

Strategy development following liberalization:
a study of companies in the Swedish electricity market

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Preface

The process of writing this licentiate thesis started in 2008. During the years I have had the opportunity to meet and work with many interesting and knowledgeable people, and I wish to thank several people for supporting me in my work with this thesis.

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1 Introduction

This chapter begins with a description of the general environment that forms the basis for the thesis, in which key terms and concepts are defined, followed by a more precise positioning of the research. Next, the problem analysis highlights the topics that are addressed, and the purpose and research question are introduced. Finally, the outline of the thesis is presented.

1.1 Background

This licentiate thesis focuses on strategy development following market liberalization. There are several ways to study market liberalization. However, since the focus in this thesis is on companies' strategy development, the decision was made to delimitate the theoretical focus to the strategic management field. The word *strategy* stems from the Greek language and relates to the art of war and the skills that the general needed in order to assume the role as *strategos* (Moss, 2005). Nowadays, the term *strategy* can be used within many areas, and when searching for the term *strategy* in books or on the Internet, it is apparent that the word has many definitions. The focus in this thesis is on strategy within business research. Nevertheless, even within business research, it is difficult to find an all-embracing definition of the word. A historical survey based on strategy literature conducted by Mintzberg and Lampel (1999) suggested that the field has been influenced by 10 schools since its introduction in the 1960s. Barney (2002) included nine definitions of strategy in his book before proposing the following definition: "Strategy is defined as a firm's theory about how to compete successfully" (p. 6). Wit and Meyer (2004) also point out the complexity of providing a precise definition of the term, since there are many opinions about essential concepts within the strategy area. According to Nag et al. (2007), the strategic management field is relatively young and influenced by many different fields. In their article, Nag et al. (2007) ask whether there is a consensus about the definition of the field of strategic management. The result of their study showed a positive answer to this question, and the authors present the following definition (p. 944):

The field of strategic management deals with the major intended and emergent initiatives taken by general managers on behalf of owners, involving utilization of resources, to enhance the performance of firms in their external environments.

Chandler's (1990) definition of strategy from 1962 is applied in this thesis, since it still seems to be valid: strategy is "the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals" (p. 13). Strategy is thus thought of as a planned long-term direction, which is necessary to have owing to constraints in the form of limited resources. However, the plan may also be adjusted along the way if necessary, since changes in the external environment can be difficult to forecast. Regarding the term

development, one of the definitions provided in the Oxford English Dictionary (2014) is as follows: “A gradual unfolding, a bringing into fuller view; a fuller disclosure or working out of the details of anything, as a plan, a scheme, the plot of a novel”. Development can accordingly be considered as the action of improvement by expanding or enlarging. Hence, in this thesis, the concept *strategy development* is defined as the refinement of current strategy and consequently refers to how well defined a company’s corporate strategy is. An increase in strategy development is thought of as a refinement or further development of the current strategy.

When reading about reformation of markets, it becomes apparent that the phenomenon is described using different terms, such as deregulation, liberalization, regulatory reform, and re-regulation. Bergman (2002) describes deregulation as a reformation of rules, intended both to increase companies’ ability to enter and exit a market and to increase freedom of pricing. However, since deregulation does not always decrease the number of regulations, it could have been more correct to call this a regulatory reform. Nevertheless, Bergman (2002) points out that the term *regulatory reform* also might be insufficient since the definition implies only that the rules change, but not in which direction. The term *liberalization* indicates the direction of the change but is a broader concept, according to the author. The Swedish Competition Authority uses the term *regulatory reform* in its report from 1998, which contains a follow-up study of deregulated markets in Sweden. The term *regulatory reform* was considered to be more applicable to describe the development in these markets than the term *deregulation*, which has been most common in public debates (Swedish Competition Authority, 1998:3). Groenewegen and De Jong (2008) present the following terms: liberalization (opening up to new entrants), deregulation (less sector-specific regulation), re-regulation (more competition-related regulation), and privatization (household ownership of former state-owned enterprises). So far, it appears that *deregulation* is the most common term to use, even though some of the other terms are also applicable. The term *privatization* is not relevant in this thesis, but the terms *deregulation* and *re-regulation* both describe the change being studied to some extent. Nevertheless, the term *liberalization* has been chosen since it is broader and indicates both a change of rules and the direction of the change. However, the term *deregulation* will also appear throughout the thesis since this is the most common term in existing research.

Deregulation of markets has increased lately in many countries (Swedish Competition Authority, 1998:3). The telecommunication, electricity, and aviation industries have been deregulated in Great Britain, and the aviation, train, and telecommunication industries in the United States (Bergman, 2002). The Norwegian electricity industry and the Finnish postal service were deregulated in 1991 (Bergman, 2002). Several industries have been subject to deregulation in Sweden as well, such as telecommunications, transport (including railway, domestic airline, bus, and taxi), the postal service, and electricity (Swedish Competition Authority, 1998:3). The reason for this is changed market preconditions in the form of technology development, new customer behavior (which in

turn has changed demand), increased internationalization, and new company entries (Swedish Competition Authority, 2005:1). Markets that previously were regarded as natural monopolies are thus no longer considered as such, and there has been an increased focus on the steps in the value chain that those companies are involved in and that can be subject to competition (Swedish Competition Authority, 2005:1). Deregulation of infrastructure industries has been one of the most important trends in economic politics since the 1980s, and the reason for this is the belief that competition will lead to positive development in the infrastructure sector (Högselius and Kaijser, 2010).

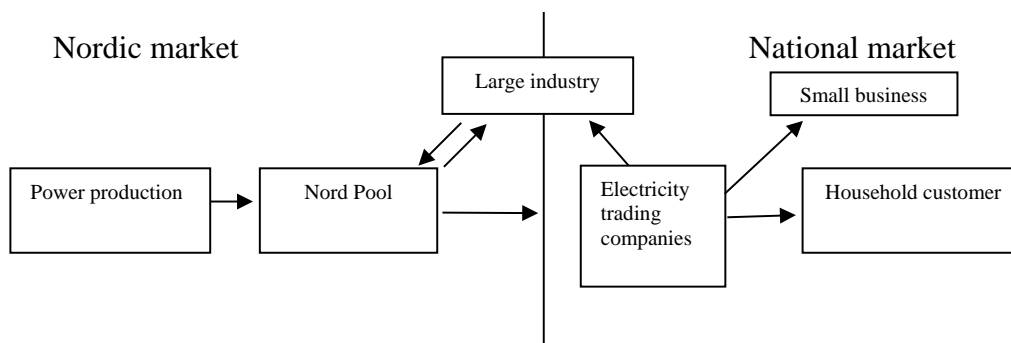
Bergman (2002) summarized foreign and Swedish experiences of deregulation of six network industries. Both international and national studies imply that the potential gain from deregulation brings about an efficiency increase of 5%–10%, according to the author. Norman et al. (2007) studied companies in the US airline industry and compared the applied strategies during the regulated and unregulated era respectively. The result showed that companies were more likely to differentiate themselves in response to increased customer focus when the market was deregulated. In Sweden, the effects of deregulation within the network industries have been analyzed. Studies about the transportation industry are discussed in an SOU report (2005:4). The postal service was subjected to an extensive investigation, and the postal and cashier service investigation handed over the final consideration “Postmarket in change” at the end of January 2005 (Swedish Competition Authority, 2005:1). The railway reformation has been ongoing for the last 15 years. However, according to the Swedish Competition Authority (2005:1), further reformation of the Swedish railway is desirable, but the progress is slow since national changes also depend on a streamlining of the international railway market. Since the deregulation in 1996, the electricity industry has been subject to investigations such as SOU 2002:7, 2005:4, and 2014:37.

The general aim of liberalization within the *electricity market* has been to increase competition among electricity suppliers by allowing electricity users to choose among electricity trading companies (SOU, 2002:7). This goal can be achieved by removing entry barriers and thus allowing new entrants into the formerly closed market (Joskow and Tirole, 2000). This was what the Swedish government tried to achieve through the deregulation introduced in 1996. Competition was created through the liberty of choice for consumers. This new situation pressured electricity producers and suppliers to improve efficiency to reduce costs and attract customers by offering competitive prices (SOU, 2002:7). From a theoretical point of view, liberalization of the electricity industry implies a separation of economic and political interests between the government and utilities, which also is supported by a vertical unbundling in the value chain (Ratinen and Lund, 2014).

The integration within the Nordic area has increased since deregulation was introduced, and a Nordic electricity market has emerged. For example, there is a common electricity stock market trading site, Nord Pool. The Nordic electricity market seems to have come far in the deregulation process, and the Nordic Competition Authorities (2007) considers

the Nordic electricity market to be the best-functioning regional market within Europe. This is in line with the findings from a study conducted by Jamasb and Pollitt (2005), which revealed that “the Nordic market is the most advanced in terms of effective international integration, (with formal and common market rules and price convergence)” (p.37). Ratinen and Lund (2014) also conclude that the liberalization of the sale side has advanced rather well. There are many actors within the electricity industry, and not all activities within the value chain are subject to liberalization. Figure 1 illustrates the actors and their relationships in the electricity industry, as well as the distinction between regulated and competitive businesses.

Competitive businesses



Regulated businesses

Price regulated by national authorities

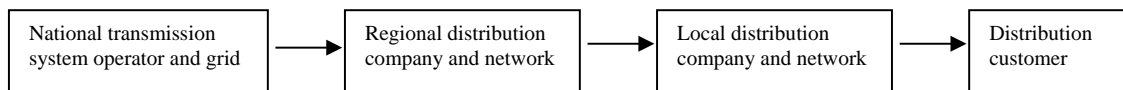


Figure 1: The electricity market
Adapted from Fortum, 2009.

The focus in this thesis is on electricity trading companies and their strategy development. The label *Swedish electricity trading company* as used in this paper does not consider ownership but includes all companies involved in electricity trading in the Swedish electricity market. The Swedish electricity market is integrated with the Nordic electricity market, but this study will focus on the Swedish market. The reason for excluding other countries is that this enables us to compare companies with a similar background. Furthermore, while the terms *electricity industry* and *electricity market* are often mentioned in previous research, the focus in this thesis is on the electricity market, including the sale of electricity from electricity trading companies to consumers. However, the term *electricity industry* will also appear frequently, since it is commonly used when discussing liberalization.

1.2 Problem discussion, purpose, and research question

When studying strategy, it is important to consider both the external and the internal environment a company operates in (Priem and Butler, 2001; Pehrsson, 2001). This is done in this thesis by studying strategy development through the association between perceptions of mobility barriers and strategy development, as well as between strategy competence and strategy development. Mobility barriers are the constraints in the external environment that hinder a company from changing position within an industry (Caves and Porter, 1977). Companies can perceive these barriers differently, hence the label *perceptions of mobility barriers*. Strategy competence includes the dimensions of business relatedness and market experience (Pehrsson, 2008). Strategy development is assessed in terms of both business and corporate strategy. Barney (2002) defines business strategies as actions a firm takes within a single market or industry to gain a competitive advantage, whereas corporate strategies are actions taken across markets or industries.

Prior research has shown that liberalization affects existing companies, since a previously closed market is opened for new entrants. Changes in the environment will impact how firms function and compete (Hooks and Palakshappa, 2009). The elimination of restrictions may offer incumbent firms new opportunities and strategic options. For example, when the constraint on pricing is removed, price competition may become a new way to compete (Delmas et al., 2007). Studies of the electricity industry (e.g., Schlegelmilch and Ambos, 2004; Delmas et al., 2007; Schiavone, 2010) indicate that deregulation has impacted companies' strategic choices to a large extent. The reason is that the new environment elicits new strategic decisions compared to the strategies applied in the previously regulated environment. A number of authors have addressed the fact that deregulation modifies the electricity market and firm behavior in different ways; Lindblom and Andersson (1998) argue that market liberalization within the electricity industry would involve both new market opportunities and threats for incumbent firms, and Andersen (1999) stresses the overall challenges liberalization poses for managers in electricity trading companies. According to Ghobadian and Viney (2002), mismanaged deregulation can lead to system failures. Hooks and Palakshappa (2009) noticed that new relationships were established after deregulation, since collaboration was perceived to be necessary in the new competitive environment. Ratinen and Lund (2014) point out that electric utilities with strong social relations tend to slow down companies' growth strategies, and therefore suggest that the complete unbundling of interests is important for the development of incumbent firms' growth strategies. Their study included the three largest utilities in the electricity industry in four European countries and comprised the time period 1990–2013, and as the authors pointed out, this period involved many important milestones in the electricity industry, such as liberalization, new EU directives, development of new energy sources, and national energy policies regarding renewable sources. All these aspects may contribute to the choice of strategy (Ratinen and Lund, 2014).

Hence, liberalization of the electricity market changes the preconditions for electricity trading companies, and it is therefore important to increase the understanding of firm

behavior in this market. Sweden is the sixth-largest consumer of electricity per inhabitant internationally (Swedenergy, 2014a). The country has a high usage of energy due to factors such as the cold climate, a high living standard, and energy-intensive industry (SOU, 2014:37). Changes due to liberalization of the electricity industry thus affect many stakeholders in society, and the results have been the subject of numerous discussions. The electricity market is complex, which might be why it is often debated (SOU, 2014:37). Accordingly, it is an interesting area for study and has thus been selected as the contextual setting in this thesis.

Although studies have been conducted regarding strategic behavior and deregulation, a number of authors (Ghobadian and Viney, 2002; Norman et al., 2007) have indicated that there is a need for more research within this area. Ghobadian and Viney (2002) point out that little attention has been paid to understanding company behavior during strategic reorientation in industries undergoing deregulation. Norman et al. (2007) also note that there are few studies assessing the effects the level of regulation has on a firm's actions and performance. Research so far has focused primarily on economic analysis and political issues, according to Larsen and Bunn (1999). Even though these authors' concerns were expressed some years ago, they still seem to be valid. Högselius and Kaiser (2010) point out that there are studies on deregulation within economics and political science. However, longitudinal studies from the past decade regarding the theme "strategy development and market liberalization" are rare. Furthermore, the process of reforming the electricity industry is ongoing, and the conditions have continued to change since liberalization was introduced, indicating that it is important to conduct studies repeatedly. There is a lack of longitudinal studies focusing on companies' strategy development in the Swedish electricity market following liberalization, and there is little knowledge about how liberalization is perceived by companies operating within the market. The contribution of this thesis is to fill in this gap and extend the knowledge basis within the area. The purpose of the thesis is thus to explore electricity trading companies' strategy development following liberalization. The research question is as follows:

Following liberalization, how is strategy development of electricity trading companies associated with their perceptions of mobility barriers and strategy competences?

1.3 Outline of the thesis

Table 1 outlines the chapter divisions and briefly describes the chapter content:

Table 1: Outline of the thesis

Chapter division:	Content:
Chapter 1: Introduction <ul style="list-style-type: none"> • Background information • Problem discussion, purpose, and research question • Outline of the thesis 	Describes the contextual background of the thesis, positions the research, and identifies the issues that form the basis for the purpose and research question. Also includes an outline of the thesis.
Chapter 2: Previous research and literature review <ul style="list-style-type: none"> • Existing research on liberalization and strategy development • Theoretical approaches 	Begins with a literature review and then presents theoretical approaches applied in previous studies of liberalization and strategy development.
Chapter 3: Theoretical framework for this study <ul style="list-style-type: none"> • Two central strategy perspectives • Model for this study 	Starts with an introduction of perspectives in the strategic management field, followed by a presentation of the theoretical model.
Chapter 4: Methodology <ul style="list-style-type: none"> • Approach • Design • Data collection • Operationalization • Data analysis • Quality measures 	Discusses the research approach used in this thesis and explains the choice of method, data collection process, and operationalization applied in the study. Also addresses the question of research quality.
Chapter 5: Empirical description <ul style="list-style-type: none"> • Research context • Case study 1–3 	Describes the electricity industry in EU and Sweden and includes information about the three case studies.
Chapter 6: Analysis and interpretation <ul style="list-style-type: none"> • Analysis • Interpretation of the empirical analysis • Propositions 	Includes the analysis, and the interpretation and development of propositions based on the findings from the case studies.
Chapter 7: Conclusion and limitations <ul style="list-style-type: none"> • Conclusion • Limitations 	Summarizes the findings in a conclusion and outlines the study's limitations.
Chapter 8: Contributions and implications <ul style="list-style-type: none"> • Theoretical contributions • Practical implications • Suggestions for further research 	Outlines the contribution of the study, discusses practical implications, and presents suggestions for future research.

2 Previous research and literature review

This section begins with a literature review of previous research regarding strategy and liberalization, followed by a compilation of the main findings. Next follows a presentation of theoretical approaches that can be used when studying liberalization and firm strategy.

2.1 Existing research on liberalization and strategy

A better understanding about companies' strategy development following liberalization can be obtained by examining previous research within the area. The selection of articles in this thesis is based on their relevance for the topic studied. The aim was to examine what has been done so far within the research area. Hence, the following section includes papers in which scholars assess electricity trading companies' strategic choices and actions following liberalization. The articles cover the time period from 1998 to 2014.

Lindblom and Andersson (1998) argue that market liberalization within the electricity industry would create new market opportunities owing to the removal of geographical constraints, thus allowing electricity distributors to purchase power from alternative producers. It would also induce threats for incumbent firms posed by competitors trying to attract the companies' present customers. The authors suggest that there are two main strategies firms can choose between in the presence of deregulation: a low-cost strategy and a differentiation strategy. When the authors assess companies' strategic moves in reality, they reveal that larger companies more actively prepared for the upcoming change and chose a differentiation strategy, perhaps because they had the capacity required to develop new products. By contrast, smaller and medium-sized companies did not appear to be concerned primarily with the choice between those two suggested strategies, since they were investigating the possibility of mergers or cooperation with other distributors. Nelson and Dowling (1998) conducted a company case study in Australia to analyze the effects of electricity industry deregulation and the commercialization of companies. According to the authors, the case study shows how a company's strategy must be customized and altered as the changes proceed.

According to Lomi and Larsen (1999, p. 153), "competition introduces consumer choice, price and product differentiation strategies, asymmetric information between companies and regulators, and new entrants fighting aggressively for market share." The authors discuss, for example, entry timing, as well as the need for technological innovation, among other elements that are of importance in the new environment. They argue that when a company positions itself in the new market, an early market entry can facilitate the process and is thus advantageous. They also stress the need for keeping up with new technology and for technology innovation. However, their conclusion is that the most important factor in this new environment is the ability to learn, and to learn faster than competitors. According to the authors, this advantage is the only source of a sustainable competitive advantage during stages characterized by quick changes.

Larsen and Bunn (1999) discuss the problems caused by lack of experience in a deregulated electricity industry. They point out that it is difficult for business managers to know how to operate in a short- and long-term perspective in this new environment. It is problematic for them to formulate and implement strategies in the new situation since they do not know how the traditional models will work or which new models can be applied. Consequently, owing to the absence of research on corporate-level effects, Larsen and Bunn suggest that learning from models could be a helpful tool. Dyner and Larsen (2001) also call attention to the need for new strategic tools within the deregulated environment. They argue that the common way used in other industries to conduct strategy analysis, formulation, and implementation should be applied in the electricity industry also. Like Larsen and Bunn (1999), the authors note the challenges posed by the absence of previous experience. Owing to the lack of natural evolution in this industry, managers were forced to select a “correct” strategy to follow in a much shorter time frame.

Schlegelmilch and Ambos (2004) assessed companies’ strategic choices in conjunction with the deregulation of the Austrian electricity trading industry. These authors identified a type of differentiation strategy. Since those companies offer a commodity, there are a limited number of strategies to choose from, and price competition is hence the dominant one. To avoid this obstacle, many companies are involved in product bundling, which means that they offer several related products to differentiate themselves from competitors. This has become a popular strategy, known as “multi-utility,” within the European utility industry. In their paper, the researchers compared the potential advantages a differentiation strategy may have compared with a cost leadership strategy. The result showed that product bundling could function as an entry barrier to new competitors under the present market conditions. The multi-utility strategy appeared to be particularly useful for incumbent firms, since it might decrease the threat from newcomers applying a low-cost strategy and thus limit the loss of existing customers.

Delmas and Tokat (2005) assessed the efficiency outcome that results from vertical integration. The study showed “that deregulation has a negative impact on firm efficiency in a short-term perspective” (p. 457). However, the authors added that it is important to recognize the transition costs that will evolve. In their empirical study, the authors compared the efficiency between utilities by using a scale ranging from completely vertically integrated firms generating all their electricity to firms buying all their electricity on the wholesale market. They found a nonlinear relationship between vertical integration and efficiency, showing that both governance structures are efficient. However, the hybrid structure, including both vertical integration and contracting, turned out to represent a diversification strategy requiring higher coordination costs than any of the single strategies. Yet the long-term efficiency of this structure is uncertain. The authors’ conclusion is that deregulation has a negative impact on electric utility firm efficiency in the short term, but both structures described above can be efficient in coping with uncertainties within the new environment. However, the structures’ efficiency outcome in a long-term perspective is still unclear.

An example of how generic strategies can be applied in practice is demonstrated in the study conducted by Delmas et al. (2007). The authors analyzed how US electric utilities selected different strategies after deregulation. The companies in question applied a differentiation or cost leadership strategy as deregulation proceeded. Differentiation is difficult within the electricity industry, but companies exploited the demand for so-called green energy by offering power produced using less environmentally harmful methods. This differentiation strategy led to a sustainable competitive advantage, as long as the customer perceived that the product was distinct from that of competitors, and was willing to pay a premium price for green power, thus fulfilling the differentiation criteria explained in Michael Porter's work *Competitive Advantage* (1985). Furthermore, through increased environmental differentiation, deregulation contributed to a cleaner environment and consequently to the common good. This implies that deregulation may not only increase consumer welfare through lower prices but also enhance product innovation (Delmas et al., 2007).

Hooks and Palakshappa (2009) studied the New Zealand electricity industry to understand the role of collaborative relationships during changes in the industry over the last 20 years. The authors carried out case studies to find out how the relationships between the actors functioned. They concluded that most of the relationships were forced. Despite this, these kinds of relationships continued to play an important role in the companies' strategies since many companies considered cooperation necessary to be competitive in the new deregulated environment. In this way, the firms could get access to resources, markets, technology, and capabilities that they could not get on their own.

Schiavone (2010) analyzed the way national characteristics such as industrial or demand conditions have affected electricity companies' tendency to diversify their businesses after the industry is liberalized. The study was longitudinal and covered 10 years. The largest electricity-generating companies in Europe were examined in this study. The findings showed that several kinds of factors affect the tendency for companies to apply a diversification strategy after liberalization. Hence, it is not possible to identify a clear connection between a specific country's conditions and its electricity-generating companies' diversification strategy after the industry is liberalized. The author also concluded that there is no significant difference regarding diversification between former monopolists and other European electricity companies. However, Schiavone (2010) observed a relation between a country's size and level of industrialization and its companies' tendency to diversify: companies operating in wealthy and well-developed countries were more likely to diversify.

Utilities' growth strategies in the electricity industry in four different country contexts, Denmark, Germany, Spain, and Finland, were studied by Ratinen and Lund (2014). The authors chose these countries since all belong to the European Union and thus have the same legal framework. Nevertheless, as the authors pointed out, there are many differences in how each country's electricity market has developed since liberalization. They selected the three largest utilities in each country to compare these companies'

growth strategies in relation to the utilities' relative strength of social relations and focus on markets. The following four growth strategies were selected: internationalization, diversification, domestic orientation, and adaptation. The result showed that utilities with weaker social ties were more likely to diversify than companies having strong social ties. Internationalization was a rather common strategy among the utilities, regardless of the strength of social ties, since it was more dependent on the utilities' resources. The authors concluded that utilities with strong social relations had the ability to affect energy policy, in the end slowing down strategic changes. They therefore suggested that the complete unbundling of interests is important for the development of growth strategies.

The findings from the literature review show that there are different ways to address the new situation caused by liberalization. Table 2 summarizes the key findings:

Table 2: Literature review compilation

Authors	Key findings	Study focus
Nelson and Dowling (1998)	The case study demonstrated how important it is to adjust the intended change plan when unexpected matters emerge.	Change theory
Lindblom and Andersson (1998)	Larger firms seemed to apply a differentiation strategy in preparation for deregulation, whereas small and medium-sized firms mainly assessed cooperation with other firms or acquisitions.	Generic strategies
Lomi and Larsen (1999) Larsen and Bunn (1999)	The new environment will require the ability to learn, for example, by using models.	Organizational learning
Dyner and Larsen (2001)	Deregulation implies new ways of planning and strategic models applied in other industries should be applied in the electricity industry also.	Strategy formulation
Schlegelmilch and Ambos (2004)	Companies within the Austrian electricity industry offered customers related products to differentiate themselves from competitors, a so-called multi-utility strategy.	Generic strategies
Delmas and Tokat (2005)	Both vertical and horizontal integration turned out to be efficient strategies for electricity firms undergoing deregulation in a short-term perspective, but the long-term effects were still unknown.	Transaction cost economy
Delmas et al. (2007)	Electric utility companies applied a differentiation strategy, exploiting the need for “green energy,” in conjunction with the deregulation of the US electricity industry.	Generic strategies
Hooks and Palakshappa (2009)	It was common for firms to cooperate with other companies within the New Zealand electricity industry after the market was deregulated.	Strategic alliance in the form of collaborative relationships
Schiavone (2010)	A country’s specific characteristics cannot entirely explain companies’ level of diversification following liberalization.	Diversification strategy
Ratinen and Lund (2014)	Strong social relations allow utilities to affect energy policy, and thus slow down development in the incumbent utilities’ growth strategies.	Growth strategies

The literature review revealed that probably more research about liberalization and strategy development was conducted a decade ago. The reason for this might be that the topic called for more attention at that point in time, since many industries were subject to liberalization. Information about the situation in the market today is sparse, and it is even harder to find studies considering the Swedish market.

2.2 Theoretical approaches

There are many ways to study company strategy and liberalization. Theoretical approaches used in the studies in the literature review include organizational learning, change theory, transaction cost economy, the generic strategies, strategic alliances and diversification strategy. These are briefly presented below to give the reader an overview of research approaches of previous studies.

Organizational learning

Larsen and Bunn (1999) suggest that learning from models could be a helpful tool in the new deregulation environment because of lacking previous experience of how a deregulated electricity industry works. Lomi and Larsen (1999) contend that the ability to learn is the most important factor to succeed in the new deregulation environment. In their paper, Levitt and March (1998) review literature about organizational learning. In these studies, organizations learn by using previous experience to guide new practices. Fiol and Lyles (1985) define organizational learning as “the process of improving actions through better knowledge and understanding” (p. 803). Crossan et al. (1999) have developed a dynamic framework to analyze how organizational learning can develop in a company. The authors divided organizational learning into four related processes: intuiting, interpreting, integrating, and institutionalizing. The processes take place across three levels: individual, group, and organizational. The intention behind the 4I framework is to encourage both researchers and managers to take a holistic view of how change impacts the organization, taking into account the interrelated parts of the company’s learning system (Crossan et al., 1999).

Change theory

The case study conducted by Nelson and Dowling (1998) revealed the importance of altering the deliberate plan of change when unpredicted events emerged. The authors adapted a model developed by Dawson (1996) in their study of an Australian electricity trading company. The framework treats change as dynamic, as opposed to static, enabling change to be understood as a discontinuous phenomenon (Nelson and Dowling, 1998). Dawson (1996) divided the determinants of change into three groups: context, politics, and substance, as displayed in Figure 2:

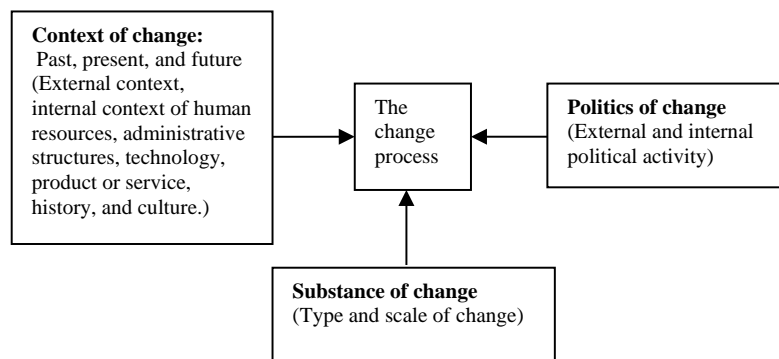


Figure 2: Determinants of organizational change

Adapted from Dawson, 1996, p. 65.

According to D’Aveni (1994), static strategy models can be used in industries with slow change to gain a competitive advantage. However, many markets have changed due to a technological development, globalization, and so on, which requires new, more dynamic models that are able to describe the sequential moves and competitors’ countermoves on a long-term basis. Hence, “success depends not on how the firm positions itself at a certain point in time, but on how it *acts* over long periods of time” (D’Aveni, 1994, p. 17).

Transaction cost economy

In their article, Delmas and Tokat (2005) studied the effects of vertical integration. Studies applying transaction cost economy (TCE) argue that vertical integration is one way of reducing uncertainty and hence decreasing the transaction costs that otherwise might occur if the company instead chose the open market (Williamson, 1971). Hence, in TCE “the central question is about the most efficient governance structures given the characteristics of the transaction” (Groenewegen and De Jong, 2008, p. 52). According to adherents of TCE, the government structure should be analyzed in relation to both formal institutions (legal rules) and informal ones (values, norms, attitudes) (Groenewegen and De Jong, 2008). Thus, TCE identifies the firm in organizational terms, and a government structure that minimizes transaction costs should be selected. The firm and the market can accordingly be seen as different governance alternatives, the make-or-buy decision (Williamson, 1999).

The generic strategies

The literature review showed that some of the strategies that have been chosen by electricity trading companies (Lindblom and Andersson, 1998; Schlegelmilch and Ambos, 2004; Delmas et al., 2007) can be traced to the generic strategies developed by Porter (1980, 1985). Porter (1980) developed three generic strategies that companies can choose from: cost leadership strategy, differentiation strategy, and focus strategy. After determining which industry to enter, the company has to position itself within this context. The goal is to select a strategy that will distinguish the company from its

competitors so it can obtain a competitive advantage. The model consists of two dimensions. The first is competitive advantage, which can be achieved by applying a cost leadership or differentiation strategy. The second dimension addresses the target scope, which can be broad or narrow in terms of, for example, geographic area, market segment, or product range (Ormanidhi and Stringa, 2008).

A company applying a cost leadership strategy focuses on lowering its cost below competitors' by achieving economies of scale, learning-curve economies, low-cost access to production factors, or technological advantages independent of scale (Porter, 1980). A product differentiation strategy means that the company strives to achieve a competitive advantage by increasing customers' perceived value of its own product compared to competitors'. A company can differentiate a product in the following ways, according to Porter (1980): product features, linkages between functions, timing, location, product mix, links with other firms, and reputation. A third strategy introduced by Porter (1980) is a focus strategy, in which the company's target group is narrowed. A company may also decide to apply a mix of the cost leadership and differentiation strategy. However, this might be a risky choice, since the product/service the company offers may not be considered to be cheaper or different from other products/services. Then the company is "stuck in the middle" (Hanson et al., 2002).

Strategic alliances

In their article, Hooks and Palakshappa (2009) studied how changes in the external environment lead to new strategies, collaborative relationships in this case. There are many reasons for companies to enter strategic alliances, such as gaining access to new markets and/or new products, cost sharing, knowledge creation, and sharing R&D (Varadarajan and Cunningham, 1995). The drive to enter into strategic alliances can be found both in the external and in the internal environment, according to Varadarajan and Cunningham (1995). The authors place the drives (such as firm size, corporate culture, threat of new entrants, and degree of market uncertainty) into three categories: company, industry, and environmental characteristics. Changes in the external environment force companies to search for new ways to compete, and entering strategic alliances is one option for companies to strengthen their position in the market since it can open up access to, for example, cost advantages, new technology, and a broader product portfolio.

Diversification strategy

According to Ansoff (1957), a company can select from four strategies to expand. The four strategies are displayed in the following matrix:

	Markets	
Product line	Market penetration	Market development
	Product development	Diversification

Figure 3: Product-market strategies
Adapted from Ansoff, 1957, p. 114.

Diversification means that the company is engaged in multiple business areas (Barney, 2002). According to Rumelt (1982), diversification occurs when a company begins to sell new products that do not have any market interaction with the company's other products. Hence, the product and the market are new for the company. Diversification is a distinctive risk strategy for industrial firms and is more likely to be applied by firms that possess large pools of resources (Schiavone, 2010). This type of strategy differs from the three others since it usually requires new skills and techniques and thus leads to organizational changes (Ansoff, 1957). The types of diversification strategies can be divided into three categories: limited, related, and unrelated (Barney, 2002). Barney (2002) points out that two conditions must be fulfilled for a diversification strategy to be profitable: there must be economies of scope between the business areas, and it must also be more efficient to keep the achieved economies of scope in house instead of using the market or other intermediaries.

Summing up, it may be concluded that there are many ways to study liberalization and strategy development. Table 3 includes a compilation of possible approaches and their applicability in this thesis:

Table 3: Compilation of approaches to study liberalization and strategy development

Approach	Focus	Applicability in this thesis
Organizational learning	How an organization learns and adapts from previous experiences	The emphasis is on the learning process, which not is in focus in this thesis.
Change theory	The change process and its implications	Focuses on the change process, and less on strategy development, and will not be used in this thesis.
Transaction cost economy	How to avoid opportunistic behavior in economic exchanges by selecting the most advantageous governance structure	The transaction cost economy focuses on costs and seems to be too narrow to explain the dimensions that affect strategy development among electricity trading companies, but it could be used as a complement to another framework to explain possible business strategies.
Generic strategies	Strategic options that can be applied by firms in different types of industries	This framework explains strategic options in a straightforward way. However, the framework does not seem to explain the external and internal factors that affect strategy development following liberalization. Nevertheless, the generic strategies could be applicable to this study in combination with another tool.
Strategic alliances	Forms of cooperation that companies can enter into with other companies to respond to changes in the external environment	Entering strategic alliances could be one possibility for electricity trading companies to adapt to the changes in the electricity market posed by liberalization.
Diversification strategy	How a company can produce a new product and simultaneously enter a new market	This type of strategy is a potential alternative for electricity trading companies due to the changes liberalization creates. However, since this type of strategy is more likely to be applied by larger companies, it will probably not be used by the companies studied in this thesis.

3 Theoretical framework

This section begins with an introduction and comparison of dominating views within strategic management theory, namely the “outside-in” and “inside-out” perspective. Next follows a presentation of the model applied in this thesis.

3.1 Two central strategy perspectives

Within the strategic management field, two opposing positions demonstrate the plentitude of differing opinions on how managers should develop their strategy. The positions will now be briefly introduced below, since together these two perspectives form the platform for the theoretical framework applied in this thesis. The “outside-in” perspective, represented by the industrial organization view, focuses on the external environment and the opportunities and threats that can be identified there. Managers should strive to identify attractive market opportunities and then select a superior positioning in this environment compared to their competitors. In comparison, the “inside-out” perspective, represented by the resource-based view, is focused more on the resources and capabilities the firm already possesses and how these can be leveraged to achieve a competitive advantage (Wit and Meyer, 2004).

3.1.1 The industrial organization view

The main idea dominating the industrial organization (IO) view is that company performance is determined by the way a firm conducts business within a specific, set market structure. According to the traditional IO paradigm, developed by Bain (1968) and Mason (1939), profitability derives from the industry structure (Leask and Parnell, 2005). For example, the structure-conduct-performance (SCP) framework shows how the industry structure determines the firm’s conduct (strategy choice) and hence performance (Leask and Parnell, 2005).

However, during the 1970s, there was a shift in the unit of analysis, with a new focus on both industry and firm level. The strategic group theory introduced by Hunt was the first step in this direction (Porter, 1981). The strategic group theory aims to describe performance variation within heterogeneous industries, thus moving closer to the firm level of analysis compared to the IO perspective (Leask and Parnell, 2005). The development of the concept *mobility barriers* (Caves and Porter, 1977) also focused on explaining why some firms performed better than others. Caves and Porter (1977) argue that mobility barriers function as impediments to shifts in the industry, giving some firms a better position and thus an advantage compared to others (Porter, 1981). The development of IO by the strategic group and mobility barrier theory improved the strategic analysis (Porter, 1981).

Porter is one of the main contributors within the IO perspective, and his Five Forces model from 1979 has been selected to represent this stream of research (Porter, 1979).

The model is a useful tool to examine an industry's potential and to assess competitors. The main point in Porter's work is that a firm's ability to position and differentiate itself within an industry also determines its ability to obtain a competitive advantage. The firm must accumulate the resources necessary to implement the strategy dictated by conditions and constraints in the external environment (Hoskisson et al., 1999). Porter (1979) divides the forces that determine the state of competition within an industry into five groups: bargaining power of buyers, bargaining power of suppliers, threat of new entrants, threat of substitute products, and rivalry among competing firms. The force that dominates varies between industries, and it is therefore important for managers to understand the relevant forces in their industry. The lower the rivalry, the larger is the potential for profitability within an industry; hence the gathered strength of these forces will determine the possibility to make a profit. Not all industries have the same potential for profit making, but regardless of industry, it is important for managers to understand the forces and their sources to apply a strategy that will be most beneficial for the company in its specific industry context (Porter, 1979). Porter (1979) argues that a company must find a position within the industry that allows it to defend itself against the competition forces or that helps it influence these forces in its own favor. To sum up, this model may be useful for managers seeking to understand the industry context and, by doing so, develop the most beneficial competition strategy.

