

How to respond to low cost competition

- A case study

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Preface

This Master Thesis was conducted during the summer of 2014 at the Production Management Department, Faculty of Engineering, LTH. The thesis is the final activity in the M.Sc. Industrial Engineering and Management program.

We found the topic of this thesis very intriguing and it has been both amusingly and challenging to be involved in the processes of this project. The project has increased our interest in the area as well as business understanding in general.

We are particularly grateful to Olof Tyllered for the opportunity to write this thesis for your department as well as the invaluable opinions and support provided as supervisor. We are also grateful to Gösta Wijk, our co-supervisor at the Division of Production Management, for the support and advice regarding methodology and structure of the report.

We hope you will find this thesis interesting and that it will enhance your insights about how to respond to low cost competition.

Abstract

Title	How to respond to low cost competition – A case study
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Background

Today many large corporations worldwide are facing new competitors that develop “good enough products” to a low price. This is a well-known problem for large companies and is not an industry specific problem. We have seen new entrants especially from Asia entering, ranging from the airline industry, grocery, retailing, wind energy market, banking to IT services. These are just examples and no industry is presumably immune to this issue. How have successful companies tackled these kinds of threats? Managers at traditional premium corporations are having a hard time to decide what strategy to use while responding to these growing competitors and the change in the business landscape.

The company in this thesis, Tetra Pak®, is threatened by low cost competitors due to some of its patents have expired. The largest low cost competitor is named Greatview Aseptic Packaging Ltd and is based in China. Greatview is a Non-System Supplier (NSS) and obtains its revenues through using a more focused business model concentrating on a limited product offering.

Thesis Objective

This thesis consists of two main objectives. The first one is to describe how companies in the B2B manufacturing industry have responded to direct low cost competition and to identify what factors in the market or within the company that has been significant, decisive and descriptive for the choice and outcome of the company’s strategy. These factors will be identified and presented in a normative schematic model.

The second objective is to test the hypothesis if the criteria for not being stuck in the middle stated by Michael Porter are true for the case companies utilizing a dual strategy. In addition, the companies' actions will be compared with Kumar's framework.

Research questions

What strategy could a company use against low cost competition?

- Which factors caused the case companies to take action?

Limitations

This report's focus has been manufacturing companies within the global B2B industry. The report examines six different firms in the mature market, all except one in the B2B industry. The firm that was not a B2B company was requested from Tetra Pak®. The numbers of case objects (six) chosen were depending on a time constraint.

Furthermore, this thesis puts focus on direct competition in the aseptic packaging industry only. Greatview Aseptic is the leading NSS and therefore that company has been studied thoroughly in this report.

Methodology

This thesis is based on a comparative descriptive multiple case study. An abductive approach is used. The data consists of both qualitative and quantitative data such as literary books, dissertations, newspapers, databases, annual reports, websites and trade organizations.

Conclusions

The schematic normative model developed in this thesis is deemed to support management when responding towards low cost competition. Analysis of the empirical findings provided this report with identified factors, which will assist managers to strategize toward low cost competition. Management could then use the model when looking over the competitive environment on a particular market based on how the outside world changes and what internal capabilities the company possess. This can provide an important basis when planning to enter a new market and advise how to develop a strategy against low cost competition. The idea is to bring in new thoughts and assist management with a competition analysis and emphasize a new perspective to rethink and think new in order to improve old thinking patterns. What is interesting to note is that none of the case companies transformed itself to a low cost player.

The criteria for not being stuck in the middle stated by Michael Porter are true for the case companies utilizing a dual strategy.

Furthermore, the findings about the companies' reactions to the low-cost players support Nirmalya Kumar's theoretical framework.

Key words

Low cost competition, low cost strategies, low cost threat, business strategy, pricing, response to low cost

Table of Contents

1 Introduction	1
1.1 Background	1
1.2 Research Questions	2
1.3 Thesis Objective	2
1.4 Limitations	3
2 Methodology	5
2.1 Research Design	5
2.2 Navigation	5
2.3 Research Process	9
2.4 Case Studies	10
2.5 How to Measure Success in the Cases Chosen	11
2.6 Selection of cases	11
2.7 Data Collection	12
2.8 Analysis	12
2.9 Key drivers	12
2.10 Credibility	13
2.10.1 Validity	13
2.10.2 Reliability	13
2.10.3 Generalisability	13
2.10.4 Communication & Usability	14
3 Theory	15
3.1 Michael Porter	15
3.1.1 Generic Strategies	16
3.1.2 Stuck in the middle	17
3.1.3 Dual strategy	19
3.2 Marketing Mix (4 Ps)	19
3.3 PESTEL	21

3.4 Business Canvas.....	21
3.5 Evolving size of the value segments	22
3.6 Kumar Framework	24
3.7 Value Selling.....	25
3.8 Theory Summary.....	30
3.8.1 A brief summary of theories and frameworks chosen	30
3.8.2 What the different theories and frameworks will be used for:	31
4 Empirics (Case Studies)	33
4.1 Aer Lingus.....	33
4.1.1 Background	33
4.1.2 About the Competitors	33
4.1.3 The response from Aer Lingus.....	35
4.2 Dow Corning.....	36
4.2.1 Background	36
4.2.2 About the Competitors	37
4.2.3 The response from Dow Corning.....	37
4.3 Electrolux	38
4.3.1 Background	38
4.3.2 About the Competitors	39
4.3.3 The response from Electrolux	40
4.3.4 Challenges	42
4.4 Orica.....	43
4.4.1 Background	43
4.4.2 About the Competitors	44
4.4.3 The response from Orica.....	44
4.5 SKF	45
4.5.1 Background	45
4.5.2 About the Competitors	47

4.5.3 The response from SKF	47
4.6 Brief summary of the cases	51
5 Tetra Pak®	53
5.1 Background	53
5.1.2 Market Overview	54
5.1.3 Tetra Pak® Business Model.....	56
5.2 About the Competitors	57
5.2.1 Greatview Aseptic Packaging	57
5.3 Analysis Tetra Pak®	66
5.3.6 Identified key drivers within the industry:	77
5.3.7 Submatrix - Tetra Pak®	80
6 Analysis.....	81
6.1 Description of Matrices.....	81
6.1.1 Factors	82
6.2 Aer Lingus.....	82
6.2.1 Analysis.....	82
6.2.2 Identified key drivers within the industry:	89
6.2.3 Submatrix - Aer lingus	90
6.3 Dow Corning.....	91
6.3.1 Analysis.....	91
6.3.2 Identified key drivers within the industry:	97
6.3.3 Submatrix- Dow Corning.....	98
6.4 Electrolux	99
6.4.1 Analysis.....	99
6.4.2 Identified key drivers within the industry:	108
6.4.3 Submatrix – Electrolux	109
6.5 Orica.....	110
6.5.1 Analysis.....	110

6.5.2 Identified key drivers within the industry:	116
6.5.3 Submatrix - Orica.....	117
6.6 SKF	118
6.6.1 Analysis.....	118
6.6.2 Identified key drivers within the industry:	126
Internal factors:	127
6.6.3 Submatrix – SKF.....	128
7 The Developed Normative Model (End Matrix).....	129
Factor Descriptions - Summary	130
Aer Lingus.....	130
Dow Corning.....	131
Orica.....	131
SKF	132
Simplified End Matrix	134
8 Conclusions & Further research.....	135
8.1 Background about low cost competition.....	135
8.2 Questioning Existing Research	135
8.3 The Developed Model.....	139
8.4 Criticism of the Developed Model.....	139
8.4.1 Final comments on the process utilized	140
8.4.2 Frameworks Chosen.....	140
9 References	141
Appendix.....	151

1 Introduction

In this chapter the background and the objectives of the thesis together with the research questions that will be answered are presented. The introduction will give the reader a brief understanding of the subject and the company that requested this report. It will also describe why this thesis is conducted and what research questions that it will answer. Lastly, the limitations of the report are presented. In this report the term “good enough” is related to a product, not a total offer.

1.1 Background

Today many large corporations in Europe, North America and Asia are facing new competitors that develop good products to a low price. The premium companies often struggle to react to these new low cost competitors and new market structure. This is not an industry specific problem, we have seen new entrants particularly from Asia entering everything from the airline industry, retailing, wind energy market, banking to IT services. These are just examples and no industry is presumably immune to this issue.

Low cost competition has seemingly been around forever, but now it seems to emerge in new industries and new product categories much more rapidly than it has in the past. The quality of the products and services from new low cost rivals are about to reach levels that are “good enough” for significant segments of the overall market.

Managers at traditional premium corporations are having a hard time to decide what strategy to use and how to implement it while responding to these new competitors and the change in the business landscape. Should they have its own low cost alternative, under their own brand or under a new one? Should they focus on a specific premium segment? Should they focus on building relationships with customers, suppliers or maybe even partnerships and alliances regarding R&D and innovation? Maybe a combination of them is the best option? It is important to identify the key drivers of change in the business landscape in order to take the right actions against the low cost rivals. It is hard to make these decisions and many companies fail to make them in a good manner and in time. The contribution to the subject could increase the understanding of which strategy to choose when a firm faces low cost competition.

It is essential to enlighten how important this area has become and to promote further interest in this field. All industries, not to mention those in

this report, seem to be giving low cost competitors more attention which makes it extremely important and relevant to study.

It seems to be more valuable to investigate and provide insight of how different companies chose to respond to its low cost competitors. The usual approaches to respond to low cost competitors involve change in pricing, improving customer relationships, increase the value proposition by adding services and customize its products, diversify their product portfolio and innovation. These approaches are all already well known, well analysed and are therefore appropriate to develop.

The case company in this thesis, Tetra Pak®, is threatened by low cost competitors due to some of its patents have expired. The largest low cost competitor is named Greatview Aseptic Packaging Ltd. and is from China. Greatview is a Non-System Supplier (NSS) and obtains its revenues through using a more focused business model concentrating on a limited product offering. A more comprehensive presentation of Tetra Pak® will take place in chapter 5.

1.2 Research Questions

What strategy could a company use against low cost competition?

- Which factors caused the case companies to take action?

1.3 Thesis Objective

This thesis consists of two main objectives. The first one is to describe how companies in the B2B manufacturing industry have responded to direct low cost competition and to identify what factors in the market or within the company that has been significant, decisive and descriptive for the choice and outcome of the company's strategy. These factors will be identified and presented in a normative schematic model.

The second objective is to test the hypothesis if the criteria for not being stuck in the middle stated by Michael Porter are true for the case companies utilizing a dual strategy. In addition, the companies' actions will be compared with Kumar's framework.

1.4 Limitations

This report's focus has been manufacturing companies within the global B2B industry. The report examines six different firms in the mature market, all except one in the B2B industry. The firm that was not a B2B company was requested from Tetra Pak®. The number of case objects (six) chosen were depending on a time constraint.

Furthermore, this thesis puts focus on direct competition in the aseptic packaging industry only. Greatview Aseptic is the leading NSS and therefore that company has been studied thoroughly in this report.

2 Methodology

This chapter presents the methodological choices of this thesis. It will describe the research design; visualize how the thesis is linked together, the research process and the method for data collection. It will give a deeper understanding of how the research is conducted to reach the result of describing why and how to challenge low cost competition. A navigation-map of how the different components in this thesis are linked together will be visualized to help the reader to understand how the research was done. Moreover, an explanation of why the specific research method was chosen, how the selection of cases were done, how to measure success in the case chosen and how the data collection was performed will be provided. Lastly, the chapter will discuss the credibility of this thesis which comprises validity, reliability, generalizability, efficiency and communication & usability.

2.1 Research Design

A research design is about how to get from here to there, where here are the research questions and there are the conclusions (Yin 2003, 19). This thesis is based on an abductive approach and a comparative descriptive multiple case study. The abductive approach is a combination of an inductive and a deductive approach (Wallén 1996, 47-48). This report is seen as partly deductive since a developed hypothesis is tested based on an existing theory. Furthermore, it is seen as partly inductive and normative since empirical generalisations are made together with identifying significant factors which is summarised in a unique model in chapter 7.

A descriptive and normative case study is suitable since not that much research exists in the field of how to respond to low cost competition.

2.2 Navigation

In order to provide the reader with an understandable overview of this report, a visual structure is conducted and showed early in the report.

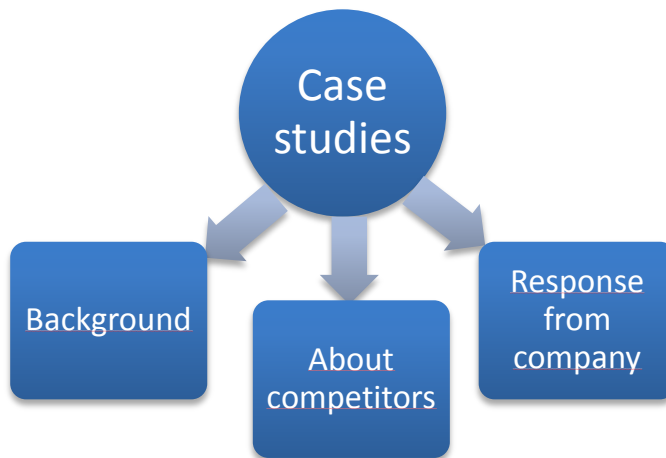


Figure 2.1 First of all, the case studies were conducted based on three headlines; background, about the competitors and the response that the case company did.

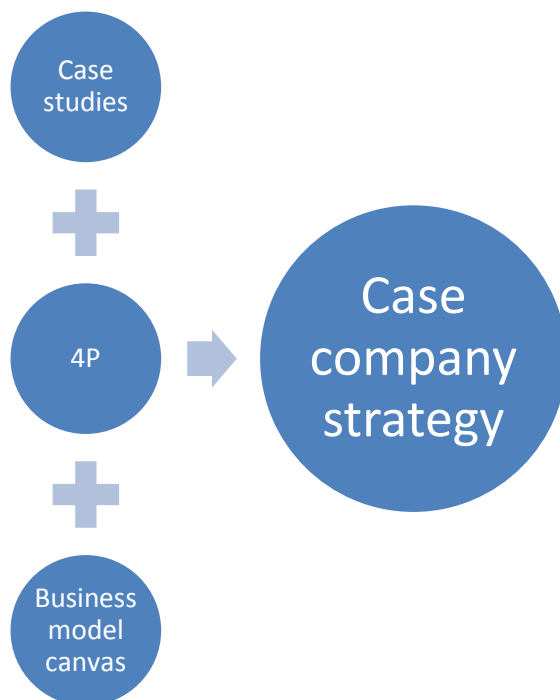


Figure 2.2 Secondly, the case company's strategy was identified based on the case studies (the written text with the three headlines in figure 2.1), Kotler's 4Ps and the Business model canvas – framework.

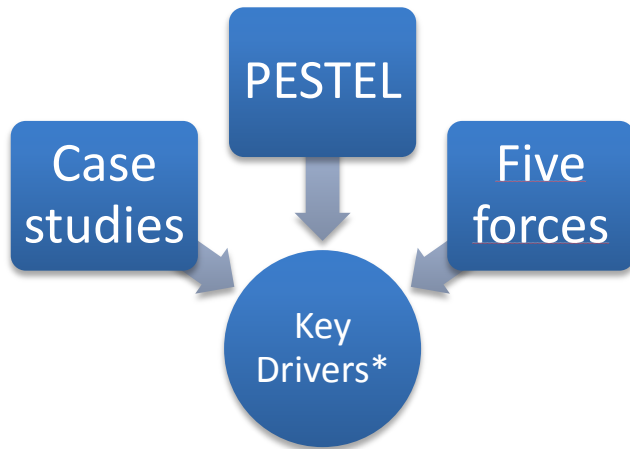


Figure 2.3 When the strategy the companies used was clear, the key drivers within each industry were identified. The key drivers are based on the case studies, the PESTEL-framework and the five forces.

*In some cases a secondary source has been used as reference.

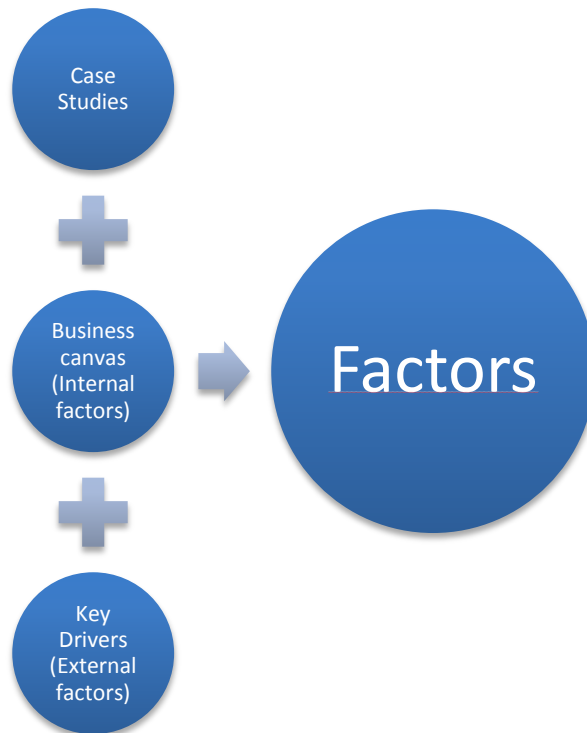


Figure 2.4 Furthermore, the factors could be identified based on the case studies, the business canvas and the key drivers identified in figure 2.3. A more comprehensive description of the factors will take place in the analysis in chapter 6.

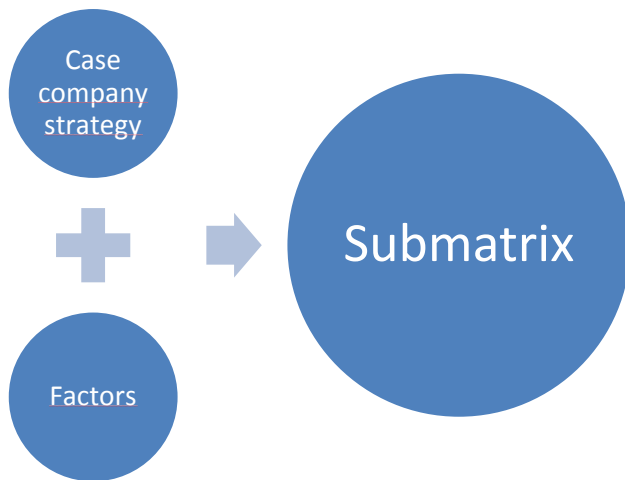


Figure 2.5 The company strategy and the factors will then be presented in a submatrix. How the submatrices are supposed to be interpreted will be described in the analysis in chapter 6.

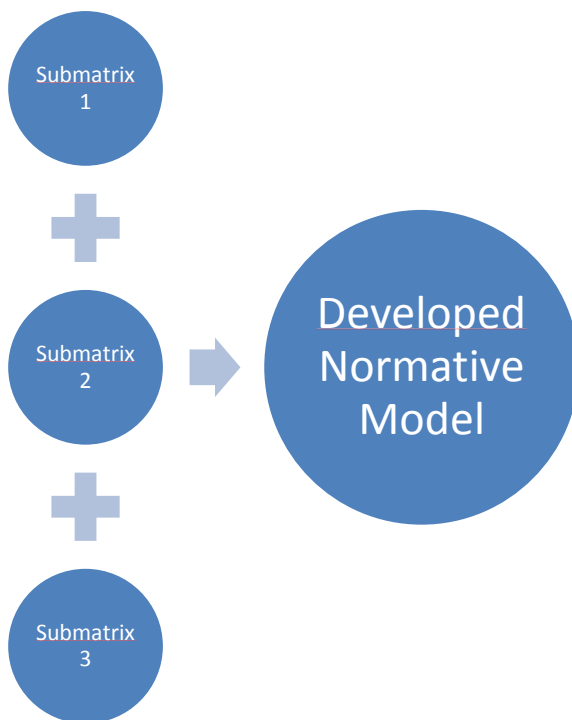


Figure 2.6 Finally, all the submatrices will be compelled into an end matrix (The Normative Developed Model).

2.3 Research Process

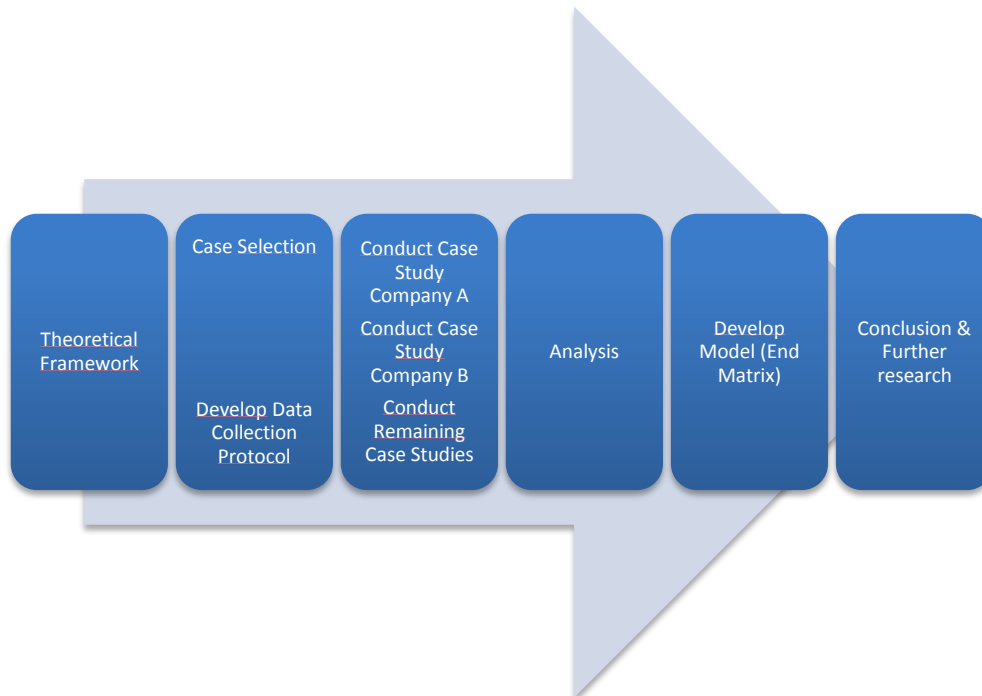


Figure 2.7 Research process. (Yin 2003)

The first step was to identify relevant theories and frameworks on the response to low cost strategies and identify models useful and applicable to the analysis of the case companies. Secondly, the theoretical frameworks were followed by case selection and the development of a data collection protocol. The case companies were selected based on the criteria that it should be a global B2B manufacturing company in a mature market except for the aviation industry company that was chosen based on a request from the client. The data collection protocol was designed to assist the data gathering process and answer the question: What data do we need? The third step was to conduct each case study and analyse all the cases separately.

The data collected for each case company, a description of how the case studies were conducted and the analysis (partly step 2 and whole step 3 and 4 in figure 2.7 above), was done aligned with the process in figure 2.8 below:

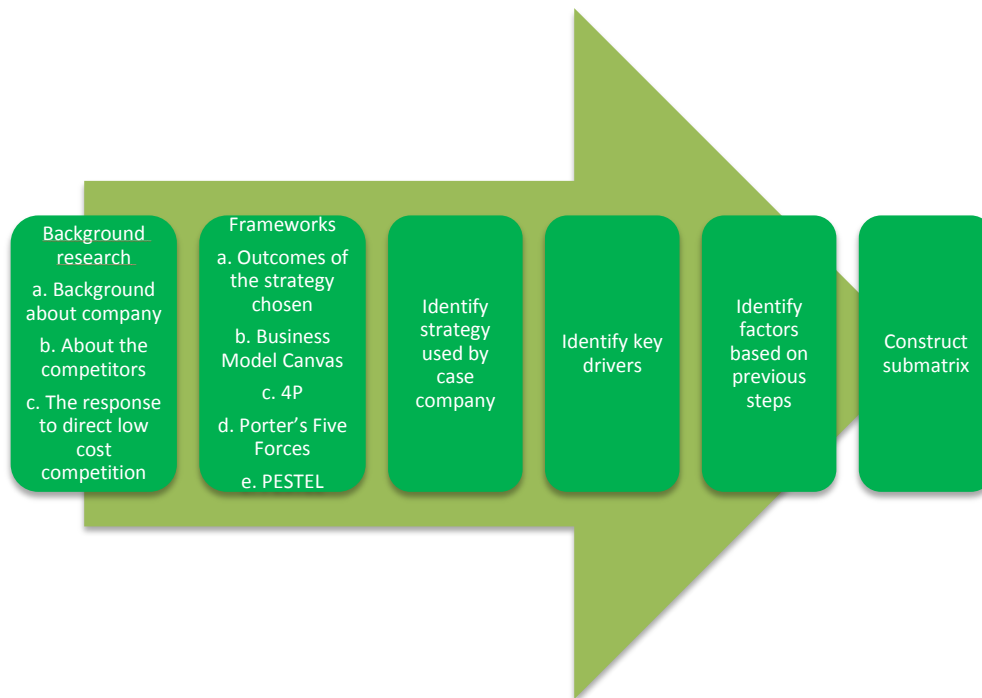


Figure 2.8 Data collection protocol/process and how the case studies and the analysis were conducted.

The fourth step in the research process was the analysis. It consists of multiple frameworks and was used to identify the key drivers of change and significant factors as can be seen in the navigation chapter above. A final matrix (the developed normative model) describing the relationship between factors and what strategy the companies used against low cost competition was constructed in step 5. In the 6th and final step, conclusions about the results were drawn and suggestions of further research were made. Additionally, a comparison between the result and theoretical frameworks was done in order to investigate whether it was consistent with existing theories or not.

2.4 Case Studies

“The case study, like other research strategies, is a way of investigating an empirical topic by following a set of pre-specified procedures” (Yin 2009, 21). Yin also suggests that it is also essential that it exists real-life examples of what one wants to study (Yin 2009).

Yin (2009) argues that the goal with the case study is to achieve deep understanding of single or multiple phenomena. A single case study can provide information about the existence of the phenomena or test its ability for further research, while multiple case studies typically provide a stronger base for a potential theory building (Eisenhardt & Graebner 2007, 25-32).

Multiple case studies have been chosen to support the findings in this thesis, because it is desirable to provide a useful insight into not only one but several responses from companies affected by low cost competitors entering the market. As Yin (2009, 15) suggests, that a common concern is that case studies provide little basis for scientific generalisation. It is important to rely on multiple sources of evidence.

