

# Development of customer value in a supply chain: managerial thinking about strategic marketing

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## Abstract

**Purpose** – The purpose of this paper is to describe and analyse how the main driving forces are affecting companies in a supply chain. The focus is on what managers expect will influence customer value from a strategic point of view.

**Design/methodology/approach** – The paper is based on a qualitative study where managers at a division level have been interviewed.

**Findings** – The main driving forces have been identified. These driving forces have been found to affect the business and marketing strategy in the market among different actors, in the technology and due to external changes in the market, e.g. by changes in demography resulting in dissimilar market behaviour. Co-operation among actors has been found to improve customer value.

**Practical implications** – The managerial implications therefore indicate that managers need to assess the main driving forces and find a competitive and marketing strategy that can match competition and influence driving forces in the actual market area.

**Original/value** – The paper has a longitudinal approach. An important value of the paper is that actors at different stages in the supply chain have been interviewed during a longer period of time.

**Keywords** Competitive strategy, Supply chain management, Packaging

**Paper type** Research paper

**An executive summary for managers and executive readers can be found at the end of this article.**

## Introduction

Actors in a value chain have traditionally chosen their suppliers on competitive pricing and service. While pricing and service remain important, relationships between suppliers and other actors in the supply chain have changed and become even more essential. Fluctuating costs for basic raw materials brings a further pressure for improved profitability, cost reductions and efficiency improvements. As a result of greater international competition changes are occurring more rapidly and companies are forced to react on the current competitive situation, either change is taking place in the supplier, or customer side (Hamel and Prahalad, 1994; Feuer and Chaharbaghi, 1996). A major challenge for the management is to assess and understand customer value since competitors are continuously improving the value given. A company can mainly exploit opportunities and defend market positions by product quality, service, low cost, innovation and an ability to learn from other actors in the supply chain. This will also give the company a capability to build long lasting relationships. This paper therefore addresses the impact of different driving forces on the marketing strategy from a

managerial point of view. In this respect it highlights the necessity to co-operate with other actors in the supply chain in order to accomplish its business strategy. A co-operation can even enable management to reach a “dynamic capability” to address rapidly changing environments (Teece *et al.*, 1997). The purpose of this paper is to generate a framework for a better understanding of the impact from different driving forces on the strategic management in a value chain. The focus is on what managers expect will influence customer value in the business and marketing strategy. A main reason for choosing paper products is that it is a mature industry, but packaging has simultaneously become an important marketing tool in the retail side. As a result, supplying companies obviously need to revise their marketing strategies. The research question can therefore be formulated in the following way:

*RQ1.* How can a supplying company develop its customer value when external changes is affecting the supply chain?

To answer this question the intention is to use a qualitative study by interviewing management in a specified number of companies. The intention is also to interview other main actors which they need to co-operate with in the supply chain. The data collection will also be completed by secondary data from the same companies. The rest of the paper is organised as follows. In the next section we present an overview of the industrial structure and then follow a theoretical framework in relation to the supply chain followed by the research design.

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The next part refers to the competitive advantage and the strategic challenge for a company. The findings of different driving forces are discussed in the next section and then we discuss the strategic challenge for the company by the competitive strategy; marketing strategy and customer value. The paper ends with a conclusion about the strategic situation within the industry.

## Industry structure

The industrial structure within the Swedish paper industry can be characterised by continuous structural changes and reduction of production outlets. This has been underscored by increasing costs of raw materials if compared with other parts of the world. In recent years new actors have also evolved in Latin America and Asia building their production on lower costs for labour and raw material (Xiaorong, 2005). In most cases these new establishments are built on the same production technology imported from Western European suppliers. Some competitors in Asia have even recovered paper machinery from Europe. The main export markets for paper products is to Germany, Great Britain and France and the export quotient in relation to the total production reached 87 per cent in 2007. The necessity to continue to export is therefore of extreme importance in order to reach a long-term profit in the business. This requires that the paper companies can develop their business strategies and deliver customer value in relation to competing actors (see Table I).

## Theoretical points of departure

### The concept of business strategy

Strategic thinking and strategic management are the most important activities undertaken by any business or public organisation (Eisenhardt and Zbaracki, 1992). Business strategy is concerned with how the company competes within a particular industry or market. If the company is to prosper within an industry it must establish a competitive advantage over its rivals (Teece *et al.*, 1997; Grant, 2002). The purpose of a strategy is to make a company fit into its business environment, but the concept of business strategy is wide and difficult to conceive since it covers a large and growing area of contributions from different research traditions. One group of scholars relates to industrial economists (Chandler, 1962; Porter, 1980, 1985), whereas another has its base in organisational theory (Pfeffer, 1987; Mintzberg, 1988) and still another has developed from research in management theory (Ansoff, 1965; Hofer and Schendel, 1978; Hamel and Prahalad, 1993, 1994). A further

Table I The Swedish paper industry

Paper	1980	1990	2000	2007
Number of mills	62	51	48	46
Capacity/mill (1,000 tonnes)	115	185	232	268
Total capacity (million tonnes)	7.2	9.5	11.1	12.3
Production (million tonnes)	6.2	8.4	10.8	11.9
Capacity utilization	0.861	0.884	0.973	0.967
Export (million tonnes)	4.5	6.7	8.9	10.4
Export quotient	0.725	0.797	0.824	0.874

