If you can not be different – what differentiates you?

- A Study of Value Creation in the Commodity Industry

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ABSTRACT

This thesis draws attention to understand how firms in the B2B commodity industry seek to utilize value-creating activities to achieve competitive advantage, which is also the overall purpose of this thesis. The premise of this thesis is of empirical nature, thus empirically applicable and experienced by other companies inside the commodity industry. In order to reach the purpose of this thesis a case study of Alpha International, Beta and Delta has been carried out which involved personal interviews with different respondents from the companies.

The theoretical framework involves a description of competitive strategy, value creation, value chain, value proposition and finally value delivery. The empirical study is based on building a framework of how the companies create value by using different value creating activities.

In the analysis the theoretical framework is related to the results of the empirical study. It is here discussed how the different case companies value creating activities leads to a competitive advantage. In addition to analyzing the value creation activities; the value proposition of the case companies is analyzed and how these are delivered. It is concluded that the case companies studied seeks to utilize value-creating activities to achieve competitive advantage in many different ways.

Generally speaking, it is found that the case companies most commonly try to achieve similar types of value; delivery reliability and quality. However this is achieved in different ways; through different types of activities such as services, different types of integration strategies or a certain type of technology that surrounds the product offering that is utilized by different types of labor in the companies. The companies also have different ways in offering and communicating the value towards the customer by using a value proposition; depending on what type of benefit the customer seeks. At last, discussion and implications are given to present managerial and theoretical implications together with further research.

KEYWORDS: Commodity Industry, Commodity Perception, Value Creation, Value Proposition, Competitive Advantage, Differentiation, Value Delivery System
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1. **INTRODUCTION**

In the introduction chapter the reader is first introduced to the subject of this thesis. Further the theoretical gap connected to the relevance of studying the given topic is accounted for. The research questions of which will lead the study is covered, followed by a statement of the overall purpose of the thesis.

“Welcome to the commodity trap. It is a place in which lowest price almost always wins because customers don’t see any other difference. It's not a place where most companies want to compete. To escape the commodity trap, you have to answer the toughest question in business: Why should I choose you?” (Calloway, 2003, p.77).

In today’s competitive business environment it is difficult for companies to achieve survival and growth if they are not capable to communicate and motivate why the customer should choose just them. By emphasizing what separates the firm from its competitors, the firm may differentiate themselves and preferably achieve a competitive advantage (Hafeez & Hasan, 2013). Certain industries, however, are more limited to competing on price rather than differentiation due to the homogeneity in their product offering (Holcombe, 2009). These particular types of industries are furthermore turning towards being characterized by the commodity perception, as the following quote emphasizes;

“...if you can’t separate features and benefits from real value for your customers, you will not overcome the commodity perception. If you can’t overcome the commodity perception, the price becomes the major determining factor your customer will use in his buying decision” (Johnson, 2010, p.1).

As the quote says, it may seem unlikely that a consumer will recognize any distinctions between the commodity products due to their homogenic characteristics (Hofstrand, 2007), thus the factor of price will become the determinant of the firm’s competitive position. It has been emphasized
by several authors, for instance by Johnson (2010); Hofstrand (2007); Calloway (2003); Metcalf (1982), that an increasing number of firms, regardless of industry type, are becoming victims of the commodity perception. The strongest example, however, on a type of industry that is constantly affected by this perception; is, not too surprisingly, the commodity industry.

The Commodity Industry
The commodity industry is one of the oldest open international markets in the world, and is explained as any physical or virtual market for buying, selling and trading raw material or primary products such as paper pulp, oil, gold and sugar. The focus for this thesis is on commodity firms that conduct their business in B2B (business-to-business) environments. A commodity is a raw material used for manufacturing products, creating energy or making food (Jennings & Hanson, 1995). When defining commodities, there is a difference in characteristics. There are soft commodities, which generally refers to commodities harvested and sold as products like wheat, cocoa, corn, coffee, soybeans and fruit. This term generally refers to commodities that are grown, rather than mined, which leads us to hard commodities; these are extracted, mined and produced and in this category we can find for instance gold, rubber or paper pulp (Thesiger, 2010; Cartridge & Jessen, 2011), which also is what this thesis is focused on.

While company stocks may fade in and out of existence, predictions are that commodities will always remain as long as the raw materials for extracting them are available. Even though the commodity industry is considered reliable enough to always remain; the environment for commodities is volatile and to a high degree based on the paradigm of supply and demand; which enables tough competition and uncertain shifts in pricing (Russell, 2013).

Commodity Perception: A real life problem
The following text describes a real life example of a company strongly driven by the commodity perception. Alpha is an economic association consisting of forest owners as members (Respondent 1, 2013). The company also consists of a group of companies that operates successfully in international markets; these are divided into the European, Asian and American market. Alpha is also a large employer with approximately 3500 employees in areas that range from forestry management and environmental conservation to accounting, sales and product development. The company operates in four main business areas that produce sawn and planed timber goods, interior products, biofuel and paper pulp (Alpha, 2012). The
international division of the Alpha conglomerate is called Alpha International, and it was here the problem regarding the commodity perception was found and introduced. Alpha is as stated the international division that sell and market Alpha’s products on the international markets and is also the one of the case companies in focus in this thesis. From now on, in the following text ‘Alpha’ refers to Alpha International and if at some point it may refer to the entire concern Alpha, it will be emphasized for the reader.

Furthermore, price is in accordance with what has been stated on the concept of commodity perception, a major factor for Alpha’s customers in the buying decision process. The price becomes determined after the supply and demand in the market, which forces the supplier to spend great amount of resources on pricing strategies and financial departments to create a competitive advantage in the industry. The financial departments are then used to create vast calculations to determine the ultimate price considering the supply and demand in the market for the customer (Respondent 1, 2013).

Limited to competing on price rather than differentiation, Alpha is challenged by difficulties in separating themselves from competitors due to their product homogeneity. However, due to increased competition the company has tried to find ways to overcome the commodity perception by developing the competitive strategy towards a more differentiation oriented one. This by creating value adding activities, such as services or other benefits that will help the offering on its path to becoming more competitive (Respondent 1, 2013).

**Strategy**

The concept of strategy and its importance have been emphasized by for instance Porter (1985), and it has been a vital part of developing and sustaining companies’ competitiveness over the years since then. His theories and reasoning on strategy and competition are still valid in today’s business environment where it is vital that firms find their best suitable strategic approach in order to stay competitive on the given market (Peko & Ahmed, 2011). Porter (1996) further develops the concept of strategy and defines it as all about being different. Strategy is described as deliberately choosing a different set of activities to deliver and create a valuable position, as well as a unique mix of value. The essence of strategy is performing activities differently than rivals do – otherwise a strategy is basically nothing more than a marketing slogan that will not withstand competition in the long run (Porter, 1996). The aim of strategy is therefore to establish a difference from the firm’s competitors, thus gaining a
competitive advantage, and this is closely connected to the activities that the firm performs especially well. In addition, well performed activities require firms to possess internal resources that enable efficient operations (Barney, 1991).

Barney (1991) further claims that a firm has a competitive advantage when it is implementing a value creating strategy that is not simultaneously being implemented by any current or potential competitors, and a successful strategy includes developing a profound understanding of the competitive environment that it is operating in (Grant, 2010) as well as being effective in exploiting internal strengths while at the same time being able to implement these strategies effectively. In order for the competitive advantage to become a long term strategy, it must not only be implemented effectively, but other firms must also be unable to duplicate the benefits of the strategy. As the strategy should be defined based on what best suits the exploitation of the firm’s internal resources and capabilities, the strategy is likely to be inimitable and difficult to duplicate if formulated properly. As Barney (1991) has emphasized this aspect serves as the key foundation of the concept of the resource-based view of the firm.

As Barney (1991) mentioned, when firms are performing activities that deliver greater value to the customer than competitors do, the benefit of competitive advantage is achieved. The resource-based view puts its emphasis on that the source of competitive advantage is to which extent the firm’s internal resources that enables firms to perform activities better; are unable to be imitated for competitors. In most of the research done in the field, resources are assumed to be of valuable nature (Amit & Schoemaker, 1993; Black & Boal. 1994; Mahoney & Pandian, 1992). Further emphasized by Barney (1991), resources are valuable when they enable the company to implement strategies that improve efficiency and effectiveness of the firm, this is also further elaborated on by Bogner and Thomas (1994) that define resources as valuable if they either enable customer needs to be satisfied or if it enables a company to satisfy the needs of the customer at a lower cost than the competitor, thus creating additional value to the offering and becoming more attractive. Further, the creation of competitive advantage is suggested to largely depend on the rarity and value of the resources used in activities as well as knowledge about how to select, use and combine these resources.
Value
It can be concluded that resources possess value in relation to their ability; for example, the ability to meet customer needs is consistent with the resource-based view. To further explain the term “value” and to clarify its meaning, a few definitions by various authors will be defined in the table below:

<table>
<thead>
<tr>
<th>Definition of Value</th>
<th>Author(s)</th>
</tr>
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<tbody>
<tr>
<td>Value is the consumer’s overall assessment of the utility of a product based on perceptions of what is received and what is given.</td>
<td>Zeithaml (1988, p. 14)</td>
</tr>
<tr>
<td>Buyer’s perceptions of value represent a tradeoff between the quality or the benefits they perceive in the product relative to the sacrifice they perceive by paying the price.</td>
<td>Monroe (1990, p. 46)</td>
</tr>
<tr>
<td>Value in business markets is the perceived worth in monetary units of the set of economic, technical, service and social benefits received by a customer in exchange for the price paid for a product, taking in consideration the available suppliers offering and prices.</td>
<td>Andersson, et al. (1993, p. 5)</td>
</tr>
<tr>
<td>Customer value is market perceived quality adjusted for the relative price of your product.</td>
<td>Gale (1994, p. 14)</td>
</tr>
<tr>
<td>Customer value involves trading-off benefit versus sacrifice experiences within use situations.</td>
<td>Flint, et al. (2002, p. 2)</td>
</tr>
</tbody>
</table>

Table 1. Definitions of Value

As shown above, there is no consistent definition of the term “value”. To sum up, value can be viewed as a trade-off between benefits and sacrifices or between quality and sacrifices, divided into monetary and psychological sacrifices for the customer.

Value Creation by the firm
Value and value creation can be seen as two separate concepts; therefore we will here determine what value creation is and how it occurs. Several authors (Porter, 1985; Barney, 1991; Bowman & Ambrosini, 2000), addresses value creation within the firm and explains how competitive advantage is achieved by creating value to customers. This is done by studying activities, resources/capabilities and interaction that result in value creation. In this thesis, we concentrate on value creation within and by the firm.

According to Bowman and Ambrosini (2000), value is seen to be a result from the firm’s activities in relation to predetermining the nature of value and use it in the functional aspects of a product or service. Found in Business Dictionary (2013) the term value creation is
exemplified even further as; the performance of actions that increase the worth of goods, services or a business.

In order to explain the creation of value further, Bowman and Ambrosini (2000) present two types of value: (1) use value is defined as the anticipations based on the usefulness of a product or service perceived by the customer, thus something being created by the firm and not by customers. Customers' judgment about use value is subjective; this can include for example the acceleration or styling of a car. The total economic value is the amount that the customer is willing to pay for the product. (2) Exchange value is defined as the amount paid for the product by the buyer to the supplier for the use value at a single point in time (Bowman and Ambrosini, 2000).

Furthermore the relationship between the two types is described. Exchange value is created when a sale is made. Sales are achieved when the consumer is willing to pay more for a given product than the other alternatives in the market. Hence, firms create a use value, and through the sale of the product or service, exchange value is realized (Bowman and Ambrosini, 2000).

Considering the above mentioned Bowman and Ambrosini (2000), states that value creation need to be activated by activities in order to produce new use values. Moreover, it is explained that labor within the organization is an important part to create value from tangible resources that the firm has acquired. Other intangible resources such as information and brand are also characterized by this feature. For example, a brand does not add value by itself to the firm; it has to be connected to the products or service. If the labor within the firm does not use these resources to create marketing efforts, the value will decline in the eyes of the customer (Bowman and Ambrosini, 2000). Bowman and Ambrosini (2007) identifies a few activities that create value; R&D, sales & marketing, capital market, procurement and supply chain management and maintenance of firm activities.
1.1 Research Problem

It has been stated that companies in the commodity industry are strongly driven by the commodity perception (Respondent 1, 2013). Companies in this industry therefore face a challenge when trying to find other factors that determine their competitive position than the factor of price, in other words; how to differentiate themselves when differentiation is highly complicated; nevertheless not impossible.

Some relevant concepts have been discussed and the importance of obtaining a strategy in order for the firm to withstand competition has been emphasized. When formulating a competitive strategy, key focus need to be on the resources available for realizing it. When incorporating the firm’s internal resources into the strategy formulation, the strategy obtains stronger relevance and becomes more long term to withstand the competition.

Furthermore it has been discussed that differentiation by value creation is the most suitable approach for firms competing in this particular industry, provided that these firms want to stay competitive on other factors than the aforementioned price. This brings us to the concept of value proposition. The overall definition of a value proposition is that it is a promise of value to be delivered, as well as a belief from the customer that value will be experienced. According to Johnson (2010), developing your value proposition is the core factor of overcoming the commodity perception. Barnes et. al. (2009) describe development of the value proposition as an organizational approach which helps in building value to the customer experience, and this can apply to an entire organization, or parts of it. Barnes et. al. (2009) claims that value proposition thinking is at the heart of any value-focused organization and it helps sharpen the way organizations work by focusing their activity towards helping their customers gain value from the overall product offering.

Continuing on Barnes et. al. (2009), the definition of the concept of value proposition is based on three notions; a value proposition is (1) about customers but for the firm; (2) not addressed to customers but must drive these communications; (3) articulates the essence of a business, defining exactly what the organization fully intends to make happen in the customer’s life. Norton and Kaplan (2004) also argue that choosing a value proposition is the central element of strategy, and internal processes of the firm help create and deliver the value proposition. The following quote clarifies the connection to the concept of strategy;
“Strategy is based on a differentiated customer value proposition. Satisfying customers is the source of sustainable value creation. Strategy requires a clear articulation of targeted customer segments and the value proposition required to please them. Clarity of this value proposition is the single most important dimension of strategy” (Kaplan & Norton, 2004, p10).

Therefore, a successful strategy for differentiation clearly requires a well defined and distinct value proposition. Kaplan and Norton (2004) continues to explain that in order to have a competitive advantage over other actors in the industry, it is considered to be of vital significance that when firms have defined it; they find a way to efficiently deliver their value proposition to their customers.

The importance of defining a successful value proposition have been emphasized, but; how do firms actually find their most effective value proposition when everything they do and everything they sell seems to border on being a commodity because everybody is trying to do the same thing to create competitive advantage? This is a challenge often faced in industries such as that of commodities, and a question that many companies in this industry struggle with on a daily basis. However, with the above discussed in mind, basing the firm’s value proposition on their internal resources and what it is that they do best; the value proposition will gain a higher legitimacy and impact on the firm’s competitive position, provided that the firm also is able to deliver this to customers.

Even though there have been research done on the commodity industry and value (e.g. Johnson, 2010; Norberg et al., 2011), the problem discussed above has been defined as one of empirical nature as it was first introduced and identified at the paper pulp commodity company Alpha. Indications have shown that this particular problem is empirically applicable and experienced by other companies inside the commodity industry and the findings may also be able to contribute to the existing research in the field. The discussion above leads up to the formulation of the following research questions;
1.2 Research Questions

The problem discussion has resulted in the following questions which we will aim to solve in order to fulfill the purpose. First, we start with the main research question that will function as the foundation of the study;

1.2.1 Main Research Question

**MAIN RESEARCH QUESTION**

*How can firms in the commodity industry differentiate themselves by utilizing value creating activities?*

The above main research question covers what this paper aims to answer. The above discussed research problem have resulted in us realizing a relevance of empirical research in the area of commodities and value creation, and the implications resulting from commodity industry companies solely being able to compete on price. The main research question is thus formulated in a way that the answer can make a significant contribution to the field of research. The question aims towards describing how firms differentiate themselves in the commodity industry by creating additional value, thus avoiding ending up in the commodity perception.

1.2.2 Sub Questions

**SUB QUESTION ONE**

*How do firms in the commodity industry seek to create value to achieve competitive advantage?*

The aim of the first sub question is to understand the general idea towards the value creation that the case companies find to be their strengths. We perceive that the answer might contribute to solving the main research question as it is more general while at the same time “hands-on” towards the problem.
The second sub question will investigate the formulation of value proposition and illustrate what factors the firm apprehends to be most relevant to emphasize when formulating this proposition.

Through the last sub question we aim to establish how the case companies work to deliver their value proposition to their customers. As the concept of value proposition already has been introduced and it also has been stated that it is dependent on the firm’s ability to manage its value delivery system, it is relevant to understand how firms utilize their value delivery system.

1.3 Purpose

The overall purpose of this thesis is to understand how firms in the B2B commodity industry seek to utilize value-creating activities to achieve competitive advantage.

In order to reach this purpose the study will:

- **Describe** the different concepts of value and value creation and how they are interconnected with firms’ core competencies and competitive advantages
- **Analyze** how three firms in the commodity industry works with value creation and value proposition as well as how the delivery systems are utilized and carried out
- **Conclude** how firms in the commodity industry seeks to evade the commodity perception by utilizing value creating activities
- **Make recommendations** on how commodity firms should utilize their value-creating activities to their fullest extent in order to compete on other factors than price, thus avoiding the commodity trap.
2. METHODOLOGY

In the following chapter the methodology that has been used to conduct the study is discussed. We account for the methods used to conduct the qualitative study, while at the same time we provide a thorough description of the research approach chosen, as well as the case study and its selection process. Moreover, the ways of which the empirical data has been collected is described, ending the chapter with a discussion of the thesis’ overall quality, validity and reliability. First, an overview of the thesis’ outline is presented.

2.1 Outline of Thesis
2.2 Research Strategy

The following section discusses the research approach chosen as well as the qualitative research method that was decided on. The text describes the theoretical aspects on strengths and weaknesses as well as the benefits and challenges encountered when having chosen these particular approaches.

2.2.1 Abductive Research Approach

According to Bryman & Bell (2005), there are three ways to approach a scientific study; either by a deductive, inductive or abductive approach. The deductive approach describes that the empirical data is a result of the theory in a scientific study. In the inductive approach, theory is a result of the research made by the scientists. This means that the scientists draw generalized conclusions on the basis of observations. Bryman & Bell (2005) continues to explain that the abductive approach is another alternative on how to relate to theory and empirical data; it is seen as a combination of both a deductive and an inductive approach. Furthermore, the abductive approach is described as the process of from a single case, formulate suggestions of a theoretically deep structure that can identify the purpose that is supposed to be studied (inductive). Thereafter this empirical data or theory is tested on new cases collected by the scientists (deductive). By using both of the deductive and inductive approach, the collected empirical data and theories can be developed and expanded to be both more specific and general according to the research guidelines (Patel & Davidson, 2011).

We have chosen to approach the thesis through an abductive approach; this due to the findings having a combination of continuous theoretical and empirical aspects as well as the problem being defined as an empirical one. The empirical data and theories have also been developed to become more customized towards the research questions. We have moved between theory and empirical data for the thesis structure. Thus, in conclusion; the deductive approach follows the structure of theory driving the empirical findings and the inductive approach finds its theory from the empirical findings. Our approach as researches has been to start with the deductive approach to move from empirical findings into theory, while the inductive approach was obtained later on when moving back from theory to empirical findings to ensure relevance to
the study. As Yin (2009) says, abductive is a combination of the two aforementioned perspectives; therefore the research approach of this thesis is abductive.

2.2.2 Qualitative Research Method

The qualitative research method of case studies is an approach used to facilitate exploration of a phenomenon within its real-life context using a variety of sources (Baxter & Jack, 2008). This research method relates to understanding some aspects of social life and underlying principles as well as it generates an outcome of words (Patton & Cochran, 2002), rather than numbers and statistical data for analysis which is the case when conducting quantitative research (Bryman & Bell, 2011).

The qualitative research method also opens up to a greater extent of flexibility and dynamism of the study, and Backman (2008) describes the qualitative method as an alternative to the traditional approach where a more subjective view of the environment is allowed rather than a fully objective one. The qualitative approach therefore aims towards studying how individuals or companies view, perceive and shape their reality instead of studying the actual unbiased reality (Backman, 2008).

We have chosen the qualitative over a quantitative approach towards the research method due to the complexity and diversity of data that have been collected. Since the overall aim of studying this subject have been to find and make thorough analyses of underlying principles of how firms can utilize their value-creating activities the research design have been kept on an in-depth level. In addition to this, the amount of qualitative data as well as the decision on conducting a multiple-case study needed for the study to be carried out, have been of such nature that conducting a quantitative research have been irrelevant and inapplicable to the case. Furthermore, Merriam (2009), explains that a qualitative research method suffers the risk of becoming limited in the empirical data collection and analyzing process; this because the respondents may influence this process with their own subjective views and interpretations. Hence, the reliability of the study can be limited.
2.3 Research design

The following section provides the reader with a discussion on benefits and challenges that comes with the decision on conducting a case study. Furthermore the design of the case study is discussed as well as how the process of selecting the specific case companies for the study was carried out.

2.3.1 Case Study

According to Yin (2007) a case study is an empirical enquiry which implies that the researcher does a detailed and thorough examination on one limited case, several cases or even situations. A case can for example be a detailed analysis of an individual, a company or a group of people. Within a case study it is possible to understand more than one case type, which opens up for variation among the cases. This variation can be combined and compared between the different cases that have been studied.

