



The Regional Meat Producers' Way to the Market

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Förord

Efter flera år av studier i framför allt ekonomi på agronomprogrammet har jag nu nått fram till den stora akademiska prövningen: examensarbetet. Under arbetets gång har jag fått använda mig av den kunskap jag erhållit under studietiden. Att tillämpa de inlärdade teorierna på verkligheten har varit både intressant och utmanande, men framför allt varit lärorikt.

Jag vill först och främst tacka min handledare Jerker Nilsson för hans stöd och hjälp under arbetets gång - utan ditt engagemang hade processen blivit svår. Swedish Meats försäljningschef Bo Larsson kom på besök till Uppsala för att tillsammans med Jerker och mig diskutera fram det som till slut kom att bli min uppsats, för det är jag mycket tacksam. Jag vill även tacka Konsum Värmland-fabriken och Siljans Chark för deras vänliga och frikostiga hjälp, i synnerhet Konsum Värmlands fabrikschef Rolf Ulin och försäljningschef Bror Nyman, samt Siljans Charks vd Gunder Eriksson och kvalitetschef Anders Svensson. Jag är mycket tacksam för de butikschefer i Värmland och Dalarna, samt de konsumenter som har ställt upp på intervjuer ute i butikerna - det är viktigt att få höra båda sidor för att få en så klar bild som möjligt. Jag vill även tacka min familj och mina vänner för stöd och uppmuntrande ord - det betyder mycket. Ett stort tack till min svåger Erik för korrekturläsning och hjälp med finjusteringar. Slutligen vill jag tacka min sambo och blivande make Fredrik för hans hjälp, stöd och tålamod i såväl framgångar som motgångar.

Tack till er alla!

Uppsala, december 2003

Karolina Larsson

Sammanfattning

De småskaliga köttproducenterna Siljans Chark och Konsum Värmlands charkuterifabrik marknadsför sina produkter med regionala koncept. Då livsmedelskedjorna centraliseras alltmer, får företag med sådana koncept allt svårare att lyckas. Emellertid har de båda nämnda företagen stor framgång med sina regionala köttkoncept, var och en på sin regionala marknad.

Detta examensarbete söker identifiera de faktorer, som avgör huruvida ett företag som marknadsför sig med ett regionalt koncept, lyckas. Många företag tillämpar en sådan strategi, men graden av framgång varierar kraftigt. Det är därmed intressant att granska vad som kan tänkas ligga bakom de båda ovannämnda företagens marknadsframgångar.

För att fastställa orsakerna till framgång används teoriområdet Supply Chain Management. Ett antal hypoteser utvecklas, bestående av nyckelord, som kan förväntas vara viktiga för företagets affärsrelationer. Det är därmed ett flertal relationer, som studeras – primärt sådana till de djuruppfödande lantbrukarna, till butikerna och till konsumenterna. Supply Chain Management är närmast ett sätt att tänka – ett flödestänkande. Genom produktions- och distributionskedjan strömmar ett finansiellt flöde, ett informationsflöde och ett fysiskt flöde.

Hypoteserna ligger till grund för ett antal intervjuer, som genomförts hos de två fallföretagen men även i butiker och bland konsumenterna och distributörerna.

Analysen av empirin visar att de båda fallföretagen har delvis liknande tillvägagångssätt, trots att de har tämligen olikartade förutsättningar. Siljans Chark är ett aktieföretag, vars huvudägare är ett antal djuruppfödande lantbrukare i Dalarna, medan Konsum Värmland är ett konsumentkooperativt företag, som driver sin verksamhet utanför Coop Norden. Flödestänkandet genomsyrar båda företagen. Konsum Värmland har fördelar av att företaget är självständigt och har en egen distributionscentral samt butiker. Siljans Chark förlitar sig på sitt goda rykte och den trovärdighet som man har byggt upp under många år.

En betydelsefull faktor i båda fallen är den regionalpatriotism, som är djupt rotad i Värmland och i Dalarna. Denna medför låg priskänslighet vid köp av regionalt producerade produkter, att konsumenten känner samhörighet och trygghet samt att man värnar om regionala arbetsplatser. Det är tveksamt om regionala koncept skulle ha lika stor genomslagskraft i många andra delar av landet.

Det mervärde, som de regionala produkterna har, måste ständigt förtydligas och utvecklas, och de måste kommuniceras ut klart till konsumenterna. Även butikerna behöver denna information för att de ska ha intresse av att aktivt sälja produkterna. Butikerna måste ha ekonomiska fördelar av att sälja just dessa produkter. Det gäller inte bara god lönsamhet per produktenhet utan även att produkterna lockar en god kundtillströmning till butikerna. Den goda image, som de regionala produkterna har, kan överföras, så att också butikerna får gott anseende hos konsumenterna.

Executive Summary

Siljans Chark and Konsum Värmland cured meats and provisions factory are small-scaled meat producers that market their products with “the regional concept”. As the centralization is increasing in the food retail chains, it is becoming more difficult for companies like these to succeed. The two companies in question however, have been successful with the regional meat concept on their individual, regional markets.

The purpose of this thesis is to identify the factors that determine whether a company with the regional concept as its marketing strategy will succeed or not. There are several companies using this strategy, but the degree of success has been varying. It is therefore interesting to examine the reasons behind the success of these two companies.

By using Supply Chain Management, SCM, and a number of hypotheses consisting of key words that can be perceived as important in a firm’s business relations, the report sets out to determine what makes a company succeed or not. Several relationships are examined, primarily those with farmers, retail shops and consumers. Supply Chain Management is a way of thinking – flow thinking. Three large flows go through the production and distribution chain: financial, information and physical flow.

The interviews presented in the empirical part are based on the key words and SCM. To get a complete picture of the problem at hand, interviews were made at the two cases study companies, in the shops with shop managers, consumers and distributors.

The analysis shows that there are some similarities between the two case companies, even though they have different prerequisites. Siljans Chark is a limited company, were a number of farmers in Dalarna are the major stockholders, while Konsum Värmland is a consumer co-operative business outside Coop Norden. Flow thinking seems to be something both companies find important. Konsum Värmland has advantages in being independent with its own distribution central and shops. Siljans Chark relies on its good reputation and the credibility it has developed over the years.

An important factor in both cases is the regional patriotism. It is widespread in both Värmland and Dalarna, and makes the consumers less sensitive to the price of product, when buying a regionally produced product. The consumer feels solidarity and security and the fact that it offers job opportunities appeals to the consumer. It is not likely that the penetration power would be as great in other parts of the country.

The added values the regional products possess have to be elucidated and developed constantly. They also have to be communicated to the consumers. The shops need this information too, to maintain their interest in selling the products. The shops have to receive economic advantages when selling these products. That includes not only profitability per produced unit, but also the fact that the products attract a customer stream to the shops. The good image the regional producers have can be transferred onto the shops and they can improve their reputation among the customers.

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1. Introduction

1.1 Background

Sweden joined the EU in 1995, and since then the Swedish food market has been exposed to intensified competition. The membership resulted in substantial price reductions in many food categories, such as meat and tinned goods. This altered the conditions for many of the Swedish food producers. The foreign competitors could maintain lower prices and still remain profitable. The large national brands had support from the retail business, but the few existing smaller companies had difficulties staying in business. Many of the Swedish meat farmers had difficulties staying in business due to the price reduction, but out of this “crisis” something new developed. A new concept, a regional concept with other standards and prices than the conventional products developed.

The prerequisites are different for different food producers. The larger ones have advantages with economies of scale or of scope. Food producers who operate on a smaller scale, such as regional producers, have difficulties with entering the market and competing with the larger producers.

The regional producers’ competition can be divided into three groups: the national brand products, the retail business’ private brands and the foreign products. The national brand products often have economies of scale as oppose to most regional producers who operate in smaller productions. The national brand products often have well-established names and considerable experience within the area. The retail business has developed its own private brands during the last decade, and since the retailers have their own shops to sell and promote their brands, the penetrating power has been great. Since 1995 the foreign products have increased on the Swedish market.

According to a survey made by Troslöv et al (1994, p. 4), a considerable amount of the Swedish consumers consider Swedish products to be somewhat superior. They believe that Swedish meat has higher quality than foreign meat. This gives the Swedish meat an added value. There is a market and a demand for meat produced in Sweden. People are becoming more aware of the environmental issues and the way the animals are treated. When Sweden joined the EU many people felt that the rules concerning these issues deteriorated. The tolerance towards environmental pollution and animal treatment became greater than before.

Today you can find meat, which according to the label is Swedish, but is actually produced in another country. If the further processing and the final packing take place in Sweden, it is legal to label the product “Swedish meat”. Only beef has to have a certificate of origin due to the risk of BSE. (Pers. com. G. Gålne, 03/04/2003).

This causes uncertainty among the consumers. How can a consumer ever be sure that the meat he or she buys is genuinely Swedish, i.e. meat that comes from a Swedish farm? Many consumers are aware of this problem, and want to be able to make a conscious choice when it comes to what products they want and are willing to support.

In a study made by Sevebrant (1998) concerning Swedish consumers' attitudes towards locally produced food, the respondents were asked to define what locally produced food represented. The five most mentioned answers were shortened transports, fresher products, increased local employment, higher price and better animal husbandry.

The products reach the consumers through different food retail chains, such as ICA and COOP. There is, however, a problem with the large chains: they are centrally controlled to a great extent. Each chain has a certain amount of producers and wholesalers on contract, where the shop managers have to make their purchases. The assortment of goods is therefore more or less homogeneous, and there is little space left for the managers of each shop to buy, for instance, regionally produced goods.

1.2 Problem

During the last decade there has been a new trend within the food production business, products marketed with a regional concept. A whole new market has developed and still is. The number of companies that follow this trend has increased enormously.

The meat producing business is the line of business where the regional concept has boomed. For many meat-producing companies it is a way of surviving competition. They cannot have the same low prices as some of the large-scale businesses within Sweden nor can they keep up with the foreign competition.

The degree of success for companies with the regional concept as part of their business idea seems to vary. Some companies only survive for a short period of time while others prosper and become successful.

What does the regional concept signify within the meat producing business? The regional concept has no clear definition; there are probably as many definitions as there are companies using it. One thing they have in common, however, is the emphasis on the regional (local) connection. *The products are produced in a specific area, regional or local. The raw material needed to produce the product is from the same region.*

Most concepts stand for a certain quality with specific criteria to be fulfilled. There are many different standards to measure quality; some companies only handle meat where the animals have been eating vegetable feed, and some use known standards such as ISO-certification.

Others emphasise the closeness to the area, and that the products can be traced all the way back to the raw material, which might give the consumer a sense of security concerning the quality of the product. The closeness to the area makes the transports shorter as the products are sold in the area.

The regional products are not to be confused with organic products, even though some of the companies that market their products with the regional concept are organically certified. The concept generally promotes the regional entrepreneurship and business

life, since the money stays within the region. The companies are usually quite small, and the company name often has a regional/local connection, for instance Siljans Chark (named after the Siljan Lake, situated in the heart of Dalarna County).