Source: The Swedish Pulp and Paper Association (2008)

research direction relates to the contingency approach which holds that success depends on the context in which a company is operating. The contingency theory suggests that there is no universal set of strategies which is optimal for all businesses or companies and thus different strategies should be designed for different environmental contexts (Hofer, 1975; Gardner *et al.*, 2000). Effectiveness depends on the appropriate matching of organisational contingency factors to fit the company's context (Zeithaml *et al.*, 1988). "The concept of strategy as applied to business studies has only been appearing with any great frequency since about 1960 (Ansoff, 1965; Chandler, 1962). Since that date, it has gained great acceptance, although 'strategy' remains an ambiguous and elusive concept" (Håkansson and Snehota, 2006, p. 257). Research on business strategy has to a great extent been concerned with what makes a business company effective in its environment and to explore the organisational processes required to enhance this effectiveness. It is often emphasised that since the environment is always changing, strategic management has to be a continuous process. Even if there are numerous definitions of "strategy", the essence of the definitions is on the pattern of activities which has an impact on the achievement of the organisational objectives in relation to its environment. The effectiveness of the organisation and its potential for accumulating resources is assumed to be a function of matching the influences of the environment with the capabilities of the organisation. Research in business strategy is then often concerned with how businesses achieve competitive advantage (Slater and Olsson, 2001). A different view is taken by researchers within the network concept. In the network model "an organization's performance is conditioned by the totality of the network as a context, i.e. even by interdependencies among third parties" (Håkansson and Snehota, 2006, p. 261). In this paper we highlight the importance of understanding the influence from different driving forces in the environment on the business strategy, but even the necessity to co-operate with other actors in the supply chain in order to cope with those influences. This necessitates an interaction and adaptation with business partners in order to reach a fit in relation to what customers are requiring in the supply chain. The interaction between the actors in a relationship entails more than passive adaptation. It is through its relationships with others that the distinctive capabilities of a company can be developed in order to reach competitive advantage. The business and marketing strategy must therefore relate to the business environment, but also to the interacting parties. This research supports the proposition that appropriate functional strategies (marketing strategy) contribute to the effectiveness of a business strategy (Slater and Olsson, 2001). Marketing strategy is the set of integrated decisions and actions by which a company expects to achieve its marketing objectives and meet the value requirements of its customers (Day, 1990, 1992; Slater and Olsson, 2001).

### The paper supply chain – a theoretical framework

The supply chain management literature has emerged since the 1990s having its roots in coordinating the flows of materials and information between suppliers, manufacturers and customers (Alvarado and Kotzab, 2001; Lummus *et al.*, 2003). The outcome of this research is expected to become a higher level of integration between suppliers and customers, resulting in a better competitive advantage (Johnson, 1999; Tan, 2001). "Effective supply chain management (SCM) can

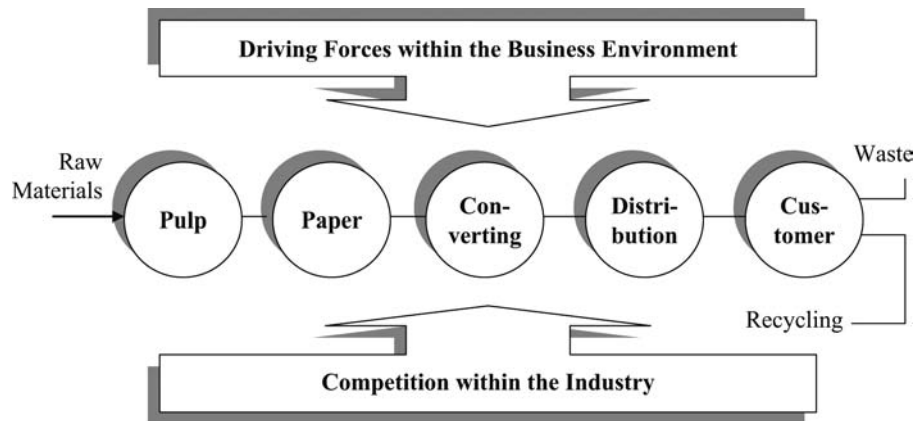
improve a firm's performance through several means including building strong relationships that enhance a firm's ability to respond to its customers more effectively" (Martin and Grbac, 2003, p. 25). A supply chain perspective means that management needs to understand what their immediate down-stream customers and their customers' customer value. They also need to understand what the end-use customer's value (Flint, 2004, p. 46). In business-to-business purchasing situations where several people inside customer organisations can influence buying decisions, marketers need to integrate multiple value perceptions of individual perceptions to understand what customer organisations value. When such supply chains operate in multiple of international markets the matter becomes even more complex. The intention is not to study the efficiency in the supply chain as such, rather to use the supply chain concept as a framework for studying and analysing how the marketing strategy becomes affected. The interest is primarily focused on how different driving forces can have an impact on business and marketing strategy when a packaging product passes different stages in the supply chain.

Forest products have been exported from Sweden since the middle Ages and are still an important factor in the international trade. Continuous development has also changed trade from raw material to added value products e.g. in the packaging sector. The positive development has been possible due to technical progress and rationalisation in production, but also depending on an increasing living standard in other parts of the world. Competition and emerging driving forces within the industry and a pressure from the stock market are forcing management to reconsider its business and marketing strategies. The generic strategy within many paper mills is based on a cost leadership with a volume approach due to economies of scale in production. This has also oriented management to focus the interest around production issues. The volume intensive approach has been driven by investments in new production capacity and the necessity of a high capacity utilisation. Some recent research has showed the importance to consider a different strategy than from a production point of view, but also to consider the marketing aspects for a paper producing company (Hameri and Lehtonen, 2001). In order to reconsider the business strategy it is necessary for management to assess and analyse different factors influencing the company by competitors and driving forces in the business environment (see Figure 1).

These external changes will have different impact on the industry and a particular company depending on how the actual driving force is affecting the relationships between the companies in the supply chain. Some of them are general for all companies within the industry such as political and economical factors, whereas others will affect the particular company differently. Some of the social factors like changes in demography will have an impact depending on the products exported, which also goes for technological factors depending on the actual production unit and technology used. To a great extent the technology is available to all suppliers and it is therefore difficult to have a competitive advantage from technology any longer time due to diffusion of technology within the paper industry. There is no doubt that the business environment is changing radically for international marketing due to influences of globalisation, the information technology revolution and the emergence of the new economy (Young,