2.5 How to Measure Success in the Cases Chosen

It is essential to measure how the actions taken by the case companies in order to respond to the low cost threats affected its entire business. In this report this is measured through operating / net profit margin before and after the actions taken. To make sure it is not just an economic boom and all companies in the industries thrive, comparisons of the industry average or a comparison with the closest competitors has also been carried out. The operating / net profit is a quantitative measure and does not risk being biased or subjective. Other or additionally financial measurements could potentially increase the validity. If the actions taken to respond to low cost competition have been successful, the assumption is made that the success should also be visible in the companies' financial performance.

2.6 Selection of cases

The cases in this thesis are chosen based partially on global B2B companies acting in the mature stage and partially by a request from Tetra Pak®. In addition, the companies must have been threatened by a low cost competitor or were obliged to make a move before price war created a red ocean market. Red ocean markets are often characterized with intense competition, saturated market shares and non-profit (Kim 2005).

2.7 Data Collection

The data is compiled from literary books, dissertations, newspapers, databases, annual reports, Internet and trade organizations. The data collected has all been from secondary sources because of time limitations and due to the secrecy nature of the subject. The last reason might include things such as confidential information about Tetra Pak® and difficulties to achieve valuable information through interviews with relevant decision makers from the case objects analysed. Interviews with representatives from the different firms could have helped the understanding of the situation and its choice of strategy. Having multiple sources for the data may improve the credibility of the content and minimise the risks of misinterpreting the answers given.

2.8 Analysis

The analysis will be done by identifying significant, decisive and descriptive factors for the choice and outcome of the strategy. Figure 2.8 and the navigation-map shows visually how the analysis was performed. The purpose is to describe what factors that imposed which counter strategy against low cost competition. The final result will be a matrix (a normative schematic model) with the factors and strategies. The result can be compared to existing theoretical frameworks like Porter and Kumar, and increase the knowledge of how to respond to low cost competition.

To support the analysis of the collected data, it will be presented using theoretical frameworks such as Business Model Canvas, 4P, PESTEL and Porter's Five Forces.

2.9 Key drivers

For each case a final submatrix, key drivers within the industry and factors that affected the choice of strategy to challenge the low cost competitor will be presented. This will be helpful when putting together the final matrix.

2.10 Credibility

2.10.1 Validity

“Validity refers to the degree to which a study accurately reflects or assesses the specific concept that the researcher is attempting to measure” (Colorado State University a). In other words, has the study been assure that it measures what it is intended to measure?

This thesis is not making any claims regarding causal relationships but merely describing patterns between factors identified in each case and the actions used to respond to the low cost threat. The findings in the case studies have been compared to previous theories (Porter) and findings (Kumar) to establish a chain of evidence.

2.10.2 Reliability

”Reliability is the extent to which an experiment, test, or any measuring procedure yields the same result on repeated trials” (Colorado state university).

Reliability might not be so essential to discuss in this case study since research approaches similar to the one in this thesis would most likely lead to similar conclusions.

However, using multiple sources could potentially strengthen the reliability of the thesis and be a reason for conducting interviews. Analysing other type of firms in other industries could provide potential valuable information. There are certain market factors and key drivers that potentially could be different while analysing other industries.

2.10.3 Generalisability

In research, the final result should be generalizable to a certain degree (Wallén 1996, 62). However, since the developed model in this report has not been tested in reality, it is hard to say how generalisable the developed model is before it gets tested in the real world. To enhance the degree of generalisability, the model is developed based on different industries and existing research has been tested and compared within the same area. The final conclusions can potentially be applicable under broader terms, for instance that the developed model can be used for competitor analysis in different countries and different markets.

2.10.4 Communication & Usability

According to Wallén (1996) an important criteria that models should fulfill is its efficiency, or its manageability according to its purpose. Simplifications of a model in order to increase the efficiency could potentially lead to a more inaccurate and non-creative model, and a likewise reality. In other words, it must be communicable for the user (in this case the management of the company) but not simplified at the expense of quality. The developed normative model in this report has a separate section which describes how it should be interpreted and used. A simplified matrix is also constructed to increase the usability but in a way so there is no risk to affect the quality. Since the developed model communicates its message in the form of a matrix, it should be interpreted quite easily.

3 Theory

This thesis' theoretical approach is based on well-known frameworks involving business strategy, company internal and external analysis, marketing, business model, value selling and frameworks involving responding to low cost competition. The frameworks are applied in the analysis chapter and a summary together with a description of what the theories and frameworks are used for will take place in the end of this chapter.

3.1 Michael Porter

In 1981 Michael Porter released his book "Competitive Strategy" that has had tremendous impact on the world's businesses through decades. The quest to find a good position within an industry is something that every company goes through. To find that position a company needs to find an industry with long term profitability and understand which factors that impact that profitability. Also the factors that make you competitive relatively to the other firms within that industry need to be found (Porter 1985, 1). When choosing a competitive strategy, both of those areas need to be addressed and they are possible to affect by the firm itself (Porter, 1985 2). When deciding in which industry to compete a thorough analysis of the competition needs to be made. The goal with a competitive strategy is to have advantage over its competitors. The rules of competition can be divided into five forces. The forces are the bargaining power of suppliers, the entry of new competitors, the bargaining power of buyers, the threat of substitutes and the rivalry among the existing competitors (Porter 1985, 4).

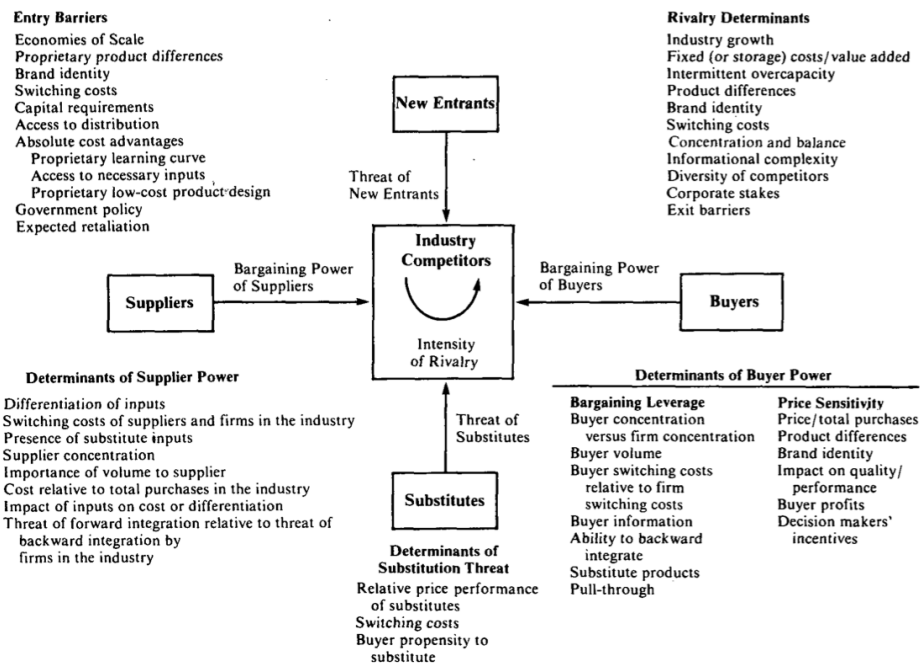


Figure 3.1 Michael Porter's Five Forces (Porter 1985, 6).

3.1.1 Generic Strategies

To achieve above average profit the company needs a competitive advantage relative to the competitors in the industry. There are two types of competitive advantage, Cost leadership and Differentiation. The cost advantage or the differentiation is depending on how well the company handles the five forces. A strategy is a combination between a competitive advantage and the activities that are connected to them. The strategies are; cost leadership, differentiation and focus (Porter 1985, 11). The difference between focus and non-focused strategies is that a focused strategy is targeted towards a narrow segment whilst a non-focused is targeting a broad set of segments. It may be tempting to choose more than one strategy but it is difficult and risky because the firm could end up having no competitive advantage at all (Porter 1985, 12).

3.1.1.1 Cost Leadership

Price is something that many customers focus on when choosing a supplier, to be able to provide a good price and still have high margins, you need cost leadership.

A cost leader tries to lower the costs in every way possible; it could be everything from economies of scale, proprietary technology to source of raw material. A low cost leader usually offers a standard product with no extra features (Porter, 1985 12). However, not even a low cost leader can ignore differentiation completely because if they do not offer a good enough product, the customer will not buy it to full price (Porter 1985, 13).

3.1.1.2 Differentiation

If a firm wants or has to set a higher price than the low cost competitor it has to offer something different than the low cost player that are of great value to the customer. If the cost for making the differentiation is less than the price margin gained the company should get above average profit. In this case just as in the low cost case, the strategies cannot be totally ignored by each other. A firm that chooses differentiation needs to lower its costs in the activities where it is not differentiated (Porter 1985, 14).

3.1.1.3 Focus

A focused strategy can be divided in two different categories; cost focus and differentiation focus. They are just as the above mentioned strategies but targeted to a specific customer segment in the industry that have other needs than the general customer (Porter 1985, 15).

3.1.2 Stuck in the middle

Some firms choose to pursue both cost leadership and differentiation, it is very difficult and there is a risk that the company will end up not being a low cost leader nor differentiated which is also known as "stuck in the middle". A middle player usually gets below average return. The only way for a middle player to perform well is if the competition is stuck in the middle as well. In a mature industry it is often clear which companies that are middle players and which are not because it gets easier to distinguish which company has chosen which strategy (Porter 1985, 17). In this thesis we will see examples of low cost players, differentiated companies and companies that are stuck in the middle. Even though it is hard to pursue both

strategies, it is not impossible. First of all the different strategies have to be in separate business units so they can focus on their strategy. Secondly, any of the three situations below must apply:

1. Competitors are stuck in the middle

None of the competitors have enough competitive advantage to make cost leadership and differentiation inconsistent.

2. Cost is strongly affected by share or interrelationships

If a firm has a large market share, it sometimes, has such a big cost advantage that even if they have larger costs in other activities, they can still keep its cost leadership.

If there are important interrelationships between industries that not everyone can exploit, the interrelationships could be used to lower the cost of differentiation.

3. A firm pioneers a major innovation

An important innovation could make it possible to differentiate and lower cost at the same time. However if it is possible to copy the innovation, then the firm has to choose strategy again. If the firm has not recognised this, there is a risk that they do not have cost leadership or differentiation. A firm should always look for cost reductions that do not sacrifice differentiation (Porter 1985, 20).

		COMPETITIVE ADVANTAGE	
		Lower Cost	Differentiation
COMPETITIVE SCOPE	Broad Target	1. Cost Leadership	2. Differentiation
	Narrow Target	3A. Cost Focus	3B. Differentiation Focus

Figure 3.2 The Generic Strategies (Porter 1985).

3.1.3 Dual strategy

One of the main objectives in this thesis is to test the hypothesis if the criteria for not being stuck in the middle stated by Michael Porter are true for the case companies utilizing a dual strategy. This paragraph is written in order to clarify for the reader: a dual strategy is used when a company chooses to pursue both cost leadership and differentiation.

3.2 Marketing Mix (4 Ps)

The marketing mix is a business tool for marketers. After a company has decided its overall strategy it is time to plan the details of its marketing mix, a major and tactical concept in modern marketing. The marketing mix consists of everything that can influence the demand of a company's products. It is used effectively in order to achieve a profitable response on a target market. Armstrong & Kotler (2011) describes that the company's marketing tools are classified into four broad groups called the four Ps of marketing: product, price, place and promotion. In order to deliver a company's value proposition, the organisation must create and fulfill a need through its market offering (product). The company must figure out how much it will charge its customer for its product (price) and decide how to make the product available for its target customers (place). Lastly, the company must communicate its offering to its target customers in certain ways (promotion). The company must mix these four Ps in a comprehensive way to be able to deliver its value to its target customers. (Armstrong & Kotler 2011, 40-41; 80-81)

The following pictures will embrace some thoroughgoing questions of the 4 Ps and a description of what strategy a company uses with reference to the 4 Ps.



Figure 3.3 The 4 Ps of the Marketing Mix (Armstrong & Kotler 2011).

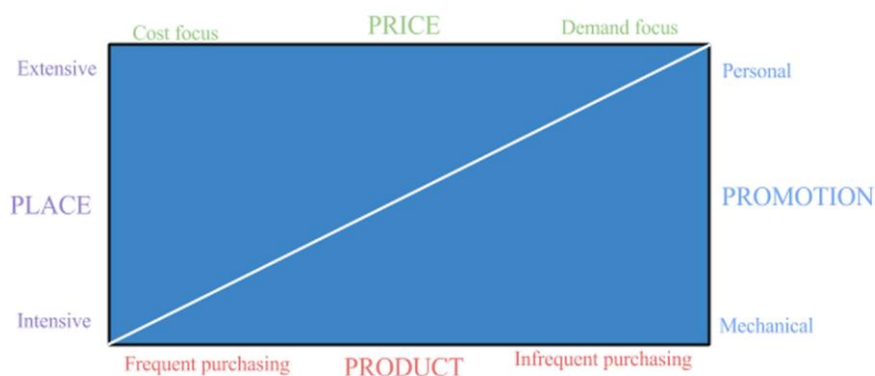


Figure 3.4 A description of what strategy a company uses with reference to the 4 Ps. In the analysis there will be one or two dots on the line in each case depending on what strategy the company used (Armstrong & Kotler 2011).

3.3 PESTEL

According to Johnson, Whittington & Scholes (2011) the definition of a PESTEL framework is the following: “The PESTEL framework categorises environmental influences into six main types: Political, Economic, Social, Technological, Environmental and Legal.”

Thus, a PESTEL framework is used when conducting strategic analysis in the external environment of an organisation which can affect its activities and performance. The framework is designed also to give an overview of what factors that affect a market on a macro level. It is very important for managers to analyse how these factors are changing and determine whether it will affect the company or not in both short and long terms. By examining each of the driving forces and selecting the most important ones a company can proactively take these factors into consideration when strategizing for the future. These factors can change independently but also simultaneously which makes it extra essential to be updated about the external environment and it might then reveal both threats and opportunities in e.g. marketing plans (Johnson, Whittington & Scholes 2011, 50).

In the model Political refers to the role of governments such as tax policies and labor laws; Economic includes macroeconomic factors such as inflation, GNP trends, fluctuation in raw material prices and interest rates; Social includes population demographics, lifestyle changes and income distribution; Technological i.e. refer to speed of technology transfer, government spending on research or, access to the newest technology; The Environmental pillar stands specifically for “green” issues such as pollution, waste and natural disasters; and lastly Legal embraces legislative constraints and changes such as restrictions or regulations of a specific market (Johnson, Whittington & Scholes 2011, 50-51).

3.4 Business Canvas

The canvas is constructed as a helpful framework in the process of constructing, evaluating and implementing a business model. So what is a business model? In this case a business model is how an organisation creates; delivers and captures value (Osterwalder & Pigneur 2010).

The canvas was developed because the authors found a need for a tool that everybody could understand, the tool should be simple to use but not give the interpretation to misjudge the complexity of the business model. Using a tool has the advantage that everyone has a common way of describing and

understanding a business model. The tool could not only be used to describe a business model but also to create or change one.

The model consists of nine blocks that covers the main areas of a company, and how it is supposed to make money. The nine blocks are Customer Segments, Value propositions, Channels, Customer Relationships, Revenue Streams, Key Resources, Key Activities, Key Partnership and Cost Structure (Osterwalder & Pigneur 2010).

3.5 Evolving size of the value segments

A customer chooses supplier depending on which one that best serve their needs. There are three types of value propositions, Performance Value, Relational Value and Price Value. It is common that firms choose to focus on one of them (Ryans 2008, 22)

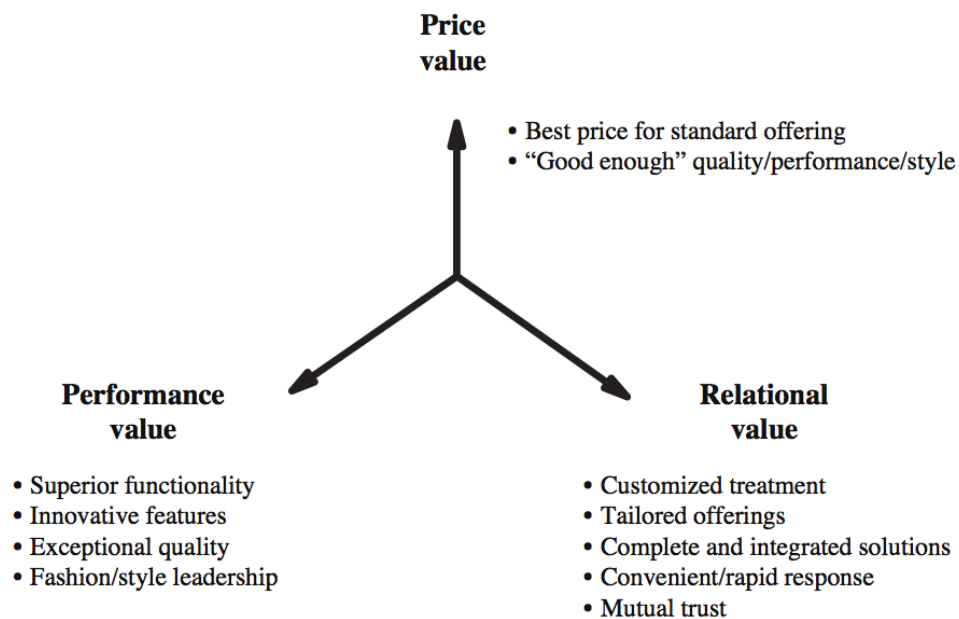


Figure 3.5. The three types of value propositions; Performance Value, Relational Value and Price Value (Ryans 2008, 23)

Firm’s usually have the goal to be the best in one of the value propositions and good enough in the others. Some companies try to have different value propositions to different segments. These could come from different business units (Ryans 2008, 26).

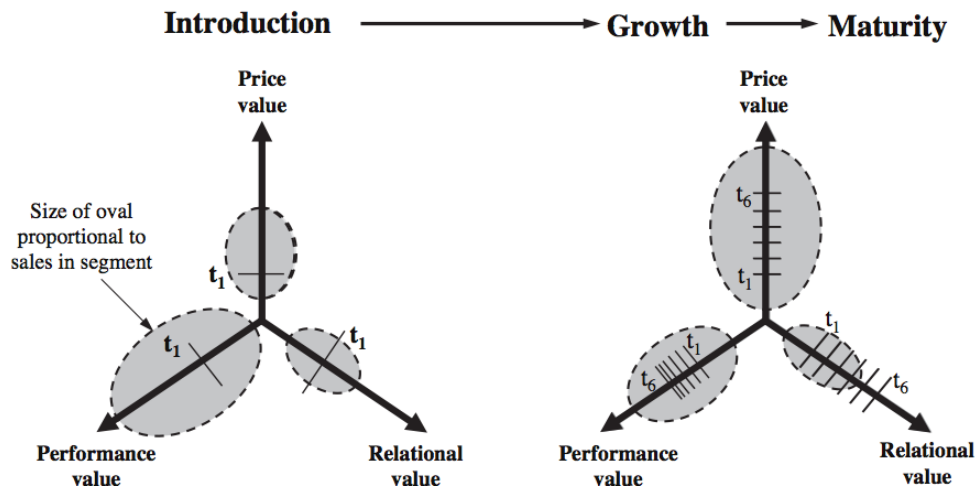


Figure 3.6. A product or service goes through different stages; introduction, growth, maturity and decline. Each value segment may differ depending on which stage the product or service is in (Ryans 2008, 28).

In the beginning of a product life cycle performance value is most important, since the performance usually is poor in the beginning. The cost to develop performance often grows exponentially, in the Figure 3.6 above you can distinguish that the increase of performance value is bigger between t_1 and t_2 than t_5 and t_6 (Ryans 2006, 27). As the market matures the increase in performance value is not as valued by customers. The price value segment and relational segment usually grow as the market matures (Ryans 2008, 28).

The product life cycles are shorter today than before, the CEO of P&G estimate that the cycle is half as long if you compare 1992 to 2002. The price value players are entering the market faster than before; it could be either a cause or a result of the shorter life cycle.

The entry barriers into many industries are much lower than they were before which makes it easier to enter a market. A factor that has contributed to this development is the trend toward focused business models instead of a traditional business model (Ryans 2008, 29).

Every company consists of three different group activities; innovation and commercialization, infrastructure and customer relationship activities. However, most companies choose to give more attention to one of them.

	Customer relationships	Infrastructure	Innovation
Key success factors	Scope	Scale	Time to market and timing
Management focus	Customers	Costs	People

Figure 3.7. All of the groups require a different management style (Ryans 2008, 33).

If a company is trying to focus just as much on all three, there is a risk of conflict between them, even though it could still be beneficial for some companies due to trade secrets or synergies between the activities. The trend towards focused business models makes it easier for firms to leverage the use of other focused player to be competitive. Today, it is quite easy for value players to find partners that offer good enough quality and are able to compete on price (Ryans 2008, 38).

3.6 Kumar Framework

Nirmalya Kumar designed a model for responding to low-cost players when entering a company's industry. The idea is that it will serve as a guideline but can also be a powerful tool if a company is not accustomed to low-cost competitors. This is a general framework and will be compared with the case companies as a part of the hypothesis described in the methodology chapter and also used in order to support the conclusions of this thesis.

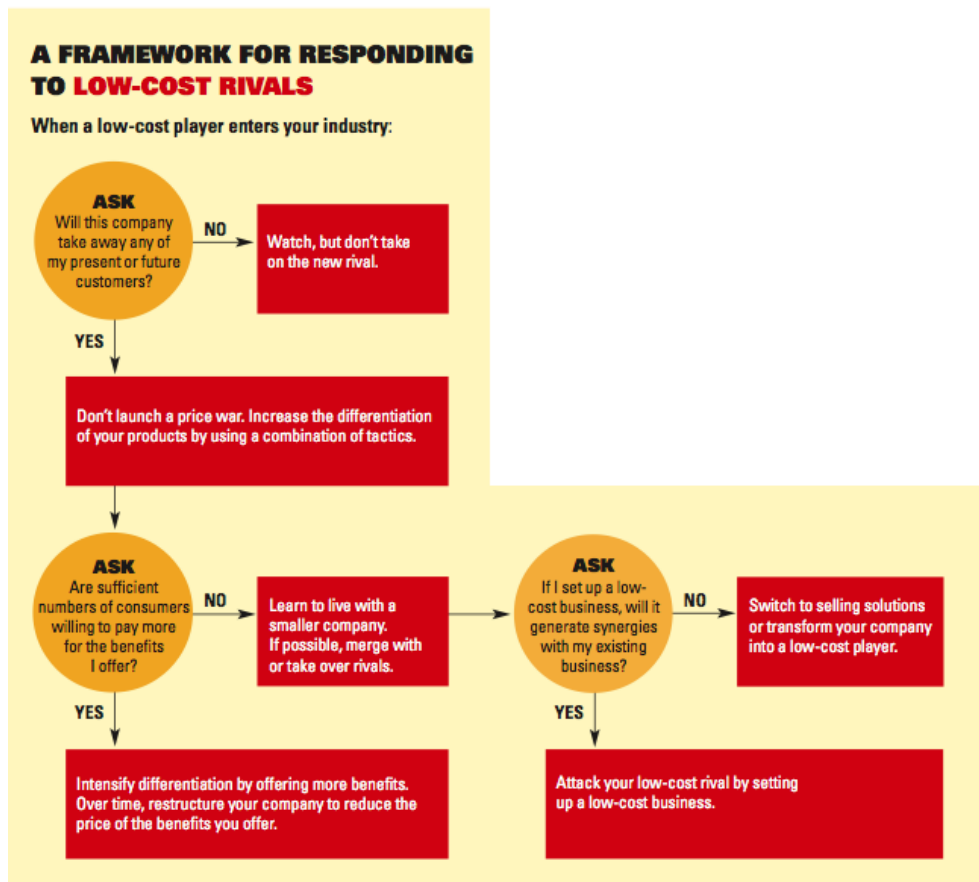


Figure 3.8. Kumar's framework for responding to low-cost rivals (Kumar 2006, 107).

3.7 Value Selling

All companies face the challenge of how to package their products and services, what pricing to use and how to communicate their offer to the customer. A strategy that could be used is value selling. In this thesis companies such as SKF and Orica have used value selling or a similar approach.

Some companies believe that what they offer the customer is of great value to them, but this may not always be the case. The perception of what is of value could differ between the supplier and the purchaser. A true value seller is "demonstrating and documenting superior value" as well as having a salesforce that are focusing on selling value rather than volume. A

salesforce like that is also known as value merchants (Andersson et al 2007, 14). The process of transforming an organisation to a value selling organisation consists of nine steps.

Customer value management process

1. Conceptualize Value
 2. Formulate value proposition
 3. Substantiate Value proposition
 4.
 - a) Tailor Market Offerings
 - b) Transform sales force to value Merchants
 5. Profit from value provided
- (Andersson et al 2007, 17)

Conceptualize value

Today it exist various definitions of what value is. The definition used within business value in the value selling strategy is the following: 'Value in business markets is the worth in monetary terms of the technical, economic, service and social benefits a customer firm receives in exchange for the price it pays for a market offering.' Customer value is also a relative concept (Anderson et al 2007, 24). The value is always compared to an alternative. The definition and the comparative concept are captured in the equation below.

Definition of value by following value equation:

$$(\text{Value}_f - \text{Price}_f) > (\text{Value}_a - \text{Price}_a)$$

Value_f and Price_f are the value and price at firm f. Value_a and Price_a are the price and value of the second best alternative offer to f. "The difference between value and price is the customers' incentive to buy" (Andersson et al 2007, 25).

There are three types of customer value propositions in the B2B market:

All benefits

All benefits the customer receives from the offer. The value proposition answers the question; "why should our firm purchase your offering?". To be able to use this approach you need knowledge of your own offer. This is the easiest offer to construct, and is basically a list of every potential point that the supplier thinks could add value to the customer (Anderson et al 2007, 31). There is a risk for benefit assertion which means to claim that the offer

has distinctions that in reality are of no value to the customer (Anderson et al 2007, 32).

Favorable points of difference

All the benefits an offer has compared to the second best alternative. The value proposition answers the question of "Why should our firm purchase your offering instead of the competitors"? This approach requires knowledge of own as well as the second best offering (Anderson et al 2007, 31). A risk is value presumption, which means the assumption that the favorable points of difference are of value to the customer (Anderson et al 2007, 34).

Resonating focus

This comprises one or two points of difference that will deliver the greatest value in the near future. The value proposition answers the question of "What is most worthwhile to our firm to keep in mind about your offering?". The firm will need knowledge of how the own offering specifically offer more value to customers than the second best option. The approach requires customer research.

