

# CHALMERS



## A business model for entering new markets: A case study of the Swedish bread market

*Master of Science Thesis*

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## Abstract

The assigner is a company in Finland that produces high quality bagels. The company is a family owned bakery which wants to expand to other countries but for the moment the expansion has been abiding on the planning phase and no actual operations in new countries are made yet.

The purpose of this master's thesis is to investigate markets and deliver a business model tool for the company that they could use when entering into new markets. In order to fulfil the purpose, business models, business networks and distribution theory have been studied in the literature review. Based on the theoretical framework of the thesis, the analytical model was created to be able to elaborate the Swedish market. The analytical model is the framework of the business model for the company when entering new markets. The analytical model encompasses both internal and external aspects of the current situation and hence aims to highlight the need of holistic approach.

The research questions of the study work like a red thread to draw the study to the target. The problem discussion about market, market offering and distribution constitute the dimensions of the business model tool which is a fundamental part of this thesis.

The theory is combined with the empirical research of Swedish bread market to get the best results out of the research. The focus of the empirical study is to understand the perceptions of bagels, companies, their customers and markets. The empirical part of the research traces the insight of market offering, exposes potential collaboration partners and practices for the company. The significant part of the empirical study was a case within the case interview research. Regarding these mini cases 13 companies were interviewed in order to gather experience based knowledge from the bread related markets.

Regarding the empirical findings the Swedish market was perceived to be two-folded. The actual market condition is separated into two different business areas which are foodservices and food retail markets. The business model for the company is therefore adapted to meet the dualistic challenge of taking over new markets. The foodservice market is considered more flexible to finding potential customers and introducing bagels. The food retail market is a potential way to enter to the countrywide market but the food retail requests brand, product assortment, sales and distribution capability.

The business model for the company suggests that the company starts out in the foodservice market while it stimulates the demand for bagels among end-consumers and finds collaboration partners from the market. The expansion is suggested to be taken place gradually from a regional area to other areas in the same country ending to the entry to food retail market.

Keywords: business model, business network, distribution, market, grocery market

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*“If there is any one secret of success, it lies in the ability to get to other person's point of view and see things from that person's angle as well as from your own”* – Henry Ford

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## 1. Introduction

This chapter presents the background of this master's thesis describing the purpose of the study and leads to the structure of the thesis report. The focus company is a Finnish family-owned bakery that is specialized in bagel manufacturing. The company is searching for new business opportunities in foreign markets and one of their target markets is Sweden. This thesis investigates Sweden as a pilot market to enter into new markets. The information of the thesis is applicable in moving to new markets and apprehends challenges in the grocery markets in general.

### 1.1 Background

The bakery business Keski Yhtiöt Oy Ab was founded in 1946 and the company is focused on selling bagel related products. The traditional sweet coffee bagel has been a common bakery product in Finnish markets and Keski as we call the company has a long experience of baking round-shaped bread. The history of bagels is rooted from Jewish baking culture and bagels are spread around the world. The most prominent bagel markets are in the UK and North America where a New-York style of bagel is one example of variety of bagel breads.

Keski sells their coffee bagels fresh in plastic bags to all supermarkets chains in Finland. Instead of traditional Finnish coffee bagels Keski has developed their product line to contain also original food bread bagels which are roasted and filled with ingredients for example with salmon and cream cheese. Over a year ago company started to deliver frozen products for foodservice customers. Hence these bagel products today appear in the assortment of key foodservice wholesalers in Finland.

Keski has a modern and largely automated factory that was built in 2005 in order to expand the sales further on international scale. Today the firm consists of around 18 employees and has the turnover of 3.2 million Euros. The company is categorized as small and mediums size company (SME) which has serious growth objectives. Recently the company has launched new direction for its international operations calling the business as Keski Arctic Bakery relating to the values of its purity and uniqueness.

To support the internationalization plans Keski has carried out a number of business development projects. The consultation organization Finpro and some industry specific consultants have been helping to develop the business to meet the challenges of expansion. The projects have been dealing with export prospects and product offerings among others in Nordic countries. Keski intends to launch their bakery products in the Swedish market. This master's thesis is initiated to contribute the market entry by designing a business model corresponding to the company's challenge and knowledge regarding entering new markets. The results of the thesis are meant to be used for Keski to build their operation and successfully enter into the market. The study combines theoretical and empirical research.

This thesis study focuses on observing the Swedish market for bread products. It does not pay attention to product development or production capabilities of the focal company. Keski is considered already to be prepared for expansion and is able to quickly increase their capacity of production to meet growing demand coming outside current markets in Finland. The thesis will analyse which stakeholders are the most relevant for Keski to start their distribution and give the most opportunities to expand their company. The thesis analyses the Swedish market and describes the business model entering into new markets. The study also discovers potential customers and stakeholders for Keski to acquire the most opportunities to expand their company in the focused Swedish market.



## 1.2 Purpose and the steps of the study

The product itself is a bagel which is a rather ordinary bakery product. The thesis will focus more on overall product offering, value creation and model that Keski needs when entering to the new market. The market of bakery products resides in the versatile markets of groceries. The potential markets will be analysed based on an analytical tool created by combining business model literature, business network and distribution theories.

The purpose of this study is to deliver a business model tool that Keski could use when entering into new markets. To be able to fulfil the purpose the study has been divided in three steps; (1) make literature review based on business models, business networks and distribution theories and take the most important parts of theories and create an analytical tool, (2) conduct an empirical research about the Swedish market and (3) finally deliver a business model tool for the company to enter new markets.

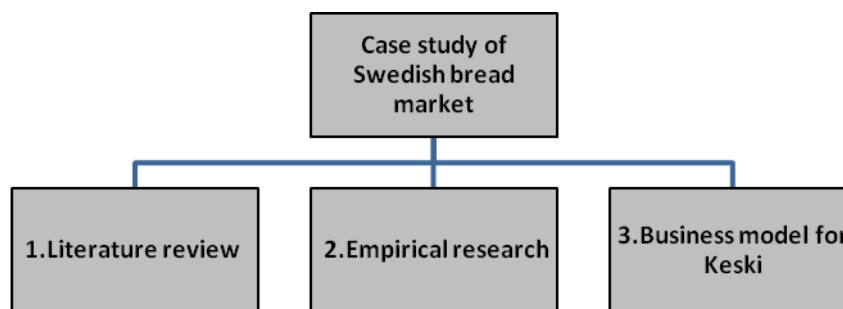


Figure 1.1 Three steps in the case study

## 1.3 Structure of the thesis

This thesis begins with a theory research and continues developing a theoretical framework around business model. The theoretical framework is used to conceive and complete an analytical model to study Swedish markets for bakery products in respect of a business model for the market entrant. In the empirical part we have explored different companies as “mini cases” within our case study of Swedish markets. The empirical information is analysed and the proposal of business model for Keski to expand to Swedish markets is presented in the end. This thesis report gives a good outline for the Swedish bread markets and works as a general guide for the market even the study has made from the perspective of the bagel manufacturer.

## 2. Theoretical framework

This chapter will present a theoretical framework of the study. The theoretical part contains a literature review which is divided into findings on business model development, industrial network approach and distribution literature. The analytical framework is created by combining reviewed theories to contribute the purpose of this master's thesis.

### 2.1 The logic of business models

There is lack of explicit and distinct definition for a business model in literature. In general a business model is a guideline how companies could act to gather knowledge about their industry. The guideline consists of activities which will help a firm to choose a right strategy for success in their competitive environment. On the other hand Sorescu, Frambach, Singh, Rangaswamy, Bridges (2011) claim that the firm's strategy displays a certain goal whereas business model moves the firm towards that goal. According to Mason and Spring (2011) "most firms are in the business to make money and business models are about making money". They also define the business model as a structural template that describes the organization of a focal firm's transactions with all of its external constitutions in product markets. In addition to that Sorescu et al. (2011) propose that a business model include interdependent structures, activities and processes which are aimed for value creation for customers and value proposition for the focal firm and its partners.

