

Environmental Differentiation and Competitiveness

Cases in the food and drink industry

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Thesis for the fulfilment of the
Master of Science in Environmental Management and Policy
Lund, Sweden, October 2003

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Published in 2003 by IIIIEE, Lund University, P.O. Box 196, S-221 00 LUND, Sweden,
Tel: +46 – 46 222 02 00, Fax: +46 – 46 222 02 10, e-mail: iiiiee@iiiiee.lu.se.
Printed by KFS AB, Lund.

ISSN 1401-9191

Acknowledgements

Writing this thesis has been a great opportunity and experience, in which I have learnt a lot about a topic that fascinates me, as well as the difficulties, challenges and rewards related to research. The exploratory nature of this research has added to the challenge. Many times I have had a feeling of navigating in the dark without knowing in which direction to go, but in the end the subject has taken a form, and the result may be a starting point for further research in this area, which is one of the rewarding parts of the whole process.

Although, acknowledging all the persons that in one way or another have been involved in this journey would be exhaustive, the following are some that have had direct contributions to the work.

I would like to direct a great thanks to my supervisors, Renato Orsato and Beatrice Kogg. There is no doubt that your contribution to my work has been important for the final result. From your well-prepared feedback, reflections upon my work and the discussions we have had along the way, I have learnt a lot about research in this area. I am also very grateful to the IIIIEE for financing this thesis within the project of Responsible Leadership.

Another warm thanks to the persons who participated in the interviews, for receiving me so well and dedicating time to sharing your knowledge and expertise with me. The interviews have been one of the most rewarding parts of the research and the thesis is very much dependent on the participation of you all. Anyhow, a special thanks to Rolf Trulsson for taking me on a one-day trip to visit the plants of Skånemejerier.

Thanks to my dear former classmates, now dear colleagues, with whom I spent this summer at the institute, discussing and interchanging ideas about our thesis work. Finally, but not least, thanks to my dear family; Mum, Dad, brother and aunt, and friend Magdalena, for your support and concern during this period.

Abstract

Due to the increasing expectation in society that companies act responsibly and take into account the constraints of the natural environment, there is a growing need to manage the environmental challenge in a way, if possible, that contributes to overall competitiveness.

The purpose of this thesis is to identify *how* environmental initiatives contribute to competitiveness, considering a specific type of environmental initiative, namely environmental differentiation. A qualitative method was used and the research was based on case studies in the food and drink industry: the ecological product brand Änglamark of the food retailer Coop Sverige AB and the certified EMS of the dairy, juice and functional food producer Skånemejerier. The cases were analyzed according to the Positioning school of competitive positioning and the Resource-based view of competitively valuable resources.

Environmental differentiation initiatives contribute to competitiveness by sustaining position and generating competitively valuable resources. An eco-brand sustains an environmental differentiation position of a retailer, as in the case of Änglamark. A certified EMS, as part of the holistic approach to safety, indirectly sustains the position of a producer with a value added and networking strategy, as in the case of the Skånemejerier. The ecological brand Änglamark has generated brand competences and the certified EMS has generated standardization know-how. These resources are difficult to imitate and substitute, and have valuable enduring potential, because they increase organizational learning, are applicable in other contexts and can have positive spin-off effects.

Executive Summary

There are increasing expectations in the society today that companies act responsibly and take into account the constraints of the natural environment. For this reason, companies need to manage the environmental challenge as any other business issue, and if possible in a way that contributes to the overall competitiveness.

In the interface between business and the natural environment, companies can undertake a range of different environmental strategies. The problem is that there is little understanding and empirical evidence on when such strategies generate competitive advantage. Knowing *when* would optimize companies resources spent on environmental undertakings and perhaps increase the motivation to become sustainable. The aim of this thesis is to contribute to the understanding by providing insight about *how* environmental initiatives contribute to the overall competitiveness, from a specific type of environmental initiative, namely environmental differentiation. Environmental differentiation means to differentiate based on environmental prerogatives. The differentiation can be either linked to the company's environmentally friendly products and services, or to the company environmentally responsible practices, processes, systems and policies. The specific purpose was to identify *how* environmental differentiation initiatives contributes to the overall competitiveness of the company.

For the purpose of this study, a qualitative method was used and the research is based on case studies in the food and drink industry. The research went through four main phases. In the first phase, two cases of proactive environmental differentiation strategies were selected. One is the food retailer Coop Sverige, which has created the ecological product brand, Änglamark. The other one is an example of a certified EMS, which can be classified as a company-focused environmental differentiation initiative, and the case is the Quality, Environment and Safety (KMS) management system of the dairy, juice and functional food producer Skånemejerier.

The second phase was dedicated to exploring theories on strategy, competitive advantage and competitiveness, environmental strategy and environmental differentiation, as well as consumers concerns related to food and drink products. The debate about competitive advantage does not come to an end; there are no straight answers to what is competitive advantage and what are the sources.

Competitive advantage can be understood as a sustained superior performance. But, the two strategic management schools have different focus with regards to what generates this sustained performance level, even if they agree upon that it is about sustaining a unique value by creating barriers to imitation. According to the Positioning school, industry is the most important determinant. Competitive advantage is a unique market *position*, cost or differentiation, which is sustained by a competitive strategy. The Resource-based view takes another perspective by focusing on the *resources* as the main generators of competitive advantage. Given that the resource contributes to a unique value, it generates competitive advantage if it is difficult to imitate and substitute.

Proactive environmental differentiation strategies have the potential to generate competitive advantage. Eco-branding can be a way to create a unique offer that is difficult to imitate in difference to eco-labels. It can be a way to communicate the environmental added value of the products, generate customer loyalty or even capture a price premium. The problem may be the credibility of the information, since it is a self-declared claim. Another problem can be

that it is difficult to generate, or even understand, consumer willingness to pay for environmental protection, which is due to the nature of the good. Environmental protection is a non-excludable benefit, not a private one, and people tend to be more willing to pay for private benefits. The solution can be to bundle the environmental protection with a private benefit, which seems to work with ecological food, since it is perceived as more healthy. Beyond compliance practices, such as an EMS or partnerships with environmental NGOs, can generate an image that buyers support and increase stakeholder legitimacy. Or it can generate competences and skills that increase efficiency in the processes, organizational learning and innovation. But, whether these resources will generate competitive advantage depends on the general business environment, and can also be conditioned by the managers' perceptions of the context. On the Swedish market, there are consumers who value environment, health and ethics. Ecologically grown food is considered to be healthier than conventional, but the environment as such is becoming a less strong selling argument. In general there is an increasing concern for health and safety issues, as well as the origin of food. But, there are still many consumers who are more concerned with price, taste, convenience and functionality of food products.

In the third phase, data was collected via interviews with company representatives, consumer association and management consultants. In total 17 persons were interviewed, most of them in person, using a relatively unstructured interviewing format. Secondary data was also collected from web pages and documentation from the focus companies and other organizations.

In the fourth phase, the cases were analyzed according to the Positioning school on competitive positioning and the Resource-based view on competitively valuable resources. Based on the two cases in this study, which represent both a company-focused and a product-focused environmental differentiation initiative, the conclusion is that environmental differentiation initiatives contribute to the overall competitiveness of companies in the food and drink industry, by sustaining the overall position and generating competitively valuable resources.

From the perspective of the Positioning school, environmental differentiation initiatives contribute to the overall competitiveness if it *sustains the position* that the company aims at. An eco-brand sustains the environmental differentiation position of a retailer, as in the case of Coop Sverige and Änglamark. A certified EMS, as part of a holistic approach to safety, indirectly sustains the position of a food producer with a value added and networking strategy, as in the case of Skånemejerier and the KMS. As part of the strategic positioning, the environmental differentiation initiative requires *continuity* in the strategic direction and a consistent prioritisation of resources for this aim, i.e. managing the *tradeoffs* between investments in environmental differentiation and cost-reductions. When there are other priorities, such as low price competition and cost reductions, there is a risk that the environmental differentiation initiative comes in the background, which is the problem of Coop Sverige at the moment. It could limit further development of the eco-brand Änglamark, hence also the credibility of the mission, and endanger the position of the company. When a certified EMS has an important contribution to the overall strategy, in which the networking and added value are core values, and there is continuity in the strategic direction, such as the case of Skånemejerier, the EMS contributes to the overall competitiveness, because there is a consistent prioritisation of resources for maintaining and upgrading the system.

The environmental protection as such is becoming a less strong selling argument, but the increasing concern for health and food safety related to food and drink products provides an opportunity to bundle environmental protection with a *private benefit*. The possibility depends on the kind of environmental differentiation initiative. An ecological food brand combines the values of environmental protection and health, and creates a private benefit for consumers who consider ecological food healthier than conventional. A certified EMS cannot be directly linked to the products, but can be a private benefit for networking partners and retailers in the food industry, because they need a holistic approach to safety, where the environment is a part. The environmental differentiation initiative contributes more directly to competitiveness if the private benefit is *unique*. An eco-brand can create a unique offer, by effectively combining the values of ecology, health and ethics with other lifestyle related values that appeal to a specific consumer segment. A certified EMS is unique in the beginning, being first to adopt certified EMS can generate a distinctive quality image, but the uniqueness is lost when the competitors adopt the same standards.

From the perspective of the Resource-based view, an environmental differentiation initiative contributes to competitiveness because it generates competitively valuable resources, in the form of *know-how and competences* from implementing and managing the environmental differentiation initiative. This is more sustainable than resources such as the brand name and the certification of an EMS. The brand name can be a success factor of an eco-brand but is limited to the cultural context; the certified EMS can be a success factor but is limited in time. More durable resources are the ecological brand competences that Änglamark has generated and the standardization know-how that the KMS has generated. They are difficult to imitate and substitute and have the potential endure valuable, because they increase the organizational learning, are applicable in other contexts and can have positive spin-off effects, such as innovative organizational solutions and product development.

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1. Introduction

Corporate responsibility and sustainability issues are high up on the agenda in the western world society today. With the global debate on sustainability, companies are expected to respond to external and internal stakeholder claims and manage business so that it is sustainable in relation to the natural and social environment, the triple bottom line (Carroll and Buchholtz, 2000). Hence, the natural environment has become part of the overall company responsibility and, if possible, the environmental issues need to be managed as any other business issue, and preferably in a way that the company also can benefit from.

In the interface between the business and the natural environment there is a continuum of alternative strategies that a company can take, ranging from reactive to proactive. The constraints of the natural environment change the company's context, and companies can either see this as a problem or an opportunity. Companies that see the environmental constraints as a problem tend to take a reactive position. The intention is just a minimum compliance with requirements from stakeholders, such as customers or authorities, to stay in business. Companies that want to benefit from the situation, see the environmental challenges as something they can influence. The motivation for such proactive strategies can be to capture benefits from environmental product differentiation and/or better corporate image, reduce costs and risks in the process and along the supply chain, get first mover advantages by creating barriers to competitors or redefining the whole market system (Schwartz, 1997; Reinhardt, 2000).

Proactive environmental strategies can increase profits and the value of the firm (King and Lenox, 2002; Russo and Fouts, 1997; Dowell, Hart and Yeung, 2000), and some argue that the constraints of the natural environment can also generate competitive advantage (Porter and Van der Linde, 1995; Hart, 1995; Sharma and Vredenburg, 1998). But, this is an exploratory area and there is still lacking knowledge about what favours the generation of competitive advantage from environmental initiatives.

Competitive advantage can be understood as a sustained superior performance. But, the two strategic management schools have different focus with regards to what generates this sustained performance level, even if they agree upon that it is about sustaining a unique value by creating barriers to imitation. According to the Positioning school, industry is the most important determinant. Competitive advantage is a unique market *position*, cost or differentiation, which is sustained by a competitive strategy. The Resource-based view takes another perspective by focusing on the *resources* as the main generators of competitive advantage. Given that the resource contributes to a unique value, it generates competitive advantage if it is difficult to imitate and substitute.

As with any business issue, according to Reinhardt (1999), a company's possibility to benefit economically from environmental investments depends on the industry structure, the company's position in the industry, and the organizational capabilities. If this is the case, there are reasons to believe that the same holds for the opportunities to generate competitive advantage from environmental undertakings. The problem is that there is little empirical evidence and understanding on what favors such outcome. For companies to optimise the outcome of their environmental investments, and turn them into a competitive advantage, it would be relevant to identify when environmental investments contribute to competitive advantage, what conditions and factors favor such outcome (Orsato, 2003).

Environmental differentiation is a specific type of proactive environmental strategy. The differentiation can be either linked to the company's environmentally friendly products and services, or to the environmentally and socially responsible practices, processes, systems and policies of the company. Environmental differentiation is a way for companies to capture the benefits of their environmental undertakings, either because they receive a price premium for the added value or because it increases stakeholder legitimacy, and eventually generates a competitive advantage. Though, as mentioned, it seems to depend on a series of conditions and factors, of both internal and external character, and the problem is that there is little empirical evidence and understanding of what these conditions and factors are.

1.1 Purpose and contribution

The purpose of this study is to identify *how* environmental differentiation initiatives contribute to the overall competitiveness.

This is interesting for Strategic Environmental Management theory because there is little empirical evidence in the field of environmental initiatives, especially differentiation, related to competitiveness, since it is in an exploratory phase. The cases of this study contribute to the empirical evidences of this phenomenon.

The study may also contribute to management practice. For companies, understanding how environmental initiatives influence the overall competitiveness will help to identify areas of priority and optimise the outcome of environmental undertakings. It may help to identify factors and conditions that favour competitiveness from environmental differentiation initiatives. In the long run, it may lead to that more companies see opportunities in a proactive environmental strategy.

1.2 Scope

This thesis focuses on the company's responsibility related to the natural environment, seen as part of the overall corporate responsibility, but it will also touch upon other responsibility issues such as consumer concerns related to food. The study is conducted in the context of the food and drink industry in Sweden. The reason is that the industry provides several interesting perspectives on environmental and social responsibility differentiation strategies.

Environmental differentiation is interesting to study in the context of the food and drink industry because the matter is carried to an extreme when it comes to tradeoffs between the environmental and social values, and competing on price. Food is a standardized product, competition is strong, and to capture further benefits, companies need to differentiate by adding value and creating brands. Differentiation strategies are well developed and since some time ago Swedish food companies have adopted proactive strategies in the field of the environment and social responsibility. But, it is difficult to keep up such profile with the low-price competition that is threatening the industry. Consumers' values and willingness to pay are put on edge, as well as companies' priorities.

Food is an interesting industry because, as a consumer good, it integrates perspectives on both environmental and social responsibility issues. Consumers of food products value good taste, price, durability, quality, functionality and convenience among other things, but there is an increasing concern with the *food safety*, triggered by the recent food scares from the BSE¹

¹ Bovin Spongiform Encefalopati

and issues about GMOs, additives, pesticides, irradiation, microorganisms etc. The White Paper on Food Safety (European Commission, 2000) and the EU food legislation that became effective in 2002 (EC 178/2002), and the HACCP² standards issued by Codex Alimentarius (Svenska Livsmedelsverket, 2002), mean higher risk management requirements in the food chain all over the EU. Another consumer concern that is coming more and more is related to *health*. There is an increasing awareness in society that well fare diseases such as diabetes and high cholesterol are related to the diet and life style. Food with low fat, gluten free, enriched with vitamins, minerals and bacteria, and functional food³ are responses to this. The *environment* is another concern. The globalization, industrialization and specialization of the agriculture have severe impacts on the biodiversity and the landscape. Fertilisers cause eutrophication of waterways and sea; pesticides contaminate soil and groundwater, and livestock emits greenhouse gases. *Sustainable agriculture* is one of the 15 environmental quality goals adopted by the Swedish Government in 1999⁴, and one of the measures within that goal is that 20 percent of the cultivated land should be ecologically grown by 2005. Also the processing industry affects environment, through packaging material, waste, water effluents, transportation, energy, and the use of ingredients.

To study the problem within the food and drink industry, a case study method was chosen and two companies were selected for in depth-study: Coop Sverige AB (formerly called KF) and Skånemejerier (Skåne Dairy). Coop Sverige is a food retailer and Skånemejerier is a producer of dairy products, fruit juices and functional food. The reason for the selection of these two cases is that they provide two different interesting examples of proactive environmental and social responsibility strategies, differentiation and branding. Another reason was also the convenience and availability.

Coop's mission since the beginning of the 1990s has been to contribute to sustainable consumption. Considering that the major impact of their activities is related to the products they sell, Coop decided to be a driver behind the development of ecologically produced food. For this purpose, the ecological product brand Änglamark was introduced in 1991, and has been quite successful. Since the first year the turnover has increased twenty times, from 25 million SEK to 500.

Since the beginning of the 1990s, Skånemejerier has had a proactive environmental strategy and was the first food and drink company to implement an environmental management system ISO 14001, and to verify according to the EMAS in 1997. The EMS is integrated with the quality system, ISO 9000, and is called the Quality, Environment and Safety management system (KMS). The company has a clear differentiation strategy; the value-added is food that contributes to good health and environment. Through intensive networking and promoting the regulations on health-related claims, Skånemejerier has managed to become the leading company in the area of functional food in Sweden.

In common for the companies is the cooperative ownership. Skånemejerier is a producer cooperative, owned by the farmers in the region of Scania; Coop is owned by the consumer

² Hazardous Critical Control Points (HACCP)

³ Functional food is food aimed to cure a special function.

⁴ Environmental quality goals: Limited climate change, no pollution to air, only natural acidification, non-toxic environment, protective ozone layer, safe irradiation, no eutrophication, living seas and waterways, ground water of good quality, living archipelago, living wetlands, living forests, rich agricultural landscape, impressive mountain region, good urban environment, which include the natural environment, urban planning, the cultural values, and health aspects (Miljömålsrådet, 2002).

cooperative KF⁵, with members all over Sweden. But otherwise, the two cases represent two different perspectives, because of the different businesses, positions in the food chain (producer and retailer), and types of environmental initiatives. Änglamark is a product related ecological brand; the Quality, Environment and Safety management system, from hereon-called KMS⁶, of Skånemejerier is a company related kind of environmental differentiation initiative.

1.3 Research questions

The purpose of this research is to answer the following principal research question:

How environmental differentiation initiatives contribute to overall competitiveness?

In particular, the following sub questions define the scope of the research:

How does the eco-brand Änglamark contribute to the competitiveness of Coop Sverige?

How dose the Quality, Environment and Safety (KMS) management system contribute to the competitiveness of Skånemejerier?

What is meant by *competitiveness* and *environmental differentiation* is explored in Chapter 2, the literature review.

1.4 Outline

Below follows an outline of the thesis content:

Chapter 1: Introduction. This chapter introduces the problem, states the purpose, scope and the research questions of the study, as well as outlines the content.

Chapter 2: Literature review. This chapter is a review of the literature and theory on strategy, competitive advantage and competitiveness, as well as differentiation in relation to the environment. The two strategic management schools are discussed with regards to what competitive advantage is, what is the source, and how it is sustained. Thereafter strategy and competitive advantage is discussed in relation to the natural environment, and strategies and practices of environmental differentiation that are relevant for the cases are explored. The chapter finalizes with an applied research section on consumer concerns about food and drink products.

Chapter 3: Methodology. This chapter justifies the methodological approach and describes the phases that the research goes through to answer the research question, from case selection and data collection to data analysis, and lines out the limitations of the study.

Chapter 4-5: Case descriptions. These two chapters contain a description of the cases Coop Sverige and Skånemejerier. After a short description of the industry, the company is described and then the environmental differentiation initiative, focusing on what was the

⁵ KF, Kooperativa Förbundet

⁶ Kvalitet, Miljö och Säkerhet

background situation that triggered the development, how it was implemented and how it is managed.

Chapter 6: Analysis. From the perspective of the two strategic management schools mentioned above and the theories on environmental strategy and environmental differentiation, this section is an analysis of the environmental differentiation initiatives described in the previous chapters, in order to identify how they influenced on the overall competitiveness.

Chapter 7: Conclusions. Based on the conclusions from the analysis and the literature review, this chapter answers the research questions, and suggests the implications for theory, management practice and future research.

2. Literature review

This section introduces the areas of research and the focus area that is covered in the thesis. Thereafter follows a literature review within the area that is the focus of the research.

The purpose of this study is to find out how environmental differentiation initiatives contribute to competitiveness. For this purpose, it is first necessary to understand general strategic management theory, which seeks to explain why and how companies generate competitive advantage. Thereafter, it is relevant to study how companies can benefit and eventually gain competitive advantage in the interface between business and the natural environment, which is the research area of strategic environmental management. After that follows a review on the literature on environmental differentiation, with focus on the practices that are relevant for the two company cases, eco-differentiated products and services, and beyond compliance practices. To understand environmental differentiation in the food and drink industry, the following section is an applied literature review about consumers concerns related to food and drink products. Figure 2-1 is an illustration of the areas of research covered in the literature review and the black coloured area represents the focus of the research.

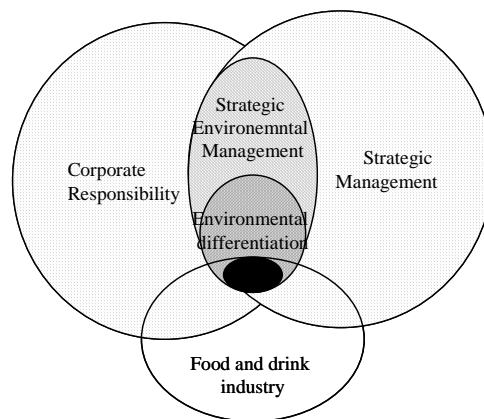


Figure 2-1: Areas of literature review and focus of the research.

The following sections contain a literature review on strategic management, competitive advantage and competitiveness, and differentiation, as well as these aspects from the perspective of sustainability and the environment, focusing on environmental differentiation strategy, and consumers concerns related to food and the environment.

2.1 Strategy and competitiveness

This section is an introduction to the theories about strategic management and competitiveness, with focus on the two main strategic management schools, the Positioning school and the Resource-based view.

As Mintzberg (1999b) describes, there are different views on strategy. Strategy can be seen as a plan, made out of conscious decisions and actions. It can be seen as a pattern emerging as a result of the strategic decisions, in other words the actual behaviour, intended or not. Strategy can be the match of the company's internal resources with the external context to

sustain a position in the environment. Strategy can also be considered as mainly conceptual; an idea about how the world works which is collectively shared by the members of the organization.

Management scholars debate about the usefulness of decisions and strategy. One school, the organizational ecologists, consider that managers cannot influence the course of the company, since it is largely determined by socio-political factors, wherefore decisions and strategies are quite useless. The institutional theorists, on the other hand, believe that managers can influence the direction of the company by learning from competitors and turning constraints into their advantage. In this way they can align the company with the external forces and be in harmony with the environment (Marcus, 1996). Given by the topic of this thesis, which seeks to understand how companies can turn the environmental constraints into competitive advantage, it is clear that the author considers that the business environment conditions the companies, but that they can influence the course of action, and for this reason strategic management is valuable and important.

Strategic management is concerned with understanding why some companies manage just enough to survive, -normal economic performance-, while others prosper and have superior economic performance. It can be said that a company that performs better has a competitive advantage, but the question is what generates this advantage, what is the source of competitive advantage. The two main strategic management schools, the Positioning school and the Resource-based view, differ in the view of what are the sources of competitive advantage (Barney and Hesterley, 1996). In common is that a superior performance requires barriers. But the difference is that, according to the Positioning school, these barriers are created at an industry level, since new entry lowers the performance of the whole industry, while for the Resource-based view, the company's internal resources are barriers, if they are valuable, unique, and difficult to imitate and substitute.

The two above-mentioned schools are discussed more in detail in the following sections, with regards to what competitive advantage is, what generates competitive advantage and how it can be sustained.

2.1.1 Positioning school

The Positioning school originates from the so-called Structure-Context-Paradigm, according to which the external context, the industry, is the most important determinant for a company's behaviour and performance (Barney and Hesterley, 1996).

