mentioned in the discussion concerning DOB is the increased profitability for the trading blocs and the strengthening of their position on the market (Anselmsson & Johansson, 2006). The DOB is also seen as a weapon with which the trading blocs can differentiate themselves from each other and strengthen their own brand. It could also be argued, as mentioned by Anselmsson & Johansson (2006), that the DOB increase the choices for the consumers and that the prices of the DOB are lower than other products. Another positive aspect of

this is that the DOB can also be developed where additional products could be welcomed due to lack of substitutes or perhaps to fulfill a gap in the market with a totally new product.

Even though increased competition is not always a bad feature, from a producer's perspective, the increased competition coming from the DOB could very well be a negative aspect of increased competition. With more products on the markets the competition becomes more intense (Anselmsson & Johansson, 2006). However, there are positive aspects from a producer's view as well. Producers can take advantages of the DOB by, for example, using excess capacity to produce DOB for the trading blocs. This could be a good way of earning extra money to cover fixed production costs.

Today the amount of DOB is approximately 15% in the Swedish food industry (Kungl. Skogs- och Lantbruksakademiens Tidskrift, 2005) and the three trading blocs discussed are all planning to increase their share of DOB during the coming years (Brulin, 2006). The fact that the trading blocs are striving for a larger proportion of the shelf space it gives the impression that the range of products from the small and medium sized enterprises (SME) will decrease. This might perhaps lead to a decrease in the number of SME as well. This would have a negative impact on the Swedish economy since SME have an important contribution to it. About 99% of Sweden's businesses are SME (Företagarna, 2006). However, SME can join the bidding for producing DOB and, if selected, continue to operate and avoid liquidation causing a beneficial situation for all involved, the SME and its employees, the trading bloc and the economy, an additional positive aspect of DOB.

## 1.2 Problem Discussion

The centralization in the food industry has decreased the number of buyers, causing an increased power to the existing ones, in particular to the trading blocs (ICA, Coop and Axfood). As the trading blocs have strengthened their position and bargaining power the SME have become more dependent on these and forced to "play by the rules" of the trading blocs. Due to this dependency of the SME, the possible loss of contract(s) with the trading bloc(s) could be very damaging for the company. This raises an interesting issue concerning the situation in the food industry.

As the proportion of distributors' own brands (DOB) in the three major trading blocs has increased during the last decades, the trading blocs have created an additional way of strengthening their power towards the suppliers. The trading blocs have put themselves in a position where they no longer only represent the distribution channels but also have the role of a competitor to the SME. As a result of the trading blocs' increasing amount of DOB, the need for a large variety of suppliers might be diminishing. As the trading blocs develop different range of products under their own brand it is enough for them to have two-three external suppliers. The external supplier(s) selected is most often the leader in each product category and thus the SME are easily neglected. This leads to a worrying scenario of a decreased amount of SME in the food industry due to these developments of the trading blocs.

Some argues that there are positive effects of the increased development of DOB for the SME. Nevertheless, it seems as if the SME themselves are skeptical towards this idea. It is obvious that SME are affected by the development in the industry, but the interesting issue is *how* and *why* the DOB affect the SME. An interesting issue concerns the actions taken by SME to handle the effects caused by the DOB. The first impression is that the SME need

to defend themselves against the trading blocs and their DOB, however there are clearly several different actions to take, and the interesting issue is to find out what kind of action that is most effective or commonly used.

The continuous strengthening of the trading blocs' power and development of DOB affects the entire food industry. How these affects are perceived depends on from which perspective one views, however these affects of the food industry is an interesting topic that matters for each and everyone in the Swedish population

### 1.3 Research Questions

The discussion above can be summarized in the following research questions which will form the foundation of the thesis.

- Which are the main sources of competition in the food industry?
- Is the intensiveness of the competition a threat for survival of the SME?
- Who has the bargaining power and how is it used?
- Is the threat of substitutes from competitors and DOB a major issue for the SME?
- What strategies are used by the SME and are these successful against the DOB?

### 1.4 Purpose

The purpose of this thesis is to study, from the producers' perspective, *how* the trading blocs and their DOB affect Swedish small and medium sized producers in the food industry and what strategies these producers use to handle these affects and competition.

### 1.5 Delimitation

Quite often when DOB is being discussed it is from a consumer perspective. However, this thesis will focus on the suppliers/producers perspective and thus not consider the consumers' perception or benefit of DOB. The trading blocs' perspective will be included to make the discussion fairer and less biased. Nevertheless, this study will not discuss the trading blocs' argument for and views of the DOB in depth.

### 1.6 Definitions

There are several fundamental concepts used through out the thesis. To facilitate the reading, the main ones will be defined and an explanation of how these concepts are interpreted and made use of will be presented in this section.

**Food industry:** “an industry is a group of firms producing the same principle product” (Johnson, Scholes & Whittington, 2005). However, when the concept is used in this thesis it refers to all parties involved in producing (SME) and distributing (ICA, Coop and Axfood) food (groceries) to the consumers.

**Trading bloc:** stores operating under one or several business concepts and cooperate through central purchasing-, market- and concept-organization. The stores can be owned privately, by a wholesaler or by a co-operation. When the concept “trading bloc” is used it refers to the central organization (of ICA, Coop and Axfood) and “store” refers to the individual grocery store.

**SME** (Small and Medium sized Enterprises): There are no single definitions of small and medium sized businesses. In some industries it might be most appropriate to define size by the annual turnover while in others it is more appropriate to use the number of employees. In addition to this, a small business in one industry might be a medium, or even large, business in another (Brooksbank, 2000). However, the definition used in this thesis is the definition provided by the European Commission:

*“The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million” (Art. 2 p.1, s. 39)*

When the abridgement SME is used it refers to the producers in the food industry, thus the suppliers to the trading blocs and the stores.

**DOB** (Distributors’ Own Brands): This concept is also referred to as private label, own brand, retailer brand and wholesaler brand to mention some synonymous. According to Kotler et al. (2001) a brand is

*“a name, term, sign, symbol, or design, or a combination of these, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors” (Kotler et al., 2001, p. 469)*

This definition is certainly appropriate when referring to legal protection, but a brand may include more functions. In addition to the means of recognition (name, sign, symbols etc) the associations that the consumers have with the brand ought to be taken in to consideration (Håkansson, 2000). Distributor Own Brand (DOB) is thus brands with the legal right reserved to the distributor (retailer) itself. ICA, Coop X-tra, Signum and Hemköp are some example of common DOB in the Swedish food industry.

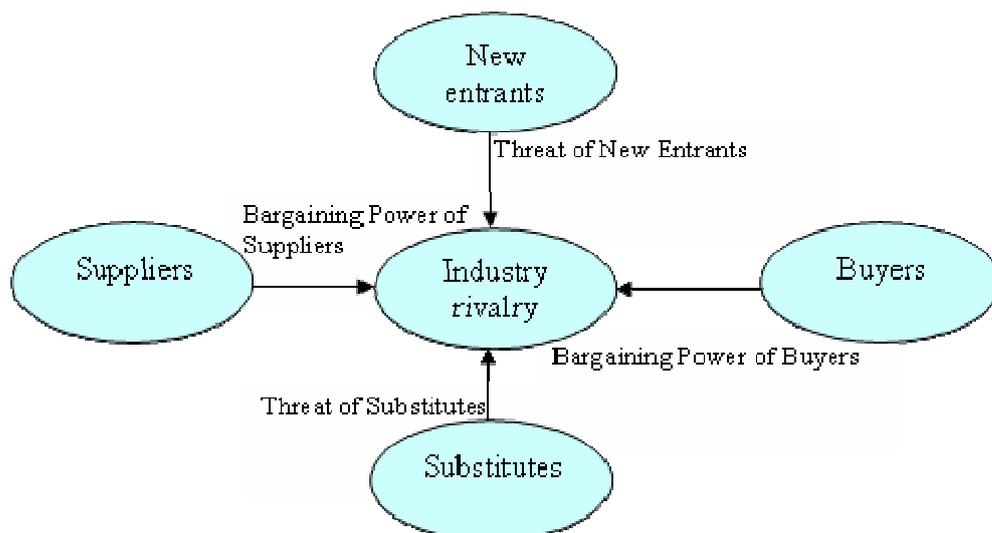
## 2 Theoretical Framework

When doing research on the DOB and their effects on the SME some key variables have to be explored to get a more precise view. Porter's Five Forces Framework is a commonly used model that is practical when aiming to gain insight into an industry. The model covers five factors which influence the actors and the situation in the particular industry. There are researchers that argue that Porter's work is outdated due to the digital changes and these thoughts will be presented and explained. Resource based view scientists have some critique toward some of Porter's forces and a discussion about this critique and their comments to his framework will also be presented. An understanding of the industry is important to be able to develop an appropriate strategy. The choice of strategy is an essential decision since the strategy has a large impact on the company's actions and future. The most relevant strategies for this thesis are the Attack Strategies and the Strategic Options for the National Brand. These strategies will be presented and explained in the second part of this section.

The research questions were the guidelines for choosing the above discussed theories. The theoretical framework is a key component when answering the research questions and fulfilling the purpose in the analysis. The analysis section is where the empirical findings will be analyzed with the assistance of Porter's five forces frameworks and the above mentioned strategies. This will eventually lead to the conclusion with the research questions as starting point.

### 2.1 Five Forces Framework

The Five Forces Framework was developed by Porter and has since been modified and criticized by several researchers with different views of this matter. The forces go beyond the competitors that exist on the market and look more into the attractiveness of the industry.



Model 1: Porter's Five Forces Framework, Porter 1980.

## **Threat of New Entrants**

New entrants affect the current situation in an industry. The actors and the competition get influenced by this since they are all competing for market shares. As new actors enter the industry the profitability is likely to diminish as the actors start to fight for the existing resources and customers (Porter, 1980).

There are different levels of threats to the different industries; if the level is low then the barriers to enter are strong and if the level is high then the barriers to enter are weak. However, according to Porter (1998) there are six main barriers to enter an industry and these are:

- Economies of Scale
- Product differentiation
- Capital requirements
- Cost disadvantages independent of size
- Access to distribution channels
- Government policy

## **Threat of Substitutes**

According to Porter (1980) a substitute is a product which performs the same or equal functions as the original. The substituting products satisfy the same needs and demands of the customers, such as popcorn and chips. Within the industry the substituting products set a price ceiling which affects the profit both in recession times and in times of boom. (Porter, 1980) When the competition becomes more intense, the substitutes increase in development and importance (Porter, 1998).

## **Bargaining Power of Buyers**

The buyers have bargaining power when they can affect the supplier's situation, by influencing the price setting, quality and services (Porter, 1980). According to Porter (1998) bargaining power can be held by end consumers but also by other businesses, such as wholesalers and retailers, purchasing goods and services. Since this thesis study the bargaining power among organizations it will focus on the latter. Porter has stated that:

*“Retailers can gain significant bargaining power over manufacturers when they can influence consumers’ purchasing decisions...Wholesalers can gain bargaining power, similarly, if they can influence the purchasing decisions of retailers or other firms to which they sell.”*  
(Porter, 1980, p. 26)

Bargaining power of buyers can be gained if one of the following situations, as mentioned by Porter (1980), occurs:

- Purchases are a large volume relative to seller sales
- The products are standard or undifferentiated
- Few switching costs

- Buyers pose a credible threat of backward integration
- The product is unimportant to the quality of the buyers' products or services
- The buyer has full information

### **Bargaining Power of Suppliers**

Bargaining power of supplier exists when the supplier is not dependent of a few large buyers, but rather the buyers are dependent on and affected by the supplier. The supplier can take advantage of the situation "by threatening to raise prices or reduce the quality of purchased goods or services" (Porter, 1980, p.27). Suppliers with bargaining power can squeeze profit from some of the buyers since they have a powerful position (Porter, 1998). Porter (1980) points out that the situations resulting in bargaining power of suppliers mirror those of the buyers, a few are mentioned below:

- There are only a few supplying companies
- The buyer is not an important customers of the supplier
- The suppliers' product is an important input to the buyer's business
- Products are differentiated
- Switching costs are high
- Suppliers pose a credible threat of forward integration

### **Industry Rivalry**

Competition and rivalry in an industry are affected by several factors, such as the fight for customers, resources, market shares etc. According to Porter (1998) rivalry takes place when there is pressure or opportunity to improve ones position within the industry. Businesses are mutually dependent; hence an action taken affects the competitors and may trigger moves by the competitors to offset the outcome of the action (Porter, 1980). The circumstances in an industry form a foundation for the industry rivalry. Below are a few circumstances mentioned by Porter (1980):

- Numerous or equally balanced competitors
- Slow industry growth
- High fixed or storage costs
- Lack of differentiation
- Lack of switching costs
- High exit barriers

### 2.1.1 Perspective on the Five Forces Framework

Porter's five forces framework is commonly used and discussed and that has led to that many researchers have used the model have found some flaws over the years. Since the model was created in the early eighties some of the characteristics can be seen as obsolete. During the 1990s the internet had its breakthrough and enabled companies and people to find information and to do more research. The growth of the internet and of various e-business applications has strongly influenced nearly all industries. Larry Downes (1998) argues that there are three new forces that are very important during this new age which also ought to be considered when analyzing the industry. Those are digitalization, globalization, and deregulation.

- **Digitalization:** As information technology increases, all companies in a market will have access to a lot more information than they had just a few years ago. With the introduction of the internet even companies outside the industry became able to compete on a market due to increased shopping over the internet.
- **Globalization:** Improvements in distribution logistics and communications have permitted practically all businesses to buy, sell and work together on a global level and end users or customers have the opportunity to shop and compare prices globally. Today competitive advantages emerge from the ability to develop long-term relationships to more mobile customers and to manage extensive networks of partners for reciprocated advantage.
- **Deregulation:** During the past decade a dramatic shrinking of government pressure in many industries like airline, communications, utilities and banking has taken place in the US and in Europe. With the new opportunities, developed from information technology, organizations in these industries were able and required to completely reorganize their way of doing businesses and to look for alternatives.

Downes summarizes that the role of information technology is the foremost difference between what he calls the "Porter world" and the new world with the new forces. The old economy used IT as a tool for implementing change; today technology has become the most important driver for change.

### 2.1.2 Criticisms towards Porter's Five Forces

Recently there have been recognitions that the five forces framework and the resources based view are actually the two sides of the same coin. They actually complement each other when it comes to explaining the performance of a firm (Wernerfelt, 1984). However, Porter's five forces framework is not without criticisms and resource based view scholars are common critics among others. There exist some differences when it comes to the perspectives of the forces and the resource based view. First of all, according to the five forces a firm is defined as a bundle of activities whilst for the resource-based a firm is defined as a bundle of unique resources. The critique in this case is on the definition of a firm where the uniqueness is not mentioned in Porter's framework. Secondly Porter's view focuses much on the environment – performance relationship, with little emphasis on the individual firm characteristics of the performance. The resource based view scholars are critical to this view since they place emphasis on the relationship between a firm's internal characteristics and performance. Porter's framework does not take into consideration the relationship between the internal characteristics and the performance but rather the industry and the environment that the firm is operating in. According to Spanos and Lioukas (2001) Porter uses the assumption that all firms are homogenous when it comes to strategically

relevant resources, while the resources based view assumes that the firms are heterogeneous both when it comes to resources and capabilities that are need and used. The resources based view places heavy emphasis on the individual firm in contrast to Porter who views resources as valuable themselves and are the driving forces in the choice of strategy. Porter argues that the industry is the primary drive in the strategic decisions rather than by the unique resources and capabilities of the organization (Spanos and Lioukas, 2001). The critic made by the scholars is that resource based view does not agree that all firms are homogeneous and therefore do not relay on Porter's work.

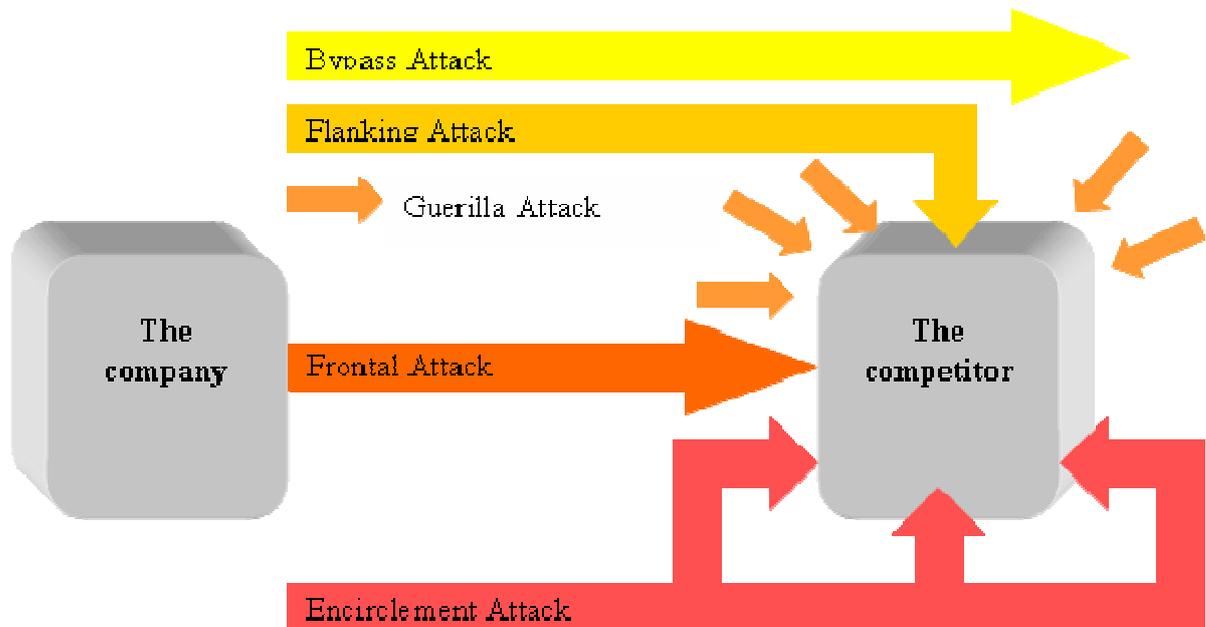
The reason for why Porter's five forces frameworks is chosen, among others, for this thesis is because the forces are relevant for analyzing the industry and the competitiveness among the actors. This theory is practical when analyzing several of the research questions concerning competition, bargaining power and substitutes. In our case we will place emphasis on three forces; bargaining power of buyer and suppliers and threat of substitute, which fit our purpose and research questions the best. Even though this theory has been criticized we are still going to use it since we believe it is a suitable theory with regards to our purpose. The three major parts of the theory that are going to be used are appropriate in our case and have not been the center of attention when it comes to criticism on this theory.

