



MASTER'S THESIS
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VISUALISING COMPETITIVE STRATEGY

A CASE STUDY OF FIVE COMPANIES IN THE
POLYMER INDUSTRY

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Sammanfattning

Uppsatsens titel: Visualisering av konkurrensstrategier – En studie av fem företag inom polymerindustrin .

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Nyckelord: Konkurrensstrategi, konkurrensanalys, *strategy canvas*, mogen bransch, Strategiska nyckelområden.

Syfte: Syftet med uppsatsen har två delar: Att göra en konkurrensanalys av fem företag i polymerindustrin, en mogen industri, genom att identifiera viktiga strategiska nyckelområden och använda detta som grund. Konkurrensanalysen kommer sedan att vidareutvecklas genom att använda *strategy canvas* med intentionen att visualisera företagens strategier.

Metod: Undersökningen har ett kvalitativt angreppssätt för att vi ska kunna skapa en bättre förståelse för företagen samt svara på vårt syfte att göra en konkurrensanalys. Den abduktiva ansatsen har möjliggjort för oss att vara flexibla i vårt användande av teori och empiri. Vi har undersökt fem företag i polymerindustrin: Primärdata består av intervjuer med analytiker samt utvalda företagsrepresentanter. Sekundärdata består av information från företagens hemsidor samt årsredovisningar från år 2000-2004.

Teoretiskt ramverk: Det teoretiska ramverket består av två delar. Den första delen behandlar teorier som beskriver mogna industrier av Porter (1980), Grant (2002) och Day (1997). Nästa del presenterar en teori om konkurrensstrategier av Kim & Mauborgne (2002).

Empiri: Empirin är uppdelad i två avsnitt. Det första avsnittet presenterar vad varje företag har gjort under åren 2000-2004. Det andra avsnittet i empirin sammanfattar resultaten från intervjuerna.

Slutsatser: Polymerindustrin är en mogen industri som har vissa strategiska nyckelområden, vilka visas visuellt på vår *strategy canvas*.

Abstract

- Title:** Visualising Competitive Strategy – A Case Study of Five Companies in the Polymer Industry
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- Course:** Master's Thesis in Strategic Management, 10 credits (15 ECTS)
- Authors:** Maria Eckerwall
Pontus Sellberg
- Advisor:** Professor Lars Bengtsson
- Key Words:** Competitive strategy, competitive analysis, strategy canvas, mature industry, strategic issues.
- Purpose:** The purpose of this thesis has two parts: To make a competitive analysis of five companies in the mature polymer industry, by using the most important identified strategic issues in the industry as a base. The competitive analysis will then be developed further through the use of the *strategy canvas* with the intention to visualise strategies in the polymer industry.
- Methodology:** Our research has a qualitative research strategy since this enables us to create a better understanding of the companies and answer our purpose and make a competitive analysis. We have used an abductive approach to give us greater flexibility in our use of theory and empirical material. To collect our data we have studied five companies in the polymer industry: Our primary data consists of interviews with analysts and company representatives. Secondary data consists mostly of information from the companies' websites and annual reports from the years 2000-2004.
- Theoretical framework:** The theoretical framework consists of two parts. The first part presents Porter's (1980), Grant's (2002) and Day's (1997) theories on mature industries. The second part presents a theory on competitive strategies by Kim & Mauborgne (2002).
- Empirical findings:** The empirical findings are presented in two parts. The first presents what each company has done during the years 2000-2004. The second part of the empirical findings summarises the results from the interviews.
- Conclusions:** The polymer industry is mature and has several key strategic issues. These have been visually mapped on a strategy canvas.

Acknowledgements

This Master's Thesis marks an important stage in our lives as it is the final product of four years of studies at the School of Economics and Management at Lund University. This journey has taken us into the relatively unexplored field of visual strategy, which has been interesting and instructive. We would like to thank Professor Lars Bengtsson for his guidance and ideas about this field of strategy as well as Stéphane de Tavernier and Dan Eisengarten at Group Business Development at Trelleborg AB who have helped us in conducting our work. Last but not least we would also like to thank our families for always being there.

Maria Eckerwall
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Table of Contents

<u>1 INTRODUCTION.....</u>	<u>1</u>
1.1 BACKGROUND	1
1.2 DISCUSSION AND FORMULATION OF THE PROBLEMS.....	3
1.3 PURPOSE	4
1.4 DELIMITATIONS	4
1.5 DISPOSITION OF THE THESIS	5
<u>2 METHODOLOGIES</u>	<u>6</u>
2.1 THE METHODOLOGICAL APPROACH.....	6
2.2 COLLECTION OF DATA	7
2.2.1 COLLECTION OF SECONDARY DATA	7
2.2.2 COLLECTION OF PRIMARY DATA	8
2.3 CHOICE OF THEORY	10
2.4 CRITICISM OF THE METHODOLOGY	11
2.4.1 RELIABILITY	11
2.4.2 VALIDITY	12
<u>3 THEORETICAL FRAMEWORK</u>	<u>15</u>
3.1 THEORETICAL FRAMEWORK PART 1 – THEORIES ABOUT MATURE INDUSTRIES	15
3.1.1 THE LIFE CYCLE.....	15
3.1.2 TRANSITION TO MATURITY.....	17
3.1.3 STRATEGIC ISSUES IN MATURE INDUSTRIES.....	19
3.1.4 KEY SUCCESS FACTORS (KSF) IN MATURE INDUSTRIES	22
3.1.5 STRATEGIES FOR SURVIVING IN MATURE INDUSTRIES	26
3.1.6 THEORETICAL FRAMEWORK OF THE STRATEGIC ISSUES.....	28
3.2 THEORETICAL FRAMEWORK PART 2 – THE STRATEGY CANVAS.....	31
3.3 SUMMARY OF THE THEORETICAL FRAMEWORK	34
<u>4A EMPIRICAL FINDINGS – PRESENTATION OF THE CASE COMPANIES.....</u>	<u>35</u>
4.1 DESCRIPTION OF THE CASE COMPANIES.....	35
4.1.1 AVON RUBBER P.L.C.....	36
4.1.2 THE FREUDENBERG GROUP	39
4.1.3 PARKER HANNIFIN CORPORATION	41
4.1.4 SEMPERIT AKTIENGESELLSCHAFT HOLDING	44
4.1.5 THE TRELLEBORG GROUP.....	48
4.1.6 SUMMARY OF PRESENTATION OF CASE COMPANIES AND KEY FIGURES	52
<u>4B – EMPIRICAL RESULTS – INTERVIEWS WITH THE ANALYSTS</u>	<u>59</u>
4B.1 THE POLYMER INDUSTRY	59

4B.2 RECENT TRENDS IN THE POLYMER INDUSTRY AND IN MATURE INDUSTRIES	60
4B.3 STRATEGIES.....	62
4B.4 HOW TO EVALUATE AND COMPARE COMPANIES IN A MATURE INDUSTRY	63
4B.5 GLOBAL DEVELOPMENT	64
4B.6 THE FUTURE.....	64
<u>5 ANALYSIS.....</u>	<u>66</u>
5.1 THE POLYMER INDUSTRY	66
5.2 STRATEGIC ISSUES IN THE POLYMER INDUSTRY.....	68
5.2.1 PRODUCT.....	68
5.2.2 PRICE	70
5.2.3 PROCESS AND COST.....	71
5.2.4 CUSTOMER	73
5.2.5 ACQUISITIONS	74
5.2.6 COMPETITION	76
5.2.7 ORGANISATION	77
5.3 STRATEGIC ISSUES AND THE STRATEGY CANVAS	79
5.3.1 THE STRATEGY CANVAS FOR THE POLYMER INDUSTRY FOR THE YEARS 2000-2004	85
<u>6 CONCLUSIONS</u>	<u>87</u>
6.1 THE MATURITY OF THE POLYMER INDUSTRY.....	87
6.2 THE STRATEGY CANVAS.....	88
6.3 FUTURE RESEARCH.....	90
<u>7 REFERENCES.....</u>	<u>91</u>
7.1 LITERATURE	91
7.2 ARTICLES.....	91
7.3 ANNUAL REPORTS.....	92
7.4 ELECTRONIC SOURCES	92
7.5 LIVE RESOURCES.....	93
7.6 SEARCH DATABASES.....	93
<u>APPENDIX 1.....</u>	<u>94</u>
<u>APPENDIX 2.....</u>	<u>95</u>
<u>APPENDIX 3.....</u>	<u>96</u>
<u>APPENDIX 4.....</u>	<u>97</u>

Table of Figures

<i>Figure 1: The focus of this thesis</i>	10
<i>Figure 2: The Methodology</i>	14
<i>Figure 3: Stages of the Life Cycle, (Porter, 1980:158)</i>	16
<i>Figure 4: Alternative Cost Curve (Porter, 1980:245)</i>	21
<i>Figure 5: Comparison of the Strategic Issues in a Mature Industry</i>	29
<i>Figure 6: The Strategy Canvas for the Airline Industry</i>	32
<i>Figure 7: Analytical structure model for how the analysis will be structured</i>	34
<i>Figure 8: Facts and figures about Avon Rubber p.l.c 2000-2004</i>	38
<i>Figure 9: Facts and figures about The Freudenberg Group 2000-2004</i>	41
<i>Figure 10: Facts and figures about Parker Hannifin Corporation 2000-2004</i>	44
<i>Figure 11: Facts and figures about Semperit Aktiengesellschaft Holding 2000-2004</i> ...	48
<i>Figure 12: Facts and figures about The Trelleborg Group 2000-2004</i>	52
<i>Figure 13: Turnover 2000-2004</i>	53
<i>Figure 14: Turnover/Employee 2000-2004</i>	54
<i>Figure 15: Annual Growth 2000-2004</i>	55
<i>Figure 16: EBITDA/Turnover 2000-2004</i>	56
<i>Figure 17: ROE 2000-2004</i>	56
<i>Figure 18: Share Development 2000-2004</i>	57
<i>Figure 19: Number of Acquisitions 2000-2004</i>	58
<i>Figure 20: Number of Divestments 2000-2004</i>	58
<i>Figure 21: The Strategy Canvas for the Polymer Industry</i>	85

1 Introduction

This chapter begins with an introduction to the problem area, which leads to the formulation of our problems and to the purpose of this Master's Thesis. We will also present the delimitations we have done and the disposition of the remainder of the thesis.

1.1 Background

It is difficult for companies and managers in a mature industry to develop differentiated strategies that are aligned to the goals and visions of the company and at the same time adapted to the industry environment. It is even more difficult to secure that the chosen strategies are performing better than those of the competitors. This Master's Thesis is about the ability to examine competitor strategy in a mature industry, what factors of competition are important and how these can be used to develop or improve strategy.

The problems that managers are facing today are that there are fewer obvious identified areas than there were in the past that can be used as a source to increase profitability. These areas that were easily identified in the past have been exploited and it will be harder to find areas that can generate value. Following quotation made by the chairman of AOL (America On Line Time Warner), Stephen M. Case, illustrates how he perceives the turbulent change in the industry environment that companies face. (Grant, 2002)

"I sometimes feel like I'm behind the wheel of a race car... One of the biggest challenges is that there are no road signs to help navigate. And in fact, no one has yet determined which side of the road we're supposed to be on."

(Garten, 2001, in Grant 2002:508)

This is the case of the competitive environment today. There are fewer road signs and the rules of the game have been redefined. New products, technologies and new markets have created a lot of opportunities for companies but do also pose difficulties, especially in mature markets. Which strategies and models can be used to develop a successful competitive strategy leading to competitive advantage? This question is a tough task to counter, which makes it an interesting area to investigate. (Grant, 2002)

Today, companies have to react to changes in the industry environment which means that in order to respond to the turbulent environment companies need to be agile, able to

respond fast, be innovative and at the same time they have to use defensive strategies (Grant, 2002). The turbulent and highly competitive environment could be described as a state of hypercompetition, defined as:

“An environment characterised by intense and rapid competitive moves, in which competitors must move quickly to build advantage and erode the advantage of their rivals.”

(D’Aveni, 1994 in Wiggins & Ruefli, 2005:888)

This definition is based on Schumpeter’s theory of competitive behaviour which says that it is becoming more difficult for companies to maintain a superior economic performance over time (Wiggins & Ruefli, 2005). We believe that this further addresses the importance for companies to be able to differentiate their strategy against their competitors and to find models that support this process.

Contemporary strategic thinking emphasises the importance of being different and having strategies that diverge from those of the competitors. The fact is that today:

“Businesses cannot survive by just running harder, but rather by running differently and ‘smarter’ than competitors.”

(Voelpel et al, 2005:37)

It is difficult for companies to move away from their established ways of doing business and being able to handle disruptions in the environment. It may be comforting to look at what somebody else has done and then do the same thing. However, by questioning the rules in the industry, companies can discover new and better ways of working and achieve sustainable competitive advantages. (Voelpel et al, 2005)

Kim & Mauborgne (1999) talk about a new way to meet the competitive environment as opposed to competing against each other head-to-head, or in a state of hypercompetition, which can be devastating in especially a mature industry. Matching rivals create strategies that follow the same logic for all the companies in an industry and leave few or no benefits. Working with competitive strategy may require something else, something new outside the traditional strategic thinking.

The industry which this thesis will be focusing on is the Polymer Industry which produces a large variety of products such as o-rings, rubber coatings, seals, floorings, tires etcetera. It is therefore an industry which can be present on many different markets ranging from automotive components to household products and even medical supplies (www.trelleborg.com, 20051114). In Sweden, the largest actor within the polymer industry is Trelleborg. The School of Economics and Management at Lund’s University has collaborated with Trelleborg for a number of years and this Master’s Thesis has benefited from this relationship.

1.2 Discussion and Formulation of the Problems

In a mature industry growth is slow and it becomes more and more difficult to find new ways to compete. This is the case of the polymer industry today. It consists of a number of large and small companies and these companies compete directly with products and market share, but they are also diversified into specialised product- and geographical areas which makes the industry very fragmented. This hypercompetitive environment makes it difficult for the companies to identify how to become better than their competitors and develop strategies that are different and adapted to the industry environment. In a mature industry good strategies become essential for the development of a company and the quest for differentiation is important. The problem is how to create a competitive strategy that takes into consideration how the industry looks, how competitors focus and how to use this information to become divergent and find a unique strategic position in the market. We believe that new ways of working with strategies are needed to support the process of creating a better competitive analysis. One way is to use aids that visualise the strategy instead of just working with words and numbers. Through visualisation it is easier to compare strategies and to see how competitors are acting, in relation to each other. This in turn might make it easier to create a strategy that differs from competitors. To do a competitive analysis it is important to identify key strategic issues and to study if the actors compete in the same way or focus on different things. Visualisation will help companies navigate in the tough competitive environment in the polymer industry.

This discussion leads us to the two problems that we wish to investigate:

- *Which are the most important strategic issues when conducting a competitive analysis of the polymer industry?*
- *How can the strategic issues be visualised and how does the visualisation contribute to creating differentiated strategies?*

With these two questions we hope to contribute to the research within this field. We have found very little research within this specific area of visualising strategies and we have used a model called the *strategy canvas* which we have adapted to fit our purpose. We will also contribute to existing research through testing theories on mature industries and study if they can create a platform for using visual strategy models. We consider that we have found a unique angle to our study when positioning ourselves against existing research within the field of strategic management.

1.3 Purpose

The purpose of this thesis has two parts:

To make a competitive analysis of five companies in the mature polymer industry, by using the most important identified strategic issues as a base.

The competitive analysis will then be developed further through the use of the *strategy canvas* with the intention to visualise strategies in the polymer industry.

1.4 Delimitations

This master's thesis will only look at the polymer industry and the five case companies that have been chosen. It is also limited to studying these companies in the years 2000-2004.

1.5 Disposition of the Thesis

The remainder of this thesis will be presented in the following manner:

2 Methodology

This chapter presents the methodological approach for the study. The actual procedures used for collecting primary and secondary data will also be presented and discussed.

3 Theoretical Framework

The main theories used for this thesis will be Porter's (1980) and Grant's (2002) theories on mature industries. Day's (1997) theory will also be used to further elaborate on this subject and get a wider view of more contemporary theories in the field. A theoretical model of these three theories will be created and used in the analysis. The second part of the theoretical framework is Kim & Mauborgne's (2002) *strategy canvas*.

4 Empirical results

The first part of our empirical results will be a presentation from the years 2000-2004 of the five case companies that have been chosen to analyse the polymer industry. The presentation will show how successful they are, which strategic actions they have taken and how they compete. The next empirical results to be presented are the results of interviews with analysts who are experts within the polymer industry but also with case analysts with a broader perspective. This will show the trends observed over the last few years and how companies in mature industries have acted.

5 Analysis

The analysis will have three main parts. The first part will be to determine which stage of the life cycle the companies in the polymer industry operate in. The second part aims to identify the most important strategic issues in the polymer industry. Thirdly, we will define the strategic issues used in our strategy canvas and create a strategy canvas for the polymer industry.

6 Conclusions

In this final chapter we present our conclusions by answering our stated problems. We will also give some critical reflections on the study and give suggestions for future research.

2 Methodologies

In this chapter we begin by presenting our methodological approach where we describe the outlines of our research. We then describe how we have collected our secondary and primary data. Following this we present our choice of theory and finally we give a criticism to our methodologies.

2.1 The Methodological Approach

The first issue we had to consider when choosing which method to use was whether to use a qualitative or a quantitative research strategy. This distinction is helpful because it shows the “general orientation to the conduct of business research” (Bryman & Bell, 2003:25). The main difference between quantitative and qualitative research is the use of numbers as opposed to words according to Bryman & Bell (2003). The purpose of this thesis is to conduct a competitive analysis of the polymer industry and identify strategic issues, which supports the use of a qualitative research strategy since we have not had as a goal to quantify our data. The *strategy canvas* that we have used is also an example of a model which is based on our interpretations of theories together with the qualitative data. The collection of our primary and secondary data consisted mainly of interviews with a descriptive character and studies of texts in annual reports which again implies that the research will not be quantifiable. It will instead be used to describe and achieve a greater understanding of the competitive environment in the polymer industry. Qualitative data allows more space for individual interpretation which was the case in this study as we found it difficult to quantify strategic issues, and therefore we had to interpret our results subjectively. The data was interpreted and analysed using the theoretical framework¹ and the analytical structure model² that we created as guideline (Bryman & Bell, 2003). It has also been useful to have a qualitative research strategy since new ideas developed during the study which could easily be integrated into the research thanks to the flexibility of the qualitative approach (Bryman & Bell, 2003).

The approach to this thesis has developed in many different ways over the ten-week period. In the initial phases of the study we wanted to define a successful competitive strategy for a polymer company. We therefore started by looking at theories on competitive strategy together with old master’s theses to try and create a framework for conducting a competitor analysis. At the same time we started looking at annual reports

¹ See figure 5

² See figure 7

of five companies in the polymer industry to get a picture of which strategies the different actors had, but we did not know what information to look for. At this point we realised that our initial theories on competitive strategies were too extensive to be able to use effectively within the timeframe for this study. With the feedback from our advisor, Professor Bengtsson we decided to narrow our research field and focus on the aspect of the companies being in a mature industry. Therefore we chose to look at theories on mature industries and see which strategic issues they suggest that companies should focus on. Porter's (1980) theories on mature industries was the starting point in the creation of our theoretical framework, but we realised that we needed to develop our framework further. We extended the framework with two theorists Grant (2002) and Day (1997) who also discuss how companies should act in a mature industry and made the theoretical framework more applicable to today's competitive environment. We had now created a framework for analysing strategic issues in the polymer industry and could return to the empirical analysis and look for the right information. To be able to show which strategic issues these companies focus on we realised the need for a tool to work with our competitive analysis. The idea for which tool to use came from the Master's course FEK523 in Strategic management. The *strategy canvas* was the tool we decided to use and it tied together our purpose to visualise strategic issues in the polymer industry and hence enabled us to develop our competitive analysis of the five companies' strategies. At the end of our study we got the opportunity to present our results to Trelleborg and get feedback which gave us input to the usefulness of this model and whether or not they thought the results were reliable.

In our study we have used theory and empirical material simultaneously and both have contributed to the structure of the thesis. The study therefore has an abductive approach which is a combination of the more commonly used inductive or deductive approaches (Patel & Davidsson, 2003). Inductive approaches tend to generate theories from empirical research whilst deductive approaches have their origin in a theory and the main goal is to test that theory (Bryman & Bell, 2003). The abductive approach has allowed us to be more flexible when developing the theoretical framework in our thesis.

2.2 Collection of data

There were two parts in the collection of data for this study; the collection of secondary data and of primary data. They will be presented in this order since the material has mainly been collected in this order.

2.2.1 Collection of secondary data

Secondary data is defined as data that has been collected by others and consists of annual reports, books, websites, articles and newspapers (Bryman & Bell, 2003). For this study

the first step was to identify which companies to study and then look carefully at their annual reports to obtain an image of how the companies are performing and what their main activities were from the years 2000-2004. Throughout the whole study a large amount of secondary data has been used in order to find more information about the objects studied. Besides the annual reports, secondary data has been collected through the use of libraries, electronic databases, the companies' websites, newspapers and helpful advice from teachers. The first part of our empirical results is a presentation of each company and their actions during these five years.

For this study the secondary data has been essential since it has been the basis for the necessary information needed to identify the strategic issues in our competitive analysis. Primary data is usually the most valuable data since it has been collected personally and has been witnessed by the researchers themselves. In this case however, the primary data has been helpful in filling out empty gaps and in supporting the secondary data. There are, however, a few disadvantages with using secondary data. Since it has been written by another person there have been some difficulties in understanding the material. The annual reports we looked at were from different, which increased the complexity when comparing and analysing them. Disadvantages with using this material will be discussed further below. (Bryman & Bell, 2003)

2.2.2 Collection of primary data

Primary data is data that is being collected for the first time by the researcher in question. The information is obtained directly without the interference of another person. The primary data obtained in this study was collected through interviews, which were used to obtain information that could support our secondary data and emphasise the importance of the strategic issues. An advantage with using interviews is that the information received is direct and it was possible for us to get exact answers to the questions asked. (Jacobsen, 2002)

2.2.2.1 Interviews

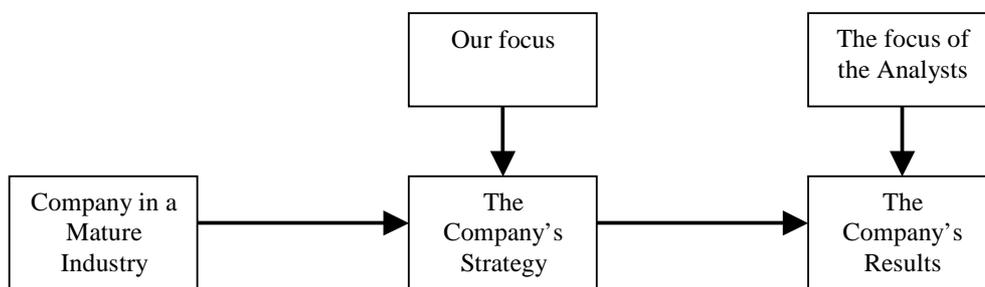
Interviews can be structured in various ways. Since this research has been conducted by two people both have been present during the interviews. This enhanced the amount of information collected since we were both able to take notes. The interviews were not possible to be conducted face-to-face due to time restraints and geographical limitations. Therefore, the interviews were conducted via telephone and via e-mail. The main disadvantage of conducting interviews in this way is that observations of body language could have been missed. We do not, however, think that this affected the information we collected since the interview questions were factual questions that did not have as a goal to provoke emotions. (Bryman & Bell, 2003)

Since this study has been carried out using a qualitative research strategy this implies that interviews are semi-structured or unstructured. The purpose of our interviews was to obtain a broader image of what happens in mature industries and especially the polymer industry. The interviews were semi-structured which meant that there were specific questions that had to be answered, but the interviewee could answer them freely and in any order they wanted. In this way some unexpected information arose and gave our research a broader frame. In some cases questions had to be skipped since the interviewee could not answer them, which shows an advantage of using semi-structured interviews. (Bryman & Bell, 2003)

2.2.2.2 Choice of Interviewees

The first interview was conducted with two representatives from Trelleborg, Stéphane de Tavernier and Dan Eisengarten on the 17th of November 2005, to obtain information about the industry and give a starting point to the research. This meeting also helped us identify which competitors to look at and hence use as case companies for this study. The next interviews were carried out with analysts from different Swedish banks. Two of these analysts work specifically with the polymer industry. One works at Handelsbanken, Carl Holmquist, and the other wished to be anonymous and will be referred to as Analyst 2. Since these analysts know most about Trelleborg our empirical material might be subject to a certain focus on Trelleborg. The third interview was with a case analyst at Kaupthing Bank, Thomas Johansson, and the fourth was with the chief analyst at SEB, Martin Guri. These interviews will give an idea as to how they look at an industry and analyse it. They will also help to define the market and which trends are taking place³. The analysts were identified as good interviewees with the help of Stéphane de Tavernier at Trelleborg and with the help of friends who work within banking.

