

# Ensuring profitability in the Danish photo industry for retailers

*Abstract:*

*The dissertation aims to investigate how retailers can increase or ensure long term profitability in a market with intense price competition and producer-driven value chains. By analysing the characteristics of the retailer and the industry, strategic possibilities are presented which can increase profitability.*

**AALBORG UNIVERSITET**

Cand.Merc.Ibe

Fibigerstræde 2

DK 9200 Aalborg Øst

Written by:

Lasse Fischer-Mogensen

@: [lassefischer@gmail.com](mailto:lassefischer@gmail.com)

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Supervisor

Olav Juul Sørensen

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# 1 Introduction

The world around us is changing at a frantic pace. New technologies and products are changing the lives of consumers and businesses. From Asia to California, from Norway to Chile, managers need to adapt to the developments in technology and the changes in consumer behaviour and demands. Technological changes are forcing manufactures and managers into increased innovation of their existing portfolio of products. New technologies need to be embraced by manufactures and adapted to their businesses, if not; their products become obsolete and substituted with the products of their competitors.

But the technological development comes at a cost. It is expensive to maintain constant R&D and there is no room for a breather. To maintain a competitive advantage in the marketplace it is necessary to be integrating new technology into the way business is done. New standards for wireless broadcasting, new internet browser, changes in computer programming language, and new means of data storage or plastic with smell of vanilla are developments which companies need to integrate or they must at least acknowledge these developments which will have influence on the marketplace.

The costs for product developments are excessive in high-tech industries and the mobile phone industry and the photo industry have felt this in recent years. According to a new survey by Gartner (Salget af mobiltelefoner stammer frem, [www.comon.dk/index.php/news/show/id=29113](http://www.comon.dk/index.php/news/show/id=29113)) the mobile phone market is booming due to increased demand from India and China. But even though there has been an increase in demand, the smaller players in the industry are having difficulties. The mobile industry are competing on supplying the newest technological features, the “styliest”, the most durable and reliable phone. Annual R&D costs in the industry are estimated to be around minimum 10% of annual turnover (Nokia has set a target of R&D expenditure to 9-10% of net sales according to [www.nokia.com](http://www.nokia.com). This is also the target set by camera producer Olympus and Canon.) The three largest mobile phone producers have 68% of the market share and are pricing the products aggressively which is making it difficult for the small producers to make a profit.

The same is happening in the photo industry. The largest producers are spending vast amounts of money on R&D whilst also competing aggressively on prices in the marketplace. This has caused a reduction in the amount of producers of digital cameras and the number is expected to decrease even

further in the next years. In 1999 there were in the area of 400 different labels of cameras – the expectations for the future is a market with 3-5 producers. (Fotobranchen 2006c)

It is estimated that 40% of European households have a digital cameras (2005) and the challenge for the industry is to get the last 60% to convert from analogue to digital cameras. However the growth in sales is expected to fall in 2008. The turnover amongst the retailers in Denmark fell i 2<sup>nd</sup> quarter of 2008. (Fotobranchen 2008c) This should further increase the competition in the marketplace and the large producers who are able to achieve economies of scale are in a favourable position to maintain or increase their market share.

### ***1.1 Photo Retail in Denmark***

The photo retail in Denmark is experiencing the same problems as the producers. The competition is fierce in the marketplace. The profit margins are getting smaller on cameras and on picture production. The competition from Internet stores, computer stores, TV and radio warehouses and supermarkets is increasing. The expectations of the retail managers are that the profit margins are going to get smaller in the future, that competition is going to get stronger and more retailers are going to close due to the lack of profitability. (Fotobranchen 2004a, 2005a, 2006abc, 2007c, 2008ab)

The households in Denmark owning a digital camera have increased from 48% in 2005 to 70% in 2008; that is a 35,1% increase which have enhanced the retailers perception that that market is maturing and that growth rates are going to be smaller in the years to come.

The industry is primarily structured around seven different chains; some of which are branded outlets and others which are voluntary chains focused on economies of scale regarding advertisement, logistics and supply. (View appendix 1.1 for further elaboration of different chains and stores.)

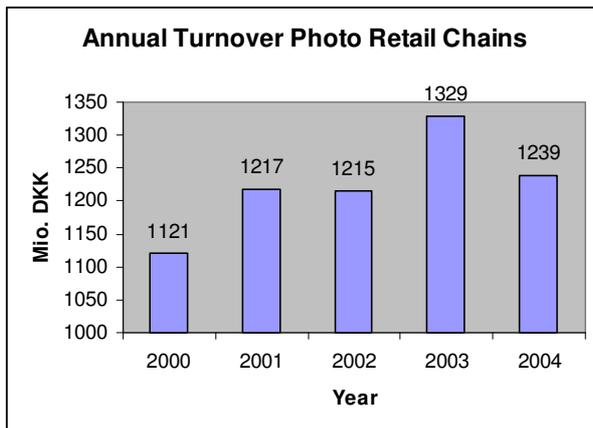
Table 1: Developments in number and turnover of chains in photo retailing

		Number of stores					Turnover in million DKK incl. VAT				
		2000	2001	2002	2003	2004	2000	2001	2002	2003	2004
Chain concepts	Bingo Foto	11	11	11	14	16	115	158	160	205	204
	Contrast Foto	4	-	-	-	-	20	-	-	-	-
	Photo Team	9	8	8	8	8	94	90	85	85	85
	Foto 1 Time	5	4	-	-	-	20	16	-	-	-
	Japan Foto	18	21	17	17	14	220	255	267	270	194
	Lybæk Foto	5	5	5	5	5	22	23	23	23	20
	Total	45	49	41	44	43	491	542	535	583	503
Voluntary chain concepts	Foto kæden	42	37	39	38	35	200	180	180	180	180
	Jyfo	58	58	60	61	61	185	240	240	240	240
	Photo Care	53	55	55	69	77	245	255	260	326	316
	Total	153	150	154	168	173	630	675	680	746	736
Total		198	199	195	212	216	1121	1217	1215	1329	1239

The chains account for 90% of the turnover in the industry in Denmark even though they only account for 70% of the stores; Annual turnover in the industry is estimated to 1,7 billion DKK (Bahr 2005).

The developments in the photo industry might not be all negative. There are indications that the industry is growing and the negative outlook for the future might not be consistent with the progress in the industry over the last few years.

Table 2: Annual turnover photo retail chains



As shown in table 2 (Bahr 2005) above the annual turnover has not followed the expectations within the industry. The retail chains have experienced growth in turnover and combined with industry figures for future expectations on growth, the picture of the industry as one in crisis might be exaggerated.

Table 3: Turnover expectations and actual turnover result amongst retailers (Fotobranchen 2004-08)

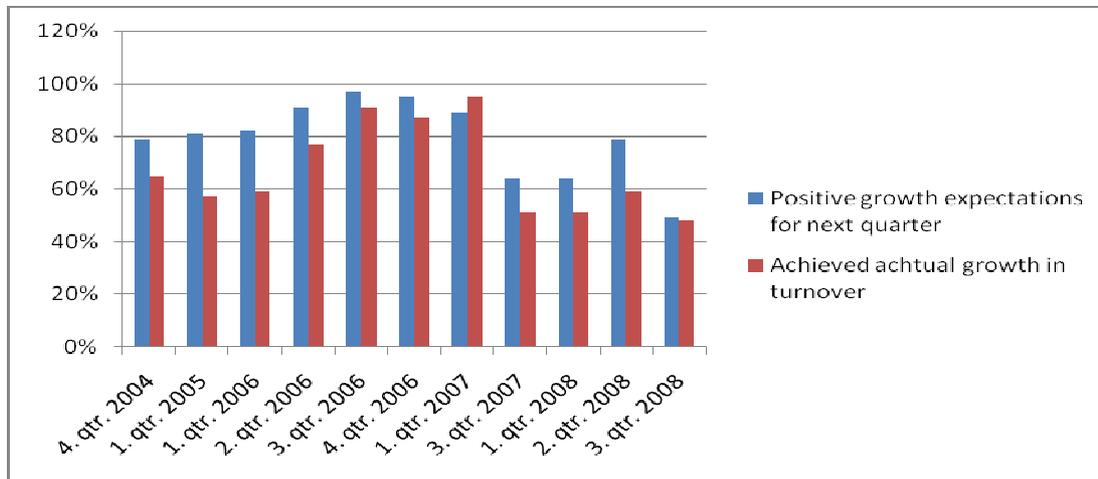


Table 3 shows that expectations of regression in the industry do not correspond with actual expectations of retail owners. Retailers expect their turnover to increase in the coming months but when they have to give their view of the industry's future they are less positive. How can this be? The industry has been through some tough years where consumers converted analogue cameras into digital and this process is still ongoing. The digitalisation did have the implication on turnover that consumers were enabled to print pictures at home on an ordinary printer and they are enabled to view their pictures and discarding those which are not satisfactory before choosing to make prints. This means that consumers do not have to go to the retailers to get print/pictures. They can print them at home and they can ensure that when they do go to the retailer they only print the pictures which they really want, and not as in the past where there usually was a couple of pictures on each film which were blurry, out of focus or of irrelevance.

Digitalisation has also contributed to the lowering of costs on picture production. The machines used can produce pictures cheaper though the costs of acquisition may be high. This has increased competition on picture production, which has resulted in a lower profit margin for retailers.

Table 4: Development in profit margins for the photo retail industry (Statistical yearbook 2006)

2003	2004	2005
99	88	86
2000 = index 100		

As shown in the table above there is a drop in industry profit margins despite the increase in turnover. This could explain why the retailers are pessimistic about the future. However with increasing turnover and in an industry which is currently going through what could be describes as a consolidation where manufactures are competing about being, what seems to be one of a few major actors in the future market place, then one might contemplate that the current decline in profits is temporary until the market have consolidated itself.

If this is the case then the retailers might focus on consolidating too or ensuring enough growth to maintain survival in the market until the profit margins rise again. However if the tendency of falling profit margins continue, then retailers may have to focus elsewhere to find products and services which can increase margins. Retailers need to position themselves in the market so that they are capable of surviving the drop in profit margins which is taking place but also making sure that if the drop is not temporarily then to be positioning themselves and creating strategies which can generate additional turnover to maintain or increase overall profitability.

## **1.2 Problem statement**

*“Through an understanding of where value is created in the global value chain of the photo industry and through an industry analysis to propose strategic measures to increase/ensure long term profitability in the photo retail business”*

The photo retailers are currently experiencing growth in turnover which has created a positive attitude towards the short-term development of the industry. However when commenting on the long-term outlooks and expectations for the industry, the retailers are more pessimistic; expecting declining margins and increased competition. These expectations must be based on their experiences and

understanding of the situation of the industry. So what does the competitive situation look like since it has brought about these expectations and the current market situation? What are the determining factors in the industry when determining the profitability of the retailers and who in their environment are influencing the potential. An understanding of the competitive nature of the industry gives an insight into the strategic positioning of the different actors but also helps in identifying barriers and potential opportunities into new areas of business which could help increase profitability of the retailers.

For the retailers to adapt to the new conditions which are expected in the market, it is necessary to understand why the market conditions are changing and where in the industry cycle these changes are occurring. Why is it becoming increasingly difficult to maintain a profitable business?

Therefore some research questions are outlined which will help assist in the understanding of the current situation of the industry:

1. What is the nature of the competitive situation in the market?
2. How is the flow of products, services and interactions organised?
3. Which strategies are currently being employed, by producers, suppliers and retailers to adapt to the current market situation?
4. What are the main reasons for falling profit margins?
5. Which restraints are there on retailers' choice of strategy?

These research questions need a variety of theories to help us in answering them, and the problem statement. Michael E. Porter has developed the Five Forces Framework which is aimed specifically at identifying the competitive nature of an industry and the profitability which can be obtained. He has also identified three generic types of strategic positions which are to be used to compete in the market place and develop competitive advantages. This will help us in answering research questions one and four. But that is not enough, which is why the Global value chain will be presented. The global value chain helps us understand the full range of activities conducted in the industry, how value is created and the governance of the links in the industry. This enables us to identify the strategies which are being put in place by the different actors in their attempts to be profitable, market leader or fulfil other objectives. In the introduction we established that the majority of photo retailers in Denmark were members of a purchasing chain or a branded chain. Therefore we need to acknowledge that the

interrelationships between different actors is very important as the actors in the industry have realised that by cooperating, they can improve profitability through e.g. joint-purchasing, marketing and concept development.

The network theory is useful in helping us understand and explore the relationships which exists in the industry, the nature of the relationship between retailers and other actors, who are they interacting with, how is the power-relationship, does the network enable new strategies or a possibility for overcoming competition and barriers to additional profitability. By understanding the structure of the industry and the networks within, we should also be able to identify why the profit margins are falling in the industry. By having an understanding of the strategic positioning and intentions of the different actors we can illustrate how their actions are influencing the competitive pressure on the photo retailers and thereby the profit which they can earn in the industry. But also through the application of a resource based understanding of the retailers to create a picture of how the internal characteristics of the retailer influences the possibilities which can be taken advantage of and how these resources limits the individual in search of additional profitability.

### ***1.3 Understanding value and long-term profitability***

The concept of value in business is widely discussed in business literature. Depending on the different attitudes towards business and the theoretical foundation, different aspects of business are attributed to the development of value – or in economic theory, economic rent.

Economic rent arises in the case of differential productivity of factors and barriers to entry. There are a variety of forms of economic rent in the global economy; some are endogenous and constructed by the firm (Kaplinsky, 2000):

- Producer rents – the entrepreneur reaps a surplus – i.e. through a “new combination” of resources or processes or introduction of new products.
- Technology rents – having command over a scarce technology
- Human resource rents – having access to better skills than competitors
- Organisational rents – possessing superior forms of internal organisations
- Marketing rents – possessing better marketing capabilities and/or valuable brand names

Rents can also be exogenous and arise through the bounty of nature:

- Resource rents – access to scarce natural resources

Other rents are endogenous and are constructed by groups of firms or by parties external to their business:

- Relations rents – having superior quality relationships with suppliers and customers
- Policy rents – operating in an environment of efficient government; constructing barriers to the entry of competitors
- Infrastructural rents – access to high quality infrastructural inputs such as telecommunications
- Financial rents – access to finance on better terms than competitors

Rents are dynamic to the business which means that new rents will be added over time, and existing areas of rent will be eroded through the forces of competition. (Adapted from Kaplinsky, (2000))

Economic rents are what create profitability for a business but it does not provide us with strategies as to how the businesses are to obtain these rents or how they are to be maintained to ensure long term profitability.

According to Michael E. Porter (1990) value for the business, may be perceived through the understanding of competitive advantages. The creation of competitive advantages enables a business to make higher earnings than costs, thereby creating a profit. It is however difficult to maintain competitive advantages over a long period of time as competitors aim to duplicate the advantages due to the promise of greater economic rent. It is however more interesting to look at sustainable competitive advantages which are more difficult to duplicate and ensures long-term profitability. These advantages are created through the core-competencies of a business and must be distinctive and proprietary from what other companies possess. (Porter, 1990)

For consumers value is not measured in profit. Value is perceived as the interrelationship between the consumers' expectations of a products quality to the amount paid for it;

- Value = Benefits / Price
- Value = Quality received / expectations

So how do these two different views upon value correlate? The sustainable advantage which is created by a business has to be perceived as such by the consumer. So for businesses to create a sustainable

competitive advantage means to create additional value for the consumer and thereby achieve an economic premium.

Additional customer value → Competitive advantage → Increased profitability

This assignment is interested in the creation of long-term profitability, so the additional customer value which is to be created must be sustainable;

Additional exclusive customer value → Sustainable competitive advantages → Increased long-term profitability.

Additional customer value does create a favourable competitive position for a business, but that does not necessarily increase the profitability of a business. The advantage of increased value created may come at such a high cost that it does not provide the business with increased profitability, but rather with an increase in market share or a different premium which may not be influencing the profitability of the business. So it is important that the additional value created for the customers, is perceived in such a way that it, enables a premium to the economic rent which is higher or the same as the current level of profits. If the new product delivers additional value for the consumers, then it may not have higher unit profitability, but the products should enable higher sales within the market enabling higher income and hence higher profitability. Furthermore the costs of the value which is delivered to customers may be high, short-term, but as the aim is to increase profitability long-term, then a strategy which e.g. spends additional money on marketing may improve brand-knowledge and ensure long-term profitability by building consumer loyalty.

For this dissertation to analyse how value is created in the photo industry, it is necessary to identify the characteristics of the industry and identify the strategies which are being employed to create value and competitive advantages. Economic rents are a result of the competitive strategies being used in the industry and it is therefore necessary to realise that strategy is the means to the end-goal (profit). Strategy is not a goal in itself as the environment is constantly changing and therefore strategies must be constantly adapted to fit the needs of and changes within the market and the industry. The objective of this dissertation is to propose new strategies to be deployed by retailers in the photo industry and

not with the development of a specific type of economic rent; therefore I adapt the notion that a competitive advantage equals profit, be it large or small, and through any given strategy which achieves one of the types of economic rent listed above.

### **1.4 Project Structure**

The starting point for this assignment is the Danish photo retailers. The retailers are the ones who are experiencing problems which needs to be addressed. It requires a deeper knowledge of the environment, in which the retailers operate, to suggest potential strategies which will help improve long-term profitability. Therefore the starting point must be an internal and external analysis with focus on the retailers. What are the retailers current abilities and limitations, which strategies do they focus on, what is the nature of the competitive environment which they operate within. Therefore we must first establish the resources and core competencies of the photo retailer which creates his business and limits his abilities in the marketplace. In this dissertation the resource based theory is applied to the retailers because it helps us in determining the limits which the resources and capabilities imposes on the development of strategies which can help improve the competitive situation for the retailer and hence the profitability.

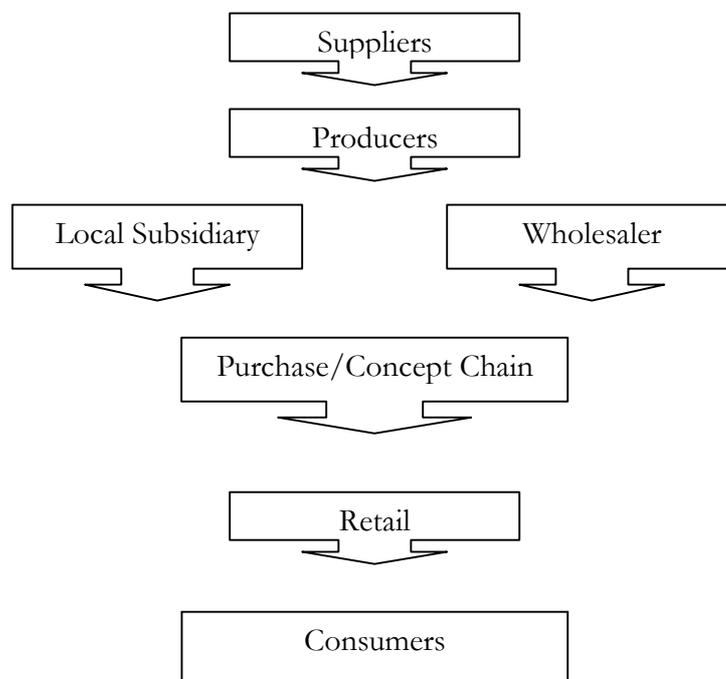
Once the capabilities and resources are identified we take a look at the competitive environment in which the retailers acts. The competitive environment is an important influencing factor for the potential profit that can be made in the industry. A fierce competitive nature in the environment will put a strain on the margins which retailers can charge as a premium for their services. Porters five forces framework is presented here to analyse the competitive forces in the environment and how they put pressure on the profitability which can be obtained.

By the five forces framework to the industry, it is possible to analyse the retailer's relationship towards the market where profitability is determined. The structures of an industry can create barriers for profitability but also possibilities which, when taken advantage of, can create the foundation for additional value creation. By analysing the relationships towards the environment it is possible to identify the level of power hold by the participants and hence develop new strategies which can change the power structures and improve conditions which determine industry profitability.

Profitability in an industry should be determined by the premium which business' can add on to the products or services which they sell to consumers. The premium can be influenced by several factors such as competition, supplier relationships, value-adding services or consumer demands. The characteristics of an industry determine the strategic positioning which companies apply within a market.

The global value chain helps one to understand the aspects of a business which can be influenced to increase the overall value of the products which are sold to consumers.

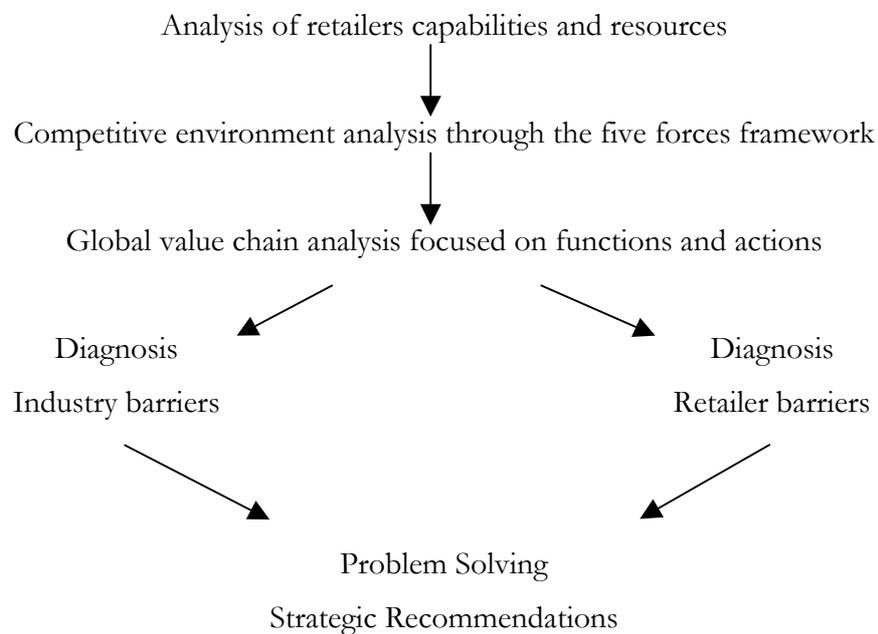
Figure 1: A simple illustration of The Global Value Chain for photo retailers



By establishing and exploring how the global value chain looks for retailers it should be possible to understand where value is created in the industry through the functions which are done at each link, but also which areas are to be influenced by retailers. There may be areas of the value chain which are difficult to influence due to the characteristics of the business but also due to industry structure. E.g. If

retailers do not have access to vendors of spare-parts due to producer power, then it is impossible for retailers to create own repair-centres which could have generated additional profits. So the Global Value Chain can also help to identify if the retailers can upgrade vertically to improve their profitability but also if there are barriers which prevents such an upgrade.