2001, p. 120). The importance of a changing competitive environment and the need of strategy development have also been covered in other research (Feurer and Chaharbaghi, 1996), but also from a conceptual (Morgan and Hunt, 1999; Kourteli, 2000) point of view. Even the manufacturing capability and the logistics have been of interest in relation to the business environment (Li, 2000). The competitive situation can be analysed by describing the market structure in the supply chain, but also on at what stage (level of added value) products are delivered. The competitive forces within an industry can be analysed by the work of Porter (1980, 1985). The five forces framework indicates the structure of an industry and demonstrates the amount of variation industries face in the five forces influencing them (Porter, 1980). The attractiveness of any industry will be dependent on the power of each of the five forces and the particular strength of company's position in relation to each of them. The strength of competition is among other things depending on investments by competitors bringing new capacity to the market. Within the area of packaging materials there is also a threat of substitute products especially from plastic materials and new packaging solutions. The pulp and paper industry has also faced competition from new entrants based in other regions of the world (Asia and Latin America). Due to structural changes and concentration within other industries suppliers of packaging material can also face an increased bargaining power of buyers. Due to structural changes within the network of suppliers to the pulp and paper industry it can also recognise an increased bargaining power of suppliers. Strategy is concerned with matching a company's resources and capabilities to the opportunities that arise in a changing business environment (Eisenhardt and Zbaracki, 1992; Grant, 2002). Identifying the basis and opportunities for competitive advantage requires an understanding of the competition within the industry. It also requires that management understand customer needs and the means by which these needs are satisfied. A competitive or differential advantage can be created out of the company's strengths or distinctive competencies relative to the competition. The essential factors in choosing to create the advantage are that is must be on the basis of value to the customer (e.g. lower prices, superior quality and better service) and should be using a skill of the company that competitors will find hard to copy. However, markets are dynamic and virtually all products have a limited life, which expires, or are eroded when a new or better way of satisfying the underlying need is found or created by new technology or substitution.

The generic or corporate strategy is supposed to be the interface between the company and its industry structure, whereas the business (or competitive) strategy is concerned with the means by which a company seeks competitive advantage within each of its major business areas (Grant, 2002). The business strategy is implemented by a company's marketing strategy. The focus in this paper is on the business strategy. The critical issue for every company is to achieve competitive advantage within its primary business areas. In the process of creating a competitive advantage management needs to understand the key success factors in the particular industry (e.g. end-use of the product), but also have the resources and capabilities to fulfil them (Asch and Bowman, 1994; Teece *et al.*, 1997). A competitive advantage is the combination of these two components. A competitive strategy will be successful when a company can deploy the resources

**Figure 1** The paper supply chain – a conceptual framework

and capabilities to match the key success factors within the business environment (Day and Wensley, 1988; Kay, 1993). As long as a company adopts a competitive strategy where it utilises these resources and capabilities in a superior way of its competitors it should be possible for it to establish and keep a competitive advantage. The sustainability of the competitive advantage will depend on different factors eroding the advantages within different areas of the company's activities. The sustainability will depend on, e.g. durability (cost of raw material, product innovation, and product brand), transferability (transfer of technology or knowledge) and replicability (complexity of capabilities). When the company has established its generic or competitive strategy in relation to its business environment it is necessary to develop or consider the marketing efforts. The marketing strategy is depending on several factors such as the processing level and the relationship with its customer in the supply chain. A strategy will be successful in creating competitive advantage when management deploys a company's resources and capabilities to match the key success factors within the particular industry environment.

### Research design

This paper is based on results from an ongoing research project about strategic changes within paper producing companies. In order to stay sustainable a company must be able to not only manage the standard economic factors affecting the core business, but also environmental and social factors as well. In turn to follow changes in the market as well as the different companies' strategic action by the companies, a longitudinal approach has been applied (Carson *et al.*, 2001). This has made it possible to follow the companies' actions over a longer period of time. At the beginning of the research in 1997 the interviews were concentrated to the three big actors in Sweden, but due to structural changes and information given by interviewed managers the field was broadened to include important actors in the paper supply chain. This has been done in an effort to study how different actors in the supply chain can create value for the end customer. In order to gain more specific and detailed knowledge about how a supplier of packaging material can develop its customer value in relation to its down-stream buyers, a case study approach was conducted. "The case study is a research strategy which focuses on understanding

the dynamic present within single settings" (Eisenhardt, 1989, p. 534). The construct of the case study is designed with the purpose to analyse and conduct an in-depth study of managerial thinking at different stages in a supply chain. The case study method was chosen in order to assess and reveals the main driving forces affecting the marketing strategy for a supplier (Yin, 1994; Eisenhardt and Graebner, 2007). The study focuses on managerial thinking from the supplying side. The three original cases were selected with purposeful sampling with inter group differences (Patton, 1990). The research method is a triangulation based on official documents from the companies involved in the study, e.g. annual reports but also internal documents and official material published by the company's, e.g. on internet (Eisenhardt, 1989; Yin, 1994; Meredith, 1998). Field visit has also been accomplished at the mills. However, the main information comes from interviews with managers at Division level in the company. The typical manager that has been interviewed has held a position of, vice-president; marketing director; research director; export- and marketing manager, but even managers in technology have been interviewed. Interviews have been made at different tiers in the supply chain such as:

- pulp producer;
- paper producer;
- converter;
- filler; and
- retailer.

Actors co-operating with the paper supplier such as: technology consultants, and an advertising agency have also been interviewed.

In these interviews an interview guide has been used including topics about important actors in the industry; market structure; driving forces within the industry; structural changes; impacts from the driving forces on the actual company. The interviewed managers have also been allowed to describe their perception about what they recognise as important factors (e.g. new actors; capacity; raw material; regulations; competitive moves) affecting the business environment for their core business. The managers have also been asked to describe how their company will meet those challenges. The interview has taken between 1-1.5 hours. The total number that has been interviewed is 36 managers (see Table II). Owing to the increased fragmentation by end consumers, e.g. single household, an

Table II An overview of the interviewed companies

Category	Case	Category of interviewed	Number of interviews
1	Pulp producer	Marketing Director	2
2	A. Paper/board producer	Vice-president	4
2	B. Paper/board producer	Marketing Director	4
2	C. Paper/board producer	CEO/Marketing Director	8 <sup>a</sup>
3	Converter	Export Manager	4
3	Converter	Marketing Director	4
4	Filler	Marketing Manager	2
5	Retailer	Marketing Manager	2
6	Technology/market analyst	Branch Manager	2
6	Paper research company	Research Director	2
7	Advertising agency	Marketing Manager	2

Note: <sup>a</sup>Including a mill that later has been independent of Case C

ageing population and an increased demand for consumption in developing countries, this study is concentrated to products based on paper packaging materials. The unit of the analysis was the product and a key step was within-case analysis (Eisenhardt, 1989). Another important factor for choosing packaging material is the innovativeness within the packaging field. Packaging has also become an important marketing tool within the retailing sector.