We are aware that the analysts we have interviewed focus on a company's results and may have a tendency to look mostly at these. We, however, will only use these results as a tool to describe the industry and to help evaluate each company's performance. Figure 1 shows where the focus of this thesis lies:



³ See appendix 2-4 for interview questions

Figure 1: The focus of this thesis

The interviews with the analysts were conducted over the telephone due to geographical limitations. The four analysts that were interviewed come from three different banks, which gives the study more depth. Had all interviewees come from the same bank the answers might have been too similar. For each interview we tried to treat the interviewee with as much respect as possible and before each interview we spoke to the person in question and gave them the possibility to decide when the interview should take place. We gave them the possibility to be anonymous and before we started each interview we asked if we were allowed to record the interview or not. We also tried to start and end each interview neutrally to make the interviewee feel comfortable (Patel & Davidsson, 2003). A final note about the interviews is that they were conducted in Swedish since this was the most natural language. We have tried to be as careful as possible when translating the material to not lose any important information. We also recorded three out of four interviews which helped avoid any loss of information.

Furthermore, we tried to obtain some primary information from Trelleborg's competitors but this proved to be very difficult. We tried to have interviews with them over the telephone which was not possible. They did agree to answer to some questions via e-mail but the answers were only returned from one company.

Another person we spoke to who helped us in the research for this thesis was Jörgen Carlsson, an accounting teacher at The School of Economics and Management at Lund University. With his help we defined the key figures to look at when comparing the five companies. Since the companies that have been studied are from different countries this means that the annual reports look very different. Jörgen Carlsson's help was therefore very valuable and helpful.

2.3 Choice of theory

The first theories we looked at were general theories that talked about competitive strategies to try and find some ideas as to how we could structure our theoretical framework. As we started reading the annual reports we began to get a picture of what the industry looked like and decided to look at theories on mature industries and see if they could help explain how companies in the polymer industry act. The first theory we used was Porter's (1980) theory on life cycles in an industry to determine whether or not the polymer industry is mature and identifying certain signals that he has defined in a mature market. The second theory we used was Porter's (1980) theory on strategic issues in a mature industry. We chose Porter as a base for the theoretical framework since his theories are widely used when studying strategy but to get a broader image of what issues may arise in a mature industry we looked for other theories on mature industries.

One author we found was Grant (2002) who highlights Key Success Factors in a mature industry and has some points that are different to those of Porter since he has a more contemporary strategy approach. The other author we found was Day (1997) who discusses threats that may arise in a mature industry which we thought might contribute to our definition of strategic issues since he looks at it from a different perspective. Porter's, Grant's and Day's theories together created the theoretical framework we have used in our analysis. We have classified these theories on mature industries as normative models since they will give descriptions and suggestions as to what is important for these companies and what should be done (Wiedersheim-Paul, 1991).

We were also interested in looking at modern strategy theories to see if these could help to create a successful competitive strategy. We chose to use Kim & Mauborgne's (2002) model, the *Strategy Canvas*, as a framework for visualising the companies' competitive strategies. This model was chosen because it seems to be relatively untested in previous research and we think it is a creative and different way to compare strategies. In contrast to the theories on mature industries this model is a descriptive model since it will be used to show what is actually being done (Wiedersheim-Paul, 1991).

2.4 Criticism of the Methodology

For all research studies it is important to evaluate the authenticity of the study and of the material collected. We have looked at reliability and validity to evaluate our research.

2.4.1 Reliability

Reliability refers to the "consistency of a measure of a concept" (Bryman & Bell, 2003:76). The first area to look at is external reliability which refers to "the extent to which a study can be replicated" (Bryman & Bell, 2003:288). The study that we have done, like most qualitative studies, is fairly difficult to replicate and obtain the same answers. Since we have had to make subjective interpretations of our qualitative data it is difficult for other researchers to arrive at the exact same conclusions. We have, however, tried to clearly describe and explain each step of the research to enable future researchers to get inspiration and ideas in the case of similar studies. (Bryman & Bell, 2003)

The second element when discussing reliability is internal reliability which refers to "the extent to which the observers agree on what they see and hear" (Bryman & Bell, 2003:288). After each interview we have discussed the results and made sure that we understood them in the same way. We were also both present during each interview to ensure that no information was overlooked.

2.4.2 Validity

Validity is defined as “whether you are observing, identifying, or “measuring” what you say you are” (Bryman & Bell, 2003:287). Our purpose was stated in chapter one and this should be used as a guideline throughout the thesis to see if we are still working in the right direction. The use of theories has helped us to control our research methods. This is called the internal validity and the test is to see if the researchers’ observations and the developed theoretical ideas match. (Bryman & Bell, 2003)

The external validity tests the degree to which findings can be generalised across social settings. For this study it is difficult to generalise the results to other settings since five companies within a specific industry have been studied. It is likely that these results will not be applicable to other industries.

2.4.2.1 Validity of Organisational Documents

When discussing validity we feel it is important to evaluate one of the largest sources of information that has been used in this thesis: the organisational documents and press releases of the case companies. The reason we chose these is to give the reader a description of the companies, their history and decisions made by the management during the last five years. However, there are problems concerning the use of organisational documents, such as annual reports, as the only source of data (Bryman & Bell, 2003). In this thesis we had to rely on these reports as secondary data alone as we did not have access to internal documents or reports concerning strategy changes and evaluation of changes. To get hold of these kinds of documents it would make it impossible to finish the thesis in ten weeks. It would require immense knowledge of the different companies and extensive research as well as access to information about the processes and different situations leading up to the final report. (Bryman & Bell, 2003)

This problem of validity makes it hard to be sure that the information given in the annual reports is objective. Bryman & Bell (2003) argue that if the only sources of information are annual reports they should be evaluated. They use Scott’s (1990) four criteria; authentic, meaningful, credibility and representative to address the issues of validity and reliability. To fulfil the first two criteria the material should be genuine and easy to understand. These criteria are not difficult to fulfil. Annual reports are both authentic and meaningful. However, credibility and representativeness are harder to assure as the reports can be biased because of the way the writers perceive the situation in which the company exists and want to give as positive a picture of the company as possible to their shareholders, which will have an impact on the representation of the final results. Therefore, there exists a problem of credibility. In order to solve this problem it means that the author of the annual report would have to be spoken to. That is a hard mission to accomplish and therefore we cannot regard the annual reports as our only source of information as the reports are not unbiased in its information. (Bryman & Bell, 2003)

In order to make the reports unbiased they should according to Bryman & Bell (2003) be used together with other sources of data. In this case primary data was used based on interviews with professional analysts and mail inquiries with one of the five companies involved in this case study concerning main strategic events, during the years 2000-2004. The study of the annual reports was primarily used to develop a picture of what has happened historically in the business, and what decisions managers have taken over the course of the five last years. This primary and secondary information will then be used as the basis for the competitive analysis.

We encountered some problems when using the annual reports. The amount of information reported varied a lot, certain companies seem to be open with sharing information whereas some of the companies seemed to be restrictive with the information that they share publicly. Examples of information that we had difficulties finding in all the companies were: global reach, how their sales are distributed across the world and how much of their product ranges are specific to polymers. Another problem was that some of the companies also changed their accounting principles which created an obstacle when trying find specific figures and compare them from year to year. These problems have made it difficult for us to extract information that can be compared without involving subjective interpretations.

The following diagram gives a good summary of the methodology that we have used when conducting this study. (Bryman & Bell 2003:283)

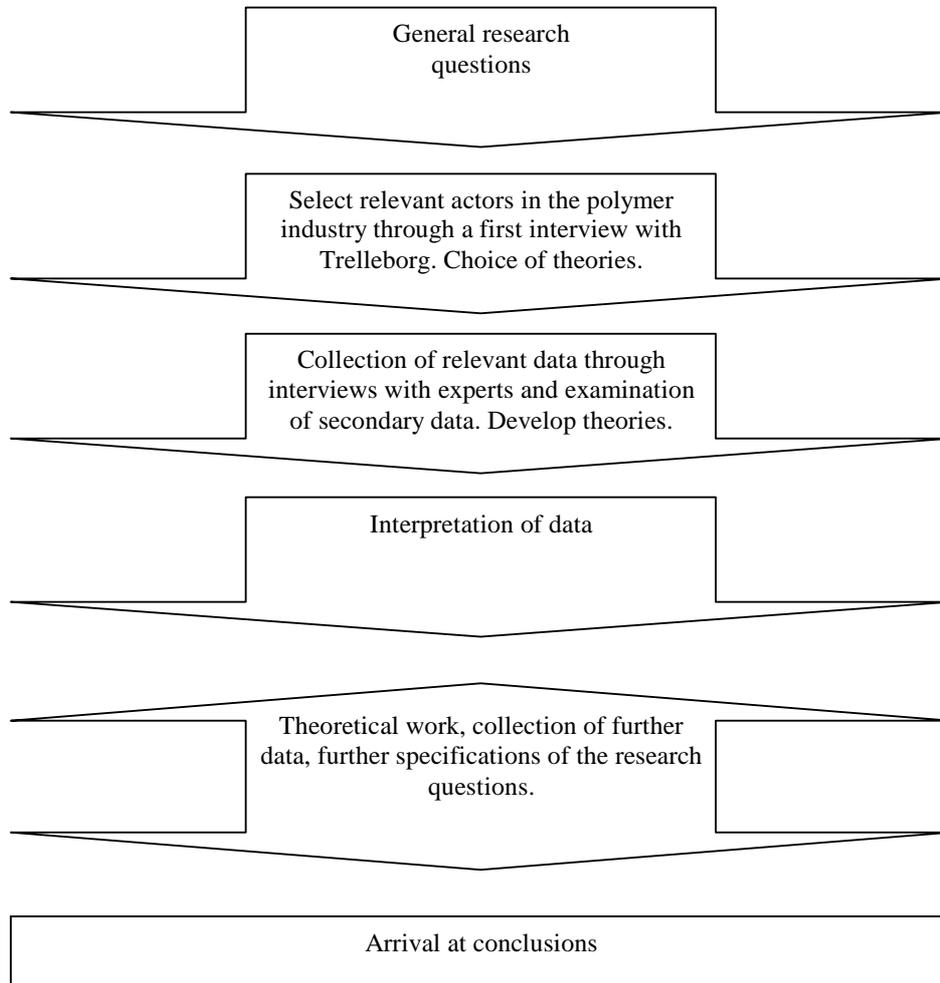


Figure 2: The Methodology

3 Theoretical Framework

This chapter presents the theoretical framework for this thesis. The first part of the chapter presents theories on mature industries. The second part of the chapter will discuss the model called the strategy canvas. These theories and models are summarised in a model which will be used to structure the analysis.

3.1 Theoretical Framework Part 1 – Theories About Mature Industries

The first part of the theoretical framework will discuss theories that specifically focus on mature industries. The first author to be presented is Porter (1980) who explains several signals that indicate when a company is moving into the mature phase of its life cycle. Porter (1980) also takes up strategic issues to consider when a company is in its mature phase. The second author that is presented is Grant (2002), who goes through several Key Success Factors (KSF) that are essential in a mature industry environment. Finally, Day (1997) takes up certain threats that may arise in mature industries and gives an example to how a competitive strategy could be formulated. For the presentation of each theory we have chosen to use the same headlines as the authors. After these authors' theories have been discussed we will compare the three theories in a table which will create a framework for the first step in our competitive analysis.

3.1.1 The Life Cycle

As an introduction to this part of the chapter about mature industries it is appropriate to have a discussion about the industry life cycle using Porter's (1980) theory. The reason why this theory is used is to underline the importance of being able to identify where in the life cycle the industry is so that the appropriate action can be taken, based on the right assumptions about the industry environment. Chapters 3.1.1-3.1.3 are all extracts from Porter's (1980) theories on mature industries and will henceforth only be referred to as Porter.

According to Porter an increase or decrease in attractiveness can have an effect on an industry as an investment opportunity. It is therefore important to be well aware of which phase a company is in the industry evolution in order to create an efficient strategy with the right actions to remain attractive. This means that a company has to be

aware of what effect these different phases can have to be able to predict and react quickly to a change. The first company to react with the best strategy is the one to benefit most from it, as the cost for implementation quickly rises when the need for a new strategy in response to change, is getting more and more evident.

To be able to predict and evaluate if a change in industry evolution is strategically important it is essential to investigate if these changes will have any impact on the underlying structure of the industry. An industry passes through a number of stages which are all defined by different types of competition, and therefore require different types of industry assumptions (see figure 3). The problem with the life cycle is that it is hard to predict where in the life cycle an industry is and how long these different stages will last, as they are different from one industry to another. Industries do not always follow the life cycle and sometimes they go backwards and forwards. It is also possible to affect the cycle by for example positioning or introduction of new products and technologies. Some industries are concentrated and will stay that way and some are only concentrated in the beginning. There are also industries that start as highly fragmented and stay that way, or consolidate. Research & Development (R&D), advertising, degree of price competition and many other characteristics also change when the industry evolution changes phase. Therefore, there is a problem in using the life cycle to predict industry evolution as there are so many factors affecting it. The point, however, with these ideas is that the life cycle of an industry has to be taken into consideration as it has an effect on the companies.

In this thesis we have chosen to look at the polymer industry as an industry that is operating somewhere in the context of growth and maturity, which can be seen in the figure below.

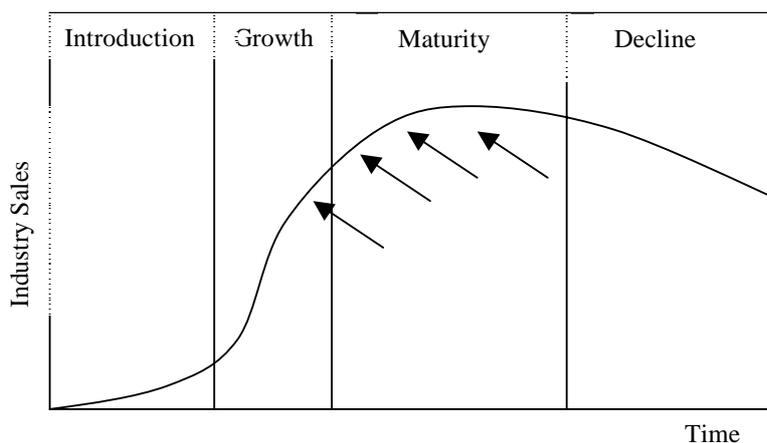


Figure 3: Stages of the Life Cycle, (Porter, 1980:158)

3.1.2 Transition to Maturity

Porter's theory on transition to maturity is used to identify what signals will be triggered when an industry matures and how to deal with this. This, together with the life cycle will help us to understand the industry in which our five case companies operate. Transition to maturity is a critical time for most companies and it requires the ability to a fast strategic response. Companies often hesitate to respond to these changes as it often requires more than a change in their strategy. Leadership and organisational structure is almost always affected by this and has to change as well. One major problem with transition which has implications on strategy is the way companies perceive the industry structure, competitors and customers. Companies also perceive themselves and their resources and capabilities in a certain way. This picture might not be the reality which complicates the ability to respond strategically. There are several different signals in the industry environment that occur when an industry is making its transit to maturity. These are:

1. *Slowing growth means more competition for market share.*

When competition becomes fiercer as companies enter maturity it will be hard to grow at the same rate as in the growth stage based on current market share. Companies competing in the industry must seek to capture other competitors' market share in order to sustain growth. To make it possible to obtain new market share the company has to look at the market and the competitors in a different way, and use a different strategy.

2. *Firms in the industry are increasingly selling to experienced, repeat buyers.*

In the maturity stage there is no longer a question if the buyer of a product will buy, but which company is getting the deal. Customers have experience and know-how as the product is no longer new to the market. This creates the need for a new strategy to be able to manage lock-in of customers that have bought the product once, and of customers who have bought repeatedly.

3. *Competition often shifts towards greater emphasis on cost and service.*

Slower growth and buyers with product know-how, together with technological maturity puts high pressure on the industry to be more service and cost focused. This changes the way companies work and will require a different approach towards the market, compared to what it was used to before. The growing pressure on costs will probably also influence the companies to make capital investments to acquire new and more cost-efficient equipment and facilities, provided that they have capital to spend.

4. There is a topping-out problem in adding industry capacity.

Overcapacity is always a problem when growth slows down. In the growth phase companies strive to increase capacity to produce as much as possible. This strive must be slowed down in the maturity phase as it otherwise will create overcapacity. Overcapacity is not easy to hide behind a fast growth in the maturity phase, because fast growth no longer exists. Overcapacity can also create a pressure of using the unutilised capacity and push a company into a position of high costs. In consideration of this fact, companies should closely monitor competitors' as well and their own utilisation of capacity and sell unwanted capacity to avoid the pressure of using it. When the industry matures, this topping-out could lead to a price war because of the overcapacity.

5. Manufacturing, marketing, distribution, selling and research are often undergoing change.

Together with greater technological maturity and buyer knowledge, changes will be needed to be able to compete in the new environment. Competing firms have two options, either to reorientate business functions or to implement a strategy which makes reorientation avoidable. These changes often require new skilled workers, capital resources and new ways of manufacturing.

6. New products and applications are harder to come by.

In the maturity stage greater emphasis on R&D is required. The rapid product and application innovation in the growth stage is now associated with high risks and high costs. This hinders many companies to pursue what is now becoming more important, as the industry matures and competition is getting harder. The profit expectations in the growth phase might have to be decreased and the focus might have to be on R&D and other investments such as market share. A problem with increased investments is that they might not show a favourable return, which is a prerogative for making investments. The mature phase could therefore be a cash trap.

7. International competition increases.

Maturity will probably lead to competition outside the domestic market as the search for market share is the only way for the company to grow. The industry structure is also different, as for example the cost structure. Rising exports and foreign investments is therefore a sign of greater international competition and a way for companies to stall the transition to maturity.

8. *Industry profits often fall during the transition period, sometimes temporarily and sometimes permanently.*

A market characterised by difficult strategic decisions due to uncertainties, slow growth, more knowledgeable buyers and emphasis on market share will probably have an effect on industry profits, both in the short run and in the long run. This puts pressure on cash flow when companies need it the most. Small firms are the ones likely to suffer hardest from transitions as they have smaller market shares and probably not the capital needed to expand its market. All these factors also give signals to the market which in turn will put pressure on the prices of shares.

As described above, a lot of factors change in the industry structure when the industry enters the maturity stage. Companies have to be able to respond to structural changes in the industry environment and lower their expectations on profit because the level of competition has changed. It is not as easy as in the growth phase when companies seem to prosper whatever they do. In maturity it is important to confront the new situation to be able to survive by choosing the right strategy.

3.1.3 Strategic Issues in Mature Industries

When an industry has made its transition into maturity there are, according to Porter's theory on mature industries, strategic issues that have to be addressed. This theory is used to identify those issues and these will be used later to see if they concur with our five case companies.

Sophisticated Cost Analysis

The first strategic issue addressed by Porter is the cost analysis, which he divides into two areas: Rationalisation of the Product Mix and Correct Pricing.

Rationalisation of the Product Mix

In the growth phase it is often important to introduce new products and variations to a wide range of customers. In the maturity phase it is not as easy to introduce products as the competition for market share and low price is difficult. Therefore it is important to have an accurate cost control to be able to focus on products that have an advantage of some kind, and to divest those that are unprofitable. It is difficult to rationalise the product mix but in recent years computer systems have been developed to help manage cost control.

Correct Pricing

In the maturity phase it is important to have a financial focus when it comes to pricing of products. In the growth phase it is easy to price whole groups of products. The problem with this is that it hides those products that are being cross-subsidised through other products. In mature industries cross-subsidisation is a problem because it means that these products cannot support their own cost or they give away profits which could be substantially higher if the customers are not price sensitive. Another problem with poorly priced products is that they attract competition from new products that have been priced correctly with more accurate pricing methods. It is therefore important to be able to price products strategically correct when operating in a mature business environment. Today it seems like there are many risks that a company should try to hedge against, especially high input prices such as, oil, steel, aluminium but also volatility in currency. Many of these increases could be transferred to the customer but as an industry matures that task will become more difficult.

Process Innovation and Design for Manufacture

Porter means that design and process innovation is even more important in the maturity phase than in other phases, in order to have the possibility to manufacture at a low cost. A company needs to carefully plan and control their processes and designs because the design of the product and the delivery system through which the product reaches the customer is key to manage cost savings, better quality and improvements in productivity. Therefore, control is key. The Japanese are very good at the design and innovation process and they developed Just in Time (JIT) which is now commonly used in production. The goal with JIT is to create a system where material enters the production process at the time it is needed. This means that resources should be used in the most efficient way eliminating the cost for inventories and work in progress (Stevenson, 2004). This system can help a company to lower their processing costs, increase quality, respond to market changes quickly and create the ability to introduce new products to the market faster. It is therefore a chance for greater flexibility if this system is correctly implemented (Stevenson, 2004). According to Porter there could be a problem if too much focus is on quality as it is not always something that a company in a mature market should prioritise. Some buyers actually see low cost as an advantage over superior quality. Instead, companies use this as an excuse not to retaliate on lower price and intense marketing by competitors. Competing with price might be the only way to gain market share in some mature industries.

Increased Scope of Purchases

It is important to sell more to existing customers. The ability to create lock-in in the maturity phase is often cheaper than to find new customers as it requires a larger market share. By offering services, upgrading or widening the product line it is possible to sell

more to existing customers. Sometimes this will take the company outside its core capabilities but it could still be cheaper than fighting for market share.

Buy Cheap Assets

Some companies will have problems with profitability due to the new competitive environment. For other companies this could be a treat as it is cheaper to acquire a company that is performing poorly than to build up the same resources organically. Companies use acquisitions as a part of a strategy to buy companies below book value and then lower their overhead costs. This could improve margins as the assets are acquired at a low price but it could also improve the company's position in the market.

Different Cost Curves

Competing to become a cost leader is not the only way to become a profitable competitor in a mature industry. There are other profitable cost curves to peruse other than low cost. A company could choose to produce a certain variety or order size to a certain customer for example. Some companies might have to find their own strategy and focus on a niche to become profitable. By focusing on a different cost curve and by using more sophisticated methods in production such as for example JIT, a company could reach competitive advantage by serving customers through offering customised products at the right time and at preferred volumes as opposed to the high volume cost leader. The model below illustrates where focus on different cost curves could be concentrated and that different cost curves have different advantages:

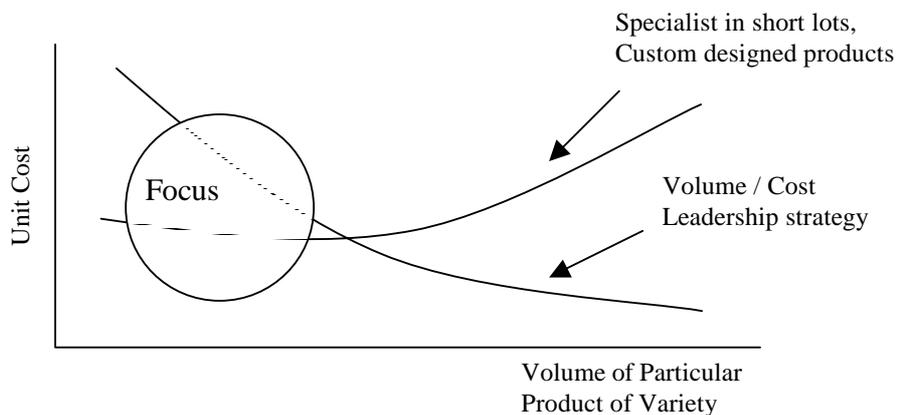


Figure 4: Alternative Cost Curve (Porter, 1980:245)

Competing Internationally

Porter argues that internationalisation is a way to postpone maturity instead of dealing with it. When the domestic market is about to mature, companies will begin to look to

other countries, where the structure of the industry may be more favourable in terms of less competition and less demanding customers, which will improve the possibilities for high growth. Today there are many factors beyond Porter's reasons for internationalisation, such as low cost production and cheap labour.

Increased Focus

It is clear that when an industry enters maturity it demands more discipline in budgeting, control and support systems, but also changes in the organisational structure. To be able to enforce tighter cost control and coordination between different units, recentralisation is needed. Central control is more important than an entrepreneurial environment that is more in line with the company in the growth phase. Overhead costs must be reduced in maturity which according to Porter requires centralised control. The financial focus must be stronger and expectations of profitability must be decreased. Companies are also in the need for new reporting systems and new control systems which in turn could create the need for re-education and continuous training. High expectations from employees and management together with lower possibilities for advancement must be dealt with. Problems could arise throughout the organisation as the company is entering a new era, and therefore it is necessary to motivate and create an understanding of the situation. This means that greater emphasis on human resources (HR) is needed to communicate the change and build trust.

Management

This new era also puts pressure on top management as it demands new types of skills and resources, both administrative and strategic which are different from the growth stage. Porter says that problems with management are if they deny the transition phase because they do not have the right skills, or simply do not want to change and continue operations as before. In the mature phase it is harder to hide faulty actions taken by management that could easily have been hidden and forgotten in the growth phase. Another problem is when the general manager knows he or she is not the right person because of the new skills needed or if the new situation does not suit him or her, and therefore abandons leadership without leaving the post. Rotation and continuous evaluation of managers could be a solution to these problems.