3.1.2 The resource-based view

The origin of the resource-based view (RBV) is the work of Edith Penrose during the 1950s (Lockett, 2005). According to Lockett, Penrose demonstrates how a firm's development is shaped by conscious attempts to utilize its evolving resource base. In Penrose's seminal work from 1959, the author argues that the firm is "a collection of productive resources" (p. 24). Furthermore, Penrose argues that the resources are not of much use by themselves, but it is the service rendered by the resources that is processed to make them useful. However, from the 1960s to the late 1980s, the focus was primarily on the external environment as the determinant for what kind of strategy a firm should select, as described above regarding the IO era. This paradigm dominated until Wernerfelt published his paper in 1984. The author stressed the importance of analyzing a firm based on its resources instead of focusing only on the product side (Wernerfelt, 1984). However, the paper that is widely regarded as the first formalization of the RBV is Jay Barney's work from 1991, "Firm resources and sustained competitive advantage" (Newbert, 2007). The RBV suggests that a firm's unique resources and capabilities provide the basis for a strategy that allows the firm to best exploit its core competencies relative to opportunities in the external environment (Hanson et al., 2002).

As mentioned above, Barney's work from 1991 paved the way for the RBV. Consequently, his VRIN framework forms the basis for the representation of this perspective. The objective with the VRIN framework is to analyze the potential of a broad range of firm resources based on a series of attributes. These attributes are expected to describe resources that create a sustained competitive advantage: value, rareness,

imperfect imitability (history dependent, causal ambiguity, social complexity), and nonsubstitutability (Barney, 1991). A resource should be valuable, meaning that it exploits opportunities and/or neutralizes threats in the firm's environment. It should also be a rare resource not held by other competitors. Imperfect imitability means that it is difficult for competitors to get the same resource, owing to its specific characteristics. Finally, it should not be possible to substitute the resource. By evaluating these attributes of a resource, managers can identify the resources that may be a source of sustained competitive advantage. However, much research in the resource school has shifted from focusing on tangible assets as a source of advantage to intangible assets, like knowledge and experiences (Pehrsson, 2001). This may imply that there is a great challenge for practitioners trying to identify the "correct" resources. Grant (1991) has provided a normative framework for a resource-based approach to strategy formulation. The framework includes five steps and the first steps involve the identification of resources and capabilities according to their rent-generating potential. A strategy that best exploits these resources and capabilities should then be selected and resource gaps filled in by upgrading the firm's resource base. Grant (1991) argues that an externally focused strategy does not provide a secure foundation for a long-term strategy since the external environment changes, and the resource-based approach accordingly offers a more durable base for a firm's strategy.

3.1.3 The industrial organization view versus the resource-based view

According to Barney (1991), the two perspectives are based on different *assumptions*. Barney (1991) claims that the environmental models assume that firms operating within an industry are highly identical in terms of resources and pursued strategies. The RBV, on the other hand, assumes that the firms within an industry can be heterogeneous regarding the strategic resources that they control, and these may not be mobile among firms, according to Barney (1991). Priem and Butler (2001) point out that the simplifying assumptions are made on the resource side in the environment-focused models and on the demand side in the RBV. They (2001) also claim that the RBV identifies attributes of rent-generating resources without paying attention to how these resources' value develops over time. Barney (2001) agrees with the necessity of a dynamic analysis according to the resource-based logic. At the same time, he points out that such analysis is already being conducted by using an equilibrium or evolutionary approach to understand the implications of competition for resources in one time period compared to another. The IO perspective also comes up short in terms of picking up environmental shifts. A static cross-sectional analysis of a dynamic industry is not an adequate means for formulating strategy in a changing environment, according to Pehrsson (2008). A major weakness of relying on the external approach is that this may lead to ignorance of the internal context and, in particular, the ability to implement an externally determined strategy (Pehrsson, 2008).

To sum up, it is apparent that the two perspectives have their benefits and drawbacks. Nevertheless, both views have, without doubt, contributed to the development of the

strategic management field to a large extent. Table 4 displays the main focus of the two approaches and their applicability in this thesis.

Table 4: The VRIN framework and Porter's Five Forces model

Approach	Focus	Applicability in this thesis
The VRIN framework	Founded on the RBV, focusing primarily on internal resources and capabilities. Firm heterogeneity is seen as a source of competitive advantage.	In the VRIN framework, the strategy is based on the resources and capabilities possessed by the firm, thus overlooking changes in the external environment. The framework could be used in this thesis in combination with another framework/model that includes the external environment.
Porter's Five Forces model	Based on the IO perspective, focusing primarily on the external environment.	The model is easy to understand and rather straightforward to use. However, there is too much focus on the external environment; the strategy is based not on what the firm can do, but on what it should do according to industry requirements. The model could be used to study the external environment in this thesis in combination with another model/framework that includes the internal environment.

3.2 Thesis model

In the literature review, several theoretical approaches were assessed in relation to the aim of this study. None of them can be considered to completely support the objective of this work. Two further models deriving from the strategic perspectives were presented, Porter's Five Forces model and the VRIN framework. Porter's Five Forces model concentrates on the industry environment, whereas the VRIN framework focuses on internal resources. Priem and Butler (2001) suggest that a more comprehensive mix between the two strategic perspectives could result in a more complete strategy theory, as many of the established theoretical models/frameworks have a main focus on one or the other of these aspects. Pehrsson (2001) also noted the absence of a framework that included both external and internal aspects, and developed the PSE model as a complement to the existing models.

The model developed by Pehrsson (2001) incorporates both the external and internal environment. The PSE model was developed primarily as a complement to the existing models of international market entry. The abbreviation PSE stands for perceptions of entry barriers (P), strategy competence (S), and entry strategy (E); a company's entry strategy depends on the perceived barriers to enter a market, as well as the company's corporate strategy competence. The model components are interrelated, and the relationship and component importance may change during the process (Pehrsson, 2008).

The PSE model for market entry is illustrated in Figure 4:

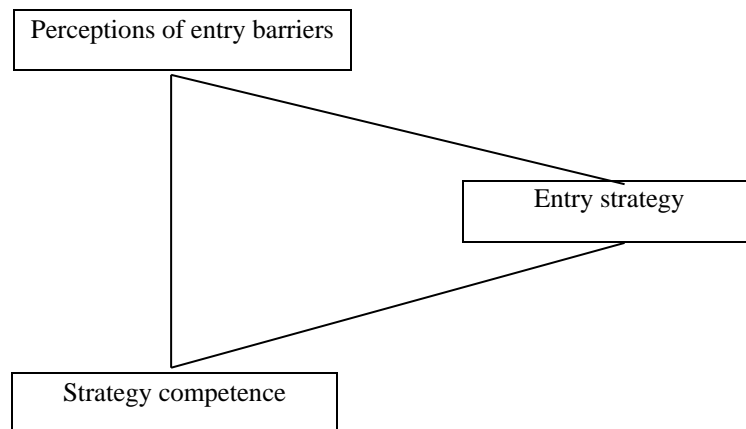


Figure 4: The market establishment model

Source: Pehrsson, 2001, p. 58.

The PSE model has previously been applied in case studies to analyze company strategies after deregulation (Pehrsson, 2001). Pehrsson (2001) conducted an empirical study of the development in the market structure after deregulation in the UK and Swedish telecommunication industry. He carried out case studies on both markets to assess the companies' strategies. The result showed that companies select different kinds of strategies owing to different company backgrounds and prerequisites, which were identified through the model components. The model has also been used by Devine (2010) to study the internationalization of small and medium-sized Swedish furniture producers. A modified PSE model was applied to conduct the analysis, including the following four model components: perceptions of export barriers, strategy competence, export involvement, and performance.

The purpose of this thesis is to explore electricity trading companies' strategy development following liberalization. The phenomenon of liberalization is something that affects the external environment, thus changing the rules for the companies, whereas strategy development is something that takes place inside the company. It is therefore important to take both the external and internal environment into consideration when studying firm strategy. Hence, it is necessary to use a conceptual framework that includes both internal and external factors. The PSE model fulfills this criterion. However, the model does not fully fit the contextual setting and study approach in this thesis. Hence, after a thorough review of previous studies and the theoretical approaches they applied, a new model was developed for this study based on the PSE model.

The scope of this thesis is strategy development within the home market. The research model will accordingly be used to explore a company's *strategy development* in the domestic market. The new research model consists of three components: perceptions of mobility barriers, strategy competence, and strategy development.

3.2.1 Perceptions of mobility barriers

This component deals with the external environment and can be compared with the IO view, focusing on the industry context. In the PSE model, the "P" deals with the question of how companies perceive entry barriers. Bain (1956) defines an entry barrier as follows:

A barrier to entry is an advantage of established sellers in an industry over potential entrant seller, which is reflected in the extent to which established sellers can persistently raise their prices above competitive levels without attracting new firms to enter the industry. (p. 3)

Even though other definitions have been suggested, Bain's definition still seems to be valid. Gable et al. (1995) divide barriers into exogenous and endogenous barriers. Exogenous barriers are set within the environment, whereas endogenous barriers include reactions to new entrants created by the incumbent firms. Porter (1980) mentions the following exogenous entry barriers: economies of scale, product differentiation, capital requirements, switching costs, access to distribution channels, cost disadvantages independent of scale (like favorable location), and government policy. Endogenous barriers in terms of incumbents' retaliation can take the form of increased marketing and reduced prices (Porter, 1980). However, it is important to keep in mind that existing entry barriers vary between industries. It is therefore necessary to identify industry-specific entry barriers when planning to enter a new market. Executives can also perceive barriers to entry in various ways, which is the reason this component in the PSE model deals with the *perception* of entry barriers. Managers may likewise rank the importance of barriers differently due to their background, experience, and expectations (Pehrsson, 2002).

Barriers can create a hindrance for companies entering a foreign market. However, they may also be relevant in the domestic market. Furthermore, barriers are not only impediments for new firms planning to enter an industry; they can also act as a hindrance for existing companies within an industry. Caves and Porter (1977) propose that Bain's (1956) concept about barriers to new competition could be enlarged by including the mobility of firms among segments within an industry. In this way, the theory would incorporate changes inside the groups as well, as described by Caves and Porter (1977):

Barriers to entry then become specific to the group rather than protecting all firms in the industry equally, and barriers to mobility *between groups* rest on the same structural features as barriers to entry into any group from outside the industry. (p. 250)

Caves and Porter (1977) suggest that there are performance differences between strategic groups within an industry stemming from intraindustry barriers, which prevent firms from moving between market positions. However, as the industry develops, a firm might change strategic groups owing to differences in skills and resources (Porter, 1979a). Porter (1979a) describes the differences among the groups within an industry in the following way:

The differences in firms' strategies that define strategic groups imply differences in marketing methods, technologies and scales of activity that can make the standard sources of entry barriers—economies of scale, product differentiation, heavy requirements for capital, cost advantages and proprietary knowledge—vary by strategic group. (p. 216)

Barriers thus impede the erosion of competitive advantage by creating persistent performance differences (Caves and Porter, 1977). The component *perceptions of mobility barriers* in this thesis will concentrate on intraindustry barriers since the companies in the case studies were already operating in the electricity market before deregulation or were established almost in conjunction with deregulation.

3.2.2 Strategy competence

According to Pehrsson (2008a), for a company to exploit market opportunities, it is of great importance to possess relevant corporate strategy competence. Strategy competence is obtained by processes that are firm explicit, and further development of this competence is determined by the available resources and capabilities (Pehrsson, 2002). Strategy competence concerns the firm's ability to compete and consists of the following dimensions: business relatedness and market experience (Pehrsson, 2008).

Business relatedness

Exploitation of corporate resources is facilitated if the business units in a firm are related. Business relatedness may ease the transfer of core competencies and enable accumulation and exploitation of related and relatively homogeneous knowledge about products and markets (Pehrsson, 2008b). According to Prahalad and Hamel (1990), a competence should fulfill three criteria to be classified as a core competence: first, it should be difficult to imitate; second, the competence should greatly contribute to customers' benefit from the product; and third, it should provide potential access to a wide variety of markets. Business relatedness affects the transfer of core competences and, in the end, firm performance (Pehrsson, 2006). Pehrsson (2008b) focuses on how business relatedness may facilitate the use of core competencies when a firm expands abroad, and concludes that a firm's business relatedness will affect the selected entry mode into a new market. Farjoun (1998) defines business relatedness as relationships between activities or resources. Devine (2010) found that Farjoun's (1998) definition of business relatedness was more applicable to use while studying SMEs' strategy competence since those firms might not have multiple business units, which consequently aggravated the study of the

alignment between the business units and the company's core competence. The author accordingly chose to study strategy competence according to Farjoun's definition. Both ways of studying business relatedness are used in this thesis; the relatedness between the business units and the company's core competence is studied, as well as the alignment between the company's activities and resources. The focus is thus on how business relatedness may enhance the exploitation of core competencies between the company's business units in the domestic market, as well as on how relatedness between activities/resources in different departments may be exploited in the domestic market.

In the PSE model, the concept *business relatedness* concentrates on the company's resources and how these can be used to exploit market opportunities internationally. In this thesis, business relatedness will be used to identify the electricity trading companies' core competence and other resources, and in what way the degree/type of relatedness has affected the companies' strategy development in the domestic market, as opposed to an expansion abroad.

Market experience

A firm's accumulated experience should be exploited when implementing strategy to achieve a competitive advantage in the foreign market (Pehrsson, 2008b). Firms have initial costs when expanding internationally, but the challenges seem to be even greater for firms lacking previous international experience. This was evident in, for example, a study examining Mexican firms' internationalization process (Thomas, 2006). Entering a new country involves uncertainties, such as the assessment of competitor behavior. Understanding competitors in the foreign market has proved to be essential to achieve an international competitive advantage (Pehrsson, 2008b). Gaining knowledge about competitor strategies is challenging since operating in a highly competitive marketplace increases the complexity created not only by the number of competitors but also by the differences among them. Some may have a competitive advantage owing to low labor costs and others because of access to new technology (Hanson et al., 2002). It may accordingly be difficult to understand the strategic intent of a competitor. Lack of information or difficulties in interpreting available information may yield uncertainty, and assessing competitor behavior is a major concern of industrial managers (Pehrsson, 1990). Knowledge about customers, competitors, and market conditions are important factors for a company when positioning in a new market (Pehrsson, 2002). Foreign market experience is highly relevant for the choice of market entry mode, and Pehrsson (2008) showed that extensive corporate experience in an industrial firm is positively associated with a full-control entry into a foreign market. According to previous studies, a company's accumulated international market experience is highly relevant for its choice of market entry mode. In this thesis, a company's accumulated market experience in the form of knowledge about competitors and market conditions in the domestic market will be analyzed to see how it affects strategic choices in the home market.

3.2.3 Strategy development

In the PSE model, the component *entry mode* addresses the entry strategy the firm selects to establish itself in a new market. There are many modes of entry for a firm to choose from, and the choice will reflect the firm's degree of commitment, control, involvement, and risk in the target market (Albaum et al., 2005). The firm has to decide "which markets to enter, when to enter those markets, and on what scale" (Hill, 2003, p. 475). Before entering or expanding into a new market, it is of great importance to assess the market's potential. The entry barrier concept can be used to fulfill this task. Entry timing is another important factor. An early entry can be beneficial since the company will have the opportunity to establish itself ahead of competitors; however, the advantages of an early entrance must be seen in relation to risks in the form of pioneering costs. The scale reflects the firm's commitment in the new market. A large-scale entry implies a high commitment, requiring a high level of resources. A high commitment can create many benefits but also involves higher risk and may limit the firm's future strategic flexibility (Hill, 2003). A firm can select between the following entry modes: exporting, strategic alliances (e.g., turnkey contracts, franchising, joint ventures), licensing, and wholly owned subsidiaries (established through green-field ventures or acquisitions) (Hill, 2003; Hanson et al., 2002). Obviously, all entry modes involve certain benefits and drawbacks, which must be thoroughly considered before a decision can be made. As mentioned above, the decision the firm makes regarding entry mode is often based on its strategy competence and the external environment, creating the firm's overall strategy. Not all entry modes applied by firms entering a foreign market are applicable to use when studying incumbent firms' strategy in a domestic market. As mentioned in the introduction, the companies' *strategy development* in this thesis will be assessed in the form of both business and corporate strategy. Business-level strategies include vertical integration, cost leadership, or product differentiation strategy (Barney, 2002). Corporate strategies examined in this thesis are strategic alliances and mergers/acquisitions.

Corporate strategies

Barney (2002) mentions three types of strategic alliances: nonequity alliance (cooperation is managed through contracts), equity alliance (contracts are supplemented by equity investments), and joint venture (an independent firm is formed). The reasons for entering strategic alliances differ, as displayed below (Barney, 2002, p. 371):

- Exploiting economies of scale
- Learning from competitors
- Managing risk and sharing costs
- Facilitating tacit collusion
- Low-cost entry into new markets
- Low-cost entry into new industries and new industry segments
- Low-cost exit from industries and industry segments
- Managing uncertainty

The value for a firm applying a merger or acquisition strategy depends on the market context in which the strategy is implemented (Barney, 2002). The merger or acquisition should reduce threats or exploit potential market opportunities to create value, according to the author. The merger or acquisition can be between related or unrelated firms, and the conclusion is that a merger or acquisition of a related firm has the potential for economic value, whereas acquisitions of strategic unrelated targets generate only normal economic profits (Barney, 2002). Barney (2002) mentions five types of strategic relatedness between a bidding and target firm:

- Vertical merger: the merger or acquisition of a former customer or supplier
- Horizontal merger: a former competitor is acquired
- Product extension merger: the acquisition creates access to complementary products
- Market extension merger: the acquisition creates access to complementary markets
- Conglomerate merger: no strategic relatedness exists between the bidding and target firm

Business strategies

Delmas and Tokat (2005) revealed in their study that in a short-term perspective, both vertical and horizontal integration turned out to be efficient strategies for electricity trading companies after deregulation. Barney defines a firm's level of vertical integration as "the number of stages in a product's or service's value chain that a particular firm engages in" (2002, p. 194). Vertical integration can be used to minimize opportunistic behavior in economic exchanges, and managers should choose the type of governance that will be most beneficial for the company at the lowest possible cost according to the transaction cost logic (Barney, 2002). Thus, as mentioned in the previous model comparison, vertical integration is one way to decrease transaction costs that might occur if the exchange were conducted in the open market instead (Williamson, 1971).

Other strategies that have been chosen by electricity trading companies (Lindblom and Andersson, 1998; Schlegelmilch and Ambos, 2004; Delmas et al., 2007) can be traced to the generic strategies, described in chapter 2. A firm can choose between a cost leadership strategy, differentiation strategy, or focus strategy (Porter, 1980). These types of strategies can also be applied to describe strategy development. Regarding the differentiation strategy, product differentiation based on product features and timing is not applicable for the companies studied in this thesis. The reason is that it is not possible to change the features of electricity, and the timing for introducing electricity has already passed.

Barney (2002) concludes that there are several possible strategies for a company to follow, and some firms even apply several of them at the same time. This fact has been taken into consideration in this thesis, and different types of strategies have accordingly been included in the theoretical framework to study strategy development. As previously explained, in this thesis, strategy development is considered an alteration of the current

strategy and consequently deals with the level of how well tuned a company’s strategy is. A company can select between several strategies, like those identified above, to improve its current strategy. The companies studied in this thesis have already been operating in the electricity market for a while. The aim is to explore how perceptions of mobility barriers and strategy competence associate with their strategy development in the domestic market. This component has consequently been named *strategy development* in the research model.

3.2.4 The Sequential Strategy Development model

A new model was developed as described above to fit the contextual setting and purpose of this thesis. The new model was named the *Sequential Strategy Development model*, abbreviated as SSD. It focuses on companies’ strategy development following market liberalization. The model consists of the following concepts: perceptions of mobility barriers, strategy competence, and strategy development. The model is presented in Figure 5:

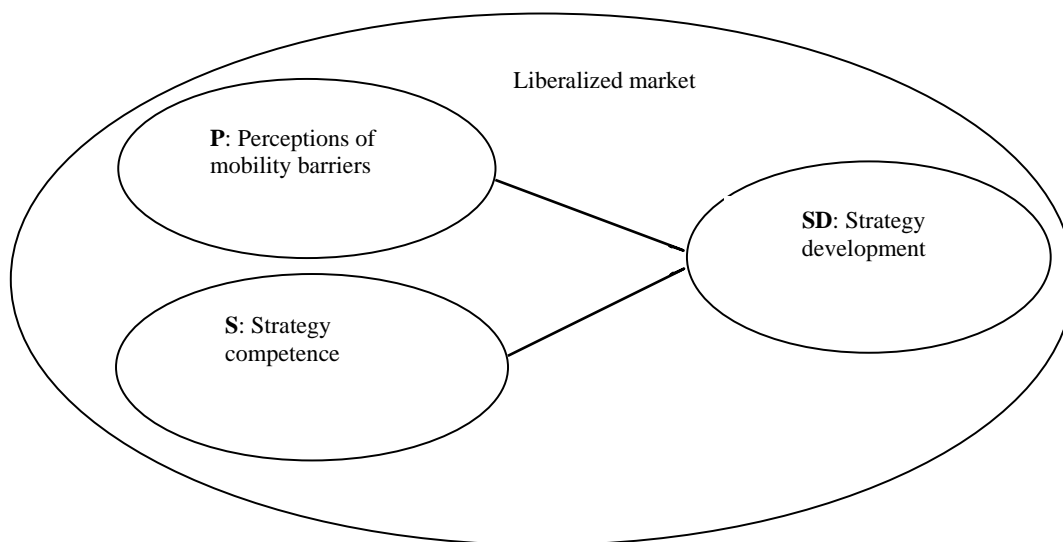


Figure 5: The Sequential Strategy Development model

The external environment the company operates in, here the liberalized electricity market, is studied through perceptions of mobility barriers. Strategy competence addresses the internal environment through the two dimensions of business relatedness and market experience. Perceptions of mobility barriers combined with a company’s strategy competence are associated with the company’s strategic development. In this case, liberalization creates market changes for incumbent firms, and a company’s internal resources and gathered market experience will affect its strategy development over time.

However, the relationship between perceptions of mobility barriers and strategy development, as well as strategy competence and strategy development, may also work in the opposite direction. Hence, there is an interaction in the associations since a company's strategy development also is related to how mobility barriers might be perceived over time, as well as how strategy competence might change. By using this model over a period of time, it should be possible to catch external and internal changes and thus explore a company's strategy development.

4 Methodology

This section presents the methodology applied in this thesis. To begin with, the research process is described and visualized. Next, the selected design is explained and discussed, followed by a presentation of how the collection of data and analysis was conducted. Finally, quality measures are discussed in terms of validity and reliability.

4.1 Approach

The first phase of this thesis involved a study of the electricity industry and a literature review of previous research regarding market liberalization and strategy development. When initial knowledge about the problem area had been gained, the research question was formulated. Theoretical frameworks were examined, and a new model was developed. Potential case study objects were screened and three companies selected. Primary data was collected through interviews. The first analysis was carried out when secondary information had been collected and an initial interview had been conducted with all three companies. More interviews were then conducted to confirm and expand the findings. A second analysis was then conducted, founded on both previous and new information. The analysis then formed the basis for generating propositions and conclusions.

Figure 6 visualizes the research process applied in this study:

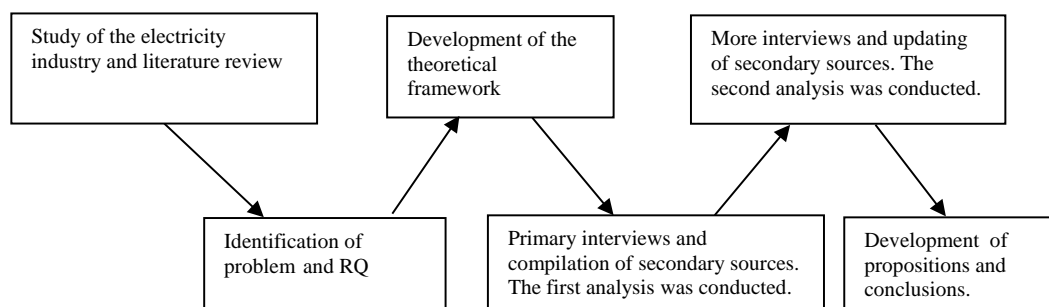


Figure 6: The research process

4.2 Design

This thesis started with a literature review, followed by an examination of theoretical frameworks that have been applied in previous research. A theoretical model was then developed, and interviews were conducted based on this framework. Hence, a deductive approach has been used. Ghauri and Grønhaug (2005) describe deduction as a logical process by which theories and hypotheses based on previous knowledge are accepted or rejected. However, the objective of this thesis was not to test a known premise. Instead, the aim was to explore how companies' strategies have developed following liberalization. Thus, a theoretical model was applied to conduct the empirical study and to generate propositions that might be tested at a later stage. Accordingly, relevant variables

were not identified to begin with, as the aim was not to test which factors have affected strategy development but to explore *how* the strategy has developed. A qualitative approach was therefore applied, since it would facilitate an examination of the development of companies' strategies. A qualitative approach allows the observer to interpret observations to determine the kinds of phenomena being studied and whether there are any characteristic features (Wallén, 1996). Wallén (1996) points out that these kinds of studies are necessary regarding, for example, phenomena that cannot be measured directly, including experiences and feelings. Furthermore, according to Miles and Huberman (1984), qualitative data "are a source of well-grounded, rich description and explanation of processes occurring in local contexts" (p. 21).

The research problem and the aim of the study determined which research strategy should be applied. A case study method was selected since this type of research strategy would facilitate the examination of the companies' strategy development following liberalization. According to Berg (2009), case studies "can easily serve as the breeding ground for insights and even hypotheses that may be pursued in subsequent studies" (p. 329). The choice of using case studies is also in line with Yin's (2009) guidelines for applying this research strategy: "In general, case studies are the preferred strategy when (a) 'how' or 'why' questions are being posed, (b) the investigator has little control over events, and (c) the focus is on a contemporary phenomenon within a real-life context" (p. 2). The research question in this study is a typical *how* question. The goal is to explore how companies' strategies have developed following liberalization. Strategy development can be seen as a phenomenon occurring in a context comprising the electricity market. When using case studies, theory development is part of the design phase, regardless of whether the aim of the study is to develop or test theory (Yin, 2009). In this thesis, an overview of theoretical frameworks was pursued before starting to collect data, resulting in the development of the research model. Other related qualitative methods do not specify any theoretical propositions before collecting the data, according to Yin (2009). The overall research design thus functions as a guide when the researcher is deciding what data to collect and how to analyze it (Yin, 2009).

The objective of the study is to explore strategy development since the liberalization in 1996 up until 2013. This implies that a longitudinal study is required, which means that the same case is studied at two or more points in time (Yin, 2009). This study started in 2008, and data collection in the form of interviews and secondary data was a continuous process between 2008 and 2013. The data collected before 2008 is of a retrospective nature, focusing on events that happened in the past. According to Marshall and Rossman (1999), a historical analysis of records and accounts is an appropriate approach to learn about precedent occurrences. Hence, the aim was to follow each company for a longer period of time and gather as much information as possible about its strategy development. The unit of analysis in this study is the organization. The thesis includes three case studies in the form of companies. By collecting information about an organization, the researcher can gain insight about how it works (Berg, 2009). Hence, by gathering information about

electricity trading companies, knowledge about those companies' strategy development can be obtained.

4.3 Data collection

Yin (2009) mentions six sources of evidence that are most common when doing case studies: documentation, archival records, interviews, direct observations, participant observation, and physical testing. The last three were not used in this thesis. The reason is that direct and participant observations were not feasible in practice owing to limited direct access in the form of, for example, participation in committee meetings where strategic decisions were made. Physical testing was not applicable for the kind of study undertaken in this thesis. However, the remaining sources of evidence—documentation, archival records, and interviews—have all been used in this thesis. The choice to use several sources was made to obtain as comprehensive information as possible.

4.3.1 Selection of case study companies

Selection criteria differ when doing case studies depending on the aim of the study. The aim may be to have case companies that are as ordinary as possible, thus being highly representative, or to study a nonstandard case that has been particularly successful or problematic (Lundahl and Skärvad, 1999). The aim in this study is to have companies that are as ordinary as possible. However, since there are more than 100 electricity trading companies in Sweden, those companies' characteristics differ a lot. Therefore, the choice was made to include two companies with different backgrounds in terms of company size, duration in the electricity market, and owner structure. However, since it became apparent that there was an imbalance between the amounts of information available between the two companies, a third company was selected. Furthermore, using several case studies creates more confidence in the results (Miles and Huberman, 1994). At the same time, according to Silverman (2005), researchers applying a qualitative design often use a small number of cases, thus sacrificing scope for detail. Including more companies in this thesis was not feasible due to limited time constraints since the focus was on depth, not quantity.

The first phase of the empirical study involved gathering background information about potential companies. To begin with, the companies' home pages were screened to identify suitable study objects. For convenience, companies having a high degree of accessibility, with regard to both secondary information collection (to complement the material gathered through interviews) and geographical proximity, were selected. Bixia AB was chosen since this company had an informative home page and was located in the nearby area, an advantage since it made it easier to meet the interviewees in person. Bixia was established almost at the same time as the electricity market was deregulated. It was owned by Swedish energy companies and had about 300,000 customers. The second company to be selected, Värnamo Energi AB, had a different background; the company had operated in the energy sector for a long period of time (since 1955) and was 100%

owned by the municipality of Värnamo. The customer stock consisted of about 10,000 electricity trading customers. The third company to be selected, Alvesta Energi AB, had also been active in the energy sector for a long time (originating from Ohs Powerstation built in 1899). The company was owned by the municipality of Alvesta and had about 5,000 customers. Bixia thus represented a large firm, owned by several energy companies, whereas Värnamo Energi and Alvesta Energi represented small, municipality-owned companies.

4.3.2 Primary sources

The initial contact with the case study companies included a short presentation of the study to inform the managing director what the study was about since decisions had to be made regarding, for instance, which persons should be interviewed. It was important to make sure that the interviewees were aware of the aim of the study and thus had the knowledge and desire to assist with the needed information. A letter of intent was sent to the managing directors, including a brief project introduction and study objective (see appendix 1, “Example of Letter of Intent”). It was thereafter up to the key decision maker to decide who should participate in the interview. The first case study company had three interviewees: the managing director for Bixia, the business development manager, and the managing director for Bixia Energy Management. The second case study included an interview with the marketing director and the business development manager, and the third case study had two interviewees in the form of the managing director and marketing director. Considering the interviewees’ experience and key positions in the companies, they all had comprehensive knowledge about the issues they were being interviewed about. Yin (2009) points out the importance of not becoming too reliant on the key interviewee. This hazard was avoided by using different interviewees in the case studies, in addition to using secondary sources.

Primary information was collected through personal interviews with a key decision maker (or key decision makers) involved in each company’s strategic development. A personal meeting with the key decision maker is an opportunity to get in-depth information, to clarify ambiguities, and to examine areas of uncertainty. In general, face-to-face interviews seem to have a higher degree of reliability than open interviews conducted by telephone, according to Jacobsen (2002). At the same time, the author points out that it is important to be aware of the “interview effect” that might exist in a face-to-face interview in the form of body language and facial expression, and hence minimize this impact as much as possible. A face-to-face interview was the preferred option in this thesis since this approach facilitates a better connection and understanding between the interviewer and interviewee, who, hopefully, provides more thorough answers to each question and thus deeper knowledge.

Another choice that had to be made was whether the interviewees should be informed in advance about the aim of the interview. According to Jacobsen (2002), this issue is important primarily if the topics that are going to be covered are considered to be

sensitive for the interviewee. This was not considered to be a problem in this study. Another disadvantage with information in advance is that the interview might become less natural since the interviewee may already have thought through the answers. On the other hand, this situation could be beneficial as well since the interviewee has had the opportunity to think through the questions and may be able to give more-detailed information. It can also make the interviewee more comfortable to know what the interview is going to concentrate on. In this study, the choice was made to give the interviewees a short overview of which areas were going to be covered in the interview to give them the chance to prepare and to make them more comfortable. Thus, the interview structure was e-mailed in advance to the interviewees. It was up to the interviewee to decide whether he/she wanted to be anonymous and whether the interview could be recorded. None of the interviewees chose to be anonymous, and all accepted being recorded during the interviews. E-mail correspondence and phone calls were also used when needed. The number of interviewed persons, as well as the number of interviews, differed between the companies owing to variation in company structure.

Lundahl and Skärvad (1999) distinguish between types of interviews according to the level of standardization. A high level of standardization implies that the type and sequence of questions are predetermined, whereas a low level of standardization gives the interviewer the ability to adapt the questions according to how the situation develops. The standardized interview is more suitable if the goal is to perform a quantitative study. Interviews that are adapted are the most appropriate in qualitative studies since the aim of those studies is to collect information about “soft data,” like people’s thoughts about the motives behind decisions. It is important to consider what result is desirable when selecting an interview type. A combination of the two types is also possible, a so-called semistandardized interview, in which a few similar questions are raised to all interviewees, whereas the remaining questions are adjusted to the specific situation (Lundahl and Skärvad, 1999). This kind of interview offers the opportunity to both compare some answers between companies and avoid missing important information. Furthermore, it also allows the interview to be more like a dialogue. According to Gillham (2000), a semistructured interview is the preferable choice when doing a case study since it offers the opportunity to collect important data. The semistandardized interview was the type of interview used in this thesis; the case study questions proceeded from the theoretical framework but remained open ended depending on how the interview proceeded. The interview guide is presented in appendix 2.

4.3.3 Secondary sources

Secondary information has also been gathered, both as a preparation for the case study but also as a complement to the primary information. Data collection from secondary sources was conducted through documents like internal reports (received at the interviews) and magazine articles. Archival records have also been used in the form of annual reports. Yin (2009) points out that in case studies, documents are used primarily to confirm information from other sources. According to Jacobsen (2002), the use of both primary

and secondary data facilitates internal control; data collected from different sources can support each other and consequently strengthen the results but also reveal contrasts. The secondary data can also be compared with the data collected through primary interviews, which may enable the findings to be placed in a more general context (Saunders et al., 2009). Saunders et al. (2009) also add that the use of secondary sources many times is the only way to do longitudinal studies, owing to time constraints. The secondary information gathered in this thesis has been used for all of the abovementioned aims: the primary information collected through interviews has been confirmed by the information gathered in documents; the use of several sources made it possible to reveal whether the data support or contrast each other; and the use of secondary sources may have increased transferability and has also made it possible to use a longitudinal design.

4.3.4 Data collection procedure

In Table 5 the way the data was collected in the form of primary and secondary sources is displayed.

Table 5: Data collection procedure

Company	Interview 1	Interview 2	Interview 3	Interview 4	Interview 5	Other sources
Bixia AB Date: Interviewee: Title: Length: Type of interview:	8 June 2009 Tom Istgren Managing director, Bixia 1 hour Face-to-face	8 June 2009 Lena Svensk Business development manager, Bixia 2 hours Face-to-face	6 October 2009 Lena Svensk Business development manager, Bixia 45 minutes Telephone interview	26 November 2013 Lena Svensk Managing director, Mjölby-Svartådalen Energy 3 hours Face-to-face	4 February 2014 Stefan Braun Managing director, Bixia Energy Management 1 hour Face-to-face	Östkraft Annual Report: 2002; 2003;2004; 2005; 2006; 2007; 2008, Bixia Annual Report: 2009; 2010; 2011; 2012 Bixia Internal documents, received 8 June 2009. Bixia's home page (retrieved 2011– 2013)
Värnamo Energi AB Date: Interviewee: Title: Length: Type of interview:	22 February 2011 Lars Ljungqvist Marketing director 3 hours Face-to-face	10 January 2014 Lars Ljungqvist Marketing director 2 hours Face-to-face	10 January 2014 Nicklas Lundin Business development manager 1 hour Face-to-face			Värnamo Energi AB Annual Report: 1998; 1999; 2000; 2001; 2002; 2004; 2009; 2010; 2011; 2012 Värnamo Energi's customer magazines: <i>Vår Energi</i> no.1, 2010; no.2, 2008 Värnamo Energi's home page (retrieved 2011–2013)
Alvesta Energi AB Date: Interviewee: Title: Length: Type of interview:	17 March 2011 Gert Bengtsson and Bengt Carlsson Managing director and marketing director 2 hours Face-to-face	13 January 2014 Gert Bengtsson Managing director 1.5 hours Face-to-face				Alvesta Energi AB Annual Report: 1998; 1999; 2000; 2001; 2002; 2003; 2004; 2005; 2007; 2009; 2010; 2011; 2012 Alvesta Energi's home page (retrieved 2011–2014)

4.4 Operationalization

The aim of the study is to explore the association between mobility barriers and strategy development, as well as between strategy competence and strategy development. These three concepts are all closely linked to the research question and have consequently been divided into several components based on previous research and theory, as shown in Table 6:

Table 6: Operationalization constructs

Concept	Sources	Component content
Mobility barriers	Bain, 1956; Caves and Porter, 1977; Porter, 1979; 1979a; 1980; Gable et al., 1995	<ul style="list-style-type: none"> • Competitors • Government policies and regulations • Capital requirements • Switching costs • Product differentiation • Cost advantages • Expected retaliation • Skills • Need for research and development
Strategy competence (Business relatedness/market experience)	Pehrsson, 2002; 2004; 2006; 2008; 2008a; 2008b; Prahalad and Hamel, 1990; Farjoun, 1998; Devine, 2010	<ul style="list-style-type: none"> • Core competence • Relatedness to core competence • Relatedness between activities/resources • Accumulated market experience • Early/late entrance • Competitor analysis
Strategy development	Williamson, 1971; Porter, 1980; 1985; Lindblom and Andersson, 1998; Barney, 2002; Hill, 2003; Schlegelmilch and Ambos, 2004; Delmas and Tokat, 2005; Delmas et al., 2007; Norman et al., 2007	<ul style="list-style-type: none"> • Cost leadership strategy • Product differentiation strategy • Focus strategy • Vertical integration • Organic expansion or expansion through mergers/acquisitions

4.5 Data analysis

In the first step of the analysis, the case study companies' perceptions of mobility barriers, strategy competence, and strategy development during the first and second phase were studied. The result was then coded and compiled into a table. The table outcome was visualized in a figure, which displays the association between perceptions of mobility barriers and strategy development, as well as the association between strategy competence and strategy development. In the second step, the result from the individual analysis was discussed with interviewees from each case study company to validate the findings and to correct potential misunderstandings. These meetings also offered the opportunity to discuss the strategy development during phase three. During the third step, the analysis was reviewed for all three phases, and the interviewees once again validated the result. In addition, an across case study was performed to search for similarities/differences and to reveal any visible patterns. The last step included the development of propositions based on the findings from the analysis. In the following section, a description of the data analysis in terms of single/comparative case studies and coding is presented.