Formulate value proposition

The formulation consists of three potential steps:

- The supplier identifies the present and potential points that they think are valuable to customers.
- Qualitative research as support to further formulate the value proposition.
- Construct value word equations to demonstrate the point of differences that will be estimated in the following customer research. (Anderson et al 2007, 41)

Substantiate value proposition

To make the value proposition lucrative you have to demonstrate and document it.

Word equations could be used to demonstrate the value and they should be based on data gather customer research. The supplier can also create tools to document the value delivered and use it to substantiate its value proposition.

Tailor Market Offerings

Companies in B2B markets often believe that their product is commoditized. However, often they do not consider the supplementary service they offer compared to their competitors. Often suppliers offer packages with services that the customer gets for free without considering "1: the value of these services for customers, 2: how they may be valuable to some customers but not for others, and 3: how they may be a source of differentiation". Tailoring market offerings is the process of setting products, services, programs and systems together in a different manner to add much value as possible to each targeted customer segment. Tailor market offerings require naked solutions and flexibility in the propositions (Anderson et al 2007, 82).

Transform the sales force into value merchants

A value merchant recognises the value that the offer delivers and has the goal to get a fair return for both the company and the customer. A value spendthrift is common and means a sales force that waste the value provided and get little in return. To make the salesforce work as value merchants the compensation plan must reward value selling with profitable outcomes. The company must show and convince the sales force that using the value tools will make the sales process easier and make them more money. Compensation based on profits brings together the components of selling on demonstrated and documented value and getting a fair return on the value provided.

Profit from value provided

A customer's contribution to profitability consists of two different components; the willingness to pay can increase or the cost to serve a customer can be lowered. The willingness to pay consists of two elements; price premiums and more profitable mix of business. The second one means that some components in the offer that are purchased by the customer to a large extent increase the customer's profitability to the supplier (Anderson et al 2007, 136).

Cost to serve consists of "Greater share of customer business" which means that a greater share of the total purchase of the type of product or services the supplier delivers is sold by the supplier, and "Eliminate value drains and value leaks". Value drains are services that cost more for the supplier than they add value to the customer. Value leaks are customer activities that cost money without adding any cost savings or value to either customer or supplier (Anderson et al 2007, 137).

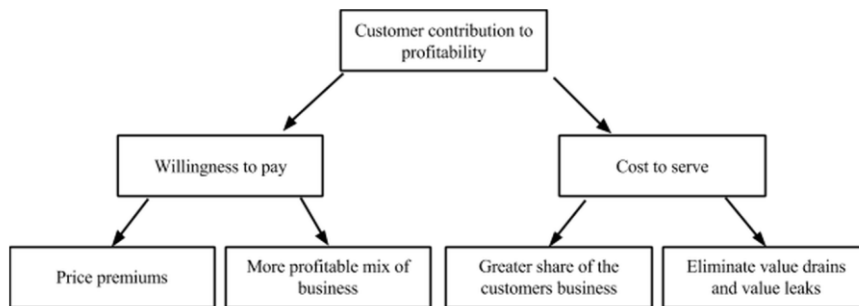


Figure 3.9. Get a fair return on value provided to customers (Anderson et al 2007, 137).

3.8 Theory Summary

3.8.1 A brief summary of theories and frameworks chosen

The theory frameworks in this master thesis are selected on the basis of the research questions. It will assist this report with a comprehensive analysis of all the selected cases. Perhaps the most relevant is Michael Porter's generic strategies. His developed Differentiation, Focus- and Cost leadership strategies are probably the most famous in all businesses. He argues that if a firm does not fully succeed with the generic strategies it gets "stuck in the middle".

The marketing mix is a business tool for marketers. The tool assists marketers putting the right product, on the right place, at right price at the right time. Kotler and Armstrong also describe how the overall business strategy gets support from the 4 Ps.

The PESTEL framework is a powerful tool when conducting strategic analysis in the external environment of an organisation which can affect its activities and performance. It is very important for managers to adapt the overall business strategy and to analyse how the Political, Economic, Social, Technological, Environmental and Legal aspects are changing the business landscape in both short and long terms.

The Business Model Canvas is a helpful framework in the process of constructing, evaluating and implementing a business model. The model could be used to in an easy way to describe, change or create new business models and strategies. The canvas consists of nine blocks; Customer Segments, Value propositions, Channels, Customer Relationships, Revenue Streams, Key Resources, Key Activities, Key Partnership and Cost Structure.

A value proposition is usually focused on one of the three categories price value, performance value or relationship value. The size of the customer segment that requires the different value propositions vary over time. In the introduction phase of a product the demand for performance is more important and demanded than price or relationship. As the product moves through a growth and then mature stage, the price value segment becomes the largest segment followed by the relationship value segment and performance value segment.

Nirmalya Kumar's framework is a model designed for responding to low-cost players. It is a guideline and could strengthen the results when deciding whether to adopt a new subsidiary, business unit or not respond at all.

The value selling approach is focusing on the importance to document and demonstrate the value provided to the customer. The company has to transform both business and salesforce to achieve this goal. The process of how to transform a firm to a value seller consists of the following steps; Conceptualize value, formulate value proposition, substantiate value proposition, tailor market offerings, transform sales force into value merchants and profit from value provided.

3.8.2 What the different theories and frameworks will be used for:

Porter

- Definitions of different strategies. They are partially present in the submatrices and the end matrix.
- Criteria to be able to succeed with a dual strategy, the conditions will be tested in the case companies utilizing a dual strategy.
- Five forces will be used in the analysis of each case company.
- It will also be used to identify the key drivers.

Kumar

- To test and compare if the case companies made proper decisions according to Kumar's framework.

Marketing mix, 4P

- The marketing mix will be used in the analysis of each case company and support the identification of the strategy chosen.

Business model canvas

- Will be done for each case company to get a good sense of the companies' business models.
- It will be used to identify the case company strategy and to identify internal factors.

Evolving size of the value segments

- Explanation of evolving value segments and provides increased understanding of the background to the project.

PESTEL

- The PESTEL will be used in the analysis of each case company.
- The key drivers for each case company will be identified with assistance of the PESTEL.

Value Selling

- Explaining an approach partially used by the case companies Orica, SKF and Dow Corning.

4 Empirics (Case Studies)

The empirics present the data used for analysis. In this chapter there are five historical case companies presented. Each case will provide a brief background, competitor descriptions, and the response that the company did to the low cost threat. This is the first step in the data collection process shown in the Methodology chapter.

4.1 Aer Lingus

4.1.1 Background

Aer Lingus is a public airline based in Dublin, Ireland. The company acts in a tough industry since direct competition between full service airlines and no-frills carriers is intensifying across the world. Ryans (2008) describes Aer Lingus as they were in intense competition with Ryanair since Ryanair moved to a more price value strategy in 1992. Low cost airlines like Ryanair have changed the airline industry by making it more accessible. They have contributed to air travel by making flying affordable to a larger segment of consumers, no longer only for the upper segment of the population.

Aer Lingus did not do any major changes in their core strategy for several years, so by 2001 together with the 11 September attacks and the global recession, Aer Lingus filed for bankruptcy. At that point in time, Aer Lingus had two major businesses: one short haul business in Europe and one long-haul business especially to North America where Irish people have roots.

Later on, the CEO Willie Walsh implemented a restructuring plan in order to make the company profitable as soon as possible (Ryans 2008, 157-158).

4.1.2 About the Competitors

There are several low cost competitors in the European airline industry. In this case, one low cost competitor only will be presented, namely the largest threat, Ryanair.

In 1992 EU deregulated the airline industry so that an airline based in one EU country was allowed to operate in other EU countries. Due to this, the low cost carrier market started to emerge significantly. Ryanair (founded by Tony Ryan in 1985) as was one of the first low cost carriers that really took advantage of this and has for the prior two decades dominated the short-haul air industry in Europe (Ryans 2008, 21). Aer Lingus faced competition on

the long-haul routes mostly from Delta Airlines, American Airlines and Continental Airlines. Moreover, on its short-haul routes from British Airways, Air France and Lufthansa on the routes to UK, France and Germany, respectively, but the primary threat was Ryanair (Ryans 2008, 158).

Ryanair implemented their new strategy in 1992 on a low cost platform based on no-frills, no refunds and low-fare service. They copied many of the core elements of Southwest Airline's business model (Ryans 2008, 52). Ryanair's CEO, Michael O'Leary, summarises their business model in an interview quite representative:

‘We guarantee to give you the lowest airfare. You get a safe flight. You get a normally on-time flight. That's the package. We don't and won't give you anything more on top of that.’
(Chesshyre 2002, The Times).

Ryanair replaced their mixed fleet to one single aircraft, the Boeing 737. The planes had no additional equipment at all. For instance, there were no window blinds or seat pockets, nor assigned seats. This contributed to lower maintenance costs and shorter cleaning and flight turnaround times.

Ryanair had an extreme focus on cost control and cost minimisation. As mentioned above, many savings resulted in the use of only one single aircraft. It was no problem to handle spare parts and much time was saved when cabin attendants and the flight crew were trained since only one aircraft type was used (Ryans 2008, 53).

Furthermore, Ryanair outsourced many operations to plausible suppliers. For instance, the engines were serviced by GE and the pilot training was provided by GAE, an aircraft simulation manufacturer. The pilots were expected to pay for their own training likewise the cabin crew. This system hopefully increased the motivation to learn (Ryans 2008, 54).

Moreover, Ryans (2008) explains that the air carrier only provided one service class and only one-way tickets were able to purchase. No travel agents were hired so the tickets were mainly sold via internet and the remainders were sold via call centers. The ticket price varied depending on when the customer booked the flight. If the customer booked early, the price was significantly lower. To improve the control of revenues and costs Ryanair introduced a compensation- and incentive system for its employees. This incentive payment system encouraged the staff to sell onboard food and beverages. They got compensated for number of flight segment per

month they had flown and the system was also extended to their contractors who also aimed to fulfill their goals. These goals such as charging for overweight luggage and minimise turnaround time were paid off if achieved in time (Ryans 2008, 56).

Another important part of Ryanair's business model is their low expenses on advertising and public relations. Michael O'Leary was very good at drawing attention via "cheap" advertising such as irrelevant media statements. Except that, Ryanair almost only advertised about its low prices (Ryans 2008, 56).

4.1.3 The response from Aer Lingus

Aer Lingus redefined itself to a low fare airline with a slightly differentiated product offering relative to Ryanair. For instance, Aer Lingus kept its one-way fares on long haul routes. Some additional critical actions Aer Lingus made were:

- They copied many of the basic elements of the low cost model from Ryanair such as utilizing its own website for primary bookings, rationalised its distribution network, reducing commission to travel agents, and fees for checked baggage.
- Serving primary airports.
- Assigned seating.
- Primarily targeting business travelers going to major European business centers.
- They eliminated business class on its short-haul flights.
- They retained some aspects of its low-cost European model such as one-way fares.
- Unlike Ryanair, Aer Lingus promised to not leave a passenger stranded because of problems with the planes or bad weather conditions.

(Ryans 2008, 158-162)

4.2 Dow Corning

4.2.1 Background

Dow Corning was in 1943 formed as a joint venture between Dow Chemical and Corning Glass. The purpose with the joint venture was to discover the market potential in silicone. The silicone was used in a variety of products such as hair conditioning and caulking. Dow Corning invested very heavily in R&D in order to be able to meet very customized customer needs. By 2000, Dow Corning had captured 40 % of the global market share and had become a multi-billion euro business (Ryans 2008, 153-154). The organisation had six different industry segments. The industries ranged from healthcare to automobile and from household products to electronics which all had their own marketing, sales and technical services (Ryans 2008, 153-154).

Dow Corning made research about what their customers truly valued. According to Francis and Kashani (2006) Dow Corning identified four different customer segments which could be bundled into two major “benefit segments”. The first segment, “solutions seekers” were innovation and technology focused customers. This could for instance be a health and beauty company who needs silicone to be able to fulfil and develop the right product properties for their customers. It could also be customers who did not have the resources to invest heavily in R&D, or just wanted supplier advice on products currently available from Dow Corning. Moreover, this segment also included customers who were willing to pay premium prices for high performance silicon compounds in order to reduce the finished product’s total cost (Ryans 2008, 154-155).

The second segment was the “price seekers”. These customers are often companies which have products in the mature stage of the life cycle. These customers were satisfied with “good enough” products, did not value the supplementary services Dow Corning offered and simply just wanted a low price. “Price seekers” were accounting for approximately 25-35 % of the demand and they were expected to increase their market share in the future. At the moment, these were Dow Corning’s least profitable customers, many of them in textile and personal care applications. Since many low cost competitors were introduced in the same market, Dow Corning needed to act; either pull out from the price value segment or devise new opportunities of serving them (Kashani & Francis 2006, 5-6).

Despite the leading market share earlier mentioned, Dow Corning was facing several low-cost competitors that were undercutting its prices. Instead of match competitors' prices and lose its price premium across its business, Dow Corning decided to launch a new business unit and fight back (Anderson, Kumar & Narus 2007, 101-102).

4.2.2 About the Competitors

In the late 1990s several local and global rivals (some of them based in China) were developing much more efficient supply chains. The rivals realized that it was possible to undercut Dow Corning's prices (Kashani & Francis 2006, 3).

Later on in 2006 GE (General Electric) Silicones was Dow Corning's closest rival with a market share of 25 %. 30 % of their orders came through its website called MySilicones (Kashani & Francis 2006, 2).

Wacker, a German supplier accounted for 10 % of the market share worldwide and offered customers "one-to-one discussions with specialists" to attract customers via their website. Wacker generated 15 % of its orders through its website. A French global supplier, Rhodia, also with 10 % market share. Rhodia distinguished themselves with their advantage of real-time monitoring of orders in progress. These competitors also had no minimum limit on order quantities and offered their entire product range to full price and with service support (Kashani & Francis 2006, 11).

4.2.3 The response from Dow Corning

In order to serve this price value segment, by 2002 Dow Corning launched a wholly owned subsidiary named Xiameter. Xiameter needed to cut its prices by 15-20 % to match the competitors. A consequence of this was that Dow Corning needed to cut its costs in a proportionally amount. They also needed to launch this subsidiary in a manner so their existing business did not get cannibalized by their new business unit. Anderson, Kumar and Narus (2007) describe the following keys that Dow Corning defined in order to cut costs:

- Longer delivery-led times so that Xiameter could slot orders when there was spare capacity at Dow Corning.
- No technical service policy.
- No order-size flexibility in order to maximise its logistics.

- Opportunity to enter orders on Xiameter's website to reduce customer interface costs.
- Fees were introduced if the customer wanted to change shipping date or cancel an order.
- The introduction of very tight credit terms.
- Limited product offering (350 products instead of 7000 which limited cannibalisation)
- Product returns only if the goods were damaged.
- The pricing was available in 6 currencies only in order to minimise the currency risk and exchange.

Dow Corning emphasized that it was only the supplementary services that varied between Dow Corning and Xiameter. This brand recognition helped Xiameter a lot on its way to success (Anderson, Kumar & Narus 2007, 104).

4.3 Electrolux

4.3.1 Background

The Swedish household appliances manufacturer Electrolux has historically been known for its qualitative products and has in many segments held performance leadership. During the 1980s and 1990s Electrolux grew especially through acquisitions of companies such as Zanussi, Flymo and White. The acquired companies kept their own brands and were not fully incorporated in Electrolux, meaning that they had their own marketing and production operations (Ryans 2008, 167).

In the 1990s there was an economic downturn in Europe and North America, in combination with a maturing market and intensified competition. These factors hurt Electrolux. Electrolux decided to focus on markets such as Eastern Europe, Asia, South America, the Middle East and Southern Africa to try to find growth at other places than its core markets. Some of the things the company did included a joint venture in China and acquisition of factories in India. The new markets accounted for 25% of Electrolux' sales of house appliances 1996 (Ryans 2008, 167).

The competition was intensifying in the end of the 1990s, especially from Asian competitors. At the same time the customers changed their behaviour. There were customers from all income levels that were satisfied with good enough products; hence the competitors could compete with quality and

performance in this segment at same time as they had a lower price. Electrolux had trouble with high costs in their European manufacturing factories. There was another segment evolving as well, they were high spenders and had an interest in building and furniture their homes. They demanded more features, customized products, premium branding and more services (Ryans 2008, 167). European and North American companies such as Bosch, Viking, Sub Zero and Miele tried to target these premium segments. The Middle market that was Electrolux' main segment was disappearing (Ryans 2008, 168).

4.3.2 About the Competitors

At the time when Electrolux was acting in the middle market, there was a change in consumer behaviour and two different segments evolved; low price and the premium price segment. The competition in the developed markets was still mainly from the traditional competitors such as Whirlpool and GE. Haier was strong in its domestic market, China, but penetrated the North American market in 1990s by targeting niche product segments with customized "good enough" products and low prices. The sales demand in Europe and North America was falling.

4.3.2.1 Today

The living standard in China is currently growing likewise the demand for home appliances. Asian competitors have entered the developed markets and the North American and European manufacturers have entered the Asian and South American markets. Today large corporations involving Samsung and LG gained significant market shares in North America and Haier is the world's largest manufacturer of home appliances. In this mature market, the consolidation is getting stronger and a few big players compete. The competition is intense. There has, however, not been a specific low cost player entering the market nor a specific response from Electrolux. The response has been to a change in the market itself. Therefore what the competitors did will not be analysed. Regardless, some current competitors are stated below:

Haier
Whirlpool
GE
LG
Samsung

4.3.3 The response from Electrolux

In 1997, Electrolux with the CEO Michael Treschow decided to do a major restructure of the company. Electrolux shut down 23 plants and 50 warehouses, fired 11 000 workers, that was 11 % of its total workforce. Electrolux also divested in their non-core units and got rid of a large part of its direct sales force. The main part of the restructure took place in Europe and North America. The restructure was finished in 1999 and focused more on establishing a strong market position. Electrolux showed better results, the market was healthy and the restructure led to increased sales and net income. Unfortunately no more than a year later the company faced new challenges. The demand was decreasing, costs were high and its portfolio consisted of 50 brands. The operating income was down by 23% compared to previous year (Ryans 2008, 168).

When Hans Stråberg in 2002 took over as the new CEO he decided to go around the world to look at the products of other manufacturers. Many of those manufacturers were Asian. He then decided to bring some of these products back to Sweden for evaluation. The management of Electrolux then played the game “Beat my business”. It was a game where small cross functional teams play as new entrants and that tries to beat their own business. The teams are generally asked to develop one conventional and one unconventional strategy. Electrolux had several workshops where they played companies such as Samsung and LG. This helped Electrolux to develop their own strategy to encounter these companies (Ryans 2008, 99).

Stråberg realised that they had to do something differently to stay competitive. He decided to use a two side approach that included looking at it from two different sides, costs and revenues. This was done due to the fact that sales were standing still. Stråberg wanted to make Electrolux a more market driven company. Electrolux moved its production to low cost countries and divested or changed the business models for underperforming business units. Electrolux changed its product mix and decreased the number of product platforms where some of them could be used globally (Ryans 2008, 168). This change led to more standardization, less product models, simpler production and higher quality. The company chose to focus heavily on decreasing purchasing costs, the above mentioned changes in the organization made that possible. To cut costs Electrolux scouted for the lowest price globally when it was favorably, the goal was that 40 % of its purchases should come from low cost countries. Electrolux increased collaboration with core suppliers to decrease costs for components. The goal was to have half of its production in low cost countries by 2008. The costs

for this major change were estimated to be €1 billion and generate €300 million in savings each year from 2009 and forward.

In addition to this Electrolux also increased its spending on R&D, focus on brand building and product innovation. The product development became more customer focused, focusing more on observations and user testing rather than conducting customer surveys or asking the customers what they wanted. In 2004 Electrolux launched this new customer focused product development. They worked in cross functional teams (design, product development and marketing) which made the products more proactive and the marketing more effective. To make this new approach possible, Electrolux increased its spending on product development from 0.8 % of sales to 2 % each year. The new focus on innovation led to an increase of launched products from 200, in 2002 to 370 in 2005. Electrolux saw potential profits in both the basic segment and in the high-end segment; therefore they decided to have two different business models. The company had separate production platforms, sales forces and communication techniques. Because of its brand portfolio, Electrolux could position its high end products effectively. Sometimes Electrolux used sub branding under the brand AEG Electrolux. Stråberg thought that only with a really strong brand they would be able to keep high margins and profits. To achieve this Stråberg decided to spend 2 % of revenues on brand building activities. Products sold under the Electrolux brand increased from 16 % of sales (2002) to 50 % of sales (2005). With the brand statement “Thinking of you”, Electrolux tried to increase its customer focus even more (Ryans 2008, 169).



Figure 4.1. A description of what strategy Electrolux used.

A summary of what Electrolux did:

- Consumer driven product development
- Brand building
- Moving production to low cost countries
- Different business models for different segments
- Centralization of purchasing
- More standardized production platforms

4.3.4 Challenges

According to Ryans (2008), Electrolux faced several challenges with their strategy. Focus on both mainstream and premium segments is not easy. The competitors are trying the same thing, Haier in China is trying to build a brand and wants to serve both segments and GE has tried the same thing in North America in the major appliance market. Some other challenges Electrolux had is stated below.

- Focused premium companies such as Viking and Sub-Zero are doing well in their segments
- Only 4 % of Electrolux revenue (2005) comes from Asia, China is even unprofitable
- They divested all of their production in India, makes it harder to penetrate the market (but less losses)
- Weak on emerging markets compared to its competitors, especially Haier, Samsung and LG
- Asian competitors are expanding globally
- Harder to achieve differentiation and premium value
- Haier spends 4 % of revenue to R&D (Ryans 2008, 170)

4.4 Orica

4.4.1 Background

Orica Mining Services, headquartered in Melbourne, is today the world-leading supplier in the explosives industry. Orica mining services is a division within Orica Ltd. The company also has divisions within chemicals and ground support (where the Mining Services stands for approximately 70 %). The company provides commercial explosives and blasting systems to the mining and infrastructure markets. Orica also is the largest single supplier of sodium cyanide for use in gold extraction (MarketLine Advantage 2014, 3-4). Prior to the 1990s several companies differentiated their products in the explosives business but in the 1990s rough competition in the explosives industry occurred and the business became commoditized. If one player wanted to gain market share or a surplus of nitrate took place, a price war was often introduced. Orica had several times tried to develop more beneficial products to its customers in order to make the blasting more efficient, but did not really caught its customers' attention (Ryans 2008, 183-184).

Orica's' mining service division sells explosives to stone quarries and mines of a number of mining companies. The most significant cost for the quarries was the drilling and the blasting. Experts drill big holes in rock faces, which later on are filled with packed explosives at the same day, as the blast will take place. So the challenge for Orica's customers is to turn the rock face into a product that can be sold (Kumar 2006, 112). All this was a very time consuming operation and could take several days to accomplish. The packing and blasting in itself took about 5 hours and must occur at the same day. Blasting times are restricted by law so the timing was very important. There are also very strict controls of the storage and handling of explosives, so the quarries need to order an exact amount of explosives needed which Orica will deliver on the day of the blast. There are also weather conditions to take into account when calculating how much explosives that is needed. All this concerned Orica and the company needed a solid solution to avoid this (Kumar 2006, 112).

According to Ryans (2008) new competitors entered the market and a price war took place in between all active players. Thus, Orica decided to take an innovative approach and change from a product provider to a solution provider. The firm started out with providing emulsion explosives in bulk form. After a customer placed an order, Orica sent a mobile manufacturing

unit to the customer. Later on the unit mixed all chemicals needed in order to fill the drilled holes with explosives. This new process did not only improve the efficiency for Orica, it also increased the flexibility for the customer. Orica drew profiles in the rocks with its laser technique in order to identify the best place for drilling, making it all a science which led to that quarries could drill fewer holes. This resulted in reduced costs for the quarries themselves and improved yields. Because of these progresses, Orica also offered broken rock and drilling services to its clients instead of only explosives. As mentioned above, this increased the customization level and Orica could bill customers for their size specifications of broken rock (Ryans 2008, 184-185).

4.4.2 About the Competitors

At the time when Orica was acting in the red ocean market, there was just price war taking place. Orica chose to distinguish themselves from the other rivals with its disruptive solution and therefore in this case, it serves no purpose to analyse what the competitors did. Regardless, some competitors today are stated below:

Asahi Kasei Corporation
Austin Powder Company
Sasol Limited
(MarketLine 2014, 14)

4.4.3 The response from Orica

In 2005 Orica became a solution provider that could tailor each customers' requirements, something that was new in the explosives industry and changed its entire business. Since Orica sold explosives as a part of a whole package the price was less transparent. It made the company less vulnerable to price pressure and commoditization. An average order was now significant higher than before. The company became more efficient and enhanced its competence and knowledge when more clients chose them as supplier. This made the customers more dependent on Orica's blasting solutions because they stopped investing time and money in the blasting process (Ryans 2008, 184-185).

Furthermore, these blasting solutions required customer data such as input parameters as well as the outcomes of individual blasts, and became an integrated part of the customers' processes. This allowed Orica to improve

its own business and also add more value to its customers. Since Orica's customers became so dependent on Orica's solutions, it was very high barriers for them to switch to another supplier (Dawar & Vandebosch 2004, Financial Times).

However, there are always risks embedded where mutual trust between customer and supplier is crucial. Beyond what is stated above with the high barriers to switch supplier there are other risks as well. For example, Orica could take actions that is not in the best interest of the customer such as only exploit the most easily and cheaply part of a quarry or mine which will be most profitable for them. The customer on the other hand might be more interested in exploiting the full potential of the quarry or mine (Ryans 2008, 186).

4.5 SKF

4.5.1 Background

SKF was founded in Sweden in 1907 and is a technology provider with products such as bearings, seals, mechatronics and lubrication systems. In addition, the company also offers an extensive portfolio of services like technical support, maintenance, consultancy and training. The products and services are offered in 40 different industries. This global company has sales departments in 130 countries and manufacturing in 29 of them (SKF 2014). A problem that SKF faced, was that its products were about to get commoditized (Ryans 2008, 209). To avoid commoditization they started selling on value and developed a tool called "Documented Solution Program" (DSP) to support in the value selling process (Kashani & DuBrule 2009). How SKF work with value selling will be explained below.

4.5.1.1 Capturing value through strategic partnerships

Customers only pay for what they value, at SKF customers get as much or perhaps even more value from how they interact with SKF. This is something that gives SKF a sustainable competitive advantage according to Robert Law, Director industrial Division Sales Law (2010).

SKF is a global company with a strong brand and focuses on delivering high quality products and efficient services. SKF has cost effective manufacturing and knowledge rich company. That knowledge enables

complex operations and the possibility to enter in to any stage of the customer design cycle.