The recognized notion for business model of a company includes different activities of how the company is going to capture and create value to their business customers. The aspects that are included in a business model are how the company distribute, prices, advertises or how they produce the product. The business model takes care of both internal analysis as well as external analysis of the industry<sup>1</sup>. According to Rasmuson (2007) business models answer questions like which are our customers? What value they are searching for? How will the company deliver that value? Which are the key assets in the company? Fisker and Rutherford (2002) explain business models also include people in the organisation and collaboration partners. The business model of a firm is basically a framework or architecture which underpins the value creation of a business entity and its business partners. Brettel et al (2012) suggest in their study that the business model of a firm is the architecture for the firm's boundary spanning transactions with external stakeholders which makes relationship marketing and relational exchanges essential concepts in this thesis study.

#### 2.1.1 Design and theory of business models

The focus of business model is in value creation and further in competitive advantage which is emerging of the way the business is put into practice. Thus the design of a business model is constructed with relation to company and its situation. The business model design can have different performance implications when it relates on resource allocation, for example in terms of efficiency-centered business model or novelty-centered business model presented by Brettel et al. (2012). To conceptualize a business model Zott and Amit (2010) suggest the abbreviation "NICE" that is a framework for following design themes; *Novelty*, *lock-In*, *Complementaries* and *Efficiency*. According to the model novelty influences bringing new elements in business relationships, lock-in refers to retain activities and business partners, complementaries include actors and system approach and efficiency is addressed to reduce operational costs.

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<sup>1</sup> <http://lexicon.ft.com/Term?term=business-model> [Accessed: 2013-02-06]

Morris et al. (2005) concluded that a business model refers to as architecture, design, pattern, plan, method, assumption and statement. It is easy to confuse business model terminology with strategy, business concept, a revenue model or economic model. Business model is a representation of how interrelated decision variables, like revenue sources, pricing methods, cost structure, margins and expected volumes are addressed to a sustainable competitive advantage in the market. Morris et al. (2005) identified three categories for business models, economic, operational and strategic aspect. Economic includes how to make money over time and have sustainable profit stream? Operational focuses on how look the firm internal processes and infrastructure? Strategic level refers to questions where are firms positioning themselves in the market place, what growth opportunities exist and where are the organizational boundaries of a firm.

### 2.1.2 Theory foundation of business models

Amit and Zott (2001) concluded that business models built on a combination of different theories that all create value for all business participants. Business models have arisen from multiple sources and form cross-theoretical perspective. There are four different theories that will create value for business participants but each theory focuses on different ways of how to create value. Business models create overall view of how to create value for all parties that are involved in the business and therefore the business model could be seen as drawing upon the combination of theories. The following four theories that will be mentioned are Porter's value chain framework, resource-based view of a firm (RBV) made by Barney, strategic network theory created by Dyer and Singh and the theory of transaction costs economics done by Williamson.

Michael Porter (1985) introduced a value chain framework which can create competitive advantage for the firm. This framework provides the template of understanding how activities made by the firm effects the behaviour of both buyers and suppliers. When firms change activities and increase prices buyers react and the firm can see if customers still want to buy expensive products or do they prefer that the price is lower and then buy more of products. The feedback from buyers will be the response to the firm which is valuable if the company wants to understand if their change was good or bad. The buyer's value will be created also when the firm lower the costs of buying. The value chain is a tool for how the firm can analysis their position in the market for example when changing prices. These activities that create value will influence the whole value chain which includes supplier, firm and buyer in value chain<sup>2</sup>.

Jay Barney could be seen as the father of the resource-Based View of the firm. RBV considers strategic choices, identifying, developing key resources so the firm will be able to maximize their revenues and create competitive advantage. Barney suggests the VRIN-framework which means that the resources should be Valuable, Rare, Imperfectly imitable and Non-sustainability to have competitive advantage.<sup>3</sup>

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<sup>2</sup> <http://onlinelibrary.wiley.com/doi/10.1002/smj.4250121008/pdf> [Accessed: 2013-02-08]

<sup>3</sup> [http://www.valuebasedmanagement.net/methods\\_barney\\_resource\\_based\\_view\\_firm.html](http://www.valuebasedmanagement.net/methods_barney_resource_based_view_firm.html) [Accessed: 2013-02-28]

Transaction cost of economics is the cost of communication charges, legal fees, cost of finding information about price, quality, transportation costs, this could be seen as research costs and the company does not gather any revenues. Transaction costs helps the company understand if they should make or buy the product<sup>4</sup>. Transaction cost theory includes transaction costs, contracting costs, coordination costs and search costs and shows the actual costs of outsourcing the products or services<sup>5</sup>.

According to Birkinshaw (2000) network relationship inside and outside the firm and the development of capabilities he refers to Dyer and Singh (1998) that firms have both formal and informal relationship with each other. The formal is for example joint venture and licensing agreements and informal relationship are strategic alliances and outsourcing. Both relationships are important for learning and idea generation. These relationships are done by investments of each firm and they create a network of opportunities, resources and capabilities.

### **2.1.3 Two business model tools**

Two business models are chosen to be presented in this literature review because of the combination popularity and relation to business networks. The first one is Alexander Osterwalder's business model Canvas that is a strategic management and entrepreneurial tool that can be used when building business models<sup>6</sup>. Another model is made by Mason and Spring (2011) and it takes into account network dimensions regarding business models.

When a company is designing a business model Morris et al. (2005) suggest six questions that are underlying of the creation of the model. How will the firm create value? For whom will the firm create value? What is the firm's source of advantages? How will the firm position itself in the marketplace? How will the firm make money? What are the firm's time, scope and size ambitions? Similarly these questions could be translated into business model Canvas, which according to Alexander Osterwalder is a tool for firms to design their business model. Canvas tool consists of nine different building blocks, customer segments, value proposition, channels, customer relationship, revenue streams, resources, activities, partnerships and costs. The figure 2.1 is the portrait of building blocks in Canvas model.

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<sup>4</sup> <http://www.businessdictionary.com/definition/transaction-cost.html#ixzz2MHKxqAj9> [Accessed: 2013-03-01]

<sup>5</sup> <http://www.businessdictionary.com/definition/transaction-cost-theory.html#ixzz2MHMPSXYH> [Accessed: 2013-03-01]

<sup>6</sup> <http://www.businessmodelgeneration.com/canvas> [Accessed: 2013-02-06]

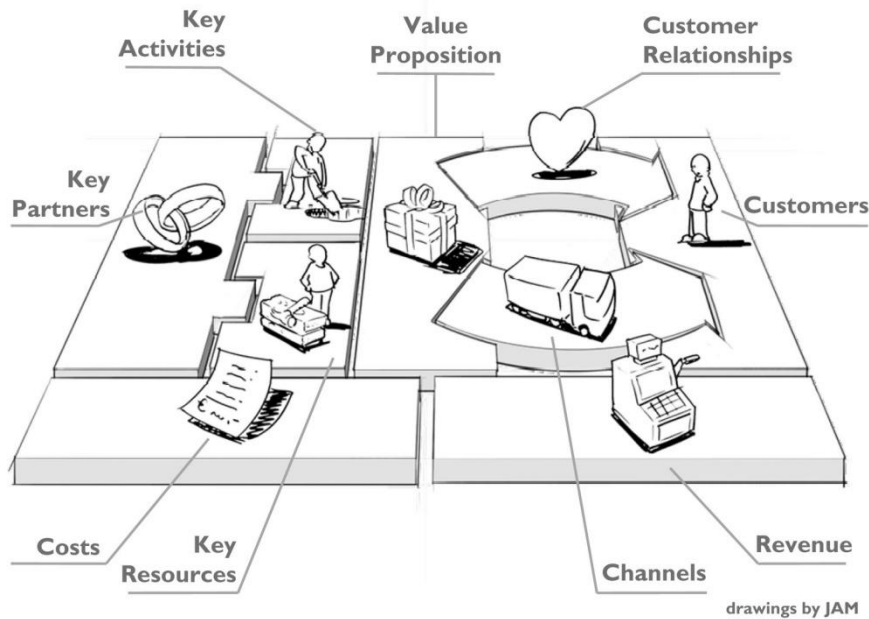


Figure 2.1 Canvas Model<sup>7</sup>

Mason and Spring (2011) have another view of the business model compared with Alexander Osterwalder business model Canvas. They identify three elements described in the figure 2.2 that a firm needs to consider when creating their business model. The tool consists of three building blocks instead of nine. Market offering, network architecture and the technology are the three cornerstones of this business model tool. Technology refers to technologies that are included in product or service offering, market offering refers to how and what is offered to customer and thirdly network architecture is the configuration of actors, like buyers and suppliers that makes the market offering possible.<sup>8</sup>