A case study is an effective method to understand a complex social phenomenon. Furthermore, the case study as a method makes it possible for the researcher to maintain the integrity and the relevance of real life events, which can be translated into organizational processes, management processes, international relations and more. It is also an effective approach for the researcher to use when a research question is going to be investigated in depth. In general, case studies are the preferred method to use in studies that employ a research question about “how” or “why”, this because case studies provides control of the situation that is studied with focusing on current events in a particular social context (Yin, 2007). When deciding whether or not case studies are the most suitable method for the particular subject studied, three conditions must be present; (a) the questions posed are of “how” or “why” character, (b) the investigator has little or no control over the events or situations, and (c) the focus is on a contemporary phenomenon within a real-life context. The situation distinguishes the choice of case study research from other types of social science research (Yin, 2009).

The choice of conducting a case study research is in line with the three conditions that were mentioned above; (a) this study has been focused on processing research questions concerning
“how”, we as investigators have had little control over events examined (b), meaning that we have had little to none effect on the ways of which the firms have utilized their value-creation activities. Lastly, the problem that have been introduced and examined is part of a real-life situation as it was first introduced in this particular context, as well as it being of a complex nature (c). In summary, all three conditions posed are fulfilled which have justified the choice of conducting a case study research.

The research questions formulated implies that the study have been kept on an in-depth level to find answers to the questions. By conducting a thorough, detailed and in-depth analysis of three companies, it has been possible for us to compare the different answers and thereby come to the conclusion on how firms in the B2B commodity industry have sought to utilize the value-creating activities in order to seek achieving a competitive advantage. By conducting in-depth interviews, it is difficult to understand the complex social phenomena that often occur in this type of interview. A case study in combination with these in-depth interviews has allowed us as researchers to manage the complexity and maintaining the integrity of the real situations encountered, and has therefore been preferred for this type of study (Yin, 2007).

2.3.2 Case Study Design

A primary distinction needed to be made when designing a case study is to decide whether to have a single- or multiple-case design (Yin, 2009). The choice must reflect the research questions formulated as well as it must be in line with the type of purpose that is wished to be fulfilled.

Yin (2009) considers single- and multiple-case designs to derive from the same kind of methodological framework; they are merely considered as variants of it. There have been extensive discussions regarding what type of case design being the most optional and Herriot and Firestone (1983), describes that the evidence resulting from multiple-case studies are often considered more compelling and therefore the overall quality of the study is considered to be more extensive and robust. If in contrast, one would want to study a highly unique case which has a high level of rareness, the natural choice would be to decide on conducting a single-case study. Further Yin (2009) discuss the fact that conducting multiple-case studies is a time consuming activity which requires an extensive amount of resources to be put into it. However the findings deriving from the multiple-case may justify the resources put in; as mentioned
above the result is considered as more compelling and provides a distinct strength if there are several sources investigated. Therefore conducting a multiple-case study is something that needs extensive consideration before deciding upon.

The research design chosen for this thesis is a multiple-case design; based on what has been previously discussed, we have considered this type of design as generally more appealing and contributing to this particular study’s overall research quality, as well as it has been more suitable to the thesis’ purpose and the questions asked when having conducted the study. Moreover, when we took the decision on which type of study to undertake, there were two types of this category that needed to be decided on; either the multiple-case study have had a holistic or embedded perspective. The difference is according to Yin (2009) depending upon the type of phenomenon being studied as well as the formulation of the research questions. In an embedded design, a study may call for the conduct of a survey research at each and every case study site, including the analysis and collection of quantitative data. In contrast, when having a holistic perspective on the multiple-case study design the cases are analyzed in each of its context as well as jointly without conducting any separate survey investigations at each and every case study site. This thesis has therefore been defined as having a holistic perspective on this multiple-case study design.

2.3.3 Exploratory and Descriptive Case Study

Yin (2003) furthermore discusses three types of case studies that are of significant difference; either the case study is of exploratory, explanatory or descriptive nature. Exploratory studies are often conducted to define the research questions and are suited for when hypotheses are stated for the study. Explanatory studies seek to link different events to its effects and are most suitable for investigating causality; and descriptive studies are most often used to illustrate certain events and their specific contexts. Each of these types can be suitable for single- or multiple-case studies.

It is also possible to maintain focus of the study by combining two of the aforementioned approaches. Exploratory and descriptive studies can find strong functions together in the sense as they can be used to form a better understanding of a problem. Understanding the difference between the two may also enable the research to become more targeted and focused. For instance, conducting studies with exploratory combined with a descriptive approach may
enable the researcher to form a better understanding of the topic studied. For this to happen most effectively the exploratory research approach must first be upheld, followed by the descriptive approach in order to organize the data and hypotheses found in the exploratory process (Yin, 2009).

Continuing on Yin (2009), in order to conduct the best possible case study it is essential to focus on theory development. In the exploratory process a thorough theory development alongside with the findings from the empirical research is obtained. When this is done the descriptive approach is obtained to analyze everything in relation to each other. In conclusion, in line with the purpose of this thesis which is to understand; the exploratory approach in combination with the descriptive approach have thus given us as researchers a better understanding of the problem studied as well as it has helped us to be more effective and focused.

2.3.4 Case Company Selection Process

Bryman & Bell (2005) claims that it may be attractive to gain as representative of a selection as possible; meaning that the research groups represent a population of the study. However, this does not apply to this type of study as the case companies have been strategically chosen due to certain characteristics and criteria set up by us as researchers. In order to reach the purpose of this study and to be able to go in depth in the research which ultimately leads to us being able to answer the research questions; we as researchers find the strategic selection of case companies more compelling than trying to find as representative of an entire population as possible.

The case company selection process is therefore based on the following criteria:

- The company is an established international company operating in the commodity industry.
- They are conducting B2B business.
- They have more than 100+ employees.
- They are conducting business with ‘bulk’ products, meaning that their customers’ order large quantities and volumes.
Furthermore, it is important that the case companies are representing different sectors of the commodity industry in order to receive broader results for the study in order for us to be able to answer the research questions of the thesis.

The case companies researched for the study are Alpha International, Beta and Delta. These have been chosen due to the fulfillment of the above mentioned criteria but also because the companies have shown to be of great interest to us as researchers. The interest arose when the case companies distinguished themselves in the selection process by having much experience in their particular area of the commodity industry as well as them operating in different sectors of the commodity industry.

2.4 Presentation of Case Companies

Below we shortly present the case companies chosen for the study and we account for their relevance of participating in this research study.

2.4.1 Case 1: Alpha International
Alpha International is the international division of the commodity company Alpha. Alpha mainly produces paper pulp or dura pulp products which are then shipped off to other industries for manufacturing. Alpha International have approximately 1500 employees and the main task for Alpha International is to sell and market Alpha’s products to both national and international markets.

2.4.2 Case 2: Beta
As a part of the Beta Group, Beta is the leading producer of recycled aluminium commodities in Northern Europe. The firm sells to both national and international B2B markets. Beta’s employees count up to 108.

2.4.3 Case 3: Delta
Delta is a mining and exploration firm. They sell and deliver two types or iron ore products to B2B industries, mainly to European markets. Operations started a few years ago and currently employees count to over 100. Even though they are a relatively new firm on the market the people involved in the operations have much experience in this type of industry.
2.5 Empirical Data Collection

In this paragraph the ways of which the empirical data collection was conducted is accounted for. First we motivate why the specific interview structure was chosen followed by a description of how the interviews with each case company was conducted. Further we give account for how the process of formulating the interview guide proceeded.

2.5.1 Interviews

According to Merriam (2009), once the research problem has been identified, the researcher must decide what information will be needed to address the problem and how best to obtain that information. In all forms of qualitative research, data is most commonly collected through interviews. The most common interview is the person-to-person encounter in which one person elicits information from another. Furthermore, Merriam (2009) continues explaining that qualitative interviews is a generic term that is used to cover various forms of interviews, where the most important ones are classified as highly structured, semi-structured interviews and unstructured interviews;

- **Highly structured interviews**, or sometimes called standardized interviews, determines questions and the order in which they are asked ahead of time. This type of interview can be explained as an oral form of a written survey. The problem of conducting this type of interview is that it contains predetermined rigid questions, which may not allow you to access participants’ perspectives and understandings of the world. Hence, the investigators perceptions of the world affect the answer given by the respondent. The major use of highly structured interviews is to gather common socio demographic data from respondents e.g. income, history of employment or marital status.

- **Semi-structured interviews**, is less structured with more open-ended questions. A less structured interview assumes that the individual respondents participating in the interview define the world in unique ways. This type of interview either all of the questions are more flexibly worded, or the interview is more of a mix between structured or less structured questions. The interview is guided by a list of questions or issues to be explored, and neither the exact wording nor the order of the questions is determined ahead of time like the highly structured interview. It allows the researcher
to respond at the situation at hand, to the emerging world view of the respondent, and to new ideas inside the topic.

- **Unstructured interviews**, also known as informal interviews. This type of interview comes in handy when a researcher does not know enough about the phenomenon to ask relevant questions. Hence, there is no set of predetermined questions, and the questions are essentially exploratory. Learning enough about a situation to formulate questions is the goal of this type of interview. The downside of this interview is that it demands a skilled researcher to handle the flexibility. Furthermore, the interviewer may feel lost in a sea of divergent viewpoints and fed by unconnected pieces of information. This method may most suitably be used in the early stages of a case study in order to collect information about the phenomenon studied.

This study has used the *semi-structured interview* with little influence of the *highly structured interview*. This because the highly structured interview has been used to collect specific information that is desired from the respondents, such as questions regarding respondents’ job position/title as well as which type of operations the firm conduct. Furthermore, the semi-structured interview has been used to obtain the benefits of a structured interview, but at the same time give the respondent freedom to speak freely. As the interviews have been characterized by a mix of structured and less structured open ended questions, the *semi-structured interview* was considered as the most suitable alternative.

### 2.5.1.1 Interview with Alpha International

We will here shortly account for how the interviews at Alpha have been conducted and whom within the company we chose to interview. In this thesis the interviews were conducted with Respondent 1, Business Area Manager; Respondent 2, Customer Supply Centre Manager and Respondent 3, Sales Director in Scandinavia at Alpha International. The initial contact with Respondent 1 was established when the thesis writing was in the initial phase. We were in this phase researching for a topic relevant for the thesis. During this phase we conducted the first personal semi-structured interview with Respondent 1 on the 18th of March 2013 which partly entailed the overall background information about the commodity perception and the research problem. The information gained from this interview gave us a deeper insight in the company and also led us to the purpose of this thesis. On the 4th of April 2013 we met with Respondent
I again to further discuss the topic of the thesis and to set up common goals and interpretations. Respondent 1 was chosen due to his expertise in the industry.

Furthermore, on the 13th of May 2013 we conducted a personal semi-structured interview with the influence of a structured interview with Respondent 2 in order to understand how Alpha seek to utilize value-creating activities to achieve competitive advantage. Respondent 2 was chosen due to his specific expertise about Alphas value delivery system. Lastly, on the 13th of May 2013 we interviewed Respondent 3 by conducting a semi-structured interview with influence of a structured interview. Respondent 3 was chosen due to her position as Sales Director. Respondent 3 holds knowledge about the company as a whole but also knowledge about what Alpha offers their customers. Furthermore, the knowledge gained from the interview with the respondents Respondent 2 and Respondent 3 will be of use when creating the value chain analysis.

2.5.1.2 Interview with Beta

On Thursday the 16th of May 2013, a semi-structured interview with some influence of a structured interview was conducted with the Sales person of Beta, Respondent 4 by phone, mainly due to the short time frame the respondent had. The first contact with Respondent 4 was established during the phase of empirical data collection. We were in this phase searching for relevant companies to interview for the thesis’ empirical part and at the same time fulfilling our case company selection requirements.

Respondent 4 was chosen due to her 30 year experience inside the company but also due to her position as a Sales person. Respondent 4 holds knowledge about the company’s internal and external processes that are of value when studying the company’s value chain, but also knowledge containing the company’s offer towards the customers.

2.5.1.3 Interview with Delta

On Friday the 17th, a semi-structured interview was conducted with Delta’s Market manager Respondent 5 by phone, mainly due to the long geographical distance between the respondents and us; the authors. The interview was slightly influenced by a structured interview. The initial contact with Respondent 5 was done by phone in the thesis phase of empirical data collection.
We were here looking for our last case company which could be part of our thesis and at the same time fulfilled our case company selection requirements. Respondent 5 was chosen due to his expertise in the mining industry and his position as a market manager. As a market manager we were certain that he held knowledge about Delta offers towards the customer, but also knowledge about the company as a whole that are of value when analyzing the companies value adding activities.

2.5.2 Interview Guide

The interview guide (Appendix 1) was formulated accordingly to recommendations on how to conduct research on the value chain of the firm, found in Lusby and Panlibuton (2009). The interview questions follow the frame of how to perform a value chain analysis. The interview guide is presented as a framework of questions that enables us as researchers to go in depth in each and every part of the firm, following the structure, or key concepts, of a value chain. The interview guide has enabled us to conduct thorough interviews within the case companies, and as emphasized in the conceptualization part discussed later in the theoretical chapter, the value chain analysis has enabled us as researchers to perform further analyzes which in turn has lead us to the possibilities of finding answers to the research questions, thus fulfilling the purpose of the study.

2.5.3 Analysis of Empirical Data

The analysis of the empirical findings have been carried out by following the abductive approach already decided upon; first the theory have been presented, followed by the empirical findings ending in a reflection and discussion from us as researchers. The structure of the analysis is presented in the order of the research questions posed. Due to the main problem presented in this thesis has already been defined as of empirical nature, the sub questions follows an analytical strategy that Yin (2009) describes as relying on theoretical propositions. This means that by theoretically analyzing and answering the sub questions; we can ultimately find an answer to the empirically challenged main question. This type of strategy also helps to focus attention on certain data and to ignore other data (Yin, 2009). Furthermore, the strategy of relying on theoretical propositions is a good tool for organizing the case study, as well as analyzing data stemming from our research questions containing the word “how”.

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As mentioned before, the analysis has been carried by using the structure of the sub research questions. First the cases are analyzed in each of its own context followed by a discussion on similarities and differences in value creating activities that is found. The first sub question, [Q1] has been analyzed through the perspective of the value chain where all three case companies have undergone a value chain analysis in order for us to pinpoint where the activities that the firm sees as value creating are represented. The second sub question [Q2] is analyzed through the perspective of the value proposition builder where all cases have undergone certain steps to formulate it, and finally the third sub question [Q3] finds its base in the value delivery system. These analyzes have ultimately led to us coming to conclusions regarding the main research question [MQ], thus fulfilling the purpose of this thesis.

2.6 Research Quality

This section presents a discussion on the overall research quality of the thesis. Yin (2009) claims that establishing the quality of empirical research, as in our case it is exploratory and descriptive, can be done by testing the study through three different perspectives; construct and external validity, as well as the reliability of the study. These will be further elaborated in the following text. Unless otherwise stated, the source of the following paragraphs is collected from Yin (2009) accompanied by our reflections on the quality of this particular research study.

2.6.1 Construct Validity

When conducting case study research, it is emphasized by Yin (2009) that investigating the construct validity is especially challenging due to the risk that the investigator might be somewhat subjective in their judgment when collecting the data. Studying such an abstract notion as the concept of “value”, there was a risk of us as investigators interpreting the concept differently than our respondents may do. This has required us as investigators to clearly define the concepts that were researched in order for us to making sure that the study has been kept valid and easy-to-interpret for any reader. The risk of us being subjective as researchers have been minimized by us explaining the concepts used in the study and different aspects of them, both for the readers of this thesis as well as for the respondents used when having conducted the case studies.
Furthermore, the richness of the phenomenon investigated and the extensiveness of the real-life context in which this particular case study has been researched, has provided the case study with a somewhat more technical difficulty; as opposed to other research methods such as surveys which may handle several statistical data variables; this case study has come with more variables of interest rather than of quantitative data. In response to this technically distinctive situation of there being more variables of interest in the case study than of data; Yin (2009) recommends a tactic to ensure the quality of the construct validity which is based on three dimensions; (1) using multiple sources of evidence; (2) establishing a chain of evidence and lastly; (3) having key informants reviewing the draft of the case study. These three dimensions were considered during the entire process of the case study process in order for us to ensure a valid study. The first part of using multiple sources of evidence is according to Yin (2009) most relevant during collection of data. We as investigators have used multiple sources of evidence to strengthen our case by first ensuring that the persons interviewed have the relevant knowledge of what we needed to study combined with us studying extensive documentation in the shape of annual reports. Further, the chain of evidence has been extensively considered by continuously ensuring a natural transition and a clear link between all parts of the study, for instance the research questions, the purpose, data collection and analysis. By constantly keeping discussions with each other as well as with our supervisor of this thesis, alongside with discussions with key persons on the case companies, we have ensured that all actions taken in the process have been carefully considered and defined in line with the purpose. Lastly, as mentioned before; key informants of the case companies have been given the chance to review the draft of the empirical findings, ensuring that we as researchers have made the right interpretations and correctly understood the information retrieved in the data collection process.

2.6.2 External Validity

The external validity deals with the issue of knowing whether or not the findings of a study may be generally applicable beyond the immediate case study (Yin, 2009). This problem has served as a major barrier for researchers as it is stated that case study research hinders researchers’ ability to draw statistically and quantitatively generalizing conclusions. It is therefore realized that it is not guaranteed that by doing a multiple case study the findings are equally applicable to any other company in this industry.
As Yin (2009) describes it, the most common way to draw generalizing conclusions is by doing statistical generalization, however this is neither applicable nor relevant to discuss when performing case studies. Instead, a more suitable approach for increasing external validity is by using analytic generalization. It is a less common way of generalizing; however it is certainly more suitable for case studies. When conducting case studies the companies involved as research objects are not considered to be sampling units that represent a bigger population, they have been selected based on their specific characteristics that we find to be of interest for the study. This approach is the exact one taken on by us as researchers for this thesis. Alpha X International, Beta as well as Delta have been chosen due to us finding them interesting for the studies as well as they have been found to experience the same problems of differentiation as described in the introduction regarding the commodity perception. Moreover, as described in the section on the case company selection process there were certain criterions needed to be fulfilled before choosing the specific case companies.

The circumstances provided above shows that the mode of generalization is analytic generalization. Keeping in mind the fact that we have not sought to draw conclusions of such nature that are generally applicable to all firms in one industry, we do however see that by drawing analytically generalizable conclusions on the case studies the findings have been considered to be of interest to a wider range of people.

### 2.6.3 Reliability

The concept of reliability regards the possibility that if any other researcher later on follow the same procedure as described in the methodology and conducts the same case study all over again, they will come to the exact same conclusions and findings as this study has. The goal of maintaining reliability throughout the study is to minimize errors and bias (Yin, 2009).

Further, in order for reliability to be achieved the procedure of the research study must be well documented and explicit in its nature so that the risks of interpretational errors are reduced. Yin (2009) emphasizes the importance of documenting the methods used by ensuring that without documentation, the researcher themselves will not be able to repeat even their own study. The general way of handling the issue of reliability is to make as many steps in the process as operational as possible and account for each and every one of them. Moreover, Yin (2009)
claims that a good guideline is to conduct the research so that any auditor could repeat the procedures and arrive at the exact same results.

When conducting the case study of this thesis, all procedures have been extensively documented in order for us to be able to keep focus, as well as us seeking to maintain the transparency of the study. The following text describes what specific actions were taken towards ensuring a reliable study; the approach towards the study have been thoroughly written down and described in this methodology chapter as well as the interviews and the ways of which they were conducted have been explicitly accounted for. Moreover, the criteria set up for choosing the case companies have been presented. Lastly, the interview guide is provided as an appendix to this thesis alongside with a complementary motivating description about the questions provided; this was also linked together with the description on how the empirical findings later on were analyzed in relation to theory. Furthermore, we as authors of this thesis have maintained sincerity in our documentation and research procedure and accounted for each and every step of the process of the study, thus the thesis alongside its findings is considered to have a high degree of reliability.
3. THEORETICAL FRAMEWORK

In the following text the theoretical framework that serves as the foundation of understanding the concepts relevant for the study of this topic is presented. The concepts have been picked out in regards to their relevance and connection towards achieving the purpose and answering the research questions.

In the competitive environment of today, business firms are obliged to act with flexibility and speed in order to secure their position on the market, thus being able to stay competitive. Firms are therefore continuously seeking new ways to obtain a competitive advantage in the long-term perspective. Agha (2012) explains that in order for firms to turn the competitive advantage into a long-term one, they are forced to rely on internal resources and value-adding activities that make them unique and more attractive in the eyes of the customers. Hamel and Prahalad (1994) emphasizes the need for firms to focus on internal strengths to provide the product offering with an added customer value which in turn leads to strong differentiation and extendibility; in other words counting on the core competencies of the firm. The formulation of competitive strategy has therefore moved from competing only with a product or service into competing with what it is that firms do best. Agha (2012) further claims that strategy formulation must emphasize the core competencies as it is an important source of profitability. In the following text the theoretical concepts are described as well as how they are interconnected with each other.