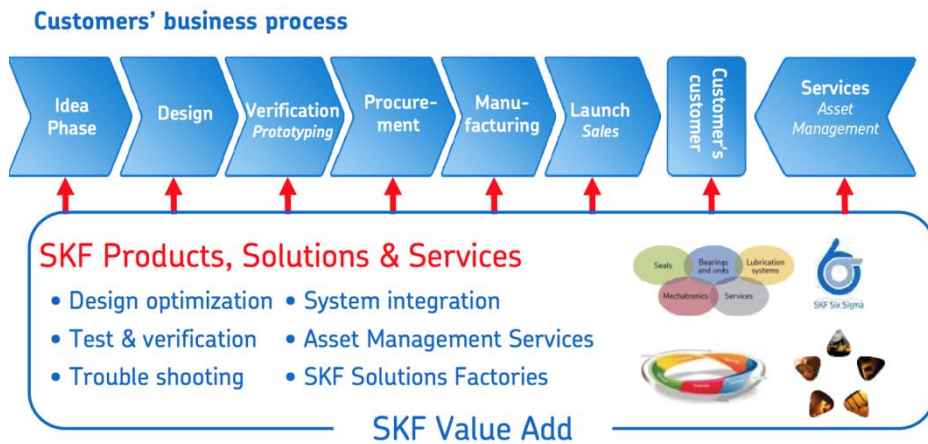


Figure 4.2 The SKF business process (Law, 2010).

Furthermore, Law (2010) explains that each value proposition is customized for each industry and application. SKF's global presence makes it possible for them to have local account managers, customer service and application engineers.

The partnership between SKF and its customers benefit both parts by reducing costs, maximise product and service development and increase competitive advantage.

The benefits with this approach according to Law (2010) are that it improves the customer relationship, customer loyalty and increase the chance of long term profits. The close collaboration with customers in different industries in different functions increases the knowledge at SKF.

The success to make strategic partnerships work according to Law (2010) is:

“

- Similar values and goals
- Built on openness and trust
- Both parties must be able to contribute
- Invest to gain rewards
- Earlier entanglement reduces total cost
- Publicise and celebrate the success
- Win/Win

“

4.5.2 About the Competitors

At the same time when SKF introduced the value selling approach the products were threatened to get commoditized. The low cost competition did not derive from a specific competitor but was of a market situation where price was important. The low cost players have been connected with poor quality.

Today the top six global manufacturers of bearings SKF, Schaeffler Group, NSK, Timken, NTN and JTEKT, supplies about 60 % of the market. The Chinese manufacturers supplies about 20 % of the market where 80 % of their sales are in Asia. The European Market is about 25 % and the American market about 20 % of the global sales (SKF b 2014).

The Chinese market is very fragmented and the large international companies have approximately a third of the bearings market. The rest is supplied by different local Chinese manufacturers. 50 % of global sales are in Asia; ten years ago it was less than 30 %. The Chinese market is about 25 %, India accounts for 5 % of the market and consists of a mix between international companies and local companies (SKF b 2014).

4.5.3 The response from SKF

4.5.3.1 Quality and Performance

For important operations, impacting productivity, quality and performance the use of SKF's products and services are justified by improved efficiency and reduced risk of failure and repairs. For less critical applications you still benefit from the higher quality of SKF, that reduces Total Cost of Ownership (TCO). SKF uses their documented solutions software to prove this, documenting and measure value provided is one of the core stones in value selling. According to SKF a production up time of three weeks longer than a low cost competitor justifies three times the price of their products.

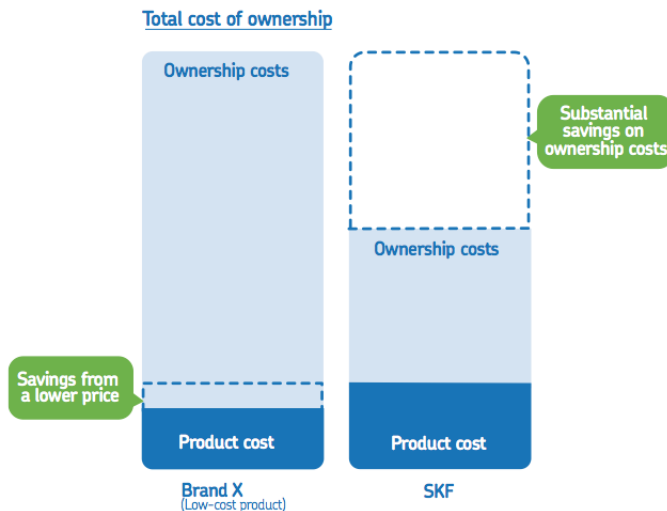


Figure 4.3 Total Cost of Ownership (SKF j, 2007)

The Documented solutions software is a program that shows how much SKF's products and services costs and calculates your return of investment (ROI). The software considers costs such as material, labour, downtime energy, inventory etc. You can also see the results from previous customers within the same industry as well as other industries (SKF c 2010). The DSP was developed in 2004 (Indian Textile Magazine 2014).

The TCO has been a term used since the 1960s but a large issue has been the calculations of the TCO. The suppliers have promised cost savings way larger than was actually the case. Customers have made statements like the following:

“Getting a reduction in price is an immediate gain, while buying on total cost is a long-term proposition. Anyway, most times the savings suppliers claim from total cost buying are all smoke and mirrors.”

“I’m only evaluated on unit price reduction. Total cost reductions impact other departments – they get the credit, not me.”

“The purchase price is such a large part of the equation, why go through the effort of calculating total cost? You can’t measure it accurately anyway.”

(SKF c 2010)

Today there are better opportunities to use TCO; the large amount of data available makes it easier to make the TCO more tangible.

As the purchasing function develops the purchasers are more and more looking for total solutions with great economic benefit for the company than lowest price and a good product. However, it is important that the economic benefit is measurable so it can be presented for the management.

The TCO can be divided into three different areas; Acquisition, Operation and End of life. When deciding which product to purchase all of these areas should be considered. Often there is disproportionately focus on acquisition that in many cases is a small part of the TCO (SKF c 2010).

Purchasers are becoming more aware of the importance of TCO and in a survey the TCO was ranked two times as critical as price. It is common that purchasers make the assumption that the easiest way to reduce costs is a lower price on material and components you buy. There are risks connected to forcing a supplier to low its price some examples are lower product quality, increased warranty costs and an impaired relationship (SKF c 2010). According to Kamran Kashani, Professor of Business Programs, International Institute for Management Development (IMD), the possibility to create value for both suppliers and customers are greater when they join forces.

According to Mr. Marco Bertini assistant professor of Marketing, London Business School, firms that buy on value more often repeat purchases, which suggest that they are happier with the result than those that buy on price (SKF c 2010).

A total cost solution involves following areas:

- Revenues
 - Downtime reduced?
 - Production rates increased?
 - Time to market reduced?
- Expenditures
 - Scrap and rejects be minimized to reduce raw material costs?
 - Repairs reduced to lower the replacement cost?
 - Reduce energy usage to lower the manufacturing costs
- Personnel
 - Maintenance reduced to make personnel available for other activities
- Assets
 - Cost of ownership of plant or machine reduced?

The SKF client needs a program where you can plug in customer data and then compare it to SKF Global best practices from other customers within the same industry. In that way SKF can identify which areas where there is room for improvements (SKF c 2010).

4.5.3.2 SKF Salesforce

The salesforce at SKF gets 50 % of their compensation based on individual goals, a few examples are; activities in DSP done, sales growth in their areas and number of products introduced. The other 50 % are based on their value added measured by net profitability when the cost of capital is subtracted. The calculation is done by geographical area, business unit and division performance. SKF believes that it is more important to count the number of activities that the salesmen quantify in monetary terms in the DSP as a basis for their compensation than the actual amount in monetary terms, since they want the DSP tool to be a part of their daily routine (Anderson et al 2009, 111).

4.5.3.3 Training

A peer salesman that has used the DSP tool educates the other salesmen of how to use the DSP tool. The peer salesman shows examples of success stories and how to avoid pitfalls by previous customer cases. Having a peer salesman as teacher is an advantage to give credibility. They then practice by role playing with inspiration from real cases. The salesmen then get an evaluation of how they did (Anderson et al 2007, 118). Moreover, they had field training for two weeks where the disciples followed a value area expert to learn and practice how to deal with a real customer (Anderson et al 2009, 123).

The extensive use of DSP has made it possible for SKF to be very accurate in its prediction of the monetary value they deliver. Therefore they in some cases have performance based contracts where they only get paid the full amount if they deliver the promised results that they on mutual terms agreed with the customer. The contracts are made as risk sharing and gain sharing, where a maintenance service package is included. Sometimes the customer pay after the performance measures have been delivered and sometimes they pay by giving SKF larger amounts of work than before (Anderson et al 2009, 139).

4.6 Brief summary of the cases

The following paragraph will clarify which factors affected the choice of strategy in the cases and also discuss briefly how the companies responded to the threats.

Aer Lingus realised that they could not go to price war on the same market as Ryanair since it most likely would drag down their business. Instead, Aer Lingus imitated Ryanair's most successful moves and changed its business model aiming to develop, what Kim (2005) suggests, a blue ocean strategy and capture customers from a different segment with different needs in contrast to Ryanair. The company still acts at the same market as Ryanair but is not the best player on that market. A big part of its business' revenues come from its long-haul routes.

Dow Corning experienced strong commoditization about its offerings. The firm investigated what customers truly valued and realised that two main segments existed. Dow Corning used its economies of scale and its strong brand to be able to launch its subsidiary, Xiameter. Dow Corning realised that the timing was essential and launched Xiameter in order to beat its low cost rivals.

Electrolux made major changes in the infrastructure to cut costs, they also chose to target two separate segments similar to Dow Corning. The low cost players in the home appliance industry are large corporations e.g. Haier is today the largest home appliance manufacturer in the world. When Haier started to compete in western markets they were already a large company in China and could use their economies of scale and take advantage of its low cost manufacturing. There is currently a trend towards consolidation in the market and the manufacturers are focusing more on the premium market where the higher margins are. Electrolux' financial results have not been convincing and they are still struggling. It is hard to target two customer segments at the same time and the risk is getting "stuck in the middle". Competing on price even if it is a separate business unit may not be a good alternative if the low cost competitors have economies of scale.

Orica Mining Services was a player just like anyone else and competed mostly via price. To be able to survive, since there was commoditization of explosives services, Orica realised that they had to distinguish themselves from its competitors and decided to become a solution provider instead of a product provider. This strategy helped them to make the price more transparent and making blasting a science which helped them to achieve good knowledge within the industry. Including large economies of scale and good customer relationships, Orica achieved competitive advantage against its competitors.

SKF used a similar approach to Orica. Its core product was getting commoditized and SKF's counter move was to begin with customized solutions and value selling. SKF had extensive knowledge and "know how" within the industry and started selling products and services based on the value provided to the customer. The pricing strategy was based on TCO and with the help of a software called "Documented solution program" SKF could estimate the value provided in monetary terms. Having a sales force that understand and got profit from selling on value was a key success factor. A difference from the other cases though was that the quality of the core product was not as good as SKF's corresponding product. The use of value selling turned out to be a good move.

5 Tetra Pak®

This chapter will provide a comprehensive analysis of Tetra Pak®. The reason why the Tetra Pak® case is treated separately is that no submatrix is conducted. This means that this case does not add any value to the Developed Normative Model since it might be too early to say what the reaction of Tetra Pak® is in regard to the low cost threats.

5.1 Background

Tetra Pak®, a part of the Sweden based Tetra Laval group, is involved in the production, development and the marketing of packaging, processing and distribution systems for food- and beverage products. It was founded in 1951 by Ruben Rausing and today the company delivers products and solutions to over 170 countries. Tetra Pak® has over 23.000 employees and the company offer products in five categories: Packaging, processing equipment, filling machines, distribution equipment and service products (MarketLine Advantage b 2014, 29).

Because of reduced demand of beverage cartons, Tetra Pak® recently decided to close a production plant in Lund and move the production to other plants in Europe (Sydsvenskan 2014). It affects 250 employees and it could potentially have something to do with the growing low cost threats.

The following section explains how the former CEO, Dennis Jönsson, describes the upcoming threats back in 2006:

In 2006 the CEO Dennis Jönsson made the prediction that the coming years would be rough with intensified competition. Because of this he realised that Tetra Pak® had to do cost reductions and new prioritization within R&D. The goal was to bring Tetra Pak® back as price and technology leader. Milk and juice cartons represent 80 % of the profit (Froste, 2006).

Tetra Pak® shows strong growth in China and Brazil but in Europe and Japan it is stagnating or falling. The increased competition will affect the prices. The new competitors sell mainly on price. Some of them do not have the integrated line packages that Tetra Pak® has but only sell packaging material. Today Tetra Pak® has approximately 9000 lines in the world. Dennis Jönsson says that it is their strength but at the same time their weakness. The average lifetime of a line is 13 year and soon they have to be switched which opens up for competitors. Tetra Pak® has to continue to

deliver more value. Another problem is the consolidation within suppliers and within end customers. The retailers are getting larger and demanding lower prices from the dairies (Froste, 2006).

“SIG Combibloc is the biggest system supplier competitor in Ambient packaging systems, offering the same products and services as we are.” The other competitors are not companies but industries like the PET bottle, which is also seen as the biggest threat in Europe. Worldwide taken into consideration all packed categories, the carton packages increase in volume but not as fast as the PET bottle volume. This means that the total carton packaging market share will decrease (Froste, 2006).

The changes within R&D are that the innovation will be more cost driven innovation, Tetra Pak® will listen more to what the customers want which are equipment that lower its costs. As a part of the production rational, a plant in Switzerland is shut down (Froste, 2006).

5.1.2 Market Overview

5.1.2.1 Market Definition

The container and packaging market consist of packaging made of paper, plastic metal and glass. The market does not include packaging used for transportation purposes such as wooden boxes and pallets etc. The market is valued at manufacturer's selling prices while market volumes represent consumption (MarketLine Advantage b. 2014).

For the purposes of this report the Global market includes North- and South America, Europe and the Asia-Pacific.

5.1.2.2 Market Analysis

The Container and Packaging Market (CPM) have been growing rapidly the last years. The market is predicted to grow additionally and even accelerate in between 2013 and 2018. The CPM grew by 5 % in 2013 to attain a value of \$582.9 billion. In between 2009 and 2013 there was an annual growth rate with 5.9 %. In comparison, the European and Asia-Pacific markets grew with 3.9 % and 7.1 % respectively over the same period. The European market value reached \$165.4 billion and the Asia-Pacific \$217.7 billion in 2013 (MarketLine Advantage b. 2014).

The paper segment was the most attractive which reached 43.2 % market value, equivalent to total revenues of \$251.8 billion. The corresponding

numbers for the rigid plastic segment was 19.6 % market value and revenue of \$114.1 billion.

The overall CPM is predicted to grow to \$809.9 billion (39 % growth) by 2018, were the European market expect to have 4 % annual growth, while the Asia-Pacific is forecasted to have an annual growth of 8 %.

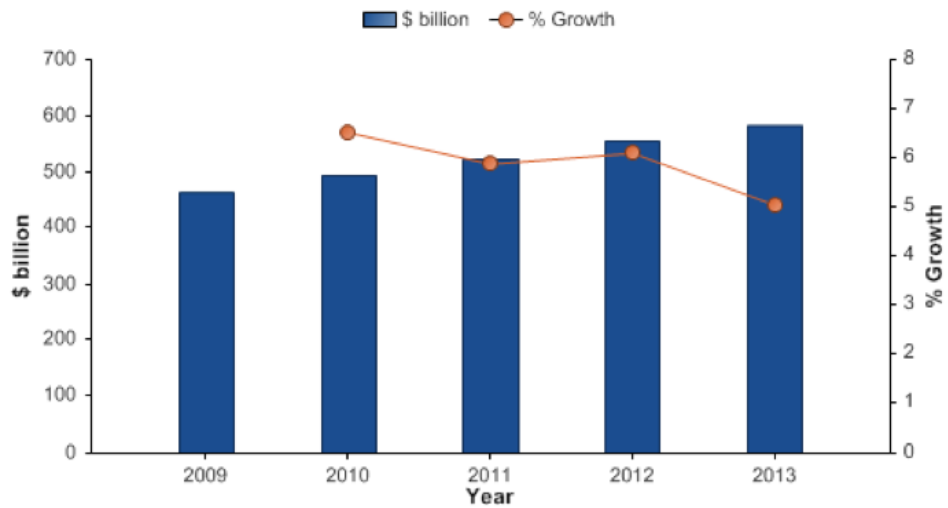


Figure 5.1. Global CPM value 2009-2013 (MarketLine Advantage b. 2014).

Geography Segmentation

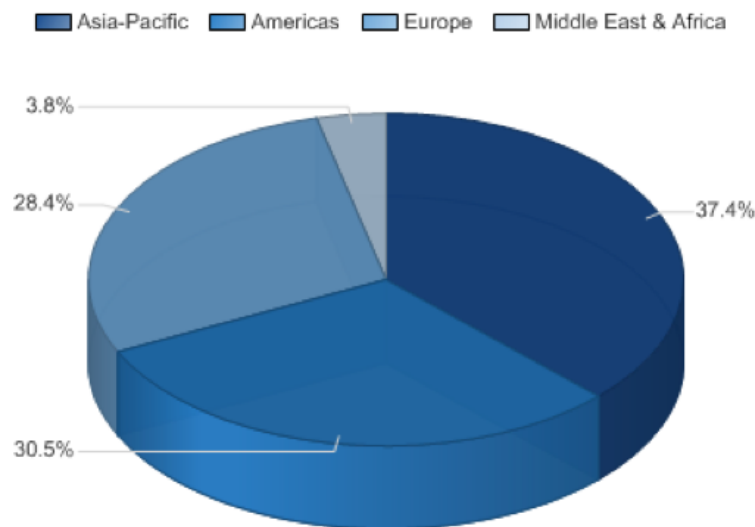


Figure 5.2. Global CPM geography segmentation: % share, by value, 2013 (MarketLine Advantage b. 2014).

Global Market share by sales volume

<u>Company</u>	<u>Market Share*</u>
Tetra Pak®	79,7 %
SIG Combibloc (Switzerland)	10,2 %
Greatview (China)	1,5 %
Elopak (Norway)	1,4 %
Others	7,2 %

* (Global market share by sales volume 2009) (Greatview, 2011)

PRC Market share by sales volume

<u>Company</u>	<u>Market Share*</u>
Tetra Pak®	70,2 %
SIG Combibloc	8,2 %
Greatview	9,6 %
Others	12,0 %

* (Global market share by sales volume 2009) (Greatview, 2011)

5.1.3 Tetra Pak® Business Model

The business model that Tetra Pak® historically has used is the “Bait and hook business model”.

The business model is named after the business offer which involves an attractive, inexpensive or free initial offer. The incentive is to encourage further purchases of related product and services from which the company earns money.

5.2 About the Competitors

Since this report is about developing strategies against low cost competition, focus will be put on the direct low cost rivals. In this case, focus will be put on Peoples Republic of China (PRC) based Greatview Aseptic Packaging. The competitor analysis in this case will be more comprehensive than the other cases; therefore more frameworks are applied here such as Business Canvas etc.

5.2.1 Greatview Aseptic Packaging

5.2.1.1 Background

In 2003 Hong Gang and Jeff Bi bought out the Shandong Tralin Packaging from Tralin Paper and re-established it as a manufacturer of aseptic packaging products with Tralin Pak as the main corporate name.

The company manufactures liquid aseptic packaging material and offer services within that area. Hong Gang, one on the co-founders was a former employee from Tetra Pak® for 12 years. In 1992 he was responsible for setting up the China office in Shanghai and has had positions as senior business manager, PR manager etc. He quit Tetra Pak® in 2002. In 2003 he was approached by the former Sales and Marketing Manager at Tetra Pak® in China, NI Hua. Hong was persuaded to start a new company and target the Chinese dairy industry which they thought had great potential, they saw a need for an alternative supplier in the industry. The customers had no bargaining power. Hong realised that they would need a qualified team to be able to compete with Tetra Pak®. The former general manager of the first Tetra Pak® factory in China, Pierre and Tetra Pak®'s production, process, marketing and regional sales managers joined Greatview. The team did not have the funds to do the investment in a factory of their own and did therefore look for partners. They found Tralin Paper Group in Shandong, Tralin Pak had a couple of years earlier invested in an aseptic packaging production line. Tetra Pak® had tried to buy them earlier for a lot of money, but the CEO of the company realised that they just wanted to eliminate potential future competitors. However, when Hong approached them in 2003 and proposed a partnership, he could see the potential in their offer and realised that the knowledge of the team could be valuable. The aseptic packaging unit was restructured to Shandong Tralin Packaging Co. Ltd (Shengjun, Wang 2011).

When Tralin Pak entered the market they started to gain market share by using a low price strategy. In the beginning the price differences were as big as 25 - 30 %. They were later not more than 5 - 10 % due to Tetra Pak® lowering their prices. The strategy is to have 5 - 10 % lower prices than Tetra Pak® to be able to get volume and capture market share. The long term goal is to have a 25 - 30% market share. Today Tetra Pak® has 67%, Greatview 13% and SIG Combibloc 10% in China (Hwang 2012).

In 2009 they opened their first operations center in Europe, Switzerland. In 2010 they changed name to Greatview when the company became listed at HKEx. Today they have two converting factories in China, and one in Germany (Greatview, 105). The sales volume has been growing every year. In total 35 billion packages have been supplied and they have the highest rate of sustainable forest certified fibre. They use dual sourcing of raw material and they do this to remain competitive.

What is noticeable is that Greatview very openly admits that they are copying the material and machines where the patents have expired that origin from Tetra Pak®. To be a complete system supplier is very complex and that could be a reason why Greatview is taking it slow and trying it at one market at the time (Wallteg 2012). A reason for them admitting the plagiarism could be to exploit Tetra Pak®'s brand and reputation as a quality supplier.

In the board of Greatview there are former employees of Tetra Pak®, SIG Combibloc and Elopak. They want to loosen the structure in the liquid packaging industry. Since Greatview started they have produced 35 billion packages, compared to Tetra Pak® which produces 170 billion a year (Wallteg 2012).

5.2.1.2 Greatview Business Overview

<p><u>Products and Services</u></p>	<ul style="list-style-type: none"> • “We are the leading alternative supplier of aseptic packaging in the PRC and the second largest supplier of roll-fed aseptic packaging worldwide” • Aseptic packages <ul style="list-style-type: none"> ○ “Customised, high quality and competitively priced aseptic packs for dairy and NCS D producers” ○ “Maintain a sterile environment and allow for transport and storage without refrigeration” ○ “Suitable for storing perishable foods and beverages for up to 12 months before consumption” (Greatview -, 119) ○ Packaging models: GA Brick Aseptic, Base & Slim (Greatview 2014). • Filling machine services: about 4000 different spare parts to filling machines at competitive prices. Local assistance teams are also available onsite to give assistance with technical problems (Greatview -, 119).
<p><u>Business Strategy</u></p>	<ul style="list-style-type: none"> • Grow market share by further business with key customers and increase the number of customers in PRC. • Deeper penetrate and expand selected international markets. • Further develop our own roll fed filling machine services (Greatview - 4). Further optimisation of production processes and products. • Make acquisitions or joint ventures that can further increase our value proposition or our market share. (Greatview, 5)
<p><u>Growth Europe</u></p>	<ul style="list-style-type: none"> • In the past Greatview has used an exporting model to the European market but because it was preferred by the European customers to have a more local site,

	<p>the production plant in Germany was built (Greatview, - 101). It has a capacity to produce 4 billion packages per year, but will be extended to 8 billion a year (Packaging-Gateway).</p>
<u>Goal</u>	<ul style="list-style-type: none"> • “In addition, we will boost our efforts to develop filling machine equipment, enhancing our R&D and production capability. We regard becoming an integrated packaging solution provider as a vital part of the company’s long-term success” (Greatview 2013). • 25 - 30 % Market share in China
<u>Competitive Strengths</u>	<ul style="list-style-type: none"> • One of very few suppliers of aseptic packaging and services related to this globally and the number one alternative supplier in PRC. • Take advantage of the growing PRC market. • The value proposition - supported by our excellent products and services with great quality. • A track record of proven ability to expand production capacity and has scale of operations. • Great relationships with large PRC and global dairy and NCSD manufacturers. • A management with great experience of the industry and a history of execution in PRC and internationally (Greatview, - 5).
<u>Risk Factors</u>	<ul style="list-style-type: none"> • Tetra Pak®’s strong position may hinder our ability to compete and offer aseptic packages that are compatible with standard roll feeding machines. • If the case would be that Tetra Pak® chooses to engage a price competition strategy against us, our financials would be severely affected. • Great dependency on our three largest customers. • If the raw material costs increase and we are not able to charge our customers for, could decrease our financial performance (Greatview, - 5).

<u>Challenges</u>	In the beginning it was a challenge for Greatview to convince its customers that they were a real viable alternative to Tetra Pak®. They had to convince them that they had the quality that was required. Another challenge was that customers sometimes were scared of the risk of leaving Tetra Pak®, 'Customers told us if they jumped ship from Tetra Pak®, they would crash if we failed to supply them. We had to demonstrate our ability to grow and we have done so by increasing capacity every year,' according to Bi (Toh 2011).
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5.2.1.3 Time Line

2001	Tralin Pak is incorporated as the major operating subsidiary
2003	The company is established as a producer of aseptic packaging material of the new management.
2005	The first big order from Mengniu
2006	1 billion packs are produced each year
2007	Market share reaches 5.8 %
2008	<ul style="list-style-type: none"> • First major international sale • Market share 7.4 %
2009	<ul style="list-style-type: none"> • The customer base reaches 100. • Market share 9.6 %
2010	<ul style="list-style-type: none"> • Rebranding from Tralin Pak to Greatview • Listed on Hong Kong stock exchange.

2012	First plant in Europe established in Halle, Germany
2013	<ul style="list-style-type: none"> • Outperformed the market in 2013 with a revenue growth of 23.8 %. • Built a new production line in Guotong in 2013, which increased their production with 4 billion packages and their ability to increase their product portfolio. It was in use 2014. • Large volume growth in international markets.

