



LUND UNIVERSITY

School of Economics and Management
Department of Business Administration

FEKN90

Business Administration-

Degree Project Master of Science in Business and Economics

Spring term of 2013

Standing Out from the Crowd -how to compete in the FMCG industry

Author:

Anna Kuylenstierna

Åsa Lundgren

Supervisor:

Ola Mattisson

Abstract

Title:	Standing Out from the Crowd – How to Compete in the FMCG Industry
Seminar date:	May 28 2013
Course:	FEKN90 Degree Project Master of Science in Business and Economics 30 University credits (30 ECTS)
Authors:	Anna Kuylenstierna and Åsa Lundgren
Advisor:	Ola Mattisson
Key Words:	Fast fashion retail industry, competitive hybrid strategy, customer-oriented activities, customer value
Purpose:	Our main purpose is to analyse what customer-oriented activities companies that sell FMCGs do to maintain competitiveness. To achieve our main purpose we have two sub purposes. Our first sub purpose is to describe the industry structure and its competitive environment to gain insight in what customer-oriented activities companies do to compete in the FMCG industry. Another sub purpose is to develop an analytical tool, based on combining activities from Osterwalder & Pigneur's (2010) Business Model Canvas and Porter's (2008) Value Chain to apply this tool on our collected empirical data.
Methodology:	We have chosen a qualitative, descriptive study with an abductive reasoning approach where we have conducted qualitative interviews with various managers at our interview companies Cubus, BikBok, H&M and a company that requested to remain anonymous called Fashion AB. Additionally we have interviewed an industry analyst at Svensk Handel Stil.
Theoretical perspectives:	Our theoretical framework is based on three key schools: industry structure, hybrid strategy and customer-oriented activities. To analyse the industry structure we have decided to use Porter's five forces and use Klepper's industry life cycle to identify the industry's life cycle stage. We recognised that companies apply the hybrid strategy to achieve uniqueness compared to competitors. To fulfil our main purpose in identifying what customer-oriented activities companies selling FMCGs do to create customer value, we used Porter's VC and Osterwalder and Pigneur's BMC to develop an analytical tool. This tool is applied to our empirical data to test the validity of the theory. This theoretical framework gives us the opportunity to do a thorough analysis of our empirical data.
Empirical foundations:	Given the development of fast fashion in the apparel industry, it is therefore interesting to examine companies in the fast fashion retail industry. The primary data is based on interviews from an industry expert and seven company employees to generate knowledge about what customer-oriented activities companies use as their competitive strategies to create customer value and maintain competitiveness. Secondary data will match missing information.
Conclusions:	All the collected data in this thesis indicate the product to be the most important competitive strategy in the industry. Except for the product, customer-oriented activities are implied to contribute to the customer experience, however price and time are a prerequisite to even exist on the market.

Thank you

We would like to give a big thank you to Magnus Kroon, Jens Erik Frugård, Renè Högstedt, Martin Lien and Merete Moen that have contributed with important information and made it possible for us to complete our thesis. We would also like to thank our advisor Ola Mattisson for helpful comments and feedback during the thesis. Last, but not least we would like to thank Oskar Kardell and Amelie Kuylenstierna who have also given us constructive feedback.

Without you, there would hardly have been a thesis.

Lund, May 2013

Åsa Lundgren

Anna Kuylenstierna

Table of Contents

1. INTRODUCTION.....	6
1.1 BACKGROUND.....	6
1.2 PROBLEM DISCUSSION.....	7
1.3 PURPOSE.....	9
1.4 THESIS DISPOSITION.....	10
2. METHOD	11
2.1 CHOICE OF SUBJECT.....	11
2.2 ABDUCTIVE REASONING APPROACH.....	12
2.3 QUALITATIVE APPROACH.....	12
2.4 THEORETICAL FRAMEWORK	13
2.5 DESCRIPTIVE AND EXPLORATIVE RESEARCH QUESTION	13
2.6 DATA COLLECTION: INTERVIEWS.....	13
2.6.1 Primary Data.....	13
2.6.2 Secondary Data	14
2.6.3 Choice of Interviewees.....	14
2.7 ANALYSIS METHOD	15
3. THEORETICAL FRAMEWORK.....	18
3.1 THE INDUSTRY STRUCTURE	18
3.1.1 Porter's Five Forces.....	19
3.1.2 Industry Life Cycle.....	19
3.2 COMPETITIVE STRATEGIES	20
3.3 HYBRID STRATEGY.....	23
3.4 CREATING VALUE	24
3.4.1 Business Models.....	25
3.4.2 The Value Chain	26
3.4.3 Business Model Canvas.....	28
3.5 OUR THEORETICAL FRAMEWORK	32
4. EMPIRICAL DATA.....	35
4.1 FAST FASHION.....	35
4.2 THE RETAIL INDUSTRY.....	36
4.3 CUBUS	37
4.4 BIKBOK.....	39
4.5 H&M.....	43
4.6 FASHION AB.....	44
4.7 SUMMARY OF KEY FACTS	48
5. ANALYSIS.....	49
5.1 THE INDUSTRY STRUCTURE	49
5.2 HYBRID STRATEGY	50
5.3 MARKETING.....	52
5.4 CUSTOMER SERVICE.....	53
5.5 DISTRIBUTION CHANNELS	54
6. CONCLUSIONS	56
6.1 THEORETICAL CONTRIBUTION.....	57
6.2 PRACTICAL CONTRIBUTION.....	59
6.3 SUGGESTIONS FOR FUTURE STUDIES.....	60
7. REFERENCES.....	62
7.1 PRINTED.....	62
7.2 ELECTRONIC	64

APPENDICES.....	66
APPENDIX A: INTERVIEWEES	66
APPENDIX B: INTERVIEW MANUSCRIPTS.....	67

1. Introduction

In this chapter the background description of the chosen topic is presented followed by a problem discussion leading to the purpose of this thesis. To end the first chapter we clearly present our disposition.

1.1 Background

The average consumer spends a lot of their total budget on FMCGs (Celen, Erdogan, & Taymaz, 2005). Fast moving consumer goods (FMCGs) are a type of consumer good that are purchased for almost immediate consumption (Majumdar, 2006). Studies show that many companies selling FMCGs have competed with dimensions like time and price. There is a wide range of FMCGs from ready meal products to convenience stores to fast fashion, but what they all have in common is trying to settle consumers' impatience. It is therefore important for companies to understand what activities companies that sell FMCGs do to achieve customer value and hence maintain competitiveness. (Burt, 2010)

Customer satisfaction may lead to customer loyalty. Generally, customers' main priority is time and responding to time pressure requires companies to have an excellent coordination throughout the demand chain. An example that demonstrates the speed of market responsiveness is fast fashion, which requires not only quick delivery to stores, but also flexibility in activities in order to respond to the constant variation in consumer taste. (Burt, 2010) The fast fashion retail industry can be portrayed by Darwin's infamous words, "survival of the fittest" as generally, companies that react quickly to changes in the environment, so called active companies, will endure the tough competitive industry. However, many fast fashion retail companies find it difficult to imitate and renew their business concept, which is why several companies remain passive, maintaining their current strategy. (Bergström & Fölster, 2005)

According to Bergström and Fölster (2005), there is a high concentration of low-price apparel chains in the Swedish market, but the apparel industry has reached maturity during the last decade. This is partially an outcome from the tough price competition driven by the fast fashion retail chains that have outsourced production and developed more effective logistics. (Bergström & Fölster, 2005)

The Swedish fast fashion retail market mainly consists of large chains that offer fashion at a low price and are stealing market share from smaller players. There is endless pressure throughout the supply chain, to speed up activities and keep costs down. However, it has become important for companies to understand consumer demands and how to satisfy these demands. Therefore, in order for the large chains to maintain their market position, companies must ensure the implementation of customer-oriented activities. (Bergström & Fölster, 2005)

The Swedish fast fashion retail industry will therefore be analysed in terms of how companies use customer-oriented activities to achieve a unique value proposition in order to compete with short lead times and low prices.

1.2 Problem Discussion

Due to the increased number of players in the FMCG market, consumers have a broader choice of selection for similar products. This challenges companies to maintain their competitiveness.

“Consumer Goods companies operate in an environment facing multiple pressures from customers and competitors. Intelligent pricing strategies would allow companies to defend and increase profits by getting the right price, for the right products for the right customers.” (Billige, 2013)

Considering the tough competition on the Swedish fast fashion retail industry, companies need to gain knowledge and understanding in how they should create customer value and maintain competitiveness. The problem is how companies should strategically work to distinguish themselves from competitors. The competitive industry environment makes it challenging for companies to formulate strategies in how to stand out from competitors and create added value to the customer.

Companies in the FMCG industry face the dilemma of how they should escape price and time pressures using competitive strategies by differentiating their customer-oriented activities. In addition, companies need to be concerned of consumers' changing tastes and their increased influence in what companies offer on their shop shelves.

With price pressures too tough to endure, companies must turn to other strategies to gain advantage over their competitors. Porter (1980) claims that to create a competitive advantage,

companies must examine the industry characteristics and how companies differentiate themselves compared to other companies in the industry. The competitive strategies companies choose to apply depend on the industry structure and the stage in the industry life cycle (Carroll & Swaminathan, 2000). Companies must be aware of the opportunities and threats that an industry faces depending on its stage in the industry life cycle and industry forces that shape the industry.

Companies must apply a hybrid strategy, a combination of strategies, to bear the tough competition (Datta, 2009; Kim & Dae-il Stimpert, 2004; Baroto, Bin Abdullah & Lai Win, 2012; Thompson, Peteraf, Gamble, & Strickland, 2012; Ireland, Hokisson, & Hitt, 2011). Time and price were a way companies tried to differentiate their offering, but today all players on the market consider these factors in their competitive strategies. Therefore companies can turn to customer-oriented activities in their strive to differentiate themselves and offer something unique. Companies may consider the development in technology to renew their business model and in search for an opportunity how they should differentiate (Baroto et al., 2012).

Many companies find it challenging to renew and adapt their business model to constant industry changes (Johnson, Christensen, & Kagermann, 2008). According to Johnson et al. (2008) it is difficult to define one's business model, which is perhaps why companies use other tools to outline their strategies and value proposition.

The Value Chain is a tool used to illustrate how companies add value to a product using different activities along the supply chain. Porter's (1980) Value Chain and Osterwalder and Pigneur's (2010) Business Model Canvas are developed for companies so that they can analyse how they can add emotional value to their functional offering. Existing research on value chains study the supply chain activities as a whole and rarely refine the tools to just focus on a few activities.

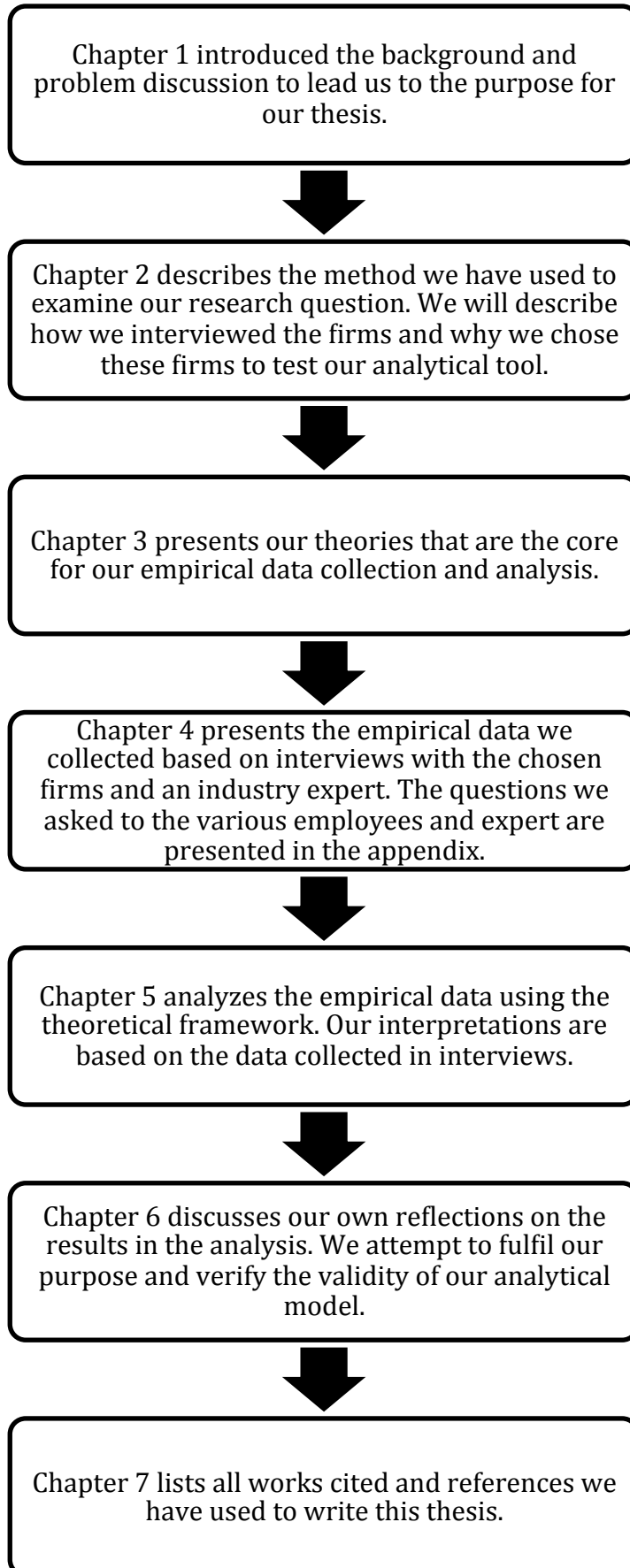
There are specific aspects of the FMCG industry that are interesting to study theoretically since they have a considerable impact on the competitive situation and the chains' competitive strategies. We can contribute theoretical value by validating, modifying or rejecting existing theory about the industry structure, competitive strategies and value in the FMCG industry. Thus, the study can contribute theoretical knowledge partially by validating existing theory and partially by modifying existing theories about value to ultimately emphasise interesting aspects of FMCG industry that can add new dimensions to existing research in strategic management.

Our study aims to contribute empirically with a refined value tool for chains in the FMCG industry and other players dealing with consumer goods in highly competitive industries. The tool aims to illustrate what customer-oriented activities existing players in highly competitive industries that sell FMCGs implement to survive the tough competition. Therefore we aim to add to the scientific research on value and competitive strategies for chains' customer-oriented activities within the FMCG industry.

1.3 Purpose

Our main purpose is to analyse what customer-oriented activities companies that sell FMCGs do to maintain competitiveness. To achieve our main purpose we have two sub purposes. Our first sub purpose is to describe the industry structure and its competitive environment to gain insight in what customer-oriented activities companies do to compete in the FMCG industry. Another sub purpose is to develop an analytical tool, based on combining activities from Osterwalder & Pigneur's (2010) Business Model Canvas and Porter's (2008) Value Chain to apply this tool on our collected empirical data.

1.4 Thesis Disposition



2. Method

In this chapter we present the reasoning behind our chosen method for our thesis. We will present why we chose this subject, theory, approach, data collection method and analysis. Finally we explain the limitations in our chosen method.