## **2.2 Strategy**

The industry is important to understand and consider when developing a well functioning strategy that is appropriate for a certain situation and the company's specific objectives. Liljedahl (2001) claims that if there were no competition on the market then there would not be any need for strategy. The long-term goal with a strategy is to find a position that is easy to defend. The Attack Strategies and the Strategic Options for the National Brand will be presented in the following section. These strategies will be analyzed in the analysis, section five, in relation to the empirical findings to answer the research question (concerning strategy) that will enable us to fulfill the purpose of the thesis.

### **2.2.1 Attack Strategies**

Kotler and Singh (1981) claim that in the business world the actors are able to choose the competitors, therefore the action of choosing the right attack strategy is very important. The objective for the strategy may differ and the strategies to achieve an objective can differ as well. There are, according to Liljedahl (2001), five different kinds of attack strategies which are useful for the aggressive goal oriented market challenger, but they are also useful for the business when trying to strengthen its present market position. The five major attack strategies are *frontal*, *flanking*, *encirclement*, *bypass* and *guerrilla*. When the opponent, or opponents, is chosen then the strategy with the best suitable qualities and different consequences is decided upon (Liljedahl, 2001).



Model 2: Modified model of the Attack Strategies

### 2.2.1.1 Frontal Attack

The *frontal attack* means attacking the strengths of the opponent. The attack is straight forward, using one's own strength towards the competitor's strength, and the "winner" is the one with the longest endurance and the most strength. This strategy, according to Gupta and Govindarajan (2000), assumes that the challenger has a competitive advantage against the opponent to be able to win the battle. This strategy is good for the market challenger who has strong resources in comparison to the opponent. Liljedahl (2001) points out that the challenger needs to have better products, lower costs and more capital since the confrontation is done product by product, price by price and campaign by campaign since both actors are targeting the same customers. Thereby this strategy could be very costly and dangerous if the challenger does not have enough resources and strength, it could even be suicidal as Gupta and Govindarajan (2000) expressed it. The aim with this strategy is to gain market shares from the opponent. This is a high-risk strategy but it also has the potential to be high-payoff if it is successfully carried through (Kotler and Singh, 1981).

### 2.2.1.2 Flanking Attack

This strategy can be seen as "the line of least expectations" which Alexander the Great used to achieve his greatest victory and become the king of kings when he defeated the Persians 2000 years ago (Ries and Trout, 1986). The *flanking attack strategy* is not suitable for the rich but for the wise, and it is all about concentrating on one's strengths against the competitor's weakness(es). Since the competitor is strongest where it expects to be attacked, it could be a good move to attack when and where it would be unexpected – its weakness(es). The challenger is looking for a lacking part in the competitor's defense and attacks its most fragile point (Liljedahl, 2001). The flanking movement is a bold movement and requires a lot of planning, day by day, hour by hour. This attack can be done in two dimensions – geographical or segmental. The first of the two attacks is where the competitor is being challenged in the geographical area where he or she is not performing at its highest level. The other dimension, segmental attack, is potentially more powerful and it is concerned with noticing the market needs that is not already covered by the competitor

(Kotler and Singh 1981). With this strategy the challenger is looking for areas where there are little or no offers to the customers and then find new areas and demands which someone else is not satisfying good enough. Kotler and Singh (1981) argue that the flanking attack always makes sense and in particular when the challenger has fewer resources than the competitor.

The most important with this strategy, according to Liljedahl (2001), is the element of surprise of the attack; on a place, at a time and in a way that the competitor is not prepared for. But the follow up chase is just as important as the attack; the opponent must follow quickly and as far as possible at the same time as the attacker has to protect himself from attacks from others. According to Ries and Trout (1986) the key to victory is flexibility - the ability to shift your forces rapidly to where it is needed. Liljedahl (2001) argues that nothing is free of risk in the area of market strategy, neither is the flanking attack. However, this attack has better chances of survival and success than the frontal attack due to the fact that there is a time lag before the competitor realizes that an attack is being/has been launched against him or her. However, there is a chance that the strategy is not paying off the way it was planned to, in the worst case this strategy can lead to waste of time and money. Liljedahl (2001) claims that this strategy is a typical entrance strategy since this is mostly used when there are not enough dominant resources to attack the market leader and when the entrance is done the strategy can gradual changing into a frontal attack. This strategy is not as costly and not as risky as frontal attacking.

### **2.2.1.3 Encirclement Strategy**

With the *encirclement attacking strategy* the challenger has to go into the competitor's territory and attack. The aim with the strategy is to attack on many different areas, the front, the sides and the rear, to make the opponent loose track of its recourses. The thought here is "everything that the competitor can do, we can do better" (Liljedahl, 2001, p. 178). This strategy makes it difficult for the opponent to keep track of the whole organization since several different areas are being attacked at the same time. Kotler and Singh(1981) argue that it make sense to perform this strategy when the challenger has superior resources and believes that the strategic action will succeed. The challenger may offer the market everything that the competitor is offering and even more to make the offer irresistible. The strategy is usually product- or market based. Product based means that the challenges is trying to crush the opponent by offering better quality, cheaper or more expensive, a larger variety of sizes, and differentiated products to satisfy a larger range of customers. This is all about stretching the product line. Market based encirclement attack means that almost every market segment is being attacked by the challenger, one way to do this is to use different distribution channels. According to Liljedahl (2001) this strategy can be the second step after the flanking attack, and this attack requires that the challenger has strong resources and needs to be in the forefront when it comes to product innovation and continuously working with stretching the product line. It is very time consuming and resource demanding, in addition it is not free of risk.

### **2.2.1.4 Bypass Attack**

The fourth strategy, the *bypass attack*, is a strategy where the challenger is doing everything to avoid a direct confrontation with the "enemy". This is an indirect strategy since the challenger does not have a strong and useful advantage against the competitor and the challenger is concerned with bypassing the opponent to widen its resource base (Kotler and Singh, 1981). Liljedahl (2001) argues that this is a strategy which focuses more on the future, with the question in mind "what will the future look like?", and the strategy is based

upon this thought. Markets which are already dominated is being avoided and the challenger looks for a more diversified market or new geographical area (Kotler et al., 2001). However, this means that the challenger has to be at the forefront of research and development and go for products that are demanded in the future. Liljedahl (2001) claims that diversifying is always risky and requires in-depth knowledge about the market to be successful.

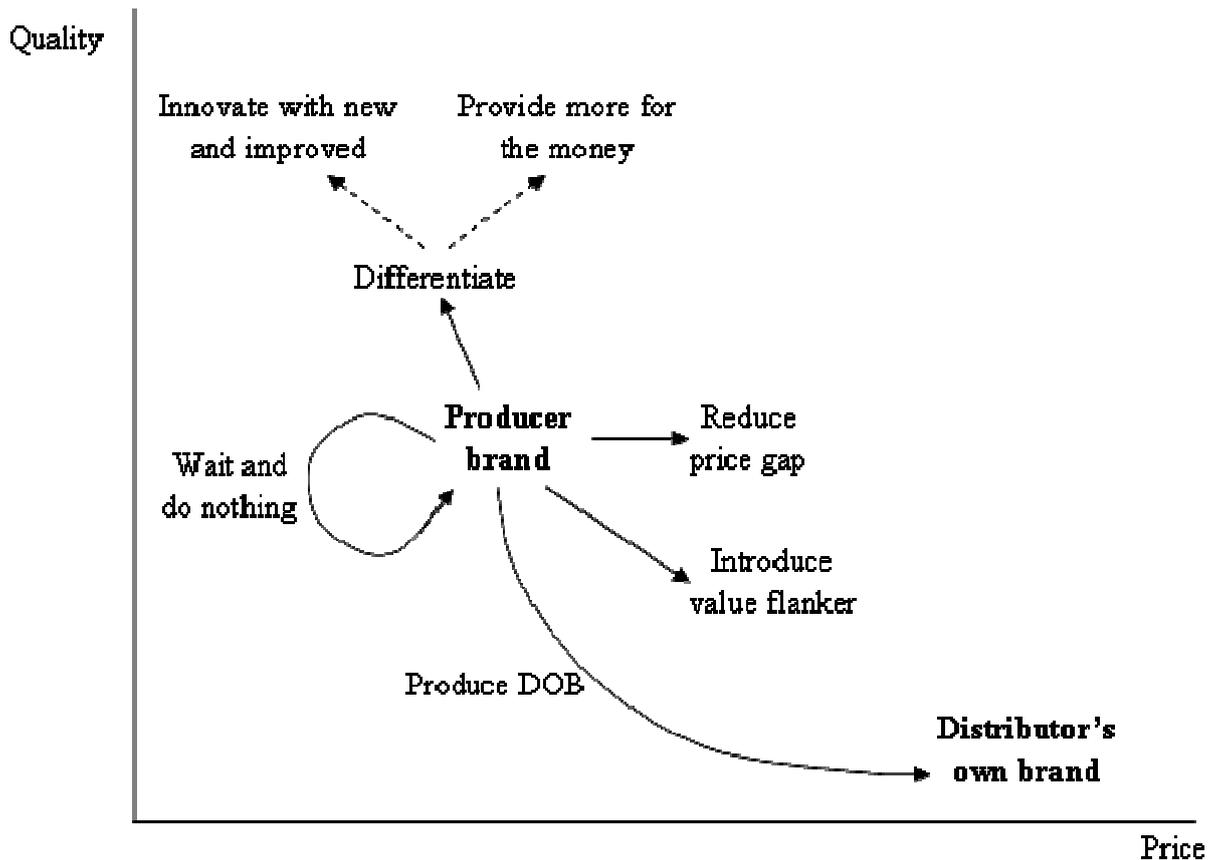
#### **2.2.1.5 Guerrilla Attack**

The last choice of attacking strategy is the *guerrilla attack*, and it comes from the military experiences which indicate that many small attacks can be more effective than a few larger ones. According to Kotler and Singh(1981) the challengers performing the guerilla attack will use both predictable and unpredictable actions to harass the competitor. In the business world these small attacks consist of price cuts, supply intervention, managerial attacks, and various legal actions. The legal action is being referred to as the most effective action to harass the opponent. Thus this means that the challenger is attacking small market segments and niches that it has enough strength to defend and reinforce in order to keep what was gained by the attack. The opponent should always be prepared for an attack; he or she does not know when or where the attack is going to take place. Liljedahl (2001) claims that this strategy is all about keeping the opponent out of balance and is useful when the opponent is superior and the challenger does not have enough strength to carry through the above mentioned attacks. Every attack should be more painful for the opponent than for the challenger. The attack could be done either by small price cuts or by buying up small competitors that are too small to survive by themselves and there by the challenger is gaining market shares and grows. This is a less expensive way of attacking a competitor.

All of these five strategies are useful in different situations and for different companies, when the objective is decided upon then the strategy with the most appropriate characters is applied. These different strategies are used when attacking a competitor and/or its brand in various ways. The Attack Strategies are useful for the thesis when investigating the research question concerning strategies used by the SME against the DOB, and will be helpful when analyzing the empirical findings.

### **2.2.2 The Strategic Options for the National Brand**

The model “strategic options for the national brand” (model 3) developed by Stephen Hoch (1996) presents different strategic alternatives for SME to improve its competitive situation against distributors own brands (DOB). (National brand is the same as the producer’s brand.)The decision concerning which strategy to use depends on the SME and how it wants to compete and position itself. Presented below are different strategic choices the supplier could take to improve its competitive situation against the DOB. The different strategic options can be used interchangeably and do not have to be used separately (Hoch, 1996).



Model 3: Modified model of the Strategic Options for National Brands

The figure above shows the distance between the distributors own brand and SME's brands in terms of quality and price. The arrows show the different possible strategic decisions that the SME can apply to their products in competition with DOB. Note that it is the SME's products that are moving in the direction of the arrows.

### 2.2.2.1 Wait and Do Nothing

One strategy that can be used is *wait and do nothing*, which means that the supplier just waits to see where and how the development of the DOB is going. As long as the development in that certain product segment is uncertain and the market is unstable then there might not be anything better to do than to just wait and see what happens (Waarts and Wierenga, 2000). According to Hoch (1996), it can sometimes be unnecessary to act too quickly and too aggressively on DOB's improvement. Using this strategy does not necessary mean that the outcome will lead to bad performance. Shankar, Carpenter and Krishnamurthi (1998) show empirical evidence that waiting with a product innovation until the company feels ready can be a successful strategic action to make.

### 2.2.2.2 Differentiate

Another strategic choice for the supplier is to try to *differentiate* its products away from the DOB products. According to Verhoef, Nijssen & Sloot (2002) this action is about beating the competitor by innovation. This strategic option is suitable when the product life cycle is relatively short since innovation will diminish the DOB market share. The SME can differentiate their product in two ways; either by giving the customers more quality and value for the money or by launching a new product with higher and better quality. The alternative

with more value for the money means that the quality is being improved while the price stays the same. This can mean that the design of the product is being changed or that the product is being made in a more environment friendly way. The second alternative means that a new and improved product is being produced as the result of product innovation and knowledge, either in an already existing product category or a in a totally new product category that the supplier creates. Hoch (1996) argues that the producer must consciously work with the brand and the new product innovation should be introduced to the customers by advertisement with the emphasis on the improvements to clarify the differentiation. Hoch & Banerji (1993) discuss that advertisement is also an important way to protect the supplier's brand against the success of the DOB. Ashley (1998), another researcher, agrees that the best way to fight against the DOB is through convincing marketing towards the customers. Glemet and Mira (1993) provide evidence that support a negative relationship between DOB penetration and producers' level of innovation. This negative relationship is also supported by Hoch and Banerji (1993) who argues that a large quality-gap can create this relationship between the DOB and the producers.

### **2.2.2.3 Reduce the Price Gap**

A third strategic alternative is to *reduce the price gap* existing between the supplier's products and the DOB. This can be done in one of two ways, either by raised prices for DOB products while the SME's prices are staying the same, or that the producers (SME) lower their prices. These actions are according to Verhoef, Nijssen & Slood (1993) another way to enhance the balance of quality/price. This strategy, reduce the price gap, is more about approaching the DOB and not like the other strategies where the supplier is trying to move away from the DOB (Hoch, 1996). According to Hoch (1996) the DOB are twice as price sensitive as the producers' products, hence a price change in the producers' price affects the DOB products twice as much as if the change would have been the other way around. According to the results of a study conducted by Hoch, the market leader is not as sensitive to the price gap as the smaller producer and therefore this strategy is not as appropriate for the market leader as for the smaller ones. Another study that has been done by Hoch and Banerji (1993) with the conclusion that quality, considerably related to DOB market share, is more important than price. Dahr and Hoch (1997) in contrast show a negative significant effect of the price difference; a reduction in the price gap could hurt the relationship between the producer and the trading blocs since the producer is attacking a major feature of the DOB – low price.

### **2.2.2.4 Introduce Value Flanker**

Another strategic choice, *introduce value flanker*, is the “me-too products strategy” and it means that the supplier is imitating and getting closer to the DOB products; the supplier is launching a “value flanker”. An example of this, as mentioned by Hoch (1996) is to launch a so called fighting brand with the aim is to push out or limit the DOB's development with low price and relatively low quality. With this strategy the supplier can protect its original product from direct competition from the DOB but there is a drawback – the new “cheap” product can take market share from original product. Hence the two products offered by the same producer start to compete within the business (Hoch, 1996). The risk with this strategy is high since it is difficult to gain market shares and the possibility to succeed is not very high due to expensive advertisement of the new product at the same time as the original product needs attention not to loose customers. The supplier can also be associated with low quality and cheap products which can ruin the reputation of the business, its brand and its original products. This strategy can thus cause a waste of money and re-

sources and lead to internal competition at the same time as the reputation of the business is damaged.

### **2.2.2.5 Make Private Label (DOB)**

The last strategic alternative is to *make private label* (DOB) products. This is good when the supplier has a lot of overcapacity in its production. Hoch (1996) argues that this is nothing for market leader suppliers, but rather for the suppliers with a non leading position. A relationship with the DOB can have both positive and negative sides to it. A positive effect of this is the economies of scale in production and distribution, as well as when it comes to raw material. It also creates a closer connection to the trading blocs through this co-work. However, Hoch (1996) points out that a risk with this is that after a while the supplier can end up in the position where it becomes dependent on the production for the trading blocs. There are, according to Kalwani and Narayandas (1995), three motives for SME to produce DOB: economic, relationship and competitive motives. The first motive is when the supplier has overcapacity in its production; hence the excess capacity can be filled by producing DOB. This can in turn lead to improved overall margins in the company. The second motive is the fact that production of DOB will give a better network and relationship with the retailer of the DOB, in this case the trading bloc. Kalwani and Narayandas (1995) argue that long-term relations with the trading blocs are in fact profitable since it can lead to a sustainable competitive advantage and it also creates a win-win situation. A third motive is that when producing DOB it can give the producer a chance to “steal” customers and sales from another competitor. Even though there are advantages with being a DOB producer, Quelch and Harding (1996) give the advice to a supplier that is thinking about becoming a DOB producer to be careful. The advantages tend to be generally overestimated and it involves several risks. The risks could be loss of power and the likelihood that the product category can become a commodity.

There are several distinct strategic options for a company to use against DOB, which strategy to be used depend on the company, its goal and the situation. The different strategic options do not have to be used separately but can be used interchangeably. This strategy has, compared to the attack strategies, more emphasis on the relationship between the producer (SME) and the DOB. These strategies will also be applicable for answering the research questions focusing on SME’s strategies against the DOB.

## **2.3 Summary Theoretical Framework**

The most important theory for this thesis and for answering the research questions is Porter’s Five Forces Framework where the most essential parts are bargaining power (of suppliers and buyers) and threat of substitution. The five forces framework is useful with regards to our purpose and it is relevant for analyzing the competitiveness among the actors and the industry. Three SME will be investigated with focus on the three major parts of the theory and analyzed concerning how the bargaining power and substituting products affects them. By using different perspectives from people at various appropriate positions at the SME and within the trading blocs and from a distributor’s point of view, the thesis will provide a fair image of the situation in the food industry. This is important for the purpose of this thesis and to be able tackle the research questions from different angles. With the criticisms in mind towards Porter’s framework, we will be using the framework with focus on the two forces that have not received as much critique as other forces have, bargaining power of buyers and suppliers and threat of substitution. These two forces will be useful in

our case to fulfill our purpose with the use of the research questions and will allow for more accurate conclusions.