According to Porter (1980), the industry and the five forces that exist in the industry, condition the capacity to gain competitive advantage. The forces are the threat of new entrants and substitute products, suppliers and buyers bargaining power and rivalry among competing firms. Some industries generate more profits than others and are therefore more attractive for newcomers, and it is important to create barriers to new entry, since a new competitor would lower the performance level of the whole industry. There are a series of different barriers that the companies in the industry can create to keep new entrants out. *Economy of scale* is a barrier to entry since it creates price levels that the newcomer may not be able to achieve without heavy initial investments. *Product differentiation* is another, because a newcomer might have difficulties to overcome customer loyalty to the existing brands. Another barrier to entry is the *need for capital* to make initial uncertain investments, such as in advertisement. Creating *high switching costs* means to make it costly for customers to change supplier, wherefore it is a barrier to newcomers. Access to the *distribution channels* is a barrier

for the newcomer, as well as *governmental policy* that favour existing companies. Other advantages of the companies in the industry, which create barriers because they make it more difficult for new comers to compete, are *patents*, *preferential access to raw material*, *preferential location*, *subventions*, and the *experience and learning curve*.

Apart from keeping new entrants away, companies also compete within the existing industry and use tactics to improve their position. This affects the profitability of the whole industry. Price wars can lead to decreased profitability for all companies, while advertising campaigns can increase profitability. The intensity of rivalry depends on a series of structural factors such as the number of companies and their relative power, the growth of the industry, the fixed costs for production and storage, the level of differentiation, barriers to closure, among other things. Substitute products fulfil the same function as the products of the industry in question. These are a threat for the whole industry, and therefore joint action can be beneficial for all companies. Buyers can force the industry to lower prices and or to fulfil certain requirement. The industry's power vis-à-vis suppliers and buyers depend on how dependent they are on each other. The more dependent the suppliers and the buyers are on the industry, the stronger the negotiation power of the industry. The forces of buyer and supplier on the industry depend on a series of factors such as how large the total purchasing volume of the buyers is in relation to the total sales of the supplier, how important the product is for the buyers, the degree of differentiation or standardization of the product, whether the buyer has access to perfect information, and how costly is it to change supplier (switching costs).

The following sections explain how companies can manage these industry forces so that they eventually generate a competitive advantage and how the competitive advantage can be sustained.

2.1.1.1 Competitive advantage

According to the Positioning school (Porter, 1980), competitive advantage is understood as a unique *position* that gives the company an advantage on the market. Facing the industry context and the five forces explained above, there are three generic strategies that can lead to such position. The company should either aim for a *cost leadership*, which means to offer the lowest prices, or for providing uniqueness, *differentiation*. These two positions are mutually exclusive; trying to do both would not lead anywhere, since they require tradeoffs. The third one is the *focus* strategy, which focuses on providing exclusively all the needs of a certain niche of an industry.

The cost leadership can be achieved through for instance *economy of scale*, *proprietary technology* and *preferential access to raw material* – anything that gives the company a preferential cost level so that they can keep the lowest prices. The differentiation is to satisfy the needs of buyers in a unique way that buyers are willing to pay a price premium that exceeds the costs of providing it. To create this value, the company needs to know how to *contribute to the buyer's value chain*, and how to do this better or at lower cost than the rivals.

2.1.1.2 Sources of competitive advantage

According the Positioning school (Porter, 1985), the above-mentioned strategies can create a unique position where the company has a competitive advantage, but the key source of competitive advantage is the company's *value chain*. The value chain represents all the activities that the company performs in order to create value for the buyer and determines how the company does things. How each activity is performed will determine the costs (high or low) and the contribution to buyers need (differentiation). What is value for the customer

depends on their needs, on their own value chain, but in general value is created when lowering buyer cost or increasing their performance. Competitive advantage is determined by comparing the value chain of companies competing in the same industry.

2.1.1.3 Sustaining competitive advantage

Sources that generate competitive advantage can be more or less sustainable, depending on the continued perceived value and lack of imitation.

Cost advantage is sustained with mobility and entry barriers that prevent competitors from copying. The more sustainable sources of cost advantage are economy of scale, interrelationship with sister business units, linkages within the firm or external actors, proprietary learning, and product or process innovations protected by patents or secrecy. Differentiation is more sustainable when the firm's source of uniqueness creates barriers. Barriers such as *linkages* within the firm or with external actors, *interrelationships* with sister business units, *first mover advantage*, and *proprietary learning*, are more sustainable sources than for example policy choices, which refers to the company's decisions about what activities to perform and how, such as for example the product quality level. *Multiple sources* of differentiation are also more difficult to copy and therefore more sustainable. Sustainable differentiation also stems from *cost advantage in differentiating*, and high *switching costs* are a sustainable source of differentiation since it can stop buyers from changing supplier (Porter, 1985).

In later work, Porter (1996 and 2001) emphasises the difference between strategic positioning and operational effectiveness. Operational effectiveness, such as for example TQM (Total Quality Management systems), means performing similar activities better than rivals. Operational effectiveness is necessary to achieve superior profitability but does not generate competitive advantage. One reason is that the productivity gains benefit customers and suppliers, but are not fully retained by the company. Another reason is that, as competitors imitate the activities aimed to improve operational effectiveness, the more similar they become, hence the competitive advantage is lost (Porter, 1996).

In difference to measures aimed to increase operational effectiveness, a *competitive strategy* can create a position in which the company has a competitive advantage, a competitive positioning. A competitive strategy must fulfil the following six principles. First, the company should focus on superior *long-term return* on investment instead of short-term profitability, such as increased market share. Second, the company should deliver *unique value* to a particular customer segment. Third, the value chain determines the ability to perform *different* activities from competitors, or performing the same ones *differently*. Fourth, the company has to choose what to do and what no to do, because the unique position requires *trade-offs*, a prioritisation of resources. Fifth, the strategy is a mix of well-integrated activities that *fit* well together and that are mutually reinforcing. A good fit makes the strategy more difficult to copy. Finally, the strategy requires *continuity* in one direction. Continuous improvement is necessary but it should be guided by a strategic direction (Porter, 2001).

2.1.2 Resource-based view

According to the Resource-based view, competitive advantage depends to a very little extent on the industry structure, but on the organization itself. Studies in the field (Powell, 1996) show that industry variables explain around twenty percent of the performance heterogeneity among companies in an industry; the rest is attributable to firm-specific factors, even though other factors must also be considered such as for example chance.

The Resource-based view focus therefore on firm specific factors, the internal resources of the company, for explaining competitive advantage. These resources are physical, human, financial and organizational. The reason why firms perform differently is that the resources vary across firms and this resource heterogeneity can be stable over time (Barney and Hesterley, 1996). It means that, some companies may have access to more and/or better resources, and industry forces will not necessarily neutralize this situation.

The following sections explain what is, according to the Resource-based view, competitive advantage, the sources and how it is sustained.

2.1.2.1 Competitive advantage

In the Resource-based view there is no real distinction between competitive advantage and their source. This may be because, as mentioned above, competitive advantage emanates from the company's physical, human, financial and organizational resources, hence the resources and the source of competitive advantage are the same. Emphasis in this view is instead on the difficulty to imitate these resources, which makes them a source of competitive advantage, given that they provide an added value which is unique, i.e. that not all the competitors can provide, and that cannot be easily imitated or substituted (Barney and Hesterley, 1996). The resources create barriers to rivals, hence competitive advantage, because they enable the company to perform activities better or at a lower cost than the competitors (Collis and Montgomery, 1995).

2.1.2.2 Sources of competitive advantage

According to the Resource-based view, the reason why some companies perform better is that the above-mentioned resources make them more learning, innovative and efficient. Resources that can be a source of competitive advantage are for example the *competences, skills, know-how and managerial practices* that generate a superior capacity for higher order learning, innovative solutions and increased efficiency in organizational management and processes (Barney and Hesterley, 1996). A *shared vision* could be considered a competitively valuable resource because it is motivating, and motivation can increase learning, innovation and efficiency.

But, not only competences and skills are competitively valuable resources. A well-known *brand name* is unique and difficult to imitate, wherefore it can be a source of competitive advantage. Also physical assets such as *preferential access to raw material, technology, or patents* are competitively valuable resources (Barney and Hesterley, 1996).

2.1.2.3 Sustaining competitive advantage

The resources sustain competitive advantage because they are difficult to imitate. The most commonly mentioned reasons why they are difficult to imitate are because they are path dependent, socially complex and casually ambiguous.

Path dependent means that the resources are created over time, with the experience, which makes it difficult for competitors to imitate rapidly. Acquiring the resources might take too long time and can stop companies from entering the business. *Socially complex* means that the resources depend on the interaction between people and require coordination of many different actors. Reorganizing and changing human structures is difficult and time consuming. It also requires special human resources, such as a strong leadership and corporate culture. *Casually ambiguous* refers to that the company's superior performance stem from multiple resources. Sometimes not even the company themselves understand where it

comes from, and for competitors it is even more difficult to understand and imitate the behaviour (Barney and Hesterley, 1996).

Collis and Montgomery (1995) emphasise that the internal resources cannot be evaluated in isolation, they must be linked to the external environment, i.e. what the market demand and what competitors offer. According to them, the Resource-based view can be considered a combination of the internal and the external perspectives. It builds on, but does not replace, the industry structure view. Competitive advantage results from a proper alignment of internal resources with the external business environment. “Competitive advantage, whatever its source, ultimately can be attributed to the ownership of a valuable resource that enables the company to perform activities better or more cheaply than competitors” (Collis and Montgomery, 1995, p. 120). A point of departure is of course that the resources provide a value that the market demands. But, this is not enough. Competitively valuable resource must pass the test of inimitability, durability, appropriability, substitutability and competitive superiority. *Inimitability* is central in the Resource-based view and determines how easily competitors can copy the resources. At the end of the day, most resources can be copied, but there are some things that can make it more difficult. Resources that are difficult to imitate are developed with the time and experience, -path dependent-, involve many people and actors, -socially complex-, or are difficult to trace, -casually ambiguous. Furthermore, a preferable location can be a cause of inimitability, -physical uniqueness. Economic deterrence is also a barrier to imitation, because competitors might not afford to make the necessary initial investments. *Durability* of the value of resources is a problem in many industries today because of the fast innovation rate. As with the inimitability aspect, no resource will last unique and valuable forever, but the longer it lasts, the more value it creates, and the durability aspect refers to how the competitive advantage can be sustained over time. *Appropriability* refers to whether the company captures the profits of the value they create or whether this value is shared with other actors, such as competitors. As a result of the five forces of the industry, the Five- forces framework (Porter, 1980), the appropriation of value is a matter of negotiation between the company and other industry actors, namely the suppliers, distributors and customers. In order to capture the full value, the resource should be inextricably bound the company. The threat of substitutes is another industry force in the Five-forces framework, and *non-substitutability* refers to whether the unique resources can be substituted by a different kind of resource that the company in question does not possess. *Competitive superiority* means that the resources should contribute to that the company performs distinctively better than competitors. Assessing competitive superiority is often done on a too generic level, and companies may therefore not truly understand what causes the competitive superiority. For this reason, the assessment of resources should be done on a disaggregated and specific level.

The market test variables conditions the companies’ capacity to generate competitive advantage and there are three main implications for Managers. There is a need for continual investment in maintaining and building resources in order to avoid that they are being imitated and substituted. There is also a need for continuous upgrading, so that the value of the resources does not deteriorate. Resources can be upgraded by sequentially adding new ones or by upgrading alternative resources. The company should also leverage the resources on all the markets where they could contribute to competitive advantage, otherwise the company will be undervalued. But, here are some problems with leveraging the resources. Failing to understand the importance of the context may be a problem of leveraging resources to other markets, because the resource may generate competitive advantage in one context but not in another. Another problem is that companies may have difficulties to copy their own strategy on another market. Failing to understand what kind of resources build up

the entry barriers to an industry may be another problem of entering new markets, as well as not considering the competitive dynamics of the market. It may be that the resources that are valuable on one market are not on another.

The next section explores how companies can manoeuvre in the business environment, which is increasingly demanding that companies take responsibility for the natural environment and social dimensions.

2.2 Strategy and sustainability

If competitive advantage stems from a proper alignment with the business environment, as mentioned in Section 2.1, understanding the business environment and how it influences the company becomes an important point of departure for a company's strategy. This section introduces the views about strategy in relation to sustainability.

The business environment of today is increasingly influenced by the concern for sustainability. Companies are expected take into account how their activities and products affect the triple bottom line, - the financial, social and environmental dimensions of sustainability. In the centre of this view are the stakeholders, "any individual or group who can affect or is affected by the actions, decisions, policies, practices, or goals of the organization" (Carroll and Buchholtz, 2000, p. 66). Hence, the organization and stakeholders are interdependent, because stakeholders influence the organization and are influenced by it. For this reason, according to the Stakeholder view, stakeholders should be an important consideration in a company's strategy.

But, there are different stakeholder approaches. There is a *strategic approach*, according to which the company should manage stakeholders so that it facilitates the achievement of the strategic objectives and increases share holder value. The *multifiduciary approach* holds that stakeholders have equal rights to the shareholders, because the company's responsibilities extend beyond the business objectives. In this sense, companies have little influence over the course of the company. The *synthesis approach* means that companies have the right to prioritise their strategic objectives, but this should be done within the context of ethical responsibility (Carroll and Buchholtz, 2000). The synthesis view is here considered the most viable approach, because motivating companies to become more sustainable requires that there is something in it for them, but it should also be expected that companies take responsibility not just for their own winning, but because of a consideration for the society.

Considering that aspects other than the industry related ones, such as social and institutional structures and stakeholders, also influence the company's performance, the industry structure model mentioned in Section 2.1.1, represents a too narrow context for analysing the business environment. Instead, the organizational field becomes a more relevant context, because one could say that the institutional field builds on the industry structure, but adds the social and political aspects and emphasises the organizations dependence on one another (Aragón-Correa and Sharma, 2003; Hoffman, 2001; Orsato, 2001).

The Ecological Modernization Framework developed by Orsato (2001) provides a framework for identification of the factors that influence the sustainable development of an organizational field. It embraces factors that condition the company, such as the organizational capabilities and constraints, market demand, competitive forces and industry collaboration, related businesses, interest organizations, environmental policies, and social

and physical structures, and can therefore be used to determine the company's ability to develop and benefit from an environmental strategy.

The responsibility towards the natural environment is a part of a company's overall responsibilities to be sustainable, and there is a range of different strategies that companies can undertake to manage this aspect, as described in the next section.

2.3 Environmental strategy

This section is a review of environmental strategies, the possible reasons why companies select them, as well as how it may be related to competitive advantage.

The constraints of the natural environment, as well as the responsibilities related to this aspect, influence the business context in a way that companies can either perceive as a problem or an opportunity. In the interface between the company and the natural environment, there is a continuum of different strategies that ranges from reactive to proactive. Companies that see the environmental constraints as a problem tend to take a reactive position and comply with the necessary requirements from stakeholders in order to stay in business. Companies that have a proactive approach are more likely to see the environmental challenges as something they can influence and maybe even benefit from (Schwartz, 1997).

There are several reasons for companies to undertake a proactive environmental strategy. According to Reinhardt (2000), the purpose can be to capture some benefits, create competitive advantage or to manage risk and uncertainty. *Environmental differentiation* can be a source of superior performance if customers are willing to pay a price premium for the added environmental value, which exceeds the costs of the investment to produce this value. It requires that the company is able to produce that value in a way that cannot be easily imitated, and communicate it in a credible way. Another purpose of environmental strategy can be to *influence the government regulations* to the company's favour. These initiatives can be collective or independent, and the aim is generally to create barriers to entry or first mover advantages. Examples of such initiatives are the industry self-regulatory bodies and schemes that set rules and standards for the whole industry, used for example in the chemical industry and forest industry. An independent initiative can be when a company lobbies in order to influence regulators and create barriers to competitors within the industry. *Private cost reduction* can also be the purpose of an environmental strategy. Companies can simultaneously improve their environmental performance and reduce costs, since environmental undertakings can increase efficiency in the production, reduce legal expenses and waste handling costs. It requires managerial flexibility, access to information and incentives to the employees. Another strategy is to *redefine the market*. It means that the company manages to redefine the value-chain, i.e. the property rights of the commercial value system. This "win-win" scenario combines all the previous strategies: change regulations, reduce costs and increase revenues. At the same time it reduces environmental impacts and consumers' private costs. There are examples of this in the consumer durables goods, such as electronic equipment. It requires special attention to managing stakeholder, especially regulatory agencies, customers and other firms, wherefore investment in information is critical for the success. Ultimately, a reason for an environmental strategy can be to have a *systematic approach to risk*. The environmental strategy can benefit the company by revealing opportunities for risk reduction. Managing risk and uncertainty is a defensive strategy aimed to stay in business, but in the long-term, managing risk more efficiently than competitors can be a source of competitive advantage.

There are many different reasons for a company to undertake a proactive environmental strategy, and studies have shown that companies can profit from a proactive environmental strategy (King and Lenox, 2002; Russo and Fouts, 1997; Dowell, Hart and Yeung, 2000). But, according to Reinhardt (1999), the industry structure, the company's position in the industry and the organizational capabilities will condition the ability to do so. When it comes to competitive advantage from environmental strategies, there are reasons to believe that the same factors will influence (Orsato, 2003). The relation between competitive advantage and environmental strategy is explored below.

2.3.1 Environmental strategy and competitive advantage

Strategic Environmental Management seeks to explain how companies can gain competitive advantage in the interface between the business and the natural environment, and theories and studies related to this area are presented below.

Also in this area the two strategic management schools have different approaches. According to the industry structure view, studies have shown that the environmental constraints can generate competitive advantage, because stringent regulations and demanding domestic markets trigger innovation and generate competitive advantage on international markets (Porter and Van der Linde, 1995), or because they generate cost-efficiency gains for larger firms compared to smaller competitors (Bonifant et al., 1995).

According to the Natural Resource-based view (Hart, 1995), the constraints imposed by the natural environment trigger the development of competitively valuable resources. These resources are in the form of competences, know-how and skills, and are a source of competitive advantage because they are valuable, unique and difficult to imitate. The value is that the proactive environmental strategies (pollution prevention, product stewardship and sustainable development) prepare the company for meeting the future business environment where companies will have to be sustainable. In the future, according to Hart, stakeholder legitimacy and stakeholder integration will become a necessary requirement, and sustainable technology has to be developed in collaboration within the industry. These resources are difficult to imitate, as according to the Resource-based view, because the development of the resources is a *path dependent process*, from pollution prevention to product stewardship to sustainable development, and synergies are produced between the three strategies. Companies that have *prior knowledge and skills from installing a quality management system* (tacit knowledge) will be more prepared to adopt a pollution prevention strategy. Companies with a *cross-functional management* (socially complex skill) are more likely to succeed with the implementation of a product stewardship strategy, such as eco-labels. Companies that have the *capabilities to create a shared vision* (firm specific and rare skill) will be more capable to develop new technologies necessary for sustainable development.

Testing the hypothesis, a study on the Canadian gas and oil industry in 1993 to 1995 found that companies with a proactive environmental strategy had developed capabilities for stakeholder integration, higher order learning and continuous innovation. The conclusions was that a proactive environmental strategy could lead to the development of unique competitively valuable organizational capabilities and generate competitive advantage, in accordance with the Resource-based view (Sharma and Vredenburg, 1998).

But, Aragón-Correa and Sharma (2003) argue that, whether the dynamic capabilities that come from a proactive environmental strategy generate competitive advantage depends on external factors and the managers' perceptions. The perceived uncertainty, complexity and

munificence moderate the link between a proactive environmental strategy and competitive advantage. When the business environment is perceived as unpredictable, *environmental state uncertainty*, managers are more proactive, take greater risks, are more innovative and practice selective decentralization. In this uncertainty context, there is a positive link between proactive environmental strategy and competitive advantage. When managers perceive it difficult or risky to predict the consequences of their actions, *organizational effect uncertainty or decision response uncertainty*, a proactive environmental strategy is less likely to generate competitive advantage. If managers perceive the environment as *complex*, they are less likely to develop a proactive environmental strategy, but in case they do, it has the potential to generate competitive advantage. If managers perceive *munificence* in the business environment, they are likely to develop a proactive environmental strategy, but this will most likely not lead to any competitive advantage.

If proactive corporate environmental strategy generates competitive advantage, it seems that the sources may be found in the external environment or in the organizational resources, or a combination of both. The Environment Competitiveness Framework developed by Orsato (2003) is a schematic way to classify this, as illustrated in Figure 2-2. The relevance of the framework is to identify where the company should focus their efforts in order to optimise the outcome of the environmental investments. If the company can produce unique value that the market is willing to pay for, it can gain competitive advantage from an environmental differentiation strategy. The differentiation can be either associated directly with the green attributes of the products or services, *eco-oriented product and services*, or indirectly, with the green and responsible practices of the company, *beyond compliance practices*. Such beyond compliance practices, for example a certified Environmental Management System, can also lead to efficiency gains in the process and resource use; hence increased *resource productivity*. If the company can sustain the *lowest cost* in the market, it can gain a cost leadership position.

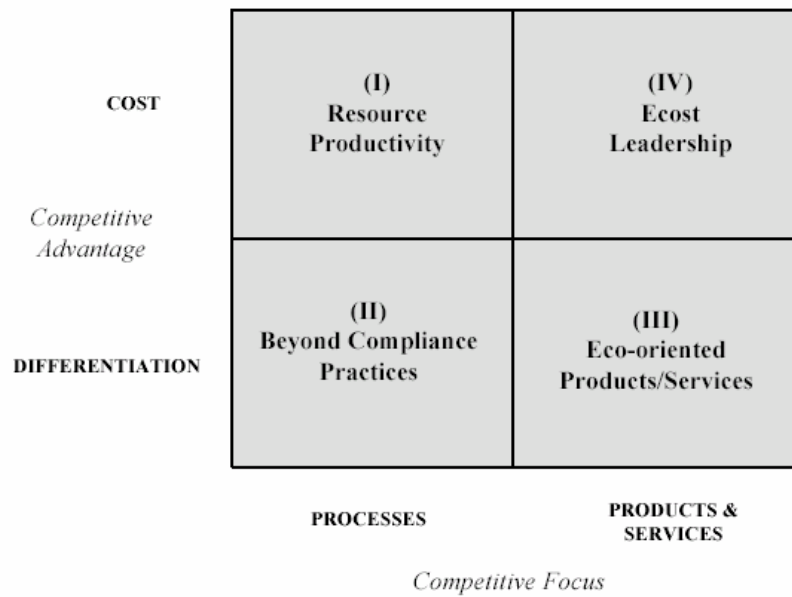


Figure 2-2: Environment Competitiveness Framework (Orsato, 2003)

Considering these four strategies, there are three zones of competitive strategy focus. To start, if a company can combine lowest cost and increased resource productivity, its strategy lies in the zone of *multiple dividends*. It means that both environmental impacts and costs are reduced simultaneously, resulting in benefits for the company and the consumers. The zone of *multiple differentiations* means that the company can achieve competitive advantage through environmental differentiation of either the products and services or the corporate image, or both. If the company's environmental practices are not related to the products and services, but to the internal organization and processes, competitive advantage can be achieved through tradeoffs between resource productivity and beyond compliance practices, situating the environmental strategy in the zone of *best environmental practices*. For example, the installation of an EMS can lead to the discovery of resource efficiencies. Nevertheless, due to the trade offs between the two basic strategies, low-cost and differentiation, as discussed in Section 2.1.1, at the end of the day, the company will have to choose between the two basic strategies, cost or differentiation.

Since the aim of this thesis is to identify how environmental differentiation initiatives contribute to overall competitiveness, the next section is dedicated to exploring the zone of multiple differentiation, which include both eco-differentiated products/services, and beyond compliances practices, and will also enter in the zone of best environmental practices.