2.1 Choice of Subject

Fast fashion retail chains sell FMCGs and dominate the Swedish apparel market. Since shorter lead times, also known as fast fashion, on its own no longer is a competitive strategy; companies are faced with the challenge to find new ways to deliver a unique offering. Fast fashion retail illustrates an example of the FMCG industry where there are many players competing with similar products at the same time at the same price and are now facing the dilemma in how they should differentiate their offering to strive for a competitive advantage. Fast fashion retail is of particular interest partially because there is a lack of research in how companies use customer-oriented activities in the FMCG industry and partially because of our personal interest in fast fashion. More specifically it is interesting to look at how companies fulfil customers' desires and their continuous change in tastes. Fast fashion retail is a good example to portray the industry where cutting costs and shorter lead times are a prerequisite to even exist on the market. We will examine what customer-oriented activities industries that sell FMCGs do to achieve customer value and hence maintain competitiveness.

The purpose with this thesis is to examine what activities companies do to achieve customer value in fast fashion retail chains limited to the Swedish market. We chose to specifically look at fast fashion retail, as an example of an industry that sells FMCGs. To fulfil our sub purpose we also interviewed an industry expert to analyse the industry structure and environment. Thereafter eight interviews will exemplify what companies do in response to the competitive environment compared to each other. Because we are not able to collect data from all fast fashion retail companies on the Swedish market, we have chosen to use data from interviews of four fast fashion retail chains that are very well represented in Swedish shopping malls: H&M, Cubus, BikBok and Fashion AB, a fast fashion retail chain that has requested to be anonymous for this thesis. These fast fashion retail chains produce and sell in-house designed apparel to the mass-market.

2.2 Abductive Reasoning Approach

We have chosen to take an abductive reasoning approach, which is a combination of a deductive and inductive reasoning approach, which according to Saunders, Lewis and Thornhill (2009) is preferred. We started by reviewing previous research done on FMCG to develop our theoretical framework and to find fundamental theories that can be applied to our analysis. Based on the chosen theories we developed an analytical model applicable to our thesis question. To develop the analytical model we have used a deductive reasoning approach where we will apply these theories empirically.

A deductive reasoning approach is often criticised as being too specific when used on its own. Our inductive reasoning approach is based on semi-structured interviews, where our interview responses may present us with further information impacting our theoretical framework.

The abductive reasoning approach has made it possible to answer our thesis question and give space for interpretation, which has been important for the construction and interpretation of interviews.

2.3 Qualitative Approach

Quantitative research of numerical data collection and testing statistic correlations of different variables has been criticised because it reflects a more static picture of reality compared to a qualitative study (Bryman & Bell, 2005). Therefore we have chosen to study our purpose using a qualitative approach. A descriptive qualitative study is necessary to describe how players in the fast fashion industry experience the competitive situation and what customer-oriented activities they perform to achieve customer value and hence maintain competitiveness. A qualitative approach is preferred to respond to our purpose and sub purpose compared to a quantitative approach, which is not relevant for our study given we are not testing any measured correlations.

2.4 Theoretical Framework

Our theoretical background is based on three key schools: industry structure, competitive strategies and customer-oriented activities. To fulfil our sub purpose of analysing the industry structure we have decided to analyse the industry structure using Porter's (2008) five forces and identifying the industry's stage in Klepper's (1997) industry life cycle. To examine competitive strategies we identified the hybrid strategy to achieve uniqueness (Datta, 2009). By identifying how companies differentiate in customer-oriented activities we will examine how companies selling FMCGs can create customer value using Osterwalder and Pigneur's (2010) BMC and Porter's (2008) VC. This gives us the opportunity to do a substantial analysis of our empirical data based on our theoretical framework.

2.5 Descriptive and Explorative Research Question

We aim to analyse what activities fast fashion retail chains do to achieve customer value and maintain competitiveness, by using a descriptive approach, rather than the explaining approach (Jacobsen, 2002). The explorative approach, which is used to discover new facts from a new perspective, will also be applied to further examine how the customer-oriented activities have been important for the selected retail chains to maintain their market position (Saunders et al., 2009). In conclusion, we will use both the descriptive and explorative research types.

2.6 Data Collection: Interviews

2.6.1 Primary Data

The primary data has been collected from telephone and face-to-face interviews with companies and industry experts (Bryman & Bell, 2005). Due to the use of a qualitative approach, it allows the interviews to be interpreted according to the situation to be able to get as much relevant data out of the interviews as possible. Personal interviews are the most common research method when taking a qualitative approach (Bryman & Bell, 2005; Jacobsen, 2002).

We have developed two interview scripts: one script for the industry expert and another for the interviews with representatives from fast fashion retail chains. Though the scripts are different, they are both based on our theoretical framework based on our deductive reasoning approach. Therefore the interviews are semi-structured and we had the opportunity to ask questions

outside of our script (Bryman & Bell, 2005). Three interviews were done face-to-face and five interviews were done via telephone, so in total we did eight interviews. During the face-to face interviews it is easier to determine how much the interviewees were willing to disclose and interpret their reactions, allowing adaptation to the questions. Additionally, perhaps the interviewees had more confidence in us after meeting us in a relaxed environment. (Jacobsen, 2002) The face-to-face interviews took place first and then the telephone interviews were used to reiterate different statements. All interviews were recorded and have been transcribed from Norwegian, Danish and Swedish to English. The results are presented in the empirical chapter and citations used have been translated to the best of our ability.

2.6.2 Secondary Data

The secondary data used is information about the companies and their operations collected from their websites, but also other information from other published interviews and presentations. The secondary data is collected as a complement to our primary data. To introduce our empirical data we have presented background information about the fast fashion retail industry, to make it easier for the reader to understand the analysis. As an introduction to the primary data, we will also present a short introduction to all companies that are part of our empirical study as a background to our primary data.

2.6.3 Choice of Interviewees

We interviewed Svensk Handel Stil because they are experts within the retail industry and in the development of the retail industry. This gave us data that could be used to benchmark our results from our interviews from fast fashion retail companies.

In order to choose a sample to represent the Swedish market, we contacted all the stores that are available in more than half of the 12 largest shopping malls in Sweden. The number of shopping malls in Sweden has increased during the last twenty years and has become a popular place for retailers to open stores. (Arnberg, Bergström, Blank, Cronholm, & Widerstedt, 2006) Out of the 13 companies that were contacted to take part, the following five companies agreed to collaborate: H&M, Cubus, BikBok, Dressmann and Fashion AB. After our interview with Dressmann, we chose to only focus on women's fast fashion apparel. Therefore Dressmann will not be included in this thesis. Fashion AB requested to be anonymous, but contributed with valuable data and therefore we chose to include them in our study anyway.

We chose to interview several companies within the fast fashion retail industry to get an overview what the industry does rather than look at a single company. By interviewing different

companies we can see what activities they do compared to each other and several different players can validate the tough competitive situation and choice of competitive strategy.

Below is a diagram of the employees from the different companies that were interviewed for our empirical data.

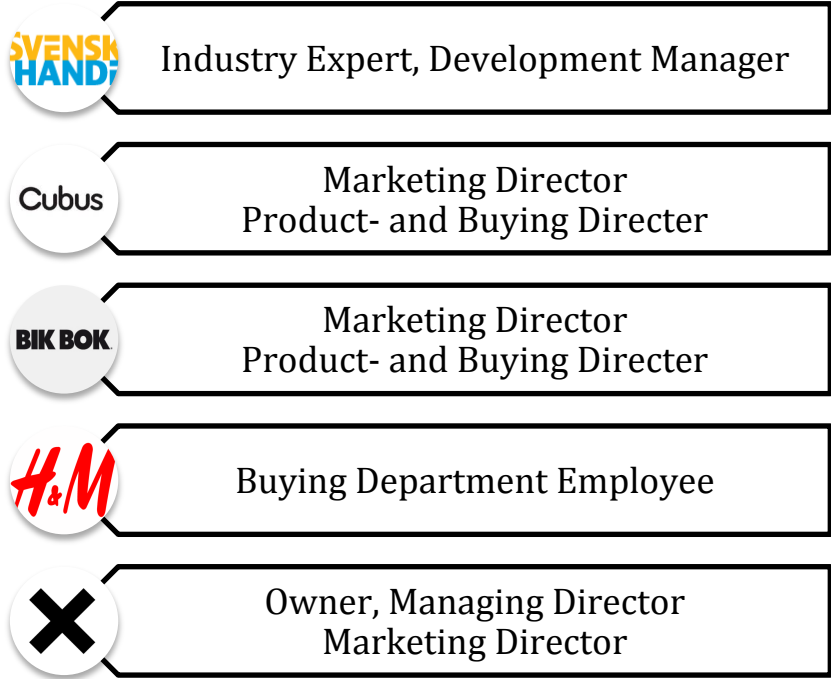


Diagram 1: Registry of Chosen Interviewees

2.7 Analysis Method

To fulfil our purpose we will develop an analytical tool, which can be used to identify what activities companies do to achieve customer value in industries that sell FMCGs. Our theoretical framework presents an outline to how the empirical data will be presented and the structure of our analysis chapter. In the analysis chapter we will interpret our empirical data and sort it into different categories presented in our theoretical framework. Our aim with the analysis is to examine how well the empirical data agrees with the theoretical framework presented in the third chapter. This will also lead us to ultimately assess the validity of our analytical model in our empirics.

There is a lack of literature on how fast fashion retail chains as a part of the FMCG industry can create value. Therefore we believe it would be interesting to create an analytical tool derived from Osterwalder and Pigneur’s (2010) BMC and Porter’s (2008) VC that is applicable to the FMCG industry.

We will first use Porter's five forces to analyse the industry structure and help determine what stage in the industry life cycle the Swedish fast fashion retail industry currently is in. Depending on the industry life cycle stage, we will determine which competitive strategy fast fashion retail chains apply. We have chosen to examine one area within the FMCG industry that exemplifies the quest for a competitive advantage by offering uniqueness in customer-oriented activities. We will use Porter's (2008) VC and Osterwalder and Pigneur's (2010) BMC to examine what activities companies do to maintain competitiveness.

2.8 Validity, Reliability and Replication

The validity and reliability for qualitative research is different from quantitative research. Qualitative research points out a difference between internal and external validity respectively internal and external reliability (Bryman & Bell, 2005).

The internal reliability of the empirical data is important to ensure reliability of this thesis (Bryman & Bell, 2005). To support our validity we have chosen to base our study on a strong empirical ground. We interviewed representatives from four companies that have leadership positions such as marketing manager, product- and buying manager, owner and managing director. These employees should be able to give a good representation of what fast fashion retail chains do in terms of customer-oriented activities to give strength to our empirical findings. Within each company, we interviewed at least one person, which gives a more general picture of what companies in fact do. Our empirical data is mainly from primary sources from interviews and several of those were face-to-face interviews, which adds to the thesis' reliability. It is important to have thorough research to be able to use the data to come to a valid conclusion. This is why we chose to include the empirical material collected from a company that requested anonymity in this thesis.

Since we have chosen to collect empirical data using interviews, we need to be aware of the interview effect. The interview effect implies that the person(s) conducting the interview can cause the results from the interview to be coloured (Jacobsen, 2002). To avoid this, we asked open-ended questions. However, we adjusted the questions to assure that the interviewee fully understood the questions. The interviewees' answers may not truly reflect the company strategies since some information may not have been shared for reasons like company secrets and threat of competitors since this thesis will be published.

That we have chosen to write this thesis in English is yet another factor that supports the thesis' validity since it can be spread to many more readers.

The external validity concerns how general the thesis' results are (Bryman & Bell, 2005). We assess the external validity as high because we interviewed people from different companies, which gave us a more valid representation of what companies do in general in terms of customer value. This allows us to illustrate a more general picture of the competitive strategies in the FMCG industry rather than each separate company's individual strategy. Therefore we have been able to compare companies to each other within the industry as a whole rather than examining only one company and its strategies. Therefore our thesis results can be applied to other industries selling FMCGs.

The internal reliability discusses how well the authors for this thesis agree on interpretations for the research (Bryman & Bell, 2005). We assess the internal reliability high since we have analysed and interpreted the empirical data together. This is supported by the fact that we have recorded and transcribed all interviews and therefore we have had the opportunity to reassess all collected data. However, we need to make note of the reliability in our efforts to translate our empirical data. We chose to transcribe all our recorded interviews into Swedish, even though some were in Norwegian and Danish. We have then translated this data into English for our thesis. We are aware of the risk for misinterpretations and perhaps the message may have been lost along the way, but we have translated to the best of our ability.

The external reliability discusses how easy it is to replicate the study. It is generally very difficult to replicate qualitative studies since social environments tend to change, which could affect the collected data if it were collected again (Bryman & Bell, 2005). If we did this study again, but collected our empirical data from other company representatives one could question if we would reach the same results. We are aware that we cannot assure that we would reach the same results, but we believe that we have relied on empirical data that is thorough enough for us to come to our conclusions, but we still assess the thesis' external reliability low mainly due to the difficulty of replication.

3. Theoretical Framework

In the following chapter we will present the theories we have chosen to study in our thesis. First we present our theories and motivate why they are relevant for this specific thesis. We will summarise our theories in a theoretical framework. Finally we will present an attempt to an analytical model.

To fulfil our sub purpose we will use Porter's Five Forces (2008) and the Klepper's industry life cycle (1997) to examine the industry structure and identify the FMCG industry life cycle stage. By analysing the industry structure and identifying the stage of the FMCG industry, it is easier to understand how tough competition can be managed and which competitive strategies should be implemented.

Next we will discuss how companies use a combination of strategies to react to the competition on the market. According to Porter (2008), cost leadership, differentiation and focus strategies are fundamental for a successful competitive strategy.

Finally we will present our theories about value to lead us to three customer-oriented activities that are possible to differentiate in the FMCG industry to maintain competitiveness. An industry with many companies that offer the same products at the same time and at the same price must create value through other dimensions than price and time. The Value Chain (VC) and Business Model Canvas (BMC) are tools that help to identify where value is created for the customer, respectively for the company. By combining the customer-oriented activities described in the BMC and the VC we will take a closer look at marketing, customer service and relations and distribution.

3.1 The Industry Structure

The industry structure will influence how a company chooses its strategy. To understand the industry and competitive situation in an industry that deals with FMCGs, we will apply Porter's (2008) Five Forces and Klepper's (1997) Industry Life Cycle. These models will give insight in how an industry, depending on what stage it is in, should compete in the most effective way.

3.1.1 Porter's Five Forces

It is interesting to examine the industry structure, since the fast fashion retail industry, that sells FMCGs, has radically changed during the past two decades (Burt, 2010).

According to Porter (2008) the industry structure is a result of five fundamental forces: rivalry among existing firms, threat of new competition, the bargaining power of customers, the bargaining power of suppliers and the threat of substitute products. The forces determine the competitive intensity and therefore the attractiveness of an industry. They also determine the strategies that are most suitable in order to generate the highest profits. These forces determine a company's ability to compete on its own market and the strength of those forces characterises the industry. (Porter, 2008)

Rivalry among existing firms is granted if there is a large number of competing companies. The threat of new competition depends on the market's entry barriers such as capital requirements or customer loyalty to established brands. The bargaining power of the customers is also important because it may trigger customers to demand better service and or higher quality. The bargaining power of suppliers is strong if the delivered product is unique or hard to acquire, which often affects the price of the product. The threat of substitute products is when similar products are available on the market satisfying the same needs for the customer. The lower the switching costs between different substitute products available on the market, the more competition the industry faces. (Porter, 2008)

3.1.2 Industry Life Cycle

The industry life cycle describes how an industry develops over time as the demand for goods increases. The lifecycle has four phases: introduction, growth, maturity and decline. In identifying the phase an industry is in or approaching, we can identify how to compete effectively to achieve competitive advantage. (Klepper, 1997) Highly competitive industries find it difficult to maintain their competitive advantage, which is why companies need to continuously seek new ways to create customer value (Carroll & Swaminathan, 2000).