The strategy theories most suitable for this study are the Attack Strategies and the Strategic Options for the National Brand. The Attack Strategies focus on what strategy that is useful for the company when it comes to handling and approaching their competitors. It is important to have a strategy that is appropriate for the company to successfully be able to compete and defeat the competitor. The attack strategies can be applied by companies in general when challenging a competitor while the Strategic Options for the National Brand are more specifically looking at what strategy to use when challenging the DOB. One of the major challengers, for the three SME studied in this thesis, is the DOB and therefore have we chosen to use the Strategic Option for the National Brand as a theory to analyze what strategy or strategies are used or not. The theories presented in this section will be of vital importance when analyzing the empirical findings and to contribute to the conclusion of the purpose.

### 3 Method

As mentioned by Bogdan & Taylor (1984) it is our obligation, as authors and researchers, to explain to the readers how the data has been collected and interpreted (so they know if the information is reliable or not). One aim with this thesis was to deepen the understanding and to share the finding with others to increase the awareness of how the DOB and the trading blocs affect the Swedish SME in the food industry. The purpose of this thesis is to study how SME are affected by the trading blocs and the increasing development of DOB. Since we wanted to understand *how* and *why* the SME are affected a *qualitative research method* was most appropriate and was applied with the use of an *inductive approach*. A *case study* with a few companies has been conducted and different perspectives from the trading blocs have been gathered. We have looked at the similarities and the differences among the companies to clarify and make sense of the various situations.

The method of collecting information was through research on the internet, in books and scientific articles. We have conducted interviews with both SME (producing companies) and with the three major trading blocs to get perspectives from both sides of the situation. In addition to that, an interview with a distributing company also took place to widen the perception of the issue. All the interviews were recorded and saved which made it possible for us to listen to them again and to make sure we got the correct answers and quotations that the respondent gave at the interview. Books and scientific articles were studied to give us an understanding of the issues and the situation in the food industry. These two sources were also of great usage when conducting the theoretical framework which was an important part for this thesis. The internet did also contribute to the theoretical framework by facilitating the search for articles and appropriate books that has been useful through out the work. The internet was also an important function when it came to the possibility to study the SME before finally choosing them and prior to the interview to make sure we were updated on the businesses in question. When searching for appropriate persons at the trading blocs the internet was valuable again, as well as when searching for specific information concerning the market shares, turnover, etc.

#### 3.1 Data Selection

As pointed out above, information has been gathered from different sources; and one of the most essential information that has been used was data collected through interviews. Data can come and be gathered in a variety of forms, it can for example be a public opinion gathered through a questionnaire, observations obtained from library resources or via interviews conducted in the field (Lewis-Beck, 1995). The sample from which the data is collected can also be selected in different ways. We wanted this study to examine different segments in the food industry and hence we chose a heterogeneous sample. A heterogeneous sample contains, according to Ritchie, Lewis and Elam (2003), components that deliberately vary from each other. This kind of sample has the aim “to identify central themes which cut across the variety of cases or people” (Ritchie et al., 2003, p.79).

When we started the process of finding an appropriate sample we wanted it to represent different segments within the food industry to get a better variety and more differentiated perspectives into our research. Several small and medium sized food producers (SME) in the south-western part of Sweden were contacted, via email, with the aim of having some different kinds of food producers to choose among before finally deciding upon the sample that were to be used. However, due to lack of interest from the SME we were not able to choose among the companies to wanted extent, but rather work with the ones that were in-

terested. Fortunately the interested companies represented different segments of the food industry, which were of importance for us. The interested companies were contacted again, this time through a phone call, to find out if their interest was genuine and if they were appropriate for our purpose. When approved, dates were set for the interviews and we forwarded our questions by e-mail in order for the respondent to be better prepared on what kind of information we were searching for. This action was useful for both us and the companies since it allowed us to be more efficient and the companies were more prepared for the interview, hence the time could be used more wisely during the interviews. The way we approached the companies was much appreciated and thereby we believe that we got the best of the companies since they showed more interest when they had understood that we were doing a serious study on the issues presented to them.

### **3.2 Qualitative vs. Quantitative Research Method**

As mentioned above, a qualitative research method was used for this study. This is, according to Maxwell (1996), one of two different kinds of research methods that can be used when collecting data. The opposite of qualitative research method is quantitative research method. Quantitative research method is when the collected data is transferred into numbers and statistics to make sense of the data. The qualitative method, on the other hand, focuses on specific situations or persons with the emphasis on words and understanding *how* and *why*. This research method is the most appropriate when answering the purpose of understanding the meaning, the particular context, the process, and when developing casual explanations. The main purpose of qualitative research is according to Ghuari & Grønhaug (2005) to understand and gain insights. We have focused on understanding *how* and why the competition and the situation in the food industry are as they are, with a special focus on the DOB and the trading blocs. Hence we did not focus on numbers and statistics but rather using words in this study and with the aim to increase the understanding and insight the most appropriate research method is the qualitative method. According to Flick (1998) the main instrument for collecting and understanding the data in a qualitative research is the communicative competences of the researcher. Thus the person doing the research is of great importance to gathering appropriate data to be able to fulfill the purpose of the interview.

### **3.3 Inductive vs. Deductive Approach**

According to Eriksson & Wiedersheim-Paul (2006) the research can differ in two ways, separately from qualitative and quantitative research methods, depending on which starting point the research is being done. The starting point of the research can be from an empirical view or from already existing theories and concepts. The latter is called a deductive way of approaching the problem while the first is called an inductive approach. The inductive approach helps to establish general conclusions and when working with qualitative research an inductive approach is most appropriate. This thesis used empirical finding as a starting point, as the inductive approach implies, but already existing theories are also used to support the empirical findings in the analysis and conclusion.

### **3.4 Case Study**

The research in this thesis was conducted as a case study and that is, according to Svenning (2003), a study of few companies rather than just one. The various companies are usually not chosen randomly but rather strategically based on various qualities within the firms.

For this thesis we chose the companies based on their operations in different industry segments within the food industry. When companies are selected primary data sources is collected through different kinds of data gathering, such as personal interviews. However, a case study is not the appropriate approach for all types of research; it all depends on the research problem and the objective. Theory development and testing is a suitable area for a case study. Ghuari & Grønhaug (2005) argue that when questions such as *how* and *why* are to be answered, a case study approach is appropriate. This was the situation with this thesis and therefore a case study approach was used. When analyzing the information gathered through a case study, one needs to look for similarities and differences, especially when there are more than two companies that have been investigated. This study was based on three SME and these were analyzed with focus on how and why they are affected by the trading blocs and the DOB. In addition to this the focus will be on differences and similarities among the SME concerning these affects. This study was not focusing merely on the best- and the worst case scenario, as is the most appropriate according to Ghuari & Grønhaug (2005), but rather compare different situations and perspectives among the chosen companies.

### 3.5 The Interviews

As mentioned in an earlier section, data can be gathered in various ways. An uncomplicated way of collecting data is by doing a survey or a questionnaire on a random sample, while more effort and a close relationship is needed when doing an open interview (Flick, 1998). When an interview is conducted, there are all kinds of emotions involved such as, knowledge, experiences, attitudes, values, etc. These emotions are being transferred from the respondent to the interviewer. According to Jacobsen (1993) there are different roles and functions of the person involved in the interview. The person doing the interview is usually the initiator; he or she is the one getting in touch with the respondent to set a date to accomplish the interview. It is the respondent's role to just be him- or herself and answer the questions as thorough as possible to satisfy the person doing the interview. There are various kinds of interview questions and we did focus on opened questions (Jacobsen, 1993) since the more answering possibilities the question has, the freer is the respondent to elaborate and express his or her thoughts.

According to Lekvall (2001) there are different kinds of techniques when doing a research interview with a respondent. With a formal interview the researcher asks questions from a prepared questionnaire, and a respondent answers the interview questions. The researcher has several questions prepared for the interview and the questions are usually structured as a funnel with broader questions at the beginning of the interview and more detailed questions as the interview goes on. Lekvall (2001) also points out that there are informal interviews that usually are done as a normal conversation between two people, with the focus for the researcher to ask questions and to listen to the answers. When conducting the interviews for this thesis, a mixture between informal and formal techniques was used since we found advantages with both approaches. The formal gave us the opportunity to prepare questions for the respondent and to make sure to get good and useful empirical findings for our case study. The informal on the other hand provided us with a deeper understanding of *how* and *why* the SME were affected and enable us to conduct a well analyzed thesis.

When doing a face-to-face interview there is a more personal reflection and the questions are answered more properly. When doing a mail interview, the researcher has to make sure the respondent understands the questions correctly other wise there is a possibility that the questions could be interpreted wrong and thus giving an incorrect answer (Lekvall, 2001).

Because of these reasons we wanted to conduct face-to-face interviews to get the most reliable information. The interviews were conducted face- to- face with the CEO's at the chosen SME and the distributing company, while telephone interviews were made with the trading blocs. Even when the interviews were not done in a face-to-face manner, the questions were sent to the respondent to allow for him/her to prepare for the interview in the best way possible. Both kinds of interviews were being recorded, which made the information more reliable since it allowed us to listen to the interview again and make sure that we got the entire answer and understood it correctly. The average time that we spent on interviews was about one hour and a half per interview. All companies were very helpful in the way that they answered our questions and they all offered their assistance in case additional questions would arise.

The information gathered through the interviews was analyzed with support from the theoretical framework and was the main source for us to fulfill the purpose and provide accurate conclusions to the research questions. As a whole, we believe that this study can offer a good analysis that can be used by future researchers within this subject.

### **3.6 Reliability and Validity**

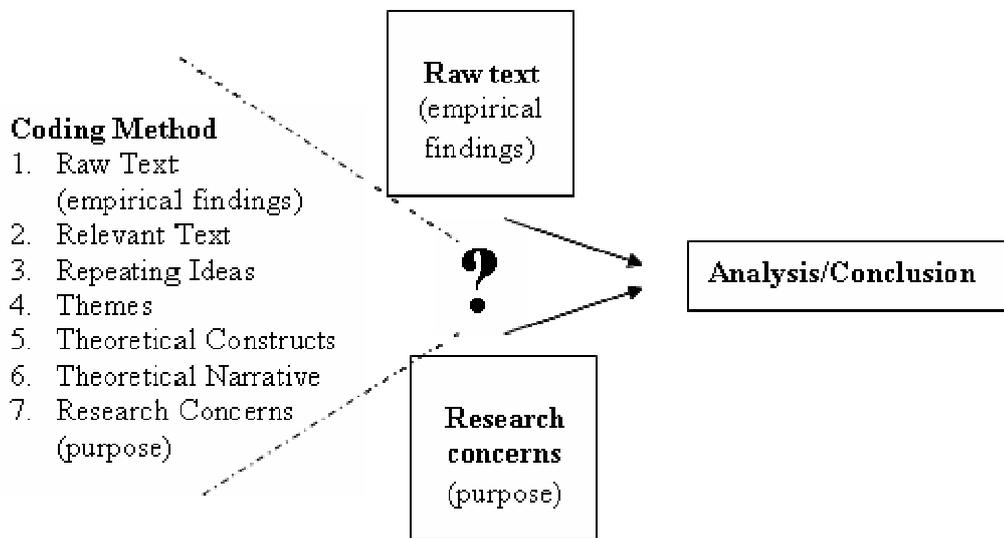
“No experiment can be perfectly controlled, and no measuring instrument can be perfectly calibrated. All measurements, therefore, is to some degree suspect” (Kirk & Miller, 1987, p. 21). In accordance to this quote, it is important to thoroughly consider and evaluate the collected data, the readings and other inputs used in the study to make it as correct and dependable as possible. Validity is connected to words such as truth and correctness whilst reliability is associated with dependability and trustworthiness (Kvale, 1989). According to Lewis & Ritchie (2003), validity has two dimensions, internal and external. The internal validity is concerned with the focus of the study, if the issues claimed to be examined are in fact investigated (Lewis & Ritchie, 2003). This has been reflected upon and taken into consideration through out the study, especially when formulating the questions used in the interviews since these questions were based on the research questions. Lewis & Ritchie (2003) argue that the external validity concerns to which extent the finding are applicable to other settings of groups of the population. As this thesis is a case study, covering the situation of only three companies these findings might not be valid for the entire food industry. However, since the companies represent different segments within the food industry some generalization can perhaps correspond to the situation of SME in this industry concerning the issues covered in the research questions.

A precondition for validity is reliability. As mentioned, reliability is often associated with dependability, meaning that if a measure is reliable it is possible to depend on it (Lincoln & Guba, 1999). For the study to be reliable it should, if conducted again, be able to provide the new researcher(s) with the same results as the first one(s) obtained. Lewis and Ritchie (2003) point out concerns regarding the replication of a qualitative study due to its likely complexity and certain impact of the context, there are even those who believe that a study neither can nor should be repeated. We have tried to present the process of this study in a way so that it could be replicated, however since it is a qualitative study, it is probably hard to repeat so it becomes an exact duplicate of our study. Nevertheless, we have made an effort to avoid biased and preconceived attitudes and tried to be objective to the findings. Since there are three authors to this thesis the objectivity has most likely increased due to our different backgrounds and earlier experiences, this has enabled us to have discussion from different angles of the issues. To allow for the analysis and the conclusions to be as

accurate and dependable as possible – reliable and valid – we have used the theories from theoretical framework to support the findings to compose a trustworthy and fair study.

### 3.7 Data Analysis

The data used in the analysis has to have support to be dependable and to be clear for other researchers how the process of the analysis has been done. Support adds dependability to the analysis even if there are other ways to interpret the same data. One way of interpreting the empirical findings that have been gathered at the interviews is to code the findings into theory. The coding method that we have used is based on the saying from Auerbach & Silverstein, (2003, p. 31) that “no one is smart enough or intuitive enough to read a series of transcripts and immediately see the patterns within them.” There are several steps to overcome this limitation, and a coding method, which is a procedure that organizes the text from the interviews and recognizes patterns, will help us understand and answer the research questions and to fulfill the purpose. (Auerbach & Silverstein, 2003)



Model 4: Modified model of the Coding Method

When trying to interpret and to construct the analysis there will be a gap between the purpose and the empirical findings. At this point the coding method comes into practice to gain an understanding and to remove the questions that exists between the empirical findings and the purpose. The question mark in the middle of the model represents the gap and the difficulty in seeing how the text is going to fulfill the purpose. The process to make this possible is done in seven steps from the raw text (empirical findings) into the research concerns (the purpose) (Auerbach & Silverstein, 2003). The different steps are small steps that build on the previous one to grasp an understanding of the interview findings and to move from just simple text into answering the research questions. The advantage with having small steps is that the connection between the raw text and the purpose does not have to be visible in the beginning of the process but rather becomes clearer and clearer as the process goes on. The steps of coding are a process that is done as a staircase where it moves from lower to higher level of understanding. The seven steps, according to Auerbach & Silverstein (2003) in coding method are:

1. Raw Text
2. Relevant Text
3. Repeating Ideas

4. Themes
5. Theoretical Constructs
6. Theoretical Narrative
7. Research Concerns (purpose)

The first step, *raw text*, in this process is to reduce the interview text to an appropriate size and get rid of the overwhelming information that is of no need for fulfilling the purpose (Auerbach & Silverstein, 2003). This was done by reading through the text with the purpose in mind so it was easier to concentrate on the information that was actually useful while the rest was discarded. The text that was relevant for this specific case was called the *relevant text* and therefore the most appropriate. However, according to Auerbach & Silverstein (2003), there are some possibilities that some information that has been selected to be relevant is actually unrelated to the purpose. On the other hand there could also be some information that has been excluded early in the process that actually could have been useful for the purpose. If some information is missing it could be because the theoretical process has been coded by three authors and not just by one person. Three persons have more or less different opinions about what is important and what is not even though they are working toward the same target with the same purpose.

After having selected the relevant text, some phrases express the same idea or same thoughts are being repeated by several of the persons interviewed. These similar thoughts are called *repeating ideas* and they all shed light on the purpose and therefore the ideas are of essential importance for the analysis (Auerbach & Silverstein, 2003). We discussed the repeating ideas and relevant text with the interviewed persons to make sure that it was the appropriate information to use for our study and that the information was understood correctly. Every discussion improved our understanding of the findings. According to Auerbach & Silverstein (2003), when choosing the relevant text it is important to realize that the theoretical framework is the driving force in the thesis and upon which the empirical findings should be built. The theoretical framework also influences what should be excluded or included in the analysis and therefore it is important to have the appropriate text to be able to make a good and reliable analysis.

All of the repeating ideas that have something in common are grouped together into a *theme*. A theme is, stated by Auerbach & Silverstein (2003), an implied topic that categorizes a group of repeating ideas together. The purpose is getting closer and more visible as the process moves along and the themes are organized into larger groups. These abstract groups are called *theoretical constructs*. When the theoretical constructs has been put together the themes become clear on a more deep level since it makes it clear how they fit into the theoretical framework (Auerbach & Silverstein, 2003). The next step of the process is to organize a *theoretical narrative* from the theoretical constructs with what had been learned and gained about the whole project. This step reduces the gap and combines the raw text with the research concerns; the process replaces the question mark that existed between of the two. This last step concludes the study and indicates possible future studies. It also shows what might not be clear about the study and it ties together the empirical findings (raw text) with the purpose (research concerns) (Auerbach & Silverstein, 2003).

This theoretical process of understanding the raw text from the interviews to gain insights into our purpose was helpful. This process was done without knowing in advance where it was going but it ended up with gained knowledge about the purpose and the whole thesis.

## **4 Empirical findings**

To be able to fulfill the purpose of this thesis, how the trading blocs and their DOB affect Swedish SME and what strategies these use to handle these affects, it was necessary to interview people who experience it everyday. To get different perspective and a fairer picture the decision was made to talk not only to the producers, but also to the trading blocs and a distributor. This was to ensure that the thesis would not only be characterized by the producers' point of view – the truth does not only have one aspect – but to include various views of the issue. The trading blocs and the produces can be seen as each others' opposites, hence probably giving quite different answers. The distributing company, on the other hand, has a more neutral position, acting as a middle hand between producers and retailers, and will add a third perspective to the issue and possibly take the study a step closer to the truth. In this section the results from the interviews are presented, starting with the SME, then moving on to the trading blocs and finally to the distribution company.

### **4.1 Interviews with the SME**

Three small and medium sized enterprises (SME) form the foundation of this thesis. The SME were chosen based on the industry they operate in within the food industry – the frozen dessert, the flour and the bread industries. Since the producers (SME) are all operating in different segments of the food industry they view the situation in somewhat different ways. By interviewing such different companies different perspectives were captured which provided a more generalized picture of the SME's situation in the food industry. The companies will shortly be presented and a summary of the interview with the CEO's at the companies will be presented. The companies have chosen to be anonymous and therefore we have decided to refer to them as Frosty, Fort's Mill, Honey Bun and Quick n' Fresh to make the interviews more interesting to read and easier to follow. (The information below was provided by personal communication with the CEO at the SME.)