3.1 Competitive Strategy

The competitive strategy of a firm differs somewhat from the concept of competitive advantage. While the strategy focuses on the bigger picture of the entire industry, the competitive advantage puts its focus towards the particular firm (Porter, 1985). In opposition to the previous approach which emphasized firms pursuing similar strategies in similar markets they at the moment perceive as attractive; exploiting the internal resources and capabilities of firms have encouraged them to identify how they differ from their competitors and design strategies that help them realize the most efficient exploitation of said resources and
capabilities (Barney, 1991). Even though the definition of strategy is different from the advantage, the internal resources and capabilities that make the firm different from their competitors also play a part when defining which type of competitive advantage the firm possesses.

3.2 Competitive Advantage

The overall definition of a competitive advantage is described as follows;

“an advantage over competitors gained by offering consumers or business buyers greater value, either through lower prices or by providing more benefits that justify higher prices” (Armstrong et. al, 2012, p. 583.)

Basically it means that by either providing the customer with the product at a lower price than the competitors do or by providing the customer with more benefits of the product than the competitors do, a firm is able to perform at a higher level than others in the same industry, thus customers are more likely to choose that particular firm when faced with the decision of which product, or service, to buy. Moreover, in connection with the aspect of value, the following quote explains the relationship between competitive advantage and value:

"... a firm is said to have a competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential player" (Clulow et al. 2003, p. 221)

Furthermore, obtaining a competitive advantage require the pursuit of a strategy to create value. Either the firm is pursuing the strategy of cost leadership or differentiation or even both, which is illustrated further in the model presented on the next page.
As illustrated in the model above firms may choose to pursue one strategy and therefore gain an advantage of differentiation or cost. However if the firm were to pursue both strategies simultaneously, even though the firm runs the risk of losing focus, when executed well, a superior competitive advantage may be achieved (Shank & Govindarajan, 1993).

Reinforced by Hill (1988), firms are possible to pursue both strategies simultaneously and this is done by firms when they are using differentiation to achieve a low-cost position. Firms may already have achieved a position of low-cost in the market; however it is likely that this position is threatened by it not being unique enough, or long-term enough. Therefore, once the firm possesses the benefits of having a minimum-cost position and efficiency among competing firms is somewhat equal; it can gain a competitive advantage only through some form of differentiation. Being able to differentiate is at the very heart of marketing and in combination with firms being creative about creating customer value, marketers may be able to be more successful in discovering opportunities (Smith & Colgate, 2007) As mentioned before, while Porter (1985) argues that firms face a choice between the two strategies, other authors, such as Hill (1988); Besanko et. al. (2000); and Shank & Govindarajan (1993) claim that firms pursuing both strategies simultaneously can be very successful. Further, Hill (1988) emphasize that the extent to which it is possible to achieve this type of competitive advantage depends on how sensitive to price their customers are. So, in summary; differentiation can be a suitable way for firms on their quest towards achieving a low-cost advantage; and because there often is no unique position of low-cost, a firm may have to base its competitive advantage on the simultaneous and continuous pursuit of both low cost and differentiation (Hill, 1988).
3.2.1 Two Dimensions of Competitive Advantage

Mathur (1992) claims that from the customer’s perspective there are only two dimensions of which a product offering may be positioned relative to its competitors. This is emphasized by several other authors (Porter, 1985, 1996; Grant, 2010) and the overall understanding of these two conflicting strategies is that they are considered to be exclusive strategies. However other authors emphasize the possibilities of gaining competitive advantages from combining the two (Hill, 1988; Mosakowski, 1993; Dess et. al., 1997) The two dimensions regarding competitive strategy are defined as the products either having non-price benefits (differentiation) that may or may not motivate a higher price setting, or possessing price benefits (cost leadership) relative to its competitors (Mathur, 1992). Whatever the perception of strategies being exclusive or not, choosing most suitable one is considered to come with numerous trade offs (Porter, 1996), meaning that firms need to choose the strategy of best interest and maintain focus on it even if there is a possibility that alternative strategies might also fill a working function.

3.2.1.1 Cost Advantage

Having a cost advantage means to offer products or services at the lowest possible cost in the industry, thus creating a competitive advantage of cost by attracting price-sensitive customers. The challenge when obtaining this strategy is to keep the company earning a suitable profit while still maintaining a low price on their products, instead of operating at a constant loss just to keep other firms on the market outside of the completion (Porter, 1997).

3.2.1.2 Differentiation Advantage

The overall goal of pursuing a strategy of differentiation is to provide customers with products or a product offering that stands out from the competing firms (Barney, 1991). According to Porter, (1996) differentiation is not an issue of either doing it or not. All firms are obliged to take actions and make decisions regarding which of their customer requirements are vital to focus on and where to position themselves.
According to Grant (2010) for a firm to establish a differentiation advantage two conditions must be present. Firstly, the company must have *scarcity*, meaning if a resource or capability is rare and not widely available within the industry, then it may be essential to possess it in order to compete effectively, and as Daoud (2010) illustrates, absolute scarcity focuses on the actual use of a resource in relation to a want or a need. Secondly, the company must have *relevance*, meaning that a resource or capability must be relevant to the key success factors in the market. The concept of value is of such nature that it is suggested to provide the firm with a competitive advantage when proposed visibly and clearly to the customer.

### 3.3 Value Creation by the Firm

Bowman and Ambrosini (2000) introduced two types of value; *used value* and *exchange value* to explain how value is created. Value is created by people performing activities in the firm such as; sales and marketing activities. This does however not necessarily mean that the people creating the value can realize added exchange value. The amount of exchange value that has been added can only be determined when the newly created use value is sold to the customer. The new use value will be compared later by potential customers with the competing products and only if the customer is willing to pay more for the given product then the current market price, he/she will buy that particular product. Since value is created by the within the organization, Bowman and Ambrosini (2000) presents two different types of labor that create value.

*Generic labor (homogeneous)*; is used to create new use values, but it is not a source of profit against other competing firms, as the routines performed are codified and understandable to competitors. This type of labor is essential for every competing firm in the industry, but it does not create an advantage. *Differential labor (heterogeneous)*; this type of labor is the source of the firm’s uniqueness and its superior profits and is also used for value creation. For example; the unique way of which a particular salesman pitch his products. This type of labor can also be identified as entrepreneurial labor, this because they enable the firm to realize superior profits. Entrepreneurial labor is concerned with the achievement of superior profits relative to competing firms.
To further summarize value creation, Bowman and Ambrosini (2000) have illustrated the process in the figure below. The value creation takes place within the grey pattern in the model. First, used value is created by the actions made by the people in the firm of organization A. In this first stage, use value is incapable of transforming themselves into new used values. Therefore, new used value is created by combining it with activities performed by labor. The exchange value is created and realized at the time of the sale with organization B. Exchange value can only be created when the sale of use values sums up more than the cost of inputs. Value creation is important to both the firm and the customer, and need to account for different points in time in the process.

![Figure 3. The Value Creation Process. (Bowman and Ambrosini, 2000, p. 8)](image)

3.3.1 The Value Chain

Stabell & Fjeldstad (1998) proposes that the value chain creates value by transforming inputs into products. The products are the medium for transferring value between the firm and its customers. For example a raw material or commodity is a typical input that becomes transformed into a product and then shipped off to customers. Furthermore Shank and Govindarajan, (1993) explains that a value chain analysis often is undertaken to understand the behavior of costs and sources of potential differentiation.

Porter (1985) identifies the value chain as a tool for identifying ways to create more customer value. The value chain explains the activities within and around the organization and relates them to the organization’s competitive position. Therefore, it identifies and evaluates what value each individual activity adds to the organizations products or services. Every firm is a
synthesis of activities used to design, produce and market, deliver and support its products or services. The model is divided between primary and support activities; primary activities are directly connected to the creation or delivery of a product or service. These can be put into five areas: inbound logistics, operations, outbound logistics, marketing and sales, and service. Each one of these primary activities is connected to support activities which help them to improve the effectiveness or efficiency. The main support activities are: procurement, technology development, human resource management, and infrastructure; meaning how they handle input material.

![Value Chain Diagram](image)

*Figure 4. Value Chain. (Porter, M., 1985, p. 133)*

The margin part explains that the organization realize a profit that is dependent on the ability to handle the connection between all activities in the value chain. This means that the organization is able to deliver a product or service of which the customer is willing to pay a greater price for than the total sum of the costs of all the activities (Porter, 1985).

### 3.3.2 Core Competences

The concept of core competences will here be highlighted as is considered important to create competitive advantage that helps the company in creating and delivering value to its customers
(Peko & Ahmed, 2011). As mentioned, Porter (1985) emphasized the importance of the firm’s activities as a source of competitive advantage. However, to identify these activities and understand the origin of them, the firm’s core competences need to be defined. The firm’s core competences have applications in a wide variety of markets and are difficult for the company's competitors to imitate. For example; core competences could be the special areas of technical and production expertise that the competitors find hard to imitate (Peko & Ahmed, 2011). Further described, core competences are considered to be dynamic as well as organization-wide constructs. A competitor may acquire some of the technologies and capabilities that make up this core competence; however they may not be able to copy the behavioral dynamics that helps in emphasizing the inimitability of the core competency (Peko & Ahmed, 2011).

3.4 Value Proposition

Armstrong et al. (2010) alongside Kotler & Keller (2009), identifies the value proposition as a company’s set of benefits or values it promises to deliver to customers to satisfy their needs. However, Kotler & Keller (2009) explains that there is more to it than the core positioning of the offering. The value proposition is a statement about the experience customers will gain from the firm’s market offering and from their relationship with their supplier. The brand must represent a promise about the total experience the customer can expect. Whether the promise is kept depends on the company’s ability to manage its value delivery system.

Camlek (2010) clarifies this statement further by pointing out that a value proposition is not simply related to product features or functions. It should not be expected that the customer will buy a product just because the supplier says its superior compared to all the other options available on the market. The supplier should take the perspective from the customer’s eye and illustrate what the actual capability that is offered actually adds to the customer’s business. The offer containing the value should be viewed in terms of adding new revenues, improving the customer relationship or improving operational efficiencies. Done correctly, this will result in a measurable statement of value against other competitors in the market, rather than a simple brag or claim.

Anderson et al. (2006), explains that when customers are under pressure to keep costs down they may only look at the price and not listen to the company sales pitch. Therefore, it is
important for the firm to try their best to help the customers understand and believe in the superior value of the company's offerings (the value proposition). Anderson et al. (2006), continues to explain that companies thoroughly should focus on what their offering is really worth to their customers; once the firm becomes disciplined about understanding their customers; it is possible for them to do more qualified choices about where to allocate the company’s resources and developing value propositions in order to create a superior business performance. A company should base their value proposition on the elements that matter most to their target customers; to demonstrate the value of superior performance and also to communicate this in a way that conveys a sophisticated understanding of the customer’s business priorities.

Moreover, to further explain the concept of value proposition, Anderson et al. (2006) have identified three different categories of this concept; all benefits, favorable points of difference and resonating focus. These types have been identified in order to understand which of these that conveys the most value to customers. The model by Anderson et al. (2006) is presented in the following page combined with further explanation.

<table>
<thead>
<tr>
<th>VALUE PROPOSITION:</th>
<th>ALL BENEFITS</th>
<th>FAVORABLE POINTS OF DIFFERENCE</th>
<th>RESONATING FOCUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consists of:</td>
<td>All benefits customers receive from a market offering</td>
<td>All favorable points of difference a market offering has relative to the next best alternative</td>
<td>The one or two points of difference (and, perhaps, a point of parity) whose improvement will deliver the greatest value to the customer for the foreseeable future</td>
</tr>
<tr>
<td>Answers the customer question:</td>
<td>&quot;Why should our firm purchase your offering?&quot;</td>
<td>&quot;Why should our firm purchase your offering instead of your competitor's?&quot;</td>
<td>&quot;What is most worthwhile for our firm to keep in mind about your offering?&quot;</td>
</tr>
<tr>
<td>Requires:</td>
<td>Knowledge of own market offering</td>
<td>Knowledge of own market offering and next best alternative</td>
<td>Knowledge of how our own market offering delivers superior value to customers, compared with next best alternative</td>
</tr>
<tr>
<td>Has the potential pitfall:</td>
<td>Benefit assertion</td>
<td>Value presumption</td>
<td>Requires customer value research</td>
</tr>
</tbody>
</table>

*Figure 5. Three Types Of Value Propositions, Anderson et al. (2006) p. 93*
All benefits

This type of value proposition explains that the company lists all the benefits their offering might deliver to the customers. This category does not require the firm to obtain a huge amount of knowledge about customers or competitors since it is only focused on the firm’s own ability to deliver value, therefore it requires the least amount of work to design. There is however a drawback of this; benefit assertion. This means that the company may emphasize and lift features in the offering that actually doesn't provide any benefit for the customers at all. The second drawback of the all benefits value proposition is the fact that the benefits presented may suffer from sameness; which leads to decreasing strengths in difference from the competitors. It is therefore important that a company with this type of value proposition identifies which elements are the points of sameness and which are the points of difference (Anderson et al., 2006).

Favorable points of difference

The second type of value proposition points out that the customer is being informed of the alternatives available. If the firm is aware of which types of other offerings there are on the market it is easier for them to explain to the customers how their particular offering is better. By comparing the offering from the ”next best” alternative the customer may also understand how the offering is differentiated, instead of the sales person having to spell it out for them, which might make the customer feel less passive in the purchasing decision process. When executed successfully this process has major powerful benefits, however it requires the supplier of the value proposition to obtain very detailed knowledge of this alternative. Without the detailed understanding of what the customer’s actual requirements and preferences are, the firm might run the risk of emphasizing irrelevant points of difference to the customer. This aspect may in turn lead to the pitfall of value presumption; assuming that the most favorable points of difference must be of great value for customers when in reality; other factors are important to the customer. Thus this alternative requires the firm to create a profound understanding of the market that it operates in, as well as their customers’ needs and preferences (Anderson et al., 2006).

Resonating focus

The third type of value proposition acknowledges that the company provides the customer with a value proposition by making their offerings superior on the few elements that matter most to them. The company demonstrates and documents the value of this superior performance, and
communicates it in a way that explains that the company has an understanding of the customers’ business priorities. However, even though the company’s offering may contain several points of difference, the company may concentrate its focus on the one or two points of difference that deliver the greatest value to the customer. To better utilize the resources, the company might even refrain the next best alternative that the customer value least, so that the company can concentrate its resources on improving the one or two points of difference that customers value the most. The moved focus of the value proposition may also contain a point of parity. This occurs when a point of difference is in favor of a competitors offering because the customer believe that the competitor’s offering is better. The company then counters the customers’ perceptions by moving the offer towards parity of the competitor (Anderson et al., 2006).

### 3.4.1 The Value Proposition Builder

Now that the concept of value proposition and its meaning have been described, it is time to define exactly how the value proposition can be designed. The Value Proposition Builder developed by Barnes et. al (2009) is a theoretical but perhaps first a highly practical model consisting of a six-step process presented below:

![Figure 6. The Value Proposition Builder (Barnes et. al. 2009, p. 31)](image_url)
As seen in the model, it consists of six steps all having significant impact on the value proposition. The first step (1) requires the firm to identify who to talk to. That means identifying the target market segments where the firm’s solution has the potential to deliver value in a profitable way. After this, the firm needs to define what value experience (2) the clients are likely to get from the offering compared to its current activities. This defines what it is that customers actually find to be valuable. The most attractive outcome of the experienced ones is the ones that have the power of generating a “wow” effect. Next, the offering capable of leveraging the proven value experience with the target market is defined (3). This includes mapping, defining, categorizing and managing the lifecycle of the firms’ offering around value, and when this is done the firm is in a position to assess the benefits (4) of the offering in the context of the value experience they are able to deliver. This is done by taking both external and internal views of the value experience and prioritizing them. (5) After this it is all about backing up this information with substantial, relevant and reliable proof (6). When having moved past all these steps, the value proposition is realized with an enriched and thoroughly grounded background.

Further Barnes et. al (2009) describe step one, two and three as part of the ‘de-construct’ part of the cycle; the process of breaking down the offering into pieces and analyzing the background and structure of it. Steps four, five and six represent the ‘reconstruct’ part of this cycle; with the benefits of having a complete understanding of the experienced value and the offering, firms are able to build up the value proposition by maintaining the well-founded and relevant alternatives and differentiation advantages with the benefit of also providing proof.

### 3.5 Value Delivery System

According to Payne (2006), the way of which the value proposition is delivered actually represents the other half of the entire concept of value proposition, and as described by Kotler and Keller (2009) the value delivery system is all of the experiences the customer will gain on the way to obtaining and using the product offering of the firm.

The importance of obtaining a system or framework for value delivery comes from the notion that putting all focus into the traditional sequence of just making and selling products or services is not ideal. Businesses traditionally look at themselves as a set of functional activities; instead the value delivery system argues that companies need to shift from these traditional
views into seeking their business as a form of value delivery system (Payne, 2006). Moreover, having a good value delivery system is seen as a set of core business processes that help to deliver a distinctive customer value (Kotler & Keller, 2009). The concept of value delivery system is presented by Ballantyne et. al. (2010) in the figure below;

![Figure 7. McKinsey & Co's Value Delivery System (Lanning and Michaels, 1988; Ballantyne et. al., 2010 p. 203)](image)

The value delivery system consists of three parts as illustrated above as well as further developed in the following text; (1) choose the value, (2) provide the value and (3) communicate the value. (1) The aspect of choosing the value represents an understanding of what forces that drive demand, customer economics, and the buying process as well as how the rest of the competing actors on the market serve customer needs. When having gained a developed understanding of the aforementioned factors, the most appropriate value proposition can be found. (2) The second point regards providing the value. This involves developing a product and service package that provides clear and superior value, involving focusing on product quality and performance, service cost and responsiveness, manufacturing cost and flexibility as well as price structure. (3) Communication of value means engaging in promotional activities in order to convince customers that the value offered by the firm is better than that of competitors. This aspect does not only involve sales promotion or advertising, but also includes providing the customer with an outstanding service in a way that the customer and target audience recognizes and remember (Lanning & Michaels, 1988; Payne, 2006; Ballantyne et. al., 2010).

Further Ballantyne et. al. (2010) discuss that much of the success of the value delivery system depends on the extent to which value is generated and reinforced all the way through the firm. Differentiation of the firm therefore depends on how the value proposition echoes in the business system, all the way through changes in service delivery, new products or systems
providing integrated information to customers and suppliers as well as relationship pricing. Even though executing the value delivery system changes might be more difficult than choosing which value proposition to obtain to customers, having a well developed value delivery system provides the firm with distinct advantages in the shape of obstacles that complicates imitation for competitors (Ballantyne et. al., 2010).

3.6 Conceptualization

Below the conceptualization model is presented alongside with theoretical propositions that provides an overview of how the research questions are to be answered.

Figure 8. Conceptualization Model.
This paragraph gives an overview of the theoretical examination of the different concepts outlined in the thesis. We provide an overview of how and why the theoretical concepts are interconnected with each other, as shown in the model above. Below, a summary of the theoretical concepts and propositions will be introduced and these will further be elaborated on as we provide an explanation of how the main research question as well as the three sub research questions will be answered theoretically.

The first sub question describes and explains the more general idea towards value creation that the case companies find to be their strengths. In order to answer this question, Porter’s (1985) value chain will be used. According to Porter (1985), a value chain analysis is a method for decomposing the firm into strategically important activities that creates value.

P1: A value chain creates an understanding of what specific value creating activities within the firm that creates the firm’s competitive advantage and how these can be retrieved.

Bowman and Ambrosini (2000) describes that value is created by the firm internally. Value is not created by itself; it needs to be connected to an activity.

P2: A value chain shows how different value adding activities are connected by using primary and support activities.

Bowman and Ambrosini (2000) explain that value creation is something that needs to be activated by labor within the organization.

P3: A value chain shows how labour is connected to the value creating activities, thus meaning the relationship between primary and support activities.

Peko & Ahmed (2011) and Porter (1985) emphasize the importance of using core competences in order to create a competitive advantage. To identify the activities of value creation and understand the origin of them, the firm’s core competences need to be defined
P4: A value chain gives the user a possibility to identify the core competences that provides the company with a competitive advantage.

The second sub question will investigate the formulation of value proposition and illustrate what factors the firm apprehends to be most relevant to emphasize when formulating this proposition. The value identified in question one, is then connected to the value proposition since value will not offer itself to the customer.

This question will be answered by defining exactly how the value proposition can be designed by using Barnes et. al’s (2009) value proposition builder and Anderson et al’s (2006) three different categories of value proposition. The concept of value proposition is emphasized by Johnson (2010) as the core factor in overcoming the commodity perception.

P5: The concept of value proposition will be used as it represents the core factor in overcoming the commodity perception.

Kaplan & Norton (2004) emphasizes the importance of the value proposition as the single most important part of strategy.

P6: A value proposition is an important part of competitive strategy.

The third sub question concerns how the case companies work to deliver their value proposition to their customers. This will be answered by using the value delivery system model created by Lanning & Michaels (1988) and Ballantyne et. al. (2010). This because the value delivery system is used to communicate the offering (value proposition), therefore the company’s ability to manage this system is an important part.

P7: A value delivery system is used to communicate the value proposition.
Finally, all these theoretical concepts alongside the empirical findings answers the research questions and gives an overview of the issue, thus later on answering the main research question of how firms in the commodity industry avoid the commodity perception by utilizing value creating activities.

4. EMPIRICAL FINDINGS

The following chapter presents the empirical findings of the case study research conducted. The structure of this chapter is presented in line with how the interview guide is structured. The categories stated in the empirical section come from the instructions on how to perform a value chain analysis by Lusby & Panlibuton (2009). Starting off with a general presentation of the case companies as well as the people interviewed; the structure that follows will present findings in the areas of markets and trends, technology development, standards and certifications, management and organizations, input supply, finance, policies, infrastructure, the overall offering and finally ending off with some concluding finding.