The more successful a company becomes, the more appealing it becomes for other players to enter the market. This leads the industry to the growth stage where new players on the market will cause an increased competition of product quality and an increased importance of marketing activities. (Dunne, Roberts, Samuelson, 1988) FMCGs are supplied in large quantities with large numbers of different alternatives to choose from (Burt, 2010). The increased

availability of goods tends to make the consumer more price-sensitive because there is a broader selection. Consequently, industries may choose to focus on brand building, innovative strategies or new distribution opportunities to maintain competitiveness in this stage. (Dunne et al., 1998)

As the demand for products starts to decline, usually due to the abundance of suppliers, the industry approaches the maturity stage. When the consumer is informed about what is available on the market and there is a high threat from substitute products, the ability to supply goods outweighs the demand for those goods. Grant (2010) presents the following four strategies that are directly applicable to an industry that approaching maturity: cost advantage, segment and customer selection, the quest for differentiating and innovation.

When the industry faces threat of substitution goods, the industry risks to enter the decline stage. The purchasing behaviours change and consumers begin to choose other products, leading to a decrease in profitability and a decreased number of players on the market. However, companies that supply basic necessities may never enter the decline stage, as their products are always needed. (Harrigan & Porter, 1983)

3.2 Competitive Strategies

As previously discussed, it is important to first understand the characteristics of the industry in which a company operates in order to determine the competitive strategy that should be used.

To understand how to maintain competitiveness on the market we will examine various competitive strategies. The hybrid strategy, which is a combination of Porter's three generic strategies: cost leadership, differentiation strategy and focus. Grant (2010) has developed four competitive strategies that are directly applicable for mature industries. These strategies are in many ways similar to Porter's (1980) three generic strategies.

Rivalry forces companies to defend their position in the market by pursuing competitive strategies. Porter has developed three generic strategies that companies should implement to outperform competitors: cost leadership, differentiation and focus. (Porter, 1980)

Cost Leadership

Cost leadership deals with offering standardised products in high volumes at a very competitive price (Baroto et al., 2012). Generally companies attempt to generate a competitive advantage by offering the lowest price in their industry. Companies implementing the cost leadership strategy need to focus on keeping overhead and input costs to a minimum, while maintaining efficiency

in all the areas of operation. The competitive advantage achieved by the cost leadership strategy involves performing important value chain activities at a lower cost than the competitors. (Porter, 1980) The cost leadership strategy tends to focus more on competitors' strategies rather than focusing on consumer demands. Therefore, companies must continuously benchmark themselves to similar companies on the market to maintain competitiveness (Baroto et al., 2012).

In a mature industry, cost advantage will not lead to sustainable strategic competitive advantage; it is actually more of a requirement to enter and endure the competition in the industry. Competitive advantages in a mature industry can therefore be achieved by creating relationships with suppliers to attain low-cost inputs and by reorganising the cost strategy to focus on keeping the overheads low. (Buzzell & Gale, 1987) Cost advantages can be derived from decreasing the over capacity in companies and therefore decrease the costs of the products and or services sold (Hambrick & Schechter, 1983).

Differentiation Strategy

Differentiation strategies are used to find a position on the market that appears unique and sustainable for the particular industry (Porter, 1980). In the FMCG industry, the particular function of the product cannot be used as a way to create uniqueness. Differentiation can be based on, for example, unique product features and product performance, complementary services, marketing activities, specific technology, location or vertical integration to name a few (Porter, 1985). Companies mainly apply the differentiation strategy by offering high-quality goods using a high level of service and premium price to deliver customer value. The effectiveness of a differentiation strategy depends on how well the company succeeds in achieving customers to believe that the advantages experienced in the given product is worth the charged price compared to what the competitors offer. (Porter, 1980) A customer's inclination to pay premium prices for differentiated products decreases when an industry matures. Even standardised products on a mature market can differentiate using complementary services. (Carroll & Swaminathan, 2000)

When applying the differentiating strategy, companies aim to create an image or reputation that their product or service is unique compared to competitors' offerings. They try to achieve this by realising qualitative differentiations in the product or service by for example applying various marketing techniques and therefore charging a premium price. Differentiation strategies allow companies selling FMCGs to avoid the tough price competition by striving for customer loyalty. (Acquaah & Yasai-Ardekani, 2008)

Differentiation strategies try to create competitive advantages by offering products or services that are different to those existing on the market. These competitive advantages create a product with specific traits or other factors that are not directly related to cost and price. A company is successful with their strategy if it consists of competitive advantage that is difficult to imitate or copy. (Porter, 1980)

Focus

The focus strategy is about focusing on a certain customer segment: a certain product collection or a certain geographical market, where the company can customise its strategy to fit the chosen segment (Porter, 1985). This also includes companies in mature industries. By focusing on a segment that has different demands compared to other market segments, a company can differentiate from the other players on the market and create a competitive advantage if the strategy is implemented successfully. By choosing a segment, the firm can specialise every activity on an individual basis making it possible for companies to only focus on the most profitable customers within a specific segment. There is potential in offering goods to an underserved segment. (Caroll & Swaminathan, 2000) However, the focus strategy can be too focused or too broad, causing the company to appear as having chosen no strategy at all (Porter, 1985).

Innovation

Strategic innovation as a competitive strategy in a mature industry can lead to the company redefining the company's actual market and focused customer segment. By adding products and services that have a complementing purpose to an existing offer or turn to new customer groups you can create competitive advantages. To succeed with a strategic innovation it requires the company to have an entrepreneurial characteristic that wants to experiment and is not afraid to try new things. (McGahan & Silverman, 2001) Companies may redefine markets and market segment by embracing new customer groups and augmenting the offering (Pine & Gilmore, 1998).

According to Porter (1985), a company needs to make a clear choice between the strategies in order to outperform their competitors. Attempting to apply all the strategies simultaneously will lead to a confused consumer who may find it difficult to identify the real offer leaving the company stuck in the middle. Competitors then have the possibility to steal market share. (Porter, 1980)

3.3 Hybrid Strategy

There has been some criticism towards the implementation of Porter's model (2008) in reality. In highly competitive industries it has been argued that companies will not survive unless they adopt two corporate strategies. A cost strategy to produce the best products at the lowest price without jeopardising the quality and also a differentiation strategy to offer something unique compared to its competitors. (Datta, 2009)

Kim and Dae-il Stimpert (2004) refer to hybrid strategies as a combination of low cost and differentiation factors. A combination of low-cost strategy and differentiation, without ignoring Porter's three generic competitive strategies, is yet another strategy that a company can implement in order to react to a highly competitive environment.

There is a difference between the hybrid strategy and stuck-in-the-middle strategy where a company fails to successfully implement a combination of the two strategies. The hybrid strategy is proved to be very successful in various industries. The implementation of only one strategy can be difficult to maintain in the long run and therefore a hybrid strategy may lead to competitive advantage. For example low cost companies that also implement a differentiation strategy, minimise their exposure to the market since they no longer only need to depend solely on the cost-based advantage. Furthermore, companies that use a differentiation strategy can also achieve a low-cost market position by revising their value-creating activities. (Baroto et al., 2012)

Thompson et al. (2012) give an example on how the hybrid strategy works by discussing the best-cost concept. This strategy is designed to offer products with more exclusive characteristics at a lower price than the competitors allowing companies to deliver a higher value to the consumers. The company that is most successful in implementing this strategy can then charge lower prices than their competitors that offer the same concept. (Thompson et al., 2012)

Compared to the past, today's consumers have higher expectations on the products or service they buy. Studies show that most consumers will pay a lower price for products with highly differentiated traits. Therefore, companies try to implement this in their value chain using primary and supporting activities to simultaneously offer low costs and differentiated goods. (Ireland et al., 2011)

The hybrid strategy is more important as the global competition continues to be high. A company that uses the hybrid strategy can position themselves by constantly improving their core capabilities. They must also quickly react to the environmental changes and quickly learn how to work with new technology. This can help companies make the most of their core competencies and apply this to their business when dealing with products with more differentiated traits. Consumers' perceived benefits might also allow companies to offer these products at a lower price than competitors. A differentiation strategy makes it possible for companies to charge a premium price for their products while cost leadership strategy forces companies to charge the lowest prices compared to competitors. Companies can therefore achieve a competitive advantage by offering customer value through unique products at a low price. (Baroto et al., 2012)

Given price is not a competitive strategy, but rather a condition to enter the market; companies apply the hybrid strategy to maintain competitiveness. To successfully implement the hybrid strategy, the company must analyse how consumers perceive benefits to ultimately create customer value.

3.4 Creating Value

Theories about creating value can explain why customers choose to buy from a particular company. Studies show that customers tend to buy a product based on its emotional benefits and value rather than product function. According to Barnes, Blake and Pinder (2009), companies may attempt to differentiate their offering with product features, distribution channels, complementary service or brand reputation because customers purchase products to receive the benefits that the product provides rather than the functionality of the product. The value for the end customer is the difference between benefits and costs (Chesbrough & Rosenbloom, 2002).

Developments in technology have simplified consumers' access to information, which ultimately gives consumers more power to have a voice in the demand chain and hence are able to drive the market. Consumers' power has also led to consumers opting for more custom-made products. Customer value is essential in satisfying the customer's demands. (Tapscott, 1997)

We will present business models as a theory and explain the significance for companies to renew their value propositions in a fast changing and highly competitive industry. It is important for companies to identify what their customers perceive as benefits to acknowledge how to deliver

these benefits and therefore value in the best way. Next we will present Porter's Value Chain (2008) to explain the theoretical tool that describes how companies create value in the different activities in the supply chain. In an industry selling FMCGs, companies often choose to differentiate themselves using customer-oriented activities such as marketing and sales and service. These customer-oriented activities are described in more detail with the help of Osterwalder & Pigneur's (2010) Business Model Canvas. They refer to the customer-oriented activities as channels, customer relationships and customer segments.

3.4.1 Business Models

There are several scientific articles that discuss business models, however it is difficult to find a general definition for the theory itself. The business model theory will help us examine how we can identify the company's value proposition. We will first define the theory behind business models and then explain why companies should consider renewing their business model in response to changes in the industry.

The business model is the recipe for the conducting a successful business and with the right ingredients, such as key resources and processes; the business model will create customer value and a profit formula for the company (Johnson et al., 2008). It is a plan for how a company should conduct business based on the company's communicated strategic goals and positioning (Osterwalder & Pigneur, 2010). An illustrative example of a company that was able to offer more value to the consumer than its competitors is Apple. The competitors only offered the physical digital music player. But Apple developed and offered a concept, besides the physical product - the iPod. They offered user-friendly software where consumers could buy and download music, namely iTunes. (Johnson et al., 2008)

A business model is a summary of the company's competitive strategies made up of strategic elements such as resources, research and development and customers that are organised in a way to produce something of value (Casadesus-Masanell & Ricart, 2010). However, because there is no clear definition for how a business model should be constructed and many companies do not understand their current business model, companies find it difficult to renew their model (Johnson et al., 2008).

Designing and perhaps renewing the business model is part of a company's strategy because the business model is based on the chosen strategies, which the company has chosen to compete on. A company's strategies are based on how a company chooses to organise their resources and where a company chooses to focus on creating and delivering value. (Casadesus-Masanell & Ricart, 2010)

A company must develop strategies that can give the company advantage compared to competitors. A company creates a competitive advantage by implementing a strategy that creates value that is not already used by another existing or potential competitor (Barney, 1991). Once a company has chosen a business model, a company has also chosen which way they will compete. To design a sustainable competitive business model, it is vital for the company to understand and analyse their strategies first. (Casadesus-Masanell & Ricart, 2010)

A well-constructed business model can be ineffective if it is not used properly, but at the same time a weak business model can lead to competitive advantages if it is implemented in a useful way (Osterwalder, Pigneur, & Tucci, 2005). The business model defines the business structure and business processes, which must then further be broken down into specific projects, goals to form a detailed business plan (Osterwalder & Pigneur, 2010).

Many companies today find it difficult to construct a sustainable business model because of the constant industry changes such as new innovations, new competitors and new industry regulations. Given the fast-changing world, existing business models can therefore appear to be out of date or less profitable quicker. Therefore, companies should strive to redevelop business models more often and because the value offered to the consumer is the key ingredient of the business model it needs to be renewed to respond to the opportunities and threats on the market. (Johnson et al., 2008) It can be difficult to develop and renew business models, which is why Osterwalder & Pigneur (2010) have developed the BMC as a tool for companies to test their business idea.

3.4.2 The Value Chain

The VC describes the activities companies use to bring a product from conception to delivery. We will look closer at Porter's VC to explain how companies differentiate themselves in activities in the supply chain to create customer value. We have interpreted marketing and sales and service as the two key activities that have direct impact on the business and end-customer. Industries approaching the maturity phase usually differentiate their customer-oriented

activities to create added value, leading to competitive advantage. (Jacobides, 2007; Jacobides, Baldwin & Dizaji, 2007) These activities can be contained within the company itself or partially outsourced to other companies that can be located virtually anywhere (Gereffi & Memedovic, 2005). However, the delivered product must give value to the consumers (Porter, 1996).

Porter’s VC consists of primary and supporting activities where the primary activities have a direct impact on the value creation and the supporting activities affect the value creation through their impact on the performance of the primary activities (Zott & Amit, 2010). In Figure 1, the correlation between primary and support activities and the margin is illustrated. The primary activities consist of vital activities in developing a competitive advantage, including inbound logistics, operations, outbound logistics, marketing and sales and service. The supporting activities, such as procurement, technology development, human resource development and company infrastructure, may be helpful in developing cost advantages (Porter, 2008).

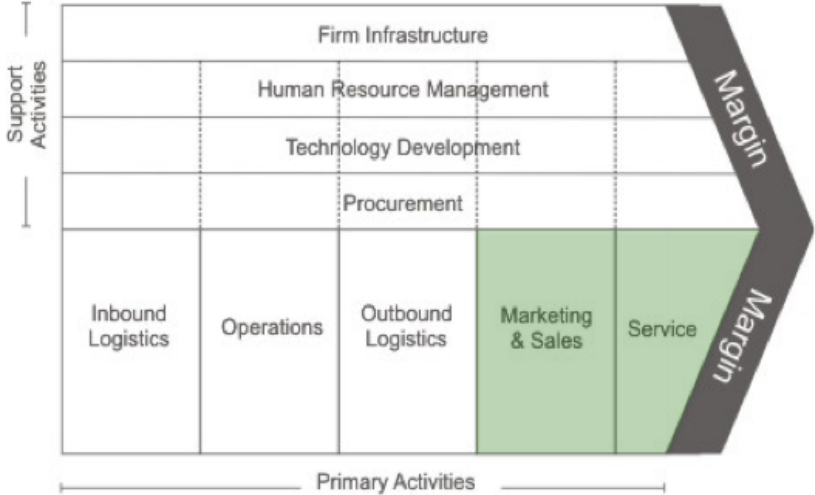


Figure 1: Porter’s Generic Value Chain. Modified model (Porter, 1996)

Porter’s theory about the VC explains the method in creating a competitive advantage. However, in order to achieve competitive advantage, all the activities throughout the value chain, primary and supporting, must be managed strategically. Other authors have criticised this theory, believing that Porter considers the details of the VC as separate units instead of a process where the activities flow (Kannegiesser, 2008).