4.5.1 Single case studies/comparative case studies

According to Eisenhardt (1989), analyzing the data collected through case studies is perhaps the most difficult and least codified stage when building theories from case studies, and there are probably as many approaches as there are researchers. However, Eisenhardt (1989) clarifies that the overall idea is to become familiar with each case, which facilitates the unfolding of each case company's unique characteristics and patterns. After each case has been studied, a cross-case analysis can be conducted to search for patterns. To succeed in conducting a cross-case comparison, it is important to look at the data in several ways—for example, by defining categories and then looking for both intergroup similarities and differences (Eisenhardt, 1989).

To begin with, each case was analyzed and interpreted individually to identify its unique characteristics, which is in line with Eisenhardt's suggestion. An across-company study was then performed. This stage involved both a comparison between the different cases' indicators, components, and concepts and a search for associations and patterns.

4.5.2 Coding scheme

The concepts and components identified above are not possible to measure directly but have to be identified in other ways. The first categories are naturally created by the interview guide since the questions belong to different themes. Hence, in this sense, it is the different subjects in the interview guide that compose the first categories (Jacobsen, 2002). However, since these categories usually are broad and general, it is necessary to define several subcategories in more detail to create any meaning (Jacobsen, 2002). Hence, the concepts and components have to be reconstructed to make the theoretical concepts measurable, according to Jacobsen (2002). The mode of procedure used in this thesis is in line with the recommendation of Jacobsen (2002) to define concepts by using

components. The components were in turn defined by using indicators. An indicator “is employed *as though it were a measure of a concept*” (Bryman and Bell, 2007, p. 159). Two levels were used to describe each concept in a more objective and measurable way. The reason was to meet the critique frequently posed regarding qualitative studies that the analysis process often is omitted. The applied methodology is commonly missing in qualitative research due to a lack of a common procedure (Miles and Huberman, 1984). To handle this issue, a coding scheme was developed for data analysis.

The concepts were divided into several components, and their essences were captured by posing a number of questions. The number of indicators for each component has no relation to its importance. The indicators are presented in Tables 7, 8, and 9.

Table 7: Indicators for perceptions of mobility barriers

	Component 1	Component 2	Component 3	Component 4	Component 5	Component 6
	Competitors	Need for capital for expansion	Government policies, regulations	Lack of switching costs	Skilled employees	Need for research and development
Indicators	The number of competitors on the electricity market The existence of main competitors The development of competition Other firms' reactions to competition Cooperation with competitors Competitors' cost advantage Competitors' product differentiation	The importance of capital requirement	Official authorities' requirements	Customers' loyalty to their current suppliers Costs if a customer switches to another supplier	Access to skilled employees	Need for investments in R&D

Table 8: Indicators for strategy competence

	Component 1	Component 2	Component 3
Business relatedness/ market experience	Core competence	Relatedness	Market experience
Indicators	<p>Existence of a competence difficult to imitate</p> <p>Existence of a competence that greatly contributes to customers' benefit from the product</p> <p>Existence of a competence that provides potential access to a wide variety of markets</p>	<p>Relatedness between core competence and other business areas</p> <p>Product relatedness between main product and other products regarding administrative knowledge</p> <p>Product relatedness between the main product and other products regarding customer service</p> <p>Product relatedness between the main product and other products regarding the purchase process</p> <p>Similarities on the end-customer side</p> <p>Similarities regarding industry structure</p>	<p>Significance of number of years in the electricity market</p> <p>Significance of early entrance</p> <p>Competitor analysis</p>

Table 9: Indicators for strategy development

	Component 1	Component 2	Component 3	Component 4
Strategy development	Cost leadership strategy	Differentiation strategy	Focus strategy	Expansion through mergers/acquisitions, strategic alliances, or organically
Indicators	Cost advantages	<p>Linkages between functions</p> <p>Location</p> <p>Product mix</p> <p>Links with other firms</p> <p>Reputation</p>	Specific customer group	<p>Expansion through acquisitions/mergers</p> <p>Vertical merger</p> <p>Horizontal merger</p> <p>Product extension merger</p> <p>Market extension merger</p> <p>Conglomerate merger</p> <p>Joint venture</p> <p>Organic expansion</p>

To rate each indicator's importance in relation to strategy development, a multi-item coding scheme was used. The development of the coding scheme was inspired by the use of Likert scales, which can be applied to investigate a cluster of attitudes, according to Bryman and Bell (2007). The use of a multi-item strategy is preferred over nominal scales or single-item scales, which are often used in strategy research (Venkatraman and Grant, 1986). A multi-item Likert scale was used by Dess and Davis (1984) to identify the importance of competitive methods in relation to the firm's overall strategy. The authors mailed a questionnaire to the managers involved in the company's strategic decision making, in which they were asked to indicate the importance of the competitive methods in relation to the company's overall strategy based on Porter's three generic strategies (1980). The researchers used a five-point scale ranging from 1 "Not at all important" to 5 "Extremely important." The competitive methods were then ranked as most or least important in relation to the generic strategies.

In this study, several levels were considered before settling on five. Five levels were considered to be most appropriate to catch the levels of importance. The coding scheme items applied in this study were thus rated using an ordinal scale from 1 to 5 as displayed below:

- no importance = 1–1.5
- little importance = 1.6–2.5
- some importance = 2.6–3.5
- important = 3.6–4.5
- very important = 4.6–5

The concepts were divided into several components, which in turn were divided into several indicators. The indicators were then rated according to their perceived level of importance in each of the three time periods. For example, the component *competitors* was divided into five indicators. The first indicator concerned the number of competitors in the electricity market. If the number of competitors was very important for the company's strategy development, this indicator was given the highest rating, very important (5); if it had no importance, the indicator was rated 1, and so on. The same procedure was applied to the other indicators; for example, if capital requirements were a very important factor for the strategy development, this indicator was rated 5. All items within a component group were added and divided by the number of indicators, showing an average value of the component's importance. All components within a concept were added and divided by the number of components, thus giving an average value of the concept's importance for strategy development.

Since the aim was to study strategy development over time, from the liberalization in 1996 until today, it was necessary to conduct a longitudinal study. It was not decided at the beginning how this should be conducted, and several alternatives were tested. The first approach was to study strategy development based on specific strategic events at each

company between 1996 and 2013. However, this approach turned out to be difficult to apply since several of the events that had been important for strategic development were hard to relate to a specific point in time. Some events were of a more evolutionary character. For instance, one event that had played an important role in one company's strategy development was growth through acquisitions, and these acquisitions had occurred on different occasions. Furthermore, the interview questions did not focus on any specific event but were of more general character when it came to an event's importance for strategy development, which also made it hard to assign the factors to specific events afterward.

Another approach that was considered was to examine whether there had been any external events that were likely to have affected the companies' strategy development. Those events could potentially have been equal for all three companies. However, no such events could be identified. Therefore, when the first analysis was conducted, it seemed like the most applicable solution was to divide the examined period into two phases: 1997–2003 (phase 1) and 2004–2009 (phase 2) for Bixia (since the interviews were conducted in 2009 and Bixia was not established until 1997), and 1996–2002 (phase 1) and 2003–2011 (phase 2) for Alvesta Energi and Värnamo Energi (since these interviews were conducted in 2011). The second analysis included the time period 2010–2013 (phase 3) for Bixia and 2012–2013 (phase 3) for Värnamo Energi and Alvesta Energi. By dividing the time period into phases, it was possible to identify the importance of each concept during each phase and also to compare the different phases.

In the analysis, for each company and time period, each indicator, component, and then concept was examined to reveal its importance for strategy development. A comparison between the three time periods then followed. The same procedure was also carried out for all three companies in an across-company analysis. In this analysis, the ratings for the indicators, components, and concepts were averaged for all three companies. The importance of each for strategy development could then be identified and compared for the three time periods.

4.6 Quality measures

The concepts of validity and reliability are often used to determine a study's correctness and credibility, and must consequently be taken into consideration when conducting a scientific study.

4.6.1 Validity and reliability

When conducting a case study, it is important to make sure that the study investigates what it is intended to examine. According to Yin (2009), four tests are commonly used to assess the quality of any empirical social research: internal validity, construct validity, external validity, and reliability.

Internal validity

Internal validity was ensured in this study by the selection of a framework that allowed the researcher to explore companies' strategy development. The components of the research model were used to collect relevant information for the study objective.

Construct validity

The requirement of construct validity was fulfilled through the following actions:

- Triangulation was achieved by the use of multiple resources for data collection like face-to-face interviews, telephone interview, annual reports, internal documents, journals, and home pages.
- The results from the first analysis were reviewed together with interviewees from each of the three companies, and the interviewees were asked to verify that the information compiled through the interviews was correct; thus, possible misunderstandings could be clarified. The final presentation of the empirical data was also e-mailed to one key interviewee.
- The research process was reviewed and discussed with peers at regular intervals.
- There was transparency regarding the research process.

External validity

The external validity was achieved by conducting several case studies, as well as by motivating company selection and describing the research context. If a case study is done properly, it should be possible to generalize the findings to a larger group, irrespective of whether the study includes an individual, group, or event (Berg, 2009). However, according to Berg (2009), this assumes that human behavior is predictable. Yin (2009) explains that case studies are generalizable to theoretical propositions, and the goal is accordingly to expand and generalize theories.

Reliability

Reliability measures to what extent the measurements are accurate. A study replication should give the same results. Objectivity is often closely linked to the idea of replication, according to Berg (2009). A researcher will inevitably make some subjective choices when doing research, but the aim should be to conduct a study that would generate the same results if repeated by another researcher (Berg, 2009). Hence, the author points out the importance of explaining the research procedures so the study can be replicated by another researcher. Gibbert et al. (2008) also stress transparency and the possibility of replicating the study. These issues were taken into consideration in this thesis, and an interview guide was created based on the theoretical framework. The formulation of interview questions was also discussed with colleagues to make sure that the correct criteria were examined. In this way, the interview guide made sure that the correct information was collected in accordance with the research model. Furthermore, a research protocol was established, and transparency throughout the development of this thesis will enable a better understanding of the research process and hence an assessment of its correctness.

Table 10 summarizes how the criteria discussed above were considered in this study:

Table 10: Validity and reliability constructs

Adapted from Gibbert et al., 2008

Internal validity	Construct validity	External validity	Reliability
A comprehensive theoretical framework was developed to enable an examination of the concepts' associations.	<p>Data triangulation: both primary and secondary information were used in the form of interviews (carried out by the researcher) and the use of archival data (like internal documents, annual reports, web pages, etc.).</p> <p>Peers reviewed transcripts and drafts.</p> <p>Key interviewee/interviewees at the company was/were asked to review the information based on interviews and archival data.</p> <p>There was a thorough explanation of how the data was collected and analyzed.</p>	<p>Several case studies were conducted.</p> <p>The reason for choosing certain companies has been explained and motivated.</p> <p>The case study context, ergo the electricity industry, has been presented.</p>	<p>A case study protocol has been established.</p> <p>Each organization's name is mentioned explicitly.</p>

5 Empirical description

In this chapter, a description of the European and Swedish electricity industry is introduced, and the case studies consisting of three companies—Bixia AB, Värnamo Energi AB, and Alvesta Energi AB—are presented.

5.1 The liberalized electricity industry

The electricity market is complex (SOU, 2014:37), and it thus seemed necessary to have a background description of the electricity industry in the EU and in Sweden. Furthermore, as this thesis has a longitudinal design, it is appropriate to include occurrences that have been important for the development of the industry during the study period. The background description thus includes the development and important milestones between 1996 and 2014.

5.1.1 The electricity industry in EU

In most countries, state-owned or strongly regulated market actors that utilize scale economies in the interest of society have characterized the electricity industry (Lindblom and Andersson, 1998). Electricity distribution is very capital intensive, with a cost structure consisting of a large share of fixed capacity costs and a minor share of variable costs, and the industry has thus traditionally been classified as a natural monopoly, according to Lindblom and Andersson (1998). The authors mention France and England/Wales as examples; in France only one nationwide company existed in 1998 and was responsible for power production, transmission, and distribution of electricity. Almost the same scenario has been common in other countries as well, like in England and Wales, where all production and transmission were state owned and integrated within one organization, before deregulation started in 1990. However, there has been a worldwide change in the electricity industry toward market liberalization, inspired by positive outcomes from deregulation in similar industries. Thus, by decreasing vertical integration and unbundling activities, the industry has opened up to competition in supply and generation of electricity (Meeus et al., 2005). The liberalization process of the European electricity industry has created a new situation for the electricity companies and their strategies since several companies, for the first time, have been forced to face competition among incumbent firms and also from newcomers (Schiavone, 2010).

Legal framework

Norway and Great Britain started the liberalization process of their electricity industries in 1990, soon followed by other European countries owing to directives from the EU (Schiavone, 2010). Since energy is part of the internal market in the EU, the Commission has a clear goal for a common energy market through EU legislation and EU Commission strategy, which defines a framework for liberalization, integration, and harmonization of the European power markets. The aim is to increase competition and efficiency, which are beneficial both for customers and for society as a whole (Fortum, 2009). The directives

have set the guidelines for how an internal electricity market (IEM) should function. However, countries have also been given the liberty to make their own decisions about the market development within this framework (Meeus et al., 2005).

The electricity market commission (96/92/EG) was introduced in December 1996. The intention was to establish common rules for production, transmission, and distribution of electricity and to allow consumers to buy electricity from any supplier. This was replaced by a new commission in 2003 (2003/54/EG and 2003/55/EG), including common rules for the internal market for electricity and gas. According to this new commission, the market for electricity and gas was to be fully opened for industrial customers by July 1, 2004, and by July 1, 2007, for household customers (Elmarknad, 2004). The Nordic countries, Great Britain, and Germany are seen as having completely deregulated markets, according to the electricity market commission (Elmarknad, 2004). However, despite ongoing harmonization, there are still large differences between the members of the EU. In their article from 2005, Meeus et al. point out that there is a need for improvements to create a functioning internal market for electricity in EU. The authors argue that it is important to make sure that there is an appropriate information flow between the interconnector transfer capacity markets and the wholesale energy market. This would result in a limited ability to use market power, and the energy markets would also be better aligned. Furthermore, the authors also stress the importance of investments in the grid to avoid current bottlenecks impeding a common market in Europe. Schiavone (2010) points out that the market structure differed among countries before it was liberalized, affecting market development; some countries were dominated by a public or private monopoly whereas others were characterized by fragmentation between companies.

5.1.2 The Swedish electricity industry

Electrification in Sweden started more than 100 years ago, and at that time, the electricity trading companies represented both private manufacturing companies and municipal utilities (Lindblom and Andersson, 1998). Naturally, the two types of companies had a different focus; the manufacturing companies were developed to provide their own production with electricity, whereas the common utilities functioned as electricity providers for households, according to Lindblom and Andersson (1998). The authors describe the industry as rather closed for new entrants for nearly a century for different reasons, such as the fact that one actor usually had a local monopoly within a specific geographic area since the company controlled the local grid, as well as the regional grid in some instances. Furthermore, the 12 largest electricity producers controlled the national grid for a long period. Owing to the difficulties new companies had gaining access to the grid, this situation impeded competition and market entry (Lindblom and Andersson, 1998). This type of monopolistic situation seems to have been quite typical for the electricity industry, and according to Joskow and Tirole (2000), in the past the industry has been dominated by vertically integrated companies responsible for production, transmission, and supply.

However, the electricity industry opened up during the 1990s. The first step in this direction started in 1992, when the transmission organization of the Swedish national grid was established, with the mandate to guarantee free access to the national grid. This first action was followed by the introduction of the new Electricity Act in 1996, which also allowed for third-party access to the local and regional networks (Lindblom and Andersson, 1998). Production and trade of electricity was opened for competition as of January 1, 1996. In spite of this, the process of switching electricity supplier was complicated since households were forced to have hourly metering. In this sense, for most households, the market was first available in reality from November 1, 1999, when this requirement was withdrawn (SOU, 2002:7). However, it is not the entire electricity industry that was subject to deregulation. It is therefore important to distinguish between the production and supply of electricity, and the transmission of electricity, since the network operation still is a regulated monopoly. A company can be involved in both business areas, but it cannot be the same *legal actor* that is responsible for both operations (SOU, 2002:7). Figure 7 illustrates the relationships between the different actors; the bottom part displays the physical transfer of power and the upper part the financial transfer:

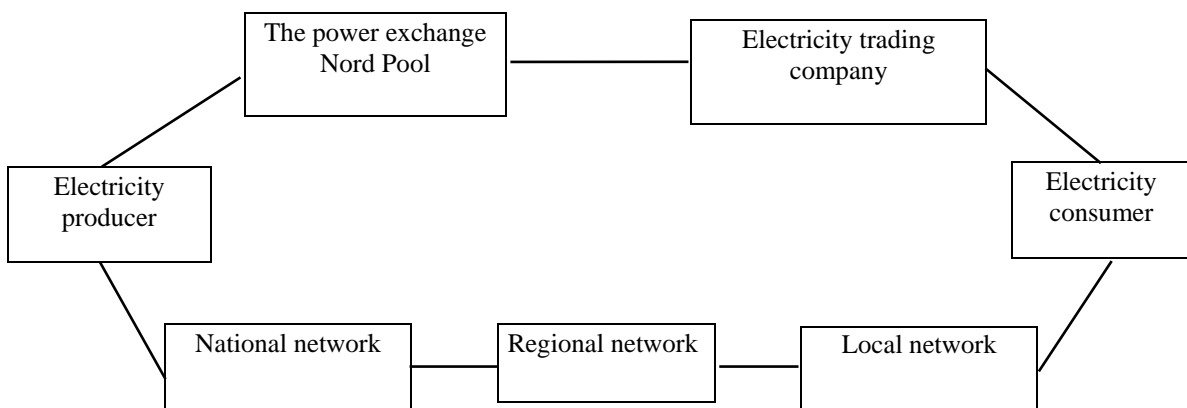


Figure 7: Actors in the electricity market
Adapted from Swedish national grid, 2009.

Electricity trading companies

The electricity trading companies purchase electricity from an electricity producer and/or from the Nordic power market, Nord Pool, or produce their own electricity. The electricity is then sold to the electricity user/final customer on the free electricity market in competition with other electricity trading companies. There is no price regulation, and the agreed prices between the supplier and consumer can be unofficial if this is preferred, unless the parties choose to make it public (SOU, 2002:7). The electricity price depends not only on the supply of and demand for electricity but on other factors. The price can vary among customer groups, Nordic countries, and rural and urban areas (Swedenergy, 2014). Furthermore, the electricity market was divided into four electricity areas as of November 1, 2011, and the division may lead to different electricity prices for customers, depending on the part of the country they live in (Swedenergy, 2014).

Since the liberalization in 1996, there has been a change in the market structure. The number of electricity trading companies has decreased faster than the number of network companies. The decrease of electricity trading companies seems to have two explanations (SOU, 2002:7):

- 1) Several (preferentially municipal) electricity trading companies have been sold, and in many cases they have been acquired by large electricity-generating companies.
- 2) A number of jointly owned electricity companies have been established by owners of small and medium-sized enterprises (preferentially municipalities and associations) merging their electricity trading companies.

Nevertheless, new actors have entered the electricity market at the same time by establishing companies or by forming alliances with electricity trading companies. Some companies have also introduced electricity trading through the use of e-commerce. It seems that competition for end customers is mainly between the following types of companies (SOU, 2002:7):

- large, vertically integrated electricity production companies,
- jointly owned companies,
- new actors (described above), and
- a minority of still municipally owned companies or single companies with the ambition to grow on the market. The single companies are typically not tied to buy electricity from a specific producer but purchase it on the electricity exchange market to a large extent.

There are also a number of small and medium-sized enterprises, apart from the types of companies mentioned above, that have chosen a more passive marketing strategy. These companies focus mainly on specific geographic areas and do not conduct any marketing activities to gain new customers outside this limited area. Furthermore, these companies usually cooperate with any of the large electricity producing companies (SOU, 2002:7).

By the end of 2007, there were 120 electricity suppliers (Swedenergy, 2008). In 2014, 119 electricity trading companies could be found on the Swedish Energy Markets Inspectorate homepage (Ei, 2014b). Hence, the number of electricity suppliers seems to be about the same in 2014 as it was in 2007. Additional information regarding the electricity industry is available in appendix 3.

5.2 Case study 1: Bixia AB

The case study is based on information collected from annual reports, the company's home page, internal documents, and interviews. The interviews were conducted with the managing director for Bixia, Tom Istgren, the business development manager, Lena Svensk, and the managing director for Bixia Energy Management, Stefan Braun. Tom Istgren has worked at Bixia since November 2007 and in the electricity industry since 1999. Before starting at Bixia, Tom Istgren was managing director at Katrineholm Energy, and he has also worked at Sydkraft as a business developer. Lena Svensk worked at Bixia for approximately six years. She started as a financial manager and then became head of the business development department. Since June 2011, Lena Svensk has been the managing director for Mjölby-Svartådal Energy, which is one of Bixia's owner companies, and she still holds a position on Bixia's board of directors. Stefan Braun has worked at Bixia since 1998. Between 1998 and 2008, he worked primarily as a key account manager within the sales organization but was also involved in financial trading and risk management. Since 2008 he has held the position as managing director for Bixia Energy Management, and since June 2012 he has been the deputy managing director for Bixia.

5.2.1 Case study 1: General facts about the company

Bixia was founded in 1997, and the vision was to create an alternative on the market to the three dominating international companies (Bixia Internal documents, 2009). The idea was to exert from the local market and to become a pathfinder within this area by focusing on existing requirements and needs. Even though the company has grown since its start-up, it has not interfered with the local touch. The company still regards its strength to be its relationship and collaboration with active local and regional electricity trading companies. In this way, the company keeps a close connection with its customers (Bixia's home page, 2011a). Bixia is the fourth-largest electricity company in Sweden and has about 300,000 customers throughout the country (Bixia Annual Report, 2011). According to Istgren (2009), the changing environment is increasingly dominated by large-scale companies. Consequently, the goal for Bixia is also to grow, both organically and through acquisitions. Bixia strives to be an attractive employer with motivated and engaged staff. The increased growth is expected to contribute to new challenges for employees and also increase their competence. The company has focused on more customized and flexible products, which is strengthening its position on a continuous basis (Östkraft Annual Report, 2008).

Brief facts

Below are some brief facts about Bixia (Bixia Annual Report, 2012):

- Founded in 1997
- Active in electricity trading on Nord Pool since 1999
- Own electricity production since 2009
- Number of employees: 90

Business concept

The business concept is to provide broad and competitive product solutions within electricity trading, to offer attractive products and services to businesses and consumers, and to increase profitability in the customers' value chain. These tasks should be achieved through a knowledgeable and engaged staff, local presence, and high competence (Östkraft Annual Report, 2007).

We create value for our customers in the Nordic countries by offering personal service and the most attractive energy and communication products. (Bixia Annual Report, 2010, p. 4, translated by the author)

Bixia's vision

Bixia uses the slogan "Most value for the customer" (Bixia Annual Report, 2010, translated by the author).

Below follows a more detailed description of the vision (Östkraft Annual Report, 2007):

- To be one of the leading and most successful electricity trading companies
- To have a profitable, strategic market function and to be a trademark for the owner companies regarding electricity trading, mobile telephony, and stationary telephony with dial-up Internet
- To grow primarily through partnership with the objective to represent the fourth power
- To be a long-term supplier through continuous product development and procurement

Bixia's promises

Below are the main points that describe the company's promises (Bixia Internal documents, 2009):

- Delivering the most attractive energy and communication products
- Continuous development and an attractive packaging of product offers
- Innovative product development to expand the offers
- Leaders on invoicing subscription-bound services
- Providing the best service and honesty in all customer contacts

Milestones in Bixia's development

Important milestones since the company's start-up are presented in Table 11 below:

Table 11: Milestones in Bixia's development

Source: Bixia Internal documents, 2009.

July 1, 1997	Bixia is founded by Tekniska Verken in Linköping and Mjölby-Svartådalens Energi.
January 1, 1998	Oxelö Energi becomes a partner.
January 1, 1999	Växjö Energi becomes a partner.
April 1, 1999	Bixia is balance responsible and a direct actor on Nord Pool.
February 1, 2000	Borgholm Energi becomes a partner.
January 1, 2001	Västerviks Kraft Elförsäljning AB is acquired.
July 1, 2001	Katrineholm's electricity trading company KEFAB is acquired.
January 1, 2003	Bixia Energy Management AB is founded.
May 1, 2004	Fyrstad Kraft AB is acquired.
May 1, 2004	Trollhättan Energi and Uddevalla Energi become partners.
January 1, 2007	Höglands Energi is acquired.
January 1, 2007	Nässjö Affärsverk becomes a partner.
October 1, 2007	Partners buy shares from Uddevalla Energi and Trollhättan Energi.
May 1, 2008	Bixia's environmental foundation is created.
June 18, 2008	A decision about a wind turbine company is made by the board of directors.
October 9, 2008	Bixia opens the Stockholm office in World Trade Center.
May 11, 2009	Bixia opens an office in Gothenburg.

The owners' business description:

Ten Swedish energy companies own Bixia. A description of these companies is provided in appendix 4.

The owners want (Bixia Internal documents, 2009)

- to be an alternative to the international enterprises and to contribute to competition on the electricity market,
- to be a company that has a democratic public control and generates earnings for the owners,
- to keep local offices that create jobs, as well as maintain and increase local competence,
- to offer the possibility for municipalities to have an electricity trading company with low risk,
- to provide its owners with the opportunity to cooperate to create synergies within other areas,
- to create the most value for the customer by
 - lowering living costs for household consumers,
 - increasing the competitiveness for business customers, and
 - providing the best service and honesty in meetings with customers
- to base the business on a long-term, responsible, and environmentally friendly value base.

Environment

Bixia purchases a majority of its power from renewable sources, like wind and hydroelectric power. The company is one of the electricity trading companies in Sweden that buys the largest part of electricity directly from wind power producers and small-scale hydroelectric power stations. The wind turbine power plants the company is doing business with are located mainly in Skåne, Östergötland, Västergötland, and Öland (Östkraft Annual Report, 2007). The electricity purchase stemming from wind turbine parks and small-scale hydroelectric power stations has increased 2.5 times since 2003. In 2007, about 68.5% of Bixia's electricity was constituted by renewable energy, 14.9% by nuclear power, and 16.6% by fossil energy sources and peat (Bixia Internal documents, 2009). The purchase of electricity from local producers also increased in 2010 by 40% (Bixia Annual Report, 2010). In 2009, Bixia extended its investment in sources of renewable energy with sun power. Solar technology was available for customers from 2010, after which customers could produce their own electricity through sun energy (Bixia Annual Report, 2010).

To begin with, Bixia operated as a pure electricity trading company without any electricity production. However, the new strategic direction involved an engagement in renewable energy. In line with this, the company started to be involved in renewable electricity production through partnership in a wind turbine company, Höglandsvind AB (Östkraft Annual Report, 2008). Bixia also started its own wind power production and had three plants in 2009 (Bixia Annual Report, 2009). In 2010, four new wind power stations were constructed, and the wind power stations that were constructed during 2009 were actuated (Bixia Annual Report, 2010). In 2011, Bixia became sole owner of Höglandsvind. The objective was to build five new wind power plants, and in 2012 five wind power plants were purchased from Siemens (Bixia's home page, 2013a). In 2012, one third of Bixia's electricity came from small-scale plants (Bixia Annual Report, 2012). To meet many customers' desire to produce their own electricity and to develop renewable sources, a separate company was established. Hence, starting in April 2012, the sister company Bixia ProWin AB included all wind power production (Bixia's home page, 2013a). Bixia also offers wind power shares to the public (Bixia's home page, 2013a).

Currently there is only a limited amount of renewable energy available, and the company thus wants it to increase. This is why Bixia has founded an environmental foundation. Each month, Bixia deposits 0.45 SEK per household customer to this foundation. This corresponds to about 1 million SEK each year. The money is used to sponsor local actors, such as household persons, companies, organizations, and associations, wanting to produce electricity based on sun energy, wind, and water power. In this sense, all household customers are contributing to the production of more renewable energy (Bixia's home page, 2011b). In 2010, 750,000 SEK was taken from the foundation to support 26 small-scale electricity producers (Bixia Annual Report, 2010). In 2012, Bixia distributed about 1 million SEK from Bixia's Environmental Foundation to support small-scale producers (Bixia Annual Report, 2012).

Furthermore, Bixia has created a policy for quality and environment. To continue to take responsibility for the environment, the company is engaged in the following activities (Bixia Internal documents, 2009):

- Product development involving small-scale production
- Increasing purchase from wind power turbines and small-scale hydroelectric power stations
- Customer consultation and counseling on how to increase energy efficiency, for example, through Bixia Energy Web
- Engagement in wind turbine projects
- Environmental foundation to create more renewable energy production

Organization

Bixia Energy Management AB is responsible for all electricity trading, which includes both physical and financial trading with electricity, currency derivative, and electricity certificates. The company has permission from the Swedish Financial Supervisory Authority to be involved in security trading. The internal competence center offers the secure and efficient purchase of electric power on behalf of customers. The energy traders thus administrate customers' electricity portfolios and provide them with analysis and counseling (Bixia Internal documents, 2009). The department for electricity trading is located in Växjö, and 15 people are involved in the trading (Bixia Annual Report, 2012).

Fyrstad Kraft AB was bought in 2004 to offer a local alternative on the electricity market in the western part of Sweden. The company has both household consumers and businesses in its customer portfolio. In 2008, 1.3 TWh was delivered, and the turnover was 736 million SEK (Bixia Internal documents, 2009). The company participated in the Swedish championship 2007 in telephony and customer service (in the Energy and Environment event) and won for the second time. Fyrstad Kraft provides the whole group with its competence in business sales and credit handling (Östkraft Annual Report, 2008). Fyrstad Kraft AB was merged into Bixia in December 2009 (Bixia Annual Report, 2009).

The trademark HöglandsEnergi was included in January 2007 when Nässjö Affärsverk became a partner in the Bixia group. Thus, until 2009 Östkraft group worked with three trademarks: Östkraft, Fyrstad Kraft, and HöglandsEnergi. However, in 2009 the three companies changed their name to Bixia (Bixia Annual Report, 2009). The name change is one step further in the company's effort to strengthen its position in the market. The belief is that the company will be stronger and more efficient with a common name, which also will benefit customers. The local offices will remain since the Bixia model supports smaller local electricity trading companies so they can continue to work in their home markets close to customers (Bixia Annual Report, 2009). In 2013, Bixia had 17 local offices in the following cities: Alvesta, Bjäre, Borgholm, Gothenburg, Laholm, Linköping, Ljungby, Mjölby, Nässjö, Oxelösund, Sandviken, Stockholm, Trollhättan, Uddevalla, Växjö, Ängelholm, and Örebro (Bixia's home page, 2013b).

Both environmental focus and quality focus are integrated into the company's operations and thus contribute to nourishing the trademarks. The company strives for best quality, as little environmental impact as possible, and a good working environment today, as well as in the future. All employees should adhere to the following principles (adapted from Bixia's home page, 2011c):

- Economize with the natural resources.
- Openly show the company's environmental work and environmental influence.
- Comply with regulations and other demands.
- Have a secure, developing, and healthy workplace environment.
- Work proactively to avoid environment-related accidents and negative environmental influence.
- Have a close dialogue with collaborators about quality and environmental demands.
- Meet customers in a competent and service-minded manner.
- Develop products on a continuous basis based on customers' needs.
- Keep order.
- Strive to become better on a permanent basis.

These principles contribute to Bixia's position as a competitive alternative on the market and create long-term and trustworthy relations with the customers.

The core values the employees proceed from are (Bixia Internal documents, 2009):

- Local presence to customers
- Sincerity
- Service mindedness
- Innovativeness
- Responsibility

Products/services

By 2002 the company had noted that commercial customers were requesting unique customer solutions (Östkraft Annual Report, 2002). A tendency recognized on the electricity market was that larger customers, like industries and municipalities, requested qualified ways to purchase electricity. Those types of products, like portfolio administration, place high demands on analysis competence, consulting, and administration (Östkraft Annual Reports, 2003; 2004).

The company has focused on developing new products and also customizing solutions to reach new customer groups. An extract of products/services in the electricity market segment is presented in Table 12:

Table 12: Products/services offered in the electricity market segment

Source: Östkraft Annual Report, 2007; 2008.

Product/ service	Household consumers	Business customers
Fixed electricity rate	X	X
Variable electricity rate	X	X
Mix 50/50	X	X
SERO-el® from wind and water power	X	X
Good energy choice	X	X
Energy web	X	
Elpool fix		X
Elpool flex (electricity management for small and medium-sized companies to allow them to focus on their core business)		X
Portfolio administration		X
Risk management: analysis and counseling		X
KAM (key account management): customized packages for customers with large energy consumption		X

Bixia took one step further to be close to customers by entering the retail trade as the first electricity trading company, and in 2012 Bixia opened its first store in Linköping (Bixia Annual Report, 2012). A second and third store were opened in Växjö and Örebro respectively in 2013 (Bixia's home page, 2013a).

Performance

A comparison during three years (2006–2008) shows that Bixia had a good profit in 2006, and a somewhat lower one in 2007 due to fierce competition and squeezed profit margins (Svensk, 2009a). In 2007, Bixia was the fourth-largest company after Fortum, E.ON, and Vattenfall. However, there are several companies with almost the same amount of market share. In 2008, profits increased again. Some other companies had a negative result, one reason being that they had not signed a price area security. Thus, when the price in Sweden increased owing to a damaged cable and problems at nuclear power plants, among other things, these companies had to pay more for electricity than expected. Since these companies operate with very large volumes and small profit margins, such changes in price have a huge impact on the companies' result, according to Svensk (2009a). However, Bixia's earnings for 2009 were expected to decrease to facilitate a good platform for the future, among other things (Östkraft Annual Report, 2008). Nevertheless, in 2009 the company exceeded its goals regarding growth, despite a persisting depression with falling electricity prices and a reduction by the electricity market as a whole. There has also been positive growth within the telephony segment, and the number of customers within this segment doubled in 2009 (Bixia Annual Report, 2009). In 2012, the company grew organically by 4.6% in sold electricity by working with new business customer contacts, as well as developing existing business customer contacts (Bixia Annual Report, 2012).

Financial information

Financial key figures for Bixia between 2004 and 2012 are presented below in table 13 based on information from internal documents and annual reports:

Table 13: Bixia's financial key figures (million SEK): Bixia group

Source: Bixia Internal documents, 2009; Östkraft Annual Reports, 2008; Bixia Annual Reports 2009; 2012.