A business model is not the static view of how business operations are conducted in the market place. It includes all stakeholders involved in business interactions made beyond organizations boundaries. Mason and Spring (2011) suggest entrepreneurs to zoom-in (internal focus) to explore business models as frames of actions which allow company's workers to translate, adapt and act in a right way in day to day activities. In addition to that zooming-out (external focus) is equally important to understand the practice of business models and how those activity frames are made and transformed in collaboration with other actors in the business network at the same time influencing on overall market environment. The scope of business model should be multilevel and continually changing by the actions made of actors in the network. This leads to situation that business models start to become interdependent and overlapping. According to Mason and Spring (2011) the technology element and the market offering have to be interlinked by network architecture in order to deliver successful market offering. Hence it is important to understand the picture of network structure to recognize actors and shared activities to create the framework for management practice the business model in terms of what to do, how to operate, with whom to co-operate and why.

<sup>7</sup> <http://arquitetandonegocios.blogspot.se/> [Accessed: 2013-03-21]

<sup>8</sup> <http://www.sciencedirect.com/science/article/pii/S0019850111000915> [Accessed: 2013-02-07]

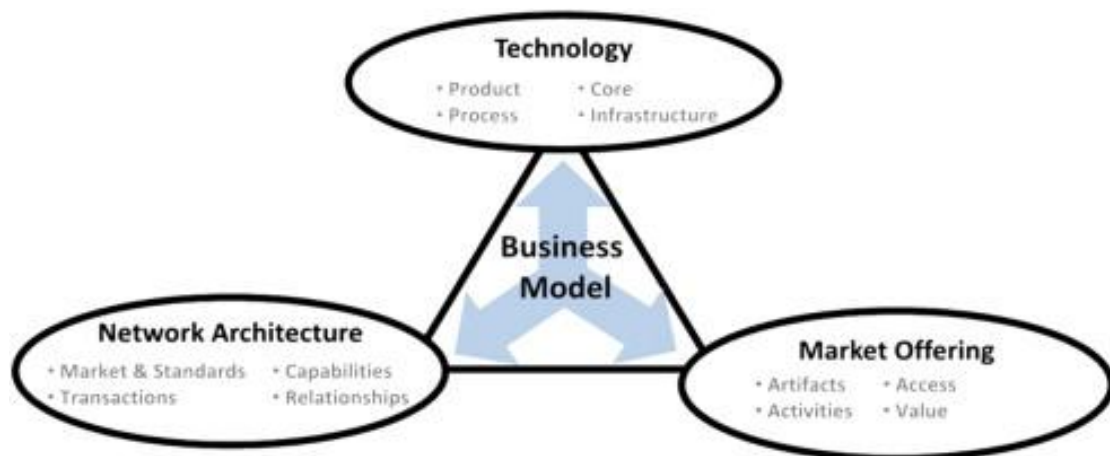


Figure 2.2 The dimensions of business model (Mason and Spring, 2011)

### 2.1.4 Comparison of two business model tools

Regarding two business model tools the authors use the same kind of mind-set but Osterwalder divides all the activities that a firm needs to know about their business into more specific groups compared to Mason and Spring. Osterwalder's Canvas model is also divided into a clear and visual form which is effective way to develop and present a business model. Mason and Spring emphasize more business networks realm and value creation through interdependent actors in respect to their different business models. Osterwalder takes into account also value creation, key partners and sales channels but in turn deals also with focal company's revenues and cost structure. Canvas is a practical tool when designing a business model for a company's needs. Mason and Spring expand the view of business model into a more collaborative and long term scope of company's operations in its business network with other organizations.

### 2.1.5 The use of business models

Business model is a linkage between external stakeholders for example key customers, partners and suppliers. According to Brettel et al. (2012) these key actors have strongest impact on the creation of a successful business model for the firm and the better understanding of the relationship the easier it will be for the focal firm to increase the performance of the business model.

One of the main focus when working with the creation of business models is to create opportunities by creating value for each parts that are involved. It means fulfilling customer needs and wants as well as gain profit both for the firm but also for suppliers and other partners. According to Amit and Zott (2010) the total value that the focal firm can create for all actors in the network causes that the focal firm can increase their bargaining power against other firms. Hence the value creation ability of one firm reinforces its position to other firms.

Business models could also be seen as activity system and this perspective gives the firm a systematic and holistic outlook when designing the business model. The company considers which activities should they perform and how should their activities be linked. There is also the question of make or buy any activity in terms of combining activities and resources with external partners. A business model build upon the activity system perspective allows a broad look at the market and all business actors rather than a concentrate view of market opportunities. Regarding activity system perspective Amit and Zott (2010) suggest looking at the forest instead of trees.

According to the working paper of IESE Business School in Spain the authors Zott, Amit and Massa (2010) did research on business models and found out common ground among many of the publications. In first business model is a new unit of analysis, second it has a holistic perspective of how firms do business, third it emphasis on activities and last business models acknowledge the importance of value creation. The similarities of different perspectives of the authors are to understand the importance of how a company creates and delivers value for each actor in the network to increase its chances for success. The business model is crucial framework to interpret the actions taken to fulfill company's strategy. As many authors state in the core of business model is value creation in terms of internal and external perspectives. Again Mason and Spring (2011) emphasize the network architecture regarding business models. In the next chapter we continue probing network approach and examine the essence of business networks.

## **2.2 Business markets as networks**

The industrial Marketing and Purchasing Group IMP (2013) has developed an industrial network theory for investigating business exchanges in a dynamic way drawing on relationships in network configurations. It is a natural notion in every industry that companies are familiar with business relationships because business is made in relational exchanges between suppliers and customers. Ford, Gadde, Håkansson and Snehota (2006) suggest that finding, developing and managing relationships with customers is in the core of business marketing and the network is an inherent arena where business marketer must operate. The relationships of companies provide possibilities for growth and development when the benefits of different relationships are detected and utilized. Network thinking is a key to understand industrial marketing beyond company's single relationships.

Tikkanen and Halinen (2003) present that through their relationships companies become connected to the broader networks of relationships. It actually means that the network approach creates opportunities to get in touch with relationships outside company's existing business relationships. Ford et al. (2006) state that the basic assumption of network thinking is that no business is an island. Overall the network approach highlights the importance of interdependencies between companies. Tikkanen and Halinen (2003) continue to emphasize that interorganizational linkages and networking have a strategic importance for a company. They also add that relationships in network can provide companies opportunities and but also constraints. On the other hand Aarikka-Stenroos and Sandberg (2009) claim that innovating firms need a network competence in their product commercialization. According to previous views the industrial network approach underpins strategically important areas for company's long term operations in business marketing weighing on relational interconnections and interdependencies between companies.

### **2.2.1 Business exchange in networks**

Economies are based on selling and buying of products and services to meet the needs of the people and organizations in different markets. Doyle (2002) presents that marketing network consist of different organizations with long-term dependable relationships. He also states that exchange is an essential concept that underlies marketing and in the modern economy there are many markets linked together through an exchange process in several relationships. The picture 2.3 is adapted from Doyle (2002) and presents a general interaction between supplier and customer or industry and market. The information relates to the customer needs and supplier's communication about respective offering.