3.1.4 Key Success Factors (KSF) in Mature Industries

Grant's (2002) theory concerning mature industries identifies KSFs that are important. These will help us to develop the strategic issues further. According to Grant (2002) maturity has two implications on an industry. First, there are fewer opportunities for competitive advantage and differentiation as opposed to the growth phase. Differentiation is harder to achieve over competitors as the customers have more know-

how about the product. Products are also becoming more standardised because of lower product innovation. Secondly, differentiation focus has also been replaced by cost focus. Cost advantage due to superior production processes and capital expenditure models is more difficult to keep and get hold of because this knowledge is widely known and technology is spreading quickly. (Grant, 2002)

There are different causes that reduce the opportunities for competitive advantage in a mature industry. In the following chapter we will discuss four KSFs as well as what we call the Organisational aspect that according to Grant (2002) are important for mature industries. The four KSFs are: Cost Advantage, Segment and Customer Selection, The Quest for Differentiation and Innovation. (Chapter 3.1.4 is all part of Grant's theory from 2002)

1. Cost Advantage

Grant divides the KSF called Cost Advantage into three cost drivers which are the sources to obtaining low costs: Economies of Scale, Low-cost Inputs and Low Overheads.

Economies of Scale

Companies that have well-developed economies of scale have an advantage over competitors, especially in capital intensive markets as they have the ability to invest more in other activities such as R&D, distribution, and new product introductions etcetera. According to Grant, maturity pushes the industry to be more cost effective and to continuously develop. He means that there is a connection between return on investments and market share since if a company have a well-developed economy of scale and therefore more capital to spend and invest, it means that there could be a greater chance of growth in market share.

Low Cost Input

If small competitors are able to offer lower prices it means that they have access to less expensive inputs than the larger ones. For example, problems that large companies face could be union-related as this puts restrictions on the company, in terms of wage, benefits, and specialised work practices. This, together with organisational inferiority will affect input prices negatively, and thus lock the large companies into a position with high input costs. Another threat that is identified is that new players in the business can enter the market by acquiring plants that are being divested by larger companies or plants that generate poor profitability. Declining stock markets could also have the effect that some companies will be more threatened by acquisitions as they could be acquired under book value.

Low Overheads

In mature industries it is important to cut overhead costs as they could be a serious disadvantage and often be difficult to get rid of. In order to do this companies need to be determined and have a strong focus on cost awareness. Large firms could offer restructuring programs to ensure that they focus on cutting costs, which is necessary for survival.

Grant, (2002) presents three strategies identified by Hambrick and Schechter (1983), which could be used to turn performance around in a mature industry in the case of cost inefficiency. These are:

- Cost and asset surgery: A company must get rid of excess capacity, stop new investments in plants and equipment. Decrease capital for R&D, inventories, receivables and market expenditure.
- Selective product and marketing pruning: Companies should focus on those core areas where they have a strong advantage compared to competitors or segments where they are the most profitable.
- Make gradual product moves: The company should adjust to prevailing market positions and utilise their capacity to the limit, together with maximum productivity by employees. This strategy is the opposite from the cost and asset surgery and could be used instead of restructuring the organisation and refocusing on market segments.

2. Segments and Customer Selection

Mature markets suffer from slow growth in demand, low differentiation and also increasing international competition which in turn affects the profitability of the industry. These problems could be dealt with by choosing a market segment where demand, buyer know-how and differentiation is different from other segments. One example is the automotive business which has shifted to high-margin products such as luxury cars and sport utility vehicles (SUV) that generates a larger profit margin than the low margin volume cars. As other manufacturers have focused on the same segment, some competitors have gone further and are now focusing on hybrid cars. The segments are getting smaller and it is now about customising products. Manufacturers are now investing in value exchange, which is the value aggregated from investing in customer relationships. This again has put more pressure on differentiation.

3. The Quest for Differentiation

Differentiation is a problem in mature industries. It is sometimes used to avoid price warfare and to sustain or increase profitability, but customers are not always willing to pay a premium for differentiation. Today it is more difficult to differentiate and it takes longer time. One example of this is the tire industry, which according to Grant has invested heavily in brand, quality and product innovation. This has not created better margins as customers are price sensitive. Therefore, it is difficult to gain advantage by differentiation as this in itself is no longer far from being standardised. The automotive industry, for example, has started to differentiate themselves in products related to their core product, such as warranties, financing, service etcetera. It is important to find new areas of differentiation which takes us into another important area; innovation.

4. Innovation

Differentiation needs innovation because of the slow technological change. Grant means that in order to find new ways to increase value when it is hard to establish a technological advantage in the core products or services, and in relating products and services, a company needs strategic innovation. This is a third phase when product innovation and differentiation have been utilised (Abernathy & Utterback, in Grant 2002). Strategic innovation means that a company has to take new strategic initiatives. One way of doing this is to analyse the value chain of the company and its competitors and to reconfigure activities in a new way. It also means finding new customer groups and the addition of products and services that perform related functions (Abell, 1993 in Grant, 2002).

An analysis made by Fuller and Stopford (1992) in Grant (2002) concludes that in order to be successful and create competitive advantages in a mature industry it is necessary to be a strategic innovator. It is also important that the company chooses the right segment and customer that is compatible with the company's resources and capabilities. This also means that the organisation needs to support entrepreneurial activities and that learning is vital. To become a strategic innovator an organisation needs to renew itself from old habits and procedures and create a modern platform with the capabilities and resources needed to facilitate strategic innovation. Maybe it is the ability to think in new ways of positioning or differentiation that separates successful companies from their competitors.

Strategic innovation is about creating a strategy which encourages companies to break away from old ways of doing things. This could be done by opening up the strategy formulating process to other people than the top level management and inviting people lower down in the organisation and from different divisions in the company to be a part of the strategy formulation. However, the strategy formulation is not enough as it is also important to approach strategy in new ways to be able to change the structure of the mature industry. (Hamel, 1996 in Grant, 2002)

The Organisational Aspect

Grant's organisational aspect is also important since it is easier to implement winning strategies in the right organisation. In mature industries today the trend is moving towards having decentralised structures rather than the more centralised and bureaucratic organisations that were the norm before. These centralised organisations can be related to scientific models such as Henry Mintzberg's "machine bureaucracy" and Fredrick Taylor's "scientific management". Grant calls these organisations bureaucratic and are characterised by standardised routines, division of labour and close supervision.

The bureaucratic approach is, however, becoming less common and in modern industries today the organisational structure is more decentralised. The reasons for this move away from centralisation are:

- An environment characterised by turbulence demands flexible organisations with looser control systems.
- Higher demands on innovation also require organisations that encourage innovativeness and involvement.
- New technology which is in itself highly efficient removes the need for systemised work procedures since much of this is now done automatically.
- Centralised organisations have a tendency to enhance alienation and conflict which will not help in making a company prosperous.

These points lead to certain changes within the organisation. Strategic decisions now involve managers at all levels and a lot of focus is on the actual strategy creation. It also implies that companies have become more flexible and are able to adapt to changes in the market and to changes in their customers' needs. It is important to remember that even though the organisational structure has changed, it does not change the importance of maintaining a focus on cost control. With a more flexible and decentralised organisation the costs can be controlled and adjusted despite the environment being turbulent and constantly fluctuating.

3.1.5 Strategies for Surviving in Mature Industries

Another author who talks about mature industries and successful competitive strategies in mature industries is Day (1997). He talks about how industries get rid of excess capacity and how industries are being reshaped due to consolidation. This leads to all markets ending up with a few strong players who emerge as "winners". Day (1997) describes two types of industry environments and discusses how shakeouts occur in each environment. The first kind of shakeout is called the *boom-and-bust syndrome* and occurs in emerging markets that attract a lot of new actors. The second shakeout is called the *seismic-shift syndrome* and occurs in stable and mature industries. The companies

that have been studied for this thesis have all been active for a very long time which could lead to the conclusion that it is not an emerging market. This implies that the only risk for a shakeout is the *seismic-shift syndrome* that occurs in mature markets. The other shakeout syndrome will not be described in any more detail here since this will not add value to the analysis or the purpose of this thesis. (Day, 1997)

As mentioned above, in a mature industry there is a risk for a *seismic-shift* which will be described, as well as the strategies for surviving such a situation. Day claims that companies in mature industries enjoy a “protected prosperity [which] is the result of isolating mechanisms” (Day 1997:96). Such mechanisms can be patent protection, import barriers or it could simply be that new entrants are kept out since the existing customers do not want anyone else. If any of these isolating mechanisms should be removed it feels like an earthquake for the company in question, hence the name *seismic-shift*. (Day, 1997)

There are four situations that can lead to seismic shifts: deregulation, globalisation, technological discontinuity and emergence of a *competency predator*.

- *Deregulation* occurs when competition is no longer controlled by rules or regulations.
- *Globalisation* has to do with the fact that the world is getting smaller and competition not only comes from the local market but also from other countries.
- *Technological discontinuity* has to do with well-known standards becoming obsolete through the introduction of newer and better technologies.
- *The emergence of a competency predator* occurs when new companies have the possibility to create large economies of scale through using new business models. (Day, 1997)

The question is how to be prepared for these *seismic-shifts* and how to emerge as a winner. The first step is to be prepared and try to look into the future. Although it is difficult to see into the future there are several indicators that can be monitored such as: “entry rates, excess capacity in the industry, and the pressure on margins as prices drop” (Day, 1997:97). It is also important to constantly observe the competitors to see which ones might be a threat and which ones might be easily acquired. Another way to predict the future is to compare the industry that is being studied with a similar industry and see when shakeouts occurred there. (Day, 1997)

Those who survive *seismic-shifts* are called “Aggressive amalgamators” according to Day. These players have been able to develop the right business models to survive in the new environment. They manage to handle their costs, they usually buy smaller players and they make investments in new technology to achieve economies of scale. In his article Day gives an example of a company that has used an aggressive-amalgamation strategy and the four tenets of their strategy are as follows:

- *Fast Integration to Achieve Economies of Scale*

When acquiring new companies it is essential that they are quickly and smoothly integrated into the organisation to not disrupt operations. This allows companies to quickly build up economies of scale.

- *Cost Reduction Through Information Technology*

This may seem redundant to write in 2005 but it is important to have efficient control systems and have effective inventory management. High efficiency simplifies building up economies of scale.

- *Aggressive Debt Financing*

To survive a *seismic-shift* capital needs to be infused in the business. This may be done at the cost of raising ones debts.

- *Leadership Offering Value-Added Services*

This has to do with offering the customer complete service packages, which may include information systems or all components they may need. (Day, 1997:101-102)

To summarise Day's (1997) theory, the key points for companies to survive in difficult times and continue growing is to buy smaller competitors, look to the future through certain indicators, control costs and keep offering the best products and services.

3.1.6 Theoretical Framework of the Strategic Issues

Following figure is a summary of the mature industry theories discussed above by Porter (1980), Grant (2002) and Day (1997). We have extracted the key points from each theory and placed them under general subject areas that we consider important when companies work with strategies. We chose to use general areas to make it possible to compare the theories in this model. The subject areas are called strategic issues, just like Porter, since we felt that this best describes how they will be used in the analysis. In the eight strategic issues the three authors have slightly different viewpoints. Areas where they have similar ideas are written in blue text, and areas that are black show where they have ideas that diverge from each other. Interesting to note is that Porter's theory on mature industries covers all of our chosen subject areas and that there are certain areas that Grant and Day have not mentioned. The differences between the theories show that it is valuable to use all three since they give the analysis of the strategic issues in the polymer industry a broad framework. Below the figure we will comment each strategic issue.

Strategic Issue	Porter (1980)	Grant (2002)	Day (1997)
Products	<ul style="list-style-type: none"> • Rationalisation of product mix: Focus on products with an advantage, divest the rest • Product improvements 	<ul style="list-style-type: none"> • Focus on core areas • Innovation to develop core products and services • Differentiation is essential • Relationships push differentiation 	<ul style="list-style-type: none"> • Offer best products and services • Value added services
Price	<ul style="list-style-type: none"> • Competing with price might be the only way to gain market share • Price right, avoid cross-subsidisation to avoid competition • Hedge against the risk of price increases • Focus on price rather than quality • Harder to transfer cost to customer 	<ul style="list-style-type: none"> • Differentiation to avoid price warfare • Focus on value exchange instead of price focus 	
Process and Cost	<ul style="list-style-type: none"> • Get rid of excess capacity • Control of delivery system and product design is a key, (e.g. JIT) • Cost control • Explore the cost curve 	<ul style="list-style-type: none"> • Get rid of excess capacity • Manage input costs • Systemised procedures • Cost effectiveness / overhead costs • Strategic innovation • Ability to remove old habits and procedures and reconfigure value chain • Economies of scale is an advantage 	<ul style="list-style-type: none"> • Get rid of excess capacity • Effective inventory management • Invest in new technologies • Threat of technological discontinuity • Cost reduction through IT • Threat from other players with economies of scale • Debt financing
Customer	<ul style="list-style-type: none"> • Create lock-in • Offer more to existing customers even if it means going outside core competencies • Service upgrading 	<ul style="list-style-type: none"> • Finding new customer groups • Choose the right segment that fit your resources, capabilities and strategy • Focus on relationships and exchange of value • Innovative and developed understanding of customer 	<ul style="list-style-type: none"> • Create lock-in • Offer the customer complete service packages (all components)
Acquisitions	<ul style="list-style-type: none"> • Grow market share by buying cheap assets (poor performing companies). • Acquisitions Instead of growing organically. 	<ul style="list-style-type: none"> • New players can enter the market by acquiring unprofitable actors 	<ul style="list-style-type: none"> • Buy smaller players
Competition	<ul style="list-style-type: none"> • Globalisation to postpone maturity. • Globalisation competition for new markets and customers 		<ul style="list-style-type: none"> • Protected prosperity • Isolating mechanisms • Constant observation of competitors. Present and future. • Globalisation is a threat
Organisation	<ul style="list-style-type: none"> • New types of skills and resources needed • Recentralisation, control more important than entrepreneurship • Focus on HR 	<ul style="list-style-type: none"> • Open up the strategy formulation process at all levels • Decentralisation of the organisation • Need to have a flexible organisation • Entrepreneurial environment 	<ul style="list-style-type: none"> • Fast integration of acquired competitors

Blue text = Similarities, Black text = Differences

Figure 5: Comparison of the Strategic Issues in a Mature Industry

Product: Porter and Grant have similar ideas when it comes to strategic issues concerning the products and product ranges. They both think that companies in a mature industry should rationalise and focus on their core activities and divest all other activities. Grant, however, also thinks that it is important that companies use their products to differentiate themselves and be able to satisfy different needs. He also

underlines the importance of innovation to constantly develop products and services. Day simply thinks that companies in a mature industry should focus on having the best products and offer the best services.

Price: Porter thinks that price may be the only way to compete and gain market share, and he thinks that companies should focus on offering products with a lower price rather than high quality. Grant, on the other hand, thinks that companies should differentiate, and by doing this avoid competing with prices. According to him the companies should focus on value exchange instead of price.

Process and Cost: All the authors focus on getting rid of excess capacity and increasing efficiency through implementing support systems. Grant's most important point when discussing process is that he highlights the importance of reconfiguring the value chain and not getting stuck in old habits. According to both Grant and Porter cost control is important in a mature market. Day focuses more on the fact that technological improvements and economies of scale could be threats from other companies.

Customer: Porter and Day both think that companies in a mature industry should lock-in their customers and offer these customers anything they want. Grant, however, thinks that companies should focus on finding new customers and segments that fit the companies' strategies and capabilities. This again shows the importance of differentiation in Grant's theories.

Acquisitions: Again, Porter and Day have a similar focus. We interpret Grant's theory in two ways: acquisitions can be a possibility to enter new markets but it can also be seen as a threat from new players.

Competition: This is one of the areas where there are no similarities. Porter sees competition from a global aspect and sees global competition mainly as a way to postpone maturity. Day sees that companies should protect themselves from competition through protected prosperity.

Organisation: On this point all three authors have a different focus. Porter supports having a centralised organisation whereas Grant supports an entrepreneurial and decentralised organisation. Day does not discuss the structural aspect of organisation but emphasises the importance that the organisation can integrate acquisitions.

3.2 Theoretical Framework Part 2 – The Strategy Canvas

Before we discuss the *strategy canvas* by Kim & Mauborgne (2002) we will have a brief description of an earlier researcher who also presented strategies in a visual way. Mintzberg (1985) wrote a paper which discussed how strategies were actually created and realised in an adhocracy. His idea was that strategies were often planned carefully, but in practice the realised strategies were not like the strategies written on paper. The most interesting part of his research however, and the part that is most relevant to discuss within the frame of this thesis is that he tried to present the strategies in a conceptual way. He did a historical study on the National Film Board of Canada and looked at their strategic issues from 1939-1975. He defined certain elements of a strategy such as number of employees, production structure, distribution and film number and length, and then he plotted these out graphically to show, over time, how they had developed and changed. This showed in a clear way how the focus had shifted during these thirtysix years. Our purpose is not to look at strategies over a longer period of time but rather to identify which strategies the companies have today. (Mintzberg, 1985)

Kim & Mauborgne (2002) present a more modern approach to visualising strategy which will help companies create an effective strategy. Their article called *Charting Your Company's Future* (2002) was written in response to many companies lacking a clear strategic vision and they believed that the problem lay in the “strategic-planning process”. Their proposal to how to work with strategies was to draw a picture called a *strategy canvas*. It is an interesting model to use when discussing competitive strategies since it is a visual approach, like Mintzberg’s (1985), as opposed to simply comparing text or numbers.

The *strategy canvas* shows three important parts of strategy-building. The first is the strategic profile of the industry. The *strategy canvas* shows which factors are important, or could become important, for competing in that particular market. Secondly, by plotting out value curves for the various companies it shows which factors the various companies compete with, hence revealing their strategic profile. Finally, it shows the own company’s strategy, also called the value curve, and shows its positioning compared to its competitors. These three parts are all displayed on one graph. The x-axis of the graph is called “Factors of Competition” and the y-axis of the graph is called “offerings”, which shows to what extent each company offers each factor of competition. Below is an example of such a diagram that Kim & Mauborgne developed for the commercial airline industry. The model shows that the airline called Southwest has more in common with travelling by car than the more traditional airlines. This shows that they have chosen a focused and divergent strategy, by offering the customers to travel at “the speed of the plane at the price of the car” (Kim & Mauborgne, 2002:78),

which separates them from their competitors. This clarifies how this model can be used. (Kim & Mauborgne, 2002)

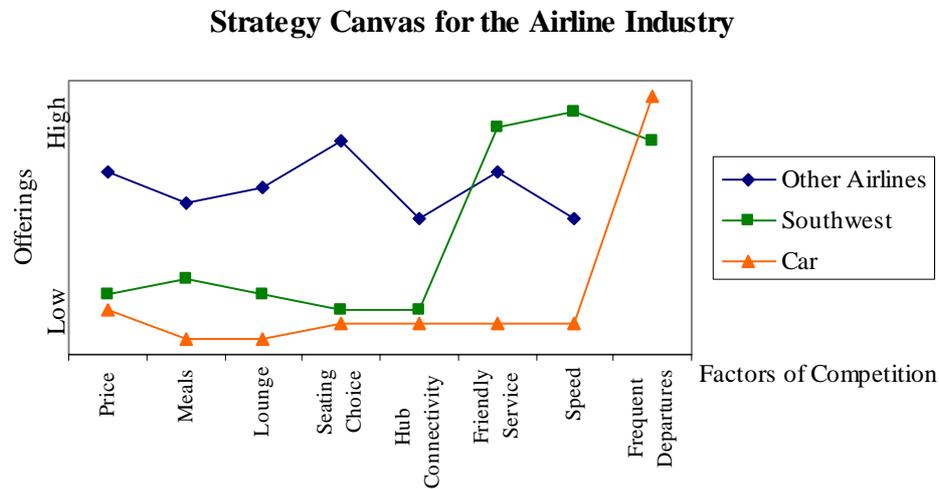


Figure 6: The Strategy Canvas for the Airline Industry

Once the strategic profile has been drawn, the company needs to evaluate whether or not they have a strong and convincing strategy. According to Kim & Mauborgne (2002) a good strategy has three elements: The first element is that it has to have a clear *focus*. Each company needs to know in which direction it is moving and this should clearly be reflected in its strategy. Secondly, a strategy should be *divergent*. If strategies are formed as a response to other strategies it will not be unique and it will not have been created in line with the company’s capabilities. Each value curve should stand apart. Finally, a strategy should have a *compelling tag line*. It should state the company’s message in a clear and convincing way. (Kim & Mauborgne, 2002)

The next question is how to actually draw a strategy canvas like the one shown above. Working with strategy can be difficult and to actually draw it requires a lot of thought and analysis. Kim & Mauborgne (2002) suggest that this complicated process be split into four steps:

Step 1: Visual awakening

The first step in creating a strategy canvas is to identify where the company is at the moment. This is called a “wake-up call” (Kim & Mauborgne, 2002:79) since the company might realise that their strategy is not effective. This first step also involves identifying which factors of competition that actually exist in the market. When this is done the company has to draw the value curve for each competitor and also draw their own value curve. This is where the management might experience a visual awakening –

they might see that their strategy cannot compete with those of their competitors. It is also an effective way to bring about change in an organisation since it is clearly visible where the changes need to take place. (Kim & Mauborgne, 2002)

Step 2: Visual Exploration

The second step is to try and discover how to actually create the new strategy. To do this the company should send out its managers into the market and do actual research as to what the market looks like and what it wants. This, of course, means talking to the customers but also to explore what the competitors are like, what substitutes exist and what are the complementary products. All the information that will be collected helps give an image of how to build an effective strategy having the identified factors of competition in mind. (Kim & Mauborgne, 2002)

Step 3: Visual Strategy Fair

At this step in the process the managers have as an assignment to draw value curves and define strategies for the company. Then an assigned jury would look at each strategy and evaluate which strategies were the best. By doing this it would become clear which factors of competition are important in the market and use this information to draw the value curve for how the strategy should be: the “to be” strategy. (Kim & Mauborgne, 2002)

Step 4: Visual Communication

Finally, the new strategy needs to be distributed and communicated throughout the whole company. Every employee needs to understand the differences between the old and the new strategy and clearly understand which areas are of most importance. At this stage of the process it is possible to identify specific actions that can be done to achieve the desired strategy. (Kim & Mauborgne, 2002)

Kim & Mauborgne’s (2002) model give an original approach to working with strategy by actually drawing it on a graph. The most important part of their model is that once the current strategy has been drawn on the same graph as the competitors, they need to ensure that their “to be” strategy has a focus, is divergent and has a compelling tag line. Being divergent has to do with being different from the competitors. Instead of competing head-to-head, which can be very difficult and pointless, companies should try to be innovative and create their own “market space” (Kim & Mauborgne, 1999).

3.3 Summary of the Theoretical Framework

To summarise this chapter we have created an analytical structure model based on the theories and models that we have presented. As can be seen in the model, the aim for our analysis is to arrive at a *strategy canvas* for the polymer industry, with the five case companies' strategies drawn out.

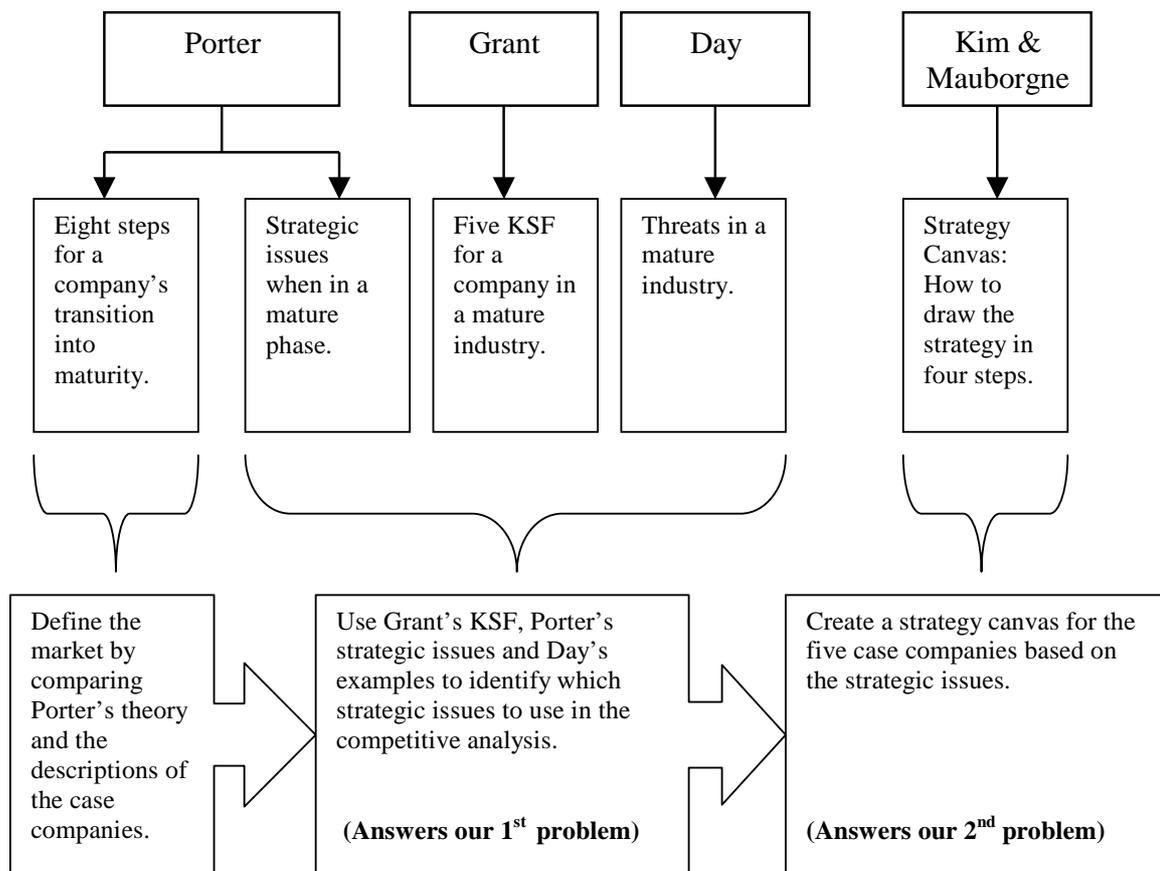


Figure 7: Analytical structure model for how the analysis will be structured.