By analysing the global value chain and combining this with an analysis of the competitive environment it is possible to create a diagnosis of the retailer and the competitive situation within the industry which combined will help identify where there are strategic possibilities which can be utilised to increase profitability. This will furthermore enlighten how the actors are strategically positioned in the industry and if there is a need for a re-adjustment of the retailers' strategy. Even more the diagnosis of the retailers will identify the barriers which may exist in the development of enhancing or ensuring long term profitability.



## **2 Methodology**

Before focussing on the area of investigation, a presentation of the general scientific theory and methodology is needed. The chapter will provide an understanding of the way this project has been created and how I have arrived at the strategic recommendations. The chapter will also work as a reference point for scientific and methodological discussions further in the project.

First the preliminary assumptions about the process of knowledge creation are presented, followed by the overall working framework for answering the problem statement.

### ***2.1 Basic Assumptions***

Within all aspects of social science, theorists can roughly be divided into two divisions of view on society; subjective or objective. According to Burrell & Morgan (1979) it is important to know in which division one is working in order to know how to reach your level of ambition. In this dissertation Burrell & Morgan's terminology is used to define the perspective from which it has been created, as I find that Burrell & Morgan paradigms in many ways are clearer and more defined than Arbnor & Bjerke's (1997) paradigms and approaches – mainly because of clear distinction between subjectivistic and objectivistic approaches.

The following is a presentation of my assumptions about the knowledge creating process in this dissertation in regards to the concepts outlined by Burrell & Morgan (1979). These are Ontology, epistemology, human nature and methodology which are the basic aspects of the paradigmatic discussion.

#### **2.1.1 Ontology**

This dissertation is based on a subjective perception of reality. Theory is a product of individual consciousness and is dependent on and related to the authors and researchers behind the development of these theories. Social reality is viewed as an evolving process; as subjective experience and as an

extension of human consciousness. The researchers take a nominalistic view on reality, which they believe is being created by humans through their interactions within reality.

Reality is regarded upon as a social construction which is a dynamic process created and extended by the individuals involved. It does not exist in a specific sense but is a product of the subjective and inter-subjective experience and consciousness of individuals. (Burrell and Morgan)

This dissertation is focusing upon the understanding of business through the eyes of the participants and in relation to the theories applied as tools for understanding and solving of the problem statement. This entails that the researcher creates his own subjective view of the business environment through the theoretical approach but also through the interactions with actors within the area of investigation. Only through the researchers subjective understanding of theories can these be applied to understand the (in this dissertation) photo industry. Based on the experiences created, through the application of theories and interactions with the business environment, is a knowledge accumulation created, which enables the new development of approaches to the underlying problems of the industry. The reality is dependent on the mental process of the researcher; therefore the theoretical model applied and solutions proposed depends on the way I, as a researcher, understand the area of investigation, possible effects of innovations and application of strategies.

### **2.1.2 Epistemology**

The results of this dissertation, is the outcome of the inter-subjective interpretation of the authors experiences and gained knowledge about the subject of investigation. This means that the interactive discussions between the project participants and the researcher results in the development of the solutions which can be applied to solve the problem statement.

Knowledge is gained from individual experience, through interactions with the other actors and through the subjective interpretation of theories and empirical evidence. Being anti-positivistic the researcher does not search for natural laws in the process of investigation, but rather tries to understand reality as it is being perceived by actors and this can only be achieved by interacting in the world.

### **2.1.3 Human Nature**

It is assumed that the researcher is an individual, who behaves subjectively, autonomous, and free-willed. Man is seen as an active creator of his own reality. Social facts are not viewed as being static. Man as a creator of his surrounding is seen as a controller, instead of being controlled and therefore the outcome of the project and the solution to the problem statement would be the result of the author's experiences.

### **2.1.4 Methodology**

The researcher's methodology is assumed to give a qualitative understanding of the reality. In the working process researchers interact with different theoretical ideas and streams. The researchers own interpretations are expressed through interactions with actors, who are being interviewed, discussion with project partners (counsellor) and through the final written dissertation. As a result the reflections and interpretations of the knowledge created through the assignment results in the outcome of new approaches and strategies. Thus, during the process of this dissertation I interact with the subject of investigation.

Methodology is a direct implication of the precedent conception, where different assumptions influence choice of method in which the research is carried out. The basic assumptions above are closely related to the subjective approach in regards to Arbnor and Bjarke, and in the following I present how the working process have been conducted through the stages of knowledge creation using the hermeneutic approach, which is predefined by these assumption; pre-understanding, understanding and post-understanding.

The starting point for this dissertation is the personal subjective experiences of the author obtained through academic studies and through the exposure to written information on the Danish photo retailing. The following aims to present how I have structured my work and the knowledge creating process.

The source of inspiration for this dissertation includes individual experiences, discussion with actors in the field of photo retailing, study literature, library information, virtual sources and discussions with the project supervisor.

In the beginning of the project I do not intend to arrive at a specific conclusion or result. The outcome of the project depends on the knowledge created over the whole process of investigation and analysis.

The process begins with the objectives outlined in the problem statement which creates the context for the entire investigation. However the initial problem statement may be changed and/or remodelled during the process. For having the specific awareness of the problem areas, the introductory description and analysis are to be conducted.

### **2.1.5 Pre-understanding**

Investigation starts with examination of existing theoretical and practical knowledge of the researcher and the empirical evidence presented before the conceptualisation of the problem statement. Therefore the first phase of the general understanding of the relevant concepts is presented through interpretations of knowledge gained from different sources. Since reality is considered as a social construction, language is a key tool for expressing ideas and developing knowledge which is also an expression of the subjective understanding of the researcher on the key issues within the research. Therefore the methodological tools for this dissertation are verbal communication and dialogue which enables the common understanding of the nature of the reality which is being investigated.

As I work as a single researcher the initial dialogue and interactions are merely a result of already made interviews with participants of the industry who have presented their perception on the current nature of the photo industry. Therefore my discussions are conducted with regards to the initial information of the nature of the industry and through my subjective interpretation, I discuss the current situation and how it creates areas of interest in regards to changing the current environmental context. Through this process, concepts of relevance to the problem formulation are also discussed and also my approach to the concepts of profitability and value.

Once the preliminary understanding of the subject is developed, then the most important perspectives can be defined and the researcher can start getting deeper insight into the subject of investigation; value creation in the photo industry.

### **2.1.6 Understanding**

At this stage the deeper investigation of the problem statements begins. The common language between actors in the industry and the researchers is created by discussing the concepts and relationships and interactions which exists and how they are perceived. Through the reflecting on theories which have been introduced we can analyse the industry.

At this stage the initial pre-understanding and the subjective perceptions of the researchers are explored through interactions with the empirical base of the assignment. Through using common language, an analysis can be conducted by applying the theories presented with the subjective understanding of the actors and the researchers. This enables for a common understanding of the industry.

Through the discussion a detailed analysis and understanding of the industry is created and thus enables for a subjective perception of the research which is shared by the actors within the industry. The researcher can now analyse more thoroughly and identify, through the discussions, the possibilities which lie within the industry for further developments in relation to the problem statement.

### **2.1.7 Post-understanding**

At the post-understanding all previous obtained knowledge about the theoretical background of the area of investigation and the empirical evidence from interactions is used for creating a subjective diagnosis which can be used in identifying and proposing solutions. New concepts and ideas may/will be presented to create possible strategies which can help solve the problem statement based on the analysis and the understanding created. This stage also enables the researcher to use his subjective view upon which possibilities exist for the answering of the problem statement. These strategies are then discussed in relation to the shared understanding and the impact which they may have on the industry.

The next stage of the knowledge creation can be considered as a post-post-understanding. Here the researcher continues to create knowledge by reflecting on the conducted research and the new approaches and strategies which have been proposed. Furthermore the examination in this dissertation, the presentations of the finding to the actors which have participated will create a further discussion to create a shared understanding of the effect of these new strategies.

Thus, in approaching the problem solving, the reality is seen as a social construction, which is created by actors and based on dialectic interrelations. The knowledge creation is a continuous process, where the researcher continuously gets additional information and each time goes through a new level of understanding and conducts new reflections.

### **2.1.8 Empirical evidence and its interpretation**

The primary empirical evidence of this dissertation is gathered through my interviews (view appendix 2 for interview guide and limitations) with actors in the photo industry in Denmark and through interviews conducted by industry specific magazines (Fotobranchen). These interviews are conducted by Fotobranchen, and are interviews regarding the current status of the photo industry in Denmark, expectations for the future etc. These interviews have helped me in creating an interest in the problem area, but are also an important part in my understanding of the photo industry. The actors who have been interviewed share their subjective understanding on the industry and their position within. I can use those interviews, not only as background information, but also as a reference point for discussion with those actors who I interview. The interviews from Fotobranchen also helps to validate and underlines the reliability of the dissertations as they help to expand on the empirical foundation and the subjective understanding which actors in the industry hold. By discussing the actions and perceptions of others, with the ones who I interview, we can through dialogue, discuss and analyse the photo industry and come to a shared subjective understanding of the industry. This enables the empirical foundation of this assignment to be valid in the eyes of the actors who have been interviewed, and hence ensuring that the analysis are conducted in relation to how the industry actor view their own reality.

The basis of the Actors approach, which is being used in this dissertation, lies in the dialogue. Understanding is created by engaging in a dialogue with actors who act in and therefore have knowledge of the problem area. In this thesis a theoretical framework will be used to structure the information coming from the actors. The insights gathered from interviews and secondary sources are to be organised in the same way, through the theoretical framework, in order to make sure that the insight is presented in a coherent way. Not being able to conduct all the information gathering in a face-to-face manner presents this thesis with some methodological challenges. The direct dialogue is the cornerstone of the actors approach and the understanding is created by a subjectification process. Being able to acquire the additional insight through interviews conducted by others keeps the subjectification and externalisation parts of the dialectic process intact as I the researcher still have a subject view when using these, but they also helps to increase the insight into the industry and the actors within.

Interviews form the primary empirical evidence and it must therefore be combined with the theoretical framework in such a way, that the interviews helps to identify key theoretical concepts and importantly the actors' perceptions of them. This is conducted through the use of quotation from the interviews, inserted in relation to the theories which will be presented in the next section of this dissertation. This process is the result of important methodological aspects which are related to the dialectic process and the subjectification of me, the researcher. The interviews have created a joint understanding, shared between the investigator and the actors of the industry, this is the dialectic process, but once the interview are put in context with the theoretical framework, then it becomes part of a subjectification, if the researcher is not aware of ensuring that the areas discussed with the actors are applied in the correct context/theoretical framework. The interview process and questions, which was based on the investigators pre-understanding of the industry, should ensure the validity and reliability in relation to the combination of interviews and theories, as the pre-understanding is based on knowledge of different theories, which also creates the framework for understanding the industry. This means that the questions and dialogue is created with starting point in the pre-understanding, and hence the understanding is then understood using the theoretical framework which was created during the pre-understanding. This makes it easier for the investigator to combine questions and dialogue with theory as they in essence are created on the same background and therefore can be combined to identify industry's relationship to the theoretical framework which enables us to answer the problem statement.

### **2.1.9 Methods**

The methods applied are qualitative personal interview and application of statistical material combined with industry specific articles. (View appendix 3 for limitations)

The application of interview is very much in line with the actor's approach of the dissertation. In order to gain understanding of the social construction, dialectics are very important and in order to gain an understanding of the actors within the industry the interviews were conducted in conjunction with the interview guide.

Statistical information and industry specific articles have been used to show trends and developments in the industry.

### 3 Theoretical Build

This section aims to present and discuss the theories which are used in understanding, describing and analysing the area of investigation. The different theories are presented in relation to build, relevance and methodological foundation. The section will be concluded with a discussion of the theoretical framework as a reference point for understanding the industry and how it enables an answering of the problem statement.

#### 3.1 Understanding the structure and competitiveness of a firm and an industry

When conducting research based on an Actors approach understanding the industry means finding a way to categorise the insight provided by the actors in order to understand their actions, motives and positions. Using models to conceptualise the business environment gives the researcher a framework to make this categorisation and will ultimately help the researcher do a more coherent analysis.

Finding the foundations of a strategy for ensuring or increasing the profitability of the photo retail industry two important areas will have to be analysed in order to understand the feasibility of a strategy for achieving this mission. These two areas are the *Company structure* and the *Industry structure*. Figure 2 illustrates the connections between the four aspects important to this problem area.

Figure 2: The Strategy-Structure Model (Sørensen, 1996b)



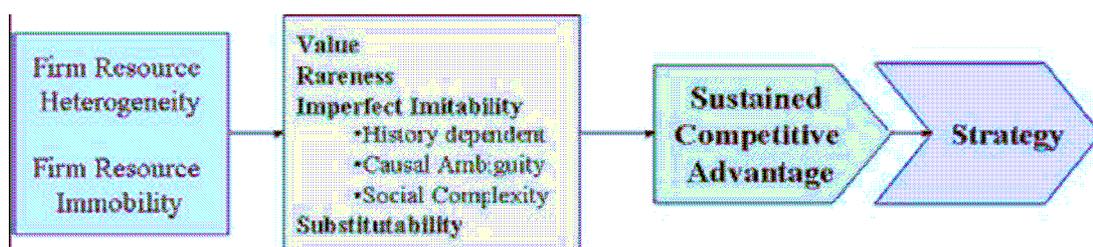
The first part of the theoretical framework is concerned with the organisation of the retailer, the strategies used, functions performed and relationships towards the environment. So firstly we use the

resource based view to create an understanding of the retailer's capabilities and any internal restraints which can prevent him in obtaining different kinds of rent.

### 3.2 Resource based view

The resource based view on business focus on how resources create sustained competitive advantages. The central premise within the resource based view is that firms compete on basis of their resources and capabilities. The firms within an industry may be heterogeneous with respect to the bundle of resource that they control and resource heterogeneity may persist over time because the resources used to implement firms' strategies are not perfectly mobile across firms, i.e. some resources cannot be traced and are difficult to accumulate and imitate. Resource heterogeneity is considered a necessary condition for a resource bundle to contribute to a competitive advantage. (Bridoux, 2004, p.3) The competitive advantage is the result of optimal resource allocation and imperfect markets. Resources are (tangible and intangible) assets, skills and organisational capabilities. The resources leading to competitive advantages have to be scarce, valuable, in- substitutable and it has to be hard to imitate them. (Müller-Lietzkow, 2004) The sum up the argument behind the resource based view; if all firms in a market have the same stock of resources, no strategy is available to one firm that would not also be available to all other firms in the market. The resources create a competitive advantage by enabling a firm to deliver greater benefit to their customers at a given cost, or the same benefits as their competitors but at a lower cost. (Bridoux, 2004, p.3)

Figure 3: Resource Based View Theory (Müller-Lietzkow, 2004)



### **3.2.1 Critique**

There is also some critique of the resource based theory. The theory focuses on the individual resource within a firm and not on the possible clustering of resources and the potential interplay which lead to a competitive advantage. (Bridoux, 2004) It may be a combination which allows for a competitive advantage to be created and not on one single resource. The theory focuses solely on the firm or an individual resource and does not include the surrounding environment. Resources may illustrate for a manager which possible strategies he can choose, but it is the environment which represents what must be done to compete efficiently in satisfying customer needs. So a manager may identify a sustainable competitive advantage on basis of the resources available, but if this advantage does not help to satisfy customer needs or create the advantage in the eyes of the consumer, then the manger may not have a competitive advantage; only by comparing the competitive advantage to the environment and customer needs, can it be established if it really is a competitive advantage.

### **3.2.2 Methodological thoughts**

The Resource Based View functions on the premise of human rationality and does not recognise the subjective perception of human beings. If resources are not viewed upon in different ways, and combined in different manners, then it is impossible to use a resource in more than one way. Resources can be combined in many ways to correspond to the demands from customers, suppliers and the competing companies.

By acknowledging the interaction with the environment in terms of the combination of resources with other actors/firms it becomes possible for the Resources Based View to help identify competitive resources created in networks. By introducing the environment it is possible to identify how resources can be combined with resources in other firms to create competitive advantages in the marketplace which either firm would otherwise not have had, thereby increasing profitability of the participants.

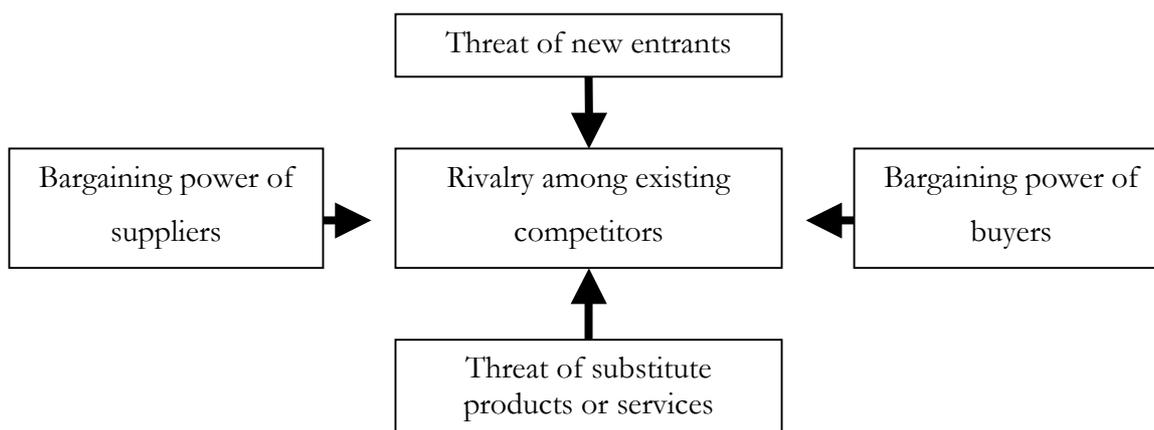
When we have an understanding of the internal factors which influence the choice of strategy by retailers, we can move to the external surrounding to understand the interactions which are done with the environment. As we are exploring potential ways of creating additional value to the business, the external analysis should be focused on the competitive nature of the industry where the retailer acts.

This enables an understanding of the external forces which are pressuring profitability in addition to the internal restraints that have previously been identified by examining the retailer's resources.

### 3.3 Porters Five Forces

Porter defines the concept of industry as “a group of firms producing products that are close substitutes for each other”. (Sørensen, 1996, p.5) According to Porter the intensity of competition among these groups of firms is determined by five competitive forces; *Bargaining power of Suppliers*, *Bargaining power of Buyers*, *The threat of New Entrants*, *The threat of Substitutes* and *The Competitive rivalry between Existing Competitors*. As the ultimate profit potential of a given industry is closely linked to the intensity of competition in the industry, the collective strength of these five forces shape the profit potential of the industry. Thereby the objective of competitive strategy is finding a “position” in the industry that the company can defend and from where it can influence the competitive forces. (Porter, 2004)

Figure 4: The Five Forces Model (Porter, 2004)



#### 3.3.1 The Bargaining Power of Suppliers

One of the major aspects affecting the profitability of a firm is the cost of raw materials, labor, components and other supplies. To be competitive a company has to be able to produce their products at the lowest costs, thereby making the relationship with their suppliers a key factor. The higher the bargaining power of the suppliers the higher the production costs.

The bargaining power of suppliers will be higher in the following circumstances:

- supply is dominated by few companies and they are more concentrated than the industry they sell to
- their products are unique or differentiated, or they have built up switching costs
- they are not obliged to contend with other products for sale to the industry
- they pose a credible threat of integrating forwards into the industry's business
- buyers do not threaten to integrate backwards into supply
- the market is not an important customer to the supplier group

(Porter 2004)

Looking at these aspects of supplier-power it is clear that companies in an industry must do everything possible to reduce the power of its suppliers to be competitive, this can be done by; seeking new sources of supply, threatening to integrate backwards into supply, and designing standardized components so that many suppliers are capable of producing them.(Hollensen 2001)

### **3.3.2 The Bargaining Power of Buyers**

The bargaining power of buyers is the impact that customers have on an industry. Buyers exert their power by forcing down prices or bargaining for higher quality. The higher the bargaining power of buyers the lower the profits.

The bargaining power of customers is higher in the following circumstances:

- Buyers are concentrated and/or purchase in large volumes
- Buyers pose a credible threat of integrating backwards to manufacture the industry's product
- Products they purchase are standard or undifferentiated
- There are many suppliers (sellers) of the product
- Buyers earn low profits, which create a great incentive to lower purchasing costs
- The industry's product is unimportant to the quality of the buyer's products, but price is very important

(Hollensen 2001)

It is very important for a company to reduce the power of its buyers as much as possible. This can be done by; increasing the number of buyers they sell to, threatening to integrate forward into the buyers industry, and by producing highly valued, differentiated products. (Hollensen)

### **3.3.3 The Threat of New Entrants**

The degree of competition in an industry can not only be measured by looking at the existing competitors. Depending on the potential profitability of an industry there will always be the possibility of new companies entering the industry. The threat of new entrants can be observed as a function of the entry barriers. Entry barriers are the aspects about the industry that a new company has to invest in/overcome to enter the market.

Some key factors affecting these entry barriers include:

- Economies of scale – minimum amount of market share necessary for the new company to be competitive
- Product differentiation and brand identity, which give existing firms customer loyalty
- Capital requirements in production
- Switching costs – the cost of switching from one supplier to another
- Access to distribution channels
- Cost disadvantages – Established firms may have cost advantages not replicable by potential entrants no matter size and attained economies of scale; proprietary product technology, favorable access to raw materials, favorable locations, government subsidies, learning or experience curve
- Government policy – Government can limit or even foreclose entry into industries with control such as licensing requirements and limits on access to raw materials.

(Porter 2004)

Looking at these aspects it is clear that entry into even a potentially lucrative industry can be unattractive or even impossible. Existing companies in a given industry will also do everything possible to raise the entry barriers. (Hollensen 2001)

### **3.3.4 The Threat of Substitutes**

If an industry is successful in earning high profits, it is likely that the competition will be raised by competitors trying to enter the market via substitute products that can perform a similar function in order to obtain a share of the potential profits. Mostly the threat of substitute products can be seen as a price issue. If there is a close substitute product it is hard to earn high profits because the manufacturer of the substitute product thereby will be able to take over some of your market share.