### Competitive advantage in a changing market environment

By understanding how the industry structure affects competition and profitability it is also possible to identify how a company can influence the structure in order to improve the balance of competitive forces and possibly enhance its profitability. In the pulp and paper industry one of the most intractable structural problems has arisen from excess capacity from time to time. Acquisitions and mergers has represented a direct and effective way eliminating over capacity, but also for getting access to the local market place by taking over existing sales and distribution channels (see Figure 2).

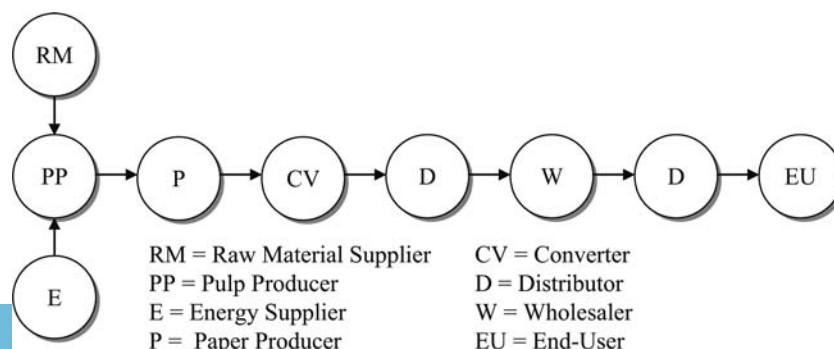
In the traditional Nordic paper producing companies the competitive advantages has been built on a high technical vertical integration supplied by domestic raw materials in the form of wood and electrical power. The vertical integration has also been in the form of a commercial integration by mergers and acquisitions of converting plants or sales or

distribution networks in local markets of Western Europe. Due to disturbances within the market (different driving forces) top management in paper producing companies have also come under pressure from different stakeholders since the value of the stocks has been below the development of the general index in the stock market. This has influenced management to concentrate on the core business by selling out activities which are not fitting to the core business. They have even outsourced e.g. harvesting of wood (e.g. StoraEnso, Korsnäs). The traditional way of doing business will also be in focus due to the increased use of information technology, e.g. the strategic challenge of electronic commerce (Fraser *et al.*, 2000; Kilpi, 2006). In order to stay competitive the paper producing companies need to reconsider their competitive and marketing strategies.

### The strategic challenge – some findings from an industry in change

The main emphasis in this paper is to discuss how external changes (driving forces) and competitors are challenging strategic management in supplying companies in the supply chain. For Nordic companies Western Europe is still the home market in competition with local producers and an intensive competition from companies in North America and Canada. New actors from South Africa and Asia are also adding to that competition. At the same time Nordic companies are interested to expand their business into evolving market areas in Asia and into Latin America. The

Figure 2 The paper supply chain



fierce competition has focused the strategic issues and requires a higher market orientation of management. The case study research has revealed several drivers that will influence the business and marketing strategy.

### External changes

There are many changes in the business environment that will affect future business. For packaging products some of them are more important than others. For a number of core business areas such as packaging and hygiene products the final customer must be in focus due to changes in consumption patterns and demography. However, the demographic situation can be analysed with a certain degree of certainty while other trends might be more difficult to anticipate. There are obviously many factors that will have an influence on previous rather homogenous national markets within Western Europe. At the same time companies are struggling for new market areas in Asia and Latin America. Evolving markets in Eastern Europe are also of growing interest and all of them with different consumption patterns and culture background. This will increase the fragmentation within national markets into a number of smaller markets segments. New culture influences will shape different life styles and form the future market base for different paper and packaging products. Each segment will require more specific demands on products and services consumed. The fragmentation will also be affected by declining household sizes and an ageing population within the European Community (Packaging Federation, 2004). Even within the family there are individual consumption patterns due to favourite brands and consumption at different times to fit work and leisure time. Young people have also been in the focus for marketers for many products and services for several years. Young people have often a great influence on buying decisions in a family. They are also big consumers of certain products such as clothing, fast food, soft drinks and services like entertainment, travelling etc. An increased environmental awareness among the consumers is also affecting the distribution of products and packaging material used by the manufacturers within certain industries. The demand for ecologically manufactured products is growing. At the same time consumers make demands on packaging relating to ecology and product safety. Taking such trends into account the market will demand a growing variety of products and services. Those manufacturers who can produce customised products and brands and can meet specific market segment needs will win the future business. This will also be a challenge for the packing industry. On the other hand the basic characteristics of many products from different manufacturers are becoming more equal, e.g. in the car industry. The importance for future success is therefore the ability to add value to the basic product by features, services, branding and packaging. The marketing concept must then be communicated through the distribution system to the end customers in the actual market segment. The success in the market place will rely on a competitive strategy and the positioning of the product and the added value it can bring to the end customer. Packaging can be an important contribution in this process and work as a marketing tool.

### Driving forces from technology

Papermaking is the art of balancing many different technologies. Change one aspect of the papermaking process and others will have to change too (Rooks, 2000, p. 18).