5.2.1.4 Financial Information

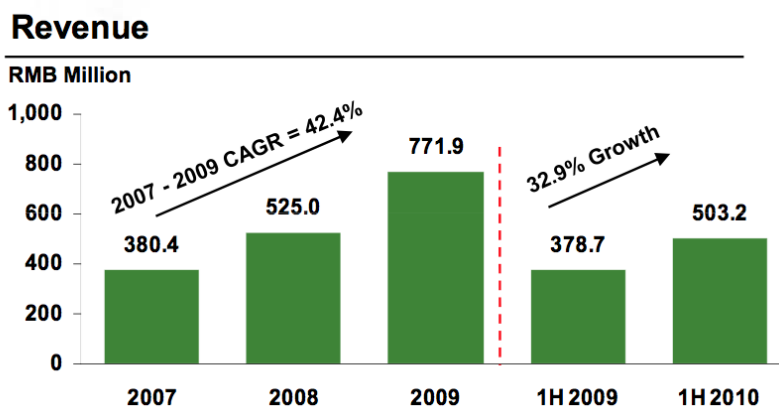


Figure 5.3. Greatview's performance measured in revenue in between 2007-2010 (Greatview 2011).

Dairy producers stand for approximately two thirds of the revenue while beverage producers are responsible for about a third of the revenue. The continuous focus will primarily be on dairy producer where the margins are higher (Greatview 2011, 26-27).

In 2007 98 % of revenue came from PRC and only 2 % from international customers, in 2010 the PRC market was responsible for 92 % of the revenue. Greatview's goal is to continue to grow its international presence (Greatview 2011, 26-27).

Operating Profit

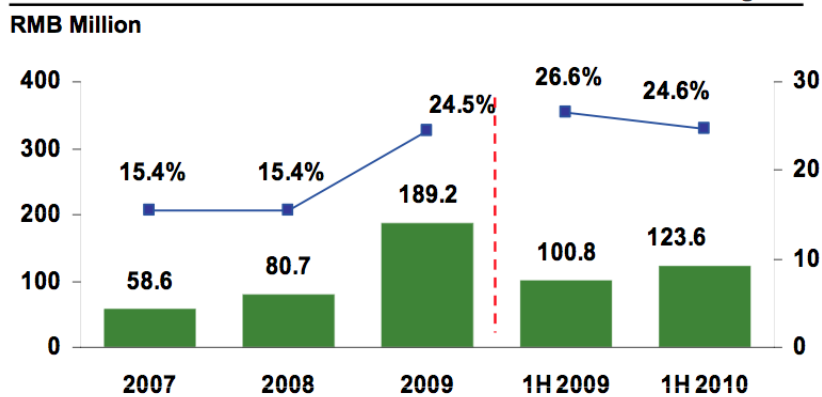


Figure 5.4. Greatview's performance measured in operating profit in between 2007-2010 (Greatview 2011, 26).

5.2.1.5 CAPEX and use of proceeds

The capital expenditures have increased during the last few years and in 2010 they were 238.8 million RMB. The aim was to use the proceeds to repayment of bank borrowings (30%), Domestic capacity expansion (25%), European capacity expansion (20%) and potential Acquisitions (10 %) (Greatview 2011, 31).

5.2.1.6 Greatview Business Canvas

<u>Value proposition</u>	<p><u>Getting the job done</u></p> <p><u>Price</u></p> <ul style="list-style-type: none"> • Perfect compatibility with standard roll fed filling machines. • Superior product durability. • Requisite scale to manage large and unplanned orders with minimal lead times. • Filling machine support services and spare parts.
<u>Customer</u>	<u>Mass Market</u>

<u>Segment</u>	<ul style="list-style-type: none"> • “Leading dairy and Non-Carbonated Soft Drinks (NCSD) producers in the PRC including Mengniu, Yili and Huierkang. • Leading international dairy producers such as MUH and a global dairy conglomerate based in France.”(2011, 4)
<u>Key Resources</u>	<u>Physical</u> Manufacturing facilities <u>Human</u> Management
<u>Key Activities</u>	<u>Production</u>
<u>Key Partnerships</u>	<u>Optimization and economy of scale</u> Raw Material <u>Reduction of risk and uncertainty</u> Strategic alliance regarding manufacturing
<u>Customer Relationship</u>	<u>Personal assistance</u> <u>Dedicated personal assistance</u>
<u>Channels</u>	<u>Sales force</u> The domestic market consisting of 20 provinces, three municipalities and three autonomous regions are served by a sales team of 26 persons. The international sales team is located in Germany, Switzerland and France and they have partnerships with agents through North America, South America and Asia (Greatview 2013).
<u>Revenue Streams</u>	<u>Asset Sale</u> Material Machines (China) Spare parts

	<p><u>Pricing strategy</u> Pricing is done order by order and is set depending on the following factors, other factor may occur as well:</p> <ul style="list-style-type: none"> • Production costs(including raw material) • Production cycle • Sales Region • Pack types • Development stage of particular products • Competitive pricing strategies of competitors (Greatview, 119)
<p><u>Cost Structure</u></p>	<p><u>Cost-driven</u></p>

5.3 Analysis Tetra Pak®

In order to get a much clearer structure of the report, all information about Tetra Pak®, including the analysis, will be described in the same chapter. The other five cases will be analysed in chapter 6.

5.3.1 Outcomes

No large outcomes have been identified in regard to Tetra Pak®'s response to the low-cost threats. It might be too early to determine any large outcomes. However, one of the prominent low cost players, Greatview, is continuing to gain market share. As mentioned in the background, 250 Tetra Pak® employees recently were affected in Lund, Sweden, which could potentially be an indicator that Tetra Pak® is responding to increased competition in Europe.

5.3.2 Business Canvas

<p><u>Value Proposition</u></p>	<p><u>Performance</u> Innovation</p> <p><u>Customization</u> Fit for purpose solutions</p> <p><u>Brand</u> Industry leader and trusted supplier for many years</p> <p><u>Risk Reduction</u> Quality and mutual trust</p> <p><u>Accessibility</u> Geographic expansion</p> <p><u>Convenience</u> Total solution provider</p>
<p><u>Customer Segment</u></p>	<p><u>Segmented</u> Distinguish between different market segments, which have different needs. Different Geographic markets.</p>

	Value propositions, includes material, machines and services.
<u>Key Resources</u>	<u>Physical</u> Plants R&D Centers Distribution centers <u>Human</u> Customer relationship management <u>Intellectual</u> Brand Patents
<u>Key Activities</u>	<u>Production</u> Designing, making and delivering material and machines and related services for packaging
<u>Key Partnerships</u>	<u>Optimization and economy of scale</u> Buyer - Supplier relationship
<u>Customer Relationship</u>	<u>Personal Assistance</u> The customer has the opportunity to talk to a real person through different medias. <u>Dedicated personal assistance</u> A person is specifically dedicated to a client
<u>Channels</u>	<u>Sales Force</u>
<u>Revenue Streams</u>	<u>Asset sale</u> Packaging material Machines Spare parts <u>Usage fee</u> After sale services

	<u>Lending/Renting/Leasing Machines</u>
<u>Cost Structure</u>	<u>Economies of Scale</u> <u>Economies of Scope</u>

5.3.3 Marketing mix

<u>Price</u> Premium pricing	<u>Product</u> Brand Solution provider Packaging material Filling machines Process equipment Distribution equipment Service solutions Automation solutions
<u>Place</u> Global Regional Local	<u>Promotion</u> Personal selling Fairs

5.3.4 Porter Five Forces (Containers and Packaging Industry)

The Porter Five Forces analysis of the containers and packaging industry is majorly based on information sourced from Greatview.

5.3.4.1 Bargaining power of suppliers

The market for packaging has a very large degree of segment differentiation (e.g. plastic and glass bottles, metal cans, paper etc.) which means there are a lot of substitute suppliers.

The aseptic packaging industry depends on a few concentrated suppliers, which use to be large international companies, but could vary depending on

what raw material they produce (Greatview 2011, 27). It is very little that distinguish suppliers against each other since there is no specific differentiation of the raw materials causing low switching costs. It is quite common that several different packaging materials suit for a given product which means that substitution can easily occur between the raw materials.

There are some niche suppliers that possess special processes in order to fulfill consumer demand. This could for example be sustainable or more ecofriendly packaging. An ecofriendly brand is very important here and these suppliers have less competition and the supplier power is quite strong. Some paper converters in this industry have integrated backwards to be able to produce their own input (vertical integration), which weakens supplier power. There is a trend towards vertical integration (8 global trends 2011, trend no 7 & 8) and Reynolds group is one company that has already incorporated the pulp and paper firm Evergreen in the group.

Since there are quite few suppliers, with low switching costs in the industry, overall the supplier power is considered moderate. However, there is a long approval process to switch.

Bargaining power of suppliers: Moderate

5.3.4.2 Bargaining power of Buyers

The Buyer landscape has changed. The buyers can differ in size very quickly and can include large multinational, food and beverages, health care and cosmetics companies. Such large companies often are very wealthy and can contribute significantly to its customers' revenue. The loss of such large buyers may impact revenues negatively. The consolidation trend in the retailing of NCS and dairy liquid dairy products has put more pressure on the dairies. There has been consolidation in the dairy industry as well. Considering these points, the buyer power is high.

Moreover, the packaging market is fragmented, putting buyers in a strong position. Buyers have several options choosing companies and can therefore put much emphasis on price and quality.

A large proportion of containers and packaging, such as glass bottles and cans, are typically undifferentiated and mass produced products, which increases consumer choice and therefore buyer power. But there are also signs that indicate weakness of buyers. Many buyers demand specific design and unique product specifications in order to attract consumers. These services are typically under fixed term contracts, since the product is

tailored to meet the needs of the buyer. The switching costs for buyers increases which reduced buyer power.

Specific packaging requirements lower a customer's ability to switch supplier. However, when a customer has more than one supplier it gives them more bargaining power. Of Aseptic Roll Fed Packaging Material, Mengniu gets 13-14 % from Greatview and the rest from Tetra Pak® (Hwang 2012).

The lack of alternatives for customers

- Limited supplier choice
 - Required for ambient distribution of dairy
 - Food safety considerations
- (Greatview 2011)

Bargaining power of buyers: Moderate but is increasing

5.3.4.3 Threat of new entrants

The industry requires a lot of industry specific knowledge and operational and technological know-how, which form a significant barrier of entry. The products in this industry are quite undifferentiated, economies of scale is advantageous and the capital requirements are high. The consumer demand for eco products has increased significantly lately which increase the chances for niche companies entering the market. Thus, the market has become more fragmented.

Given all systems, supply chains and specialist equipment that requires for competing on a global level in this industry, together with all risks in the economic environment including fluctuating raw material prices, crude oil and plastic resin, the risks and exit barriers in this industry are considered high. The numbers of qualitative suppliers of raw material are few and form a barrier of entry. New entrants may then prefer to specialize in a certain type of packaging such as plastic since it is forecasted to grow more rapidly than glass and paper. New entrants also may act on developing markets such as in the Asia-pacific area where increasing incomes has driven consumption of food and beverages. Also in Asia, the demand is high for low tech packages where the margins are low, which make it easier for new entrants to target that customer segment.

Tetra Pak® has a high market share, however new firms have entered the market and gained market shares. The industry is also highly regulated and

the customers require extremely high quality standards. This is a factor that also make trust (and brand awareness) an important factor for the buyers.

Overall with respect to what has been discussed above, the threat of new entrants on the global market is moderate but is increasing.

Threat of new entrants: Moderate but is increasing

Barriers of entry for competitors

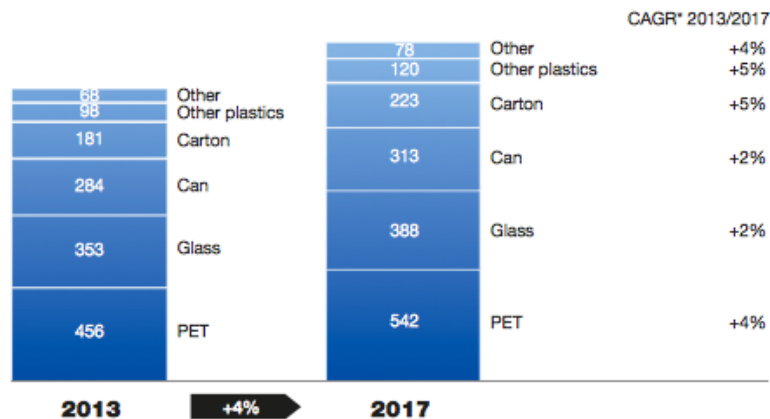
- Extensive technological and operational know-how required
 - Limited access to raw material
 - Rigorous qualification process
- (Greatview, 2011)

5.3.4.4 Threat of substitutes

The threat of substitutes is limited but real, especially the plastic industry, where the growth is higher than in the material converting industry. The total sales volume in the material converting industry is increasing, but the market share of aseptic and chilled packaging in the liquid packaging market is decreasing in favor for plastic .The trend for upcoming year is pointing in the same direction (see figure 5.5). Producers, retailers and consumers are becoming more waste-conscious and tend to favor recyclable and biodegradable materials. For instance, paper packaging is a popular substitute to plastic bottles. Plastic on the other hand is seen more user friendly, cheaper and more attractive from a consumer perspective in comparison to carton according to consumer surveys (Porter, 2014) (Eagle, 2014).

Threat of substitutes: High

WORLDWIDE PACKAGING MATERIALS TRENDS 2013 – 2017



Total in bn units | Source: Euromonitor 2013

* Compound Annual Growth Rate

Figure 5.5. The plastic based substitute industry shows a higher growth compared to the carton based material industry (Tetra Laval 2013/2014, 50).

Barriers of entry against alternative packaging formats

- Filling systems not inter-changeable
- Optimised for market specific conditions
- Ability to preserve filled content for 6-12 months (Greatview, 2011).

5.3.4.5 Intensity of Rivalry

The global containers and packaging market is highly fragmented but there is growth in the industry, especially in markets such as China and South America. This means that there is slightly more competition within Europe since the growth is flat. However, the growth in substitute industries are even larger, as mentioned above, the total carton market share is therefore decreasing. The market is still very consolidated with a few actors even if the concentration has been even higher before. Tetra Pak® has a market share of approximately 80% worldwide in Aseptic Carton Packaging (Greatview, 2011). Traditionally the competition has been coming from companies such as SIG Combibloc and Elopak but some new players have grown during the last decade. SIG Combibloc and Elopak are solution providers just as Tetra Pak®. The new player, Greatview Aseptic from China has made use of Tetra Pak®'s lost patent protections of some materials and machines. On the European market Greatview has been focusing on supplying the roll fed material, which works with Tetra Pak®'s standard machines but offering it to a lower price. On the Chinese market Greatview have an offer as a solution provider providing machines, spare

parts and services. Tetra Pak® has a broader product portfolio offering more types of different products, machines and services. The customer is however, mostly interested in the standard packages, especially on the Chinese market. This is the segment that Greatview is targeting. Greatview has been gaining market share by using a low price strategy. The quality of the material is crucial, therefore having a brand that is connected with that is very important.

Intensity of Rivalry: Moderate but increasing

5.3.5 PESTEL

5.3.5.1 Political

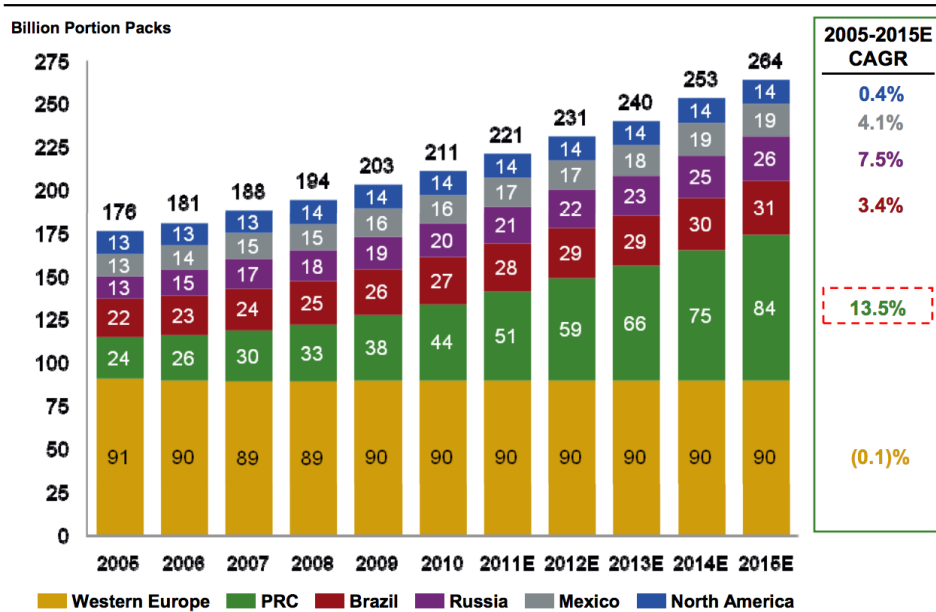
- Trading laws
- Labor laws, unions etc. In China the politicians are making it harder for the foreign companies to compete by competition laws and related subjects.
- Environmental regulations - This could be an advantage for carton compared to the plastic based liquid packaging industry. The sustainability advantage could be crucial when politicians decide on propositions to food and beverage packaging. EU are setting the standards for this area in Europe. In China the politicians are making it harder for the foreign companies to compete by competition laws and related subjects.

5.3.5.2 Economical

- Economic growth / crises
- Volatility in raw material price
- Developing markets are becoming more sophisticated (e.g. China and South America), which brings opportunities.
- Increasing middle-class consumers.
- Globalisation and the redistribution of economic power
- Stable demand for ambient liquid dairy (Greatview, 2011)
- Growing demand for NCS (Greatview, 2011)
- Strong growth in downstream dairy and beverage markets (Greatview, 2011). The largest customers are Chinese and the biggest is Mengniu. Mengniu have grown a lot, in 1999 they did not exist and Italian Parmalat was the biggest dairy and food corporation. Today they are just number five (Frost, 2006) and Yili is the second one (Wong 2006).

PRC has the fast growth in the aseptic packaging market compared to every other country. 23.4% of the total global sales volume is predicted to be from PRC in 2015.

Aseptic Packaging: Market Size by Sales Volume for Major Markets



Source: Frost & Sullivan.

Figure 5.6. Market size by sales volume (Greatview 2011).

Even if PRC is the largest single country market, the consumption per capita is still very low. This implies that there is room for a lot more growth in the future. Even if the predictions are that it will increase but they are still far from countries such as Brazil and Mexico.

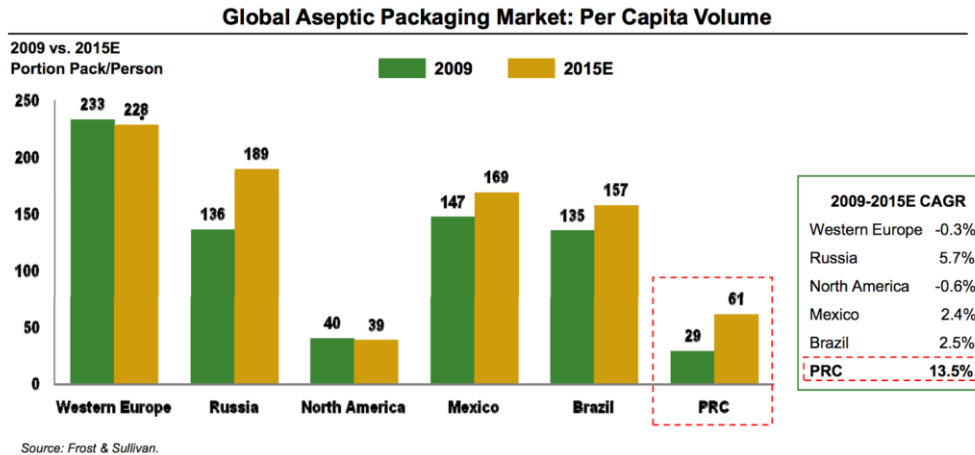


Figure 5.7. Aseptic packaging market (Greatview 2011).

5.3.5.3 Social

- Continuous population growth (estimated 8.4 billion people by 2030)
- Extensive urbanisation (60 % whereof 54 % of the population will live in Asia)
- In 2030 average age will be 34 years of a person and about 480 million single person households.
- Better standard of living, increased consumption and rising purchasing power (Greatview 2011)
- Consumer trends; More health conscious, on-the-go lifestyle, risk averse consumers, safe choice (trusted brands in developing countries)
- Change in behaviour, cartons vs. plastic containers (user friendliness)
- The customers are foremost interested in the standard packaging material.
- Rising concerns for food safety(Greatview, 2011)
- In China Tetra Pak® sells mostly portion packages while in Europe it is family packages (Froste 2006).

5.3.5.4 Technical

- Technological change
- There is a demand for increased efficiency in the production machines and services to improve production.
- Intellectual property protection. A couple of years ago Tetra Pak® lost some of its patent protection which opened up for competitors.
- More efficient packaging material production(Greatview 2011)

5.3.5.5 Environmental

- Important natural resources are under threat, including a scarcity of water and depletion of forests.
- Stricter legislation and taxes related to protecting the environment are being introduced across the world.
- Environmental innovations continue in order to reduce the environmental footprint.

According to a trend report done by Tetra Pak® Environmentally friendliness and sustainability will be a core capability in the industry in 2020.

5.3.5.6 Legal

- The quality-control laws in the food and beverage industry in EU are strict and are barriers of entry in the industry.
- In 2002 Tetra Pak® was sentenced for forcing its customers to choose them and abusing its position as the market leader. In 2008 China approved new Competition laws regulating monopolies, abuse of dominant market position and concentration of the market (Bush 2013).
- It has been patent litigations during the last years. Tetra Pak® has been accusing Greatview of infringements but they have so far not been sentenced for it (Hwang, 2012).
- Supportive government policies is a market driver (Greatview 2011)

5.3.6 Identified key drivers within the industry:

5.3.6.1 Global Trends

8 Global trends that will dominate the food and beverage manufacturing in the next 8 years:

<p>1.Plant efficiency is critical to long-term survival</p>	<ul style="list-style-type: none"> • Rationalisation and focus on scale efficiencies • Environmental actions • New technologies
<p>2.Consumers demand more diverse products</p>	<p>Food safety takes centre stage</p> <ul style="list-style-type: none"> • The growth of a discerning middle class in developing markets • An increasingly ageing and health-conscious population worldwide • Scarce food resources protected by higher agricultural and food production standards
<p>3.Food safety takes centre stage</p>	<ul style="list-style-type: none"> • The growth of a discerning middle class in developing markets • An increasingly ageing and health-conscious population worldwide • Scarce food resources protected by higher agricultural and food production standards
<p>4.Developing markets hold the key to success</p>	
<p>5.Sustainability becomes a core business practice</p>	
<p>6.Retail brands gain</p>	<ul style="list-style-type: none"> • Strengthen the brand image • Move into premium categories

market share	<ul style="list-style-type: none"> • Increase “co-packing” activities • Find alternative sales channels
7. “Company size matters” as consolidation speeds up	<ul style="list-style-type: none"> • Acquisition and consolidation strategies allow manufacturers to: <ul style="list-style-type: none"> ○ Limit competition and ensure market share ○ Diversify and protect raw material supplies ○ Benefit from economies of scale and promote growth and innovation ○ Provide enhanced customer service nationally ○ Achieve greater flexibility in catering to multiple distribution channels
8. The value chain gets a makeover	<p><u>Examples of value chain restructuring include:</u></p> <ul style="list-style-type: none"> • Establishing partnerships or even acquiring local growers to ensure stable raw material supply and promote products of local origin • Acquiring distribution and bottling companies so that they can more closely control the supply chain or reduce associated costs.

(Tetra Pak® 2020 vision)

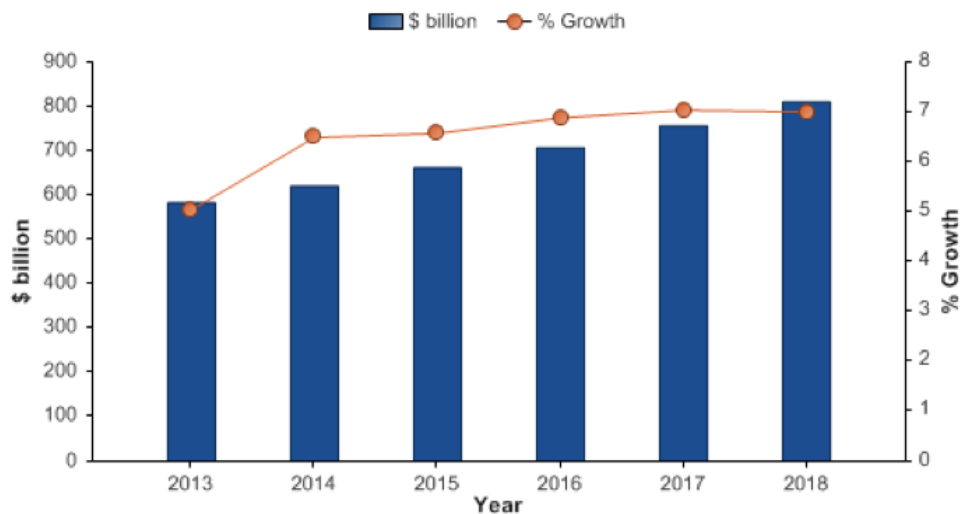


Figure 5.8. Global CPM value forecast 2013-2018 (MarketLine Advantage b. 2014)

5.3.6.2 Additional Trends

Customer relationships

In a B2B industry the loyalty between two companies is often depending on personal and informal connections. The relation between a supplier and a customer is seen as a partnership where knowledge is exchanged and a new product or business is developed.

Because of the increased competition and globalisation, it has become increasingly important to differentiate your company. Quality is often crucial, not only in the product, the technology and the performance, but also in how you interact with the customer, emotional, preferences and taste is just as important. Therefore you have to visit your customer in person, listen and quickly handle complaints and problems that the customer may have. Other ways to meet new customers or nurture a relation is through fairs, events, email and social media. The human and personal relation will be important in the future and what's differentiate your company (Tetra Pak®, 2011 16).

Innovation

A great innovation has an advantage compared to the previous used solution. An innovation transfers knowledge to money, it is about taking an idea all the way to a customer or consumer solution. An innovation does not

have to be a new product; it could be a new process or a new market. One way to get your organisation innovative is by having a culture that encourages it, where the employees feel involved and rewarded for their ideas and contribution to the company's progress. Tetra Pak® has a system for how to evaluate each and every idea. Innovation can occur with suppliers, competitors or universities. Tetra Pak® often work with the local universities and with small companies to innovate. Collaboration between entrepreneurs and large companies creates a good innovative climate (Tetra Pak® 2011, 40).

5.3.7 Submatrix - Tetra Pak®

No submatrix is conducted on Tetra Pak®. The reason behind this might be that it is too early to say what the reaction of Tetra Pak® is in regard to the low cost threats. Since it is a private company it is also hard to find available information to identify an outcome.