4A Empirical findings – Presentation of the Case Companies

This chapter presents the empirical material that has been collected for this research. Both secondary and primary data are presented. The first section, 4A, covers a presentation of the five case companies. Secondly, in 4B the material from the interviews with the analysts is presented.

4.1 Description of the Case Companies

For this study five of the main actors in the polymer industry have been investigated. These were selected together with two representatives from Trelleborg, Dan Eisengarten and Stéphane de Tavernier. Each company will be presented individually, in alphabetical order to avoid any ranking. Following the presentation of the companies there will be a comparison of the companies using key figures extracted from their annual reports. The aim was to obtain annual reports and press releases from each company from the years 2000-2004. We succeeded in finding annual reports for all companies and all years except for Parker 2000. It was more difficult to find press releases, and these will therefore only be presented when they exist and to describe what happened to Parker year 2000 since we did not have this annual report.

A final note before the description of each company is to remind the reader that the data collected from the five companies comes from their annual reports and their corporate websites. This may lead to the information being slightly subjective to their opinions about themselves. We have tried to extract information as objectively as possible and use it to show the reader trends in the global economy, strategic actions and key events from the past five years. We will also show each company's financial development from the years 2000-2004 by presenting our calculations of their EBITDA (Earnings Before Interest, Tax, Depreciations and Amortisations), EBIT (Earnings Before Interest and Tax) and net profit (www.investopedia.com, 20051219)⁴. At the end of this part of the chapter we will present a financial summary of key figures for the five companies. As we wrote in our methodology we tried to obtain primary information from all of the case companies, but we only received answers from two of the companies: Semperit and Trelleborg. These answers will be presented together with the company presentation in this chapter. The five case companies are:

⁴ All figures used for the calculations were extracted from their financial statements and all figures were converted to Euro (Ecovision AB 20051111).

- Avon Rubber p.l.c
- The Freudenberg Group
- Parker Hannifin Corporation
- Semperit Aktiengesellschaft Holding
- The Trelleborg Group

4.1.1 Avon Rubber p.l.c

Avon Rubber is a British company, founded in 1885 with two main product divisions: Automotive and Technical products. Within Automotive they provide products such as vibration control systems and fuel hoses (www.avon-rubber.com, 20051130). They consider themselves to be an international polymer engineering group. Their current strategy has two parts besides delivering shareholder value. These are:

“• To be a major automotive hose supplier with a strong global presence in the key fluid management technologies, including water, air and fuel systems.

• To maintain a first class portfolio of niche products where our materials and manufacturing expertise makes a significant contribution to the technical performance of our customers’ products.”

(Avon Rubber, 2000:4)

To achieve this they will divest areas which do not support this strategy and possibly make acquisitions if they find appropriate companies. In each annual report they also emphasise the importance of generating cash and reducing their debts. They have approximately 4,500 employees around the world.

2000 – Avon Rubber

The Chairman’s statement starts off by saying that 2000 was a difficult year. Their profits fell due to new production facilities and a slow automotive market. Their international expansion plans are however progressing which can be illustrated by the fact that 70 % of their manufacturing is outside the UK. During the year Avon Rubber made two major investments in the form of new factories. On the contrary to opening a factory they had to close down a plant in England and move its functions to the Czech Republic which had a deep effect on their reorganisation costs. Due to the reorganisations the number of employees was also slightly reduced. Another issue which affected their profits in 2000 was that the exchange rates between the Euro and the Sterling Pound were not in Avon Rubber’s favour. (Avon Rubber, 2000)

Their strategy in 2000 was the same as the one stated above and they aim to work with it by exploring suitable acquisitions or necessary disposals. They do not want to have any activities which do not support their core activities. One way that they are aiming to

lower their costs is to be located closer to their customer which requires moving about globally. (Avon Rubber, 2000)

2001 – Avon Rubber

This year was challenging due to external conditions such as lower market demand and big pressure on selling prices. Avon Rubber's reaction to this has been to keep a strict focus on factors within their control. They sold off two businesses that no longer brought profits to the company which helped to reduce their debt. Both in the UK and the USA external difficulties affected business. In the UK the exchange rates between the Euro and the Sterling Pound were exceptionally difficult and there was the outburst of the mouth and foot disease which affected their dairy division. In the USA there were difficulties due to the attacks on the 11th of September. (Avon Rubber, 2001)

Strategically they have not changed their focus. They will continue to focus on core activities and restructure European activities to make them more cost-efficient. The two divestments that were mentioned above are examples of how they are actually working with their strategy. (Avon Rubber, 2001)

2002 – Avon Rubber

Continuing on the previous year's strategy and focus on cost control, Avon Rubber closed down a factory in the UK and moved it down to continental Europe where production costs are lower. This was a big step, in line with their strategy, towards completing their restructuring. They also opened a new automotive headquarter in Germany which was an important step in their plans to move more facilities to Europe. According to the financial director, 2002 was a year of steady progress for the group. They managed to reduce their costs which in turn lowered their debts. They also noticed a fall in sales in the UK but this was compensated by a rise in sales in Europe. This was most likely related to the relocated facilities. (Avon Rubber, 2002)

2003 – Avon Rubber

Thanks to the restructuring work done during the last couple of years, Avon Rubber now have a strong foundation to build upon. They are even beginning to see some financial results from the move of the facilities to the Czech Republic. Their strategy of moving production into lower labour areas is beginning to prove itself successful. During the second half of the year they had strong sales for their respiratory systems, their flexible storage tanks and the skirt systems for US Navy hovercrafts. The European automotive market, however, did not grow. Two growth areas which were particularly exciting in 2003 is a water hose facility in Mexico and their new generation of respirators. They are also expecting their dairy products to continue having a good demand. This year they disposed of a French subsidiary which generated some cash and further helped them in their strategy to focus on core activities. (Avon Rubber, 2003)

2004 – Avon Rubber

During this year no major changes took place. After having made major reorganisations, in 2004 they focused on reducing their debts and improving their delivered shareholder value. They have created a new division for protection products which will develop their product range within respiratory protection and comfort. In line with their focus on core activities Avon Rubber have made one strategic acquisition and disposed of one company during the year. Financially, the year went by smoothly without any great disturbances. There has been a price increase in materials which always has a negative effect on the company. The oil price has been particularly high which affects both their costs for raw material and their energy costs. Their financial goals for 2004 were to continue to focus on cash generation and debt reduction. (Avon Rubber, 2004)

Avon Rubber gives the impression that they are enthusiastic about the future and believe that they are coming out of their recession. They are planning to explore new business areas with the help of their technical specialities division. They are also looking to find new markets in automotive. Their moves to lower labour areas will continue since their moves to the Czech Republic, Mexico and Portugal have been successful. In the near future they are planning to establish facilities in South Eastern Europe. They are also looking at markets further away and considering moving some production to China. (Avon Rubber, 2004)

Facts and figures about Avon Rubber p.l.c

In year 2000 and 2002 they had large costs for reorganisation and in year 2001 they had costs for loss of sales due to volatility of currency and mouth and foot disease. This together with the global economic downturn and increase in input prices affected the trend curves negatively. This is probably why net profit has a negative slope until year 2003 and is now beginning to rise thanks to the restructuring work done the previous years.

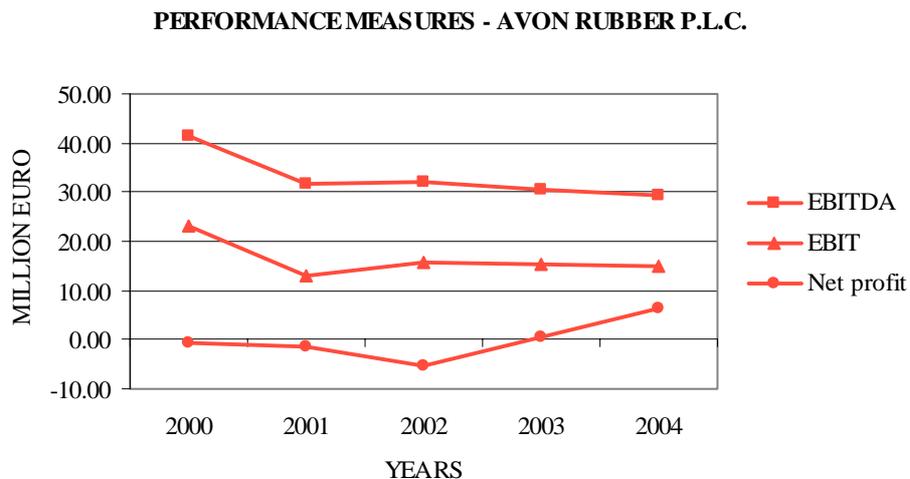


Figure 8: Facts and figures about Avon Rubber p.l.c 2000-2004

4.1.2 The Freudenberg Group

Freudenberg is a family-owned German company founded in 1849 that works within four business areas: *Seals and Vibrations Control Technology, Nonwovens, Household Products and Specialties & others*. In 2005 they are present in 54 countries around the world. They employ 32000 people which make Freudenberg the second largest company in this study, at least with regards to the number of employees. They do not have their strategy explicitly stated on their web-site but it can be extracted that they are working towards having more external customers than internal and to continue growing globally. (www.freudenberg.com, 20051122)

Freudenberg describe themselves as:

“a successful, innovative, customer-oriented family company with an international, outward-looking and multicultural approach”

(www.freudenberg.com, 20051122)

They have several principles which guide their actions. These are: to create value for customers, focus on innovation, good leadership, responsibility, people and long-term orientation. (www.freudenberg.com, 20051122)

2000 - Freudenberg

This year the macroeconomic conditions were favourable for Freudenberg and the majority of their business units performed well. They mentioned several times the importance of their 40-year cooperation with Japanese companies and the strong synergy effects this brings to the group. Their current aim is to grow internally and not so much through acquisitions as they have in previous years. The acquisitions that were done had as a purpose to expand internationally and in 2000 Freudenberg was present in 42 countries. During the year they did, however, acquire two new companies which was part of the most important changes done in 2000. (Freudenberg, 2000)

Other areas of importance that are mentioned are human resources and innovation. During the year they employed 451 new employees which have been integrated in the group. Freudenberg take pride in their decentralised management structure which allows the various units to work efficiently in an independent way and allows room for innovation. Difficult competition and price pressure in their markets make innovation essential in order to remain a player. (Freudenberg, 2000)

2001 - Freudenberg

As they feared in 2000 the external economic climate in 2001 was difficult. All economic regions in the world suffered from the economic crisis except China, which continued to grow. Despite this downturn Freudenberg continued to focus on growing internally and strengthening their performance. They divested areas of business that no

longer directly supported their core activities and made two strategic acquisitions to help them grow as well as two new joint ventures. In total their sales dropped by 4 %. One indication that shows the impact of the economic difficulties is that their workforce decreased by 2540 people. This was also partly due to their divestments, but mostly because they had to cut costs. At the end of 2001 Freudenberg feared that conditions in 2002 will not be easier. To keep growing Freudenberg will keep innovating and focusing on long-term growth which will help them survive economic crisis like this one. (Freudenberg, 2001)

2002 - Freudenberg

In the annual report from 2002 Freudenberg report that they are aiming to increase the pace of innovation. They worked to streamline their portfolio which resulted in them shutting down the remaining work plant of their original product – their leather division. It was a division that had not been profitable for many years and that was not in line with their current product offerings within automotive seals, vibration control components or household cleaning products. This divestment shows Freudenberg's motives to streamline and become more effective. They can now put more resources and efforts into growing with their other product areas. (Freudenberg, 2002)

2003 - Freudenberg

In 2003 Freudenberg's main goals were to strengthen customer performance and continue to grow through internal expansion. They managed to win market shares despite an external economic crisis and continued to expand globally. In 2003 they were present in another two countries which brings the total sum up to 46 countries. In the press releases they inform that they expanded their activities in Europe and they continued working on a global network to ensure quality and service. (Freudenberg, 2003, www.freudenberg.com, 20051122)

2004 - Freudenberg

In 2004 Freudenberg reported a 14 % rise in sales. This shows that they managed to work successfully despite difficult external economic conditions. This was greatly due to greater efficiency in many areas and also due to two strategic acquisitions. One of these companies strengthened their Seals and Vibrations Control technology, the other contributed to their Specialties & others. During the year two companies were divested that were no longer within Freudenberg's focus. Globally, Freudenberg now exists in 53 countries. The EU stands for the largest part of Freudenberg's sales (34 %) although sales in Asia are increasing and their presence in China is becoming stronger. (Freudenberg, 2004, www.freudenberg.com, 20051122)

At the end of 2004 Freudenberg's plans for the future were to integrate their new acquisitions and form a new business group which will accelerate their development of new businesses. This business group will be called Freudenberg New Technologies. (Freudenberg, 2004)

Facts and figures about The Freudenberg Group

If we look at the net profit curve we can see a positive trend in year 2000-2001 probably due to acquisitions made and favourable economic conditions. In 2001 the economy hit a global downturn affecting the curves negatively. This put pressure on streamlining and focusing on core competencies. The positive trend from 2003 and forwards show the effect of these measurements for efficiency.

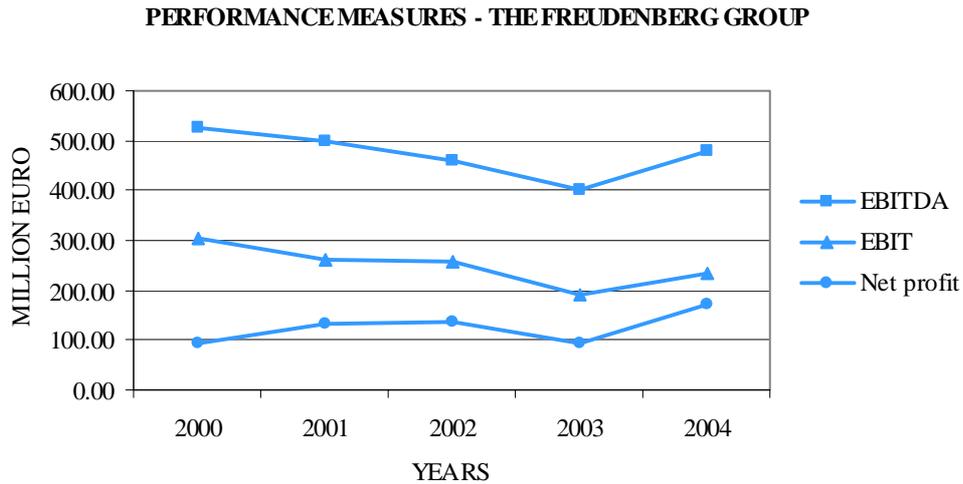


Figure 9: Facts and figures about The Freudenberg Group 2000-2004

4.1.3 Parker Hannifin Corporation

Parker is an American company, founded 1918, and the largest company of those studied for this thesis with more than 50 000 employees. Their main activities are:

“the core motion technologies – electromechanical, hydraulic and pneumatic – and a full complement in controls: from climate and electronics to filtration systems, instrumentation and media.”

(www.parker.com, 20051124)

They provide 800 000 products within this range of activities ranging in markets from aerospace to food & beverage. They are currently present in 48 countries worldwide and are aiming to continue expanding globally. Their belief is “Anything possible” and they aim to be number one or at least number two in every market they are present on. (www.parker.com, 20051124)

Financial Times have ranked the world’s top 500 companies and Parker was ranked as number 362 in 2002 (www.ft.com, 20051124). Industry Week did a similar ranking but

with 1000 companies. In this ranking Parker ended up as number 369 in 2005 (www.industryweek.com, 20051124). This shows that Parker is a world player. Their current strategy is called the *Win Strategy*. This strategy comprises three elements to ensure that they become a leader on every market. The first element is to offer full customer service with total customer solutions, secondly they want to have superior financial performance and the third element is to have profitable growth. (www.parker.com, 20051124)

2000 – Parker Hannifin

There is no annual report available from Parker this year but there are a few press releases which can reveal some information. The press releases from year 2000 show that Parker made three acquisitions. They were companies that helped strengthen Parker's product offers. (www.parker.com, 20051124)

2001 – Parker Hannifin

This year a major manufacturing recession hit the USA and Parker, which affected their net income. This put pressure on becoming more effective which resulted in reduction of inventory, relocating plants, consolidating facilities, cut spending etcetera. This is part of the lean strategy they are implementing in their facilities worldwide. They are constantly focusing on innovation which they prove through introducing 140 new product-developments throughout the year. Parker acquired eight strategic companies – all with the goal of strengthening their core competencies and offer total solutions to their customers. During the year they divested one company (www.parker.com, 20051124). To further simplify processes for their customers they launched *PHconnect* which is a web service that allows customers to easily do business with Parker across divisions. (Parker, 2001)

Their financial performance is continually improved by having lean operations. Profitable growth is shown mainly through their acquisitions. In the past ten years they have made 55 acquisitions which have helped them to grow. They are also pursuing growth in markets such as China, South Korea, the Czech Republic and Mexico. (Parker, 2001)

2002 – Parker Hannifin

Once again a year of low income for Parker, due to the heavy industrial recession in the USA. They still pursue their *Win Strategy* and are aiming to become number one or number two on each market that they serve. To be able to achieve this Parker stress the importance of engaging their employees and uniting them. It is also clear that Parker aim to achieve the three elements of their strategy through innovation at every point. (Parker, 2002)

Their growth consists of two important parts – growth through business development and growth through acquisitions. In their annual report they mention seven acquisitions

that have been completed in 2002. These are all strategic acquisitions that support their main areas of competence. They have also divested one company, Wynn Warranty, which they called a “non-core unit” (www.parker.com, 20051124). They are going global, and a factor which shows this is their strategic alliances with Japanese companies (www.parker.com, 20051124). (Parker, 2002)

2003 – Parker Hannifin

This was yet another weak year for the whole industry. The director talks a lot about continuing to grow globally; in 2003 they obtained notable growth in Asia and Latin America. They also mentioned China as a particularly interesting opportunity for growth. They are still working along the lines of their Win Strategy. Interesting to note is that they slightly slowed down their pace of acquisitions in order to focus on their core activities. Their goal 2003 was to achieve a 50-50 balance between internal and external growth. They divested activities that were no longer part of Parker’s focus and acquired four companies to help Parker grow in the right direction. (Parker, 2003)

2004 – Parker Hannifin

Parker have noticed results from pursuing their *Win Strategy* such as:

“reduced complexity, streamlined processes and made long-term agreements a strategic advantage in [their] supply chain.”

(Parker, 2004:3-5)

They have had record sales and their profitability is improving after the last couple of years’ downturns. They mention several times that their current growth potential lies in growing globally and gaining business in more parts of the world, especially in China. They do, however, stress the fact that they want to grow organically through innovation and not only through acquisitions. They have, for example established a system for product life-cycle management that can be used in all of Parker’s decentralised divisions. They are, however, continuously looking for strategic buys and have announced six acquisitions during the year (www.parker.com, 20051124). (Parker, 2004)

After two years with an income that dropped, Parker is back on its feet and determined to keep winning. Their goals and opportunities for growth in the future are: to expand business in areas outside North America, introduce new products, develop system solutions and have strategic acquisitions. (Parker, 2004)

Facts and figures about Parker Hannifin Corporation

The greatest impact on the trend lines is the economic recession in USA that hit Parker in 2001 and lasted throughout 2003. Parker have dealt with these weak conditions by streamlining their business and therefore reached efficiency.

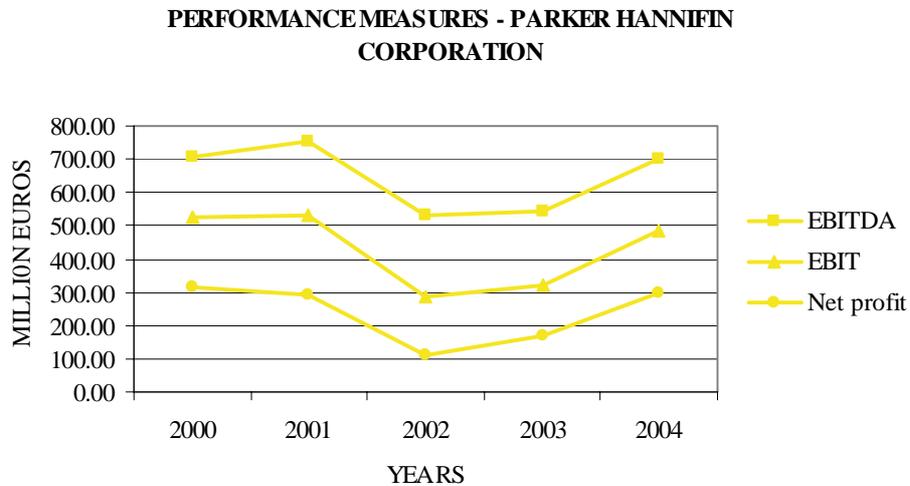


Figure 10: Facts and figures about Parker Hannifin Corporation 2000-2004

4.1.4 Semperit Aktiengesellschaft Holding

Established in 1824, Semperit is one of the most traditional global groups in the rubber and synthetics industry with approximately 5700 employees. Semperit AG Holding is the listed holding company which provides support functions such as finance department, purchasing department, legal department and strategic guidance to the group's different divisions. Semperit have 16 production plants and many sales offices situated in Asia, America and Europe. The group consists of four different divisions:

- Sempermed: Medical and industrial protective gloves.
- Semperflex: Hydraulic and industrial hose, rubber sheeting and wear resistant rubber.
- Semperform: Profiles, escalator handrail, moulded rubber and plastic goods, anti-vibration membranes and sponge rubber.
- Sempertrans: One of the largest manufacturers of conveyor belts on the European market. (www.semperit.at, 20051209)

According to Stralz (2005) Semperit have pursued the same market strategy for over ten years and has three key elements:

- *To concentrate on their four core business areas*
- *To be the cost leader*
- *To produce in those areas where they want to sell*

Interview with Richard Stralz

Richard Stralz, a member of Semperit's Management Board was one of the people who answered our e-mail inquiries on the 19th of December 2005. Stralz first defined the industry within which Semperit is active in. He described it as an old and developed economy with mature markets. He also felt that the industry suffers from pressures from emerging markets. Their strategy was formed, according to Stralz, due to some necessary reengineering work of the whole company in the 1980s and internationalisation in the 1990s. They now have a focus on working with their core activities. Stralz considers that their strategic moves have been very successful since they have had fifteen years of record earnings and turnover. In the future Stralz sees important markets as the Far East, South America and Russia and that important strategic moves will be to develop labour cost saving technologies for each process step. (Stralz, 2005)

2000 - Semperit

The prices for raw material and energy increased. The price for oil tripled and interest rates went up which put high pressure on costs. Price competition was especially hard in Europe but price war was partially avoided through increase in volume and productivity. Semperit still succeeded in generating the highest revenue for the 10th consecutive year. The European, Japanese and South East Asian markets all grew thanks to strong foreign demand, increased trade and a weak euro against the dollar. (Semperit, 2000)

Strategic focus was on cost management in all markets to secure global competitive positions. Semperit also started with 24 hour, 7 days production. Further emphasis was put on the ability to identify needs in the market such as product requirements, demand, and competition. In the 1990s about 90% of the employees were employed in Austria but had now decreased to about 20%. Focus was also on growth through acquisitions. One Polish and one Indian company were acquired. Large reorganisation, cost management, an expansion of the distribution network and fast integration was achieved. Cost effective production and a shift to more profitable segments were a large step towards internationalisation. (Semperit, 2000)

A new R&D centre in Austria was underway with the goal to be able to coordinate all divisions, innovate new products, use new manufacturing methods and develop materials in plastic and rubber. Greater emphasis was also put on working closely with the Universities of Austria. Semperit have a strong focus on HR, which is shown by offering all employees education and introducing wage incentive programs. Some divisions chose new segmentations of their markets. Investments in new product lines and rationalisations in the form of shutdowns, relocations and outsourcing were also made. Further restructuring, investments in machines and infrastructures in all markets, capacity expansion were made as well as benchmarking. This led to a decrease in employees. Unused buildings were sold to free up capital costs and Draftex Optimit was divested. (Semperit, 2000)

2001 - Semperit

Semperit managed to deliver their highest profit for the 11th consecutive year, which once again led to an increase of dividend. Raw material reached the highest prices ever, and sometimes amounted to 48% of the material costs. Further, excess capacity led to price wars. Global economic conditions were marked by a downturn in the USA, and Europe followed. Growth was therefore slower than usual due to decline in exports and fall in demand. USA met this problem by issuing active economic policy and lowering the interest rates, but Europe was slower in such active politics. (Semperit, 2001)