2.4 Environmental differentiation strategy

This section introduces the possible reasons for having an environmental differentiation strategy, the main conditions of such strategy, and the two main types of environmental differentiation strategy: eco-differentiated products/services and beyond compliance practices.

Even if there is not one clear definition, environmental differentiation means to create uniqueness based on the environmentally friendly products and services, or the beyond compliance practices of the company, i.e. the environmentally responsible practices, processes, policies and programs.

There are several reasons why a company may undertake an environmental differentiation initiative. According to Reinhardt (1998), it makes business sense when consumers are willing to pay for environmental quality. Though, the company must be able to provide that value-added in a way that is not easily imitated by competitors, and emit credible information about their environmental performance. Whether they will succeed depends on both the industry context and the internal organizational capabilities. Another reason, according to Prakash (2002), is stakeholder legitimacy. An environmentally responsible image can improve relations with regulators and the company can thereby achieve first mover advantages through shaping future regulation to their favour. Or, disclosing information about the company's environmentally responsible operations, via for example environmental reporting, can be a way to manage stakeholder pressure. In addition to the above-mentioned reasons, there may also be a less strategic motivation for beyond compliance, simply the managers wish to be socially responsible.

According to Reinhardt (1998), there are three conditions of an environmental differentiation strategy. The first one is willingness to pay for environmental protection. The second one is credible communication. In order to capture the desired price premiums, achieve stakeholder legitimacy or change consumer behaviour, the environmental differentiation has to be communicated in a credible way. Prakash (2002) coincides on these two conditions. He means that environmental differentiation initiatives can be a form of societal marketing, aimed to change consumer behaviour, and this requires a change in social structures, incentives to consumers and credible information. The third condition that Reinhardt mentions is that the environmental differentiation has to be difficult to imitate. Some practices and strategies can contribute to making the environmental differentiation difficult to imitate, such as creating an ecological brand for the environmentally friendly products, or certain environmentally responsible practices such as a networking with environmental NGOs, or supply management practices.

According to Prakash (2002), the distinction between product and company focused environmental differentiation is important. A product-focused strategy is desirable if the product brand attributes are more salient. This enables to leverage the product brand names and link the green attributes more directly to the consumers needs. A product-focused strategy could be for example eco-labels, eco-branded products, the product packaging, or product related advertising. A company-focused strategy is preferable if the corporate image is more important and the company has one brand name across all products, which also enables economy of scale in advertising. A company-focused environmental differentiation could be any kind of practice that benefits the company's brand image, such as a certified EMS, environmental reporting, collaboration with an environmental NGOs etc.

In the following two sections, the above-mentioned conditions for environmental differentiation are discussed, namely willingness to pay and credible information. Inimitability, the third condition, is covered in the two sections that follow, which describe practices and strategies related to eco-differentiated products/services and beyond compliance, because such strategies can to some extent provide the desired inimitability.

2.4.1 Willingness to pay for environmental protection

This section explores the studies and trends related to the condition of willingness to pay for environmental protection.

What makes understanding willingness to pay for environmental protection complex is due to the nature of the good. Generally, consumer value is related to price, time, convenience, and the satisfactions of a series of personal needs (Porter, 1985). Environmental protection is not a private good that people can benefit exclusively from; it is a non-excludable good, a positive externality that benefits many people (Prakash, 2002).

According to Prakash (2002), the cost of environmental protection can be linked to a product for which consumers who value environmental protection pay a price premium (direct cost). Another approach, that of societal marketers, is to force consumers to change behavior by changing institutional contexts and therefore imposing the cost on everyone. But, he continues, behavioral change can be expected to vary according to income and different price levels, and therefore, imposing higher prices on less environmentally friendly goods may not result in the desired changes for people with high income.

People tend to value more the private benefits, because they care more about things that are closely related to them or directly linked to their person, such as their own or their family's health, impacts on the local surroundings, quality and prestige. It can be expected that people value environmental protection bundled with such direct benefits more than those that provide indirect external benefits and therefore are more willing to pay for such "bundled" goods (Prakash, 2002). There are studies that confirm that consumers value ecological food products because it benefits their own health, while the external environment is a less important motive (Utvärdering av den Nordiska miljömärkningen, 2001; Mat 21, 2002). People can be willing to pay when the green image of the product improves their image and status. Because of this, willingness to pay will vary according to the nature of the good. For example, the American company Patagonia mountain wear produces and sells clothes for outdoor life, a product that people wear and can be seen with, in contrast to Heinz Starkist tuna, which is a product with short life cycle, something that is consumed rapidly or stored at home. Patagonia has an image of prestige and quality, while Heinz Starkist tuna does not. Both products claiming to be environmentally friendly, Patagonia charges considerable premiums for its products compared to Heinz (Reinhardt, 1998).

Even though surveys on environmental attitudes and green purchasing behavior can indicate trends, who the green consumers are and what they value is still not very clear. One reason may be that consumer values change over time, due to the increasing awareness about environmental issues. Researchers working with green marketing have tried to define a profile of consumers who are willing to pay for environmental protection. According to Straughan and Roberts (1999), the green segmentation has long been based on the demographic variables of age, gender, income, education and place of residence, and often resulted in a green consumer profile of a young, mid-high income, educated urban women. They question this segmentation and suggest that the demographic variables should be complemented with psychographics variables. *Attitudes, values, behavior, perceived importance of the environmental problems* and *perceived consumer effectiveness* are important determinants of willingness to pay for environmental protection. Their study on American university students found that perceived consumer effectiveness, *altruistic ideas* and *political orientation* are important drivers behind environmentally conscious consumer behavior. Especially important was the perceived consumer effectiveness since the young people want to be sure that they contribute to making a difference. Following the same trend, a Canadian study (Laroche et

al., 2001) revealed that consumers who are willing to pay more for green products do not consider it inconvenient to behave in an environmentally friendly manner. These consumers think that environmental problems are severe and stress the importance of environmental concern. Basic values in their lives are collectivism and security. But, environmentally sound behavior does not necessarily mean willingness to pay for green products. A study on Nordic consumers in relation to eco-labels (Utvärdering av den Nordiska miljömärkningen, 2001) revealed that an environmentally sound lifestyle is primarily associated with waste management, energy consumption and transportation, and not necessarily with the purchasing of green products. Neither is sustainable consumption necessarily associated with buying environmentally friendly products. For people with high income it may be the case, but for older people, and people with low education and income, sustainable consumption is about consuming less.

In conclusion, one could deduct from the above that a combination of social and personal factors are in interplay when it comes to willingness to pay for environmental protection, which makes it difficult to determine. It also seems that the attitudes and willingness to pay are changing over time. Linking environment to a direct benefit, such as health or quality, may motivate consumers to pay for environmental protection, but there are also indications that altruistic motivations are developing among younger generations, but will only lead to green purchasing behavior if the result of their responsible actions is clearly communicated. And, it is important to note that most studies on environmental consumer behavior are attitudinal and may therefore not lead to a green purchasing behavior, since as is well known in the consumer behavior science, attitudes and behaviors do not always coincide.

2.4.2 Credible information

This section explores the condition of credible information and some ways in which companies manage this aspect.

According to Prakash (2002), labels or claims about environmental performance can be issued at three levels: the company, the industry or by a third party organization. The degree of independence of the issuer differs, hence also the credibility. On a firm level it is called self-declared claims or first-party labels. These are anything that is issued by the company itself without independent review. It can for example be an eco-label or environmental reporting. The industry is a second party issuer and examples of claims are codes or certification schemes issued and certified by the industry, trade or membership associations. Standards may also be developed by the industry but certified or verified by an independent or third party organization. The most independent form, the third-party labels, are issued by organizations that are independent from the product, retailers and companies that they certify.

There are ISO standards for the environmental product labels and claims. These are divided into three types. The ISO 14024 sets the guiding principles and procedures for the third party eco-labels (type I). The ISO standard 14021 was created in order to harmonize the use of self-declared environmental claims (type II), so that these would be accurate, verifiable and not misleading. The third type sets the standards for a report card. Such a report card is licensed by an independent organization and states the environmental aspects of a product without grading the environmental performance. It is up to the consumer to decide which product is preferable from this aspect.

The credibility of any environmental claim is conditioned by the image and reputation of the issuer. Third party eco-labels and schemes are the most independent certifications and therefore thought to be perceived as more credible than self declared claims, since consumers can mistrust them for bias. If the source is the company itself, the general brand image conditions the credibility of any statement they make about their social and environmental performance. A brand that is already associated with responsibility and commitment towards the natural and social environment enforces the credibility of any environmental claim (Reinhardt, 1998).

If information about the environmental performance is a motivating factor for consumers, the company could consider collaborating with stakeholders for the wider dissemination of information (Prakash, 2002). For example, companies can collaborate with an independent certification organization for third party certification of their environmental performance. This can generate synergies for both the company and the organization. The company improves the credibility of its environmental performance and the labelling organization benefits from a broader exposure and increased market-share. But there are risks related to the interdependency, as will be discussed more in detail in the following.

Anything that is aimed to capture attention about the differentiation is called a signalling device (Porter, 1985). In the case of environmental differentiation, the above-mentioned eco-labels, or a certified EMS such as ISO 14001, could be considered a signalling device. Eco-labels can signal and sustain the credibility about the environmental soundness of the products, and an ISO 14001 certification can signal the environmental soundness of the company's processes and practices. If the market considers the eco-label an added value and the company is first to adopt it, eco-labels can be a differentiator that generates competitive advantage (Ottoman, 1992). But, the advantage is temporary, since it will disappear as more and more companies adopt the same standard and certifications schemes. This has for example happened with the ISO 9000 standard in some industries (Sinding, 2002).

2.4.3 Eco-differentiated products and services

There are different ways of differentiating products and services along the environmental line. This section focuses on exploring strategies and practices relevant for the cases in this study, namely eco-branding.

As discussed above, eco-labels can be issued by the industry or a third-party. As mentioned, the eco-labels may be easily imitated and therefore lose the function of a differentiator and competitive advantage. The eco-brand can be a way to avoid the problems of diminishing competitive advantage of eco-labels, and in fact create new competitive advantage, because the eco-brand is a firm specific resources, it is unique and may be difficult to imitate.

2.4.3.1 Eco-branding

There are many different understandings of what a brand is. According to Kotler (1999), brands are used to differentiate a company's products or services from those of other companies. Branding allows segmentation of the market and is therefore an instrument to attract loyal and profitable customers. Companies also use brands and trademarks to protect the unique features of a product or service from being copied. In the purchasing decision, consumers consider a series of factors, such as quality and price, and a brand can simplify the decision, since it helps to identify products or services with the same attributes from time to time. In this sense, the eco-brand is a way to facilitate for consumers to find the environmentally differentiated products or services.

An eco-brand can be considered a sort of self-declared claim about the environmental performance. In contrast to claims that are issued by a second or third party, with an eco-brand the company can segment differently and include other attributes, such as a quality or other values, and create a unique offer that is difficult to copy. Under an eco-brand, the company can include the products they wish, which allows them to go about the requirements set by the eco-labelling schemes, in cases where they consider it relevant. But, as discussed in the previous section, the credibility of environmental claims is conditioned by the image and reputation of the source, which in the case of eco-brands is the company itself. To avoid the credibility problems of eco-brands, companies can collaborate with other organizations for the third-party certification of the environmental soundness of the products. This combination of eco-brand and eco-label can generate synergies. The company gets credibility and the labelling organization benefits from a broader exposure and increased market-share. But, there are risks related to the interdependency. Rondinelli and London (2003) mention that, when collaborating with Non-Profit Organizations (NPOs), the interdependency of both organizations requires that the relationship be managed with special care. Risks are that the NPOs credibility is questioned, a “sleeping with the enemy” dilemma. A risk for the company is that the NPO is not professional enough or mismanages their operations, which may damage the company image.

As with general branding, there are two kinds of eco-branding strategy: line extension or the creation of a new independent brand. Line extension seems to be the most common alternative. It is a kind of eco-branding strategy where the master brand, being a product line or the corporate brand, is extended to include the green product range, something like “brand name + ecological”. It may produce double benefits. The new green product benefits from the existing brand equity and the existing brand benefits from an improved image. The introduction of a new green product is easier under an existing brand; it allows economy of scale in advertising and promotion. The company can pick the “low hanging fruits” by gaining some green consumers without risky investments in advertising. This is a way to face the fast technological changes and is especially useful when the product lifecycle is short (Peattie, 1995). For example, the American food company H.J. Heinz manages around 40 brands in the food industry, where the lifecycle is short, wherefore including the ecological alternative under an existing brand may be the preferred option. They recently launched Heinz Organic Ketchup as a “complementary extension of our flagship brand that is known and loved by millions of consumers” (Heinz, 2003). Brand Managers also often welcome this strategy since the extended line means increased market share for them (Chernatony and Dall’Olmo Riley, 1997).

Corporate branding is becoming more and more common, especially in food retail, due to consumers increased trust in the retailers, according to the Cooperative Grocer (2003). For the food and drink producers it means that they have to fight for shelf space with the retailers’ own corporate brands. An often mentioned example of such corporate branding strategy is the UK retailer Marks and Spencer. They have extended the corporate brand to include the ecological assortment, which is called *Marks and Spencer Organic* (Marks and Spencer, 2003). A risk with this brand extension strategy is the close relation between the green product range and the master brand. A bad performance of the green product range can affect negatively on the image of the master brand. Sometimes maybe a green product does not match with the general brand image and if there are many items in the brand, there is a risk that the brand gets a fuzzy image, something called brand dilution (Kotler, 1999).

2.4.4 Beyond compliance practices

This section explores approaches and reasons for company-focused environmental differentiation, or the beyond compliance practices, in which the differentiation is based on the environmentally (and socially) responsible practices, processes, policies and programs of the company.

One reason for company focused environmental differentiations seems to be the possibility to generate and sustain an image that customers support and eventually are willing to pay for. But, in some cases the environmental protection and social responsibility are also the reason to exist for the company. It could be called the missionary approach, because the environmental and social responsibility is integrated in the mission and influences everything the company does. An often-mentioned example of such a company is The Body Shop. Another reason may be to get stakeholder legitimacy, as discussed in the introduction of Section 2.4. The legitimacy may improve relations with stakeholders and increase the efficiency of any transaction with these groups, for example authorities and employees. It can therefore also reduce risks for suffering bad publicity. For example, a certified EMS is a way of getting stakeholder legitimacy because it guarantees the credibility of the environmentally responsible practices of the company. But, it may also have other outcomes such as efficiency in organizational processes, as well as improved organizational learning, innovation and communication.

In the following, the above-mentioned approaches and practices for beyond compliance are explored: the missionary approach, the risk approach, environmental management systems (EMS) and interorganizational management.

2.4.4.1 Responsible practices as a mission

Some companies have managed to establish a strong positive link between their environmentally and socially responsible practices and their corporate brand. The core values are reflected in all their actions and the corporate brand is used effectively also on the products, reflecting the environmental and social commitment. As mentioned in Section 2.4.2, when the corporate brand is associated with responsibility and commitment towards the natural and social environment, it is more likely to be perceived as credible. According to Schwartz (1997), companies that are committed to the environmental and social cause because they consider that they have a mission that reaches beyond the business goals, tend to succeed better with their environmental differentiation strategy, because the values are deeply integrated in the company.

Such companies can be called *missionary*. According to Mintzberg (1999c), in a missionary organization the shared values and beliefs among the members hold the company together. The mission counts above everything, - to preserve it, extend it and perfect it. The mission attracts people that share the same values, and the shared concern motivates employees to sustain the company's strategy, because the individual's goals are integrated with the organizational goals. Hence, the common mission increase efficiency, chances to discover opportunities and the capacity for innovation.

There are several cases of such missionary or value driven companies. Again, the case of The Body Shop is a commonly mentioned one, and shows as well the risks related to a responsible image. The active involvement in issues related to human rights, animal- and environmental protection, has given the company a lot of positive publicity, good image and employees who share the same beliefs. This has turned into market demand and increased

shareholder value. Though, at one point the good image created so high expectations that they were turned into a disadvantage and The Body Shop suffered legitimacy crisis in 1994 when press revealed that the company's concern with third world countries was not as far reaching as expected (Schwartz, 1997). The American company Patagonia mountain wear, mentioned in Section 2.4, could be another example. The company admits that some of their processes have negative environmental impacts, such as the textile dyeing, but, since the start, they have shown a strong commitment to environmental protection by being actively involved in a range of activities such as supporting environmental NGOs with money and volunteers, and use as much alternative materials as possible, such as the fleece, which comes from recycled PET bottles, and organic cotton (Patagonia, 2003). Belgium based Ecover was the first company to produce ecological washing and cleaning products on a big scale. They started as a small entrepreneur and are now in 22 markets worldwide. According to the company itself, the competitive products and the company culture, with a consistent philosophy that benefits people, animals and the environment, have strongly influenced the success of the company (Ecover, 2003).

Common for these companies is that they origin from around the 1970s and have a very strong commitment to the natural and social environment. The values constitute a core in the company philosophy; in fact the company was built up around these values. The communication therefore becomes natural, clear and straightforward. Maybe the competitiveness of their strategy lays in the common 'unsustainable' practices of the business. The environmental strategy has been to differ from conventional companies, either by taking distance from the unsustainable practices (animal testing, pollution from chemicals) or by turning them into a business idea (recycling of PET bottles). As mentioned in Section 2.4, people care about the things that are closely related to them or directly linked to their person, such health and local issues. This link exists between the above companies' products and the person. In hygienic products it is given and in the case of sportswear, the nature is very close to their customers.

2.4.4.2 Responsible image to manage risk

It is often argued that consumers demand products from companies with good environmental records, but a study on Global Brands (Baker and Sterenberg, 2003) found that it seems that people are not necessarily interested in looking beyond the products into the company behind, wherefore the responsible practices of a company may not matter that much to consumers. On the other hand, since people's concerns tend to be more and more issue driven, a strong positive corporate image can protect from bad publicity when issues and scandals arise. Hence, a responsible image is *a tool to reduce risk*.

A responsible image may be especially important in industries that are more frequently subject to environmental crises, or where there is a conflict between the products and the environment. Such conflicts can be when the product per se is not environmentally friendly, or when the common practices and processes are considered unsustainable. Examples are the petrol industry or the chemical industry. In this case, product-focused brands could be more relevant, in order to disassociate the product from the industry image. But, eco-branding the product may be difficult since there exist some kind of conflict between the company's products and the environment. For these companies, being active in a series of social issues that provide good PR helps to project responsible values and can create a responsible corporate image, even though it is not linked directly to the company's products and processes.

For example, hundred and fifty years old Procter and Gamble sells household chemical products all over the world under almost a hundred different brands. There is no green brand among their range and the company cannot deny that they test their products on animals. Some time ago, Procter and Gamble experienced a scandal when labelling paper towels whose only green attribute was that the inner tube was made out of recycled paper. Anyhow, it seems that the company are concerned with being a perceived as responsible. They are the Dow Jones Sustainability Index leader for the third year in a row. The focus of the activities is on local community projects and internal working environment (Procter and Gamble, 2003). The petrol company Shell is an often-cited example of how a company's unsustainable and unethical practices influenced directly on the business performance. The big scandals, the Brent Spar (decision to dump oil rigs in the North Sea) and the Ken Saro Wiva (the conspiracy that ended up with the execution of the environmentalist Ken Saro Wiva in Nigeria), were both initiated by NGOs (Amnesty and Green Peace), and mobilised a consumers boycott that forced Shell to take a radical turn. Shell is now very concerned with being a responsible company and its main focus is on renewable energy projects (Shell, 2003).

2.4.4.3 Environmental Management Systems

The purpose of environmental management is to control environmental aspects and minimize the environmental impacts of the company's processes and products, and also to discover new business opportunities. Whether the company follows the existing standards of Environmental Management Systems (EMS), such as ISO 14001, or creates their own system, the guiding principles are similar. Departing from the company's policy, the management system should be a framework for organizing resources and creating procedures to reach the environmental goals, and provide the necessary feedback for corrective measures and continuous improvements (Brorson and Larsson, 1999).

Sinding (2002) argues that empirical studies have failed to reveal a casual link between the implementation of a certified EMS and competitive advantages. According to him, EMS could have such advantages, but this will then depend on three different levels. The first level refers to the *first mover advantage*, where the EMS is a source of differentiation for the company. This will disappear with the time, as more and more companies adopt the same standards. The second level refers to the *special competences* that can be developed as a result of the certification process. If such competences evolve, something that the EMS cannot guarantee, they are unique and difficult to imitate or substitute, and therefore can be considered a source of competitive advantage. The third level would be the unique *inter-organizational cooperation* that the EMS could eventually generate, optimising the environmental performance along the supply chain, and therefore providing a competitive advantage.

In Sweden, some studies have been made on the benefits of environmental management. A study on Swedish small and middle size enterprises (1 to 100 employees)⁷, found that the great majority of the companies perceived that the implementation of the ISO 14001 had generated profits, and the customers of these companies have retained and sometimes got new clients. Even if the results should be interpreted with caution, the study concludes that the ISO 14001 has the potential to generate competitive advantage (Löfqvist et al., 2000). Another study, on small Swedish companies (less than 50 employees)⁸, found a link between proactive environmental management (in this case meaning that the company has

⁷ Interview with 30 companies and 85 customers, and 239 postal surveys. Total 354 companies.

⁸ Postal survey to 20 000 companies. Made in 2001-2002.

environmental objectives) and profitability, especially in retail. But, for these small companies, the benefits most likely do not reach to pay back the investment in ISO 14001 certification (NUTEK, 2003c).

According to Sharma and Vredenburg (1998), it is the very systematic nature of the environmental issues, - goal setting, control, feed-back and correction-, that has the potential to generate competitive advantage since it creates competences and skills that contribute to improved organizational learning and communication. In accordance to this, a case study on Swedish municipalities showed that, when used in a reflective and innovative way, instead of focusing on creating procedures, the EMS is a source of inspiration for experimental environmental management. As such it provides a platform for communication and improves organizational learning (Burström von Malmborg, 2002). Though, another Swedish study⁹ revealed that most companies perceive the EMS merely as a procedure they have to go through to achieve the ISO 14001 certification or the EMAS verification (Heidenmark, 2000). A recent study on Spanish manufacturing companies¹⁰ and their perceptions of the benefits of an EMS, concludes that there is a positive correlation between the implementation of an EMS and competitiveness, because of the new capabilities, technical and managerial systems, values and norms that the EMS generates. For companies that had installed an EMS benefits were improved control and overall management, followed by improved image, while companies that were going to implement an EMS believed that the major benefit would be better compliance with legislation (Giménez Leal et al., 2003).

2.4.4.4 Interorganizational environmental management

To manage the environmental performance along the product chain, upstream or down stream, may be a response to stakeholder pressure and market demand. This can be referred to as product chain management, defined as “the general label for initiatives of actors, within or outside the product chain, related to the reduction of the environmental impact of the product during its life cycle” (Boons, 2002). But, since this is a quite new phenomenon the knowledge about how the product chain works and how companies act in practice is quite limited.

Managing the product chain, either suppliers or other organizations, may be a condition for an environmental differentiation strategy, because a credible environmental differentiation requires some control over the supply chain. It is a way to manage risk, and also to communicate the sustainability values of the company, hence achieve legitimacy. Different tools are used such as sustainable purchasing policy, pre-qualification criteria of suppliers, for example a certified EMS or eco-labels, purchasing specifications and contractual agreements. Young and Kilekiewicz-Young (2001) argue that, extending the supplier relation to a partnership, referred to as Sustainable Supply Network Management, has the potential to generate competitive advantage because of the increased efficiency along the chain and organizational learning. They mean that such companies, of which The Body Shop is an example, have a cooperative and opportunity driven approach to the supply network, built on trust, transparency, partnership and cross-functional management. They integrate social, ethical and environmental issues in the supply chain practices, using tools such as sustainable purchasing training, training programmes with suppliers to meet sustainability goals, open book accounting, on-site audits of suppliers, internal training and self-evaluation of employees, and cross-functional teams. The cross-functional team brings in different

⁹ Interviews with 300 manufacturing companies of varying size. Made in 1998.