Here is a small selection of the regional brands for meat products, existing on the Swedish market:

Company	Location
1. Siljans Chark	Dalarna
2. Konsum Värmland	Värmland
3. Kaprifolkött	Bohuslän
4. Hälsinge Lantkök	Hälsingland
5. Ginsten	Halland
6. Skånskt Naturbeteskött	Skåne
7. Gotlands projektet	Gotland
8. KLS	Småland
9. Norrlandskött	Norrland
10. Traktens bönder	Närke
11. Glad gris	Uppland
12. Ydre kött	Östergötland
13. Fryksdalskött	Värmland
14. Hebokött	Dalarna
15. Mälardagskött	Uppland

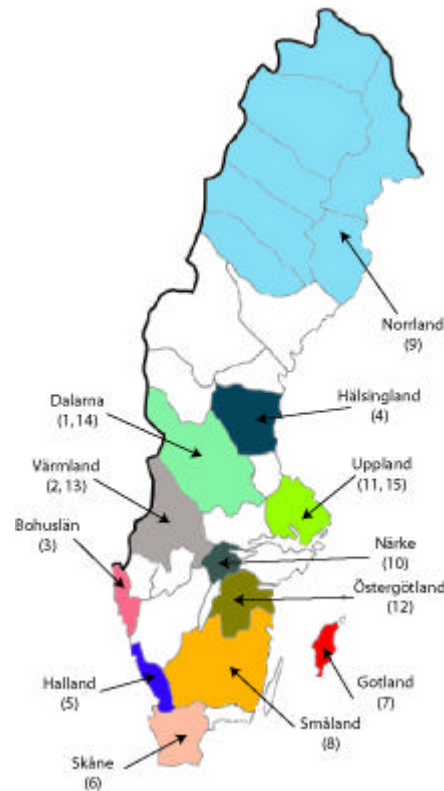


Figure 1: Map showing some of the regions where regional brands exist.

Why do different regional producers have such varying degree of success. Success in this context means having a business that prospers and grows. Is there perhaps a recipe to success when it comes to marketing the regional concept? How can they make their products more attractive for the customers, which in this case are both the shop and the end consumer? Is it possible to create some kind of checklist, with key numbers and the needed answers to succeed? These are some of the questions that are examined in this thesis.

1.3 Problem analysis

The regional producers' competitors – national brand products, the retail business' own private brands and foreign products – have different attributes as to marketing resources and price level. Many of them have well-known businesses and well established contacts within the food retail business. The regional meat concept businesses need to show that their products possess something else than the conventional products.

Several factors may be expected to determine whether a regional meat concept will be successful or not. Figure 2 presents a way to classify these factors, so these are related to the various types of actors in the value chain and the relationships between these.

The meat producer has business relationships with different actors. The actors can be divided into four groups. The most important is possibly the food retail business and the relationship between the producer and the food retail business, referred to as “a” in figure 2. The other relationships are between the producer and the consumer, referred to as “b” in figure 2. The producer can also be affected by the relationship between the food retail business and the consumer, referred to as “c” in figure 2. The last relationship is that between the producer and the farmer, “d”. All of these relationships can affect the level of success the producer is able to achieve.

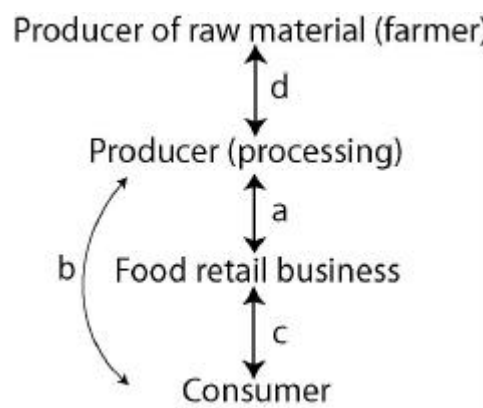


Figure 2: Actors in the value chain and the relationships between them,.

It is vital that all parties make *profits* from their business operations. Profits could be attained through efficiency in the firm’s own operations (no resources are wasted) or through effectiveness in the actor’s transactions with other business partners (“purchase cheap and sell expensive”). In the short run, a firm may increase its profits through exploiting weak partners, buying at low prices and selling at high prices. In a longer perspective, such a policy may be disastrous. The partners may leave the relationship or even be forced out of business. This is not in the interests of the powerful firm. It may threaten its profits over a longer period. So, in the long run, a *win/win philosophy* is beneficial to all the participating actors in the value chain. Even though a firm has the possibility to reap benefits on behalf of another actor, its best strategy would be to make sure that also this runs a profitable business.

Provided that the partners are mutually dependent on each other, they all have an interest in the long-term survival of the others. Consequently, one may expect *long-term agreements*. On the other hand, contracts are not fully satisfactory as such can be dissolved. More important is that the parties have confidence in one another. For *trust* to exist, the parties must also have good reason to trust each other. Trust is a characteristic of a long-lasting relationship, and must be mutual if it shall generate any positive effects. One prerequisite for trust is *information exchange*. If there is any so-called asymmetry in the information, the parties have reason to suspect that the opponent may be dishonest.

Therefore it is helpful to use information exchange functions to avoid misunderstandings and to facilitate the order planning and the production more efficiently.

Trust and long-term relationships have the effect of reducing *uncertainty*. Planning becomes easier which can save costs, and new chances for revenues may result from the joint efforts. *Reliability* is important – a shop should be able to expect deliveries at the appointed time and the quality of the products should correspond to the agreement. The reliability can save the shop manager costs, and his or her trust in the supplier becomes stronger. As soon as one partner fails, however, trust may be in danger, and especially so in cases of repeated failures or when one of the partners may be expected to shirk deliberately.

As the retail chains become increasingly integrated, the retail outlets' assortments become more homogenised. The shop owners and shop managers have less possibility to carry regionally produced products. ICA, being a loosely integrated chain with independent shop owners, allows more freedom to the retail outlets than the centrally controlled consumer co-operative chain, Coop, does. Coop's goal is that two per cent of the shops' products should have local origin (Hallberg, 2002). One explanation to this low figure, with the exception of centralised decision-making, may be the fact that the regional products constitute a relatively new type of supply. The chains have not yet developed systems to cope with regional products.

There is always a risk involved in establishing a new relationship with a partner. The lack of common history means that there is neither trust, nor distrust. Consequently, new entrants may face a *barrier to entry*. This is proven to be true in many cases, as the retail chains only carry a few regionally produced items. The regional producer has a slim chance of getting listed if its assortment does not differ significantly from that of the existing supplier (is much cheaper, is of much higher quality, etc).

The concept of *image* is important. To avoid just being yet another anonymous item in the jungle of products many producers try to create some kind of uniqueness around their products. Some concentrate on the end product, the package and labelling, some focus on creating a product that appeals to customers with a specific preference such as organic food, or products made out of more exclusive raw materials. One way to differentiate the products is to have them *certified* by an independent party. There are different certificates available, concerning for instance environmental issues and quality, such as EMAS, ISO 14 000 and ISO 9 000.

Quality is a very wide concept. Each consumer may have its own definition for quality. It can mean that the product, in this case the meat is from an animal raised and bred in Sweden; it can also mean that it is free from unnatural products such as antibiotics. Some people think of freshness when they hear the word quality and some think of good service. For the retail business it might mean "fresh meat that looks good and is delivered well-packed". The products can seem more attractive this way. Two other issues of importance for the retail business, concerning product policy, are *volume* and *assortment*. The required volume must be held. The deliveries have to satisfy the total need of that

particular shop, i.e. the demanded volume. If the producers can only fulfil a smaller part of the actual need the cooperation becomes less interesting for the shops and they will probably turn to other producers for their deliveries. The same problem might occur concerning the assortment. A producer should try to keep a relatively wide range of assortments; otherwise shop managers might turn elsewhere to get satisfactory deliveries.

The producers must show that their products possess something other than the competitors, some kind of added value. One way of showing this is to differentiate the products. The differentiation can be shown in many ways such as avoiding pesticides on agricultural products, only use local raw materials in the production or benefit the local business by only using local companies when outsourcing different parts of the production.

What is the context of the *added value* in this situation? Is a concept such as the “regional concept” enough, is it applicable to any region or are there certain areas more suitable? What are the requirements for a region; does it have to be an area with a reputation concerning farming traditions and open landscape? Or is an overall good reputation with the public sufficient? These questions need to be answered. The regional concept might not be enough. The products could gain market shares from being differentiated. It would also be beneficial for the producers to have a clear message with their products; a good initiative would be to define the concept “regional products”. A well-developed brand and a clear description of what the product stands for including background and vision is something to strive for.

The added value can signify a number of different qualities. If it is possible to *trace* the product all the way back to the primary producer it might give the consumer a sense of *security* in knowing where the product actually comes from. The quality the product holds concerning *freshness* and for instance what preventive medication or pesticides have been used is also an issue that could be of importance in the efforts of showing the added value the product possess. Since all activities take place within the area when it comes to the regional concept, *the local/regional business world is patronized*. Some might consider the fact that the money stays within the area as an added value.

The *price* has to follow the agreement and the financial flow should be constant; no interruptions in delivery between the producer and the food retail business should occur. If, for some reason, the price is higher than agreed, trust between both parties will be affected. If the change in price occurs often the relationship might be irreparably damaged. Recurrent delays in payments will have the same effect on the relationship. The *closeness* between the production location and the sales location is of importance. The closer the two locations are the better. It decreases the *transportation* time. This also reduces the cost of transportation and lessens the impact on the environment concerning exhaust fumes.

The *delivery point of time* is important to keep, since the buyer, in this case the retail shop, is depending on it. Otherwise the shop manager might have nothing to sell to its customers. The relationship between the producer and the retail business can be hurt by

such an incident. *Flexibility* is also important, the company should be prepared to *customize* the packing and to some extent the assortment. The companies need to be able to meet their customers halfway.

It is favourable if the product concept is *consistent* with the shop and the retail chains' total concept. Different food retail chains have different concepts for different shops within their retail chain. The regional concept would suit the "Hemköp" shops, but not the low price chains, such as "Rätt pris" and "Willys", since they have a higher price.

The food retail chains are interested in making profits. The profit is to a great extent affected by the consumer demand and preference. The chains need to create a *consumer need* or *demand* for the products they sell. The consumer behaviour is based on a number of factors such as security, closeness, patriotism and ethical issues. The willingness to pay (WTP) is also an issue here. Where is the limit for what people are willing to pay? The added value received has to balance the extra amount of money paid for the product.

Both parties should help keeping the *consumer satisfaction* at a high level and make sure that there is a demand for the products regardless of the higher price. The products need to be differentiated from other competing products. For certain products there are no ways of altering features such as taste, but the way the products are being displayed for the consumers can be altered. The packing, the placing on the shelves and the message that follows the product might catch the consumer's interest.

These are possible obstacles that could keep the regional concept from gaining ground on the market. Many key factors need to be examined. By using the Supply Chain Management paradigm when looking at the flow between producer and consumer, some of these uncertainties can be eliminated. This would make the chain stronger, as the chain is only as strong as its weakest link.

Figure 3 summarises the four groups and the keywords that connect them. Consequently, the figure is an extension of Figure 2. Many of the keywords reappear several times between different groups, as these keywords evidently are important in several relationships.