#### **4.1.1 Frosty**

Frosty is a business within the frozen dessert industry. It has 103 employees and with an annual turnover of 240 million Swedish crowns. This business produces and sells most of its products in Sweden but has a small part of the Finish market as well. Frosty is trying to increase its market by for example entering Denmark, but it has been, and is, not easy to enter a new market. At present time 62% of the company's products are sold to the trading blocs.

##### **4.1.1.1 Market Situation**

This industry is tough and not very profitable due to intense competition. During the last five, six years there have been large changes in the industry of frozen desserts. Most of the businesses in this segment of the food industry have been taken over by larger companies, most often multinational ones, and Frosty is today the only national business that is completely Swedish. Many of the mergers and acquisitions have not been very successful and the focus of the competition has been on prices causing intense price pressing and low profitability. The two dominant competitors are two very well known large multinational companies. In fact, it is only one of these that have a large and stable market share of the Swedish market frozen desserts, but the other one is trying to get in and strengthen its position and is a "worrying factor" for Frosty. In addition to this, the rate of imports has threefold in the last five years in this industry. This competition is demanding due to the

low prices offered from many very large production plants abroad. “The competitions in this segment of the food industry is intensive and the best way to handle it is to make sure to stick to what a company is good at and stay focused on the concept that the business is built upon” (Frosty’s CEO, personal communication 2006-10-20).

#### **4.1.1.2 Bargaining Power**

An issue for Frosty, besides the competition, is the trading blocs. These are centrally run and the central decisions are becoming more and more important and it is necessary to be part of the discussion and have a good relationship with the trading blocs. In fact, the central decisions are of vital importance for Frosty. ICA is the largest customer and without ICA Frosty would go out of business. However, the company has a good relationship with ICA, and ICA has a good understanding of Frosty’s situations. Nevertheless ICA wants to continue to press the prices. The company has good relationship with Coop and Axfood as well. Good relations and good dialogs with the trading blocs are of great importance. Even though Frosty has a variation of customers, there is a dependency on the trading blocs which stand for more than half of the company’s sales. There are always pros and cons of having few, large customers on which one is dependent. It would be idealistic to have one customer that buys whatever a company produces, but this is not the case, the world is not idealistic. The dependency increases with few, large customers and if one is lost there is a risk of going out of business. Therefore it would be better to have a larger number of customers since a loss of one of the trading blocs would be harmful. The trading blocs are the dominant actors in the food industry and it is important to continuously have good dialogs with them. The trading blocs probably think they are quite fair towards the producers but according to the producers the trading blocs are unreasonable. The pressure on prices is intensive. To survive, Frosty must reason back and forth and negotiate with the trading blocs and if no agreement is reached, Frosty will simply disappear.

Today the concentration of the decision making is in Stockholm and the trading blocs will strengthen this concentration and their position in the coming years. ICA is planning to handle all distribution to the stores and run the stores more firmly within a couple of years. (Since ICA is the largest one of the trading blocs, they also have some influence on the other trading blocs. Coop and Axfood will probably follow to a certain extent in this matter since it is not possible to have different systems among the trading blocs.) This has, as everything else, positive and negative aspects. It will generate more “fair play” between the producers that are operating with the trading blocs. At the moment, the larger producers, with more resources, are present in the stores handling the distribution themselves and making sure that their products are always available. As the trading blocs takes over this responsibility all products will be treated the same. Today Frosty’s products, as well as the DOB, are often neglected as a result of it being the store manager’s responsibility to fill up and order the products. Since the large producers are present in the stores and fill up and handle the products themselves, even though they only fill up their own products, the store manager does not have to pay a lot of attention to the product group in question. This is quite an important problem for Frosty, since the store is responsible for the handling of Frosty’s products when they has reached the store, but this will hopefully be partly solved by this new system. On the other hand, if one is not part of the supply chain, the situation will be even tougher with this new system. The only way you can influence or get in to the stores is through the central decisions. If the position with the trading blocs is lost there is a risk of going out of business, due to the trading bloc’s dominant position. The situation in the food industry will become even tougher and this will cause a cruel elimination of businesses, especially SME due to the fact that companies need to be able to supply the

trading blocs on a national level to be successful. An alternative for the small businesses could be to niche themselves and focus on a small market, providing only the local stores with its products. Hopefully consumers, and perhaps authorities, will push for that at least some percentage of the assortment will not be handled centrally but rather via the individual store, opening up the access to some stores for smaller, local producers.

It is important to have good relations and dialogs with the trading blocs and to be constantly up-dated on what products and how the trading blocs want to develop the assortment. Frosty has, as mentioned above, a good relationship with the trading blocs, especially with ICA, and is treated in a somewhat nicer way than the large multinational companies. This is probably due to some fear of the trading blocs that those large companies will become the only players in the frozen dessert industry, and compared to the multinational companies the trading blocs are quite small and would in such a case lose some control over this group of products. Perhaps a switch in dependency might occur as a consequence of this.

There are three windows of opportunities per year for producers to present new products to the trading blocs, thus it is important to have a good product to present before the deadline. When the trading blocs are to decide which products to include in the assortment, the producers have to present a complete product; the core product, package, price, etc. This is not a durable way of working since development of new products require larger amount of resources. Large multinational companies can operate like this since they have more resources, but for a SME it is not possible. However, at least ICA is willing to sit down and discuss concepts and future products, which is important for Frosty. This would decrease the risk concerning product development but it requires that Coop and Axfood are willing to cooperate in the same way so the producers do not have to have “a double” set of products. When presenting products to the trading blocs it is important to have confidence in one’s products, in the company and in oneself. It is essential to be able to show that it is a good product and that it is a product demanded by the consumers. Nevertheless, the producers’ position in the negotiation is not very strong. It is not possible to influence the assortment as in the past when each producer sold directly to each store. Today it is essential to be part of the central purchasing decisions and of course this weaken the producers’ position even more but that is the point of the central negotiation/purchasing. This system could be rather good if handled right, but there needs to be opposites not allowing anyone to become too strong/dominant because if that happens it can become very negative for the food industry. Competition is important, both among the trading blocs and the stores but also among the producers. There ought to be more trading actors in Sweden but since Sweden is such a small market it is pretty much impossible to enter the market and start from scratch if you want to earn money.

#### **4.1.1.3 Competitors and Substituting Products**

There is a strong demand for Frosty’s products. The consumers want the products and ask for them if not available. One of the trading blocs removed some of the products from Frosty, but thanks to high consumer loyalty and high demand the product were brought back into the stores. As the example shows, it is important to have good relations with the consumers, since in the end it is the consumers who matters. If you have good products and they are known among the consumers, there will be a demand for them, but to be known among a larger group of consumer it is of great importance to be in the trading blocs and have good relationship with them as well.

There is no major threat of entries in this segment of the food industry rather the main threat comes from the existing, larger, multinational companies. There are quite a few small, local businesses starting up in the frozen dessert industry but they are of no threat – rather inspiration – since they are so small and usually have great ideas. It is good if these small businesses, and small in general, get supported by the government or other organizations in the start up phase to get the chance to operate and grow.

In the last decades there have been large increases in substitutes for the products produced by Frosty. The consumption has not increased in this segment of the food industry, but rather slightly decreased. The competition from other kinds of products has increased but there has also been an increased amount of variations of the original products, such as low fat, special products for allergic people, cheap imitations and low quality products. However, “there is a “20/80 rule” where 20% want quality products and Frosty aims for those consumers” (Frosty’s CEO, personal communication 2006-10-20). It is important that low price alternative exists. However, Frosty will not produce them but rather stick to its high quality and niche products. The low price alternatives should be produced in low cost countries with gigantic production plants. Even though there is quite much focus on the price nowadays a possible change is approaching. There is an increased interest for quality products and ICA is aware of this and recognizes that if prices are pressed too much the quality products will disappear. This could lead to damaging the trading blocs as well as the entire Swedish food industry.

Frosty has about the same amount of market shares (14-15%) as the DOB in this segment of the food industry. The DOB has popped up from nowhere and is definitely a low price substitute for Frosty’s products. A large part of the DOB are produced abroad but there is production in Sweden as well, for example in the former (no longer existing) competitors’ production plants. Frosty has continued to grow during the process of increased amount of DOB but would have grown even more if the DOB had not entered as additional competition. A lot of the producers’ labels have disappeared and been replaced by DOB and even more producers might disappear. A bad feature of the DOB is that they often are copies of successful products produced, marketed and sold by the producer. This allows the DOB to ride on the efforts made by the producer to sell his/her product. However, the trading blocs will possibly start to develop the DOB by them self in the future, nevertheless, a part of the DOB will probably always be imitations of other products.

Even though there are no major advantages of DOB Frosty could very well produce DOB for the trading bloc(s). It could of course lead to some cannibalization of Frosty’s products, but even though the development on the market is not favorable, one has to accept the situation. There is not much to do about it as a small producer. If one do not produce DOB someone else will do it, and perhaps that can provide some advantages in the relation with the trading bloc in question. In the long run there are no advantages for producers. The reason why Frosty is not producing DOB is due to the fact that the prices the trading blocs have been willing to pay have been too low. In addition, to be able to produce DOB it would be necessary for Frosty to invest in some production machines and they have not been willing to do that with respect to the short contract offered by the trading blocs. The trading blocs have a very strong and dominant position in this matter, they can stop the production in one plant and just move it to another that suit them better, the producers are for certain underdogs in this case.

#### **4.1.1.4 Strategy**

Frosty continues to position their products as they have always done and it is even more important to focus on and stick to the concept and products, and not give up the foundation of the business. The company does not copy the competitors' products but if the competitors copy products from Frosty it does not affect the decisions and actions at Frosty. The trading bloc do not support products that are imitations of other products (unless it is a DOB), something Frosty has experience of; the largest competitor did copy a product from Frosty's assortment but it was never accepted into the assortment of the trading blocs since they recognized it as an imitated product.

It is hard to pin point a certain kind of strategy used in Frosty, however, the company always tries to be in the forefront and build good and strong relations with costumers and suppliers. A hard and continuous work is undertaken to maintain and strengthen Frosty's brand for example by staying focused and concentrated on the foundation of the company. In addition, Frosty aims at having an efficient product development process to be able to quickly respond to changing and new demands from the consumers.

#### **4.1.2 Fort's Mill**

There are eight flour mills in Sweden, Fort's Mill is one of them and has approximately 5% of the market shares of the flour mill market. The company has an annual turnover of 70 million Swedish crowns and employs 22 persons. There are three large actors in this segment of the food industry and the largest one has market shares of about 60%. Fort's Mill, and the other four, is hence rather small actors. The products of Fort's Mill are mainly sold on the Swedish west coast, in Skåne and Småland. The largest customers are bakeries 60-65%, pizzerias 25%, the food retailers 11%, and some to the fodder industry. Even though the sales to the retailers do not represent the major customers for this company, they are, according to the CEO, still important and the main way of reaching the public consumers. In addition, without the trading blocs, quite a few of the products produced at Fort's Mill would not be able to keep in the assortment without the trading blocs since it is the trading blocs who stands for the sales of large quantities. Hence, without the trading blocs the company would be affected in other ways than just lower turnover.

##### **4.1.2.1 Market situation**

Most of these eight flour mills have a long history with a large customer base resulting in the few operating actors and tough competition in this segment of the food industry. Fort's Mill has about five percentages of the market shares compared to the largest actor with approximately 60%. In this industry the consumer packages (2kg) are important; however as the interest for baking at home has decreased the focus needs to change. The bread consumption in Sweden today is growing and hence there is large need of flour. Unfortunately the small bakeries are disappearing while the larger players in the industry are growing with the result of the bread being more and more an industrialized product rather than "hand-craft" produced in the smaller bakery or in the local bakery around the corner, and these two latter are Fort's Mill's main customers among the bakeries. The larger bakeries on the market have their own mills and hence it is not easy to become a supplier to those. This causes an intense competition among the mills. The larger mills will take over and most likely become more dominant in the future and as a result some of the smaller mills will be eliminated. To stay in business there might be a need to think in new ways and try to find a new market, perhaps starting to produce fodder could be an alternative. Even though the national competition is tough there is no major competition from other countries in this

segment of the food industry. The main import is flour for some special products, such as the French baguette where the customers want to use the French wheat flour, and this is in no large quantities. There are no beliefs in the industry that this will change in the near future. The mill industry market is very stable, the market is pretty saturated and the market situation will probably be the same in twenty years since this is a well established market and it is a basic industry. It could be that the large mills take over some of the smaller ones to get hold of its customers or in Fort's Mill's case it could be a way to get hold of the production plant and focus the production on the special kind of flour. However as it is at present time there are no indicators of acquisitions or merges. In addition the threat of new entrants is very small due to the fact that it is a well established industry and the costs for a new entrant to establish would be very high.

#### **4.1.2.2 Bargaining Power**

The major influence comes from the public authorities who set the standards that have to be met by all the producers in this industry. The trading blocs do also influence since they are the ones distributing the products and covering such a large part of the grocery stores in Sweden. The trading blocs represent important customers and by losing one of them could affect a mill in a negative way. The largest mills are using their market leader position in a very good way, for instance they do a lot of research which is shared with other actors within the flour industry and the other players can buy services from them as well. The atmosphere is good and friendly among the mills in this segment of the food industry and this can be exemplified with the mills sticking together, as a mean to influence the trading blocs now when an increase in prices is needed. There is a huge pressure from the trading blocs to keep prices low and since they are the dominant actors when it comes to the food industry it is very difficult to get an increase in prices accepted. In addition, there is always a threat from the trading blocs to replace a product with a DOB perhaps produced in a low-cost country providing the ability to keep prices low.

Negotiations with the trading blocs are tough. However, as a smaller producer one might have some advantages due to the ability of being flexible and tailor-made products they want. As a smaller company the decision making process is much quicker and easier in comparison to a large company, hence in some concerns the smaller producer has a more beneficial position than the larger one. Another difficult aspect with the trading blocs is the security of the producers. The producers want to have long term contracts while the trading blocs want to renew them every year. By renewing the contracts every year the trading blocs avoid binding themselves to a certain producer and in this way it is possible for them to easily change producer if the requirements are not met. This is a way for the trading blocs to make use of their strong bargaining power, influence and to strengthen their position in the food industry. This slows down the new and expensive investment from the producers since they are unsure of the future as a supplier to the trading blocs. Even though the trading blocs have very strong influence on the food industry, in the end it will be the consumers that decide what they want a trading block to sell in their grocery stores. Many consumers are used to and prefer special brands and if that certain brand would disappear it would cause a reaction that would force the trading blocs to bring back some products if they want to keep the consumers. Merely four flour mills in Sweden sell flour in two kilo packages to the trading blocs. The stores usually keep three different brands of "normal" flour in the store, one DOB, the market leader and one additional product. In addition to the "normal" flour there are some kinds of special flour and some bread mixes. As mentioned earlier, the trading blocs can quite easily eliminate a producer from the stores, however the trading blocs want some competition in the stores and do not want to

become too dependent on the producers. Nevertheless, there is always some worrying concerning the future.

#### **4.1.2.3 Competitors and Substituting Products**

Fort's Mill produces one kind of DOB for ICA and it was Fort's Mill who initiated this cooperation. Fort's Mill was one of the first actors on the market to produce a certain kind of flour. Due to lack of distribution network, Fort's Mill turned to ICA and offered to produce this kind of flour as a DOB in addition to their brand. ICA recognized this as a positive development and accepted the offer and this cooperation has now been going on for the last 15-20 years. At present time Fort's Mill sells a quite small amount of this kind of flour under its own brand but rather much of ICA's DOB. There are not that many mills producing this kind of flour and due to this Fort's Mill has an advantage in this particular niche. However, as a DOB producer there is always a risk of losing the contract and an important customer. Producers are willing to reduce the price quite a lot to keep the contract.

Since flour is such as standard product it is hard to differentiate it from that of the competitors and to have a strong and well known brand is of vital importance. If the consumers know the brand and has used it with satisfaction before then the consumers will stick to it. They might try some other brand, especially if it has a lower price, but if it does not reach the same level of satisfaction they will switch back to the first brand. These kinds of products are bought much on routine and hence if a consumer starts to buy it he or she is likely to buy it again. Besides the standard products Fort's Mill has some niche products providing them with some advantages in certain segments in the flour industry. No matter what products one produce it is important that the quality meet the expectations of the customers if it does not the demand for the products will decrease. The flour produced as a DOB for ICA is of the same quality as Fort's Mill's own products, if it were of lower quality the demand for it would not be as high and it could lead to losing the right to produce DOB for ICA.

#### **4.1.2.4 Strategy**

Quality has to be maintained otherwise customers will be lost since quality when is important when it comes to basic products like flour. Mistakes by the producer or reduced quality in the products could be very serious for the producing mill and can have harmful consequences. It is easy for customers to switch brand since the products are very similar, hence quality is one of the key components for Fort's Mill's success and survival.

When new products are to be introduced, the focus is set on the target for which the product is meant. Fort's Mill does not bother too much about what the competitors do but focus on what it is good at: grind grains to flour. When the certain flour, which is also produced as DOB, was developed the company was one of the first to produce it and hence got a step ahead its competitors. Fort's Mill tries to operate like this to be in the forefront and keep up with and meet new demands. A couple of years ago the company produced another certain kind of flour and this strategy was used successfully again. Since the products produced were quite new to the market this strategy was useful, however if the company would consider to start producing bread-mixes, which are produced by other mills, another kind of strategy would be needed since in such a case the situation would be totally different.

### **4.1.3 Honey Bun**

Honey Bun is a bakery providing its customers with a large variety of products, from cakes and cookies to rolls and loafs of bread. Honey Bun is anticipating an annual turnover of 80 millions this year and has approximately 100 employees. All of the products produced by Honey Bun are sold on the market geographically closest to the operation plant however the company is focusing on the bread segment and has a niche product line of bread for a larger geographical market. The breads are baked in a special way providing the company with some uniqueness. Without this uniqueness and the niche products the company would be just one of many good bakeries. Honey Bun's main market is located in south-western part of Sweden however as a supplier to a larger distributor the company's products are available in Stockholm and Uppsala as well. The company runs some smaller bakery-stores where the entire product range is represented. Beside these stores the company has customers such as the public sector, smaller stores and off course Axfood, ICA and Coop. The three trading blocs are together accounting for about 70% of the total sales and there is evidently some dependence on these customers.