Figure 2.3 Interaction between supplier and customer

McLoughlin and Horan (2000) use the markets-as-networks term and recommend that network perspective offers a realistic way of understanding business markets and contextual economic exchange. Markets-as-networks bring companies again to the relational dimension and the notion of interdependence with different actors in the network. McLoughlin and Horan (2000) further explain that the wide variety of resources can be exchanged in business relationships and they present five different types of exchanges; financial and economic, technological, knowledge, legal and informational exchange. The previous types of exchanges indicate the value of relationships in various dimensions. The exchange between companies is taken place depending on different needs and expected solutions to supply the want of customers by a particular offering. Aarikka-Stenroos and Sandberg (2009) describes the notion of network competence as accessing, mobilizing and organizing relational resources.

### 2.2.2 Network structure

According to Ford, Gadde, Håkansson and Snehota (2003) the network is a structure where a number of business units illustrated as nodes are related to each other by specific threads that depict relationships. Business units vary from manufacturers, customers, distributors, service providers, banks to non-profit organizations. To understand the structure holistically a view should include zooming-in on the micro level and zooming-out on the macro level since organizations are increasingly embedded into wider networks beyond their dyadic supplier-customer relationship. There are networks connected to other networks. McLoughlin and Horan (2000) give the example that a retailer would like be connected with a particular company as it is a supplier to another company. That is to seek a certain resource the retailer considers quality one for its own business operations. They emphasize that it is never possible to manage or understand one relationship without placing it in the context of other relationships with which the one coexists. Ford et al. (2003) further explain that each company has its relationships and these are linked to numerous other relationships elsewhere in the network and the network must seen more than just supply-chain or distribution channel of a single company. The figure 2.4 illustrates the complexity of interconnections in network relationships. Mason and Spring (2011) discuss that drawing network pictures with particular relationships may help managers to develop and perform their business models. In addition to that they argue that drawing network pictures from the perspective of different actors reveals different types of challenges. Eventually they also humorously recall that already the world-famous inventor Edison found that the outcome of diagramming brings ideas to life. In order to understand the value of business networks following sections present more specifically the structure of network approach.



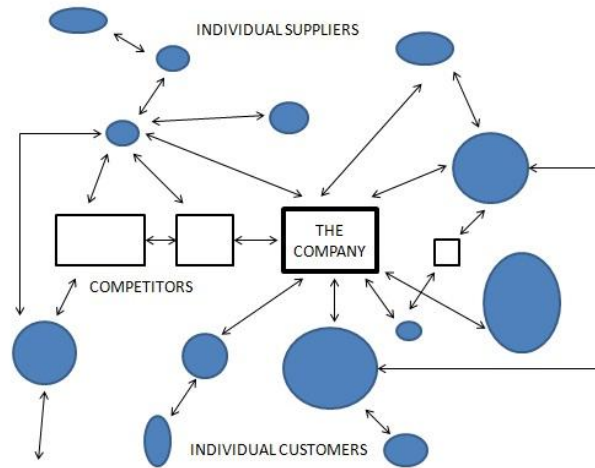


Figure 2.4 Company belongs to the network (Ford et al., 2003)

### 2.2.3 Actors, resources and activities

To analyze relationships in business networks Håkansson and Snehota (1995) suggest examining three layers and their dimensions of business relationships. These layers are Activities-Resources-Actors (ARA). McLoughlin and Horan (2000) also claim ARA-model as the central analytical method to study Markets-as-Networks approach. Ford et al. (2006) define activities, resources and actors as building blocks to examine business networks when looking at a single relationship between two companies. Aarikka-Stenroos and Sandberg (2009) present that the combination of actors, resources and activities converge the complex nature of resources and their physical, social and economic dimensions into new opportunities although in those configurations occurs many challenges simultaneously. The figure 2.5 illustrates the example of supplier customer relationship regarding ARA-model.

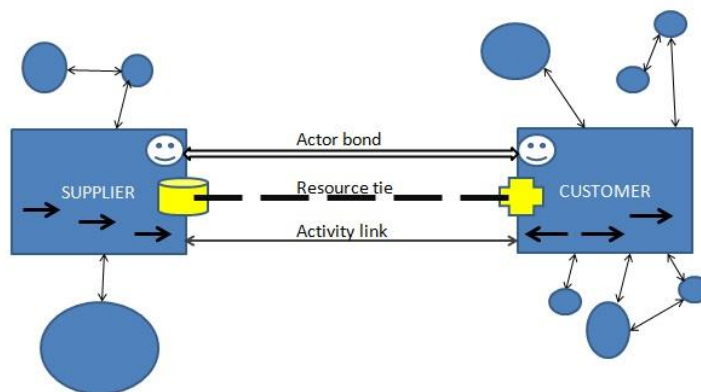


Figure 2.5 Actors, resources and activities

Actors in general are business units but people at firms initiate a business exchange. McLoughlin and Horan (2000) claim that every company has identity and position within the business network. On the other hand the position of a company evolves over time and Koon Huat Low (1997) describes that position emerge of how companies relate to the other companies resulting favorable access to the network of resources and activities. What has taken place in history influences the current and future position of a company. Because people run business relations means that those relations are much involved in social interactions. Ford et al. (2006) explain that the social dimension of a relationship makes actor bonds that

exist between two companies and when relationship evolves companies become a part of a social system. They further emphasize that social bonds between individuals are significant for problem-solving and trust-building when persons do business in exchange process.

As mentioned before actors are willing to access each other's resources. According to McLoughlin and Horan (2000) to be productive companies need to rely on each other by the interconnections of independent resources. Ford et al. (2006) add that when resources are tied together between actors new innovations may occur. They emphasize that resources are connected through resource ties. Håkansson and Snehota (1995) present that companies often have human, knowledge, financial or technological resources. Resources capabilities differ between companies and other companies may have superior resources in comparison to others. Resources between companies are connected through ties commonly by technological or knowledge ties. Gadde, Humer and Håkansson (2003) state that in order to enable different technologies to function over the boundaries of companies adaptations have to be made. In addition they emphasize the adaptation actuates that resources are combined between companies and many times adaptations not only affect on the resource tie of two companies but also on resources ties to other organizations outside these two companies in the dyadic relationship. The adaptations caused by resource combinations for example in technology inherently influence the position of a focal company. The company becomes technologically dependent on the development of resource ties with the other company. Gadde et al. (2003) point out that adaptations and investments are necessary in order to obtain the advantages of resource combinations but the same time makes companies more difficult to change and reach out to new relationships.

Companies have developed particular actions to meet customer needs. McLoughlin and Horan (2000) explain that activities are related to processes where production of goods and services is taken place. The simple example is the coordination of deliveries. Ford et al. (2006) discuss about the question of which activities should be linked to customers to solve their problems and how the linking should be done related to the cost and dependence involved in the relationship. They emphasize that some level of investments are required in the relationship and comparison between costs and benefits is important. Gadde et al. (2003) describe that the interaction of actions is rooted in the exchange of products and services and activities constitute the interdependent chain where links vary from loose to tight. Ling, Jiang, Wu and Chang (2010) refer to the transaction cost economy (TCE) in Willamsson's (1985) study that transaction costs have direct implications in business relations according to the level of integration. On the other hand Gadde et al. (2003) compare that the concept of transaction costs economics regarding relationship building challenges may direct the analysis to an opportunistic course while the network approach highlights benefits through mutual cooperation. The cooperation thereby allows activity links to be connected between actors in the network which makes valuable resource combinations possible. Gadde et al. (2003) emphasize that due to the interdependencies of activities among different actors company can benefit by more rationalized operations between companies in business exchanges.

#### **2.2.4 Network position**

A single company has a position in the network. Ford et al. (2006) describe that "position is defined by the characteristics of company's relationships and benefits and obligations that arise from them" The relationships vary direct to indirect relations to other organizations. Koon Huat Low (1997) points out that time and commitments are required to develop relationships and network position. He suggest that companies consider the idea of network

position before investing a long term relationships since the purpose of some relationships are only exchange based arm's length type of relations while others are meant to generate a long term value for the company. Regarding network position Ford et al. (2003) discuss the choice of keeping existing relationships stable or developing new relationships and mention the question of consolidating current position or creating new position as the important issue for any company to determine.