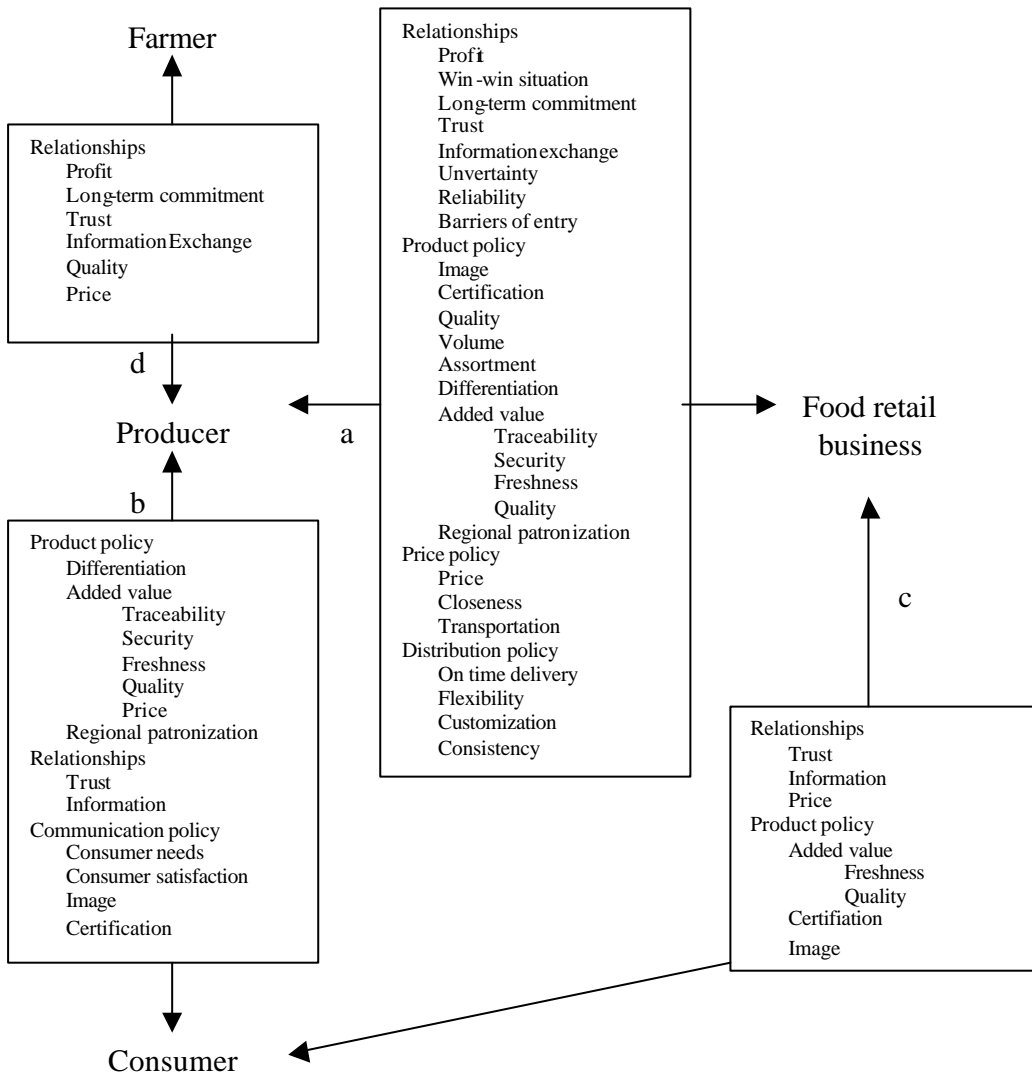


Figure 3: The keyword connection between the different actors.

1.4 Purpose

The purpose of this thesis is to identify the factors that determine whether a regional concept for meat products will succeed on the Swedish market. There are many regional producers with different products, which make it difficult to generalize too much. In order to get a picture of the whole process, regional producers will be narrowed down to one group, namely Swedish pork producers with a regional meat concept as their business idea. Since there are a lot of products made from pork, for instance pâté, sausages and fillet, this thesis will investigate the “raw pieces of meat” sold directly in the refrigerated counter. As stated in section 1.3, *Problem analysis*, many factors need to be examined and the interplay between the different parties is of utmost importance. The emphasis will be the interplay between the producers and the food retail business. However, the other relationships will also be looked into to get a clear picture of the whole problem.

The companies that are investigated are Siljans Chark and Konsum Värmland. Both have their own brand. Siljans Chark has *Dalagrisen*, sold in different shops in Dalarna, while Konsum Värmland only sells its brand *Värmlandsgrisen* in its own Konsum shops all around Värmland. These two companies are really successful in promoting and selling their products with the regional concept as their approach.

1.5 Procedure

To be able to analyse the problem, data are collected from both case study companies. Interviews with key people from Siljans Chark and Konsum Värmland are carried out. The interviews are based upon the theoretic frame used in this thesis, Supply Chain Management (SCM), along with the keywords stated in figure 3, section 1.3. Supply Chain Management is a way of thinking rather than a theory. It sees the whole process as a number of flows between the parties involved in the process. The Supply Chain Management is explained in chapter 2.

Interviews are also carried out with some of the case study companies' business associates. The associates of interest are the farmers who deliver their merchandise, Swedish Meats, who is involved as an intermediary in different stages, and the customers, in this case, both the food retail business and the end consumer. These interviews help to complete the picture of the flows between the producer and the shops.

1.6 Disposition

The set-up for this project is as follows:

Chapter 1: An *introduction*, with an explanation to the problem and an analysis leading up to the formulation of an aim. A survey of existing regional meat concept is also presented.

Chapter 2: The Supply Chain Management, SCM, will be used as a theoretical frame, and will be presented in this chapter. This *theory* will help shed light on the factors that affect the products in the flow from producer to consumer.

Chapter 3: The *empirical data* consists of a number of interviews with people working in the two meat producing firms as well as with business partners, for example shops that sell products from Siljans Chark AB and Konsum Värmland, such as shop managers and tradesmen.

Chapter 4: The *analysis* combines chapter 3 and subchapter 1.3, i.e. the empirical data and the hypothesis, and result in a number of key factors that will help secure success.

Chapter 5: *Conclusions* summarize the result. They are presented as a tangible proposal.

2. Theory

2.1 What is Supply Chain Management – SCM?

Supply chain management, SCM, is not so much a theory as a way of thinking. It urges you to see the problem at hand as a continuous process, as a chain or a flow of activities. Until recently business world focus has been strategies of managing marketing, sales and finances. Today the focus has shifted towards the production and distribution of products and information through the marketplace. (Ross, 1999)

To understand SCM, a definition of supply chain is necessary. According to Ross (1999) SCM can be defined as follows:

“Supply chain management is a continuous evolving management philosophy that seeks to unify the collective productive competencies and resources of the business functions found both within the enterprise and outside in the firm’s allied business partners located along intersecting supply channels into a highly competitive, customer- enriching supply systems focused on developing innovative solutions and synchronizing the flow of marketplace products, services, and information to create unique, individualized sources of customer value.”

Another definition is according to Handfield & Nichols (1999):

“The supply chain encompasses all activities associated with the flow and transformation of goods from the raw material stage (extraction), through to the end user as well as the associated information flows. Material and information flow both up and down the supply chain.”

What these two definitions have in common is the “flow thinking”, to see the whole chain as a unity rather than different parties working together. In order to make a flow analysis, one would have to look at all the activities from the crude material to sold product. Each step could be measured in time and cost to shed light on weak points in the chain so that it can be improved and rendered more effective. Outsourcing, for instance, is a way of eliminating cost and expands the supply chain. (Paulsson et al, 2002). SCM is not to be mistaken for vertical integration, where the focus is inward and is designed to increase the company’s ability to fend for itself (Ross, 1999). The development of supply chain management up until now is presented in the next section.

2.2 Historical perspective

The content of this part, (historical perspective) comes from Ross, 1999, unless something else is mentioned.

The evolution of supply chain management can be divided into four stages. The first stage starts as early as the late 19th century and finishes in the early 1960s. Logistics was perceived only to be a way of managing the distribution and transportation; it was in fact considered as a less important part of the business. Sales, market and production was the

main focus. The goal was to maximize the customer service and minimize the logistics cost. Little effort was put into managing the logistics it appeared to be decentralized. Every department in a company took care of their own logistics costs. By the early 1960s it became evident that the decentralized way of handling the logistics was inefficient and very costly.

In the second stage, total cost management came in the 1970s, as the decentralization shifted towards a centralized way of handling the logistics. Most manufacturing and distribution companies reorganized their logistics into one unified management system. The control over the management and distribution formerly held by sales, market and production departments shifted to a new built central logistics department with an overview of the whole organisation. They began to see the logistics function as a potential source of competitive advantage.

During the 1980s the third stage introduced itself with the integrated logistics management. They found that value-added services, product availability and speed of delivery both external and internal were parts of the production that could affect the possibilities to make profits and acquire more market shares. Two words could signify the third stage of the SCM evolution, competition and quality improvement. Competition from other companies offered high quality products at low prices with help from different management philosophies such as JIT (Just in Time) and TQM (Total Quality Management). The companies had raised their level of integrated functions, and logistics had become a competitive weapon. As the companies became more aware of the effect logistics could have when used properly, new prospects opened up, such as strategic alliances, partnerships and outsourcing when needed. This development led up to the fourth management stage, the supply chain management, where the whole process is seen as flows along the value chain.

2.3 Flows

According to Paulsson et al. (2002), the flows can be divided into three categories, physical flow, information flow and financial flow. The physical flow is the logistics and the information flow is the administration of the physical flow and serves as a connection between the various stages in a supply chain. It is important to have a clear picture of the actual flows to be able to see what needs to be improved. The financial flow is the payments made between the participants in the chain. Physical flow goes from producer and onwards to the consumer while the financial flow goes in the opposite direction. The information flow goes both ways as shown in Figure 4.

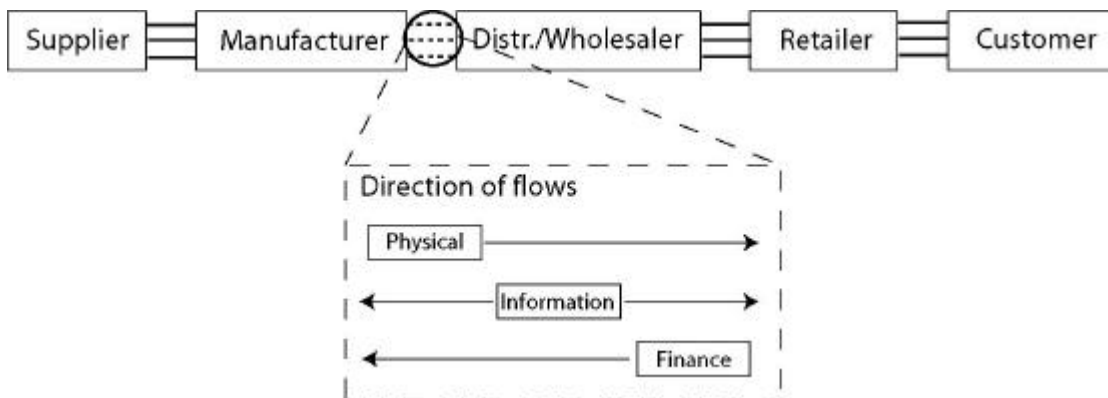


Figure 4: The three flows in supply chain management.

There are certain criteria that can be identified in supply chain management according to Paulsson et al, 2002, the focus needs to be on the flows. The end consumers' needs and demands have to come first. This includes attempts to increase the consumer value and reduce additional costs, both functional and production oriented. One way to eliminate additional costs is outsourcing.

2.4 Business dynamics

According to Ross (1999), SCM is organized around five business dynamics, all representing somewhat new and sometimes radical solutions for the managers. The five dynamics are; channel dynamics, information and communication technology dynamics, customer dynamics, product and services dynamics and logistics dynamics.