The VC can be used as a tool to identify the activities that outline the business model and are used by a company to create value. To benefit from differentiation strategies, it is important for a company to create value for both the company and the end-customer. Customer value includes both customer satisfaction and the company’s overall competitive advantages. (Osterwalder &

Pigneur, 2010) Companies that sell FMCGs may observe the customers' selection and utilisation processes of products to use this information when planning product design, complementary services and marketing (Grant, 2010).

Theorists argue that the traditional VC is more of a tactical application and the new VC is an attempt to think differently. The traditional VC starts by identifying consumer needs, assuming that a consumer can articulate these needs and at best, the company, will be able to deliver added value. In contrast, the new VC aims to understand what motivates consumers in order to map their behaviour leading to a creation of strategic value. Strategic and tactical intellectual properties reflect themselves into the market potential or the value of an idea. Manu (2006) further argues that a strategic idea will always be worth more to a company than a tactical idea. The old VC is used as a tool to protect a company against similar competitive offerings, while the new VC creates new business platforms. As the tactical protects, the strategic creates and that is the difference between adding and creating value. (Manu, 2006)

The new VC demonstrates how FMCGs will have added value if there is a strategic plan behind the value creation. FMCGs need to have strategic value to motivate customers to one's product rather than a competitor's product.

3.4.3 Business Model Canvas

The BMC is a tool that essentially helps companies to check that their business idea is viable. The BMC recognises customer-oriented activities as a part of the value creating process to increase perceived benefits. Firstly, the BMC will be defined, followed by the identification of the four building blocks that are customer focused. These building blocks: value propositions, customer relationships, channels and customer segments, all play a role if companies attempt to differentiate themselves through customer-oriented activities. (Osterwalder & Pigneur, 2010)

Figure 2 illustrates the nine building blocks, which are the basis of the BMC and describe how the company generates revenue. The BMC describes how a company creates and delivers different types of value. The main building blocks are: offering, customers, infrastructure and finances. The offering is defined by the value proposition. Customer segment, channels and customer relationships define the customers' building block. The infrastructure includes key activities, key resources and key partnerships. The finances include the cost structure and revenue streams. (Osterwalder & Pigneur, 2010)

The BMC describes the building blocks that focus on the offering and the customers and can be used to understand and analyse how value is integrated in the business model. The canvas can be used as a tool to demonstrate how value is created and formulated into strategies that form the grounds of the business model.

We will be focusing on the offering and customers to identify these four building blocks that companies should focus on to differentiate using customer-oriented activities.

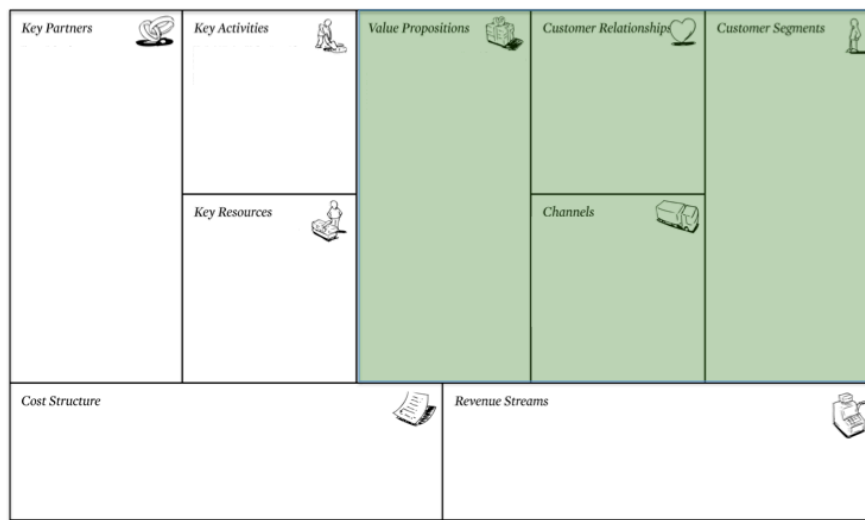


Figure 2: The Business Model Canvas. Modified Model from Osterwalder & Pigneur (2010, p.44)

Value Propositions

The offering is based on consumer demands and companies attempting to create a product or service that delivers value to the chosen market segment. The offered value is the total value recognised by the customer: a combination of the advantages that the physical product offers the consumer and the brand value of a product if produced by a well-known company. (Osterwalder & Pigneur, 2010) The difference of value proposition is the importance of emotional value rather than solely functional value (Bhat & Reddi, 1998).

When companies offer similar products at the same price level, targeted at the mass market, companies must compete by offering unique value to the customer. To create unique value, the company must create a product that offers more than just functional use for the customer, hence also hedonic (Bhat & Reddi, 1998). It is also important that the offering is different to the competitors' offerings.

Customer Relationships

Customer relationships connect the value proposition to the customer segments. To attain loyal customers and develop a good reputation, customer relationships play an important role. Integrating with the customer and understanding the customer's wishes and desires is vital to

build relationships between the business and consumer (Kotler, Keller, Brady, Goodman & Hansen, 2009).

Long-term relationships are vital to make the most out of the customer's shopping experience. According to Kotler et al. (2009), the customer's perceived value is largely based on customer satisfaction. A satisfied customer is more likely to stay loyal to a company, leading to more potential opportunities for the customer to buy the company's products. Additionally, loyal customers may also add to the company's reputation in a positive way, for example through word-of-mouth (Kotler et al., 2009).

In order to achieve loyalty, it is important for companies that target the mass-market to both personalise their marketing and ensure that marketing measures are appropriate for the targeted segment in order for the marketing to be perceived as a special treatment. An example is marketing through social medias such as Facebook and Instagram to help companies maintain constant personalised contact with the target market and perhaps take advantage of the forum to receive feedback and provide customer service. (Pantano, Tavernise & Viassone, 2010)

Managing customer relationships is a way to regulate the company's interactions with the customers. Customer relationships can include both virtual contact and physical contact aimed to ultimately heighten the customer's shopping experience, before, during and after the purchase. The ultimate goals are to find and attract new customers as well as maintain existing ones. (Kotler et al., 2009)

Channels

The channels connect the company's value proposition to the customer segments. The company must choose the most cost effective and efficient channels to reach the customer and integrate them into the company's business operations. A company can either reach customers through their own channels, partner channels or a mix. Own channels are based on direct contact between the company and end-consumer, for example physical stores or websites or indirect contact, through, for example franchising. Wholesalers, retail stores, partnership websites, or other distribution agents often use partner channels. An advantage of direct own channels is higher margins, however they may be more expensive to establish and run. Therefore, the key is to find a balance between different distribution channels to create a mix and integrate them well into the business operations to improve the customer experience and ultimately loyalty. (Osterwalder & Pigneur, 2010)

Delivering products through several channels may reach out to a large number of customers, but may also lead to a longer supply chain, which is an unnecessary use of resources. Integrating the distribution channels vertically allows the company to maintain control of the business operations while also keeping costs low with a high level of flexibility. (Stern, El-Ansary & Coughlan, 1996) Channels also include the choice of communication methods used for interaction with the customer segments (Osterwalder & Pigneur, 2010). Marketing aims to inform and persuade customers about the company and communication channels are a way for the company to build customer relationships and have a dialogue with existing and potential customers. Channels also allow for emotional value, which can be created from a unique selling proposition (USP). The emotional value is created from differentiation and achieving a unique position on the market. (Bhat & Reddi, 1998) Kotler et al. (2009) states eight types of communication channels that can be of added value to the company: commercials, sales promotion, events and experiences, PR and publicity, interactive marketing, word-of-mouth, door-to-door sales and direct marketing. The aim is to successfully use these communication channels in order for customers to associate a company with the products and services necessary to fulfil their needs and desires.

In the past decade, social media and other online communities have become very popular channels as they can reach several hundred million users. These online communities can also lead to word-of-mouth communication, which can be one of the most powerful channels when a positive message is conveyed. Companies must, however, also be wary when using these new channels due to the damages word-of-mouth communication can cause when negative experiences are shared (Pantano et al., 2010).

Customer Segments

The customers are core to the business model, because without them there is no business for the company. Therefore, studies show that it is beneficial for companies to group consumers with the same demands into segments. This allows the company to understand what different customers perceive as benefits in order to determine what creates value. By focusing on one or few segments, companies can customise their offerings. In order to deliver the greatest value to the customer, the companies must consider what channels are most appropriate for creating awareness of the product, for selling the product and for delivering the product. (Osterwalder & Pigneur, 2010)

Target marketing identifies the individual needs and perceived benefits of different segments. However, in a mass-market industry it is very difficult to offer products, which meet all customers' different preferences and perceived benefits. Therefore, companies that target the

mass-market must be aware of the competition from companies that produce goods targeted at a specific market segment. In order to target the right segment, it is important for companies to understand consumers' buying behaviours, which reflect how consumers seek to satisfy their needs when choosing, buying and using a product. Consumers who want to differentiate themselves to satisfy their need for uniqueness, but are not willing to pay the price for upmarket products, may turn to low price chains as these chains are able to continuously supply the market with new products with short lead times. This offering allows these customers to satisfy their need for uniqueness as new, up-to-date products can frequently be bought. (Tian, Bearden & Hunter, 2001; Bhardwaj & Fairhurst, 2010)

Mass market as a customer segment can be compared to the global customer. The global customer can simplify the general market that strives to generate customer loyalty, which is a competitive advantage. By targeting the global customer, the company is positioning itself to be one of the many options available at the market. Companies can save resources by choosing one of the many choices rather than using unnecessary resources on being the clear choice. Chains that target the mass-market should absolutely take the theory on the global customer into consideration. (Gay, 2008)

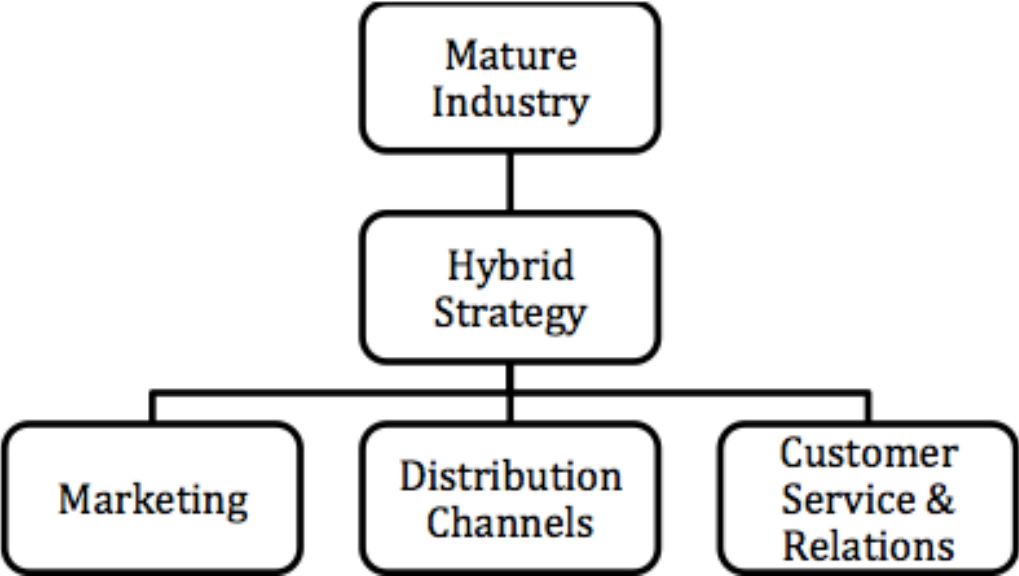
3.5 Our Theoretical Framework

Based on the theories discussed, a highly competitive industry approaching the maturity stage should use a hybrid strategy. It is vital for companies to choose sustainable competitive strategies to gain or maintain market share. Therefore, the hybrid strategy –a combination of the differentiation and cost leadership strategy is fundamental in maintaining competitiveness.

It is important for companies that sell FMCGs to renew their business model in line with industrial and environmental changes in order to renew the value proposition. Outspoken strategies shape the company's business model and explain how companies can create a unique value proposition that creates value for both the customer and the company. Value can be created through a combination of several activities that can be defined through value creating tools such as the BMC and VC. As low price is an entry requirement in the FMCG industry, companies must ensure that all activities in their supply chain create value. Competitors will offer the same products and price; therefore a hybrid strategy aims to differentiate while still applying the cost leadership strategy to maintain their competitive position.

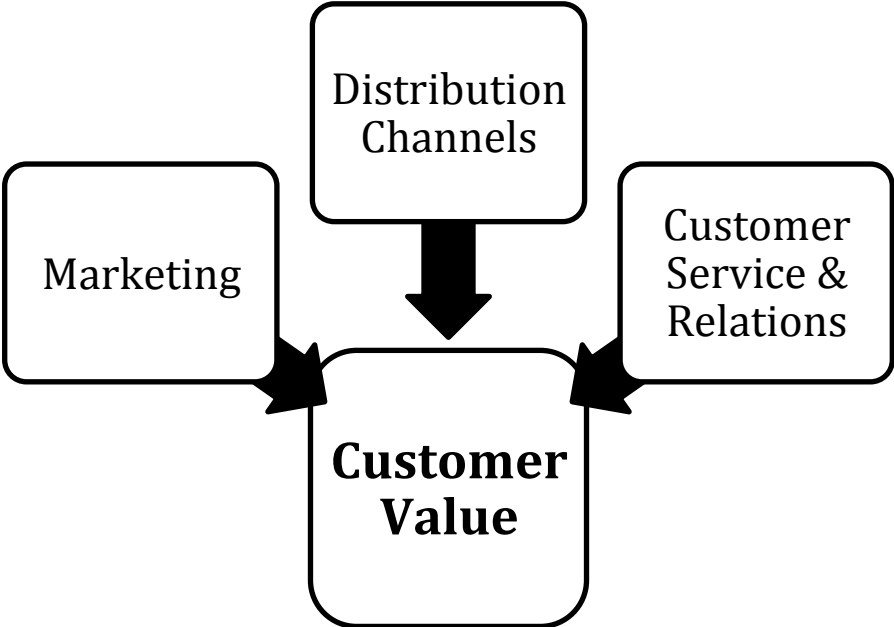
To overcome the entry barriers in the fast fashion retail industry, companies can differentiate their customer-oriented activities. Porter (2008) identified the importance of having direct contact with the customer through marketing, the service provided and the final sale in search for a competitive advantage. Additionally, customer-oriented activities can be used to differentiate the value proposition to gain competitive advantage. Finally, the BMC explains in detail how companies can connect to the customers and create customer value without jeopardising the company's profitability. We broke down these building blocks and concluded that long-term relationships with customers are sought for and explains the importance of marketing and distribution channels to reach the targeted segment. Focus on one or a few customer segments is fundamental for mass-market companies to develop personalised marketing strategies and gain market share.

Model 1, the theoretical framework, will be used to analyse our empirical data throughout our thesis. Our aim is to apply these theories to the collected empirical data from our selected companies in the Swedish fast fashion retail industry, but ultimately to determine what customer-oriented activities companies do to maintain competitiveness in the FMCG industry.



Model 1: Theoretical Framework

Identifying the activities that are directly related to the customer in BMC and applying it to Porter's VC will create an analytical model that better fits the FMCG industry. The following three: marketing, customer service and relations and distribution channels are the customer-oriented activities that will be applied empirically to examine if they contribute to value.



Model 2: Attempt to an Analytical Tool

4. Empirical Data

In this chapter we present the empirical data we have collected from primary and secondary sources to illustrate the industry structure followed by interviews from companies we have chosen to study. First we will present background information about fast fashion to understand the empirical data that will follow. Subsequently, the authors' interpretations of the results from the interviews will be presented.