4.1 Alpha International

The interviews have been conducted with people of key positions at Alpha International;
- Respondent 1, Business Area Manager, employed for 15 years.
- Respondent 2, Manager Customer Supply Centre, employed for 18 years.
- Respondent 3, Sales Director, employed for 16 years.

General Information
Alpha International is the international division of the commodity conglomerate Alpha and their main task is to sell and market Alpha products to both national and international markets. These products are mainly paper pulp or dura pulp which when sold, is shipped off to be processed and made into usable products by their customers. The business conducted is B2B and their customer base is represented by small to medium-sized enterprises (SMEs) as well as multinational corporations (MNCs). The turnover of the entire conglomerate Alpha was in
2012 around 17 billion SEK and Alpha International did sell and market products up to a value of more than 10 billion SEK in the same year. Further, Alpha International has around 1500 employees working for them (Alpha, 2012).

Their main competitors are X1, X2, X3 as well as X4, and these are competing on both national and international basis and according to Respondent 2 (2013), Customer Supply Centre Manager at Alpha, whether or not they are present in the European markets depend on the current exchange rate. Further, there is global competition in the form of the Brazilian company X5 that sell products similar to Alpha but with a different quality; paper pulp consisting of eucalyptus.

The biggest competitive advantage that Alpha possess and as they perceive is their greatest advantage compared to their competitors is considered to be the following; first, they are a well functioning commodity manufacturer that have very well-invested mills that enable standardized products that do not differ from each other when produced at different locations (Respondent 2, 2013). Alongside with an effective internal support and highly technologically educated employees, it enables for Alpha to produce the same type of paper pulp with the same qualities. Second, Respondent 3 (2013) claims that one big advantage is that Alpha is a non-integrated paper pulp mill, meaning that they only market and sell the paper pulp that is produced in the factory, thus not being in direct competition with their customers. If they were to actually produce and process the paper pulp into other products, their biggest customers would also end up as their competitors. This enables for Alpha to always seek to produce at their best in order for them to be the most attractive alternative amongst the competition. Other advantages that is perceived as positive for Alpha is the fact that they have a secured stock on their commodities; since the owners are also the suppliers of the wood, Alpha is always somewhat guaranteed to not run out of stock (Respondent 2, 2013; Respondent 3, 2013) which enables a higher level of secure delivery. Moreover, it is pointed out that the main advantage of this particular industry is that the products are reusable and decomposable.

When asked about what it is that Alpha perceives as the most valuable for the customer as well as for the company, Respondent 3 (2013) claims the answer lies in the even quality of the products that they produce. An even quality of the products is according to Respondent 3 (2013) more valued than the products having extreme highs in quality but at the same time run the risk of sometimes being of poor quality. Evenness in the quality is therefore highly desired.
and something that Alpha claims to know based on own conducted customer polls. Further, Respondent 3 (2013) perceives their well executed service and logistics solutions highly appreciated from their customers. Moreover, after detecting a higher demand on environmentally certified suppliers and products, Alpha has also obtained a strong environmental policy which enables them to gain certain certificates on their paper pulp, such as FSC and PEFC certifications. The environmental approach is also something that is necessary to have if one were to consider the customers’ customer. As Respondent 3 (2013) describes it, consumers are nowadays more aware of the effects that production have on the environment and is mostly more likely to purchase products from companies that they know has an environmental consciousness, thus when production companies choose suppliers, their own customers’ motives often drive these choices; thus, being an environmentally certified supplier opens up for far more business opportunities in more steps in the business chain than when not being certified. This is further emphasized by Respondent 3 (2013) mentioning that it is also important for Alpha to obtain an environmentally friendly policy due to the fact that they also want to take responsibility for the effects their industry’s production may have on the environment.

Market Access, Trends and Governance
Starting with how Alpha gains market access, Respondent 3 (2013) explain that the main need for Alpha when moving into markets is that the market posses some vital attributes such as attractive customers, growth, prosperous customers with excellent opportunities for them to gain growth and shipping costs. Furthermore, Alpha sells their products globally, mostly to large firms but also to small firms and exporters. Respondent 3 (2013) continues explaining that Alpha has a good relationship with these customers. The company has built a contact network with the customers’ technical staff, so that they can adapt their products better accordingly to the customers’ specifications. When Alpha has adapted their products accordingly to the specifications demanded, negotiations will be made to find the best terms regarding the sale of the product.

When it comes to marketing their products towards the customer, Alpha invests relatively low in marketing campaigns. This because the company believes that this type of marketing is not needed in this type of industry, compared to the B2C market. It is further explained by Respondent 3 (2013), that the paper pulp industry is a very mature market and together with the well establish brand that the company has motivated why few marketing activities are
made, the few marketing activities made by the company are generated by word-of-mouth and some marketing on trade fairs. The word-of-mouth marketing is done through the customers.

Furthermore, Respondent 3 (2013) explains that the company has started to use textile pulp a commodity made by wood, which in the end the customer can make fabric of. The main benefit of this product is that it is a good environmentally friendly replacement of cotton. Cotton requires a lot of care compared to textile pulp e.g. spraying of chemicals, a large amount of water and surface. Most of these products are sold to Asia; however the industry is very competitive. The textile pulp is one of a few other products such as tissue-paper, paper packaging and dura pulp (a replacement for plastic) that is part of the company’s R&D department’s quest for finding new segments in the market. However, the tissue-paper segment is becoming more prioritized due to the increasing revenue of this product.

“The quest of finding new segments is becoming of more importance for us due to the reduced need for paper-pulp in the market... we are continuously working to find new product segments attractive for our customers” (Respondent 3, 2013).

“The greatest challenge for the industry is how to differentiate, but still stay profitable” (Respondent 1, 2013).

Respondent 2 (2013) points out that the paper-pulp industry has been a very profitable industry for many years, however not the last five years due to the reduced demand; therefore the R&D department is continuously looking at new segments for Alpha to enter. Respondent 3 (2013) proceeds to explain that the reduced need for paper pulp does not apply for the Asian market where needs are increasing. Moreover, it is explained that Alpha does not collaborate with other companies or customers in order to market their products.

When explaining the main factors why the customer chooses Alpha as their supplier Respondent 3 (2013), starts with stating that image is a very important part of why the customer chooses Alpha. A part of this image is their green environmental profile, as well as them being a secure and reliable supplier with several paper mills. Alpha also has certain services that are attractive in the eyes of the customer, such as Pulp Services which is an online service that provides the customer with specific information about the products or the purchase that the customer has made. Another benefit is the SMI supply management inventory service; which gives the customer opportunities to monitor the delivery so that it will arrive on time.
It is furthermore explained that the benefits of Alpha’s different products and services are communicated through by the sales people having advanced technical expertise. It is important for Alpha that the sales staff understands their customers’ specific needs and requirements of a certain product. If Alpha is able to communicate the benefits of the product to their customer, this customer is in turn able to communicate the benefits to the end customer. Hence, the benefits are communicated all the way from production to end product.

Technology, Product and Technological Development
The advanced technology of manufacturing paper pulp requires staff that possesses technologically advanced skills. The knowledge of the employees is very important in order for Alpha to be able to maintain the desired high and even quality of the products. Respondent 2 (2013) maintains that since Alpha does not design any of their products and sell them on the count of how aesthetically appealing they look, the customer only relies on that the quality of the product responds to their requirements. Alpha utilizes a great deal of process management in order to supervise the manufacturing process, and in combination with the highly knowledgeable employees that have the ability to adjust certain parameters in the process such as boiling time, quantity and blend of certain parts of wood and chemicals, they are constantly seeking to manage the demand on evenness from both customers and management.

Pulp Services Online
When discussing the services that surround the offering, Respondent 2 (2013) tells us that the technical services provided enables them to create a more valuable offering for the customer. A big aspect of technological services provided are Pulp Services, a program designed in 2002 to help the customer get a better view of their orders as well as the market surrounding them. Pulp Services is a service available for loyal customers that have maintained a relationship with Alpha on a long-term basis. The basic idea is that the customers have exclusive twenty-four-seven access to tons of information online which enables the customers to gain more benefits than they would if they chose another supplier (Respondent 1, 2013). This service also enables Alpha to directly communicate with their customers through the customer intranet embedded in the system.

Pulp Services consists of a number of categories that the customer have constant access to; Update that contains market information; Hedging that enables pricing options to minimize
price volatility; Academy that supports long term technical collaboration projects; Support that enables technical support when needed; Logistics that include the optimization of the Pulp supply; IT for simplifying administrational activities, Environment which contains environmental information; and finally Utilization that calculates the monetary benefits the customer will gain from using their services instead of other consultants. It is further emphasized that the most important thing for them is that the customer experience a distinct value of using the Pulp Services;

“We are aware of the ‘commodity trap’. Our customers are often driven by the aspect of cost which is why we often try to aim focus to the ‘utilization’ part of Pulp Services. This is a way for us to show the value of the services provided for the customer; or at least the monetary value saved.” (Respondent 1, 2013)

**Pulp Access**

Moreover, Respondent 2 (2013) describes another technological service provided by Alpha; Pulp Access. This service is based on the customer making forecasts on how much paper pulp they will need in the future and the supplier, which is Alpha, is responsible for the stock of this material until the products are delivered and put in the customer’s production chain. This represents what is called SMI (Supplier Managed Inventory). According to Respondent 2 (2013) their supplier owned inventories ensure Alpha a higher degree of delivery reliability since the supplier is responsible for the product all the way until it is put into the production process; the delivery reliability therefore perceived as an important factor for the customer. This also reassures the customer that the supplier strives towards exceeding the expectations of their customer and delivering what is expected on a just-in-time basis. Respondent 2 (2013) continues by giving an example of how the service of SMI supply works:

“First, the customer leaves its forecast 12 weeks before of how much paper-pulp they will need. The customer will receive a bonus if they plan the order well. The forecast made by the customer is then confirmed when we start looking at the delivery reliability.” (Respondent 2, 2013).
Moving on to the question regarding what Alpha has recently done to improve their products or services, Respondent 2 (2013) claims that there are constant changes in production for instance, and their R&D department consist of a large number of employees; approximately 50 people are continuously working on developing, researching and testing new features possible to improve and enhance the quality of the paper pulp, as well as enhancing the evenness of the pulp produced.

Moreover, when discussing the technological capacity of the paper pulp manufacturing site, Respondent 1 (2013) agrees that the current equipment and machines may be a threat to growth since the production capacity actually is being used almost to the maximum; machines are currently normally running at 97-98 % production capacity; 96 % if there is low demand. If Alpha wanted to grow significantly the current equipment may therefore be threatening to this desire. Furthermore, other aspects threatening growth has formerly been access to wood and cellulose, which have been an obstacle threatening the marginal costs of filling “those extra cubic meters” (Alpha, 2013). When posing a question on if the current level of their employees’ education and skills are holding back growth, the answer is an abrupt no. Respondent 2 (2013) claims that if Alpha wanted and needed to expand and grow; they have the resources to start a new factory where the skills and education needed for the task already is represented. So in conclusion, the capacity of machinery and the equipment would be the possible threat to growth if any, while the skills and knowledge of the employees could actually help generate growth if needed.

**Standards and Certifications**

When it comes to the aspect of certifying the product or the business, there are certain standards and requirements that have to be fulfilled. The main area of which the commodity and manufacturing industry needs to be certified is in the environmental area. For example there are environmental standards like EU Ecolabel, which is the official environmental standard label initiated by the EU Commission in 1992. FSC was initiated in 1993 and the standard encourages responsible forestry around the world. PEFC is the equivalent of sustainable forestry, and in order for firms to be certified by these organizations there are multiple criteria that have to be fulfilled, for instance a certain level of carbon dioxide generated must be kept (Respondent 3, 2013). An extensive amount of the products of Alpha are certified according to the standards and requirements mentioned.
The norms and standards that need to be fulfilled is more or less a standard to obtain when operating in the industry that Alpha does, however having their business or product certified is according to Respondent 2 (2013) not required by law, it is actually more of a demand coming from not even from the customers, but the customers’ customer. Nowadays many consumers require a certain degree of environmental consciousness when deciding on which products to buy, and the supplier that produces this product is not able to certify their products if their suppliers are not in turn certified themselves; hence Alpha being certified as a supplier of paper pulp is more or less a requirement to sustain in the business climate (Respondent 3, 2013). These types of certificates are furthermore something that Alpha alone upholds by them as something they feel is of worth towards both the environment as well as their opportunities to be a more attractive supplier.

However, living up to the needed standards that come with certain environmental certificates is difficult for any company, nevertheless for Alpha. As Respondent 3 (2013) describes it, whenever a certain standard is achieved regardless of it being of environment or work environmental nature or others; a tightening of the requirements is not too far away in the future;

“... It is a moving target. Our industry is constantly facing stricter requirements on improving and being better, and producing more while at the same time we meet the standards and demands on less emissions” (Nilsson, 2013).

Management and Organization
The most important aspect of working in and running an organization is to do it in a way that stimulates employees and colleagues in a way that help them facilitate their competences and development as well as ensuring them that what they do is appreciated and useful. As Respondent 2 (2013) said, a foundation of the firm’s work and also a quote basically summing up the idea of the organization is based upon the simple equation of “knowledge, will and skill equal competence”.

When asked about which positions or roles in the organization that does the “most” work, Respondent 2 (2013) claims that naturally the owners do not do anything inside of the firm; they are merely the suppliers of the materials used for production. The employees are seen as the key resources as they possess the skills and education needed to uphold the operations.
Externally some services are purchased; this includes some marketing services as well as hiring in certain engineers for specific and advanced repairing. Moreover, the distribution of the products is conducted through a logistics partner that is responsible for transporting Alpha’s products from A to B. Many other services are integrated in the operations of the firm, such as production, supply management, accounting and general management. Further, other than on the logistics/transportation side, Alpha does not generally go into cooperative agreements with other companies to produce and deliver the product offering (Respondent 3, 2013).

Both Respondent 2 and Respondent 3 believe that if there is one aspect in the organization that is likely to change over the next two years, it is the marketing aspect. This is also something that Respondent 2 (2013) state is necessary for further development of Alpha X International. As today’s current situation is, Alpha upholds little to none marketing activities and solely relies on the aspect of word-of-mouth to generate new customers and uphold image. As Respondent 3 (2013) described,

“... Marketing in combination with an even more and stricter control of quality will gain more focus and become more and more important”.

Furthermore, Alpha has recently started producing a new type of paper pulp quality; textile pulp, which is a material used for producing fabrics. This new approach is a response to an experienced decline in the market on the need for paper used for writing;

“Society nowadays is constantly becoming more and more digitalized ... nobody takes notes on paper anymore. If paper pulp finds other ways in becoming useful, we would very much like to participate in the development ... however we believe that textile pulp is the one growth area now”

Thus, both Respondent 2 and Respondent3 (2013) believe that textile pulp is a major area of growth while they need to find other useful areas of function for paper pulp to keep up with development.

**Input Supply**

The resources required for Alpha to maintain their business is mostly in the material parts of wood and sawmill chips. There is also a certain amount of chemicals required to manufacture the products. Alpha is a company very dependent on stability and/or availability of their input
supply. The company’s saw mills are working around-the-clock all year round. It is therefore important that there is a constant steady flow of input supply so that the machines in the paper mill are not put on hold, with the result of losing money (Respondent 2, 2013). Equality and evenness of their products is as previously mentioned also a very important factor and this is something the company does by itself once the input supply have reached the paper mills.

Since Alpha’s ownership structure consists of forest owners that also represent the suppliers of the input supply, it is important for Alpha to maintain a good relationship with their owners. This can sometimes be a challenge for Alpha;

“... to find a balance between paying forest owners enough, while at the same time stimulating removal of enough forest so that we can receive the raw material demanded by the customers at a reasonable price is sometimes a great challenge.” Respondent 2 (2013).

However, sometimes Alpha buys from other suppliers than their owners such as local saw mills.

**Policy and Regulations**

When conducting business, one important part to take into consideration is the policies and regulations surrounding the firm’s particular activities. These may have positive or negative effects on the firm’s growth. In order to conduct sustainable business these need to be taken into account and while dealing with commodities, naturally there are some policies affecting the business more than others. Respondent 2 (2013) claims monetary policies to have the most effect on the firm’s profit;

“... monetary policies affect exchange rates which directly affects our operations based on the fact that most of the products we sell are in the currencies of US Dollars (USD) or Euro” (Respondent 2, 2013).

Depending on how monetary policies evolve Alpha is affected either in a negative or in a positive way. Rate cuts are according to Respondent 2 (2013) good for domestic production but not good for exporting; while these affect the results but not necessarily the volumes.

Alpha is also facing certain obstacles that may hinder growth in the future. January 1st of 2015 tougher requirements are introduced on sulfur fuel for sea traffic in the Baltic Sea. The reason
for this is to limit the environmental impact of production companies. However, this is a decision taken in Europe, thus only affecting Europe, which means that international waters do not have this type of limitation. This will, according to Respondent 2 (2013) provide the industry in Sweden and Finland with disadvantages. Other companies that have production or facilitating units in other countries are then enabled cheaper transportation of their products. Further, as the commodity industry in general is a highly transport intensive business where often trucks are used for transports; the taxation on fuel and similar have affect on Alpha’s operations and are something that may hinder growth (Respondent 2, 2013).

**Infrastructure**

Respondent 2 (2013) describes that even though they are operating in a highly transport intensive business and the infrastructure to some degrees affect the operations; since Alpha outsources most of their transportation logistics it is not something that is given too much thought.

**Business Membership Organizations**

Alpha, as many other companies in this industry is a member of an organization which consist of a paper and wood mechanical industry, trade and employer organization. The organization's mission is to increase competitiveness and promote increased use of wood-based products (Respondent 2, 2013).

**4.1.1 Summary of Case One**

*The box below provides the reader with a summarizing overview of the empirical findings retrieved from the case study research of Alpha.*
4.2 Beta

The interviews were conducted with a key person that have been working in the organization for many years in different areas and were considered to possess extensive knowledge of the company;

- Respondent 4; Head of Sales at Beta, employed for over 30 years.

General Information
Beta is part of the Beta Group. They are the leading producer of recycled aluminium in northern Europe, located in the city of Älmhult. The commodity product sold by the company is aluminium in various delivery formats; drop, liquid or pin shape, which is shipped off to be processed and made into usable products by their customers. The company sells both to national and international B2B markets and their customer base mainly consists of foundries and steel mills. Since Beta also is conducting recycling of aluminium, they also see the companies whose aluminium waste they pick as customers (Respondent 4, 2013). The turnover of the whole group 2012 was 900 million SEK and with around 3800 employees of which 108 are working for them (Beta, 2013).
When asked about the main competition, Respondent 4 (2013) notes that the greatest competition is located abroad, specifically in Norway, Finland and Germany. Continuing on advantages on competitors, it is explained that Beta have a close distance to the customers and fast delivery to the customers which they can delivery in just one day to the local customers or to one specific day.

“...To be flexible and being able to deliver on time is something that we are known for. This is seen as attractive by our customers” (Respondent 4, 2013).

Furthermore, it is explained that also quality, technical support and service is something that creates an advantage for Beta. In order, to implement these characteristics Beta builds long-term relationships with customers.

Continuing on what the customers’ value and demand, respondent 4 (2013) points out that they do customer attitude surveys every three years. In this survey, delivery reliability comes at first place followed by flexibility, quality, price, Beta Solutions, support and environment.

Beta Solutions is a service provided by Beta; normally when the customers’ foundries melt down the aluminium, they will get both slag sawdust that they have to process themselves. Beta takes this slag/sawdust back from the customer to melt it down for the customer, resulting in aluminium ingots that the customer can use again. The customer only needs to pay for the cost of melting which is a benefit for the customer.

Environment is a very important factor of the firm’s attractiveness for the customer and the company as a whole. A great part of the environmental factors is that the aluminium sold by Beta is environmentally friendly. They also sell the excess heat created by the production facility to nearby 1200 households in the region where they are operating in (Beta, 2013).

“Hiring Beta should be a guarantee of quality and create value for our customers. We work specifically with reducing the carbon footprint by streamlining and reducing the dominant sources of emissions power consumption, heating and transport “(Respondent 4, 2013).
Market Access, Trends and Governance

The customers of Beta range from small firms with ten employees up to one of the leading steel company SSAB. According to respondent 4 (2013) the customers are one of the most important factor and stakeholder for Beta and the business relationships are of mixed character; Beta provides them with the service of picking up their waste products and put them back in the production operations, the customers are also the ones who purchase the processed products that comes out of the production. Furthermore, respondent 4 (2013) emphasizes that the customers also are the most important partners of the firm; together they customize solutions that benefits all parties and since they are focused on obtaining an informed and highly customer oriented organization, the results of these partnerships are communicated throughout the entire organization in order to provide everyone involved with the most possible value.

Beta also have a well developed marketing profile and conducts marketing in several different areas in order to reach as many and qualitative customers as possible. They are conducting advertising in several industry magazines as well as having set up a highly developed base of informative pamphlets with information on the company and their core values, the products and materials used for production as well as having extensive presentation materials. Moreover, they conduct B2B business activities by visiting existing and potential customers as well as participating in industry fairs and events (Respondent 4, 2013). Since many customers are also considered to be partners, activities to enhance the relationships with the customer’s customer are also conducted; the purpose for this is to enable them to feel secure in establishing long term relationships with their supplier which in turn naturally provides Beta with loyal customers. Some customers feel according to respondent 4 (2013) reassured by having the first supplier present to provide them with specific technical information on alloys and other input supplies needed in the production as well as specific pricing matters.