6 Analysis

This chapter evaluates all five case companies by means of the theoretical frameworks and starts with a description of how to interpret the developed matrices. The data collected in the Empirics chapter will be analysed in order to develop the schematic normative model. The outcome of the attempts to beat the low cost threats will be examined together with a comparison within the same industry that the company acts. Furthermore, the key drivers within the respective industry and the factors identified will be provided. Finally, a submatrix for each case company will be conducted. The analysis is the fourth step in the research process (figure 2.7).

6.1 Description of Matrices

In the end of each case in the analysis there is a matrix developed based on the specific case described. These developed matrices are submatrices and the basis for the unique end matrix, also called “The Developed Normative Model”. In other words, the sum of all submatrices ends up in the unique developed model (a normative result) in chapter 7. Notable is that it is only the successful companies’ factors that appear in the end matrix.

- How should these matrices be interpreted?

To avoid misinterpretations and misunderstandings it is important to mention how these matrices should be interpreted. In the first column, “factors”, which state factors that made the companies to make a move in order to improve its business, thus “why” they responded to the low cost threat. In other words, if the factors occur on a specific market and the company has the means needed for take action, the company should choose the responding strategy. For instance, if “commoditization” appears as a factor, one should interpret it as that the market where the company acts is commoditized and to be able to survive the company chose one out of the three strategies (Differentiation, Dual, Low cost) to strengthen its business. This indicates with an x-marking in the matrices. The factors in the submatrices are stated in a generalising text since they will be bundled and moved to the end matrix, where conclusions can be drawn in the end of this report. Above each submatrix, comments are written which will provide specific explanations of the factors for each case.

Again, it is essential to mention that the submatrices are not normative results, rather than a description of what the company actually did.

6.1.1 Factors

A factor is something in the market or within the company that has been significant, decisive and descriptive for the choice and outcome of the strategy. As visualized in chapter 2, the factors are identified based on business canvas, key drivers, and most important, the case studies. In addition, some external sources are used in the frameworks which will support the choice of factors. Notable is that all key drivers are not presented in the submatrices. A key driver does necessarily not have to be a decisive factor of how the company responded to low cost competition. The key drivers that are applicable as factors are separated (e.g. urbanization or economic crises are not really a decisive factor of the response to low cost threats from the company). The factors are presented in the submatrices in each individual case.

6.2 Aer Lingus

6.2.1 Analysis

6.2.1.1 Outcomes

Aer Lingus managed the balance between cost cutting and differentiation in a good manner. The main drivers were stimulating demand by cutting the average fares and resulting rising load factors combined with reduced costs. Results: (Ryans 2008, 160).

- Reduced costs by 47 % (2001).
- Increased operating profit from £83-107 million (29 %) in between 2003-2004.
- 8.1 % operating margin in 2005 compared to the industry average of 20 European airlines in 2005 which was 2,9 % (Cranfield University 2005, 13).

6.2.1.2 Business Canvas

<p><u>Value Proposition</u></p>	<p><u>Convenience/Usability</u></p> <ul style="list-style-type: none"> • Connecting Ireland to the world by low fares. • A “value carrier” flying to primary airports (after the response to Ryanair).
<p><u>Customer Segment</u></p>	<p><u>Segmented</u></p> <ul style="list-style-type: none"> • Short-haul routes within Ireland, the United Kingdom and Europe. • Long-haul routes to North America, particularly cities with large population that have Irish roots such as New York, Boston and Chicago
<p><u>Key Resources</u></p>	<p><u>Human</u></p> <ul style="list-style-type: none"> • Staff is seen as a major asset <p><u>Intellectual</u></p> <ul style="list-style-type: none"> • Partnerships with travel agencies etc.
<p><u>Key Activities</u></p>	<p><u>Problem solving</u></p> <ul style="list-style-type: none"> • Providing passenger and cargo transportation services in the UK, Europe and the US. • Developing and improving strategies, management systems and processes in order to uphold successful competitor moves and safety performance • Ensure quality
<p><u>Key Partnerships</u></p>	<p><u>Buyer-supplier relationship</u></p> <ul style="list-style-type: none"> • Airbus <p><u>Acquisition of particular resources and activities</u></p> <ul style="list-style-type: none"> • Staffing Agencies- Recruitment and training of cabin crew • Ground handling partners • JetBlue Airways • United Airlines • Etihad Airways • Aer Lingus Regional • KLM <p>With these partners Aer Lingus have codeshare services and other services in order to connect Ireland to the</p>

	world, and the rest of the world to Ireland (Aer Lingus 2014).
<u>Customer Relationship</u>	<ul style="list-style-type: none"> • <u>Self-service</u> - Online booking & self-check-in • <u>Personal service</u> - Reasonable customer service via telephone
<u>Channels</u>	<u>Web sales</u> <ul style="list-style-type: none"> • Primary distribution channel is their website • Call Center • E-mail
<u>Revenue Streams</u>	<u>Asset sale</u> <ul style="list-style-type: none"> • Tickets • Cargo Revenues • Auxiliary revenues such as food, beverages, checked baggage, insurances, access to online casino etc. • Aftermarket sales (Partnerships with hotels and car rental etc.) <u>Yield management</u> - Price depends on time of purchase.
<u>Cost Structure</u>	<u>Cost/value driven</u> <p>Variable costs (32 %)</p> <ul style="list-style-type: none"> - Fuel (27 %) - Maintenance costs (5 %) <p>Fixed costs (68 %)</p> <ul style="list-style-type: none"> - Staff (20 %) - Airport & en-route charges (27 %) - Depreciation (6 %) - Aircraft operating lease costs (3 %) - Distribution costs (3 %) - Ground operations and other costs (9 %) <p><u>Total costs: 1324,2 M Euros</u></p> <p>The cost structure above is from Aer Lingus' annual report 2012 but it is quite representative in general for the airline industry since all these costs are necessary. (Aer Lingus Annual Report 2012, 16-18)</p>

6.2.1.3 Marketing mix

<p><u>Product</u></p> <p>The use of primary airports Short- and long haul routes</p>	<p><u>Price</u></p> <p>Premium Pricing Low cost “Low cost, no frills”</p>
<p><u>Place</u></p> <p>Primary distribution channel is its website Call Center E-mail</p>	<p><u>Promotion</u></p> <p>Advertising in national and regional newspapers, focus on low fares and price Through controversial and topical advertising, press conferences and publicity stunts Advertising campaigns with other travel-related entities, including local tourist boards Direct mail (Aer Lingus Annual Report 2012)</p>

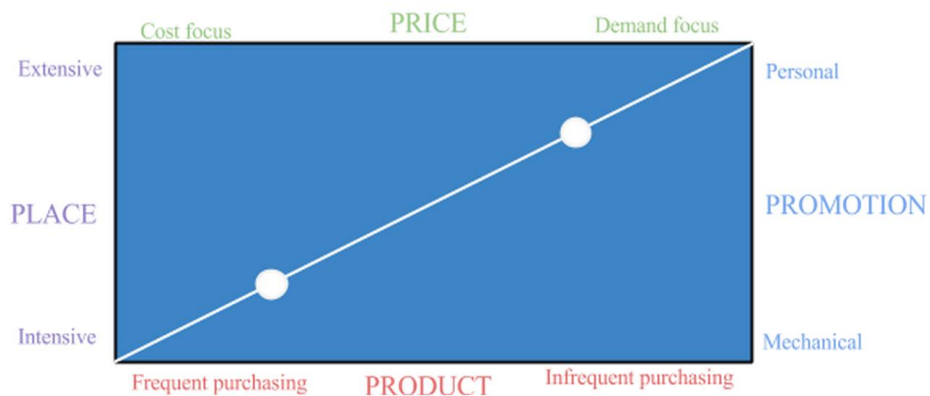


Figure 6.1. Strategy chosen with reference to the 4 Ps.

Aer Lingus changed its business model after they filed for bankruptcy in 2001. The company enhanced and maintained its low cost model in short-haul (European) routes and had a slightly differentiated product offering in its long-haul (North American) routes. There is tough competition in the

European routes particularly by Ryanair and Aer Lingus is not the only company travelling to North America. With that said, the company was not the best airline acting in its markets (compared to Ryanair) but managed to stay competitive and to survive. As can be seen in Figure 6.1 above, the two white dots show both approaches. Aer Lingus' initial moves of responding to the low cost threat were great, and at 2012, the company was still a very profitable airline (Aer Lingus Annual Report 2012).

6.2.1.4 Porter Five Forces (Air-line Industry)

6.2.1.4.1 Bargaining power of suppliers

There are many suppliers to the airline industry including airports, fuel suppliers, catering suppliers and aircraft suppliers. Since there are only two basic aircraft suppliers for people transportation, Boeing and Airbus, it will take too much effort and high switching costs between these two. Thus the power of these suppliers is strong as they are in an oligopoly position. The power of airports as a supplier is strong, since there is not much choice for an airline. This is especially in the case with Aer Lingus considering they focus on primary airports only.

The power of some suppliers (aircraft and manufacturers) is strong, while other secondary suppliers are weak as the airline can readily switch between suppliers.

Bargaining power of suppliers: Moderate

6.2.1.4.2 Bargaining power of buyers

The buyer's power in this case is mainly related to the customer's price sensitivity. The cost of switching airlines is quite low and the customer might choose the flight which is most convenient and fits them best. Thus, bargaining power of buyers is considered strong.

The buyers can easily access information such as prices and conditions provided by the company, which means that Aer Lingus and other airlines have less room for negotiation, so this underpin that the bargaining power of buyers is strong.

Bargaining power of buyers: High

6.2.1.4.3 Threat of new entrants

There is a high barrier to break through in the airline industry since it requires high capital to set up. Besides capital, the customers take brand awareness into account, which takes time to establish. Aer Lingus might, however, be threatened by low cost subsidiaries of full service carriers. However, as profit levels have declined in recent years the attractiveness of the industry is considered low.

Threat of new entrants: Low

6.2.1.4.4 Threat of substitutes

There are other transportation alternatives including buses, trains, ferries and private transportation. This is especially the case in the shorter flight sector in UK and some parts of Europe. A growing threat in Europe could be fast trains similar to the one between London, Brussels and Paris, which rival the journey time of aircrafts. Given the geography of Ireland however, some routes are only possible by air travel, so there is very limited threat of substitute with another similarly-priced transport mode.

The threat of substitutes: Moderate

6.2.1.4.5 Intensity of rivalry

There are two main reasons that customers take into account when choosing airlines: price and the flight schedule which suits them best. Things such as package deal bookings, high fixed costs and high exit costs make the industry enormously competitive. As Kim (2005) suggests, there is a strong rivalry among competitors creating a Red Ocean market situation. "The trend towards consolidation of European airlines is expected to continue" (Ryans 2008, 160).

Intensity of rivalry: High

6.2.1.5 PESTEL

Political	<ul style="list-style-type: none">• Government support for national carriers• Privatization and deregulation of airlines• Government presence and protection• Labor laws e.g. if some of the reasons for termination by the employer changes• Security controls• Restrictions on migration
Economic	<ul style="list-style-type: none">• Economic crises• Congestion in hubs• Volatility in fuel price• European economic growth rate, GDP
Social	<ul style="list-style-type: none">• Media views increase• Growing market for visiting family and friends• Lifestyle trends – In general more traveling• Student international study exchanges
Technological	<ul style="list-style-type: none">• More efficient engines and airframes• Alternative fuel• Booking technology through smart phones and internet• Technology access (e.g. CRS, ERP)

	<ul style="list-style-type: none"> • Security check technologies
Environmental	<ul style="list-style-type: none"> • Natural disasters such as volcano disruption and typhoons • Potential carbon tax burden • Noise pollution controls • Energy consumption controls • Land for growing airports
Legal	<ul style="list-style-type: none"> • Labor legislation - Unions • Bilateral air rights agreements • Conflict with state – owned / local airline • Restrictions on mergers

6.2.2 Identified key drivers within the industry:

- **Market rules:** Government and political influences such as ownership, restrictions and deregulations.
- **Economic:** such as crises, taxes and fuel prices.
- **Urbanization:** Increased urbanization and population. More people move to the cities means more travelling and changed lifestyle and behavior.
- **Environment:** Environmental constraints such as noise controls and pollutions.
- **Innovation:** Smarter technology, both aircraft efficiency and digitized systems.

External key drivers applicable as factors:

- **Evolving customer segments:** New segments with new demands are evolving. Required primary airports and long haul.
- **High competition in one target segment:** High competition on short-haul routes.
- **Consolidation:** Trend towards consolidation of European airlines is expected to continue (Air France, KLM, Lufthansa, Swiss etc.).

Internal factors:

- **Successful competitor moves by low cost player:** Successful moves by Ryanair. Aer Lingus copied Ryanair’s basic elements and became a low fare airline with a slightly differentiated product offering.

6.2.3 Submatrix - Aer lingus

The submatrix is describing what factors that were significant for the case company and its industry (y-axis) and what strategy the company used (x-axis).

Primary Strategy Factors	Differentiation	Dual Strategy	Low Cost
Evolving customer segments		x	
High competition in one target segment		x	
Consolidation		x	
Successful competitor moves by low cost player		x	

6.3 Dow Corning

6.3.1 Analysis

6.3.1.1 Outcomes

- Dow Corning increased in sales from \$2.4 billion in 2001 to \$3.9 billion in 2005.
- The company went from a loss of \$28 million to a profit of \$500 million during the period in between 2001-2005. In comparison, Wacker and Rhodia mentioned above, had in 2005 a profit of 143.9 and 66 million euros respectively. Below is a comparison with the operating margin in 2005:

Dow Corning	Wacker	Rhodia
12.8 %	5.2 %	1.5 %

(Wacker Annual Report 2005, 2)

(Rhodia 2006)

These numbers indicate that Dow Corning was far ahead its competitors and that launching Xiameter was a successful move.

- Increased value insight from customers what Dow Corning brings to market with its premium offerings.
- Optimised logistics and production costs.
- Minimal inventory costs and no technical service costs.
- Less than half cannibalisation of their own business than predicted.

(Anderson, Kumar & Narus 2007, 104-105)

6.3.1.2 Business Canvas

<u>Value proposition</u>	<u>Customization</u> <ul style="list-style-type: none"> • Dow Corning provides full service and customization <u>Price</u> <ul style="list-style-type: none"> • Xiameter provide low prices on its products
<u>Customer Segment</u>	<u>Segmented</u> Dow Corning developed deep knowledge about its customers and explored two different segments:

	<ul style="list-style-type: none"> • The “solution seekers” segment. Premium segment where customers focus on technology innovation. • The “price seekers” segment. Low-end segment in mature industries, or were buying products in their mature stage of their product life cycle. <p>(Ryans 2009, page 154)</p>
<u>Key Resources</u>	<p><u>Intellectual</u></p> <ul style="list-style-type: none"> • Xiameter achieved strong brand recognition via Dow Corning. <p><u>Physical</u></p> <ul style="list-style-type: none"> • Shared global manufacturing facilities, global supply chain and infrastructure <p><u>Human</u></p> <ul style="list-style-type: none"> • Strategic and creative thinkers was put in the development of Xiameter <p><u>Financial</u></p> <ul style="list-style-type: none"> • Dow Corning could provide Xiameter with financial means if needed
<u>Key Activities</u>	<p><u>Production</u></p> <ul style="list-style-type: none"> • To manufacture, explore and develop the potential of silicones
<u>Key Partnerships</u>	<p><u>Acquisition of particular resources and activities</u> - The following organisations bring benefits to Dow Corning.:</p> <ul style="list-style-type: none"> • LIFE - EU’s financial instrument supporting environmental and nature conservation projects throughout the EU as well as in some neighbouring countries. • Ghent University - Provides with experience measurements of moisture dynamic in woods. • The Institute of Building Materials Research (IBAC) - Provides with experience in cement-based construction materials. • FCBA- Provides knowledge in wood treatment and utilization. <p><u>Buyer-supplier relationship</u></p> <ul style="list-style-type: none"> • Since Dow Corning is manufacturing silicone, there are suppliers delivering the raw material

	involved.
<u>Customer Relationship</u>	<u>Self-service</u> <ul style="list-style-type: none"> • Online ordering for Xiameter’s customers in the low-end segment <u>Personal assistance</u> <ul style="list-style-type: none"> • Full technical service and personal assistance to Dow Corning’s premium customers
<u>Channels</u>	<u>Web sales</u> <ul style="list-style-type: none"> • Primary distribution channel for Xiameter is its website <u>Sales force</u> <ul style="list-style-type: none"> • For Dow Corning, the customers bought directly from the company
<u>Revenue Streams</u>	<u>Advertising</u> <ul style="list-style-type: none"> • Xiameter’s “Dare to compare” <u>Asset sale</u>
<u>Cost Structure</u>	<u>Economies of scale</u> <u>Cost-driven</u> structure via Xiameter <u>Value-driven</u> structure via Dow Corning

6.3.1.3 Marketing mix

<p><u>Product</u> Dual-brand strategy</p>	<p><u>Price</u> Premium Pricing (Dow Corning) Competitive pricing (Xiameter); low-price / no-frills</p>
<p><u>Place</u> Xiameter's primary distribution channel is its website Directly from the company via Dow Corning</p>	<p><u>Promotion</u> International advertising campaign for the launch of Xiameter, "Dare to compare". Xiameter challenged customers to "Dare to compare" their current silicon prices with the one's from Xiameter (Kashani & Francis 2007, 8)</p>

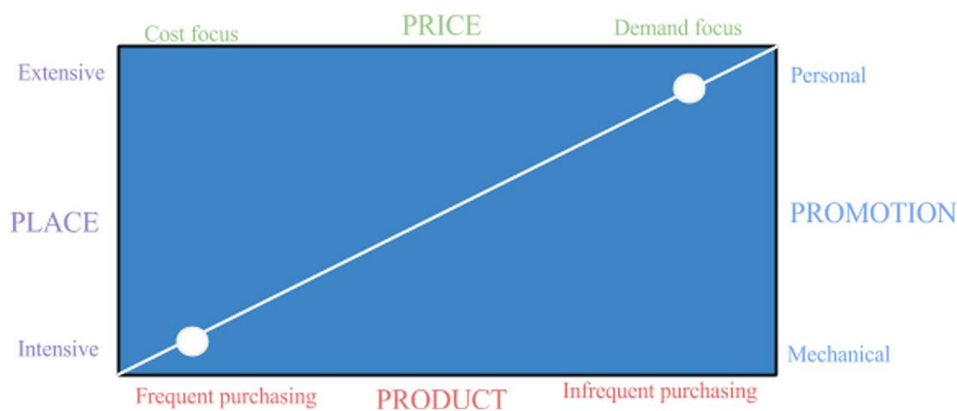


Figure 6.2. Strategy chosen with reference to the 4 Ps.

Dow Corning chose a dual-strategy when responding to the low-cost threats. As the two white dots shows in Figure 6.2, Dow Corning differentiated itself with its full-service strategy to target the high-end segment and simultaneously sat up a subsidiary (Xiameter) to target the low-end segment.

6.3.1.4 Porter Five Forces (Silicone Industry)

6.3.1.4.1 Bargaining power of suppliers

As consolidation currently occur in the industry, the suppliers' bargaining power decreases since the manufacturing companies getting larger. Today has the silicon (silicone consists mostly of silicon) suppliers several options but their bargaining power tend to decrease.

Bargaining power of suppliers: Moderate but is decreasing

6.3.1.4.2 Bargaining power of buyers

The buyers in this case primary value a low price but also services. The buyers have many choices and the cost of switching silicon supplier is quite low. The buyers also often purchase the product in high volume which strengthens the bargaining power of buyers.

Bargaining power of buyers: High

6.3.1.4.3 Threat of new entrants

As mentioned in the case, the silicon industry puts a lot of emphasis on service but especially on price. It might be argued that profitability requires economies of scale and a well-known brand is needed as in Dow Corning's case. To be able to press prices, an extraordinary distribution system must exist, which would need much capital to set up. The products in itself are on the other hand quite undifferentiated and no particular technology is needed.

Threat of new entrants: Medium / Low

6.3.1.4.4 Threat of substitutes

In the beginning of 2000 silicone dominated its application area in several industries. Research suggests that several forms of substitute is coming up and could threaten the companies involved in silicone manufacturing (Phys.org 2012). For instance, tin and vanadium oxide bronze are two different materials that probably could replace silicon in micro-chips, transistors and solar panels in the future (Nature World News 2013).

Threat of substitutes:

Short term: Low; Long term: High

6.3.1.4.5 Intensity of rivalry

Despite the leading market share, Dow Corning was facing several low-cost competitors that were undercutting its prices. When Dow Corning distinguished themselves, the company was not much longer affected by the red ocean market situation that has been created. Thus, the intensity of rivalry was high, but owing to Dow Corning's move the competition decreased. Given the predicted substitutes the rivalry might increase quite much.

Intensity of rivalry: Moderate

6.3.1.5 PESTEL

<u>Political</u>	<ul style="list-style-type: none">• Labor laws• Trading laws, Dow Corning is a global company
<u>Economic</u>	<ul style="list-style-type: none">• Economic crises• Volatility in raw material prices
<u>Social</u>	<ul style="list-style-type: none">• Population growth• Increased prosperity among consumers which leads to changed consumer behaviour within the purchase of automobiles and healthcare products etc.
<u>Technological</u>	<ul style="list-style-type: none">• Technological change, disruptive innovation to silicone• Smart Online ordering systems
<u>Environmental</u>	<ul style="list-style-type: none">• Environmental tightening policies within manufacturing companies, such as carbon taxes.
<u>Legal</u>	<ul style="list-style-type: none">• Labour legislation - Unions

6.3.2 Identified key drivers within the industry:

- **Innovation:** Increased advanced R&D processes and innovation.
- **Reshaping of the industry:** Either follow top performers and undertake initiatives to performers or leave it to acquirers to drive a new dynamic of value creation.

(Heck, Kaza & Pinner 2011)

External key drivers applicable as factors:

- **Consolidation:** Trend towards consolidation throughout the industry's value chain.
- **Evolving customer segments:** "Solution seekers" and "price seekers"
- **Commoditization:** The core product was commoditized and a red ocean market was created among the competitors.
- **Timing:** Release the new concept in a timely manner in order to attack low cost competitors.

Internal factors:

- **Deep knowledge about customers:** Compared to other players in the industry, Dow Corning spent plenty of time to understand the customers' real needs. According to surveys, Dow Corning had a very good understanding of the customers' needs.
- **Brand Awareness:** The strong brand of Dow Corning was an advantage when creating the new business unit. "Xiameter by Dow Corning".
- **Economies of scale:** Dow Corning could use its size to beat the competitors. There were synergies between the business units e.g. utilizing the same manufacturing and distribution systems etc. were very smooth.

6.3.3 Submatrix- Dow Corning

The submatrix is describing what factors that were significant for the case company and its industry (y-axis) and what strategy the company used (x-axis).

Factors \ Primary Strategy	Differentiation	Dual Strategy	Low Cost
Consolidation		X	
Evolving customer segments		X	
Commoditization		X	
Timing		X	
Deep knowledge about customers		X	
Brand Awareness		X	
Economies of scale		X	

6.4 Electrolux

6.4.1 Analysis

6.4.1.1 Outcomes

6.4.1.1.1 Short Term

“Electrolux’ operating performance is weak compared to Asian competitors and industry index. 2001-2005 industry growth was 10.8% and Electrolux’ revenue growth under the same period was 0,8 %. Electrolux operating profit was on average 4.7 % and industry average was 7 %”. (Ryans 2008, 171)

- Losing market shares on core markets
- Growing sales in emerging markets, but slower than the competitors
- Asian competitors are growing rapidly and continue to expand on core markets
- Sales was declining
- Electrolux had more focus on growing markets
- Traditional low cost competitors now focus on high end segments and innovation
- Consolidation continues

Operation margin (%)

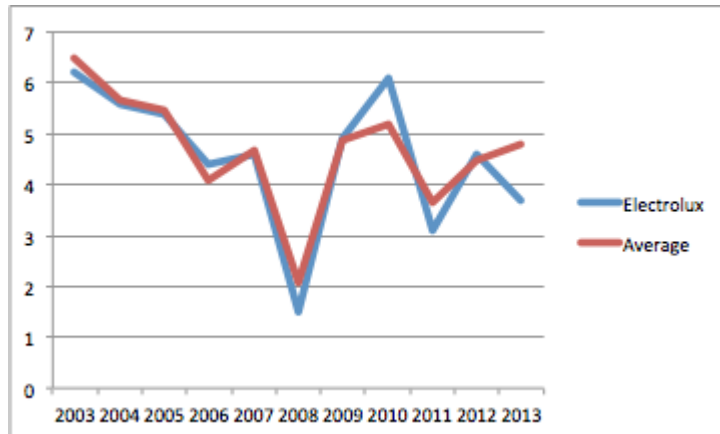


Figure 6.3. Electrolux performance in relation to average performance measured in operating margin. y-axis % ; x-axis year. Table and sources to the numbers are in Appendix.

6.4.1.1.2 Long Term

- 2013

Haier is the industry leader in terms of sold units

-2014

- Whirlpool is trying to reclaim the position as market leader through acquisitions
- Electrolux has the second largest market share in North America but they are looking to boost revenue in Europe and North America due to stagnated sales over the last couple of years.
- GE (no 3 in North America) is acquired by Electrolux and also becomes a top contender for the position as market leader
- Haier is trying to expand outside of China to be less dependent of the Chinese market
- Companies like Whirlpool, BSH Bosch, Siemens and LG are thinking of moving their production to their domestic countries or have already done it. They are even thinking of moving to other low cost countries like Indonesia and Vietnam.
- Merging to increase global presence and gain market shares on regional markets (Ko 2014).

6.4.1.1.3 Market situation

Market situation Europe

- Haier launches a joint venture with Fargo and wants to target the middle class and high end segments, not the traditionally low cost segments that are connected to Chinese companies (Waldmeir 2012).

Market situation North America

In the last few years all of the traditionally major appliance manufacturers such as Whirlpool, GE and Electrolux lost market shares on the North American market to Asian companies as Samsung and LG.