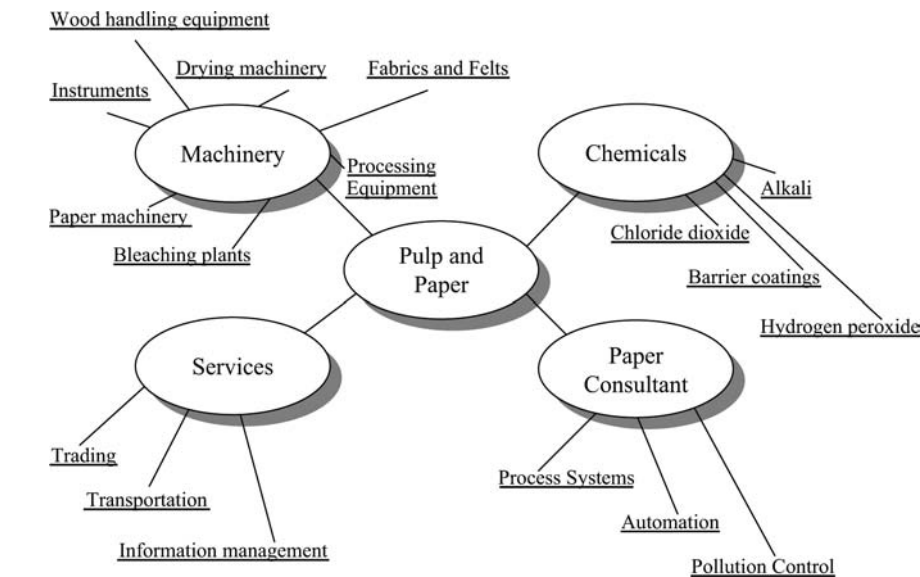
Technology has been one of the most important driving forces within the pulp and paper industry. Cost disadvantages for raw materials have pressured pulp and paper companies to develop more sophisticated equipment, machinery and processes in close relation with different companies in related industries. Due to competition there has also been an interest to go into areas with higher added value products such as hygiene and products suited for, e.g. packaging purposes (see Figure 3).

The strategic interest from the paper industry to go into product areas with a higher added value, e.g. hygiene products, packaging materials and other products are supposed to give better possibilities for price differentiation and creation of value in the relationships with different customer groups. This emphasis has made it necessary to take different external changes into consideration before investing into new heavy capital intensive equipment. Pressure from environment groups has also driven the research and development within the industry for a better pollution control and the usage of recycled materials. The R&D has also resulted in different new products such as TMP, CTMP pulp, hygiene and packaging materials, but even new processes in the production and drying techniques. However, the transfer of technology is rather high within the pulp and paper industry and for the particular company it is necessary to continue the search for market factors which will give the company a better opportunity for creation of a competitive and market strategy which will create a higher value in relation with its different customers.

### Machinery

Mills that do not focus on reducing energy cost and energy consumption will not be able to remain competitive (Research Director).

There are many factors affecting technology development within the industry, but innovations within machinery are of utmost importance. Cost disadvantages for raw materials in comparison with other parts of the world have put a pressure on pulp and paper companies to develop sophisticated machinery in close relation with suppliers from related industries (Kvaener, Valmet). The intention to reach cost reduction within the industry has driven, e.g. the forest sector to a high degree of mechanisation (tractors, forwarders, processing machines, log harvesters) for the supply of raw material which also has created an industry in itself. The expansion and international market development within the pulp industry has also resulted in a number of international manufacturers of pulp machinery (boilers, digesters, bleaching plants) and other industries linked to pulp production (e.g. process automation). The technology development has also been of great importance within manufacturing of paper and board machines and within areas of drying machines and fabrics and felts used in paper machinery. The pulp and paper industry are also in favour of development of other equipment in association with this production such as control and drive systems (ABB) and various instruments to control and monitor the production process.

**Figure 3** Technology influences from related industries

### Chemicals

On the speciality supply side (Akzo Nobel) the pulp and paper industry are major users of a number of chemicals. One end-use is for boiling and bleaching pulp, another is different pigments and various coating materials used in the production of paper. Many of these chemicals are important ingredients for adding value to the paper production. New developments within nanotechnology can extend the lifetime of products when nano-materials are coated on the surface of materials, or integrated into the equipment.

### Services

The pulp and paper industry is also dependent on different services, e.g. the transportation of timber and paper products by heavy trucks (Volvo, Scania) and special cargoes for shipment of pulp and paper products to different markets. Trading houses is also playing an important role for selling products in overseas markets. An issue of growing importance is also information management supported by different specialists within the information technology sector. Managers are also recognizing an increased interest for long-term relationships and co-creation of value with customers including intangibles.

### Consultants

Consultants have played an important role in the development of technology especially within areas of processes, systems and automation. Another area for consultants has been market and strategy studies (e.g. by Pöyry, 2000) before companies have made decisions about investing into new capacity. Consultants have also participated in areas of logistics and environmental issues.

### Driving forces in the marketplace

The volumes are enormous, so good machine-ability is a must. Having invested so much in our branding, the imaging quality of the packaging must be equally excellent to guarantee optimal visibility on store shelves. However, tough deadlines have been set out for international deliveries, thus packaging supplies have to fit in smoothly with our demands (Purchasing Director).

First comes run-ability on corrugators, through converting and printing machines and on customers' packaging lines. Smoothness is a major requirement (Marketing Director).

In the end of the 1990s and the beginning of the 2000s many business markets are or will be global markets. This change from national-regional markets to global markets is just one of many profound changes that have been occurring within the business environment. Within the past 10-15 years the language of business marketing has also changed irreversibly. Samsung of South Korea, electronic mail, computerised manufacturing, relationship marketing and internet management are some of the new vocabulary. This new vocabulary is symptomatic of the dramatic changes that are occurring within the business environment throughout the world. In the following section some of these business changes or driving forces will be discussed. One important question for a producer is – what impact these business environment changes have upon the business company. Specifically, how should a producer respond to these new technological opportunities and to an intensive domestic and foreign competition?

### Customer drivers

Our product development help customers to reach packaging solutions that previously were impossible to reach (Marketing Director).

A strategic market orientation requires that the business company focuses all of its resources on serving customers and market needs (Abell, 1978; Aaker, 1998). From the discussion above it is obvious that there are several factors affecting the customer base and some of them will be stronger than others. A choice of target markets segments determines where a company will compete. Other companies will also be seeking to compete in these segments and the customer will choose whom to support. A key task of management in competitive markets is to create a sustainable differential advantage to attract customers to these choices (Day and Wensley, 1988; Slater, 1996). At the same time it is important to build such relationships that customers can be kept since loyal customers are assets and winning new customers is costly (Reicheld, 1994). At the same time it is important for the producer to focus on the key customer in an added-value

chain. A few years ago an important business strategy was forward integration into different kinds of converting. At the moment some of the big actors in the packaging industry are withdrawing from converting and are going back to the basic product. Due to concentration within certain business sectors the pressure is also put forward from big customers, or customer groups creating a new market structure (see Figure 4).