Bixia group	1999	2000	2001	2002	2003	2004	2005
Supplied volume (GWh)	2 422	2 816	2 693	2 932	3 135	4 732	5 452
Net turnover	502	509	565	716	1 088	1 512	1 837
Income after financial items	27	-6	-8	12	55	69	55
Balance sheet total	217	224	302	339	380	663	745
Coverage ratio % (solvency)	39	53	53	50	54	35	35

Bixia group	2006	2007	2008	2009	2010	2011	2012
Supplied volume (GWh)	5 741	6 088	5 492	5 359	6 382	5 961	5 752
Net turnover	2 492	2 646	2 968	2 949	3 846	3 341	2 818
Income after financial items	67	27	50	40	25	54	40
Balance sheet total	827	1 037	1 075	1 177	1 573	1 331	1 113
Coverage ratio % (solvency)	36	31	33	32	29	39	39

Important milestones 2008 (Östkraft Annual Report, 2008):

- A new business plan was prepared and implemented with new goals concerning an extensive expansion.
- A reorganization was implemented as a result of the new business plan.
- A new office opened in Stockholm.
- Bixia invested in attracting large business customers and employed more key account managers.
- The business was diversified by introducing mobile telephony with 3G.
- Bixia won SM gold in telephony and customer service through Fyrstad Kraft for the second time.
- The Environmental Foundation was established with the aim to support smaller and local producers of renewable energy. A total sum of about 1 million SEK was distributed that year.
- The Energy Web was launched, which is a tool on the web that gives household consumers guidance in energy efficiency.
- The company invested in renewable energy production by becoming part owners in a wind turbine company.

Important milestones 2009 (Bixia Annual Report, 2009):

- The Östkraft group, with the three brands Östkraft, Fyrstad Kraft, and HöglandsEnergi, changed its name to the joint name Bixia.
- The company paid about 1 million SEK from the Bixia Environmental Foundation to support small and local producers of renewable sources of energy.
- Bixia invested in new products and created a new department for product development.

- The company acquired wind turbine companies and launched three wind turbine companies; Bixia Gryningsvind, Bixia Vind, and Bixia Byggvind.
- The company opened two new offices, one in Gothenburg and one in Helsingborg.
- The company launched Elfond for key customers in the business market segment. Elfond can be compared with fund management within banking. Bixia takes on the responsibility for the customers' electricity purchase, and the customer can consequently take advantage of the staff's unique experience within electricity trading.
- The company expanded the business and launched IP telephony and the insurance Betalskydd (payment protection) in the household segment.
- The company was certified according to ISO 9001 (quality) and ISO 14000 (environment).

Important milestones 2010 (Bixia Annual Report, 2010):

- A new electricity product for private customers, Reko El, was introduced based on locally produced renewable energy.
- A new agreement was closed with Stena Renewable Energy regarding electricity purchase from wind power.
- The construction of four new wind power stations was initiated.
- Kraftaktörerna became part of Bixia, which increased the customer base by 45,000 customers and strengthened the company's position in southern Sweden.
- The wind turbine park in Rodovålen was launched.
- A customer loyalty program was launched together with Bixia's owners.

Important milestones 2011 (Bixia Annual Report, 2011):

- Bixia acquired Hjärtum Energy's customer base, including 1,500 customers.
- Sandviken Energy became new part owner, including 15,000 customers.
- The company acquired Höglandsvind AB from 40% ownership to 100% ownership.

Important milestones 2012 (Bixia Annual Report, 2012):

- Alvesta Energi, with 5,000 customers, became part owner in Bixia.
- Bixia purchased five new wind power plants.
- Bixia formed the sister company Bixia ProWin AB.
- Sjöbo Energy, with 7,000 customers, became Bixia.
- Bixia launched strategic cooperation with actors in other sectors, such as providing Citygross's convenience customers with advantageous electricity contracts and higher-value-added services.
- Bixia decided to concentrate on its core business electricity trading and the company's involvement in renewable power production. The sale of the telephone customer base consisting of 20,000 customers was therefore initiated at the end of the year.

5.2.2 Case study 1: Liberalization

In 1996 the decision was made to deregulate the electricity market to increase competition and lower prices. Istgren (2009) explains that between 1996/1997 and 2000, there was a tendency among companies to focus on their core business; other types of operations were consequently outsourced or divested. The prices did not increase much during the first couple of years. However, as time passed, industry changes came to affect the prices. A Nordic end-customer market began to develop, and relations with Europe increased. European countries have completely different pricing, with much more fluctuation, which in turn raised prices in the Nordic countries as well. According to Istgren (2009), this situation contributed to an increased interest among companies to start their own electricity production, leading to the beginning of a second structural change. Some companies decided to continue producing through the end of the 1990s. At that time, critical voices called on the company to abandon electricity trading since it continued to develop its production as well. However, now it is easy to conclude that companies that maintained their production made a good strategic choice. The companies were able to spread their risk by operating in several activities within the value chain. Pure electricity trading companies are more vulnerable and in many instances face profitability problems (Istgren, 2009).

Svensk (2009a) also points out that before deregulation, customers bought their electricity from a local supplier, like Tekniska Verken in Linköping, which was responsible for providing users with both the network and electricity. It was easier to predict prices at that time since they were based mainly on the rather well-defined purchase cost of electricity from Vattenfall, in addition to Tekniska Verken's power distribution grid costs. Thus, the electricity price followed an index and was more similar to cost price. Today, these operations have been separated, and electricity trading companies without any own production must buy their electricity from Nord Pool or by bilateral contracts. This means that the price must be higher than the purchase price to generate profit for the selling companies. The electricity price has consequently become much more volatile and fluctuates depending on various factors (Svensk, 2009a).

5.2.3 Case study 1: Perceptions of mobility barriers

Competitors

According to Istgren (2009), the first five years after deregulation were characterized by company consolidations. However, the rest of the period after 2000 included a rather stable number of companies. Just after deregulation, Bixia expected the number of electricity companies to decrease significantly and believed that the market should develop toward an oligopoly consisting of only a very limited number of actors (Bixia Annual Report, 1999). However, this did not happen, and currently there are about 150 network companies, 120 electricity trading companies, and several electricity producers. Thus, as Istgren (2009) points out, the number of companies as such is not a problem.

Istgren (2009) believes that a second wave of consolidation is approaching, because several companies have shown losses for a couple of years, which, naturally, is not viable in a long-term perspective. There is still strong competition regarding large tenders, even though the number of companies involved in these tenders has decreased from 20–25 to about 10. Istgren (2009) perceives current competition among electricity trading companies as very fierce, almost destructive. It is therefore not possible to apply only a low-price strategy, since this would lead to losses in the long run. He also points out that companies involved in both production and electricity trading can use the surplus acquired in production to lower prices for electricity below cost price. This strategy can thus be used to beat competitors and to acquire them cheaply. To avoid this kind of scenario, Bixia has chosen a different strategy to compete with other companies.

Svensk (2009a), the business development manager at Bixia, also expects a trend toward consolidation in the near future. However, there have not been any large changes so far, except from Plus Energi, which was divided between Vattenfall and Göteborg Energi, and Dala Kraft, which acquired Hydro Energi in 2008 and increased its customer base by 75,000 customers.

Braun (2014) explains that there have been continuous expectations about company consolidations, but this scenario still has not really happened. Nevertheless, there are three large companies in particular that dominate the industry: Vattenfall, Fortum, and E.ON. He also adds that that competition among incumbent firms has intensified since deregulation. Braun (2014) considers about 10 companies to be Bixia's main competitors. He points out that because Bixia operates on both a local and national level, it competes with companies operating only locally and with companies operating at both levels. Istgren (2009) explains that cooperation in the electricity industry is not very common since there are many competitors and very thin margins. Thus, networking is rather limited.

Consolidation is more common than cooperation in the electricity market.
(Istgren, 2009)

Companies might use each other's key performance indicators to conduct benchmarking on, for example, different types of systems, but in such cases, it is usually a system provider that has gathered and presented those measures. Nevertheless, the Bixia model, in which different companies are joint owners, facilitates cooperation between those partner companies. Svensk (2009a) explains that representatives from the companies meet and discuss issues and thus leverage each other's experiences through this network. She also adds that this model can support smaller companies in the future since it will be hard for those companies to compete on their own, as electricity trading requires a high level of competence.

Svensk (2009a) explains that different companies have applied different strategies. Vattenfall, for example, offers very low prices. This is possible since it can exploit the profits generated from production and thus use this surplus to offer very low prices to its electricity consumers. This strategy is, naturally, not possible for those companies involved only in electricity trading, and they must consequently find other ways to compete.

The price difference among the electricity companies is very small since the profit margins already are very low to begin with. (Svensk, 2009a)

Nevertheless, several competitors still try to use very low margins as a tool to attract customers.

Capital need

According to Istgren (2009), it does not require a lot of capital to start an electricity company, and particularly not if the company has applied a business model in which the customer assumes all the risk. Most services can be outsourced; hence it is mainly marketing costs that capital must be provided for. The problem with this model is that the customers carry all the risks, and it is important to make them aware of this fact. Istgren (2009) explains that with some companies, the customer pays a fixed fee six months in advance, which will not be refunded if the customer, for example, moves out before this period has expired. However, if a company applies a different business model, like Bixia, Nord Pool demands that the companies guarantee that they are able to settle the dispositions they have at the electricity stock exchange. As a result, those companies offering to handle the customer's risk by acquiring positions at Nord Pool must be able to live up to Nord Pool's comprehensive requirements in terms of financial means. Since this requires an extensive demand for capital this consequently functions as an entry/expansion barrier when new companies want to enter the electricity market. However, one way to avoid this situation is to offer only a variable electricity rate to the customer, since the price thus follows the development on the electricity market (Istgren, 2009).

Hence, the business model Bixia applies requires that the company can come up with large bank guarantees, as explained by Svensk (2009b): each time a customer starts a subscription with Bixia, an electricity supply contract is set up, specifying the price the consumer is going to pay for the electricity that is used. The customer price reflects the current price for electricity on the electricity stock exchange market. If the customer has a variable electricity rate, the customer will pay the price according to the changes in the electricity market. However, if the customer has signed a fixed electricity rate, Bixia takes on the risk of price fluctuations, since it is impossible to know how the price will develop in the future. To avoid this scenario, Bixia enters a financial contract with Nord Pool. The contract specifies the amount Bixia will pay for the electricity regardless of the price development after the contract is entered. Bixia can accordingly offer the customer a fixed price rate and at the same time handle price fluctuations. Nevertheless, since Nord Pool

sees only the financial situation on the electricity stock market (not the contract behind, stating the price the customer should pay), guarantees for possible losses are required. Bixia must consequently present a bank guarantee for the corresponding amount plus some extra in case the prices change even more before the positions are closed.

As a result, very high guarantees are required by the company to trade electricity at Nord Pool, thus posing a major establishment barrier. (Svensk, 2009b)

It is therefore necessary for solid owners to deal with these financial demands. This requirement also functions as an expansion barrier, since it is not possible to sign up new customers before the financial situation is secured, which in turn might require new owners to acquire more capital. The bank issues bank guarantees to Nord Pool, and Bixia in turn must put up a corresponding security at the bank. In this aspect, the stockholder equity displayed in the balance sheet does not have a lot of substance, since Nord Pool often requires a much higher amount in the form of security, which requires strong owners. This requirement may impede smaller companies from trading at Nord Pool, and they will use bilateral contracts instead.

Furthermore, in a way Bixia acts almost as a bank owing to generous terms of payment. On average Bixia's customers have 65 days from the first day of electricity consumption until payment. The company, on the other hand, purchases electricity at Nord Pool the same day it is consumed. Thus, Bixia has bought electricity for customers for 65 days before payment is due. If prices were to double for example, it would require large bank advances, thus having a huge impact on liquidity. This situation also requires a solid economic base. These types of payment terms are common within the industry (Svensk, 2009b).

Policies and regulations

Istgren (2009) explains that the same kinds of regulations apply to all types of companies regardless of size. Hence, in general, regulations do not constitute a hindrance for entry/expansion. But, new EU regulations have tended to favor large companies and impeded new establishments, even though this was not the intention (Istgren, 2009).

Lack of switching costs

Istgren (2009) believes that customer loyalty varies a lot among companies, depending on the customer relationships. Bixia has a high focus on customer care, and the number of customers that renew their subscription with the company is very high. Istgren (2009) assumes that it is easier to lose customers for companies that compete and distinguish themselves mainly on price. This customer segment, focusing only on price, is very price sensitive, and these customers will quickly change supplier if someone else offers a lower price. However, since this is not the strategy applied by Bixia, the company's customers tend to be rather loyal. An extensive customer care program is employed to prevent switching. The board of directors decided in 2007 to initiate 15 development projects,

which they expect will increase growth and further increase customer satisfaction. Bixia's customer loyalty index was 65.6% in 2012, which is its highest value so far (Bixia Annual Report, 2012).

Svensk (2009a) also stresses the importance of offering a product that is appealing to customers to succeed in the electricity market. Bixia has started to offer their customers insurance when they buy electricity, for example. She also points out the importance of service-minded and knowledgeable staff in the customer relationship.

The company cannot force anyone to choose Bixia, the choice must be made by the customer due to the offered products' superiority, thus providing a perceived higher value compared to other companies' products. (Svensk, 2009a)

Skilled employees

Electricity trading requires skilled employees and a high level of competence, according to Svensk (2009a). This requirement might impede both establishment and expansion for smaller companies. The type of business model chosen by Bixia requires very skilled employees, according to Braun (2014). He explains that it takes several years for employees to gain sufficient knowledge about the sector to be an electricity trader. This is why many companies act as electricity retailers instead of electricity traders.

Need for research and development

Svensk (2009a) explains that the development of new products is necessary for Bixia due to increased competition, and a separate department has thus been created to fulfill these needs. The product development department is responsible for developing new products and introducing them into the market. New products will hopefully attract new customers to sign up with Bixia, which also is in line with the growth strategy. The business development group includes IT, business controlling, and administrative governance, and this department is responsible for assessing and following the development in the electricity market. Svensk (2009a) explains that this is done by, for example, comparing Bixia's key performance indicators with other electricity trading companies. The differences are then analyzed to improve the company's operations and efficiency. This department also includes business controlling, and calculations are made for potential investments and businesses. Braun (2014) points out that the company constantly works to get better by developing new systems and processes. The company has, for example, collaborated with university students to develop different types of forecast models.

5.2.4 Case study 1: Strategy competence

Core competence and relatedness

Electricity trading is Bixia's main product and considered the company's core competence. In an evaluation performed by the Swedish national grid, the company's

electricity trading was nominated as the best in Sweden owing to its precise forecasts (Bixia Annual Report, 2012). The company's target group includes both household and business customers. According to Istgren (2009), there are not many companies that have such a broad target group as Bixia, involving both large and small businesses, as well as household consumers. The company offers different products to the different customer segments. It is only the absolute largest electricity users that are excluded from the target group, and Istgren (2009) explains that this decision was made because including these users would require too large guarantees to Nord Pool. Even though it would generate a lot of prestige, it would at the same time increase the risk level and consequently have a huge impact on profitability if something went wrong. The company hence decided not to be involved with this type of large-scale business.

In 2007 the company became a service provider for mobile telephony. Bixia is now a direct retailer of Telia, without any intermediaries (Östkraft Annual Report, 2007). Istgren (2009) explains that there is a high degree of relatedness between the company's main product, electricity trading, and the other products, which include stationary, mobile, and IP telephone. Hence, customer relationships can be leveraged and synergy effects developed.

The two types of product groups support each other; some telecommunication customers would never had signed a contract with Bixia if they were not electricity customers, and vice versa. (Istgren, 2009)

According to Istgren (2009), Bixia is good at handling large customer volumes; in 2009 the company had 250,000 customers. It is thus necessary to have a good support system in place, which also can be utilized for the telecommunication customers. However, the target group looks a bit different since it consists mainly of household consumers. The name change from Östkraft to Bixia was one step to grow the telecommunication business. Customers may not think of telecommunication products when they hear the name Östkraft, since Östkraft traditionally was connected mainly to electricity trading. The name change was consequently a strategic move to become more than an electricity trading company. Istgren (2009) considers that more can be done within this new business area. Compared to the electricity market, there are not as many competitors in this industry. At the same time, there are many similarities between the two industries; for example, there are a few dominating companies within the telecommunication industry, and there are several companies applying a low-cost strategy in this business area as well. However, there is more room for trading in the telecommunication industry, and thus it is easier to make a higher return (Istgren, 2009). Nevertheless, Braun (2014) explains that the synergy effects did not reach the desired levels, and the telecommunication industry is also changing since more people use mobile phones instead of stationary telephones. The company thus decided to divest the telecommunication business area.

Accumulated market experience

Bixia can be seen as an early entrant after deregulation was initiated. This was advantageous since the company could position itself before other competitors entered the market. Svensk (2009a) believes that a later entrance could have resulted in Tekniska Verken losing its customers to another electricity trading company. Regaining those customers would have been both time consuming and expensive. The company has operated in the electricity market since 1997. The accumulated experience is used to analyze competitors. Investigations of competitors' prices are conducted on a daily basis, and an official report is provided each week. However, there are no official price lists for the large customer market, making this segment more difficult to assess. The company also conducts benchmarking each year, in which Bixia is assessed with other electricity companies. The comparison is based on different key figures that are formally available.

Svensk (2009a) explains that key performance analyses mainly are used when conducting competitor analysis, as well as the information on companies' activities and their outcome found in companies' annual reports. Thus, it is primarily annual reports and the key performance indicator analysis based on those reports that form the basis for the competitor analysis, but home pages and other information are also used when accessible and needed. It is interesting to compare, for example, companies' payment terms, which usually are presented on their home pages. Svensk (2009a) also points out that it is important to know how to analyze the information presented in the reports. It can be very misleading to compare, for example, the profit margin of an electricity company with that of a company operating within another sector. Thus, there are some key performance indicators that are specific for electricity trading companies. For example, liquidity can vary depending on whether the stock of electricity certificates is included in the balance sheet. Each company is obliged to trade for a specific quote, and companies can choose whether to keep them in stock or only have an agreement. The companies can consequently choose whether to purchase them before or after the turn of the year, which therefore will affect liquidity. These types of questions are important to be aware of when analyzing key figures. Braun (2014) explains that apart from studying competitors' prices, Bixia also compares its product range with other companies to make sure that the offered products are attractive for customers.

5.2.5 Case study 1: Strategy development

Most companies entering the electricity trading market start a sole venture, and it is not that common to acquire an existing company, according to Istgren (2009). Many companies utilize price models in which the customers assume the risk to get around the requirement for capital. Svensk (2009a) explains that to begin with, it was not clear how Bixia should enter the market, since different alternatives and constellations were considered. However, Tekniska Verken in Linköping and Mjölby-Svartådal Energi previously had a common company that was involved in power purchasing. These two companies thus decided to set up an electricity trading company together. The number of partners has increased since, which is in line with the growth strategy as expressed when

the company was founded (Östkraft Annual Report, 1999; 2000). However, Istgren (2009) points out that it is probably good to grow slowly to remain stable. So far, this has been a successful strategy for Bixia, its partners, and its customers. Braun (2014) points out that the main expansion strategy has been accomplished by including more part owners. He adds that there has been some organic growth by offering attractive products to the customers. Braun (2014) also points out that no other company has the same amount of local offices as Bixia, which distinguishes the company from competitors.

Istgren (2009) explains that Bixia proceeds from a business plan covering the time period 2008–2014 in its strategic work. The plan includes the strategy for the next five years since this is considered to be an adequate time period (however, this plan was made for six years). The strategic plan is revised during the spring each year, and an assessment is made regarding the short-term goals that must be achieved during the year to reach the long-term objectives. The identified goals are also used to form the foundation for the next year's budget. The management group has a meeting every other week, and strategic issues are thus discussed on a continuous basis in this forum. For example, opportunities may arise that are in line with Bixia's strategic objectives, and the management group might decide to include those in the current plan. However, if the opportunities are outside the specified plan, the board has to be consulted before any decision is made. Thus, the strategic decisions are made within the management group and board of directors. The creation of the current business plan started at the beginning of 2008, when a thorough assessment of the company was conducted. During the spring, a new business plan was prepared, and a new organization was implemented throughout the autumn. The present business plan includes even clearer expansion goals than the previous (Istgren, 2009).

The current overall objective is to grow. Bixia wants to further move its positions forward since it should be a company to count on in the future, and a certain size is then needed. (Istgren, 2009)

Istgren (2009) is aware of that the goals will be tough to reach in a market with zero growth. However, he is certain that it is possible owing to engaged coworkers and the company's local presence. To operate in the electricity market requires both competence and capital, according to Istgren (2009), and there has been notable consolidation between companies since deregulation. Bixia is thus striving to grow organically but also through acquisitions. In the new organization, a competence group was therefore added, its only task to connect more local electricity companies to the Bixia group. Mikael Hansevi is head of this new department working with mergers and acquisitions, and has spent the last year mapping the Swedish electricity market; an action plan for 2009 has been provided.

It is about selling our concept to potential electricity trading companies and showing which potential benefits we can reach from a joint development. We are open for both acquisitions and partnership. (Mikael Hansevi, Head of the Acquisition/Integration Department, Östkraft Annual Report, 2008, p. 11, translated by the author)

According to Hansevi (Östkraft Annual Report, 2008) the Bixia concept is a good alternative for those companies not considering an acquisition. Through a partnership, the company can continue to exist and to act locally in its original market. However, at the same time, economies of scale and scope can be exploited regarding, for example, system and development issues. It is also possible to provide customers with a broader and more competitive product offering. In this way, the company can maintain its present business and at the same time further develop it together with Bixia. Hansevi thus concludes that cooperation leads to several advantages without limiting the possibilities to influence the business development process (Östkraft Annual Report, 2008). Istgren (2009) explains that as the number of partners increases, it is important that everyone work toward the same goals. To ensure that this is the case, all employees in the Bixia group participated in the design of the business plan. To begin with, the management group conducted an external analysis and established how the dream scenario would look like for the next five years. Next, all employees were able to contribute and assess the current business ideas and to propose what they thought should be included in the plan. They also specified what each one could do to contribute to the objectives. Finally, the board of directors evaluated the plan and gave their approval. In this way, the objectives were anchored on all levels in the organization. Istgren (2009) points out the importance of being clear and precise about what should be done, and why, to get everyone working in the same direction. This is particularly important now when the number of partners has increased. The question is thus how broad the road should be. In the last business plan, the focus on a growth strategy was one way to challenge the partners since it would require a lot of the owner companies (Istgren, 2009).

To get everyone to work toward the same direction will probably become an increasingly important question in the future when the number of partners increases even more, which is a desired scenario in the company's growth strategy. (Istgren, 2009)

Istgren (2009) explains that Bixia's strategy is 100% driven by the external environment. The market decides the direction, and the resources are consequently acquired according to those demands. Bixia not only wants to follow market development but strives to be an important actor leading and creating the market. According to Istgren (2009), Bixia is considered to be successful in this aspect. At the same time, he adds that it requires a lot of effort and resources to be on the front line, and the company has a department that focuses only on these types of questions, like product development. This department is not only responsible for presenting new ideas but also for implementing them by introducing the new products into the market.

Resources are added or removed according to the market needs. (Istgren, 2009)

Svensk (2009a) believes that having a strategic plan, and following the objectives in this plan, is one factor that distinguishes successful companies. It is therefore important to

have a clearly communicated business plan. Bixia has a well-prepared business plan, which was explained by Svensk (2009a), to fulfill these criteria. Thus, all employees know what the expected goals for Bixia are during the next five years. To begin with, the overall business plan for the next five years was set, including the objectives and strategies that should be applied to reach the company goals. Istgren then further divided the plan to be more specific by describing the goals that applied to all departments, as well as each department's specific goals. The head of each department accordingly knows what is expected of them. For example, the objective for the purchase department is to reach good agreements on price and quality, whereas the business development department should focus on business controlling and direct the company toward increased profitability. Finally, a job description was crafted for each employee.

In this way, there is a red line from the business plan and down to the individual job description to ensure that all employees work toward the objectives stipulated in the business plan. (Svensk, 2009a)

In addition, each department has its own to-do list. Istgren (2009) thinks it is important that the employees have the opportunity to take responsibility. He consequently avoids governing employees in detail, and the departmental managers are free to develop the business as long as it is in line with the overall direction. The different steps in Bixia's strategic process are displayed below in Figure 8:

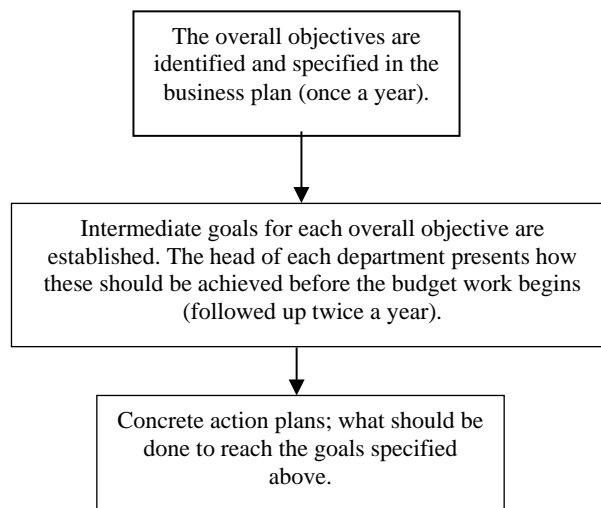


Figure 8: Bixia's strategy process
(Source: Svensk, 2009a)

The business plan is revised every year, and is currently followed up twice a year, but this can be done more often if needed. The budget is followed up each month. To keep the job

descriptions up to date, they are revised once a year during personal development discussions. According to Svensk (2009a), it is important to have a professional approach to these kinds of questions since the margins are so thin. The company hence must establish a concrete business plan that clearly identifies the objectives, and then communicate this information to all employees. Since the number of offices has increased, this is a challenge for management, for example, so Bixia developed a leadership program, implemented in 2011 (Bixia Annual Report, 2011).

As can be seen above in Figure 8, the overall strategic goals are divided into action plans that should be implemented to reach those goals. As a consequence, during spring 2008, the organization was redesigned to fit with the goals in the new business plan and to become more efficient in facilitating this process (Svensk, 2009a). The departments of acquisitions/mergers, product development, and business development were new after the reorganization. These changes are in line with the company's strategic plan, in which one of the objectives is to grow.

Svensk (2009a) also emphasizes the importance of rigid internal processes, since the company handles large customer volumes. This concerns both administrative routines, like meter reading and invoicing, and the electricity trading, which constantly must be in balance. The company must purchase the same amount as it is going to sell, and also make sure that it has a financial security before a fixed price contract is signed with a customer. It is also very important to follow the price development. Nevertheless, the most important factor is continuous customer focus (Svensk, 2009a).

The focus for 2008 was to increase customer satisfaction, continue with growth, and become more efficient, according to Istgren (2009). To become more efficient, some operations were centralized. The work to create economies of scale is continuing, and the three main cities, Linköping, Växjö, and Uddevalla, should be developed for higher specialization and become local process centers for the entire group. For example, the staff involved with electricity trading is located in Växjö. This kind of activity requires a high level of competence. The system administration was also centralized. Regular work to constantly increase the efficiency in all parts, lower the costs, and increase the quality is thus proceeding. The Bixia group is currently organized to ensure a common view in order to be sure that similar routines are applied throughout the group. The aim is to ensure government and control, to achieve economies of scale, and, in the end, increase growth and profitability. The group consequently has the same financial-, business support-, purchase-, and debiting system, in addition to the use of common channels for external and internal information. Calculating, tender creation, sales follow-up, and marketing strategies are also created in a uniformed way within the Bixia group (Istgren, 2009).

In December 2008 Bixia bought 40% of the shares in Höglandsvind AB. The company also mediates wind turbine shares and entered as a co-owner in a project company, which is calculated to start producing wind power in 2011 (Östkraft Annual Report, 2008).

We will continue our investments to gradually take over a significant part of the Nordic wind power production. (Istgren, Östkraft Annual Report, 2008, p. 14, translated by the author)

The company took one step further in 2009 when it purchased two wind turbine parks in Falkenberg and one in Rodovålen, Jämtland (Bixia Annual Report, 2009). According to Istgren (2009), this decision will assist the company in offering electricity to customers with less environmental impact. The company wants to make long-term investments in Sweden and consequently decrease dependence on foreign energy based on coal (Bixia's home page, 2011d). In 2012, five new wind power plants were purchased, and Bixia formed the sister company Bixia ProWin AB (Bixia Annual Report, 2012).

Bixia has decided to offer a combination of competitive prices, good service, and accessibility (Östkraft Annual Report, 2006). Svensk (2009a) explains that the company has chosen a local approach in which the *customers are in focus* and should be assisted to make the best choice. The company often uses the slogan "We want to" in different settings, like "We want to give the customer the most favorable electricity contract as possible" and "We want to help the customer make the best decision by informing them." Arne Andersson, sales manager consumer/business market, points out that the company has a large share of portfolio customers, which distinguishes the company from many of its competitors (Östkraft Annual Report, 2006).

Furthermore, to prove the company's customer focus, Bixia has formulated a number of *guarantees* in addition to the common customer promises that are required in the electricity market. This involves a handling guarantee (the customer should be contacted within a week from first contact with customer service), a supplier guarantee (electricity should be delivered on the scheduled date), and an invoicing guarantee (electricity consumption should be invoiced at the right time). If any of these guarantees are violated, the customer should receive financial compensation in the form of a reduced invoice amount. The company has also introduced an independent customer representative to whom customers can turn with questions that are not answered quickly by customer service (Östkraft Annual Report, 2005). Additionally, Bixia is different from other electricity companies owing to its *closeness to customers*. According to Braun, this also applies to Bixia Energy Management AB. The department has a lot of direct contact with customers and often acts as counselors.

At our company, customers will talk to those with the top competence and who make the decisions. At our company, all customers are considered as large customers. (Braun, Östkraft Annual Report, 2008, p. 6, translated by the author)

Keeping the *local touch* is a conscious strategic choice, and the decision to become an alternative to the large electricity companies was made in 1997 when the company was established. The company has decided to have local offices in many places to be as near the customer as possible. This is a very conscious strategy. Even though the company could have made a lot of money by closing local offices and centralizing this kind of activity, Istgren (2009) is certain that this would have been beneficial only in the short run. In a long-term perspective, it would be fatal to the company, since this is something that distinguishes Bixia from its competitors. The company is thus going against the mainstream in this aspect (Istgren, 2009). The partner companies thus continue to operate in their respective local markets with support from the central group. The central group, in return, can retrieve information and leverage knowledge about customer preferences gathered in those local companies and use this knowledge in development work (Östkraft Annual Report, 2008). For example, to inform customers about news in the electricity market and to give them the opportunity to present their wishes, Bixia arranges customer seminars and energy lunches (Östkraft Annual Report, 2006).

Our local degree of service is difficult to copy and requires a local engagement. (Mikael Hansevi, Sales Manager (Business customers), Östkraft Annual Report, 2006, p. 9, translated by the author)

Istgren (2009) emphasizes the importance of *frankness* toward customers. He considers it important to inform the customer as much as possible since most people still find the electricity market to be complex, even though the industry has been deregulated since 1996. For example, many customers do not know how to distinguish between network companies, producers, and electricity trading companies.

The *environment* is important for the company, and Bixia has an environmental foundation to support small-scale production. Bixia is unique in having this kind of foundation. The company has an outstanding position in small-scale production based on wind and water power.

From our point of view, there are two good ways to decrease environmental effects: to use the energy effectively and to build out the production of renewable energy. (Östkraft Annual Report, 2008, p. 12, translated by the author)

Istgren (2009) thinks it is important not only to focus on those large wind turbine parks, which should be in place in 2020, but also to realize the effect that many small actors contributing to this change can have. However, he also adds that it is a big challenge to communicate this message to customers, since the vast majority is not very familiar with green electricity and other environmental issues within the electricity industry.

5.3 Case study 2: Värnamo Energi AB

The case study is based on information collected from annual reports, the company's home page, customer magazines, and interviews. The first interview was conducted with the marketing director, Lars Ljungqvist, in 2011. The second interview took place in 2014 with Lars Ljungqvist and the business development manager, Nicklas Lundin. Ljungqvist has worked at Värnamo Energi since 1985 and started as a technician. He has been involved in many projects over the years. Lundin started at the company in 1994 as a managing director assistant and then became the company's business development manager. The first two years Lundin worked with investigations regarding deregulation and assessed how it would impact Värnamo Energi.

5.3.1 Case study 2: General facts about the company

Värnamo Energi was founded in 1955 through a merger between two companies. When the Swedish electricity market was deregulated in 1996, new requirements were enforced, and energy companies had to separate electricity trading and electricity distribution businesses. The subsidiary Värnamo Elnät (Värnamo Electricity Network) was founded as a result. In 2009, the subsidiary Värnamo Produktion (Värnamo Production) was founded, and Värnamo Energi became part owner of two local wind turbines. Värnamo Energi was fully owned by Värnamo municipality as of April 8, 2010 (Värnamo Energi's home page, 2013a). The parent company possesses all shares of Värnamo Electricity Network and Värnamo Production. Värnamo Energi business areas include purchase of electricity and electricity trading, production (the company has had its own electricity production since 2010, provided by two wind turbines), and distribution of heating in Värnamo. The company also owns and runs a city network for data communication in the municipality of Värnamo. Energy services and service agreements are also provided by the company (Värnamo Energi Annual Report, 2009).

Brief facts about Värnamo Energi

Below follows brief facts about Värnamo Energi (based on Värnamo Energi's home page, 2013a; Värnamo Energi Annual Report, 2009; Ljungqvist, 2011):

- Number of employees: 40 in Värnamo Energi
- Number of customers in Värnamo Energi Group: 14,000 (10,000 of these are electricity trading customers)
- Turnover: 300 million SEK (for the entire group)
- Business areas: electricity trading, heating, communication, gas, energy services, electricity network, and wind power

Business concept

The main task for Värnamo Energi is to provide energy and IT communication through a well-established infrastructure. This means that the company takes care of society's development and provides companies with comfort and security, as well as making them competitive. Värnamo Energi's acting should be characterized by a high service level, closeness to the customer, and a good competence (Värnamo Energi's home page, 2011).

Ljungqvist (2011) explains that Värnamo Energi's business concept is to be a small, local company with close relations to customers. It should be easy for customers to get into contact with employees at Värnamo Energi. The company's business sphere covers an area with a radius of 100 kilometers. However, Värnamo Energi also has customers in other parts of Sweden, but in these cases it is the customers who have contacted the company, and not vice versa. There are various reasons why they have chosen Värnamo Energi; some of them prefer to have Värnamo Energi as supplier since all energy offered by the company is produced by hydroelectric power. Others are local companies with offices in many places in Sweden. As a result, the company has customers all over Sweden, but its main business area includes local customers around Värnamo. Hence, as Ljungqvist (2011) concludes, trust building and closeness to the customer are cornerstones in Värnamo Energi's business concept.

Milestones in Värnamo Energi's development

Important milestones since the company's start-up are presented in Table 14 below:

Table 14: Milestones in Värnamo Energi's development
Source: Vår Energi, 2010

1955	The city of Värnamo buys Värnamo Elverk of Hörle Bruk.
1958	Sydskraft becomes part owner in Värnamo Elverk with 45%.
1989	Värnamo Energiverk AB changes its name to Värnamo Energi AB.
1996	The expansion of broadband is started.
2006	The cable services are launched.
2008	All 10,000 electricity meters are exchanged to make monthly reading possible.
2009	Värnamo Energi invests in locally produced green energy by becoming part owners in wind turbines in Vallerstad.
2010	Värnamo Energi takes over E.ON's shares and becomes a single owner of Värnamo Energi.

Environment

It is important to the company to contribute to developing a lasting society. For Värnamo Energi, this means creating environmental routines in people's daily life, both at the work place and at home. It also means offering customers energy and heating with the least climate and environmental impact. Environmental aspects are important when choosing solutions and measures, together with technical and economic concerns (Värnamo Energi's home page, 2013b).

In 1999, the company started to offer electricity characterized as Bra Miljöval (Good Environmental Choice), which fulfills the criteria stated by Naturskyddsföreningen (the

Swedish Society for Nature Conservation). This service assists customers in choosing products that are least harmful for the environment. The electricity mix provided by Värnamo Energi consists of 95% hydroelectric power (built before 1996) and 5% wind power. In 2006, the company started to sell renewable energy only. Customers can purchase electricity produced 100% by hydroelectric power without any extra costs. The ambition is to increase local production of environmentally friendly electricity (Värnamo Energi's home page, 2013b). Each year Greenpeace compiles an environmental ranking list that shows how green the electricity provided by Swedish electricity trading companies really is. This is done for customers' benefit when they want to choose environmentally friendly electricity. In 2010, Greenpeace ranked 100 electricity trading companies in the Swedish electricity market, and for the third year in a row, Värnamo Energi was among the top ranked companies (Vår Energi, 2010).

Värnamo Energi is also engaged in the development of wind power in the municipality. Wind power production will offer household persons the opportunity to produce their own electricity in an environmentally friendly way and contribute to lasting development. Two wind turbines "Gudrun" and "Matilda" were drifted in January 2010 (Värnamo Energi's home page, 2013b). There are several reasons why the company has chosen to start its own wind power production; to begin with, one of Värnamo Energi's cornerstones is that all electricity sold should originate from renewable energy. So far all electricity has been produced by hydroelectric power plants. However, wind power can now be a perfect complement, and it will also make it possible to save water in the hydroelectric power plants' magazines. Moreover, another important reason is the desire to fulfill the company's ambition of producing its own environmentally friendly electric power. Local actors have been involved, contributing by producing their own electricity. Finally, wind power is the power source with least variable costs among all production types. The wind is free and an inexhaustible energy source. Modern wind turbines can produce electric power yearly, during almost the whole day and night (Värnamo Energi's home page, 2013c). In the future, the ambition of Värnamo Energi is to increase the share of environmentally friendly electricity production to 25% (Värnamo Energi's home page, 2013b).