McLoughlin and Horan (2000) describe that position is a strategic choice. Companies tend to seek a position in another network in terms of accessing the resources of the attractive network and developing interdependency between actors in that distant network. Regarding start-up companies and the development of resources in interaction of early customers Aaboen, Dubois and Lind (2011) claim that successful start-ups have benefited from network position in many ways such as creating initial structural imprinting of viable resource combinations, giving an access to wider customer base, building credibility in reputation and eventually decreasing the reliance of financial dependence. The relationships in the beginning of company's life-cycle are important since the development of future resources is many times path dependent.

Gilmore, Carson and Rocks (2006) discuss the challenge of SMEs to compete against companies that have more resources and knowledge. They promote network theory to integrate marketing activities between firms in a grocery distribution channel under the pressure of more powerful companies entering in the market place. The findings regarding planning marketing activities, increasing market knowledge, managing distribution, product decisions, promotions, pricing, acquiring marketing resources and innovation indicated the positive influence between networking and SMEs development especially in the times of changes in the markets.

## **2.3 Distribution**

Ford et al. (2003) distinguish three views for the concept of distribution. Distribution has been perceived as the activities that bridge the gap between manufacturer and user, as physical delivery of product to customers and as the network of companies related to distribution. In this thesis we conclude distribution closely associated with business networks and the integral part of business model to enter in new markets. Following sections present some basics of distribution theory.

### **2.3.1 Distribution channels**

The distribution of products has seen as a product flow through different channels to make the products available for users such as bread at the supermarket or a book at the on-line store. Rosenbloom (1995) refers to the generally accepted definition of distribution channel "as the route taken by the title to products from the point of production to point of consumption". There are different kind of intermediaries involved in the product flow but not every actor in the product flow have the ownership to products such as in the case with transport companies which only provide the delivery service for products owned by a wholesaler. Roosenbloom (1995) emphasizes that the seminal distinction between the title transfer and the product flow is important way to understand the nature of distribution channel which explicitly relates to a trading relationship that in other words is buying and selling products.

The structure of distribution channel consists of three basic dimensions according to Rosenbloom (1995). These are the length of a channel, the intensity of one level in the channel and different intermediary types in the distribution channel. Based on Rosenbloom (1995) the dimensions of distribution channel are described as follows. The channel length

can vary from direct distribution between manufacturer and end-consumer to many stages with multiple intermediaries between. The nature of a product, geographical dispersion of customers and manufacturer’s need to control a distribution channel normally influences the number of stages in the channel. The picture 2.6 depicts the length of distribution channel from direct to five stages. The intensity of one stage in the channel is related to the number of intermediaries used to make products available for customers. The intensity varies from exclusive to intensive form of distribution intermediaries. Exclusive form means that one intermediary owns the right to sell products for customers whereas intensive form has many intermediaries who disperse the same product to consumers. The intensity form can either be a selective when particular intermediaries are chosen to make products available for the specific market. For example some special brands are only distributed through the particular channel to reach the proper customer segment. Finally the types of intermediary companies which are facing consumers in distribution channel can vary much from retail chains, convenience stores and coffee shops to internet on-line stores. Regarding multichannel structure in retail business Sorescu et al. (2011) claim that today the same customer visits different interfaces in order to fulfill different purposes like finding information on-line at internet but purchases the product off-line from stores or vice versa. The presence of product offering in different customer interfaces for different customer need is important both for marketing and physical distribution. In addition fostering customer’s experiences in the interface where the product and consumption meets is essential in current distribution trend. The variety of customer interfaces contributes the total effectiveness of distribution chosen by a manufacturer.

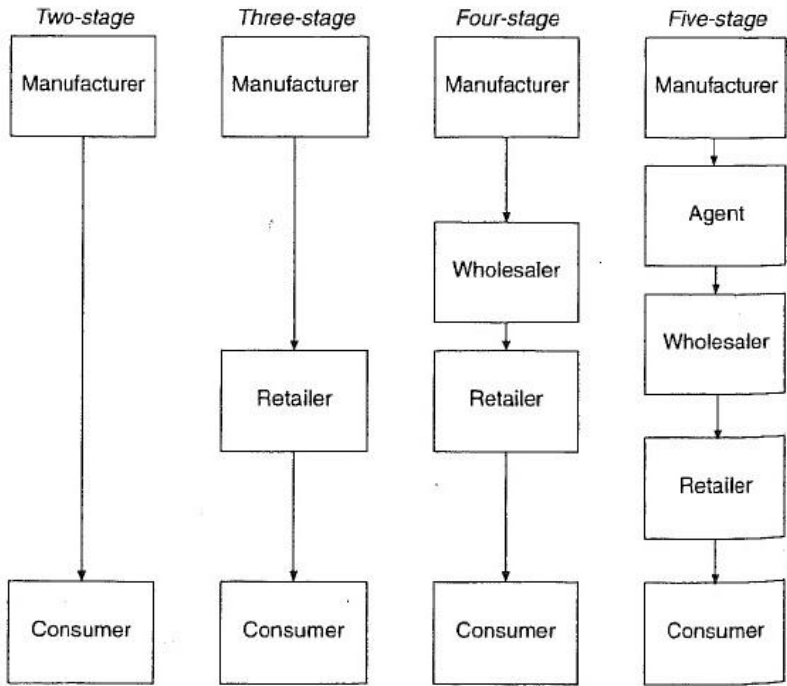


Figure 2.6 The length of distribution channel (Rosenbloom, 1995)

**2.3.2 Physical distribution**

As mentioned before distribution refers to the ownership of products. To understand the product flow in distribution channels the delivery side of distribution which eventually makes products available for users is important. Rushton and Walker (2007) present the concept of supply chain as the “flow of materials and products through the process of procurement, production, storage, distribution and disposal”. Supply chain thinking in distribution

comprehensively links manufacturer to its intermediaries and final customers by particular activities taken place in distribution network. Ford et al. (2003) defines that a physical delivery is the fulfillment of a business transactions where information and financial flows have their own essential roles in distribution management.

Fisher (1997) distinguishes products according their characteristics to two different categories. These are functional and innovative products. Functional products are with stable demand and satisfy basic needs of consumers such as traditional food category in food retail markets. These products are characterized with high competition and pressure in profit margins. Innovative products such as fashion garments in turn have unpredictable demand but higher profit margins. For innovative products the life cycle can often be short as competitors try to bring different variants to the markets as soon as possible. In essential functional products require physically efficient processes whereas innovative products need more market-responsive approach. The principal reason for efficient distribution is the stable demand which should be met in an efficient way at the lowest possible cost. On the other hand market-responsivity relates to quick response to changes and unpredictable demand to avoid the shortage of products, obsolete inventory or price reductions caused by the impact of unresponsiveness. The incorporated product and supply strategy is often dynamic in nature and can have elements both from efficiency and responsive approach. The main goal here is to create the right setting for products together with chain participants in order to generate more growth and profits for the whole chain. (Fisher, 1997)

### **2.3.3 Distribution networks**

The collaboration of different actors affects on the capability of distribution. Gadde (2004) states that distribution arrangements are developed to network like and traditional distribution channel that aimed to push products efficiently to end user are become more interdependent in activities and resources available through other actors. The collaboration of different actors is essential since the focus of distribution has changed from mass distribution to more postponement based pull distribution where demand, customers' problems and efficiency is taken into account to improve the overall performance of distribution. Current distribution structures are seen more alike value adding networks than traditional distribution channels. The figure 2.7 captures the distribution network of a PC manufacturer.