¹⁰ Postal survey to 320 manufacturing companies.

stakeholder aspects because people from different areas represent different stakeholder groups and issues. This increases the sharing of information and knowledge, and is therefore a source of organizational learning and communication. Risks and opportunities are detected that would otherwise have been foreseen.

Collaboration, alliances and partnerships can also be formed with organizations beyond the industry, with stakeholders such as NGOs and NPOs, non-governmental/profitable organizations. Such collaborations may have varying purposes and may take different forms. A reason for collaborating can be, as mentioned in Section 2.4.2, to get credibility for the environmental performance of the company, and may be relevant when such information is a motivating factor for consumers. According to Rondinelli and London (2003), the collaboration with non-profit organizations ranges from little interactive to intensive. The least interactive, *Arms-length relationship*, refers to when the company supports the NPO with money and volunteers, as in the case of Patagonia mentioned in Section 2.4.4.1. The middle term, *Interactive collaboration*, is when the company targets an NPO for the development of a certain project or collaborates in for example educational and awareness campaigns. Example of this is the collaboration between the forest industry and the Forest Stewardship Council (FSC) to obtain certification for their products. In the *Intensive Environmental Management Alliances* the NPO and the company work closely together to solve internal environmental management problems. The cooperation between MacDonalD's and the Alliance for Environmental Defence Fund (EDF) to reduce waste in the operations is one example. Juniper and Moore (2002) consider that companies and NGOs form *environmental restoration partnerships* to solve environmental problems, such as biodiversity loss, or to educate the public. The aim can also be *sustainable community development*, to develop host communities through human and social capital investments, or to create and develop industry sustainability *regulations and standards*, such as the ISO 14001. A broader approach is the *learning communities*, where the company has extensive partnerships with the public sector and NGOs, efficient collaboration with national and international organizations, and supports self-organizing learning.

As in any kind of partnership, the interdependency of both organizations requires that the relationship be managed with special care. It is important that both parties are transparent about the goals and objectives with the partnership, and that they let the changes follow the rhythm of the partnership. Risks are that the NPO's credibility is questioned, a "sleeping with the enemy" dilemma. A risk for the company is that the NPO is not professional enough or mismanages their operations, which may damage the company's image. When managed well the partnership generates synergies. The knowledge and skills learned from the partner increases the corporate learning and the commitment to a good cause may increase employee motivation. There may occur new business opportunities, new product development, or improvements in the supply chain. The company may benefit from good image and legitimacy in the society (Rondinelli and London, 2003; Juniper and Moore, 2002).

Conservation International's alliance with Starbuck coffee is an interesting case of collaboration. It developed from a less interactive restoration strategy, -a collaboration to raise awareness about coffee and conservation-, to an intensive cooperation for sustainable community. The collaboration made it possible for Starbuck to source coffee where they would otherwise not reach, and has resulted in the development of an industry standard, the Coffee Sourcing Guidelines, that benefits Starbucks market position. It has also generated new product development, the coffee Shade Grown Mexico, and improved image that customers and employees support. For the coffee farmers, there are social and economic

benefits, such as increased compensation, exports and conserved biodiversity (Juniper and Moore, 2002).

The following section is an applied literature review on Swedish consumer concerns in relation to food and drink products.

2.5 Consumer concerns related to food and drink products

On the basis of studies and reports about Swedish consumers, this section explores consumer concerns and behaviour related to food, and the issues about environment, health and safety.

Consumer preferences when it comes to food products are related to a series of factors of which the most commonly mentioned are taste, price, quality, convenience, functionality and health. In the purchasing moment, there are also situational factors that influence, such as time constraints and other distractions, for example noise. According to Shepard (1998), the values and attitudes, the psychological and physiological factors influence the choice of food. The characteristics of the food (chemical, physiological, nutritious) produces a physiological state, such as thirst, appetite, hunger. The sensory factors of the food (taste, consistence etc.), the psychological factors (experience, personality, mood etc.), and the economic-social context (price, brand, convenience, culture etc.) influence the person's attitudes about food and values related to it. These factors interact on the purchasing behavior of food, but to what extent one factor influence more than another is difficult to tell and it can vary according to product category.

The complexity of consumer behavior related to food makes it difficult to understand. Environmental and social responsibilities are values that may influence the consumer choice and purchasing behavior, but when, how and to what extent is difficult to predict. But, there is research on Swedish consumer attitudes in relation to food and ecology. Mat 21 is a Swedish research project about sustainable food production and consumption that is going on during the period of 1997 to 2004, and the ecological food standardization organization KRAV has made surveys on consumer attitudes to ecological food. Some aspects of this research are described below.

2.5.1 Ecological food

This sections focuses on consumer attitudes and purchasing behavior with regards to ecological food.

2.5.1.1 Attitudes to ecological food

According to a survey on ecological food (LUI, 1999), the KRAV¹¹ label signals environmental concern, quality and health. These values were the most common reasons for the frequent buyers to buy ecological food. In comparison with conventional products, the ecological products were considered better in nutrition, quality, production, animal and environmental concern, and chemicals. They were also considered on the same level as conventional products in taste and durability, but worse in price.

¹¹ KRAV is one of the two Swedish label for ecological food.

Health is an important criterion for the choice of ecological products, especially for frequent buyers. 77 percent of the frequent buyers buy ecological products because of health, only 46 percent of the less frequent buyers, according to the above-mentioned LUI study. Consumer surveys in 1998-2001 found that health is still a stronger argument for the purchasing of ecological food than environmental protection (Mat 21, 2002). For the less frequent buyers, the reason not to buy ecological food was *price* (43 percent). The study concluded that the demand could be expected to increase since the majority of the ecological food buyers think that they will buy KRAV labeled food more often in the future (75 percent of the frequent buyers and 50 percent of the less frequent). Lower prices would increase the ecological food purchasing frequency. 51 percent of the frequent buyers would buy more often if prices were lower, and 61 percent of the less frequent. A *broader assortment* would make the frequent buyers buy more often (20 percent), while for the less frequent buyers *information* was more important (17 percent). Convenience was not decisive for increasing the purchasing frequency; KRAV products are bought in the same store as the regular food shopping. Neither was credible information nor quality decisive factors for increasing the demand (LUI, 1999).

2.5.1.2 Ecological food buyer segments

Out of the 2.400 randomly chosen persons in all ages in Sweden in the above-mentioned study (LUI, 1999), 40 percent were frequent buyers of ecological food. This segment consists of mainly women, 50-70 years old, married, in two people household, with higher education and fulltime working. Most of them are living in larger cities, many of them in the south of Sweden. These women are willing to pay for quality, concerned with brands and environmentally friendly packaging. They have a special interest in food and cooking. Furthermore, they like healthy food, food enriched with healthy ingredients, food that gives energy and controls weight, even if they may eat healthy one day and not do so the following day. They prefer Swedish products but also like food from other countries.

A more recent study on consumers and food (LUI, 2001) identified five clusters, of which two had a special concern for ecological food. For these consumers quality is more important than price. In common is also the concern for health, Swedish origin and locally produced products, as well as for animal well-fare issues. One of the clusters makes up 22 percent of the consumers and is somewhat similar to the segment in the above-mentioned study from 1999, in that it consists of primarily women, over 55, who are interested in cooking, concerned with influencing the social development, and with brands. The other cluster makes up 17 percent of the consumers and consists of mainly people younger than 25 years, with higher education, and a special concern for environmental issues. Many of them are vegetarians and live in the larger cities of Sweden, Stockholm and Gothenburg. A bit contradictory to this is that another study made the same year, 2001, found that families with children were the biggest consumers of ecological food (Wall-Ellström, 2001).

As opposite to the above ecologically and socially concerned young consumers is the cluster of 15 percent of the consumers who do consider ecological products, packaging issues, and Swedish origin. Most of them are under 25, have higher education and work. Many of them are single and live in the larger cities. The remaining clusters have other concerns. Price sensitive consumer with little interest in cooking, for whom taste is more important than nutrition, makes up 21 percent of the consumers. The consumers who are interested in food but not necessarily locally produced or ecological, are high-income couples in the cities, and represent 25 percent (LUI, 2001).

2.5.1.3 Ecological purchasing behavior

Consumer attitude surveys do not always coincide with the actual purchasing behavior since people believe that they act more in accordance with their attitudes than they actually do. This is generally known in consumer behavior theory, even though it is somehow difficult to prove. Consumer behavior has been difficult to measure, and therefore most knowledge about consumer preferences is based on attitudes. But, with new technique, the online shopping, the attitudes can be directly compared with the actual purchasing behavior. One such survey revealed that, under time constraints, consumers selected more of the ecological products if the price was the same. Under time constraints, consumers tend to buy according to habit. Habits can depend on the products or on the individual, for example buying milk is more habitual than meat. Strong purchasing habits are difficult to influence, being environmentally friendly or not. With habitual products, the ecological purchasing can therefore increase if the consumer has the habit to buy environmentally friendly, and vice versa of course (Mat 21, 2002).

2.5.2 Health and safety

This section discusses the consumer issues of health and safety related to food.

There are indications that environment is a less strong consumer concern today than health and safety. Louis Ungerth, Manager of Consumer and Environment at the Consumer Association of Stockholm, KFS¹², thinks that young people today are much more interested in the health topics than the environmental issues. In general, there are few young people active in the consumer association, but she has noticed that the discourses on health attract more young people than the ones on environment. Maybe one reason is the modern lifestyle and she thinks that people today have a feeling of constant “lack” of something, being vitamins, minerals or time or whatever.

One reason for the increasing health concern in the society is the awareness of that the dietary habits cause some of the common welfare diseases such as diabetes, obesity, high cholesterol and bone fragility (Swedish Food Agency, 2003a). The Swedish populations’ diet has changed in the last decade, as national surveys on dietary habits revealed¹³ (Becker and Pearson, 1997). In one way, they have improved; the consumption of vegetables, root vegetables, juice, rice, pasta has increased. Though, in other ways it has become worse, since the consumption of snacks, sweets, soft drinks and alcohol has increased. The consumption of fat is lower, but still above the recommended levels, and the Swedish consumers eat more carbohydrates than before. The changes are related to gender, age and education. Low education and smoking is generally related to worse eating habits, especially among men, while women eat healthier than men. Even so, most Swedish consumers think that health is important and an indication is that most of them recognize the green keyhole, which is a symbol for healthier products.

According to the French Consumer Research Institute (as referenced in Wennström, 2000), health can be seen as a continuum from fear to hope. Healthy food is either positive and life enhancing, or negative and associated with fear of dying. Depending on the kind of claims used, people can associate the products with either food or a medical drug. Marketing healthy

¹² KFS, the Consumer Association of Stockholm, has 540,000 members and is part of KF, Kooperativa Förbundet. KF unites 65 consumer associations with altogether 3,5 million members in Sweden.

¹³ National surveys made by the Swedish Food Agency in 1989 and 1997-98.

food is therefore difficult because it can be associated either with the positive or negative values, depending on if consumers associate it with food for healthy people or a medical drug for curing sickness.

Safety has become a consumer concern triggered by the recent food scares, such as BSE¹⁴ and Foot and Mouth diseases, as well as unknown substances in food, such as GMOs, additives, pesticides, irradiation, and microorganisms. The EU White Paper (European Commission, 2000) is a response to this concern. HACCP, Hazardous Critical Control Points, is a EU directive that will be effective from 2005, according to which EU food companies must have a system for controlling and managing risk and guaranteeing traceability of food products up and down the product chain. According to Louise Ungerth, Manager of Consumer and Environmental issues of KFS, consumers associate food safety with the origin, but people are also interested in the origin of food because of animal welfare, transports and mere curiosity. She mentions that, according to KFS studies, the demand for “origin labelling” has increased with 115 percent in three years. According to Bengt Ingerstam, Chairman of the consumer association SKIS¹⁵, consumer concerns related to food focus the safety. Consumers are worried about additives in food, while ethics and sustainability are only important values for the more aware consumers. He is concerned with that consumers do not get the right information, because companies and authorities do not provide the full picture. This creates mistrust and Bengt Ingerstam believes that the traditional way of influencing will not work; there is a need for a new method for increasing the demand for sustainable products. In contrast to this, Peter Wennström, Brand Management Consultant specialized on the food industry, mentions that studies have shown that Swedish consumers trust the Swedish agriculture and do therefore not worry much about the safety aspects of food.

2.6 Final remarks

Competitive advantage can be understood as a sustained superior performance level. But, the two strategic management schools have different focus with regards to what generates this sustained performance, even if they agree upon that it is about sustaining a unique value by creating barriers to imitation.

As mentioned in Section 2.1.1, the Positioning school focuses on a valuable and unique *position* that gives the company an advantage on the market. This position is either cost leadership or differentiation. Differentiation seeks to satisfy the buyer need in a unique way. But, customers must be willing to pay a price premium for this value, which exceeds the costs of providing it. If the company manages to provide a unique value, based on a unique set of well-integrated activities that competitors cannot copy, the company has a competitive advantage. The competitive advantage requires a competitive strategy, which means a long-term focus, continuity in a strategic direction, and managing tradeoffs between cost and differentiation. As mentioned in Section 2.1.2, the Resource-based view takes another perspective than the Positioning school, by focusing on the *resources* as the main generators of competitive advantage. The main explanation why companies differ is not found in the industry, but in the competitively valuable resources, which contribute to that the company performs better, hence has a competitive advantage. These can be intangible resources that

¹⁴ BSE stands for Bovin Spongiform Encefalopati.

¹⁵ SKIS, Sveriges Konsumenter i Samverkan, has 1,000 independent members and 160 000 members through 24 organizations.

contribute to increased organizational learning, efficiency in processes or a brand. But, it can also be physical resources such as a preferential location or access to raw material. Resources are competitively valuable because they are difficult for competitors to imitate, such as competences and skills that are developed with the time and experience, or involve many people. But, the resources should also be without a close substitute, durable over time, and benefit the company exclusively.

The debate about competitive advantage does not come to an end. The two different strategy schools may as a matter of fact aim at the same thing but focus on different aspects. The Positioning school focus on the position, but takes into account the internal perspective because a competitive positioning requires a unique set of activities that match well together, which is called a distinctive value chain. The Resource-based view, considering the approach developed by Collis and Montgomery (1995), takes into account the market perspective, because the internally generated resources should create a value that contributes to that the company performs distinctively better on the market. For this reason, the two perspectives were considered in the analysis of the two cases in this thesis, as explained in section 3.1.4.

The review on environmental differentiation found that proactive environmental differentiation strategies have the potential to generate competitive advantage. In difference to eco-labels, eco-branding can be a way to create a unique offer that is difficult to imitate. It can be a way to signal the products, generate customer loyalty or even capture a price premium. The problem may be the credibility of the information, since it is an environmental claim issued by the company itself, a so-called self-declared claim. Another problem can be that it is difficult to understand and generate consumer willingness to pay for environmental protection, which is due to the nature of the good, as explored in Section 2.4.1. Environmental protection is a non-excludable benefit, not a private one, and people tend to be more willing to pay for private benefits. The solution can be to bundle the environmental protection with a private benefit. This seems to work with ecological food because the ecological food buyers perceive it as more healthy and of higher quality than conventionally produced food, as explained in Section 2.5.1. Beyond compliance practices, such as an EMS or partnerships with an environmental NGO, can generate an image that buyers support and increase stakeholder legitimacy. Or it can generate competences and skills that increase efficiency in the processes, organizational learning and innovation. But, whether these resources will generate competitive advantage depends on the general business environment, and can also be conditioned by the manager's perceptions of the context.

On the Swedish market there are consumer who value environment, health and ethics. Ecologically grown food is considered to be healthier than conventionally grown, but the environment as such seems to become a less strong selling argument. In general there is an increasing concern for health and safety issues, as well as the origin of food. But, there are still many consumers who are more concerned with price, taste, convenience and functionality of food products.

3. Methodology

This chapter justifies the methodological approach, describes the phases that the research went through to answer the research question, and outlines the limitations of the study.

Since the area of research of this thesis can be considered highly complex and it is difficult to deliver any totally objective results, but rather an understanding of the phenomena, a post-positivistic view is adopted. In contrast to the positivistic school, according to which the truth about reality is objective and can be proven by direct cause-effect relations, the post-positivists believe that there is no absolute truth, wherefore it is neither possible for researchers to deliver one. But, even if to some extent subjective, research can deliver insights about a phenomenon and thereby contribute to a deeper understanding about reality. Reality is a social construction that we create ourselves, wherefore it is also dependent on us, and researchers consciously use their knowledge and values in the research, which means that personal interpretations of the material are accepted. Since people have different perceptions about reality there is no objective truth, but some of them are shared and can therefore be considered an “objective” reality (Hartmann, 1998; Easterby-Smith et. al., 1991).

The purpose of the thesis is to better understand the relation between environmental differentiation initiatives and competitiveness. For this reason it was considered more relevant to use a qualitative method rather than quantitative, because a qualitative method is relevant when the emphasis is on understanding a phenomenon, the underlying reasons for a research problem, while a quantitative method measures already known variables. The problem is analysed with case studies because it was considered suitable in this context to study a small sample in depth or over time, rather than a large sample more shallowly (Easterby-Smith et. al., 1991).

3.1 Research phases

The research process went through the phases of case selection, literature review, data collection and data analysis, as described in the following sections. In reality these phases do not follow an exact timely order since they sometimes overlap, but they are separated here so that it is easier for the reader to follow.

3.1.1 Case selection

The cases were selected according to the criteria that they should be indicative on how environmental initiatives can lead to competitiveness. The companies should therefore have a proactive environmental strategy that has a potential to contribute to overall competitiveness.

Based on material from NUTEK (2003a; 2003b), the homepage Goda Exempel (2003), which describes companies with good environmental initiatives, and the company rating Gasell Företag of the journal Dagens Industri (2003), plus suggestions from people in the field as well as own ideas, a total of 40 companies were reviewed. Out of the eleven cases that could be relevant, a sample of two cases was selected: Skånemejerier and Coop Sverige AB. Both cases had a proactive environmental differentiation initiative and operate in the same industry, the food and drink industry. Apart from that the two companies fulfil the selection criteria, the case selection was influenced by the fact that the researcher has some previous knowledge about the companies and previous contacts with them, as well as personal interest in the food and drink industry.

3.1.2 Literature review

The second phase was a review of literature on the area of strategic management, competitive advantage and competitiveness, as well as differentiation in relation to the environment. The intention was to understand what is competitive advantage and competitiveness, how environmental differentiation initiatives can potentially influence on the overall competitiveness. The intention was also to understand the contextual conditions of the food and drink industry in Sweden. A method for analysis of the cases was identified in the end of this phase, as mentioned in section 3.1.4.

The review includes relevant papers from journals in the area of business, strategy and environment, such as *Corporate Environmental Strategy* and *Business Strategy and Environment*, as well as the handbooks on strategy by Mintzberg (1999a) and the handbook on organizations of Barney and Hesterley (1996). It also includes literature from the course of Strategic Environmental Management (part of the MSc of Environmental Management and Policy at the IIIIEE), and other papers, books and reports that were relevant for the study. Information about the consumer concerns related to food and drink products was achieved from reports, surveys and information published on homepages issued by the related institutions, organizations and associations: the Swedish Food Agency, the Agency of Agriculture, the Consumer Agency, KRAV, Mat 21, the consumer associations KFS and SKIS, the industry associations of retail and dairy Svensk Dagligvaruhandel, Dagligvaruleverantörernas Förbund, Svensk Mjök, and competitors (ICA, Ax Food, Arla Foods, Milko, Norrlandsmejerier). In total a number of 60 papers, books and reports are included in the review, plus around 30 internet sources.

3.1.3 Data collection

This section is a presentation of the method that was used for the collection of primary data and the sample that was used.

3.1.3.1 Data collection method

For qualitative research the main methods of primary data collection are interviews, participant observation and diary methods (Easterby-Smith, et.al. 1991). What differs is mainly the kind of data. The interviews collect explanatory data while observations and diaries collect sensory data, anything that is being observed. Therefore, interviews give more capacity to steer the kind of data that is collected, and this is the data collection method that was considered the most relevant in this study.

The kind of interviewing technique also influences the data collection and should be selected according to the purpose of the data collection. Interviews can be more or less structured. A more structured method gives the interviewer more power to steer the data collection but may also limit the richness of data. The interviewer can also choose whether to reveal the purpose in the beginning or not. This may influence the interviewees' openness about the subject. The interviews in this thesis were made with openness about the purpose of the study and can be characterized as relatively un-structured. The interviews had more the form of a discussion. They were steered by the researchers aim to find information in certain areas, but the interviewees were to a large extent let free to develop on the topics that they themselves brought up.

3.1.3.2 Sample of data

A qualitative method seeks to cover as many aspects and get as many perspectives as possible, wherefore a representative sample of interview persons is more suitable than a randomly selected sample, as in a quantitative method.

The way to go about to select the sample can be step-wise, by first identifying one person and then let that lead to the others. In order to get an overall understanding of the company and the environmental initiative, one or two people were identified for initial interviews, and further interview prospects were detected along the process. In the case of Coop Sverige, a prospective research paper that the author had submitted in the course Applied Research in Preventative Environmental Approaches in May 2003 (IIIIEE) was based on the case of Änglämark. In the case of Skånemejerier, initial contact was made with the Information Manager, Lotta Törner, at a discourse on the strategy of the company in June 2003. In both cases, further interview prospects were identified via telephone contacts or email correspondence with people in the organization.

A total of 17 persons were interviewed, two of them twice. Hence, a total of 19 interviews were made, of which 14 were conducted in person and the other five per telephone. The duration of the personal interviews was from one hour to two and a half hours. The respondents are presented in Appendix 1.

Primary data was also collected from observations at the on-site visits to two plant of Skånemejerier, the one in Lunnarp and in Malmö, as well as observations in the supermarkets of Coop Konsum Mårtensstorget and ICA Malmborgs in Lund.

Secondary data has also been used in the case description. This consists of material such as annual and environmental reports of the companies, previous papers and studies on the case, company home pages and some material of internal character that the company representatives have forwarded.

3.1.4 Data analysis

As with the methodological approach discussed in the introduction of this chapter, there is also a debate on which is the most appropriate way of analysing qualitative data: content analysis and grounded theory. The content analysis seeks to quantify data, transform it into numbers and frequencies, and can be seen as something in-between a grounded theory and positivistic approach, because of the degree of structure and standardization. In the grounded theory, on the contrary, there is no preset structure of the data; it grows out of the data itself, through a systematic analysis where the themes, patterns and categories are derived. Grounded theory is a more open and holistic approach to data analysis and especially suitable when dealing with transcripts (Easterby-Smith et al., 1991).

Even if the analysis does not apply exactly to any of the different approaches to grounded theory, it follows the stages described by Easterby-Smith (1991) that are relevant for analysing transcripts of interviews and that has elements of grounded theory. According to them, the analysis is divided into seven stages. First the researcher gets familiarized with the data by going through all the transcripts and other data collected. The next stage is a reflection on the data, in the light of previous literature, theories and research. In the following stage the concepts are formed that seem to be important for the understanding of the phenomenon, called the explanatory variables. These are then being catalogued and recoded. In the final stage, the data is linked with the literature, theories and previous

research, in a process of “coming and going” between the literature and the collected evidence.

The purpose was to analyse how environmental differentiation initiatives contribute to competitiveness. For this purpose, the two cases were analysed in two perspectives. Using the approach presented by Collis and Montgomery (1995), the environmental differentiation initiatives were evaluated according to the criteria of the Resource-based view in order to assess if they have generated competitively valuable resources. Competitively valuable resources should contribute to that the company performs better and fulfil the criteria of inimitability, non-substitutability, appropriability, durability, and competitive superiority. The last criteria means that resources should contribute to that the company performs distinctively better than competitors and therefore adds a market perspective to the Resource-based view. The data collection focus on the company in question and the market aspect was not considered, which is a limitation of the study, as described in Section 3.2. In each case, three resources related to the environmental differentiation initiatives were analysed. In the case of Coop Sverige and Änglamark it was the brand name, the ecological certification know-how and the ecological brand competences. In the case of Skånemejerier and the KMS management system, it was the ISO certifications (9001 and 14001), the deviation reporting and the standardization know-how.