The focus this year was to achieve market share through aggressive marketing and exports by producing internationally. Further focus was for the group to fully own more of the manufacturers. R&D's focus was to integrate acquisitions, widen the product range in the four divisions and increase the use of new material and applications. The integration of the two acquisitions made the previous year helped Semperit to become one of the largest manufacturers of conveyor belts in the world, and made it possible to deliver supplies to other plants at favourable prices. Sales were increased by 24% and the restructuring programs issued after the acquisitions paid off. There were no acquisitions made this year, capital expenditures were concentrated on increase in capacity and modernisation of existing plants. This led to higher productivity, better quality and made it possible to shift toward high value products. To the end of the year they also managed to lower their cost for production. Many of the divisions were fully utilised. Some divisions had to lower their price in order to sell and some segments benefited from producing specialised products. Competition was so hard that some divisions could not keep their positions even though focus was heavily geared towards cost management. (Semperit, 2001)

2002 – Semperit

This year was characterised by recessionary tendencies: shrinking market segments, tougher price competition, higher input prices of raw material and volatility in the US Dollar against the Euro. This fierce market competition led to further decrease in prices in some divisions. Despite these negative factors Semperit increased overall group profit for the 12th consecutive year. Semperit's focus was to remain on a growth course, achieving satisfactory sales and earnings. They focused heavily on production, process improvement and global reach to penetrate important markets and increase market share in current areas. (Semperit, 2002)

Lower labour costs in production facilities in Asia enabled Semperit to offer competitive prices on high quality products. The focus on globalisation led to expansion of product activities and markets in Eastern Europe, Asia and USA. The focus on Asia and especially China increased as China moved towards a market economy. One of the major events during the year was the opening of the 100 million Euro R&D centre in Austria. Semperit also made two major acquisitions in line with its pursuit to become a global player in the rubber/plastic industry. The large acquisition of Italian/Spanish

Roiter Group, a hose manufacturer, made it possible for them to intensify presence and sales in Southern Europe but also to integrate products from Semperit factories in Austria and the Czech Republic. The other acquisition was Shanghai Foremost Plastic Industrial Co. which produced medical gloves. This plant was situated near one of Semperit's handrail plants in Shanghai and together they will work as an important base for the Asia market. With factories in China, Thailand and India, Semperit has created a good position and base for development. (Semperit, 2002)

2003 - Semperit

Semperit is still experiencing problems due to falling production prices, volatility in currency, especially the US Dollar, and input prices of raw material. One of the biggest problems was to transfer the rising costs to the customer. Despite this, Semperit's global structure worked well and the global increase in sales and earnings reached a new record for the 13th consecutive year, which affected the decision to increase dividend. The economic activity was slightly better than the year before, but it was still low, which affected the economic cycle. Asia was the big driving force together with USA and the Japanese market. Demand in Europe was still declining. Semperit was even more focused on their strategy of optimising and restructuring to reach success in positioning and operational efficiency. The cross linking at their new R&D facility in new products, product quality and production processes seemed to develop adequately as well. (Semperit, 2003)

2004 - Semperit

The global conditions were still difficult. Despite this trend Semperit had their 14th consecutive record year which once again led to an increased dividend. The global economy showed the strongest growth rate in half a decade with USA, Asia, China and Southern Europe at the top. The decision to increase interest rates in the US to stop inflation had a negative trend on the US market. Europe still struggled with low economic activity due to low rate of investments. (Semperit, 2004)

Semperit still focused on global growth, especially in Asia. Two new factories were being constructed in Shanghai for Semperform and Semperflex and further expansion is planned for 2005. They are also trying to be more transparent to capital markets by applying to a new code of accounting. The investment focus will continue as will the focus on core competencies, cost management, and focus on profitable segments to endeavour the economic trends. Semperit also emphasise their strong focus to satisfy wishes and suggestions made by customers. The R&D plant will continue to develop advanced materials, and be a good base for improving production processes and cross-knowledge sharing. (Semperit, 2004)

For the future it still looks like the economic activity will grow slowly in Europe in contrast to Asia and USA. The prices on raw materials will continue to increase, currencies will stay volatile and the price of energy will also increase. All these factors

lead to unfavourable competition. According to Semperit these factors will continue to exist but the trend is starting to look more positive. (Semperit, 2004)

Facts and figures about Semperit Aktiengesellschaft Holding

The trend curves for Semperit have been positive during the years we have studied, they have experienced the same recession as the other companies in the global economy and therefore they have worked actively with globalisation, restructuring, aggressive marketing, exports, R&D, and are always adapting to the demanding environment.

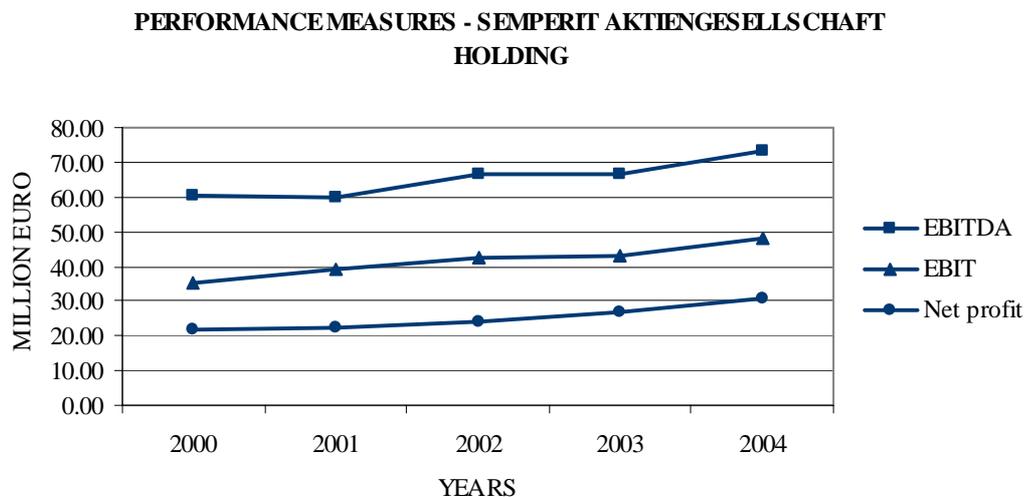


Figure 11: Facts and figures about Semperit Aktiengesellschaft Holding 2000-2004

4.1.5 The Trelleborg Group

Trelleborg is a Swedish global industrial group within advanced polymer technology, which develops high performance solutions that damp, seal and protect. The group headquarter is situated in the city of Trelleborg in the South of Sweden and was founded in 1905 by Henry Dunker. The group is present in 40 countries and has over 22 000 employees. Today it has five different business areas that consist of:

- **Automotive:** World leader in antivibration products for light-vehicle industry.
- **Sealing Solutions:** Leading global supplier of seals for aerospace, automotive and industrial segments.
- **Engineered Systems:** Flow systems for oil and gas extraction, infrastructure and offshore and process industry.
- **Wheel Systems:** Industry and agricultural wheels.
- **Building systems:** Sealing products and moisture insulation for industrial and consumer markets. (Trelleborg, 2004)

Trelleborg adapted a new strategy in 1999 which meant focusing and streamlining Trelleborg in the industrial sector and therefore selling off 51% of their distribution companies. The repositioning of Trelleborg was planned to take three years. The new focus was on growth in technological areas in polymer materials and with a large focus on function and system solutions. Growth was supposed to be accomplished through acquisitions and integration and thereby create synergies with focus on the automotive industry (Trelleborg, 2000). Their current business concept could be described as: *Damp, Seal and Protect* by focusing on “customer, performance, innovation and responsibility” (Trelleborg, 2004). This is being implemented using their strategic platform that focuses on:

*“Leading positions in attractive segments and markets, - Organic growth,
- Acquisitions that create synergies, - Operational excellence”*

(Trelleborg, 2004:6)

Over the years Trelleborg has also acquired a substantial knowledge of their competitors and have a very large knowledge about how to acquire companies with profitable and expansive segments. Creating synergies is one of their best assets. (Trelleborg, 2000)

Interview with Stéphane de Tavernier and Dan Eisengarten

During the first meeting with Trelleborg we met two representatives, Stéphane de Tavernier and Dan Eisengarten, who answered some of our questions regarding their strategy. During the last five years Tavernier said that Trelleborg had two major strategic moves. The first was to divest all trading activities to be able to focus on their Industrial and Automotive sectors. The other strategic move they made was to acquire Sealing Solutions which was a completely new product area for Trelleborg but still using the polymer materials. Eisengarten talked a lot about the importance of having a strong leader and said that he had noticed that the company’s strategy was often directly correlated to the leader. The former President of Trelleborg, Fredrik Arp, had as a mission to divest all non-core activities and focus, which he succeeded in doing. Another interesting point that was made during the interview was that they said that many of their strategic decisions were taken with consideration to how the market and the analysts would value them. (Tavernier & Eisengarten, 2005)

2000 - Trelleborg

The growth in Europe was slow compared to growth in South America and Asia. The demand for the automotive industry in North America was high. To manage operations on the less profitable markets Trelleborg issued fifteen restructuring programs to increase efficiency. These restructuring programs consisted of: large cost savings, intensive marketing programs, new product introduction and concentration of production and joint ventures. (Trelleborg, 2000)

Trelleborg focuses on growth, especially through acquisitions. In the automotive sector Trelleborg bought Invensys AVS and Lairds automotive which gave them 20% of the world market for antivibration components. A strong program was launched to integrate administration, production and R&D which made the integration smooth and quick. Further acquisitions were made in new important product areas concerning flow systems and noise suppression. The Trenor Group was also established with the intent to either sell or introduce the remaining distributors to the Stockholm exchange within two to four years. The process of selling off the distributors was started in 1999 when 51% of the distributors were sold to Nordic Capital. Another strategic move was to divest Metech, an American metal-recycling company, as quickly as possible. Just as important as the strategic focus this year was to buy back shares. (Trelleborg, 2000)

2001 - Trelleborg

The economic climate this year was even harder for Trelleborg. Markets developed slowly both in the USA and Europe. The automotive business worked well in Europe, but due to the catastrophe on the 11th of September the US demand fell which had a large effect on the automotive market. Further cost saving measures and new product introductions once again allowed Trelleborg to increase market share. Large restructuring programs were implemented at the end of this year to be able to handle the decrease in demand. (Trelleborg, 2001)

Trelleborg invested in R&D to develop new innovative products to sustain growth. They also invested in improving the environmental effect of products and processes. The goal was to create a leading market position to be able to create opportunities for growth and financial development and thereby create a favourable shareholder return. They see themselves as a consolidator in their industry due to the weak market growth. The acquisition of Phonix Tag, a Danish company in roof sealing products strengthened Trelleborg's position in the Nordic countries. Engineered systems gained a leading position in the marine fender systems when acquiring Fentek, Hercules and Queensland rubber. This also gave Trelleborg a better base in Asia and established a product management base in Singapore. Small acquisitions were also made in industrial fluid systems in France and tunnel seals in Holland. During the year four plants were closed and moved to low-cost countries. (Trelleborg, 2001)

2002 - Trelleborg

The weak economic climate continued, but cost measurement programs according to strategy had a positive effect on operations. Successful integration of acquisitions continued. Improved productivity and synergies from integrated acquisitions worked as a remedy against the economic recession. Production in some divisions was also moved from Western Europe to Eastern Europe. New product innovations also helped and a joint venture with a Japanese company was profitable. Trelleborg also launched a new ERP (Enterprise Resource Planning) system in Europe. Together with cut-downs in personnel and focus on strategy the Trelleborg group reached cash flow targets.

Trelleborg now had a high degree of confidence, reliable business partners and a strong connection with customers. The strategic focus gave them a strong financial position to acquire competitors. In the future, growth is the foremost goal rather than buying back shares. (Trelleborg, 2002)

Further rationalisation programs, restructuring programs, new product releases and market investments were made. Engineered systems acquired Seaward inc. an American marine fender manufacturer. Building systems saw a positive effect of the earlier acquisition of Phonix Tag, the two alliances and one partnership. Only four percent were now outside the core business consisting of 49% of the Trenor group and six percent of Boliden. (Trelleborg, 2002)

2003 - Trelleborg

This year was a big turning point for Trelleborg with a focus on improving profitability in all areas. They had now built the strategic platform with focus on R&D, well structured production and global coverage. The economic conditions still reflected low market growth, volatility of currencies and high raw material prices. Europe and Asia improved and the US market declined. Despite these market conditions, profitability improved due to restructuring programs and the acquisitions of the recent years started to pay off. Trelleborg now had 7000 more employees due to their focus on growth by acquisitions and were traded on the Stockholm stock exchange's most traded list. Automotive gained important positioning in China by acquiring a vehicle component manufacturer Kunhwa and expanded the plant in Woxi, China. The largest and most important strategic acquisitions made this year was Sealing Solutions which was to form a new group within Trelleborg. (Trelleborg, 2003)

2004 - Trelleborg

This was the first year with the newly acquired Sealing Solutions division. The year developed agreeably, with good global growth. On the downside they still had high prices on raw material. Europe was still behind Asia and North America. Trelleborg focused on serving a global market for demanding environments. Strategy developed further by striving towards giving higher customer value through *seal, damp and protect*. This was done by intensive marketing campaigns and new product introductions. (Trelleborg, 2004)

Two large acquisitions were made, Metzler automotive hose systems, which gave Trelleborg a leading position in East Europe and Eika Corporation in Japan together. They also made some small acquisitions, but the focus on core business areas was more important, and the last step in this direction was taken when the last distributors were divested. Large rationalisation and integration programs were launched, especially in Sealing Solutions. Automotive's production plants in the USA were moved and the remaining part of Trelleborg had now fully implemented the strategy that was developed

in 1999. They could now focus on core businesses, innovative product introductions and intense marketing campaigns. (Trelleborg, 2004)

Fredrik Arp who had been the president of the Trelleborg group and the strong force that led the company into the new phase left Trelleborg in 2005 for Volvo. Peter Nilsson is the new president and his mission is to focus on operational efficiency and to make the new structure more efficient, rather than positioning the company. Areas that are no longer considered core areas will be sold and the search for acquisitions will continue especially in the “aero, offshore, and chemical” industry. Further growth in Asia is planned and continuing consolidation of the rubber and polymer industry is on the agenda for the future. (Edling, 2005)

Facts and figures about The Trelleborg Group

There are a few events that affected the results of the company besides the downturn in economy and increase in input prices. In both 2002 and 2003 Trelleborg made large acquisitions affecting the net results of the company which is shown by the trend curves. In 2004 they had large costs for restructuring and losses which also affected the general trend which is seen by the large differences between their EBITDA and EBIT. Trelleborg have been active in restructuring and focusing on their core business and their strategy seems to have paid off.

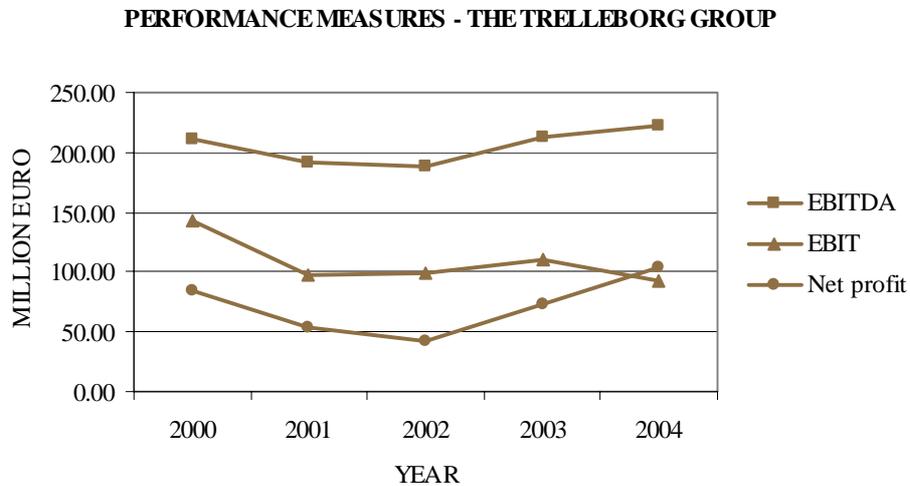


Figure 12: Facts and figures about The Trelleborg Group 2000-2004

4.1.6 Summary of presentation of case companies and key figures

To summarise the first part of our empirical results we present a comparison of the five case companies using some financial figures and non-financial figures. This thesis has as

a goal to study strategies and a difficulty with studying strategies is that they are difficult to evaluate. Financial measures can, however, be one way to look at how well a company is performing: “The objective of performance measurement is to help implement strategy” (Anthony & Govindarajan, 2003:493). If the company’s measures are improved, this must mean that the strategy is also performing well. Anthony & Govindarajan (2003) present a model where they write that “what gets measured, gets done” and “what counts, gets measured” (Anthony & Govindarajan, 2003:494).

4.1.6.1 Financial Measures

The following graphs compare the five companies using various financial figures. We have chosen to compare Turnover, Turnover/Employees, Annual Growth, EBITDA/Turnover, Return on Equity and Share Development. For each company we have calculated the numbers ourselves and we have used the same equations for each company to make the numbers as comparable as possible. We are, however, aware that it may be difficult to extract the correct number from the annual reports as different accounting rules apply in different countries.

Turnover

Turnover can be defined as the total amount of sales of goods and service by a company over a financial period and we have looked at the net turnover, which is turnover before taxes and interests (Norstedts, 1999). In the annual reports we simply extracted this number from their Income Statements. This measure is helpful in the analysis as it shows the size of the various companies. We can see on the chart below that Parker is the largest company of those analysed in this study and Avon Rubber is the smallest. It can also be seen that the general economic recession around 2001-2002 slowed down the increase in turnover for everyone, but each company took active steps to counter the depression and in 2004 most of the curves are pointing upwards again and the outlook for the future is more positive.

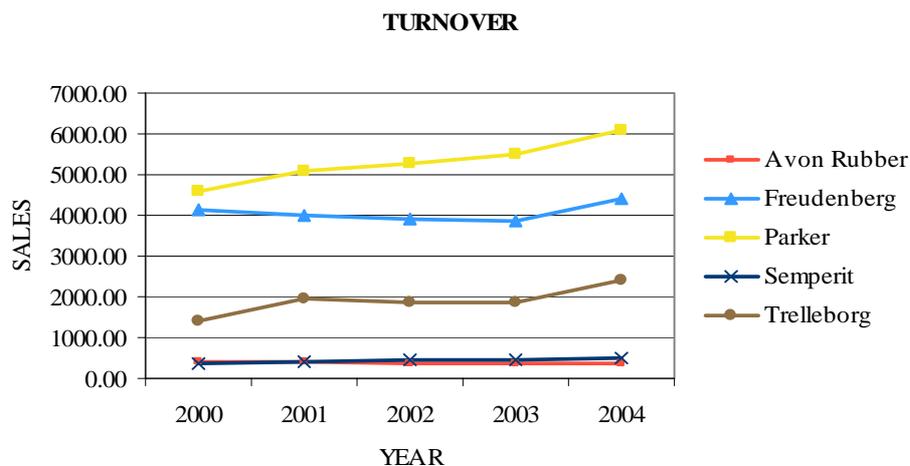


Figure 13: Turnover 2000-2004

Turnover/Number of Employees

For this chart we have divided the turnover by the number of employees to see how their economic development is in relation to the development in employees. This is a more comparable figure to use when looking at several companies than simply using turnover or employees on their own. We can see how much value the company generates per employee. The chart indicates that there is a relation between size and turnover/employees as the three largest companies' curves are the three highest curves. However, an interesting aspect is that Freudenberg has a high rate of turnover/employees, which gives them a higher placement on this chart compared to the previous chart where Parker has the highest turnover. This implies that Freudenberg have an effective workforce in relation to Parker. Trelleborg's curve is showing a negative trend from 2003-2004 and one explanation for this could be that they employed almost 6000 people during the year.

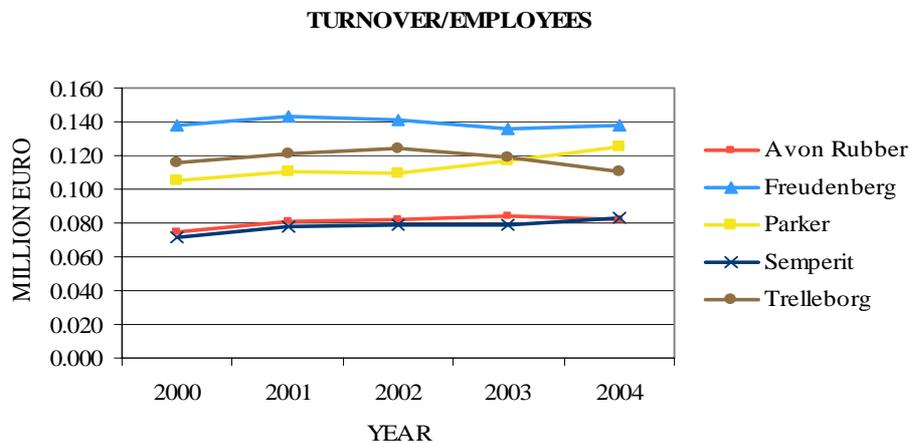


Figure 14: Turnover/Employee 2000-2004

Annual Growth

The annual growth shows how the companies' turnover has developed over these five years. This has been calculated by using 1999 as an index of 100. In this graph we can see that Trelleborg's curve stands out and this is likely due to their large refocusing strategy that began in 1999. This curve is a result of divestments, restructuring programs and acquisitions that were made during the years. Semperit's curve is also worth mentioning as it shows steady growth for all the years. Semperit is a company that has been focused for a long time; hence they have not had any major reorganisations during these years.

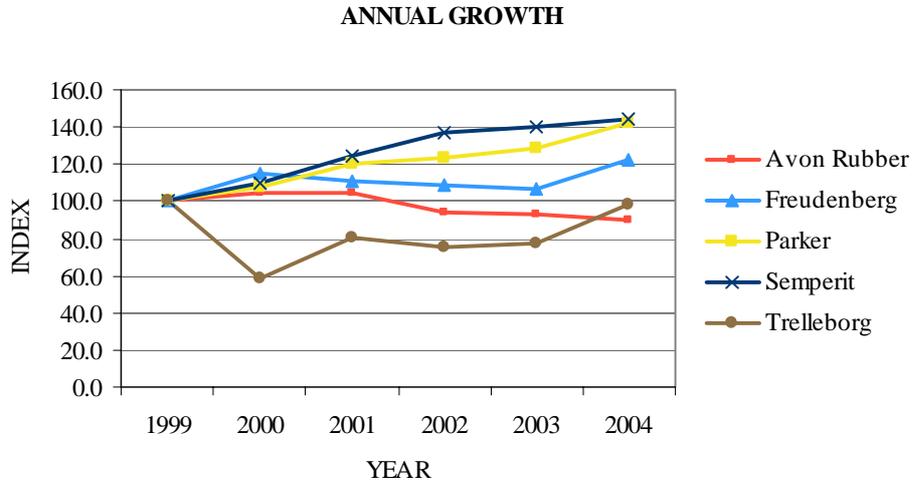


Figure 15: Annual Growth 2000-2004

EBITDA/Turnover

EBITDA is helpful when analysing industry trends over a period of time since it removes depreciations and also it eliminates the effects of accounting and financing decisions (Wayman, 2002). The problem with EBITDA is that it does not take the size of the company into consideration and hence makes it difficult to compare companies. We have instead calculated EBITDA/Turnover which is a marginal figure and since the earnings are divided by turnover it takes the size of the company into consideration and makes the curves more comparable (Carlsson, 20051122). The chart shows that Semperit have the strongest margins and all the other companies are on similar levels. The problem with this figure is that not all of the companies state clearly which amortizations and depreciations that have been done, and there may also be a risk that different companies include different numbers. This may be one reason for why Trelleborg's curve is pointing downwards in 2004 when their EBITDA (See Figure 12) is increasing.

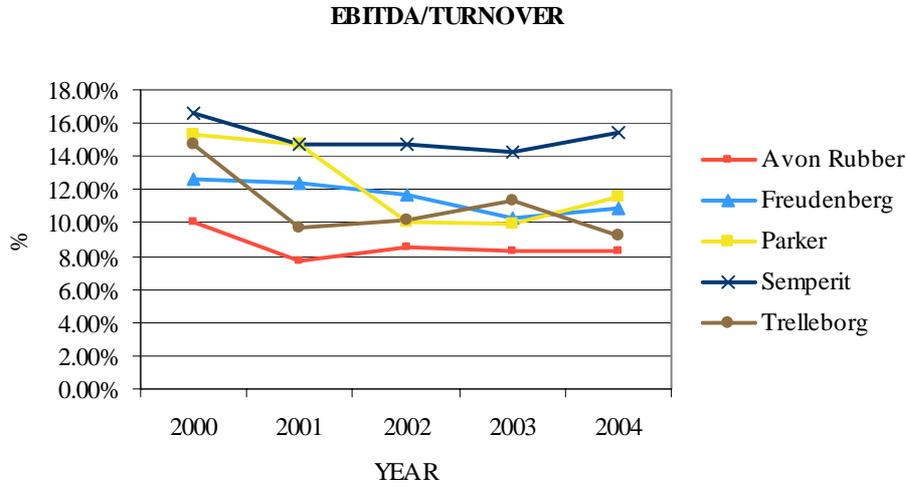


Figure 16: EBITDA/Turnover 2000-2004

Return on Equity (ROE)

ROE is calculated as net income/Shareholders equity and shows the amount of profit a company generates in relation to the amount of money invested by the shareholders. This is a financial measurement that allows comparisons of profitability between companies (www.investopedia.com, 20051219). This graph also shows Semperit as the strongest actor, although all companies are steadily improving their ROE. Avon Rubber’s curve had a dramatic dip in 2001 but is coming back strongly in 2004. Each company seems to improve their ROE when restructuring and adopting to new environments.