#### **4.1.3.1 Market situation**

The market situation in this segment of the food industry is not stable, there are constant movements and changes, and the Honey Bun has to navigate and plan the operations with the present conditions as the base. There have been some structural changes over the last decades, these changes occurred over quite a short period of time and it could very well repeat itself in present time and in the future. There are for example several rumors that large parts of the bread production in Sweden will move abroad and that one of the largest bakery might get sold to a foreign investor, such actions could affect the industry in many ways. There are also larger actors that are non-profitable and have been for a while and that can not go on for eternity – something must happen with them. However, “the more the larger bakeries mess up the market the better since it might bring about some benefits and advantages for the smaller ones” (Honey Bun's CEO, personal communication 2006-11-21). Many bakeries have gone out of business, especially those who operated with an annual turnover of 10-15 millions crowns, and who had nothing unique to offer. Those kinds of actors are easily exchange and it is hard for them to manage the constant pressure for low prices.

The market has a continuous movement towards becoming more centralize run. This leads to that decisions made, which may not be the result of low performance from a company, can cause devastating consequences for the company in question. Ten years ago when talking about loosing a customer one usually meant loosing a store, today if a customer is lost it often means that 30-40 stores are lost. Hence it could be very harmful and this awareness is hard to handle and puts the producing company in a very exposed position since According to the CEO at Honey Bun, the producers in the food industry are one of the most vulnerable companies today. As for all businesses, it is hard to plan for the future, the companies must live and act in present time with present conditions and invest for the future and stay up-to-date with changes in the industry, but nothing can be taken for granted. In addition to, and hand in hand with, the uncertainty of the future is the tough competition. There are quite a few numbers of bakeries competing for the space in the stores and for the consumers' consumption. Honey Bun experiences that the main competition is not among the different businesses but rather among the various products. That is the reason why it is important to offer products with special features. It is also of great importance to be efficient and cost aware since the focus on prices is high. When costs go up it is often hard to get compensated and the company has to rationalize to make up for the increased

costs in other methods. This is not a sustainable way of handling increased costs. A significant increase in cost of fundamental raw material in this industry is about to take place and if the trading blocs do not accept an increase in prices several actors will go out of business. Honey Bun experiences that it can compete efficiently. The company has a relatively new machine park and has invested in an oven with lower operating costs since the bread is baked on a conveyor belt instead of on a baking tray.

#### **4.1.3.2 Bargaining Power**

The negotiations with the trading blocs differ somewhat between the three. Axfood is quite strictly centrally run and all decisions are made at the central office in Gothenburg or Stockholm. When introducing products for Willys (one of Axfood's store chains) the negotiation takes place in Gothenburg but the final call is decided upon in Stockholm. At the moment the stores within Coop are divided in two parts where one part is more independent and not so involved with the central decisions. As a result there have been different systems concerning the relations to the suppliers. However, Coop will integrate those stores and all stores in the trading bloc will follow the same system and hence all the stores will be more centrally run from Stockholm. The stores belonging to ICA are on the other hand freer to determine which products, at least concerning bread, to keep in the stores. A negotiation is usually done with a group of store manager from different stores, on occasion the negotiations takes place with only one store represented. Sometimes when the negotiation with the stores is finished the central decision makers intervene with their opinions and at times they also make the final call.

Honey Bun has a unique kind of bread which no one else can offer at present time, hence if the stores want to have this kind of bread they need this company. That was the reason why Honey Bun decided to concentrate on a niche product line. "As a producer and supplier to the trading blocs one has no power at all, and that is the way the trading blocs want it to be. They have shown several times that if someone does not please them in one way or another they just "kick" them out, no matter how well known the brand is" (Honey Bun's CEO, personal communication 2006-11-21). There is a large risk that if this behavior continuous, the number of producers might decrease and the trading blocs will lose their position as the actors who determine the conditions in the food industry. As the number of producers is reduced the trading blocs get more dependent on the few existing suppliers and hence the supplier can use this situation to bring pressure on the trading blocs. There are indicators today that particular one of the largest producers has a hold on the trading blocs due to its size and well know brand. This is noticeable since this producer is able to get higher prices for its product.

As it is today quite a few of the producers are able to provide the trading blocs with a full assortment: cakes, cookies, breads, etc. Honey Bun offers all these products and recognizes this as an advantage even though the company does not benefit from it at present time. To be able to have attractive stores, flexible full-assortment suppliers are needed. Honey Bun is hoping that this will be recognized among the trading blocs and that its ability to provide a large variety of products will be beneficial. The question is how much attention the trading blocs pay to what the consumers want and demand. The stores are organized so that the products the trading blocs want the consumer to buy is placed at the most advantageous position on the shelves. By placing a product in an unfavorable position the trading blocs can force a business out of business in quite a short time. Many producers are totally in the hands of the trading blocs and as a result the trading blocs are responsible for the future of these producers. The trading blocs must realize that they have to compensate the

producers for increased costs to a certain extent, otherwise the number of producers will decrease just leaving the larger ones, causing a situation discussed above. Hence the trading blocs ought not to ally themselves too much with the larger producers.

#### **4.1.3.3 Competitors and Substituting Products**

“The DOB on the bread market has not been a success” (Honey Bun’s CEO, personal communication 2006-11-21). All DOB are simply means to earn money and to increase the trading blocs’ control. The trading blocs have complete control over the product; recipe, exterior, etc., allowing them to stay indifferent to whom is producing the DOB. Due to this indifference it is easy to exchange the producer if he/she can not meet the requirements of quantity, quality or price. The trading blocs use large quantities as a mean to pressure the prices; low prices and high margins are the only reason why the trading blocs decide to offer DOB. The DOB mislead the consumer since it is avoided to present who the producer of the DOB is, sometimes the products are produced abroad making it even harder for the consumer to track down the producer. Increasing the number of DOB in the assortment is automatically a way of reducing some external producers. Usually there are a total of about three products of each category; the market leader and two others. Of these two one is often a cheaper product and the other one is medium prices product, at least one of the two are most commonly DOB and quite often both of them are this kind of product. As a result, the producers not being the market leader is often excluded from the stores at an early stage, unless they are producers of DOB. Thus the trading blocs are forcing some producers to produce DOB, the only alternative is to go out of business.

Honey Bun does not produce any kind of DOB at present time but has been given the opportunity. The company is not aiming at producing DOB but can not say that production of DOB will never take place in their bakery. Instead Honey Bun focuses on its niche products and continuously works on the relations with the stores and the trading blocs, trying to negotiate to get better shelf space for its products. Many kinds of bread exist and fight for the shelf space in the stores and in such situations it is beneficial to have a special product. However, it can be hard for the customers to find a smaller producer’s products since the producers’ products are mixed on the shelves, organized according to different kinds of bread. This system is beneficial for the larger producers with several different kinds of products since the brand is visible everywhere. It would have been more advantageous for Honey Bun if each producer’s products were gathered to one spot but that would probably lead to minor sales of DOB since the customers probably would go to the shelves where a known brand is placed and ignore the DOB shelf.

The DOB provides no advantages at all – none for the producers and none for the consumers. “The trading blocs argue that the DOB have positive price-effects but it is probably only an argument to get less resistance from the market” Honey Bun’s CEO, personal communication 2006-11-21). There are no positive price-effects at all for the producers and the consumers do not seem to bother too much about the low prices offered by the DOB since the DOB-bread seems not to be very successful. DOB products are a way for the trading blocs to gain control over a product category and to earn money. The DOB are used in a way to lower the prices from the producers, causing an intense price competition, and enable the trading blocs to increase their margins. Generally the DOB offers the possibility of higher margins and are hence favorable among the trading blocs and the stores.

#### **4.1.3.4 Strategy**

It is very important to stay up-dated on what is going on in the market, changes in needs and preferences among the consumers, strategic moves among the competitors and on how the trading blocs want to develop their business. For a period of time Honey Bun presented several different kinds of toast-bread, today the trend has shifted towards coarser, healthier bread with more fiber and low GI (Glycemic Index) and the company tries to keep up the changes. The breads from this bakery have quite low GI but it is nothing that has been used for marketing or such since it was not an interesting issue at the time when the breads entered the market. The consumers are influenced a lot of the media and hence the producers need to follow. When new products are to be introduced to the market it is of importance to know that it is a product that will be appreciated by the consumers. Honey Bun always tries new products on a test panel – the local consumers buying the bread at Honey Bun's own stores. If the products are successful the process of presenting the bread to the large market starts for real. When the packaging is decided upon and a reasonable price is set the products are presented to the trading blocs and to the stores.

## **4.2 Interviews with the Trading Blocs**

The trading blocs play an important role in the Swedish food industry. Interviews have been made with Magnus Frisk, information director at Coop, Carina Haler DOB strategist at ICA and Henrik Hedlundh the European sourcing manager at ICA and Kenneth Wall information director at Axfood. To make sure to get different angles of this issue from the trading blocs, smaller interviews were conducted with the purchasing manager at a grocery store, all located in Jönköping, from each trading bloc. The picture presented by the trading blocs was similar in many aspects but some differences were revealed as well. The outcomes from the interviews with each trading bloc will shortly be presented below. (The information below was provided by personal communication with the representatives from each trading bloc.)

### **4.2.1 ICA**

ICA is a group of businesses operating in Norway, Sweden and the Baltic States and is the market leader among food retailers in Sweden with its 35,9% of the market shares in the food industry. ICA Sweden (which is the part of the group that is discussed in this thesis and simply referred to as ICA) operate all over Sweden, it employs 4 900 persons and has a turnover before tax of 47 billion Swedish crowns. The ICA-stores operate under four different store-concepts, from smaller stores with the fundamental assortment to larger ones with a product range from bread and milk to clothes and plants. The trading bloc has several DOB brands, within the food industry it has four; ICA, ICA Egologiskt, ICA Gott Liv and Euroshopper. (ICA Verksamhetsberättelse 2005)

#### **4.2.1.1 Market situation**

In a tough market with a strong competition ICA has been number one for a long time and it has remained on the throne for the time being. During 2006 ICA has shown a strong period of increasing sales. During the period from January to September, 2006, ICA's operating income rose by 44 percent to SEK 1,938 million. The main income improvement was the result of, further efficiency improvements in ICA's organization, and a favorable sales trend, which means that ICA has further strengthened its market position as the number one. In addition to the positive food sales development, higher demand for non-food

products contributed to the positive trend. Non-food is a strategically important area for ICA where they see great potential. (ICA, 2006)

Efficient distribution is of significant importance to remain competitive in the Nordic retail market. In September 2006, ICA took an important step when it opened its new warehouse in Helsingborg, a key piece in the progress of ICA's new distribution network and Sweden's largest food distribution center. The facility, that is largely automated and this efficiency can be raised up to four times that of conventional warehouse handling. This is one of Northern Europe's most modern logistics units. The Helsingborg warehouse can handle larger volumes, at the same time as it provides a more environmentally friendly logistics chain and faster deliveries to the ICA stores. New store openings, renovations and changes in the store structure are continuing according to plan and ICA will steadily be able to offer the right stores, the right products and the right prices for their customers. ICA continues to spotlight on price, product range, new store openings, Nordic cooperation and competence, and ICA is doing so at the same time as they are raising efficiency in their organization. (ICA, 2006)

#### **4.2.1.2 Bargaining power**

When it comes to competition ICA feels that they can compete efficiently because it can offer the customers good quality products at a good price. The DOB are good price fighters and allow ICA to offer products to a different segment with a different purchasing power than other segments that might prefer to buy more costly brands. An indicator that shows ICA that the DOB is successful is shown from the amount of sales that the DOB does represent. ICA is a member of a European buying organization, Associated Marketing Services (AMS), which is a cooperation between eight countries in Europe. Together they are able to buy large batches for lower prices that will benefit the end-user. A strong reason that gives ICA a strong position in the process of bargaining is the size of the organization and the owner of ICA. AHOLD, which is the main owner of ICA, and other grocery store chains, are very successful due to size which is a huge advantage when it comes down to negotiate terms of a contract.

ICA points out that the size of a supplier does not mean that it is the best choice, there are other aspects that has to be considered. If a company has a good track record of reliable deliveries, quality and other preferences that the consumers require then it might have some bargaining power. BRC (British Retail Consortium) is a required certificate that any supplier must obtain to be able to supply food and this certificate has to be renewed every year in order to be and to remain as a DOB supplier. The BRC is required by all trading blocs such as ICA, Coop and Axfood.

Anyone who tries to play a dirty game due to their strong position will be changed for a different supplier. ICA's whole organization is built on a code of conduct foundation and everyone that is becoming a new employee must sign a bunch of code of conduct contracts. This action is done to eliminate bribes and mistreatment of suppliers and customers.

ICA considers a few things when it comes to a centrally controlled purchasing unit. It can buy larger quantities for a lower price and can also control this through giant warehouses that will be strategically placed in Sweden, one in Helsingborg for the south of Sweden and one in Västerås for the north of Sweden. The centrally placed warehouses are much of a logistics question than anything else, for instance they can reduce shipping costs, become more cost efficient, more friendly to the environment since they use the railroads for much

of their transports. With the warehouses ICA can have better control of the trucks that are driving from store to store to make sure that they are always filled up instead of going back and forth half empty.

When a contract is signed with a supplier; ICA is very dependent on these during the time that the contract is valid. ICA never relies on only one supplier in case of some unforeseen events that could jeopardize the deliveries of products that are required from the consumers. In the end of each contract period new negotiations take place in order to secure future deliveries of the different products. When choosing a new supplier for a DOB there is always a way of benchmarking to an existing brand or an idea that they want to deliver to the customers. As mentioned above, all suppliers of DOB must be BEC certificated to be able to become a long term partner with ICA.

#### **4.2.1.3 Distributors' Own Brands and Substituting Products**

The market share of DOB at ICA is approximately 15 % today. The goal with DOB is not necessary to increase the market share, but rather to give the consumers what they want and are demanding and what is attractive to them. By raising the share of DOB the variety of different product from different producers would get lost in the assortment for that exist the consumers today. It is important to have a good variety among the products that the store is offering and that the demanded products are available in the stores. When it comes to variety in a store DOB are important since they offer different quality with different prices. The objectives with DOB are that the consumers should have many varieties in prices and quality and different products to choose from when going shopping; in the end it is all about the consumers want and need. ICA hopes that the DOB are offering the customers a price worthy alternative that can help save some money in the daily grocery shopping. By saying that there is a variety of products in the store it means that ICA has products with a lower price but also with a little lower quality (Euroshopper) while DOB also exist with the equivalent quality, or sometimes even better, at a similar price as the competitive national brands. There is also a higher quality brand that has a niche towards more healthy products called "Gott Liv" (Good Life). This brand is for people who are thinking in a more healthy direction and this is unique since not so many other brands have this niche. ICA was the first with this kind of DOB and is proud to present this product in the stores. All of these different kinds of brands are made for the consumers to allow them to make their own choice of quality and price and to buy what makes them feel satisfied.

When talking about the differences and similarities between DOB and national brands it depends on what type of brand one is talking about. If looking at Euroshopper which is offering the lowest price on the market with a little lower quality, the customers think it is ok to buy these products at a low price with the awareness of its low quality. When buying the healthier products "Gott Liv", the product is offering more value and is healthier than most of the other products on the market. When it comes to the ICA brand then the price is a little lower while the quality is the same, or even higher as the other products on the market. It is important to understand that the DOB products have to be tested on their quality in many tests to be able to qualify as a DOB. The products have to pass a quality test with a grade of seven or higher on a scale from one to nine to become a DOB. When the product has passed the quality test, then the product sometimes even has a higher quality than some of the other products on the market. It is important for ICA to have good quality on their products since they have ICA's brand name. If the products would not meet the expectations of quality then the brand name would get bad reputation and that is something nobody wants. DOB should be a price worthy alternative for the consumers

with a message from ICA saying that “our own brand, in many cases, does not differ so much from the national brand products”. Of course there are categories where some brands are strong with a good reputation and those are not easy to compete against. When a brand is valuable and the consumer has a good relation to the brand it can mean so much more for him/her since he or she is not just buying the product but also the brand name, hence it is important to have a good reputation that is of value for the customer. In these cases there is a difference between DOB and the suppliers’ brands.

When deciding what to produce as a DOB, ICA first looks at what the consumers are demanding and what is missing in the assortment in the store. A new DOB should be something that is demanded and lacking in the existing product range and there should be a variety of products for the consumers in every product category. There is a lot of research being done to find out what the consumers want and then see if it should be a product with a lower price, a higher quality or a niche product with a focus on healthy products. ICA is the biggest and strongest actor concerning DOB in Sweden with a high trustworthiness which has been worked on for a long time. After many years of consequent hard work with the brand name it has gained trust and dignity, and without that it is difficult to grow and become stronger.

#### **4.2.1.4 A Purchasing Manager’s Perspective – ICA Supermarket**

The information is gathered from the interview with the purchasing manager at ICA Supermarket in Jönköping

ICA has a standard offer of products that all the ICA stores must keep on the shelves. The assortment in this particular kind of store (ICA Supermarket) consists of 11 000 items and 6 000 of those items are centrally decided upon. Of those centrally decided products about 20% are DOB. The rest of the products that the stores have are decided upon by the purchasing manager at each individual store, and approximately 20% of these are locally produced products (in this store). It requires some extra work for the manager to have locally produced products; besides national regulations, ICA has rules and regulations that the products have to fulfill. The products do not have to be registered centrally since the purchaser can approve the product(s) him or herself.

As mentioned above, about half of the assortment is decided centrally and that have some advantages, such as lower prices. An underlying factor for the low prices is that the central purchasing center can buy larger quantities and therefore get a lower price and that also makes it easier to maintain the expenses within the stores. The fact that ICA can offer lower prices when purchasing centrally can be seen as a valuable factor when it comes to competition among the trading blocs and it is easier to be competitive when the prices can stay constantly low. Another advantage with central purchasing is that the smaller stores do not have to control the products themselves but rather the central purchasing center controls them and also takes care of all the administration. The dependability among the producers and the trading blocs can be seen as equal; if there were no products the stores would not have anything to sell, and if there were no stores then there would be no place to sell the products. They are both dependent on each other and it is important to have a good relationship with each other.

There are no drawbacks with DOB, there are only advantages. The DOB makes the producers stay focused on what is going on and keep the prices to stay on a somewhat equal level. The DOB are competitors that has many advantages due to that it is the stores own brand they are favored in the stores and hence they make the private producers work hard

all the time to stay on the market. DOB are important to keep in the store and the consumers are the ones that benefit the most from those. The competition increases with the DOB, but it has positive effects since all actors have to become more efficient and constantly develop themselves and their products to stay in business. The DOB also helps keeping the prices low since the private brands can not raise their prices as much as they would want to. The DOB can be seen as a “price ceiling” preventing the prices to rise. Today ICA has 20% DOB in their stores but a target is to have 25%. Those who are most affected by the DOB are the second and third largest producers in a product category since the market leader is taken for granted to be available in the store. The stores often have three to four different products; the market leader, DOB products and an additional. The additional products are often locally produced since many stores want to have a certain percentage of local products. Hence, local producers might benefit from DOB since the stores are most likely going to have local products, but the second and the third place producers are perhaps going to be replaced by the DOB in the long run.