When asked about how the current situation on the market is progressing, respondent 4 (2013) claims that demands were somewhat weak during last year, however in contrast to the recession in 2008 when production volumes drastically dropped; predictions are that the year of 2013 will be a year of an increase in production volumes during the second quarter. A trend predicted by many firms as well as Beta is that it is getting more and more important to focus on saving energy in production by finding technological solutions that enable these kinds of benefits;
"It is not easy to find solutions to saving energy; however the benefits of focusing on finding these particular areas of which energy can be saved are way more attractive and desired than if this was not aimed for by us" (Respondent 4, 2013).

Furthermore, respondent 4 (2013) tells us that there are some customer groups that are more beneficial when it comes to sales and growth and this is actually to some surprise for Beta; smaller firms operating in the automotive industry that uses light weight metal in their production of heavy vehicles.

Lastly, when talking about the current situation in the market; the biggest challenge lies in finding a pricing strategy that is transparent. Respondent 4 (2013) tells us that the customers’ customers are often asking about the status of pricing since they are operating in a volatile market that suffers from major shifting in price, the most desired situation for them is when they are able to make prognoses and analyzes of what is about to happen in the market and adjust strategies according to this;

“Just about everything affects price; currency, what is going on in the external environments, lack or excess of input supply ... even the level of snow coming in the winter has its effects.” (Respondent 4, 2013)

“Changes in pricing in the commodity industry are pretty much a hidden issue, nevertheless a very controlled one; if production is low, prices go up. It is all a matter of demand.” (Respondent 4, 2013)

Currently there are major shifts in prices in the market and not as slow moving curves as how the market was just a few years ago, this forces Beta to rapidly being able to respond to this and also to try and maintain the relationships with their customers through the rough paths;

“When prices are high, firms are looking into substitutes for aluminium that are cheaper; for instance plastic ... the fact that there are substitutes makes us rely even more on establishing strong loyal relationships with our customers” (Respondent 4, 2013)
Technology, Product and Technological Development

During the year of 2012 Beta made many investments in different processes of the company due to the goal of an increased growth, mainly in production/products and logistics. In production of new filters, afterburners; new cooling down methods of aluminium ingots and recycling of heat investments has been made. This mainly due to;

“....we want to increase production but also to get an even more environmentally friendly production” (Respondent 4, 2013).

Since the company is known for having competitive logistics, with fast delivery to customers and delivery reliability, the company has made investments in improving transportation in in-bound logistics. An example of this investment is the placement of cameras outside containers which enables Beta to see the level of scrap metal. This strategy is cost-efficient as it ensures that transports do not fetch and transport half-full containers of scrap metal which also has its effects on the environment (Respondent 4, 2013).

Respondent 4 (2013) further explains that it is a mixed competence at Beta of the total 108 employees. The competence is built internally through educations of the employees, but a lot of the competence is built on experience in the aluminium industry. To get the maximum benefit, more and more customers chose Beta for all its waste management, also known as Beta Solutions. The service is not only meant for providing waste management but also a total solution for customer:

“...with our total solution Beta Solutions, we make it easier and more economical all the way from the investment of customer’s waste to optimization of resources, training and management, and the important part of reporting and monitoring” (Respondent 4, 2013).

"We see that more customers require a partner that can handle all types of waste and create standardized cost-effective recycling solutions that simultaneously gives full control of all flows in the business" (Respondent 4, 2013).

The purpose of the services connected to Beta Solutions is to make everyday life easier for the customer. The customer gets the opportunity to use Beta Customer Portal; an internet service where the customer can log in and easy find statistics of their waste, while getting help to
transform numbers into useful environmental example (Beta, 2013). Furthermore, the customer gets access to Beta’s expertise regarding aluminium production/recycling and laboratories. The environmental impact is drastically reduced due to the production is entirely based on recycled commodities, which saves Beta up to 95% energy compared if they were to use non-recycled commodities (Respondent 4, 2013).

In addition to Beta Solutions, they also offer education, technical support and customized product solutions to direct or indirect customers. The education provided by Beta covers areas within metallurgy, quality, design, process and more. There is also a possibility to have customized trainings in order to find the right level and content in relation to participants’ prior knowledge (Beta, 2013).

The technical support has the task of helping Beta’s customers in various ways. The support offers a close relationship with the customer within process and product development. The aim is to increase the customer’s success through improved quality and efficiency. An important factor for the customers’ success is about having a consistently high quality of products. Beta’s support offers the possibility to improve the production of the customer and thereby ensure a continued high quality e.g. failure analysis and chemical analysis of machines. Furthermore, the technical support also offers process development. By analyzing the casting process, Beta can develop and improve the processing steps in the production, thus the final result. Finally, the technical support offers product development. The competence and experience that the company has can help the customer to optimize their products and its characteristics with personal participation after the customers’ certain needs (Beta, 2013).

When asked about environmental pollutions, respondent 4 (2013) points out that Beta takes the environment as a very serious factor. The excess heat is being utilized in the district heating network together with an electric company, which results in the heating of 1200 households in the region of where they are conducting their operations. The company also has local materials connoisseurs which they use to create best solutions; effective wise and from an environmental friendly perspective.

Finally, Beta customizes the products after the customers’ requirements. This is not always done due to the demands of the customer but also due to that the quality of the products can
sometimes differ. To customize their products even further, Beta also offers the customer aluminium in liquid form, which they are the only company in the industry that does.

**Standards and Certifications**

As a company with an environmental focus it is especially important for Beta to obtain the required standards and certifications. The aluminium produced at Beta is almost 100% accordingly to customers’ specific requirements. The requirements made by the customer are based on standards and are therefore adapted thereafter towards the customers’ requirements. Often these standards are set accordingly to European standards (EN13920). In addition to the European standards there are often specific standards on other markets such as the Asian or the U.S. market.

Furthermore, it is explained that Beta is certified according to the certifications: ISO 9001:2008, ISO 14001:2004 and AFS2001:1 (Beta, 2013).

**Management and Organization**

Within the areas of management and organization, respondent 4 (2013) claims that the major strength is the customer oriented culture that runs through the entire organization;

"We are constantly considering our customers’ best and with a great deal of involvement in relationships; we focus on providing the customer with value in everything we do”

(Respondent 4, 2013).

In order for Beta to ensure that the goals and values are maintained throughout all divisions of the firm, there are constantly internal trainings provided for employees in order to gain a joint approach towards the focus of the organization. Furthermore, for the last five years they have set up courses and training on development. These are carried out three times a year and involve all employees as Beta finds it extremely important that focusing on customer orientation is constantly emphasized (Respondent 4, 2013).

When asked about where the most work on the organization is conducted, if it is externally, internally or by the owners; the definite answer is that it relies on the internal sectors, focusing on employees. Respondent 4 (2013) considers them to be the factor that upholds the company’s operations and maintains their customer orientation. As they are not outsourcing their
production; neither their operations in handling the recycled commodities and processing them; all operations except for transportation are integrated in the firm.

**Input Supply**

The required resources for Beta to maintain their business are; recycled trash, aluminium and metal. As mentioned Beta also see the suppliers using their recycling service as their customers. Beta’s view on where their customers are found is emphasized below:

“...the customers are found in all different areas of society, however our task is the same: to create value at every stage “(Respondent 4, 2013).

Besides receiving input supply from their customers, Beta also imports from metal industries. When explaining how the input supply market of scrap metal works (Respondent 4, 2013), emphasizes that scrap raw material used by Beta has been and always will be a shortage commodity regardless of the economic situation on the market. The use of aluminium has steadily increased since the 1940’s, however it takes a while before a customer decides to scrap the metal so that it can be recycled by Beta and used again. This is further emphasized by respondent 4 (2013), that the demand for recycled aluminium is bigger than the supply. Due to the shortage of supply Beta sometimes uses different scrap metals in order to produce the aluminum. This can sometimes result in a variance of quality of their products.

**Policy and Regulations**

Beta has conducted extensive work in setting up comprehensive policies on how the operations are to be conducted in different areas (Respondent 4, 2013). As Beta considers them selves to be a responsible firm the policies are constantly revised and improved as requirements increase. There are policies regarding their environmental work and how they are proceeding to improve this, as well as a purchasing policy and lastly, a policy on their CSR work. These are described below.

**Environmental Policy**

The foundation of all of Beta’s operations lies in the notion that the firm needs to contribute to conserving the resources of our Earth. The policy is based on certain principles and goals regarding the environmental approach Beta have obtained, and they are also working proactively to help their customers in achieving their environmental goals. One of the principles in the policy is formulated as;
“within given frames develop operational methods and processes in regards to the environment, as well as making continuous improvement in the everyday operations to face tomorrow’s environmental demands” (Beta, 2013).

The environmental aspect is a vital part of the firm’s operations as they are working in recycling materials for processing, which makes establishing and following the environmental policy extremely important.

**Environmental Action Program**

Beta’s environmental action program on improving their environmental work is based on assembling an overview of the operations’ total environmental impact which is updated every year. The purpose of this overview is to gain an up-to-date general picture on which of the firm’s environmental aspects that generate a direct or indirect impact on environment. These aspects are then valued in order of their total impact; the purpose of this is to separate the aspects that have significant environmental impact and set up new goals on how to handle these before each new fiscal year (Beta, 2013)

**Purchasing Policy**

The policy set up on purchasing is based on the demands that Beta has on their suppliers. It contains requirements on handling raw materials; all handling should be conducted in a responsible and admirable way. All suppliers that are in cooperation and partnerships with Beta have to have distinct characteristics of cooperation, expertise and quality awareness. The purchasing policy also takes nurturing the firm’s relationships as well as securing their own stock into consideration;

“when purchasing supplies or services we should benefit suppliers that continuously and long term wise may secure our needs of acquisition” (Beta, 2013)

**CSR Policy**

Beta finds it enormously important to set up a clear defined CSR Policy in order for their customers as well as the customers’ customers to be aware of the social responsibilities that the firm works with. There are ethical rules set up regarding social activities that Beta participates in as well as their equality policy (Beta, 2013). Furthermore, an even more important issue is to educate the customer on how they should operate to ensure safest possible handling of raw
materials. For instance, respondent 4 (2013) tells us that when their customer receives the products the next step is to melt the raw material. If there in this process is any form of moisture in the raw material, perhaps coming from condensation in the delivery; the process may explode, which makes it enormously important that Beta educates their customers on how to specifically handle the raw materials supplied to ensure all aspects of safety.

**Infrastructure**

Delivery reliability is something that the firm is known for and is highly attractive to the customers. The industry is overall very delivery reliability demanding, therefore they continuously work with investments in improving their transporting processes.

The transport to and from customers are outsourced. Further, Beta can promise the customer to deliver within one day locally or up to two days depending on where in Europe the customer is located. Even though the transport is outsourced the firm is always responsible for the delivery arriving according to planned and agreed specifications. Furthermore, the customer portal provided by the service Beta Solutions makes it possible for the customer to see where the delivery is and when it will arrive (Respondent 4, 2013).

In addition to having delivery reliability, location is very important which is further emphasized by the quote below:

> “Our wide geographic scope enables us to get close to the customer through various branches, which results in high loyalty from our customers” (Respondent 4, 2013).

The location not only concerns the sales, but also recycling. The company has 180 recycling sites for scrap metal in various countries around Europe. The most recent one was opened in Warsaw, Poland where not only suppliers can drop their scrap metal but also the population living nearby (Beta, 2013). Lastly, the respondent ends the interview by clarifying the following;
“Our hallmark is to work closely with customers and our ability to take quick decisions on volumes and quality connected to timely deliveries is important and separates us from many other players in the industry.” (Respondent 4, 2013).

4.2.1 Summary of Case two

To sum up the empirical findings of Beta, the box below provides the reader with an overview of the firm and the essential parts of the empirical findings.

**Table 3. Empirical Summary of Beta**
4.3 Delta

The interview was conducted with the person considered to possess the most knowledge of operations of Delta;

- Respondent 5, Marketing and Logistics Manager, employed since 2007.

**General Information**

Delta is a mining and exploration company whose main operations lie in the mining of the Delta iron ore mine, and the company has over 100 employees. Delta started in 2007 and since last year they are conducting their operations in a reopened iron ore mine that mine, sell and deliver two types of iron ore products to international markets which currently has its biggest focus towards the Nordic and European markets. Only within the EU the steel industry annually produces over 200 million tons of steel. The firm’s customers are mainly steelworks in the above mentioned markets that in turn has customers in the global industries of construction- automotive and electronic industry. The turnover of 2012 was around 137 million SEK and the amount of crude ore mined was estimated at 939 000 tons, and is expected to increase significantly over the next years. Since Delta is a relatively new firm on the market there are currently goals needed to be met over the next few years and the company’s vision is formulated as follows;

“Delta’s vision is to maximize shareholder value over the next five years by becoming a well established and valued iron ore supplier to a great amount of European steel companies” (Delta, 2012).

In addition to this, the goal of Delta is to participate in the structural transformation of the iron ore mining industry as well as developing an economically and sizeable sustainable structure. Respondent 5 (2013) claims that the number one thing requested from their customers which they seek to satisfy at all times is the aspect of right product to the right price; therefore they are also constantly battling the aforementioned ‘commodity perception’. Their main competitors are of different characteristics and sizes. A competitor in Sweden is to some extent LKAB that, even though they do not compete on the same products, the competition is merely based on the fact that Delta’s products can function as substitutes for the ones of LKAB. Two direct competitors are also a Brazilian mining company as well as a South African mining firm.
Respondent 5 (2013) considers the main advantage that Delta possesses in contrast with their aforementioned competition is their size;

“While the competitor produces and ships off three hundred million tons of iron ore a year, we are currently at a production capacity of one and a half million tons... we are an outsider that is not one of the big players in the business and this helps us to ‘fly under the radar’ while we are expanding” (Respondent 5, 2013).

Furthermore, one major advantage for the firm is the location of the mine. Since most of the customers are found in Northern Europe, the location enable short transportation routes which is beneficial for all parties as it keeps shipping costs low as well as ensuring that the environmental aspect of transportation is being considered (Respondent 5, 2013).

Market Access, Trends and Governance
The mining industry is a somewhat specific industry and respondent 5 (2013) describes it as there being enormously large volumes handled while there are not too many customers. Few customers in a market with few suppliers make an oligopolistic market (Respondent 5, 2013). The volume of the business conducted makes it even more important than ever to conduct marketing on the firm through relationships. To increase stability of sales and to reassure future sales Delta is focused on establishing long term cooperation and contracts with financially solid customers and according to respondent 5 (2013); developing good, nurturing and mutually beneficial relationships is the key in the industry. Delta in turn nurtures their relationships by focusing on offering flexible, customer oriented solutions with a high degree of service-mindedness.

Moreover, respondent 5 (2013) also puts emphasis on the fact that providing the customer with technological customer support creates value for all parties involved in the business. Furthermore it is described that the European market is as oppose to for instance the Chinese market, to be somewhat conservative; meaning that European firms more often rely on what they know and have experience of which makes it more desirable to stay with supplier that they can trust;

“... once you have worked your way in and worked up good relations in that industry, it is hard for customers to back out. There is conservatism in the business and if we also
can provide the customer with technical solutions – all parts gain benefits” (Respondent 5, 2013).

With that being said, there is hardly any marketing except for relationship building activities occurring in the mining industry where focus lies on personal sales and big business with extensive amounts of money represented by few actors (Respondent 5, 2013). Furthermore, the long term relationships that Delta finds valuable was early in the establishment stage sealed by instituting several year-long contracts of delivery with some of the leading steel works in Europe, which have ensured and consolidated Delta’s position on the market for an extensive period of time (Delta, 2012).

According to the annual report of Delta (2012), the steelworks in northern Europe, where Delta mostly operates, is currently producing at a reduced pace due to overcapacity of steel inside of Europe. This trend naturally has its effects on the economy and according to respondent 5 (2013) potential customers are therefore unwilling to tie up capital and prefer to keep stock levels low. The flexibility and closeness to the market enables Delta to assist them with unique just-in-time deliverance to keep their stock levels and tied monetary capital to a minimum;

“... as a small actor we have the power and abilities to stay flexible in these kinds of situations while still maintaining an outstanding level of service. We quickly respond to our customer’s needs and desires and our size provides us with the benefits of offering custom made solutions” (Respondent 5, 2013)

**Technology, Product and Technological Development**

Respondent 5 (2013) explains that the mining industry is an energy-intensive industry. When production increases, a great part of Delta’s costs will increase drastically;

“... energy consumption represent a major portion of our company’s costs, this means that changes in energy prices can have a significant impact on our firm’s profitability” (Respondent 5, 2013).

The energy price development is difficult to predict in both short and long term perspectives. In order to limit its energy consumption Delta continuously works with various activities to make this procedure more effective. This is especially important for the company due to a new EU
legislation concerning carbon dioxide emissions which will come into force in 2013. The result of this new legislation is unfortunately higher electricity prices (Respondent 5, 2013).

Delta’s mining activities are like any other company in the industry affected by a series of continuous unplanned shutdowns that affect the production and financial performance. The company is also subject to periodic scheduled shutdowns due to fine tuning and maintenance of equipment in the mine. If the maintenance of such equipment is not on schedule, this can result in a more expensive mine production and ore processing than what Delta estimated. Therefore they put a lot of effort in having more effective and less time consuming shutdowns (Delta, 2012).

Furthermore, Delta’s greatest asset is the facility where the production of the minerals takes place. The facility’s production process is a target of continuous investments from the head quarters. Due to the facility’s noise, vibration, dust and water influence, Delta has developed a control program that continuously tests the water and measurements of noise and vibration in the facility. All of the tests are sent to the local authorities and are there approved (Respondent 5, 2013). The program was developed by the R&D department; other activities under development include the field of mining engineering, process metallurgy and governance (Delta, 2012).

It is further explained that an important factor for the facility is an even total quality of their products. The work of having an even quality also runs through the iron ore operations which explore new opportunities in finding new iron ore that can be used by the company. Depending on the qualities of the mountain properties, the cost to mine and process ore can become higher or lower than expected. Investments are made to continuously identify and explore the next potential mining site (Delta, 2012; Respondent 5, 2013).

When asked what technical expertise that is unique for Delta, respondent 5 (2013) states that the firm is very dependent on the employees special expertise in the mining industry. This expertise is especially important for the customer service department, where all employees have high academic qualifications and practical experience in the industry, together with a good knowledge about the customers. For the future Delta is involved in an intense effort to increase the knowledge of the mine and mineralization processes in the plant. The goal is to
find optimal processes to increase the yield. The first stage of these investments regards around 30 million SEK.

**Standards and Certifications**

There are certain standards that need to be fulfilled when operating in the mining and steel industry and the firm has initiated their operations in accordance with the environmental certification of ISO 9001:2000 (Respondent 5, 2013). This certificate is an environmental quality management system that the firm has to constantly work on to keep and it involves certain requirements such as the company need to demonstrate an ability to constantly provide the customer with products that meet their regulatory requirements; as well as aiming towards achieving customer satisfaction through effectively applying the system in the organization and continuously implement processes for improvement (ISO, 2010). Thus, Delta having gained this type of certificate indicates that they are proactive in their environmental quality management work (Respondent 5, 2013).

Furthermore, respondent 5 (2013) illustrates that the firm has obtained a certificate on maritime and shipping safety which is essential for them when shipping their orders internationally by sea.

**Management and Organization**

The most important aspect to consider when talking about the management and organization is the access to human resources. Respondent 5 (2013) claims that the development and future of the entire company actually depends on the firm’s ability to find, hire and to maintain highly qualified employees. As the operations require and highly depends on that the employee possesses specific competencies within the areas of mining and geology in order for the operations to be carried out as well as planning in advance on human resource management, being an attractive employer is vital for Delta;

“Without the talented and highly educated people we have working for us the business would not last for even a week. Talented people in this area of work do not grow on trees which (happily) forces us to seek attractiveness as employer” (Respondent 5, 2013)

As the employees of Delta are considered to be key resources, the board of directors is therefore conducting continuous proactive work in order for them to secure their position as an
attractive employer and ensuring a steady flow of resources to the company. In order for them to do this the management relies on four value principles; **Responsibility** means the firm takes responsibility beyond laws and regulations and constantly strive to develop the organization as well as their methods; **Simplicity** is considered as key in order to enable efficient operations where initiative and improvement drives success; **Commitment** is based on the notion that all individuals of the organization are valuable assets and by encouraging co-determination and respect, employees will feel proud and empowered in taking responsibilities for the firm and their role inside it; and lastly **Openness** which basically means that communication is held honestly, straight and open in all levels of the organization as well as externally (Delta, 2012).

Moreover, actions taken towards creating an attractive but perhaps more important; safe work environment contains safety training; educations on a better working environment called BAM and CPR training for all employees as well as an internal training on working underground for employees relevant for this issue (Respondent 5, 2013).

Even though there are many functions represented inside the firm, there are still certain functions that need to be purchased externally and for Delta the services brought in by external partners are mainly contractors and subcontractors that are responsible for some advanced parts in the operations and in rare cases they have to engage engineers for reparations on certain advanced machinery. However most of the operations are integrated inside the company such as customer service systems, transportation services as well as marketing and sales services.