The threat of substitute products depends on the following factors:

- the buyers willingness to substitute
- the relative price and performance of substitutes
- the costs of switching to substitutes

(Hollensen 2001)

Existing companies in a given industry will again do everything possible to keep out new competitors, this can be done by building up switching costs, examples are the creation of strong, distinctive brand personalities, and maintaining a price commensurate with perceived customer values. (Hollensen 2001)

### 3.3.5 The Competitive Rivalry between Existing Competitors

The rivalry between existing competitors describes the intensity of competition in the industry. The intensity has a huge influence on the profitability of a company; a very unstable competition environment can lead to a price war.

The intensity of rivalry between existing competitors in the market depends on a number of factors:

- *The concentration of the industry.* Numerous competitors of equal size will lead to more intense rivalry. There will be less rivalry when a clear leader (at least 50% larger than the second) exists with a large cost advantage.
- *Rate of market growth.* Slow growth will tend towards greater rivalry.
- *Structure of costs.* High fixed costs encourage price cutting to fill capacity.
- *Degree of differentiation.* Commodity products encourage rivalry, while highly differentiated products, which are hard to copy, are associated with less intense rivalry.
- *Switching costs.* When switching costs are high because the product is specialized, the customer has invested a lot of resources in learning how to use the product or has made tailor-made investments that are worthless with other products and supplies (high asset specificity), rivalry is reduced.
- *High strategic stakes.* Rivalry in an industry becomes even more volatile if a number of firms have high stakes in achieving success there. E.g. if a firm like Sony perceive a strong need to establish a solid position in the U.S. market, in order to build prestige or technological credibility. In such situations, the goal of such a firm may destabilize the market because the strategy is expansionary and may involve a willingness to sacrifice profitability.
- *Exit barriers.* When barriers to leaving a market are high due to such factors as lack of opportunities elsewhere, high vertical integration, emotional barriers or the high cost of closing down plant, rivalry will be more intense than when exit barriers are low.

(Porter 2004)

Companies must evaluate every move they make against the stability of the current competitive situation; the long-term goals of a company must have significant influence on the company's short-term interests. On the short-term front a massive price or promotional move may bring a bit higher market share, but in the long run it may even reduce the original market share due to the responses from the competitors. (Hollensen 2001)

### **3.3.6 Porters generic competitive strategies**

According to Porter, there are three potentially successful generic approaches which may help a business to outperform its competitors in an industry:

1. Overall cost leadership
2. Differentiation
3. Focus

Overall cost leadership aims to target the entire industry by achieving a low cost position. The differentiation strategy aims to obtain a perception of uniqueness by the customers, which enables for higher price. The focus strategy aims only a segment of the industry and the rationale is that it can serve its strategic target more effectively or efficient than its competitors who target the broad market.

### **3.3.7 Critique**

Through time Michael Porters Five Forces model has been the subject of much criticism. This critique mostly stems from the fact that the model was developed in the early eighties, a time when global economy was characterised by cyclical growth. In the same way development in most industries was fairly stable and predictable.<sup>i</sup>

The critique can be summarised into four aspects:

- In the economic sense, the model assumes a classic perfect market. The more an industry is regulated, the less meaningful insights the model can deliver.
- The model is best applicable for analysis of simple market structures. A comprehensive description and analysis of all five forces gets very difficult in complex industries with multiple interrelations, product groups, by-products and segments. A too narrow focus on particular segments of such industries, however, bears the risk of missing important elements.

- The model assumes relatively static market structures. This is hardly the case in today's dynamic markets. Technological breakthroughs and dynamic market entrants from start-ups or other industries may completely change business models, entry barriers and business relationships along the supply chain within short times. The Five Forces model may have some use for later analysis of the new situation; but it will hardly provide much meaningful advice for preventive actions.
- The model is based on the idea of competition. It assumes that companies try to achieve competitive advantages over other players in the market as well as over suppliers or customers. With this focus, it does not really take into consideration strategies like strategic alliances, electronic linking of information systems of all companies along a value chain, virtual enterprise-networks or others.

(Recklies)

In the 2004 edition of *Competitive Strategy* Michael Porter counters some of these issues. Porter argues that the Five Forces model was never intended to be a static model. All the conditions that make up the framework are all conditions that are subject to change. The Five Forces reveal the dimensions of change that can occur. In the same way Porter argues that a strategic position cannot be seen as a fixed location but rather as a path. (Porter 2004 – preface)

On the issue of being based on the idea of competition Porter argues that statistical evidence shows that you can never discuss the concept strategy and not take industry structure and competitive position into consideration. Or as Porter puts it: "*It is hard to concoct a logic in which the nature of the arena in which firms compete would not be important to performance outcomes*". (Porter 2005, p. xv)

### **3.3.8 Methodological thoughts**

From a methodological standpoint Porter's framework is somewhat systems-based. The ultimate goal of the framework is to create synergies among the individual parts of the framework. But the framework is also very useful when conducting research under different methodological approaches. What Porter's framework is good for is classifying and analysing different parts of an industry and in this thesis it serves as guidance for acquiring information about the individual parts of the industry.

Porter's analytical framework is constructed for understanding the effects of industry structure on the profit potential of firms within an industry. Porter's framework builds on the structure-conduct-performance (SCP) paradigm from industrial organization economics. The essence of this paradigm is

that the firm's performance in the marketplace depends critically on the characteristics of the industry in which it competes, i.e., the structure (Porter, 1990). "In a (limited) move away from the traditional S-C-P paradigm, Porter acknowledges the role of firms in formulating appropriate competitive strategy to achieve superior economic performance, competitive strategy that may change the industry rules in the firm's favor (for instance, firm can choose strategies that affect or deter entry into their industries). Nevertheless, in Porter's work, the source of profits is not to be found in the firm but rather in the structure of the industry, especially the nature and balance of its competitive forces" (Bridoux, 2004, p.5.) Porter provides the reader with a static snap-shot on which the industry analysis is conducted. The focus is on the structure and how profits can be found in the nature and balance of competition.

The methodological standpoint of this thesis is the actors approach. Conducting research using the actors approach places the emphasis on the actors and their performance in performing their roles and processes. Using Porter's framework for conducting research in an actor's approach means having to adapt the framework to this approach. Porter's framework in its original sense puts its emphasis on the system and creating synergy among the different parts and processes in the system and thereby creating a stronger system.

In this thesis Porter's framework will be used to analyse the competitive nature of the photo industry in search for an understanding of the competitive nature which is a determinant for profitability. The emphasis is put on the actor's that perform in the system. The system is no longer the most important part but is merely used as a way of identifying the roles and processes performed by actors. By combining Porter's theoretical framework with the empirical parts, it is the objective to define and discuss the individual roles and processes performed by the actor's and thereby create a new "understanding" able to answer the problem statement.

Porter may not have included coercion between actors in the industry with the aim of improving profitability. So to better understand the interactions and relations which exist in the industry, we introduce and examine the global value chain for two reasons. It helps us in describing the interactions between the different actors and the flow of goods and services. This information will enable an understanding of the retailer's relationships with key actors in the industry and the firms who possess resources or capabilities which could be relevant for the retailers in the attempt of increasing

profitability. The second reason for using the global value chain framework is that it enables us to identify power-structures and other barriers restricting increased profitability even further.

### **3.4 The Global Value Chain**

The Global Value Chain concept or global commodity chain theory seeks to help understand how developing countries become dependent on commodity production. The global value chain analysis dissects the full range of cross-border activities involved in the process of bringing products from conception to final consumption with the aim of examining three fundamental dimensions:

1. the input-output structure of an industry and its global configuration
2. the governance pattern determining the power dynamics between different players and hence the distribution of income in the chain
3. the industrial framework influencing the flow of technology and information across different networks (Farfan, 2005)

The Global Value Chain perspective is useful because it does not only focus on the manufacturing activities, but also on the other activities involved in the supply of goods and services such as distribution and marketing. A second important aspect is that it emphasises the nature and relationship among the various actor's involved in the chain and their implications for developments, such as the flow of economic and organisational activities. Finally by focusing on all links and activities in the chain, it helps to identify which activities are subject to increasing returns in markets characterised by imperfect competition and segmentation. (Pietrobelli)

The framework allows for an understanding of the underlying factors which enables a player/country to capture the value created within a global chain. By adopting a systemic view the global value chain framework allows to examine the dynamic linkages within production activities, sectors and policies, which are creating bottlenecks which prevent developing countries from moving away from simple commodity trade or production. For businesses or countries to progress, they are to "upgrade". In a global value chain context upgrading is defined as innovating to increase value added. (Pietrobelli) Enterprises may achieve this in various ways, as for example by entering higher unit value market niches, entering new sectors, or by undertaking new production or service activities and always increasing technological capabilities. The task is not to develop new products which have never been

seen before, but to ensure an evolutionary process of improvements of products and services that are new to the firm and that allows it to keep up with an international standard.

### **3.4.1 Determinants of income distribution**

The concept of rent plays an important part when analysing why some activities in a global value chain are well-rewarded and others are not; and a key part in determining why rent occur lies in the barriers to entry which limits competitive pressure. This means that the greater the barriers to entry the higher the level of profitability. (Kaplinsky, 2000)

One way of determining the distributional outcome is to focus on the incomes which are sustained in different parts of the chain. This can be done by focusing on the “value added” (that is output value minus input costs) rather than the gross value of sales in each link in the value chain. (Kaplinsky, 2000) Through mapping of the income distribution a visual overview of earnings is created.

The barriers to entry and the concept of rent are determining factors when understanding the income distribution. The only way to ensure income growth, in industries where levels of competition are high, is to create enduring barriers to entry or by moving into activities which have high barriers.

Value chain analysis provides a direct line of entry into identifying the nature and extent of these barriers to entry along the value chain. By focusing on the nature of entry barriers in each of the links, as well as on the coordination of inter-link activities (which give rise to relational rents), it is able to explain a significant part of the distributional outcomes arising from participation in global and national production systems. Furthermore, it also provides a perspective for focusing on the dynamics of entry barriers, and carries the perspectives on core competences and dynamic capabilities considerably further by also considering rent which accrues from inter-firm relationship. (Kaplinsky, 2000) The analysis also enables for an identification of those activities which are subject to growing competition and those who are likely to experience growing entry barriers. Even more the analysis of power relations in the global value chain help to identify whose behaviour needs to change to create a different outcome pattern in the industry.

### 3.4.2 Governance of value chains

Firms exerting the “governing function” within a global value chain are those that, by erecting high entry barriers around their core activities, are able to capture a high share of value and coordinate the flow of critical market and technological information within the chain. The type of governance will help determine if businesses attempting to upgrade can do so and to what extent such upgrade may be possible.

The market power of downstream players in a global value chain is a determinant in the understanding of why it is difficult to upgrade into high-value-added activities such as distribution, marketing and retailing. Lead players in commodity chains have secured dominant positions due to four strategic developments; consolidation, supply chain coordination capabilities, branding and innovation.

The extent of chain power may be related in complicated ways to the relative size of a particular firm in the global value chain. In general, the larger the firm and the more power it holds to influence other. But how does one measure “large”? There are a number of possibilities; share of chain sale, share of chain value added, share of chain profits, relative rate of profit, share of chain buying power, control over key technology and distinctive competences, holder of chain “market identity” (Brandname). (Kaplinsky, p. 66, 2000)

Gary Gereffi (1999) has developed a typology of two different governance types: Producer-driven and Buyer-driven. Producer-driven value chains are those in which large, usually trans-national, manufactures play the central roles in coordinating production networks (including their backwards and forward linkages). Buyer-driven value chains refer to those industries in which large retailers, marketers, branded manufacturers play the pivotal roles in setting up decentralised production networks in a variety of exporting countries. (Gereffi, 1999)

Additional types of value chain governance have also been identified: (Gereffi, 2003)

1. Markets. Market linkages do not have to be completely transitory, as it typical of spot markets; they can persist over time, with repeat transactions. The essential point is that the costs of switching to new partners are low for both parties.
2. Modular value chains. Typically, suppliers in modular value chains make products to a customer’s specifications, which may be more or less detailed. However, when providing “turn-

- key services” suppliers take full responsibility for competencies surrounding process technology, use generic machinery that limits transaction-specific investments, and make capital outlays for components and materials on behalf of customers.
3. Relational value chains. In these networks we see complex interactions between buyers and sellers, which often create mutual dependence and high levels of asset specificity. This may be managed through reputation, or family and ethnic ties. The role of special proximity should also be highlighted, along with trust and relationships built over time.
  4. Captive value chains. In these networks, small suppliers are transactionally dependent on much larger buyers. Suppliers face significant switching costs and are, therefore, “captive”. Such networks are frequently characterised by a high degree of monitoring and control by lead firms.
  5. Hierarchy. This governance form is characterised by vertical integration. The dominant form of governance is managerial control, flowing from managers to subordinates or from headquarters to subsidiaries and affiliates.

### **3.4.3 Critique**

The global value chain can be used as a descriptive framework for generating data on an industry but there can also be attributed an analytical structure which provides insight into global income distribution and identification of policy levers which can improve situations of inequality. (Kaplinsky, 2000) The global value chain framework is somewhat a further development of the “filière” concept and Porter’s modern value chain analysis. These models are somewhat static, whereas the global value chain attempt to incorporate dynamic dimensions. The Global Value Chain could be criticised in that the empirical input which is used to describe value is primarily based on the access to key-financial data within a business. Therefore for it to be applicable to the dissertation where it has been less possible to gain access to key financial data, it needs to be adapted so that the framework fits my methodological framework.

### **3.4.4 Methodological thoughts**

My methodological framework aims at creating an understanding of where value is created in the industry, and especially what can be done to improve it. The global value chain attempt to identify the specific amounts of value/profit/money made. That is not necessary for this dissertation, as it is more important to determine how value is created – what actions and processes are conducted which can reward a premium. It has been possible for me to obtain information for e.g. camera producer’s net sales and operating profit but not an insight into selected the cost-profile of specific products. However

the global value chain also analyses the different actors' positions in the industry in regards to which types of economic rent they earn (the resources they possess), to what extent they can influence the other actors in the industry and how they can influence industry developments through the power-structure.

The influence which actors can impose on the global value chain can have great effect on smaller actors. But there are ways for the small actors to overcome restraint and that could be by utilising their network to achieve competitive advantages or other benefits which results in increased profitability.

### **3.5 Traditional marketing – The four Ps of marketing**

Marketing is traditionally transaction focused and divided into four general sets of activities according to E. Jerome McCarthy in his *Basic Marketing: A Managerial Approach* (1960). These four activities constitute product, price, place and promotion or the four Ps of marketing.

Figure 5: The Four Ps of Marketing or the Marketing Mix



The four elements of the marketing mix are the basic tactical components of the marketing plan. To best illustrate how this concept works, consider the marketing mix as a cake mix which needs a mix of flour, sugar, eggs and milk to become a cake. The cake can then become sweeter by adding more sugar or have a drier texture by adding more flour and so on. The marketing mix has the same composition. The offer which can be provided to consumers can be changed by altering the different elements of the

mix. So for branded products the focus will lay more on promotion than on price, whereas the sale of electricity is determined more by possible distribution (place) than price.

### **3.5.1 Price**

Price refers to costs, profits, liquidity, competitiveness, value and incentives (Egan 2001). Price is typically the easiest way to differentiate ones product from its competitors. The price parameter can be extremely efficient when penetrating a new market or when following a specific strategy of e.g. building a high-end brand where high price can be perceived as a benefit.

However setting the right price can be quite difficult. Supply and demand ought to illustrate the correct price, however there may be different strategies employed behind the pricing. Internet stores will typically go for low price which will ensure them higher turnover but lower profits per unit sold. The retailer will follow a strategy where the price need to be competitive but also allow for the covering of the costs associated to the offering additional services in relation to the product. The transaction is more expensive for the retailer than for the internet store as the retailer invests time for product presentation, customer need analysis, advice on usage and even for the physical acceptance of payment. These are all automated for the internet store that operates with a setup which is basically only need an internet service provider to ensure that the web-site is up and a billing system, which also can be automated.

In terms of value it is important to determine if ones product differentiate in terms of value in the eyes of the consumer. The retailer sell identical products to that of the internet store, but he can give advice and after sales service better than the internet store as he can interact directly with the consumer and internet stores typically provides no more service then the warranty. This may add value to the product in the eyes of the consumer when looking at the price of a given product from different distributors. It should be said that after sales service is part of the product, but the value which it adds to a product have influence on the decision-making process of the consumer.

### **3.5.2 Product**

This refers to the actual product sold to the consumer with all its features, colours etc. It also included all non physical attributes to the product such as warrenty, guarantees and support. It should also be noted that the product can also be a service, people or organisations. The Product includes new product development, brand management, features, benefits, packaging and after sales service. (Egan, 2001)

The product is made up of different elements which are of importance to the consumer:

- The core benefits – the fundamental product, e.g. a car is a means of transportation
- The generic product – transport need to be transformed into a physical elements such as wheels
- The expected product – the car must be comfortable and silent
- The augmented product – the characteristics which defines this product from competing ones.
- The potential product – what are the outlooks for the product, is it obsolete in a few years, or is the audio-system not compatible with new standards.
- Classification – is it a long or short-term product or service
- Brand – are there any additional value influencing the purchasing decision

The different elements are constantly changed by changes in the environment as new scientific discoveries can make a product obsolete overnight if it e.g. increases the risk of cancer. Also development made by the manufacturer can make a product fulfil more customer needs and influence the expectations from the consumer.

Brand is influenced by promotion but is included here as well it influences the expectations and demands from the customer to the product. Brand is not only a question of promotion but can be attributed to the physical aspects of a product, e.g. the Coca Cola bottle or the golden arches of MacDonal'd's.

### **3.5.3 Place**

Place refers to channel management, retail location, retail image and logistics. This means where the product is sold, what type of store and to which segments. But also importantly how is the flow of distribution, how many levels are there before the product reaches the end-user? Which tasks are performed through the distribution chain and who are the actors. Which platforms are used to sell the

products, e.g. internet, supermarkets or retailers? It also includes any subordinated services such as delivery.

The choice of distribution channel has a direct impact on sales, as the choice to distribute solely over the internet prohibits people without internet access to purchase the product. Likewise if distribution is conducted through a single retail-chain then people living in areas where it is not represented will not have access to the product without experiencing at least some discomfort with obtaining the product.

### 3.5.4 Promotion

The promotion of the product also influences the buying behaviour of the consumer, not only in relation to the actual product, but also the surrounding parts, i.e. the company's reputation or promotion of warranty or services related to the actual product.

The promotion activities are divided into five subcategories:

**Advertising** is seen as a tool to communicate broadly. The purpose is to persuade potential customers to purchase ones products, services or brand. The platforms for advertising are television, radio, newspapers, magazines, internet etc. All platforms possible are utilised and for larger organisations the advertising is outsourced to advertising agencies.

The place of advertising and the target-audience is determined by the product, but is positioned in such a way that an audience can easily or frequently access the advertising message, e.g. advertisements in buses, shopping carts and on television. Non-profit organisation may rely on free advertisement through public service announcements and political parties will aim to address all voters by being present in all types of media's when we are approaching elections.

**Sales promotion** is the pre-determined promotion effort which is time-limited, with the aim to increase demand or improve product availability for a given product or brand. The focus is to push the product through the sales channel by increasing customer demand through sales promotion. This could be done through "buy 2 – get 1 for free" and so on.

**Publicity** is the attempt to guide the public's awareness to one's products or business. By having newspapers do pieces on one's business the public becomes aware of one's existence. It is however important that the publicity is created on positive stories and not due to negative stories which will make the public dislike the products, brands or business.

**Personal Selling** is a sale activity that is based on personal contact and interaction between the seller and the buyer. The personal sale includes the direct transaction of product for money or another form of compensation.

**Branding** is a part of promotion as well but includes more or all of the previously mentioned four elements. Therefore the element will not be explored additionally besides presenting two definitions of branding which explain the concept: "A name, term, sign, symbol, or design, or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors. Thus brand identifies the seller or maker." (Kotler, 2003, p.418) "A brand is a conditioned cue that, through its long association with a product or service, comes to stand for something, be it quality, reliability, craftsmanship, exclusive styling, status, or value. Brand names assure customers they will receive the same quality with their next purchase as they did with their last. Consequently, buyers are willing to pay a premium for such quality and assurance." (Dickson, 1997)

Basically the effect of branding can be that consumers will associate value to a product even though it is not associated to the physical product but more to the experienced values which is experienced and perceived in the brand itself.

### **3.5.5 Critique of the four Ps of marketing**

The main critique of the four Ps of marketing is that it is a very simple model for describing the marketing mix which is used by companies. The critique was also that the four Ps framework only applies for consumer goods and not for other industries as it failed to recognise the unique features of these. Booms and Bitner expanded the framework in 1981, with three additional Ps, People, Physical Evidence and Processes. (Egan, 2001) The People are the sales personnel, support people or other customers who are in a position to influence the purchasing decision of others, as word of mouth

should also be seen as important. Process is dedicated to after sales service, where the entire process from e.g. the product becomes faulty through the entire process of repairs, reimbursement or substitution of the product. The whole flow becomes an item in itself, as customer reflects on the process and it reflect/influences the perception of the business and any future interactions. Physical Evidence is the availability of testing before purchase. The idea is the in e.g. a service cannot be experienced before it is bought and delivered. Therefore it is necessary to show the product beforehand, so the customer gets a feeling of security on what to expect before they make the purchase. This is highly relevant for internet stores where pictures and videos help to show the product which is being sold. A customer visiting a website with only text-descriptions of the products might be put off as the product would be abstract to the customer.

### **3.5.6 Methodological thoughts**

The four Ps of marketing could be argued to be as system resulting in the marketing mix. The four elements result in the individual characteristics of a product which a provider can offer its customers. It is not a question of  $1+1=2$ , but a  $1+1+1+1=4$ , since the determinants for the marketing mix is influenced and adapted to each individual distributor. In the actors approach the four Ps is used to understand the elements which can be influenced by the retailers and the functions which the actors control and influence.

### **3.6 The concept of networks**

The network perspective on business relationships is a relatively new concept, as it has its roots in the later part of the 20<sup>th</sup> century. The concept of a network perspective has matured significantly in the recent years. Reasons for this include (Sørensen, 1996c, p.2):

1. An increased focus on inter-firm links, such as Just-In-Time and Flexible production systems.
2. The introduction of Information Technology, which has drastically changed the environment in which economic activities are conducted.
3. The methodological and theoretical maturation of the perspective.