#### Product drivers

The essence of good marketing is to be aware of the customers' needs. This is most apparent when dealing with the product-service mix (Hooley *et al.*, 1998). Searching for a differential advantage begins with an understanding of customers' value. The difference may be based upon a product which is perceived superior (quality, performance, features, reliability), has a better support or offers a lower total price (operating costs for the customer). Due to different changes within the marketplace the focus must be on the need from the key customer in the added-value chain. This is especially important where changes are occurring in the supply chain between the producer-converter-customer. Besides offering superior value to the customer the differential advantage must also be profitable for the company.

#### Service drivers

Owing to local market requirements it might be necessary to supply different kinds of services in the form of local based sales people, converting facilities or technical support by the end customer. In a competitive market situation company personnel have also become a valuable source for differential advantage within many industries. Services (professional, reliable, positive, responsive, and initiative) might also be difficult to copy for competitors since it is based on management skill in empowering and motivating front-line staff.

#### Cost drivers

It is of great importance for management to look for ways of lowering costs without lowering utility for important customers. Owing to the concentration within certain industries like the food and beverage industry the bargaining power of the buyers is increasing (Porter, 1979). The implications of that is less influence for other parties in the supply chain, but also more direct contacts with fillers and retailers. At the same time new suppliers are emerging with products based on lower costs for raw material. The demand

for recycled material is also another factor to be considered and the supplier can also meet different switching costs by an end-customer. A low cost permits the company to create a differential advantage either by a competitive price or by offering an improved product-service mix to the customer. The cost drivers within the pulp and paper industry are many (economies of scale, experience, capacity utilisation, and integration, interrelationships, location, and raw material costs) and will continue to play an important role for the competition between different producers within Europe and other parts of the world. The technical integration within Nordic mills is creating competitive advantages in relation to un-integrated mills in other parts of Europe due a more efficient production.

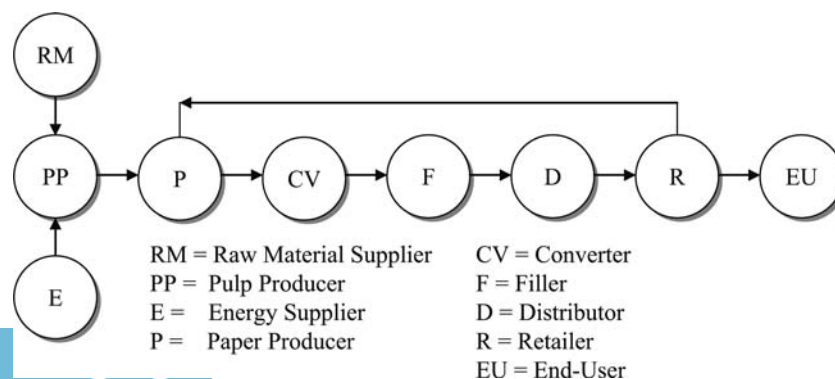
#### Logistic drivers

International trade and transportation have been in constant change during recent years. The removal of trade barriers is expected to increase trade and free movement of goods and people within the European Community. The industrial infrastructure has also been developed in a direction, which increases the demand for transportation and packaging. This is exemplified with structural changes and the reduction of local stocks in relation to central distribution points. Products with a higher added value will also require different packaging solutions. Electronic shopping by internet will create new logistic functions and require more packages in relation to conventional buying at retailers (Fraser *et al.*, 2000). Recovery of products and packing materials is another growing area. For certain complex products the trend is toward reuse of components rather than material recycling. In other industrial sectors like the automotive industry the customers are depending on JIT and the impact of packaging for bulky products and transportation is substantial (Lehtonen and Holmström, 1998).

#### Other market drivers

The consumption of paper and packaging materials is varying between different countries around the world (Rodden, 2003). There are several reasons for the wide spread in consumption due to standard of living, industrial structure, cultural differences and exchange rates to mention some of them. These differences also create the bases for different market dynamics and evolutionary processes within every country. There is however some driving forces which are more important than others are. One of them concerns the concentration within certain industries such as the food industry and creates important buying power among

Figure 4 New Interactions within the paper supply chain





companies working in that sector. This buying power is exemplified by the circumstance that the role of the converters has decreased and that big retailers are in direct discussion with the suppliers of the packaging material about design and printability of the products:

A well printed pack is a really cost effective way of communicating with customers and the message is best conveyed by printing on a super smooth white surface (Marketing Director).

Product development and packaging design are also done in a closer relationship between suppliers and fillers of the package. Other forces can be recognised as environmental due to Directives on Packaging and Packaging Waste (CEN TC 261). This will also lead to changed consumption due to prevention by source reduction. Packaging has also been in focus as the main symbol for environmental responsibility. At the same time some multinational brands are advertised on a global scale in combination with a packaging product which is easy to recognise, e.g. perfumes, chocolate and whiskey brands. This leads to an increased demand for integrated development of packaging and product, which will affect the need for, customised solutions.

### Discussion – the strategic challenge

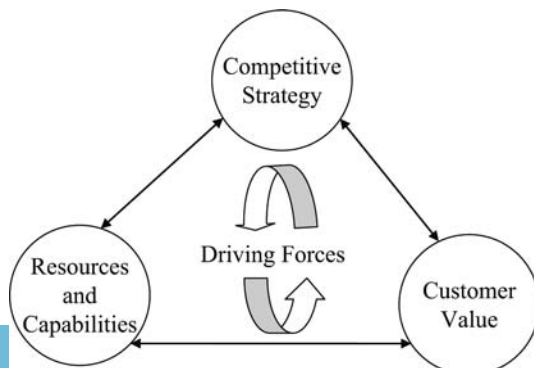
Our strategy is to be a leading player in the markets and segments in which we operate (Marketing Director).