**Input Supply**

It is stated that the input supply needed for iron ore products is naturally found in the mine which of course makes it a significant resource and important part of the entire organization. Due to Delta owning the mine there are no problems with obtaining input supply for their products. However as respondent 5 (2013) describes it, it is merely a problem on the practical side of what is actually possible; the amount of iron ore coming from the mine depends on the capacity of the machines used, which in the current state is not used to its fullest capacity which creates enormous possibilities for future growth; as well as what is possible in terms of geology and geo physiology, which leads us into the sustainability issue. When having discussed forecasts of the future, Vestlund was asked on the sustainability of input supply of their business;
“As it is now we have the capacity and resources of continuing these operations in Delta for little over a decade ... however technology is moving fast as well as we are, and the input supply in the rest of the world is endless” (Respondent 5, 2013).

Respondent 5 (2013) further emphasized that there actually are not that many regulations hindering the mining operations, but that in contrast there actually exists quite beneficial legislations providing possibilities for the mine and Delta’s operations in the future.

**Policy and Regulations**

There is an overall policy formulated internally for Delta which aims to describe the firm’s approach towards securing total quality of all operations; which is by conducting continuous improvements in the work environment, the external environment, energy applications, staff policies and product quality; Delta ensures a safe, environmentally friendly and profitable development of the firm’s operations (Delta, 2012).

The company also has an explicitly stated policy on environmental effects which aims to limit the impact from all operations on the environment as far as possible. This will be accomplished through consistent environmental work in order for Delta to meet existing and future laws and regulations as well as demands coming from external stakeholder groups. The firm concretely seeks to limit lasting impact on the landscape by recycling waste products from mining back to the mine. The waste products are also used as material to reinforce the mine. Further environmental actions taken include the setting up of a recycling center in order to take care of environmentally hazardous waste (Delta, 2012).

Regulations set up by authorities has forced Delta to explicitly take actions on certain environmental aspects of the mining; and in February of 2010 the dewatering of the mine ended and a sedimentation plant was then built to take care of the pumped water masses. As of now, the firm has set up a permanent sedimentation plant which aims to take care of the natural flow of water in the mine, and in 2012 a chemical inventory was conducted for the entire mining area as well as developing a system for controlling which chemicals and in which amount they existed in the mine (Respondent 5, 2013).
Moreover, as mentioned before Delta works with securing total quality which is a policy that not only applies to Delta as a company but is also something that permeates the entire organization in aspects of health, environment and safety;

“Our total quality policy applies to all our employees as well as all external partners that provides services that we purchase; this includes for instance consultants, contractors and suppliers” (Respondent 5, 2013).

Infrastructure
Logistics are one of the greatest challenges for Delta, together with the costs of transporting the product to the customer. Delta has been able to solve the logistics solutions in a very good way, thanks to location near the harbor of Hargs were the ore is transported directly by their own railroad and transport train. The harbor signed an agreement with the firm which secures the entire supply chain from mine to ship loading;

“In the logistics department I believe we are a well-equipped company...” (Respondent 5, 2013).

From the harbor the firm can transport the ore directly to its nearby customers in northern Europe. It is furthermore planned by the authorities to allow larger ships to travel in the shipping channel in the Baltic Sea; this will enable the firm to reduce the transport cost by fifty percent (Delta, 2013).

4.3.1 Summary of Case three
To sum up the empirical findings of Delta, the box below provides the reader with an overview of the firm and the essential parts of the empirical findings.
**Findings at Delta**

*Delta has its biggest focus towards the North European markets*

*Products are mainly iron ore*

*Customers are steelworks that in turn have customers in the construction- automotive and electronic industry*

*The firm has a long-term goal of becoming leading supplier of iron ore in Northern Europe*

*Right product at the right price; therefore they are also constantly battling the aforementioned ‘commodity perception’*

*The main advantage for Delta in contrast to their competitors is size, location, shipping costs and environmental aspects*

*Few actors in the market, large volumes*

*Long-term relationships with financially solid customers*

*Flexible, customer oriented service*

*‘Technological support creates value for all parties’*

*There is hardly any marketing except for relationship building consolidated by long-term contracts, focus lies on personal sales*

*The flexibility and closeness to the market enables just-in-time deliverance*

*Continuous work to limit energy consumption*

*Planned shutdowns for maintenance are cost/time/resource efficient*

*Facility is target of continuous investments*

*Dependent on employees’ special expertise*

*Dependent on quality of mountain properties*

*Proactive in their environmental management work; (certificates: ISO:9001)*

*Shipping safety certificates*

*Safety training*

*Integrated operations, sometimes subcontractors*

*Delta mine is the most important asset for the entire organization*

*The firm aims towards a total quality/environmental policy*

*Good logistics solutions*

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**Table 4. Empirical Summary of Delta**
5. Analysis

In order for us to be able to answer the research questions posed; the theory alongside the empirical findings on the case companies are analyzed and discussed altogether in the concluding chapter. Three key concepts connected to answering the questions have been identified; value creation, value proposition and value delivery system. These concepts were described in the theoretical framework of this thesis and picked out due to their relevance in regards to the research questions. By structuring the analysis this way; the theoretical framework is connected to the empirical findings and also enables us to make reflections with the findings in mind.

5.1 Research Question 1

**SUB QUESTION ONE**

How do firms in the commodity industry seek to create value to achieve competitive advantage?

As Bowman and Ambrosini (2002) emphasized, value is created by the firm and its activities. In order to identify the core competences of the case companies it is essential to identify which activities that helps in creating value and a competitive advantage. To perform this analysis at its best, the value chain of Porter (1985) have to be used, which is presented below.

5.1.1 Value Chain

According to Porter (1985), a value chain analysis is a method for decomposing the firm into strategically important activities that creates value. This way an understanding of what specific value creating activities within the firm that creates the firm’s competitive advantage can be retrieved.
5.1.1.1 Alpha International

Support activities

Support activities help to improve the effectiveness or efficiency of the primary activities.

Firm infrastructure
- Non-integrated sawmills
- Saw mills running at almost maximum capacity
- Marketing management skills (CRM, branding, CSR, Word of mouth)
- Process management skills (Quality, evenness, delivery reliability)
- Sales management skills (Communication, negotiation, service)

Human Resources
- Highly technologically educated employees
- Sales/marketing people’s technical expertise

Technology
- R&D department
- Technical network
- Standards and certifications

Procurement
- Owners are the suppliers which secure stock
- Externally purchased services of transportation

Primary activities

The primary activities are directly connected to the creation or delivery of Alpha’s paper-pulp products.

Inbound logistics
- Inbound material handling (Equality and evenness of their commodities and production process, Owner-supplier relationship)
Operations

- Investments in development of saw mills
- Flexible and fast internal reaction to external standards in manufacturing
- Continuous investments in R&D
- Continuous learning of policies and regulations
- Product quality
- Delivery reliability

Outbound logistics

- Shipping/distribution (SMI, Pulp Access)

Marketing and Sales

- CRM
- CSR Policy
- Seeking new segments
- Branding
- Word-of-mouth
- Member organization
- Flexible and fast internal reaction to external needs in Sales & Marketing

Service

- Internal Support
- Technical/customer Support (Pulp Services)

Inbound Logistics

It is described that Alpha has an *inbound material handling activity*. This activity is supported by the owners being the suppliers which secure stock; standards and certifications, process management skills and non-integrated paper pulp mill. With sawmills operating around-the-clock all year round, it is important that the input supply from the forest owners have equality and evenness of the raw material, this due to the demand from customers. The owners become somewhat responsible for the equality and evenness of the inbound material handling together with process management skills from the employees. In addition to the employees with process management skills and the forest owners, the support activity of standards and certifications helps the company to achieve the equality and evenness required in the inbound material
handling activity. Lastly, inbound material handling is supported by the non-integrated paper pulp mill by not being in direct competition with their customers. If they were to actually produce and process the paper pulp into other products, their biggest customers would also end up as their competitors. This enables for Alpha to always seek to produce at their best in order for them to be the most attractive alternative amongst the competition, thus resulting in equality and evenness.

Furthermore, it has been identified in inbound material handling that the company is supported by; owners are the suppliers which secure stock, due to ownership structure that consists of forest owners that also represents the suppliers of the input supply, thus resulting in an owner-supplier relationship.

**Operations**

Looking into the operations, it has been found that the firm continuously makes extensive investments in developing their own sawmills. Currently the mills are running at an almost maximum capacity at a 96-98 percent depending on the current level of demand. Developing sawmills to be able to handle a higher level of capacity increases the chance for Alpha to efficiently respond to new needs on the market if these occurs. Alpha possesses a primary activity of being able to internally respond to external changes in standards on manufacturing, this is due to their highly technologically educated employees which enable these fast and flexible reactions. As mentioned, the investments made in developing the saw mills also lead to ease of fast response to external demands. The supporting activity of making sure that their employees have the right skills to technologically being able to handle operations is connected to several aspects of their operations; for instance their continuous investments in developing the R&D department reassures that human resources with key skills are represented. The highly skilled employees furthermore provide Alpha with process management skills; which contribute significantly to the desired product quality and the aforementioned evenness of these products. Moreover, the process management skills found at Alpha contributes to the delivery reliability which is found to be of high importance, and this has also been stated by both Alpha and perhaps even more important, their customers.

Lastly, the employees’ marketing management skills include skills in policy management of for instance CSR which contributes significantly to the firm continuously seeking to fulfill new standards and regulations. Making sure that extensive work is done in the field of the firm
meeting new standards and being socially responsible for the effects their operations may generate on for instance the environment, proves that Alpha engages in continuous learning of new policies and regulations.

**Outbound Logistics**
The outbound logistics activity concerns the technological service of *Pulp Access/SMI*. This activity is positioned here due to its importance to shipping/distribution. The activity of Pulp Access creates forecasts on how much paper pulp the customer will need in the future and the supplier, which is Alpha, is responsible for the stock of this material until the products are delivered and put in the customer’s production chain. The activity concerning Alpha’s responsibility over the customer stock is called SMI (Supplier Managed Inventory). Due to the responsibility together with the support activities of highly technologically educated employees and externally purchased services of transportation Alpha can ensure a high degree of delivery reliability. The technically educated employees improve Alpha possibility to create forecasts with Pulp Access and delivering on a just-in-time basis by using their technical expertise. The externally purchased services of transportation also help in improving the delivery reliability by delivering on a just-in-time basis.

**Marketing and Sales**
Having thoroughly developed support activities of marketing management skills supports the carrying out of marketing and sales activities, and these involve for instance the customer relationship management (CRM), corporate social responsibility (CSR), and branding activities. The branding may also be affected by the activities performed on CRM and CSR as they directly can generate both positive and negative word-of-mouth effects. The marketing management skills possessed by Alpha are also connected to the sales and marketing expertise, and with their skills they possess the competence of seeking and identifying new segments.

Furthermore, Alpha has taken actions on expanding their product offering and is currently producing a new commodity material called textile pulp; the skills possessed by the employees to find the segments of customers that may find use in this also have product development skills in the R&D department. This is due to the fact that communicating new qualities of textile and their areas of potential use requires technical skills while at the same time they have skills on motivating the benefits of the new products, thus possessing the support activities of sales management skills and the human resources of sales and marketing people with technical
skills. Furthermore, the sales management skills also support Alpha with flexible and fast internal reactions to external needs.

**Service**

The primary activity of internal support is supported by such factors as the technical network that has been set up between Alpha and their customers’ technical staff. The purpose of this technical network is as mentioned before to adapt the offering into making it beneficial for all parties involved. This is considered to be an internal supporting activity since it lies in improving the offering for both customers and Alpha and the technical network becomes a function inside the relationship structure. The technical network is furthermore, naturally, supported by the technical expertise of the employees. Furthermore, the technical support as well as the customer support as primary activities in the value chain are also dependent on the employees being technologically educated and skilled in order to provide the customer with the support it needs; having a well functioning support service in any firm requires all employees to be skilled in their areas which motivate the technical expertise required for the employees. These primary activities are furthermore supported by Alpha having process management skills which enables delivery reliability that in turn provides the customer with support and ultimately value. Furthermore since the customer support is highly based on relationship management, these activities are supported by marketing management skills; developing and maintaining a strong CRM policy, which also can be further connected to internal support as it is very important for Alpha to maintain customer focus throughout the organization; motivating a unified internal approach towards conducting CRM activities. Lastly, a vital factor creating customer support, which is perhaps the most important one, is the program provided by Alpha to their customers; Pulp Services. This program ensures the customer to have full control over their orders as well as reassuring them that delivery reliability will be experienced.

**5.1.1.2 Beta**

**Support activities**

Support activities help to improve the effectiveness or efficiency of the primary activities.

Firm infrastructure
● Global and local recycling sites
● Production facility
● Training & education management skills (Internal/external courses)
● Marketing management skills (Advertisement, relationship marketing and more)
● Process management skills (Delivery reliability, recycling)
● Sales management skills (Expertise in technology)
● Close location to market

Human Resources
● Highly technologically educated employees
● Very customer focused employees
● Sales/marketing people’s technical expertise

Technology
● Environmental action program
● Standards and certifications
● Recycling technology

Procurement
● Recycling materials/scrap metals
● Externally purchased services of transportation

Primary activities
The primary activities are directly connected to the creation or delivery of Beta’s metal and aluminium products.

Inbound logistics
● To some extent purchase of input supply
● Inbound material handling; delivery reliability

Operations
● Continuous investments in improving transport and inbound logistics.
● Extensive work in following and fulfilling policies set up internally.
● Extensive investments in technology and product development areas
● Product quality
● Customized products
Outbound logistics
- Just-in-time delivery
- Delivery reliability
- Fast and flexible delivery

Marketing and Sales
- Advertising (Magazines, fairs, pamphlets)
- CRM
- Branding (environmental profile)

Service
- Technical/customer Support
- Training/education internally and externally
- Beta Solutions

Inbound Logistics
Looking at the inbound logistics at Beta, it is found that they to some extent have to purchase their input supply from external partners, and this is supported by activities of procurement of recycling materials and scrap metal. As Beta also has many global and local recycling sites their input supply stock to some extent is secured due to their convenient locations. Due to them also having certain agreements with their customers on picking up their waste materials and recycling them into new products delivered back to the customers; the input supply stock is continuously flowing internally and externally between supplier and customer; ensuring Beta a steady stock of input supply.

Furthermore, while on the topic of input supply stock; as mentioned in the empirical findings Beta have made large investments in setting up cameras overlooking containers on their recycling sites. The reason for this is to prevent them from having to pick up half full containers which generate unnecessary transportation which has its effects both economically and environmentally. This also helps them to gain control over their input supply and prevents them from purchasing unnecessary services of outsourced transportation.
Furthermore, by outsourcing transportation solutions to external partners that are professional in that particular field; with contracts that guarantees the transport to run as desired; delivery reliability is achieved. The inbound material handling is furthermore supported by the activity of Beta having developed process management skills that enable effective solutions on recycling and ensuring that the processes result in recycled products with the desired quality.

**Operations**

Looking at operations it has been found that Beta continuously makes investments in improving transport and inbound logistics. This activity is done because Beta wants to improve their delivery reliability. Further, Beta has a reputation of delivery reliability and this is highly attractive to the customers. In order to make the investments in transport and inbound logistics to get better delivery reliability, Beta needs to use their support activity process management skills that are created by the highly technologically educated employees. The investment activities further concerns the fast delivery is being supported by externally purchased services of transportation.

Beta also has an operational activity called extensive work in following and fulfilling policies set up internally. This is an important part for the company since Beta considers themselves to be a socially responsible firm. The policies regard their environmental work and how they are proceeding to improve this, as well as a purchasing policy and lastly, a policy on their CSR work. This primary activity is supported by the activities of training & education management skills, marketing management skills, process management skills and customer focused employees. In order for Beta to follow and fulfill the policies set up internally, they need to use their training & education management skill to educate the customer focused employees through courses. This would increase the knowledge of the employees regarding new policies. The marketing management skills is important, because Beta needs to know what type of policies are required/demanded by customers and/or the market as a whole. The marketing management skills are used to find these new policies in order to set them up internally. Furthermore, the primary activity is supported by process management skills, these are needed in order to control that fulfilling and following of policies set in e.g. the production process is done correctly.

Moreover, another activity in operations is the extensive investments in technology and product development areas, this due to them having goals on increased growth, mainly in
production/products and logistics. This is mainly supported by the firm’s process management skills and the knowledge of the technological employees when making this type of investments.

An important part of Beta’s strategy is maintaining product quality. This activity mainly means that the products sold in drop, liquid or pin shape aluminium should maintain an overall good quality. In order to create a good quality it is important that the support activity production facility does so accordingly to the standards and certifications set by the company but also by the customer. Due to the uncertainty of input products the raw material can sometimes differ in quality. Furthermore, the quality/product can be adapted and customized after the customers’ requirements. This activity give the products possibility to be sold in liquid form, which they are the only company in the industry that does. The customization is mainly supported by production facility, process management skills and the high tech employees. The facilities’ possibility to produce different types of customized products and the company’s process management skills concerning know-how in customizing products together with the high tech employees all contribute to this primary activity.

**Outbound Logistics**

As mentioned, Beta does a lot of investments in transport and inbound logistics to improve the delivery reliability activity. This is supported by procurement activities of transportation solutions. The transportation outsourcing also supports and improves the basis for the just-in-time delivery. Further, having well developed process management skills that enables Beta to improve the overall delivery reliability helps them gain more trust from their customers, thus also improving their relationship management. The human resource activity of customer focused employees furthermore supports the overall aspects of just-in-time, delivery reliability and fast and flexible delivery, due to them being aware of the importance of Beta fulfilling the demands on delivery from their customers and therefore making sure that all customer relationships are maintained. Moreover, the firm infrastructure that includes Beta having both global and local recycling sites also has its effects on the flexible delivery; as the location of the firm is close to where the actual customers are, the closeness enables a more developed just-in-time delivery as well as enables them to be more flexible and react fast to delivery demands.
Marketing and Sales

Looking at marketing and sales, the activities advertising, CRM and branding can be found. The advertising activity means that Beta conducts marketing in several different areas in order to reach as many and qualitative customers as possible. By conducting advertising in industry magazines, fair and pamphlets, Beta tries to attract more customers.

Beta does CRM activities by visiting existing and potential customers; this by enhancing the relationships with customers and enabling them to feel secure in establishing long term relationships with their supplier Beta. This activity ultimately results in customer loyalty. Some customer feels reassured by having Beta providing them with specific technical information on alloys.

The last activity in marketing and sales is branding. Beta wants their customers and society as a whole to see them as an environmentally friendly company. Mainly because it is attractive for the customers and the society; knowing that company is doing efforts in staying green. In order, to have an environmental profile, Beta has e.g. an environmental action program where they take the excess heat from production and use it to heat households. All the marketing activities are supported by Beta’s marketing skills. However, the environment program is supported by the process management skills and technologically skilled employees, which leads to a greater brand profile.

Service

The sales management skills of Beta helps in supporting the primary activity of the technical and customer support. In order for this support to run as efficiently as possible, it also depends on the customer focus that is an asset and a quality of all employees of Beta. Furthermore, in order for the services provided to be of value to the customers, the technical expertise of the sales and marketing employees is a very important aspect. In order for the employees and management to maintain a high level of expertise in all fields of the business, Beta offers training and education both internally to employees but also externally to customers. This result in the employees maintaining their knowledge and developing their own skills, as well as providing the customers with training on for instance how to handle waste and how to use the products supplied. This is connected to the support activities of training and education management skills, process management skills as well as the highly technologically educated employees.
Beta uses recycled scrap metal in their products; therefore they are dependent on that their customers actually recycle their used products. To make this recycling process more attractive, Beta uses the service *Beta Solutions*. It gives the customer possibility to recycle their product, gain access to statistics regarding their metal waste, access to expertise regarding aluminium production/recycling and laboratories and more. In order to increase the benefit of this activity, Beta also uses the support activity *global and local recycling sites* and *recycling technology* to shorten the distance for the customer to recycle its scrap metal. Lastly, the customer only needs to pay for the cost of melting which is an even further benefit for the customer.

5.1.1.3 Delta

**Support activities**

*Support activities help to improve the effectiveness or efficiency of the primary activities.*

**Firm infrastructure**
- The mining facility
- Mining facility not operating on maximum capacity
- Technological support management skills (Communication, negotiation, service)
- Process management skills (Quality, evenness, delivery reliability)
- Marketing management skills (Relationship building, CSR)
- Size and location

**Human Resources**
- Highly technologically educated employees in the areas of mining and geology

**Technology**
- Program to limit energy consumption
- Program for planned shutdowns for maintenance
- Standards and certifications
- Agreement with harbour

**Procurement**
- Fully owned mine
Primary activities

The primary activities are directly connected to the creation or delivery of Delta’s products.

Inbound logistics
- Inbound material handling (Equality and evenness of their commodities and production process)
- Integrated Inbound transports

Operations
- Invests in the production facility
- Product quality
- Delivery reliability
- Flexible and fast internal reaction to external standards in manufacturing
- Customized solutions surrounding the package to the customer

Outbound logistics
- Shipping/distribution (Integrated transport system, just-in-time system, agreement with harbor)

Marketing and Sales
- CSR policy
- CRM
- Personal sales

Service
- Flexible customer service
- Technological support

Inbound Logistics

The first activity identified in inbound logistics is inbound material handling meaning equality and evenness of their commodities and production process. This is an overall policy that runs through several parts of the company; the iron ore operations, work environment, external environment, energy applications, staff and of course product quality. Starting with the support
activity of the fully owned mine, it enables Delta to have a constant flow of raw materials together with an equality and evenness in their iron ore operations. The mining facility also supports the inbound material handling by adapting its machinery and work environment accordingly to this policy. Lastly the highly technologically educated employees together with their process management skills are used in order to create and maintain the policy of equality and evenness of the raw material.