4.1 Fast Fashion

The apparel industry is a highly fragmented and competitive industry that has radically changed over the past four decades. The development of technology and the possibility for the new magnitudes of apparel manufacturing both played significant roles in the apparel industry development. Consumers' expectations have increased and a large variety of short-lived products are demanded. This creates tougher competition partially due to the difficulty in predicting consumer demands. This has led the apparel industry to the concept of fast fashion, where an increased number of collections are offered per year. (Thomasson, 2012) Traditionally, the retail chains predicted trends based on catwalks, fashion fairs and statistics from previous successful seasons generally resulting in two collections per year. Companies were very product-oriented and the consumers were often satisfied with what was offered. (Bhardwaj & Fairhurst, 2010) With the rise of fast fashion, customers perceive the products as being customised to fulfil their needs of uniqueness. (Thomasson, 2012)

The fashion industry has a different structure today, as catwalks are open to the media, fashion bloggers express their opinion on trends and due to new channels of communication, consumers have quick access to any input. The fast fashion retail chains have taken advantage of the increased access to information and adapt their products to customer's opinions, this requires flexibility in the supply chain. The increased flow of information also means that players on the market need to continuously keep updated and accommodate to the customers' demands by offering new products. Customers now tend to be less loyal to specific stores because the chains offer very similar products. (Bhardwaj & Fairhurst, 2010) The apparel industry of today is more global with international supply-chains, great product variety and short product lifecycles (Thomasson, 2012).

Subsequently, the background information of the selected companies: Svensk Handel Stil, Cubus, BikBok, H&M and Fashion AB will be presented followed by results from the interviews.

4.2 The Retail Industry

Svensk Handel Stil works with industry-specific questions that concern Swedish fashion companies. They try to inspire and inform the companies to increase their responsibility concerning quality, product safety, sustainability and social conditions. Magnus Kroon works as a development manager at Svensk Handel Stil and studies the economy and consumption patterns in the Swedish retail industry. He examines how the commerce in the retail industry has developed in the past years and predicts relevant topics for the future. Svensk Handel Stil cooperates with authorities, media and international organisations to influence Swedish fashion industry questions. (Svensk Handel Stil, 2013)

Magnus Kroon (April 23, 2013) describes the competition in retail as very tough. He suggests two reasons for this: the business itself and the general consumer behaviour. Some industries have been affected more than others, but necessities, such as apparel continue to be of interest to the companies. The changed commerce and changing consumer behaviours have led to cross-sector merchandising; existing players have expanded their collections to products that add value to the customer. (April 23, 2013)

“Today we generally use more money on trips and eating out etc. This change in consumer behaviour results in a change in main competitors, resulting in a shift in H&M’s largest competitor from KappAhl to other industries where consumers spend a larger percentage of their total income today.”

(M. Kroon, interview April 23, 2013)

To respond to the changing consumer behaviours, Kroon points out the importance for companies to stay up to date with technology development and sustainability. Consumers live both online and offline today, which is why both the physical and virtual environment are very important. E-commerce still represents a very small part of the total sales, but it is important to remember that people will build their dreams on the Internet. (April 23, 2013)

Kroon (April 23, 2013) says that sustainability has been a very important topic for many industries in Sweden, but particularly for the apparel industry since Sweden, with a population of 9 million people, has a clothing and shoe consumption that corresponds to a population of 40 million people.

4.3 Cubus

Cubus is a Norwegian fast fashion retail chain bought by Varnergruppen in 1990. In 2004, Cubus opened their first store in Sweden and today there are 68 stores. In 2011 Cubus had a turnover of NOK 2.3 billion. Cubus' value proposition is to offer fashionable clothes at a good price by ensuring few middle hands, buying large quantities and being cost conscious throughout the supply chain and maintaining an effective distribution. Their strategy is to sell trendy, good quality clothes at a good price. Cubus offers clothes to women, men and children but their primary target market is a woman in her twenty to forties. (Cubus, 2013) We interviewed the Marketing Manager Jens Erik Frugård (April 15, 2013) and the Product- and Buying Manager Merete Moen (May 7, 2013) at Cubus. All collected data below in this chapter about Cubus refers to comments from these managers unless stated otherwise.

Cubus' Marketing Manager, Jens Erik Frugård (April 15, 2013), tells us that when Cubus started 35 years ago, everything was a lot simpler compared to how the market is today. He says that there was a lack of goods on the market and there was a large demand for retail fashion. Frugård claims that the industry was product-oriented and the customer was satisfied with what the stores offered, resulting in not much choice. He explains that the logistics were also different, retail chains purchased via agents and there were quotas on import quantities and no chains managed their entire supply chain on their own. (April 15, 2013)

Frugård describes the competition in retail fashion on the Swedish market today as tough. There are more players on the market than there is actually space for. Many players compete with similar goods at a low price, which contributes to low customer loyalty. The most difficult task in this industry is to find the USP and he says that it is basically only H&M that has succeeded in doing so. (April 15, 2013)

Frugård (April 15, 2013) also says that the increased competition is a consequence to the changing consumer behaviours. Given the development of fast fashion, consumers demand new products continuously, which puts pressure on the companies to deliver new goods almost everyday. The consumer is core to the business and the product-oriented strategy is no longer viable.

“Historically, you could go far by only offering low prices, but it is not enough today. Today you have to offer more. You are required to offer the best products to the best price at the right time.”

(J.E. Frugård, interview April 15, 2013)

Frugård and Moen (April 15, 2013; May 7, 2013) say that the big chains such as H&M, Lindex and KappAhl are their biggest competitors. But he also sees a small threat from smaller, local players and smaller chains such as BikBok and Dressmann. The Swedish market is tougher than the Norwegian market because the Swedish market is a lot more price-sensitive demonstrated by the chain, Jeans & Clothes that is facing bankruptcy. (April 15,2013)

Frugård says that Cubus uses the same amount of money on marketing today compared to historically, however the marketing channels used have changed. Today, they invest more in digital media and television because those channels reach their targeted group. (April 15, 2013)

“We can integrate more with the customer and understand the customer through social media, which is important since we are a customer-oriented company.”

(J.E. Frugård, interview, April 15, 2013)

Cubus latest marketing campaign was with Justin Bieber. This collection was targeting children and Bieber was therefore contracted to attract this target market. It was a big success with high volumes of sales. Cubus also arranged an online competition where participants created a collage with pictures of Cubus clothes and Justin Bieber to win tickets to his concert and a meet and greet session. The competition had 90 000 participants and the Frugård was very content with the collaboration with Bieber. (April 23, 2013)

Simplicity is consistent in all Cubus' activities and it is one of the main rules for communication, which is demonstrated by, for example, television commercials that only present a model, a product, a white background and the Cubus logo. Frugård and Moen (April 15, 2013; May 7, 2013) claim that Cubus is one of the most campaign-driven chains.

Frugård claims that service is very important (April 15, 2013). He says that he sees service as a free position to enter the market and says that companies should work hard to get customers to associate the chain with service. He tells us that Cubus actively work with this through their return-policy: accepting all returns. Overall service is about giving the customer an overall pleasant experience in the physical store and this is an opportunity to create a relationship with the customer and perhaps convince the customer to return to do more shopping. (April 15, 2013) Frugård and Moen agree that building a relationship may also occur online, when customers visit their website or perhaps see a commercial. (April 15, 2013; May 7, 2013) Cubus' best customers get special treatment and are welcome to join the gold club. (May 7, 2013)

Frugård shared the Cubus pamphlet that presented their core values. Cubus work by "The Smile Philosophy", which should be integrated in the head office and all stores. The philosophy is presented to all the colleagues at Cubus. It consists of the following core values: business minded, passion, happiness, make it easy, friendship and responsibility. (April 15, 2013)

Cubus only sells in-house designed clothes in their own stores. Frugård implies that this is very important both so the company can control the entire process from production to the product on the shelves and to cut unnecessary costs. (April 15, 2013)

Frugård tells us that Cubus plans to open an online store this fall. Frugård is aware that Cubus is late in opening an online store, but this is because the commerce with clothes is still very much in physical stores. Consumers often use the website for pre-tail and they can then go to the store to purchase the products. He believes that it has been necessary to wait with e-commerce, but he realises that chains must offer e-commerce to maintain competitiveness. Frugård continues to explain that there is lack of space on the Scandinavian market since everyone wants a central location and it is therefore difficult to expand even though the chains want to and have the means to. (April 15, 2013)

4.4 BikBok

BikBok was founded in 1973 and bought by Varnergruppen in the end of the 1970s. BikBok opened their first store in Sweden in 1999 and today there are 62 stores. In 2012, BikBok had a turnover of NOK 1.1 billion. Their business idea is to be the number one fashion destination for young women. Their target group is girls aged 16-25. (BikBok, 2013) We interviewed both the Product- and Buying Manager Renè Högstedt (April 15, 2013) and Marketing Manager Martin

Lien (April 24, 2013) at BikBok. All collected data in this chapter about BikBok below refers to comments from the interviews with these two people unless stated otherwise.

Lien and Högstedt agreed that the competitive situation in fashion retail is tough. Högstedt described it in the following way:

“The fashion industry and retail specifically is very competitive. It moves fast, new products and players enter the market all the time, like for example online stores like nelly.com. But this is also what makes the industry more alive and exciting.”

(R. Högstedt, April 15, 2013)

Högstedt (April 15, 2013) tells us that large international chains dominate the Scandinavian market. Högstedt gives some examples of chains in Sweden, Norway and Denmark: H&M, Lindex, KappAhl, Gina Tricot, Varnergruppen and Best-seller group. Högstedt says that all these players compete with similar products at low prices.

Lien says that BikBok focuses more on the customer today than they did historically. Lien claims that the customer has more power, which leads to new industry criterions. He says you are required to understand the customer and their demands; otherwise you cannot sell any products. Lien means that you need to continuously offer novelties since this is expected from today's customer (April 24, 2013)

Given that consumers today show low brand-loyalty, Högstedt and Lien suggest that they must be quick in supplying fashionable products to stay competitive on the market, which means that the lead times need to be more effective (April 15, 2013; April 24, 2013). In order to achieve shorter lead times, Högstedt says they have to either move the production geographically closer or use faster logistics, for example with cargo. He claims that to fly home products cargo is generally cheaper than manufacturing in Europe, but Varnergruppen's policy does not permit them to fly home their goods for environmental purposes. (April 15, 2013)

Högstedt says that you need to find short cuts to be able to deliver goods quickly and that you must always be one step ahead. He gives an example about pre-produced fabrics; the company needs to make sure they have ordered the right print. (April 15, 2013)

“The difference between companies is determined by who is best at fashion. The design determines more than the price. Then there are other external factors that are also important, like marketing activities and so on. But if you succeed with the fashion, the other factors don’t matter as much, because the product will always be the most important.”

(R. Högstedt, April 15, 2013)

Lien agrees with the above quote and says that if you succeed with fashion, the price will play a smaller role. However, Lien says that basic collections must maintain a low price since consumers that buy basic collections are more price-sensitive. (April 24, 2013)

Högstedt says that today’s consumer is more aware of the quality and BikBok tries to take advantage of this. Högstedt says that products should be durable even though they are sold to an affordable price. He says that this could be perceived as a contradiction since chains want to increase the spending for each individual customer, but at the same time they want to offer quality products that will last. However, Högstedt says that by offering better quality one can differentiate themselves from their competitors. (April 15, 2013)

Högstedt also suggests that it is important to offer a complete solution by offering clothes, shoes and accessories allowing the consumer to buy a lifestyle (April 15, 2013).

Social media and blogs are very important to BikBok since they use these channels of communication to reach their target market (April 15, 2013). The information found on the computer works as a primary screening and the television commercials work as a secondary screening. This is why Högstedt describes the Internet as the primary platform for marketing purposes. BikBok gives the customer the most attention, which is why Högstedt says BikBok wants to understand who their target market identifies as their role model. By using, for example, Whitney Port¹, BikBok aims for customers to associate the brand with fashion celebrities and to then attract more customers to BikBok. At BikBok they strive for the image of a fashion house and BikBok use collaborations with celebrities as an activity in trying to achieve this. Högstedt believes BikBok’s collaborations with celebrities and designers have led to large PR successes. (April 15, 2013)

¹ American television personality and fashion designer

Because everything moves so quickly, Högstedt explains that it is difficult to develop long-term marketing strategies. For example, popular communication channels could change from, for example, Facebook and Instagram to something new within less than six months. BikBok aims to be first with the latest marketing techniques and employ new exciting channels to allow the customer to integrate with their brand. Högstedt claims it is important to deliver a feeling of excitement and newness in order to reach your target group. (April 15, 2013)

Högstedt explains that the primary marketing channel is the brick-and-mortar store where one gets direct contact with the customer. Högstedt says that BikBok uses a lot of resources to improve and update their physical stores. Högstedt believes that the next development in marketing channels will be to introduce integrated screens in the stores so that the digital and physical worlds can meet and can be experienced simultaneously. (April 15, 2013)

Högstedt says that BikBok strives to improve their customer service. He says that they want to establish a type of friendship when the customer enters the store. Högstedt says that customers of a chain that offers products at a low price do not have the same service expectations as customers of brands at premium prices would have. Lien says that BikBok's main service is offering continuously updated fashionable products and they want to be a fashion house you can count on. (April 15, 2013; April 24, 2013)

BikBok's relationship with their customers is very valuable according to Högstedt since it will affect the consumer loyalty. By staying up to date with comments about their products and services on social media sites such as Facebook, Högstedt says that one can better understand how their products and services are perceived. This information can then be used to adjust their strategies and stay competitive on the market. However, Högstedt also emphasises that BikBok never controls conversations between consumers in order to allow them to freely discuss their products online. (April 15, 2013)

BikBok sells their in-house designed clothes in their own stores and it is the store that is their most important distribution channel. Given the development of e-commerce in the retail industry, Högstedt says it will be important to integrate the physical store with the virtual screens in the store. Högstedt says that BikBok will open an online store this fall. (April 15, 2013)

4.5 H&M

H&M is a Swedish listed fast fashion retail company founded in 1947 in Västerås, Sweden. In 1974 H&M was listed on the Stockholm Stock Exchange. There are 176 stores in Sweden. H&M had a turnover of SEK 110 billion in 2011. This thesis will focus on H&M on the Swedish market, which is one of their biggest markets. (H&M, 2013) All comments below in this chapter about H&M are from the interview with an employee from the Product- and Buying Department (April 9, 2013) unless stated otherwise. She describes H&M's concept as fashion at the best price:

“Our business concept is to give the customer unbeatable value by offering fashion and quality at the best price.”

(Employee, April 9, 2013)

She explains that a company competing on price in the current world economy faces high competition. Overall, she claims that there is very high competition in this niche market and most large fast fashion chains compete with the same customers. She claims that there are probably very few consumers who are loyal to just one brand.

She says that fast fashion, which is an effect from the increased availability of information and media, contributes to the tough competition in the industry. She claims that most of their customers are price sensitive and the fashion offerings competes with price.

When asked about competition with other companies, she explains that they focus on their own strategies rather than comparing to what other players on the market are doing. Their mission is to deliver the best possible fashion at the lowest price possible, without tampering too much with the quality. H&M is driven by certain core values such as keeping it simple, straightforwardness and open-mindedness, constant improvement, entrepreneurial spirit, cost conscious, teamwork and a belief in their people (H&M, 2013).

The interviewee explains that marketing and large campaigns have been an important part of H&M's strategy. She says that social media is also a very important communication channel now. She points out that H&M has always understood the value of marketing and their campaigns include collaborations with designers.