1. Channel dynamics

To partner up, form strategic alliances, but not actually go through with a full fusion is one way of looking at the channel dynamics. The chain should be seen as a unity and the need for the whole chain must be far more important than that of one single party. If possible the chain can be integrated on different levels. This is a way to decrease costs and create a win/win situation for all parties, i.e. to let all parties in the chain do what they do best. It is important that all participants in the chain have somewhat similar goals with the collaboration and that everybody has something to gain from it. (Handfield & Nichols, 1999)

When analysing the flows in a chain/channel it is important that all flows are included. All activities need to be mapped from crude material to sold product. Time is then measured between each stage in the chain, including waiting and storage time. In a customer related distribution chain it is important to come to a mutual agreement. Everybody involved in the chain has to be satisfied. Long-term agreements where the uncertainty is eliminated and the foundation is built on trust and continuity make the whole process easier. (Handfield & Nichols, 1999)

Strategic alliances can occur in many different ways, for instance between a product marketer and a firm providing logistics, vertically between two companies in the same market or horizontally between to parties that have the same circle of customers. Table 1

summarizes the difference between companies that enter the marketplace as a part of a strategic alliance and those that enter unilaterally. (Ross, 1999)

Table 1: Transaction-Versus Alliance-Based Management. (Ross, 1999, p. 61)

Transaction based	Alliance based
Short-term relationships	Long-term relationships
Multiple suppliers	Fewer suppliers
Adversarial relationships	Co-operative relationships
Price dominates	Value-added services dominate
Minimal investment from suppliers	High investment for both buyer and supplier
Minimal information sharing	Extensive product, marketing, and logistics information sharing
Firms are independent	Firms are independent with joint decision making
Minimal interaction between respective functional areas	Extensive interaction between buyer and supplier functional areas

2. Information and communication dynamics

There has been an explosion in information and communication technologies, ICT, which today is considered a very important management tool. It can serve the companies in many ways. The supply chain management idea is to form a supply channel system together with external partners and internal departments. The core of this union is information. If the information sharing is extensive it will ease the decision making process concerning for instance the production volume and assortment. It gives the company a more solid ground to proceed from than if there had been no information sharing at all. The degree of information flow can therefore be said to affect the companies' chances to succeed. The veracity becomes higher with the information flow. As technology has developed, the possibilities to communicate have increased. There are systems such as EDI, the Internet, databases and FAX for instance, to facilitate the communication between different parties. (Ross, 1999)

It is important that the information can flow freely through the whole chain, and that the information is correct. Incorrect information can lead to problems in several ways such as excessive inventory investments, poor customer service, lost revenues, misguided capacity plan, and ineffective transports. The shared information should cover at least areas such as product (for instance differentiation, assortment and added value, i.e. the image of the product) and service offered sales, market share, cost, quality, delivery, cycle times, assets utilized, responsiveness and customer service. (Handfield & Nichols, 1999)

If a manager gets correct information about for instance deliveries, when and how much, reductions can be made in storage and personnel and the production can be placed on a competitive level compared to other similar businesses. One way to try and eliminate these problems is to share ones sales forecast. This decreases the chances of "the adding a little extra effect" which can cause higher costs. All activities that do not create a value need to be eliminated. Resource saving flows, promptness, reliability and security is vitally important. (Paulsson et al, 2000) The middleman can be eliminated but not the assignment, for instance if all members of the chain holds a storage the distribution cost

increases. A template within the industry is that approximately 20-25% of the average inventory value is the yearly cost for holding storage. (Stern & Al-ansary, 1988)

There are two inter-organisational dynamics that are important concerning information, power and risk. There has been a shift in power position from manufacturers towards retailers during the last two decades. Reasons for this are consolidation and economies of scale. The retailers possess important information, i.e. what the consumer demands. Power in this case is information sharing. The right hand needs to be aware of what the left hand is doing! It is important with a continuous contact between the stakeholders within the chain. (Handfield & Nichols, 1999)

The risk appears when one has to trust the other parties in the supply chain. Some of the stakeholders take a greater responsibility due to the fact that they are more dependent on the agreement. It is difficult to identify specific reason as to why trust arises. The partners must trust not only each other but other parties in the chain. (Handfield & Nichols, 1999) *“Trust can not be identified or measured easily and it cannot exist without vulnerability and loyalty”* (Chopra & Meindl, 2001). There are some key factors to trust; the reliability is built on the integrity and honesty of the other party. It is important to follow through on the commitments and act in a predictable manner so that there will be no surprises. A good rule of thumb is to do what you say and say what you do. (Handfield & Nichols, 1999)

There are different kinds of trust, competence-based trust and affection-based trust or goodwill. Competence measures the ability to meet commitments; it is safe to have a documented record of experience within the area. Goodwill has two elements, openness with the other party and benevolence, which means that the parties protect each others right. (Handfield & Nichols, 1999)

3. Customer dynamics

Today's business world has focused on trying to understand the customer. Most companies provide a unique solution suitable especially for the customer with a combination of products and services picked out by the customer him-/herself. Customized products and services, high quality and quick responses have replaced the former standardized mass-produced products. The customer expects to get exactly what they need and want at the exact time they have required. In their struggle to understand the customer need, managers should try to find out how their customers define value. The obvious definition of value is the sum of all benefits the customer gets, minus the cost, but the definition goes much further. The WTP, willingness to pay, for instance, for any product differs enormously between individuals.

Treacy and Wiersema (1995) put it so eloquently:

Customers today want more of the things they value. If they value low cost, they want it lower. If they value convenience or speed when they buy, they want it easier and faster. If they look for state-of-the-art design, they want to see the art pushed forward. If they need expert advice, they want companies to give more depth, more time, and more of a feeling that they're the only customer.

There are some general suggestions as to what customers perceive as value, quality, price, delivery, products and service, often at least one of these is mentioned. Today customers expect high-quality products and preferably at a low price. The definition of quality can differ among customers and concern several things such as durability or performance. On time and fast delivery is important for many customers. Availability is also important, there are companies that try to keep their stock at a large enough size, not to keep their customers waiting too long. The products can no longer be standardized to suit everybody, the customers want something that suit their own individual needs. (Ross, 1999)

4. Product and services dynamics

The products and services companies offer today can no longer be the standardized mass-products sold in the past. Customers today want a customized product made to fit their needs and desires. The lowest cost goal has had to give room for the more specified customer requirements.

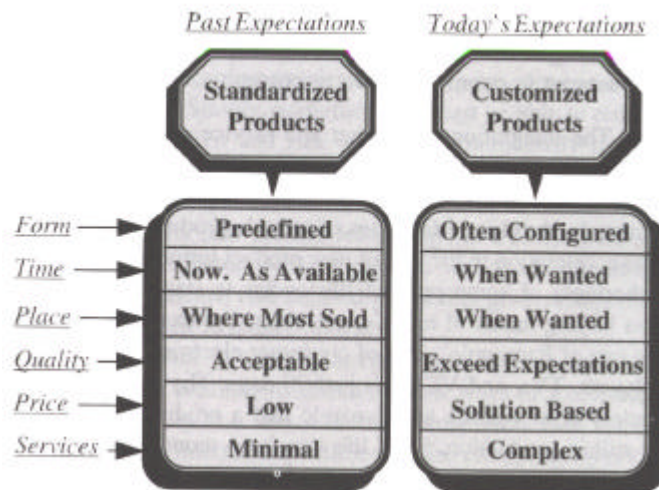


Figure 5: Changes in products and services (Ross, 1999, p. 45).

Figure 5 shows that the expectations customers have regarding marketing and demand have changed substantially. It shows the willingness the market has to alter the way of doing business into something that appeals to the customers individually, on a deeper level. Today's marketplace is not about pushing a cheap product of semi-quality; it is about meeting the individual requirements, and evolving alongside with the customer. This enables them to continue to offer superior products and add value to their products, all according to the customer requirements. (Ross, 1999)

5. Logistic dynamics

Logistics are best looked upon as a unity, in the past logistics were seen as series of independent functions, storage, transportation and finished goods inventory management. In treating the logistics as one single entity, a company can achieve competitive advantages. (Ross, 1999)

Today companies need to look at logistics as a strategic cross-functional management activity which can help them to coordinate activities. This enables the companies to offer their customers delivery service and quality at lowest cost, and shows other enterprises that this could be a competitive advantage. It can be the fundamental link between the market and the operative side of the companies. (Ross, 1999)

To be able to manage the time dimensions, customer service and cost, there are certain issues to take into consideration. Continuous improvements of customer service include having perfect performance on the basic service elements such as product availability, delivery and quality. It is important not to forget improving added-value such as quick responds and JIT-deliveries. All participants in a chain should share the responsibility for logistics. In increasing the added-value service in this case, simplifying the customer ordering, inquiry, order placement and reduced cycle time, the profitability increases and the competitive position is improved. (Ross, 1999)

According to a survey made by Arthur Andersen (1992) among top industry experts, the top measure of performance was reliability, followed by timelines and accuracy. (Ross, 1999)

3. Empirical data

3.1 Siljans Chark

3.1.1 Presentation of the company

Siljans Chark is a partially vertically integrated company, producing and selling cured meats and provisions. The company was founded in 1992 and is situated in Mora, in the centre of Dalarna County. The company has two factories, a slaughter-house and a production processing unit. The company is owned by 247 farmers all around Dalarna along with 19 employees at Siljans Chark. (www.siljanschark.se, 28/03/2003)

Siljans Chark started out with 33 employees and had a turnover of 33 millions SEK. Now, ten years later the number of employees has increased to 73 and the turnover is just below 100 million SEK. (www.siljanschark.se, 28/03/2003) The goal for 2005 is a turnover of 190 million SEK (Pers. com. G. Eriksson, 15/04/2003).

In 1995 Siljanfood started as an own legal entity, producing frozen products. The company was not as successful as was hoped for. A reorganisation was made in the year 2000 when Siljanfood was incorporated in Siljans Chark as an own brand. (www.siljanschark.se, 28/03/2003)

Their business idea is to:

- To be the unique “meat and cured meats and provisions business” in Dalarna, with a leading market profile in locally produced products.
- The emphasis should be on the locally produced primary products from the Dalarna farmers to the consumers’ table after further processing.
- Quality, environment and a high service degree are guidelines for the company.
- “Produce with tradition and deliver with precision“

(www.siljanschark.se, 28/03/2003)

3.1.2 Interview – Siljans Chark

The collecting of data concerning Siljans Chark was carried out through visits to the company, where interviews with the manager Gunder Eriksson and quality manager Anders Svensson were made. The questions for the interviews were created around the keywords stated in Figure 3 section 1.3 and the theory explained in chapter 2, Supply Chain Management.

1. Relationships

Siljans Chark has invested a lot of time in building solid relationships with its business partners. The products are sold in shops all over Dalarna County, and in some of the nearby counties. Approximately 80 per cent of the sales are concentrated to Dalarna. Deliveries are made to shops within all the major food retail chains in Sweden (ICA, Coop and Axfood). Concerning agreements, Siljans Chark has a written agreement with Hemköp (Axfood) and some other customers such as institutional kitchens. The main part of the agreements, however, is made when the orders are placed. This system is

dependent on loyal customers and long-term commitment, which is dependent on goodwill and quality products that can measure up to what the customer demands. (Pers. com. G. Eriksson, 15/04/2003)

Trust is an important factor when building a business relationship. Siljans Chark bought the factory from a former slaughterhouse company. The sale included a customer stock. The customer stock, however, was badly damaged and Siljans Chark has worked hard to regain the trust from the “old” customers and to gain new ones. The customer stock is very important since the meat producing business as many other food producing businesses has high entry and exit barriers, i.e. the production unit has very little alternative use if the business goes into liquidation. Today Siljans Chark has 250- 300 faithful customers who buy its products 2-3 times a week and just as many who buy its products at least once a week. Product information is sent out in an activity dispatch every fourth week. (Pers. com. G. Eriksson, 15/04/2003)

Information flows both ways. To get control of the production, Siljans Chark has, together with the farmers, worked out a plan for deliveries of animals. The reward system helps planning the production. The system has two categories, some farmers do batch breeding and deliver 100-150 at a time, and some have continuous breeding. Between 250 and 300 pigs are slaughtered each week. Batch breeders are planned and the continuous breeders deliver the rest. The information is shared between the slaughterhouse and the production unit. There are specific days for each part of the production, for instance cattle are slaughtered 3 times a week at a maximum and pigs 2 times a week (Mondays and Fridays). All of this is made on set weekdays and so the natural procedure is that the production unit processes the products as they are slaughtered (which means Mondays and Wednesdays). (Pers. com. G. Eriksson, 15/04/2003)

Siljans Chark is in the process of expanding. An analysis of the surroundings is about to get started to chart the expansion plans. The goal is to double the turnover until 2005 (190 million SEK, today 100 million SEK). (Pers. com. G. Eriksson, 15/04/2003)

2. Product policy

Siljans Chark markets its products with the regional concept in Dalarna and some other counties nearby. The products are produced in the area, and all raw materials are taken from the area. Siljans Chark has a genuine interest in the environment and the regional issues. The process of becoming a “cyclic slaughterhouse” is in motion. Siljans Chark cooperates with suppliers who are interested in environmental issues; this creates a comprehensive picture of what Siljans Chark stands for. The adaptation to EC rules and regulations was made in 1997 and the whole business is certified through ISO 9 000 and ISO 14 000. HACCP, which concerns the flows in the factories and the critical points in the flow in order to secure the quality, is also used continuously. The new standard for tracing the product, EFSIS, which was initiated by Siljans Chark, is also used. (Pers. com. A. Svensson, 15/04/2003)