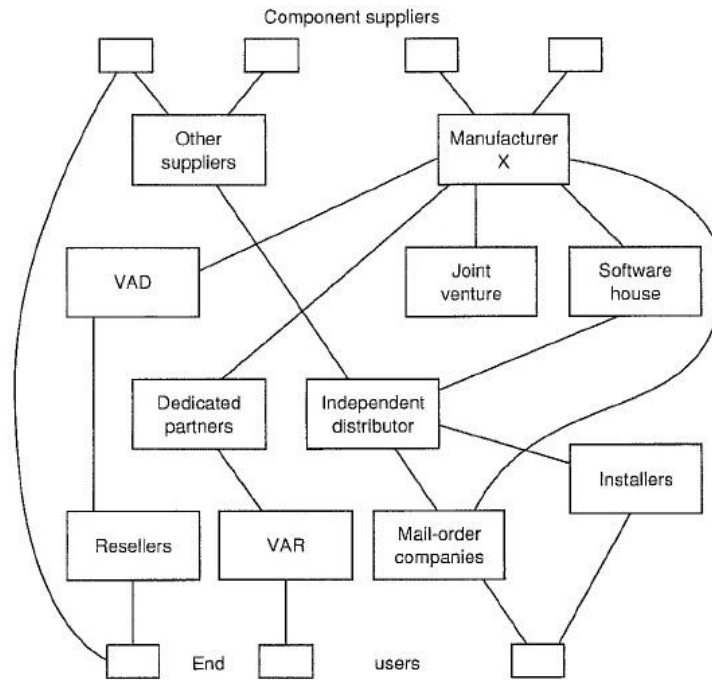


Figure 2.7 Differentiated distribution network (Ford et al., 2003)

Ford et al. (2006) distinguish different features of network kind of distribution. These are variety of companies, variety of relationships and difficulties of control. In the distribution network involved companies vary with their size, technical abilities and skills. These features in companies have very often developed to provide specific solutions to specific customer problems. Selecting a particular company as the distribution partner enables manufacturer to present the value proposition that meets customer's needs. Due to variety of companies many different relationships exist in the distribution network which requires managing a range of relationships. Previous variety issue brings forth the challenge of choosing right partners. Understanding the position of a potential partner in the distribution network and how it relates to others in the network constellation helps to choose suitable co-operation companies.

Ford et al. (2003) describe that the network links the promise of product offering and actors so that intermediaries together produce the fulfillment of customers' need. The relationships between actors vary in relation to the level of complexity of distribution solution used. Since manufacturer chooses a partner to produce distribution solutions based on customer's need the selection of a right collaboration partner is crucial. Ford et al. (2003) distinguish four different types of relationships which are (1) low-cost distribution arrangement with low level relationship involvement, (2) low-complexity distribution arrangement with higher level relationship involvement in terms of adaptations between partners, (3) complex distribution arrangement with low level relationship involvement in terms of adaptation between partners and (4) finally complex distribution arrangements with high adaptation and relationship level. The relationships model is depicted in matrix in figure 2.8. The level of relationship involvement and distribution solution is directly proportional to the level of investments in one relation. The cost and benefit analysis of relationship is a dominant factor of selecting distribution partners in a network in order to handle network dynamics and the profit of a market offering.

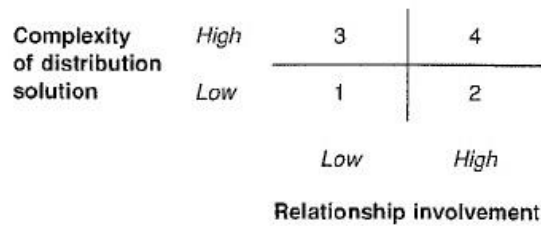


Figure 2.8 Distribution relationships (Ford et al., 2003)

## 2.4 Problem discussion

This section presents problem analysis drawing on the information of the company’s proposal, theory and our assumptions related to the topic of the research. It observes research problems and sub-problems regarding the development of a business model for Keski when they are entering new markets and need to build business relationships.

In the following sections we formulate an analytical framework to develop the business model for the company. The analytical framework functions as analytical model to explore bread markets and distribution in Swedish markets. The analytical model elaborates markets in order to establish a business model, initiate distribution relationships and finally direct to a suitable position in business network. The analytical tool is possible to apply in any country when seeking a business model for expanding operations in new markets.

Our analytical investigation is based into three general study themes which are market, market offering and distribution. According to business model literature all three subjects are treated as approved constructs in the business model development. The industrial network approach contributes the understanding of business networks and constitutes the development of relationships in business markets which is a vital part in actuating the business model in practice. Since the aim of generating business model is to enter in new markets the study integrates three themes and elaborates them in detail in accordance with the analytical framework.

### 2.4.1 Market

Market includes important end-consumers who are sources of revenues for any business. In addition to that B2B customers are important for the business exchange of manufacturer. Market and its customers contain also the expectation of value from products and services. The industry where market is related has its own nature with certain standards which in turn steers the operations of a company.

Keski as a bakery has planned to expand in new country and its sub-markets. The company wants to sell bagels among others for coffee houses, restaurants and supermarkets. There is a risk to end up with problems if they focus on different markets at the same time. It could cause hinders because sub-markets have their own kind of challenges. The customers demand different capabilities and it could end up in lack of establishment in one sub-market and thereby cause “stuck in the middle” effect.

According to ECR Sverige (2008) it has been shown that in Europe many new launched products disappear from markets after 12 months time. One reason for unsuccessful product launches may be that companies have had a “stuck in the middle effect” and are not aware of the challenges of a market. It raises also management concerns when handling many relationships in different markets. Therefore it may be beneficial to limit the scope of business relations to one of the markets and try to be well established there as the business phrase “nail

it and then scale it” says. ECR Sverige (2008) claims that it requires right perspective, patience and holistic view to successfully launch products in markets and the successful market entry requires also mutual goals and sharing of knowledge and information. Therefore it is important to understand which of the markets that gives the company most success to start entering in new country.

Customer values and market standards are important to have knowledge since the company wants to create value for their stakeholders. Having knowledge of market trends, like sustainability related ecological grade (KRAV) is one example to deliver value that stakeholders search for. Market trends raise the challenge of consumer acceptance and discussion about general market trends and values should be elaborated by looking at markets closely. In addition it is also important to gather information about the industry specific instructions and requirements that Keski needs to fulfill in new markets.

Regarding the markets we have derived a following research question:

**What kind of market standards and customer value must the company be able to respond when entering in new markets?**

#### **2.4.2 Market offering**

The customer eventually acknowledges the value of company’s market offering. Darling Heller and Tablada (2008) claim that company should determine what consumers want and provide that desirable mix for the markets. The mix of products and services including product features, price, credit, transport and other service dimensions influences on the market offering. Also the right price, place and time in the market are essential values for market offering to succeed. In turn Mason and Spring (2011) suggest that the nature of the product-user interaction defines the market offering more than product features and services. Specifically companies try to solve customers’ problems. The market offering can be “customized” for a certain customer. Brand, performance, newness and accessibility are features that customer also value. Doyle (2002) confirms that the customer value is seen stemming from the economical and psychological advantages. Regarding customers the total cost of ownership usually defines the economical value of the product offering.

The value proposition of company’s products and services are generated through activity systems. Organization’s activities and resources are contributing directly to value creation. Sorescu et al. (2011) comprise that the company can use operational efficiency, operational effectiveness and customer lock-in as co-operative model for value creation for both the firm and its customers. To find an attractive way to engage customers is contingent on company’s business model. Thereby the value creation for customers and concerned business itself is built-in the business model. According to the network approach the value is many times created through collaboration by accessing the resources of other companies. The position of a company in the network relations affects on the value creation possibilities in the markets.

The research problem deals with starting new operations and presenting products in new markets. It is a challenge for the SME with scarce resources through vertical integration. Getting into business relationship network and building long term relationship can create possibilities for Keski to enter into markets. For the company is important to understand how to create value for different partners and customers for example wholesalers and supermarket chains which are a part of delivering value for end-consumers. In addition to that the division of sub-markets and their specific needs and value expectation should be analyzed in order to company to create a suitable market offer.



Regarding market offering we have derived a following research question:

**How should a market offering be built to satisfy the business network in terms of both customers, suppliers, and other collaboration partners?**

### **2.4.3 Distribution**

The distribution is considered as network which aims to place products available for customers in different interfaces. Like any business network it includes activities, resources and actors. The distribution network incorporates different stages, the number of actors in each stage and finally different actors on the customer interface providing products and services for end-consumers. The way how customers are reached is also essential from the view of marketing efforts. In addition to that the way how customers are integrated in the channel also plays the important role in exchange process in terms of product deliveries and information flows. Information flows are considered especially in case of buying activities and feedback alternatives which allow the company to gather information from the market.