The maturation of the traditional network perspective has not resulted in any consistent and unambiguous theory of networks, but despite some differences within the perspective, some common understandings exist which can be summarised as follows:

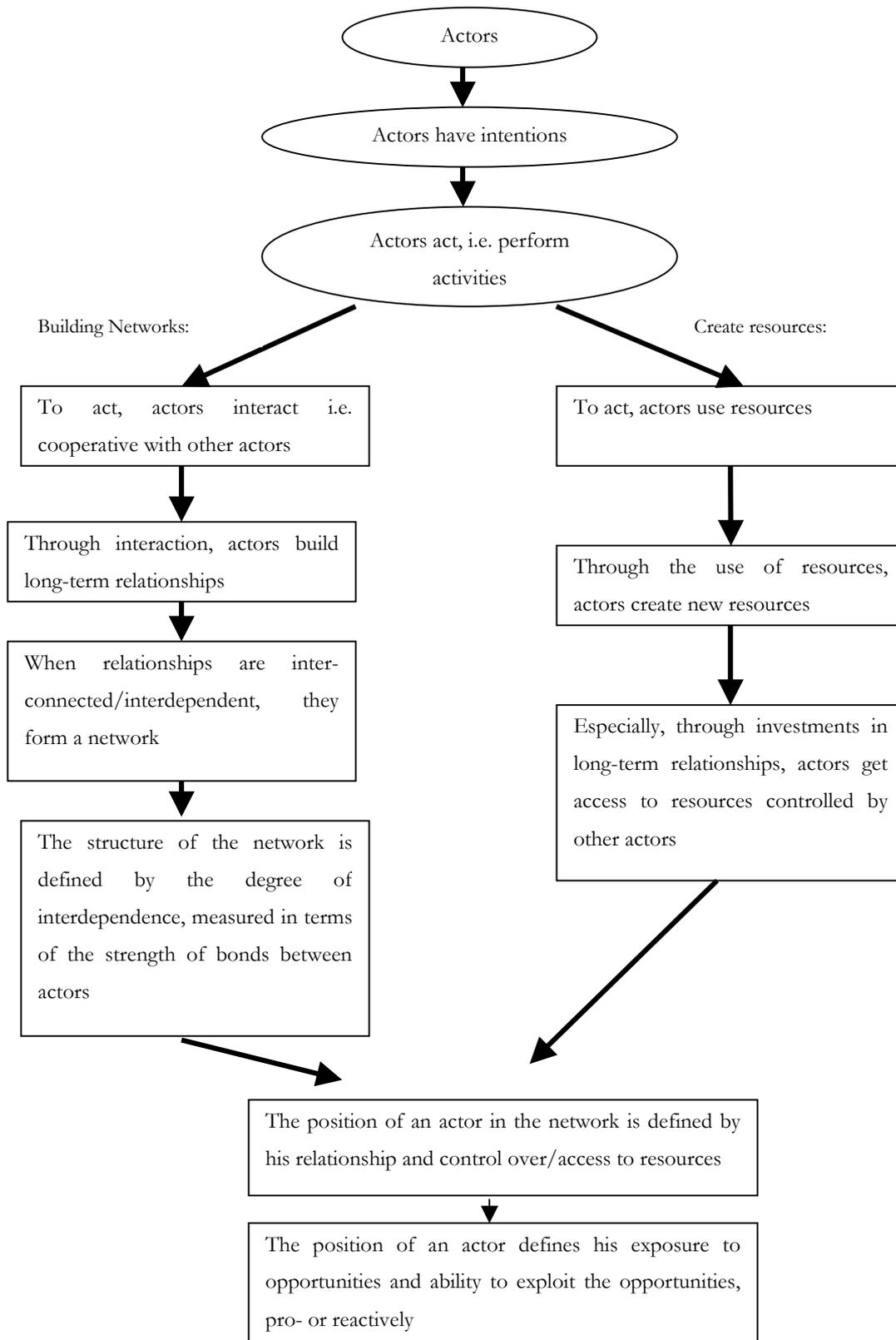
- Social relations matter in economic exchange and in the organisation of economic activities. Social relations involve influencing and being influenced by others, acquiring norms, etc.
- The actors, comprising a network, view the network as a social construction, i.e. they have subjective world views. This means that the world can be changed by actions.
- Networks are not planned. They emerge as a result of the interpretation and actions of its participants, and thus the interaction, of the actors constituting the network.
- Networks can only be studied with great difficulty from the outside. The best way of understanding a specific network is to interact with the network partners.

A network can be defined as follows:

*“A network is a social construction, created by identifiable, autonomous but independent actors. However, through the continuous interaction between the network actors, routines and common world views will gradually emerge and make the network stable and at the same time as new opportunities arising from the interaction will keep the actors on their tip-toes and the network dynamic.” (Sørensen, 1996c, p.3)*

The network creation process in figure 6 will be used to create an understanding of networks. The network creation follows two lines of thinking 1) How networks are build, how they are established, maintained, changed and dissolved and 2) How new resources are created within the network, how actors get access to the resources controlled by other network actors.

Figure 6: An overview of the Network theory



### 3.6.1 The Actors

The definite starting point of the network structure illustrated in figure 5 is the actor(s). Actors can exist in the form of individuals, groups of people, departments, a company, advisors etc. but to define the relevant actors in a network a specific analysis of it needs to be conducted. Network theory assumes man (the actor) to be a social being and therefore an analysis of the human factors/social dimensions is important.

The three main human factors or social dimensions of the network theory are: (Sørensen, 1996c, p.3)

1. Bounded rationality
2. Cooperative inclinations
3. The need for and ability to trust

#### Bounded rationality

The network actor is recognised as having a limited capacity to overcome uncertainty and is forced to make decisions in the light of that uncertainty. This means that the actor's foundation for the decision will always include an element of uncertainty. The uncertainty moment cannot be eliminated, but the actors can reduce the uncertainty by establishing long-term relationships with other actors and thereby increase the decision-making rationality.

#### Cooperation

Cooperation is a key element in Network theory due to the concept of human beings as social beings. Cooperation between social beings is what makes it possible to create synergies within the networks.

Five other concepts closely connected to cooperation highlight the importance of cooperation in networks: (Sørensen, 1996c, p.3-6)

*Competition* – The concept of competition has a central role in a lot of economical theory. In Network theory competition is important both within and among networks. Within networks competition is a question of the continuous struggle among the actors to establish the best cooperative long-term relationships thereby consolidating or building on the individual actor's position in the network.

Cooperation is the key to a successful network but competition is important to keep it dynamic. (Morgan & Hunt, 1994)

*Power* – Network theory in its cooperative sense does not put a lot of emphasis on the concept of power. The process of conflict and power struggle is not supposed to exist in a state of perfect cooperation. But in less “perfect” networks a certain degree of power, even though only temporary, can be tolerated in order for new business opportunities to be exploited.

*Coordination* – The concept of coordination also has a very important role in network theory. The will to be cooperative is the starting point but the coordination between the individual actors is what determines the effect of the network.

*Opportunism* – The concept of opportunism is in direct opposition to cooperation. Network theory does not rule out opportunism, but by having a strong cooperative relationship inside the network the role of opportunistic elements can be significantly reduced.

*Commitment* – The concept of commitment is important in order to keep networks, considered valuable to the firm, together. Commitment implies both a social engagement and the allocation and use of resources to maintain the relationships. Commitment is an essential concept of the network theory and may be said to be a definitional part of the concept of long-term relationships; without commitment, no long-term relationships.

### Trust

Along with cooperation and commitment, *trust* has a key role in network theory. “Trust reduces complex realities far more quickly and economically than prediction, authority or bargaining.” (Sørensen, 1996c, p.6) Trust is essential between network actors in order to keep planning at a minimum and to keep opportunistic elements from gaining resources in the network.

### **The intentions of actors**

Actors have intentions or goals. In general, the intentions of the actors are to improve their network position through the building of strong relationships with other actors and through controlling and/or getting access to resources controlled by other actors. (Sørensen, 1996c, p.7)

Building stronger relationships in the network is seen as the general intention. Although this is seen as the general intention actors may have a wide range of sub-intentions, including profit in the short and long run, personal prestige, market share, internationalisation etc. Thus, the building of a strong network position becomes synonymous with the ability to fulfil other goals. (Sørensen, 1996c, p.7)

### **3.6.2 The building of networks**

Networks are not self-establishing; networks are the product of interaction. Daily interactions among actors create short-term relationships, which when given time and continuous interaction can evolve into long-term relationships. Olav Jull Sørensen poses the following definition of what constitutes the establishment of a network; (Sørensen, 1996c, p.8)

“Through daily interaction, i.e. the daily exchange of goods, money and information, actors acquire personal experience of other actors. In turn, the experience, if the interaction is successful, leads to cooperation, trust, commitment, reciprocal adaptation and even institutionalisation (routinisation) of the relationships (which may endanger the dynamics of the network). Thus, network building is a social process through which the actors gradually and voluntarily establish close relations of long-term duration.” (Sørensen, 1996c)

The structure in a business network, as a consequence of the assumption that networks are dynamic, will be constantly changing over time. This does not imply that networks lack stability but that the continuous interaction between actors often results in a structural change in the long run. According to network thinking, the degree of structure in the network is determined by the long-term relations and the mutual dependency that exists between actors. The degree of structure in a network also depends on to what extend the activities performed within the network have emerged into routines, the level of

personal interaction within the network as well as how strong the relations are in terms of economy, technology, contracts etc.

### **3.6.3 Creating resources**

Resources within business networks can be divided into three different types:

- Financial capital
- Human capital
- Social capital

The financial and human capitals are the resources actors use in order to manufacture their products. The social capital, or the actor's relations to other actors, is the key element in order to sell the product. This makes social capital the important resource in building long-term relationships.

Through the use of resources, the actor aims at creating new resources. This process can be performed by the actor individually or in cooperation with other actors, and can take place as an exchange of resources as well as resource-creation through cooperation. An important distinction in network theory is between resources controlled by the individual actor and resources controlled by other actors. The major rationale behind network theory/long-term relationships is the access to resources controlled by others. (Sørensen, 1996c, p.10)

### **3.6.4 Building positions**

The individual actor's position in the network is very important when defining their opportunities. The actor's position reflects the amount of resources available to him through his own business as well as the resources from other actors which are made available to him through the long-term relationships.

When analysing for new opportunities the positioning is very important as the actor who has a beneficial position is also the one who received information about opportunities which can be exploited; the position of the actor may also ensure he is the only one who has the resources to exploit the opportunity.

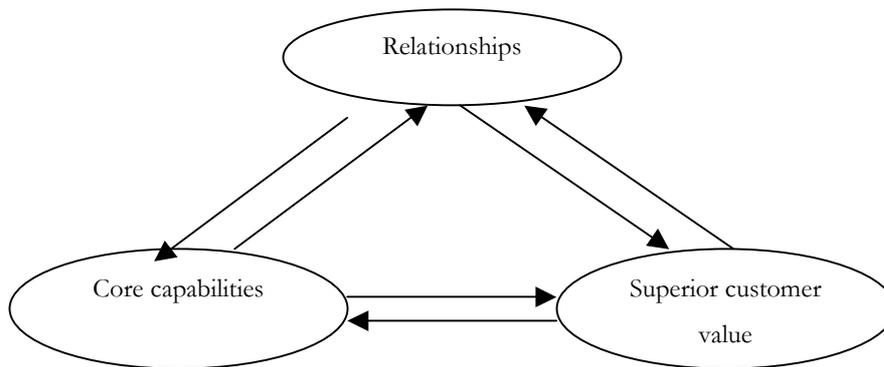
### 3.7 Value creating networks

In buyer-seller relationships, the focus has moved beyond individual firms to value-creating networks formed by key firms in the value chain that deliver value to the end customer.

The core concepts of Value-Creating Networks are: (Kothandaraman, 2001, p.379)

- Superior customer value
- Core competencies
- Relationships

Figure 7: A model of value-creating networks (Kothandaraman, 2001, p.384)



#### 3.7.1 Superior customer value

Customer value comes from the marketing sphere and can be defined as “that achieving organisational goals depends on determining the needs and wants of target markets and delivering the desired satisfaction more effectively and efficiently than competitors do”. (Kothandaraman, 2001, p.380)

Value is the relationship between the competing market offerings and their respective prices. In order to achieve superior customer value it is necessary for the company to have a good relationship between what is on offer and the price of that product.

### **3.7.2 Core competencies**

Core competencies constitute the company's ability to build up superior customer value. A core competency is a skill that adds significant value to the product in one way or another using their competency in technology and/or businesses processes.

Building up core competencies is very hard, and for a business to increase the amount it might be easier and cheaper to invest in the network instead of having to invest heavily in a new area of expertise where the quality of the outcome may be questionable.

### **3.7.3 Relationships**

In order to build up a superior customer value most companies have to enter relationships with other companies. By adding the core competencies of two or more companies together a customer value not obtainable by the single company alone is possible.

This way companies can create added-value for the customers and themselves is by creating networks that allows the value-creation process illustrated above.

## ***3.8 Relationship marketing***

Building upon the network approach we can present relationship marketing as a step away from traditional transaction marketing and a step way from b2b marketing into b2c marketing. The acknowledgement of the effect of the usage of relationships as a means for creating profitability in ones business means that customer retention have been acknowledged as being cheaper to maintain than acquiring new customers. (Egan, 2001)

To summarise the differences between transaction marketing and relationship marketing can be shown as below:

Table 4: Transaction and Relationship marketing compared (Egan, 2001, p.24)

Transaction marketing	Relationship marketing
<ul style="list-style-type: none"> <li>• Orientation to a single sales</li> <li>• Discontinuous customer contact</li> <li>• Focus on product features</li> <li>• Short time scale</li> <li>• Little emphasis on customer service</li> <li>• Limited commitment to meeting customer expectations</li> <li>• Quality as a concern of production staff</li> </ul>	<ul style="list-style-type: none"> <li>• Orientation to customer retention</li> <li>• Continuous customer contact</li> <li>• Long time scale</li> <li>• High emphasis on customer service</li> <li>• High commitment to meeting customer expectations</li> <li>• Quality as the concern of all staff</li> </ul>

A objective of relationship marketing can then be as described by Egan (2001 p.23) as having the objective to “identify and establish, maintain and enhance and, when necessary, terminate relationships with customers and other stakeholders, at a profit so that the objectives of all parties involved are met; and this is done by mutual exchange and fulfilment of promises.”

This means that relationship management aims to:

- Create new value for customers and share it with them
- It acknowledges that customers have a key role as both purchaser and in defining the value which they wish to achieve
- Business using relationship management aims to align processes, technology, communication and people in support of customer value
- There is a continuous cooperative effort between buyer and seller
- Relationship management recognises the value of customers’ purchasing lifetimes
- It seeks to build a chain of relationships within the organisation, to create the value customers want, and between the organisations and its main stakeholders, including suppliers, distribution channels, intermediaries and stakeholders. (Egan, 2001 p.23)

Relationship management build upon the same concepts as the network theory where trust and commitment are essential concepts. In relationship management loyalty can be maintained by introducing loyalty programs which rewards customer loyalty, e.g. frequent flyer-miles by airlines. So to summarize some of the main key elements of relationship marketing are:

- Trust and commitment
- Loyalty
- Customer retention

- Switching costs
- Relationship longevity
- Customer satisfaction

### **3.8.1 Critique of Relationship marketing**

One of the main critiques of relationship marketing is focus on the nature of the relations. It can in some instances be argued that the relationship are pseudo-relationship as they relationship marketing is often seen from the company's viewpoint. This means that maybe the relationship might only be one way, as the customer can be locked-into the relationship as he is actually retained due to the switching cost being too high. Also when companies use relationship marketing they will want to build relationship but what happens if the customers do not want to build relationships but simply want to conduct simple transactions. (Egan, 2001)

### **3.9 Conceptual Framework**

The theoretical foundation which is to be used as a basis for the analytical work has now been presented but is yet to be combined into a coherent conceptual framework. When working within the actors approach, the thoughts and ideas of the area of analysis is constantly being challenged through the interactions with actors and through the dialectic process. Therefore the starting point of the conceptual framework is to create an understanding of the retailers and their business as well as the environment in which they conduct their business.

By identifying the characteristics of the retailer and his environment we are able to understand how he perceives his "world" and his motives for his actions as well as the barriers which he faces in his business. The retailer is the "person of origin" in this dissertation and as such without an understanding of him and a perception of his motives, resources and capabilities we cannot relate any new finding to his reality and construct new strategies which he may utilise to better or maintain his profitability. The resource based view gives us the understanding of what the task for the retailer is in relation to his resources. If the resources are unavailable to him or of a scarce nature then it is likely that these will have an influence on the future actions, where the resources which are available can be utilised to maximize or improve profitability and the resources not available put limitations on strategic decisions

made by the retailer. The retailer's choice of actions and strategies are to some extent determined by the resources available to him and the possibilities which he sees within them, but also in relation to the external environment.

So the starting point is an analysis of the retailers and his resources but as mentioned earlier the photo retailers in Denmark are mainly associated to purchasing- or branded chains. Therefore it is necessary to analyse their/the chains role in the industry and their influence on the retailers. How much of an influence does he have onto the retailers and which areas of the retailers business do the chain influence, and what are the pros and cons of this constellation of business? So by extending the analysis of resources onto the chain and identifying where its resources improve the competitive abilities of the retailers we get an understanding of how the business is structured and an understanding of some of the barriers and possibilities which are available in regards to developing the retailers profitability potential.

Another reason as to why it is important to combine the retailers and the chains in the broader discussion is that the retailers have outsourced a large variety of assignments to the chains such as marketing, purchasing of goods, picture development, accounting etc. The fact that the chains specialise themselves in key areas which are knowledge or capital dependant, and outside the retailers main area of expertise develops interdependency between the retailer and chain but it also gives the chain the possibility to make the strategic decisions related to the "outsourced" areas of business. As an example the members of a chain may be restricted to only purchasing goods through the chain due to e.g. credits schemes, determined by the contract of the cooperation or due to the rebates which are available through the chain, then it may limit the range of goods which the retailer can offer to his customers as the assortment is determined by the chain. So this semi-integration has to be acknowledged as it is bound to have an influence on the strategies available to the retailer.

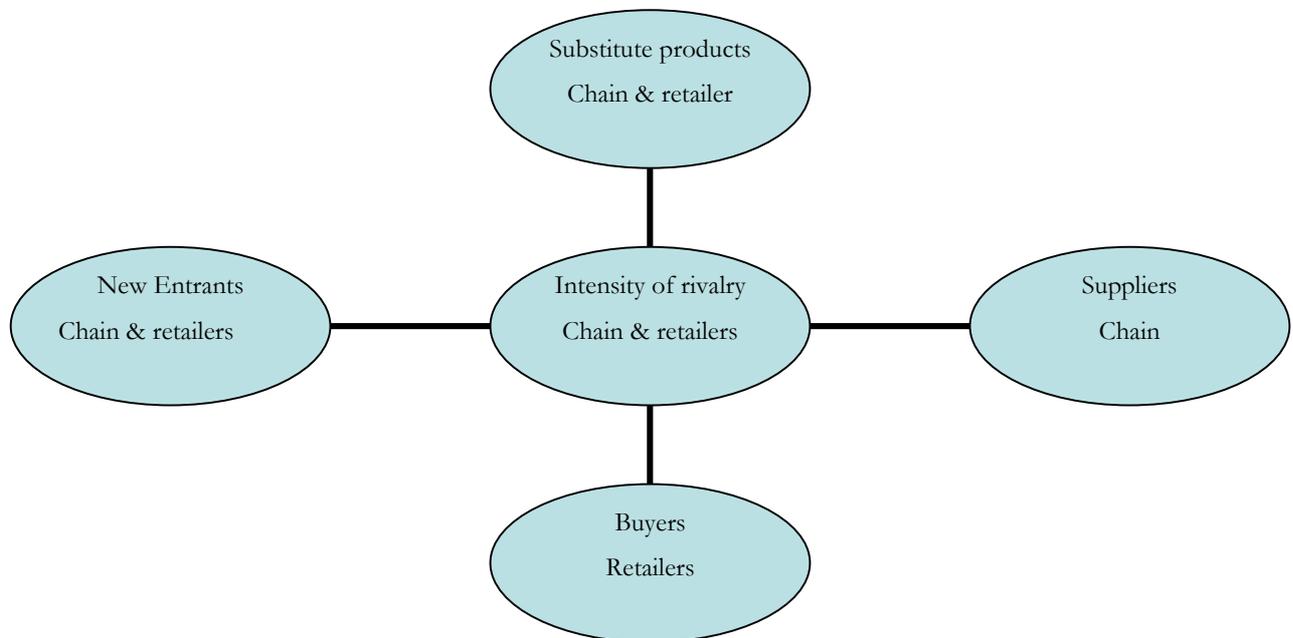
The chain have a more direct influence onto the competitive state of the entire industry, where it could be argued that a given retailer only influences the competitive situation in his local community. By acknowledging that the chain and retailer are interrelated we can conduct a broader analysis of the competitive environment and the industry by using the retailer as a focal point for our analysis but with

the chain semi-integrated as this will allow us to analyse the competitive situation in the market and from where the “pressure” on profitability is coming from.

As an example when analysing the competitive situation through Porters Five Forces framework, where the question of power-relationship between the retailer and his environment is investigated, then the retailer is relevant in relation to the customers but when it comes to the supplier relationship then it is relevant to use the chain as focal point as the chain handles these interaction on behalf of the retailer.

Figure 8 illustrates the Five Forces framework and how the different elements are relevant in regard to the chains and the retailers.

Figure 8: Five Forces analysis in relation to actors



Though we to some extent use the chain and retailers as one, we need still to remember that the retailer and the chain are individual actors who may perceive the environment in different ways, but also that their actions and conduct are determined by their individual motives and capabilities.

As the chain is required for conducting an analysis of the relationship with suppliers and determining the competitive situation in the market, they are also necessary to include when looking at how rents are distributed and influenced along the value chain. Porter’s five forces framework aims to determine

the power-relationship between the different elements and how they influence the competitive state of the industry and thereby the profitability. The Global value chain perspective aims to explain the distribution of rents through the concept of governance.