When a company grows through mergers, acquisitions or investments, more is required than simply adding the new pieces; you have to make the different pieces together in an optimal manner (Vice-President).

The business environment of the company consists of all the external influences that have an impact of the company's decisions and performance. A problem facing management is tracking and analysing the vast number and range of external influences. The starting point is some kind of system, or framework for organising and analysing different kinds of market information (see Figure 5).

When sudden environmental changes occur e.g. increased raw material prices (oil, energy) and taxes on export of wood (import from Russia) they can trigger major developments in the market. Some of the driving forces affecting the supply chain have been discussed above. The strategic challenge for the management is the creation of a competitive and marketing strategy coping with those forces in the market. Success in business is achieved when management develops a strategy, which fits within the business environment where the company operates. This must be reached in relation to

Figure 5 Market driving forces and customer value



existing resources and capabilities within the company. Combined resources with other actors are often a necessity.

### Competitive strategy

Developing an effective competitive strategy is vital for any company. Porter (1980, 1985) argues that there are three fundamental ways of achieving a sustainable competitive advantage for a company. This can be done by cost leadership, differentiation or focus. By cost leadership the company sets out to be the low cost producer within the industry. This assumes that cost can be reduced, e.g. through economies of scale and that this is vital to the customer. The risks are that cost leadership cannot be sustained, competitors might imitate and technology changes or any other basis for the cost leadership might be eroded. With differentiation the company sets out to be unique in the industry along some of the dimensions that are widely valued by customers. The risks associated with this are that the differentiation cannot be sustained as competitors imitate or the unique selling proposition becomes less important to customers. By a focus strategy the company focuses on a narrow target market segment combined with either of the other strategies. The risks are that it can be imitated, the segment become unattractive, smaller segments start to appear, or the basis for the segmentation disappears as the differences between segments disappears. It is hence vital that management understands the basis for its competitive advantage since it will be eroded over time by different driving forces in the market. Teece *et al.* (1997) argues that dynamic capabilities are important for the strategic management and for reaching competitive advantage in relation to a changing environment. The dynamic capability can be reached by the company's ability to integrate and reconfigure internal and external competences.

### Marketing strategy

The marketing concept requires more than being able to meet customer needs – it requires meeting them better than competitors, especially within the competitive packaging sector. Customers choose those suppliers, which offer the best value. If a company does not have a competitive advantage it will lose market share or have to cut prices to retain the market share. Strategic market planning is concerned with adapting the organisation to a changing environment. Organisations succeed when they meet the need of customers more effectively than competitors. According to Greenley (1993) the framework for developing marketing strategy can be explained by the stages of strategic planning at three different levels:

- 1 corporate mission;
- 2 corporate strategy; and
- 3 the actual marketing strategy.

The actual marketing strategy (Greenley, 1993; Sudharasam, 1995; Hooley, *et al.*, 1998) can be formulated in different ways, but usually it includes the following dimensions:

- the product or service market where the company compete;
- the level of investment to maintain or grow the business;
- the product line, positioning, pricing and distribution strategies needed to compete in the selected market segments; and
- the assets or skills to provide a sustainable competitive advantage.

### Creating customer value

Creating superior value necessitates at least two different kinds of knowledge:

- 1 about what customers will value; and
- 2 about the skills necessary to provide such values.

The core competencies of the company are the unique bundle of skills it possesses which permit it to offer a sustainable competitive advantage in relation to competitive offerings. In the long run success depends upon creating core competencies in the areas in which the company operates. These core competencies can also be reached by co-operating with other actors in the supply chain (see Figure 6).

There are several factors that can create customer value depending on the requirements from the customer, or end user of the packaging material. One of the factors that has been emphasised in the interviews are the requirements for better and a higher printing quality. This has also led to a development in the area of printing technology. At the same time it has been necessary to develop surface treatment of different paper qualities and coating of the top layer of the paper. The requirements from end users has also had an impact in the development of paper qualities with new properties by coating plastic materials to the surface, or by laminating paper with other materials. This development has created a range of new products with improved qualities and new properties. In some product areas the cooperation between supplier and customer is of utmost importance for the design of new packages even within the industrial sector. These new developments have been necessary for branding purposes. All these activities might require different kind of services in the relationship between supplier and customer. It is also necessary that suppliers co-operate with other actors in the supply chain for reaching customer value and objectives in the marketing strategy. Customer value needs to be built on a long-term relationship. Customer value often consists of a bundle of activities that has been created in co-operation with other actors and developed together with the customer. By increasing the efforts to interact with the key customers it might also be possible for a company to go from product driven to be a leading and market driving company (see Table III).

### Conclusion and managerial implications

Successful strategies erode over time and management needs to continually evaluate its marketing strategy in relation to its key customers and actors that it co-operates with in the supply chain. Even if the total consumption of paper products is expected to increase, the focus of new capacity is expected to shift to other regions of fast paper consumption in Asia and Latin America. Different driving forces have therefore been identified in this paper. These driving forces have been found to exist in the market among different actors, in the technology, or in the form of external changes in the market e.g the demography. Increasing raw material prices (wood, oil, energy), together with taxes on the export of wood (from Russia) have also had an impact on the industry leading to structural changes. The managerial implications will therefore force managers to find out a competitive and marketing strategy that can match competition and influencing driving forces in the actual market area. For some companies this can be fulfilled by a further specialisation e.g on board materials for specific end uses (a focus strategy). For others it can mean further investments to become, or withhold the position as a market leader within a certain product area. Mergers and acquisitions has been another strategy to become a global player by a cost leadership strategy within some particular product areas such as fine paper, packaging board and packaging materials for transport packaging purposes. This is a strategy that has been used by e.g StoraEnso, SCA and UPM-Kymmene. In other fields mergers and acquisitions have been the base for creating a differentiation strategy e.g when MoDo and SCA merged their fine paper units. However, market turbulence and driving forces in the market might force management to develop strategies that will give them even better possibilities for a higher differentiation. This can be enhanced by using different services and a higher interaction with actors in the supply chain. A customer value orientation to business and marketing strategy involves understanding the complexities of customer value perceptions. An improved customer value can be reached by co-operating with other actors such as converters (coating, printing, formatting), fillers (brand name