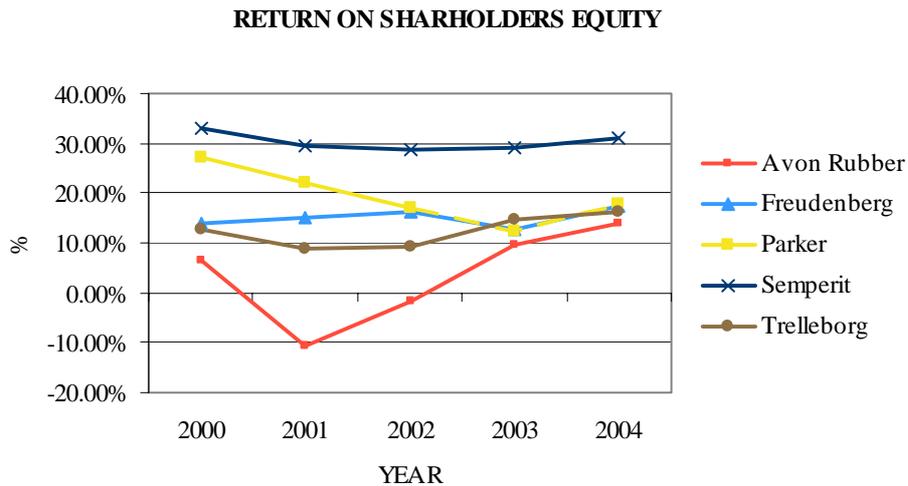


Figure 17: ROE 2000-2004

Earnings Per Share

Earnings Per Share (EPS) shows the portion allocated to each share from a company's profit (www.investopedia.com, 20051219). It is a good measure to indicate a company's profitability and we have looked at EPS that takes into consideration goodwill amortisation, restructuring costs and impairment losses when relevant. Freudenberg is not a stock-listed company and is not part of this graph. Parker's curve had a big dip around 2001-2002 which can be explained by the tragedy of the 11th September 2001 and the large recession in the USA.

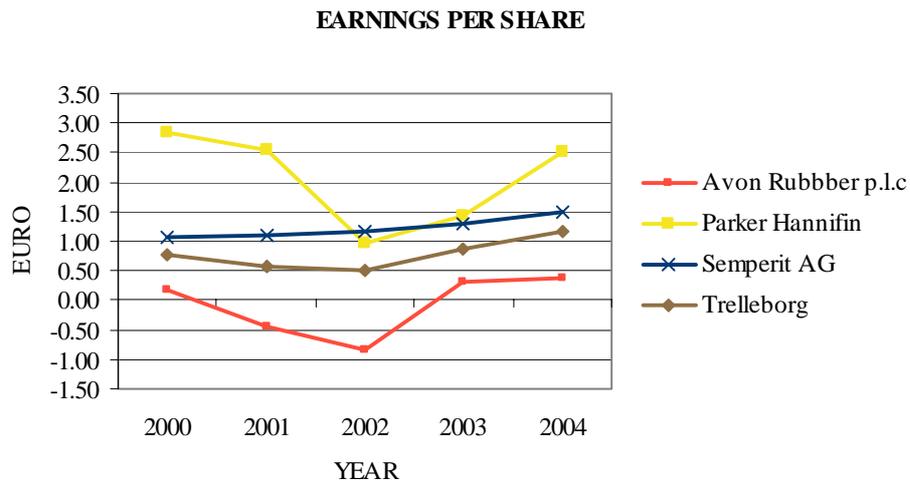


Figure 18: Share Development 2000-2004

4.1.6.2 Non financial measures

When looking at a company's performance it is not enough to simply rely on financial measures. Non-financial measures are also extremely important to evaluate the execution of a strategy. We will look at: number of acquisitions and number of divestments.

Number of acquisitions

One of the strategic moves in a mature industry according to the theories was making acquisitions. This is therefore an interesting performance measure to analyse. The chart shows that Trelleborg and Parker made the most acquisitions during these five years and Avon Rubber acquired the least companies. All companies made some acquisitions.

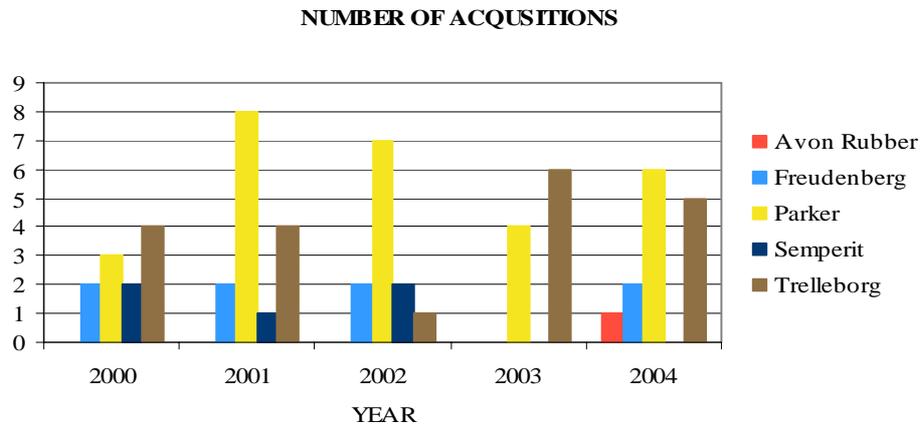


Figure 19: Number of Acquisitions 2000-2004

Number of Divestments

Many of the case companies wrote about their divestments to focus on their core activities and hence this is also shown in a graph below. This graph shows that all companies made some acquisitions during the years 2000-2004.

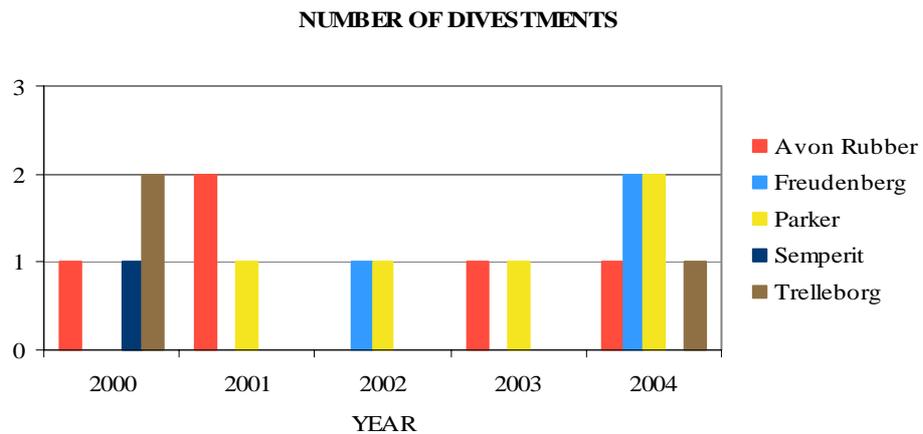


Figure 20: Number of Divestments 2000-2004

4B – Empirical results – Interviews with the Analysts

The second part of the data collection was four interviews with different analysts. We chose to interview analysts since they monitor certain markets and are used to making analyses of companies. Two of the analysts we spoke to monitor the market that Trelleborg is active in and hence had some specific knowledge within this area. The other two interviewees did not have specific knowledge about the polymer industry but were helpful in discussing mature industries and global conditions. One of the interviewees wished to be kept anonymous which will be respected and any reference to this person will be done by referring to Analyst 2. We will now present the four interviewees and the date for each interview. In the remainder of the thesis we will only refer to each interviewee by their last name to make the text easier to read (Pettersson, 1997).

The people we interviewed are:

1. Carl Holmquist – Analyst at Handelsbanken, 28th of November 2005
2. Analyst 2, 28th of November 2005
3. Thomas Johansson – Case Analyst at Kaupthing Bank, 30th of November 2005
4. Martin Guri – Head Analyst at SEB, 6th of December 2005

The results from these interviews will be presented under various subject areas that have been chosen after themes that were discussed during the sessions. The reason for this is that it is more interesting for the reader to see the results by subject instead of seeing exactly what each person specifically said. The interviews have been divided into the following six subject areas: *The Polymer Industry, Trends in the Polymer Industry and in Mature Industries in General, Strategies, How to Evaluate and Compare Mature Companies, Global Developments and The Future.*⁵

4B.1 The Polymer Industry

The first questions we asked were about the polymer industry in general and about Trelleborg and their competitors. Holmquist and Analyst 2 both described the industry as a mature industry with a high tendency to consolidate. The organic growth for these companies is at a level of 2 %. Since this is a low growth rate, most companies within this industry tend to make acquisitions and grow with these instead. Making acquisitions is also a way to obtain more products to offer the market. Trelleborg is good at making acquisitions and they have the financial capacity to do so as well. It is also a diverse industry, offering all kinds of products ranging from golf balls to spaceship components.

⁵ For the interview guides please see appendix 2-4.

This broad product range makes the polymer industry difficult to look at. (Holmquist & Analyst 2)

They were also asked if they knew about any of Trelleborg's competitors. Holmquist mentioned companies such as Goodyear, Totalfina, Thompkins and Continental as companies that can be comparable to Trelleborg in size. He also thought the companies that have been chosen for this study were good companies to compare. According to him it is very difficult to identify any one competitor since most companies are active within so many sectors and special niche-areas. Holmquist had a list of top-ten competitors that Trelleborg has written themselves and on this list Parker was the number eight competitor, Freudenberg number three and Continental number one. Analyst 2 mentioned Goodyear and Michelin as competitors within tyres but guessed that Trelleborg has about 25-30 main competitors. When asked if they could comment the competitors' performance Holmquist said that most of these actors are doing well. Parker is run well, has good solidity and high margins. Continental is definitely successful and Freudenberg seems to be doing well. According to him most companies within this industry, and especially those five companies that are being studied, have high sustainable solidity and high margins. In this way they are all comparable to Trelleborg. Holmquist said that Trelleborg is doing well thanks to their broad portfolio of products and their seven customer groups. One advantage of this is that since there are so many relationships they are not entirely dependent on one section. (Holmquist & Analyst 2)

While discussing the subject of Trelleborg and their competitors they were asked if there was a risk for any of them to be eliminated. Holmquist answered that none of the companies that have been mentioned so far run any risk of being eliminated from the industry, but that there are a few actors who are experiencing difficulties with their solidity due to competition from Asia. Analyst 2 mentioned the trend of consolidation and said that small companies are being acquired by larger actors. If a company is starting to go down it can let itself be bought by a larger actor and hence create synergies. This makes the market more profitable for everyone. Analyst 2 therefore believes that some companies will disappear and that the larger companies will become larger. (Holmquist & Analyst 2)

4B.2 Recent Trends in the Polymer Industry and in Mature Industries

The next subject area that was treated was to see which trends that can be identified in the polymer industry and in other mature industries over the last few years. Guri explained that seen from a Swedish and European perspective the competition has intensified, firstly from countries in east- and central Europe and then more from China.

China has become a larger threat for many industries which has led to more action from European companies. Industries have had to rationalise and many companies have moved all their production facilities to countries in Eastern Europe. Guri also believes that this is a trend that will continue and that the Eastern European countries are working hard to attract companies that want to invest in this area. It will be difficult to motivate why any production facilities should be kept in high cost countries such as France, Italy and Germany when the conditions in Eastern Europe are so favourable. According to him the world is becoming more and more global. (Guri)

Holmquist and Analyst 2 answered that the industry has become consolidated and will continue to consolidate. The market will shrink in terms of number of actors and Holmquist explained why there is such an obvious trend of consolidation in this industry right now. Certain segments have a genuinely low profitability due to the product's character, for example in the vehicle industry. Here, the quality of certain products is not so vital and the customers are extremely price sensitive which makes costs a radical factor. It is therefore a good idea to leave certain segments if they are not part of the organisation's core activities. This also shows the importance of being big and being able to offer the customers exactly what they want, at the price they are willing to pay. If the company is big they have the ability to obtain lower prices when buying materials and they can have a more effective usage of the production facilities. The problem as Holmquist stated is that many of the products are simple to produce but the customer is in great need of it and the customer is often "poor". If a company is larger it can therefore offer lower prices. This is why the industry is in a trend of consolidation and many companies are trying to focus on certain niches where they can become the expert and develop good customer relations. Analyst 2 said that this is what is happening at Trelleborg as well. They have focused from being a conglomerate to only working with polymers. They offer many products within this area but they have at least focused. Both Holmquist and Analyst 2 believe that the trend of consolidation will continue and that each company will focus on developing products within their niche. They also believe that the actors that are left will either acquire or be acquired and the market will continue shrinking. Growth in mature industries will generally happen by creating industrial synergies when acquiring and developing companies. (Holmquist & Analyst 2)

All interviewees were also asked about risks in a mature industry. Johansson mentioned that mature companies have a low growth rate and that within the industry that is being studied there is a constant risk of having to move production to China due to pressure on prices. Analyst 2 took up the issue of conjuncture risks. Right now the cycle is good but there is always the risk that they cycles will start going down again. Structural risks according to him are that prices for raw materials such as rubber, oil, steel and aluminium will rise. Holmquist also took up the issue of price increases in raw material and that this demonstrates the importance of having a wide product range within the chosen niche of the company. It would be difficult if a company is entirely dependent on one material if that price soars. Finally, Guri mentioned that it is a risk if a company is

not international in a mature industry. Companies need to be global and flexible in order to reach all the markets in the world.

4B.3 Strategies

The next subject area of the interviews concerned the strategies within this industry. The main focus of all strategies according to Holmquist is to be profitable and he thinks that most of the companies within the polymer industry are trying to find profitable segments and niches where they can become the expert. However, after he said that he underlined the importance of having many products, like Parker. Both Johansson and Analyst 2 thought that most companies within this industry have similar strategies and work in similar ways although there is a desire to be different. Johansson said that many companies have been working on cleaning up their strategies and focusing on one area. Analyst 2 also brought up the issue of having as a strategy to find smaller companies that are specialised within one niche and acquire them to be able to develop these products more effectively. This is one way to develop the organisation's skills since it is difficult to always invent new segments. They also think that this strategy of focusing and finding niches will continue. Analyst 2, for example does not think that Trelleborg is likely to change their strategy within the next few years.

Guri said that the strategies within mature industries today are both alike and not alike. Some companies have as a strategy to be a leader within their area of expertise. An old rule that General Electric made was that if a company was not number one or two in a market then there was no point in being there. In this way most companies have similar strategic thinking. Strategies can also be similar in that they aim towards having low prices or at least try to not raise their prices in order to stay attractive towards the customer. Very few companies have as a strategy to raise their prices. Strategies can differ, according to Guri, by choosing certain niches. Different companies will chose different areas to work within even though they work within the same industry. This is typical for the polymer industry which produces goods for almost everything. Splitting up markets between companies is becoming more and more normal as companies realise that they are not capable of doing everything themselves. (Guri)

When talking about strategies the interviewees were asked if they think it is possible to evaluate a strategy. Analyst 2 and Guri both thought that it is difficult to evaluate whether or not a strategy is good. Analyst 2 said that they usually look at a strategy and the first question they ask themselves is whether or not it is realistic since this indicates the trustworthiness of the company. The second question they ask when looking at a strategy is if it communicates what the company actually is and how far they have progressed. Guri thought it is most suitable for the management of a company to evaluate the strategy. It is better for outsiders, and particularly analysts to look at the

results. If the company has earned money and gained market shares then the strategy must have been successful. He also said that Swedish companies are good at changing and adapting their strategies frequently since Sweden is such a small country and has to be flexible as to where they can earn money tomorrow. (Guri & Analyst 2)

When talking about strategies Guri also talked about how difficult it is to find competitive advantages today since competition is so intense. He believes that as time goes by they will be even more difficult to find. Today it is important to rationalise, invest in logistics systems and become extremely efficient. There are three words according to Guri that are essential in a mature industry: 1) IT, which has helped mature industries to grow in fantastic ways, 2) More logistics and 3) More rationalisations.

4B.4 How to Evaluate and Compare Companies in a Mature Industry

Since the four interviewees worked within banking it was interesting to ask how they analyse and compare companies. None of the analysts gave the same answer which illustrates how complex it is to compare companies. Holmquist answered that product development is the most important factor to look at. If a company can develop its products then they can raise the price for their products. He looks at the amount spent on R&D because it not only shows how much they develop but it also shows how they use their cash and how much entrepreneurial thinking they have. Besides this, three important factors to look at when analysing a company are: 1) Innovativeness, 2) Commercial thinking and 3) Operational cost control, which can be analysed by looking at whether or not the company is moving production to lower wage countries. (Holmquist)

When comparing companies they all said that key figures are the most important. Comparing the texts that are written in annual reports is very difficult and the same information will not be given in each report (Holmquist). Holmquist also said that it is easier to compare companies that are listed on the stock market since then the companies have to show their stock holders how they are performing. He also said that Swedish and American companies usually have detailed annual reports whereas Central European companies give less information. Holmquist usually looks at measures of profitability such as Return on Equity. Analyst 2 looked at financial figures such as price/earnings, the rate of indebtedness, EVA, EBITDA and ROE. Johansson looks at the growth of the company's profit and the growth of productivity. He also looks at the market to see how fast the market is growing. If it grows slowly, by 2-3 % then the competition will probably not be so tough. Finally, Guri looked at profit/share. He did however warn about this figure not giving enough detail and suggested looking at EBITDA. Guri also

mentioned that acquisitions can lead to problems when evaluating how much companies are actually worth.

4B.5 Global Development

Towards the end of each interview we asked how they thought global developments would affect the industry. Each interviewee stated that the world is becoming more and more global. As Guri said, this creates many companies who get pushed out of industries but it also creates many winners. They all also mentioned China as an economy that will keep on growing. Johansson said that China grows about 25 % every three months and it will continue growing. He thinks that a lot of production facilities will be moved to China if the cost differences between producing there and in Europe remain as large as they are now. Analyst 2 thinks that production facilities will first be moved to Eastern Europe and when that becomes too expensive, companies will move to China. Johansson thinks that a problem with Europe is that it does not take the structural action needed to be able to grow. The USA, according to him has a much more efficient capital market and much more money is invested there.

4B.6 The Future

Finally, each interviewee was asked what they thought would happen in the future for the polymer industry and for mature industries in general. Analyst 2 thinks that in the future the industry will become difficult due to economic cycles. He also thinks that companies will become more efficient and that even more production facilities will be moved to lower wage countries. Holmquist answered that the industry will keep growing at about 2-3 % and that companies will have to make acquisitions to grow more profitably. Guri, in contrast to Analyst 2, thinks that the future looks bright. Companies in mature industries have never earned as much money as they are right now and they have large margins. Despite the competition being extremely tough the levels of indebtedness are low. The market for exports has grown and many companies have acted in the right manner – by moving their production and having clear strategies. Companies that do not understand that they need a lot of capacity and flexibility will not survive.

The next question was how the companies are going to survive and what strategic moves they should employ. Analyst 2 thought that the most important factors were to keep a focus on cost control and to try to keep growing. Johansson thinks that it will be difficult for these companies to grow in any other way than by making acquisitions. This, along with improving their customer offers and productivity will be essential in order to improve profits by more than 2 %. Holmquist believes that Trelleborg has the right

strategy at the moment to be successful. They are consolidating and at the same time finding profitable niches and “vacuuming” up small competitors. He also thinks that acquisitions will continue to be important since it will be too expensive to develop products internally. The will to grow organically does not seem to be very strong. Guri believes that two activities are essential in order to survive in this industry. The first one is to have a clear and active strategy to be able to cope with competition. The next is to have strong leadership that can follow through the strategy. Even Guri believes that companies will continue to grow through acquisitions. He believes this because many companies do not have a choice, they have to buy market shares or they have to buy companies to be able to enter new markets. The other reason that companies will continue to acquire is that they have a lot of money that needs to be invested.

5 Analysis

The analysis is structured according to figure 7 presented at the end of chapter three. It has three parts, which are: 1) Determine which stage of the life cycle the companies in the polymer industry operates in, 2) Identify the most important strategic issues in the polymer industry, 3) Define the strategic issues used in our strategy canvas and create a strategy canvas for the polymer industry. After the strategy canvas we present the feedback from Trelleborg on the results.

5.1 The Polymer Industry

This first part of the analysis is to determine whether or not the polymer industry acts like a mature industry. In the starting phase of the study we got indications that it was a mature industry, especially considering the fact that the youngest case company we looked at is 88 years old and the oldest is 182 years old. When reading the annual reports and conducting the interviews we also got the impression that the polymer industry is in the phase of Porter's (1980) life cycle called maturity. In this part of the analysis we will use Porter's (1980) signals that show the transition to maturity. The interviews with the analysts will also help us to define the polymer industry's phase in the life cycle. Many of the areas that will merely be mentioned here will be discussed in greater detail in the next part of the analysis where we analyse the importance of the different strategic issues in the polymer industry.

Porter's (1980) first signal to indicate maturity in an industry is that growth slows down, which was one of the first points made in the interviews with Holmquist and Analyst 2. They both said that the organic growth rate for the polymer industry is at a level of 2 %. Another indication of slowing growth is that competition is intense (Guri), which implies that there is less room for fast growth. The next signal for maturity is that the buyers are experienced and know a lot about the products (Porter, 1980). This is true in the polymer industry today since the companies try hard not to lose their customers by for example keeping their prices low (Guri). Since the customers know a lot about the products they know how much it is worth and will not accept an unmotivated price raise (Holmquist). Semperit, for example, stated that they tried hard not to transfer their increased costs to their customers (Semperit, 2003). This is related to Porter's (1980) next signal which says that competition shifts to cost and service. Parker, for example launched a service called *PHConnect* which made it easier for their customers to do business with all their divisions (Parker, 2001).

The fourth signal to indicate a mature industry is that there is a topping-out problem and a tendency for overcapacity (Porter, 1980). In the polymer industry numerous companies have been bought and sold off, or even shut down during the last five years. Companies may realise that they have excess capacity and hence sell it off. Holmquist and Analyst 2 mentioned that they thought that smaller companies will be eliminated from the market since they will not be able to survive when some of the excess capacity has to be reduced. The polymer industry is in a phase of consolidation and there will be a few large actors remaining who emerge as “winners” according to Guri. The fifth signal is that various departments in a company undergo change (Porter, 1980). In the annual reports from years 2000-2004 there are numerous examples of restructuring work such as moving to lower labour countries. Porter’s (1980) sixth signal is that new products and applications are harder to come by. This signal can be seen in the polymer industry as the companies are putting a lot of efforts into innovation and R&D. The company who made the biggest effort in this aspect is Semperit who founded a completely new R&D centre (Semperit, 2002).

Porter’s (1980) seventh signal shows that companies are expanding globally to stall a complete transition to maturity. All the companies that have been studied are expanding globally. Guri said that it is a risk if a company in a mature industry is not global since then they will not be able to reach all of the markets. Porter’s (1980) final signal for when an industry becomes mature is that profits fall. This may be due to a difficult economic climate with fierce competition and high input prices, which has been the case for the polymer industry the last five years. These difficulties forced the companies to implement restructuring measures and therefore they came out strong from the recession. This can be seen in their performance measures as the curves are pointing in the right direction in 2004.

According to Porter’s (1980) signals, the polymer industry can be defined as mature. It is further supported by the fact that Stralz (2005), a member of Semperit’s management board, himself defines the industry within which they operate as an old economy with mature markets. The analysts that were interviewed also supported the classification of the polymer industry as mature. They especially accentuated that the market is characterised by slow growth and a high tendency of consolidation (Holmquist & Analyst 2).

5.2 Strategic Issues in the Polymer Industry

To find the most important strategic issues that can be found in the polymer industry we will apply the theoretical framework of the strategic issues⁶ which compares Porter's (1980), Grant's (2002) and Day's (1997) theories. For each issue we will see how it applies to the polymer industry and whether or not that particular issue is relevant and important for the specific companies. This will help us answer our first problem and lead to a selection of several key issues that will create a base for our competitive analysis. These will be used to construct our *strategy canvas* which is part of the answer to our second problem. In the analysis empirical material from the company descriptions and from the interviews will be used.