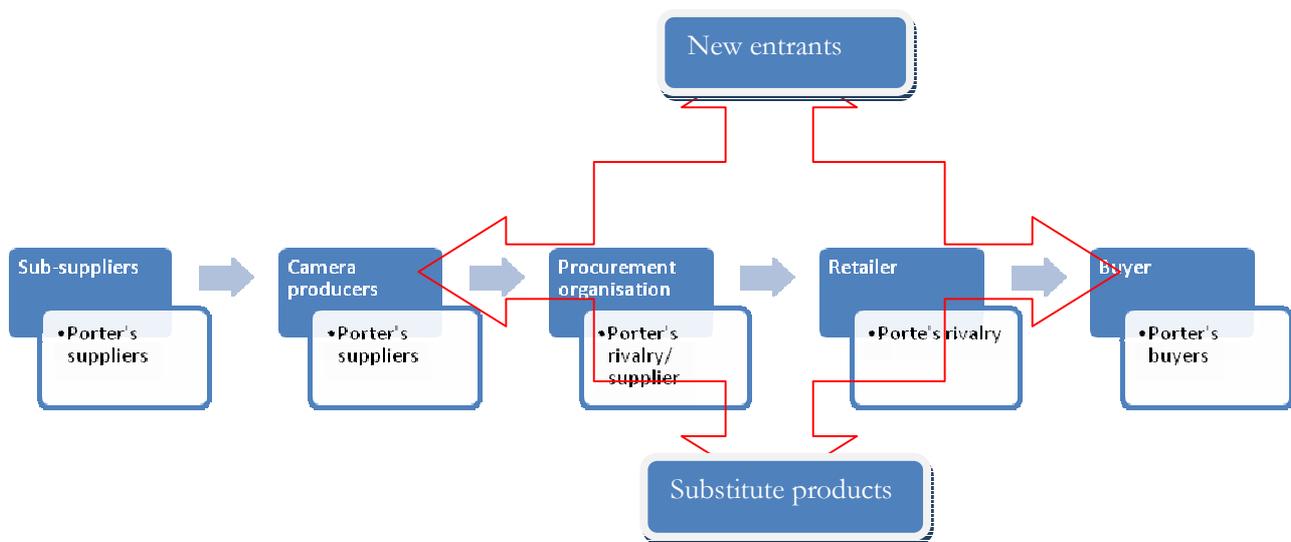
By determining who governs the global value chain, it gives an idea of who makes the largest profits. The more influence the more rent. However, by determining how the global value chain is structured in relation to the retailer, then we can get a better understanding of who influences the rents which can be earned, how is the value chain governed and by whom (who is the dominant actor – if any) and how does the value chain influence the barriers which the retailers experience. This also applies for any other value chain which holds actors who are competing with the retailers, e.g. Supermarkets and Internet stores.

The concept of the four Ps of marketing will be implemented here as it enables us to analyse the different actors and the actions which they are conducting. How have they constructed their marketing mix through the value chain? E.g. the global camera producers who allow the procurement organisation to handle local logistics but themselves handle advertisement and might do branding of their products to facilitate a pull-effect from the consumers. The four Ps of marketing will allow us to construct a matrix on each link of the global value chain and analyse the actions conducted by the different parties in relation to price, product, place and promotion.



There are overlaps between Porter's five forces and the global value chain as illustrated below in figure 9 which illustrates the overlaps which exists between the global value chain and the five forces framework in relation to this conceptual framework.

Figure 9: Global value chain of the retailer and Porter's 5 Forces interrelationship



Porter's framework examines the rivalry in the industry and the forces influencing rents coming from the buyer and supply, as well as the pressure arising from the threat of substitute products and new entrants. The global value chain examines the buyers, retailers and suppliers, so the overlap allows for an analysis from two different angles – aiming to understand the rivalry amongst retailers and their competitors and the rents made all along the different value chains.

The global value chain looks at who earns rents through governing, whilst the five forces look at power between the different elements. It is a question of scope between the two approaches, but by utilising the five forces to analyse the competitive environment where we determine the power relationship between the different actors in the market, then the global value chain gives a broader perspective into the more international aspects which are more general than specific to the retailer and his competitors.

The global value chain can be used to display the different value chains which exist in the marketplace. The different actors in the marketplace are member of different value chain which is more or less alike but they all indicate how income is distributed along their individual chain. E.g. when Dansk Supermarked purchases its cameras directly from the camera producer then their value chain becomes smaller than that of the retailer as he still conducts purchases through the procurement organisation.

Figure 10: Global value chain of the supermarkets



There are also global value chains which are much more identical to that of the retailers, such as the internet stores. The internet stores purchases their goods through procurement organisations which are identical to that of the retailer.

Figure 11: GVC of the internet store



The global value chain helps us identify the strategies which are domination the industry, e.g. as previously mentioned the camera manufactures are consolidating their business through acquisition and focus on economies of scale in such a degree that the expectations of the future market is that only a few camera producers will exist. It also enables us to find similarities in the different chains and hence find possible issues which are influencing the distributions of rents. E.g. when the internet store and retailer have similar global value chains then there must be characteristics with their interactions towards the procurement organisation or buyer which must differ, and hence this is why there can be earned different rents. The fact that the internet store does not need a local store to distribute product means he can earn additional rent by being cost effective where the retailer has a physical store with staff and therefore additional expenses.

Figure 12: The global value chain of the retailer



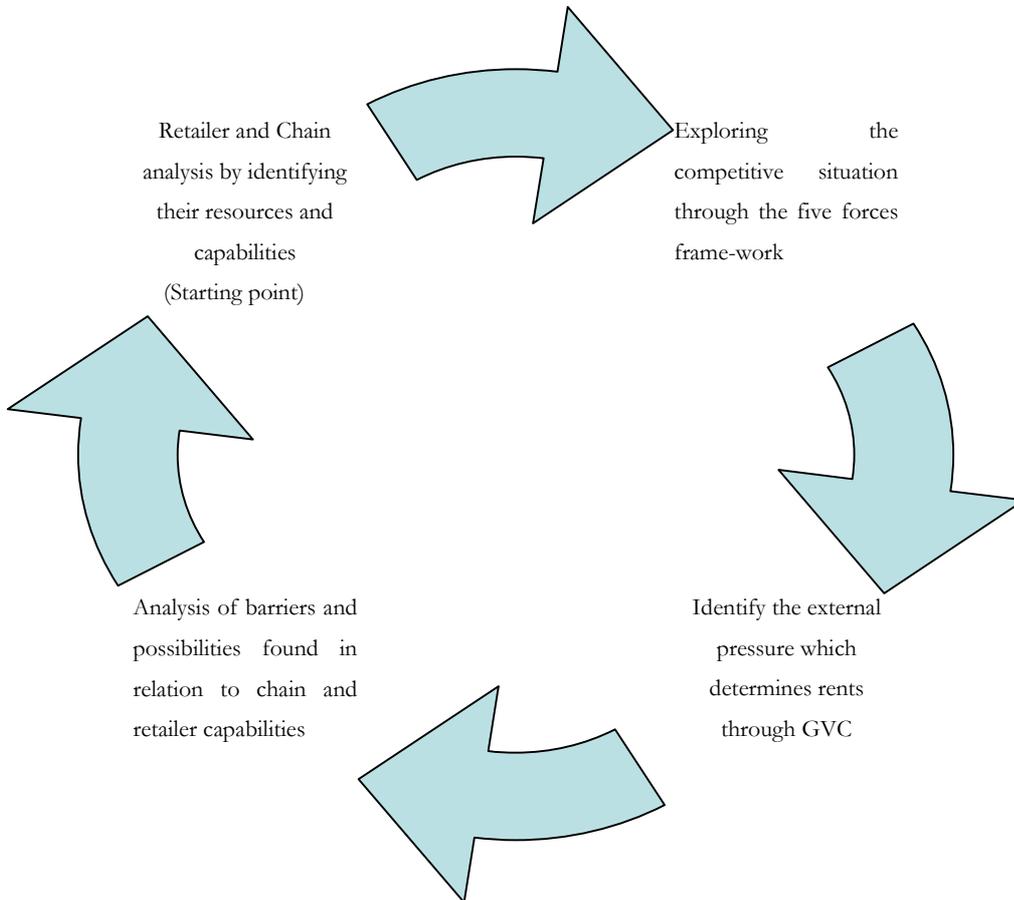
The value chain of the retailer is semi-integrated with the chain (procurement organisation) as it performs multiple tasks for the retailer. The retailer still competes against other retailers from its associated chain, but also against retailers associated to other chains and other distributors. So the global value chain will help us determine the characteristics of the global value chains of the different actors who are competing in the market and help us unveil the rents which are available.

The network approach and relationship marketing plays a pivotal role in the setup of the industry. The interrelations between the different actors are bound to have an impact on profitability and these two concepts will help us understand the actions of the retailer and the differences towards his competitors. Therefore the two concepts can help us analyse the relations even further in the global value chain and how the parties are interacting. The concept of networks enables us to look at the interrelationships between the actors in a b2b-perspective, where the relationship management approach allows us to look at the buyer-seller relationship. Thereby we can analyse the very nature of the interactions and the nature of the relationships between the different parties of the global value chain.

The five forces framework will then help us analyse the rivalry amongst the distributors (retail, internet, supermarkets). This focal point will give us insight into the characteristics of the different actors in the market and the interactions and strategies being employed. Also the concept of relationship marketing can help us better understand the differences between the different actors since it. By combining the analysis of the actors and their environment with that of their competitors we should be able to better understand the strategies, actions and/or motives employed by the different actors. By analysing the implications of these actions and interactions we can determine the barriers and possibilities which are available to the retailer when attempting to improve his profitability. The process of the analysis can

then be illustrated as below in figure 13 in similar matter as the dialectic process where the cycle is ongoing and continuous reflections are taking part.

Figure 13: Conceptual framework illustrated as the hermeneutic process of continuous reflections



The conceptual framework which has been presented illustrates the interrelationship between the different theories and how they are used in this dissertation. The aim is to form a coherent framework from which the analysis is created. The framework also takes us from the retailer through the different aspects of business which have implications for the profitability by looking outside of the retailer's own business and analysing the surrounding environment to create the understanding of the actions of others which influences the actor's reality. By going from the internal to the external analysis and assessing the findings in relation to the retailer we should be able to construct new ideas and strategies which can be acted out by the retailer.

## 4 Analysis

The analysis aims to discuss how the theoretical foundation of this assignment corresponds and differentiates from the reality in which the retailers exist. By applying the theories on the reality in which the retailers are experiencing, it should be possible to analyse which types of rents are achieved and where additional rents may be found to improve the profitability. By using experiences from the retailers and the actors in their environment it should be possible to identify where rents are achieved today and where in the global value chain opportunities for increased profitability may lie.

Firstly we must examine the internal characteristics of the retailers as it will enable us to understand how they differentiate from their competitors and how they construct the competitive advantages which they have in the marketplace. It may also enable us to understand if any of the resources held can offer new possibilities for increased profitability in relation to the different rents which can be achieved.

### 4.1 Internal analysis of the retailer

According to the Resource Based View, the resources of a business which create the competitive advantage must be immobile, heterogeneous, valuable and in-substitutable. The resource can be intangible/tangible assets, skills or organisational capabilities.

The photo retailers are relatively small when compared to their competitors. In terms of financial capabilities and resources the retailers are very limited and an investment in new production machinery such as mini labs for picture production reduces the capabilities significantly for the smaller photo retailers. *“Og man må indse at det er en kæmpe investering, og for mange er det jo op til 1/3 af deres omsætning, som det repræsenterer. Lab’et koster 2 mio. kr., og de omsætter måske for 6 mio. kr. om året, så det er en kæmpe investering, som så skal afskrives, det gør ondt.”* (Olympus) The very nature of the photo retailers limits the financial resources available for competing aggressively on price towards the larger chains such as supermarkets and Elgiganten. But the retailers have very important resources which help them to differentiate from their larger competitors:

- Assortment
- Services
- Knowledge and expertise

- Presence in community
- Networks through purchasing chains

Compared to their competitors, the retailers have a portfolio of products and services which is more differentiated, varied and larger than what the supermarkets and radio/tv-stores offer. The retailers offer all types of accessories associated to cameras, products related to lenses (binoculars and camera lenses), and products related to pictures and some even have courses for buyers on photography and photo shop (editing software). This is a natural consequence of being focused onto a specific area of business where customers expect to be introduced to the entire product portfolio when visiting the retailer. But also the expertise of the staff in the photo-shop is a valuable resource, which is used to offer the customers evening courses related to their products, but also to create a competitive advantage over their competitors who does not hold a 100% focus onto photo products and services. The knowledge and expertise is used to supply the customers with superior services in terms of identification of needs, introduction to cameras and after sales services. *“Det er vores speciale – køb en vare, sælge en vare. Find det rigtige kamera til dem, samtidig med at vi i hele vores uddannelse har lært at finde ud af hvad det er kunden skal have, for at blive rigtig glad for kameraet. Der kan man sige at konkurrenterne, elgiganten osv., der er det bare pris. Vores fornemmeste opgave er at sige hvad har du brug for og opfylde behovet.” (PhotoCare Grenå)*

The retailers may also provide additional exclusive services which are a result of the in-depth knowledge of their products such as guarantees of a working camera, tips and tricks for better photography and introduction to Photoshop and editing to increase quality of pictures. *“...køber du et kamera, så garanterer vi at vi får det til at virke. Bor du 40km væk, så prøver vi først over telefonen, og virker det ikke, så kører vi ned til dig – og det koster ingenting.” (PhotoCare Grenå)* Such a service is also a result of having a presence in the local community which large chains or internet stores may not have. Having the possibility to go into the store and get help when experiencing problems with a product or just having easy access if additional products are required gives the retailers an advantage over stores located in centres or in other cities. Not all cities in Denmark have shopping centres and the consumers may experience the safety of acquiring a camera in the local town opposed to in a larger chain located several kilometres away, which would create more effort on the buyer behalf if problems should occur.

Another resource for the retailer is the purchase chain. The retailers have acknowledged that the economies of scale which can be achieved through mutual purchasing and advertisement enable a more

competitive price or an equal price to the large internet stores or larger chains which operate globally and by mutual advertisement they are able to share the costs of making catalogues and tv-campaigns. It may not be exclusive to the retailer but it is an important element in creating at least competitive prices which are a prerequisite for having a business and subsequently achieving profitability. But the purchasing chain may also enable the retailer to have the possibility of exchanging ideas and concepts with other retailers using the chain as a tool for information sharing. This makes the purchasing chain a creative resource for the retailer as the chain may provide input, concepts and ideas which can further enhance profitability. *"Derfor er det også godt at mange er medlemmer af en kæde som går ind strategisk og hjælper eller styrer det."* (Olympus)

The purchasing chains are influencing the retailers not only logistically but also through the expertise which is being held. The purchasing chain aims to help its members however it can by improving their foundation for doing successful business as the purchasing chains are owned by its members. So the two are interlinked and if the members are doing poorly then so will the purchasing chain. The purchasing chain aim is to achieve economies of scale beneficial to the retailers, offer new ideas and expertise to improve the situation of the retailers and through additional services to earn rents which can be distributed to the retailers and services which can improve the nature of their business. *"Men vi vil gerne være full-service center, hvor vi kan se at leverandørerne skærer ned på mange af deres opgaver, sælgere osv., og dem vil vi så gerne overtage. Det er billigere for leverandørerne og en god service for vores medlemmer. De kan bruge os til alt – fra arbejdsret til alt, vi har en tæt kontakt, og vi kender alle rigtig godt. Vi er tæt på medlemmerne og hjælpe med at præge deres hverdag. Vi må ikke bare være et kontor som ligger i vejle, det er deres virksomhed."* (Team DS) This includes that the chains are offering additional services to their members such as ideas on decoration of the stores and help for accounting so the retailers can focus solely on selling the products.

We have now identified that the retailers have resources internally which differentiates them from their competitors and creates competitive advantages. The assortment present combined with the knowledge hold by the staff gives additional value to the customers compared to the competitors who does not have staff with the same qualifications or stores with the varied assortment. The qualified staff may also provide the retailers with the possibility of creating services which cannot be replicated by online-stores or other competitors who are lacking the expertise. The presence of the retailers in the local communities gives them a competitive advantage as they can offer easy accessibility and services based on this parameter. Furthermore the purchasing chain enables the retailers to gain rents due to

economies of scale but also through the services and the network which the chain may offer. The services are value-adding and the network enables information and idea-sharing which can create new business possibilities.

We have also had to recognise the close ties between the retailers and the chain. These ties may later show that we need to acknowledge that chain choices and strategies are more effective for influencing the profitability of the retailers than that of an individual store. As marketing, procurement and a variety of administrative tasks are done by the chain we may have to realise that a change of chain strategies can be more influential on retailer profitability as they can have greater effects due to economies of scale and that they hold a greater financial capability due to their representation of the retailers. Therefore we now take a look at the resources hold by the purchasing chains in order for us to understand their influence on retail profitability.

#### **4.1.1 Resources of the purchasing chains**

The purchasing chains are a vital element for the retailers to compete in the market place. The purchasing chains are owned by the members and acts as a collective instrument in building and maintaining competitive advantages which are not available to the individual retailer. By implementing a network approach, the retailers have enabled themselves access to economies of scale in regards to purchasing, marketing, advertisement and knowledge transfer. The resources listed may be duplicated by some competitors; economies of scale are very much so found amongst the largest supermarkets and radio/TV stores. However the resources presented are not found amongst retailers who are not a member of a purchasing chain. Some of the resources may also be impossible for the larger competitors to duplicate due to size and lack of presence in the local communities.

The resources hold by the purchasing chain is a result of the shared financial strength which is created through the networking of the retailers. By the establishing of the purchasing chain the financial capabilities are far greater than that of the individual retailers. The small amounts of capital invested to join the purchasing chain sums up to a large amount of money which enables for the hiring of specialists on the area of retailing and marketing, establishment of central warehousing for logistical purposes and the possibility of purchasing goods and services in larger bulks as they are then

distributed to the individual members. The structure of the relationship where the chain operates as a procurement organisation also enables for economies of scale. By having one party conducting all purchasing from the suppliers, better prices can be negotiated.

The distribution of goods to the members is another important function which the purchasing chain holds. The distribution network which has been created helps the retailers maintain a minimal stock as products can be order from the purchasing chain and will be delivered the following day. The purchasing chains have own lorry-drivers who maintain the supply chain towards the retailers ensuring swift delivery and reduces the dependency on 3<sup>rd</sup> party suppliers. Goods are usually sent from Germany to Denmark and stored at the purchasing chains warehouse where they are repacked and distributed to the retailers when they have a need for additional products. The purchasing chains have implemented SCM (Supply Chain Management) systems among their members which further lowers costs and administrative tasks for the retailers. Furthermore the distributional network which has been created can be utilised to explore new business opportunities in relation to upgrading in the value chain. Due to the large distribution network which supplies many local stores in smaller communities, there are possibilities for handling other producers' logistical tasks and hence earning a rent.

The purchasing chain also holds staffs which has expertise in different areas of retailing. From shop layout and decorations to legal assistance, product development, marketing, accounting and human resource. The chains may be of assistance in all aspect which can help improve the retailers business. *"Vi har to konsulenter, så når en forretning skal opbygges så har vi ekspertisen og det udstyr som skal ind. Og vores konsulenter kører land og rige rundt, og derfor har de også mange historier som man kan bytte til."* and further *"...at vi er et service-center. De kan bruge os til alt – fra arbejdsret til alt, vi har en tæt kontakt, og vi kender alle rigtig godt."* (Team DS) Furthermore there is an ongoing interaction between the retailers and the purchasing chain in the search for and development of new products and services. By utilising the entrepreneurial characteristics of the retailers combined with the expertise on business development and retailing within the purchasing chain, they work together to develop competitive advantages which will create addition value for customers and increased profitability for the retailers. *"Mange af de ting vi laver, kommer fra forretninger, som arbejder på noget, og så spørger de vores konsulenter, om det er interessant, og om det er noget man kan udvikle. Så vi udvikler videre for dem, hvis det er interessant, og så laver vi et koncept, som vi implementerer i alle forretningerne."* (Team DS)

The brands of the purchasing chains are also a resource which can be of great importance when attempting to achieve competitive advantages over ones competitors. The purchasing chains all have different concepts and brand which some of their member use. It is not a prerequisite for being a member of the chains, but it does provide the retailers with some advantages. Some examples could be shared marketing materials, concepts and products sold under brand-logo, increased customer loyalty to branded stores. *“...så er det blevet legalt at indrømme at man skal være mere homogene for at skabe en ordentlig profil overfor markedet og konkurrenterne. Derfor hedder vi også PhotoCare og ikke alle mulige lokale navne. Og der igennem oplever vi også at vi har en højere loyalitet imellem vores medlemmer end de andre kæder har – så når vi siger at vi vil gøre noget så får vi deres opbakning i højere grad end hos de andre kæder.” (Team DS)* The exposure of the store brands in the local community, due to the individual stores locations, is also a valuable resource in the planning of marketing activities and in building customer loyalty through services and branding.

The resources hold by the purchasing chain can be summed up as the following:

- Financial capabilities
- Economies of scale
- Logistical network and SCM solution
- Experts and specialists within the field of retailing and finance
- Knowledge transfer
- Brands

Having addressed the internal characteristics of the retailers and the purchasing chains, we now address the external environment in relation to the competitive situation of the photo industry which influences the profitability of the industry.

## **4.2 The competitive environment of the photo industry**

The pressure on profitability is often a consequence of changes in the outside environment of the business. As the environment changes so does the foundation of conducting business and the parameters which determine the rents which can be achieved in the marketplace. The photo industry has during the years experienced how technological developments have changed the foundation of their business and the constant struggle to be profitable in a market which is rapidly evolving.

### **4.3 Five forces of the photo industry**

The following aims to give insight into the forces which are influencing how the photo industry is doing in terms of profitability. By applying Michael E. Porter's five forces framework we can analyse the pressure on profitability but also use the analysis to identify the characteristics of the different actors as we can identify the strategies employed and their effects. This section will first introduce the current situation of the five forces in the industry in relation to the retailers followed by an analysis of the chains/procurement organisations. This is done to understand which rents are being earned in the marketplace and to analyse the differences between the actors which may help us identify possible strategies for maintaining/increasing profitability.

#### **4.3.1 The threat of new entrants**

The threat of new entrants is very much so there for the photo retailers. Historically, the first entrants who challenged the photo retailers were mail-order businesses, who competed through advertisement in mail catalogues and without a physical outlet. Later the radio/tv stores began competing based on their knowledge of video cameras and the close linkage to cameras. The newest entrant in the marketplace is the Internet stores which can either be based domestically or globally. The internet store utilise a low cost structure to compete on lower prices than what can be offered in stores which have greater costs for staff and costs related to a physical presence in a community. Lately the internet stores have also been granted access to the purchasing chains as they have a large turnover which creates better economies of scale for the purchasing chains.