## **4.2.2 Coop**

Coop Sweden (which is simply referred to as Coop in this study) is a subsidiary to Coop Norden. Coop Sweden had an annual turnover of 26 billion Swedish crowns and 9 000 employees in 2005. Coop’s stores are organized under four different store concepts, from small local stores to large supermarkets. Approximately 16% of the market shares of the food industry are under the control Coop. It has three DOB brands for food product but also have several DOB brand for other kinds of products. The food DOB at Coop are; Coop, X-tra and Änglamark. (Coop Norden 2005 – En kort verksamhetsbeskrivning samt årsredovisning)

### **4.2.2.1 Market situation**

There is tough competition in the food industry today and it will probably remain like that. Coop is the second largest player and has not shown outstanding results during the last year. ICA is the market leader in this industry and is showing good results compared to Coop. The performance of Axfood is about the same as Coop. Due to the poor performance Coop decided to reorganize the whole organization from the top down to the local grocery stores. Big supermarkets are going to be valuable in the future so there is much effort and resources put into that segment now to be able to compete with ICA Maxi (a large supermarket within ICA) which is a well established store that is working very well today. There is a tough competition, especially between Coop, ICA and Axfood, and the focus on the price that exists today will be strong also in the future. The low prices will still be low but there will also be other focuses such as quality, locally produced products and ecological products which will be important for the competition.

To be able to compete effectively on the market Coop needs to reorganize the cooperation and become more as one group. Today some of the stores are independent and they will become a part of the Coop cooperation which will make the cooperation a stronger organization. With a centralized purchasing department it will help to centralize the stores under Coop and this will enable Coop to do advertisement in the whole country using only one name which has not been possible.

### **4.2.2.2 Bargaining Power**

The largest actors on the market are the ones that have bargaining power. ICA is the largest retailer on the market today and it has a lot of bargaining power, however Coop also has a

large amount of bargaining power. The leading producers have some power as well due to their strong brand. However, in the end it is the customers that decide which products that are to be held in the stores. A well illustrated example of this is an occurrence between Coop and a very well recognized cereal-producer (let us call the company Cereal) that happened a few years ago. Coop wanted to lower the prices at the products from Cereal. However, the company did not approve this and stood up for its decision which resulted in elimination of the product in the Coop stores. The customers wanted to be able to buy Cereal's products in the stores and after some struggling, Coop and Cereal found an agreement. This company had a strong brand name with large customer demand and therefore this resulted in that Cereal once again became a supplier for Coop. This shows that the consumers have much power since they are the ones that are going to buy the product and if the product is not to be found in the store then the consumer goes somewhere else.

#### **4.2.2.3 Distributors' Own Brands and Substituting Products**

When deciding what products to have on the shelves in the stores there must always be a consideration about what the customer wants and demands since it is the customer that is going to buy the product in the end. If there is no demand then there is no reason to have the products on the shelves. It is also important to look at how many varieties there are of every product, the assortment in the stores should be wide so the consumers have many choices. There should be a product range from low price products with a little lower quality to medium products and also premium products. Coop is offering low price and low quality product with the DOB called X-tra, and there is a product called Coop which is equivalent to the suppliers' brand products with a similar quality but to a lower price. In addition to this, there should of course be a brand leader that can offer a higher quality product. The reason why Coop can offer lower prices on the equivalent quality products is that there is no distribution, advertising or marketing expenses on the DOB products that usually the private brand product have to cover in their prices.

If there is a lack in the product assortment, and the consumers are looking for a new product then the decision will be to produce a DOB product. It is always the consumer who decides when they are looking for alternatives in the store. When deciding which producer that is going to produce a DOB, they first of all have to pass a test to meet different criteria, such as hygiene test, taste and color but the tests differ depending on what product segment it is about. If all, or many, producers pass this test then price is the determining factor that decides who will produce the DOB. Coop does not have any factories that are producing DOB; it has had some but not any more. The largest producer of Coop's DOB is located in Swedish, but many other are in the rest of Europe.

The cooperation decides what the stores should have on their shelves. The major decisions are made centrally, but there are local deviations and that is when the local buyer can have influencing power in what local product to have in the stores. If there is local demand for a certain product that product should be present in the local store. For example there are products that have to be in the stores in the southern part of Sweden, and other products that the stores up north must have, hence the stores have to take consideration into what the local demands are.

Today the DOB in the Coop cooperation is 13% of the turnover, which is equivalent to 9% of the shelf space. Coop's long-term goal with DOB is to have 20% of the turnover, but there should not be any more than what the consumers want. The reasonable amount of DOB is somewhere around 20%. If compared to the rest of the world 20% seems reasonable. To be able to increase the share of DOB, there should be good product develop-

ment within each product segment. Hence, in every store there needs to be one low price alternative, one alternative for the private brands and then a healthy alternative. All of these varieties in product are important to have so that the consumers have many alternatives to choose from. There needs to exist something that is appealing to every customer. The offer of products will not become standardized since the customers want to have a wide variety to choose from. The only segment that could possibly be standardized is the low price segment where the price will be low as well as the quality.

#### **4.2.2.4 Relations with Small and Medium Sized Enterprises**

The relationship between Coop and the SME is good, especially with the local bakeries and the local producers of other daily-fresh food. The relationship could be even better, but Coop is helping them to develop and grow. For example, when Coop is giving a producer an offer to produce a DOB it generates safety and a large network. At the same time as the producer is strong in the production of DOB, it can still produce products with its own brand. For the producers, advantages with DOB are that they can develop and grow by producing DOB since then they are part of the product development. As for the cooperation there are advantages such as that it can keep control over the products while they also make a lot of money from the DOB. However, the money earned is used to cover other costs within the cooperation. The one who gains the most from DOB are the consumers since having a large variety with many different prices and quality is the primary goal with having DOB in the first place. The major objective with DOB is for the consumers to be able to buy a basic product with the same quality as a private brand but at a lower price. Coop is not trying to eliminate the Swedish SME business; it is only trying to give the customer what he or she wants. The local producers will always exist since there will always be a local demand for local products. If a DOB product can be bought from or be produced at a lower cost in another country than Sweden then that product is going to be bought/produced there since that will make the consumers satisfied with a price as low as possible. There are no negative aspects with DOB, there are only advantages and especially for the consumer. For example when looking at H&M and IKEA then there is only DOB and that is accepted while there is a big debate within the food industry.

#### **4.2.2.5 A Purchasing Manager's Perspective – Konsum**

The information is gathered from the interview with the purchasing manager at Konsum in Jönköping.

All the stores that belong to the different trading blocs are much under the power of the higher board within the bloc. The largest store, Coop Forum, has less power of its own product assortment and when it comes to the decision on what to have in its store. The smaller stores, like Konsum, on the other hand have more power over their own store. The smaller stores are able to have more local products since the consumers are demanding more locally produced products in the stores.

It is important to have a balance when it comes to DOB and private brands. There should not be too much DOB in the store, only enough to meet the consumer demand. It is decided centrally how much DOB there should be since there is an overall goal when it comes to DOB. The purchasing manager can not decide him/herself what campaigns to run or what should be on sale that is something that is decided centrally. There is also a standard offer decided upon centrally that all the stores have to have. The standard goods consist of 95% while the store can decide for the rest what to have in the store. This offer is not easy to change, since these are the products that the cooperation is offering as a base.

But there is still space left to bring in local product into the store if there is a demand for that. Products that are local today are eggs, meat, bread, and dairy products while other standard products that are not local are cereals, pasta and preserved goods.

There will probably not be much change within the stores when all the stores that belong to Coop Norden will change their names and become more as a big cooperation. But this in turn will make Coop more competitive which is good for the future.

### **4.2.3 Axfood**

Axfood is the third largest trading bloc in Sweden with its 13,5% of the market shares. It has three different store-concepts but operate also with independent stores through different agreements. Axfood has three different DOB brands; Hemköp, Willys and Eldorado. The annual turnover was 28 billion Swedish crowns 2005 and Axfood has 7 000 persons employed. (Axfood Årsredovisning 2005)

#### **4.2.3.1 Market Situation**

At present time Axfood is only doing business in Sweden, it has been operating in Finland but it was not profitable. One of Axfood's long-term goals is to get a partner outside of Sweden so that good and profitable networks and connections can be established with the aim to grow in Sweden as well as abroad. When comparing Axfood with Coop and ICA they both have international contacts, Coop has cooperation among the Nordic countries and ICA is well established in the Baltic and Finland, and 50% of the business is owned by a company in the Netherlands. Hence the next big important step for Axfood is to find a partner to do international business with somewhere among the OECD countries. Axfood needs to grow and get bigger and if a trading partner could be found then Axfood would get a stronger purchasing power and can thereby get better prices on the purchases, which is a very important factor in this business. Another goal is to gain market shares from the competitors and to get an increased ranking and awareness from the consumers with an increased amount of consumers' shares. The food industry market has been increasing dramatically with an increase of seven percent this year. There is a risk that this growth will flatten out, since it can not keep growing forever even though this is a market with a great purchasing power and the Swedish population seems to have a lot of money, however it will become weaker. There is also a tough situation concerning the competition between the trading blocs and the producers in this industry. There is an over-establishment of grocery stores in Sweden today, and the CEO of Axfood use to say that there exist grocery stores for 30 million people in Sweden today.

The big actors have the most bargaining power, both ICA and Coop are larger than Axfood so they have an advantage when it comes to bargaining power. By looking at a smaller actor like Lidl, it shows that it has advantages by being strong internationally and purchases everything worldwide. However, according to Kenneth Wall none of the bigger blocs is using its power in an unfair way, nevertheless it is not about being fair or unfair it is the rules of the market. The biggest and most important producers/suppliers for Axfood are the market leaders. Axfood is depending on the producers in the way that they are delivering the products that are needed in the stores and the products that the consumers are demanding. It is important to have established and well known brands in the stores.

#### **4.2.3.2 Distributors' Own Brands and Substituting Products**

To introduce a new DOB requires a budget of about 20 million Swedish crowns, hence it is not a decision taken just like that. The process starts with recognizing a gap in the product range, perhaps by demand from the consumers – everything starts with the consumers. The products are divided into categories and the head of the certain category and the producer meet and discuss possibilities and solutions. Discussions concerning the price setting, the volume, and how much that is actually going to be sold in the stores, and what campaigns are going to drive the products etc. Finally a contract is signed. When a producer is going to produce a DOB there are high quality tests with international standards that must be passed to qualify as a producer. When the quality test has been passed, then the price is the determining factor of who will be the producer. However besides the price factor, the quality on the product is also an important factor and all the products go through a quality tests to make sure that the products are competitive concerning not just the production and the ingredients, but also the taste and how the customer experiences the product overall.

Most of the DOB are produced in Europe since there is a big market for DOB in Europe. There are actually actors that focus the entire business operation on producing DOB, products that will be delivered to several countries all over Europe. Of course there are Swedish producers too but in Europe the market is more developed when it comes to DOB. There are many examples of Swedish producers that would not do as good financially if they were not a producer of DOB, hence it is an advantage for the producers who get the chance to produce DOB. It has happened sometimes that a company is about to go bankrupt and has been offered to produce DOB for Axfood and thereby stay alive. Those companies are of course not allowed to have their own brand on the products but rather have to use the particular DOB brand name, however when this is an alternative to go out of business then it seems good for the future existence of the company in question. If a producer is not profitable on its own, it is a golden opportunity to start producing DOB and there are actually many small companies that have taken this action to stay in business. If a company is not so good at marketing themselves but have good products then it could be offered the chance to produce DOB. By producing DOB for Axfood the company can increase its production and hence grow and become larger. Many of the companies that were about to go out of business in the past are successful DOB producers today. Axfood used to have its own factories producing DOB but has got rid of them and does not have any factories of their own today.

In the year 2000 the DOB represented about 4% of the turn over at Axfood. At present time 20% of Axfood's turnover comes from sales of DOB, and the goal is to increase this to 25% by 2008. To making this possible, DOB are going to take over the shelf space from the brand names that are not so strong in the stores of Axfood. New products in new categories will also be established where no established products exist today. Nowadays there are both DOB with lower prices and have lower quality but also DOB products that are medium in both price and quality, and there is now a rise in demand of premium products. Not so long ago Axfood launched a series of products called Hemköps Hälsosamma (Hemköp's Healthy) which are products with a focus on healthier products. Even though about 25% of the turnover will come from the DOB the major part of the turnover (75%) will come from other brand products. It does not mean that the brands from the producers that are selling well in the store will be eliminated, this is not an attempt to force any producers out of business the goal is only to increase the turnover percentage of DOB to 25%.

When talking about DOB, there are advantages for the consumers since they can choose to buy a product that has a relatively decent quality at a low price. A survey made by Axfood among the consumers show that they do not notice a difference between a product from a producer or a DOB. The DOB is just a brand among many others on the market and in the stores. Hence there is competition between the producers' brands and the DOB and they are stimulating each other to develop and improve their products. This product development is good for the consumers and this is a positive development that has not existed before, and the result of this is that the consumers get more varied products to choose from in the stores. Competition is good in this way that it is stimulating the different actors, not just the brand leader and the DOB but rather all the producer in the same category on the market. There is an example from Tesco in England that shows that it can be too many DOB products in a store. Today Tesco has about 40% DOB in the store but it has been more, however the company noticed that there was a boundary of how much DOB that could be present in a store and it decreased the share. This is not the case at all with Sweden today. However, there will be a development in all different kinds of directions, both to the right and the left, in a bigger sense than it has been before.

Axfood is not in charge of what the stores are going to have in their specific assortment, the stores decide that themselves. Nevertheless, Axfood has central purchasing, which influence the stores to a certain degree on what to keep in the stores. By having central purchasing a greater volume can be handled, which makes it easier to have more and better control over the products and it also increases the security. The biggest advantage when it comes to central purchasing is of course that it makes it possible to buy large batches at low prices. Axfood has two different store concepts, Hemköp and Willys, both representing different business ideas. Willys is obvious when it comes to low price and lower quality, but those stores also have the DOB representing the medium concerning price and quality, and the brand leader on the shelves. There are about three to four products in every category at Willys' stores, but it always has DOB with the lowest price. When it comes to Hemköp, those stores have a wider and deeper assortment, and there is a larger variety to choose from. But of course it is more expensive to have a bigger and wider assortment.

#### **4.2.3.3 A Purchasing Manager's Perspective – Hemköp City**

The information is gathered from the interview with the purchasing manager of fresh food at Hemköp City in Jönköping.

Axfood decides centrally all the important decisions and most decisions about what products to keep in the stores. Hemköp can decide what local products to keep when there is a consumer demand for those products, however those local suppliers must be registered in the central data base. This is a requirement since it is important to keep track of consumer purchasing statistics to follow up possible changes in the consumer demand. The stores are required to keep a certain amount of standard offer products to have the same base in all Hemköp's stores. However, the demand differs in different parts of Sweden and thus the assortment differs somewhat as well. Besides those products decided upon centrally, there are some additional products that each store has the possibility to add to their product assortment to fulfill every consumer's demand.

There are both negative and positive aspects with central purchasing decisions. When it comes to changing the standard-offer of product, such as eliminating a product from the assortment, the central decision makers can be somewhat hard headed. Even though the product is not profitable in that certain store, a good motivation must be provided from the store manager to be able to eliminate it. A positive aspect is that Axfood can purchase

the products for a low price since large quantities are purchased. There is also more and better control involved when all the products are handled through a central purchase.

The DOB are decent products even though the quality is a little bit lower. But since the price also is lower then it is still profitable for the stores to have it. It would have been better to have more locally produced products in the store to support SME. The fruit is quite well represented by local producers.

### **4.3 Interview with a Distributing Company**

To further increase the perspectives and to be able to answer the research questions in a fair manner, the decision to interview an actor “between” the producers and the trading blocs were taken. This offers a third viewpoint and will help avoid biased conclusions.

#### **4.3.1 Quick n’ Fresh**

Quick n’ Fresh is part of a larger company distributing fresh bread all over Sweden. As a whole this company has an annual turnover of 1,3 billion Swedish crowns and it has approximately 20% of the market shares. Quick n’ Fresh is located in the Jönköping-area and covers the geographical area around Jönköping and Borås. It has four customers, ICA, Coop, Axfood and Bergendahls Gruppen (another trading bloc) who is growing stronger and stronger, and Quick n’ Fresh represents and distributes seven more of less well known bread brands.

##### **4.3.1.1 Market situation**

There have been a lot of changes in the market situation in the bakery industry over the last years with several acquisitions and merges but also discontinuation. The entrances of businesses in the bread industry are represented by small local actors and they are not a threat for product represented by Quick n’ Fresh due to these new producers’ size and small local market shares. In addition to the entrance of new, small businesses there are some spin offs as a result of discontinuations. The number of actors over the last years has decreased in this segment of the food industry – ten years ago there were six to seven different suppliers to the same stores while today there is about three to four – which has resulted in a challenging and toughen competition. The number of suppliers will probably decrease even more due to the intense competition in the stores. The stores play off the competitors against each others and are always demanding higher and better efficiency levels, lower prices and higher profitability. The end prices to the consumers should be low but since the stores and the trading blocs are not willing to reduce their margins, the suppliers have to take on that burden, which is causing a price focused competition. The situation in the industry is not static and it is necessary to be inclined to change and willing to improve. There is a constant development in this industry, there is always a lot going on with the customers, both the stores and the end consumer, and the demands are constantly changing.

##### **4.3.1.2 Bargaining Power**

The trading blocs are Quick n’ Fresh’s largest customers and ICA, who has the largest market share in the food industry, is the most important customer causing some dependency for Quick n’ Fresh. This dependency brings about some worries since there are no major advantages of few large customers. The situation for the company would have been

more beneficial if there were a larger number of customers. However, few large customers offer the possibility to be efficient when it comes to price setting due to the fact that there is no need to have several different prices and discounts adjusted for several different customers. Another positive feature of few customers is the possibility to be able to plan the work, from production and sales to administrative work tasks, since it is known what will come from the products.