The interviewee explains that customer service is not only provided in the physical stores, but also through social media, such as Facebook and Twitter. However, she says that H&M is still relatively new in the social media realm. Despite how competitors work with service, our

interviewee says that H&M has their own individual strategy to achieve long-term relationships with as many returning customers as possible. (April 9, 2013)

H&M sells apparel through physical stores, e-commerce and catalogues. However, brick and mortar is probably the most important channel of distribution, which is evident in that new stores keep opening, according to the interviewee. She says that the location of the store is of large importance, which is apparent if you look at the addresses of H&M stores today. (April 9, 2013).

The interviewee explains that a low price strategy reveals that they are targeting the mass-market. To reach out to the mass market, she says H&M hires role models who many people can relate to despite the person. (April 9, 2013)

4.6 Fashion AB

Fashion AB is a Swedish fast fashion retail chain founded in 1997. It is represented on the Swedish market with 92 stores. Their turnover for 2011 was SEK 2.2 billion. More fashion for less money is their business concept. Fashion AB's target market is all women, though they focus on a mother and daughter concept (Fashion AB's website, 2013). We interviewed Fashion AB's Managing Director and Owner (April 16, 2013) and Marketing Manager (April 24, 2013). All comments below are from these interviews unless stated otherwise.

The Managing Director describes the general competition in the women's fashion industry as tough. He says that Sweden is one of the countries, along with England and the US, which was an early adopter of the apparel chain concept. He explains that the size and number of apparel chains has increased during the last 40 years, while the number of individually owned stores that sell more expensive, branded apparel has decreased. (April 16, 2013)

"Everyone basically has the same stores, offer just about the same things and market themselves in just about the same way."

(Marketing Manager, interview April 24, 2013)

The Marketing Manager says that chains are more exposed to competition due to globalisation and because the number of chains has increased in the Scandinavian market. He says that all chains have similar store layouts, offer similar products and use the similar marketing

techniques. He believes that today's customers may be less loyal to chains because there is more choice: both online and in physical stores. (April 24, 2013)

The Marketing Manager says that fast fashion, as a competitive strategy is out-dated, because today all fast fashion retail companies work in the same way and suppliers worldwide are aware of the concept and therefore produce as fast as possible once they have received the order. He says that the orders are broken down week-by-week, rarely per month. He also points out that today there is no contrary to fast fashion –slow fashion is not a concept. (April 24, 2013)

The Managing Manager claims that all stores present competition to Fashion AB. He says that the target market has been the same since the establishment of his business, that there has never been a specific age category that is targeted. He explains that they have targeted a mother and daughter concept: that the apparel should suit both mothers and daughters, given they are both interested in fashion. Despite their target, he is aware that the largest group of consumers is slightly younger and they strive to also sell to a somewhat older customer segment. (April 16, 2013)

In order to improve customer satisfaction and loyalty, he says that the company has surveyed the existing customers to find out where the customers are not completely satisfied in order to understand what areas of the company can be improved. He says “unfortunately” everyone was satisfied with everything in the latest survey they conducted in Stockholm and Oslo (April 16, 2013)

The Managing Director claims that all consumers that shop at apparel chains are price sensitive and the products offered in the apparel chains are quite similar. (April 16, 2013) The Marketing Manager agrees that customers today are very sensitive to price, although it really depends on the product. (April 24, 2013)

The Marketing Manager says that in general there is too little differentiation in the apparel industry. He says that their current strategy is to work internally to understand what the company represents in order to recognise how they can create a positive experience for the customer. He says that the company aims to develop different apparel concepts to attract more segments with different styles. (April 24, 2013)

Fashion AB uses female models in TV commercials and on billboards to show their collections (April 16, 2013; April 24, 2013). The Managing Director believes that the model used in their

commercials should represent the brand image and not appear to be intimidating to their target market. The Managing Director states that according to him, a model should smile and look fresh, without any backgrounds in order to clearly present the product and price. The company used the same model for all their commercials, despite what the PR manager in Stockholm recommended. (April 16, 2013)

Television advertisement is their primary marketing activity (April 24, 2013). The company's TV commercial focuses on presenting the price and product in a 15 second sequence, because the goal is for the commercial to be timeless and to have the possibility to remain for 10 years (April 16, 2013). However, they would rather use media that is free to use, evidenced in the company's department dedicated solely to social media interaction. However, the Managing Director points out that the future of this channel is uncertain and can therefore not be the sole use of marketing (April 16, 2013; April 24, 2013). The other disadvantage is that it is time-consuming and therefore costly for the company in terms of high wages. He continues to explain that social media platforms can reach out to their target market. They also advertise on the streets, but no longer use much printed advertising. To help the image of the company, they use iconic figures, but they do not plan on working with famous Designers. (April 24, 2013)

The Managing Director says they understand the importance of a good relationship with their customers and they want to be liked. Fashion AB offers a customer loyalty card where customers can collect stamps after purchases. (April 16, 2013)

The Marketing Director says that it is sometimes difficult to define what customer service is in general. They mainly use the Internet and social media to create customer loyalty and it is important to be aware of loyal followers who believe the chain offers something exciting. Some companies will buy likes on Facebook for example, which is not something Fashion AB strives for according to the Marketing Manager. (April 24, 2013)

When opening new stores, the Managing Director says that the company searches for the best locations, which most competitors also do. Depending on the city, the Managing Director claims it is more attractive to be located either in the city centre or in the shopping malls outside of the city centre. He says that physical stores should be located where there is the highest density of people and where there is most commerce (April 24, 2013). This can also be evidenced from the addresses of Fashion AB's stores. Fashion AB also provides e-commerce, but they were wary of this type of distribution at first because they did not want it to be compared to a mail order service. The Managing Director explains that e-commerce is based on photos of the products and

therefore the products will evidently look somewhat alike to all other apparel sold online. (April 16, 2013) The marketing manager claims that it is very important to offer e-commerce, but it does not represent a large percentage of the total sales.

4.7 Summary of Key Facts

	Cubus	BikBok	H&M	Fashion AB
Target Market	Women, men and children ²	Girls aged 16-25	Women, men and children	All women (mothers and daughters)
Year of entry on the Swedish Market	2004	1999	1947	1997
Ownership	Norwegian	Norwegian	Swedish	Swedish
Business Idea	<i>“Trendy clothes of good quality at a good price”</i>	<i>“The number one fashion destination for young women”</i>	<i>“To offer fashion and quality at the best price”</i>	<i>“More fashion for less money- news every week”</i>
Distribution Channels 2012	68 stores	62 stores & E-commerce	176 stores & E-commerce & Mail-order	92 stores & E-commerce
Customer club	Yes	No	Yes	Yes
Likes on Facebook³	116,993	12,742	14,708,415	366,119
Followers on Instagram⁴	8,653	107,000	704,000	57,000
Advertising in television	Yes	No	Yes	Yes
Strength	Service-minded	Focused target market	Global market leader	New products every weekday

Table 1: Summary of Empirical Data

² Marketed towards women aged 20-40

³ As of May 10th 2013

⁴ As of May 10th 2013

5. Analysis

In this chapter we compare the interpretations of our collected empirical material with our theoretical framework to present an in-depth analysis and ultimately to assess the validity of our model. We will examine if the selected chains, that represent the Swedish FMCG industry, do in fact use the hybrid strategy and focus on the following customer-oriented activities: marketing, distribution and service.

5.1 The Industry Structure

Rivalry among existing firms

All interviewees agree that the rivalry among existing companies has increased a lot during the past years. Frugård said there was a demand for affordable fashion thirty years ago, which led to the establishment of many new fast fashion retail chains. Therefore, there is an over-establishment of companies that offer similar products at low prices, which consequently leads to the low customer loyalty since the stores' offerings become interchangeable. Kroon discussed the phenomena of cross-sectional merchandising, which is why some companies have started selling products that consumers are highly interested in, even though those products are not the company's primary product. All these factors lead to the high rivalry between companies in today's FMCG industry.

Threat of new competition

There is a low threat of new competition since the entry barriers on the market are high due to the lack of space on the market. Our interviewees agree that it may be challenging for new players to enter the market since existing chains are occupying the Swedish market. However, the low customer loyalty leads to low entry barriers on the fast fashion retail market since there are low switching costs, which ultimately leads to low risk of threat of new competition.

The bargaining power of customers and suppliers

The bargaining power of the customer has increased a lot partially due to the increased number of fast fashion retail chains on the market, giving the consumer so much more to choose from and partially due to the lack of switching costs. The customer's increased access to information is another factor leading to a more transparent industry and the customer is therefore much more in focus today than historically. The bargaining power of suppliers is relatively low

because of the high number of suppliers to choose from. Since none of our interviewees discussed this force we have interpreted it as very low.

Substitute Products

There are no direct substitutes to clothes, but one could determine products such as trips and eating out that give the same emotional value are a type of substitute product. A substitute to spending on clothes could be restaurants and travelling agency industries.

This industry structure analysis shows that conditions for this market have radically changed. There are two forces that are the main reasons for the high level of competition in the fast fashion retail industry: high rivalry among existing companies and the bargaining power of customers. This in combination with the continuous high demand for fast fashion leads to tough competition. The tough competition is an effect of the over-establishment of companies.

Frugård tells us that the situation was completely different a few years ago when there was a higher demand for affordable clothes, but today the industry is satisfied, although there is still a demand for affordable fashion is still high. The fact that chains often imitate other chains' activities to maintain competitiveness is another sign that fast fashion retail is approaching the maturity stage in Klepper's (1997) industry life cycle.

5.2 Hybrid Strategy

To survive the highly competitive industry in the fast fashion retail industry, chains need to offer both products with low prices and something unique compared to competitors (Lien; Högstedt; Frugård; Marketing Manager at Fashion AB; Product- and Buying Employee at H&M). This supports the theory on the hybrid strategy, which is based on a combination of cost leadership and differentiation strategy (Datta, 2009; Kim, & Dae-il Stimpert, 2004; Baroto et al., 2012; Thompson et al., 2012; Ireland et al., 2011).

Competitive pricing is undeniably a key factor to maintain competitiveness in the fast fashion retail industry. According to Frugård and the Product- and Buying Employee at H&M historically it was enough to only offer competitive prices, but today chains need to offer something additional. Customers are price conscious and consequently there is price competition, but price is not sufficient to attract customers to purchase their products (Product- and Buying Employee at H&M). Chains can offer low prices by keeping their overhead costs low and outsourcing all manufacturing for cheaper production (Högstedt). However, Lien somewhat disagrees with this,

the trendier something is, the less price conscious the consumer will be, though for basic clothing apparel like t-shirts and tops, a low price must always be kept. Competing with price will not automatically lead to higher sales figures (Frugård; Product- and Buying employee at H&M). Low prices cannot be used as the sole strategy to compete and therefore companies must also offer perceived added value to the customer to attract buyers. Consequently, price is still the most important factor for chains in the fast fashion retail industry today, but additionally companies need to offer value beyond the functional product. Since all chains selected to take part in this study determine price to be a prerequisite to exist on the market, Grant's (2010) theory on cost advantage strategy is supported. It also supports that although price is not a competitive advantage in mature industries competitive pricing is required to even exist on the market (Buzzell & Gale, 1987).

Companies try to differentiate from competitors by finding a USP (Frugård), which supports Bhat and Reddi's (1998) theory on the importance of differentiating through uniqueness. This is also evidenced by the slight distinctions in products and services offered, to compete with similar products. This is an attempt to get customers to see the added value in the complementary services to the product, which supports Carroll & Swaminathan's (2000) theory on differentiation. For example, due to the low level of customer loyalty in the chains, Fashion AB's Managing Director says that it is even more important to differentiate from competitors. Outstanding service is a USP or targeting a very specific market are ways to differentiate the offering from competitors' (Frugård; Högstedt). This supports Porter (1985) and Carroll and Swaminathan's (2000) theories that companies, especially in an industry approaching the maturity stage, can yield higher profit margins by focusing on a niche target market. Chains want to create a reputation that sets their differentiates their products from competitors, which validates Acquah and Yasai-Ardekani's (2008) theory that companies apply the differentiation strategy to make their product appear unique compared to the competitors'.

However, as oppose to the previously mentioned theories, the Managing Director at Fashion AB argues that, in the long run, standing out through differentiation is unnecessary since ultimately, all competitors will imitate the most profitable strategy. This verifies Baroto's (2012) theory that it is difficult to maintain one single strategy for a long period of time without competitors imitating, which is why many companies choose to combine the strategies. Chains' strategy is based on a combination of offering the fashion on demand at the most competitive price, without tampering too much with the quality, which is a combination of differentiation and cost advantage (Product- and Buying Employee at H&M). The difference in market share is based on which chain has the best ability to provide the customer with the fashion they desire, because

the design determines more than price (Högstedt; Lien). This also proves that companies need to apply both a cost advantage and differentiation strategy simultaneously. The interviewees ultimately support Datta's (2009) theory that companies apply the hybrid strategy in an industry facing tough competition.

5.3 Marketing

Marketing as a customer-oriented activity is a central part of the strategy to create value. It is important to have a target market, which supports what Osterwalder & Pigneur (2010) state: companies can determine their most profitable customers and attract them by determining their target segment. It is important to understand the target market's role model to achieve the best results from the marketing activities. This is evident in H&M's strategy to use different celebrities that are recognised by their different target markets, respectively, as role models. This supports Pantano et al.'s (2010) theory that understanding the identified target segment will lead to successful marketing.

Another way of marketing is to collaborate with famous designers, which can create a buzz and ultimately lead to a PR success. It can also contribute to creating a relationship between the company and their customers. However, because many fast fashion retail companies have already applied designer collaborations, it may not generate much profit unless companies use an abundant amount of resources and it would require the company to do it at such a large scale to get any attention for it (Managing Director, Fashion AB).

Additionally, there is an increased importance for marketing through social media and blogs and these tools have become more important for the value creating process to build a brand. However, even though social media as a marketing tool is important, it is important to be aware that it is not always reliable enough to be able to predict how well a certain product will sell. Nevertheless, companies can use social media to group communities of people that have a common interest for a certain retail chain and use this to understand their customers' needs (Pantano et al., 2010).

The final, and probably most important, place of marketing is the brick-and-mortar, as this is where the physical customers come to make the physical purchase, which is the ultimate goal of all marketing activities. By for example having integrated screens in the physical store and therefore integrating the physical and virtual worlds, Högstedt and Kroon suggest that this can contribute to customer value. The virtual world is a realm where customers can create dreams

and an image of the chain that they desire and therefore chains can take advantage of this to add value to the actual shopping experience in brick and mortar stores. Integrated screens can also add to a positive image of the customer service.

5.4 Customer Service

There are mixed opinions concerning the significance of customer service in fast fashion retail chains. Customer service is a way to differentiate the chain from other similar chains and create value to the customer, which supports Kotler et al.'s (2009) theory that long-term relations can increase the perceived value. However, there were different reactions from the companies in our empirical data in response to how much resources should be used on customer service and relations.

Customer service can be identified as a USP. Building a relationship with the customer and offering the best service will increase the number of returning customers and ultimately increase sales performance according to Högstedt. This supports Zott & Amit's (2010) theory that differentiation in the value chain can increase performance. The goal is to find a free position in the market that is not already taken by a competitor. It is difficult to create relationships in the fast fashion industry because the customers demonstrate low customer loyalty, which is an effect from most fast fashion chains offering similar products at very competitive prices. Although it is difficult to achieve customer loyalty in this industry, it is still applicable to say that a satisfied customer is more likely to return, which supports Pantano et al.'s (2010) theory that a satisfied customer may be more likely to stay loyal to the chain and can contribute positively to the chain's reputation through for example word of mouth. In fact, customer satisfaction is extremely important when selling FMCGs, since their range of goods constantly change while they also must maintain their competitive prices. Their ultimate goal is to attract and retain a large segment of returning customers.