Thereafter, the contribution of the environmental differentiation initiatives to the competitive strategy and positioning was assessed according to the principles presented by Porter (2001), described in section 2.1.1. A competitive strategy can contribute to a position where the company has a competitive advantage, a competitive positioning. A competitive strategy requires that the company focus on long-term return on investment rather than short-term profitability. The company should be able to provide a unique value to a specific segment, and this value should be created with a distinctive set of activities that fit well together and that is difficult to imitate. The positioning requires managing tradeoffs and continuity in a strategic direction. As mentioned above, the data of the thesis focus on the company's perspective, reason for which a comparison of the value chain activities with competitors was not possible, which is a limitation of the thesis (Section 3.2).

3.2 Limitations

The results of this study describe how environmental differentiation initiatives contribute to overall competitiveness, but there are some limitations, explained in this section.

One limitation is the low external validity, which is due to that conclusions are based on only two cases. Another limitation is the limited industry analysis, reason for which it is not possible to make an objective comparison with competitors, nor estimate suppliers' and other stakeholders' perceptions about the situation and relations to the focus companies. A third limitation is that the data is mainly based on the perceptions of the persons that were interviewed, mainly company representatives, and there is a lack of secondary data to support or contrast with the primary data. Considering these three limitations, the conclusions should be understood as the answer to the research questions from the perspective of the company and the persons that were interviewed. The interviewing technique can also have its limitations, since there is a risk for personal bias in the interviewing moment.

Finally, the relevance of the data analysis method is questionable. It is mainly the data gap that limits the methodology, because analysing competitive advantage requires an extensive analysis of the industry and competitors, for which there was not enough time in this

research. For this reason, the aspects that require a comparison with the competitors, such as *competitively superior* resources, a *distinctive set of value chain activities*, and *unique value* have not been fully covered, or not covered at all, which is a major limitation of this thesis. A complete understanding of how an environmental differentiation initiative contributes to the overall competitiveness requires a mapping of the whole activity system of the company, for which there is not enough data in this research, again due to time constraints.

4. Coop Sverige

After a short description of the food retail industry, and an introduction of the company Coop Sverige, this chapter is a description of the case Änglamark, the eco-branding strategy, the reasons why it was created, how it was built and managed.

4.1 Food retail industry

Food retail in Sweden is concentrated to three large firms: Coop, ICA and Ax Food. Together these companies control around 90 percent of the Swedish food retail. According to the Federation of Perishable Goods Suppliers, in May 2003 ICA had a market share of 49,5 percent, while Coop and Ax Food shared the rest, with 24,4 and 22,4 percent (Dagligvaruleverantörernas Förbund, 2003).

The retailer ICA is an owner cooperative and there is a strong entrepreneur spirit in the company. Their aggressive establishment strategy has led to that ICA controls almost fifty percent of the market. ICA has several product brands. The corporate brand *ICA* is aimed to be on par with the market leader but at lower price. *Euro shopper* is the low-price brand, and for ecological products ICA launched the eco-brands *Skona* in 1991, for chemical technical products, and *Sunda* in 1993, for ecological food products. Sunda has now been replaced by *ICA ekologiskt*. Skona remains and has 32 products in the non-food categories (ICA, 2003). In the field of ecological products, ICA has had a less proactive strategy than Coop, but they are recently developing the assortment. Bengt Ingerstam, Chairman of the consumer association SKIS, considers that ICA, even if they have developed slower in the ecological field than Coop Sverige, are now coming rapidly. The impression of some people interviewed is that ICA is very efficient. According to Thomas Evertsson, Manager of Coop Konsum, “when they decide to do something, they come very strongly”, and this impression is shared by Mikael Edelstam, Strategic Environmental Management Consultant.

The retailer Ax Food AB has two retail concepts: the low price chains Netto and Willys, and the chain Hemköp, which stands for quality. As in ICA, the Managers of Hemköp stores are the storeowners. In the environmental field, Hemköp was very proactive in the beginning of the 1990s, which according to Strannegård (1995), was because they saw market opportunities in having an environmental profile. No ecological brand was created but purchasing requirements were specified in order to improve the green product range. It seems that the environment has less priority today. According to Thomas Evertsson, Manager of Coop Konsum, Hemköp were leading in the field of environment, but “they are now very far away from the values that they used to have”. Bengt Ingerstam, Chairman of SKIS, has the impression that Hemköp mainly focuses on price and the environment has low priority.

At the present, there is an increasing threat from low-price chains such as Ax Food’s low-price concept Willy’s and the German retailer Lidl that opened up the first supermarkets in Sweden in September this year. Even though the competition among retailers is strong, there is also industry collaboration. There are around twenty branch and interest organizations in retail and in 2002, the four largest retailers and the Swedish Federation of Food-retailers¹⁶

¹⁶ Svenska Livsmedelshandlareförbundet, SSLF

created a branch organization called Swedish Retail-trade¹⁷, with the purpose to deal with common issues such as product safety, logistics, international standardization, legislation among other things (Svensk Dagligvaruhandel, 2003). Such common initiative could be considered as a way to respond to the current low prices that are threatening the industry.

The creation of KRAV, one of the accredited organizations for ecological food standards in Sweden, is also an example of industry collaboration. Ecological products must be certified according to the EU Directive on ecological food (2002/91/EU), and in Sweden there are two accredited certification organizations, KRAV and Svenska Demeterförbundet. KRAV is an industry initiative that was created in 1985 by retailers, producers and organizations that cover the whole food chain. The three large retailers are members, the Swedish Farmers Association (LRF), the Swedish Association for Nature Protection (SNF), the Association for Animals rights. KRAV certifies food producers, stores and farmers. Around 8 percent of the Swedish farming land is under the KRAV-supervision, and there are 3.300 KRAV certified farms, 600 food stores, and almost as many food and drink companies (KRAV, 2003). According to Solweig Wall-Ellström, Consumer Information Responsible at KRAV, Coop Sverige has been an important driver behind the creation and development of KRAV.

4.2 Company background

The owner of Coop Sverige is a consumer cooperative called KF (Kooperativa Förbundet). The mission of the company is based on the cooperative values. Traditionally, the mission of KF has been to provide members with “value for money”, transparent information and non-manipulated goods. Today, the mission is not very different. The statutes from 1999 establish that Coop should promote sustainable development by creating economic, ecological and social value, or more exactly:

Coop shall through cooperation facilitate and brighten up the daily life of all those who care, by creating sustainable solutions that contribute to economic, ecological and social value. (Coop, 2003a) (Authors translation)

KF originates in the consumer movement that started in the 1850s. The federation was created in 1899, and today KF consists of 65 consumer associations with 2.8 million members. KF is a holding with a series of companies in retail trade. Traditionally, KF has had an industry and wholesaler strategy, aimed to provide the consumer associations with goods for their own retail businesses. In the beginning of the 1990s, KF sold out the production and took over the retailing business from two thirds of the consumer associations, -Stockholm, Norrort, Svea, Väst och Solidar-, under the name Coop Sverige (Coop, 2003b).

In 2001, the consumer cooperatives of Denmark, Norway and Sweden merged their retailing business and formed Coop Norden AB, the largest retailer of perishable goods in the Nordic countries, which started operating in 2002. The organizational structure is illustrated in Figure 4-1. KF owns 42 percent of Coop Norden, and therefore has become an indirect owner of Coop Sverige. The Danish cooperative, FDB, owns 38 percent and the Norwegian, NKL, 20 percent. For a more complete description of the history and development of KF and Coop Sverige, please see Appendix 2.

¹⁷ Svensk Dagligvaruhandel

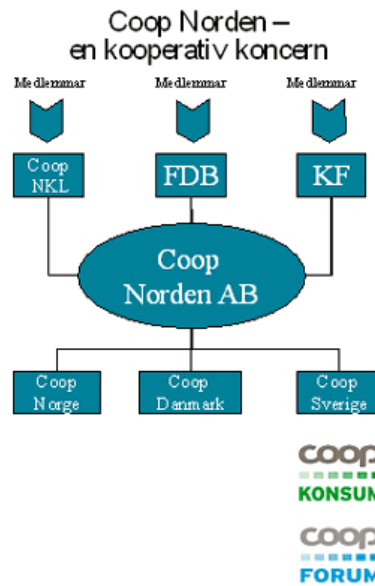


Figure 4-1: Organization scheme of Coop Norden (Coop, 2003c)

Coop Sverige is a fully owned subsidiary of Coop Norden AB. Coop Sverige manages the retail business in Sweden under two concepts: Coop Konsum and Coop Forum. Coop Konsum is the city supermarket, with 385 stores and is clearly profiled towards ecology and food excellence. Coop Forum, the hypermarket with 43 stores, focuses on factors that are important for a hypermarket customer, such as everything under one roof and the family.

Coop Sverige is profiled towards environment and is the retailer with most ecological products in the assortment. Ecological products, food and non-food, represented 3-4 percent of the total sales of Coop Sverige, measured in tons (Coop Sveriges Miljörapport 2002). The increase of ecological food of Coop Konsum, measured in tons, is illustrated in Figure 4-2. The total sales of ecological products increased with 13 percent from 2001 to 2002, measured in SEK as shown in Appendix 3. But, even if the increase in sales of ecological products is big in percentage from one year to another, ecological food still represents a small percentage of the total food sales of the company. Ecological food represented 7 to 8 percent of the total food sales in 2002, according to Kjell Eklundh, Brand Manager of Änglamark. Because of this, Louise Ungerth, Manager of Consumer and Environmental issues of the consumer association KFS, thinks that the argument about the ecological food increases are somewhat misleading. Apart from the ecological assortment, Coop Sverige also has an environmental management program and the stores are certified according to environmental standards for retailers¹⁸.

¹⁸ Coop Forum stores and more than half of the Coop Konsum stores are certified according to the KRAV standards for retailers, and all Coop Forum stores have the environmental certification of the Swedish Association of Nature Protection (Svenska Naturskyddsföreningen, SNF) (Coop Sveriges Miljörapport 2002).

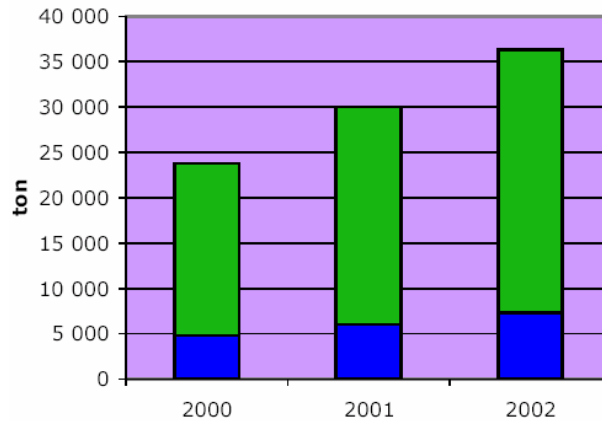


Figure 4-2: Development of sales of ecological food in tons, 2000 to 2002, for Coop Konsum (superior part of column) and Coop Forum (inferior part of column). (Coop Sveriges Miljörapport 2002).

The brand strategy of Coop builds on three brand concepts: one low-price brand, one standard brand and one ecological brand. The low-price brand *Blå Vitt* was launched in 1979 and is currently being substituted with *x-tra*, the new common low-price brand of Coop Norden. *Signum* was launched in 1995 and stands for quality but at lower price than the market leaders. The third brand concept is the ecological brand, *Änglamark*, which is the focus of this study and is described more in detail in the following section (Coop, 2003d).

Low price and profitability are priorities of Coop Norden at the moment. The reasons are the threat of low price competition mentioned in Section 4.1 and that Coop Sverige is at the moment facing a deficit situation. According to Englund (2003) at the journal *Daily Trade*¹⁹, Coop Sverige is currently facing a deficit of 182 Million SEK Extensive overhead cost reductions needs to be done. The creation of Coop Norden is a measure to improve the purchasing power and meet the increasing price competition.

4.3 Eco-branding strategy

The following sections are a description of the background situation that triggered the development of an eco-brand, which became *Änglamark*, how it was developed, implemented and managed.

4.3.1 Background

In the end of the 1980s Coop Sverige suffered an image crisis. A consumer survey revealed that KF was not longer strongly associated with an ideology and not perceived as much different from the main competitor, ICA. The only area where Coop was considered better than the competition was in the field of the environment (Terrvik, 1995 and 2001).

By the same time, some active members of the Consumer Association of Stockholm (KFS) were very concerned about the food issues. They claimed that there should be no pesticides nor allergens in food, and no animals in cages. According to Kjell Eklundh, the Brand Manager of *Änglamark*, these active members called for a meeting with the Chairman of KFS

¹⁹ Dagens Handel

in 1985, where around 200 people were present. The outcome of the meeting was that KFS started with alternatively produced food and the first ecological brand, Lanthandeln, was created in 1986. In the longer perspective it led to the green repositioning of the Konsum stores to Gröna Konsum (Terrvik, 2001). An internal analysis of Coop's environmental aspects was initiated and concluded that the most important aspects of the company's activities are the products. For this reason, when the environmental policy was adopted in 1990, it was decided that the impact reduction should focus on the assortment, that each product category of the assortment should include an ecological alternative.

A working team of three people was established to work out the best possible way to realize the goals of ecological production. Two of the members had knowledge from the environmental field: Per Baumann, who is now Environmental Coordinator of Coop Sverige, and Ulla-Britt Gertsjö, who is now Manager of the Test kitchen²⁰. Kjell Eklundh, the Brand Manager, with many years in marketing and experience from launching the low-price brand BlåVitt in 1979, represented the marketing aspect. Based on the consumer surveys on ecological food, Kjell Eklundh says that the team found three reasons to why ecological products had not succeeded on the market. One reason was price; they were too expensive. Another one was quality; they performed and tasted worse than conventional products. The third reason was that they were difficult to find. The team concluded that this was because there were few of them and they were not well indicated on the shelves. Based on these findings, the team elaborated the values and the functions that ecological products should have in order to be successful. The function must be the same as a conventional product, i.e. the taste must be good and they must perform well. The ecological product must not be more expensive than conventional products, and the message must be clear and the products easy to find.

According to Kjell Eklundh, the analysis of the working team resulted in that the best solution was to create a private brand, a new ecological brand. If they would work with line extension of existing suppliers they would only achieve marginal environmental changes since there were very few ecological suppliers at the time and Coop's purchasing organisation was not prepared for the task of developing ecological suppliers. The team saw that a private brand would be the only way. It would also be a clear statement to the top management that this was something important that would require resources from the company. A private brand was also a possibility to have a more clear communication.

4.3.2 Building Änglamark

Änglamark builds on the experience from other brands, such as Blå Vitt, adding the environmental, ethical and health values, according to Kjell Eklundh, the Änglamark Brand Manager.

The environmental values of Änglamark are related to emissions from transportation (food miles), packaging and ecologically grown products. Third party certification is an important parameter and the products should be certified with an eco-label. As mentioned in Section 4.1, ecological food products have to be certified according to the EU standards and there are two accredited organizations in Sweden. All Änglamark food products are KRAV labelled except from some, for example meat that contains nitrates, which the KRAV criteria does not allow, but which is allowed in the EU. The health aspect refers to informing people

²⁰ The Test kitchen (Provköket) is where the products are tested on consumers and experts.

about the importance of a healthy and balanced diet. Ethical concern is about fair trade and animal welfare issues.

A clear strategic decision was that the brand should represent a positive future and not be nostalgic. It had been shown in focus group tests that the name *Änglamark* has such positive associations; the results were extremely superior to other names, according to Per Baumann, Environmental Coordinator of Coop Sverige. *Änglamark* is unique on the Swedish market and is closely connected to nature, the Swedish soul and identity. It was selected because it is easier to build on a brand name that is already known and associated with positive values, according to Kjell Eklundh. On the list of possible names was also *Skona*, the name that ICA later selected for one of their ecological brands, but it was eliminated because of its negative association- “skona” means to spare something.

Another ingredient of the brand strategy was to include food and non-food products in the product mix. According to Per Baumann, this was a strategic decision that has influenced the success of *Änglamark*. The meaning was that the two categories should support each other. The volume of food is higher than non-food, but turnover is lower. Including both in the product mix increases the exposure of the brand since larger volumes give more space in the shelves, and another benefit is the economy of scale in advertisement.

4.3.3 Managing *Änglamark*

Änglamark was launched in September 1991. It coincided with the Swedish Association for Nature Protection boycott of the detergent *Via* and there was a strong focus on ecological products.

In 2002 there were 248 products in the assortment (Coop Sveriges Miljörapport 2002) and the sales were 500 million SEK, according to Kjell Eklundh, the Manager of the brand. *Änglamark* now stands for around 25 to 30 percent of the total ecological sales of Coop Sverige (food and non-food). The turnover has multiplied by 20, from 25 Million SEK in 1991 to 500 million SEK in 2002. The increase was strongest in the beginning of the 1990s. The assortment increased from 20 products in 1992 to 180 products in 1996, and the turnover from 25 million to 339 million SEK in 1997. During the period of 1998 to 1999, *Änglamark* experienced a slope in the sales, but this was recovered in 2001, with the re-launch of the brand in the end of 2000. The aim was to increase sales 3 to 4 times in three years. This goal will probably not be fulfilled, but sales still increase, even if the development is negative. Increases were 25 percent in 2001, 15 percent in 2002, and probably less in 2003, thinks Kjell Eklundh. The development of assortment and turnover is illustrated in Appendix 4.

It seems that the development of the brand has been going in waves and the top management focus may have influenced this. According to Terrvik (2001), the commercial success made the top-management realize the potential of the brand and this facilitated the further development. Another reason may be that, the transition from wholesaler to retailer in the beginning of the 1990s took a lot of the attention from the top management and the private brands enjoyed quite generous marketing budgets, and brand managers had a high degree of independency to develop the brands. The re-launch of the brand in year 2000 was due to that the Manager of Private Brands at that time considered that *Änglamark* had higher value than the other brands, such as *Signum*, even if the turnover was lower. He therefore decided to invest in developing it further.

4.3.3.1 Pricing

The price of Änglamark is related to the market leader in each product category and their ecological product alternatives. Änglamark must not be more expensive than the market leader.

The policy for pricing the Änglamark products is to calculate the price margin in absolute values, SEK, instead of percentage.²¹ Änglamark should have the same margin, calculated in SEK, as the market leaders margins, according Kjell Eklundh, the Brand Manager. “Normally, market leaders cannot manage the same low prices as we can”, he says. The reason is that, since competitors do line extension they relate the price of ecological products to the conventional product and the price is set a little bit over the conventional, while Coop can get a purchasing price a little bit more expensive than the standard brand Signum. But, price levels differ depending on the competitive position in the category. In segments where all products are labelled, as in many non-food products, Änglamark must be a little bit under the market leader, 1 to 5 percent. On non-processed products the price acceptance is around 10 to 15 percent over conventional brands. For fresh products this level is not possible, because of the lack of availability and Coop cannot push suppliers margins too much. In these categories Änglamark prices can be around 50 to 100 percent over the conventional alternatives. In product groups where all the market leaders have ecological alternatives, of which coffee is the only example, there is no extra charge for the ecological alternatives. In this case, the conventional brand Signum is also KRAV labelled.

Änglamark should be less expensive than the competitors' ecological brands, according to Kjell Eklundh. But, a comparison of two stores, ICA and Coop Konsum, revealed that in some categories, such as coffee and strawberry syrup, Änglamark is more expensive (Appendix 5). The reason for this is, according to Kjell Eklundh, that the quality of Änglamark is too high in some categories, it is a premium product, and competitors manage lower prices because they only comply with the minimum requirements. For competitive reasons, it might be necessary in some cases to modify the quality and lower the price of Änglamark products.

4.3.3.2 Suppliers

Well functioning collaboration with suppliers is of crucial importance for developing the Änglamark brand. Finding suppliers and developing these relations is time consuming and requires well-prepared human resources. With the increasing requirements on food safety, all new suppliers have to have a risk management plan, HACCP²², and undergo revision of the facilities. As an additional requirement, according to EU law, as mentioned in Section 4.1, ecological products must have third party ecological certification. These processes are costly and time consuming and because of this, working with already known suppliers becomes a preferable option and the emphasis is more than ever on long-term relations.

By tradition, the ecological processing companies are often small, specialized pioneers. According to both the Brand Manager Kjell Eklundh and Åke Natt och Dag, Environmental Manager of Coop Sverige, the advantage with small suppliers is that they are more flexible, motivated and attentive, but large suppliers have more resources and the product safety is better. There are more large ecological suppliers compared to ten years ago, according to Kjell Eklundh, and the trend seems to be that the large suppliers are out-competing the small

²¹ This way of calculating the price is called Kronpås, which means Crown increase.

²² Hazardous Critical Control Points

ones. They have copied them and are now offering lower prices. Per Baumann, Environmental Coordinator of Coop Sverige, means that this creates a moral dilemma because Coop has developed with the small ecological suppliers and invested in the relation. These suppliers are now dependent on Coop Sverige as their customer, but at the same time, Coop has to keep competitive prices on the Änglamark products.

Large suppliers can be a problem if they are not committed to the ecological cause or to promoting the Änglamark brand. For example, in one case there were problems with a large supplier of Änglamark products because they were not very interested in developing Änglamark in comparison to their own brands. The negative attitude towards ecological products has been a problem when it comes to the market leaders. In these cases Coop has had to push the development. An example of this is the issue with the detergents in the beginning of the 1990s. It was first after pressure from ICA and Coop, when they launched the ecological brands Skona and Änglamark, and the Swedish Association for Nature Protection's official boycott of the detergent Via, that the market leaders, Procter and Gamble and Lever, reacted with launching ecological alternatives. Another example is the ecological milk. When the Consumer Association of Stockholm (KFS) started shipping ecological milk from Värmland (a region of Sweden), the Stockholm dairy Arla reacted and launched the first ecological milk in 1991 (Terrvik, 2001).

When the supplier is small, power of negotiation is a balancing issue because the ecological products must not be too expensive, but at the same time, Coop has to consider the survival of the ecological producers, since ecological production is more costly. Barbro Axnäs, who is currently working as Support within Projects and Coordination of Coop Sverige, believes that pushing down the price too much could lead to cheating. The optimum level must be reached, the right price for both Coop and the supplier. She thinks that understanding the right price level is a matter of feeling, which comes out of experience and communication with others in the organization. Although Coop is tolerant with suppliers, they can be quite hard if the supplier fail to comply repeatedly, according to Michael Kozlovsky, Chief Buyer Own Brands of Fresh Food. On the other hand, when a supplier is reliable and the collaboration works fine, resources can be allocated for helping them in certain areas. A way in which a purchaser can help the ecological supplier, according to Barbro Axnäs, is by advising them on where to find an ecological raw material producer, because the purchaser often has this kind of information since they overview the whole process.

There are differences between Swedish and foreign suppliers. While most Swedish suppliers are specialized on ecological production, many foreign suppliers produce ecological as well as conventional products; some of them even supply all the three private brands of Coop. Barbro Axnäs mentions that the coordination of ecological and conventional brands brings down transport costs, which is an advantage since ecological products are small volumes. Also, a supplier of both conventional and ecological products may have more room to lower the margins because they consider the total deal. Swedish producers often deal with the ecological certification themselves, while more involvement is required to make the process work with foreign suppliers. This is complex and time consuming, because the whole chain has to be certified, all the way back to the raw material producer.

4.3.3.3 Assortment

Having a wide assortment of ecological products is a matter of credibility for Coop Sverige, and Änglamark plays an important role in that, according to Thomas Evertsson, the Manager of Coop Konsum.