5.2.1 Product

The strategic issue concerning products has two main areas of importance when analysing the strategic actions in the polymer industry during the years 2000-2004. The first area of importance is the focus on core activities and core products which both Porter (1980) and Grant (2002) underline. Most of the companies have realised the importance of divesting areas that no longer support their core activities and are focusing on certain areas of expertise. Figure 20 shows that during these years seventeen divestments were made and all five companies divested some part of their business during the years that we studied. Avon Rubber divested five companies during this time-period and the goal was to divest all areas that did not support their strategy of having "niche products" (Avon Rubber, 2000). Many of Avon Rubber's trend curves show the lowest results of all the companies and they are the only company that shows a negative trend curve annual growth. This might be a reason why they have divested a lot as they are trying to focus on core activities. Freudenberg also divested a number of areas during these years, of which the most significant was the disposal of their leather production. Freudenberg had evolved so much during the last years that leather was no longer one of their core areas and simply drained resources from other, more important areas (Freudenberg, 2002). Parker divested five companies during these five years, also with the goal to get rid of areas that stopped them from growing in the desired direction (Parker, 2003). Semperit only divested one company during these years (Semperit, 2000). They are probably the most focused company as they show positive and steady trends in all of the performance measures and this shows that they already have a strong and focused strategy. Since 1999 Trelleborg have had as a strict strategy to focus on their core activities and hence divested intensely during the last few years. The former president, Arp, had a mission to divest all non-core activities, which he did (Eisengarten, 2005). Trelleborg also formed the Trenor Group in 2000 which was divested in 2004.

⁶ See figure 5

According to Holmquist there is a general trend in the polymer industry to consolidate and for each company to work within a certain product niche. He presented Trelleborg as an example of a company that has focused its product range even though they still have a large number of products. According to Guri, the trend of differentiation is becoming more normal since companies realise that they are not capable of offering products to all markets. Therefore, each company has their own area of expertise. Although differentiation and innovation is essential for all companies, Grant, (2002) highlights that differentiation becomes more difficult in a mature industry since the customers know more about the products. There is also a tendency for products to become more standardised due to lower product innovation which again limits the ability to differentiate (Grant, 2002). While studying the five companies it appeared, however, that they are trying to put efforts into innovation and product developments despite the fact that differentiation is difficult.

The second area of importance is the development of products. The five companies that we have studied develop products through acquisitions and innovation. Acquisitions is a strategic issue that will be treated independently further down in the analysis but it can be briefly mentioned here that Analyst 2 thought that many companies acquire smaller companies that are specialised within a certain product area. By doing this the company in question does not have to develop the product themselves which saves time and money. This seems to be true in the polymer industry. The other way that companies are developing their products is through innovation and R&D. All of the companies mentioned their efforts on innovation and R&D in their annual reports. Freudenberg state in their business principles that they focus on innovation and they even created a new business group to develop new businesses (Freudenberg, 2004). In 2001 Parker illustrated how important innovation is for them by funding 140 new product developments and at the end of 2004 they stated that one of their goals for the future is to introduce new products to the market (Parker, 2001, 2004). Semperit, although being one of the smaller companies in this study emerged as one of the strongest companies when looking at their level of innovation and R&D. This impression has emerged due to the fact that they opened a new R&D centre in 2002. This investment shows Semperit's efforts to work with product developments. Trelleborg also invest in R&D to sustain growth by developing innovative products (Trelleborg, 2001).

The final point made in the theories about products is that mature companies should keep offering their customers the best products and services (Day, 1997). Guri said that many companies today have as a strategy to be the leader within their particular area. Parker's aim is to be number one or two in every market that they are present on (www.parker.com, 20051124). In Avon Rubber's strategy it is stated that they want to "maintain a first class portfolio of niche products" (Avon Rubber, 2000:4). A new protection division and technical specialties division was opened in 2004 which shows their efforts to offer the best products.

To summarise the strategic issue concerning product, it seems that all the companies are trying to focus on core activities and be differentiated within a certain niche. The market is being consolidated into specific product areas and only a few companies will end up producing certain products. In this way, the companies will become experts within one area and hence they differentiate themselves. Porter (1980) and Grant (2002) have similar ideas concerning focus on core activities, but Grant (2002) puts more emphasis on differentiation which is demonstrated by the companies' efforts on innovation and R&D. This is an extremely important strategic issue for the companies and will be included in the *strategy canvas* as two issues called "Focused on core activities" and "R&D".

5.2.2 Price

Looking at the polymer industry through Porter's (1980) eyes it can be found that certain companies believe in competing with lower prices. Holmquist discussed the issue of the customers being "poor" and extremely price sensitive and implied that having economies of scale is an advantage since this allows more flexible pricing.

Semperit emphasised how difficult it was to transfer their increased costs to the customer, which is exactly in line with Porter's (1980) theory on mature industries. Semperit was the only company that mentioned in their strategy that they wanted to be a cost leader (Stralz, 2005). They often mentioned price issues and the rising prices of raw materials in their annual reports. Semperit also talked about the toughening competition and that this put a lot of pressure on their pricing (Semperit, 2000). Avon Rubber experienced similar problems in 2001, which can be seen by the big dip in their performance measures⁷, that show that they are experiencing some difficulties. One reason for this may be their high costs for raw material. Semperit handled their difficulties by moving their production to lower wage countries and thereby reduced the problem of transferring costs to the customer (Semperit, 2002). Another interesting point made by Porter (1980) and Holmquist is the quality of the product. Both of them mean that for some customers the quality of the product is not as important as long as the price is low. Holmquist argues that many products in the polymer industry are simple and easy to produce.

Grant (2002) also understands that it is difficult to take higher prices from customers but still emphasises the importance of differentiation. According to him differentiation is one way to avoid price warfare. This alternative was not mentioned by any of the companies, although Freudenberg state in their business policy that they want to create value for the customer, which suggests that they put more emphasis on differentiation than cost leadership.

⁷ Figure 8

Both Porter's (1980) and Grant's (2002) theories about the price issue are reflected in the reality of the polymer industry. We have found that companies compete both by having low prices and by differentiation. Despite the fact that the companies are experiencing difficulties with high prices for raw materials they avoid transferring these costs to their customers in order to have competitive prices. That is why economies of scale are so important since it enables the companies to offer lower prices. Guri believes that pricing is one way in which the companies' strategies are similar. No company wants to strategically raise their prices, which seems to be true for the polymer industry although the companies have slightly different focus. This strategic issue will be included in the *strategy canvas* as "Competitive pricing".

5.2.3 Process and Cost

The main focus amongst the three theorists when discussing process and cost is that companies should rid themselves of excess capacity. The issue on process is closely related to the issue concerning costs since when a company improves their processes they often do it for two reasons: to optimise their efficiency and to reduce their costs. First we will discuss the process aspect and then the cost aspect.

All of the companies have shown proof that they are ridding themselves of excess capacity through their divestments. There are two reasons for making divestments; one reason is to focus on core activities as was discussed under the product issue, the other being efficiency improvements and cost reductions which is related to the process and cost issue. Avon Rubber, for example, sold off two non-profit businesses in 2001. Freudenberg also shut down one of their original operations, their leather production, which was no longer profitable (Freudenberg, 2002). Other ways to improve efficiency is by restructuring and reorganising the business. Avon Rubber opened two new factories in 2000 which were major investments, but in the long run these will give them greater efficiency and growth (Avon Rubber, 2000). Semperit also opened two new factories during the time period that was studied (Semperit, 2004).

In 2005 Trelleborg saw a new President, Peter Nilsson, take over the company with a new mission; namely to change the structure and obtain operational efficiency (Edling, 2005). Trelleborg is also focused on operations excellence in their strategy (Trelleborg, 2001). They already worked with restructuring programs before this to obtain greater efficiency through, for example, joint ventures and concentration of production of certain products to certain areas (Trelleborg, 2000). This kind of thinking is important in a company as it avoids the risk of getting stuck in old habits (Grant, 2002). Semperit is also working to improve their operational efficiency. In 2000 they started having around the clock production for maximum utilisation of factories. When asked about strategies in a mature industry Guri mentioned three key words that he believed are essential for the companies to survive and they all have to do with processes and cost. The key words

are: IT, logistics and rationalisations (Guri). This again shows the importance of constantly working with efficient operations.

The final point concerning the process part of this issue is the importance of strategic innovation (Grant, 2002). When discussing the issue of products above it was pointed out that it was difficult to constantly innovate new products. This is when strategic innovation becomes important according to Grant (2002), he means that a company can become successful by being innovative at all levels of their production. Freudenberg show their innovation motives by having established a new business group for developing new businesses and technologies (Freudenberg, 2004). Parker shows their focus on innovation by using innovation to develop all elements in their *Win Strategy* (Parker, 2002). One way that Semperit show their intentions to improve their strategic innovation is by the implementation of their new 100 Million Euro R&D centre, which not only has the goal of developing new products, but also works with coordination of divisions, manufacturing methods, benchmarking and capacity expansion (Semperit, 2000). This is in line with Holmquist who thinks that R&D is important as it shows how companies use their money and how entrepreneurial they are.

During 2000 Avon Rubber had large reorganisation costs when moving a plant from England to the Czech Republic, with the goal to reduce their costs (Avon Rubber, 2000). They also closed down areas that did not fit with that strategy (Avon Rubber, 2000). These reorganisations led to a decrease in workforce. Restructuring activities to become more effective and reduction of cost through production in low cost countries continued during 2000/2003. Their strategy has not yet fully shown its success when looking at their growth rate and turnover but when looking at their ROE and EBITDA/Turnover, their results have greatly improved after this restructuring. Parker had to work actively by reducing inventory, relocating plants, consolidating plants and an overall cut in spending, as they were hit by the recession in 2001. They implemented a lean strategy in every facility and continuously work towards lean operations to create superior financial performance (Parker, 2001).

Semperit has a tradition of cost control. According to Stralz (2005) large restructuring work was done with the whole company in the 1980s. This has led to Semperit's policy of cost control, productivity increases and positioning. As the pressure of raw material is high on costs, strategic focus on cost management has been central on every market. Shutdowns, relocations, decrease of work force and outsourcing are further measures that have reduced costs. Semperit also got rid of unused buildings to cut capital costs. The move to lower wage countries (especially China) enabled them to be price competitive. It is difficult to transfer costs to the customer, and that is why cost cutting is important. They also use their R&D platform to improve operational performance. As the prices on raw material will continue to increase in the future they will continue to focus on restructuring to reduce costs. When looking at their figures their strategy seems

to be on the right track and they work with cost control in the right way. (Semperit, 2000-2004)

The only time Freudenberg mentioned cost reduction was when they reduced their workforce through divestments (Freudenberg, 2001). It does, however seem that Freudenberg have an efficient and well-functioning cost structure as their turnover/employees is the highest. In 2001 Trelleborg issued fifteen restructuring programs in order to make large cost savings. Raw material and decrease in demand were the obvious reasons for their large restructuring (Trelleborg, 2001). They also moved production to low cost countries and to become even more efficient they introduced an ERP system in Europe (Trelleborg, 2002). This goes in line with Day's (1997) theory that cost reduction should be managed through IT and through investments in new technologies. Like Semperit they also put a lot of effort on R&D to become more cost efficient (Trelleborg, 2003).

The companies' actions have shown the importance of working actively with making processes more efficient, just like the three theories say. Some companies have built new factories, introduced new technologies and others have focused on R&D to find new ways to improve efficiency and lower operation costs. As both process and cost seem to be important for most of the companies we have chosen to call this issue "strategic innovation and cost efficiency" in the *strategy canvas*.

5.2.4 Customer

All companies want to offer their customers the best products and the best services which can be seen in most companies' strategies. The strategic issue concerning customers is about how to keep existing customers and how to find new customers. Avon Rubber states in their strategy that they want to "make a significant contribution" (Avon Rubber, 2000:4) to their customers. They show their efforts to satisfy their customers by moving about globally to be located closer to them, but they do not mention any other special services for their customers. Locating close to the customer is one way to show the customers that they are valuable and it is a way to create lock-in to the company since it is an advantage for the customers as well to have their suppliers in close proximity. Freudenberg also work with having a global network to offer the best quality and services and in their business principles they state that they want to create value for customers (www.freudenberg.com, 20051122). When reading the annual reports Freudenberg give the impression that they focus strongly on customers and in 2003 they explicitly stated that one their main goals was to strengthen customer performance.

Another means of satisfying the customer that has been demonstrated in the annual reports is by offering them complete service packages like in Day's (1997) theory.

Parker has shown this by implementing a customer service called *PHConnect* to facilitate doing business with different divisions (Parker, 2001). One of the elements in Parker's strategy is to offer full customer service and total customer solutions which shows how important this is for them (www.parker.com, 20051124). Trelleborg also state in their strategy that they strive to offer the maximum customer value through *Seal Damp and Protect* (Trelleborg, 2004). Semperit (2000) focused on the ability to identify needs, product requirements and demand which corresponds to Grant's (2002) ideas about the importance of understanding the needs of customers. They also focus on satisfying wishes and suggestions from customers (Semperit, 2004).

All the companies aim to satisfy their customers since without them the company would not survive. Porter's (1980) and Day's (1997) theories seem to correspond best to the polymer industry in the aspect of lock-in of customers, but Grant's (2002) theory is also true since it is extremely important for companies to look for new customers. Customers are an important part of each company's strategy and will therefore be included in the *strategy canvas* as "Customer focus".

5.2.5 Acquisitions

According to Porter (1980) most companies acquire smaller companies because it is cheaper and more efficient than growing organically. Analyst 2 says that it is important to have as a strategy to buy smaller companies and develop their products. The reasons for this is that it is a way to find new segments that are otherwise hard to discover and that badly performing companies can create synergies by being acquired, which makes the market profitable for all actors (Analyst 2). Holmquist says that these companies will grow about 2-3% organically and that acquisitions are the only way for them to grow more profitably. Johansson agrees that it is difficult to grow in another way and Analyst 2 believes that the two most important capabilities are growth through acquisitions and cost control.

Grant (2002) however, sees acquisitions of smaller companies as a threat since new players might enter the market. We must keep in mind that we are looking at this from the perspective of our five case companies and through Grant's (2002) perspective, it can be seen as a threat if one of these large companies enters another large company's market, like when Trelleborg acquired Sealing Solutions. Since these companies operate in the same industry but actually choose different niches this is probably only a threat posed by larger companies against smaller companies in the industry. Day (1997) sees acquisitions as a normal process of "shakeouts" that will lead up to a number of large players in the business, the so called "winners". This is coherent with Analyst 2 who says that large companies will become larger. Consolidation of the polymer industry therefore seems to be normal.

Parker makes acquisitions to strengthen their core competences and to be able to offer total solutions to customers (Parker, 2001). Parker (2004) sees a great potential in growing globally and have made 28 acquisitions during these five years. In their annual report 2002 they mention that their increase in profit mainly comes from acquisitions and growth from business development, which can be seen in the positive trend of their annual growth. In 2003 they slowed down their acquisitions pace and focused on achieving a balance between organic growth and acquisitions. Semperit also focus on growing through acquisitions and stressed the importance of the organisational aspect to integrate fast to create synergies (Semperit, 2000). They also use acquisitions to become a global player and to build a base in the Asian market (Semperit, 2002). Even though Semperit make acquisitions they seem to focus on a steady growth, which can be seen by their annual growth.

Trelleborg is the only company that actually mentions organic growth and growth through acquisitions in their strategy. Just like Semperit, Trelleborg focus on growth through acquisitions and fast integration to gain synergies which seems to pay off after having divested their non-core activities (Trelleborg, 2000). This can be seen in their positive development in annual growth, and in their other performance measures. Trelleborg has a substantial knowledge about how to acquire companies with profitable and expansive segments and creating synergies is one of their best assets (Trelleborg, 2000). According to Holmquist they are “vacuuming” up competitors and finding profitable segments. Trelleborg made many large and small acquisitions during this five year period. The most important was Sealing Solutions in 2003 which formed a new business group. Sealing Solutions is seen as one of the two major strategic moves in the last few years according to Tavernier & Eisengarten (2005). This goes in line with their strategy to grow in strong markets and the refocus of their company which began in 1999.

The companies that stand apart the most when it comes to acquisitions are Avon Rubber and Freudenberg. Avon Rubber talks about a strong global presence and that they aim to work with their strategy and explore suitable acquisitions that support their core activities (Avon Rubber, 2000). However, as Avon Rubber only made one acquisition during this five year study it appears as if the focus is more on organic growth through exploring new business areas using their specialities division (Avon Rubber, 2004). Another reason why Avon Rubber have not made acquisitions is because they are in a phase of focusing on their core activities and therefore they are not in a position to acquire new business. Freudenberg’s current goal is also to grow internally and not so much through acquisitions which they mention several times (Freudenberg, 2000, 2003). In 2004, however, they mention that they grew 14% due to two acquisitions in 2001 and greater flexibility which means that they are actually growing externally, even though they say that they focus on internal growth. This, and the fact that the economic trends are more positive towards the end of the five years show that growth mainly occurred through acquisitions. The trend curves for Avon Rubber are flat and growth is slow. As

we know the importance put on acquisitions by Porter (1980) and the analysts, the lack of acquisitions could be one of the reasons for this flat curve. As for Freudenberg who actually grows by acquisitions but has an organic focus we can see that it is the acquisitions that generate growth which suggests that the analysts and theories are right.

It seems like Porter's (1980) theories about acquisitions rather than organic growth are true. It also looks like a natural "shake out", as according to Day (1997), large companies become larger. All the Analysts have also confirmed that this is the right way to grow since the companies only grow 2-3 % organically per year. It also seems that the companies who work actively with acquisitions are the ones that achieve good results, gain more market shares and have the ability to offer new products. It seems like working actively with acquisitions can create a large advantage. This is a very important strategic issue and will be presented as "Acquisitions" in the *strategy canvas*.

5.2.6 Competition

During this study it has occurred to us that competition is mostly driven by the search for new market shares. When competition in domestic markets matures it puts pressure on costs, and competition for market shares increase. This in turn has pushed companies to become global in the search for lower costs and new market shares. Competition is not so much about competing about the same products in the polymer industry, as these five companies are all trying to find their profitable niche. Therefore, competition in this case is more about finding new segments on a global scale.

According to Porter (1980), internationalisation is a way to postpone maturity in domestic markets. This seems to be a realistic thought as all the companies discuss the importance of finding new markets and segments. Avon Rubber already has about 70% of their production outside of the UK. They also say that in order to be close to customers they have to go global (Avon Rubber, 2000). Freudenberg emphasises on their website that they want continuously grow globally and they have acquired some companies to expand globally. Parker is expanding globally as they have an aim to be a leading world player, which is also supported by their high ranking in the Financial Times' list of the world's top companies (www.ft.com, 20051124). With their *Win Strategy* their aim is to become number one or number two in every market (www.parker.com, 20051124). Their goal is to expand to business areas outside North America and markets of interest are Asia (especially China), Eastern Europe and South America (Parker, 2001, 2004). Trelleborg also want to grow in Asia and they already have a large base in China (Trelleborg, 2003). Trelleborg wants to serve a global market for demanding environments, with their strategy focused on creating "leading positions in attractive segments" (Trelleborg, 2004:6). One example of this is when they started a product management base in Singapore (Trelleborg, 2001). For Semperit it is important

to achieve market share by aggressive exports and by producing globally (Semperit, 2001).

Day (1997) argues that the world is getting smaller and that competition arises not only from domestic markets but also from other countries. Guri believes that from a European perspective competition has intensified firstly from Eastern and Central Europe and then from China. It is therefore important for companies to have some kind of protected prosperity that decreases the pressure of competition (Day, 1997). Semperit says that the industry suffers from the pressure of emerging markets (Stralz, 2005). Day (1997) argues further that in order to avoid a “seismic shift” companies need to constantly observe competitors and try to look into the future. Trelleborg have acquired extensive knowledge about their competitors over the years (Trelleborg, 2000).

Cost control is something that drives globalisation according to Holmquist, especially when cost differences are as big as they are today (Johansson). Competition from China has led to many activities such as rationalisations and moving production facilities. There is a clear trend to move to Eastern Europe, an area that is working very hard to attract new businesses (Guri). Analyst 2 also believes that production will move to lower wage countries. Avon Rubber has moved production to Continental Europe and in the near future they will establish in South Eastern Europe and are also considering markets further away, such as China. Semperit’s focus is also strong on Asia, especially China because of the low labour costs, hence the possibility to offer lower prices, but also Russia and South America (Semperit, 2002). They already have a good position for development in Asia with factories in China, Thailand and India (Semperit, 2002). Trelleborg have also moved some production from Western to Eastern Europe and production plants have been moved from the USA to decrease costs (Trelleborg, 2002, 2004).

All analysts agreed that the world is becoming more global and markets such as China are growing fast. A problem according to Johansson is that Europe has not taken the right actions to create growth. The USA for example has a much more effective capital market which affects the amount of money being invested there. This presents a picture of the importance globalisation has in finding new markets, finding new customers, reducing prices and the effect it has on competition. It also shows that constant observation of competitors and that staying alert is crucial to be able to handle a more global competition. This strategic issue will be called “Global Reach”.

5.2.7 Organisation

According to Guri and Analyst 2, Swedish companies are good at changing and adopting their strategies frequently which could be a sign of a flexible organisation. This however, should be something that all organisations strive for, not only the Swedish ones.

Flexibility and high demand of innovation is something that emphasises the importance of a decentralised organisation that encourages innovativeness and involvement. Looser control systems are also needed, as companies need to adapt to changes in the market and to new customer needs. However, this does not mean that focus on cost control is lost (Grant, 2002). Guri further explains that it is important to rationalise, and become efficient. Of course Porter (1980) has a good point when he argues that more focus on HR and new skills and resources of management are needed. Guri believes that strong leadership that can follow through a strategy is essential for survival which concurs to Porter's (1980) theories of new skills and resources of management. The only information we have on leadership is about Trelleborg's last executive, Fredrik Arp, who successfully led Trelleborg into the restructuring and refocus which started in 1999 (Eisengarten, 2005).

Avon Rubber does not give much information about the organisational aspect of their strategy. Freudenberg have a couple of principals that guide their actions (www.freudenberg.com 20051122). These are: to create value for customers, focus on innovation and good leadership; factors that are consistent with both Porter (1980) and Grant (2002). This, together with a decentralised management structure where units can work independently allows for innovation which is essential to remain a player in this business (www.freudenberg.com 20051122). Integration of acquisitions is also something that they focus on, which is in line with Day's (1997) view on the organisation aspect. In 2004 they started a new group to take care of and develop acquisitions to make the process smoother and to be able to create synergies as fast as possible (Freudenberg, 2004).

The company that gives the most detailed picture of how they work with the organisational aspect of strategic theory is Semperit. They have all the parts in the recipe and seem to have picked the most important parts to focus on. Semperit's ability to organise for success is further strengthened by the fact that they have reached record profit for the 15th consecutive year. Semperit (2000) also have a strong HR focus as they work closely with Universities in Austria and offer all employees education and wage incentive programs. This further corresponds to Porter's (1980) theories about strong HR focus. In accordance with Day (1997) their R&D centre also focuses on integrating acquisitions and fully owning more of their manufacturers which has made them the world's largest manufacturers of conveyor belts (Semperit, 2001). We also know that despite the centralised R&D centre the holding company provides support functions and strategic guidance to all the divisions which seems to be a concept that is working well.

Trelleborg differs in their organisational capabilities as they focus a lot on what Day (1997) suggests an organisation should be best at, which is to integrate acquisitions to create synergies. Trelleborg (2000) say that creating synergies is one of their best assets. This is probably due to their developed ways of selecting the right acquisitions with the help of their extensive competitor database (see acquisitions).

Innovation seems to be the most important capability of the organisation which is in line with both Porter's (1980) theories about needing new skills and resources and Grant's (2002) theories about innovation and understanding of the customer. The companies also show that flexibility is important which is probably why they invest so much in R&D and cross linking. R&D and cross-knowledge sharing seems to be a way to create an entrepreneurial environment and foster innovation. Focus on HR, which is in line with Porter (1980) also seems to be of value as the quest for new products and skills is becoming more and more important. Day's (1997) theories seem to be in line with the importance the companies put on quick integration of acquisitions and to create synergies. As the environment is more turbulent and customers have higher demands which require innovation, the quest for effective operations, a deep understanding of customer needs and innovation leans toward the agility of the decentralised organisation (Grant 2002). One problem with the organisation issue is that the information is applicable to many of the other issues. It would be interesting to use this issue in the canvas if we had more information about for example management styles and organisational structures. This inadequate information makes it impossible to compare the companies and will not be included in the *strategy canvas*. It will only be used to support the other issues.

5.3 Strategic Issues and the Strategy Canvas

In this third part of our analysis we aim to lift out those strategic issues that seem to be the most important in the polymer industry and define them. This will be part of the answer to our second problem and will lead to the creation of our *strategy canvas*. Defining the strategic issues can be compared to the first step in Kim & Mauborgne's strategy building process called *Visual Awakening*. We have changed what they call *factors of competition* to *strategic issues* since this corresponds better to our theoretical framework and to the purpose of making a competitive analysis. We will also change the title on the y-axis from *Offerings* to *Level of Importance for the Strategy*. The strategic issues that we have chosen will be defined in this part of our analysis and will then be placed on the x-axis of our *strategy canvas*.

The next step will be to assign a value of strategic importance for each company on each strategic issue. We have based all our valuations on subjective interpretations of the empirical findings in order to be able to plot the value curves for the five companies. After having studied five annual reports for each company we have got a strong sense of their strategic focus and we have tried to portray this in our empirical findings and in the analysis. We have not found any reasonable ways to quantify these strategic issues since information has been difficult to find and extract from the annual reports. We have tried to look at some figures but finding comparable ones would have been too time-consuming within the timeframe of this thesis. Some of the factors of competition in

Kim & Mauborgne's (2002) model are also based on subjective interpretations, which supports that we also use interpretations. We will remind the reader that this interpretation of the five companies' strategic moves is based on the general impression we have got from their annual reports from the years 2000-2004 and that the curves might look different if we had access to internal documents and interviews with key people or if we would have looked at a different time period.