Siljans Chark has a warranty of control as to the origin of the meat, it guarantees that the meat comes from Dalarna, Sweden. The meat is marked with a code number which

follows the meat all the way to the consumer who can control its authenticity on the Siljans Chark homepage and see where the product comes from. This is part of the added value. The products are produced nearby which benefits the local industry and society. It creates job opportunities, which create purchasing power. (Pers. com. A. Svensson, 15/04/2003)

The interest Siljans Chark has in the regional prosperity is manifested in contracting local or regional businesses. When for instance office supplies are needed, the local bookshop is used. If the company is repairing something or advertising local firms are hired. (Pers. com. G. Eriksson, 15/04/2003)

The assortment is quite large with approximately 200 articles, for instance cured meat and provisions, beef, pork, veal, lamb, sheep, reindeer, elk and "ready cooked". On top of this comes the fast food marketed under the name Siljanfood. (www.siljanschark.se, 28/03/2003)

3. Price policy

When it comes to planning the production, there is a reward system to help the planning of cattle slaughter, i.e. an additional compensation. If a farmer delivers more than 12 animals there is an extra payment of 0.50 SEK per kilo, on top of the contract price. If the farmer plans the deliveries further ahead there is yet an additional 0.50 SEK per kilo. Siljans Chark pays the farmers a contract price based on SEK per kilo. (Pers. com. G. Eriksson, 15/04/2003)

The farmers are paid contract price and the extra 1 SEK/kilo and this is all handled with Swedish Meat as an intermediary. They are paid for what they deliver. (Pers. com. G. Eriksson, 06/10/2003)

The retail shops and institutional kitchens to which Siljans Chark delivers get their deliveries free of charge along with a 30 day long credit. There is no money flow between the production unit and the slaughterhouse since they are both parts of the company. (Pers. com. G. Eriksson, 15/04/2003)

Until recently Siljans Chark had a business agreement with a company in the same business, situated in the neighbouring County Hälsingland. Siljans Chark slaughtered its animals and sent them back to be further processed and sold as the private brand, "Hälsinge Lantkött". This agreement has now ended and Siljans Chark is about to start selling their products in Hälsingland with the project "Hälsingebönder" (Hälsingefarmers). (Pers. com. G. Eriksson, 06/10/2003)

4. Distribution policy

The transport between the farms and the slaughterhouse is 1-2 hours depending on where in Dalarna the farm is situated. The maximum time for animal transportation is eight hours according to EU rules. Independent hauling contractors make the transportation. The inward freight is approximately 0.40 SEK per kilo and is paid by Siljans Chark. (Pers. com. A. Svensson, 15/04/2003)

An independent logistics company executes the transport between the two Siljans Chark factories on contract. Payment is made per delivery. The lorries are situated halfway between the two factories to reduce the mileage. When the products are further processed and wrapped the deliveries are made to shops and other customers. Metra handles these transports too. The contract with the logistics company Metra is a co-operation between Siljans Chark and Milko, a regional dairy co-operative. Meat and dairy products have similar needs concerning temperature. The contract is renegotiated yearly together with Milko and there is a two-month notice of termination. Metra delivers products in Dalarna and to the neighbouring County Västmanland. Another logistics company delivers products to the nearby counties Jämtland and Härjedalen. (Pers. com. A. Svensson, 15/04/2003)

Siljans Chark delivers its products to shops, wholesalers and institutional kitchens. The goal for the business is total delivery security. The customer is contacted before the delivery if there are any cancellations or changes in the order it has placed. The deliveries to the shops and other customers are free and Siljans Chark can deliver the day after the order is placed. The sense of insecurity with deliveries can be almost completely eliminated with the closeness and the goodwill that Siljans Chark has built up with its customers. (Pers. com. G. Eriksson, 15/04/2003)

5. Communication policy

The orders are made through personal service. Siljans Chark has four salesmen calling the customers, and two representatives travel around visiting the shops and other customers.

There is a sales manager who primarily handles institutional kitchens, a large customer category for Siljans Chark. This is due to the fact that the food retail chains are centrally managed as stated earlier, which makes it harder for small local firms to get their products in to the larger food retail business shops. (Pers. com. G. Eriksson, 15/04/2003)

As most of the customers are situated in Dalarna it is easier to have continuous follow-ups to secure the customer satisfaction. This is an important ingredient in any prospering business. Siljans Chark handles the responsibility toward the end consumer. Siljans Chark has one employee who is responsible for any complaints it might get concerning its products. (Pers. com. G. Eriksson, 15/04/2003)

3.1.3 Dalagrisen

The project Dalagrisen started in 1998 when the farmers in Dalarna were about to shut down their farms. The price had decreased and the farmers felt that there was a question of survival for the pig farmers in Dalarna. Discussions between the farmers and Siljans Chark resulted in an agreement where Siljans Chark pays 1 SEK extra per kilo to the pig farmers and they deliver their animals to a unique product with certain criteria. This was the beginning of Dalagrisen, a brand at Siljans Chark. Dalagrisen is only sold in Dalarna, and is especially strong around the area of Siljan Lake in the centre of Dalarna. The other products, however, are sold all over the country. (Pers. com. G. Eriksson, 15/04/2003)

The criterion for delivering to Dalagrisen is that the pigs are fed with vegetable feed. Between 250 and 300 pigs are slaughtered weekly on Swedish Meats facilities in Uppsala since the factory at Siljans Chark is under construction. 10-11 farmers deliver their pigs to the project Dalagrisen. The project Dalagrisen covers about 35 per cent of Siljans Chark's total turnover. Since Siljans Chark pays a little extra for the pigs there is a long-term agreement between the farmers and Siljans Chark, as they are depending on each other. (Pers. com. G. Eriksson, 15/04/2003)

As stated earlier, Siljans Chark pays 1 SEK above the contract price set by Swedish Meat. The price fluctuates depending on supply and demand, but the price is always 1 SEK extra per kilo of the farmer in the project Dalagrisen. This also affects the price for the consumer. The price for Dalagrisen is approximately ten per cent higher than other Swedish meat, but it is a guaranteed product from Dalarna. (Pers. com. A. Svensson, 15/04/2003)

The product is differentiated in many ways; Certification is something that Siljans Chark has invested in as stated earlier. Dalagrisen has ISO 9000 and ISO 14 000 certification and HACCP. The image Siljans Chark wants to show is that the products are made in Dalarna with material from Dalarna for Dalarna. With the regional concept, Siljans Chark can provide a safety for the consumer as to the origin of the product. (Pers. com. A. Svensson, 15/04/2003)

3.1.4 Customers

To get an objective view of the agreements and cooperation between Siljans Chark and its collaborators, interviews were made in eight different shops with shop managers and managers of the cured meat and provisions department. The three major food retail chains are represented. Four interviews were made in Axfood shops (Hemköp), three in COOP shops and one in an ICA shop. Interviews were also made with 20 different customers in the shops.

Food Retail Business

All interviewees at Hemköp were aware of the national agreement Siljans Chark has with Axfood. However, it is a common policy at Hemköp not to label the cut meat they pack with the label of the producing company, including Siljans Chark. Hemköp has the same price on the Dalagrisen meat as all the other meat they sell (Pers. com. B. Gustavsson, 16/04/2003). Many of the interviewees therefore found it difficult to perceive whether there was a consumer demand for these specific products. Some shops, however, have signs in the refrigerated counter that show the origin of the products, but not on the product itself (Pers. com. B. Bergkvist, 16/04/2003). Their products are really good and as much as time admits they are labelled with Siljans Chark (Dalagrisen) to show the consumer what they buy (Pers. com. Z. Salim, 07/10/2003).

There is also a central agreement at Axfood with Swedish Meats to sell Scan products. The products from Scan are a bit cheaper than those from Siljans Chark. The products from Siljans Chark are very fresh and has very good quality says one of the interviewees,

though it is difficult to motivate the purchase when the price is higher. (Pers. com. Z. Salim, 07/10/2003)

Most people only ask whether the products are made of Swedish meat not any brand in particular (Pers. com. R. Snöborgs, 07/10/2003). With pre-packed provisions, such as sausages and bacon, all the interviewees at Hemköp could see a consumer demand. The demand for these products has increased lately, the products are fine and fresh (Pers. com. B. Bergkvist, 16/04/2003).

At COOP the consumer demand for regional products had been noticed, but since COOP has the same system as Hemköp with the labelling of products, the demand concerned mostly the pre-packed products. The pre-packed products are not that much more expensive than for instance Scan, and the products hold good quality and freshness (Pers. com. K. Olsson, 07/10/2003). Coop used to have own counters for the products, but not any more (Pers. com. R. Eriksson, 15/04/2003). The customers want Swedish meat and preferably local or regional meat, and with Siljans Chark they can get guaranteed Swedish meat (Pers. com. K. Olsson, 07/10/2003). The price is a problem for the regional producers, the customers want Swedish products of good quality but they are not willing to pay a higher price (Pers. com. O. Gellander, 07/10/2003).

At ICA the interviewee perceived that there is a consumer interest for the regionally produced products. However, the buyers are not altogether loyal. One of the reasons is the relatively high price (Pers. com. T. Lagergren, 15/04/2003). To let the customer know what is sold the reference number is placed next to the products to show that there is a difference between the Dalagrisen products and other products (Pers. com. T. Lagergren 15/04/2003).

All interviewees found the agreement satisfactory regarding ordering procedure and delivery. Siljans Chark calls two to three days a week to all shops. Three days a week the products are delivered around 10 and 11 am the day after the order is placed (Pers. com. B. Bergkvist, 15/04/2003). The chain of command is much shorter in a company like Siljans Chark as opposed to for instance SCAN which makes the ordering procedure easier (Pers. com. B. Bergkvist, 15/04/2003). The others get calls three days a week too and deliveries the day after ordering. As all the interviewees agreed on that the price is a bit too high, this is something that they would like Siljans Chark to work on.

The product Dalagrisen was considered to have high quality and positive associations by all interviewees. The shop manager at ICA in Mora stated his own interest in patronising the local and regional production as one of the driving forces behind the decision to sell Dalagrisen in his shop. Other reasons were the quality and freshness the products hold, the personal service is also very valuable and last but not least the demand from customers. (Pers. com. T. Lagergren, 15/04/2003) The brand is known in the area and the closeness to the producer is also an advantage, states one of the shop managers at Coop in Mora (Pers. com. R. Eriksson, 15/04/2003). When ordering from Siljans Chark you know what you get, and the idea to support local and regional companies appeals to both the shop and the customers (Pers. com. Z. Salim, 07/10/2003). The personal service Siljans

Chark offer is something unique, it disappeared long ago at Scan for instance. The service eases the ordering procedure and adds to a sense of security. (Pers. com. R. Snöborgs, 07/10/2003)

End Consumers

Anonymous consumers in the shops who were about to purchase a product from Siljans Chark, whether it may be Dalagrisen products or some other products from the cured meat and provisions department were asked what they thought about the products.

Seven of the customers liked the products from Siljans Chark, and buy them regularly. The “cut meat”, however, was a bit too expensive according to two of the seven. Three of the seven customers were convinced that the local companies were something to support, with the argument that they help keeping the county and local business alive. They too had complaints about the price.

Nine customers did not buy the local or regional products; they preferred the known larger brands such as Scan or even products from Denmark, mainly because of the price. Six of them did not feel that they could afford to choose on any other basis than the price. The remaining two were not interested in regional products. Four of the customers liked the idea with regional products and thought the traceability was a very important feature. They used to buy products from Siljans Chark occasionally, but their preferences were mainly focused on buying Swedish products.