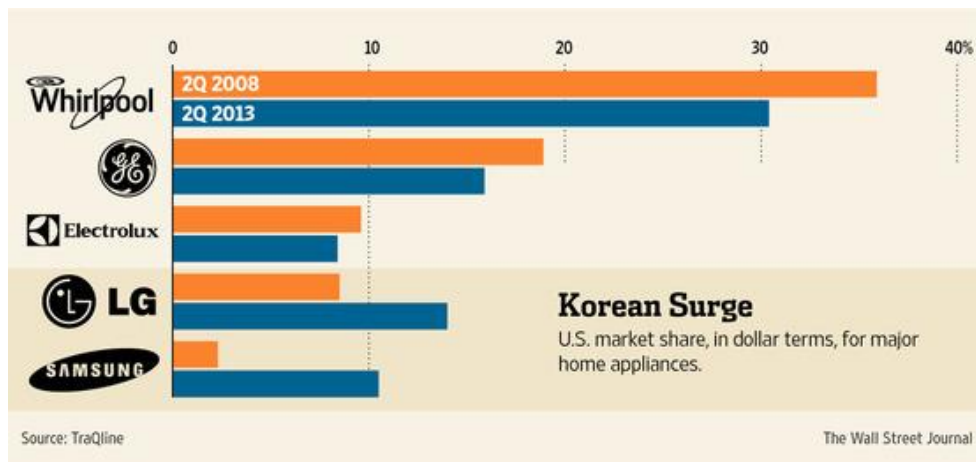


Figure 6.4. U.S. market share differences in between 2008-2013 (Hagerty & Lee 2013).

One of the explanations to Samsung’s growth is brand awareness, its strong sales in smartphones and advertising helps when selling home appliances as well. The president of Electrolux says “They have brought good strong innovation to the U.S. appliance market and they have been rewarded for it”.

Samsung has businesses in many different categories. The company’s total advertising is \$611 million, ten times the size of Whirlpool’s advertising budget. According to David MacGregor, analyst at Longbow research, the Korean companies “have substantially raised the bar on quality”. The fast product cycles in the smartphone industry has forced Samsung to innovate very rapidly and they have good use for this in the home appliance industry as well. In a customer satisfaction survey, Samsung placed no 1 for washers and no 2 on dryers, no 1 was LG.

A challenge for Samsung is to build relationships with homebuilders, which is a growing customer group. In comparison to Whirlpool and GE, Samsung has production in Asia and Mexico. Long supply lines make it harder to respond to change in market demand. Samsung’s goal is to be the no 1 appliance maker in 2 years. The electronic expertise that Samsung possess is an advantage, especially since there is a trend towards smart homes where you connect the appliances to the Internet.

The U.S appliance makers strike back in multiple areas. GE is upgrading its US factories for \$1 billion and launching a new product line this autumn to target young adults. Whirlpool has increased its design staff with 50 % over the last 10 years. Whirlpool has also increased its profits margins and made the statement that they will not increase their market share by discounting products and selling to a loss (Hagerty & Lee 2013).

Recently it has been announced that Electrolux is acquiring GE Appliances. The consolidation between Electrolux and GE appliances makes Electrolux the largest manufacturer of appliances in the world. The consolidation is expected to generate cost synergies of \$300 million a year. The greatest synergies are supposed to come from the purchasing department. The acquisition will strengthen Electrolux presence on the North American market (Dagens nyheter 2014).

6.4.1.2 Business Canvas

<p><u>Value proposition</u></p>	<p><u>Performance</u></p> <ul style="list-style-type: none"> • "Complete appliance solutions for both consumers and professional users" <p><u>Convenience/Usability</u></p> <ul style="list-style-type: none"> • "Making peoples' lives easier by making thoughtfully designed stoves, ovens, refrigerators, dishwashers, laundry machines, vacuum cleaners and other small appliances" <p>(Electrolux b 2009)</p>
<p><u>Customer Segment</u></p>	<p><u>Segmented</u></p> <ul style="list-style-type: none"> • Household appliances - Premium segment and low price segment • Electrolux have different production platforms and branding and channels
<p><u>Key Resources</u></p>	<p><u>Physical</u></p> <ul style="list-style-type: none"> • Plants • Distribution networks <p><u>Intellectual</u></p> <ul style="list-style-type: none"> • Brand <p><u>Human</u></p> <ul style="list-style-type: none"> • R&D • Customer insights

<p><u>Key Activities</u></p>	<p><u>Production</u></p> <ul style="list-style-type: none"> • Sustainability with focus on resource efficiency • Manufacturing • Customer focused innovation • Collaboration between marketing, R&D and design
<p><u>Key Partnerships</u></p>	<p><u>Optimization and economies of scale</u></p> <ul style="list-style-type: none"> • Buyer - Supplier Relationships • The suppliers contribute with for instance developing new innovative components, improve product quality, secure the supply chain as well as the logistical handling. <p>(Electrolux d 2013)</p>
<p><u>Customer Relationship</u></p>	<p><u>Self-Service</u></p> <ul style="list-style-type: none"> • Manuals <p><u>Automated Service</u></p> <ul style="list-style-type: none"> • Customer and consumer warranty complaints reviews <p><u>Personal assistance</u></p> <ul style="list-style-type: none"> • After sales - product problems <p><u>Co-Creation</u></p> <ul style="list-style-type: none"> • Design lab
<p><u>Channels</u></p>	<p><u>Direct</u></p> <ul style="list-style-type: none"> • Sales force <p><u>Indirect</u></p> <ul style="list-style-type: none"> • Partner stores <ul style="list-style-type: none"> ◦ Growing share of sales through kitchen specialists and on internet (Electrolux 2009). • Wholesalers • Retailers <ul style="list-style-type: none"> ◦ Many small, local and independent retailers (Electrolux 2009). • Supermarkets

	<ul style="list-style-type: none"> • Web sales • Service partners
<u>Revenue Streams</u>	<p><u>Asset sale</u></p> <ul style="list-style-type: none"> • Laundry • Kitchen • Vacuum <p><u>Usage fee</u></p> <ul style="list-style-type: none"> • Aftermarket services <p><u>Fixed menu Pricing</u></p> <ul style="list-style-type: none"> • List Pricing
<u>Cost Structure</u>	<p><u>Economies of Scale</u></p> <p>Variable costs (81 %)</p> <p>Fixed costs (19%)(Electrolux, 2009)</p> <p><u>Economies of Scope</u></p> <ul style="list-style-type: none"> • Building platforms • Distribution • Marketing • Sales Channels

6.4.1.3 Marketing mix

<u>Product</u> Design Quality Features Branding	<u>Price</u> Premium pricing Cost based pricing
<u>Place</u> <u>- Direct</u> Sales force <u>-Indirect</u> Partner stores Wholesaler Retailers Supermarkets Web sales Service partners	<u>Promotion</u> Advertising Personal selling Internet Marketing Sponsorships “Thinking of you” Helping retailers improving their shopping experience (Davis 2013).

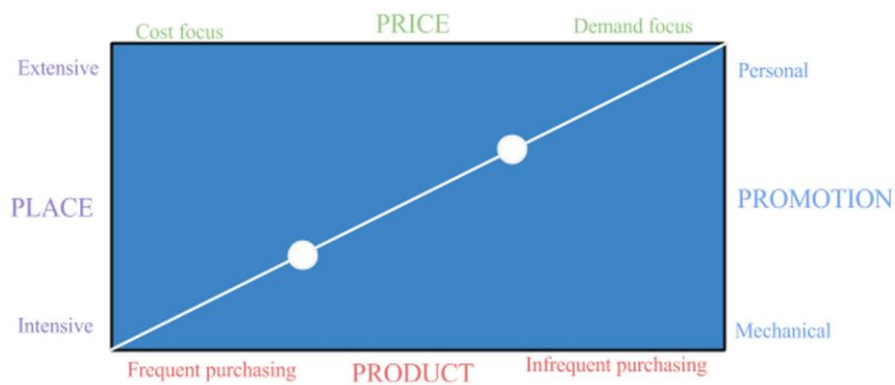


Figure 6.5. Strategy chosen with reference to the 4 Ps.

Electrolux has chosen to pursue two different segments, one with focus on costs and one in the premium segment. The financial results have not been

convincing and it is hard to say whether any of the conditions that according to Porter are needed to be able to execute both strategies successfully at the same time. As mentioned before, Electrolux got “stuck in the middle” as the two white dots in Figure 6.5 illustrates.

6.4.1.4 Porter Five Forces (Household Appliance Industry)

6.4.1.4.1 Bargaining power of suppliers

The suppliers within the appliance industry are making components or selling raw material. These products are often commodities and it is easy to switch between suppliers. The appliance market is very consolidated and the manufacturers are large corporation that can put a lot of pressure on the suppliers.

Bargaining power of suppliers: Low

6.4.1.4.2 Bargaining power of buyers

The buyers are retail chains, supermarkets and independent retailers. Most of the sales come from electrical- and electronics retailers. The retailers can easily switch supplier and respond to consumer demand, the large retailers usually keep relationship with several different suppliers to increase their position towards the manufacturers. The manufacturers have to innovate and respond to consumer preferences to stay competitive.

Some of the manufacturers are large, global, with strong brands which makes the negotiation position of the buyers lower. The buyers some time accept exclusivity contracts which lower their power.

Bargaining power of buyers: Moderate

6.4.1.4.3 Threat of new entrants

The market is dominated by large global manufacturers with strong brands. The financial requirements to enter make it hard for new entrants. Large companies that already possess important knowledge and know-how of the products like Samsung and LG are able to penetrate the market.

Threat of new entrants: Moderate

6.4.1.4.4 Threat of substitutes

There are substitutes to home appliances. Some people are still satisfied with drying their clothes by air drying and washing the dishes by hand. A reason why it is still popular is because of the electrical costs. A second substitute is the market for second hand appliances. Retailers or consumers themselves sell used appliances to low prices and very low switching costs for purchaser makes it an alternative for consumers. Platforms like e-bay, amazon and craigslist make it easy to buy and sell second hand products. During economic downturns the second hand alternative increases in popularity (MarketLine Advantage c 2014).

Threat of substitutes: Moderate

6.4.1.4.5 Intensity of rivalry

There are several large global manufacturers on the market with strong brands. New players like Samsung and LG have entered the market and increasing their market share.

The fixed costs and exit barriers are high. The differences between the manufacturers are quite low. The consolidation trend is high and many companies fight to take the position as market leader.

Intensity of rivalry: High

6.4.1.5 PESTEL

<u>Political</u>	<ul style="list-style-type: none">• Whirlpool lobbying for taxes on imported home appliances on the North American market (Hagerty, Lee 2013)• Trading laws, Electrolux is a global company
<u>Economic</u>	<ul style="list-style-type: none">• Growth in China and South America• Declining in Europe and North America• Asian companies invest in manufacturing facilities in Europe• Financial crises
<u>Social</u>	<ul style="list-style-type: none">• The customer behaviour has changed, middle

	<p>segment of market has disappeared</p> <ul style="list-style-type: none"> • Asian firms are not connected with low quality any more • Emerging markets
<u>Technological</u>	<ul style="list-style-type: none"> • Trend towards smart homes - the home appliances are connected to the internet • Focus on energy efficiency
<u>Environmental</u>	<ul style="list-style-type: none"> • Awareness and interest from consumers • Manufacturers are focusing on energy efficiency
<u>Legal</u>	<ul style="list-style-type: none"> • Environmental laws

6.4.2 Identified key drivers within the industry:

- **Environmental:** Environmental energy efficiency, water usage etc.
- **Customization:** Consumer behavior and needs - Local demand and needs differ between countries and regions.
- **Consolidation:** Strong consolidation trend where a few player fight to hold a market leader position.

External key drivers applicable as factors:

Evolving customer segments: Increased middle class and prosperity among customers and companies, especially in Asia which is a developing market. The middle segment that was Electrolux strongest segment disappeared. A large low price segment in China and premium segments in the developed markets emerged. Consumer observations and focused product development were implemented.

High competition in one target segment: Many large size competitors were fighting for the same customers. There was strong competition in both the new segments that Electrolux targeted.

Innovation: Smarter homes - connecting the appliances to the internet. This opened up for new manufacturers like LG and Samsung.

The shift and the trend of internet of things and the smart home have changed the home appliance industry. New core knowledge was needed.

Emerging markets: Electrolux was not as strong as some competitor in the emerging Asian market. At the same time the traditional strong markets like Europe and North America were declining.

Internal factors:

Economies of scale: As one of the largest manufacturers Electrolux could draw advantage of its economies of scale. Moving the production to low cost countries was important to cut costs and be able to serve the segments.

Brand Awareness: Electrolux had a strong brand and did not want it to be connected with low value products. The company used different brands for each segment.

6.4.3 Submatrix – Electrolux

The submatrix is describing what factors that were significant for the case company and its industry (y-axis) and what strategy the company used (x-axis).

Primary Strategy	Differentiation	Dual Strategy	Low Cost
Factors			
Evolving customer segments		X	
High competition in one target segment		X	
Innovation		X	
Emerging markets		X	
Economies of Scale		X	
Brand Awareness		X	

6.5 Orica

6.5.1 Analysis

6.5.1.1 Outcomes

Ryans (2008) describes that Orica transformed itself from a commodity supplier to an integrated part of its customers and became the world's leading supplier of commercial explosives in a successful manner. In 2006 the company acquired Dyno Nobel's Global Commercial Explosives interests in order to complement its mining business to ensure market leadership and future growth. Customers in the mining industry needed a supplier that could provide global service considering the rapid consolidation in the world's mining industry. Orica benefited a lot from this and their mining services became the most profitable part of its business. They also turned fixed costs such as quarry employees and drilling equipment into variable ones due to their new solution-provider strategy (Ryans 2008, 185-186).

The net profit for Orica Mining Services has increased a lot the last decade. Interesting to notice is that a significant increase in net profit appeared right before 2005 when Orica was a fully developed solution provider. If one compare with Figure 6.7 below, which shows that the net profit margin of the 40 top mining companies worldwide was 15 %, Orica did quite a job with its 20.5 % as seen in Figure 6.6. This indicates that Orica made quite a successful move with its differentiated strategy. Notice that the numbers are from Orica Ltd and organisations that have several divisions, likewise Orica. However, Orica Ltd consists of approximately 70 % of Mining Services.

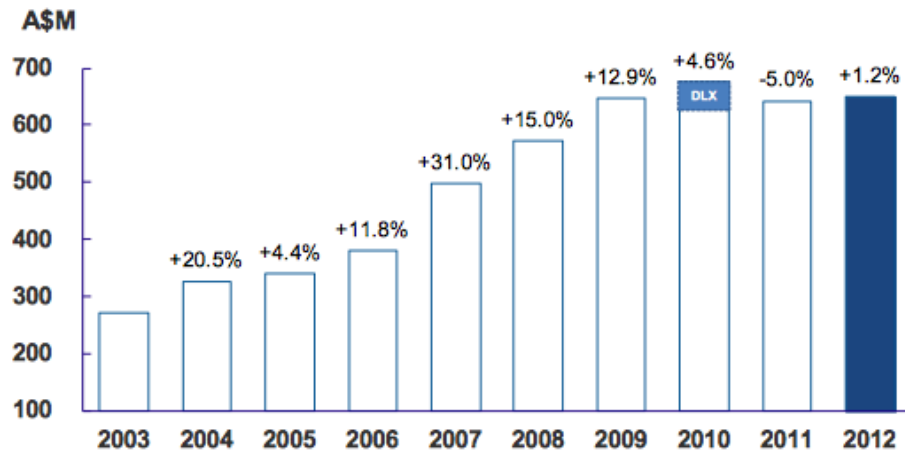


Figure 6.6. Net profit after tax in between the years 2003-2012 for Orica Ltd (Orica 2012, 43).

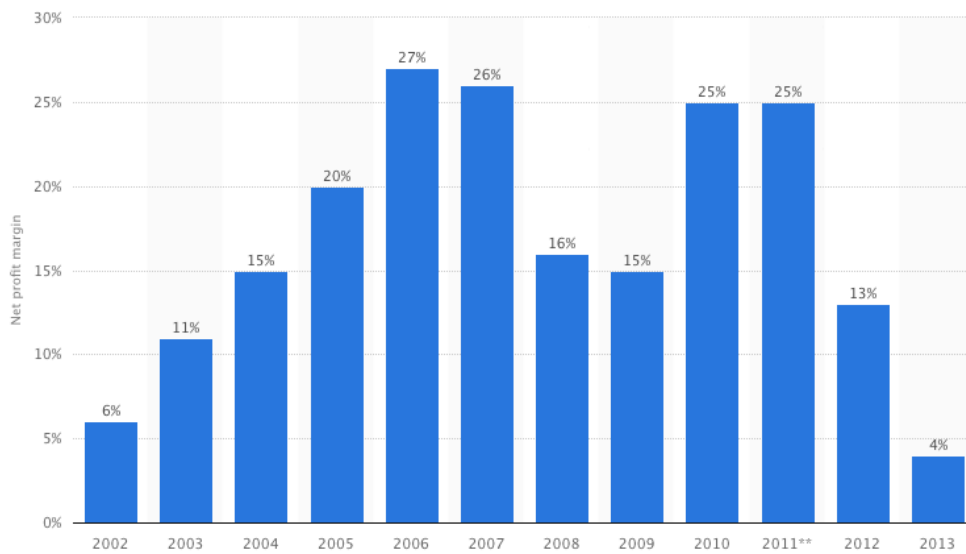


Figure 6.7. Net profit margin of the top mining companies worldwide in between 2002-2013 (Statista 2002-2013).

6.5.1.2 Business Canvas

<u>Value Proposition</u>	<u>Customization</u> <u>Risk reduction</u> <u>Cost reduction</u>
<u>Customer Segment</u>	<u>Segmented</u> Customers worldwide in the following industries: <ul style="list-style-type: none"> • Mining and quarrying • Infrastructure and tunneling • Gold • Chemicals
<u>Key Resources</u>	<u>Intellectual</u> <ul style="list-style-type: none"> • Data collected from customer's blastings. <u>Human</u> <ul style="list-style-type: none"> • Knowledge and competence about the blastings.
<u>Key Activities</u>	<u>Problem solving</u> <ul style="list-style-type: none"> • Provides commercial explosives and blasting systems to the mining, quarrying and infrastructure markets. • Supplier of sodium cyanide for use in gold extraction. • Leader in the provision of ground support in mining and tunneling. • Supplies chemicals to multiple industries. (Orica 2014)
<u>Key Partnerships</u>	<u>Buyer-supplier relationship</u> <ul style="list-style-type: none"> • Especially with raw material suppliers such as ammonium nitrate. <u>Acquisition of particular resources and activities</u> <ul style="list-style-type: none"> • Dyno Nobel's Global Commercial Explosives. • GreenEDGE - An Australian professional road race cycling team. "A values-driven partnership between two organisations that share an Australian heritage and compete on the global stage." (Orica b 2014)
<u>Customer</u>	<u>Personal assistance</u> <ul style="list-style-type: none"> • Since Orica possess all the knowledge about

<u>Relationship</u>	blasting in contrast to its customer, assistance and mutual trust is very important to establish.
<u>Channels</u>	<u>Sales force</u> <ul style="list-style-type: none"> • Directly from the company.
<u>Revenue Streams</u>	<u>Fixed pricing, volume dependent</u> <ul style="list-style-type: none"> • Customers pay based on size specifications measured in “broken rock” quantity.
<u>Cost Structure</u>	<u>Economies of scale</u> <ul style="list-style-type: none"> • Orica is one of the largest providers of blasting systems in the world and has a well-known brand which is essential in the explosives industry. <u>Value driven structure</u> <ul style="list-style-type: none"> • Costs occur depending on customized orders. Moreover, to enhance knowledge and competence in blasting, Orica needs to take multiple parameters into account and evaluate every blast, which is very costly.

6.5.1.3 Marketing mix

<u>Product</u> Orica is a solution provider and differentiate its product via customization.	<u>Price</u> Premium Pricing Package price bundling
<u>Place</u> Personal assistance - Direct from the company	<u>Promotion</u> Online marketing Press releases Advertising - GreenEDGE professional road race cycle team

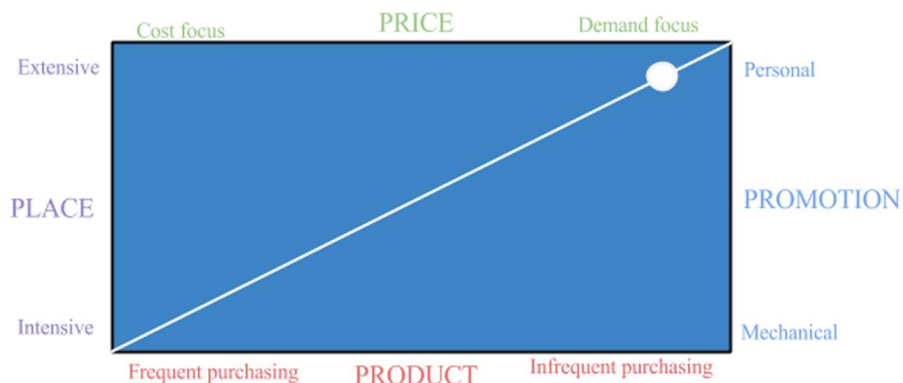


Figure 6.8. Strategy chosen with reference to the 4 Ps.

Orica changed approach from a product provider and became a solution provider. The company differentiated itself from its competitors as the white dot shows in Figure 6.8.

6.5.1.4 Porter Five Forces (Explosives Industry)

6.5.1.4.1 Bargaining power of suppliers

The primary supplier in the explosives industry is the one who delivers ammonium nitrate, which is the main raw material in the explosives business. Since there often was a surplus of ammonium nitrate, the power of suppliers is quite weak.

Bargaining power of suppliers: Low

6.5.1.4.2 Bargaining power of buyers

The buyer's power in this case is related to what kind of service the buyers are looking for. If the buyer want just help with a blast with no special conditions, the bargaining power of buyers is quite strong given there are several companies willing to do it. If the buyer on the other hand needs help with a more accurate blast e.g. the one Orica provides, the bargaining power of buyers is quite weak since Orica was first as solution provider and gained economies of scale very quickly. Orica also was way ahead its competitors and the customers stopped investing in the blasting process, which made them very dependent on Orica and had to pay a high price if they wanted to switch supplier.

Bargaining power of buyers: Moderate

6.5.1.4.3 Threat of new entrants

From the beginning of the 1990s blasting became a science. Together with increasing understanding of blasting, a more developed technology was required. The large companies in the explosives technology tested its way so they became experts in this area. From this perspective, there are large barriers to the explosives industry. Profitability requires economies of scale, brand recognition such as Orica, Austin Powder or Sasol Ltd who are well known. In addition to that proprietary technology is an issue. Given all these points, the threat of new entrants is low.

Threat of new entrants: Low

6.5.1.4.4 Threat of substitutes

E & FN Spon (2005) claims that non-explosive demolition agents and gas pressure blasting products are commercial products that are an alternative to explosives. Non-explosive demolition agents are probably the largest threat. The procedure is similar to the explosives one, but when the drilling is finished a slurry mixture is poured into the hole. Later on the slurry expands and crack the rocks. This method is apparently more silent and safer than explosives, but the demolishing time is rather long and it is difficult to demolish thin concrete structures. During the 1990s this method was not widely spread, so the threat of substitutes then was considered quite low (E & FN Spon 2005, 267-268).

Threats of substitutes:

Short term; Low; Long term: Moderate

6.5.1.4.5 Intensity of rivalry

There is a strong price competition in the explosives industry but in this case Orica differentiated itself to become a solution provider in order to avoid direct competition.

Intensity of rivalry: High

6.5.1.2 PESTEL

<p><u>Political</u></p>	<ul style="list-style-type: none"> • Restrictions about blasting times, safety and mixed materials • Environmental regulations • Labor laws <p>Since Orica is a global company, both political instability and global crises would change its business significantly.</p>
<p><u>Economic</u></p>	<ul style="list-style-type: none"> • Economic crises • Volatility in raw material (e.g. ammonium nitrate) price • Economic growth rate worldwide
<p><u>Social</u></p>	<ul style="list-style-type: none"> • Safety consciousness
<p><u>Technological</u></p>	<ul style="list-style-type: none"> • Better ways to achieve data from the blastings • Technology changes • Automation of processes
<p><u>Environmental</u></p>	<ul style="list-style-type: none"> • Natural disasters and persistent bad weather could stop the blasting process and its planning
<p><u>Legal</u></p>	<ul style="list-style-type: none"> • Labour legislation - Unions

6.5.2 Identified key drivers within the industry:

- **Environment:** Environmental constraints increase such as noise levels and permitted weather conditions.
- **Innovation:** Smarter technology systems of collecting data about the blastings.
- **Safety:** Increased safety restrictions especially about the transportation and the mixture of explosives.
- **Economical:** Increased middle class and prosperity among customers and companies, especially in Asia which is a developing market.

External key drivers applicable as factors:

- **Commoditization:** Commoditization of explosive services.

Internal factors:

- **Knowledge within the industry:** There was a lack of knowledge about the blastings in the industry, a gap that Orica could fill.
- **Brand Awareness:** Orica is a global company and is a very well-known brand
- **Customer Relationships:** Orica could use its healthy relationships with the customers to make the transformation to a service provider. The customer was dependent on Orica's evaluations of the blastings.

6.5.3 Submatrix - Orica

The submatrix is describing what factors that were significant for the case company and its industry (y-axis) and what strategy the company used (x-axis).

Primary Strategy	Differentiation	Dual Strategy	Low Cost
Factors			
Commoditization	x		
Knowledge within the industry	x		
Brand Awareness	x		
Customer Relationships	x		

6.6 SKF

6.6.1 Analysis

6.6.1.1 Outcomes

By using value selling the sales people were able to sell more products and the closing rate increased with 50 - 60% (Anderson et al 2009, 168).

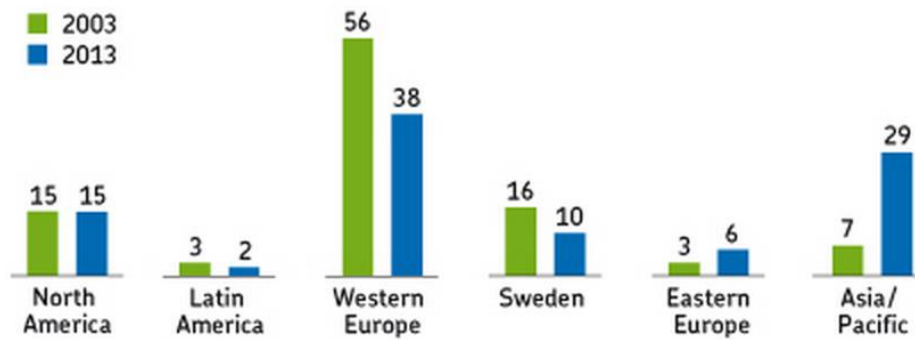


Figure 6.9. The geographical distribution of SKF's property, plant and equipment in 2003 and 2013 (SKF e 2014).