At the most, there were 340 Änglamark products in the assortment in 2000, but it was reduced with the re-launch of the brand in September the same year. At the present there are around 250 Änglamark products in 90 categories. The share of Änglamark of the total sales in a category differs depending on if it is a volume or niche product category. In niche categories the share of Änglamark can be only 1 to 2 percent, while in volume categories it is up to 50 percent. For example, in the product group tin-loaf bread Änglamark has a share of 50 percent, according to Evertsson, and 20 percent in eggs (Coop Sveriges Miljörapport 2002). According to Kjell Eklundh, the Änglamark Brand Manager, the food category grows more than the chemical-technical one. The reason is that most non-food has been covered, there is a green alternative in each category, and the focus at the present is therefore on developing the ecological food categories.

As explained in the company introduction, Coop Sverige has as a mission to be a driver behind ecological change. Ecological change requires volume, -that many consumers buy ecological products-, and the strategy of Coop has been to pull the market by always being a step before the competitors. The secret of the “pull strategy” is to be a leader in ecological products, but not to be too far away so that competitors are not tempted to imitate. Being first in strategic product categories has been of crucial importance for the development of Änglamark. These first moves are deliberate strategic decisions and have definitely generated competitive advantage, according to Kjell Eklundh. He thinks that Änglamark’s strong position at all levels of the organization, not only in management but also among purchasers, has made it possible to be first in many product categories. An important driver behind this is the ambition of the people in the organization to be first.

According to Kjell Eklundh, during the first five years, 1991 to 1996, in eight cases out of ten, Änglamark was the first ecological alternative on the market in a product category. Änglamark was first in all food categories and often in non-food. For example, in the category fresh bread, Coop developed ecological products with the bakery that belonged to Coop, Juvelbagarna. The reason that Coop could be first was that the only bakeries that had nation wide distribution possibilities at that time, Pågen and Påls, were not interested in producing ecological bread. The same with charcuterie and processed food products such as pea-soup and rice-porridge. Coop was able to do this in large scale because of the food processing company the Goman group, part of Coop at that time. Another example is that Coop developed the first ecological fruit-müsli in close collaboration with Saltå Kvarn, a producer of ecological grain products.

According to Kjell Eklundh, producers are in general positive towards developing an ecological alternative under the Änglamark brand, but sometimes the supplier prefers to develop their own ecological brand. Generally there is the option; an instrument that Coop can use in the negotiation. Sometimes Coop tries to push the supplier to develop Änglamark. For example, Coop had been negotiating for some time with Åbro to develop the first ecological beer and this ended up with Åbro deciding to do line extension of their brand, which became Åbro Ekologiskt, instead of Änglamark. In this case, even if it did not become an Änglamark product, Coop got a first mover advantage of six months on selling ecological beer because they had been pushing the development.

4.3.3.4 Consumers

With the re-launch in 2000, the Änglamark brand platform was modified. The aim was to reach a broader group of consumers than the traditional “green” segment. The segmentation of the re-launched Änglamark is not based on demographic variables but on values, according to Kjell Eklundh, the Brand Manager. The segment that Änglamark targets had been identified in an attitude survey that Coop had made, and represent around 25 percent of the consumers. The target group consists of mainly women in the age of 19 to 35, up to 49, that have a special concern with environment, health and ethics.

Since Änglamark is a value-based brand, success is related to the attitudes of the target group that Änglamark aims at, rather than the actual purchasing behaviour, according to Kjell Eklundh. Ongoing daily tracking of consumer attitudes measure the brand’s association with sustainable development, health and “value for money”. Results show that 90 percent of the Swedish consumers recognize the Änglamark brand, 50 percent of them associate Änglamark with sustainable development, and 15 percent of them buy it sometimes, according to Kjell Eklundh.

But, since people tend to not act in accordance with the attitude survey results, a better way to measure success is the day’s cash, according to Thomas Evertsson (Manager of Coop Konsum), Åke Natt och Dag (Environmental Manager of Coop Sverige) and Mikael Edelstam (Strategic Environmental Management Consultant). Åke Natt och Dag mentions that 400,000 consumers visit Coop stores every day, 80 percent of them have the bonus card MedMera²³, which means that they are co-owners of Coop. These consumers’ choices of ecological products show the value of the brand Änglamark. And, the fact is that Änglamark has increased twenty times since the first year, 1991.

But even if the day’s cash reveals the preferences of consumers, it lacks the kind of information that could provide an understanding about the consumers and how the brand could be improved, means Mikael Edelstam. The MedMera database could provide such information on Änglamark consumers, but it is not managed optimally because of lack of organizational resources and regulations on confidentiality of personal data, thinks Åke Natt och Dag. According to Mikael Edelstam, this is not rare; Swedish companies have surprisingly little information about consumers’ actual green purchasing behavior.

In total, 90 percent of the Swedish consumers use Coop stores, according to Per Baumann. But consumers switch frequently between the different food retailers because convenience is a very important factor in the choice of food store. Thomas Evertsson, Manager of Coop Konsum, thinks that convenience is such a strong factor that the profiling has marginal effect on consumer choice of food store.

²³ The MedMera card is a bonus card that the owners of KF get.

5. Skånemejerier

After a short description of the dairy industry, where Skånemejerier has the largest part of its operations, this chapter contains an introduction of the company, and a description of the Environment, Quality and Safety (KMS) management system, the reasons why it was implemented, how it was implemented and managed.

5.1 Dairy industry

The Swedish market for dairy products, such as milk, cream and soured milk, started to decrease heavily in the beginning of the 1980's, but is more or less stable since the end of the 1990's (Sveriges Jordbruksverk, 2003). The consumption of milk reduced with around 30 percent during this period, due to changed eating and drinking habits. The drinking milk has been substituted with water, juice, soft drinks and syrup, but milk consumption has increased in combination with coffee and tea (Börjesson, 2003). On the other hand, the global milk market is increasing with around one to two percent per year. Sweden's share of the global market is less than one percent and newcomers such as New Zealand and Australia are expanding quickly (Svensk Mjök, 2003).

There are 14 dairies in Sweden (Svensk Mjök, 2003) and the four largest are: Arla Foods, Skånemejerier, Norrmejerier and Milko. Traditionally, the market is divided geographically according to the catchments area, so that Skånemejerier dominates the south and Norrmejerier in the north, while Milko and Arla are inbetween. On products with less than seven days durability such as drinking milk, the competition is less strong and the local dairy usually leads the local market. On all other products, such as yoghurt, juice, cheese, margarine, there is strong competition. Depending on the product category, competitors can be found in the traditional dairy producers and producers of other kinds of food and drink products. For example, in the area of cooking products (sauces etc.), competitors are brands such as Campbell and Knorr, while drinking milk and juice products compete with for example Coca Cola. Crème fraîche (gräddfil) is a complement to herring and the sales are closely related to the festivities when herring is consumed.

Arla Foods, the Stockholm dairy, is the largest dairy in Sweden and since the merger with the Danish dairy MD foods it is the largest actor in Northern Europe. Arla Foods is a volume producer. With 16,100 milk producers in Sweden and Denmark it represents 63 percent of the milk production in Sweden and 92 percent in Denmark. Arla Foods is a multinational company, with a turnover of 43,000 million SEK, of which the international market represents 40 percent, and 19,000 employees, of which around 4,000 are in Sweden (Arla, 2003). Milko and Skånemejerier are almost the same in size. Milko has, since the merger with NNP²⁴, 1,000 employees and 1,650 milk producers, and a turnover just below 3,000 million SEK (Milko, 2003a). Norrmejerier is the smallest of the four large actors. Around 1,200 milk farmers were associated in 2002 and the turnover was 1,300 million SEK.

Competitors in the area of functional food products are multinationals such as Unilever with the margarine product Becel, which is supposed to lower the cholesterol, Danone with the milk-based bacteria shot Actimel, and the Japanese company Yakult, who also produces a milk-drink with favourable bacteria culture. The difficulty with functional food is that EU

²⁴ Nedre Norrlands Produktions Förening

does not accept physiological and nutritious claims (2000/13/EC), which makes it difficult to advertise functional foods in the EU. There are regulations on specific food categories, such as New food (for example food containing GMOs) and Food for specific dietetic purposes (89/398/EEC), which refers to food with a medicinal effect, such as gluten or lactose free food, food for weight control or food for special medical needs, but there is not yet any definition of functional food. Many of the functional food products could be included under the above categories and the border towards medical drugs, new food and conventional food is not very distinct. Swedish policy has changed compared to the EU and does now accept product-specific health claims, given that they are scientifically proven and accepted by a special expert committee (Swedish Nutrition Foundation, 2003). Skånemejerier has been very actively lobbying for this change.

In the field of the environment, today the dairies have more or less the same standards, with environment and quality management systems, environmental bonus programmes for farmers and ecological products. Skånemejerier was leading the development in quality and environmental management, while it can be considered that the other dairies have been more reactive. Now, apart from Skånemejerier, both Milko and Arla have ISO 14001 certifications. Arla has been leading the ecological product development and offers around 13 ecological products. According to Matz Halvarez, Category Manager of Dairy products Coop Sverige, even if they started as a forced response to the Consumer Association of Stockholm (KFS), since then Arla has been good at environmental issues. He also mentions that Norrmejerier has been proactive in the packaging aspect.

Even though there is strong competition there is also a strong tradition of collaboration in the dairy industry due to the centralized distribution of cheese and butter in the branch organizations Riksost and Svenskt Smör. These branch organizations were dissolved in the 1990's and the collaboration is now centralized to Swedish Milk.²⁵ Their task is to develop and spread knowledge on issues related to the milk industry and consumption, in order to give advice to the farmers, influence political decisions and inform consumers on nutrition and diet (Svensk Mjök, 2003).

5.2 Company background

Skånemejerier is a producer cooperative that was formed in 1964, and is owned by 1,100 farmers in the region of Scania, southern Sweden. It is an economic association that has a hundred percent buying share of the milk produced by the owners. With three dairies (Malmö, Lunnarp and Kågeröd) and two cheese production plants (Kristianstad and Hörby), and 800 employees, Skånemejerier produces and sells dairy products, fruit based products and functional food (Skånemejeriers Årsredovisning och Miljöredovisning 2002).

Since 1998 Skånemejerier has had a steady increase in sales and profitability, as is illustrated in Appendix 6. In 2002, the turnover was almost 2,800 million SEK and the profits before taxes were 2.8 million SEK (Skånemejeriers Årsredovisning och Miljöredovisning 2002). Per category, the sales of fresh products to retail and catering has increased, while the sales of input products to industry has decreased, as also can be seen in Appendix 6. It means that the product strategy of Skånemejerier is having effect. The aim of the product strategy is to increase the sales of value added and refined products to retail, and reduce the standardized

²⁵ Swedish Milk represents the milk producers and related organizations, i.e. the seven largest dairies, eleven livestock organizations, two breeders and nine cattle breeding and interest organizations.

products. To illustrate this, the products are divided into replaceable, added value, advanced and functional food. These are seen in a value triangle, as illustrated in Figure 5-1.

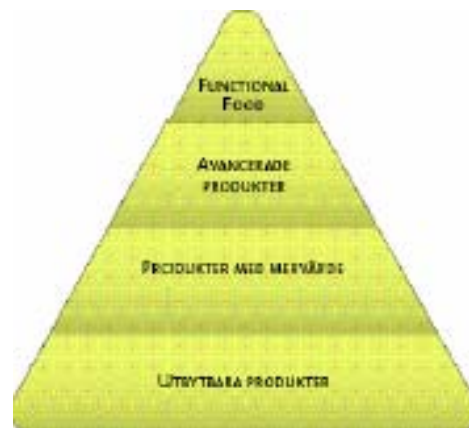


Figure 5-1: The value triangle of Skånemejerier. (Skånemejeriers Årsredovisning och Miljöredovisning 2002)

On the bottom of the triangle are the *replaceable products*, which are the least refined and unbranded products, such as milk-powder. On the above level are the *added value products*. This is for example the Skånemejerier milk products that have an added value in the link to the regional producers, the environmental concern, efficient distribution and special customer service. Further value is added through adding flavours, special packaging, or milk from ISO certified farms. These are the *advanced* and branded products, such as the Öresundsfil, which is a soured milk product with raw material from ISO certified farms. On the top of the value triangle are the *functional food* products. These products have unique and documented health properties, under are sold under the brands Proviva and Primaliv.

The strategy of Skånemejerier is to always create added value by “moving products up in the value triangle and let the knowledge and know-how spill down to the lower levels”, says the Marketing Director, Jan Persson. He means that Skånemejerier must be creative, find new solutions and try different ways. The value added strategy is made possible through extensive networking. The networking strategy emerged with the time as Skånemejerier realized that they could not do everything in-house, such as the volume producer Arla Foods can do. “The idea is to have a core and build a network around it”, says Jan Persson. The networking also produces synergies, which a big company that does everything in-house misses out of, according to Peter Wennström, Brand Management Consultant.

Skånemejerier has built a broad network, as illustrated in Appendix 7. They have a joint venture with Arla Foods for the production of juice under JO-boalget. Cheese is sold under the brand Ostkompaniet, which is a joint venture with the dairy Milko, formed in 2002. Skånemejerier produces the Oatly products for Seba, the Swedish Farmers Association, and the Weight Watcher products, and is the sales agent for Danone in Sweden. The functional food brands are owned in subsidiaries with the Swedish Oat Fiber AB (SOF) and Probi AB.

The functional food product *Proviva* is a result of networking. According to Jan Persson, Marketing Director, Proviva was from the beginning a fruit soup that cost eight SEK. With the invention of the Proviva bacteria *Lactobacillus Plantarum 299v* and the oat-base, which have shown to have medical effect on the intestines, the product was brought up in the value triangle, and has now a value of 20 SEK. After that, line extension was made, adding new flavors and creating yogurt based Proviva. The researchers at Lund University, who formed

the company Probi AB, invented the two ingredients, and Skånemejerier provided production and distribution possibilities. The collaboration with Danone has generated further benefits for Proviva. Danone has bought the commercial rights for Proviva, outside Scandinavia and UK. It means, according to Jan Persson, a safety and quality guarantee for Proviva, since Danone is one of the largest yogurt producers in the world. Proviva has paid back the investment and is now generating profits, according to Jan Persson, and the sales increase with 20 percent every year (Skånemejerier, 2003a). The expectations on the development of Proviva are high. Jan Persson means that during the last months there has been an increase of 200 percent per month. The share has risen from two to five SEK in this period of time. Also in the ecological field, networking has been a way to produce added value, and the recent agreement with the ecological farm Vanås, to produce blue-cheese, is an example of that, according to Jan Persson. It will be the first of its kind with traceable ecological raw material.

Scania is the base of Skånemejerier, with a turnover of about 1,500 million SEK. But Scania represents only 10 percent of the total Swedish market. Skånemejerier aims to remain the leading dairy in southern Sweden and second in Sweden, and grow the distribution to retailers on the Swedish market. Skånemejerier distributes the branded products, such as Proviva, Danone and Ljuva, nationally through retailers and to institutional households. At the moment, according to Jan Person, this represents 10-15 percent of the total turnover²⁶.

The brand Skånemejerier is strong in Scania because the local connection is important when it comes to products of less than seven days durability, such as drinking milk, according to Jan Persson. For competing on products with more than seven days durability, the more important to create unique added value and strong brands. The uniqueness of Skånemejerier consists of being associated with good practices and knowledge in food that contributes to health and well-being. The idea is to “produce and sell food that is healthy, has good flavour and contributes to a good environment” (Skånemejeriers Årsredovisning och Miljöredovisning 2002). Skånemejerier is leading the development in healthy food and functional food in Sweden. Thanks to the networking they can offer retailers a portfolio of health-profiled products, such as Proviva, Primaliv, Danone, Weight Watchers, Oatly. The health drink Proviva is the leading brand in functional food in Sweden and successful on the UK market. According to Matz Halvarez, Category Manager of Dairy products Coop Sverige, the broad product range is an advantage from a retailer point of view and considers Skånemejerier currently the leading company in functional food.

As mentioned in Section 5.1, Skånemejerier has actively been influencing the regulation on health related claims in Sweden and finally managed to get a change (Skånemejerier, 2002). Primaliv, together with Unilever’s margarine product Becel, is the first product to be accepted to carry a product specific health claim. This has generated a first mover advantage for the company in the functional food niche, and at the present, Skånemejerier is working on influencing the EU to adopt the same standards for health related claims as in Sweden.

The milk suppliers of Skånemejerier, who are also the owners, produce either conventional milk, ecological milk or milk from ISO certified farms. The milk from ISO certified farms represents 2 percent of the total volume, and the ecological milk represents 10 percent, while the rest is from conventional farms. All farms control environmental aspects within the Environmental Bonus Program, which is a supplier requirement since 1997. The ISO

²⁶ In total around 400-500 Million SEK., whereof Danone 50-60 million SEK and Ceba 35-40 million SEK.

certified farms, 15 at the moment, provide traceable milk for products such as Öresundsfil (Skånemejerier, 2003b). Even if milk from ISO certified farms and ecological milk represent a small part of the total, there was an increase in volume from 2001 to 2002, 15 percent for the milk from ISO certified farms and 3 percent for ecological milk, according to figures from the Financial Manager of Skånemejerier, Lena Jonasson Mejstad.

Before the reorganization in 2000, the company structure was vertical, organized per production areas. Each production area took care of all the related activities, from ordering and production to distribution. The new structure is market oriented. There are two main business areas: marketing and production. The Business Area Market makes the market forecast, the Business Area Production produces what is needed, and a controller manages the relations between the two areas.

5.3 Environment, quality and safety management system

The following sections are a description of the situation before the implementation of the Environment, Quality and Safety (KMS) management system, as well as a description of how the system was built, developed and managed.

5.3.1 Background

The situation in the first half of the 1990's triggered a strategy change for Skånemejerier. The deregulation of the Swedish milk market in 1992 and the EU membership in 1995, forced Skånemejerier to become market oriented after a long time operating on a very protected market with almost no competition among dairy companies and subsidized milk prices.

The branch organizations that the dairies had been relying on for distribution of cheese and butter were dissolved (mentioned in Section 5.1), and the dairies had to build up their own distribution networks, sales organizations and brands. Suddenly, Skånemejerier was exposed to the competition of the giants, Arla in the Stockholm region, MD food in Denmark (the two later merged into Arla Foods), and other European giants. Skånemejerier at that time had 12-13 percent of the market and was one-fifth the size of Arla. Compared to the volume producer Arla, Skånemejerier would have difficulties to compete on price and the only solution was therefore to create added value products. The external situation was unstable, and this coincided with an internal reorganization and a new General Manager was appointed in 1994, Rolf Bjerndell. Another incident at the time was for example that the big Swedish chocolate producer Marabou, to whom Skånemejerier had delivered large volumes of milk-powder, was acquired by Kraft and changed supplier over night, mentions Rolf Trulsson, the Production Director.

Relations with companies in the industry were built up in order to provide value added products and networking became a central part of the strategy. Being able to guarantee quality was an important part of the networking strategy. Skånemejerier needed a system to control the quality and decided to opt for the ISO 9001 certification. In 1995, Rolf Trulsson, at that time Administration Manager, got the task to look over the certification issues, because he had some previous experience from implementing a quality management system. With the increasing concern for the environment from both authorities and the public, he realized that it would be better to have an integrated system to control both quality and the environment. From a regulatory perspective, the environmental aspects of the dairy industry are mostly emissions to water and chemicals from cleaning. They are regulated under the

Swedish Code of Environment and Skånemejerier is subject to inspection by the Swedish Food Agency (Svenska Livsmedelsverket, 2003). In a broader perspective of the product value chain, there are also the farming, transport, energy and consumer related aspects, such as health and food safety.

Rolf Trulsson proposed to the owners of Skånemejerier to implement an integrated system, with both quality and environment. There was some resistance to the proposal, for two reasons. One was that an additional system for controlling environmental aspects would create more routines and these routines would limit the flexibility of the company. Rolf Trulsson considers that routines and flexibility are not in opposition, and managed to convince the owners about this. The other reason why the owners were sceptical was that the implementation and management would consume a lot of resources that would not pay back. This perception was based on the experience from a failed attempt to implement a quality management system in 1992. But, the reason why it failed at that time was probably the lack of support from the top management team, and not the system itself, thinks Rolf Trulsson and Håkan Olofsson, Production Manager at the Lunnarp facility.

Finally, it was decided to implement an integrated system for quality and environment according to the ISO 9001 and 14001 standards. Later Skånemejerier achieved the EMAS verification, as well as the occupational health and safety standards (AFS 2001:01).

5.3.2 Implementing the KMS

The process of building and implementing the system started in the fall of 1995. A team of five to six people working fulltime was created in order to prepare for the ISO certification. Three of them were quite new in the company. Rolf Trulsson, currently Production Director, had entered in 1994 and there was a recently arrived Environmental Consultant and a Human Resource Manager. Jörgen Olsson, now Quality and Environment Coordinator, had many years of working experience at different functions at the Lunnarp plant.

The work team got the full support from the management at an early stage. At a management meeting the fundamentals for the system were outlined and the management team realized that the process would require more resources and time than expected. “I made clear that without the support of the management, there would be nothing, mission impossible”, expresses Rolf Trulsson. Maybe it helped that he knew the General Manager from the previous workplace.

During the preparation phase, Rolf Trulsson consulted the Business Area Managers and Production Managers when they would be done with the implementation. Håkan Olofsson, now Production Manager at the Lunnarp facility, was at that time Manager of the Hörby plant, and he responded that his plant would be ready by the end of 1996. He saw the KMS system an opportunity to improve the process and increase efficiency, but also as a personal challenge. This triggered the other managers and made it possible to comply with the time schedule. It was decided that the whole certification process should be ready by 1997, and so it was, - in 1997 all the facilities were certified.

The Hörby plant had been acquired in 1991 and still suffered from integration problems and bad working place atmosphere. Håkan Olofsson managed to turn the situation around, and he thinks that building the KMS-system was a way to get people involved and motivated. He made sure that they participated in creating the routines. Identifying and involving key-persons who had strong position internally and could lobby against the system, which in this

case was the local union representative, was an important success factor. After the successful Hörby experience, Håkan Olofsson got in charge the Kristianstad facility, which had problems with the implementation. The reason for the problems, he thinks, was that the management had not involved the employees in the creation of the system and the personnel were de-motivated. Once again, Håkan Olofsson managed to turn the situation around by engaging in a dialogue with the employees and involve them. The plant was certified in 1997 and is now the one with most Internal Auditors within the company (see more in Section 5.3.3).

Implementing the quality system was quite easy because the hygiene standards are fundamental in the dairy industry, and Skånemejerier only had to document the routines, according to Rolf Trulsson. The environmental management system generated more difficulties and surprises. The pre-revision detected many deficiencies and measures had to be taken that were not planned. Big investments were for example building embankments in the plants and chemicals storages. In total, a few million crowns were invested, but savings have been done that well cover up the investments, according Rolf Trulsson. Savings were done in waste management, for example the oil separation lowered the waste costs with half a million SEK, and the insurance premium was reduced with one million SEK. But most important saving is has been done in deviation costs. Deviations were not controlled before and Skånemejerier did not know how much they were, but the Rolf Trulsson estimates that they were around 20 Million SEK.

“The final certification in 1997 was celebrated with champagne, but after that, people were tired and the enthusiasm was lower”, says Jörgen Olsson, Quality and Environment Coordinator. The management soon realized that someone had to look after the system or it would not work, and Jörgen Olsson was appointed to be the coordinator of environment and quality. He thinks that the reason why he was promoted was that he had become very associated with the KMS system during the implementation process. He had spent a lot of time on the floor, helping out and giving advice, showing personal involvement.

5.3.3 Managing the KMS

Håkan Olofsson, Production Manager at Lunnarp, thinks that the drivers of the system are the internal audits, third party certification and the deviation reporting.