There is also the possibility of larger European or globally based photo retail chains to enter the Danish marketplace, either through purchase of an existing chain or through the establishment of a new distribution network. This may also be a task undertaken by a capital fund, such as seen with a retail chain such as Matas. *"Nogle kapitalfonde har jo så mange penge at de bare skal bruges, man skal aldrig sige aldrig." (Westheimer) "Alt er til salg, til den rette pris og vilkår. Og det kunne måske blive interessant for nogen engang." (Team DS)* This scenario might not be plausible in the current business scenario, where some of the retailers are struggling to maintain profitable. However strategic acquisitions may be relevant for some players on the international photo market and this should not exclude retailers in Denmark or more importantly the purchasing chains,

which are currently expanding their customer/member-base to also include retailers in other parts of Scandinavia, from being bought by capital intensive organisations.

The threat of new entrants will always be there in an industry which is so heavily influenced by technological developments and where consumers are willing to make purchases online to save money. The industry is capital intensive from a retailer's viewpoint, but might not be for an internet store, which decreases the barriers for entry, for entrepreneurs. One should however not forget that the costs of repairs of cameras may put a strain on the small internet store if the goods sold are of a quality which merits many repairs. It has also been seen that larger organisations begin to offer competing services through existing supply channels. TV2 are offering users on their website the possibility to upload their pictures and have TV2 develop the pictures for them. However, it is not TV2 who develops the pictures but CeWe Color AG in Germany, who are specialised in picture development. This goes to show how easily it is to provide the service through the Internet for business that are not usually associated to the photo industry, but also that competition is not restricted to Danish competitors but also to businesses abroad.

The entry of new entrants into the market who will compete on the retailers primary competitive strength; Service, is not very likely. The fact that the industry is rather small means that the available human resources is relatively restricted when wanting to attract people with knowledge of photo, cameras etc. Entering the market with a service-oriented strategy to compete directly with the retailers, would mean attempting to acquire the staff employed by the retailers. Their current staffs has gone through the learning-curve which gives them excellent knowledge and service-capabilities and this could aspire into a spiral of salary increases which would further undermine the profitability of the retailers, but also minimise the potential rents which a new entrant could obtain.

The task for the retailers is to construct barriers to entry which will deter new players from entering the marketplace. There are several ways of going about this, but even closer ties to producers, aggressive pricing, branding and close industrial relationship may help prevent new competition. However in the current situation aggressive pricing would not be a relevant solution.

### 4.3.2 The threat of substitute products

In technological intensive industries there is always the risk of new substitute products entering the marketplace. The photo retailers have experienced this previously when the vhs-camcorder was introduced and the retailers refused to convert due to investments into 9mm cameras. This lack of conversion to a newer technology meant that the radio/tv-stores became dominant in the areas of video-cameras. *“Da smalfilmen var ved at uddø, var de for langsomme til at gå til video, pga. de havde lagre og alt muligt liggende, men de var så langsomme at radiobranchen rendte med det.” (Olympus)* So the threat is there, and the industry has to learn from those experiences which cost them money on stock of goods which was impossible to sell and the lack of first-mover advantages.

Currently there are several threats which may become a substitute product even though they are not recognised as such at present. The introduction of the mobile-phone which incorporates video and camera is not currently perceived as a threat to the industry, but as the technological development pushes new features into the cameras and the technology becomes more compact, there may come a day where the camera offers the same capabilities as most low end digital cameras. This will only allow for the retailers to sell high-end cameras which are more price-sensitive when competing with internet-stores. In Denmark today, there are more mobile-phones than people and with such a development and with an increasingly aggressive approach from phone-companies to make us upgrade into new phones which allows for premium-services (services which the consumer pays an additional fee), the photo retailers may sooner than later have to realise that in the eyes of the consumer the mobile-phone becomes a substitute product to the digital camera. *“Så er der mange, som snakker om mobiltelefoner – de er ikke en trussel, man skal ikke se på dem sådan, de er en udfordring.” (Olympus)* *”Og man kan sige at der sker en branche-glidning, da det i dag er sådan, at et digitalt kamera ikke kun er et kamera, der er mp3 afspiller, pmp-afspiller til film, så i dag er det en multifunktionel/multimedia maskine.” (Westheimer)* This also indicates that parts of the photo industry are aware that the technological development makes retailers offer new features to customers but it also means that the products itself is under increased pressure from other products which may not be perceived as a traditional ”camera”. E.g. if the digital camera works as an mp3 player then it is a substitute product to the mp3 players such as the Apple Ipod, but it also means that the mobile phone with camera is a substitute product to the digital camera.

The photo retailers have also experienced pressure from the home-printer. It has allowed for customers to bypass the retailer when developing their pictures and products such as the computer, pda's and ipod's allows for the consumer to bring the pictures with them digitally, and thereby bypassing the picture development completely. So there is a pressure from substitute products but by learning from past experiences the retailers are becoming more aware of new technology and are attempting to build relationship with the producers, which may allow them first mover advantages when new products are developed and give them valuable information of what to expect from the future. This information can then be used to adapt their business to a future market scenario, but also when thinking defensively, use the information to attempt to build barriers to preserve the economic rents which are earned. This task is also in the producers' interest as the construction of barriers to prevent or limit the entry of substitute products will help them maintain their earnings.

### 4.3.3 Bargaining power of suppliers

The retailers' relationships towards their suppliers are very different depending on which supplier one focuses upon. The largest camera producers utilise their dominant position to achieve better economic rents through their branding and are a necessary part of any retailer's product range. Without their products on the shelves, customers may shop elsewhere, as they demand the products which they are exposed to through advertisement. *"Selvfølgelig er der push-pull effekt, hvor Canon laver en masse markedsføring og så bliver det efterspurgt i forretningerne. Så er det klart, at så skal butikkerne have det." (Westheimer)* "Problemet med Canon er, at man ikke kan undvære dem. Mærket er så stort, men man kan ikke sige, nu vil vi ikke sælge dem længere, for vi får ikke lov til at tjene penge på deres kameraer. Men så kommer folk i butikken, og de kigger ind i skabene og siger: Jamen, har I ingen Canon kameraer? Det skal man bare have. Folk kender varemærket." (PhotoCare) But there are also situations where the purchasing chain may exclude brands from their product range if they are not satisfied with the a potential cooperation or the setup of an organisation. *"Vi har Nikon, som også er et godt mærke, som mange efterspørger, og dem holdt vi ude i 7 år, og blev så enige efter af de fik en ny struktur." (Team DS)*

For the retailers the situation would have been different if they did not have the purchasing chain. The purchasing chain enables for better conditions when dealing with suppliers, as the potential sale for the suppliers is far greater than had they only negotiated with a single retailer. Had the retailer negotiated alone, the suppliers would most likely have exploited their size to achieve more favourable rents and may have put pressure on the retailer by adding competitors into the negotiations. But by the

centralisation the retailers are also given more time to focus upon their core-business and not on suppliers visiting the store, doing presentations and trying to make new deals with new products. The negotiations are made at the purchasing chain and the retailers can then put together his own product-mix which to have in the store. Without the purchasing chain the suppliers would most likely have made the retailers include less attractive models in the product range before they would include the products which are in high demand. *“...vi er beviste om hvad der er sexet – når jeg kommer ud til en stor kunde skal vi snakke Samsung. Det er det store – hvem gider snakke stativer. Men når man er derude, sælger man også noget af det andet, som har bedre avancer, både for dem og mig. Så vi prøver ”at lægge pres”, I kan få det sure og det søde...”* (Westheimer)

There are however a clash of interest between the members of the chains/procurement organisation. The chain purchase on behalf of, and distribute to both retailers and Internet stores who are competing in the marketplace. The Internet stores conduct business with a transaction perspective, where the retailer operates with a relationship-perspective on business. It could be argued that it could be in the best interest of the retailer if the procurement organisation did business without the Internet stores so these did not have the economies of scale and logistics available to them. However this would mean that the volumes purchased by the chain would be smaller and hence diminishing the economies of scale achieved for the retailers.

Another aspect which illustrates the suppliers bargaining power is the way that cameras are distributed to the marketplace. *“i dag sælger danske supermarked omkring 25% af alle de digitale kameraer som sælges i Danmark. De sælges i supermarkeder og det er et pres på specialhandlen. Vi prøver, og vi handler også med dem, og med vores målsætning om at blive nummer 1, så kan man ikke undlade at handle med 25% af markedet – det er umuligt.”* (Westheimer) This illustrates that the focus of the producers is on large numbers of sold cameras, which makes it more difficult for the retailers, who focus on high-end cameras which are sold in smaller quantities than low-end cameras. The business-focus does count to the advantage of the retailers as they give the services and have the knowledge which is associated with high-quality products. So when the camera producers want to sell their high-end cameras they have to use the retailers when they consider the protection of their brand. If they were to sell their high-end cameras in supermarkets where the customers were to receive no information and services on how to best utilise the cameras, the brand may be compromised as the consumers may be disappointed with the service and hence the camera, as the two will be closely linked when spending large sums on a camera. The retailers also offer the extra products, such as lenses and

filters which are accessories to the expensive cameras, and provide the consumer with more possibilities when taking pictures. So by only distributing through the retailers and perhaps a little through the internet (for the price-sensitive consumers, who are willing to exclude services for lower price) they maintain the perception of their main customers as a company who provides quality cameras and quality service – even though the service is done by the retailer. *“Vi har den holdning for nuværende, den kan ændre sig i morgen, at vi helst ikke vil ligge i supermarkeder – og det vil vi ikke for det er skidt for vores brand. Det kommer til at tabe i værdi.” (Olympus)*

There are different power structures depending on supplier but the retailers offer their suppliers a distribution channel where services are included towards the end-users and this is not offered by any other in the industry. Due to the quality of the staff, the retailers have a competitive advantage which the suppliers have realised, but in the attempt for being the #1 camera supplier to the Danish market, the retailers may lose out as the other distribution channels offer a greater number of piece sale. *“Og de følger som er til et kamera af tilbehør, service og vejledning, det får du ikke i supermarkedet.” (Team DS)* So the specialisation of the retailers can help the camera producers maintain brand strength in the high-end market and ensure that the customers are provided with the full range of activities and products which can be associated with photography.

Also when the retailer negotiates with suppliers who are not servicing the chain which the retailer is a member of, then he is in a position of strength. The chain offers the full assortment relevant to a retailer, so when negotiating with new suppliers for smaller quantities to sell next to the present assortment, then the offer needs to be favourable in the eyes of the retailer. If it isn't competitive in relation to the offerings from the chain, then the chain will always get the sale as the turnover to the chain falls back on the retailer, as he is part-owner of the chain. The fact that retailers are interested in a full range of products also improves their bargaining power versus suppliers as they are interested in not only the most popular products.

The future may also strengthen supplier power as some in the industry predicts that the number of camera manufacturers is going to decrease. This should create a greater demand from those who are left in the industry, hence improving their possibilities for earning higher rents as the supply is limited. This is supply and demand theory at its simplest, but it may be a scenario which the retailers are

confronted with in the near future, if the smaller manufactures continue to close down due to the competitive nature of the industry and the aggressive approach by the largest manufacturers.

#### 4.3.4 Bargaining power of buyers

Consumers bargaining power have increased over the past decade where the internet has become widespread, increasing the information available to consumers, and where there have been a drastic increase in available distribution channels. Where historically it was only the photo retailers that offered cameras and picture development, it is now possible to buy cameras from tourist-shops, supermarkets and the internet. Through the internet consumers can compare prices from a wide variety of businesses located virtually, physically, internationally and domestically. The intense focus on price increases the pressure on the distribution channels for being competitive. Unless there is clear advantages of purchasing at a higher price (even marginally), the consumers will go for the lowest possible price. This is naturally only so when the minimum need are satisfied in relation to their personal preferences toward delivery; service, payment etc. are fulfilled. If a consumer is indifferent towards services, speed of delivery and method of payment, then he will most likely order online at the cheapest possible distribution channel. *“De kan ikke overleve kun på pris, for så er der danske supermarked, og internet butikker, som har en lavere omkostningsstruktur, og større volumen, som kan presse prisen.” (Westheimer)*

The retailers can however not compete on price with internet stores who have a low cost-structure and larger radio/tv-stores that can purchase volumes far greater than the purchasing chains. *“Find det rigtige kamera til dem, samtidig med at vi i hele vores uddannelse har lært at finde ud af hvad det er kunden skal have, for at blive rigtig glad for kameraet. Der kan man sige at konkurrenterne, elgiganten, internet osv., der er det bare pris. Vores fornemmeste opgave er, at sige, hvad har du brug for og opfylde behovet.” (PhotoCare)*

The service aspect of retailing is crucial and it can be argued that it is the reason for their existence in the market today. The retailer's offer a service which cannot be provide elsewhere, they offer a wider variety of products and accessories, but most importantly the offer a geographical proximity enabling the consumer easy access to assistance and the distribution channel. *“Hvis, hr. Hansen køber kamera online, er det noget møg, for så tjener den lokale fotohandler ikke penge på det, men han kan sælge alt det som Internettet ikke kan; tasker, billeder, kort, filtre, objektiver.” (Olympus)* But the services which can be provided are also under pressure from the consumers. They do not accept services under a given standard. *“Vi oplever at service parameteret bliver mere og mere*

vigtigt. Slutbrugere er mere fokuseret på kvalitet, hvilket bl.a. skyldes tv-programmer som "kontant" osv. Folk er utroligt beviste omkring deres rettigheder. Så vidt jeg forstår på mine kolleger i udlandet, så ved danskere mere om deres rettigheder end vores brødre i de andre nordiske lande. Og det betyder, at de skal have reparationer hurtigt og til en god pris, hvilket også er fair. Der er en øget fokus, og detailløst bruger meget tid på utilfredse kunder, som ikke er tilfreds med at reparationerne ikke er kommet til tiden osv." (Westheimer) So the retailers need to make sure that their service-level is satisfactory in the eyes of the consumers which can be a costly approach. The services which are provided costs money in terms of e.g. educated staff, education/training and show-room, which are costs that internet shop do not have. So the retailers need to focus on services to satisfy their customers, but also to differentiate themselves from the radio/tv-stores and internet stores. This puts the retailers in somewhat of a dilemma, where they need to position themselves so they can be competitive on price against the other distribution channel. But also so the service level helps them to differentiate their stores, to such a degree that they, that in the eyes of the consumers, they are offering additional value at a reasonable premium. "Jeg tror stadig der er overlevelsesmuligheder hvis man specialiserer sig, og folk kommer ind får ordentlig service, og får noget at vide om produkterne, og det er der hvor de andre ikke kommer til at kunne yde... hvis ikke de giver en markant bedre service end dansk supermarked, Merlin eller hvem deres konkurrenter nu er, hvor skal man så handle der, for prisen er formentlig højere i special-forretningen." (Westheimer)

The retailers need to offer additional value to their customers, either through a large assortment, better quality, better or more varied services and a physical presence. They need to differentiate themselves from the other distribution channel to justify the prices which they can demand for the products. The higher price level is needed to pay for the characteristics of the retail store and it need to make earning a rent possible whilst still being competitive in the market. Only through additional value creation can the retailers be attractive in the eyes of the customers. "Vi prøver her at gå væk fra pris og yde en højere service." (PhotoCare)

### **4.3.5 The competitive rivalry within retailing**

The competitors in the photo industry can be divided into different types of businesses who compete for the same customers but based on different pre-requisites. We have the photo retailers, the internet stores, the radio/tv stores and the supermarkets. The strategic outset for each of these is different and they aim to service the market through different approaches. The photo retailer aims to service his customer base with a high service level, excellent knowledge of the products offered and high quality products whilst being based locally to the consumers. However the retailers do not perceive the other

photo retailers in their community as the primary competitors. They are more aware of the threat which comes from the Internet and larger retail chain. *"Jeg har en Click her i byen, og en i Ebeltoft, men jeg ser dem ikke. Altså konkurrent eller kollega, hvis det går mig godt, så ser jeg ikke til dem. Jeg kigger kun på branche tal. Ligger jeg over dem, så er jeg ligeglad... vi har forskellige strategier."* (PhotoCare) However there is still a competitive pressure on price which is created from the competition between the photo retailers. *"Hvis jeg f.eks. laver et commandoraids på Canon, så behøver min konkurrent i nabobutikken ikke at gøre det samme på den samme model. Han skulle måske fokusere på Nikon i stedet. Men det kan branchen ikke finde ud af. Det er alle steder – man slås internt."* (PhotoCare) *"Nu siger man, hvis kæden sender ud i april, så skal vi også, og vi skal lige lure, hvad de sælger til, og så skal vi 50,- under på alle kameraerne – nøjagtigt som det sker i den lille by med to butikker som konkurrerer på prisen. Og det eneste formål er at ødelægge den andens katalog. Og jubi vi var billigere på 7 kameraer og de var kun billigst på 2 – vi vandt.... Og alle tabte. Sådan er branchen."* (PhotoCare)

The other actors in the industry have different approaches but are focused on either a large assortment, perhaps sacrificing expertise or focused on low prices. The radio/TV stores focuses on large assortment which differentiate them from the photo retailers who are highly specialised. These stores are however found in many smaller communities meaning a more direct competition exists between these stores and the photo retailers. By having a larger assortment they can offer their customers a single-point outlet for a wide variety of electronic products, but also from a business perspective they can diversify their business-risk by decreasing the dependency on single products or services. *"FONA vil gerne appellere til alle de kunder, der søger et bredt udvalg inden for elektroniske produkter, kommunikation, musik, film, spil og tilbehør til hjemmet....FONA vil være det lokale indkøbssted for elektronik".* (Fona.dk) Furthermore the larger outlets which are located in the outskirts of major cities offer products at low cost and with a large assortment. They also diversify by offering household appliances such as dishwashers and tumble driers, but also their size in both financial and organisational perspective allows for a more aggressive approach towards the market compared to the small retailers. *"Elgigantens forretningside er at kunne tilbyde vores kunder et gigantisk udvalg af kendte mærkevarer til lave priser. Dette har Elgiganten opnået gennem omkostningseffektiv drift, effektiv logistik, gode indkøbssystemer og aggressiv markedsføring".* (Elgiganten.dk) The investments made by these large chains, some are subsidiaries of larger chains such as Dixons<sup>ii</sup>, also has the implication that they are willing to risk short term losses to achieve long term profitability, hence further increasing competition because there may only be profit potential when there are fewer competitors or when in a dominant position.

The internet stores are mainly focused on price alone and some of them are members of the same purchasing chains as the photo retailers, which enables more direct competition within the industry and

also within the purchasing chains. The internet has a smaller degree of service level as personal and physical contact is eliminated or minimised. Basically the internet stores operate with a transaction marketing approach. Interactions can be made through email or maybe via telephone, so guidance and instructions cannot be provided directly and perhaps less efficient. *"For at vi kan sikre lave priser og aktualitet, er Wupti.com direkte forbundet med leverandørerne. Alle dyre mellemlid og udgifter til lagerplads er fjernet. Wupti.com er integreret med både leverandørernes og samarbejdspartneres IT-systemer. Mange traditionelle manuelle processer som udveksling af lagertal og priser er automatiseret. I stedet sender leverandørerne hver dag lister over nye og eventuelt udsolgte varer... Wupti.com vil lede det nordiske marked for salg af forbrugerelektronik og hårde hvidevarer. Vi vil være respekteret for lave priser og høj troværdighed."* (Wupti.com) The foundation of the Internet stores is to deliver goods at low costs and they will therefore be a constant force in the market for driving prices downwards hence increasing the competitive rivalry in the industry.

Finally there are the supermarkets who offer low-range cameras to their customers. Supermarkets purchase large quantities of cameras which they distribute with the aim of attracting customers to their stores. The cameras are not their primary area of business and maybe they do not make a profit on the sale of cameras. But as this is not the primary motivation behind the sale of cameras then they will only increase the price competition and the rivalry between the actors in the marketplace.

An additional aspect which illustrates the competitiveness in the industry is the lack of loyalty which exists when price competition is dominant. If there is no additional value added to a product, then consumers will go for the lowest prices, and there are no distinctive differences for the consumers when having e.g. their pictures developed. The photo retailer may have the knowledge and expertise to discuss the pictures taken, but this may only be relevant the first time they have their pictures developed, and maybe this service is not conducted at all. So if differentiation is neglected for price competition then the rivalry may become even more intense than today. *"Men vores konkurrenter er kun på pris, og det kan de, men de kan ikke service."* (PhotoCare)

Table 5: Overview of business characteristics of rivals in the industry

	<b>Retail</b>	<b>Internet Stores</b>	<b>Supermarket</b>	<b>Radio/Tv-stores</b>
<b>Assortment</b>	Large High + low-end cameras & related products, large stock	Medium High and low end cameras, but smaller assortment of accessories	Small Low-end cameras Few accessories	Wide Medium ranged products and basic accessories
<b>Product presentation and logistics</b>	Hands on presentation and testing, delivery immediately	No testing before delivery. Delivery via logistics-suppliers	Physical presentation but no testing, delivery immediately	Physical presentation but no testing, delivery immediately
<b>Price and cost-structure</b>	High, unless profitability is neglected	Lower than retail. Price is only sales-argument	Lowest possible	Medium range, competitive pricing. Some actors highly price-aggressive
<b>Service</b>	High level on products and related issues. Medium repair service. No national return policy.	Low. Service associated to delivery. Repair service low –logistics complicated	Low, usually no product knowledge,	Medium to high, return-policy national, medium product knowledge, repair service low
<b>Marketing perspective</b>	Relationship Relies on local marketing, physical presence seen as marketing	Transaction Aggressive marketing mostly online 24/7/365	Transaction Aggressive marketing weekly or periodically	Relationship/ transaction Aggressive weekly marketing
<b>Motives for sale</b>	Products and service with high level of customer satisfaction	Turnover to create profit, low prices	To attract customers to purchase additional goods at stores	Full range provider of all electronic products
<b>Competitive advantages</b>	Staff, service,	Cost-structure	Economies of scale	Assortment
<b>Rents earned</b>	Service premium	Organisational as business setup is minimized	Rents earned on economies of scale, or on products not associated to photo	Marketing related as they provide full range of products in medium-range segment

The fact that so many in the industry pursues a price-aggressive strategy is bound to have an adverse effect on the profits being made. Advertising is constantly visible to the consumers informing them that “*Det er dumt at betale for meget (Eliganten slogan)*” price should be the primary criteria for purchasing goods. The question is then if the concept of retailing where the consumer can get excellent service, experience a large varied assortment, try different products and get help with everything related to the product or photo in general, still is able to compete in the marketplace when it comes with a higher

price on the actual product. So far they have, but a majority of the retailers have experienced that the competition have put a strain on the profitability as consumers have experienced the possibilities for cheaper products from Internet stores and supermarkets. Furthermore there are some discrepancies in relation to how the retailers state that they view each other and their actions in the market. As mentioned earlier the retailers' state that they do not regard the local retail competitor as the primary concern, but when the advertising is being done, being cheaper on products is regard as a win. This marketing is done by the chains/procurement organisation, which will now be explored as to the nature of the competitive forces influencing their situation and their actions in the market.