Window opportunities for businesses to present new products to the trading bloc take place two to three times per year. These window opportunities exist as a way for the trading blocs to guard themselves from possible price changes as they close a deal with the suppliers for the time period between the windows. At these opportunities presentations the businesses have to present a complete product and the purpose with the product has to be clear. The sales persons at Quick n' Fresh is in constant contact with the trading blocs to be able to stay updated on what is going on and in what direction the industry and the trading blocs are moving. The sales persons also handle the tough negotiations with the trading blocs. It is very difficult to affect for example the prices, as a supplier it is almost impossible to raise the prices; rather the trading blocs want to decrease them. There is always a risk of losing the position as a supplier if the requirements of the trading bloc can not be met, however, for Quick n' Fresh this risk is quite small since it represents strong well known products. In addition to this, the trading blocs know that the stores are not able to handle the fresh bread section everyday and thus are dependent to a certain extent on the suppliers. The service Quick n' Fresh offers is valuable to the stores and thus the company experiences that the trading blocs will not just "kick" out the products represented by Quick n' Fresh. However, the company has experienced that the trading blocs have eliminated one or a few products of the product line to put some pressure on the supplier. Nevertheless, the trading blocs do not want to reduce the number of suppliers too much since they want to have competition in the stores not allowing any of the suppliers to become dominant and possibly turn the situation around – the trading blocs becomes dependent on the supplier.

#### **4.3.1.3 Competitors and Substituting Products**

There are several products in this segment of the food industry. The stores usually have three kinds of each kind, one representing the DOB and two from external suppliers. The competition to be one of the two suppliers is tough, however since Quick n' Fresh has a niche product line it gives some advantage in the competition. Nevertheless, the DOB represents new competition which comes from the customer(s) (the trading blocs) causing an awkward situation. Quick n' Fresh represents one kind of DOB at present time and it notices the different attention that the DOB product is getting from the store. The DOB product is always very prioritized by the store even though it is not the most profitable product. A company does not have a safe position as a producer of DOB, it is of no guarantee that the company in question gets to keep the contract to produce DOB. There is always a possibility for the trading blocs to simply hand it over to another producer since they own the brand. Due to the fact that the company producing the DOB is totally in the hands of the trading bloc and has no control over the brand, Quick n' Fresh would rather not represent more DOB products. Even if the situation was more secure, Quick n' Fresh would not like to include another DOB in its assortment due to the fact that once one start to represents (and produce) DOB one gets very dependent on the trading bloc(s). The major negative aspects of this reliance arise when the trading bloc(s) find another producer who can produce at a lower cost and thus switch producer. At this point of time the producer might have built the entire business operations around the production of DOB and

might no longer have its original brand. This situation will most likely lead to huge problems for the company. This would also affect Quick n' Fresh since in such a case it would have a decrease in products to distribute. Thus, for SME the main threat of the DOB is to start producing this kind of products.

It is important that the company has a vision with its products, that the company knows to whom the product is mentioned. Producers' brands are better profiled and have a clearer purpose than the DOB. When a new product is presented to the trading blocs it has to have a purpose and fill a possible gap in the assortment, however DOB do not need this, the DOB are merely means to generate money to the owner. The DOB also take advantages of the suppliers brands, such as making the product very similar visually and thus making it possible to free ride on others well done marketing and their good reputation. The advantages of the DOB are few. As a producer of DOB it is a way of earning some extra money and rubbing the trading blocs the right way instead of giving them a definite negative response, which could hurt the relationship to some extent. The main purpose with DOB is to offer products with low prices to the consumers, and that is off course an advantage of the DOB, even though it is not necessarily an advantage for the producer.

#### **4.4 Summary Empirical Findings**

The interview with the various actors in the food industry increased the understanding of the issues raised by the research questions and assisted in viewing the issues from several different angles. The interviews with the SME were the most interesting and the most important since they are the foundation of the thesis. The CEOs at the SME provided a good insight to their situation and the market they operate in. It was somewhat surprising though that the CEOs had similar opinions concerning the industry situation and the DOB even though they operate in such different segments of the food industry. The trading blocs did also present a similar view of the industry, as expected. Obviously their opinions and attitudes concerning the food industry differed to a large extent to that of the SME. These different perspectives will allow for an analysis from different angles which will be of assistance when drawing conclusions. The distributing company's, Quick n' Fresh, view was similar to the one of the SME but not as similar as among the producers. As this actor has a more neutral position the opinions will be very useful for the analysis and conclusion to make it as accurate as possible.

The empirical findings with all its perspectives will form a good foundation for the analysis and allow for correct conclusions to be drawn. The next section will present the analysis where the empirical findings will be supported by the theoretical framework.

## 5 Analysis

This section contains the analysis of the empirical findings. To facilitate the analysis the theories from theoretical framework will assist in analyzing the situation in the food industry and will be a useful support to the results. The research question will be the starting point and to make the analysis easy to follow it is structured according to them with each of question as a subheading.

### 5.1 Which are the Main Sources of Competition in the Food Industry?

The food industry in Sweden today has a high focus on price. This is a result of the more centralized retailing organizations and the increasing amount of DOB. The three main players (ICA, Coop and Axfood) have become more and more centralized in order to be able to purchase large quantities of products from Sweden as well as from other parts of Europe to get better prices. The reason for this is to offer the customers better prices and a greater variety of products. However, it does not always result in this as the empirical findings show. The focus on price has made it harder for the Swedish SME since they have to become more and more efficient to remain as a supplier. The CEOs at the SME all have the same opinion concerning the hideous price focus and the pressure it brings about. To stay competitive efficiency is needed and investments are often required to meet the demands of low prices. Nevertheless, even though a SME has made efforts to become more efficient there is still a risk of not being price efficient enough.

With the increasing amount of the DOB smaller producers feel the pressure to perform better in order to stay on the market. Much effort has been made to create strong brands that the customers will have loyalty towards. A strong brand is a key factor for small producers since competition is tough, especially with strong well known brands, and consumer loyalty can demand products to be available in the stores. Frosty, Fort's Mill and Honey Bun experience strong local awareness and to increase this awareness nationally is of essential importance. To have a high consumer loyalty is crucial to guard one's products against substitutes. The threat of a substitute is always present and can become serious at any time however the brands of the SME in this study are well-known and demanded by the consumers so the risk of substitution is under control as long as the quality of the products is maintained. The high importance on quality for the SME can not be emphasized enough; all the CEOs claimed that this is a key issue for further success and cooperation with the trading blocs.

There are some dominant actors when it comes to all different kinds of products, from frozen products, flour products, meat, dairy products etc. Some mergers or takeovers have taken place while others have been in the process but have been stopped after investigations by the authorities that have come to the conclusion that this would not benefit the market, just the contrary. In some cases the dominant producers sell services to the other members in the market, for example research that could be impossible for a smaller company to conduct. In many branches, not just the food industry, this is common because it is an additional business opportunity for the larger actors who have the resources to turn this into a service that is needed by the other actors. This can benefit the market/industry in a positive way and please all parties of the chain. The above is a process that is going on in the mill industry while Frosty has a much more different view on the larger actors within the industry. The frozen desert industry is a big endless fight against the big giants that have its production in east Europe and Sweden can not compete with the prices that they

can offer the distributors. This is why SME has to be a bit more specialized and different than the big players in order to create their own segment of customers.

The trading blocs play a very important role in this market and for the survival of the SME. ICA, Coop and Axfood want to have competition between its suppliers in order to get the best price, quality and delivery assurance. This does not mean that the blocs are aiming at eliminating producers but instead push them to achieve the targets that the trading blocs have set up for themselves. If the producers fail to live up to the trading blocs' targets they might be replaced by another supplier. The most common suppliers that are switched for another are in most cases new suppliers that have been on a try out period rather than suppliers that have been around for a while. The trading blocs claim that the competition between suppliers is healthy for the industry and the CEOs at the SME agree. Competition drives improvement and product development both among the producers' products and the DOB. However, such focus on price competition might not be healthy for the industry but perhaps more destructive since the quality most likely will be overlooked.

The control that the trading blocs have is undoubtedly large and they set the conditions in most cases. However, there are cases when the producers refuse to give in for the trading blocs' will. The trading blocs have created certain criteria that have to be fulfilled in order to be accepted as a supplier, all the trading blocs have the same view on this issue. In a few of the cases the producers have won the battle thanks to very high customer loyalty and that has forced the trading blocs to give in and accept the conditions from the producers. These occasions are quite rare and the most common is that the trading blocs have goals which they want the suppliers to reach. Negotiations are very important and the SME has to have the attitude that they will succeed otherwise the battle is lost even before it started. Thanks to the high customer loyalty from the customers and the hard work from the producer, the most well-known brands are in the stores. This shows what the SME need to do to be part of the battle, stay focused and work towards the customers' demands and satisfaction and stay competitive not let the trading blocs run them over. In the end it is the consumers who are buying the product who determines what products to be available in the stores. Nevertheless, the trading blocs are so large and have such influence that it seems as if the consumers' demands are overlooked. For consumers to make their voices heard and influence the assortment they need to be many in number.

## **5.2 Is the Intensiveness of the Competition a Threat for Survival of the SME?**

A market that requires high efficiency and other high standards do have the chance of losing some of the players due to the intensity of the industry. This could on a short glance benefit the larger actors since they have the resources compared to the SME but in many cases the SME is more niche than the big producers and this is a big benefit for the SME. For the SME one of the largest threats is from the rigorous focus on the price and this can be a huge obstacle for the SME since it costs them a lot of effort and money to become more efficient to join the battle for the best price. Much of the competition is from large producers in Europe that has all of their production in cheaper labor countries. This is something that Swedish SME have a hard time competing against in the long run and hence it force them to differentiate or rely on their consumer loyalty. Consumer loyalty is something very important for the SME and many traditional companies have a longer history with its consumers since the brand is well known and accepted as the most satisfying one.

As mentioned above, the SME in Sweden has a huge obstacle to tackle and this will require a lot of money and a big portion of effort. To become more efficient and different than the competitors the SME has to develop a strategy that will guide them, not only in the short run but also in the long run. The importance of correct readings of the market situation is a key component for the SME in order to be able to estimate the kind of investments and other actions that have to be done for successful continuation of their existence. These are the hardest and most important aspects for SME to remain as a player on the market. Some SME have disappeared and this is a concern also for the trading blocs since they want to have a certain level of competition in order to have some control over their suppliers. If the amount of suppliers diminishes to a certain level then the suppliers will be the ones with a strong bargaining power and this is something that the trading blocs do not want to happen. The trading blocs point out that in the stores they want to have two to four products in each product segment and that makes it difficult for new products to enter the market. The trading blocs are looking for the most suitable suppliers so several suppliers get tested during a period of time and when one fails to deliver what the trading blocs expect they are most likely to be switched for another. This will, according to the CEOs at the SME and Quick n' Fresh, lead to a diminishing number of small producers in the future.

With the expansion of the European Union the competition has become more intensive since a lot of western European companies invest heavily in the east where there are a lot of benefits when it comes to cost efficiency. Also a lot of established east European companies want to have a piece of the cake. They are able to offer substitute products for a lower price and since this is what the trading blocs are looking for, and also the customers, in many cases they have a quite good chance of being accepted as supplier. One of the most efficient ways of remaining on the pitch is to produce DOB for the trading blocs, some of the SME are not very fond of the idea but it is a realistic view on the future.

### **5.3 Who has the Bargaining Power and How is it Used?**

When the CEOs at the SME were asked about whom it is that has the bargaining power in the food industry they all answered the trading blocs. The trading blocs are few and large organizations with the majority of the retailing market shares and with this dominant position they are able to determine the conditions in the food industry to a large extent. These factors are, according to Porter's five forces framework, circumstances providing the actor with bargaining power. In addition to the trading blocs large actors, such as producers and public authorities, were other actors mentioned as organizations with bargaining power. These actors are also supported by the five forces framework to have bargaining power. The larger producers with strong brand have power through its size and reputation as well as through the consumers. If their products are not available in the stores the consumers will ask for them and demand to get the products into the stores. Larger actors also have a better possibility to manage and survive temporary losses which might occur as a result of for example loss of customer(s), such as a trading bloc, when entering a new market or trying to defeat a competitor. The trading blocs point at the large actors, mainly the producers/suppliers, to be the ones with bargaining power. Coop and Axfood also mention the bargaining power of ICA as a result of ICA being the largest actor among the trading blocs with approximately 40% of the market shares.

The trading blocs find the usage of the bargaining power to be used in a fair way. This can be questioned however. The trading blocs have the power and use it against the SME who are to play by the rules of the trading blocs and to keep prices low. Some of the SME who

are not able to supply the trading blocs or on the limit to go out of business are offered to become producers of DOB instead. The trading blocs argue that this is a way of saving the SME, and it is – in the short run, but it is also a way for the trading bloc to gain strength within the market. The trading blocs have the control over the DOB producer and also get access to production costs and other vital information concerning production. This is of usage for them when negotiating with other producers. Due to their size and this kind of information they are able to make use of the bargaining power and push the SME even further.

As pointed out above, all the CEOs of the SME mentioned the trading blocs to have the main bargaining power. However, as the interview moved on it became clear that they all experienced some power of their own company. The CEO of Fort's Mill points out the advantage of being a small producer. A small organization is more flexible and easier to communicate and deal with than a large organization. Frosty's CEO argues that the trading blocs are more supportive toward his company than the larger competitors due to the fear of losing control. The trading blocs do not want to have only a few large suppliers since that would cause some dependency on those suppliers and the bargaining power could be lost. It is always better to have more companies that are competing on the market since that creates more focused actors and also constant product innovations and improvements. In addition to the reflections of advantages for smaller companies, all the CEOs point out the importance of offering products with some special feature that provide the company with some benefits. All the companies interviewed offer products that bring some competitive advantages to them. This is especially the case with Honey Bun since the products it offers are not produced (baked) in the specific kind of way that it is doing by any other supplier and hence if the trading blocs want this kind of products in their stores they need Honey Bun as a supplier. The CEOs call attention to that even though a company has an advantage through its products it does not necessarily provide it with bargaining power and none of them experience major bargaining power toward the trading blocs. The distributor, Quick n' Fresh, also argues that it is important to offer something special and supports the opinion of the CEOs at the SME that it is the trading blocs who have the bargaining power in this industry.

The SME's CEOs are not completely unanimous when it comes to how the trading blocs use their bargaining power. At first it seems as if they do feel that the trading blocs are using their bargaining power fairly, but as they continued to talk about it, it turned out that they were not completely pleased. The CEO at Frosty points out that the trading blocs probably think they are being fair toward the suppliers but are in fact pretty much unreasonable and a lot of reasoning and negotiations are needed to get through. The CEOs also argue that since the trading blocs are not dependent on the smaller producer, and to some extent not to the larger either, it allows them to terminate the relation(s) with the supplier(s) without any major set backs as soon as the criteria is not fulfilled or if an other producer is found who can produce at lower costs. In such a case the bargaining power is used in an unfair way and it could be a threat of the survival of SME.

According to the trading blocs it is the consumer who determines what products that are to be kept in the stores and it is the local store-manager or purchaser who makes sure those products are available. This was put forward several times in the interview with the information directors at Coop and Axfood. However, this is not the general opinion at the local stores. When talking to the purchasing manager at the local stores they quite clearly indicate that it is the trading blocs who determine a large part of the assortment in the store. Especially in the larger ones, the larger the store the more influence from the trading blocs. A

smaller store who wishes to remove a product belonging to the standard-offer of products with low selling records have to have good reasons and motivations to do so. In addition, it is not quick and simple to bring in products from a local producer since they need to be registered in the central data base (this is not the case with ICA). Sometimes the purchasing managers at a smaller store think that it would be nice with more local products but due to all the work they might be hesitating to increase the local producers in the store. Hence the trading blocs' strong influences on what the stores are to keep in the stores and the requirement of everything being controlled centrally affects the possibility for producers to get access to store-shelves. At ICA the local products do not need to be registered in a central data base, instead it is the local purchaser who has to control the producer and its products to make sure it fulfills the requirements. This increased the workload for the purchaser and is an obstacle for local products to be included in the local store's assortment. Hence, the purchaser is likely to buy the majority of the assortment from the central purchasing center. This supports the trading blocs' central organization providing them with even larger bargaining power.

#### **5.4 Is the Threat of Substitutes from Competitors and DOB a Major Issue for the SME?**

The food industry is constantly changing, adopting and influenced by consumer demands, and as trends change new products are introduced. Several of these products are copies, some entirely new and other similar to existing ones, a number of these satisfy the same need among the consumers – substituting products. There are a lot of substitutes for the products from the three SME, Frosty, Fort's Mill and Honey Bun, both from products within the same product category but also from others. However the CEOs are quite optimistic. The CEO at Honey Bun is probably most concerned of the three, perhaps as a result of the large amount of products (breads) available satisfying the same need, a typical feature for substitute products according to Porter's five forces framework. An issue for Honey Bun is the placement of the products in the stores, not making it trouble-free for the consumers to find the products since they are mixed among the other suppliers' products. This makes it very easy for the consumers to switch between the different producers products, an element among substituting products. The major threat for Fort's Mill is that consumers no longer bake at home as they used to do. Today there are several alternatives to satisfy the need to get fresh bread at home such as bake-up and bread-mixes. Frosty's products can be substituted by many other products, both from the same category (frozen deserts) and from several others (fruits, cakes, candy, etc.). There has been a lot of product development in all the categories and several products are offered at low prices. Hence, there are substitutes for the three SME's products but it seems to be under control and not to a major issue.

All three SME have been affected by the increased amount of DOB in one way or another. The DOB are more or less a copy of an already existing product aiming at satisfying the same need as the original quite often offered at a lower price, hence a true substitute. Fort's Mill is producing DOB and it is an important part for the business. However, by producing DOB the company is cannibalizing on its own product with the same kind of flour – the company is selling a very small amount of this certain flour under its brand. The “normal” flour DOB is an essential substitute product for Fort's Mill's products but the CEO trusts in consumer loyalty and believes that even if the consumers try the DOB products they will return to the products of Fort's Mill. The DOB in the bread segment are not viewed as a major threat since those products have not been successful according to the CEO of

Honey Bun. However, merely by being present on the market the DOB offer the consumers substitution for other products and hence all producers are affected, not only by a tougher competition for the consumers spending but also for the shelf space – the DOB also represent substitution for “shelf-filling”. As a new producer enters the stores another is most likely to exit causing some fear among producers of being the one to exit, their products are replaced by a substituting product. The CEO of Frosty argues that the growth of the company slowed down by the increased amount of DOB and hence in this matter Frosty has been affected pretty much of the DOB. He also points out that a lot of other producers’ products have been replaced by the DOB in the stores and as a consequence businesses have gone out of business. Thus, it appears that the DOB is having quite an impact on the SME and their products.