One way to provide customer service is being the customers' friend. The physical store is the most important place to build customer relationships according to Frugård, which supports Pantano et al.'s (2010) theory that communication with customers through club memberships and newsletters is impersonal.

Service can be defined in many ways. Service may be interpreted as being offered help in the store to for example find the correct size or model is a service, but the Managing Director of

Fashion AB says it is a just another way to flog garments. The best service is providing the desired products and good behaviour in general will contribute to perceived good service. With pressures to maintain competitive prices, the Managing Director at Fashion AB claims that companies cannot provide the stores with enough staff to offer free customer service due to the high wages.

On the other hand, service can be associated with employee's idle time in the store (Managing Director, Fashion AB). For example, at Fashion AB, a highly profitable chain with a large market share, customers will usually not notice if someone greets you and offers you help (Managing Director, Fashion AB). Fashion AB's Managing Director claims that a customer will enter the store that offers desired fashion at the best price and customer service will only be supplementary to the experience.

5.5 Distribution Channels

Regarding distribution channels, there are many of advantages for stores that have direct channels, such as their own brick and mortar stores. For example, the location of the chains' stores is very important (Kotler et al., 2009). Brick and mortar stores must be located in prime locations, which may be costly, but leads to high profit margins since physical store being the most important distribution channel for them. Although customers might be accustomed to finding a chain's store in most cities, the chain is not able to exist in all locations and therefore e-commerce can be an important way to reach as many potential customers as possible.

It is important to identify the customer and know who is buying. This supports Osterwalder & Pigneur's (2010) theory that the customer is key to the business, because without customers there is no business. The goal is to find that one product that can be liked by many. Key in distribution is presenting the apparel in the best way and in the best combination to grab attention.

Overall, the physical store is very important and e-commerce will never eliminate brick and mortar (Högstedt). Nevertheless, there are advantages with e-commerce and most fast fashion retail chains have or are in the process of developing e-commerce (Frugård). E-commerce platforms allow the customers to obtain a lot of information, in a quick, easy and cheap way, which allows the chains to present new products quickly. However, based on the interviewed chains it is still just a complement to the brick and mortar stores (Managing Director, Fashion

AB). According to the Marketing Manager at Fashion AB e-commerce will not contribute to more than 10% of the total sales in a large fast fashion retail chain.

In conclusion, it is important to find a balance between different distribution channels and to integrate these in the business operations in a strategic way (Osterwalder & Pigneur, 2010). Chains should not offer e-commerce unless the platform has a certain standard, since this could easily create a negative experience for the customer if, for example, it is not a user-friendly experience. Therefore it is important for a chain to focus on one distribution channel in order to present a positive shopping experience for the customer, and only after this is established, other distribution channels such as e-commerce should be considered (Marketing Manager, Fashion AB). This supports Manu (2006) that value-creating strategies cannot merely be tactical; they must also be strategic.

Table 2 summarises the various customer-oriented activities the interviewed companies carry out.

	Cubus	BikBok	H&M	Fashion AB
Marketing Activities	Facebook Instagram Contests Collaborations Television Billboards	Facebook Instagram Collaborations	Facebook Instagram Designer Collaborations Billboards	Facebook Instagram Television Billboards
Distribution Channels	Brick-and-mortar	Brick-and-mortar E-commerce	Brick-and-mortar E-commerce Mail order	Brick-and-mortar E-commerce
Customer service & Relations	Facebook Instagram Customer club (incl. gold membership) Customer service in physical store	Facebook Instagram Customer club Store keeper helps out as a "friend"	Facebook Instagram Customer club Newsletters Greeting at the physical store	Facebook Instagram Loyalty Card

Table 2: Summary of Customer-oriented Activities

6. Conclusions

In our final chapter we present the conclusions of the analysis of our results in the previous chapters. We attempt to conclude on our purpose and to present our reflections on what companies should focus on when dealing with FMCGs. A discussion of our conclusions will be followed by an explanation of the theoretical and practical contributions of this thesis, as well as suggestions for further studies.

To fulfil the main purpose we examined which customer-oriented activities chains apply in the FMCG industry in order to create customer value and maintain competitiveness. We described the industry structure and its competitive environment to gain insight into how customer-oriented activities can be applied to the fast fashion retail industry. We developed an analytical tool based on the BMC and the VC to determine what activities industries that sell FMCGs do to achieve customer value and hence maintain competitiveness.

The increased number of companies and consumers' changing demands are characteristics that attest that the Swedish fast fashion retail industry is approaching maturity stage. High rivalry among existing firms is a consequence of the industry approaching the maturity stage. Due to the increased consumer bargaining power, the chains must adapt their strategies to satisfy the consumers and ultimately maintain their competitiveness. In response to the consumers' changing demands and increased competition, we examined how chains have adjusted their strategies to focus on customer-oriented activities and ultimately satisfy their customers.

Fast fashion retail chains apply the hybrid strategy to compete in the market. Their value proposition is based on a combination of strategies. Chains strive to keep prices low without tampering with the quality. Because fast fashion retail chains' customers are price sensitive, low prices are a prerequisite to even exist on the market. Chains choose to target a specific market segment even though they offer clothes to the mass market. Fast fashion retail chains attempt to differentiate their offering in some way, however many chains end up imitating other chains' successful differentiation strategies rather than taking the risk of trying something new that has not yet been tested on the market.

A successful competitive strategy offers added value to the customers and contributes to the company's competitiveness. Companies must offer a product in demand and a pleasing customer

experience. A good product is essential before even considering how to differentiate the business concepts and products from competitors using customer-oriented activities. It is essential for companies to integrate customer-oriented activities in the company to achieve customer value. Consequently, chains focus on the customer's to achieve uniqueness in the fast fashion retail industry. Chains must keep updated on the technological developments when deciding their marketing technique. It is also important that they choose marketing techniques appropriate for their target market. There are disagreements concerning the customer service and relations in the fast fashion retail industry. Because the products are offered at such a low price and do not involve too much reflection when purchased, customer service may appear superfluous. However, customer service can also be identified as a unique selling point to differentiate the offering from competitors'. Fast fashion retail chains should integrate the virtual world in the physical brick and mortar stores to take advantage of the physical store as a way to directly reach interested customers, as a way to stand out from competitors and offer complementary service and a pleasant experience.

Customer-oriented activities will contribute to the customer's shopping experience and therefore add value to the customer, but it will not affect the chain's long-term competitiveness. Chains in the fast fashion retail industry will maintain competitiveness by continuously delivering products that meet the ever-changing consumer demands, at the place and time where customers are found.

6.1 Theoretical Contribution

The FMCG industry is dynamic, based on the following factors technology developments, over-establishment of chains on the market and increased bargaining power of customers. Companies selling FMCGs rely on a good product to attract customers. We can establish that our theoretical framework does not fully consider the significance of the product itself. Our theoretical framework can be slightly modified based on our collected empirical data from the fast fashion retail chains.

Companies need to choose their competitive strategies by considering their industry structure, which attests Porter's (2008) theory on competitive strategies. We can validate the theory that companies in industries approaching the maturity stage must initially consider the industry characteristics to determine the best competitive strategy on a market with a large number of alternatives and high bargaining power of customers (Burt, 2010; Dunne et al. 1998).

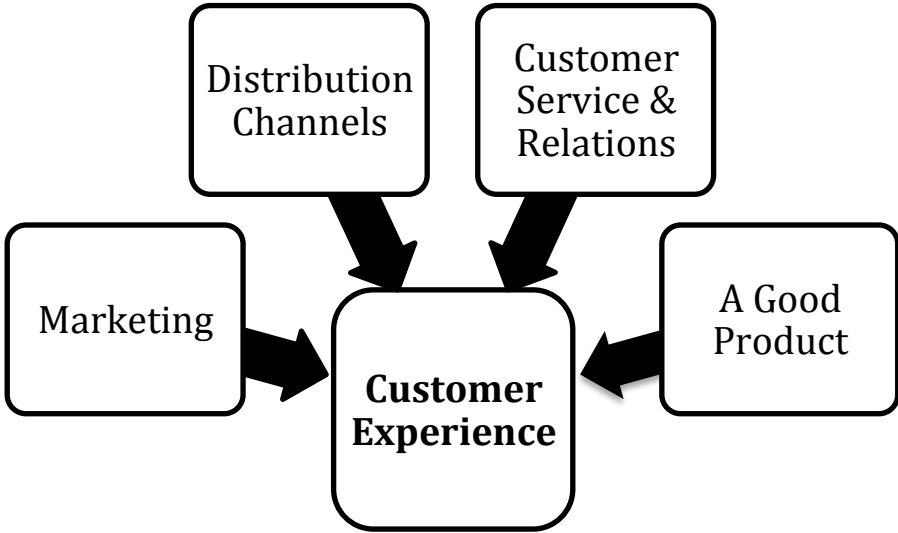
We can validate the theory that companies choose to apply the hybrid strategy (Datta, 2009; Kim et al., 2004; Baroto et al., 2012; Thompson et al., 2012; Ireland et al., 2011) considering they are in a mature industry in a highly competitive environment. The hybrid strategy is necessary on a market with many players that compete with similar products. Companies need to apply both a cost advantage strategy and a differentiation strategy to endure the tough competition and to create competitive advantage (Lien; Högstedt). Companies in fact apply the hybrid strategy, which validates the theory that companies need to apply a combination of strategies to achieve a competitive advantage (Datta, 2009; Kim et al., 2004; Baroto et al., 2012; Thompson et al., 2012; Ireland et al., 2011). The thesis modifies Porter's theory (1980) that states that companies need to choose a competitive strategy based on either cost advantage or differentiation in consideration of the fast fashion retail industry life cycle stage.

In order to gain competitive advantage, chains must turn to other aspects in their product offering to differentiate. Choosing a customer segment and identifying the most valuable customers to define the distribution channels and customer relations assumes that companies are able to actively choose their competitive strategies, which validates Osterwalder & Pigneur's (2010) theory on business models. However, companies must be aware that their actual customers do not always reflect their targeted customer segment. Companies that sell FMCGs may find it difficult to achieve customer loyalty through customer relations, but companies' ultimate goal is to sell as large volumes as possible despite who the customer is. We can validate Osterwalder & Pigneur (2010) claim that companies should find a balance between different distribution channels by integrating them well. Moreover, the BMC is a tool that is only applicable to companies that are in a competitive position and can actively choose their competitive strategy.

Our theoretical contribution is a reflection on how customer-oriented activities add to the customer experience, rather than what companies should do in order to create customer value throughout the supply chain from product conception to end product. Companies in a highly competitive industry selling similar products will imitate each other's strategies so consequently, differentiation cannot achieve a long-term competitive advantage. This modifies Porter's (1980) theory that differentiation alone will lead to competitive advantage.

Based on our findings, we have modified our analytical tool (model 2) to improve our initial tool. In model 3, four factors are illustrated that companies need to apply to their offering in order to add to the customer experience and ultimately gain competitive advantage. The four

determining factors are marketing, distribution channels, customer service and relations and a good product. The modified analytical tool demonstrates how customer-oriented activities add to the customer experience and is specifically applicable to the FMCG industry. The tool can be used for companies selling FMCGs to identify what activities add to the customer experience to maintain competitiveness.



Model 3: Modified Analytical Tool

6.2 Practical Contribution

Chains in the FMCG industry will face challenges to maintain market share because of the abundance of suppliers and therefore companies can use our analytical tool to add customer value.

Our conclusions in this thesis are mainly applicable to fast fashion retail chains that face tough competition, target the mass market and primarily sell directly in their own stores. Additionally, our conclusions can be applicable to all chains in the FMCG industry, especially chains that offer products at low prices and similar to their competitors.

This thesis can contribute to the fast fashion retail chains' strategy developments and give recommendations to how they should add to the customer experience to maintain competitiveness. By using our analytical tool, the chains can identify what activities they should

focus on to increase the customer experience and perceived benefits for both the customer and the chain. In summary, fast fashion retail chains should focus on the following:

- Focus on the customer in order to respond to the customer's desires in the best possible way. This can contribute to the gap between the perceived benefits and perceived costs to create value to the customer. The changing consumer behaviours must be recognised so that the company can offer the demanded products to attract their existing and potential customers. Focusing on the customer is fundamental in the following three areas; the personal marketing activity, close distribution and customer relations.
- Take advantage of today's technology by integrating the physical and virtual stores in order to create the best shopping experience. Chains should not attempt to implement new activities somewhat, but rather improve their brick-and-mortar store so that they can offer the best marketing, distribution channels and relations in the store. The chains' employees encounter with existing and potential customers will take place in the physical store and this is therefore the opportunity to ensure a positive shopping experience and to create customer relationships.
- Delivering the latest trends at the time and price that is demanded by the customer is the overall main strategy for success in this industry and the chains that succeed in delivering the demanded products will maintain competitiveness. This goal must be reflected in the work throughout the supply chain and therefore chains should consider their marketing, distribution channels and customer relation techniques when attempting to deliver a good product.

6.3 Suggestions for Future Studies

During our research, we have identified additional research aspects that have not been considered and studied in this thesis. We present the following recommendations for future research how chains that sell FMCGs can create customer value when low prices are not sufficient to create competitive advantage.

- This thesis has been analysed using a qualitative method based on interviews for our empirical data. By also collecting quantitative data our thesis conclusions could be

further validated. Additionally, in order to reflect the Swedish market at a larger dimension, a larger sample of fast fashion retail chains could be interviewed.

- We have analysed the FMCG industry, characterised by the tough competition, high number of existing players and fast-moving goods. As this industry can also be found in other geographical locations, this study could be applied to these locations to see if our analytical tool stays true there as well.
- We have chosen to examine the market from a company perspective to understand how they perceive the competitive situation and what competitive strategies they consider necessary to create customer value. Further research could be done on the competitive situation and competitive strategies from a consumer perspective and then execute a comparison.
- All activities in the VC and BMC could be analysed, to examine how companies can create customer value in all leads of the supply chain rather than just focusing on the demand side of the supply chain that we have identified as customer-oriented activities.