The second activity found in inbound logistics, the company as a whole has an integrated transportation system. However, this activity concerns the integrated inbound transports, to and from the mine. This is mainly due to that the iron ore products naturally are found in the fully owned mine. Due to Delta owning the mine there are no problems with obtaining input supply for their products. This is partly supported by process management skills to have planned shutdowns for maintenance so that the inbound logistics can work more effectively thus not affecting the production capacity negatively.

Operations
When discussing the operations of Delta, it is found that they are making heavy investments in developing the production facility. This have to be done due to the mine being fully owned; and also due to the fact that the mine and the facilities where the products are being manufactured are the most important and valuable assets of all. Also, all their operations are integrated in the business supporting the need to make continuous investments in improving them. In order to increase the product quality that is highly affected inside the production facility, the support activities of process management skills alongside with the highly technologically educated employees in the areas of mining and geology helps in the quest to achieving most desired quality. The process management skills in combination with the employees possessing the technical education necessary to carry them out provide Delta with the know-how on developing the processes which in turn leads to efficient operations and achieving high quality.

The process management skills also affect the delivery reliability which is a factor enormously important for Delta and their operations. In the empirical findings it was found that the relatively small size of the firm enables Delta to be flexible and due to their convenient location close to the market they are operating in, deliveries can be carried out in a reliable, efficient and flexible way.
Furthermore, the size and location of the firm compared to other actors in the industry provides Delta with the ability to obtain *flexible and fast internal reactions to external standards in manufacturing*. In combination with the supporting activities of *technological support management skills*, as well as the *technologically skilled employees* to carry out the reaction and decide on actions, Delta can respond directly and more flexibly to new standards on manufacturing than other mining companies in the industry and this is considered to be a major benefit by the management of Delta. The technological support management skills further contains an aspect on *negotiation and service*, which leads up to the operations conducted on customization. The employees’ technical skills as well as their aforementioned flexibility enables them to provide the service on *customizing the solution surrounding the package* and offering to the customer, accordingly to specifications set up in cooperation with the customers.

**Outbound Logistics**

The outbound logistics only has one activity, the *shipping/distribution*. Within this activity it can be found that Delta has an integrated transport system that enables the company to transport the raw material directly to the harbor for shipping. This is mainly possible due to the *transporting agreement with harbor*. The shipping/distribution activity also provides them with a unique just-in-time deliverance skill, which is made possible by *size and location* of the company and the *process management skills* to obtain a high level of delivery reliability.

**Marketing and Sales**

Looking at the marketing and sales part of the value chain, it can be concluded that the main areas of supporting activities are found in the firm having marketing *management skills*. These activities support the *CRM activities* which enables Delta to efficiently handle their *customer relationships*, of which have been explicitly stated are of highest importance to the firm. Since the market of mining has relatively few actors competing with each other, but with large volumes of products and money involved in the production process, conducting CRM activities is extremely important for Delta. As it has also been told, they are conducting little to none marketing to gain brand awareness, but basically all sales and marketing are conducted through relationship marketing. Furthermore, the supporting activity of having a *program that limits energy consumption* proves that Delta takes a social responsibility for their production and this is part of the formulated *CSR policy* which also contains aspects of safety in the working environment for instance. This is also supported by the aforementioned marketing management
skills. Furthermore, following certain *standards and certifications* is very important when obtaining and maintaining their CSR policy and following and fulfilling new standards ensures Delta to effectively being able to market themselves on the basis of their CSR policy.

**Service**

In service it has been identified that Delta has two primary activities; *flexible customer service and technological support*. The *highly technologically educated employees* are considered to be the key resource in the company and for the customer service and technological support due to their high academic qualifications and practical experience in the mining industry. The primary activities are further supported by the *marketing management skill* relationship building. In order for the employees to conduct their tasks they have to fulfill four value principles: *responsibility, simplicity, commitment and openness*.

### 5.2 Core Competences

As mentioned in the theoretical chapter of this thesis by Peko and Ahmed (2011) the concept of core competences is a vital part when creating and delivering the value provided to the firm’s customers, and from the above analyzed value chain activities the core competences from the three case companies have been identified; at Alpha it can be identified that their core competences lies in the strategies of *integration* and *service*. Beta possesses core competences in the areas of *production* and *marketing*, and at Delta the main core competences are found in the *operational control* gained by the firm.

Peko and Ahmed (2011) further stated that core competences could be classified into certain specific areas of technical or production expertise, and should furthermore be hard for competitors to imitate. Lastly it has been stated that firms’ core competences are often dynamic as well as being constructs that run throughout the entire organization.

The core competences of *Alpha* are first and perhaps foremost difficult to imitate; the integration strategy refers to the non-integrated sawmills that have been strategically motivated by Alpha not wanting to end up in competition with their customers. While firms just starting up may be able to imitate this strategy; this would require extensive work in finding partners and building a network from the beginning with suppliers, customers and other stakeholders. The non-integration of their saw mills have been maintained for several years by Alpha and has
required enormous amount of work in seeking the right and most dependable suppliers of services which makes it somewhat difficult to imitate. The organizational structure of the owners being the input suppliers is furthermore also something not too easy to imitate and something that benefits Alpha in a way that they constantly have secured stock. Moreover, the customer services of Pulp Services and Pulp Access are difficult to imitate since there is extensive technology behind it as well as human resources to back up the entire offering of these systems.

Some of Beta’s core competences lie in the production areas; as for instance the customization of recycled products and being able to produce materials at a desired level of quality. This is difficult to imitate since it requires human resources having special expertise in these areas. This is also a dynamic competence as the production philosophy of Beta runs through the entire organization as the environmental issue of recycling is present in the core values formulated for the firm. Further, the other core competence found in the organization concerns the marketing profile of Beta. The environmental profile of the organization serves as a foundation for branding and in addition to that, Beta also has a well developed framework for conducting branding and marketing activities. As marketing activities may be found not too difficult to imitate, Beta have incorporated several dimensions of this; such as the environmental approach with recycling, training of customers as well as making sure that branding is conducted throughout the relationships all the way to the customers’ customers, thus making the marketing profile difficult to imitate and considered to be a core competence.

Moreover, the core competences of Delta that are found in the operational control concern their ability to achieve delivery reliability and secure a high level of product quality. The fact that Delta is a fully integrated firm that first and foremost possesses the important asset of their own mine enables always having input supply stock close and secured. Since all other operations needed, from obtaining the iron ore in the mine until it has reached the customer, are integrated and carried out by Delta themselves they have the ability to gain a higher level of control over operations and this in turn generates a high level of product quality as no operations are left to external partners that might not have the specific knowledge needed for handling the products. As Delta also have emphasized themselves; as they are a relatively small firm compared to others, they are enabled to be more flexible in the process of delivering to their customer; integrating the delivery systems makes Delta rely on no other than their own access to their own trucks which increases flexibility and in turn delivery reliability. Gaining
control over all operations by integrating them might not in itself be difficult for competitors to imitate, however it requires extensive work in finding resources that have the expertise and knowledge to carry out these operations better than can be done by external partners. Firms with limited resources or knowledge might therefore find it very difficult and perhaps firstly, attractive for them to imitate integration of operations. As stated before by the aforementioned Peko and Ahmed (2011) competitors may acquire some of the technologies and capabilities that make up this core competence; however they may not be able to copy the behavioral dynamics which emphasizes the inimitability of the core competence; the behavioral dynamics of internal resources supporting integration of operations therefore provides Delta with the core competence of operational control.

Peko & Ahmed (2011) mentions the core competences as a foundation for creating a competitive advantage. The core competences found in the three case companies; strategies of integration and service, production and marketing and operation control. From the above mentioned, it can be identified that the three case companies have a differential advantage due to the difficulty of imitating these competences. This can be connected to Grant’s (2010) theory about how the company must fulfill certain criteria in order to gain a competitive advantage. Since the core competences are imitable it can be assumed that the resource and capability of fulfilling this core competence is not widely available in the industry, thus fulfilling the criteria of scarcity. Daoud (2010) secondly presents the second criteria; relevance. This is shown by that the key success factor of the commodity is differentiation advantage, thus overcoming the commodity perception. This is possible due to the core competences having the imitability as earlier mentioned.
5.2.1 Value Creation through Core Competences

Further the value creating activities will be identified using the different core competences found in the previous paragraph. The value of a certain activity derives from the customer perceiving a usefulness of a certain activity; however it is understood and explained from the point of view of the case companies. The possibility to obtain this kind of approach is due to their knowledge about the customers and the industry itself.

The core competences identified also create value towards the customers. Bowman and Ambrosini (2000) mentioned that there are two types of value; use value and exchange value. These are used to create value by labor performing activities in the firm. Use value were defined as the anticipations based on the usefulness (total utility) of a product or service perceived by the customer but created by the firm. Exchange value is defined as the amount paid for the product by the buyer to the supplier for the use value at a single point in time; it becomes created when the sale is made. Sales are achieved when the customer is willing to pay more for a given product than the other alternatives in the market. Furthermore, Bowman and Ambrosini (2000) emphasizes that in order for the activities within the firm to create value, the firms internal intangible/tangible resources needs to be activated by the labor within the firm. Two types of labor is identified; generic labor (homogeneous) which means that the labor is not a source of profit against other competing firms, however it is essential for every competing firm in the industry, but it does not create an advantage. Differential labor (heterogeneous) is the source of the firm’s uniqueness and its superior profits and is also used for value creation.

Looking at the core competences of Alpha; strategies of integration and service, it can be identified how value is created within these competences. Within strategies of integration one primary activity can be found; inbound material handling. As shown from the value chain the inbound material handling activity is supported by the owners being the suppliers who secure stock; standards and certifications; process management skills; and the non-integrated paper pulp mill. The customer perceive a usefulness of this activity due to the activity resulting in Alpha having a secure stock, delivery reliability, equality and evenness thus creating a use value for Alpha.
The owner-supplier relationship enables Alpha to guarantee the customer to not run out of stock, this since the owners are also the suppliers of the wood resulting in the owner-supplier relationship. The delivery reliability is created by the non-integrated paper mills, this by not being in direct competition with their customers. This allows Alpha to put a greater focus on the customer, resulting creating an equality and evenness of their products and in the production process in order to make the customer more satisfied. Evenness in the quality is highly desired and something that Alpha claims to know based on their conducted customer polls. Further continuing on what type of labor Alpha use to create and utilize value creating activities, it is shown that Alpha uses differential labor. This because Alpha uses the process management skills and the knowledge about the standards and certifications by the employees resulting in that this type of activity can be created.

Continuing on the second core competence of Alpha; strategies of service; includes the two primary activities of technical support (Pulp Services) and shipping distribution (Pulp Access). Starting with Pulp Services, this is supported by the technical expertise of the employees. The customer perceives a usefulness of this activity due to the activity of delivery reliability that in turn provides the customer with support and services that ultimately adds value. This delivery reliability is created by the customer gaining access to a wide range of services, therefore the delivery reliability provides them with a use value and as mentioned by Alpha; these well executed services are highly appreciated from customers. The technical expertise of the employees uses differential labor that creates the service Pulp Services that contains market information; hedging that enables pricing options to minimize price volatility; academy that supports long term technical collaboration projects and more.

Continuing on the shipping distribution (Pulp Access) activity that is supported by the activities of highly technologically educated employees and externally purchased services of transportation. By this activity Alpha realize the benefit of having delivery reliability towards the customer as claimed by Alpha. More specifically the delivery reliability creates a use value by providing forecasts on how much paper pulp the customer will need in the future and that Alpha is responsible for the stock of this material until the products are delivered and put in the customer’s production chain together with externally purchased services of transportation. Furthermore, the delivery reliability is created by the just-in-time basis. Pulp Access uses both generic labor and differential labor; generic labor since it is needed for the company to use the outsourced transportation as this is essential for every competing firm in the industry. It may
not create an advantage since everyone can do it but differential labor does. It uses its process management skills to create the delivery reliability and also helps to ensure the customer to have full control over their orders as well as reassuring them delivery reliability.

Looking at Beta, three core competences have been found in production, delivery and marketing. The production competence includes the activities customize products, recycling and Beta Solutions. Starting with customizing products, it is supported by the production facility, process management skills and the high technological employees. This activity has a use value for Beta’s customers since Beta is the only actor in the industry providing their products to be sold in liquid form. This is created by process management skills found at Beta enabling them to customize their products for the customer. The value is more specifically created by a type of differential labor enabled from the high tech employees with their engineering skills about the aluminum industry. Further, the activity of Beta Solutions has been identified. This activity was supported by Beta having global and local recycling sites and recycling technology. This activity creates usefulness for the customer due to the possibility for the customer to recycle their used products within a close distance and also, the customer only needs to pay for the cost of melting resulting in a lower cost for the customer. Further the customer also gains access to statistics regarding their metal waste so that the customer can keep track on how much environmental pollutions their waste have generated through Beta Customer Portal; and lastly the customer gains access to production/recycling and laboratories. All the mentioned values are connected to location of recycling sites, the recycling technology behind the recycling process in Beta Solutions. Beta’s ability to create this value provides both the supplier and the customer with an environmentally friendly profile. The above mentioned enables Beta to a use value that is created by differential labor due to the uniqueness in the industry of how to recycle scrap-metal products.

The second core competence of Beta is the marketing competence. This core competence has the activities of branding, environmental profile, training and technical support. The environmental profile which helps in building the brand provides the firm with a green environmental profile that creates a use value to the customer due the demand from the customers’ customer of environmentally friendly products, thus resulting in the value of guaranteed environmentally friendly products and production processes. It can be legitimately assumed that exchange value also is created when the customers’ customer is willing to pay more for the given product. To further emphasize where the value is created; Beta has an
environmental action program; a purchasing policy; and a CSR policy that enables them to obtain a green profile, thus the use value is created by this program/policy and the process management skills as well as the technological employees behind it. The differential labor behind this activity can be found when technological employees’ perform the unique process management skills in order to enable the programs/policies.

Beta further uses the marketing competence to build a better relationship for the customer, all the way to the customers’ customer. This relationship is built by the primary activities of technical and customer support together with training and education. These activities are supported by training and education management skills, process management skills and highly technologically educated employees. The main value perceived for the customer by this activity is that it increases the *quality* and *efficiency* for the customer. As mentioned by Beta; the customers’ success is about having a consistently high quality of products. Since these values are created by the activities of technical and customer support it is seen as a used value for Beta. Further explaining how value is created in this activity it can be shown that Beta uses failure analysis and chemical analysis of machines; process development and analyzing the casting process which is made possible by the process management skills and highly technologically employees, thus having differential labor which leads to superior profits for Beta. The training and education activities are of value to the customer due to the specific training and education on *metallurgy, quality, design, process, how to handle waste, how to use the products supplied and* more. These values are created out of this activity and are therefore a use value; more specifically the value is created by the highly technologically employees and process management skills that enable them with differential labor.

Continuing on Delta; it has been shown that they have an operational control competence. This competence includes three activities; delivery reliability, fully integrated transport system and product quality. The *delivery reliability* activity itself is of value for the customer. It is supported by the close location to the market, process management skills and the size of the firm. The value is created by the close location but also by that the deliveries can be carried out in a reliable, efficient and flexible way, therefore Delta has a use value; hence, performed by the process management skills from the company. The generic labor enables them to be close to the market, but a differential labor creates the skills needed for the activity.
Furthermore, the fully integrated transport system activity is a collection of the activities of inbound material handling, integrated inbound transports and shipping/distribution that are connected to each other. The inbound material and integrated inbound transports are supported by the support activities of the fully owned mine; mining facility; process management skills; highly technical employees and planned shutdowns. In the inbound material and integrated inbound transports, the total utility is realized towards the customer by the equality and evenness of their commodities and production process together with a constant flow of raw materials thus creating a use value for Delta. This total utility is created by the company’s ability to use the support activity of the fully owned mine. This enables them to have constant flow of materials meaning that there are no problems with obtaining input supply for their products. The mining facility enables equality and evenness by adapting its machinery accordingly to the requirements. Further, the planned shutdowns for maintenance enables the constant flow of raw materials by not affecting the production negatively thus working more effectively. If the maintenance of such equipment is not on schedule, this can result in a more expensive mine production and ore processing than what Delta estimated. Both differential and generic labor contributes to the quality and evenness and constant flow of raw materials by using the process management skills and the knowledge of the highly technical employees, the generic labor does not add any profit, however it is needed in order to transport the raw material from the mine to the mining facility.

Furthermore, an activity included in the fully integrated concept is as earlier mentioned also the primary activity of shipping/distribution. Here a use value is created by obtaining a delivery reliability that is created by the just-in-time deliverance skills made by differential labor, which in turn is made possible from the agreement with the harbor; enabled by the integrated transport system from the mining facility to the harbor and the agreement that the firm has with the harbor. The just-in-time skills are also created partly by the firm’s size and location.

The final activity found in this core competence is the product quality. This activity is supported by the support activities of process management skills alongside the highly technologically educated employees in the areas of mining and geology. This is of value to the customer because it gives the customer the desired product quality. The value is created by the process management skills that enable Delta to have efficient operations and achieving high quality due to integrated transport system, therefore creating a use value for Delta. This activity
is used by the differential labor that has the knowledge of the highly technologically educated employees, hence enabling more efficient operations.

To summarize what value creating activities have been found and how these are created in the different case companies, a table of these activities will be illustrated:

Table 5. Analytical Summary of Alpha

<table>
<thead>
<tr>
<th>Alpha</th>
<th>Value for Customer</th>
<th>Value created by</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Core competence: Strategies of integration</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Having a secure stock</td>
<td>Owner-supplier relationship</td>
</tr>
<tr>
<td></td>
<td>Delivery reliability</td>
<td>Non-integrated paper mill (No direct competition)</td>
</tr>
<tr>
<td></td>
<td>Equality and effectiveness</td>
<td>Non-integrated paper mill (No direct competition)</td>
</tr>
<tr>
<td></td>
<td>Core competence: Strategies of service</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Delivery reliability (Technical support)</td>
<td>Wide range of services (Pulp service)</td>
</tr>
<tr>
<td></td>
<td>Delivery reliability (Shipping distribution)</td>
<td>Wide range of services (Pulp access)</td>
</tr>
</tbody>
</table>

Table 6. Analytical Summary of Beta

<table>
<thead>
<tr>
<th>Beta</th>
<th>Value for Customer</th>
<th>Value created by</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Core competence: Production</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Customization (Liquid form product)</td>
<td>Process management skills/Customization ability</td>
</tr>
<tr>
<td></td>
<td>Possibility to recycle product</td>
<td>Global and local recycling sites (Beta Solutions)</td>
</tr>
<tr>
<td></td>
<td>Only pay for cost of melting</td>
<td>Recycling technology (Beta Solutions)</td>
</tr>
<tr>
<td></td>
<td>Statistics regarding their metal waste</td>
<td>Stena Customer Portal (Beta Solutions)</td>
</tr>
<tr>
<td></td>
<td>Production/recycling and laboratories</td>
<td>Recycling technology (Beta Solutions)</td>
</tr>
<tr>
<td></td>
<td>Core competence: Marketing</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Brand (environmental profile)</td>
<td>Environmental program, purchasing and CSR policy</td>
</tr>
<tr>
<td></td>
<td>Quality and efficiency</td>
<td>Technical and customer support</td>
</tr>
<tr>
<td></td>
<td>Metallurgy, quality, design, process, handling of waste, use of products supplied</td>
<td>Training and education</td>
</tr>
</tbody>
</table>
Table 7. Analytical Summary of Delta

<table>
<thead>
<tr>
<th>Core competence: Operational Control</th>
<th>Value created by</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delivery reliability</td>
<td>Close location, reliable, efficient and flexible, integrated transport system, just-in-time delivery, fully owned mine, agreements</td>
</tr>
<tr>
<td>Equality and evenness</td>
<td>Fully owned mine, the mining facility, planned shut-downs</td>
</tr>
<tr>
<td>Constant flow of raw materials</td>
<td>Fully owned mine</td>
</tr>
<tr>
<td>Product quality</td>
<td>Integrated processes</td>
</tr>
<tr>
<td></td>
<td>Employees in the areas of mining and geology</td>
</tr>
<tr>
<td></td>
<td>Process management skills</td>
</tr>
</tbody>
</table>

5.2 Research Question 2

SUB QUESTION TWO

How do firms in do commodity industry formulate their value proposition?

In order to answer this question the value proposition builder by Barnes et. al (2009) has been used in combination with other theories on how to build most effective value proposition.

5.2.1 The Value Proposition builder

In order to determine how the value proposition is formulated (VP), the first step is naturally to find what the actual VP is. As stated earlier by Johnson (2010) developing a VP is the core factor which enables firms to overcome the commodity perception. Formulating VPs is something that firms do internally and in order to be effective these have to fulfill three principles; (1) it has to be about the customers but for the firm; (2) it is not addressed directly to the customers but it must be driven by these kind of motivations; (3) it defines exactly what the firm intends to make happen in the life of the customer (Barnes et. al, 2009).