At an early stage of the process, a group of twenty Internal Auditors were trained. These came from all levels in the organization and became “ambassadors” of the system. Internal audits are done on a regular basis since then and the auditors measure all the aspects of the system: environment, work environment, safety and quality. The new function of Internal Auditors represents a promotion possibility and can be a motivation factor for employees. Promotion possibilities are a little bit restricted in Skånemejerier, a person that works on the floor normally gets no longer than to foreman, and higher positions are often recruited externally because of the competences needed. Internal Auditors acquire knowledge about the system that has come to be considered a plus, wherefore it increases their chances in case of a promotion compared to employees that do not have this knowledge. An indication of the popularity of this new function is that the number of employees that applied for the last training session has increased strongly, according to Production Director Rolf Trulsson. Another benefit is that new competences have been detected within the company through the Internal Auditors training. Apart from Jörgen Olsson, Linda Sanders is also now Quality and Environment Coordinator, and another person was promoted to the sales department.

The third party certification is a driver because employees understand that customers and external collaboration partners require standards, as for example when Danone made their revision of the plant, according to Jörgen Olsson.

Through the deviation reporting, Skånemejerier has started to control the deviations and their costs (deficit costs). All deviations from the planned process must be reported, and a cost is attributed to it. With this system, Skånemejerier knows how many deviations there have been, where and why it happened. "Many times it is the human factor", says Jörgen Olsson, Quality and Environment Coordinator, but it can also be a quality issue or an electrical-mechanical problem. In the beginning, the deviation reporting revealed that the deficit costs increased, year-by-year. This was surprising, but the reason was that the managers started to report, little by little, as they gained confidence with the system and understood that reporting would not bring about any consequences for them. "The deviation reporting, which we in the beginning called 'auto-denunciation' has become something natural. It is not about cheating on others. Things happen- the important thing is to report it!" says Rolf Trulsson, Production Director. He also means that before the reporting was implemented there was a mentality to "sweep under the carpet". There are important sums involved. "If we get a contamination of a silo, it can be 100 cubic meters of milk, which is 300 thousand crowns", says Rolf Trulsson. It is not until 2002 that the curve has started to decline. A common system for deviation reporting is being created, but for the moment each business unit have their own way, wherefore yearly comparison for the whole company is difficult. Rolf Trulsson estimates that the cost is now around 20 percent of what it used to be.

An electronic version of the system was created in 1996. It was necessary in order to manage the standards and routines. Skånemejerier decided to structure the system in a way that it would be user-friendly. It covers all stages in the value chain, from product development to outbound logistics. The system is accessible from the intranet, in offices and on the floor. According to Jörgen Olsson, Quality and Environment Coordinator, the electronic system works fine, but the implementation is difficult. There is yet no way to measure if people use it, but he knows that they do because he has less work; people do not come to him any longer when they need to create new routines.

Even if there were difficulties with the implementation, mainly due to peoples unwillingness to change, the employees are now in general positive and believe in the KMS system, according to Jörgen Olsson. Very few were actively against it, but many thought that "this is just another thing that the managers have invented", says Rolf Trulsson. Håkan Olofsson mentions that drastic and rough examples have sometimes been necessary to make people understand the procedures and routines, such as "If we have said that there should be a screw in every tenth cheese, then there must be one!" Today most controversies have been overcome. Managers of one of the plants, where the implementation was extra difficult due to negative attitudes, now lists the KMS as one of the five most positive things of the company, according to Rolf Trulsson, and he also indicates that there has been a change in mentality, the KMS now goes without saying, while before it had to be justified and explained.

The general impression seems to be that employee involvement and management support are crucial for making the system work. It requires resources, especially human resources, for the creation, implementation and coordination. It requires people with good communication skills and that are personally involved, such as the persons interviewed in this study. The ability to read people and identify key persons, to convince and motivate them, to engage in a

dialogue with the employees and show personal involvement have been success factors. It requires good leaders and coaching, which Håkan Olofsson emphasises as an important leadership characteristic of the company. Coaching for him means leaders who see opportunities in the employees and know how to develop their competences. In functional foods, where Skånemejerier is leading, this is even more crucial because of the exploratory nature of the area; knowledge and competences have had to be acquired along the way, “learning by doing”. As Environmental Coordinator it is important to understand and be able to read people, thinks Jörgen Olsson, and he puts a lot of efforts into mapping the people he is going to work with.

6. Analysis

The following two sections are an analysis of the cases described in chapter 4 and 5, the eco-brand Änglamark of Coop Sverige and the Quality, Environment and Safety (KMS) management system of Skånemejerier.

As mentioned in the methodology (Section 3.1.4), the cases are analyzed in two perspectives. The approach presented by Collis and Montgomery (1995), explained in section 2.1.2, is used to analyze if the environmental differentiation initiative has generated competitively valuable resources. The principles of competitive positioning, proposed by Porter (2001), explained in section 2.1.1, are used to identify how the environmental differentiation initiative influences the competitive strategy.

6.1 The case of Änglamark

This section is an analysis of the resources that the eco-brand Änglamark has generated and how Änglamark contributes to the competitive strategy of Coop Sverige.

6.1.1 Assessing the resources

Three of the resources that Änglamark has generated are the *brand name*, *ecological certification know-how* and *ecological brand competences*.

The ecological certification know-how refers to the specific knowledge related to the certification process, i.e. how to deal with the ecological standardization organization KRAV and guide the ecological suppliers in the process. Ecological brand competences are the specific marketing and management skills related to the brand, such as building an attractive and unique brand-platform, communicating the values of the eco-brand, managing the purchasing and product development process.

The relation between these resource and competitive advantage is presented in Table 1 and further explained below.

Table 1: Relation between the eco-brand *Änglamark* and the generation of competitively valuable resources

Resource	A. Brand name	B. Ecological certification know-how (KRAV).	C. Ecological brand competences
1. Inimitability	Yes. The brand name cannot be copied.	Yes. The know-how is a path dependent and socially complex resource.	Yes. The competence is a socially complex and path dependent resource.
2. Non-substitutability	Yes. Difficult to substitute the brand name.	---	Yes. The function of these competences is difficult to substitute.
3. Appropriability	Yes/No. Yes, strong brand association. No, the value benefits also competitors.	Yes. Synergies, it benefits both Coop Sverige and KRAV.	Yes. The value benefits Coop Sverige.
3. Durability	No. International expansion limits the durability.	No/Yes. No, competitors are likely to imitate. Yes, the know-how can be useful for developing the Nordic eco-labelling schemes.	Yes. The competences can be applied in future brand projects.

1.A. Inimitability of the brand name. A brand is a way to create a value that is difficult for competitors to imitate, as mentioned in Section 2.4.3. The name itself cannot be copied and the name *Änglamark* seems to be an important success factor because it is widely recognized in Sweden and is strongly associated with positive values and sustainability.

1.B. Inimitability of the ecological certification know-how. The ecological certification procedures are complex and time consuming. With the time and experience from dealing with the ecological standardization organization and ecological suppliers, a specific know-how has developed. Example of such know-how is how to manage the relations with KRAV in order to get the relevant information and how to guide the suppliers in the process, which is especially important in the case of foreign suppliers.

1.C. Inimitability of the ecological brand competences. Coop Sverige has developed a private ecological brand, while competitors have focused on building green assortment, according to the Mikael Edelstam, Strategic Environmental Management Consultant, and Kjell Eklundh, the Brand Manager of *Änglamark*. The ecological brand building competences that have developed with the creation and management of *Änglamark* are difficult to imitate because they have developed “learning by doing”, and build on previous experience from the brands *BlåVitt* and *Signum*. Developing private brands, such as *Änglamark*, is a path-dependent and socially complex process. It requires the involvement of purchasing, marketing and quality functions, at different organizational levels, and a close collaboration with suppliers and other stakeholders.

2.A. Non-substitutability of the brand name. *Änglamark* can be substituted but it may be relatively difficult to find a name that is as strongly associated with sustainability and the

Swedish identity as Änglamark. The Manager of Coop Konsum, Thomas Evertsson, says that “...Änglamark is our strongest brand, and it would be easier to change the name Änglamark than to change the name of Coop’s other brands, Signum and BlåVitt”.

3.A. Appropriability of the brand name. As mentioned in Section 4.3, the success of the brand is measured in the attitude surveys conducted by Coop. According to those, 90 percent of the Swedish consumers recognize the Änglamark brand, 50 percent of them associate Änglamark with sustainable development, and 15 percent of them buy it sometimes. Coop Sverige benefits from the value that the eco-brand creates because it sustains the overall profile of Coop Sverige, which aims to be associated with sustainable development and the values of ecology, health and ethics.

But, the interesting issue with Änglamark is that the value that Änglamark generates does not benefit Coop Sverige exclusively. Coop Sverige shares the value that Änglamark creates with other actors in the field. For example, other ecological brands benefit from the marketing campaigns of Änglamark. According to Kjell Eklundh, the Brand Manager, when there is focus on developing Änglamark, the sales increase not only of Änglamark but all ecological products in the category, and the same is probably true for the other retailers, ICA and Hemköp.

3.B. Appropriability of the ecological certification know-how. The ecological certification produces synergies that benefit both Coop Sverige and KRAV. Coop Sverige benefits because it increases the efficiency in the certification process; it makes it easier and faster. When there is a need to launch a new ecological product, the speed in the process is of crucial importance. KRAV benefits from this, because the more Änglamark food products, the bigger exposure and market share of the KRAV label.

3.C. Appropriability of the ecological brand competences. The ecological brand competences benefit Coop Sverige because it increases the possibility to expand the eco-brand assortment, more efficient product development process, innovation and marketing.

4.A. Durability of the brand name. Coop Norden is considering whether to maintain Änglamark or create a new common ecological brand since the name and values of Änglamark are not so well known in the other Nordic countries. The Norwegians may know what Änglamark is but do not associate it with the same values as in Sweden, and in Denmark it is not generally known. This is a limitation to the durability of the brand name.

4.B. Durability of the ecological certification know-how. Competitors also deal with ecological certification, even if they may not be as advanced as Coop Sverige in this field. For example, ICA is expanding their ecological assortment and is likely to develop the same skills. This limits the durability of the value of this resource. But, the ecological certification know-how that Coop Sverige has developed can find a new use. The Nordic countries are not as advanced as in Sweden when it comes to eco-labelling schemes, according to Per Baumann, Environmental Coordinator of Coop Sverige. He thinks that this could be a limitation because “developing the brand further today requires that we develop the eco-labelling criteria”. Coop Norden may need the ecological certification know-how for influencing the development of criteria in the Nordic countries.

4.C. Durability of the ecological brand competences. Coop Sverige is facing a situation of price competition and the need to make heavy cost reductions, as mentioned in section 4.2. It means that there are less resources to develop the brand and may imply that important

parameters of the brand will get lost. Thomas Evertsson, Manager of Coop Konsum, is afraid to lose competence such as those in food excellence, with the reduction of personnel. Änglamark is premium product, means Kjell Eklundh, and increasing price focus may lead to that the quality has to be modified to correspond to competitors' price levels, as mentioned in Section 4.3. According to the Environmental Manager of Coop Sverige, Åke Natt och Dag, keeping the quality level of Änglamark can be difficult if there are no resources to carry out the consumer tests that the development of Änglamark products is based on. The new circumstances will require more from the purchasers in order to build assortment and supplier relations, but this requires resources that the brand may not get if there are other priorities.

The joined purchasing power of Coop Norden will make it possible to compete and reduce costs of both conventional and ecological products. But, a problem is that the cooperatives in Denmark and Norway have not the same experience in building eco-brands. Nevertheless, this can extend the durability of the ecological brand competences that Coop Sverige has developed with Änglamark, because the brand building knowledge will probably be requested on a Coop Norden level.

Eco-brands can be profitable with little resources if the purchasing activity is reorganized, according to Kjell Eklundh. The solution is to go directly on the source, find a raw material producer, contract a processing company and manage the whole chain. This would reduce the costs of the middle hands and the administrative work, and create opportunities for new product development. But this kind of purchasing would require other skills than those of a normal purchaser; "it is a different mentality", says Kjell Eklundh. Again, the durability depends on whether resources are invested in developing the necessary competences.

6.1.2 Competitive positioning

A strategic positioning requires that the company focus on *long-term returns* on investment instead of short-term profitability. As mentioned in Section 4.2, Coop Sverige has taken on the mission to contribute to sustainable development: ecological, social and economic. But, ecological change requires a structural change, which is both costly and time consuming, and may not even pay off on a short term. For example, it is necessary to increase the demand for ecological food products, but changing consumer behaviour is a long process and requires extensive opinion marketing. There is also a need to develop the ecological suppliers or reorganize the purchasing activities, but brand- and purchasing competences must be developed. Kjell Eklundh thinks that resources should be spent on developing the ecological processed food category, because it will generate more returns in the long run, but at the moment the focus is on short-term profitability. Coop Sverige prioritises those ecological products that have shown to be profitable, which is milk and eggs, and on developing the low-price brand *x-tra*.

Strategic positioning requires that company can offer a *unique value* to a specific customer segment. There is a potential to create a private benefit for consumers who consider ecological food as more healthy than conventional. Nevertheless, this is not unique for Änglamark. The uniqueness lies in that Änglamark combines values of environment, health and ethics, with lifestyle related parameters and values that appeal to a specific customer segment. This is unique compared to other retailers, because they are building ecological assortment rather than brands, according to Mikael Edelstam, Strategic Environmental Management Consultant. Änglamark also has an ideological value; it gives credibility to the mission because it functions as a driver behind ecological product development.

A strategic positioning requires *tradeoffs* and it is important to manage these, otherwise the company risks getting stuck in-between. Änglamark requires managing the trade-offs between the mission and short-term profitability. The problem for Coop Sverige at the moment is that there are other priorities than the environment, to meet the price competition and balance the negative cost situation. It is possible that economy of scale in purchasing that is being developed can benefit the eco-brand and Coop Sverige has managed to situate the environmental issues high up on the agenda in Coop Norden, but the environmental differentiation position is difficult to defend if there is not consistent prioritisation of resources for maintaining the environmental initiative. A competitive positioning requires *continuity* in a strategic direction, and it means a clear decision about whether to compete with the low-price chains or continue in the direction of environmental added value.

A competitive positioning also requires a *unique set of activities* that *fit* well together. As explained in section 3.2, there is not enough data for a complete comparison of value chain activities, for which it is difficult to assess the uniqueness of the activities of Coop Sverige. Understanding the fit between the activities requires a mapping of the whole activity system of Coop Sverige, which has not been done in this thesis. But, there are some indications of this aspect. As described in Section 4.2, Coop Sverige has two main concepts: the hypermarket chain Coop Forum and the supermarket chain Coop Konsum. Strategically important themes for Coop Konsum are the food excellence and ecology. A wide assortment of ecological products is a credibility issue, according to the Manager of the chain. In this sense the eco-brand Änglamark fits well; it reinforces the position of the chain. But, in order not to loose customers to the low price competitors, Coop Konsum offers both low-price products and the ecological assortment, according to Kjell Eklundh. The question is how well this fits with the overall activities of the company. As Mikael Edelstam mentions, offering two different standards in the same store, one that contradicts the values that Coop Konsum stands for, may give a fuzzy image.

6.2 The case of the KMS

This section is an analysis of the resources that the Environment, Quality and Safety (KMS) management system of Skånemejerier has generated and how it has contributed to the competitive positioning of the company.

6.2.1 Assessing the resources

Three of the resources that the KMS management system has generated were analysed: the third party *certification of the ISO 9001 and 14001 standards*, the *deviation reporting* and the *standardization know-how*. The relation between these resources and competitive advantage is presented in Table 2 below and then explained below.

Table 2: Relation between the KMS management system and the generation of competitively valuable resources

Resource	A. ISO 9001 and 14001 certification	B. Deviation reporting	C. Standardization know-how
1. Inimitability	No. Competitors imitate and certify according to the same standards.	Yes. Implementation of the deviation reporting is a path dependent process.	Yes. The know-how is path dependent.
2. Non-substitutability	No. The ISO certification can be substituted with other standardization schemes.	Yes. The function, to control and report deviations, is non-substitutable.	Yes. The know-how is applicable in other contexts.
3. Appropriability	Yes/No. Yes, because it gave access to networking partners and retailers. No, because it does not provide durable uniqueness.	Yes. The control benefits Skånemejerier.	Yes. The know-how benefits Skånemejerier.
4. Durability	No. With the time, the ISO standards loose value as differentiator.	Yes/No. The value of further control becomes marginal with the time.	Yes. New standards that companies must comply with. Resources are dedicated to improving the system.

1.A. Inimitability of the ISO certification. Skånemejerier was the first company in the food and drink industry with ISO 9001 and 14001 certifications and EMAS verification, and was also among the first to have an integrated system of quality and environment, as well as the first to implement an electronic version of the system. This created attention and interest among companies in all industries. But, the competitors imitate; Arla and Norrmejerier have adopted the ISO standards. Jörgen Olsson, Quality and Environment Coordinator, thinks that this is worrisome, and to stay in the lead of certification, Skånemejerier has certified the working environment according to the standards of Occupational Health and Safety (AFS 2001:1).

1. B. Inimitability of the deviation reporting. The deviation reporting is a path dependent resource, which makes it difficult to copy. It has taken years to make the deviation reporting work because employees and managers were not confident with the system from the beginning.

1.C. Inimitability of the standardization know-how. Skånemejerier has been innovative with the development of the system. The KMS system has a tailor-made structure and the electronic version makes it possible to withdraw existing routines and standards instead of creating new ones, hence facilitates certification according to new standards. Even if the system structure is possible to imitate, the specific standardization know-how has developed with the time and experience, which makes it more difficult for competitors to take after.

2.A. Non-substitutability of the ISO certification. Other certification schemes could be considered a substitute to ISO standards. For example, the British Retailer Consortium standards are a substitute on the UK market. For Skånemejerier it does not constitute a big

threat, because the KMS system know-how and structure enables them to quite easily certify according to these standards as well.

2.B. Non-substitutability of the deviation reporting. The mere system for managing the deviation reporting could possibly be substituted, but not the function, which is to control the number, cause and costs of the deviations in the process.

2.C. Non-substitutability of the standardization know-how. By developing the KMS system Skånemejerier has gained knowledge in certification of the ISO standards, as well as other standards, such as the Occupational Health and Safety. This has generated a know-how that is applicable in other standardization schemes and therefore it can be considered difficult to substitute.

3.A. Appropriability of the ISO certification. The ISO 9001 and 14001 certifications generated a quality image, which made Skånemejerier an attractive networking partner, mainly because they were the first company in the industry to adopt the standards, as mentioned in 1.A. The relations remain valuable, because they are important for the networking strategy of the company. Skånemejerier can offer retailers a broader product portfolio and increase chances to capture the value-added of their own brands. In this sense, Skånemejerier captures the value of the ISO certification. But, the ISO certifications are a measure of operational effectiveness, as mentioned in Section 2.1.1. The more companies that apply the standards, the less returns for Skånemejerier, because the company itself does not capture the full benefits of the value they create. Consumers will benefit from the continuous improvements in environmental quality, which is a requirement of any EMS, but they are not yet willing to pay for it because they expect the company to act responsibly, as the Marketing Manager Jan Persson mentions.

3.B. Appropriability of the deviation reporting. Skånemejerier captures benefits from the deviation reporting. It generates valuable information that makes it possible to control deviations in the process, which is an absolute condition for improving efficiency and reducing risk exposure. The KMS has paid off even though there were large investments with the implementation, means the Production Director Rolf Trulsson.

3.C. Appropriability of the standardization know-how. The standardization know-how generates profits for Skånemejerier, because it increases the efficiency in the standardization process, hence facilitates the certification according to new standards.

4.A. Durability of the ISO certification. As ISO 9000 and 14001 certifications become more and more wide spread they lose value as a differentiator and may result in a sort of license to operate, as mentioned in 3.A.

4.A. Durability of the deviation reporting. The value of the deviation reporting, such as efficiency gains and reduced risk exposure, will become marginal with the time, since improved control will only generate marginal benefits. As mentioned in Section 2.3, controlling risk better than rivals could be a source of competitive advantage, but it is possible that competitors are applying the same control systems and this limits the benefits.

4.C. Durability of the standardization know-how. The trend seems to be that there is a constant flow of new standards that companies need to comply with. The standardization know-how facilitates the introduction and certification of new standards, and can have spin off effects in new product development, such as the Chemical-management system that

Jörgen Olsson, the Quality and Environment Coordinator, is currently developing. It seems that Skånemejerier are investing resources in developing and improving the system. An example of this is that there are two persons working fulltime with the KMS-system and the employees will undergo an interactive training in how to manage the electronic system during this fall.

6.2.2 Competitive positioning

A competitive strategy requires that the company focus on *long-term* return on investment instead of short-term profitability. As mentioned in section 5.2, Skånemejerier aims to remain the leading dairy in its home region and secure the position as the second dairy in Sweden. As mentioned in Section 5.1, by tradition the local dairy is strong in the home region, but competition is harsh on the national market. Arla Foods dominates the market and other national and international producers compete. Facing this situation Skånemejerier opted for a value added strategy in health and functional food. The regional market and dairy production is the base, but as illustrated in the value triangle in Section 5.2, the strategy is to increase the value of standardized products by adding unique features. This requires investment in developing competences and networking relations that may not pay off on a short term, and Skånemejerier has to have a long-term focus.

Competitive positioning requires that the company can offer a *unique value* to a specific customer segment. On the national market, Skånemejerier markets the products with added value. Each functional food brand targets a specific consumer segment, namely those who value the medical effects of that product. From a retailer perspective, a portfolio of health related products that Skånemejerier offers, -which includes both own brands and others such as Danone, Oatly and Weight watchers-, represents a unique value, according to Matz Halvarez, Category Manager of Dairy products at Coop Sverige. He considers that Skånemejerier is leading in functional food. On the regional market, Skånemejerier provides the more standardized products, such as milk and soured cream. On the local market, the environmentally responsible practices, such as the environmental bonus programme for farmers, ecological milk and milk from ISO certified farms represent an added value.

A competitive positioning also requires a *unique set of activities* that *fit* well together. The limited knowledge about competitors, explained in Section 3.2, limits the possibility to make a complete comparison of value chain activities. Understanding the fit between the activities requires a mapping of the whole activity system of Skånemejerier, which has not been done in this thesis. But there are some indications. Functional food production fits well with the production of dairy and fruit based products. Dairy products and fruit based products are used as a base for the functional food and the standards of hygiene are by tradition strict in the dairy industry, which is a necessary requirement for managing things such as the bacteria cultures of the functional food production. The competing dairies produce juices, but Skånemejerier is the most advanced in functional food, which may provide uniqueness.

Maintaining a competitive position requires *tradeoffs* between cost and differentiation. Skånemejerier seems to manage the tradeoffs that the differentiation strategy requires; there is a consistent prioritisation of resources for creating added value and remaining an attractive networking partner. The KMS management system is a parameter in the overall strategy, because networking partners and retailers are increasingly demanding a systematic and holistic approach to food safety. Maintaining the system costs, but there seems to be a consistent prioritisation of resources for this aim. For example, the KMS team received the

support from the top-management at an early stage and throughout the whole process, and as mentioned in section 6.2.1, since the start, human and other resources have been assigned.

A competitive strategy requires *continuity* in a strategic direction. Every decision is taken considering if there is an opportunity for added value and networking, according to the Marketing Manager, Jan Persson. This is an indication of continuity in the strategic direction, which is also seen in the steady increase in sales and profitability since 1996, and the fact that the share of value added products are taking over the standardized products (Appendix 6).

The search for value added includes even the KMS management system. A Chemical Management system is under development in collaboration with a software company. The people that were interviewed agree upon that the dynamic leadership and trust in the individual, which are key characteristics of the leadership of Skånemejerier, are key factors for developing and sustaining this mentality.