We will give each company a "high", "medium" or "low" value for each strategic issue and use this as an indication of the importance of that strategic issue for the company. We will set these values in relation to each other; however, this does not mean that only one company can receive a high value per strategic issue. It is also important to not interpret a low value as a sign of weakness in the strategy. It simply means that they have not portrayed it as an important strategic issue in their annual reports during these years. We have discovered in our analysis that each company is in a different phase of their development and hence has a different focus. The purpose of our *strategy canvas* is to develop our competitive analysis through visualisation. The reason why we chose to use "high", "medium" and "low" as values instead of numbers is because numbers might give the reader the impression that each value is a grade. The softer values we have used do not give the impression that any company is better or worse, it only implies that they focus more or less on certain areas.

We have chosen seven strategic issues to include in the *strategy canvas* which will be presented below. We will explain and motivate how strategically important they are for each company. Particular factors that we have looked at for all issues is if they mention it in their strategies and if they give any concrete evidence of how they actively work with specific strategic issues. However, we have also made issue-specific considerations. All strategic issues are based on the analysis in 5.2.

Focused on Core Activities – This was an important element of many of the companies' strategies and through the empirical material we have tried to see how focused each company is. For this issue we have compared the performance measures with the number of divestments. If they have poor results and make a lot of divestments we interpret this as an indication of a lack of focus, as opposed to the companies that are already focused on core activities and make few divestments and have higher results.

Semperit receives a high value for this issue due to the fact that they are highly focused, they show the best EBITDA/Turnover, ROE and Annual Growth and the fact that they have only made one divestment shows that they do not have any excess capacity to get rid of. They have also given evidence of working on focusing the company for many years.

Trelleborg also have a high value since they have been working since 1999 to focus on core activities. According to the analysts they have a clear strategy and when compared to the performance measures we can see that their strategy is effective. The

establishment of the Trenor Group in 2000 is another example of their focusing efforts. They are, however, not quite as focused as Semperit and are therefore placed slightly below them.

Freudenberg receives a medium value because are in the process of focusing since they recently divested their original product. The steady progress in their results shows that they are on their way to becoming even more focused.

Parker have strong results but it is difficult to motivate that they are focused when they have 800 000 products and they do not mention focusing on core activities as a priority, hence they get a medium-low value.

Avon Rubber receives the lowest value on this issue because we can see that they are in the process of focusing on core activities. They have made many divestments and their results are among the lowest in this competitive analysis which shows that their strategy is not yet focused.

R&D – This strategic issue will show our interpretation of how much the companies have mentioned R&D and innovation in their annual reports and their strategies. We will give a higher value to companies that have given concrete examples of what they have done to promote innovation and R&D.

Semperit receives the highest value on this issue thanks to the opening of their 100 million Euro R&D centre which shows a strong focus on the importance of this issue for them.

Trelleborg receives a value that is almost as high as Semperit since they have invested a lot in R&D. Innovation is an important part of their strategy and have made a lot of new product introductions.

Parker receives the same value as Trelleborg since they clearly show their will to invest in R&D in their annual reports and they emphasise the importance of their 140 new product developments in 2001.

Freudenberg started a new business group with the goal to develop new products and also state in their business principles that they focus on innovation. This earns them a medium value.

Avon Rubber also receives a medium value since they mention that they want to maintain top-class products and in 2004 they opened a new protection division and a technical specialties division to develop products and new businesses.

Competitive Pricing – As price competition is a fact in mature industries, companies need to have low prices since it is difficult to differentiate. However, it is also a fact that some companies differentiate their products to decrease the pressure of price competition. Therefore it is interesting to see if there are differences in focus between the five companies and we have chosen to include competitive pricing in our model. According to Guri no company wants to have high prices. For these reasons we have chosen to value this issue differently than the other strategic issues. As a starting point we have given companies who have not mentioned that they want to be the cost leader or

differentiated a medium value. Companies that especially mention that they want to be a cost leader receive a higher value and companies that seem to put more importance on being differentiated get a lower value.

Semperit state that they want to be the cost leader and therefore receive a high value.

Avon Rubber does not mention their pricing levels and are given a medium value.

Parker, Trelleborg and *Freudenberg* have not mentioned pricing in their annual reports but have rather focused on being differentiated which we interpret as a lower interest in offering the lowest prices.

Strategic Innovation and Cost Efficiency – Cost management and process improvements seem to be one of the most important areas according to the theories and the analysts. It is also something that the companies actively work with. A high value will be given to those companies that have a strong focus on cost cutting or efficiency improvements in the annual reports.

Semperit mention in their strategy that they have strong cost control, they implemented 24 hour production, they have made large reorganisations, got rid of unused buildings, modernised existing plants and cross-linking of knowledge. This proves that they deserve a high value.

Trelleborg mention operational efficiency in their strategy, they have implemented restructuring programs, ERP systems and rationalisations. These examples show that they have been working hard to improve processes and therefore get a high value.

Avon Rubber gets a medium-high value since they have made many restructurings, they have built new factories and they have moved factories to low-labour countries and 70% of their production is outside the UK.

Parker talks about having innovation at every point and that they want to have streamlined processes but they have not explained how they work with these issues. Therefore, they get a medium-low value on this issue.

Freudenberg want to create an efficient organisation and cut costs. They get a medium-low value on this issue as they do not give any examples of what they have done to improve efficiency.

Customer Focus – Customers are of course extremely important for the companies. The reason for including it in the *strategy canvas* is to see if they have made any special efforts for their customers during these years. We will look at whether or not they have mentioned any special services they have for their customers or if they involve them in any of their processes. We will also see if they mention their customers in their strategies. Companies that make a big effort towards their customers will get a higher value than those that do not show a big customer focus.

Parker receives a high value for this issue since they have showed a very strong focus on their customers. In their strategy they mention that they want to give full customer service and they created *PHConnect* to facilitate procedures for their customers.

Trelleborg and *Freudenberg* receive a medium-high value since they also showed evidence in their annual reports and in their strategies of being customer oriented, but not as strongly as *Parker*. *Trelleborg* focus on giving maximum customer value on a global market. *Freudenberg* want to strengthen their customer performance through a global network.

Avon Rubber state in their strategy that they want to contribute to their customers' performance and also move globally to be closer to their customer, which gives them a medium value.

Semperit receive a medium-low value for this issue since they do not give any more evidence on how they focus on their customers besides saying in their annual report 2004 that they want to satisfy their customers' wishes.

Acquisitions – Making acquisitions is important for companies in a mature industry to be able to have a profitable growth rate, as was discussed by the analysts as well as the theorists. However, we cannot give a value based solely on the number of acquisitions made since we do not know how large they are relative to the company's size or how much they have affected the results. These factors make it hard to compare how important acquisitions are for different companies. When reading the annual reports we have got an image of how important acquisitions have been for each individual company. To give values for this issue we have therefore looked at the number of acquisitions the companies have made, their annual growth and the impression we have got of the importance of the acquisitions.

Trelleborg acquired a completely new division called Sealing Solutions which was one of their two major strategic moves during these five years, they made many acquisitions within their core areas, in their strategy they state that they are interested in growing through acquisitions, and they are good at making acquisitions and integrating them. According to Holmquist *Trelleborg* is "vacuuming up" their competitors. For these reasons *Trelleborg* receives a high value.

Parker wants to make acquisitions to strengthen their core competences, grow globally and to be able to offer total solutions to their customers. *Parker* has a stronger annual growth than the 2-3% that the analysts say is normal, which shows that they achieve strong growth through acquisitions. *Parker* is also a very large company which may be another reason for them making acquisitions; they can afford it. Since acquisitions seem to be very important for *Parker* we give them a high value for this issue.

Semperit did not make many acquisitions but say that they want to grow through acquiring companies. *Semperit* is a focused company who seems to be growing steadily, and although they do not make many acquisitions the ones they make are very important. Since they state that they want to grow through acquisitions and create synergies we give them a medium value for this issue.

Freudenberg made a few acquisitions and mention several times in their annual reports that they want to grow internally. It is not so important for them to grow quickly which is why we gave them a medium-low value.

Avon Rubber are in the process of getting rid of excess capacity and are therefore focusing more on growing organically to explore new business areas with their specialties division. They only made acquisition during these five years and it is clear that they have prioritised other strategic issues during these five years.

Global Reach – Global reach is important for a company in many ways. It shows their willingness to expand through new markets and segments, their attractiveness on the global market and it shows their proximity to their customers. For this issue we have looked at their strategies to see if they explicitly mention that they want to be global and if they give any concrete examples of how they aim to achieve this. We have also taken into consideration the size of the company and if they have mentioned how many countries they are present in at the moment.

Freudenberg made some acquisitions to grow globally and we know that they are expanding globally. During the studied time period they expanded their global presence from 42 to 54 countries. Even though we do not have their strategy they state in their annual report that they want to continue growing globally.

Parker has as an aim to be a leading world player and make acquisitions to grow globally. They are also very large which of course affects their global reach and they seem to want to be present on every market, just like *Freudenberg* which is why they also get a high value.

Trelleborg want to serve a global market. They state in their strategy that they want “to have leading positions in attractive segments” and have a large base in China. *Trelleborg* show that they want to be a global player, but not as strongly as *Parker* and *Freudenberg*, and get a medium-high value.

Semperit use acquisitions to grow globally. Another reason that *Semperit* is growing globally is because they want to be a cost leader and hence focus on moving to low labour countries, especially China. We gave them a medium value for this issue.

Avon Rubber has 70% of their production outside UK and seems to be mostly active in Europe. For them it seems that globalisation is a way to lower their costs and not to grow. As stated above, they are focused on getting rid of excess capacity and are working towards this instead of growing globally which is why they get a low value for this issue.

5.3.1 The Strategy Canvas for the Polymer Industry for the Years 2000-2004

We have finally arrived at the last step of our purpose: creating a *strategy canvas* for the polymer industry that visualises the level of importance that the five companies put on the different strategic issues from the years 2000-2004.

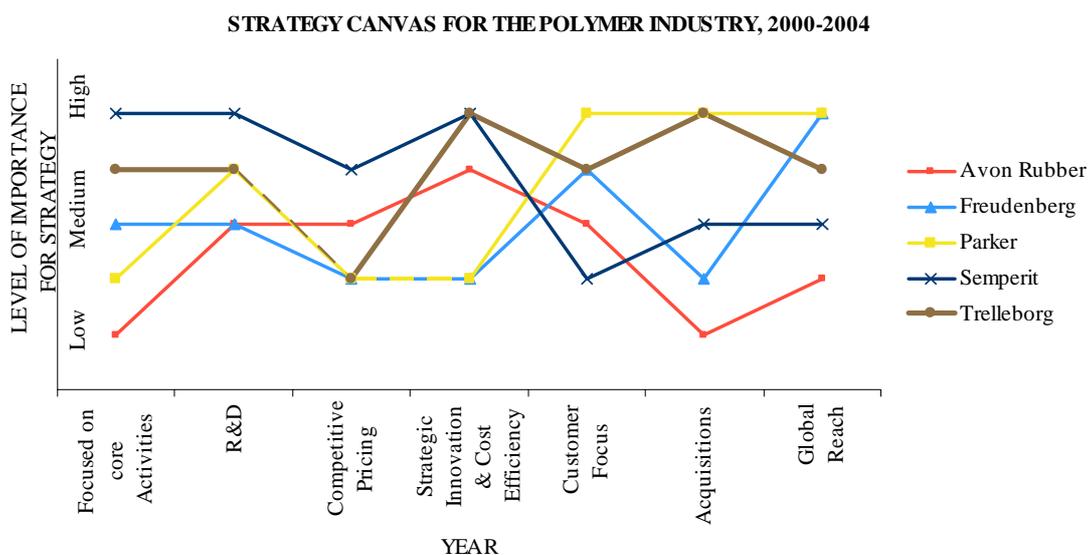


Figure 21: The Strategy Canvas for the Polymer Industry

5.3.1.1 Feedback from Trelleborg on the Strategy Canvas

This graph makes it easier to visually compare the companies and see the differences between them during these five years. Understanding the differences by comparing written material can be a very complex task as is shown by the work done leading up to this strategic canvas. However, using this model as a tool for a competitive analysis can give a very clear picture of each actor’s focus. We presented our results to the Director of Business Development at Trelleborg, Lars Olof Nilsson and to Stéphane de Tavernier and Dan Eisengarten (20060117). This gave us the opportunity to get feedback on our thesis and test the validity of our results. The discussions were focused mainly on the strategy canvas and they showed great interest in how the model works. Their reaction to the competitors’ curves was positive and they felt that they corresponded well to their own view of them. However, they questioned the evaluation of the strategic issues and the comparability of the curves and this was one of the reasons for why we used “high”, “medium” and “low” as values and emphasised that the results are based on our interpretations. We asked them to make their own curve for Trelleborg and their curve

was very close to our curve, which strengthens the validity of our interpretations and the reliability of our competitive analysis. Trelleborg got the impression that their own curve was the “best in the class” because they had high values on many issues. However, many high values do not mean that they have the best strategy. According to Kim & Mauborgne a strategy should be divergent and have a clear focus which implies that having high values on many issues is not a good strategy since this shows that the company has not chosen one area to focus on.

6 Conclusions

In this chapter we will have a discussion about our results and evaluate the strategy canvas to see what conclusions we can draw from this. To ensure that we have fulfilled the purpose of this thesis we will answer the two questions stated in our formulation of the problems. At the end of the chapter we give suggestions for future research.

6.1 The Maturity of the Polymer Industry

The first question we intend to answer is:

Which are the most important strategic issues when conducting a competitive analysis of the polymer industry?

We have arrived at the conclusion that the polymer industry is a mature industry. This is supported by the fact that all the companies in the study are old, their growth is slow, competition is fierce, their customers have know-how, there is an increased competition for cost and service, they make strong R&D efforts, globalisation is intense and profits fall. All of these factors have been determined through the help of Porter's signals for when companies enter maturity. Since the companies are all prosperous and work actively with their strategy we believe that they are able to stay in the early phase of maturity and still grow. As Porter (1980) said, it is possible to go backwards and forwards from growth to maturity and even though these companies are definitely mature they show a will to keep growing by for example their global expansion. The maturity of the industry is further supported by the analysts who without a doubt defined the polymer industry as mature. Even Stralz (2005), a representative from one of the studied companies defined the industry within which they operate as mature.

By defining the industry we have been able to develop a framework based on normative mature industry theories. We combined the key points from the different theories into one model and called them strategic issues. We then found evidence for these strategic issues in the empirical material and discovered that some issues were more important than others. The three authors that were used completed each other in different areas, although we generally thought that Porter (1980) contributed the most as he covered all of the strategic issues. One of Porter's (1980) most important issues was to grow through acquisitions. Grant (2002) had many ideas that were similar to Porter's but diverged on certain strategic issues for example on process, where Grant emphasised restructuring

while Porter focused more on productivity improvements. Day's (1997) contribution to the analysis was smaller but he had certain issues that were very important, such as his focus on the importance of integrating acquisitions. Certain strategic issues seem to be particularly important since all three authors include them in their theory. Under process and cost they all mention the importance of getting rid of excess capacity and they all emphasise having cost control. Since we found strong support for all of these issues in the polymer industry we draw the conclusion that these three theories together can be used as a norm for describing the polymer industry. The theories have contributed in creating an understanding of the most essential issues to actively work with in this business and according to our interpretation of the results from the companies and the analysts these are: growth through acquisitions, focus on R&D, cost control and process efficiency. This knowledge has helped us to accomplish the first part of our purpose which was to achieve a better understanding of competitive elements in the mature polymer industry for our competitive analysis.

6.2 The Strategy Canvas

Our second question is as follows:

How can the strategic issues be visualised and how does the visualisation contribute to creating differentiated strategies?

We have developed the competitive analysis further by using the *strategy canvas* which we believe is a good tool for visualising the strategic issues. According to us, visualisation can be used to clearly identify competitors' strategies in the polymer industry. The main advantage when using a visual model such as the *strategy canvas* is that all the information about the companies is brought together in one image. Normally, strategies are written in words and they only give an explanation of what a company wants to do. Often, this is not far from the truth, but in this model we have visualised their strategies, which in this case is not only based on their stated strategies but also on the strategic issues that we have identified. The image in our model not only shows each company's strategic profile in its entirety but also how each company is positioned in relation to the others. The picture can also reveal areas where no companies in the industry are focused which can help companies to find their own unique niche. Hence, the unique contribution of this model is that it can be used as a map to help companies navigate in the intensely competitive landscape of the polymer industry.

Our *strategy canvas* shows that there seem to be areas that are particularly important for all the companies and areas where all the companies have a different focus. R&D, for example, is a strategic issue that is important for all companies as they are all close to each other on the graph and the conclusion that can be drawn from this is that this is

important for competing in the polymer industry. On the contrary, there are areas where the focus of the actors diverges from each other, for example on acquisitions and focus on core activities. We interpret the fact that there are areas where the companies diverge as a sign that the companies are in different phases of their development.

We discovered during our study that there are a few weaknesses when using the *strategy canvas* to fit our purpose, for example the level of differentiation among the companies. Kim & Mauborgne used this model as a way to analyse the commercial airline industry, which delivers one main service; transportation of passengers. Their model shows how the airlines are differentiated on this one service. The companies in our study however deliver many different products and services in many different areas, and we have experienced this differentiation as a weakness when making our competitive analysis using our version of the model. The fact that the companies are differentiated is why we have had to make subjective judgements and also choose strategic issues of a general character that fit all the companies. We are, however, quite confident that the competitive analysis that we have made is a fair reproduction of these five companies' strategies, which is further supported by the fact that the representatives from Trelleborg thought the curves matched the various companies. Another problem that we encountered was assigning values for each company in the graph. Although we had to be subjective in our valuation we feel that we were very thorough in this process and took many factors into consideration to make the curves as realistic as possible. Again, since Trelleborg strengthened the validity of the curves we feel that our interpretations were close to the reality.

To answer the question whether or not this model can contribute to creating a differentiated strategy we will look at one company in this study that has a strategy that delivers good results year after year with a steady growth. Having strong results is an indication of having a strong strategy and the company in question is Semperit who has showed a strong development during these years. When looking at the model in the analysis it can be seen that their curve is divergent and has a clear focus on core activities, R&D and strategic innovation and cost efficiency. Semperit is pursuing their unique path which is successful. It is however, difficult to use Semperit's strategy as a "best practice". The fact is that most of these companies are actually pursuing strategies that make them successful. Freudenberg, Trelleborg and Parker are achieving positive growth which implies that their strategies are also strong. The only company that we believe have a weak strategy is Avon Rubber. According to us this is partly due to an unclear focus which has resulted in weak performance. Another reason why we believe Semperit has a successful strategy is because they maintained a steady growth despite the economic recession that all the companies suffered from in years 2000 – 2002, especially 2001. We do not think that there is such thing as a "best strategy", since all companies need to make a strategy that fits their own resources and capabilities. The conclusion is that there are many good strategies and that this model can be used to help companies develop strategies that are divergent and different from their competitors and

to position themselves in areas where no other companies focus, by seeing what all the companies in the industry are doing. After all, there must be some truth in the old saying: A picture says more than a thousand words.

6.3 Future Research

We hope that this study will be an inspiration for future research. The research field on visualising competitive strategy is interesting and there are a countless number of areas that can be looked into. We have a few suggestions for areas that could be further developed.

Firstly it would be interesting to develop important strategic issues together with a company and try to gain more knowledge about why they are important as well as develop a way to measure them. This would then simplify making a more accurate *strategy canvas*.

Our second area of research would be to create a strategy canvas within a company and use it to compare different divisions and business departments. Many companies say that they have different strategies for their different divisions so it might be interesting to create a *strategy canvas* for these divisions. This would require a deeper analysis of one company and hence it would be necessary to gain access to more inside information.

The third suggestion we have is to find companies that are not as differentiated as the ones in our study and compare them. This idea relates to the weakness that we found in our study. This would investigate if the model is easier to apply to companies that are less differentiated and thereby decrease the level of subjectivity in the interpretations and hence improve the reliability of the model.

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7.6 Search databases

Elin@Lund: www.lub.lu.se

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Appendix 1

Interview questions for Competitors

1. How would you define the industry within which you operate?
2. Which is your current strategy?
3. What are some key strategic issues your company has had over the last 5 years?
4. Do you have any background information to how your strategies have developed?
5. Have your strategic moves been successful?
6. How is your firm competing in comparison to similar companies?
7. What are your strengths and weaknesses?
8. What do you think about the future of your business?
9. What are the most important elements of a strategy?

Appendix 2

Intervju med Analytiker

1. Vilka företag ser du som Trelleborgs konkurrenter?
 - 1a. Skulle du kunna säga något kort om hur framgångsrika dessa företag är?
2. Vilket av dessa företag anser du vara ledande?
 - 2a. Finns det någon risk för att något företag åker ut?
3. Hur definieras marknaden för polymerindustrin, var någon stans i livscykeln finns företagen?
4. Vad har det skett för förändringar på marknaden de sista åren? Och vad har påverkat detta?
4. Vilka trender ser ni på marknaden för polymerkoncerner, t ex Trelleborg?
5. Är det dessa trender som generellt gäller för mogna industrier?
6. Vad finns det för risker för branschen?
7. Finns det en tendens för att företagen inom polymerindustri har liknande strategier?
8. Hur kan man bedöma en strategi?
9. Vilka problem uppstår när man analyserar företag som dessa?
10. Vilka nyckeltal (finansiella + icke-finansiella) används för att bedöma företagen?
11. Vad är viktigt för att klara sig i denna industri?
12. Hur bedömer du att framtiden ser ut för Trelleborg?
13. Hur kommer det sig att många av dessa företag köper upp andra företag?
14. Hur tror du att Globala utveckling av ekonomin kommer att påverka dessa företag?
Tips på källor där man kan hitta information om branschen? Är det något mer du skulle vilja tillägga?

Appendix 3

Intervju med Analytiker – Thomas Johansson

1. Vad har det skett för förändringar på den industriella marknaden för mogna industrier de sista åren? Och vad har påverkat detta?
2. Vilka trender ser du på marknaden för mogna industri företag?
3. Är det dessa trender som generellt gäller för mogna industrier?
4. Vad finns det för risker/hot med en mogen bransch?
5. Går företagen som konkurrerar mer mot eller ifrån varandra strategiskt sett?
6. Hur kan man bedöma en strategi? Vad tittar man på?
7. Är det svårare för företag i dag att hitta långvariga konkurrensfördelar än det var för tio år sedan?
8. Har konkurrensen förändrats i dag mot för tio år sedan?
9. Om man tittar på Porters generiska strategier, finns det möjlighet att vara ”stuck in the middle” men ändå vara framgångsrik eller ligger det alltid en av hans strategier i botten?
10. Vad är viktigt att tänka på när man jämför företag, eller utvärderar företag?
11. Vilka problem uppstår när man analyserar stora mogna, konsoliderade företag?
12. Vilka nyckeltal (finansiella + icke-finansiella) används för att bedöma företagen?
13. Vad är viktigt för att klara sig i en mogen industri i dag?
14. Hur bedömer du att framtiden ser ut för industri i Europa och USA?
15. Hur kommer det sig att många företag i dag, speciellt mogna, köper upp andra företag?
16. Hur tror du att makroekonomiska förändringar kommer att påverka dessa företag? Tips på källor där man kan hitta information om branschen? Är det något mer du skulle vilja tillägga?

Appendix 4

Intervjuguide till Martin Guri

1. Vad har det skett för förändringar på den industriella marknaden för mogna industrier de sista åren? Och vad har påverkat detta?
2. Vilka trender ser du på marknaden för mogna industri företag?
3. Är det dessa trender som generellt gäller för mogna industrier?
4. Vad finns det för risker/hot med en mogen bransch?
5. Går företagen som konkurrerar mer mot eller ifrån varandra strategiskt sett?
6. Hur kan man bedöma en strategi? Vad tittar man på?
7. Är det svårare för företag i dag att hitta långvariga konkurrensfördelar?
8. Har konkurrensen förändrats i dag mot för tio år sedan?
9. Om man tittar på Porters generiska strategier, finns det möjlighet att vara ”stuck in the middle” men ändå vara framgångsrik eller ligger det alltid en av hans strategier i botten?
10. Vad är viktigt att tänka på när man jämför företag, eller utvärderar företag?
11. Vilka problem uppstår när man analyserar stora mogna, konsoliderade företag?
12. Vilka nyckeltal (finansiella + icke-finansiella) används för att bedöma företagen?
13. Vad är viktigt för att klara sig i en mogen industri i dag?
14. Hur bedömer du att framtiden ser ut för industri i Europa och USA?
15. Hur kommer det sig att många företag i dag, speciellt mogna, köper upp andra företag?
16. Hur tror du att makroekonomiska förändringar kommer att påverka dessa företag?
Tips på källor där man kan hitta information om branschen? Är det något mer du skulle vilja tillägga?