As it is also illustrated in the theory; Barnes et. al’s (2009) value proposition builder practically enables manages to formulate their VP. It contains six steps that firms have to consider when formulating their VP; (1) market, (2) value experience, (3) offerings, (4) benefits, (5) alternatives and (6) proof. Further described in the theoretical chapter, the first three
dimensions represents ‘deconstructing’ the offer into bits and pieces and finding the right path and the three last steps represent a ‘reconstruction’ of the offering where the firm have gained a complete understanding of the value created. The empirical findings have already provided the information needed to deconstruct the VP builder through the above mentioned dimensions. The first three steps are considered to provide the formulation of the value proposition and the last three steps happen when the value have been proposed; meaning that these steps are undergone to, as further mentioned, develop an understanding of what it actually is that provides value and these six steps all contribute to the overall development of the value proposition.

VALUE PROPOSITION

“For small to large industries of manufacturers who need raw materials of high quality for production / Alpha provide results of secure stock and a high delivery reliability of products containing an evenly high quality / by safely delivering paper pulp products with surrounding customer services”.

Figure 9. Value Proposition of Alpha

For Alpha the VP starts off by describing the market (1) as small to large industries of manufacturing that needs raw material of quality for further production, they guarantee to provide the value experience (2) of secure stock and a high delivery reliability of product of evenly satisfying quality, by offering (3) a guaranteed and safe delivery of pulp products with surrounding services that enable smoother handling (Pulp Services and Pulp Access for instance) and increased customer relationships. The steps of benefits (4), alternatives (5) and proof (6) represents the cycle of understanding that will be obtained when Alpha develops an understanding of what was actually valued in the value proposition and therefore can be able to constantly revise their VP.
In the case of Beta the VP formulates as (1) for national and international foundries and steel mills requesting reliable and flexible deliveries of aluminium to the right price, we (2) provide high quality surrounded by efficient services of education and support that enables delivery reliability and which follows an environmentally friendly approach, (3) by offering well developed recycling solutions as well as aluminium production. As also mentioned in the case of Alpha; the steps (4) through (6) represents a constant development of realizations on the actual value that was created in the process.

The VP of Delta is based on the following; (1) for steelworks in the Nordic and European market with the need of iron ore products for processing and production, (2) we deliver in a flexible and adjustable manner while focusing on efficient customer relationship management, by (3) providing fast deliveries of iron ore straight from the mine to the customer. Furthermore, as also told in the other cases; steps (4) through (6) are relevant when revising the actual outcome of the value proposition which is something done by the firm in a later stage.
Now that the value propositions have been presented in accordance with the builder, it can be stated that all firms have extensively developed VPs which constantly need to be revised and changed in accordance to new perspectives or demands coming from the market, customers or other stakeholders.

5.2.2 Three types of Value Propositions

After identifying the VPs it is important to define which category these fall under. This was further divided into three categories that Anderson et. al (2006) presented as; all benefits (the firm lists all benefits derived from the VP), favorable points of difference (the firm compares it to the next best alternative) or resonating focus (focus lies on some points that are perceived as most important for the customer).

As we can see, the VP of Alpha describes the benefits of the offering that the customer will gain, without positioning it in relation to other competitors, thus excluding the ‘the next best alternative’ and therefore the favorable points of difference. Furthermore, while it has been emphasized by Alpha in the empirical findings that for instance evenness in quality of products is demanded from customers, there are other benefits and value creating factors focused on in the VP; making it suitable to fit in the frames of the all benefits VP. Even though the all benefits aspect of the VP answers the question of “why should our firm purchase your offering” this does not go deep enough regarding the actions Alpha have taken on developing their VP. Bearing the fact in mind that Alpha is learned to have conducted extensive studies on their customers and what they perceive as valuable it can be legitimately assumed that Alpha knows which buttons to push when designing the offering. Thus, resonating focus is the most suitable type of VP. As claimed by Barnes et. al (2009) this approach answers the question of “what is most worthwhile for our firm to keep in mind about the offering” and may have the pitfall of the firm being required to do extensive research in customer value. However this is not considered as hindering the process but as strengths; since Alpha already conducts customer value research on a regular basis.

In the case of Beta it is found that they have actually pointed out some favorable points of difference, as found in the empirical findings; these are mainly focused on the entire service solutions of the picking up and delivering back to the customer of recycling products.
However, when looking at entire benefit description emphasized by Beta of what creates value we can see that it is merely a list set up pointing out all of the different benefits that the offering generate. This would make the VP of Beta characterized as the category of all benefits; but, given the extensive research conducted by Beta on how their customers perceive their offering and what they claim to offer explicitly to the customer the third dimension is considered; as resonating focus consists of one or two points of difference whose adaptation will deliver the greatest value to the customer for the foreseeable future (Barnes et. al, 2009). When looking at Beta’s recycling solutions it is found that these convey an understanding of what benefits the customer most; economically and also sustainably and environmentally friendly. Thus, the VP formulated on Beta, as Alpha’s VP, is considered to fall within the category of resonating focus.

Lastly, considering the VP of Delta; as the core competences found within Delta lies in the operational control which eventually results in the customer gaining the valuable experience of delivery reliability as well as flexibility from the supplier, the VP has been formulated according to the characteristics of the all benefits VP. Delta has focused on relationship management in identifying customer needs and not customer surveys, which lead to them to not finding the type of statistical proof of them being the best alternative compared to their competitors. Further, Delta focus on aspects that are considered to be of less uniqueness; nevertheless very appropriate goals and strategies; the delivery reliability is somewhat demanded from customers and merely a result of the other activities performed in order to deliver the VP. Delta has a high level of knowledge of their own value offering and in combination with the extensive amount of customer relationship marketing conducted between suppliers and customers, this is communicated explicitly. Therefore, Delta lists all the benefits of their market offering to the customer, making it fall under the category of all benefits.
5.3 Research Question 3

SUB QUESTION THREE

*How do firms in the commodity industry deliver their value proposition to customers?*

Payne (2006) has emphasized that having a value delivery system (VDS) represents the other half of the formulated value proposition. If the VP cannot be delivered efficiently by the firm, the usefulness of this is lost. By using the VDS model presented by Ballantyne et. al (2010) in combination with what has been found on the VP; the VDS of the firm can be analyzed and described below.

*Choose the value* represents an understanding of what forces that drive demand coming from the firm’s customers. This is actually done in combination with formulating the VP. Alpha has obtained a comprehensive understanding of the drivers of their customers’ demands and needs by conducting customer surveys, and what has been found is that the main demands coming from the customer are found in the areas of quality and secured stock. Beta has also conducted customer surveys to obtain this type of knowledge and found that the main drivers of demand lie in the areas of delivery reliability as well as regarding the factors of price. Moreover, Delta have identified their customer needs based on their relationship management and claims that the drivers of demand lies in the need for delivering input supply at a requested amount and time, therefore delivering value, as Alpha and Beta also does, inside the aspect of customer value needs.

*Providing the value* is the second part of the VDS model. This involves developing a product and service package that provides clear value to the customer, which involves focusing on product development, service development, pricing, sourcing and making, distribution and servicing. Alpha provides the value in the package of the services Pulp Services and Pulp Access which ultimately generates the value of delivery reliability. This value is mainly identified in this model within the aspects of service development as well as distribution and servicing; this due to them both being available around the clock for the customer to utilize; as well as these services eases the distribution for Alpha as they receive forecasts ahead of production. For Beta the value is provided in the package of the service of Beta Solutions. As it contains several aspects for the customer to utilize, for instance recycling solutions, education
as well as access to labs for testing; the value is considered to be found in product development; based on the fact that education and access to technical facilities helps the customers to find further solutions to develop their products. The value is also found in the sourcing/making aspects based on this previous mentioned argument as well as in the distribution and servicing; this due to recycling agreements creates value when Beta provides solutions for picking up waste and distributing them back to the customer when recycled and processed. Moreover, in contrast to the other two firms, Delta does not have a clearly stated system for value delivery. Instead, focus lies on maintaining good relationships with customers as well as emphasizing their size, location but perhaps most importantly; a constant flow of raw material since they run a fully owned mine. Alongside the flexibility of being a small firm, they can provide the customer with the ultimate value of delivery reliability. Looking in the VDS model, the value can be considered to be found within the aspects of distribution and servicing; as the flexibility and carefully managed relationships play an important role for the firm’s value creation.

Communicate the value represents the third part of the VDS model and it means engaging in promotional activities to convince customers that the value provided is better than the competitors. This is not mainly focused on marketing but also in making sure customers always get excellent and memorable service. This part contains three aspects; sales force message; sales promotion; advertising, PR and media. Alpha communicates their value by engaging in the aforementioned outstanding service solutions as well as participating in some marketing activities which can be put in the box of sales promotion. They also find value of communication in the aspect of sales force message; as the sales department is well developed and consists of highly technologically educated employees. Beta conducts their value communication through numerous channels; for instance in the aspects of advertising where the marketing department is well equipped. Advertising also requires well informed sales people with high expertise in their areas which is something that Beta constantly seeks to improve. Furthermore, Delta conducts their communication of values within the aspects of sales promotion; this due to them not having any developed marketing profile except for them realizing the importance of relationship marketing in the industry. Since there are few actors in the market there is a relatively close connection between them which makes any further marketing activities merely costly and unnecessary.
An overview of the value delivery system and where the firms’ value creation based on the value proposition is illustrated below:

![Value Delivery Systems of the Case Companies](image)

*Figure. 12. Value Delivery Systems of the Case Companies*
6. CONCLUSION

In the following chapter of this thesis, the conclusions are presented based on what has been found in the analysis. First the three research questions posed are answered, leading up to the answering of the main research question, thus fulfilling the purpose of this thesis.

6.1 Main Research Question

MAIN RESEARCH QUESTION

How can firms in the commodity industry differentiate themselves by utilizing value creating activities?

Based on the findings in question one on value creation and core competences, it can be concluded that the three case companies are all strongly driven by the commodity perception. The three case companies seek to create value to achieve competitive advantage in many different ways. Generally speaking, it can be concluded that differentiation is highly complicated; the case companies can implement a differentiation strategy that ultimately leads to a differentiation advantage, but not to the extent that it enables charging a premium price. Thus, resulting in price still serving as an important factor for their competitive position in the market. Differentiation strategies are used by all the companies in order to create value through activities that derives from the firms’ internal resources; that are also further strongly connected to the firm’s core competences. It has also been found that the case companies most commonly tries to achieve similar types of value of delivery reliability and quality, however this is achieved in different ways; through different types of activities such as services, different types of integration strategies or a certain type of technology that surrounds the product offering.

The value identified in question one on how to achieve a competitive advantage is connected to the value proposition; since value will not offer itself to the customer; leading us up to answering question two. Looking at the three case companies studied, it can be concluded that the value proposition is formulated by creating a deeper understanding of the market it is
operating in as well the needs of the customers. The firms’ main aim when formulating the value proposition is to emphasize how the package surrounding the product or service can meet and exceed their needs. Below the value propositions formulated on the case companies are presented.

For Alpha the value proposition is formulated as follows;

“For small to large industries of manufacturers who needs raw materials of high quality for production / we provide results of secure stock and a high delivery reliability of products containing an evenly high quality / by safely delivering paper pulp products with surrounding customer services”.

Beta’s value proposition is formulated as follows;

“For national and international foundries and steel mills / who request reliable and flexible deliveries of aluminium to the right price / we provide high quality, surrounded by efficient services of education and support that enables delivery reliability and which follows an environmentally friendly approach / by utilizing developed recycling solutions as well as aluminium production”.

The value proposition of Delta reads as follows;

“For steelworks in the Nordic area as well as the European market who need iron ore products for production in automotive- and construction industries / Delta deliver in a flexible and adjustable manner while focusing on efficient customer relationship management / by providing fast deliveries iron ore straight from the mine to the customer”.

As found in the problem discussion, the value proposition is not worth much to the customer if the firm is not able to efficiently deliver this value; leading us to question three. The value delivery system is strongly connected to the value propositions formulated by the firm. In accordance with the characteristics of the value proposition the firm must follow most suitable structure of delivering this. When choosing the value all firms have conducted specific research on the needs on value demanded by the customers. This enables them to gain a deeper understanding of exactly what it is that drives motivations on purchasing the offering;
Alpha chooses the value in accordance with the customer value needs. They thereafter provide the value by emphasizing how their value proposition can improve customer’s performance on such factors as service development and distribution and servicing. Lastly, they communicate this value by utilizing activities of sales promotion and sales force messages. Beta also utilizes their choice of value according to found customer value needs. The value is then provided by improving customers’ performance in such aspects as product development, sourcing/making and distribution and service. The value is thereafter communicated by conducting extensive advertising activities. Delta furthermore also bases their value choice on their customers’ needs on value. The value is provided by putting emphasis on the benefits that the customer will gain in the areas of distribution and servicing. After this, the value is communicated by utilizing sales promotion activities such as relationship marketing.

After identifying what activities firms utilize to create value; how this value is formulated; and lastly how it is delivered we can see that a major factor is dependent on the firm’s internal resources as well as how the firm decides to use human resources in order to carry out the value creating activities.

The above discussed research problem have resulted in us realizing a relevance of empirical research in the area of commodities and value creation, and the complications resulting from commodity industry companies solely being able to compete on price. Developing your value proposition is seen as the core factor in overcoming the commodity perception thus achieving a differentiation advantage. We have seen that the case companies studied all strive to achieve similar types of values; that of delivery reliability and quality; but it is merely a matter of which road they take to get there.

As we have found, Alpha achieves delivery reliability and quality by obtaining strategies on integration and service. Beta achieves values of delivery reliability and quality by focusing on strategies in production and marketing; and lastly Delta achieves this by gaining a high level of operation control in their industry. The core competences discussed all rely on numerous supporting activities to enable efficient use of them, however they are utilized by the human resources of the firm that enables it to become more dynamic and therefore difficult to imitate.
7. DISCUSSION AND IMPLICATIONS

This ending chapter provides a discussion on the implications of the study; of both managerial and theoretical nature. Furthermore the limitations of the study are accounted for and thereafter connected to suggestions on further research in this particular field.

7.1 Managerial Implications

In addition to the theoretical contributions provided in the study, this research study has also been able to provide new insights for the practical management of business. As this study was conducted from the perspectives of the firms; the most important field of business management that this thesis finds relevance in lies in the formulation of strategies. Managers in the commodity industry seeking to compete on other factors of price, thus differentiating themselves, may surely find the conclusions in this thesis of practical relevance and use, and are recommended to thoroughly consider what type of value that surrounds the business offer and also formulate the strategies on this in accordance with the resources and competences found internally in the firm.

In addition to the strategy part, this study is also related to the management of expanding the offering, which can be related to product development or service engineering. Furthermore, as the problem that have been investigated in this thesis were considered to be of an empirical nature, the findings can be applicable to more practical hands-on situations and utilized in practice by managers seeking to create value in order to enable the firm to overcome the commodity perception.

7.2 Theoretical Implications

This research study has exploited mainly two different streams of theory; firstly, the theories surrounding strategy including discussions on competitive advantage. Second, theoretical perspectives on value have been highlighted in the form of value creation, value chain, value
propositions and value delivery system. In relation to both of these, we have discussed the empirical findings on the case companies and connected them to each other. This has provided the study with a comprehensive empirical overview of the situation surrounding the commodity industry on difficulties in differentiation; as well as a foundation of theory connected to overcoming this inconvenient situation.

7.3 Limitations

This study mainly contributes to the empirical field of research done on value creation in the commodity industries and this has inevitably brought some limitations of the study to light; firstly, given the time frame provided for this thesis one has to remain realistic regarding the amount of empirical data that has to be collected. As the thesis are focused on three case companies, the study might not generate the possibility to make comprehensive theoretical generalizations on the entire industry, thus the thesis runs the risk of becoming empirically challenged. This has however been tackled by us being able to make analytical generalizations as discussed in the methodology.

The second dimension on limitations regards the perspectives; by only conducting the studies through the perspectives of the firm the study only involves the view of one stakeholder. We are aware of the fact that it might be relevant to involve the perspectives of the customers as they are ultimately the ones who experience the value creation. However, also provided the time frame of the thesis work as well as the purpose stated in this thesis; the customer perspective is not in this stage relevant to further emphasize. This however brings us to the relevance in calling for further research on this topic as presented below.

7.4 Further Research

Although this study has reached and fulfilled its purpose, it has been subject to certain constraints. Given the time frame of this thesis decisions had to be made concerning what perspective to undertake in the research study. As the case studies conducted in this research have focused on the perspectives from the firms’ perception of what they do to create value and as they also have conducted their own research on the topic, an interesting path for further
research is for researchers to take on the empirical data collection from the customers’ perspectives. This aspect may provide the area of research with further contributions on the topic seen from other stakeholders’ perspectives and may also provide the study with a more comprehensive foundation contributing to this particular field of research.

Lastly, we would like to emphasize that we as researchers are highly satisfied with our contributions made to the field of research on value creation in the commodity industry; and we are positive that this area of research in the future will enjoy an extensive development as well as generate interest from broader perspectives.
8. REFERENCES

In the following section the references used in this thesis will be accounted for.

Academic Literature


Articles


Electronic Sources


Interviews

Respondent 1, Business Area Manager, Alpha 2013.04.04
Respondent 2, Customer Supply Manager, Alpha 2013.05.13, 2013.05.17
Respondent 3, Sales Director, Alpha 2013.05.17
Respondent 4, Sales Director, Beta 2013.05.18
Respondent 5, Logistics and Market Manager, Delta 2013.05.17
9. APPENDIXES

Here the appendixes used for this study is provided.

9.1 Appendix 1: Interview Guide for Case Studies

General Information
1. Tell me about yourself.
2. What is your business?
3. What product are you manufacturing / what service are you providing?
4. What is your turn over?
5. What inputs are required for this business?
6. What do you apprehend as your main competitive advantage?
7. Who are your main competitors?
8. What do you perceive as being your customers’ value and demand from you?

Market Access, Trends, and Governance (Marketing and Sales)
1. What do you see as your main needs/opportunities in accessing markets (barriers of entry)?
2. To whom do you sell your product or service (large firms, small firms, wholesalers, exporters, retailers, direct to consumers, etc.)? If available, what percentage goes to each?
3. Describe the relationships you have with these buyers (who determine what to produce, product specifications, prices, and amount purchased?). How much input do you have?
4. How do you promote and market your products/services?
5. How strong is the market for your products/services right now? Next year? What trends do you see?
6. Are some customer groups better than others in terms of sales and revenue growth? Which ones?
7. Do you ever collaborate with other firms on promotion and/or marketing?
8. Do you have a unified means of communicating information about your firm to others?
9. What do you perceive as the most important factor for the customer to choose you?

Technology / Product Development (Technological Development)
1. What are your major needs/ opportunities in product design and manufacturing, or service delivery?
2. What other products do you produce/sell?
3. What have you done recently to improve your products or services?
4. Is your current equipment or machinery an impediment to growth? Explain. If so, what kind of equipment or machinery could improve your business?
5. Is the current level of your workers training holding back growth? If so, what additional training do they need?

**Standards and Certifications**
1. What standards or certification requirements do your products need to conform to?
2. Who sets these standards and requirements?
3. Who helps you to conform to these standards and requirements?
4. Do you have any problems in this regard?

**Management/Organization**
1. In the area of organization and management, what are your major needs/opportunities?
2. Who does most of the work in the areas of: general management/supervision, product design, purchasing, production, shipping, accounting, marketing, repairs, etc. (owner, employees, or external)?
3. What functions do you subcontract/outsource?
4. Do you sometimes collaborate with other firms to produce and deliver customer orders?
5. Which aspects of your business do you intend to change in the next 2 years (machinery, equipment, computers, new products, marketing strategy, quality control, management system, worker skills, etc.)?
6. What management skills would you like to strengthen in order to grow your business?

**Input Supply**
1. What are your major needs/opportunities in the areas of input cost, quality, and availability?
2. Who are your most important suppliers and what do you buy from each?
3. Are there problems in obtaining some important inputs? Explain.
4. Have you ever purchased inputs jointly with other business? Explain.

**Finance**
1. Do you get production financing from your buyers? What are the terms?
2. Do you have need for additional financing at the moment? If so, what would it be used for?

**Policy/Regulation**
1. What government policies/regulations benefit your business (registrations, inspections, subsidies, incentives, etc.)?
2. What government policies/regulations are obstacles to growing your business?

**Infrastructure**
1. What are the most important infrastructure constraints affecting your business’ growth and profitability (road/transport conditions, telephone service, electric supply, crime/corruption, storage, etc.)?
2. What is your industry doing about these problems?

**Business Membership Organizations**
1. Is your industry/trade sector represented by national or local business associations? If so, please name them.
2. Are you a member? If not, why?
3. What are the primary functions and benefits of these associations?
4. What additional services should they provide?

**The offer to the customer**
1. What do you offer your customer, besides from the initial product?
2. How does this differ from your competitors?
3. What are the major incentives you have for investing in / promoting change in the value proposition?
4. Does it contribute to current sales?
5. Does it help reduce current costs?
6. Does it help create future sales, or lower future costs?
7. Is it essential for the maintenance of the firm in this social context?

**Final Open Ended Questions**
1. What are the major incentives you have for investing in finding value creating activities
2. What risks or constraints do you face in making these investments?
3. What do you think are the strengths of your industry locally and/or internationally?
4. What are the main weaknesses of your industry?
5. What do you think is the greatest challenge facing your industry today?
6. Can you name some business owners in your industry who are leaders –for example, in terms of technology, product design, quality, or marketing?
7. Anything else you would like to add?