7. Conclusions

Based on the analysis in Chapter 6 and the literature review in Chapter 2, this section answers the research questions, and suggests the implications for theory, management practice and future research.

7.1 Conclusions about the research questions

The purpose of this study was to identify *how* environmental differentiation initiatives contribute to the overall competitiveness. For this purpose, two cases in the food and drink industry were analysed: a product-focused (the eco-brand Änglamark of Coop Sverige) and a company-focused initiative (the Quality, Environment and Safety management system of Skånemejerier).

The cases were analyzed according how the environmental differentiation contributes to competitiveness, from the perspective of the Positioning school on competitive strategy and positioning, as well as the Resource-based view on competitively valuable resources. The conclusions from each perspective related to the two cases are presented in the following sections.

7.1.1 The case of Änglamark

The mission of the retailer Coop Sverige, on behalf of the consumer cooperative, KF, is to create value that contributes to sustainable development. The values that the company aims to be associated with are ecology, health and ethics. The eco-brand Änglamark reinforces the position of the retailer because it is a unique value proposition to consumers who value these aspects; it projects the image and gives credibility to the mission. Considering that the products are the most important environmental impact of the company, the aim is to contribute to ecological sustainability, and Änglamark plays an important role as a driver behind the ecological product development. But, the mission requires resources for developing the market and suppliers. At the present there are other priorities, to meet the price competition and undertake extensive cost reductions. Managing the tradeoffs between price and differentiation is a problem at the moment, probably because the strategic direction is not all clear in the newly formed Coop Norden, of which Coop Sverige is co-owner. Coop Sverige has situated the environmental issues high up on the agenda in Coop Norden and a common ecological brand will be created following the same brand strategy as in Sweden. But, whether Änglamark will contribute to the overall competitiveness depends on the strategic direction that Coop Norden decides to take in the future.

The *brand name* is a resource in itself, and in the case of Änglamark, it has influenced the success of the brand. It is strongly linked to positive values, nature and Swedish culture, and the fact that the name was previously known for these values has generated strong association with sustainability, a measurement of success of Änglamark. The name is unique and difficult to substitute. But, the advantage may be lost when transferred to another cultural context where the name is unknown and not associated with the same positive values, which limits the durability of the resource. Building and managing an ecological and value-based brand has generated resources in the form of *ecological brand competences* and *certification know-how*. These resources can be considered competitively valuable because they increase efficiency in the ecological standardization and product development process. Being first on the market in strategic product categories is of crucial importance for the success of

Änglamark. The competences and know-how have the potential to remain valuable because they can be applied in other contexts, such as in the future development of eco-brands in Coop Norden, and are difficult to imitate because they have developed with the time and experience.

7.1.2 The case of the KMS

Skånemejerier wants to remain the leading dairy in the home region and secure the position as the second dairy in Sweden. The values that they aim to be associated with are health, environment and good taste. Skånemejerier wants to grow on the national market and provides a portfolio of products with added value in health, including their own functional food brands. The value added is developed in collaboration with various networking partners and there seems to be continuity in the strategic direction, a constant search for value added and networking opportunities. The KMS management system does not provide a unique value to the products, but it has indirect strategic implications because it reinforces the value added strategy in health and functional food. First, controlling environmental aspects is part of a holistic approach to safety and risk minimizations, which is a condition for networking partners and retailers. Therefore, the KMS reinforces the strategy of the national market. Second, not controlling environmental impacts and risks could cause problems and bad publicity, which would affect negatively on consumer loyalty in the region.

The third party certification of quality and environmental standards, the *ISO 9001* and *14001*, generated a quality image, because Skånemejerier enjoyed a first mover advantage. It gave access to networking partners that were crucial for the strategy of Skånemejerier. The relations remain valuable for the strategy, but the certification may lose value as a differentiator since competitors imitate, for which the durability of this resource is limited. But, the implementation and management of the KMS has generated resources that can endure, namely the *deviation reporting* and the *standardization know-how*. These resources may be difficult to imitate because implementing and managing the KMS system is a path dependent and socially complex process. The deviation reporting increases the control over the process, hence contributes to efficiency gains, lower risks and reduced costs. It can generate an advantage if the company manages the process more efficiently than competitors. With the creative approach to the KMS management system, Skånemejerier has created an efficient system structure and specific system know-how, which increases the efficiency in the standardization process, hence facilitates the introduction and certification of new standards, and can generate new solutions or even products.

7.1.3 Environmental differentiation and competitiveness

Based on the two cases in this study, which represent both a company-focused and a product-focused environmental differentiation initiative, the conclusion is that environmental differentiation initiatives contribute to the overall competitiveness of companies in the food and drink industry, by sustaining the overall position and generating competitively valuable resources.

From the perspective of the Positioning school, environmental differentiation initiatives contribute to the overall competitiveness if it *sustains the position* that the company aims at. An eco-brand sustains the environmental differentiation position of a retailer, as in the case of Coop Sverige and Änglamark. A certified EMS, as part of a holistic approach to safety, indirectly sustains the position of a food producer with a value added and networking strategy, as in the case of Skånemejerier and the KMS. As part of the strategic positioning,

the environmental differentiation initiative requires *continuity* in the strategic direction and a consistent prioritisation of resources for this aim, i.e. managing the *tradeoffs* between investments in environmental differentiation and cost-reductions. When there are other priorities, such as low price competition and cost reductions, there is a risk that the environmental differentiation initiative comes in the background, which is the problem of Coop Sverige at the moment. It could limit further development of the eco-brand Änglamark, hence also the credibility of the mission, and endanger the position of the company. When a certified EMS has an important contribution to the overall strategy, networking and added value, and there is continuity in the strategic direction, such as the case of Skånemejerier, the EMS contributes to the overall competitiveness, because there is a consistent prioritisation of resources for maintaining and upgrading the system.

The environmental protection as such is becoming a less strong selling argument, but the increasing concern for health and food safety related to food and drink products provides an opportunity to bundle environmental protection with a *private benefit*. The possibility depends on the kind of environmental differentiation initiative. An ecological food brand combines the values of environmental protection and health, and creates a private benefit for consumers who consider ecological food healthier than conventional. A certified EMS cannot be directly linked to the products, but can be a private benefit for networking partners and retailers in the food industry, because they need a holistic approach to safety, in which the environment is a part. The environmental differentiation initiative contributes more directly to competitiveness if the private benefit is *unique*. An eco-brand can create a unique offer, by effectively combining the values of ecology, health and ethics with other lifestyle related values that appeal to a specific consumer segment. A certified EMS is unique in the beginning, being first to adopt certified EMS can generate a distinctive quality image, but the uniqueness is lost when the competitors adopt the same standards.

From the perspective of the Resource-based view, an environmental differentiation initiative contributes to competitiveness because it generates competitively valuable resources, in the form of *know-how and competences* from implementing and managing the environmental differentiation initiative. This is more sustainable than resources such as the brand name and the certification of an EMS. The brand name can be a success factor of an eco-brand but is limited to the cultural context; the certified EMS can be a success factor but is limited in time. More durable resources are the ecological brand competences that Änglamark has generated and the standardization know-how that the KMS has generated. They are difficult to imitate and substitute and have the potential endure valuable, because they increase the organizational learning, are applicable in other contexts and can have positive spin-off effects, such as innovative organizational solutions and product development.

7.2 Implications for theory

This research describes how environmental differentiation may contribute to competitiveness. It contributes to the understanding of Strategic Environmental Management theory, because it adds insights to the intricacies of the problem of the relation between competitiveness and environmental differentiation initiatives. Since the research area is in an exploratory phase, these cases are a contribution to the empirical evidence in the area and therefore build on the understanding of the relation between competitiveness and environmental differentiation initiatives, towards and anatomy of the issue.

Due to that the difference between the Resource-based view and the Positioning school is not very clear, a search for competitive advantage and competitiveness may be helped by

combining the two schools and seeing them as complementary rather than distinct, as already mentioned in the literature review (Section 2.6).

7.3 Implications for management practice

This thesis may be helpful to Managers in the food and drink industry, or even in other industries, seeking ways to manage the environmental challenge, because it describes how environmental differentiation strategies can contribute to the overall competitiveness. This is beneficial because it helps the Manager to find areas of priority and therefore optimise the use of resources.

The systematic organization of competitive advantage and competitiveness in relation to environmental differentiation that is presented in this thesis can also be useful to Managers when approaching the same issues.

7.4 Suggestions for future research

Because of the exploratory nature of this research area, there are many possible subjects for further research.

It is suggested to build on these two cases with a complete mapping of the activity system in order to find how the environmental differentiation initiatives influence the strategic positioning. Nevertheless, as mentioned in the limitations (Section 3.2), a complete understanding of competitiveness requires a profound analysis of the industry context and competition. Therefore, it is suggested to make a comparative study of companies with the same position in the industry. Covering a sufficient number of companies, it would be possible to discover what factors and conditions, both company specific and industry related, favour competitive advantage from environmental differentiation.

As an aspect integrated in the above, an interesting and relevant subject for further research is the distinction between product focused and company focused environmental differentiation initiatives, in order to add understanding on when one option is more applicable than another.

A more profound internal analysis of the cases would be interesting in order to understand how the environmental differentiation has influenced the competitiveness on the level of individuals or even on the leadership style of the company, or vice versa.

It is interesting to explore further how environmental aspects can be linked to a private benefit. An example is to study the how companies can combine the environmental protection to values of health and safety, and consumers' willingness to pay for this. It could help companies with beyond compliance practices to benefit more from the environmental undertakings.

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Appendix 1: Respondents

Below follows a presentation of the persons that have been interviewed, according to each case and the chronological order in which the interviews were held.

Skånemejerier

Rolf Trulsson has been at Skånemejerier since 1994 and is Production Director since 2000. Before that he has been working in different sectors and was at the infantry for many years. He is the person who initiated the KMS system.

Håkan Olofsson is Production Manager at the Lunnarp facility. He has long experience in the dairy industry and except for two years he has been working at Skånemejerier. Before Lunnarp he was Manager of the Höör and the Kristianstad facilities, at the time of the implementation of the KMS system.

Jan Persson is the Marketing Director of Skånemejerier.

Jörgen Olsson, is Quality and Environment Coordinator since the implementation of the KMS system. He has long experience on various positions in the Lunnarp plant, and was foreman before he was engaged in the KMS issues.

Matz Halvarez has been working with purchasing of dairy products at Coop since six years, and was promoted to Category Manager of Dairy products Coop Sverige one year ago.

Peter Wennström is Brand Management Consultant with long experience in branding and value added projects in the food and drink industry, and works occasionally with Skånemejerier.

Coop Sverige

Per Baumann was involved in the creation of Änglamark since the beginning and is now Environmental Coordinator of Coop Norden.

Kjell Eklundh is Brand Manager of Änglamark and Signum. He has worked with all the brands of Coop. He created BlåVitt in 1979, Änglamark and Signum in the 1990's, and is now involved in developing the low-price brand for Coop Norden, x-tra.

Solweig Wall Ellström deals with consumer information at KRAV.

Mario Orsucci is Vice President and Manager of Strategy and Collaboration of Coop Sverige, and works with strategy on a Coop Norden level.

Åke Natt och Dag is Environmental Manager of Coop Sverige since two years and was previously General Manager at KRAV.

Barbro Axnäs has been a purchaser of ecological products, within private brands, for ten years. Currently her position is as a Support in the department Projects and Coordination, which is a part of the Category Organization.

Michael Kozlowski is Chief Buyer Own Brands, Fresh Food Department.

Thomas Evertsson came to Coop as a trainee and is now Manager of Coop Konsum.

Mikael Edelstam is Strategic Environmental Management Consultant with long experience in the field and has been working with Coop since about two years.

Others

Bengt Ingerstam is Chairman of the consumer association Sveriges Konsumenter i Samverkan (SKIS).

Louise Ungerth is Manager of Consumer and Environmental issues of the Consumer Association of Stockholm, KFS.

Carl, Responsible for ecological products at ICA Malmborgs, Lund

Appendix 2: History of KF and Coop Sverige

The foundations of the cooperative movement reaches back to the 1840s, when a group of textile workers in the UK created the first consumer association with the aim to provide clean and non manipulated goods, i.e. milk that was not diluted and flour that was not mixed with chalk.

1850s: The first Swedish cooperative was created in the 1850, when a number of people joined together to purchase basic goods such as salt and herring to lower the price. In the end of 1860 a lot of consumer cooperatives popped up in Sweden, as a result of both the right to industrial activities in 1864 and the crisis 1867-68.

KF, the cooperative federation, was founded in 1891, with the purpose to centralize the information and strengthen the national consumer associations' purchasing power. In the beginning of the 1900, the first central purchasing activities were conducted.

1900s: The Savings Association was created; a way of having own private capital. The change in the law gave the consumer associations rights to sell also to non-members. Swedish Home, an association of women, was integrated into the KF.

1920s: As a result of the price war against the cartels and monopolies, commonly existing and accepted on the market at that time, KF ended up having a production strategy, integrating into the food industry, building a margarine factory and buying the mill "Tre Kronor". The cartels worked against KF and sometimes refused to sell them their products. KF tried to influence the government to legislate against cartels, but their claims were not responded to until much later, in the 1940s.

KF became a pioneer in the area of internal training of employees. An architecture company, KFAI, was created in order to develop the design of the stores, which also became a strong upholder of the functionalism. KF invested in the galosh industry in Gislaved (Svensk Gummifabrik AB).

1930s: KF bought the department store PUB in Stockholm. The magazine "Vi" (Us) was funded with the collaboration of authors and artists such as Karin Boye, Nils Ferlin, Ivar Lo Johansson, and Evert Taube. KF bought the Gustavsbergs porcelain factory.

1940s: Introduction of new activities such as the housewife's department, the test kitchen and "Vår kokbok" (Our Kook book) and the first self-serving store, in Stockholm. The self-serving store was revolutionary, since it brought through a change in the traditional roles of both customers and personnel, as well as the marketing and packaging.

1950s: The department store Forum in Uppsala was inaugurated, representing the modern times department stores concept: "everything under one roof". A huge investment in department stores, under the name "Domus", was initiated. KF gave money to the Medical Council to investigate the potential negative environmental impacts of detergents. The aid association "Utan Gränser" (Without Borders) was funded. The housewife's gymnastics was supported.

1960s: A campaign called "Gaining from knowing" was conducted with the purpose of emphasising the importance of information and stimulating the interest in labelling. The first

supermarket, Obs!, was created in Stockholm. Consumer policy became a concept. The symbol of KF was created.

1970s: The first consumer congress was celebrated; a new form of involving the consumers. The basic wardrobe for men and women was designed. The basic food pyramid was created, a tool to teach people how to eat healthy and nutritiously. The brand, Blue and White, was introduced; basic products at a 10 percent lower price. It turned out to be extremely successful.

1980s: One of KF's basic values, transparency, means that KF should be precursors in food labelling, information and education. An example of such initiatives is the labelling of bread with date of production and "best before". The competition followed and a few years later the National Food Agency made this kind of labelling on bread obligatory. Another example of consumer measures is the "full right to change if not satisfied", which was introduced by KF in the 1960s and that has since then spread to most other stores.

KF became a precursor in environmental issues in retailing. Some environmentally concerned members reacted against the big scale in food production and the brand The Country Store (Lanthandeln) was introduced, now a part of the eco-brand Änglamark.

The department stores were phased out and KF started to expand to a conglomerate of specialized retail trade, integrating bookstores, Akademibokhandeln, clothing stores, KappAhl, cosmetics, Kiks, petrol stations, OK, and tourism, Reso.

1990s: The international market made the production strategy unnecessary. The industrial companies were sold and KF started to focus on retailing. The supply chain was reorganized, integrating the supply of goods, and the whole sale was out phased. A flow oriented organization of supply was introduced, which would guarantee quality and freshness. The supermarket B&W was incorporated. The brand Signum was launched, for products of better quality and taste at lower prices than the brand leaders. Internet activities were started. Investments were made in culture, sponsoring the Capital of Culture in Stockholm 1998. The 100 years anniversary congress established a new statute: KF should promote economic development, ecological sustainability, and social trust and collaboration. Coop Forum, a pilot project of a new kind of food stores, was inaugurated. KF Hälsa (KF Health), a project aimed to improve health and well-being among members, was launched.

2000s: KF, the Norwegian consumer cooperation, NKL, and the Finnish, Tradeka, formed the company Coop Elektro AB. Coop Norden was funded by KF, NKL and the Danish FDB in order to develop a retailing group for the Nordic region. The common brand Coop was introduced and the former four different supermarkets were grouped under the name Coop Forum. Konsum became Coop Konsum. Coop Sverige AB got in charge of the retailing business and KF got other responsibilities.

Source: Coop, 2003a. (Authors translation)

Appendix 3: Ecological product sales Coop Sverige

Förändring i försäljning av miljömärkta och ekologiska produkter		
	Ökning sedan 2001	2002(1 000 kr)
Coop Forum	+16%	615 173
Coop Konsum	+11%	840 320
Coop Sverige	+13%	1 455 494

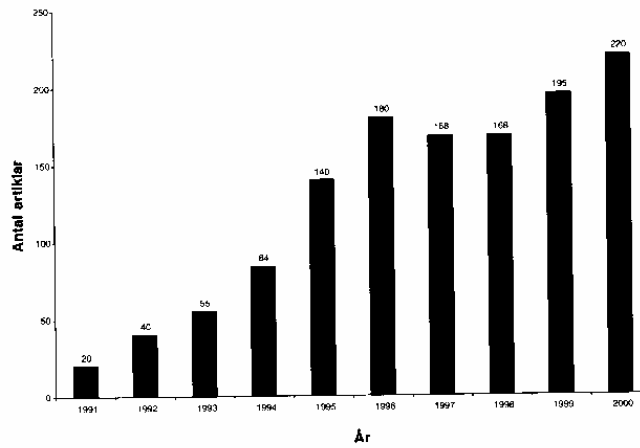
Source: Coop Sveriges Miljörapport 2002

Appendix 4: Änglamark assortment and sales

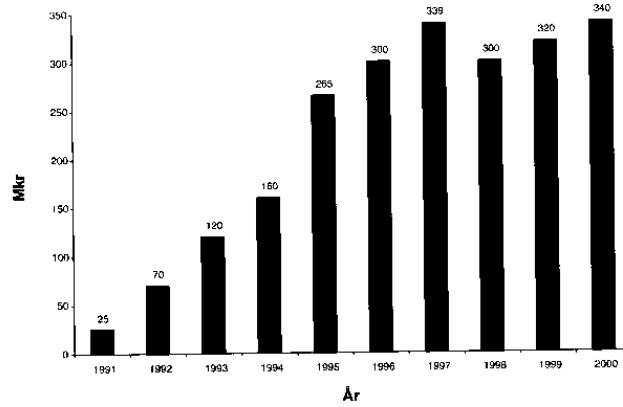
APPENDIX 5

Försäljningsutveckling Änglamark 1991-2000

Antalet Änglamark produkter



*Änglamark försäljning (Mkr)**



* Detaljpriser (butiksförsäljning), källa: EMV-statistik, KF

Appendix 5: Ecological product price comparison

Product category	Store	Product	Price	Jfr. Pris	Unit
Milk (mellan)	Coop	Änglamark ekologisk KRAV	7,45	7,45	kr/l 1 l.
	Coop	Skånemejerier ekologisk KRAV	7,45	7,45	kr/l
	ICA	Skånemejerier ekologisk KRAV	6,9	6,9	kr/l
Flour	Coop	Änglamark KRAV	13,5	6,75	kr/kg 2 kg.
	ICA	Möllarens KRAV	8,9	4,45	kr/kg
Coffee mellanrost	Coop	Änglamark	32,5	65	kr/kg 500 gr
	Coop	Signum KRAV	23,9	47,8	kr/kg
	ICA	ICA Ekologiskt KRAV	21,9	43,8	kr/kg
	Coop	Zoega KRAV	26,9	53,8	kr/kg
	ICA	Zoega KRAV	26,9	53,8	kr/kg
	Coop	Gevalia KRAV	25,9	51,8	kr/kg
	ICA	Gevalia KRAV	21,9	43,8	kr/kg
	Coop	Löfbergs KRAV	27,9	55,8	kr/kg
	ICA	Löfbergs KRAV	24,9	49,8	kr/kg
	Coop	Classic Eco KRAV	32,2	64,4	kr/kg
ICA	Classic Eco KRAV	24,9	49,8	kr/kg	
Syrup strawberry	Coop	Änglamark KRAV	34,9	13,96	kr/l 46 cl.
	ICA	ICA ekologiskt KRAV	24,9	9,96	kr/l 50 cl.

Ketchup	Coop Änglamark KRAV	20,9	20,9	kr/kg 1 kg.
	Coop Felix KRAV	27,8	27,8	kr/kg
	ICA Felix KRAV	23,5	23,5	kr/kg
	Coop Heniz Ekologisk KRAV	21,9	48	kr/kg 460 gr

Source: Based on authors survey made in the stores of Coop Mårtenstorget and ICA Malmborgs in Lund, Sweden, July 2003.

Appendix 6: Five year review of the Group Skånemejerier

Flerårsöversikt (koncernen)		1998	1999	2000	2001	2002
Nettoomsättning	Mkr	2497	2524	2594	2669	2757
Resultat efter finansiella poster	Mkr	-4	3	29	27	28
Balansomslutning	Mkr	841	960	1000	987	997
Genomsnittligt antal medarbetare	antal	760	780	806	778	791
Nettoomsättning per medarbetare	Mkr	3,3	3,2	3,2	3,4	3,5
Mjölkinvägning	tusen ton	416	413	413	402	380
Antal mjölkleverantörer	antal	1424	1319	1184	1102	1011
Medelavräkningspris (4,2 % fett/3,4 % protein)	öre/kg	293	288	287	294	299

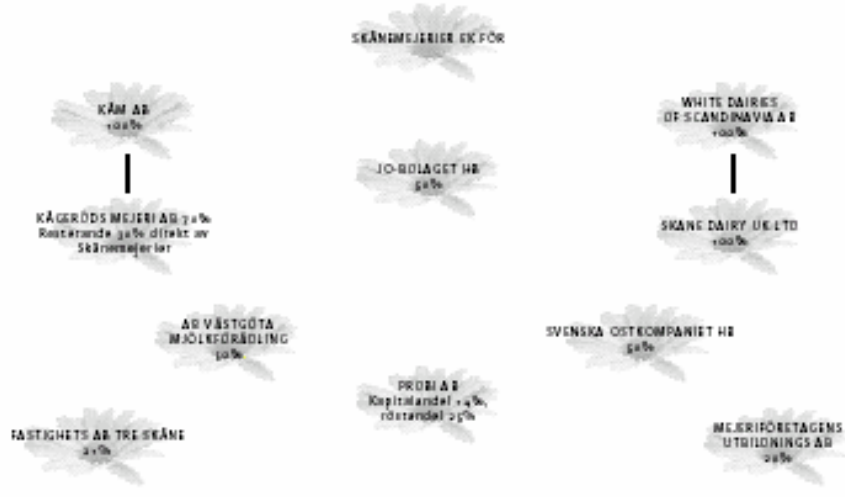
Sales (million SEK)	1996	1997	1998	1999	2000	2001	2002
Fresh products	1 615	1 638	1 670	1 721	1 802	1 861	1 979
Cheese	590	590	552	551	536	559	557
Industrial products	<u>391</u>	<u>361</u>	<u>272</u>	<u>249</u>	<u>268</u>	<u>245</u>	<u>218</u>
Total	2 596	2 589	2 494	2 521	2 606	2 665	2 754

Source: Lena Jonason-Mejstad, Financial Manager, Skånemejerier

Source: Skånemejeriers Årsredovisning och Miljöredovisning 2002

Appendix 7: Skånemejerier alliances and subsidiaries

Skånemejerier med rörelsedrivande dotter- och intressebolag per 2002-12-31



Source: Skånemejeriers Årsredovisning och Miljöredovisning 2002