3.1.5 Suppliers

The suppliers in this case are the farmers all over Dalarna who deliver their products to Siljans Chark to be further processed.

Farmers

There are no written agreements between Siljans Chark and the farmers who supply the products to be further processed. The agreement is built on a “gentlemen’s agreement”. There is interdependence between the two parties and it is not in the interest of any of the parties not to fulfil the agreement. As most of the farmers are stockholders in Siljans Chark they have an interest in the future and success of the company. (Pers. com. G. Eriksson, 06/10/2003)

Swedish Meats act as an intermediary concerning payments between Siljans Chark and the suppliers. It pays the farmers according to the set contract price, plus the extra amount of money the pig farmers who deliver their products to Dalagrisen get. Siljans Chark then pays Swedish Meats. (Pers. com. G. Eriksson, 06/10/2003)

3.2 Konsum Värmland

3.2.1 Short presentation of the company

Konsum Värmland is the largest food industry in Värmland, with 60 shops to sell its products. There are approximately 1 800 co-workers at Konsum Värmland. The co-operative started in 1903 and has 108 000 members. (www.konsumvarmland.se, 21/03/2003) Konsum Värmland is a fully integrated chain business with a market share of approximately 55 per cent in the Värmland County. (Pers. com. R. Ulin, 07/04/2003) The combine also has a complete food industry with a bakery, a cured meat and provisions factory and a distribution central, all situated in Karlstad, Värmland. The crude meat and provisions factory was founded in 1965. The turnover in 2002 was 310 million SEK and 8.3 million kilos of meat was processed. The factory has a total of 170 employees. (www.konsumvarmland.se, 21/03/2003)

Konsum Värmland is a member of Koperativa Förbundet, KF, the national Swedish apex organisation for consumer co-operatives. It does, however, not take a part in the COOP system, comprising a number of fully integrated retail chains, run by KF on behalf of a large number of regional consumer co-operatives. Konsum Värmland, like a few other regional consumer co-operative societies, runs its own retail businesses. (Pers. com. R. Ulin, 07/04/2003)

3.2.2 Interviews - Konsum Värmland cured meat and provisions factory

The collecting of data concerning Konsum Värmland was carried out through visits to the company, where interviews with Rolf Ulin (manager of Konsum Värmland cured meat and provisions factory) and Bror Nyman (sales manager at the factory) were made. The questions for the interviews were created around the keywords stated in Figure 3 section 1.3 and the theory explained in chapter 2, Supply Chain Management.

1. Relationships

The factory needs to produce 700 million kilos to attain its breakeven point; everything above that is profits. To be able to manage those terms Konsum Värmland started delivering their products to other consumer co-operatives three years ago. These co-operatives are situated in the West Coast counties of Sweden; Konsum Bohuslän and Konsum Älvsborg (Pers. com. R. Ulin, 07/04/2003)

Konsum Värmland is self-contained, i.e. all investments are self sponsored. Each product has to carry the costs it generates. The profits are distributed to the shops as a patronage refund, based on a percentage basis, i.e. proportionally. The ten per cent of outsourced products the factory provides to be sold in the shops are excluded from this deal. This leaves the factory starting from zero every year. (Pers. com. R. Ulin, 07/04/2003)

Konsum Värmland has a long-term agreement with Swedish Meats. The agreement implies that Swedish Meats deals with the farmers concerning “the Värmlandsgrisen project”, and handles the transports to the slaughterhouse and the cured meat and

provisions factory in Karlstad where the meat is further processed and cut. The contract with Swedish Meats is renegotiated yearly. Konsum Värmland slaughters no cattle; the beef needed in the production is bought from other companies. The reason is that there is no use for the main part of the cattle, and the facilities are not large enough to handle such large carcass weights. (Pers. com. R. Ulin, 07/04/2003)

Trust is the foundation of any good relationship. The relationship is very close in Konsum Värmland between the factory and the shops. There is no reason for distrust since they are part of the same business. The information flow runs easily throughout the whole chain, as there are no reasons to hide anything between different business units. The competitive situation is eliminated along with the insecurity that usually exists when to parties do business. The information goes both internally and externally. The shop managers are informed about new products and have contact with the factory several times a week. Konsum Värmland also has two consultants who work together with the shop managers, one in Bohuslän and one in Värmland. They inform the shop managers about new products and discuss problems that might occur. (Pers. com. R. Ulin, 07/04/2003)

The shops do not have to buy all the products the factory produces, but since they are a part of the same business they have something that can be described as a long-term agreement with the factory. Some of the larger shops cut their own meat, but the smaller shops get most of their products from the factory. (Pers. com. B. Nyman, 07/04/2003)

Entry and exit barriers are high in the food production business, but the risks are lowered substantially for Konsum Värmland since it has channels to get the product to the customers, i.e. the shops. (Pers. com. R. Ulin, 07/04/2003)

2. *Product policy*

The factory has no inventory; the business is run with the *JIT - just in time* system, and the shops receive their orders at a minimum of two times a week and up to five times a week. The order has to come before 11 o'clock on day one to be delivered on day two. This goes for Konsum Bohuslän and Konsum Älvsborg too. (Pers. com. R. Ulin, 07/04/2003)

The factory assortment is large; approximately 2 500 commodities are produced and each product has to be self-contained. Ten per cent of the commodities are outsourced. The factory only acts as an intermediary with these ten per cent to fill an existing demand. (Pers. com. R. Ulin, 07/04/2003)

All cutting made on the factory is made on an assembly line. The meatpacking is becoming more and more concentrated to these facilities. The cutting and packaging was formerly reformed in the actual shops, and still is in the larger shops. Since it is a matter of economy and efficiency, the smaller shops let the factory handle their meat cutting. The factory can also provide the service of customized packaging. (Pers. com. B. Nyman, 07/04/2003)

The sales are made with the data system “STAR” and personal sales. Five employees work as sales personnel towards the shops and take their orders. The personal sale is valuable since the shop manager can get an instant response on the order, which adds to the sense of security and continuity. If the order cannot be fulfilled the sales personnel can offer something else or adjust the order somewhat. (Pers. com. B. Nyman, 07/04/2003)

3. Price policy

Since Konsum Värmland is a chain business it is easy to move money. The cash flow is automated, the KF cash point system moves money between different accounts. The subcontractors (the suppliers of crude material), who represents 65 percent of the costs are dealt with in the old fashion way, invoices. All the economic transactions are made at the main office. (Pers. com. R. Ulin, 07/04/2003)

Transportation costs are included in the price when the products reach the shops. A net price is set from the factory and goes through the marketing department at the main office where the gross cost is set. The gross cost then goes straight into the cash registers in the shops. Logistics is approximately 6.5 per cent of the price. (Pers. com. R. Ulin, 07/04/2003)

4. Distribution policy

The factory is situated in Karlstad, Värmland, and the Konsum Värmland shops are situated in Värmland. The closeness makes it easier to fulfil the assignments and increases the goodwill even for customers further away, such as Konsum Bohuslän. (Pers. com. R. Ulin, 07/04/2003)

Konsum Värmland is, as stated earlier, a vertically integrated chain business. It has shops, a food industry and a distribution central. The transportation from the factories to the shops is therefore handled by the own distribution central and is included in the price the shops get. (Pers. com. R. Ulin, 07/04/2003)

5. Communication policy

Konsum Värmland takes total responsibility towards the end consumer, being both deliverer and shop owner (at least in Värmland). In Bohuslän, for instance, they still take on the responsibility towards the end consumer. (Pers. com. R. Ulin, 07/04/2003)

The factory reaches the end consumers mainly with the advertising pamphlet sent out to all members every two weeks. Here you can read about discount products and other offers. All of this is managed at the main office. Sometimes there is extra information about some of the products for instance Värmlandsgrisen or “Nästgårds”, another brand within Konsum Värmland, explaining what the products stand for. (Pers. com. R. Ulin, 13/10/2003)

The factory takes pride in keeping its promises, wherefore there are no activities with Värmlandsgrisen specifically as there is a limited supply of 500 pigs/week (Pers. com. R. Ulin, 13/10/2003).

3.2.3 Värmlandsgrisen

Värmlandsgrisen is a quality assured collaboration between Konsum Värmland and Swedish Meats representing high quality throughout the whole chain from breeder to consumer. In connection with the decision in 1998 to shut down the slaughterhouse in Kil, Värmland, the idea to start a project with the regional concept “Värmlandsgrisen” was born. Earlier there had been no question as to where the meat sold in Värmland came from, but when the only slaughterhouse in Värmland shut down the question arose. The consumers wanted to be able to trace the origin of the meat. Many customers feel that it gives a sense of security to know where the product comes from. The farmers of Värmland and a hired consultant founded what today is the regional concept Värmlandsgrisen, a private brand within Konsum Värmland. (Pers. com. R. Ulin, 07/04/2003)

Approximately 40 farms deliver their products to Konsum Värmland and the project Värmlandsgrisen. About 500 pigs are slaughtered weekly on contract by Swedish Meats. All the dealings concerning the slaughter are handled without the involvement of Konsum Värmland. The slaughter is performed on Swedish Meats’ plant. The plant is ISO-certified. (Pers. com. R. Ulin, 07/04/2003)

Until last year Konsum Värmland had another 250 pigs on the contract, i.e. 750 pigs, but they had difficulties selling that much pork. Today the agreement is 500 pigs and if there is a need they can buy additional pigs. There are no problems with supply. The excess demand is filled with pork meat that is guaranteed from Swedish farms, but it is not labelled Värmlandsgrisen.

Konsum Värmland pays an extra 0.50 SEK for the meat and only BIS -farmers are allowed to deliver their animals to the Värmlandsgrisen project. BIS, “Bäst i Sverige” (Best in Sweden) is a quality safety programme developed by Swedish Meats. This programme emphasizes environment, animal health and breeding. Controls are carried out continually to make sure that the BIS-programme is followed. (Pers. com. R. Ulin, 07/04/2003)

The factory is very particular when it comes to the farms used. The farms have to have a BIS diploma and if the meat is not satisfactory they refuse it. Constant controls of the meat are made, internal control and the obligatory veterinary control. The ability to trace the meat is made possible with help of a “tattoo” consisting of three letters and three numbers made by the farmer. The letters VRM stand for Värmland, for instance, and the number is the number of the farm. (Pers. com. R. Ulin, 07/04/2003)

The contract price the farmer gets for his product has so far been 10.53 SEK/kilo in 2003. Together with the extra 0.50 SEK that Konsum Värmland pays for Värmlandsgrisen, the BIS- farmer gets 11.03 SEK/ kilo. (Pers. com. R. Ulin, 07/04/2003)

The disposal of the offal (unusable parts of the pig), approximately seven per cent, has an estimated cost of 2.60 SEK/kilo to dispose, all according to EU-rules. This makes the

crude meat cost even higher. (The disposal can be used as bio fuel, which minimizes the effect on the environment.) (Pers. com. R. Ulin, 07/04/2003)

Konsum Värmland buys 1 875 tonnes of meat per year within the Värmlandsgrisen project, and the extra 0.50 SEK they pay is an additional cost of 1 million SEK per year. The additional cost is not added on the actual consumer cost. The product has the same price as the ordinary pig; the gross price is the same. This means that Konsum Värmland subsidizes Värmlandsgrisen with almost 1 SEK/kilo on the consumer cost. (Pers. com. R. Ulin, 07/04/2003)

The price of Värmlandsgrisen is the same no matter the size of the shop. Sold at a collective price, only the shops close to the Norwegian border have differentiated products, such as large packages and somewhat higher price. There are no agreements between the factory and the shops. If there is a meat surplus, the products are processed into products with longer durability, for instance smoke- cured loin of pork. According to the factory no shops ask specifically for only Värmlandsgrisen. They take what they get since all the meat is guaranteed Swedish. The head office decides what shops will get Värmlandsgrisen meat. (Pers. com. R. Ulin, 07/04/2003)

When Värmlandsgrisen was introduced, there was information to be found in the pamphlets and even in the refrigerated counters in the shops to show the customers what the product concept was. Nowadays the information often comes in the pamphlets around Christmas, because of the Christmas ham. (Pers. com. B. Nyman, 13/10/2003)

3.2.4 Customers

To get an view of the agreements and cooperation between Konsum Värmland its collaborators, interviews were made in the shops with seven different shop managers and managers of the cured meat and provisions department. Interviews were also made with 20 different customers in the shops.