#### **4.3.6 The threat of new entrants for procurement organisation/chain**

The threat of new entrants into the marketplace for the chains is not very likely at the moment. The competition is fierce in the marketplace, though the chains are profitable. Entering the market as a procurement organisation is not likely as this would require a distribution-channel to service the market. Any new entrant would either have to purchase existing stores in the market or build a new distribution network. Since the profit margins are low in retail, then this scenario is unlikely. Furthermore the status of the financial climate at this point in time (January 2008) is not suitable for large scale investments unless the new entrant is very well consolidated financially.

The emergence of a new branded chain is always a possibility in the market. This could either be through collaboration between retailers or other stores who are unsatisfied with the current situation in the market and who are unsatisfied with the current chains. However this would require the construction of a new organisation to maintain the tasks required by the chain, e.g. logistics, purchasing etc. It could however simply be the gathering of stores who wishes to be branded together, but this would negate the economies of scale which are so important in the industry.

The new entrants could also come from abroad, but since the retailers today, are co-owners of the chains then it would be very difficult, if not impossible to penetrate the market. Therefore the threat is unlikely to influence the current chains/procurement organisations much.

### **4.3.7 The threat of substitute products**

The threat is not very influential on the actions conducted by the chain. The threat from mobile phones has to be seen as a possible threat for decreasing the turnover made if consumers choose phones over cameras. If the situation should arise, that substitute products enter the market then it is up to the chains to identify these as fast as possible and take advantage of the possibilities which can arise. There can be first mover advantages of acting fast and the distribution network is available for selling the products. The chains should also have learned from past mistakes where they were too slow to act to the shift in technology from 9mm to VHS.

To minimise risks the chains need to be alert to new technological developments and perhaps even promote in their network if the constitute a reel threat towards the profitability of the retailers. As the chains have also undertaken logistical services for camera manufactures, it should also be possible to use this expertise to leverage the distribution of new products in the market, hence making the substitute products are part of the chains assortment offered to retailers.

### **4.3.8 The bargaining power of suppliers**

The procurement organisation/chain is under pressure if the number of camera manufacturers continues to decrease as it will become more difficult to influence the prices, quality and term of trade with the suppliers. The less the competition amongst the manufacturers, the less likely it is that the chain can benefit from the competitive situation. It is most likely that manufactures will use the lesser competition to increase their own profitability instead of distributing the improvement along the value chain.

Some manufacturers are extremely efficient in the marketing and have created a pull-effect from consumers for their products. The case of Canon has previously been mentioned where customers will ask for the product if not seen on the shelves at the retailer. Therefore there are some manufactures who the chain must deal with, if they are to satisfy the needs of their customers. However smaller manufacturers and distributors can easily be bypassed if customers/members are satisfied with the assortment provided. Furthermore suppliers may bypass the chain to offer their products directly to the retailer, but prices need to be competitive. However, it may simply be more profitable to negotiate a

deal with the chain to achieve the larger turnover available, when distribution to the entire network of the chain.

The chains can however not compete with e.g. supermarkets when it comes to economies of scale on low-end cameras. The size of the supermarkets enables them to purchase large orders at premium prices.

The purchasing chains are doing activities to increase the loyalty in the relationship with the producers/suppliers. By doing logistical services for some of their suppliers, they are building dependency into the relationship. It may not improve the profit margins which can be made on the products by the retailers, but the purchasing chain earns rents for doing the service of supplying to the retailers on behalf of the suppliers. *“De sidste to år hvor Agfa eksisterende, der varetog vi deres distribution. Og det opstod ved en tilfældighed, hvor vi snakkede med dem, og de spurgte indtil hvordan vi varetog lager og distribution. Og der tilbød vi dem at gøre det for dem, hvis de mente vi var billigere. Så vi fik deres varer direkte fra tyskland, og så leverede vi rundt til hele Danmark. Og det vil vi gerne gøre for alle vores samarbejdspartnere – hvis de mener at vi er billigere og mere effektive, så vil vi da gerne det.” (Team DS)* It build a relationship where the two parties become more equal as the purchasing are dependent on the supply of products, and the supplier is dependent on the purchasing chain to distribute to all the retailers. So by cooperation their bargain power may shift or become more equal for the purchasing chain/retailer.

Finally, there is a geographical issue for the Danish retailers and their purchasing chains. *“Vi er en delstat til tyskland – eller sådan bliver vi set på. Danmark i foto er på størrelse med Hamburg. Vi får nyhederne senere, og det må vi leve med.” (PhotoCare)* Due to the small size it may be difficult to obtain the optimal price. As the global manufactures may have a Danish subsidiary which needs to be funded through the profits it makes, it may be more beneficial for the purchasing chains to look abroad when looking for the cheapest price on a given product. The Danish taxation system does not help either as the VAT is higher than e.g. in Germany. So there can be situations where the Danish market is experiencing a form of negligence due to their size and the lack of focus from the global players who hardly notice the Danish market. *“Vi er medlem af et samarbejde, som hedder europa-foto, og når Canon kommer med priser til os, så kan vi tage til Europa-foto og købe billigere pr styk, end det tilbud vi får hvis vi købe i store volumen her i Danmark... Det er den europæiske organisation som den er hel gal med. Danmark er de ligeglade med, og derfor tjener vi ikke ret gode penge på Canon.” (Team DS)* But the process also works the other way, where the internationalisation has improved the benefits for the retailers because the purchasing chains have the capabilities which enable them to search for the optimal price/products relationship in Europe.

*"Men vi har fået konkurrence fra os selv, f.eks. fra Holland, hvor vi oplever grå import. I stedet for at hyle, må vi jo tilpasse os til den virkelighed. Så vi må spørge os selv hvorfor køber en fotobandler et kamera i Holland? Det er fordi han kan få det billigere – men det kan han ikke for det koster det samme i Danmark. Det vi selvfølgelig ikke kan gøre noget ved er de regelsæt som er sat op, f.eks. told og moms, vi kan ikke gøre noget ved at momsen i Danmark er højere end i Tyskland. Men vi kan sige at fjerner man alle afgifter er prisen den samme." (Olympus)*

#### **4.3.9 The Bargaining power of buyers**

The buyers are the retailers along with Internet stores who are members of the same procurement organisation. This means that the assortment and pricing needs to fulfil the requirements from both types of buyers. The retailers will aim to get good prices, wide assortment and additional services such as accounting etc. The Internet store will have focus on lowest possible price to compete against other Internet stores, but also that the assortment generates a high turnover from the end-users. The Internet store operates with very low margins, so high turnover is required to cover all expenses. The chain needs then to offer a mix which enables for economies of scale and still has the wide assortment required for retailers.

The switching costs for the buyer can be high depending on the nature of the cooperation. The buyers are also the owners of the procurement organisation and therefore they have capital tied up into their investment which will decrease the possibilities of a quick exit or switch to another procurement organisation. The actual switch might not be difficult, since the retailer's stock is gradually sold, and the new assortment can be put into the store.

The relationship between buyer and supplier means that they are mutually dependant, as the retailers and Internet store will primarily purchase goods from the chain as it provides them with economies of scale, and they have an interest in the profits made from the chain as they are distributed back to its owners. So the semi-integration between the two actors will always aim to create a successful partnership which creates profitability and is beneficial for both parties.

#### **4.3.10 The rivalry of the industry**

The retailers do not view other retailers as their primary competitors, and to some extent the same goes for the chains. The chain cannot disregard that their members are under pressure from Internet stores

and supermarket in relation to the profitability. However the actions of the chain are more focused on being superior on pricing than one might think. *“Og det eneste formål er at ødelægge den andens katalog.” (PhotoCare)* The reasons seem to stem from emotional barriers within the industry. *“Jeg gik en lang historie om gammelt nag – slagsmål om at hverve kunde, og hverve fra hinanden osv. Er vi ikke kommet så langt nu, at vi kan komme videre, men det mente han ikke – det er for meget bad og nag som ligger hos mange.” (Team DS)* Apparently historical issues are still influencing business decisions and this can influence profitability. If the chain begins to compete on behalf of the retailers then the effect of missing profitability might only be experienced by the retailer who then cannot earn a premium as the price is set by the chain.

The chains are primarily doing the advertisement on behalf of the retailers, and setting the prices for larger campaigns, and if they continuously advertise in the same periods of time, and on the same products, then they are bound to influence profitability.

There are however legal issues for the chains which need to be considered in relation to the retailers and the competitive situations in the industry. As the chains are voluntary for retailers to join, then the chain is restricted through the Danish competitive laws. There are restrictions on how much advertisement can be made together and regulations on how the pricing can be set. If the retailers negotiate the same prices/or if this is dictated by the chain over a longer time frame, then Konkurrence styrelsen might perceive this measure as disruptive to the competitive nature of the market.

The nature of the industry is however quite stable in terms of Danish members of the chains. The business is relatively stable though the less profitable are closing. There are very few retailers who move from one chain to another. However expansion is taking place for JYFO and Team DS who are both expanding their cooperation into the rest of Scandinavia in order to achieve additional economies of rent. (Fotobranchen) This may spark additional competitive pressure as the chains may begin to compete on reaching critical mass in new markets to ensure profitability. This pressure may then also influence the Danish industry and increase further pressure on retailer profitability.

Table 6: Characteristics of the procurement organisation/chain

	Procurement organisations / Retailer chains
Approach to business	Supply to chain + Internet store to optimize economies of scale on procurement
Services	Retail related services, such as advertising and accounting. Logistical services for retailers and suppliers
Competitive advantages	Network of retailers and logistical capabilities, assortment
Rent achieved	Economies of scale, logistical, service-related

#### ***4.4 Summary of the competitive environment of the photo industry***

We have now analysed the industry in relation to the five forces framework and identified the areas which are influencing the competitive pressure on profitability. The areas will now be summarised combining the retailers and the chain to understand the industry as a whole, as the retailer and chain are integrated. This allows for an understanding and answer to research question number one:

1. What is the nature of the competitive situation in the market?

We found that the risk of new entrant into the marketplace for the retailers and the chains was unlikely in the current market situation. The competitive state of the marketplace means that it is a less attractive industry where the rents to be earned are low. Also the retailers and chains have constructed barriers themselves but also due to the nature of the industry. For retailers the availability of staff and capital will deter entrants. Also the fact that economies of scale are necessary for being competitive should prevent new retailers from entering the market, as well as new chains. New chain would also have to establish a distribution network. However there is always the possibility that new entrant will penetrate the market e.g. Internet stores which are easily set up, but they are also dependent on the access to products at a reasonable price to be competitive in the industry.

The same situation applies to substitute products, which will always be a latent threat to an industry. Technology always have the possibility of changing the landscape of business but the retailers and procurement organisations can construct barriers by being attentive to new developments. Thereby

they can incorporate new developments into their new assortments. This may be leveraged by promoting their distribution network and logistical services, which can be useful for new product attempting to penetrate the market.

The numbers of suppliers are decreasing for both the retailer and the procurement organisation. As the retailers and procurement organisations are relatively small compared to other actors in Europe it may be difficult to obtain competitive prices compared to competitors abroad. The camera producers have many resources available for advertisement and branding which have created a pull-effect from consumers to purchase specific products and brands, further reducing the capabilities of the retailer and procurement organisation. The supermarkets are capable of negotiating better prices on low-end products due to their size.

The retailers and chains can however leverage power by emphasising product knowledge, distribution network, assortment and a business profile which accommodates the high-end cameras and brands. Furthermore they can offer logistical services to camera manufactures due to economies of scale related to their storage capabilities on behalf of retailers. This enables for the building of mutual dependent relationship between the suppliers and the chain/retailer.

The demands from consumers require the retailers to have a large assortment, quality service and offer popular models and brands at reasonable/competitive prices. The retailers can create relationship with the consumers by offering the request services and products, but also by emphasising and focusing on the relationship which can be created through personal interactions. The offering of physical availability and premium services, not provided by competitors, combined with satisfying customer needs and expectations can help create sustainable competitive advantage. These cannot be duplicated by competitors as they do not have the necessary capabilities and this will enable the retailers to charge a small premium which should help maintain profitability.

The chains and retailers are mutually dependent as they are integrated through the nature of their relationship. The switching cost helps to create barriers for the exit of retailers and internet stores which enables for economies of scale in relation to procurement for the chain.

The rivalry in the industry is fierce with the competition focus on price. The growth of the industry is slow meaning any excess capacity in relation to the market can only be utilised by acting aggressively.

Consumers have little or no costs associated with switching suppliers and the actors in the market are acting similar. The focus is on price however the retailers can differentiate themselves by utilising relationship marketing instead of transaction marketing which is used by the competition. By developing superior customer relationships retailers may be able to obtain additional rents compared to its competitors. The rents earned by the retailer are related to the superior customer services provided, assortment and physical presence in the marketplace.

However the procurement organisations are to some extent influenced by emotional barriers which aims to increase focus on price-competition. Historical issues appear to still be influencing choice of strategy in relation to advertising and preventing interaction between the different procurement organisations. Government laws to prevent distortion of competition, prevents the chains from competing on the same premises as supermarkets that need not differentiate their prices from store to store. However logistics, economies of scale and service offered to the retailer enables the generation of rents for the chains.

The primary concern in the industry should be the focus on pricing, but also for the retailers the relationship between the chains which are seems to worsen profitability. There seems to be a need to embark on a new strategy away from aggressive pricing and towards the building of relationship across the industry to improve profitability. The building of relationships between procurement organisation and camera producer have enabled for rents to be made on logistical services. The integration between the retailer and chain have enabled for rents to be made on services between the two parties to mutual benefit. But to further understand which possibilities that may lie in relationship we need to examine the global value chain to understand where value is distributed and influenced, but also the understand the operations conducted in each step to understand and analyse if these hold strategic possibilities for the retailers and the purchasing chain.

#### ***4.5 The global value chains in the industry***

This section aims to introduce the global value chains which are competing for rents. By combining the global value chain with the four Ps of marketing and the network approach, we can come to an understanding of research question number two: “How is the flow of products, services and

interactions organised?” The combination of these theories provides for an understanding of the actions/functions handled, and the interactions between the actors and possible opportunities to be taken advantage of.

#### **4.5.1 The global value chain of the retailer**

Firstly the interrelation between the global value chain and the four Ps of marketing are present to illustrate the characteristics of each actor and to some extent the determinants for their position within the chain. This is followed by an analysis of the relationship between the different actors and how the global value chain is governed and influenced.

Table 6: GVC and four Ps of Retailers

The 4 Ps of marketing	Sub supplier	Camera producer	Procurement organisation	Retailers	Buyers
<ul style="list-style-type: none"> <li>•Price</li> <li>•Products</li> <li>•Place</li> <li>•Promotion</li> </ul>	<ul style="list-style-type: none"> <li>•Competitive price, low cost-structure,</li> <li>•Products made to producers specifications or it can be new technological developments which the producer can implement - economies of scale in production</li> <li>•Global - suppliers are selection by producers with focus on economies of scale</li> <li>•Can be branded e.g. lenses (Leica - Carl Zeiss) Other suppliers will have little or no promotion</li> </ul>	<ul style="list-style-type: none"> <li>•Aggressive pricing - focus on turnover and market shares, net income high</li> <li>•Low to High-end products to service all segments Aggressive product development to create barriers for entry and gain marketshares, short product-lifetime, products are branded</li> <li>•Born Global - Logistic capabilities on all major markets, outsourced on smaller. Indifferent to platform for sales</li> <li>•Aggressive advertising and branding - pull effect from consumers</li> </ul>	<ul style="list-style-type: none"> <li>•Needs to be competitive to satisfy retailer demands but also to help retailer profitability, net income is reasonably and have been improving over the past years</li> <li>•Wide assortment of producers products low to high end. Provides additional services for retailer which increases mutual dependency</li> <li>•Insourcing logistics to build ties to producers. Economies of scale, logistics provider for retailers</li> <li>•Joint advertising for retailers, branding of retailers stores if possible</li> </ul>	<ul style="list-style-type: none"> <li>•Low profitability, high costs, competitive due to value-creating service</li> <li>•Wide assortment, high to low-end to satisfy market, services related to photo, support,</li> <li>•Situated locally, logistics handled by procurement org. Targets all segments in market, image in community of competitive importance</li> <li>•Personal selling is key - advertising primarily done by chain, can conduct local sales promoting activities, word-of-mouth and local presence</li> </ul>	

Semi-integration

The producers are dominating the global value chain. (View appendix 4.1 for limitations to producer's organisation). They have the capabilities to outsource production with the scope of achieving economies of rents globally. Sub suppliers have to adapt to producer demands, though some may have

brands which can be used to form relationship to the producer or have superior technological development which are crucial/beneficial to the producer. Switching costs are low for producers as they do own R&D, and production of parts can be done by any manufacturer who can perform to the given standards. The barriers for entry into sub suppliers are therefore high. Furthermore the producer influences consumer behaviour by employing aggressive advertisement and branding to create pull-effect from the consumers. This enables a higher degree of influence on the distribution network as the procurement organisation and retailer then has to have the products in their assortment. The fact that branding has become an important part of the marketing of cameras increases the barriers of entry into the industry.

Further the producers display a degree of indifference towards the selection of distribution channel, allowing for maximum output of units to consumers. So to use the terminology from Gereffi (1999) the global value chain is producer driven.

The procurement organisation and retailer are however attempting to create a mutual dependency to influence the relationship between producer and distributor. Given the characteristics of the Danish market as a relatively small one, the procurement org. can maintain logistical services on behalf of the producer. The network hold by the procurement organisation offers value to the producer as it represents a “local marketwise” large market share. As there are only three branded chains on the Danish market who possess a 90% share of annual market turnover, then cannot be neglected when selling goods in Denmark. The cooperation reduces costs for logistics on behalf of the producer and enables for rents to be made by the procurement organisation as they can utilise excess capacity in their logistics-setup.

The producers also have an interest in the retailers as they provide the services which can have an effect on customers purchasing decisions. By acknowledging the joint interest in the existence of retailers as a tool in the branding and servicing of products, the producers can maintain brand value. Selling expensive cameras and not being able to fulfil basic customer expectations on product knowledge, would seriously impact the brand of high-end producers why e.g. supermarkets are not being used to distribute these products. The Internet stores do however have access to the distribution of these products, but one could argue that consumers purchasing goods online, are aware that customer

services may be poor, hence the cheaper prices available. The availability of high-end goods to the internet stores may also be a consequence of their membership of the procurement organisation, who also has the motive of enhancing economies of scale.

The semi-integration of the procurement organisation and retailers means that the income distribution is shared between the two parties. The chain can hold back profits and ways until dividends are paid out to its owners or it can choose to distribute the money immediately by reducing prices on logistics, products or services. The question of how to conduct business between the two actors becomes a question of utilising the capital to mutual optimal benefit. Then where are the money best allocated. Is it to increase profitability here and now for the retailer or should the procurement organisation use the funds for economies of scale on procurement, additional advertising or branding, new product and service development?

Rents are also obtained through the services provided to the consumers. Retailers construct relationship with customers through activities regarding the products sold or in another photo-context. Courses on picture taking or instruction on how the sold product works will help to create relationships which can result in customer loyalty, hence achieving a competitive advantage over the competition. So relationship marketing offers the retailer the possibility of building barriers which competitors will have difficulties to duplicate as they lack the physical presence and knowledge required.

#### **4.5.2 The global value chain of the Internet stores**

The relationship of the sub suppliers and producers will not be elaborated further in the analysis as it is not influenced by the changes in distribution channel to the end-consumer. We now explore the value chain of the Internet stores to analyse if it differs from that of the retailers as they both are members of the procurement organisation but also to determine if the rent earned and income distribution is different.

Table 7: GVC and four Ps of Internet stores

The 4 Ps of marketing	Sub supplier	Camera producer	Procurement organisation	Internet stores	Buyers
<ul style="list-style-type: none"> <li>•Price</li> <li>•Products</li> <li>•Place</li> <li>•Promotion</li> </ul>	<ul style="list-style-type: none"> <li>•Competitive price, low cost-structure,</li> <li>•Products made to producers specifications or it can be new technological developments which the producer can implement - economies of scale in production</li> <li>•Global-suppliers are selection by producers with focus on economies of scale</li> <li>•Can be branded e.g. lenses (Leica - Carl Zeiss) Other suppliers will have little or no promotion</li> </ul>	<ul style="list-style-type: none"> <li>•Aggressive pricing - focus on turnover and market shares, net income high</li> <li>•Low to High-end products to service all segments Aggressive product development to create barriers for entry and gain marketshares, short product-lifetime, products are branded</li> <li>•Born Global - Logistic capabilities on all major markets, outsourced on smaller. Indifferent to platform for sales</li> <li>•Aggressive advertising and branding - pull effect from consumers</li> </ul>	<ul style="list-style-type: none"> <li>•Needs to be competitive to satisfy demands from internet stores, net income is reasonably and have been improving over the past years</li> <li>•Wide assortment of producers products low to high end.</li> <li>•Insourcing logistics to build ties to producers. Economies of scale, logistics provider for Internet store</li> </ul>	<ul style="list-style-type: none"> <li>•Low profitability, low costs, reasonable net income</li> <li>•Possibly wide assortment, high to low-end aimed at high turnover, Popular products with high customer appeal,</li> <li>•Storage capability needed but no physical outlet, all segments are targeted - needs access</li> <li>•Transaction marketing at its simplest. Preferably no additional services. Service can be lacking in quality e.g. returning goods and warranty issues. Advertising online</li> </ul>	

The global value chain is producer driven as mentioned previously in regards to the retailers. The Internet stores offer the producers a distribution channel with high turnover based on simple transaction marketing. The more advertisement conducted by a producer the better the chances of high turnover for the Internet store as the pull effect should create increased demand and as the prices

offered are competitive in the market, turnover should rise. However the Internet stores does not provide the services which the producer might like to have associated with their high-end products allowing for perhaps negative experiences from customers on the distributor which could reflect onto the producer and his brand. The motives behind the actions of the producer and Internet store can be argued to be quite similar. The producer is interested in high turnover to attain marketshares where the Internet stores is also interested in high turnover to maintain profitable through economies of scale.