Performance

Ljungqvist (2011) explains that a common misconception is that electricity trading companies have earned large profits since deregulation since the electricity price has increased. This is not the case, according to Ljungqvist (2011). He mentions several reasons for the price rise, like the increase in taxes, but this is not something that benefits electricity trading companies. Ljungqvist (2011) points out that there are very small margins in the electricity industry.

Ljungqvist (2011) also adds that turnover can change a lot from year to year, even if the amount of customers and volume remain the same, because of the electricity price. Thus, one year the turnover can be 80 million SEK and the next year 120 million SEK due to the price volatility. Presently, Värnamo Energi buys electricity from Skellefteå Kraft.

Ljungqvist (2011) points out that the company always has a contract before electricity is purchased to ensure that the company has a buyer. Värnamo Energi thus avoids having too much energy in case the price falls. It is also very important to specify the price in the contract since it can vary a lot during only one day. Hence, the contract and order are done almost simultaneously and in accordance with the company's risk profile.

Värnamo Energi has had good profitability in electricity trading in relation to turnover, except for 2010, according to Ljungqvist (2011). There are not any large investments involved in electricity trading. Nevertheless, profitability might have been too low in relation to the risks that are involved in the sector, which became obvious in 2010. He adds that to better manage such a difficult year as 2010, it would have been advantageous if profitability had been a bit higher the previous years. However, he also stresses that it is important to look at profitability in a long-term perspective since electricity trading is a very volatile market.

Financial information

Financial key figures for Värnamo Energi Group between 1997 and 2012 are presented in Table 15:

*Table 15: Financial key figures (thousand SEK)—Värnamo Energi Group
Source: Värnamo Energi AB Annual Report, 2002; 2004; 2009; 2012.*

	1997	1998	1999	2000	2001	2002	2003	2004
Net turnover	158 544	171 267	199 272	189 525	204 337	225 024	268 960	277 147
Profit	17 595	21 078	25 502	20 665	30 363	22 691	20 053	22 207
Balance sheet total	149 034	183 242	203 168	212 148	234 369	242 638	258 940	276 895
Coverage ratio % (solvency),	60.98	58.37	62.04	65.59	65.07	65.62	65.40	65.75

	2005	2006	2007	2008	2009	2010	2011	2012
Net turnover	260 972	289 513	290 902	330 973	322 094	371 313	358 545	367 924
Profit	15 368	17 934	16 657	15 757	27 695	21 962	23 615	35 353
Balance sheet total	324 476	376 951	507 605	511 246	520 238	519 307	512 439	548 439
Coverage ratio % (solvency), after suggested dividends	54	50	32	35	38	40	41	43

Important milestones 2009 (Värnamo Energi AB Annual Report, 2009):

- The subsidiary Värnamo Energi Production AB was established in December 2009. Twenty percent of the shares in Vallerstad Vind AB were bought, and two wind turbines were started.
- Large investments were done during the year in district heating and in the communication business, and many new customers were consequently connected to the networks.

Important milestones 2010 (Värnamo Energi AB Annual Report, 2010):

- Värnamo municipality acquires E.ON's shares in Värnamo Energi.
- The wind power production, drifted in Värnamo Energi Production, surpassed goals in terms of both production and budget although the wind was rather scarce.

Important milestones 2011 (Värnamo Energi AB Annual Report, 2011):

- The introduction of different electricity areas as of November 1, 2011, affected electricity trading negatively since the increased costs could not be transferred to private customers with contracts signed before April 2011.

Important milestones 2012 (Värnamo Energi AB Annual Report, 2012):

- Large investments continued during the year in district heating and communication, and more customers were connected to the networks
- An agreement was signed for an extension of the combined power and heating production, which is expected to be running during the latter part of 2014
- Wind power investments were implemented in Värnamo Energi Production through acquisition of stocks and shares in Klämman Vind AB, and through shares in Vallerstad wind co-operative society.

5.3.2 Case study 2: Liberalization

Ljungqvist (2011) explains that the question about deregulation of the electricity market was raised in the late 1980s. At that time, companies in the sector wanted to do it themselves by becoming more sensitive to market forces and adhering to the desires of politicians. They thought there was no need for regulations. However, the authorities decided that deregulation was going to be implemented in 1995, but it was delayed a year since neither the sector nor the authorities were prepared for it until 1996. There were many thoughts among employees about how Värnamo Energi was going to be affected by the deregulation.

The opinions about deregulation were divided within the company; some employees considered it to be a positive change offering new possibilities, whereas others would prefer that the electricity market remained regulated. (Ljungqvist, 2011)

When deregulation was implemented, the company was divided into two parts in accordance with the new regulations; the electricity network operation was separated from the electricity trading. The network business area remained monopolistic, and pricing was regulated by, for example, certain tariffs the company had to follow. The electricity trading, on the other hand, was now dependent on market forces. The electricity price was now based on the prices set at Nord Pool, an increase in price and, in the end, what the customers were prepared to pay. When deregulation was implemented in 1996, the schism between the groups became even clearer, according to Ljungqvist, 2011. Those favoring previous conditions became even more monopolistic in their work in the network business area, whereas those preferring a more competitive market chose to look for new ways to operate in the electricity trading industry. The price fluctuation became much more volatile after deregulation, which in the end affected customers. The price has also increased owing to, for example, increased energy taxes.

When the electricity market was deregulated, the prices decreased to begin with and everybody considered the deregulation to be something positive. (Ljungqvist, 2011)

However, the price decrease was mainly an effect of the water level in the magazines; large water reserves lowered the price on electricity, so it was not deregulation as such that led to a price decrease. Before deregulation, prices were more stable; companies did not charge the customer as much when the price increased or as little when the price decreased.

Ljungqvist (2011) explains that the initial period after deregulation was characterized by price competition since companies tried to both retain its present customers and attract new ones. In 1996, Värnamo Energi had 100% of the customers within the local area. The new market conditions implied that this was not going to be possible in the future since it would mean that the electricity price offered by the company was too low. To begin with, it was mainly industrial companies that changed electricity suppliers. The household customers had to install an electricity meter, which was a costly process and did not pay off. Up until 1999 Värnamo Energi did not notice any supplier switches in the household customer segment. However, there were a few switches within the business customer segment. The majority of these switches consisted of large companies, which have several offices in different areas and with headquarters located in another part of Sweden. Those companies were organized differently than local companies, which remained Värnamo Energi's customers. Ljungqvist (2011) points out that Värnamo Energi worked hard during this period to keep and attract customers in the southern part of Sweden. Until 2000, Värnamo Energi increased electricity trading by 25% measured in volume. In 2011, the company had about 75% of the household customers in the local market (compared to 100% at the beginning). Ljungqvist (2011) considers the company to have a good coverage in the business customer segment also (measured in volume). Some incumbent companies that ignored the change in regulations lost customers since they did not adjust their prices according to market forces. Thus, even if the prices decreased, the companies did not lower their prices. There were also companies that overlooked the importance of customer care, which almost became a requirement to retain customers' faithfulness when the competition increased.

The hourly metering system was abolished November 1, 1999, for small and medium-sized electricity consumers (Värnamo Energi Annual Report, 1999), which made it easier for household customers also to switch electricity supplier. This new change in the electricity law was expected to lead to increased competition and pressure on price primarily among household customers and smaller companies (Värnamo Energi Annual Report, 1998). In 2000, electricity trading decreased (Värnamo Energi Annual Report, 2000), but increased again in 2001 (Värnamo Energi Annual Report, 2001). Nevertheless, Värnamo Energi did not lose that many household customers. Ljungqvist (2011) believes that a reason for this was that the company gradually had been able to adapt to the new market situation. Ljungqvist (2011) explains that it is important to be aware of electricity

trading companies' different backgrounds when looking at incumbents' response to deregulation. Companies owned by the municipalities were probably not used to working in the same way as business-run companies. To begin with, the latter types of companies had an advantage in terms of shorter decision channels and business thinking. The fact that Värnamo Energi had been owned not only by Värnamo municipality since its establishment in 1955 but also by E.ON (45%) was probably advantageous for the company. Värnamo Energi had consequently already worked with market-adapted solutions. Furthermore, Värnamo Energi had another business area already exposed to competitive forces and experience from this area was thus applied to the electricity trading area as well. Nevertheless, the new business context required a much stronger adherence to customers compared to the previous monopoly situation.

5.3.3 Case study 2: Perceptions of mobility barriers

Competitors

To begin with, there was no competition among electricity trading companies, and very few customers switched, according to Lundin (2014). Thus, Värnamo Energi remained with the same customer base as before deregulation. However, the company took advantage of the new situation and gained some new large customers, both private and public. Lundin (2014) explains that after a while, competition intensified. The increase continued up until some years ago and has since then remained rather constant; it is more the preconditions that have changed. There has also been a structural change among electricity trading companies since deregulation, according to Ljungqvist (2011). The number of companies has decreased from about 270 to 130, mainly because of acquisitions. However, in recent years, the number has slightly increased again. He explains that there are new structural changes in the industry due to insecurities regarding a Nordic end-customer market. There have also been discussions about moving all customer contact to the electricity traders. This means that the network companies would lose all customer contact. This possible future scenario has induced network companies to start up electricity trading businesses to retain customer contact, according to Ljungqvist (2014). He explains that there are a great number of competitors on the electricity market, but not all companies do operate in the whole Swedish market. It is mainly the large companies, above all Vattenfall, E.ON, and Fortum, that operate on a national level.

Many of the smaller companies are more focused on their immediate surroundings. In this way, the smaller companies can distinguish themselves from others. (Ljungqvist, 2011)

Värnamo Energi's main competitors are accordingly the three large companies mentioned above, since these companies have the required resources to chase customers all over the country. Then, from time to time, it also happens that smaller companies try to get into Värnamo Energi's business sphere as well. According to Ljungqvist (2011), those companies are typically newly established with a specific customer segment in focus. One

example is companies with a main focus on capturing business customers in many regional areas. Lundin (2014) points out that one or another company is almost constantly trying to gain customers by offering a low price, but in most cases these companies have not been able to become profitable in the long run. Ljungqvist (2011) has noticed that competition has increased gradually since deregulation. As Lundin (2014) explains, in the beginning there was no particular change in the competition situation, but after some years, this changed, and suddenly companies tried to gain customers in several new ways—for example, outside the local store. It has also become harder for customers to understand companies' offers since many people consider the electricity market to be complex. As expressed by Ljungqvist (2011):

A survey conducted by the company showed that only one third of the customers were aware of the division between electricity network and electricity trading.

Ljungqvist (2011) knows that many companies try to reach new customers by telephone. In many of these cases, the information is unclear or even incorrect, and it happens that customers switch supplier and end up with higher costs than before. Usually Värnamo Energi quickly becomes aware of when there is a new company chasing customers within its business area since local customers often contact the company and want to discuss the information received from the other company. Värnamo Energi has now posted information on their home page to inform customers about these types of campaigns since this form of competition has increased.

There are not many newly established companies in the electricity market, according to Ljungqvist (2011). Several of the companies that have tried to get into the industry has lost a lot of money and in the end decided to close down. Those companies have tried to sell customer stock to other electricity trading companies to reduce the losses. One example is Statoil, which sold its customer base to Öresundskraft. He explains that it is a very difficult sector to enter. Specific knowledge about the industry is required to succeed, and it is usually not the most loyal customers that new companies manage to attract. As a result, they are easily lost if another company can offer a lower price. Even though the electricity price is very important and has to be sufficiently considered in terms of profitability, it is not possible for Värnamo Energi to compete with larger companies on low prices. Larger companies have more resources and can also reduce their costs more than smaller companies. Värnamo Energi consequently had to find other ways to distinguish itself from competitors after deregulation (Lundin, 2014). He explains that the price plays a very important role when customers select a supplier, but the packaging of the product is also important. Värnamo Energi has thus tried to neutralize competitors' price advantage by offering superior customer service to a broader range of customers, also including smaller ones. Furthermore, there were more electricity trading companies around Värnamo Energi's business area in the beginning, according to Lundin (2014). But if customers prefer to have a local company, there are not that many to choose

from now since many competitors have lost their closeness with customers, which is beneficial for Värnamo Energi.

According to Ljungqvist (2011), collaboration between companies existed before, but nowadays Värnamo Energi does not cooperate with any other electricity trading company. However, the company has been able to leverage E.ON's part ownership, according to Lundin (2014). Particularly during the initial period after the deregulation, cooperation with E.ON was beneficial for Värnamo Energi. However, the advantages deriving from the part ownership were reduced in the years before Värnamo Energi acquired E.ON's shares in 2010.

Capital need

In general no large investments are required for expanding a company's electricity trading, according to Ljungqvist (2011). However, he explains that new establishments require investments in different systems, like a debiting system. For Värnamo Energi, many routine errands are taken care of electronically today, like notices of termination and meter reading, which saves costs. The larger and more established companies also have economies of scale since they can use their system for a larger customer base. For example, Värnamo Energi uses the same debiting system within the electricity trading area and electricity network area.

The larger the company is, the more advantages can be retrieved from the system. The administrative systems can consequently mean large costs for new companies compared with the incumbents. (Ljungqvist, 2011)

Ljungqvist (2011) also adds that it is important to remember that the electricity market can be pretty volatile and it can consequently take about three years before the new company starts to earn money. This fact can be an impediment for new companies since it may consequently be difficult to survive during the first years. Lundin (2014) also mentions the need for capital, which is required if a company has decided to grow by acquisition of other firms.

Ljungqvist (2011) points out that to be an actor in Nord Pool requires large capital. All electricity trading companies must be able to offer guarantees, which are obligatory to trade on the electricity stock market. The company must show that it can manage a price increase. Companies not able to fulfill these requirements stated by Nord Pool can be forced to close down their business. To avoid this scenario, some companies have tried to transfer the risk to the customers instead (applies to business customers). In these cases, electricity trading customers have to come up with bank guarantees.

Policies and regulations

The regulations are relatively straightforward and easy to understand, according to Ljungqvist (2011). The problem is that they change quite often, and it can therefore be difficult to follow them. There are a lot of requirements for statistical reports, which are

time consuming for the companies. Many of the changes in regulations affect the customers in the end in the form of higher prices. One example is the new way of dividing Sweden into four electricity areas, introduced in November 2010, which has led to different pricing in the regions, according to Ljungqvist (2011). Insecurities about how changes in policies and regulations will affect the company have contributed to the delay of the company's expansion plans. For example, it was important to see how the pricing areas would develop. The new division might have led to a decrease in competition if the electricity trading suppliers in, for example, area three decided not to work in area two. The question was also what the three large companies would do, whether they are going to offer the same prices throughout Sweden. Furthermore, a complete Nordic electricity market has been planned for 2015, and the effect of this is also very uncertain at the moment (Ljungqvist, 2014). The debiting system, for example, must be developed to be able to handle customers from other countries.

The electricity market in general, and electricity trading in particular, is largely affected by the many regulation changes. Hence, there is too much insecurity to invest in expansion, and the company can be said to follow the market instead of trying to lead it. (Ljungqvist, 2011)

Ljungqvist (2011) explains that the regulations on the electricity purchase price are quite similar for all Nordic electricity trading companies. All companies pay the same amount for electricity since there is a Nordic electricity market. Nevertheless, he also adds that there still are many other regulations that differ between Nordic companies when it comes to taxes, trading with emissions, and the fact that the countries have different currencies.

Lundin (2014) considers the amount of changes in policies and regulations to have been rather constant since deregulation. Some of them have not been that notable for the companies, whereas others have been very apparent—for example, those regarding the information that should be included on the electricity invoice. Since there are a lot of policies and regulations to follow, it can be both difficult and costly, particularly for smaller companies, to fulfill all requirements.

Lack of switching costs

According to Ljungqvist (2011), there are no costs involved for a customer if they want to switch supplier. There should be no obstacles for a customer to change electricity provider, and this is regulated both in the electricity trading law and in the consumer law. Electricity trading companies may have to pay penalties to the customer if they do not fulfill their obligations when a customer wants to change supplier. However, for the companies, customer switches involve large costs. This is why it is so important for Värnamo Energi to have loyal and satisfied customers. The company pursues this objective by offering competitive pricing and by being transparent regarding the information. Lundin (2014) has noticed that there is a trend toward less loyal customers since they have discovered the ability to change supplier. Ljungqvist (2014) points out that it is important to keep in mind that the customer profile changes over time; the

increasing number of younger customers affects the company since these customers have different selection criteria when they choose suppliers and are more likely to make an active choice. They are also more familiar with searching for information by Internet, for example. Lundin (2014) also adds that customer personality also affects customer behavior. Some customers change supplier to save only a very small amount and thus switch often. Others remain with the same supplier for a long period since they are satisfied and think it is not worth the effort to switch to save only a little amount of money.

Need for research and development

Värnamo Energi does not have the resources to conduct its own research on, for example, following up and analyzing trends and so on within electricity trading. However, Ljungqvist (2011) believes that larger companies with better resources are much stronger in this area.

Skilled employees

When it comes to staffing, Värnamo Energi focuses mainly on employing good salespersons. As Ljungqvist (2011) points out, the main task to be successful at electricity trading is to attract and retain customers. It is therefore important that the salespersons are skilled and can explain to the customers why they should choose Värnamo Energi instead of another company. The focus has to be on the packaging of the product. The skills required of sales representatives have thus increased as competition has intensified. The salespersons also need to have extensive knowledge about electricity trading so they know how to set up a contract. Thus, they are also partly included in the purchasing process, which means that the complexity factor has increased, according to Lundin (2014). The purchasing department also needs skilled employees. Lundin (2014) stresses the fact that it is extremely important for the company to make good purchases of electricity, since this determines the price offered to the customers in the end.

5.3.4 Case study 2: Strategy competence

Core competence and relatedness

Electricity trading, electricity network, and district heating are considered to be Värnamo Energi's main business areas, according to Ljungqvist (2011). The company does not have a core competence vital for the strategy development, it is more the entire product portfolio that can be seen as the company's strength. Ljungqvist (2011) explains that the target groups for these three business areas coincide since the main focus is on household customers and industrial companies in the local area. Not having a core competence, like in electricity trading, could be a drawback for the company. However, on the other hand, Ljungqvist (2011) can also see advantages with the company's product portfolio;

Many customers buy several products provided by Värnamo Energi since they consider it to be easy and uncomplicated to have the same supplier for the different services. (Ljungqvist, 2011)

This is something that the company tries to exploit and Ljungqvist (2011) wishes to develop this opportunity even more—for example, by creating customer packages. Broadband and television service are the latest product areas that have been developed. Ljungqvist (2011) has noticed that new broadband customers have also started to buy electricity from Värnamo Energi in some cases. Hence, it seems like it is easier to attract new customers in other business areas if the company is already their supplier. The opportunity to capture more customers is something the company will focus on. Since there are already several business and household customers that have broadband from Värnamo Energi but do not currently buy their electricity from the company, it might be possible to gain new electricity customers in this segment. Thus, there are still unexploited opportunities in the local target group.

The company's product portfolio should be used to both attract new customers and also to regain lost customers. (Ljungqvist, 2011)

Värnamo Energi's organization structure is designed to leverage competence available in one business department in other areas as well. This organization structure was developed around 1990. The departments for marketing, technology, finance, and development were consequently made common to all business areas. In this way, different types of skills, like administrative and management skills, are gathered in one department and can then be used in all business areas.

The technology department works with the development of electricity networks, district heating, broadband, and gas. The marketing department concentrates on sales in electricity trading, electricity network, district heating, broadband, and gas. (Ljungqvist, 2011)

Since it is such a small company, Värnamo Energi considers it smarter to gather the same types of activities in one department. In this way, the company can offer better service to customers. Lundin (2014) points out that it should be enough to contact one salesperson even if the customer is interested in different types of products. This is in line with the company's cornerstone, which focuses on making it as easy for customers as possible. Ljungqvist (2011) believes that in this sense, Värnamo Energi differs from larger companies, which probably more often have segregated business departments.

Accumulated market experience

Ljungqvist (2011) explains that the company has been able to exploit its knowledge in the electricity network industry to get customers in the electricity trading segment also. Since a good relationship with the customers was established, it was accordingly easier to become those customers' electricity supplier as well. The fact that the company was

already familiar to many customers, and thus was a known trademark, benefited it when the electricity market was deregulated, according to Lundin (2014). He explains that Värnamo Energi also was able to take advantage of having operated for a long time in the industry when it came to administrative and system costs.

Värnamo Energi conducts competitor analysis, and Ljungqvist (2011) believes that the company has good knowledge about its competitors. The electricity prices offered by a selected number of electricity trading companies are followed on a continuous basis, approximately every other week, depending on the price fluctuations. Those analyses are also important to undertake at specific points in time when changes are made, like at the turn of the year. The electricity prices are posted on the companies' home pages and are easy to analyze. The company can also use its previous experience in this area since it has background knowledge of the electricity market and consequently knows how and where to get information about its competitors. Since there is a lot of information available, it is important to know where to look for useful information. Nevertheless, some information that not is possible to retrieve or is too time consuming to find is purchased from other companies. Lundin (2014) also adds that every time a new contract is signed, a kind of competitor analysis is performed since the companies' offers are compared. Hence, the salespersons must have a good knowledge of competitors' products. He also adds that the company obtains information about competitors through other business areas as well.

5.3.5 Case study 2: Strategy development

Ljungqvist (2011) explains that when it comes to electricity trading, in 2006 the idea was to focus on expansion. However, this goal has not been fulfilled, primarily because of a lack of resources in, for example, staffing. In 2009 the decision was made to wait for expansion, and there was a reduction in personnel. He points out that there were several reasons for this decision; pricing has been very volatile, and there have also been many other changes in the electricity industry. The uncertainty of the external environment led to losses for many electricity trading companies. In view of the fact that 2010 was characterized by a turbulent climate, together with insecurity about the result of policy and regulation changes, the company has decided to continue to postpone expansion. Nevertheless, even if the expansion plans are put on hold for the moment, the intention is to progress in the electricity trading business by developing good customer contracts, according to Ljungqvist (2011). Sometimes a long-term contract is favorable and sometimes short term. However, there are a limited number of models for electricity trading, and Värnamo Energi does not offer any special customized packages so far. Ljungqvist (2011) also adds that it is difficult to talk about customization of the product in this industry since electricity is equal for everybody. Electricity trading companies operate in a rather unique setting since the product they offer is exactly the same as their competitors'. It is not possible for the customers to see or feel it.

Nevertheless, the overall goal for the future is to be the first choice of electricity supplier in the Värnamo region and to capture the customers in both the household and business

segment in this area. The main focus is on expanding in the area in which Värnamo Energi already operates. Värnamo Energi's strategy is thus to have a close and continuous dialogue with its customers. In this way the company can avoid losing them to competitors. The company usually does not have intense marketing campaigns like some other companies have. Ljungqvist (2011) explains that it would not be possible for Värnamo Energi to have price campaigns since the margins already are so thin. Larger companies, by contrast, have the resources to spend on marketing campaigns until they have increased the number of customers according to their goal. The reason for this is that they use money earned within the company group—for example, from production—to run marketing campaigns in the business area of electricity trading. Smaller companies like Värnamo Energi, does not have the same amount of money to spend in the company group. Värnamo Energi has instead decided to work on a more continuous basis and build trust, according to Ljungqvist (2011). If the customers have realized the advantages of a local electricity supplier, they will not change provider just because the price the competitor can offer is a bit lower. Värnamo Energi thus puts a lot of emphasis on informing customers about what benefits they will receive by choosing a small local company. This includes personal contact, staff that can visit customers if needed, and short telephone queues. As Ljungqvist (2011) points out:

The larger companies might be able to offer better prices, but Värnamo Energi can provide customers with personal contact and better service owing to its closeness to the customers. Many customers recognize the staff in Värnamo Energi when, for example, they meet in the local store.

Some of the lost customers have returned to Värnamo Energi when they realized the advantages the company can offer them compared to competitors. This has happened within both the household and business segment. Hence, establishing long-term confidence between the company and the customers is very important for Värnamo Energi; customers should feel that Värnamo Energi is an honest company. Ljungqvist (2011) explains that one way of improving customer service is through the yearly NKI survey (Nöjd Kund Index=Customer Satisfaction Index), which has been performed since 2006. The total NKI value was 69% for the company in 2008. The survey showed that Värnamo Energi customers were satisfied with the security of delivery, safety, and treatment. Improvement areas included lower prices and simplified invoices (Vår Energi, 2008).

Ljungqvist (2011) also believes that it was an advantage when the company became fully owned by Värnamo municipality since many locals now consider Värnamo Energi to be “their” company. This local touch is very important for the company, so it sponsors local events to show that it cares for the local environment. Furthermore, to involve customers and to make the company even more visible, Värnamo Energi offers activities like “open house,” publishes a customer magazine (twice a year), and sponsors local enterprises. Ljungqvist (2011) notes that it would have been strange if the company had tried to run

marketing campaigns in other areas, since it then would have lost its local touch; even the name “Värnamo Energi” is strongly connected to the local area.

Another aspect that has been important for Värnamo Energi to distinguish itself from others is the environmental focus. As of summer 2006, all electricity provided by the company was produced in hydroelectric power plants. This is one of the reasons Värnamo Energi has customers in other parts of Sweden as well. Both household persons and companies have contacted Värnamo Energi and wanted to become customers after they discovered in the media, like newspapers and the company’s home page, that Värnamo Energi offers so-called green energy. Ljungqvist (2011) mentions that this green line is going to be even further pursued in the future, and Värnamo Energi recently became part owners in two wind turbines to produce its own environmentally friendly electricity. He explains that the company plans to invest more in production in the future. In this way, Värnamo Energi can better compete with other companies that have their own production. The pricing will remain according to market forces, but it will be easier for the company to deal with the volatility of the electricity market. The investment in wind turbines is also in line with Värnamo Energi’s environmental focus.

The formulation of the strategic process is a planned and conscious activity at Värnamo Energi. It has a well-developed strategy plan in both a short- and long-term perspective, as described by Ljungqvist (2011). The company group applies a portfolio strategy in which synergies between the business areas are exploited. Currently, the business strategy is resource driven, meaning that Värnamo Energi develops the business plan depending on available resources. However, the desire is to become more market driven and allow the external environment to determine the strategic direction to a larger extent.

The business plan covers three years for each business area, and is followed up yearly. Goals are thus specified for the whole company, as well as for each market segment. (Ljungqvist, 2011)

Different measures regarding, for example, financial figures, employment, education days, and expansion plans are specified. However, there is still room for modifications during the year if needed. This is necessary since there is a continuous change in the environment Värnamo Energi operates in. For example, if a specific business opportunity opens up, it would be taken into consideration even though it is not in line with what is stated in the business plan.

The management group establishes the business plan. However, representatives from the business areas are also involved when needed. For example, the sales manager, several salespersons, and the one person responsible for market communication are all involved in specifying the goals for sales volumes and marketing activities when the business plan for the marketing department is set up.

The management group tries to involve as many employees as possible in this work to make everybody engaged in the business plan. Otherwise, it is easy for the business plan to become only a piece of paper and be ignored instead of being something that guides everybody in their daily work. (Ljungqvist, 2011)

The goals formulated in the business plan are included when the employees' individual job descriptions are specified. Hence, objectives for each employee are stipulated in a document, which can easily be followed up at an individual employee meeting.

The business plan has to be approved at a board meeting before it can be implemented in the company. The board of directors normally has meetings four times a year. One of these meetings is the ordinary general meeting. At the following meeting, the business plan is presented in detail for the board members. The new business plan is usually a revision of the previous one. The forecast and result are compared, and there is also an assessment of whether the planned actions were implemented. The activities that have not been taken care of are sometimes included again in the new business plan. The business plan also includes finances for the last year and the next three years. The goals specified in the business plan then function as a template in the budget work. The budget is then presented at the following board meeting.

When the business plan has been approved, a brochure is created to make it more reader friendly and available to all employees. This brochure is about six to eight pages (the business plan can include up to 100 pages), and the idea is to highlight the company's main objectives for the workforce in an easy way. The overall company goals, as well as the objectives in the business areas, are thus presented. The brochure is gone through together with the employees to ensure that everybody understands the content. The idea is to use the brochure in future work to ensure that all specified activities have been implemented. For example, the head of the marketing department can go through the target card and tick off those activities that have been taken care of. This check not only functions as a control but can also be seen as way to show what actually has been done so far. In this way, it can encourage employees since the outcome is more salient. The company has also used the customer magazine to present investments undertaken during the year and to visualize for both customers and employees what actions were implemented. As Ljungqvist (2011) notes:

It is important to look forward, but sometimes it is also useful to remember to look at the past.

The current business plan covers the time period 2011–2013. An example of areas included in this plan follows:

- A presentation of overall company goals, one of which is to attract new customers in Värnamo Energi's target area, both household and business customers
- Värnamo Energi's business concept
- A short presentation of the areas common to all business segments
- A short analysis of the company's business areas, customers, competitors, and forecasts about the future
- A financial analysis displaying the key figures, like turnover and solvency
- An employee investigation, conducted each year to investigate how the employees feel about the workplace and to identify competence and education needs; includes employee age structure
- A description of the IT infrastructure, including all systems that are used in the company and how they are interlinked with each other
- The result from the NKI survey. The total customer satisfaction index is presently 76%. Customer satisfaction has increased, but there are still a few areas that can be improved, according to the investigation, like the information on the invoices and awareness of customer desires. Hence, the NKI investigation identifies which areas need to be improved, and the needed actions can consequently be included in the business plan. In this way, it is possible to measure the outcome of the measures taken and see whether the problem/weakness has been taken care of.
- Target cards displaying the specific measurements that should be fulfilled—for example, the desired levels for the NKI investigation and other financial measures

The business plan is then divided according to the business segments, which in turn are divided into several parts focusing on specific areas. The electricity trading segment is described in terms of the market situation, pricing, competitors, customers, financial key figures, forecasts, and target goals.

5.4 Case study 3: Alvesta Energi AB

This case study is based on information collected from annual reports, the company's home page, and interviews. The first interview was conducted in 2011 with the managing director, Gert Bengtsson, and the marketing director, Bengt Carlsson. The second interview was held in 2014 with Gert Bengtsson. He has worked at Alvesta Energi since 2008, and in the electricity industry for about 35 years. In the late 1980s, he worked at E.ON with contracts with industrial customers and continued until 2002. He then worked with sale of gas for three years before returning to the electricity network industry as a consultant. He started to work at Alvesta Energi as a technology manager and then became managing director in June 2009. Bengt Carlsson has worked in the sector since 1989. He started at Alvesta Energi in 1997 and became mainly responsible for developing the electricity trading business segment.

5.4.1 Case study 3: General facts about the company

Alvesta Energi has its roots in Ohs Powerstation, which was built already in 1899. It delivers electricity, heating, and broadband to the municipality of Alvesta and nearby areas (Alvesta Energi's home page, 2014a). As of 2006, the Alvesta Energy group consisted of the parent company, Alvesta Energi AB, and the wholly owned subsidiary Alvesta Elnät AB. The company is also owner of Bredband i Väre AB (BIVA). BIVA builds and runs an open broadband network (Wexnet) in the municipality of Alvesta (Alvesta Energi's home page, 2014b). The company has customers between Ystad and Sollefteå, but the majority are found in the local municipalities, such as Alvesta, Älmhult, and Rydaholm (Carlsson, 2011). As of March 1, 2012, Alvesta Energi became part owner in the electricity trading company Bixia. Bixia thus acquired Alvesta Energi's customer basis, consisting of 5,000 customers (Alvesta Energi's home page, 2014c).

Brief facts

Below are brief facts about Alvesta Energi (Alvesta Energi's home page, 2014b):

- 21 employees (average age 48 years)
- Owned by Alvesta municipality
- Operates within three business areas; electricity, heating, and broadband
- Number of customers: electricity network about 4,800 and heating about 1,520

Alvesta Energi's ambition

The company constantly aims for as secure deliveries as possible within the energy and communication sector, and strives to achieve 100% secure deliveries from a consumer perspective, which benefits Alvesta municipality and all Swedish "Smålänningar" (Alvesta Energi's home page, 2014d).

Environment

The electricity sold by Alvesta Energi during 2009 was provided by the following energy sources: renewable energy (wind and water power and biofuel) 67.29%, fossil fuel (coal, oil, and peat) 21.36%, and nuclear power 11.35% (Alvesta Energi's home page, 2011).

Performance/financial information

The effect of competition in the electricity market to a large extent decreased margins on sold electricity after 1998, as expected, and margins on new and resigned contracts continued to be under pressure during the next year also (Alvesta Energi AB Annual Report, 1998; 1999). Alvesta Energi has been affected by the increased market price on electricity, like most other actors, and it has not been able to fully compensate and transfer the price increase to the customers, which contributed to a lower marginal income in 2001 compared to the preceding year (Alvesta Energi AB Annual Report, 2001). In 2002, the electricity prices strongly increased, but the company managed to retain the marginal income for electricity trading at the same level as the preceding year (Alvesta Energi AB Annual Report AB, 2002). 2009 was dominated by recession and financial crisis, but Alvesta Energi did not notice any decrease in sales (Bengtsson, 2011; Alvesta Energi AB Annual Report, 2009). The company proceeded with its aggressive growth strategy regarding the business area electricity trading and continued to take market share (Alvesta Energi AB Annual Report, 2009). Bengtsson (2011) can confirm that performance in 2010 was rather good, considering the circumstances. However, the company did not increase its market share as much as planned.

The foundations of the company group's development are as follows:

- To grow profitably
- To optimize the current businesses
- To reduce vulnerability

The financial key figures are presented in Table 16:

Table 16: Financial key figures (thousand SEK)

Source: Alvesta Energi AB Annual Reports 2000; 2005; 2010.

	1996	1997	1998	1999	2000	2001	2002	2003
Net turnover	49 414	41 701	44 103	42 414	45 769	61 250	67 207	83 098
Income after financial items	1 512	1 135	339	-529	1 599	-4 037	-8	3 125
Balance sheet total	55 472	59 283	65 800	89 046	133 920	175 844	205 246	227 427
Coverage ratio % (solvency)	6	7	7	5	4	4	4	4

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net turnover	76 396	82 429	96 758	97 055	111 284	115 865	137 966	112 219	78 553
Income after financial items	1 660	1 818	3 845	3 778	881	4 478	3 706	1 586	4 932
Balance sheet total	224 906	232 212	252 880	263 507	268 945	263 004	272 313	241 901	236 102
Coverage ratio % (solvency)	5	5	8.1	9.1	9.2	10.9	11.5	13.2	15.7

Part one: 1996–2011

Since Alvesta Energi is not involved in electricity trading in the same way as before due to the acquisition, the information in this case study has been divided into two sections. The first part includes information about the company between 1996 and 2011. The second part describes Alvesta Energi's situation after the acquisition, thus including the years 2012–2013.

5.4.2 Case study 3: Liberalization

The company was significantly affected by deregulation in 1996, according to Carlsson (2011). Carlsson (2011) explains that when he started at the company, no specific person was in charge of the electricity trading business. His task was consequently to build up this part of the energy business by both regaining old customers and attracting new customers. In the beginning, the main focus was on business customers. Household customers had to pay to change supplier, which made it difficult for them to switch. Bengtsson (2011) adds that many of the business customers expected their costs to decrease due to deregulation; however, this was not always the case since in many cases they already had, for example, a three-year contract, signed before deregulation. Those customers could therefore not take advantage of the price decrease and paid a higher price compared to companies that waited to sign any contract until deregulation was implemented. As a result, they felt like they had tried to act smart, but the result was the opposite. It was consequently a challenge for employees at Alvesta Energi to explain to the customers why this had happened, and in some instances, the contract was even renegotiated.

Many people who had worked in the electricity industry for a long time found it hard to see why it would be beneficial to deregulate the market. Nevertheless, Bengtsson (2011) believes that deregulation in general was considered positive from the electricity trading companies' point of view. However, he also adds that customers changed their behavior very little in the beginning following deregulation. A few customers were curious about the new situation, but the majority did not make any large effort to find out what deregulation would mean to them. It consequently took a couple of years before people realized that they could switch supplier if they wanted to.

5.4.3 Case study 3: Perceptions of mobility barriers

Competitors

Carlsson (2011) explains that when deregulation was implemented, a couple of companies stood out from others since they were first to promote their companies by mail to potential customers. However, after a while, other companies copied them, and the effect vanished. There was then a trend in telephone campaigns. It turned out that these campaigns had more effect since they involved personal contact with potential customers. Some of these

campaigns have been rather aggressive, with a specific target focus on, for example, customers living in apartments or private house customers.

The companies conducting telephone campaigns to take over customers from other suppliers can be seen as Alvesta Energi's main competitors. (Bengtsson, 2011)

When competition increases, many companies try to gain customers through marketing campaigns, according to Carlsson (2011). He explains that in the beginning of 2000, several competitors sent out advertisements to potential customers, but nowadays there are more telephone campaigns and visiting promotion activities, like in retail stores. In 2003 the electricity price decreased, and the market was characterized by an increased price consciousness among customers, which contributed to increased mobility. At the same time, the share of customers with a fixed price contract increased (Alvesta Energi AB Annual Report, 2003). However, even though the competition increased, the customer basis remained rather stable (Alvesta Energi AB Annual Report, 2004). Alvesta Energi followed the planned aggressive growth strategy; during 2007 the company increased its market share, and many new customers were found outside the company's traditional home market. Nevertheless, competition continued to be intense, with several new actors entering the market (Alvesta Energi AB Annual Report, 2007).