The length of distribution channel varies depending on products and geographical distance. Since Keski's bagel products are fresh groceries the type of products inherently influences the distribution channel structure. The company has thought to deliver bagels in frozen to export markets. The assumption of our study is that bread industry has its own characteristics for distribution models. To comprehend industry specific distribution model in new markets requires understanding of distribution network model in the certain market. In particular mapping key actors, resources and activities involved in the distribution operations in the industry makes possible to perceive how products are delivered and value for customers created in terms of value chain paradigm. On the other hand the outline of distribution network model brings out possible partners for business relationships in the markets.

Many distribution partners are well established with standardized operation. Distributors have much experience of their specific market. For Keski to be able to join in the business network in Sweden the main characteristics of networks should be mapped in each market respectively. The assumption is that the distribution network for each sub-market may differ. Each distribution network however may have unifying factors in comparison to each other. There would be possible to find potential business relationships and synergies for overall expansion in the country. There is theory of transaction cost economics which means that partners can have better and efficient operations by investing resources to get mutual benefits. But there may also be some lock-in effects when industry specific investments are taking place. It is also profitable to think about the total costs of relationship within the business network the company is aiming to join. The selection strategy which business network, distribution collaboration and market they should aim to enter first.

Regarding distribution we have derived a following research question:

**What kind of distribution network is suitable for company's expansion plan?**

**2.4.4 Analytical Model**

The result of literature review and problem discussion presented before form the basis whereof the analytical model of this thesis is designed. The model is described in the figure 2.10. The analytical model corresponds to the framework of business model tool for the company when establishing business relationships and distribution in new markets.

The analytical model guides the following empirical research. The analytical structure is reflected by the empirical studies and completed in the later steps in the thesis research.

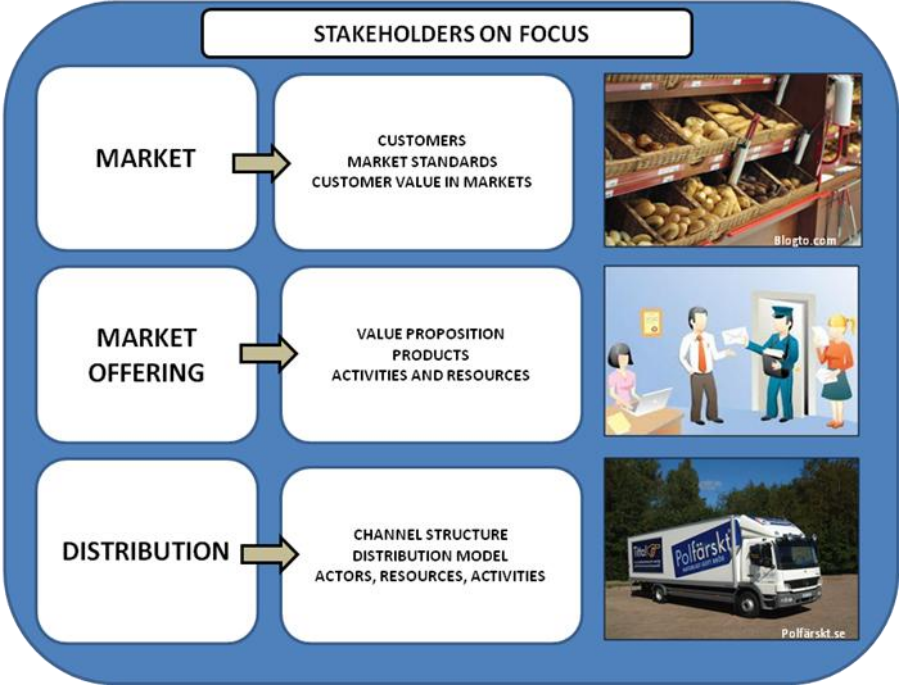


Figure 2.10 Analytical model

### **3. Method**

The thesis research is aimed to design a business model for Keski in respect of entering in new markets. The starting point for the research was derived from the discussion of how Keski as a SME bakery can expand into new markets without earlier experience of business networks and related activities in foreign market settings. This chapter describes the research process and explains our research methodology.

#### **3.1 Research design and methodology**

In a bakery products related market we can find different kind of stakeholders to study. The market includes variety of organizations which operate in the same field focusing on manufacturing, distributing, marketing or selling bread related products to the consumers in the market. Since a qualitative approach does not require very structured settings it facilitates enough informality to conduct data gathering for the purpose of this thesis study. Based on the number and variety of organizations and people on focus we have chosen to do the qualitative research in the form of interviews and further study of publications. The qualitative analysis is suitable for the social context of business relationships and the main focus on the analysis of primary data will be based on interview answers.

##### **3.1.1 Abductive approach**

Scientific research functions as confronting theory to events in reality in order to prove results considered as a proven knowledge. According to Bryman and Bell (2003) the nature of the research in relation to the theory can have deductive or inductive approach. The inductive research process is theory generating approach where the theory is the outcome of an empirical research whereas the deductive process is focused on theory testing which means that the theory guides the empirical research conducted. Järvensivu and Törnroos (2010) compare the both methodologies and claim that in inductive approach the analysis of pure knowledge is more based on literature while deductive uses direct empirical observations.

In this thesis the research proposal of Keski, chosen theory and deduced research questions forms the foundation for the analytical framework contemplated. The actual thesis research has the nature of combination of deductive and inductive approach since the theory and processed analytical framework is the subject to the empirical study which further develops the business model which is the result of studies around the analytical framework. On the other hand the analytical framework deduced from the theory and tested in the reality follows the definition of abductive research presented Dubois and Gibbert (2010), Dubois and Gadde (2002) and Järvensivu and Törnroos (2010).

Dubois and Gibbert (2010) claim that concerning the deductive approach empirical data can be presented before or after theoretical study. On the other hand they advocate abductive research approach as a hybrid form. The abduction is in the middle of inductive and deductive approach having features from both ends during the research process where theoretical framework is developed simultaneously with empirical studies having theory generating and testing in the same approach. They add that the abductive approach has linked to the subjectivity of community based knowledge which has multiple viewpoints to knowledge and truth. The aim of abductive approach is to understand and create knowledge in the research process and it fits to the situation where a lot of information is available before the elaboration of certain phenomena. Smith and Fletcher (2004) describe that abduction works “top down” having space for conclusions between observations of knowledge at beginning and end. The abduction is suitable for our thesis where there are prior information of theories, some knowledge of company and its market but we may not be able to follow the prior knowledge

in an absolute way. However the new information what this thesis creates serves the aim of our research and the objectives of the company.

### **3.1.2 Qualitative research strategy**

According to Bryman and Bell (2011) as researchers we can choose between different types of research strategies. Research strategy is a general orientation to the conduct of research. A research strategy could either have a qualitative or quantitative approach. The quantitative strategy is when a researcher is testing if the theory is right and it emphasises quantification in the collection and analysis of data. The qualitative research emphasizes words rather than quantification in the collection and analysis of data and aims to the generation of theory. Many times qualitative data is used in the inductive approach in terms of generating theories. Bryman and Bell (2003) also describe that qualitative research data can have an important role for testing theories. Churchill and Iacobucci (2005) suggest that qualitative research can be used prior to quantitative studies in terms of identifying areas which should be surveyed later on. They also emphasize the exploratory nature of qualitative research to gain insight in the studied phenomenon by using literature research, experience surveys and case analyses. In addition to the exploratory research a systematic combining presented by Dubois and Gadde (2002) is closely related to abductive approach presented in previous section. Regarding the systematic combining approach they advocate the use of qualitative research data in case studies. Dubois and Gibbert (2010) likewise refer to the use of qualitative methods in exploring organisations. We have chosen to use qualitative techniques in our thesis study in order to gather appropriate information for business model which relates more in qualitative features like qualities and characteristics than consideration of amount or size in quantity.