Konsum Värmland shops

Konsum Värmland has 60 shops where the products are sold. The shops are divided into three different categories, small, medium and large depending on the size of the turn over. Each category has a manager who organizes all of the shops in that category. The shops are not compelled to buy Värmlandsgrisen from the combine, but most of the shops do. All advertising is made centrally from the main office. The shops are, however, free to advertise on their own. (Pers. com. R. Ulin, 07/04/2003)

Many interviewees thought that the demand for domestic meat is more evident than that of Värmlandsgrisen in particular. Most customers just ask whether the meat is Swedish or imported (Pers. com. C. Blom, 08/04/2003). The reason for this is according to several of the interviewees that the customers probably do not know what Värmlandsgrisen stands for. Some customers know, but there are those who just buy whatever they find in the refrigerated counter (Pers. com. Kristiansen, M. 13/10/2003). There are occasions where consumers ask for Värmlandsgrisen specifically. Only a few consumers would buy the

product if it was more expensive than the Swedish meat (Pers. com. A. Johansson, 08/04/2003). The demand for Värmlandsgrisen definitely increases before Christmas, since the Värmlandsgrisen Christmas ham has been an enormous success (Pers. com. B. Odén, 13/10/2003).

It seems like the members are more aware of things since they participate in the company's activities on another level than non-members do. As part owner you get more information than the ordinary customer. (Pers. com. B. Odén, 13/10/2003)

There are some shops where the customers ask specifically for Värmlandsgrisen. The people who ask for Värmlandsgrisen generally know what it stands for. It seems like the customers in the Konsum Värmland shops are well informed in general about the significance that Värmlandsgrisen has for the county business life and the farmers (Pers. com. J. Å. Lundborger, 14/10/2003). When Värmlandsgrisen first was introduced there were pamphlets in the refrigerated counters next to the actual products informing the customers about the products (Pers. com. M. Kristiansen, 13/10/2003).

There were different opinions on the ability to influence the distribution of Värmlandsgrisen and other meat from the factory. "We do not ask for it and cannot decide what we will get, it is decided at the main office." (Pers. com. A. Karlsson, 07/04/2003) "We can make a request but we will not necessarily get it, and sometimes we do request it." (Pers. com. A. Johansson, 08/04/2003) "We get Värmlandsgrisen, and most of the time it is enough to fill our demand." (Pers. com. B. Odén, 13/10/2003)

The interviewees found the agreement satisfactory regarding ordering procedure and delivery. The personal contact is very valuable (Pers. com. J. Å. Lundborger, 14/10/2003). "We use their services to the full extent. The service is excellent; one would probably manage without it but we do not have to." (Pers. com. C. Blom, 08/04/2003) "The personal contact makes the procedure even easier, but we have started using the Memo boxes more and more. You write the order number, a five-digit number, for the product you need and it goes via the PC and on through to the DC." (Pers. com. A. Johansson, 08/04/2003) The orders are made with Memo boxes, and the factory calls every week (Pers. com. M. Kristiansen, 13/10/2003).

The shops get deliveries up to five times a week and there is no particular difference between the shops. (Pers. com. A. Karlsson, 07/04/2003) None of the shops buys meat from any other supplier. "The shops that do not cut their meat by themselves are not allowed to order from any other supplier. We are pleased with the products we get from the factory; however, it would be nice to take some unusual orders from other suppliers such as ostrich or deer." (Pers. com. N. Jansson, 13/10/2003) The products get almost no complaints, although there have been customers questioning how one can be sure that the meat really is from Värmland (Pers. com. N. Jansson, 13/10/2003).

The product Värmlandsgrisen was considered to have high quality and positive associations by all interviewees, but none of them made a difference between Värmlandsgrisen and other Swedish meat. The area is too confined (Pers. com. C. Blom,

07/04/2003). However, when the organisation has a campaign price or sells Danish fillet of pork it shows its customers that there is a difference. These campaigns have not occurred for several years (Pers. com. A. Johansson, 08/04/2003). “We are not allowed to have product activity on our own, all advertising is handled at the main office. There are exceptions; if a shop is in a competitive situation; for instance, a competing food retail chain has a shop next to the Konsum Värmland shop. This situation allows offers and discounts activated from the actual shop.” (Pers. com. B. Odén, 13/10/2003).

End consumers

Anonymous customers in the shops who are about to purchase a product from the cured meat and provisions factory including Värmlandsgrisen were asked what they thought about the products.

As Konsum Värmland is a consumer co-operative society, most customers are members, whereby they get certain discounts and offers. Nineteen customers were members and said that they usually buy cured meat and provisions from these shops. Four of these did not care where the meat was produced and one of these four questioned the authenticity in what Värmlandsgrisen stands for. Since the pigs are slaughtered in Skara, and not in Värmland as before, this particular customer found it questionable whether the meat really was from Värmland.

Nine of these nineteen only cared that the meat was Swedish. The remaining six thought that there was an added-value when they knew that the product came from Värmland. Many of the customers mentioned the Christmas ham as one of the products that they bought from Värmlandsgrisen. Even one of the customers who only care that the meat was from Sweden said that she thought the Christmas ham was worth buying, the quality of the meat was supposed to be excellent.

The local/regional patronization was something that four of the six mentioned. It was according to them important to support the region and the regional business life. The money stays in the region instead of being swallowed into one of the large companies in the big cities. The traceability was also something that appealed to these four, “you know what you eat”, said many of them.

The customer without co-operative membership did not shop at Konsum Värmland regularly, but found the meat products to be of good quality.

3.2.5 Suppliers

Swedish Meats acts as an intermediary in the Värmlandsgrisen project between the Konsum Värmland factory and the farmers. The agreement is renegotiated once every year. The factory and the Swedish Meats representative agree on what the factory needs. The representative then negotiates with the farmers, which results in a contract, beneficial for all. (Pers. com. G. Zetterberg, 08/10/2003)

4. Analysis

Food retailing in Sweden is becoming increasingly centrally controlled, with only a few large chains. This consolidation means that smaller producers experience more and more difficulties to reach the consumers with their products. ICA has recently taken steps towards an even stronger centralization with central meat packing facilities. Therefore, ICA has its own labels on all the meat products sold in ICA shops. This may further impoverish the small-scaled enterprises.

Despite these problems, there are ways to succeed as a small producer, as shown by the two case companies. Both Siljans Chark and Konsum Värmland cured meat and provisions factory have built the companies the old fashion way, but with new visions. This chapter presents the analysis of the information presented in chapter 3. The analysis is presented with Supply Chain Management as the analytical tool.

4.1 *Siljans Chark*

1. Channel dynamics

Strategic alliances and long-term relationships are important ingredients for a successful business. As Siljans Chark does not have any shops of its own, the dependence on loyal customers is strong. Siljans Chark has some written agreements, so most agreements are based on gentlemanlike business behaviour and loyal customers. The customers stay loyal, as they trust Siljans Chark to deliver quality products. Therefore, the shops will gain from the goodwill the products possess. Having written agreements gives the company financial security as the company has somewhere to deliver its products. In this case, however, it seems like the loyal customers are just as solid as a written agreement.

The regional concept is fairly new, and the potential it holds has not yet fully revealed itself. It has, however, the potential to create a new consumer demand. A win/win situation is created between Siljans Chark and the shops as it gives an incentive for the shop managers to sell these products, as the products attract new customers and result in increased sales.

Siljans Chark has several strategic alliances. The alliance with the farmers, concerning the Dalagrisen project, has created interdependence between the two. In this case the business becomes stronger as the farmers have personal interest in the company being part owners. The investments in the Dalagrisen project, made by the farmers and Siljans Chark, are therefore high.

Another alliance exists concerning transports. Together with Milko, Siljans Chark is able to reduce costs by outsourcing the handling of the physical flow, namely transports. As Siljans Chark is a small-scaled company it would be uneconomical to handle the transports on its own.

2. Information and communication dynamics

The information exchange is extensive at Siljans Chark. Systems have been developed to simplify certain parts of the production. A system where only one of the parties gains something will not work as well as one where all receive benefits. The reward system (concerning the deliveries of animals) for instance, gives the farmer an economic incentive to plan the business according to the requests made by Siljans Chark. It also enables Siljans Chark to have the factories working at full capacity at all times.

The communication between the company and the shops is handled with personal service, which is a highly appreciated tool in the information exchange. It minimizes any sense of uncertainty the customer might have as he or she can get an instant response on the order placed. By notifying the customer at once if something is out of stock, and offer something else as a replacement, Siljans Chark increases its credibility among the customers.

The information exchange is mediated as accurately as possible. The risk of “adding a little extra-effect” is reduced, as there are limitations in the supply of certain products, such as Dalagrísen. Siljans Chark does not have any stock-in-trade, but as the customers in most cases are contacted personally, the chain of command is shortened and the ordering procedure becomes simpler and faster.

Even though many of the interviewed customers knew or had heard of Dalagrísen, it is still unclear whether the message and the image the products stand for is as acknowledged as it appears to be. There seems to be difficulties in getting the information through to the end consumers. As shown in figure 2, there are two ways to reach the end consumers, one is direct and one is through the food retail shops. As Siljans Chark does not have its own shops, it has to cooperate with the shops within all food retail chains in Dalarna. The products need to be of as good quality as promised with no exceptions, to make the shop owners interested in selling these products. It is therefore important to emphasise the added value the products possess, such as traceability and the regional concept, patronising the regional businesses, which might appeal to the customers. It is important to remember that the shops possess a certain power in having access to what the end consumers want.

The personal contact Siljans Chark has with all its customers gives an advantage, as it is perceived as confidence inspiring. There are always risks when entering new business relationships, wherefore it is important to demonstrate that both competence-based and affection-based trust (goodwill) exists.

3. Customer dynamics

The key is to identify what the customers want and, within the boundaries the production sets, give it to them. For the customers to make a conscious choice, they have to be informed of their choices. Some shops repack the products Siljans Chark delivers and thereby removes the labels, and as there are no other signs in the refrigerated counter it makes it harder for the customers. A way to catch the consumer’s interest is to have signs in the refrigerated counters with information about the products and what they stand for.

Signs outside the shops and direct mail are also ways of showing the customers what and where they can buy the products. These are ways to familiarise the customers with the products and to get them to actually buy the products. The information will have to emphasise the added value the products hold.

The regional patronization is an important feature. Dalarna is a county with a history of being very local patriotic. History still affects the inhabitants of Dalarna, as shown in the consumer interviews. The idea to support the region seemed to appeal to most of the interviewees, whether they actually bought the products or not. The name is appealing, with a regional touch.

It is almost impossible to create a sole definition for what quality is, and a measurement for it. There are as many definitions as there are people. Certification is, however, a measurement that is widely accepted, and most people have heard about. The Dalagrisen products have a wide range of certifications adding to their image. The most interesting certification would be the EFSIS, which creates an opportunity for the consumer to verify the authenticity of the product. The warranty of control is a code number tattooed on all animals by the farmer.

In responding to an increasing consumer demand, where traceability and security are to important factors, Siljans Chark has differentiated itself and the Dalagrisen concept. To further increase the product image as being true and of high quality, Siljans Chark takes total responsibility toward end consumers and handles any complaints the products might get. However, Siljans Chark seems to have loyal and satisfied customers as there was but one actual complaint about the products: the somewhat higher price.