6.5.1.1 Operating Margin



Figure 6.10. SKF's performance in relation to average performance measured in operating margin. y-axis %; x-axis year. Table and sources to the numbers are in Appendix.

As Figure 6.10 suggests, SKF's operating margin during the last ten years has been higher compared to the average of SKF and three of its competitors together.

6.6.1.1.2 Short facts about SKF in 2014

- Machine tools and accessories industry: Net profit margin 5,7 %. SKF Group 6,44 % (Yahoo 2014)
- Launching a sub brand to target the growing mid segment in Asia and face increased competition from China and Japan (Rolander 2014). The sub brand will have a strong cost focus (Lange 2014, 25).
- After ten years the customers can confirm that the cost savings that the DSP software predicted were true (Indian Textile Magazine 2014).

6.6.1.2 Business Canvas

<p><u>Value proposition</u></p>	<p><u>Performance</u></p> <ul style="list-style-type: none"> ○ Delivering industry leading, high value products, services- and knowledge engineered solutions (SKF g 2014) <p><u>Cost Reduction</u></p> <p><u>Risk Reduction</u></p>
<p><u>Customer Segment</u></p>	<p><u>Diversified</u></p> <ul style="list-style-type: none"> • General Industry • Energy • Commercial Transport • Heavy Industry • Special industry machinery • Automotive
<p><u>Key Resources</u></p>	<p><u>Physical</u></p> <ul style="list-style-type: none"> • Manufacturing facilities • Global presence <p><u>Human</u></p> <ul style="list-style-type: none"> • Knowledge <p><u>Intellectual</u></p> <ul style="list-style-type: none"> • Brand
<p><u>Key Activities</u></p>	<p><u>Production</u></p> <ul style="list-style-type: none"> • Manufacturing Facilities <p><u>Problem solving</u></p> <ul style="list-style-type: none"> • Customized solutions <p><u>Platform</u></p> <ul style="list-style-type: none"> • DSP
<p><u>Key Partnerships</u></p>	<p><u>Optimization and economies of scale</u></p> <ul style="list-style-type: none"> • Buyer-supplier relationship

	<ul style="list-style-type: none"> • Raw material • Components <u>Reduction of risk and uncertainty</u> <ul style="list-style-type: none"> • Partnership with customers • Strategic alliances with competitors (SKF i 2014)
<u>Customer Relationship</u>	<u>Deep and personal</u> <ul style="list-style-type: none"> • Account managers local and global • Application Engineers locally <u>Personal assistance</u> <u>Dedicated personal assistance</u> <u>Co-creation</u>
<u>Channels</u>	<u>Sales force</u> <ul style="list-style-type: none"> • Direct with the industries <u>Partner stores</u> <u>Wholesaler</u> <ul style="list-style-type: none"> • Authorized Distributors and dealers (SKF h 2014)
<u>Revenue Streams</u>	<u>Asset sales</u> <u>Pricing Mechanism</u> <u>Fixed Pricing</u> <ul style="list-style-type: none"> • Product Feature dependent • Customer Segment dependent • (Value selling)
<u>Cost Structure</u>	<u>Fixed cost</u> <u>Variable cost</u>

6.6.1.3 Marketing mix

<u>Price</u> Premium pricing Value Selling	<u>Product</u> Solution Selling High quality products Efficient Services Bearings Seals Lubricants Mechatronics Services
<u>Place</u> Global, regional, local	<u>Promotion</u> Personal selling

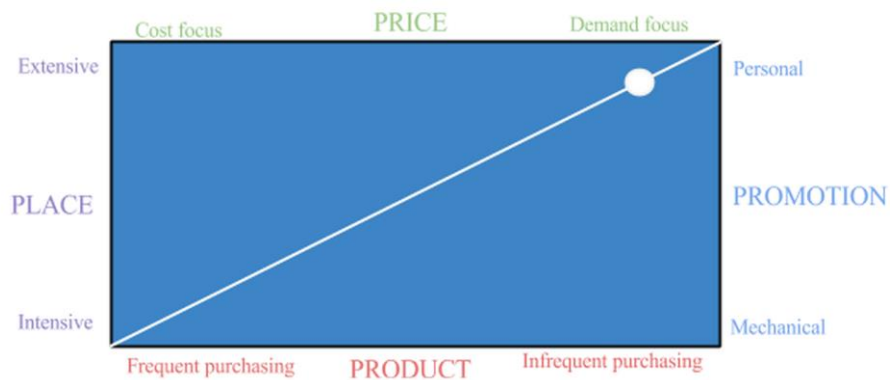


Figure 6.11. Strategy chosen with reference to the 4 Ps.

SKF has a clear differentiated strategy separating it from the low cost player(s). The company has achieved above average operating margin lately.

6.6.1.4 Porter Five Forces (Bearings Industry)

6.6.1.4.1 Bargaining power of suppliers

SKF mainly buys steel which represents 85 % of the material bought. Steel is a commodity and reduces the bargaining power of suppliers. However, companies such as SKF that has requirements regarding environmental and energy factors may increase the bargaining power.

Bargaining power of suppliers: Low

6.6.1.4.2 Bargaining power of buyers

The buyers are many and there is no dominating customer. The largest customer has less than 5 % of the total sales (Timken 2014). The buyers are in a lot of different industries and the consolidation among buyers is low. The intensity of rivalry increases however the buyer power due to the fact that they can easily switch supplier.

Bargaining power of buyers: Moderate

6.6.1.4.3 Threat of substitutes

No direct substitute is currently available. A disruptive technology could threaten the industry.

Threat of substitutes: Low

6.6.1.4.4 Threat of new entrants

The Market consists of a mix of large and small local players. There is a known problem with fake bearings of low quality that are using the brands of the global players in the market.

Threat of new entrants: Moderate

6.6.1.4.5 Intensity of rivalry

The industry is quite fragmented and the consolidation quite low. The international bearing manufacturers account for about 60 % of the market. The Chinese manufacturers have a market share of 20 %, but almost all of their sales are within China (SKF b, 2014).

The competitors form strategic alliances in order to reduce costs and risks. A strong brand and quality are very important and a premium brand like SKF has had trouble with companies using their brand illegally to sell low quality bearings to a premium price (McGuinn 2010). The differences between the products are low. The competitors have formed strategic alliances and co-owned manufacturing plants to reduce costs and risks.

Fixed costs and exit barriers are high. The trends toward urbanisation, population growth and wealth per capita indicate that there will be growth within the industry.

Intensity of rivalry: Moderate

6.6.1.5 PESTEL

<p><u>Political</u></p>	<ul style="list-style-type: none"> • Trading laws • Competition laws in Europe and China, in 2014 SKF together with 4 other competitors were sentenced to pay a fine for cartel formation (Sebag, Aoife 2014). • Chinese competition laws - May favor Chinese manufacturers
<p><u>Economic</u></p>	<ul style="list-style-type: none"> • Volatility in steel prices
<p><u>Social</u></p>	<ul style="list-style-type: none"> • The Urbanisation trend will put pressure on many industries and could open up for business opportunities • The increased living standard in China opens up for an opportunity to target a value segment
<p><u>Technological</u></p>	<ul style="list-style-type: none"> • Trends towards smart systems (integrated software solutions)
<p><u>Environmental</u></p>	<ul style="list-style-type: none"> • Environmental Legislation opens up for new business opportunities
<p><u>Legal</u></p>	<ul style="list-style-type: none"> • Labour legislation - Unions • Competition laws - the strategic partnerships are questioned and risk to get accused for cartel formation

6.6.2 Identified key drivers within the industry:

Emerging market: Globalisation

Impact

- There is an economic shift between regions, which means different needs for different region. It opens up for new partnerships and to develop suppliers.

Response

- Expand R&D centers to all regions of the world.
- Sales and technical service close to customer
- Strategic manufacturing to support customers
- Centralizing global purchasing
- Global and regional supply structure

Emerging market: Global population growth and increasing wealth per capita

Impact

- Demands innovation to make the product life cycle more efficient since the world will need to do more with less.

Response

- Use SKF knowledge to help customers with:
- Asset efficiency
- Resource efficiency
- Energy efficiency

Urbanization

Impact

- Increased demand for transportation and energy solutions.

Response

- Supporting customers in industries affected by urbanization.

Environment: Environmental constraints

Impact

- Growth potential for engineering solutions that can help reducing environmental impact in all sectors.

Response

- SKF Beyond Zero strategy - investing in customer solutions that address the environmental constraint and at the same time can improve efficiency and reducing environmental impact in SKF's supply chain.

Innovation: Smart systems

Impact

- Demand for smart systems across all industries leads to business potential.

Response

- Investing in the development of integration of electronic solutions and software that could add value to the customers.
- Developing an application platform that could improve customer connectivity and support.

(SKF d 2014)

External key drivers applicable as factors:

Commoditization: In the eyes of the customers the core product, bearings, was commoditized.

Evolving customer segments: SKF serves different industries with different needs and requirements.

Internal factors:

Knowledge within the industry: SKFs extensive knowledge and know how made the transmission to a value selling company easier.

Superior Product: SKF bearings had superior quality compared to the low cost competitors. They used a differentiation strategy to prove it.

Brand Awareness: SKF was recognized as market leader.

Customer Relationships: The close customer relationship SKF had with its customers made it possible to convince the customers of the value selling approach.

6.6.3 Submatrix – SKF

The submatrix is describing what factors that were significant for the case company and its industry (y-axis) and what strategy the company used (x-axis).

Primary Strategy	Differentiation	Dual Strategy	Low Cost
Factors			
Commoditization	x		
Evolving customer segments	x		
Knowledge within the industry	x		
Superior Product	x		
Brand Awareness	x		
Customer Relationships	x		

7 The Developed Normative Model (End Matrix)

The developed normative model is the result of this thesis. It is connected to the first main objective and is a compilation of all of the submatrices from the successful case companies in the analysis. There is also a simplified model developed based on the original one later in this chapter. The factors in the simplified model are the ones that are distinctive for using differentiation or a dual strategy. The descriptions of the factors chosen from the successful companies are once again repeated in this chapter in order to ease for the reader.

The developed normative model is unique and is based on the responses of five historical company cases. It is important to mention that all companies except one were successful with their response to the low cost threats and that those companies fulfilled Porter's criteria about competing with a dual strategy in order to be successful. The company which was not successful, Electrolux, survived the threats but was not that successful as the other companies. Some of the factors in Electrolux' submatrix exists in the schematic normative model, and this is because at least one of the other case companies responded with respect to those factors with a successful strategy. Besides that, all other factors existing in the developed model also exist in the submatrices where a successful company strategized against low cost competition.

The developed normative model is a compilation of the four successful companies' submatrices and should be interpreted likewise the submatrices. Management could then use the model when looking over the competitive environment on a particular market based on how the outside world changes. This can provide an important basis when developing a strategy against low cost competition. Moreover, the findings could be used by management and assist them to rethink and think new in order to improve old thinking patterns.

Section 1-3 below describes what actions the five case companies performed. The actions taken are sorted under its associated primary strategy to respond to low cost competition, which shows in the developed model. With other words, these three primary strategies serve as an umbrella for the actions taken.

Furthermore, there are explanations about the factors identified above the separate submatrices in the report, but also under "Factor Descriptions – Summary" below in order to simplify for the reader.

1. Differentiation:

- Value Selling
- Premium pricing
- Solution providers
- Customer relationships
- Innovation

2. Dual Strategy:

- Business units
- Subsidiary
- Acquisition
- Actions in Section 3 below

3. Low Cost Strategy:

- Synergies
- Infrastructure with cost focus
- Imitation

Factor Descriptions - Summary

Aer Lingus

External key drivers applicable as factors:

- **Evolving customer segments:** New segments with new demands are evolving. Required primary airports and long haul.
- **High competition in one target segment:** High competition on short-haul routes.
- **Consolidation:** Trend towards consolidation of European airlines is expected to continue (Air France, KLM, Lufthansa, Swiss etc.).

Internal factors:

- **Successful competitor moves by low cost player:** Successful moves by Ryanair. Aer Lingus copied Ryanair's basic elements and became a low fare airline with a slightly differentiated product offering.

Dow Corning

External key drivers applicable as factors:

- **Consolidation:** Trend towards consolidation throughout the industry's value chain.
- **Evolving customer segments:** "Solution seekers" and "price seekers"
- **Commoditization:** The core product was commoditized and a red ocean market was created among the competitors.
- **Timing:** Release the new concept in a timely manner in order to attack low cost competitors.

Internal factors:

- **Deep knowledge about customers:** Compared to other players in the industry, Dow Corning spent plenty of time to understand the customers' real needs. According to surveys, Dow Corning had a very good understanding of the customers' needs.
- **Brand Awareness:** The strong brand of Dow Corning was an advantage when creating the new business unit. "Xiameter by Dow Corning".
- **Economies of scale:** Dow Corning could use its size to beat the competitors. There were synergies between the business units e.g. utilizing the same manufacturing and distribution systems etc. were very smooth.

Orica

External key drivers applicable as factors:

- **Commoditization:** Commoditization of explosive services.

Internal factors:

- **Knowledge within the industry:** There was a lack of knowledge about the blastings in the industry, a gap that Orica could fill.

- **Brand Awareness:** Orica is a global company and is a very well-known brand
- **Customer Relationships:** Orica could use its healthy relationships with the customers to make the transformation to a service provider. The customer was dependent on Orica's evaluations of the blastings.

SKF

External key drivers applicable as factors:

Commoditization: In the eyes of the customers the core product, bearings, was commoditized.

Evolving customer segments: SKF serves different industries with different needs and requirements.

Internal factors:

Knowledge within the industry: SKF's extensive knowledge and know-how made the transition to a value selling company easier.

Superior Product: SKF bearings had superior quality compared to the low cost competitors. They used a differentiation strategy to prove it.

Brand Awareness: SKF was recognized as market leader.

Customer Relationships: The close customer relationship SKF had with its customers made it possible to convince the customers of the value selling approach.

The Developed Normative Model (End Matrix)

Factors	Primary Strategy	Differentiation	Dual Strategy	Low Cost
Commoditization		X	X	
Knowledge within the industry		X		
Customer Relationships		X		
Economies of Scale			X	
Evolving customer segments		X	X	
Successful competitor moves by low cost player			X	
Brand Awareness		X	X	
Timing			X	
High competition in one target segment			X	
Consolidation			X	
Deep knowledge about customers			X	
Superior Product		X		

Table 7.1. The Developed Normative Model (End Matrix)

Simplified End Matrix

Factors	Primary Strategy	Differentiation	Dual Strategy
Knowledge within the industry		x	
Customer Relationships		x	
Superior Product		x	
Successful competitor moves by low cost player			x
Timing			x
High competition in one target segment			x
Consolidation			x
Deep knowledge about customers			x
Economies of Scale			x

Table 7.2. Simplified End Matrix. Since none of the case companies used a low cost strategy it should not be used according to our findings. The factors in this table are the ones that are distinctive for using differentiation **or** a dual strategy.

8 Conclusions & Further research

In this chapter the findings of this report will be presented in order to discuss the research questions and objectives. All the research questions and the first main objective about “presenting the findings in a schematic normative model” are presented in the previous chapter in form of a normative developed model. This chapter will mainly focus on if the findings are in line with existing research and views on low cost competition. Suggestions for further research and critique of the normative developed model will also be discussed.

8.1 Background about low cost competition

Is the definition of a low cost competitor still true? Often a low cost company is associated with a low price and poor quality. Previously you could not expect to get good performance, appealing design, innovative features or great quality from a low cost player. Today everything is moving faster, production cycles are getting shorter, and so might even “market cycles”. The low cost players today are more sophisticated and are capable of delivering good enough value. They have stronger brands and are better at communicating their value, in relation to this, the customer behavior have changed and is more receptive towards low cost companies and good enough products. It is probably not a coincidence that a lot of the new competitors are coming from Asia. They are innovative and hungry. You can no longer anticipate that their products are lagging; in some industries they are actually driving the development. That is an insight that is crucial when developing a strategy to face them. It is important to understand that a low cost competitor CAN compete in the high end of a market.

8.2 Questioning Existing Research

Michael Porter (1985) argues that a firm can achieve a dual strategy in the same market if one of the following three conditions is fulfilled (for deeper descriptions, see the theory chapter):

- 1. Competitors are stuck in the middle**
- 2. Cost is strongly affected by share or interrelationships**
- 3. A firm pioneers a major innovation**

Otherwise Porter suggests that companies will most likely be “stuck in the middle”. Clayton Christensen (1997) argues that it is feasible with two different strategies, provided that they must be kept physically separate in two distinct organisations.

As mentioned in the objectives, it is the hypothesis about the dual strategy that is tested in this thesis. The following discussion about all case companies are referred to Porter’s criteria about being stuck in the middle.

Aer Lingus managed two different strategies in two different segments, its short- and long-haul routes. The short-haul routes were very competitive and it founded the long-haul routes profitable because of its low cost structure. This got its competitors on the long-haul routes to become “stuck in the middle”, which is Porter’s first condition. Considering the airline industry is quite unprofitable, Aer Lingus managed to stay competitive and to show positive financial results.

Dow Corning managed two different strategies in the same market (but unlike Aer Lingus, a subsidiary was sat up). Dow Corning could use cost advantages of its market share in some activities allow the firm to incur added costs elsewhere and still maintain net cost leadership. The company fulfilled the second condition of Porter’s (1985) theories about being “stuck in the middle”.

Electrolux chose to target both segments, it is hard to say whether the enterprise has managed this well or if it is “stuck in the middle”. If any of the three conditions by Porter required for competing in both low cost and premium segments suggested were fulfilled is questionable. Electrolux performance could also be linked to the industry attractiveness which does not seem very high, considering the five forces. For instance, there were already huge players on the market in both segments

Dow Corning fulfilled the second of Porter’s conditions, Aer Lingus fulfilled the first one and Electrolux did not fully fulfill any of the conditions. As mentioned, Dow Corning became very successful and Aer Lingus survived and is today a still profitable airline. According to Electrolux’s financial results, the company got “stuck in the middle”. The other companies analysed, SKF and Orica, differentiated themselves and utilized the knowledge within its respective industry to offer value to its

customers. Both companies used a strategy similar to value selling and its competitors become “stuck in the middle”, which is Porter’s first condition.

The case studies in this report support Porter’s strategy theories about being successful utilizing a dual strategy, and shows that the findings in the analysis are consistent with existing research.

The following paragraphs will discuss how the case companies reacted in comparison to Kumar’s views on how to respond when a low cost player enters your industry.

Nirmalya Kumar (2006) suggests that the differentiation strategy should be done via intensified differentiation by offering more benefits. Orica, SKF and partly Aer Lingus did this and responded successfully to its low cost threats.

Furthermore, according to Kumar, the dual strategy is preferably done by setting up a separate business unit or subsidiary in order to either beat the low cost competitors if it generate synergies with the existing business, or take command themselves before low cost companies establishes. However, the latter one might risk cannibalising the company’s core business, which makes timing essential. Once again, Dow Corning did this in a successful manner and cannibalized very little of its core business.

Electrolux realised that the new competitors would take business from the company. The response from Electrolux was, however, not to only focus on further differentiation of its products. The company chose to focus on two segments; mass market and premium instead of the middle segment that the firm had previously been targeting. The segments had separate project platform, sales force and communication, however, where it was possible, synergies tried to be utilized. The production was moved to low cost countries and standardization and cost focus were prioritized. The product development became more customer-centric to better address the needs of the customers. Since the middle segment had disappeared, the customers were not willingly to pay for the benefits provided. Electrolux chose to acquire a lot of small and big brands in both segments. A difference

compared to other cases is that the low cost players in the home appliance industry were not small companies, but already large corporations. The final steps according to Kumar are to either 1. Set up a low cost business, 2. Focus on differentiation offer more benefits and restructure to lower price over time or 3. Transform your business to a solution provider or low cost player. Electrolux chose to do a little bit of both option number 1 and 2 and not focus on only one strategy. As mentioned before, this approach resulted in mediocre financial results.

Kumar argues that if differentiation does not work and no synergies with the existing business exist, transform the company into a fully low cost player. None out of the five companies did this, which also can be seen in the developed model. As the model suggests, it is probably not a proper move for Tetra Pak®. Figure 8.1 below shows a simplified visual model of how the case companies reacted in comparison to Kumar's views.

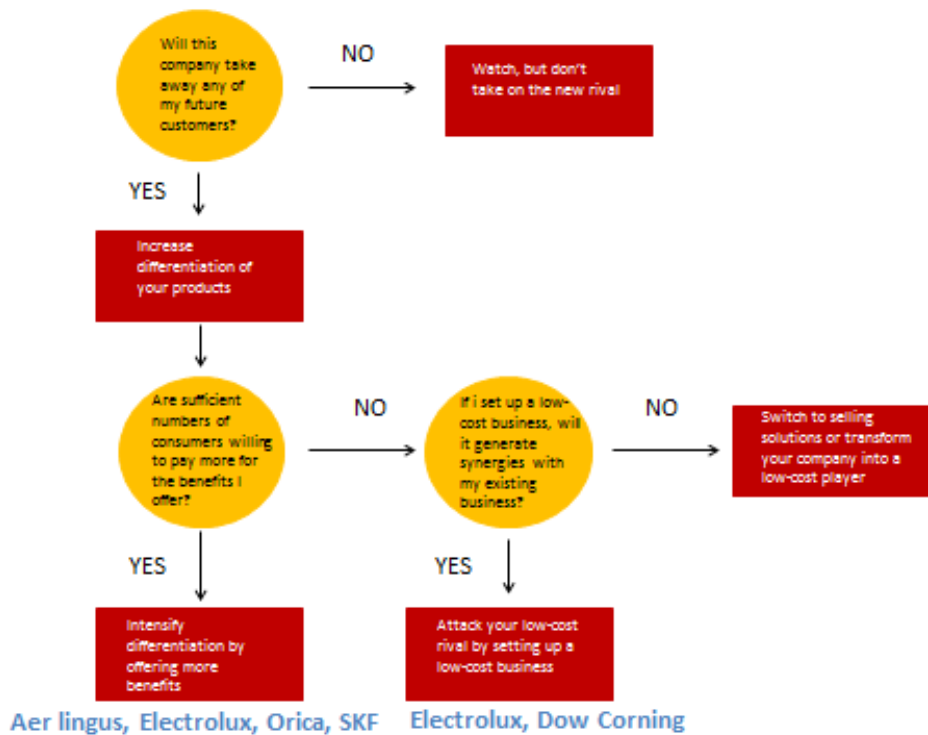


Figure 8.1. A simplified visual model of how the case companies reacted in comparison to Kumar's views.

Lastly, a final interesting note about Kumar's framework is that all case companies studied were western companies which could potentially have something to do with that no company transformed its business into a low cost player. This opens up for further research within this area.

The findings discussed above and in the analysis about the companies' reactions to the low-cost players support Nirmalya Kumar's theoretical framework.

8.3 The Developed Model

The End Matrix in this report is designed in order to suggest options for Tetra Pak® about what strategies they can apply on low cost competition. It is developed to bring new thoughts and assist management with competition analysis. It will emphasize a new perspective in order to respond to low cost competitors and could assist management so they do not get stuck in the same old thinking patterns. It is important to point out that a new situation has been created about tackling low cost competitors. The Developed Normative Model is unique and is not tested. This opens up for further research in a highly prone and interesting area.

8.4 Criticism of the Developed Model

An essential area to discuss in this thesis is that the identified factors for choosing a specific strategy in the End Matrix are based only on the five case studies provided in this report. All companies in these cases were successful, or at least survived the upcoming low cost threats.

The x-markings in the End Matrix are indicating that a Differentiation- or a Dual strategy is recommended to use when facing low cost competition, since no x-markings exist in the Low-Cost Strategy column.

Moreover, the factors identified are probably not equally weighted. The developed End Matrix only provides a simple "x" in the identified factor box, which results in that all factors identified are equally weighted. A weighted matrix could potentially provide this thesis with more reliable

basis for choosing the right strategy. Interviews or surveys with relevant interview objects could potentially obtain a deeper understanding of the cases themselves and how to weigh the factors. It would also support this thesis by questioning the relevance of the factors identified and if some relevant factors are missing. It might also be interesting to investigate further about how to implement the actions recommended for the company in question. This is not aligned with beating low cost competition in itself, but naturally it is essential to take into account as well when a strategy is chosen. All this opens up for further research within this area.

8.4.1 Final comments on the process utilized

If an independent company wants to employ the schematic developed model in this thesis, it is essential to first gain insight in its own business and the market where the company acts. This includes key drivers of change and PESTEL analysis etc. in order to identify and strengthen the factors in the schematic developed model. It is important to select factors based on the same criteria as the case companies in this thesis.

The case approach utilized in the method chapter states what need to be done to be able to in a consistent manner employ the schematic developed model. If the independent company identifies the same factors in a market or internally in the company as in the End Matrix in this report, the company will be able to apply a suitable strategy found in the End Matrix in order to respond to low cost competition.

8.4.2 Frameworks Chosen

The analysis has been performed by a number of frameworks involving PESTEL, 4P, Business Model Canvas, Porter's Five Forces and Kumar's framework in order to support the answers. Using other frameworks could lead to another outcome.

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Appendix

Year	03	04	05	06	07	08	09	10	11	12	13
Company											
Electrolux (1)	6.2	5.6	5.4	4.4	4.6	1.5	4.9	6.1	3.1	4.6	3.7
Whirlpool (2, 3)	6.8	5.7	5.5	4.6	5.5	2.9	4.0	5.5	4.2	4.8	6.7
Haier(4, 5)	-	-	-	3.2	3.9	1.8	5.7	4.0	3.7	4.0	4.0

Electrolux operating margin (%)

(1)(Electrolux c 2013)(2)(Whirlpool 2003) (3)(Whirlpool 2013, 46) (4) (4 Traders) (5) (Haier 2007)

Year	03	04	05	06	07	08	09	10	11	12	13
Company											
SKF Group	8,0	9,9	10, 8	12, 6	12, 9	12, 2	5,7	13, 8	14, 5	11, 3	5,8
Timken	-	5,8	8,2	6,0	6,1	8,2	2,1	6,6	8,8	9,9	6,1
Schaeffler Group	-	-	-	-	-	11, 7	6,1	15, 9	15, 8	12, 7	8,8
NSK	-	5,0	6,6	6,8	8,7	9,0	1,9	6,1	6,1	4,4	7,8

SKF Operating margin (%)

(Timken 2006, 18)(Timken 2013)(SKF f 2006, 10)(NSK 2014)(Schaeffle)