Cooperation between companies is not common within the electricity trading industry, according to Carlsson (2011), and Alvesta Energi has not collaborated with any other company. Bengtsson (2011) adds that in the electricity network area, cooperation between companies exists, but when it comes to electricity trading, each company works alone and tries to generate its own business. Further, he points out that there are no economies of scale to exploit when it comes to electricity as such; it has the same price/costs regardless of how much a company sells. At the same time, he explains that it is different regarding administrative costs, since larger companies can take advantage of economies of scale. According to Bengtsson (2011), it is difficult for electricity trading companies to distinguish themselves since there is no natural difference between their products; electricity has the same characteristics regardless of the seller. Nevertheless, he also points out that there are a number of extra values that can make a difference and hence contribute to why some customers chose a certain supplier over another.

Capital need

Bengtsson (2011) explains that an establishment or expansion does not require a lot of capital apart from marketing costs. At the same time, there are no large margins either in the electricity trading business, so it would thus be difficult in this sense to invest a lot of money, since earnings are limited. However, for Alvesta Energi, a certain amount of capital is needed to run the business, since there is a delay between sale and payment. The company thus has to come up with the corresponding capital amount since the electricity is purchased at one point in time, and payment is completed later.

Policies and regulations

According to Bengtsson (2011), the most apparent change in the beginning was the requirement that electricity trading and the electricity network should be divided, which contributed to extra administration. After that, he considers the legal framework to have been rather constant. Carlsson (2011) mentions the new requirements stipulated by the consumer organizations that must be fulfilled by the companies.

Lack of switching costs

A customer satisfaction survey was conducted during two months in 2007, and electricity trading customers showed a customer satisfaction rate of 76%, which is 14% higher than the average value in the electricity trading market (Alvesta Energi AB Annual Report, 2007). The majority of current customers seem to be rather loyal, according to Carlsson (2011). He believes that many people consider it convenient to remain customers since they know what to expect, and it is also easy for them to have the same supplier for both electricity usage and electricity network. Customers perceive it as too complicated to switch supplier to save only a little amount of money; it is just not worth the effort. However, when a customer is lost due to bankruptcy, this is costly for the company, particularly when it concerns a large business customer and Alvesta Energi is not compensated for the electricity that already has been purchased.

Skilled employees

The company has not done any electricity trading on its own, so this type of competence has not been necessary. In 2001 the company decided to continue to use Vattenfall as supplier and balance provider (Alvesta Energi AB Annual Report, 2001). In 2004, Alvesta Energi ended cooperation with Vattenfall and entered into a cooperation agreement with Östkraft. Östkraft (now Bixia) should thus assist the company's electricity trading business with electricity purchase and support planning risk handling, among other things. The new agreement was expected to strengthen Alvesta Energi's market position (Alvesta Energi AB Annual Report, 2004). The cooperation with Östkraft regarding purchase of electricity continued to develop positively during 2005, and the company's market share had increased at the end of the year (Alvesta Energi AB Annual Report, 2005). However, the customer service department requires skilled employees since Alvesta Energi focuses on providing customers with excellent service. When it comes to education, Alvesta Energi Group works on a continuous basis with competence development, and individual staff meetings form the basis for the development programs (Alvesta Energi AB Annual Report, 2009). Bengtsson (2011) points out that it is important for employees working in the customer service department to be responsive to the customer. They must also have the required knowledge about the electricity market. He believes that younger customers have a different profile than older ones, which requires different ways to attract new customers compared to before. It will probably be more important to be visible on the Internet, for example, and to more actively reach out to this new customer group. The market and customers' behavior have changed, which makes margins smaller and thus forces companies to become more effective.

Need for research and development

Bengtsson (2011) explains that the company is far too small to be involved in research and development activities on its own. However, by being members in the sector organizations Swedish Energy and Swedish District Heating, the company supports research and development through those organizations within their areas of interest (Alvesta Energi AB Annual Report, 2009). Alvesta Energi thus financially supports and actively contributes to the research program ELAN, which investigates how humans' actions and values affect electricity usage. Bengtsson (2011) explains that in this way, it is possible to be part of the development of the industry. It also offers the opportunity to participate in conferences and discuss and present questions and thoughts. By being a member of the Swedish Energy organization, Alvesta Energi also has the opportunity to receive support in legal questions and tax matters, as well as to get advice on tariffs.

5.4.4 Case study 3: Strategy competence

Core competence and relatedness

Alvesta Energi has three business areas: electricity, district heating, and broadband. Every business area is self-contained and there are specialists within each area according to Bengtsson (2011). He points out that it is not possible to select one of the business areas as the company's core business. Carlsson (2011) adds that the business segments have not affected each other to any large extent since each area does its own business. Marketing campaigns and technology activities are also separated between the areas. However, Bengtsson (2011) also mentions that the company offers service and counseling regarding the electricity network industry, which may have drawn customers in the electricity trading segment also despite the fact that they might have been able to get lower prices from other suppliers. Hence, the end customers are often the same; he estimates that there are about 4,800 network customers, and among those about 3,700 are also electricity trading customers. Administration and customer service are also shared between business areas.

Accumulated market experience

Alvesta Energi has gathered knowledge about the electricity market for a long time in terms of customer need and electricity consumption, and has consequently been able to act as counselors when needed, according to Bengtsson (2011). He is certain that this was an advantage for the company when the market was deregulated compared to incumbents that did not have this competence. Alvesta Energi could thus offer credibility to customers, which was important, particularly in the beginning.

Many of the employees at Alvesta Energi have been active in the same sector for a long time and are well familiar with both the industry and the people working in it. There are usually several well-known faces at the sector meetings since many employees have worked at one of the large companies, such as E.ON, at some point in time. Currently, for

example, there are four employees at Alvesta Energi who previously worked at E.ON. The sector is rather small and networks are established accordingly, according to Bengtsson (2011). Due to this fact, he feels that the company has pretty good knowledge about competitors.

We perform competitor analysis on a regular basis by following many of the competitors' moves and looking for information regarding different matters like prices and offers. (Bengtsson, 2011)

The company has continuously focused on being updated on competitor's prices and matching their offers and product mix, according to Bengtsson, 2011.

5.4.5 Case study 3: Strategy development

The strategy so far has been to enter the electricity trading segment slowly and quietly, according to Carlsson (2011). For the moment, the target area is primarily around Alvesta. The idea is to establish customer loyalty in a long-term perspective and then expand the company's target area gradually. This should be done by, for example, engaging in local activities and being visible at local events. Closeness, simplicity, and honesty should characterize the company.

Bengtsson (2011) explains that the business plan covers a year and is followed up each month, at both a board meeting and staff meeting. There is also a more long-term description for the company as a whole, including the next three years. Carlsson (2011) is responsible for developing the electricity trading business area. In some instances, the board of directors is also involved, depending on the types of decisions that are going to be made. The company believes it must deserve its customers. Alvesta Energi will thus not be involved in any large marketing campaigns focusing on low prices. According to Carlsson (2011), it is important to minimize risks since it is otherwise easy to lose a lot of money. To avoid this scenario, Alvesta Energi works with risk and vulnerability analysis to identify and minimize risk exposure. The company has an electricity trading policy, which is updated at least once a year. This policy regulates the amount of risk exposure that is allowed, and the current strategy includes risk minimization. One potential threat is political risk in the form of changing prerequisites and conditions (Alvesta Energi AB Annual Report, 2009). Bengtsson (2011) also points out that sometimes it can be advantageous to have many small customers instead of a few large ones since this spreads the risk in case the company loses a customer. A main focus in the current strategy is to gain new electricity trading customers. The goal for 2011 was to increase the number of electricity trading customers by 10%. The external environment drives the company's marketing strategy, but the actions that can be taken are limited owing to a lack of resources. Since the company does not have the required resources to conduct large marketing campaigns, Alvesta Energi follows its own strategic path, and other ways of attracting new customers have consequently been developed. One example, according to Carlsson (2011), is the competition "Smålandsfejden," started by the company in 2009.

The competition involved many of the nearby municipalities, and the main idea was to establish a well-known trademark for the company and thus attract new customers in a long-term perspective. (Carlsson, 2011)

The company decided to leverage the good reputation connected to the area Alvesta Energi operates in, Småland. Carlsson (2011) explains that the competition gave Alvesta Energi a good opportunity to come in contact with potential customers. Unfortunately, the company could not fully take advantage of the success of the competition owing to a lack of resources (Bengtsson, 2011). Nevertheless, the company got a lot of free advertising, both in newspapers and on TV, which it never could have afforded otherwise. A second competition started in spring 2011. Carlsson (2011) once again stresses the fact that it is important that the company deserves its customers; it must offer customers something in return and show that it contributes to the local area in some way or another. Hence, it is very important for the company to meet customers through different activities, like this competition or other local events.

Closeness, simplicity, and honesty are important characteristics for Alvesta Energi. (Bengtsson, 2011)

Closeness means that it should be easy for the customer to get in contact with the customer service department by phone or by visiting the office. Carlsson (2011) also adds that the idea is to be perceived as a local company, playing an important role in the community. In a long-term perspective, the goal is to expand the local circle to include a larger target area. Furthermore, it is important for Alvesta Energi to be perceived as an honest company with the customers' interest in focus. This is why the company has decided to offer a variable price to all customers, including those who do not make an active choice. Bengtsson (2011) also points out that the company owns the concept "100 % Smålänning," which not can be copied by other companies. The idea is that "Smålänningen" stands for the values that pervade the company, including characteristics like enterprising, frugal, simple, smart, and hard-working, and the trademark "Alvesta Energi" should thus be connected with these features. Alvesta Energi has also focused on its product mix to distinguish the company from competitors, according to Bengtsson (2011).

Vertical integration

The company currently has a small hydroelectric power station. Bengtsson (2011) explains that the water power produced in this plant constitutes 2.5% of the company's total sale of energy. Carlsson (2011) adds that the company might produce more in the future, but this question is not something that is prioritized for the moment.

Part 2: 2012–2013

In December 2011, a contract was signed with Bixia regarding Alvesta Energi's electricity trading business (Alvesta Energi AB Annual Report, 2011). Thus, as of March 1, 2012, Alvesta Energi's electricity trading became part of Bixia. Bixia thus acquired Alvesta Energi's customer stock, consisting of 5,000 electricity trading customers. The cooperation is expected to provide customers with a more extensive product offering. At the same time, Alvesta Energi retains and strengthens local customer service (Alvesta Energi AB Annual Report, 2012).

Bengtsson (2014) explains that the decision to sell the electricity trading business area gradually evolved. In 2006, the board of directors decided to increase the number of electricity trading customers. The goal was to double the customer stock from 5,000 customers to 10,000 customers. Since the company lacked the amount of capital needed to run larger marketing campaigns, it focused on attracting customers in other ways, like through local events like Smålandsfejden. Through those events, the company managed to get advertising on the local news program, for example. In 2010, the result of the campaigns was reconciled. It then became obvious that it had not resulted in any apparent increase of new customers. The number of customers remained almost the same. So discussions about Alvesta Energi's electricity trading then started, according to Bengtsson (2014). It could be established that no apparent growth had been achieved within the business segment, and margins were very thin, in addition to a high risk in relation to the profit. Furthermore, the company was too small in terms of competence to be able to compete with larger companies. Bengtsson (2014) believes that it is necessary to have at least about 20,000 customers to be able to compete and be profitable. Since Alvesta Energi is a public company, it could not take too large risks, and it was therefore decided that the company should focus on the other business areas. Bixia was considered to be a suitable partner since the company profile coincided with Alvesta Energi's values. Bixia has an environmental focus and strives to provide superior customer service. Alvesta Energi has thus reduced the risk involved in electricity trading through part ownership and has at the same time remained the customer contact. The company will also receive of the profits as a shareholder of Bixia.

Bengtsson (2014) explains that after Alvesta Energi became an owner of Bixia, the only part of the electricity trading business that still remained at Alvesta Energi was customer service. Currently Bixia buys customer services from Alvesta Energi. In this way, Alvesta Energi remains the customer contact, which was one of the contributing reasons for choosing part ownership. Alvesta Energi wanted to continue to have contact with electricity trading customers, in particular in the view of a possible Nordic end-customer market and the plans to have a common customer contact for electricity trading and electricity network companies. However, the risk associated with customer losses has now been transferred to Bixia. The part ownership has also resulted in other changes. Alvesta Energi does not participate anymore in conferences and so on regarding research and development in electricity trading and thus considers Bixia to be responsible for this part. It is also Bixia that now is responsible for the company's business-level strategy and that

formulates marketing campaigns and decides how the company should differentiate itself from competitors (Bengtsson, 2014). The part ownership is also expected to contribute to other advantages as well. The work that has been initiated will continue to find possible synergy effects, which could provide opportunities for a larger cooperation. Possible areas are common administrative systems, economies of scale from common invoicing routines, and purchasing coordination regarding energy meters and systems for collection of measured values (Alvesta Energi AB Annual Report, 2012).

6 Analysis

This chapter begins with an individual case study analysis for each of the three companies Bixia AB, Alvesta Energi AB, and Värnamo Energi AB. Then, an across-case analysis is conducted, comparing the findings from the individual analysis, followed by a discussion. Finally, propositions are developed based on the outcome of the case study analyses.

The first case to be presented is Bixia. The case study starts with an analysis of the three concepts: perceptions of mobility barriers, strategy competence, and strategy development. The analysis is performed based on the SSD model, and a figure visualizes the result, displaying the different associations. The two following cases, Värnamo Energi and Alvesta Energi, have the same structure.

6.1 Case 1: Bixia AB

6.1.1 Case 1: Perceptions of mobility barriers

The actual number of competitors is of little importance for Bixia. It is not relevant to the company whether there are 20 or 50 companies active in the electricity market, and this viewpoint applies to all three phases. However, competitors' actions in terms, for example, of attracting customers might impact the company. Even though there are many competitors, about 10 companies are considered as Bixia's main competitors. Among these 10 competitors, the three large companies E.ON, Vattenfall, and Fortum have been considered main competitors during all three phases since they act on a national level and have a lot of market power. A few smaller companies can be seen as main competitors, but the number of these companies fluctuates depending on whether they have, for example, active marketing campaigns. However, the main competitors' impact on Bixia was larger during the first phase compared to the second, since Bixia's position in the electricity market became more set, which reduced its main competitors' influence. For example, even though competitors had marketing activities in the areas where Bixia had many customers, the company did not notice any loss of customers, which indicated that the customers remained loyal to Bixia. Nevertheless, during the third phase, the company yet again became more vulnerable to competitors' actions, since competition increased and customers had become more used to changing supplier if another company's offers were regarded as more favorable. Bixia accordingly noticed that competition development changed during the three time periods; during the first phase, most companies struggled with low results, whereas in the second period, the market became more mature. The third phase was characterized by strong development, and companies had to be ahead in terms of, for example, product development if they wanted to evolve as an electricity trading company. The competition among electricity companies remaining after consolidation has thus been perceived as fierce, with low profit margins, which has put pressure on Bixia during the second and third time period.

Bixia has consequently worked hard to get ahead regarding new solutions and to find new ways to distinguish itself from competitors. This is done by being innovative and creating new opportunities in the form of, for example, entering the retail trade, offering many local offices, having its own production, and cooperating with local small-scale producers. These approaches have turned out to be fruitful for retaining current customers and also attracting new ones. These efforts have also reduced the company's vulnerability to competitors' reaction to competition. Competitor retaliation played a more important role during the first time period, when Bixia was rather new in the industry. However, during phase two and three, Bixia developed its own product portfolio and selected a corporate strategy that decreased vulnerability to competitors' reactions. Cooperation with competitors has not been considered an option for Bixia since all the other companies can be perceived as potential competitors. The profit margins are very thin, which makes competition intense, leaving no room for cooperation. However, since several electricity trading companies own Bixia, there already exists cooperation between the owners. In this way, the owner companies can leverage each other's knowledge and experiences, which is valuable for the companies involved and strengthens their position against competitors. Since Bixia has this opportunity, they see no need for the company to cooperate with competitors.

Competitors' cost advantages do impact on Bixia's strategic choices since there is a risk that they may offer considerably lower prices due to lower costs. Bixia must thus be able to offer competitive prices, even though the company's main focus is not to compete on price. It is consequently important for Bixia to be aware of the other companies' cost advantages and not fall behind. To avoid this scenario, Bixia has worked to create economies of scale by centralizing operations and developing similar processes within the company. The importance of competitors' cost advantages accordingly decreased during the second phase owing to Bixia's work to achieve economies of scale on its own, which improved the company's position. This work increased even more during the third phase, and the company has reached the required size to be able to spread overhead costs but at the same time remain a flexible organization. However, it is not only competitors' cost advantages that impact Bixia but also their product differentiation. Since the product offered by electricity trading companies is the same and not possible to differentiate, the companies within the industry choose other parameters to distinguish themselves. It is very important for Bixia to be aware of other companies' differentiation strategies since Bixia also strives to diverge from its competitors on aspects other than price. Hence, it is important to identify which parameters competitors have selected as their most prominent, and then choose other parameters or become better at the same, to retain and gain customers. The significance of differentiation was important in the first period but became very important for the company during the second and third period. The reason for this is that the competition increased, and companies' strategic choices became clearer in terms of how they should compete, whether on low prices or on other features. To sum up, *competitors* had some importance for Bixia's strategy development during the first phase. The impact slightly decreased in the second phase and then remained stable during the third phase.

The need for capital is very important for Bixia. Since Bixia offers the customer fixed electricity rates, this requires very high bank guarantees to be able to trade at Nord Pool. The company also offers customers generous payment conditions. These two factors combined place high liquidity and credit capacity demands on the company. The business model Bixia has chosen to apply indicates that the company wants to offer its customers favorable products, which is not possible for all electricity trading companies since a lot of responsibility and risk is assumed by the company. By offering customers advantageous products, it is expected that this will benefit Bixia when customers compare the company's products with competitors'. *Capital need* is accordingly very important for the company's strategy development during all phases.

Policies and regulations set by the government seemed to have only a moderate impact on the company's strategic choices during phase one and two, and Bixia considered the regulations fairly easy to meet. Generally, the same regulations, like electricity certificates, apply to all companies in the market, creating the same framework for all competitors. Thus, policies and regulations are something that must be followed by Bixia and its competitors and cannot be influenced in the same way as other factors. However, during phase three, policies and regulations were perceived as very important due to discussions about changes in regulations for banks, as well as new EU policies. There are also ongoing discussions about prohibiting contracts pertaining until further notice. The plans for a common Nordic end-customer market also affect Bixia's plans to a large extent. All these changes/potential changes greatly influence the company's strategy development. *Policies and regulations* accordingly have only some importance during phase one and two but are very important for the company in phase three.

When it comes to lack of switching costs, it is important for the company to retain its customers since losses entail costs for the company. Interventions to prevent customer loss increased during the second and third time period through an extensive customer care program, since fierce competition makes it very important to retain customer loyalty. The lack of switching costs has played a very important role during all time periods; the first phase was characterized by market restructuring, which involved customer swapping, both as a consequence of deregulation as such, since the customers now were free to select an electricity trading company, but also owing to company consolidations. The second and third phase involved fierce competition, resulting in companies trying to take competitors' market shares. *Lack of switching costs* was consequently important during the first phase, and very important during the second and third time periods. The small increase during the second phase is explained by increased competition among the remaining electricity trading companies.

The importance of skilled employees increased incrementally during the entire period owing to a more complex electricity market. Electricity trading requires a high level of competence, and it is therefore very important to have skilled electricity traders to compete with other companies. The fact that high competence is required of the electricity traders may be problematic in the future, especially for smaller companies. It may be

difficult for those companies to find employees with the required competence, which may be beneficial for Bixia from a competitive point of view. The importance of skilled employees in the sales force has also increased, since selling requires more knowledge to be able to explain to customers about the products the company offers. The same applies to the marketing and financial department, and Bixia considers itself to be a so-called know-how company. The importance of *skilled employees* has thus increased from having some importance to being very important.

The need for investments in research and development was not important during the first phase but was considered to have some importance during the second phase and to be important during the third period. The increase is explained by the development of new products, which is necessary for the company to distinguish itself when competition increases. This indicates that the company is decisive in its aim of staying ahead of competitors. The company thus has a long-term perspective and considers these investments to be beneficial for the company in both present and future competition, which indicates its commitment to be an alternative to the three large companies. The importance of *need for research and development* thus increased during the entire time period.

6.1.2 Case 1: Strategy competence

Bixia has very skilled electricity traders, and this competence was developed even more during phase two, when the company decided to have its own electricity trading department, located in Växjö. It is difficult for competitors, especially smaller ones, to imitate the competence possessed by electricity traders. The company's aim with this department is to have traders who are experts within this area, which will result in beneficial electricity prices for customers. The competence is also beneficial for the customers since accurate forecasts make it possible for the traders to purchase electricity in the right moment. Furthermore, the company can provide customers with several products, according to the customers' preferences. Electricity trading is thus Bixia's core competence. However, electricity trading competence is rather unique to the electricity market, thus limiting its exploitation in other markets. The importance of a *core competence* increased between the different phases, since the exploitation of the electricity trading competence became more important for the company's strategy development during the second and third time period.

During phase one, Bixia's relatedness between resources/activities was under development. This work increased during the second phase, and several activities became centralized to gather competence and skills, creating specialized process centers for the entire group. In 2007 Bixia launched another business area, telecommunication. A good support system handling large customer volumes existed in the electricity trading segment, and this system was also utilized for telecommunication customers. However, it was foremost customer relationships that were expected to be exploited and thus develop synergy effects. Bixia has consciously had a strong customer focus from its start-up, and

during phase two the company developed a customer care program to provide customers with a higher perceived value than other companies. Hence, the customer competence was leveraged in Bixia's second business area also, telephony. However, the target group looked a bit different since the telecommunication area focused primarily on household consumers. Thus, in the private customer segment, Bixia was able to exploit the opportunity to be the customer's supplier for both electricity and telecommunication. Bixia perceived the market structure in the telecommunication business as fairly similar as in the electricity market with a few dominating companies within the telecommunication market as well. Several telecommunication companies applied a low-cost strategy, but at the same time, there was more room for trading in the telecommunication area, and accordingly it was easier to make a higher profit, which was one of the reasons why Bixia considered this market interesting. To sum up, during the first phase, there was a low degree of relatedness between the activities/resources. However, during the second phase, the relatedness increased between the resources/activities. At the same time, there seemed to be moderate relatedness between two business areas, electricity trading and telecommunication, in terms of synergies created through the exploitation in one business area of competences and resources present in another. The work of developing the degree of relatedness between activities and resources increased during phase three, but the relatedness between the two business areas did not deliver the expected synergies; in 2012 the decision was made to focus on the company's core business, electricity trading, and the telecommunication business was consequently sold. The *relatedness* between activities/resources thus appears to have had little importance during the first phase and some importance during the second and third phase.

The number of years in the electricity market appears to have had no importance for the company during the first phase since the company started up when the market was deregulated. However, the importance increased during the next two phases as Bixia gained more knowledge about the electricity market and how it worked, which was advantageous for the company compared to new companies entering the market. The company thus learned how the industry works and also gained knowledge about customer preferences. The trademark also became stronger as the number of years in the market increased. Regarding market entry, an early establishment after deregulation was important for Bixia to position itself and develop a customer base before other companies. However, this was important primarily in phase one. During phase two and three, the company settled within the industry and obtained a loyal customer group.

It is important for the company to be updated on competitors' actions, owing to fierce competition. Competitors have chosen different ways to attract customers; the three main competitors have the power and financial resources to compete on price, whereas smaller companies do not have this possibility, since profit margins are small. These companies have consequently focused on other parameters to attract new customers. Access to information about competitors is important for the company to be updated about competitors' actions on a continuous basis. For example, competitors' prices are assessed

on a daily basis, and benchmarking is conducted based on formal key figures available. Even though Bixia cannot compete on price, it is still important for the company to offer competitive prices. The price is also one of the parameters that are easy to identify for each company; other parameters that are important for competitors' strategy can be harder and more time consuming to reveal. The impact of *accumulated market experience* had some importance during the first and second phase, with a small increase during the third phase to become important.

6.1.3 Case 1: Strategy development

Bixia does not apply a cost leadership strategy, but the company strives to provide competitive prices. Price setting was important during the first phase. During the second phase, the company became more settled and had loyal customers, and these customers had not chosen Bixia for price but for other reasons, such as good customer service and an environmental focus. During the third phase, the importance of cost advantages slightly increased again, owing to intensified rivalry. Nevertheless, Bixia has decided to apply a differentiation strategy with two main focus areas: environment and superior customer service. The differentiation strategy became even more intensified during the second and third phase, and the parameters that are particularly important for the company are location, product mix, and reputation. Location concerns the company's effort to maintain local offices to be close to customers; this has been fulfilled by acquisitions or partnerships with other companies, in addition to entering the retail business. The product mix is also very important for Bixia, and the company has chosen to offer customers beneficial products in terms of both risk minimization and environmental aspects. Both parameters affect the company's reputation, which also is very important for the company, particularly in phase two and three, owing to increased competition. The company's target group is very broad, involving both small and large businesses, as well as household consumers. It is only the largest electricity consumers that are excluded from the target group, since it would require too large guarantees at Nord Pool and hence involve too much risk. Bixia has thus chosen a *differentiation strategy*, which has become even more obvious during the second and third phase, as the company has refined its strategic choices.

Bixia' has decided to expand through acquisitions/partnerships. The reason for this is the desire to grow as quickly as possible to compete with the three large companies. This is also a way to anticipate further consolidations, and Bixia is thus acquiring smaller companies to stay at a certain size. Including more partners is also necessary if the company will continue on the strategic path it has chosen regarding, for example, the selected business model, which requires an extensive amount of capital. Furthermore, the acquisition of companies/partnerships gives Bixia access to customer stocks in new areas. This goal has thus been pursued throughout all phases by horizontal mergers. During phase one, the company gained access to some new products via mergers, but the focus was on market extension. However, in phase two Bixia entered the telecommunication area, since this business area was considered similar to the electricity trading business

area, and therefore expected to create synergies. Nevertheless, this business area was divested in phase three since it did not create values as anticipated. Vertical integration has also been conducted by the acquisition of wind turbine companies. The company also wants to grow organically, but it would be too slow to grow only in this way. However, the importance of organic growth increased during the entire time period. Thus, *expansion through mergers/acquisitions, strategic alliances, or organically* had little importance during the first and third phase but some importance for the company's strategy development during the second phase.

6.1.4 Case 1: Coding

As described in chapter four, a multi-item Likert-type scale was used to rate each indicator's importance in relation to strategy development. Tables 17–19 display the importance of the indicators for Bixia's strategy development in each of the time periods. The importance of each component and concept for the company's strategy development is also presented.

6.1.5 Case 1: Identified empirical pattern

Figure 9 below is based on the SSD model and illustrates the two concepts' importance in relation to Bixia's strategy development during the three time periods.

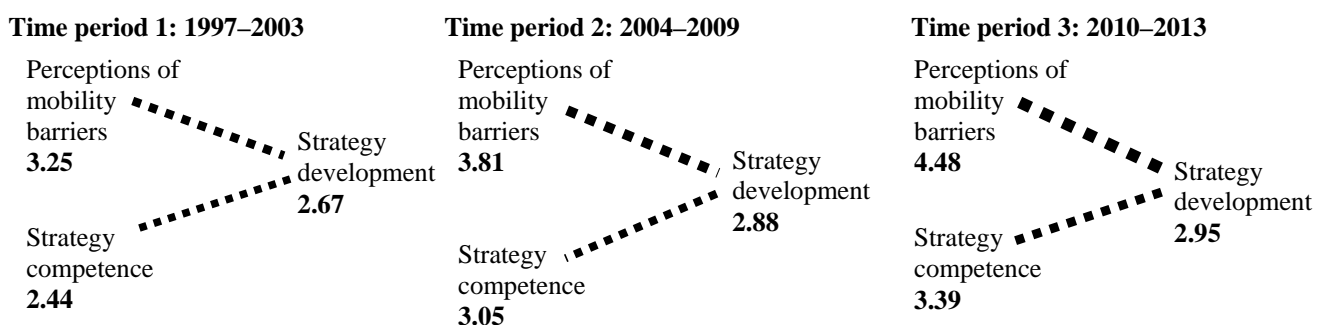


Figure 9: Identified empirical pattern for Bixia's strategy development

Figure 9 shows that the value of the concept *perception of mobility barriers* increased during the entire time period, which implies that the association between the perception of mobility barriers and strategy development became stronger. This indicates that the importance of mobility barriers for Bixia's strategy development consequently increased. Hence, the implication of factors in the external environment became more important for Bixia's strategic development. The value of the concept *strategy competence* also increased from phase one to phase three, which implies that the association between strategy competence and strategy development became stronger. Hence, factors relating to strategy competence also became more important for the company's strategic development. The value of the concept *strategy development* also increased in both phase two and three.

6.2 Case 2: Värnamo Energi AB

6.2.1 Case 2: Perceptions of mobility barriers

Värnamo Energi perceived the first years after deregulation to be characterized by consolidation reducing the amount of electricity trading companies. The number then remained rather constant. Värnamo Energi was accordingly not affected by the number of competitors during phase one and two. However, during phase three, the company noticed changes in the market structure again and thus perceived an increase of electricity trading companies. The impact of the number of competitors consequently increased during the third phase since the new actors' actions had an effect on the company. However, it is the three large companies, Fortum, E.ON, and Vattenfall, that are considered to be the main competitors. As the large companies operate on a national level, they pose a threat to the smaller local companies, such as Värnamo Energi, trying to recruit their customers. Fortum and Vattenfall were considered main competitors during all three phases, whereas E.ON was part owner in Värnamo Energi until 2010 and was consequently not considered a main competitor during phase one and two. Due to increased competition, other incumbent firm's also attempted to gain customers through different campaigns from time to time. Occasionally, newcomers also had the intention to interfere within the company's customer segment, but usually this threat only lasted for a short period. The main competitors' influence on Värnamo Energi was constant during the three time periods.

To begin with, Värnamo Energi did not notice competitors that much. During phase two and three, the company observed increased competitor rivalry, primarily because of smaller margins. The company defended itself against the external threat posed by competitors by being proactive in distributing information about what it could offer its customers. In addition, when competitors had marketing campaigns in Värnamo Energi's local area, the company became quick to respond with even more extensive customer information. Competition increased gradually during the complete period, both from incumbent firms and from firms trying to enter the industry. The competition development has thus gradually intensified since deregulation. Värnamo Energi realized that it cannot compete on a national level and has therefore chosen to focus on customers within the local area. This decision decreased the company's exposure to competitor retaliation since it operates mainly within the local area and does not interfere in other companies' geographical areas. Hence, when the company has activities within its target area, this does not initiate any specific actions from competitors.

Increased competition has resulted in less cooperation between electricity trading companies, which also is the case for Värnamo Energi. Before the market was deregulated, collaboration existed, but nowadays there is no cooperation between Värnamo Energi and its competitors. Due to fierce competition, each company has to take care of its own interests. After deregulation, companies had to adjust to the prevailing market forces in a different way than before, and it has thus become more obvious that the companies are threats to each other. However, during phase one and two, Värnamo Energi

collaborated with its part owner E.ON, which was beneficial for the company, particularly in the beginning.

Competitors' cost advantages affect Värnamo Energi and impact negatively on the company if they become too significant, since they allow competitors to offer prices that are much lower than Värnamo Energi's. However, since Värnamo Energi has operated in the electricity industry for a long time, the company has had the opportunity to achieve economies of scale on its own, for example, by using the same debiting system within the electricity trading and electricity network area. Värnamo Energi has also gathered in-house knowledge in specific departments that can be leveraged throughout all business areas. For example, the marketing department is the same for all business areas, which creates synergies and reduces costs.

Värnamo Energi is also aware of how competitors try to differentiate themselves. However, since the company has decided to focus on customers in the nearby area, it seems not that important for the company how other companies distinguish themselves. The focus is more on how Värnamo Energi can leverage its knowledge of local customer preferences and fulfill these requirements to retain and gain customers within the local area. Nevertheless, more and more companies have started/plan to start their own production and can consequently offer customers self-produced electricity. This new business attracts new customers, having a negative impact on Värnamo Energi, which is already noticeable. The company therefore also started up its own production during phase two.

Competitors had little importance for the company's strategy development during the first phase. The component value slightly increased during the second and third period to have some importance.

The need for capital is not important for Värnamo Energi. The company is not trading at Nord Pool and no large bank guarantees are thus required. Moreover, since Värnamo Energi has an organic growth strategy, no large amount of capital is necessary in this sense either. The *capital need* has not changed and has had only little importance during the entire period.

Värnamo Energi's must follow the requirements imposed by the government. The component policies and regulations accordingly had some importance for the company during the first phase. During the second and third phase, this component became very important for the company's strategy development. The introduction of different pricing areas in November 2010, as well as the plans for a common Nordic electricity market, affected the company's strategic choices. If the decision about a common market is made, this will entail costs for the company in the form of, for example, new administrative systems. Hence, insecurities about these new *policies and regulations'* effect on electricity trading companies had a negative impact on the company's planned expansion.

Customer loyalty is very important for Värnamo Energi. Increased rivalry has resulted in companies striving to attain more customers to be profitable. Värnamo Energi consequently works hard to keep its customers loyal. This is done by offering customers fair pricing and by giving them complete information about the company's products. The company also stresses the advantage of having a local company as supplier in terms of personal contact. Hence, Värnamo Energi works proactively to retain customer loyalty, since this is very important for the company owing to the high costs customer switching involves. Nevertheless, due to increased competition, other companies are conducting intensified telephone campaigns, which have resulted in customer switches. These switches generate large costs for Värnamo Energi in terms of both attracting new customers and assisting previous customers who want to switch back. Presently, the remaining customer stock is rather loyal and not that receptive to other companies' offers. However, at the same time, the company has noticed that customers' behavior has changed, since many younger customers are more likely to switch supplier if they find a better offer. This trend is very important for Värnamo Energi to respond to; otherwise, it can have large consequences for the company. Thus, the importance of *lack of switching costs* increased for the company due to intensified competition, from being important during the first phase to being very important during the second and third time period.

It is important for Värnamo Energi to have a skilled sales force that attracts and retains customers, since this is the main task for the company to be successful. During the second time period, it became even more important to be able to present the company's products in a way that attracts the customers, since competition increased. The electricity business has also become more complex with advanced contracts, which require highly skilled employees. Furthermore, the purchasing of electricity sets the price for the customers, which entails very skilled employees in the purchasing department. Hence, the importance of *skilled employees* increased gradually during the second and third time period.

Värnamo Energi does not have the required resources to invest in R&D, so this factor has not been important for the company's strategy development. Hence, the *need for research and development* was not important in any of the phases.

6.2.2 Case 2: Strategy competence

It is difficult to identify a *core competence* with significance for Värnamo Energi's strategy development in the electricity market. This component accordingly has no importance, and the same applies to the indicator, which concerns the relatedness between a company's core competence and other business areas. The indicators concerning relatedness between resources/activities, on the other hand, are applicable for Värnamo Energi. The company is aware of the absence of a core competence and has therefore gathered knowledge within common departments to allow all business areas to leverage this source. The organization structure and size of the company thus facilitates relatedness between the departments in several aspects. The company applies common administrative systems to create synergies and to reduce costs. Employees' competence can in this way be leveraged through all business areas. Customer service is also gathered in one

department, which makes it easy for the customer. The aim is to be able to assist any customer regardless of which business area the question concerns. Relatedness is thus important for strategy development since it facilitates providing good customer service. This is in line with one of the cornerstones of the company's business strategy, closeness to customers and trust building. Furthermore, the different products have the same end customers to a large extent. It is therefore possible to offer complete product portfolios, which creates opportunities for the company to attract and retain customers. If customers already have Värnamo Energi as a supplier within one business area, they are more likely to choose the company as supplier within another business area as well. The target groups for the different areas thus coincide, and it is important for Värnamo Energi to exploit its business portfolio and strive to be the customer's supplier within all business areas. However, there are differences in the industry structure between the business areas, since some of them require that the customers belong to the company's network. Customers are free to select an electricity supplier, which does not apply to the electricity network and district heating customers. Concerning the purchasing process, there is no relatedness between the business areas. Purchasing electricity is very specific to the electricity trading business area.

Regarding administrative skills and customer service, the importance of relatedness increased from being important during the first phase to being very important during the second and third phase. There was also an increase in the importance of exploiting advantages at the end-customer side between the first and second time period. To sum up, since the importance of relatedness has a more essential role in the company's ability to retain and gain customers, the value of *relatedness* increased from having little importance in the first period to having some importance in the second and third time period.