Figure 6 The creation of customer value

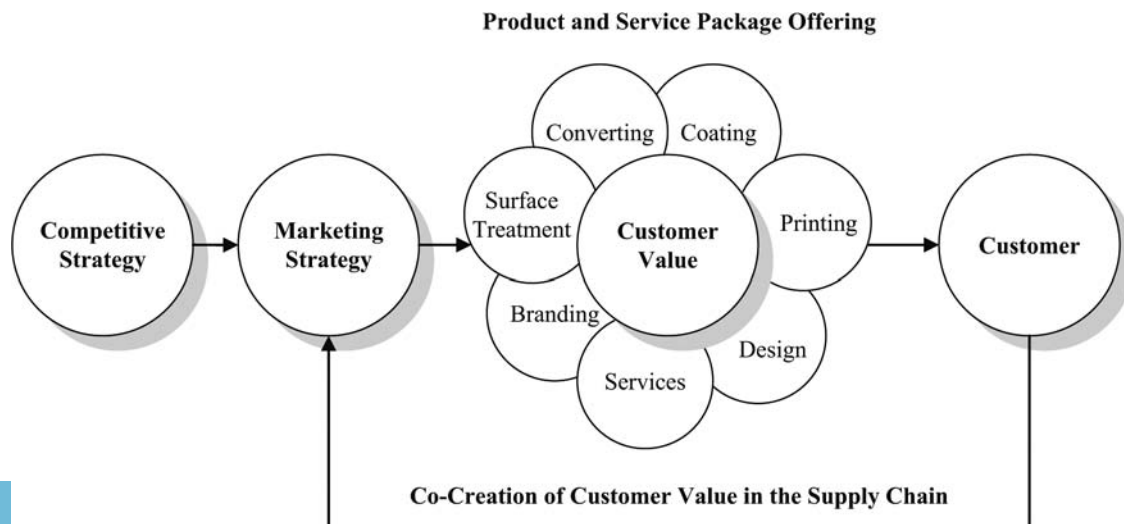


Table III The characteristics of a market driving company

Product driven	Market driven	Market driving
Economies of integration	Specialisation	Ancillary services
Technological leadership	Channel selection	WEB-based systems (less importance on middlemen)
Cost position	Brand identification	Focus on interaction with local customers
Standardised products	Price differentiation	Increased use of information technology and business platforms
	Product quality	Specialisation on key customers
		Co-operation in product development with customers – customerisation
		Development of “design arenas” for packaging development
		Co-operation with other actors in the supply chain for reaching customer benefits
		Redefinition of customer base

owners), advertising agencies and retailers. Working together with fillers and retailers are even more important since their influence have increased in the supply chain (change in power structure). Some of the suppliers of packaging board material have also created development and design centres for the creation of new packaging solutions together with other actors in the supply chain. Those new activities give management on the supply side an opportunity to reach an improved customer value. This is achieved by a bundle of different development activities and services that previously was done by separate actors and entities. Market influence has created an improved awareness of being interactive with key customers in order to reach new customer values. The longitudinal study also highlight a change in management attitude from being production oriented to recognising the importance of a market orientation for long-term survival. A “strategic stretch” is also more consistent with what have happened in other mature industries that has responded to global influences.

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### Executive summary and implications for managers and executives

*This summary has been provided to allow managers and executives a rapid appreciation of the content of the article. Those with a particular interest in the topic covered may then read the article in toto to take advantage of the more comprehensive description of the research undertaken and its results to get the full benefit of the material present.*

The business environment of a company consists of all the external influences that have an impact on its decisions and performance. Consequently, a problem facing management is tracking and analyzing the vast number and range of external influences. The starting point is a system, or framework, for organizing and analyzing different kinds of market information. Strategic thinking and strategic management are the most important activities undertaken by any business or public organization.

Successful strategies erode over time and management needs to continually evaluate its marketing strategy in relation to its key customers and actors that it co-operates with in the supply chain. When sudden environmental changes occur – such as increased raw material prices – they can trigger major developments in the market. The strategic challenge for management is the creation of a competitive and marketing strategy coping with those forces. Success in business is achieved when management develops a strategy which fits within the business environment where the company operates.

This must be reached in relation to existing resources and capabilities within the company. Combined resources with other actors are often a necessity.

In "Development of customer value in a supply chain: Managerial thinking about strategic marketing" Bo Rundh uses the example of the Swedish paper industry to ask: "How can a supplying company develop its customer value when external changes are affecting the supply chain?" The chosen industry is characterised by continuous structural changes and reduction of production outlets, underscored with increasing costs of raw materials. In recent years new actors have evolved in Latin America and Asia, building their production on lower labor and raw material costs.

Continuous development has changed trade from raw material to added value products (e.g. in the packaging sector). The positive development has been possible due to technical progress and rationalization in production, but also depending on an increasing living standard in other parts of the world. Competition and emerging driving forces within the industry and a pressure from the stock market are forcing management to reconsider business and marketing strategies. The generic strategy within many paper mills is based on a cost leadership with a volume approach due to economies of scale in production.

This has also made management focus the interest around production issues. The volume intensive approach has been driven by investments in new production capacity and the necessity of high-capacity utilization. It may be necessary to consider a different strategy than from a production point of view, but also to consider the marketing aspects for a paper producing company. In order to reconsider the business strategy it is necessary for management to assess and analyze different factors influencing the company by competitors and driving forces in the business environment.

### Competitive strategy

Developing an effective competitive strategy is vital for any company and three fundamental ways of achieving a sustainable competitive advantage for a company are cost-leadership, differentiation or focus. By cost-leadership the company sets out to be the low-cost producer within the industry. This assumes that cost can be reduced, e.g. through

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*(A précis of the article "Development of customer value in a supply chain: managerial thinking about strategic marketing". Supplied by Marketing Consultants for Emerald.)*

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