7. References

7.1 Printed

- Acquaah, M., Yasai-Ardekani, M. (2008). Does the implementation of a combination competitive strategy yield incremental performance benefits? A new perspective from a transition economy in Sub-Saharan Africa. *Journal of Business Research*, 61, (4), 346–354.
- Barney, J. (1991). Firm Resources and Sustainable Competitive Advantage. *Journal of Management*, 17,(1), 99-120.
- Baroto, M. B., Bin Abdullah M. M., & Wan, H.L. (2012). Hybrid Strategy: A New Strategy for Competitive Advantage. *International Journal of Business and Management*, 7, (20).
- Bergström, F., & Fölster, S. (2005) *Kampen om köpkraften/ Handeln i framtiden*. (Handelns utredningsinstitut). Formas Publishing Group AB.
- Bhardwaj, V., Fairhurst, A. (2010). Fast fashion: response to changes in the fashion industry. *The International Review of Retail, Distribution and Consumer Research*, 20, (1).
- Bhat, S., & Reddy, S. (1998). Symbolic and Functional Positioning of Brands. *Journal of Consumer Marketing*, 15, (1), 32-43.
- Bryman, A., & Bell, E. (2005). *Företagsekonomiska forskningsmetoder*. Malmö: Liber.
- Burt, S. (2010). Retailing in Europe: 20 years on. *The International Review of Retail, Distribution and Consumer Research*, 20,(1), 9-27.
- Caroll G.R., Swaminathan A. (2000). Why the microbrewery movement? Organizational Dynamics of Resource Partitioning in the American Brewing Industry. *American Journal of Sociology*, 106: 715-62.
- Casadesus-Masanell, R., & Ricart, J. E. (2010). From Strategy to Business Models and onto Tactics. *Long Range Planning*, 43, 195-215.
- Chesbrough, H., & Rosenbloom, R.S. (2002). The role of the business model in capturing value from innovation: evidence from Xerox Corporation's technology spin-off companies. *Industrial and Corporate Change*, 11, (3), 529.
- Datta, Y. (2009). *A Critique of Porter's Cost Leadership and Differentiation Strategies*. Paper presented at the 9th Oxford Business & Economics Conference, Oxford, England.
- Dunne, T., Roberts, M.J., & Samuelson, L. (1988). Patterns of Firm Entry and Exit in U.S. Manufacturing Industries. *Rand Journal of Economics*, 19: 495-515.
- Gay, S. (2006). The failure of the global consumer: the importance of localization in the pursuit of globalization, *Reason and Respect*, 2.
- Grant, R. M. (2010). *Contemporary Strategy Analysis* (7th ed.) West Sussex: John Wiley & Sons, Ltd.

- Hambrick, D. C., & Schecter, M. S. (1983). Turnaround strategies for mature industrial product business units. *Academy of Management Journal*, 26, (2), 231-248.
- Harrigan, K.R., & Porter, M. E. (1983). End-game Strategies for Declining Industries. *Harvard Business Review*, 111-20.
- Ireland, R., Hokisson, R., & Hitt, M. (2011). *Competitiveness & Globalization Strategic Management* (10th ed.). Mason: South-Western Cengage Learning.
- Jacobides, M.G. (2007). Industry Change through Vertical Disintegration: How and Why Markets Emerged in Mortgage Banking. *Academy of Management Journal*, 48; no 3, 465-98
- Jacobides, M.G., Baldwin, C.Y., & Dizaji, R. (2007). *From the Structure of the Value Chain to the Strategic Dynamics of Industry Sectors*. Unpublished manuscript, Academy of Journal Presentation.
- Jacobsen, D.I. (2002). *Vad, hur och varför? Om metodval i företagsekonomi och andra samhällsvetenskapliga ämnen*. Lund: Studentlitteratur.
- Johnson M. W., Christensen C. M., Kagermann, G. (2008). Reinventing Your Business Model. *Harvard Business Review*.
- Kim, E. N., & Dae-il Stimpert, J.L. (2004). Testing the Applicability of Porter's Generic Strategies in the Digital Age: A Study of Korean Cyber Malls. *Journal of Business Strategies*, 21, (1), 19-45.
- Klepper, S. (1997). Industry Life Cycles. *Industrial and Corporate Change*, 6, 145-81.
- Kotler, P., Keller, K. L., Brady, M., Goodman, M., & Hansen, T. (2009). *Marketing Management* (1st European ed.). Pearson Prentice Hall.
- Manu, A. (2006). *The Strategic Foresight and Innovation in the Global Economy*. San Francisco: Peachpit Press.
- McGahan, A.M., & Silverman, B.S. (2001). How does Innovative Activity Change as Industries Mature? *International Journal of Industrial Organization*, 19, (7), 1141-60.
- Osterwalder, A., Pigneur, Y., & Tucci, L. C. (2005). Clarifying Business Models; Origins, Past Present and Future of the concept. *Communications of the Association for Information Systems*, 16, 1-25.
- Pantano, E., Tavernise, A., & Viassone. M. (2010). Consumer perception of computer-mediated communication in social network. In the *4th International Conference on New Trends in Information Science and Service Science*, (pp. 609-614).
- Pine, B.J., & Gilmore J. (1998). Welcome to the Experience Economy. *Harvard Business Review*, 97-105.
- Porter, M. E. (1980). *Competitive Strategy, Techniques for Analyzing Industries and Competitors*. New York: MacMillan.
- Porter, M. E. (1985). *Competitive Advantage*. New York: Macmillan
- Porter, M. E. (1996). What is Strategy? *Harvard Business Review*, November-December, 61-78.

- Porter, M. (2008). Five competitive forces that shape industry structure. *Harvard Business Review*, 86, (1), 78-93.
- Saunders, M., Lewis, P., & Thornhill, A. (2009). *Research Methods for Business Students*. Essex: Pearson Education Limited.
- Stern L., El-Ansary, A.I. W., & Coughlan, A.T. (1996). *Marketing Channels* (5th ed.). International Editions, Prentice Hall.
- Tapscott, D. (1997). Strategy in the New Economy. *Strategy & Leadership*, 25, 8-14.
- Thompson, A., Peteraf, M., Gamble, J., & Strickland, A.J. (2012). *Crafting and Executing Strategy, Concepts and Cases*. Columbus: McGraw-Hill.
- Tian, K., Bearden, O., & Hunter, G. (2001). Consumers' Need for Uniqueness: Scale Development and Validation. *Journal of Consumer Research*, 28.
- Zott C., & Amit R. (2010). Business Model Design: An Activity System Perspective. *Long Range Planning* 43, 216-226.

7.2 Electronic

- Arnberg, J., Bergström, F., Blank, M., Cronholm, M., Widerstedt, B. (2006). *Detaljhandeln och produktivitetstillväxten: Produktivitetstillväxten inom svensk detaljhandel 1993-2004*. Retrieved from <http://www.tillvaxtanalys.se/download/18.56ef093c139bf3ef8902761/1349863413549/detaljhandeln-och-produktivitetstillvaxten-06.pdf>
- Barnes, C., Blake, H., & Pinder, D. (2009). *Creating and Delivering Your Value Proposition: Managing Customer Experience for Profit*. Available from <http://users.net1.cc/pako/sellex%20books/Service%20Service/Creating%20And%20Delivering%20your%20Value%20Proposition%20%20Cindy%20Barnes,%20Helen%20Blake%20and%20David%20Pinder,%202009.pdf>
- BikBok. (2013). About Bik Bok. Retrieved 2 April, 2013. Available from <http://bikbok.com/eu/aboutus>
- Billige, M. (2013). *Customer demands for promotions and price aggressive competitors cost Consumer Packaged Goods firms dearly*. Unpublished manuscript, Simon-Kucher Partners. Available from <http://www.simon-kucher.com/en-gb/news/customer-demands-promotions-and-price-aggressive-competitors-cost-consumer-packaged-goods-firms>
- Buzzell, R. D., & Gale, B. T. (1987). *The PIMS Principles*. Available from http://books.google.se/books/about/The_Pims_Principles.html?id=i49zb983FfMC&redir_esc=y
- Celen, A., Erdogan, T., & Taymaz, E. (2005). *Fast moving Consumer Goods Conditions and Policies*. (Working Papers in Economics. Middle East Technical University, Economic Research

- Center, 2005). Available from <http://www.erc.metu.edu.tr/menu/series05/0503.pdf>
- Cubus. (2013). Historia. Retrieved 2 April, 2013. Available from <http://cubus.com/no/Bedrift/Om-Cubus1/Om-Cubus/Historie/>
- Gereffi, G., & Memedovic, O. (2003). *The Global Apparel Value Chain: What Prospects for Upgrading by Developing Countries*. (Duke University, United Nations Industrial Development Organization, Strategic Research and Economics Branch, 2003) Available from <http://www.inti.gov.ar/cadenasdevalor/documentacion/ApparelUNIDOnew2Feb03.pdf>
- H&M. (2013). Business Concept & Growth. Retrieved 2 April, 2013. Available from <http://about.hm.com/AboutSection/en/About/Facts-About-HM/About-HM/Business-Concept-and-Growth.html#cm-menu>
- Kannegiesser, M. (2008). *Value Chain Management in the Chemical Industry*. (Chapter 2, pp. 11-61) Available from <http://www.scribd.com/doc/38288516/Value-Chain-Management-in-the-Chemical-Industry>
- Majumdar, R. (2006). *Product Management in India*. Available from <http://books.google.se/books?id=ESJzaCJE3fQC&printsec=frontcover&vq=what+is+fmcg&hl=sv#v=onepage&q=what%20is%20fmcg&f=false>
- Osterwalder, A., & Y, Pigneur. (2010). *Business Model Generation*. Available from http://www.google.se/books?hl=sv&lr=&id=fklTInjiPQAC&oi=fnd&pg=PT14&dq=business+model+canvas&ots=95Oum0UARL&sig=U-fFkpS9y_UDbi-LRdW-bbxnoTI&redir_esc=y
- Thomasson, C. S. (2012, July/August). Apparel Market: Landscape of Change. *Textile World*. Retrieved March 30, 2013, available from http://www.textileworld.com/Articles/2012/July/July_August_issue/Apparel_Market_Landscape_of_Change.html

Appendices

Appendix A: Interviewees

Frugård, Jens Erik. (Marketing Manager, Cubus). Interview April 15, 2013. Oslo, Norway

Hogsted, Renè. (Product- and Buying Director, BikBok). Interview April 15, 2013. Oslo, Norway

Kroon, Magnus. (Development Manager, Svensk Handel Stil). Interview April 23, 2013.

Lien, Martin. (Marketing Director, Cubus). Interview April 24, 2013.

Moen, Merete. (Product- and Buying Director, Cubus). Interview May 7, 2013.

Owner, Managing Director, Fashion AB. Interview April 16, 2013.

Marketing Director, Fashion AB. Interview April 24, 2013.

Appendix B: Interview Manuscripts

Interview Manuscript for Industry Expert

Konkurrenssituationen i branschen

1. Beskriv konkurrenssituationen på modemarknaden ni är verksamma på.
2. Är det hård konkurrens? Vilka kunder vänder ni er till? Vad är er målgrupp? På vilka sätt är det uppenbart?
3. Hur positionerar ni er i förhållande till andra modeföretag på den svenska marknaden? Vad erbjuder ni som är annorlunda gentemot era konkurrenter?
4. Vem anser ni är era största konkurrenter och varför?
5. Vilka företagsspecifika faktorer anser ni har bidraget till den hårda konkurrens som råder på marknaden idag? Industrifaktorer/ omvärldsaspekter.
6. Hur arbetar ni aktivt för att bemöta dessa?

Affärsmodellen/ Strategier

1. Vad var er grundläggande idé när Ni skapades?
2. Har Ni en utarbetad affärsmodell som man arbetar efter? Isåfall, hur ser den ut?
3. Har er value proposition förändrats sedan ni startade? Isåfall, hur?
4. Vad är Era strategier? Hur behåller ni er konkurrenskraftiga?

Värdekedjan och BMC

1. Var ligger kundvärdet? Vad erbjuder ni till kunden? Har kundvärdet förändrats sedan ni startade?
2. Har Ni en vision som man strävar efter att uppnå?
3. Vad har ni för marknadsföringsaktiviteter? Läger ni ner mer resurser idag på de olika aktiviteterna?
4. Vad erbjuder ni för kundservice? Hur viktigt är kundnöjdhet i det stora hela för ert affärskoncept? Läger ni mer eller mindre resurser på customer service nuförtiden?
5. Genom vilka kanaler distribuerar ni era produkter till slutkund? Varför? Vilka kanaler är mest effektiva? Vilka är viktigast för er som företag?
6. Hur viktig är den fysiska butiken för er? (Distributionsmässigt? I marknadsföringssyfte? Som kundservice?)
7. Konkurrerar ni främst med pris och effektivitet eller kundupplevelsen i helhet?
8. Vilka kundrelationer strävar ni mot med era kunder? Vilka aktiviteter gör ni för att uppnå det?

Avslutning

1. Får vi återkomma vid mail/telefon vid eventuellt ytterligare frågor?
2. Får vi citera er?

Interview Manuscript for Company Employees

Konkurrenssituationen i branschen

1. Beskriv konkurrenssituationen på modemarknaden. Vilka kännetecken ser du?
 - a. Till exempel är det hög konkurrens mellan existerande aktörer på marknaden?
2. Hur har modebranschen utvecklats? Hur har ökade antalet kedjor påverkat konkurrensen?
3. Vad erbjuder företag för att stå ut gentemot konkurrenter?
4. Vilka är de främsta utmaningarna för stora klädkedjor idag?
5. Vilka företagsspecifika faktorer anser ni har bidraget till den hårda konkurrens som råder på marknaden idag? Industrifaktorer/ omvärldsaspekter.

Värdekedjan och BMC

1. Var ligger kundvärdet? Vad erbjuds kunden? Har kundvärdet förändrats?
2. Finns det några urtypiska marknadsföringsaktiviteter? Läger ni ner mer resurser idag på de olika aktiviteterna?
3. Hur förblir företag konkurrenskraftiga, var bör fokus ligga?
4. Hur viktigt är kundservice? Hur viktigt är kundnöjdhet i det stora hela för ert affärskoncept? Vad innebär service idag?
5. Genom vilka kanaler distribuerar företag till slutkund idag? Vilka kanaler anser ni är mest effektiva?
6. Hur viktig är den fysiska butiken? Hur viktigt är det att erbjuda e-handel? Post order? (Distributionsmässigt? I marknadsföringssyfte? Som kundservice?)
7. Vilka kundrelationer finns mellan kedjor och slutkund?

Avslutning

1. Får vi återkomma vi mail/telefon vid eventuellt ytterligare frågor?
2. Får vi citera er?

Standing Out from the Crowd

The competitive environment in the Swedish fast fashion retail market is tougher than ever. Low customer loyalty is a consequence of customers given a broader selection of choice. Chains need to offer something unique to stand out; Kuylenstierna and Lundgren argue that focus on customer-oriented activities is the solution.

When you go shopping, the experience at each store is in no way unique: you may find it difficult to recognise which store you are in since their concepts are so similar. New research, conducted by two business students from Lund University in Sweden examine how Swedish fast fashion retail chains create customer value to stand out from competitors. The tough competition is a consequence of the over establishment in the industry where apparel chains struggle to stand out.

“Today you need to offer more”

Power to the People

The access to information has increased through blogs, social media and communities, and led to consumers' increased power. “Today, the customer is in the centre of attention. You've got to understand the customer and what the customer demands.” (Product- and Buying Manager, BikBok) The customer has a voice in what stores offer on their shelves – which is different from the former more product-oriented view. Chains must respond to the frequent changing consumer tastes.

Price is Not Enough

“Earlier you could go far by only offering low prices, but it is not enough today. Today you have to offer more.” (Marketing Manager, Cubus) Offering discounts and selling at low prices is not enough anymore. Chains need to offer something more to stand out from the crowd of fast fashion retail chains that have similar offers.

Low prices are a prerequisite to even exist on the market and customers are generally very price-sensitive. Competing with time with shorter lead times has also become a prerequisite in the fast fashion industry.

Responding to Tough Competition

Chains need to reorganize their strategies in marketing, distribution channels and customer relations to respond to the tough competition. In attempt to stand out from their competitors, chains use customer-oriented activities to create customer relations. Society lives both on- and offline due to the development in technology, which makes it interesting to integrate the virtual world in the physical store experience.

The Solution

The study shows that the key to success is the product. However, a good product is not only defined by its functions. A good product depends on smart marketing, quick service and practical distribution channels. The whole shopping experience contributes to the product. The interviews presented in the thesis show that the best shopping experiences will integrate the virtual world in the physical store.