It can be assumed that the number of years the company has been active has influenced strategy development since the accumulated experience and extensive knowledge about the electricity market and how it works have been important for the strategic choices Värnamo Energi has made. An early entrance in particular was important during the first phase to retain current customers through the exploitation of previous experience and by already having a well-known trademark. This importance then gradually decreased as newcomers gained more experience. The implication of knowing how competitors operate has persisted to be important through all three time periods. The importance of *accumulated market experience* thus slightly decreased in the second and third time period since the significance of an early entry declined.

6.2.3 Case 2: Strategy development

Cost advantages have some importance in Värnamo Energi's strategy development since the company must keep a certain cost level to offer competitive prices. The company has worked to achieve cost advantages by, for example, using a common debiting system within the electricity trading and electricity network area and creating common departments. Hence, so far Värnamo Energi has been able to match competitors' prices.

However, it is not Värnamo Energi's main strategy to compete on price since the company does not possess the required resources to compete with larger companies' prices. Thus, the company's goal is mainly to offer competitive prices, and not to have any leading position in terms of pricing. A *cost leadership strategy* accordingly has had only some importance for the company during all three phases.

Instead of competing on price, Värnamo Energi has decided to focus on distinguishing itself from its competitors through the packaging of its product. This is done by linking functions, like the sales and service function. The company has also gathered customer service for all business areas in one place, which makes it easier for the customer. This importance of linking functions increased during the second and third phase so Värnamo Energi could more clearly appear to be a company with a high customer focus. The physical location is in this sense very important for the company; it is located close to customers with easy access to them, which constitutes a product differentiation advantage. Furthermore, Värnamo Energi wants to leverage its product mix, and the goal is to have so-called whole-package customers. Customers should choose Värnamo Energi as their supplier for several products and services. However, this objective has been limited so far owing to constraints posed by the network structure that prevails in several of the business areas. Nevertheless, the company is decisive in its work to exploit the company's product portfolio, and the importance of the product mix increased from the first to the second time period. Värnamo Energi is not cooperating with any other firm, and links with other firms to differentiate its product from competitors' thus has no importance in any of the time periods. Reputation, on the other hand, is very important for the company, in particular within the local area where it operates. Värnamo Energi is therefore involved in sponsoring several local projects and companies. The company also holds an open house from time to time to give customers insight into the company's work. All these activities are expected to contribute to a good reputation for the company, and reputation was very important for the company during all three time periods. The value of *differentiation* thus increased during the second and third phase. The change was explained by an increase in the importance for linkages between functions, as well as an increase in the importance of the company's product mix.

Värnamo Energi's target group includes primarily household and business customers within the local area. There have been thoughts about making it even narrower by focusing on specific types of customers. However, so far the focus has been to be local customers' first choice of electricity supplier. Since Värnamo Energi focuses mainly on local customers, the company can be described as having a narrow geographic target area. Hence, the company has selected a *focus strategy*, and this choice became even more important during the second and third phase.

When it comes to expansion, Värnamo Energi's goal has been to expand organically. However, the expansion plans initiated by the company in 2006 were put on hold in 2009 since the company did not have the required resources to continue. Price volatility also contributed to the expansion delay, as did staffing problems. The turbulent weather in

2010, in combination with new regulations on different pricing areas, contributed to the decision to delay the expansion even more. Hence, due to insecurity in the development of external factors, the company has decided to wait and see how the market develops. However, even though the expansion has been put on hold, the company still works hard to attract new customers and retain existing ones by offering local customers superior customer service, favorable customer contracts, and environmentally friendly electricity. The company has also invested in vertical integration through acquisitions of shares in Vallerstad Vind AB. Moreover, in 2010, the company started its own wind power production, and two wind turbines were drifted. The step toward its own electricity production is an important strategic choice for Värnamo Energi since it will strengthen the company's position compared to other companies with their own production. It will also reduce the company's vulnerability to price volatility. It may also facilitate the company in its work toward organic expansion since the environmentally friendly profile may attract more customers. Hence, company *expansion* was not important for the company during the first phase, but the importance increased during the second and third phase due to vertical integration.

6.2.4 Case 2: Coding

Tables 17–19 display the importance of the indicators for Värnamo Energi's strategy development in each of the time periods. The importance of each component and concept for the company's strategy development is also presented.

6.2.5 Case 2: Identified empirical pattern

Figure 10 illustrates the two concepts' importance in relation to Värnamo Energi's strategy development during the three time periods.

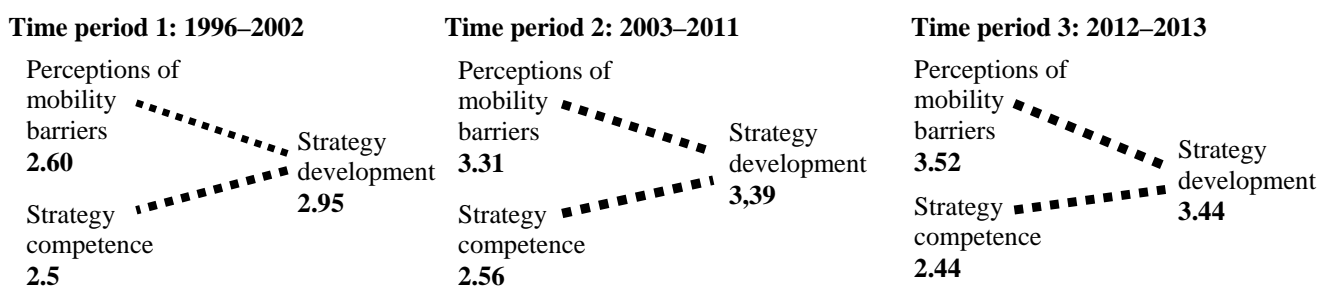


Figure 10: Identified empirical pattern for Värnamo Energi's strategy development

Figure 10 shows that the value of the concept *perceptions of mobility barrier* increased from phase one until phase three, which implies that the association between perceptions of mobility barriers and strategy development became stronger. This indicates that the importance of mobility barriers for Värnamo Energi's strategy development consequently increased. Hence, the significance of factors in the external environment became more important for Värnamo Energi's strategic development. The value of the concept *strategy*

competence slightly increased from phase one, to phase two. This denotes that the association between strategy competence and strategy development became marginally stronger in the second phase. However, the value yet again declined in the third phase. Hence, factors in the internal environment regarding strategy competence became more important for the company's strategic development in the second phase, but diminished in the third phase. The value of the concept *strategy development* increased from phase one to phase three, which implies that Värnamo Energi's strategy development increased during the second and third phase compared to the first.

6.3 Case 3: Alvesta Energi AB

The case study analysis of Alvesta Energi has been divided into two parts since the company became part owner in Bixia in 2012. Part one thus includes the period 1996–2011, and part two 2012–2013.

6.3.1 Case 3: Perceptions of mobility barriers

Part one: phase 1–2 (1996–2011)

Alvesta Energi did not consider the number of competitors to be important during either of the first two phases. However, the existence of main competitors greatly affected the company after deregulation, and it was a few specific companies in particular that were active. During the first phase, those actors tried to gain customers from other companies by using consultants and mailing and telephone campaigns. When some firms started a campaign, other companies quickly responded with similar marketing promotions. The campaigns had a negative impact on Alvesta Energi in the form of customers lost to competitors. It was business customers in particular that changed supplier, since household customers had to pay a fee to switch. However, during the second phase, the company formulated a more aggressive growth strategy on its own. The main task was to regain and attract customers. This new strategy seemed to reduce customer switches and also attracted some new customers. However, the increase was not as large as expected, which probably was a result of the amplified rivalry among existing competitors in phase two. Hence, in phase two the competitors' impact slightly decreased, but the reduction was neutralized by the increased competition among the electricity trading companies in general. Even though the competition was fierce, cooperation with other companies was not considered as an option.

During the first and second phase, other companies' cost advantages had some importance for Alvesta Energi since the company did not have any of its own. The company could not compete on price, but was at the same time compelled to offer a market-oriented price. Other companies' actions to distinguish themselves had also some importance for Alvesta Energi during the first period. Since the company did not have any explicit differentiation strategy, competitors' actions to create extra value for the customer affected Alvesta Energi, especially since the product all companies offer is exactly the same. Thus, if a competitor could offer a higher perceived value in any other way, and the price was the same, this could lead to customer loss for Alvesta Energi. During the second phase, Alvesta Energi became more aware of the necessity of distinguishing the company from competitors. Hence, the importance of competitors' product differentiation increased owing to intensified competition, and the company had to make sure that the product value offered by the competitors did not exceed the product value offered by Alvesta Energi. Summing up, *competitors* had some importance during the first and second phase, with a small increase in the second phase.

Since Alvesta Energi is not involved in electricity trading at Nord Pool, there is no need for large bank guarantees. The company also invoices customers monthly or bimonthly to reduce risk. However, Alvesta Energi must have enough capital to cover the period between when the electricity is bought and when the customer has paid for it. Hence, when applying the business model Alvesta Energi has chosen, it is primarily expenses for purchasing electricity and marketing that are needed. The *capital need* consequently had some importance for Alvesta Energi during phase one. During phase two, the importance slightly increased due to an intensified marketing campaign.

Policies and regulations affect the company, but the impact of changes or possible changes were not essential for either of the time periods. During the first phase, the separation between electricity trading and electricity network created some extra work and costs for the company in the form of administration. The second phase did not include any specific policy changes. Thus, *policies and regulations* had some importance in the first phase but only little importance in the second phase.

The lack of switching costs largely affected the company during the first phase since it lost many customers after the market was deregulated, particularly in the business segment. Recapturing those customers, as well as attracting new ones, required a lot of both effort and expenses for the company. However, during the second phase, the company managed to attain a rather loyal customer base, and not that many customers switched regardless of competitor's marketing campaigns. The focus on having loyal customers increased between the two phases, from being important in phase one to being very important in phase two. Hence, the *lack of switching costs* was important during both phases, with a slightly decrease during the second phase.

The company does not have any electricity trading on its own, which reduced its need for skilled employees within this area. Thus, it is primarily in customer service and support that the company needs skilled employees. This type of competence is easier to find compared with competitors that have their own electricity trading departments and need employees with this specific knowledge. Nevertheless, the demand for competence increased incrementally during the entire time period owing to increased competition in the electricity industry, which requires competent and knowledgeable staff that can provide the customers with adequate support and service. If not, the customers might change supplier. Alvesta Energi has become more aware of this fact, and the importance of *skilled employees* thus increased from some importance during the first period to be important during the second phase.

Alvesta Energi was involved in research and development during the first and second phase through membership in sector organizations, thus supporting research within its area of interest. This was beneficial for the company since it offered an opportunity to take part in the development of the industry and to participate in discussions. The *need for research and development* consequently had some importance during phase one and two.

Part two: phase 3 (2012–2013)

The only component that was still considered to be applicable after the cooperation with Bixia was initiated was skilled employees. Since Alvesta Energi remained the customer service, it was very important for the company to offer excellent customer service. It was consequently necessary to have competent and knowledgeable staff who can assist and advise customers about products. Thus, the component *skilled employees* was very important in phase 3.

6.3.2 Case 3: Strategy competence

Part one: phase 1–2 (1996–2011)

Alvesta Energi operates within three business areas: electricity trading, district heating, and broadband. Even though the company gained a lot of knowledge within the areas through long experience in the market, it seems that Alvesta Energi does not fulfill the criteria for having a *core competence* with importance for the strategy development in the electricity market. Nor is there any relatedness between the activities/resources among the areas when it comes to the purchasing process. However, there are common activities/resources between the different business areas regarding administrative skills, customer service, and similarities between end customers. The administrative system is general for all three businesses areas in terms of, for example, invoicing and economic reports. The customer service department also includes all business areas' customers. Having the same administrative system and customer department saves costs for the company and also allows for exploitation of skills and competence. Hence, the relatedness concerning those two areas was important during both phase one and two. As for end customers, some of these would not have been electricity trading customers if they had not already been electricity network customers. Hence, these two areas support each other. This fact had particular importance during phase two, when the company was aggressive in its efforts to attract new customers. Regarding similarities in industry structure, there are resemblances between the business areas due to its network structure, but the big difference is that a customer is free to choose an electricity and a broadband supplier but is obliged to use the network provider operating in the local area. Similarities within the industry structure do not seem to have affected the company's strategy. To sum up, *relatedness* had little importance for the company's strategy development during both phases, and there was a small increase in the degree of relatedness between phase one and two.

Alvesta Energi has been operating in the market since before deregulation was initiated, and the company can be assumed to know the industry. Nevertheless, the company lost many customers to begin with after deregulation, and it appears that Alvesta Energi failed to exploit its advantage from having operated for many years in the market, at least initially. The company had to work hard to regain and attract customers; however, this work was probably eased because the company already was familiar to many customers, which was particularly important in phase two, when the company had an aggressive

growth strategy. It was also advantageous for the company to have an early entrance compared to competitors entering the market after deregulation, since the company already was known among local customers. It might therefore have been easier to more quickly build up a customer base. The use of competitor analysis had some importance during phase one. However, due to customer losses, conducting competitor analysis became a very important part in the work of fulfilling the company's growth strategy during phase two. Knowledge about competitors' actions could thus help Alvesta Energi regarding the strategic choices the company made. The importance of the company's *accumulated market experience* increased between the first and second phase.

Phase 3 (2012–2013)

Due to the company's cooperation with Bixia the importance of relatedness in terms of administrative skills and customer service decreased slightly during phase three. It became more interesting to have a common administrative system and custom support with Bixia instead. Cooperation with Bixia is expected to create synergy effects regarding administrative costs, for example. However, since this work has just been initiated, the effects are not yet apparent. The importance of having similar end customers also slightly decreased in phase three, when Bixia became responsible for the electricity trading. The same applies to the indicators of previous market experience, early entrance, and competitor analysis, which also diminished in phase three, when Bixia acquired the customer stock.

6.3.3 Case 3: Strategy development

Part one: phase 1–2 (1996–2011)

Alvesta Energi did not have any particular cost advantages compared to its competitors in the form of economies of scale. Hence, applying a *cost leadership strategy* was not an option for the company during the first or second period and consequently had no importance for the strategy development.

Alvesta Energi did not have any linkages between functions or with other firms that differentiated the company compared to its competitors. Nor was the product mix very diverse compared to competitors throughout the first period. During the second phase, the company put more emphasis on new product development. It was mainly the location that made a difference in phase one and two since the company's aim was to be close to customers. Customers should experience that it was easy to get in contact with the company and obtain information. By offering the customers good customer service, this gave the company a good reputation, which was very important for Alvesta Energi. Hence, the company applied a *differentiation strategy* during phase one and two, by foremost distinguishing the company from competitors through location and superior customer service.

Alvesta Energi turned to a specific customer group, customers within the local region. So far it has been very important for the company to build long-term relationships within the residential area. The company thus applied a *focus strategy* in phase one and two. Alvesta Energi's intention has been to grow organically in the nearby area. The reason for this is that the company does not have the required size and resources to be more aggressive. This strategy allows the company to work quietly within its local area, building trust and thus gaining a loyal customer base. Hence, organic expansion was important in phase one and very important in phase two. The company is also involved in vertical integration through its own hydroelectric power station. However, own production is not something that has been prioritized for the company's strategy development. *Expansion* was thus mainly achieved through organic growth during phase one and two.

Part two: phase 3 (2012–2013)

During phase three it became difficult for Alvesta Energi to continue to compete in the electricity market, characterized by high rivalry among incumbent firms and low margins. The company thus decided to sell its customer stock to Bixia in 2012, and became a part owner in this company. Alvesta Energi will still act as a local office for customers in the region, but Bixia will handle electricity trading. The acquisition also allows the company to take part in Bixia's product mix and cooperate with the other part owners of Bixia. Hence, during phase three, Alvesta Energi was no longer involved in the formation of the business strategy, since this responsibility was transferred to Bixia.

6.3.4 Case 3: Coding

Tables 17–19 display the importance of the indicators for Alvesta Energi's strategy development in each of the time periods. The importance of each component and concept for the company's strategy development is also presented.

6.3.5 Case 3: Identified empirical pattern

Figure 11 below illustrates the two concepts' importance in relation to Alvesta Energi's strategy development during the three time periods.

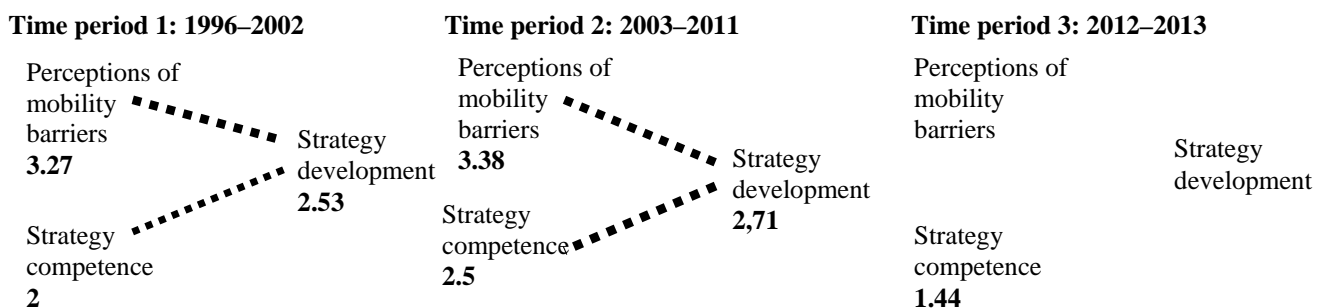


Figure 11: Identified empirical pattern for Alvesta Energi's strategy development

Figure 11 shows that the value of the concept *perception of mobility barriers* slightly increased between the first and second phase. The external environment thus had some importance for the company's strategy development during both phases. Hence, the association between Alvesta Energi's perception of mobility barriers and strategy development was rather constant between the two time periods. The concept *strategy competence* increased, which indicates that the association between Alvesta Energi's strategy competence and strategy development became stronger. The concept *strategy development* also increased between the two phases.

6.4 Across-case analysis

The across-case analysis includes a comparison of the outcome from the analysis of the three companies conducted above. The comparison is done for all three phases. The structure of this analysis is a bit different compared to the single case study analysis since it begins with three tables (17-19) displaying each case study company's values for each phase, as well as a table including the average value for the three companies. The values in the tables are then compared and analyzed. Finally, the associations in the across-case analysis are visualized in Figure 15.

6.4.1 Across-case analysis: Coding

Table 17: Across-case coding—phase 1

Concepts, components, and indicators	Bixia	Värnamo Energi	Alvesta Energi
Time period:	Phase 1	Phase 1	Phase 1
Perceptions of mobility barriers	3.25	2.60	3.27
Competitors	3	2.57	3.14
The number of competitors on the electricity market	2	2	1
The existence of main competitors	4	3	5
The competition development	3	3	4
Other firms' reactions to competition	3	2	5
Cooperation with competitors	1	1	1
Competitors' cost advantage	4	4	3
Competitors' product differentiation	4	3	3
Capital need	5	2	3
The importance of capital requirement	5	2	3
Policies and regulations	3	3	3
Official authorities' requirements	3	3	3
Lack of switching costs	4.5	4	4.5
Customers' loyalty to their current suppliers	4	4	4
Costs if a customer switches to another supplier	5	4	5
Skilled employees	3	3	3
Access to skilled employees	3	3	3
Need for research and development	1	1	3
Need for investments in terms of R&D	1	1	3
Strategy competence	2.44	2.5	2
Core competencies	2.33	1	1
Difficult to imitate	3	1	1
Greatly contributes to customers' benefit from the product	3	1	1
Provides potential access to a wide variety of markets.	1	1	1
Relatedness	1.67	2.5	2.33
Relatedness between core competence and other business areas	1	1	1
Relatedness regarding administrative skills	3	4	4
Relatedness regarding customer service	3	4	4
Relatedness regarding purchase process	1	1	1

Similarities on the end-customer side	1	3	3
Similarities regarding industry structure	1	2	1
Accumulated market experience	3.33	4	2.67
Significance of number of years in the electricity market	1	4	3
Significance of early entrance	5	4	3
Competitor analysis	4	4	2
Strategy development	2.67	2.95	2.53
Cost leadership strategy	4	3	1
Cost advantages	4	3	1
Differentiation	2.8	3.4	2.6
Linkages between functions	1	3	1
Location	4	5	4
Product mix	4	3	3
Links with other firms	1	1	1
Reputation	4	5	4
Focus strategy	2	4	5
Specific customer group	2	4	5
Expansion through mergers/acquisitions, strategic alliances, or organically	1.88	1.38	1.50
Expansion through acquisitions/mergers	4	1	1
Vertical merger	1	1	2
Horizontal merger	4	1	1
Product extension merger	1	1	1
Market extension merger	1	1	1
Conglomerate merger	1	1	1
Joint venture	1	1	1
Organic expansion	2	4	4

Table 18: Across-case coding—phase 2

Concepts, components, and indicators	Bixia	Värnamo Energi	Alvesta Energi
Time period:	Phase 2	Phase 2	Phase 2
Perceptions of mobility barriers	3.81	3.31	3.38
Competitors	2.86	2.86	3.29
The number of competitors on the electricity market	2	2	1
The existence of main competitors	3	3	4
The competition development	4	4	5
Other firms' reactions to competition	2	2	4
Cooperation with competitors	1	1	1
Competitors' cost advantage	3	4	3
Competitors' product differentiation	5	4	5
Capital need	5	2	4
The importance of capital requirement	5	2	4
Policies and regulations	3	5	2
Official authorities' requirements	3	5	2
Lack of switching costs	5	5	4
Customers' loyalty to their current suppliers	5	5	5
Costs if a customer switches to another supplier	5	5	3
Skilled employees	4	4	4
Access to skilled employees	4	4	4

Need for research and development	3	1	3
Need for investments in terms of R&D	3	1	3
Strategy competence	3.05	2.56	2.5
Core competencies	3	1	1
Difficult to imitate	4	1	1
Greatly contributes to customers' benefit from the product	4	1	1
Provides potential access to a wide variety of markets	1	1	1
Relatedness	2.83	3	2.5
Relatedness between core competence and other business areas	1	1	1
Relatedness regarding administrative skills	4	5	4
Relatedness regarding customer service	5	5	4
Relatedness regarding purchase process	1	1	1
Similarities on the end-customer side	3	4	4
Similarities regarding industry structure	3	2	1
Accumulated market experience	3.33	3.67	4
Significance of number of years in the electricity market	3	4	4
Significance of early entrance	3	3	3
Competitor analysis	4	4	5
Strategy development	2.88	3.39	2.71
Cost leadership strategy	3	3	1
Cost advantages	3	3	1
Differentiation	3.4	3.8	3.2
Linkages between functions	1	4	1
Location	5	5	5
Product mix	5	4	4
Links with other firms	1	1	1
Reputation	5	5	5
Focus strategy	2	5	5
Specific customer group	2	5	5
Expansion through mergers/acquisitions, strategic alliances, or organically	3.13	1.75	1.63
Expansion through acquisitions/mergers	5	1	1
Vertical merger	4	4	2
Horizontal merger	5	1	1
Product extension merger	3	1	1
Market extension merger	3	1	1
Conglomerate merger	1	1	1
Joint venture	1	1	1
Organic expansion	3	4	5

Table 19: Across-case coding—phase 3

Concepts, components, and indicators	Bixia	Värnamo Energi	Alvesta Energi
Time period:	Phase 3	Phase 3	Phase 3
Perceptions of mobility barriers	4.48	3.52	
Competitors	2.86	3.14	
The number of competitors on the electricity market	2	3	
The existence of main competitors	4	3	
The competition development	4	5	
Other firms' reactions to competition	2	2	
Cooperation with competitors	1	1	
Competitors' cost advantage	2	4	
Competitors' product differentiation	5	4	
Capital need	5	2	
The importance of capital requirement	5	2	
Policies and regulations	5	5	
Official authorities' requirements	5	5	
Lack of switching costs	5	5	
Customers' loyalty to their current suppliers	5	5	
Costs if a customer switches to another supplier	5	5	
Skilled employees	5	5	5
Access to skilled employees	5	5	5
Need for research and development	4	1	
Need for investments in terms of R&D	4	1	
Strategy competence	3.39	2.44	1.44
Core competencies	3.67	1	1
Difficult to imitate	5	1	1
Greatly contributes to customers' benefit from the product	5	1	1
Provides potential access to a wide variety of markets.	1	1	1
Relatedness	2.83	3	2
Relatedness between core competence and other business areas	1	1	1
Relatedness regarding administrative skills	4	5	3
Relatedness regarding customer service	5	5	3
Relatedness regarding purchase process	1	1	1
Similarities on the end-customer side	3	4	3
Similarities regarding industry structure	3	2	1
Accumulated market experience	3.67	3.33	1.33
Significance of number of years in the electricity market	4	4	2
Significance of early entrance	3	2	1
Competitor analysis	4	4	1
Strategy development	2.95	3.44	
Cost leadership strategy	4	3	
Cost advantages	4	3	
Differentiation	3.4	4	
Linkages between functions	1	5	
Location	5	5	
Product mix	5	4	
Links with other firms	1	1	

Reputation	5	5	
Focus strategy	2	5	
Specific customer group	2	5	
Expansion through mergers/acquisitions, strategic alliances, or organically	2.38	1.75	
Expansion through acquisitions/mergers	5	1	
Vertical merger	1	4	
Horizontal merger	5	1	
Product extension merger	1	1	
Market extension merger	1	1	
Conglomerate merger	1	1	
Joint venture	1	1	
Organic expansion	4	4	

Table 20: Across-case coding—average values

Concepts, components, and indicators	Average value	Average value	Average value
Time period:	Phase 1	Phase 2	Phase 3
Perceptions of mobility barriers	3.04	3.5	4
Competitors	2.90	3	3
The number of competitors on the electricity market	1.67	1.67	2.5
The existence of main competitors	4	3.33	3.5
The competition development	3.33	4.33	4.5
Other firms' reactions to competition	3.33	2.67	2
Cooperation with competitors	1	1	1
Competitors' cost advantage	3.67	3.33	3
Competitors' product differentiation	3.33	4.67	4.5
Capital need	3.33	3.67	3.5
The importance of capital requirement	3.33	3.67	3.5
Policies and regulations	3	3.33	5
Official authorities' requirements	3	3.33	5
Lack of switching costs	4.33	4.67	5
Customers' loyalty to their current suppliers	4	5	5
Costs if a customer switches to another supplier	4.67	4.33	5
Skilled employees	3	4	5
Access to skilled employees	3	4	5
Need for research and development	1.67	2.33	2.5
Need for investments in terms of R&D	1.67	2.33	2.5
Strategy competence	2.31	2.70	2.42
Core competencies	1.44	1.67	1.89
Difficult to imitate	1.67	2	2.33
Greatly contributes to customers' benefit from the product	1.67	2	2.33
Provides potential access to a wide variety of markets.	1	1	1
Relatedness	2.17	2.78	2.61
Relatedness between core competence and other business areas	1	1	1
Relatedness regarding administrative skills	3.67	4.33	4
Relatedness regarding customer service	3.67	4.67	4.33
Relatedness regarding purchase process	1	1	1

Similarities on the end-customer side	2.33	3.67	3.33
Similarities regarding industry structure	1.33	2	2
Accumulated market experience	3.33	3.67	2.78
Significance of number of years in the electricity market	2.67	3.67	3.33
Significance of early entrance	4	3	2
Competitor analysis	3.33	4.33	3
Strategy development	2.72	2.99	3.20
Cost leadership strategy	2.67	2.33	3.5
Cost advantages	2.67	2.33	3.5
Differentiation	2.93	3.47	3.7
Linkages between functions	1.67	2	3
Location	4.33	5	5
Product mix	3.33	4.33	4.5
Links with other firms	1	1	1
Reputation	4.33	5	5
Focus strategy	3.67	4	3.5
Specific customer group	3.67	4	3.5
Expansion through mergers/acquisitions, strategic alliances, or organically	1.59	2.17	2.06
Expansion through acquisitions/mergers	2	2.33	3
Vertical merger	1.33	3.33	2.5
Horizontal merger	2	2.33	3
Product extension merger	1	1.67	1
Market extension merger	1	1.67	1
Conglomerate merger	1	1	1
Joint venture	1	1	1
Organic expansion	3.33	4	4

6.4.2 Across-case analysis: Perceptions of mobility barriers

During phase one, the three companies perceived the component competitors to have some importance. For Bixia it was primarily the existence of main competitors and their cost advantages and product differentiation that affected strategy development. Värnamo Energi was also concerned about competitors' cost advantages, whereas Alvesta Energi perceived the existence of main competitors, the competition development, and other firms' reactions to competition as important factors. Hence, when comparing the indicators, it was above all the existence of main competitors and their cost advantages that were considered to be significant for all three companies' strategy development in phase one. During phase two, it was competition development and competitors' product differentiation that was important for all three companies' strategy development, and the same applies to phase three. Hence, in the beginning, following liberalization, the competitors affected the companies in different ways. However, as the industry matured, it was primarily two indicators that affected the strategy development: the competition development and competitors' product differentiation. It became more obvious that the rivalry had increased among the incumbent firms, and it was by differentiating their products that the companies could attract customers.

The capital requirement was very important for Bixia during all three phases but had only some or little importance for the other two companies. The reason for this is that the companies apply different business models. Since Bixia is the only company that is involved in electricity trading at Nord Pool, this requires large amounts of capital. Thus, the capital requirement appears to depend on which business model a company applies.

During phase one, all companies perceived the policies and regulations to have some importance. The same applies to Bixia and Alvesta Energi during phase two, whereas Värnamo Energi considered the policies and regulations to be very important during phase two, since it affected the company's expansion plans. In phase three, this indicator was very important for both Bixia and Värnamo Energi (not applicable for Alvesta Energi in phase 3). The reason for this seems to relate to possible future effects due to changes in policies and regulations.

The lack of switching costs affected the companies to a large extent during all three phases, and they strove to retain the customers' loyalty to prevent switching. This component was important to very important for all three companies during the entire time period. The importance of access to skilled employees increased gradually from having some importance during phase one to being very important during phase three, and the same pattern applies for all three companies. The need for research and development had no importance for Värnamo Energi during any phase. For Alvesta Energi, this indicator had some importance during both the first and second phase. For Bixia, the importance increased gradually from having no importance in phase one to being important during the third phase. The reason for this was an increased focus on the company's product mix, which accordingly raised the importance of investments in R&D.

Summing up, the concept *mobility barriers* had some importance during phase one for all three companies. During phase two, the importance increased. The increase continued for both Bixia and Värnamo Energi during phase three (not applicable for Alvesta Energi). Hence, the impact of the external environment increased during the entire time period. The indicators behind the change seem to be explained by amplified rivalry among incumbent firms, competitors' increased product differentiation, expected changes in policies and regulations, and an increased need for skilled employees.

Characteristics connected to perceptions of mobility barriers:

- The number of competitors as such has no effect on the companies' strategy development.
- All companies can easily identify their main competitors, which affect their strategic choices.
- Rivalry increases among the remaining companies when the market matures after liberalization.
- There appears to be no cooperation among companies.
- Increased competition forces the companies to select a strategic path.

- Other companies' product differentiation affects how a company decides to distinguish itself.
- The importance of capital requirement depends on the selected business model.
- Expectations about future policy changes affect the companies' strategic development.
- It is very important for the companies to have loyal customers and to avoid customer switching since it causes extensive costs for the companies.
- The importance of skilled employees increases after liberalization.

6.4.3 Across-case analysis: Strategy competence

Neither Värnamo Energi nor Alvesta Energi appears to have a core competence with importance for the strategy development. Bixia, on the other hand, has a core competence in electricity trading. The company has a separate department with employees trading electricity at Nord Pool. Bixia has been successful in this area, and it is thus difficult for competitors to imitate this competence. The competence also benefits customers, who get favorable electricity rates. The importance of this core competence increased gradually. The reason for this is increased competition, which forces companies to distinguish themselves from each other. Bixia's competence within this area was accumulated through the years, thus composing a competitive advantage compared to other companies. However, it has not been possible for the company to take advantage of this competence within other markets, since the competence is very specific to the electricity trading business area. Business relatedness regarding core competence had no importance for Bixia during the first period since the company only had one business area at this time. During phase two and three, Bixia had a second business area, telephony. However, its core competence in electricity trading could not be exploited within this business area.

Relatedness between activities and resources existed for all three companies during the first phase. It was mainly relatedness in terms of administrative skills and customer service that was important. Relatedness in terms of administrative skills/customer service was also important or very important for all three companies during the second phase. Similarities on the end-customer side were also important for Värnamo Energi and Alvesta Energi. For Bixia and Värnamo Energi, the same values applied to phase three. However, for Alvesta Energi, the importance of relatedness during phase three decreased since the company became a part owner of Bixia. From then on, it was more important for Alvesta Energi to achieve relatedness/similarities with Bixia in terms of administrative skills and customer service.

The importance of accumulated market experience appears to have differed for the three companies. Bixia was established in 1997, and it was important for the company to have an early entrance after the market was liberalized. Naturally, the indicator number of years in the market did not have that much of an impact to begin with since the company was newly established. However, as Bixia acquired more knowledge, the importance of

accumulated experience increased. For Värnamo Energi, it was the opposite. The company was established many years before the market was deregulated, and this fact was considered to be important in the beginning. However, the company perceives this advantage to have decreased, since the companies established after deregulation have operated for some years now in the electricity market and thus gained their own experience. However, accumulated market experience was important during all three phases. Alvesta Energi was also established long before deregulation but did not manage to fully leverage its accumulated experience during phase one. The importance increased during phase two but decreased again in phase three, as the company became a part owner of Bixia. Conducting competitor analysis seems to have been important for Bixia and Värnamo Energi during the entire time period. For Alvesta Energi, this indicator was not that important during the first phase but became very important during the second phase. However, it had no importance during the third phase, since Bixia became responsible for this work.

Characteristics connected to strategy competence:

- It is foremost relatedness regarding administrative skills and customer service that are important for the companies.
- The importance of accumulated market experience differs owing to the companies' date of establishment. For companies established after deregulation, the importance of accumulated experience increases as the company gains knowledge about the electricity market, whereas for existing companies, accumulated knowledge is important to begin with, but its importance decreases gradually as the newcomers gain more experience as well.
- Conducting competitor analysis and staying updated on competitor behavior is important for all three companies.

6.4.4 Across-case analysis: Strategy development

During the first phase, it appears that Bixia's strategic path was not yet fully decided. It was consequently very important for the company to strive to keep costs at a low level since the price offered by the company had to be competitive. Even though the company did not try to apply a cost leadership strategy, the price was important since the other advantages offered by the company were not yet that obvious for customers. However, the importance of price decreased during the second period as more experience was gained, and the strategic path became clearer. Hence, the importance of differentiation was important during phase one but became very important during phase two and three in terms of location, product mix, and reputation. Thus, as the importance of differentiation increased, the importance of price decreased. Bixia does not have a specific target group, and a focus strategy thus had little importance during all three periods. For Värnamo Energi, a cost leadership strategy had some importance during all three periods in terms of offering a competitive price. However, the company focused on developing its differentiation strategy already when the market was deregulated. It is mainly the

location, reputation, and product mix that were used to distinguish the company from its competitors. The linkages between functions were also very important during the last phase. The company also applied a focus strategy since it turned to a specific target group. For Alvesta Energi, it appears like a cost leadership strategy was not considered at all, and this type of strategy accordingly had no importance during the first two phases. The company consequently focused on differentiating itself above all through its location and reputation. Alvesta Energi primarily had customers in the nearby area as its target group and accordingly applied a focus strategy during both the first and second phase. Since Alvesta Energi became a part owner of Bixia during the third phase, Bixia from now on decides the strategic path.

Hence, it is obvious that all three companies realized that they could not compete on price but had to select a differentiation strategy. To begin with, the companies foremost tried to distinguish themselves through favorable localization and by creating a reputation for great customer service and ease of contact. It thus appears that the same criteria for differentiation were selected. However, gradually it seems like the companies tried to find other ways to distinguish themselves. This was accomplished, for example, by offering a different product mix and/or through linkages with different functions within the firm, which in the end benefited customers.

Bixia's main emphasis was to expand through acquisitions/mergers during all three phases. However, the importance of organic expansion also increased during the entire time period. For Värnamo Energi, it was important to grow organically during all three periods. However, vertical integration also became more important in phase two and three. Alvesta Energi's plan was to grow organically during both phase one and two. Hence, a comparison of the companies shows that Bixia's strategy was primarily to grow through horizontal mergers with other companies, whereas Värnamo Energi and Alvesta Energi focused mainly on organic growth. It appears that it can be difficult to remain in the market if the focus is only to grow organically. Hence, the consolidation trend continues, and smaller companies like Alvesta Energi do not have the required sources to compete when other companies become larger. Värnamo Energi seems to have realized that the company must expand in other ways than only organically, and thus also started to focus on vertical integration.

Characteristics connected to strategy development:

- It is difficult to apply a cost leadership strategy, and the companies thus apply a differentiation strategy.
- The companies distinguish themselves mainly through their localization and reputation in terms of superior customer service.
- The smaller companies tend to combine a differentiation strategy with a focus strategy.
- The larger company expands through acquisitions or by entering into partnerships with other companies, whereas the smaller companies focus on organic growth.