4. Product and service dynamics

The feeling of uniqueness created around the Dalagrisen products comprises the local or in this case regional connection. The product originates in Dalarna, it is manufactured and sold in Dalarna for the inhabitants of Dalarna. Siljans Chark shows its commitment to the region by hiring local entrepreneurs to handle repairs, reconstructions and marketing campaigns for instance. There is a shared beneficial opportunity; Siljans Chark gives job opportunities with its business and help keeping the society alive. In return the customers buy its products.

Considering its size, Siljans Chark has a wide range of products. Having a large assortment is not economically feasible for a small-scale producer. It is therefore important to find a balance between the demand and the production costs and still be able to present differentiated products. The assortment at Siljans Chark seems to fulfil the demand of its customers. It is important to recognise that Siljans Chark has neither the intentions nor the capacity to become a sole supplier to its customers.

The importance of volume is another issue; Dalagrisen products can run out, as there is a limited supply. A consumer might not like the fact that he or she will not get the product or the volume he or she expects, but the positive side is that the consumer can be absolutely sure that the product can deliver the qualities it claims to possess. Siljans

Chark is not the sole supplier to any of the shops visited, which reduces the effect it might have on the shops. The shop managers see Siljans Chark as a complement and alternative to their cured meats and provisions department.

Dalagrisen products have a ten per cent higher price compared to other Swedish meat products. The extra amount the Dalagrisen farmers receive is the reason for the high consumer price. As the products possess something else than the average Swedish meat products and there is a real cost for the company, it is shown in the higher consumer price. The fact that Siljans Chark handles the slaughter of the pigs within the Dalagrisen project, adds to the credibility that the product actually is from Dalarna.

Siljans Chark delivers the day after the order is placed. The short distances give the shop managers a sense of security as the risk of delays is reduced. The products are not suitable for discount retailers as they hold more exclusive values. The consistency with the shop image is therefore important, and Siljans Chark can customize the packing to suit the shops.

The financial flow is not handled with such ease as it could be; mainly invoices are used. The computerized system used by many companies in the same line of businesses is something to strive for.

5. Logistic dynamics

Being a small-scaled company, Siljans Chark outsources the transportation. The transports between farmer and end consumer are short, as almost 80 per cent of the customers are situated in Dalarna. Siljans Chark shares the logistics contract with Milko, the regional dairy co-operative. It decreases the impact the company has on the environment and helps reduce costs.

The shops get free deliveries and a 30-day credit on their invoices, which shows that Siljans Chark is willing to take the risk and responsibilities that comes with moving merchandise.

4.2 Konsum Värmland

1. Channel dynamics

As Konsum Värmland is a vertically integrated co-operative the factory has an advantage compared to other producers in the same business. The profit goes to the whole combine and there is no reason for any of the business units to sabotage for one another as it affects all. The factory lets its profits return to the shops. The return is based on how much the shop buys, which is an incentive for the shops to sell the products. However, no bonus is given when selling Värmlandsgrisen, wherefore it is not possible to see the full effect this might have had.

There is no actual agreement between the factory and the shops, but there are different opinions about the matter when asking the shops managers. The agreement is more implied, as they are part of the same co-operative.

The only strategic alliance is that between Konsum Värmland and Swedish Meats. Swedish Meats acts as an intermediary between the factory and the farmers. It is a natural and practical arrangement, as Swedish farmers own Swedish Meats. Konsum Värmland can state its requirements and Swedish Meats has the connections and means to deliver. It saves a lot of time for Konsum Värmland not being forced to handle protracted negotiations.

The uncertainties that might occur when dealing with a business partner is eliminated and trust is a matter of course, as there is no competitive situation between the factory and the Konsum Värmland shops. The trust creates goodwill, which is useful when Konsum Värmland delivers its products to Konsum Bohuslän. To further reassure the fundamental trust the factory has two employees working together with the shop managers to help smooth the relations. The barriers of entry are high in this business; the vertical integration helps reduce the risks.

As Konsum Värmland is vertically integrated, the physical flow is smooth and easily handled by the distribution central. The products sold in Värmland do not leave the co-operative until the end consumers buy them. The products are transported through the different business units, and since they are all parts of the same co-operative the transports become less complicated as there are no external contacts to complicate the situation.

2. Information and communication dynamics

Information is shared between the different business units within Konsum Värmland; activities such as special offers are organized centrally, at the main office. The personal service is valuable for the shops as they can get an instant reply on the order they have placed.

The members seem to be quite well informed concerning Värmlandsgrisen. They receive information every second week through the membership newsletter. The newsletter is a medium to reach the end consumers and inform them about the products. The factory takes full responsibility towards the end consumer. This is an important issue in when dealing with other companies; it helps gaining trust.

As the shops are not guaranteed to receive Värmlandsgrisen meat (only Swedish meat), the end consumers have no chance of influencing this issue. There is no information in the refrigerated counter to show the added values Värmlandsgrisen possess. The consumer does not pay a higher price when buying Värmlandsgrisen. It is therefore almost impossible to conclude whether the end consumer would be willing to pay extra.

Information also runs easily through the co-operative as the competitive elements are eliminated by the integration. Personal contact helps speed up the process.

3. Customer dynamics

The Värmlandsgrisen products are produced in Värmland for the people of Värmland. “The money stays in the region”, is one of the arguments for Värmlandsgrisen. As the regional patronization has a history of being widely spread in Värmland, this argument is applicable. The idea to support the region seemed to appeal to many interviewees. The regional touch concerning the name of the products seemed appealing to many of the interviewees. Most of the customers at the shops seemed to take interest in and stress the importance of the products being Swedish. The Konsum Värmland shops do not sell imported meat. This knowledge gives the customers a sense of security, as they are willing to pay extra to get Swedish meat.

It is very difficult to create a sole definition for what quality is, and a measurement for it. There are as many definitions as there are people. Certification is, however, a measurement that is widely accepted, and most people have heard about. The Värmlandsgrisen products originate only from farms that are certified as BIS-farmers, and every animal is tattooed to mark its origin. This creates an opportunity for the consumer to verify the authenticity of the product. The tattoo, consisting of a code number, is a warranty of control.

4. Product and service dynamics

The products have a specific label distinguishing them from other meat products. Värmlandsgrisen is only sold in the Konsum Värmland shops. As the factory does not have stock-in-trade, it is important that all products are sold. As the factory limits the supply of Värmlandsgrisen (500 pigs per week), it is not possible to have a special offer with Värmlandsgrisen. This can be seen as an opportunity lost as the special offers often gives the products free publicity, which might increase sales.

Since the Konsum Värmland shops buy their products from the factory, it is safe to have a large assortment. However, all products have to be self-contained. The only differentiation shown between the Värmlandsgrisen products and the supplementary Swedish meat sold in Konsum Värmland shops is the Värmlandsgrisen label. This is the reason why it is not possible to show what the consumer wants since added value, such as traceability and quality is not emphasised strong enough. The customers seem to be satisfied with knowing that they are guaranteed Swedish meat.

There is no risk that the factory will not be allowed to deliver its products to the shops. However, to make the customers aware of Värmlandsgrisen there could be signs in the refrigerated counter showing what the products stand for.

The farmers get extra payment when delivering Värmlandsgrisen. It would therefore be logical to let the end consumer pay extra for the product, as the product possesses some additional qualities to other Swedish meat.

One issue that might work against the regional concept is that Konsum Värmland outsources the slaughtering of animals in the Värmlandsgrisen project. People might

question the veracity of the products as they are taken to the slaughter facilities in Skara, which is outside Värmland.

The money flow moving in the opposite direction is handled through a data system managed from the main office. The money is moved between different accounts.

5. Logistic dynamics

Transportations are handled by the distribution central at Konsum Värmland. As most of the deliveries are made within Värmland, the transports are shortened and the impact on the environment is reduced. The closeness gives the customers a feeling of freshness.

Deliveries are made all over Värmland the day after the order is placed, as agreed. The delivery security is important, as the factory is the sole supplier of cured meat and provisions products. The shops cannot manage without these deliveries. The factory customizes the products somewhat to suit the shops. As Värmlandsgrisen is sold only in the Konsum Värmland shops, it is easier to be consistent.

4.3 Siljans Chark versus Konsum Värmland

There are both differences and resemblances between the two case companies in starting point and procedure. Table 2 shows a comparison between the two companies.

Table 2: A comparison between the two case companies.

Siljans Chark	Konsum Värmland
Has its own slaughterhouse, but no shops and no distribution central	Vertically integrated co-operative company, with its own shops and distribution central
Sells its products in all food retail chains in Dalarna	Only sells its products in the Konsum Värmland shops in Värmland
Charges the end consumer 10 per cent extra for the Dalagrisen	Charge the same amount of money for the Värmlandsgrisen as other Swedish meats
Slaughters the pigs in Dalarna in Siljans Chark slaughter-house	Swedish Meats handles the slaughter in the Värmlandsgrisen project
The meat from Dalagrisen can run out	The meat from Värmlandsgrisen is supplemented with other Swedish meat as the supply to the shops cannot run out
Owned primarily by the farmers	Owned by the co-operative members
Situated in a county with a high degree of regional patronisation	
Gives the farmers with extra payments for the regional concept project	
Outsources certain parts of the production	
The products possess added value such as traceability	
The products have no specific signs or information in the shops to show the consumers where they can find the products	
Has a name with a regional touch	
Receives the order on day 1 and delivers on day 2	

5. Conclusions

Many factors determine whether a small-scaled producer will succeed. As the power shift in favour of the food retail businesses does not seem to decrease, the small-scaled producers have to rely on their own ability to market their products. It is therefore important to make oneself indispensable by producing good quality products, and continue the well appreciated personal service, which is a distinctive feature in their business.

Siljans Chark and Konsum Värmland are both very careful not to let their good reputation be tampered with. However, it is important for both companies to form tangible definitions for the added value their products possess. It is important to make the end consumers aware of the regional concept and what it means to the society and the region. The products need a name with a regional touch to appeal to the customers. It builds confidence between the company and its customers, and the confidence and trust is enhanced by the added value the products possess such as on time delivery, quality security and the traceability.

It is also important to render the business more effective by outsourcing parts of the business that are too expensive to manage by the company. Siljans Chark is large enough to have its own slaughterhouse, but another company on contract handles the transportation of the products. And to further decrease the cost, the outsourcing in this case is it is a co-operation with another company. Konsum Värmland has advantages being a fully integrated company with its own shops and distributions central.

Siljans Chark sells its products in all food retail shops and Konsum Värmland sells its products in the Konsum Värmland shops in Värmland. Since there are few companies like Konsum Värmland, with its own shops, it might be difficult to imitate Konsum Värmland on this particular point, wherefore selling the products to all food retail shops would be recommended.

One of the foremost reasons behind the success the two case companies have had with this fairly new concept is the regional patriotism. People living in these two counties seem to possess a large portion of patriotism. It is not in any way evident that Siljans Chark for instance, would have been successful with the regional concept, had it been situated in a different county. In appealing to people and their sense of belonging, it has been a very fortunate strategy. However, the reason does not in any way diminish the efforts the two companies have made to produce products, distinguished by the added value they possess.

Unfortunately the added value these products possess is not mediated to the full extent. There are still grounds to be covered. Customers need constant reminders, wherefore it is important that there are no uncertainties as to what products they buy. There should be signs containing information as to where the products can be bought and in the shops, in the refrigerated counters, information about what the products stand for. As these products hold such high quality and possess added value such as traceability, freshness

and local connection it is very important not to let it pass unnoticed. By showing the customers that the producers really believe in these products, they will believe in them too, both the shop owners and the end consumers.

The WTP, willingness to pay, differs between customers and it is perceived by many that the price is an important factor in the decision making process. The higher price paid for Dalagrisen is something that concerns customers as most people seem to have price as the main driver in their decision making process. It would be interesting to see how Värmlandsgrisen would manage if the consumer price reflected the actual cost the factory pays. Under present circumstances, the impact the regional concept could have is not fully visible. Siljans Chark charges a higher price than other Swedish meat products and can still maintain its customers.

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