The DOB are not regular substituting products for the SME’s products, they are the products of the customers (the trading blocs) and as such they are favorably treated in the stores. The CEO of Quick n’ Fresh argued that the DOB the company distributes always gets much attention even though it is not very profitable. This favorable treatment is visible in most grocery stores; it is always very easy to find the DOB products of the trading bloc in question since they are placed on a strategically eye-catching spot in the stores.. By producing DOB the trading blocs do not merely present an additional substituting product but they also reinforce their strong position and it allows them to control the supply chain; from planning and producing to selling the products. This is also a way for the trading blocs to reduce the strength among producers, if the producers do not please the trading blocs they can be replaced (substituted) by the DOB.

The trading blocs view the DOB as a mean to satisfy consumers’ demands. The objective with the DOB is not to eliminate producers; the trading blocs want to have a couple of suppliers providing the consumer with purchasing options, products substituting each other to choose among. The trading blocs discussed emphasized the importance of consumer options and that DOB is a way of reaching or increasing this. The SME on the other hand, view the DOB as a way for the trading blocs to increase their control over the product category and to earn money. The DOB are, according to the SME, means to put pressure on the suppliers, their products can easily be exchanged for a substitute – DOB, and the increased amount of DOB influences the number of businesses in the food industry. Smaller businesses are forced out of business as a result of their products being removed from the stores. In contrast, the trading blocs consider the DOB to be a way for smaller businesses to stay in business. Magnus Frisk, information director at Coop argues that for a less profitable company it is a great opportunity to become a producer of DOB and that it provides the company safety. Hence, the trading blocs also consider the DOB as substitution from another viewpoint, not only from consumption but from a production perspective as well – it is the same to produce DOB as the producer’s own brand. The question is though how safe the DOB producer position is. The trading blocs are not willing to sign long-term contracts with the DOB producers and when the contract is to be renegotiated and another producer can produce the same amount and kind of product as the first one it is easy to switch producer. At that point, the first producer is not in a secure situation at all, it has become dependent on the trading bloc and might be without its own brand and products and do not have the resources to start work on those issues – the company is forced out of business.

## 5.5 What Strategies are Used by the SME and are These Successful Against the DOB?

When looking at the different strategies chosen for this thesis, empirical findings will be the base for the analysis. This section of the analysis will be divided in two parts, the Attack Strategies and The Strategic Options for National Brands.

### 5.5.1 Attack Strategies

The *frontal attack* is not a strategy that is used by any of the companies that are part of this study since they are not trying to attack the competitor straight forward. This strategy would be appropriate when the challenger has a competitive advantage or more resources than the competitor, otherwise it could just be a costly action.

The *flanking attack* strategy is more suitable for SME. Empirical findings show that niche products and local awareness are important when attacking DOB (which is not a niche product). The flanking attack is about hitting and surprising the competitor where it least expects it and therefore the niche and focused products are offering the consumers a segment that is not already offered on the market, or at least not sufficient enough. The SME might not be rich but they are smart and view the market in a different perspective when it comes to understanding the market and offering focused products. The DOB is being attacked in a product segment that is not being saturated in a satisfactory manner for the customers. This strategy has been successful by the SME with examples from Fort's Mill that was the first to produce and offer a special kind of flour to the market. The key in this strategy is to be flexible, and as the CEO at Quick n' Fresh points out it is very important to stay up-to-date on what is going on in the market, with the competitors and what the trading blocs are doing and also what the customers demand to be able to satisfy their needs. The segment dimension in this strategy is about noticing what is missing on the market and fulfill the segment with differentiated products. All the companies point out the need for uniqueness in their products and that it is important to be different to be noticed among the many products offered on the market. By staying focused on the foundation of the business, Frosty also uses this strategy. To be flexible to the needs of the customers the company is offering differentiated products with unique features to be the top priority among this kind of products with a strong brand name.

The *encirclement attack strategy* is not appropriate for the SME involved in this study. This attack can be towards products where the challenger is offering better quality, lower prices, more diversified products or a variety of products to satisfy the customers. This is suitable when having a lot of resources to attack all different sides of the competitor. This strategy has not been used by any of the companies in this study perhaps as result of the required resources, but an other reason can be that they are nor really attacking any specific competitor.

As stated by the CEO of Frosty, it is difficult to pin point one certain strategy that is being used. However from the empirical findings it became clear that Frosty has used the *bypass attack strategy*. Before introducing a new and improved product on the market, the company looked ahead and recognized what kind of product the customers want in the future. A lot of research was being put into this process of the development of the new and unique products. By understanding the customer's needs and demands, the company was **first** to introduce this new product and it became very successful on the market and still is today. The CEO at Fort's Mill says that when introducing new kinds of flour the bypass strategy

is being used to go beyond the competitors, such as using different kinds of grain. She argues that this kind of strategy was used when introducing the certain kind of flour several years ago, which is also produced as a DOB.

Since legal actions are referred to being the most effective action when it comes to *guerrilla attack strategy* it is not very suitable for the SME in this case. The challengers should only attack where it has enough strength to defend and reinforce the position that it will gain with this strategy. This strategy has not been used by any of the SME. Even though the opponent might be superior, the challengers (companies) have not carried through this strategy in this way with small attacks by using price cuts or legal actions to harass the stronger competitor. None of the companies have bought or thought about buying any other organization that was less profitable. Even though this strategy is less expensive according to theory the CEO at Frosty mentioned this as an expensive alternative hence it has not been used at Frosty or any of the other two.

### 5.5.2 Strategic Options for National Brands

There are several different strategic options a company can choose among when position its self against the Distributors Own Brand (DOB). *Wait and do nothing* can be useful in the beginning of the development of DOB. The producer just waits and does nothing. Frosty is using this strategy to a certain extent since it experiences that the DOB are representing another segment of the frozen dessert market – lower quality, lower price. It seems as if Honey Bun is also taking this approach towards the DOB. Fort's Mill on the other hand took the initiative to introduce a DOB on the market instead of waiting for the trading blocs to take the decision to develop the kind of DOB.

*Differentiate* is another strategic action that is appropriate since all the companies are offering unique and niche products in their product segment. This is a suitable strategy since the SME differentiate their products away from DOB products rather than imitating and doing the same as the DOB. Product differentiation can be done in two ways, by giving the consumers more value for the money or by launching a new product with higher and better quality. By changing the appearance of the product means to add value to the product and that is something that is constantly being done at the companies since they are in the forefront of research and watching for what the consumers are demanding. Frosty's constant work with innovations and improvements (innovate with new and improved), and introduced a new product to the market recently which became a successful story. Value was added to a new product as a result from a product innovation and gained knowledge. Honey Bun constantly improves and develops new products to keep up-dated with present and future trends and thereby add more value to the products. The Fort's Mill was actually the first company to start producing a special kind of flour 15 years ago and a few years later another kind of special flour was introduced by the company.

All of these companies have a niche focus providing the consumers with more value for the money at the same time as they try to increase the value of their products. They are constantly working on improvements with product innovations. By having unique product it is important to constantly advertising the increased quality to increase the awareness to the customers. Advertising is also important when it comes to protect the brand against the DOB. It is important to be unique for the consumers to notice the brand and the product.

Another strategy is to approach the DOB instead of trying to differentiate away from it. To *reduce the price gap* means to reduce the price of the product produced by the SME or to raise the price on the DOB, either way the price gap decreases. This strategic movement is not

of interest for the three SME since they are trying to differentiate its product away from the DOB and not trying to get closer to the DOB as this strategy implies. The SME are not interested in lowering their price but rather to raise their quality. Lowering the price would most certainly mean lower quality and that is not something that the SME are thinking about doing, they do not want their brand to be associated with low quality. The DOB products do not really have a focus, they are actually meant for everybody while the SME products are more focused and niche on specific segments of the food market.

*Introducing a value flanker* or imitating DOB products is another strategic action that is not being used by any of the companies. As the CEO of Frosty argues they do not want to imitate the DOB but rather approach away from the DOB. However, if somebody else is copying Frosty's products then there is nothing that the company can do about that. To have product innovation is important among the three SME, hence imitating other product is of no interest. The trading blocs do not support companies that are copying another brand's image or products. Nevertheless the trading blocs imitate other products quite frequently. When looking at the shelves in the stores this is noticeable. The DOB are simply copies of already existing products, the trading blocs are arguing that they are introducing new products on the market.

There are several different reasons why a SME should become a *producer of DOB*. Empirical finding from the companies show that there are not many advantages with DOB. However if one becomes a producer for DOB then there might be some advantages. Economic, relationship, and competitive motives for producing DOB are to consider when thinking about becoming a DOB producer or not. Frosty is not a producer of DOB today, even though the question is not out of their mind. They have been giving the opportunity but the fact that the prices the trading bloc is willing to pay have not been acceptable for Frosty so far. The short contracts and the dominant position of the trading blocs is not really a guarantee for investing in such a large investment that would be needed if the increased production were to take place, these are reasons not to become a DOB producer. If a long-term contract with sensible conditions then Frosty probably would say yes since the CEO of Frosty argues that if not taking this opportunity when it comes, somebody else will and become the producer of the product since someone has to do it. According to Frosty there are no long-term advantages as a DOB producer but there are some advantages in the short-run such as increased network and relationship with the trading bloc, as well as usage of over capacity, if that exists.

Fort's Mill is producing one kind of DOB for ICA today and it was actually the company that gave the offer to the trading bloc to start producing for them. There has been a good relationship between ICA and Fort's Mill for a long time since this relation started for about 15 years ago when ICA recognized the offer as an improvement of the DOB assortment. Both by offering ICA to produce DOB but also by producing different kinds of flour under their own brand name the whole capacity is fully used at Fort's Mills production plant. There are usually three products in a product segment in the stores. One product is usually cheaper with lower price and one is a medium price product, at least one of these two is a DOB and often both of them are DOB. The third product is the market leader. This means that unless you are the market leader you do not have much chance of being present in the store. However, by becoming a producer of DOB at least means that the products produced are available in the store, even though the brand of the products is not that of the producer. This is an alternative to not go out of business a conclusion drawn by the CEO as Honey Bun. Today Honey Bun is not producing any kind of DOB but they have been given the opportunity. The company is not aiming at and is not using

any strategies to start producing DOB. The focus is instead on niche products and continuously working on the relationship with the trading blocs. But as a concluding mark, the CEO claims that one should never say never, one day DOB bread might be produced at this bakery.

## **6 Conclusion**

The analysis above has been conducted with the support by the empirical findings and the theory, this section, the conclusion, will have its foundation on the analysis. The research questions, which have been the red thread through the analysis, will form the headings of the conclusion. The conclusion will show the results of the research questions which are based on the major findings from the analysis. In this section the research questions as well as the purpose will be fulfilled.

### **6.1 Which are the Main Sources of Competition in the Food Industry?**

The competition in the food industry is tough and the focus on low prices seems to be one of the major contributing factors. In addition to this focus, there are some dominant actors with the ability to influence pretty much the entire food industry, the trading blocs. The trading blocs can use their position to play off producers among each others reinforcing the tough competition. The trading blocs also have the possibility to increase the competition by introducing DOB to the market. There are several substituting products in all the segments within the food industry studied in this thesis which contribute to the competition. Hence the main competition arises from high focus on price, many substituting product and the trading blocs bargaining power.

### **6.2 Is the Intensiveness of the Competition a Threat for Survival of the SME?**

The survival of SME is not in danger but some will probably be eliminated and others be forced to take a different business approach in order to remain as a competitor. One big reason for the survival of the SME and their future is that the trading blocs want to have two to four suppliers of the same or similar products. However the fight for the SME to become or remain as a supplier to the trading blocs will be challenging. The market shares that the trading blocs are offering the producers are necessary contracts for the SME to be able to be a successful business within the food industry at a national level. To conclude, there is no major threat for SME in food industry even though the competition very tough. However, if it continues to be this tough with such heavy emphasis in prices it might be a more severe threat in the future.

### **6.3 Who has the Bargaining Power and How is it Used?**

Several actors in the food industry have bargaining power, however the strength of the power differ to quite large extent. The trading blocs are the actors with the strongest bargaining power as a result of their size and importance on the market. Other large actors, such as producers and suppliers, have bargaining power thanks to their size and well known brand. This is a result of high consumer loyalty and demand. In addition to these actors, the SME studied in this thesis argue that they have bargaining power to a small extent as well. This bargaining power is gained as a result of the smallness, flexibility and unique products. It seems as if the bargaining power is used quite fairly among the producers and the trading blocs experience a fair usage as well. However, the SME think that the trading blocs are taking advantage of their bargaining power in an unreasonable way. To sum up, it is the trading blocs who have the main bargaining power in the food industry and how it is used, fairly or not, depends on from which view point one is approaching the

issue. However, it seems as if the trading blocs take advantage of it in an unfair way towards the producers.

#### **6.4 Is the Threat of Substitutes from Competitors and DOB a Major Issue for the SME?**

There are a huge amount of products in the Swedish food industry and many of the products satisfy the same needs. The studied SME are affected to quite an extent, especially by the products from larger companies and the DOB. However, the substitutes are not only negative factors they also push for innovations and further improvements but also for increased efficiency in the production. The producers who can not keep up with necessary improvements will go out of business. Nevertheless, since the DOB are substitutes from the customer (the trading bloc) they represent a larger threat and a balance between DOB and the producers bands must exist, The DOB are an essential substitute since it is favored in the stores; it is easy to find and often has a lower price. Nevertheless, even though affected by the DOB it does not seem to be a major issue at present time for the SME in this study due to differentiation and niche products.

#### **6.5 What Strategies are Used by the SME and are These Successful Against the DOB?**

One of the most frequently used strategies among the companies is the bypass attack strategy and the flanking attack strategy. The bypass attack strategy is suitable because constant product innovations and improvements and research are being used at the SME to recognize customer demands in the future. Frosty illustrates this with the example when it introduced a new kind of frozen dessert into the market that was very successful. Another commonly used strategy is the flanking attack strategy. It is suitable because niche product and uniqueness is essential and all the companies emphasize the importance of being different in their companies. The key is to be flexible and noticing what is missing on the market and then fill that spot and the companies are fulfilling this is a satisfying way.

Fort's Mill is the only company that is actually producing a DOB today while Honey Bun is rather trying to avoid becoming a DOB producer. The strategy *innovate with new and improved* is used among the SME since they all have unique and special products which are important for the trading blocs to have in their assortment. Differentiation of the products is being done with improvements in the appearance and quality of the products. To conclude, being in the forefront with a constant focus on future demands and have a differentiated product line is essential for the SME and it appears to be a successful attitude.

## 7 Concluding Remarks

When conducting our interviews we are pleased that the companies stayed somewhat objective to the questions instead of marketing themselves or making themselves look like the victims in this tough market/industry.

### 7.1 Limitations

When conducting this thesis there were several factors which influenced the outcome, some which were out of our control and others which has been excluded after careful consideration. Issues that had strong impacts on the thesis were lack of time, the number of companies willing to participate and appropriate persons at the trading blocs willing to participate in an interview. Several companies were contacted but only a few of them were interested and out of them three were appropriate for our research. Appropriate companies were small and medium sized food producers who have some kind of relation to the trading blocs. A larger number of producers were desired to be able to present a more general picture of the situation for the SME, however to be able to stick to the purpose of the thesis we had to accept this limitation to only analyze the situation for these three companies. In addition to this, the fact that only the CEOs were interviewed might not give the entire picture. Perhaps supplementary comments and answers from other persons at the companies would have provided us with more reliable information. This was not done due to lack of time at the companies, they were willing to let someone else participate but not within our timeframe.

It was also hard to get hold of the “right” person at the trading blocs. We wanted to talk to someone with deep knowledge within this field, but it was very hard to get hold of someone willing and available to participate in an interview. The ones we finally got to talk to were willing to share their knowledge with us in a phone-interview, not in a face to face which were desired by us. The people interviewed at the trading blocs had different degrees of knowledge within this area; however we believe we have got hold of the main information needed to present a fair picture of the situation.

A third issue that strongly affected the work was the limitation of time. If we had more time available we would most probably been able to present a wider and more general picture of the situation by talking to more people both at the trading blocs and an the producing companies but also with a larger number of companies since it would allow us to travel longer distances to conduct the interviews. In addition to this, a longer time span would most likely have made it easier for us to find appropriate SME since many of them were very busy and did not have time to participate in interview within our limit. We would in such a case also have time to talk to different organizations and other kinds of businesses to increase the perspectives and broaden the view of the aspects discussed which could be an interesting aspect for further studies.

Besides the issues concerning the collection of empirical findings the theoretical framework also has limitations. Porter’s five forces framework is obsolete in some aspects and much have been said and discussed concerning its relevance. Some issues concerning the five forces framework have been brought up but due to lack of time this is just a minor part of the discussion among researchers and scholars. However, it is a good starting point for this thesis and we are aware of its limitations. According to us, the parts of the model, when used separately, are more valid then the entire model because when analyzing an entire in-

dustry there are numerous factors influencing. When focusing on certain parts, using the foundation of the particular part of the model, it is recognized as less limited by us.

## 7.2 Further Studies

It has been interesting working with DOB and for further studies it would be interesting to see the DOB affects the SME in the future. Our conclusions show that there is no risk of going out of business as long as the company is the market leader or is able to produce something that is unique that no one else is producing or can offer the market. Local awareness is also important for a company to have and it could be the foundation for another study. It would also be interesting to replicate this study again in the future to see if and how this industry and market have changed. By using the same purpose and method, different conclusions would probably be received since this study shows the situation at present time and everything is constantly changing. Hence, the situation in the food industry will change and it would be interesting to study in the future.

Another interesting aspect of this theme would be to look at this problem from the consumer's point of view instead of the producer. We have not focused on the consumer perspective in this thesis, but for further studies a quantitative, or qualitative, study with questionnaires about DOB and SME could be done to see where and how the consumers are in relation with SME's brand and products and the ones of the trading blocs. It would also be interesting to see to which extent the consumers care if the products are produced in Sweden, or even locally produced, compared to those produced in another country.

For further studies one could also focus only on one segment of food industry to see if there are different opinion within one segment and how they differ. There are many interesting segments with in the food industries and it would be interesting to go deeper in to one of them.

The interviewed persons at the trading blocs argue that DOB increase the options in the assortment of the grocery store. This would be something to conduct a study on in the future to see if this is the truth of if this is something that the trading blocs argue; perhaps the truth is the other way around? If there will be more DOB in the future, does that mean that the consumer is getting more options when going shopping or does it actually mean that there are fewer options to choose from? Does the DOB push the other alternatives out of the shelves while the DOB increases its market share? An interesting issue for a possible future study.

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