6.4.5 Discussion and summary of the findings

Regarding Bixia, perceptions of mobility barriers are more important than strategy competence during phase one. The market drives the company. The same applies to Alvesta Energi, which also concentrates mainly on the external environment. Värnamo Energi, on the other hand, concentrates almost equally on perceptions of mobility barriers and strategy competence during phase one. During phase two, Bixia seems to continue its strategic path in the same way by focusing on the external environment. At the same time, the company also emphasizes internal resources to be able to meet the requirements driven by external factors. Both external and internal factors' importance increase by almost the same amount. The strategy development also increases, though slightly less, between the two phases. It is apparent that Värnamo Energi increases its focus on the external environment during phase two, whereas the value for the strategy competence concept increases only marginally. Hence, it appears that Värnamo Energi attempts to become more market oriented during phase two, thus increasing attention on the external environment. The strategy development also increases. For Alvesta Energi, the focus on the external environment only slightly increases. The value for the internal environment increases more, which implies that the company has put emphasis on developing and exploiting its strategy competence. The strategy development also increases.

Between phase two and three, Bixia has almost the same level of increase regarding perceptions of mobility barriers as between phase one and two. Thus, it seems like Bixia continues to put attention on the external environment. Simultaneously, the company develops internal strategy competence, but to a lesser extent. Between phase two and three, there is a small increase in strategy development. For Värnamo Energi, the focus on the external environment continues to increase, whereas the value for the strategy competence declines. Hence, it appears that the company continues to emphasize reaching the requirements posed by factors in the external environment. The strategy development slightly increases. Since Alvesta Energi sells its customer stock and becomes a part owner of Bixia during phase three, it is not applicable to compare this phase with the previous phases. The sale might indicate that even though the company decided to exploit its internal resources and competence during phase two, this was not enough to gain new customers. Thus, it appears that the company lacked the required size and resources to be able to compete with other companies, and thus had to divest the electricity trading business area. Figure 12-14 displays the empirical pattern for each of the three companies during the three phases. The across-case analysis in Figure 15 shows that the value for perceptions of mobility barriers increased during the entire time period. The strategy competence value also increased between phase one and two. However, between phase two and three, the value declined. The strategy development increased both between phase one and two and between phase two and three.

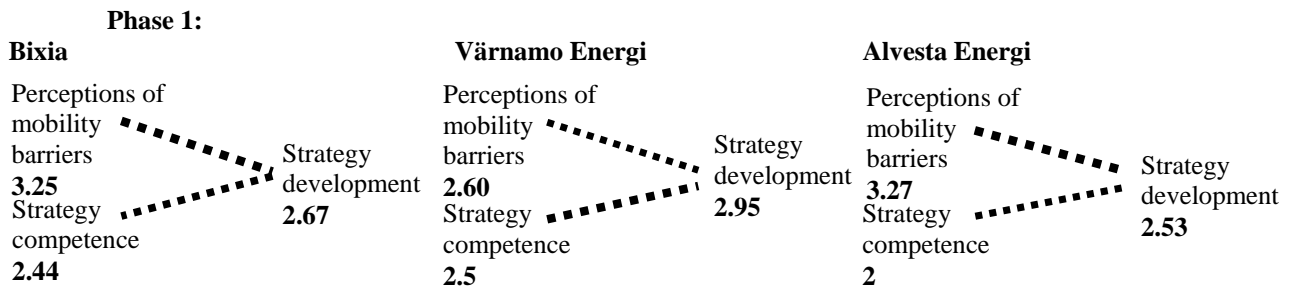


Figure 12: Identified empirical pattern for the three companies' strategy development during phase 1

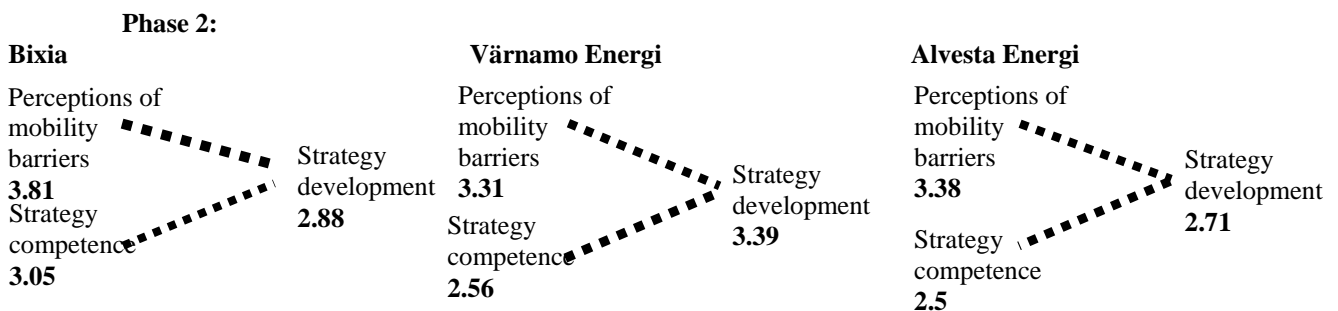


Figure 13: Identified empirical pattern for the three companies' strategy development during phase 2

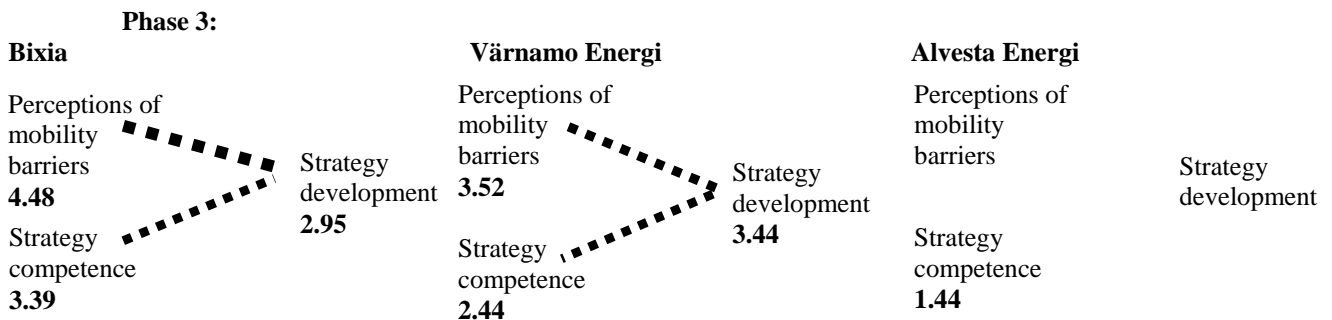


Figure 14: Identified empirical pattern for the three companies' strategy development during phase 3

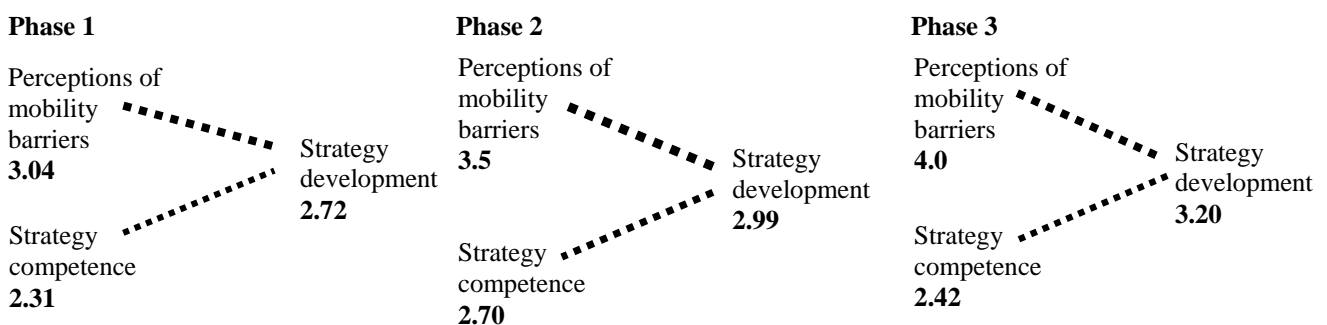


Figure 15: Identified empirical pattern for the three companies' strategy development in the across-case analysis

6.5 Propositions

The purpose of this thesis is to explore electricity trading companies' strategy development following liberalization. This has been fulfilled by studying how the development of electricity trading companies' strategies is associated with mobility barriers and strategy competences. The result from the analysis above has formed the base for five propositions, which now will be presented.

The intention behind liberalizing the Swedish electricity market was to increase competition among suppliers, thus leading to better efficiency (SOU, 2002:7). Bergman (2002) describes deregulation as increased freedom since the power is moved to the market. The case studies showed that increased freedom impacted the companies' external environment in form of mobility barriers (Caves and Porter, 1977). All companies perceived that the importance of mobility barriers increased during the entire time period in the form of intensified competition among electricity trading companies, increased product differentiation, anticipation about changes in policies and regulation, and a greater demand for skilled employees. Those four indicators' impact on companies' abilities to change position within the market increased following liberalization, leading to the first proposition:

P1. The perceptions of mobility barriers increase over time in a market following liberalization.

Secondly, the study revealed that as the companies perceived the mobility barriers increasing following liberalization, they also became more aware of their current strategy. Hence, all companies started to develop their strategies following liberalization. This is in line with findings from previous research. Norman et al. (2007) found that deregulation in the airline industry resulted in companies' increased desire to differentiate themselves from their competitors instead of having similar strategies, which was the case when the industry was regulated. When the Austrian utility industry was deregulated, the electricity trading companies started to apply a "multi-utility" strategy (Schlegelmilch and Ambos, 2004). Companies in the Swedish electricity market also appear to have sought new strategic ways to compete following liberalization, leading to the second proposition:

P2. An increase in perceptions of mobility barriers is positively associated with strategy development in terms of a refinement of current strategy in a market following liberalization.

Thirdly, the findings revealed that strategy development was ongoing during the entire time period. All three companies selected a differentiation strategy, but the companies' main attention differed. Previous studies also show that companies choose different ways to develop their current strategy. Schlegelmilch and Ambos (2004) revealed in their study that the companies also selected a differentiation strategy. This type of strategy was advantageous compared to a cost leadership strategy since it functioned as an entry barrier

against new companies. Companies in the US electricity industry also refined their current corporate strategy, and several companies tried to differentiate themselves by offering environmentally friendly produced energy (Delmas et al., 2007). In Hooks and Palakshappa's (2009) study, new relationships between different actors were established owing to liberalization and thus became important for the company's strategic development. Hence, it is apparent from previous studies that liberalization leads to new strategies, which also was confirmed by the findings from this study. Liberalization forces the electricity trading companies to advance their current strategies by trying to distinguish themselves from their competitors in different ways, leading to the third proposition:

P3. Strategies are developed over time in terms of a refinement of the current strategy in a market following liberalization.

Fourth, for all three companies, relatedness between activities and resources in line with Farjoun's (1998) definition existed during all three phases. Relatedness was most prominent regarding administrative skills and customer service. Relatedness was important for the companies since it facilitated exploitation of knowledge about products and markets, which is in line with the findings of Pehrsson (2008b). Pehrsson (2002) also stresses the significance of knowledge about competitors, customers, and market conditions when positioning in a new market. Regarding market knowledge among the case companies, the importance of accumulated market experience varied according to the companies' date of establishment. Conducting competitor analysis was also important for the companies in the study. Thus, both relatedness and accumulated market experience were important for the companies' strategy development, leading to the fourth proposition:

P4. Relatedness and competitor analysis are essential for companies' strategy development in a market following liberalization.

Finally, the importance of the companies' strategy competence did not increase incrementally over time for all three companies as it did for the perceptions of mobility barriers. According to Pehrsson (2002), strategy competence is firm explicit and thus develops over time based on how the company manages to use its resources and capabilities. The concept's importance thus varied in the three phases, which leads to the fifth proposition:

P5: If a company manages to develop its resources, strategy competence increases over time in a market following liberalization.

Based on the case studies, five propositions could be formulated regarding companies' strategy development following liberalization. Figure 16 displays the propositions' incorporation into the Sequential Strategy Development model.

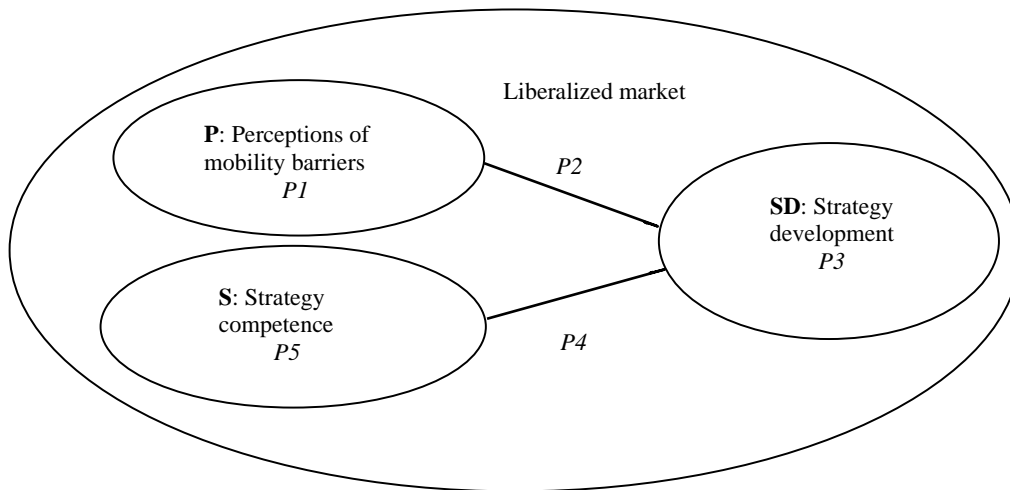


Figure 16: The propositions within the scope of the Sequential Strategy Development model

7 Conclusions and limitations

This chapter recalls the purpose of the study and presents the results. The limitations of the study are also presented.

7.1 Conclusions

The purpose of this thesis is to explore electricity trading companies' strategy development following liberalization. It has been achieved by studying how the development of electricity trading companies' strategy is associated with their perceptions of mobility barriers and strategy competences.

Perceptions of mobility barriers increase over time in a market following liberalization. It is evident that liberalization of the electricity market has resulted in increased competition among incumbent firms. However, the number of competitors does not have any importance; it is more how competitors act that matters. It is in particular the large companies that are considered a threat since these companies operate at a national level and have the resources to run aggressive marketing campaigns. Smaller companies have consequently selected a strategic path, and it is necessary for the companies to distinguish themselves from competitors to retain and attract customers. This is done, for example, by focusing on the environment, investing in a unique product mix, or offering superior customer service. Intensified competition also requires more of employees, and the level of competence needed has increased incrementally. A company's capital need depends on which business model has been applied. All companies are affected by the policies and regulations, but it seems that the impact is increasing since there are ongoing discussions about changes in policies and regulation at both a national and international level. Hence, the external environment has become more important over time, and companies are well aware of the changes and are trying to meet them and thereby strengthen their position in the electricity market. If companies ignore those changes, it will be difficult for them to survive due to intense rivalry and low margins. Companies consequently have to adapt to the new situation to survive. However, based on the development so far, it seems that in the long run, it will also be necessary for them to be at the head of the development, due to an escalating competitive situation. Hence, in the future it might not be enough to only adapt, but it will be necessary to be more proactive to compete with other incumbent firms.

An increase in perceptions of mobility barriers is positively associated with strategy development in terms of a refinement of the current strategy in a market following liberalization. It could also be established that strategies are developed over time in terms of a refinement of the current strategy in a market following liberalization. It appears that the refinement of the current strategy involves the selection of a differentiation strategy, since it is difficult to compete with larger companies on pricing. Following liberalization there was an initial tendency to select the same criteria for differentiation. However, as the electricity market has matured, companies have tried to find other ways to

differentiate owing to increased rivalry. It also appears that company size affects the size of the target group; smaller companies seem to combine a differentiation and focus strategy. This combination allows them to operate quietly within a small geographical area and thus become customers' first choice within this region. Furthermore, in this way they can also reduce the threat of competitor retaliation. The companies have also chosen different ways to expand—for example, through acquisitions and partnership with other companies or by organic growth. The analysis implies that it is important for a company within the electricity trading industry to have a certain size to be able to compete, since competition is fierce and margins are low. Otherwise, the company might be acquired or has to look for alternatives, like vertical integration.

No association could be identified between strategy competence and strategy development. Furthermore, the importance of the concept *strategy competence* fluctuated over time. When a core competence is available, it appears to benefit the holder since it is an advantage compared to competitors; however, only one of the selected case companies seemed to possess a core competence important for the strategy development in the electricity market. On the other hand, all three companies appeared to strive to achieve relatedness between activities/resources in the business areas in some way or another. For the smaller companies, this appeared to be a way to exploit the competence available in the company, thus compensating for not having a core competence. Relatedness seems to be most applicable within areas pertaining to administrative skills and customer service. The importance of accumulated market experience depends on the date of company establishment. For companies established after the market was liberalized, accumulated experience naturally has become more important. For those companies that operated in the market before deregulation, the importance of accumulated market experience has decreased. Even though gathered knowledge still is important for those companies, newcomers have gained more experience about the market. Hence, the advantage of an early establishment has been wiped out.

7.2 Limitations

Limitations might affect the research but cannot be controlled by the researcher. During this research process, Alvesta Energi sold its customer stock to Bixia in 2012. This occurrence changed the preconditions for the analysis during phase three. Furthermore, since it was the managing director in the case study companies that initially selected the interviewees, this decision was outside the influence of the researcher.

8 Contributions and implications

This chapter begins with a presentation of the contributions and implications of this study, followed by suggestions for future research.

8.1 Theoretical contributions

The contributions of this thesis are as follows:

- Development of a theoretical model
- Development of five propositions
- The application of a longitudinal approach

As mentioned in the introduction, the contributions of this thesis lie within the strategic management field, with a focus on strategy development at firm level following liberalization of the electricity market. No comprehensive framework with both external and internal factors to study this phenomenon was found. Priem and Butler (2001) proposed that a mix between the outside-in and inside-out perspective would result in a more comprehensive strategy theory. The desire was accordingly to have a framework that tied together both the resource-based view and the industrial organizational view. In this thesis, a new model was developed, which is named the *Sequential Strategy Development model*. As tied to the theoretical model, five propositions could be derived related to how companies' strategies develop in a market following liberalization. Moreover, when the model is applied over a period of time, it is possible to catch external and internal changes and thus explore such a complex phenomenon as strategy development. The framework thus facilitates for a longitudinal approach, which contributes to the existing theory within this stream of research.

8.2 Practical implications

Decision makers in, for example, electricity trading companies can use the findings from this study to learn more about how different factors associate with a firm's strategy development. Increased knowledge within the subject could accordingly form the base for reflection and evaluation. Furthermore, managers could also compare how the outcome in this study relates to their own company, which might be useful when making future strategic decisions. For example, the study revealed that managers should be aware of the threat from intensified competition. This might indicate that it is necessary to cooperate with or merge with/acquire another company to get the resources required to survive in the new environment. A focus on the local area may not be enough in the long run, which could make the company vulnerable. One potential threat is large companies, which compete at a national level. Those companies have the necessary resources to run large marketing campaigns and can consequently provide generous offers since they are involved in other businesses as well. Another probable threat seems to derive from

changes in customer behavior; younger people are more likely to change supplier according to how they value the supplier's offer instead of being loyal to their existing company simply because it is located in the nearby area. They are used to having contact through the Internet and/or by phone, and it is not that important for this group where the company is located. Furthermore, managers should also be aware that competitors might have advantages due to market knowledge and vertical integration. The complexity of these factors seems to have increased since intensified competition has led to many strategic choices among companies. Managers should therefore pay close attention to these factors and make forecasts about competitors' strategic behavior. In this way, the company can be prepared and act in advance. To sum up, the study revealed that liberalization led to a refinement in strategy over time, which confirms the importance of finding new ways to run the business and remain competitive. Managers operating in other markets subject to liberalization might also find the outcome from this thesis valuable, since they may exploit the contribution from this thesis in their own market.

The outcome of this study can also be useful in future decision making regarding the electricity market. The aim with the liberalization of the electricity industry was to increase competition and reduce barriers to entry (SOU, 2002:7). Politicians wanted to reduce the monopolization trend and avoid having a few large companies dominating the electricity market. The discussion about whether the aim was achieved is ongoing. The studied companies struggle to compete with large companies that are involved in both electricity generation and supply. To stay competitive, there seems to be a trend toward increased own power production. Smaller companies also perceive company size as affecting their ability to survive, and organic growth or mergers/acquisitions are therefore important strategies. This trend might lead to increased consolidation and, in the end, limit the choice of liberty and competition once again. Considering that there are new directives nearing implementation, it is important for policy makers to be aware how companies perceive their situation. Since this thesis increases understanding from a company point of view, it contributes to a more thorough understanding about how electricity trading companies' strategies have developed following market liberalization. This insight might thus provide knowledge of how liberalization so far has impacted the companies and accordingly lead to different strategic decisions.

8.3 Suggestions for further research

The outcome of this study could form the basis for further research within the selected subject area. Some interesting themes were discovered during the study, which had to be omitted owing to time constraints. In view of this, suggestions for further research will now be presented.

One option could be to continue with more in-depth case studies to obtain a more comprehensive result. Additional case studies might include more companies with similar background, and/or companies with different characteristics, like size and time in the electricity market. It could be of interest to study the three large companies (E.ON,

Fortum, and Vattenfall) since they seem to distinguish themselves from the other electricity trading companies.

Another possibility is to conduct similar case studies in another European country. Considering that the product (electricity) has specific characteristics regardless of country context, in addition to the existence of a common legal framework within the EU, it could be assumed that the study would be applicable for other countries within the EU as well. The institutional factors are the same owing to a common framework for the European electricity market (Europa, 2009), which makes it easier to distinguish important factors that might differ in a comparative study. A comparative analysis of company strategies would thus presumably show critical factors that impact companies' strategy development in different country contexts.

A third suggestion is to complement the case studies with a survey. The propositions from the qualitative study presented in this thesis can be used for formulating hypotheses. These can be tested in a statistical study on a larger sample with the aid of a questionnaire study including Swedish and/or foreign companies to determine factors that are of importance for company strategy development in the electricity market.

A fourth alternative is to conduct a similar study in another market that has been liberalized and then assess the companies' strategy development in the different market contexts. Ginsberg and Venkatraman (1985) suggest that the examination of contingency relationships in a single industry context is a first step prior to multi-industry studies and attempts at generalization. The result from this study might consequently also be applicable in other types of industries that have been subject to liberalization.

Finally, it could also be interesting to test the Sequential Strategy Development model's applicability in various ways. One alternative is to complement the model with other types of measurements and constructs to extend the findings from this study. One example is a parameter regarding performance measured in profitability or market shares. Another interesting track would be to include the effects of company size on the model used in this thesis.

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Appendices

Appendix 1: Example of Letter of intent

Bäste,

Som en del av sin doktorsavhandling i företagsekonomi vid Linnéuniversitetet studerar Maria Presteng företagsstrategier på elmarknaden efter avregleringen 1996. Syftet med projektet är att identifiera kritiska faktorer som avgör ett företags strategi. Projektet ingår i forskningsprogrammet *International Industrial Competitiveness* som leds av professor Anders Pehrsson.

Projektet baseras på djupare studier av företag och det skulle vara mycket intressant om Maria får möjlighet att studera Värnamo Energis utveckling på elmarknaden. Det är flera orsaker till att Värnamo Energi framstår som ett intressant företag att studera. Dels har företaget funnits på elmarknaden sedan avregleringen inleddes. Värnamo Energi har också en intressant produktportfölj, där både el, elnät, fjärrvärme, bredband och TV erbjuds. Det är också roligt att företaget har lokal förankring, och att det ägs av Värnamo kommun.

Tanken är att genomföra intervjuer med personer som är eller har varit delaktiga i verksamhetsutvecklingen samt komplettera med skriftligt material. Allteftersom projektet fortgår och fler företag studeras kommer de deltagande företagen att få information om projektets resultat.

Vi ser fram emot Ert svar och förhoppningsvis ett inledande möte.

Med vänliga hälsningar,

Maria Presteng

Doktorand

Tel.: 0470/708797

E-brev: Maria.Presteng@lnu.se

Anders Pehrsson

Professor, handledare

Tel.: 0470/708294

E-brev: Anders.Pehrsson@lnu.se

Letter of intent translated in English:

Dear,

As part of her doctoral thesis in Business Economics at Linnaeus University, Maria Presteng studies corporate strategies in the electricity market following the deregulation in 1996. The purpose of the project is to identify critical factors that determine a company's strategy. The project is part of the research program International Industrial Competitiveness, which is led by Professor Anders Pehrsson.

The project is based upon in-depth studies of companies, and it would be very interesting if Maria had the opportunity to study Värnamo Energi's development in the electricity market. There are several reasons why Värnamo Energi appears to be an interesting company to study. The company has been operating in the electricity market since deregulation was initiated. Värnamo Energi also has an interesting product portfolio, providing electricity, electricity network, district heating, broadband, and TV. It is also interesting that the company has a local connection and is owned by the municipality of Värnamo.

The idea is to conduct interviews with people who are, or have been, part of the business development and to complement this with written sources. As the study proceeds and more companies are studied, the participating companies will receive information about the project findings.

We are looking forward to hearing from you and hopefully an initial meeting.

Best regards,

Maria Presteng

PhD Student

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E-mail: Maria.Presteng@lnu.se

Anders Pehrsson

Professor, supervisor

Tel.: 0470/708294

E-mail: Anders.Pehrsson@lnu.se

Appendix 2: Interview guide

Name:

Position:

Number of years in the company:

Background in the electricity market?

Anonymous: Yes/No

1) General

- How was deregulation received within the electricity industry?
- How did incumbent firms' strategy change? (For example, which strategic questions were in focus before and after deregulation?)
- How has the market changed since deregulation?
- Which is the consumers' role/impact after market deregulation?

2) Perceptions of mobility barriers

a) Competitors

- Do you consider there to be many competitors on the electricity market?
- Who are your company's main competitors?
- How would you describe the development in the electricity market? Has the competition increased/decreased?
- What actions are taken by incumbent firms when competition increases—e.g., increased advertising, sales promotion, price competition, changes in product range, product development, distribution development?
- Is it common to cooperate with competitors?
- Do competitors have any cost advantages?
- Which actions have competitors taken to differentiate themselves from each other?

b) Policies, regulations

- Is it difficult to identify the requirements of official authorities?
- Is it difficult to meet the requirements of official authorities?

c) Need for capital

- Does an expansion require large investments?

d) Switching costs

- Are customers loyal to their current suppliers?
- Is it costly if a customer switches to another supplier?
- What type of costs does a supplier switch involve?

e) Skilled employees

- Is it difficult to get access to skilled employees?

f) Need for research & development

- What type/size of investments in terms of R&D are required?

3) Strategy competence

Core competencies:

a) Core competence as defined by these criteria:

- Difficult to imitate
- Greatly contributes to customers' benefit from the product
- Provides access to a wide variety of markets

Business relatedness:

b) Relatedness:

- Is there relatedness between your core competence and other business areas?
- Is there product relatedness between your main product and your other products when it comes to administrative knowledge?
- Is there product relatedness between the main product and other products when it comes to the end customer?
- Is there product relatedness between the main product and other products when it comes to customer service?
- Are there similarities on the customer side when it comes to the purchase process?
- Are there similarities on the customer side when it comes to industry structure?

Market experience:

a) Accumulated market experience

- How can you exploit your accumulated market experience?
- What were the advantages/disadvantages with an early establishment after deregulation?

b) Competitor analysis

- How much do you know about your competitors' product portfolio, customer segment, level of customization, and trademark promotion?
- How do you get access to information about competitors?

4) Strategy development

- Do you have any cost advantages?
- How can your firm differentiate your product?
- What is your main target group?
- How was the decision made regarding the choice of expansion mode?

Appendix 3: Description of the electricity industry

The European industry

The liberalization of the electricity market has contributed to a change in the market structure for electric utility companies in both a national and international perspective. New entrants have entered the market, but there has also been increased consolidation of companies through acquisitions. Consequently, the market structure in the EU has changed from only one or a few dominating national companies to a few large companies operating within the European market. The eight largest electric utilities companies in Europe in 2012 (based on power sales) were EDF (France), GDF Suez (France), ENEL (Italy), Iberdrola (Spain), RWE (Germany), Vattenfall (Sweden), EnBW (Germany), and E.ON (Germany) (Statista, 2014).

The Swedish industry

A short description of the actors' roles and tasks follows below (apart from electricity suppliers, which are treated in the main document).

Actors operating in the electricity industry

- Electricity users/final customers
- Electricity producers
- Balance providers
- Grid owners
- System administrators
- The electricity market Nord Pool
- Authorities with tasks within the area

(SOU, 2002:7)

Electricity users/final customers

The electricity user has one agreement with an electricity trading company (of choice) to buy electricity, and another with the owner of the transmission system (fixed) (Swedenergy, 2014). The electricity users extract and consume electricity. Each extraction is made through an extraction point in the grid. Sweden is one of the largest consumers of electricity per inhabitant, after Iceland, Norway, Finland, Luxembourg, and Canada, according to the International Energy Agency (IEA) (Swedenergy, 2014a). Factors that influence the use of electricity are economic and technical development, the development in energy prices, the structure of commercial and industrial life, changes in population, and outside temperatures (Swedish Energy Agency, 2008).

Electricity producers

An electricity producer generates electricity and sends it into the grid through the extraction points. The electricity producer owns the production plant and sells the electricity to the electricity supplier, to the electricity exchange market, or directly to the

end customers (SOU, 2002:7). In 2010, 58.2% of the electricity produced in Sweden originated from renewables, 40.9% from nuclear power, and 0.9% from other sources. (European Commission, 2014). In 2012, the power production in Sweden was divided as follows: hydroelectric power 48,1%, nuclear power 37,9%, wind power 4,4%, combined power and heating 9,2% and condensation 0,4% (SOU, 2014:37). Electricity production varies according to usage. Production is high during the winter and low during the summer (Elmarknad, 2004). The five largest electricity producers in the Nordic region, with operations in Sweden, accounted for 88% of Sweden's total electrical output in 2007, leading to a high concentration of power generation assets (Swedenergy, 2008).

The ownership structure has been subject to relatively large changes. The Swedish electricity market has been internationalized in two ways: foreign companies have acquired considerable shares of the share capital in the generation of electricity, and Swedish companies have acquired foreign electricity companies. Vattenfall in particular has been very active in Germany and Poland. The ownership structure of electricity generation companies presented by Swedenergy (2008) was as follows: municipal 9%, state 43%, non-Swedish owners 43% and other 5%.

Balance providers

An electricity trading company can act as a balance provider. For each extraction point on the electricity grid, a company has the balance responsibility and thus acts as a balance provider. The company must have an agreement with the Swedish national grid, and the task includes economic responsibility to make sure that the production and consumption of electricity are always in balance (Swedish national grid, 2014).

Grid owners

Electricity transmission is still a monopoly and has not been opened up for competition. The tariffs and other terms of the Swedish grid utilities are under the supervision of the Swedish Energy Markets Inspectorate (Ei, 2014), which ensures that the interests of the consumers regarding low and stable prices are met. The grid owners are responsible for the physical transmission of electricity from the production facilities to the electricity users, and there are currently about 170 electricity grid operators (Swedish Energy Markets Inspectorate (Ei), 2014a). The Swedish grid is divided into three levels (Government Offices of Sweden, 2014):

National grid: Owned and administered by the Swedish national grid. The national grid transmits electricity from large electricity producers to regional grids.

Regional grids: these grids are used to transport electricity from the national grid to local grids, and sometimes to electricity users with large consumption.

Local grids: distribute the electricity to the consumers (e.g., households) and industries within a local area. These grids are owned mainly by large electricity trading companies and municipalities (Swedish Energy Agency, 2008).

System administrators

The Swedish national grid is the system administrator in the Swedish electricity market. The system administrator is responsible for making sure that the energy system is in balance, which means that production/import corresponds to consumption/export (Swedish Energy Agency, 2008).

The Nord Pool electricity exchange

The electricity exchange market, Nord Pool, is a common marketplace for electricity trading. Trading on the electricity exchange market includes all Nordic countries (except Iceland) and Estonia, Latvia, and Lithuania (Government Offices of Sweden, 2014). Nord Pool is open to different kinds of actors, such as electricity producers, electricity trading companies, and large electricity consumers. The electricity exchange market facilitates the trade of electricity between countries and thus increases competition (Elmarknad, 2004). Electricity is traded on the spot and forward market. The spot market is the market for physical delivery of electric power, enabling players to plan their balance for the next 24-hour period, whereas the forward market is a financial market for price assurance and risk handling with a horizon up to 10 years (Swedenergy, 2014b). The market provides a basis for all power trading in the Nordic market, and the system price on Nord Pool is an important reference in bilateral trade agreement (Swedenergy, 2008). Since 2010 the connections to Netherlands, Luxembourg, Belgium, France, and Germany have increased (Swedenergy, 2014b).

Authorities with tasks within the area

Swedish Energy Agency (Government Offices of Sweden, 2014): responsible for creating efficient and sustainable energy usage and cost-effective Swedish energy supply. Another task is to conduct forecasts of Swedish energy usage and energy infusion regarding electricity.

Swedish Competition Authority (Government Offices of Sweden, 2014): responsible for monitoring competition in electricity trading according to the law on competition.

The Swedish Consumer Energy Markets Bureau (Swedish Consumer Energy Markets Bureau, 2014): responsible for making sure that consumer policies are implemented and problems within the area are forwarded to concerned authorities and companies. The authority also provides Internet-based price comparison.

The National Electrical Safety Board (Government Offices of Sweden, 2014): a public authority responsible for technical safety issues, such as electricity security and electromagnetic compatibility.

Electricity prices

The electricity price in the Nordic countries is affected by primarily the water supply in Sweden and Norway, the management of the nuclear power plants in Sweden and Finland, the international price of fuel, and current management control measures

(Swedish Energy Agency, 2008). Thus, the price of electricity depends on several factors such as weather conditions (in wet years, prices will normally be lower than in dryer years) and prices of gas, coal, and CO₂ allowances (Nordic competition authorities, 2007). Since electricity exchange between countries outside Europe has increased lately, Nordic prices to a larger extent are affected by electricity prices in the rest of Europe (Swedish Energy Agency, 2008). For example, the prices in the Nordic electricity exchange market increased due to a raise in power prices in neighboring countries caused by an increase in costs of coal and gas. The prices were also affected by the cost of emission allowances based on the EU climate policy (Swedenergy, 2008). There is a high degree of uncertainty regarding future prices. This situation is one of the special circumstances that characterize the electricity market (Nordic competition authorities, 2007). The price the end customer pays consists of taxes and fees, the electricity price and grid tariffs (Swedenergy, 2014c).

Appendix 4: Bixia's owners' business description

The company is owned by the following 10 Swedish energy companies (Bixia Annual Report, 2012; Bixia's home page, 2013c):

1. Tekniska Verken in Linköping AB, 54.34%: offers 300,000 private and business customers products and services within electricity power supply, street lightning, energy potentiation, district heating, remote cooling, water supply, disposal services, broadband, and biogas. (Tekniska Verken's home page, 2013)
2. Mjölby Svartådalen Energi AB, 6.57%: produces district heating to both household and company customers in Mjölby and surrounding towns. Additionally, the company produces electricity, which is sold on the common electricity market, and the largest part is produced in its own hydroelectric plants located in Svartån. The company also has a number of wind turbines. (Mjölby Svartådalen Energy's home page, 2013)
3. Oxelö Energi AB, 2.9%: the business areas include services within electricity, district heating, city grid, waste and drainage supply, and cleaning within the municipality of Oxelösund. (Oxelö Energy's home page, 2013)
4. Växjö Energi AB (VEAB), 14.60%: The core operation is constituted by the production and distribution of electricity, district heating, and remote cooling, as well as IT communication, to a total of 30,000 customers. (Växjö Energy's home page, 2013)
5. Borgholm Energi AB, 1.81%: The company produces and delivers water, electricity, heating, and food to school children and elderly. Its responsibility also includes household waste and drainage supply, as well as taking care of the parks, streets, and ports and cleaning the municipality's buildings. Furthermore, Borgholm Energi provides local enterprises with premises. (Borgholm Energy's home page, 2013)
6. Nässjö Affärsverk AB, 4.37%: delivers services within electricity grids, district heating, broadband, water, and disposal, and has power production in Ramsjöholm. (Nässjö Affärsverk's home page, 2013)
7. Södra Hallands Kraft ek.förening, 5.61%: owns and is responsible for the local electricity network in the municipality of Laholm, as well as in parts of the municipality of Båstad. (Södra Hallands Kraft ek.förenings' home page, 2013)

8. Bjäre Kraft ek.förening, 5.61%: The company takes care of the electricity grid on Bjäre and provides the municipalities of Ängelholm, Båstad, Åstorp, Klippan, and Örkeljunga with broadband. (Bjäre Kraft ek.förening's home page, 2013)
9. Sandviken Energi AB, 3.77%: provides production and distribution of electricity, district heating, and water supply, and runs the optical fiber grid and street maintenance. (Sandviken Energy's home page, 2013)
10. Alvesta Energi AB, 1.15%: provides electricity, heating, and broadband to the municipality of Alvesta and nearby areas. (Alvesta Energi's home page, 2014a)