The barriers constructed by the Internet stores are low, if any. The only barriers which exist are more a result of the interactions and relationship with the procurement organisation then by the internet store. The relationship with the procurement org. provides the Internet store with advantages of economies of scale which new entrant will not have unless they too enter a relationship with a procurement organisation who can offer similar benefits. Since the procurement organisations are interested in high turnover to maintain competitive prices for their members, it is unlikely that new entrant would not be allowed to enter into a relationship regarding procurement. So the only way for internet stores to build barriers is to either create a brand strong enough to deter competition or to make profitability dependent on economies of scale. This would deter new entrants as entry would be expensive as a given marketshare would need to be achieved to have the turnover required for profitability.

### **4.5.3 Global value chain of the supermarkets**

The supermarkets are conducting business directly with the camera producers thereby shortening the global value chain from sub suppliers to end-consumers.

Table 8: GVC and four Ps of Supermarkets

The 4 Ps of marketing	Sub supplier	Camera producer	Supermarket	Buyers
<ul style="list-style-type: none"> <li>•Price</li> <li>•Products</li> <li>•Place</li> <li>•Promotion</li> </ul>	<ul style="list-style-type: none"> <li>•Competitive price, low cost-structure,</li> <li>•Products made to producers specifications or it can be new technological developments which the producer can implement - economies of scale in production</li> <li>•Global - suppliers are selection by producers with focus on economies of scale</li> <li>•Can be branded e.g. lenses (Leica - Carl Zeiss) Other suppliers will have little or no promotion</li> </ul>	<ul style="list-style-type: none"> <li>•Aggressive pricing - focus on turnover and market shares, net income high</li> <li>•Low to High-end products to service all segments Aggressive product development to create barriers for entry and gain marketshares, short product-lifetime, products are branded</li> <li>•Born Global - Logistic capabilities on all major markets, outsourced on smaller. Indifferent to platform for sales</li> <li>•Aggressive advertising and branding - pull effect from consumers</li> </ul>	<ul style="list-style-type: none"> <li>•Low price to attract customers to stores, profit not necessary as objective is on sale of other products, highly price aggressive in market, economies of scale - purchases large quantities</li> <li>•Low-end products, older models, no additional services,</li> <li>•Perhaps limited supply, close proximity to customers, large distribution network which can handle large supply</li> <li>•Aggressive advertising, limited offers, attracting customers prime concern - offers push-effect</li> </ul>	

The supermarkets have a distribution channel unlike any other. The amount of stores cannot be duplicated and all people visit their stores to purchase groceries etc. The stores can use cameras as an incitement for consumers to visit their stores and purchase their additional everyday-goods at the same time. The cameras are not the focus of the supermarkets but merely a part of their promotion to attract

customers, and is in terms of marketing purely transaction-based. The size of the supermarket has advantages of economies of scale when purchasing cameras but the size can also be beneficial to the producers. When the producers have large bulks of goods which are becoming obsolete the supermarkets offer a distribution channel which can be very effective when clearing out the stock for old products. The supermarkets sell products which are not cutting-edge technology and are low-quality compared to the most expensive cameras. These products do not hold the same appeal for Internet stores or retailers when consumers demand new products. So the cooperation between the supermarket and camera producers is very effective strategically for both parties. The supermarket can attract customers and the producer avoids having to destroy obsolete models which cannot be sold through the normal distribution channels. The promotion conducted by the supermarkets allows for them to push the cameras out to consumers compared to high-end cameras where consumers pull the retailers for the newest products. The back-clash for producers is off course that consumers who have purchased an old model will not purchase a new one straight away – or one can argue that the consumers will be inclined to upgrade sooner as they will want better quality or simply that the life-expectancy of the product is shorter than that of new products.

In terms of barriers for avoiding competition the supermarket do not necessarily have to focus on building these. The size of their distribution network gives them a clear advantage over other distribution channels when pushing older/low-end cameras to consumers. Competition might come from retailers and procurement organisation if they think they can handle the quantities in their network. However this will also hurt the retailers' sale of new products, where arguably the profit margin ought to be higher.

#### **4.5.4 The global value chain of Radio/TV stores**

The radio/TV stores have an international dimension to their business. The affiliation to Dixons on behalf of Elgiganten enables them to hold a better bargaining position in the industry when negotiating with camera producers.

Table 9: GVC and four Ps of Radio/TV stores

The 4 Ps of marketing	Sub supplier	Camera producer	International procurement	Radio/TV stores	Buyers
<ul style="list-style-type: none"> <li>•Price</li> <li>•Products</li> <li>•Place</li> <li>•Promotion</li> </ul>	<ul style="list-style-type: none"> <li>•Competitive price, low cost-structure,</li> <li>•Products made to producers specifications or it can be new technological developments which the producer can implement - economies of scale in production</li> <li>•Global-suppliers are selection by producers with focus on economies of scale</li> <li>•Can be branded e.g. lenses (Leica - Carl Zeiss) Other suppliers will have little or no promotion</li> </ul>	<ul style="list-style-type: none"> <li>•Aggressive pricing - focus on turnover and market shares, net income high</li> <li>•Low to High-end products to service all segments</li> <li>•Aggressive product development to create barriers for entry and gain marketshares, short product-lifetime, products are branded</li> <li>•Born Global - Logistic capabilities on all major markets, outsourced on smaller. Indifferent to platform for sales</li> <li>•Aggressive advertising and branding - pull effect from consumers</li> </ul>	<ul style="list-style-type: none"> <li>•Low prices, purchases to several markets if necessary, reasonable/highly profitable, very competitive</li> <li>•Narrow assortment of producers products, popular products</li> <li>•Insourcing logistics to build ties to producers. Economies of scale, willing to expand across borders,</li> <li>•Promotion handle by national entities</li> <li>•International procurements is only relevant for Elgiganten in Denmark</li> </ul>	<ul style="list-style-type: none"> <li>•Low profitability, medium costs, low net income</li> <li>•Narrow assortment but deep in electronics, high to low-end aimed at high turnover, Popular products with high customer appeal, additional services and warranty</li> <li>•Storage capability, large outlets, all segments are targeted,</li> <li>•Transaction/relationship marketing, aggressive promotion but not exclusively on cameras</li> </ul>	

The international linkages enable the radio/TV stores to switch between suppliers, meaning either the local subsidiary of the producers or through the procurement organisation or they can use the prices negotiated by the procurement to achieve the same prices from the local suppliers. *“Vi borer fra Elgiganten, når de laver handler i England – at nu har de fået den og den pris, og så vil de have den samme.” (Westheimer)* The pressure minimises

the power of the producers in the value chain as they suddenly are not simply faced with a small Danish distributor but with a European distribution network. The subsidiary for the camera producer can then choose to offer similar prices to the radio/TV stores as the other European stores are getting, but this means that the local subsidiary is responsible for all warranty issues or other services. By declining to match the offerings from abroad the radio/TV stores are forced to send faulty products abroad to the supplier resulting in inferior service as the timeframe is bound to be longer than had the product been serviced locally. So the radio/TV stores and camera producer must make a decision in each transaction as to conduct the business locally or to conduct it on European level. This indicates that the governance of the value chain for the radio/TV stores is buyer-driven and not producer-driven.

The radio/TV stores are earning rents from the broad assortment of electronic goods offered to consumers. The assortment is rarely very broad in specific product groups but aim to have products from low to high-end quality. Prices are low and additional services are provided to increase profitability. The services provided can be extended warranty program, service-agreements or financing of purchases. These all provides the stores with a premium. However product knowledge is not up to standard with that of photo retailers as the staff need knowledge of a wider range of products and only on the photo specific assortment. The stores are located in either the centre of town or in outskirts where storage facilities are more accessible. As the assortment in these stores is large there is a requirement for storage facilities or good logistical services. The logistical services are conducted by the international procurement organisation which should allow for efficient logistical capabilities ensure economies of rents as all goods can be distributed from one point.

Advertisement and pricing is aggressive from the radio/TV stores as they are competing with companies from other industries than the photo industry. It is necessary for them to be conduct regular advertisement to be continuously visible for the consumer. It also helps to create barriers for new entrant who wishes to pursue the same strategy in the market. Fona are a household name in Denmark with 98% of all Danes knowing the brand and what they do. ([www.fona.dk](http://www.fona.dk)) Having to penetrate a market where the current actors have high market shares and strong brands may be very difficult and not least expensive. Not least when considering the pressure on profitability and the demand for economies of scale in relation to procurement and logistics.

## **4.6 Summary of the global value chains within the photo industry**

The summary will allow us to summarise the findings related to research question number two and three:

2. How is the flow of products, services and interactions organised?
3. Which strategies are currently being employed, by producers, suppliers and retailers to adapt to the current market situation?

The summary will also help us understand some of the barriers in the industry which are influencing profitability.

### **4.6.1 GVC characteristics and strategies employed by actors**

The camera producers perform little logistical service when distributing their products. The distribution is done to central warehouses from where the procurement organisation, supermarket or radio/TV stores handle the further distribution. This is one of the strategies which the procurement organisations are using to create mutual dependant value creating relationships with the camera producers. This also raises barriers for entry as new entrant would also have to have a distribution network.

The products distributed to consumers are added value in two value chains at a premium. The retailers offer product knowledge and a relationship marketing approach aimed at superior customer satisfaction and radio/TV stores offer extended warranty programs. The supermarkets and Internet stores are distribution channel capable of large turnover due to their price-aggressive approach. The supermarkets only sell low-end products where the internet stores have access to all products due to their affiliation with the retail chains.

The promotion from camera manufactures creates a pull effect from consumers for their products due to value created through branding. The supermarket does however have the capabilities to create a push-effect of products through their distribution channel due to their size and less dependency on the products being profitable. Their promotion attracts customers to their stores where the purpose is to sell everyday-goods and not cameras – these are a tool for attracting customers.

The radio/TV stores actions are influenced by the international aspect of their organisation. Their strategy is to utilise their network to achieve better prices from the producers, as they can purchase goods through their international procurement organisation. Furthermore the strategy of offering goods not associated with cameras can make the stores less sensitive to the effects on profitability of the aggressive pricing in the photo industry.

All the distribution channels besides the retailer are operating with a transaction based approach. The retailer is focused on relationship marketing and the use of the superior product knowledge to create value adding relationships which can be rewarded with a premium in the short or long term. The strategy is used as the retailers cannot compete on price alone due to the cost-structure of their business.

#### **4.7 Part conclusion and retailer strategy**

This section will explore research questions four and five, which are related directly to the development of new strategies useful to the retailer on basis of the conducted analysis.

4. What are the main reasons for falling profit margins?
5. Which restraints are there on retailer's choice of strategy?

After the analysis of these questions possible new strategies will be present which may increase or maintain profitability for the retailers.

##### **4.7.1 Falling profit margins**

There are numerous reasons for the falling margins in the industry. We have identified issues related to logistics, internationalisation, promotion, motives behind actions, services, substitute products, generic strategies pursued and emotional barriers.

All actors in the industry are conducting logistics to service their distribution channel. The procurement organisation distributes to the retailer, and offer distribution-services to producers. Supermarkets and radio/TV stores also do their own logistical distribution. The in-sourcing of logistics will enable for better use of excess capacity in the network, but also enable for rents to be made by performing services for the producers. However when all actors in the industry are earning logistical rents then one

could argue that these off-set. This means that the rents are earned by all and it does not provide any distributor with any competitive advantage. It is more likely that distributors using a cost leadership approach with low pricing will use the rent to further lower prices to be competitive and create additional turnover. Hence the margins will either be maintained for all actors in the industry or be lower for those who are earning lesser rents than their competitors on logistics.

The internationalisation of the radio/TV stores have further increased competition as they can influence the producers to achieve lower prices, but threatening to purchase products abroad. This increases the price-competition as they can lower prices and remains profitable.

The motives behind distribution channel selection by producers also pressures profitability. The producers' main concern is market shares and therefore all distribution channels are of interest. This increases pressure on the margin on low-end cameras where the possible channel selection is the widest. It becomes lower when selling high-end cameras as these are branded by the camera producers meaning more attention are made to the characteristics of and possibilities in the distribution channel.

Promotion by the camera producers also creates a pull-effect from consumers resulting in retailers having to have certain products available. Therefore they can be made to accept less profitable products in their assortment to maintain their customers.

Substitute products are influencing the profitability of low-end cameras. The mobile phone is becoming increasingly developed in relation to cameras and if the differences between them and the cameras continue to diminish, then consumers may prefer phones to cameras. This pressure is not influencing margins on high-end cameras.

There are emotional barriers to the actions of the procurement organisations. Seemingly old historical relationships are influencing the chains to compete more on price than on differentiation. The retailers do not perceive other retailers as primary competitors but the actions of the chains further enhance the competition between them on pricing.

Finally the generic nature of the strategies used by actors in the industry is aimed to achieve cost-leadership and compete on pricing. Retailers are attempting to differentiate themselves in the industry but the actions of the chains seem to be counterproductive, as they are price-aggressive.

#### **4.7.2 Restraints on retailers choice of strategy**

The scope of strategy development is to create sustainable competitive advantages which will increase profitability long term for the retailer. The strategy can be developed by the retailer, by the chain or as cooperation between the two. It is not possible to upgrade through the value chain horizontally as e.g. beginning to brand cameras with chain brand would be difficult due to the strong position of the camera producers brand but also in relation to the costs of developments of cameras. The strategies can therefore aim to change the marketing mix through the four Ps; product, price, place and promotion or through the creation of networks across the industry. The main problem for retailers is the focus on cost-leadership and price-competition by competitors why the retailers must differentiate from these approaches to find profitable strategies.

The strategy can either attempt to make better use of the resources available to the retailer through his own resources and the resources available in his network (the chains). By combining these in new ways or focusing attention to other/new areas of business where sustainable competitive advantages can be made.

#### **4.7.3 New strategies**

Two new strategic approaches will be presented which can help improve profitability for the retailers in long run. With an outset in the four Ps there are elements where retailers are superior to their competitors and where they hold resources which can be utilised better. The first strategy aims to incorporate the retailer's characteristic within the four Ps to a brand. The second strategy aims to use and expand on the network that retailers hold to reduce competitive pressure.

**Price:** The retailers offer after sales services of a higher quality due to their superior knowledge of the assortment and of photo. Disregarding extended warranty and financing, the retailer is the only

distributor who can provide extended services on assortment and of e.g. taking better pictures. The superior knowledge provides the foundation for enhanced customer satisfaction as all questions and problems can be solved by the staff at the retailers. This is basically relationship marketing which enables the retailer to charge a premium.

**Products:** The retailer offers superior service why they charge a premium. This raises customer expectations to the products delivered to the market. Therefore retailers could employ a focus-strategy into high-end segments to create competitive advantages which other providers of high-end cameras cannot pursue. However the strategy can still be differentiation from competitors only focusing on low prices but this would require that the promotion of the retailers is effective and helps to increase customer expectation to all distribution channels.

**Place:** Retailers can emphasise the importance of easy access to services provided due to their presence in the local community. Enhancing the services into internet/email services could also make customers experience the superior services when living further away.

**Promotion:** By promoting the superior value instead of competing on prices it will be possible for retailers to maintain the premium charged and maintain profitable. By enhancing the price, product and place aspects in their promotion activities – perhaps attempting to brand the “Retailer” and not the chain, they can create sustainable competitive advantages. The differentiation strategy need to be promoted to consumers and it is not helpful that chains are more focused on pricing than service. By making “the retailer” a brand, which customers associate to after sales services, product knowledge and “closeness” as being of superior value then perhaps it will even be a prerequisite that these elements has to be available before purchasing a camera. Internet stores and supermarkets are not in a position to challenge this stance on other parameters than price, nor are radio/TV stores who would then have to employ staff to only service buyers of cameras. The retailer’s strategy of relationship marketing would then become a brand which the competitors cannot duplicate. The relationship marketing approach also helps build customer loyalty and value which further increases barriers for competitors and profitability.

Building a brand can be expensive so if the retailer's chain is not in a position to conduct the branding/promotion effort needed, it may be useful to use a network approach to get access to the required resources.

By establishing cooperation with camera producers it may be possible to promote both actors to gain mutual benefits. Promoting superior services for superior high-end products, both actors can claim a higher premium on products towards consumers. By sharing promotion costs and maybe making the retailers the single distributor to the market, then producers may still get the pull effect from the market, retailers increase their turnover, and the brand-integrity is maintained as the knowledge of staffs and retailers service levels will increase customer satisfaction.

Another network which is of interest is that of other procurement organisation who are owned by the retailers. The different retail chain in Denmark may agree upon a joint branding strategy as the one presented above to the mutual benefit of all retailers. The objective would be to differentiate all retailers and share the costs associated. This would increase profitability for all retailers; however there are emotional barriers which need to be overcome. The aspects of trust and commitment in the relationship between the actors need repairing. The actors would need to look aside from past grievance and look forward to ensure the survival of the industry. To begin with the tasks of promotion/branding could be outsourced to external partners hence only financial capital should be shared. By using the core capabilities located in both organisations and combining this with relationship the retailers can offer superior customer value without jeopardising their chain-traits which would still be handled by the chain.

The building of relationships between the different procurement organisations would diminish the competitive pressure on the industry as the attempt to out-price other retailers could be prevented or changed to competition between products and services and not simply on price.

## 5 Conclusion

The objective of the dissertation was to “*Through an understanding of where value is created in the global value chain of the photo industry and through an industry analysis to propose strategic measures to increase/ensure long term profitability in the photo retail business*”.

To help the process five research questions were asked to help uncover the characteristics of the industry which were required for answering the problem statement.

1. What is the nature of the competitive situation in the market

The competitive pressure on the industry was found to come from supplier power, buyer power and the rivalry between the actors competing. Suppliers used their branding and promotion to create a pull-effect for their products from consumers. The number of suppliers is decreasing in the industry and those remaining are competing for market shares, reducing the attention to distribution channel differences. The object for suppliers is simply put, to sell as many products as possible. Buyer power comes from an increase in distribution channels, where consumers can easily compare prices and services to best match their demands. The rivalry in the industry is focus on pricing of products. The majority of actors pursue the same strategies of economies of scale and cost-effectiveness to create turnover and create profitability despite the low profit margins. We also found emotional barriers which made the procurement organisations compete more aggressively on price than the retailers would like. These were down to old relationships which had been unsuccessful due to opportunistic behaviour.

The following research questions aimed to understand how value is created today, based on the strategies and characteristics in the global value chain (GVC) combined with the four Ps of marketing – price, products, place and promotion.

2. How is the flow of products, services and interactions organised?
3. Which strategies are currently being employed, by producers, suppliers and retailers to adapt to the current market situation?

Again we found that producers were using aggressive promotion/branding to facilitate a pull effect from consumers. The global value chains are producer-driven, meaning that producers have great influence on the distribution of income. Using outsourcing of production and logistics combined with promotion the producers influenced the whole GVC. The retailers were found to influence the selection of distribution channel due to their abilities within services and product knowledge, which is favourable to the high-end products of the producers. The procurement organisation attempts to build relationship with the producer by handling logistics; however there are no exclusive rents to be made as all other competitors also handle their own distribution. We found that retailers attempt to use relationship marketing to differentiate themselves as the competitors are transaction oriented. For all actors in the industry the pursuit for economies of scale is present all the time, as Internet stores, supermarkets and radio/TV stores use aggressive pricing as their primary promotion. The radio/TV stores were also found to have an international dimension which was used to attempt to achieve better prices. Some of Europe's largest electronic chains have shares in the radio/TV stores and as they have procurement organisations purchasing for entire Europe, their prices are used for leveraging lower prices towards the producers selling in the Danish market.

Before we could construct new strategic approaches for the retailers two final questions were asked to identify why the current situation exist and if there were anything prohibiting further developments.

4. What are the main reasons for falling profit margins?
5. Which restraints are there on retailer's choice of strategy?

The reasons for falling margins were attributed to a combination of internationalisation, promotion, motives for distr. channel selection, generic strategies applied by actors and emotional barriers. Restrictions on new strategies were only found when attempting to upgrade horizontally, but it was found that the search for increased or sustained profitability was to be found within the four Ps of marketing or within the network of the retailer.

This allowed for the presentation of two possible strategies to be used by retailers and their chains to increase long term profitability.

The retailers should brand themselves on foundation of the characteristics which differentiate them from their competitors. Their competitive advantages within product knowledge, services and local presence should be used to influence consumers to demand superior service. The services provided by retailers are not easily duplicated by any of their competitors making the advantage sustainable. The aim is to make the “retailer” a brand and not his associated chain. The customers must experience that retailers offer superior value to other distribution channels and demand the services before purchasing goods, enabling for marketing rents to be made for the retailer.

The second strategy was to use the networks in the industry to decrease competition or brand the retailers. By overcoming the emotional barriers existing towards other chain the retailers can decrease the pressure on prices and focus on differentiation from internet stores and supermarkets. By mending the relationship the chains can focus on competing with other competitors and not on other retailers. The creation of relationship in the network could also create the possibility for sharing resources for mutual benefit. E.g. if branding of the retailer is deemed too expensive by one chain, then maybe the entire industry of photo retailers can see the possibilities of applying a branding strategy to increase long term profitability.

Furthermore the retailers and their chain could create relationships with the producers to bundle their superior knowledge and service to the high-end products. This could be used to joint-promotion of the two and obtain relationship rents from the interactions but also create competitive advantages to both parties which no other distributor can duplicate. This could also be a part of the branding efforts where high-end products and services only compliment each others in getting customers to demand them.

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<sup>i</sup> <http://www.themanager.org/models/p5f.htm>, 16-06-2005

<sup>ii</sup> Dixons or DSG International plc is one of Europe's leading electrical retailing groups. They include; Pixmania.com, Elgiganten, PC World etc. They are affiliated all over Europe. For more information go to [Dixons.co.uk](http://Dixons.co.uk) or [dsgiplc.com](http://dsgiplc.com).