### **3.1.3 Case study research**

According to Easton (2010) case study is a popular research method for studying organisations and relationships. These units in real world may be difficult to access and comparison is complex. Easton (2010) describes that studied entities in case studies offer insights into the nature of studied issue. The key advantage of case study is based on the comprehensive understanding of the phenomenon in socially constructed world like here in business relations or more specifically business relationship networks in the grocery markets. Other remarkable advantage of case study is the flexibility of use in social entities. Easton (2010) defines that case study method use multiple sources of data resulting a holistic description through the iterative research process.

Churchill and Iacobucci (2005) describes that the exploratory research of selected cases can be studied and analysed to obtain a big picture. There are many sources of data existing in case study research. The sources of data can be publications, records, observations, interviews and even best practice studies. The aim of researcher is to sort of out the detailed data of individual cases to obtain insights applied across multiple cases to holistically comprehend studied phenomenon. We decided to make a multiple case study from selected actor groups in food related markets. The food markets consist of different types of potential research entities. We have divided potential entities into groups and found suitable companies to our interview process. The case research design is a multiple case study. According to Dubois and Gibbert (2010) case study research can be defined as a research method that involves situations which data are collected by using multiple of sources of data and developing a holistic view of the research. This fits also in the systematic combining approach mentioned before in our research strategy where the analytical framework, empirical information and case study develops the results of this thesis.

## **3.2 Data collection**

The data collection consists of qualitative research techniques such as interviews, literature and website analysis. Many observations are involving some quantitative data but it is not on the focus of this thesis study and only gives some idea about companies interviewed. Case studies form opinion about real-life settings and it is focusing on “how” and “why” questions. The main advantage with case study method when doing research is that it accesses a broader set of data and captures multiple of perspectives. It captures knowledge about organisations, people, relationships, attitudes, resources and materials which is considered important for our study regarding business model development.

According to Churchill and Iacobucco (2005) a primary data is collected from its origin specifically for the purpose of research at hand. Good examples are authentic interviews or experiments. The secondary data is collected from a secondary source such as publications. It means that the data is not collected from its origin but from another data source used for another purpose than the research at hand. Good examples are journals and web sites.

### **3.2.1 Primary and Secondary data collection**

In our thesis research we have used secondary sources like literature, journals, reports and web sites to gather information first for the literature review and later the empirical part of the study. We have used relevant sources like Chalmers and KTH Libraries both printed books and on-line resources. The other important source of secondary data has been professional journals. Especially Industrial Marketing Management journals have provided appropriate source for information regarding business relationships and business models. Other reliable sources for specific information have been industry related publications and Finpro’s consultancy report conducted solely to the company’s own purposes. Internet related e-resources have been important enabler to access industry related information regarding markets, companies and food industry.

The primary data has been collected by interviewing. Very important source of primary information has also been several informal discussions with Sami Haara, the CEO of Keski, about the company and industry where the company is operating. The most of the primary data is collected in personal interviews concerning selected companies in Swedish markets. We have used both face-to-face and telephone contacts in our case within case type of interviews. The method of interviewing was semi-structured model because the semi-structured form provides the degree of flexibility in interview situation to understand respondents’ opinions and views about the investigated issues. The semi-structured interview method it is a powerful tool to collect qualitative data. Newton (2010) describes that semi-structured interview where questionnaire is not fully structured allows space for two-way discussion. In this kind of situations respondent’s voice and perspective becomes out into the open. With semi-structured questions it is also easier to have follow-up question during the interview.

### **3.2.2 Conducting interviews**

Based on the prior information of our study the main markets we explore and collect data are foodservice and food retail markets. The foodservices are built around the service of food whereas food retail business has the core feature of selling foodstuff at supermarkets. We separated certain stakeholders in the studied markets to obtain understanding of the actors around the bakery industry and distribution in Swedish market.

Regarding data collection in mini case interviews we have determined to choose particular groups of companies for our interview research. To have structure for interviews we decided

to design groups that are connected to food related markets. The levels of groups are based on our information about the main markets presented in our study. The groups are derived based on the distribution paradigm involving manufacturers, distributors and stores. The groups and involved companies are presented in the below picture 3.1.

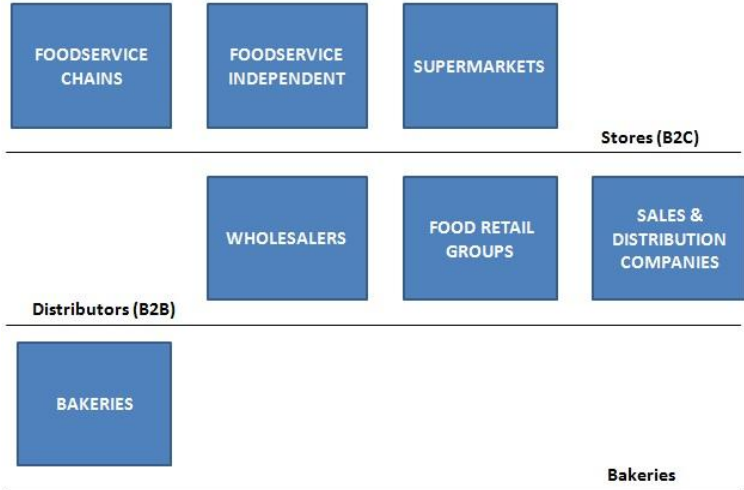


Figure 3.1 Groups and actors for interview guide

The groups help us to design interview guide what is important to conduct interviews. Stores are defined as retailer type of companies who are dealing with B2C customers. Distributors represent wholesaler type companies who sell products and services further to B2B customers. Bakeries are manufacturing type of companies who produce bakery products and have their own approach to both distributing and retailing foodstuff. The operation of actors is many times overlapping each other and for easier understanding we divided different actors in three groups. The actual company does not always necessarily fit perfectly to the definition but the grouping contributes the understanding of markets and helps to design proper interview questions for actors concerning their business environment. The groups support also describing different actors in business network and finding right companies to interview. The actor groups are used as the basis of our empirical study to obtain information from the markets such as potential customers and partners for Keski.

We have adapted semi-structured questions for each group to simplify interview process. We consider this was flexible solution to get the same knowledge from each group but with different views depending on the actor. Our semi-structured interview questions are presented in appendix A-C. As questionnaires are adapted to groups questions relate to what kind of customers companies have, what their customers really value and want to buy, what is the value for the products and services for the holistic perspective not only for end-consumers but also intermediaries, how distribution, deliveries and marketing is organized, what kind of product range is available in the markets, what kind of collaboration possibilities exists, what market trends and standards influence the industry on focus.

Below we have the table of companies we have interviewed.

Table 3.1 of interviews

Company	Person	Title	Type	Date
Bönor & Bagels	Nathan Barg	Owner	Meeting	March 20, 2013
Åkes Hönökakor AB	Mats Olzon	CEO	Meeting	March 21, 2013
Almondy AB	Peter Haedge	Sales Manager	Telephone	April 9, 2013
Bagel Street Café	Erik Ekström	CEO	Meeting	April 10, 2013
Hemköp Vasagatan	Michael Hellberg	Store Manager	Meeting	April 10, 2013
Polfärskt - Allbröd Tvååker	Christian Högfors	CEO	Telephone	April 16, 2013
Bistro Soup´n Bagel	Svante Boberg	Owner	Meeting	April 17, 2013
Vaasan Sverige AB	Mikael Hage	Sales Director	Telephone	April 17, 2013
Menigo	Anette Gull	Category Manager	Telephone	April 17, 2013
ICA Group	Christian Andersson	Category Manager	Telephone	April 17, 2013
Svensk Cater	Lasse Samuelsen	Grossistchef	Meeting	April 18, 2013
Statoil fuel & retail	Isabelle Nordin	Product Manager	Telephone	April 18, 2013
Foodservice provider	Anonymous	Anonymous	Meeting	April 24, 2013

The next section handles our research process. It describes more of systematic combining approach in relation to analytical model and explains how the study has made in practice.

### 3.3 Research process

As before mentioned the objective of scientific research is to reflect theory with empirical world. Regarding Dubois and Gadde (2002) a preliminary analytical framework has the nature of preconception and theory cannot be understood without empirical observation. They further emphasize that going back and forth from empirical observation to theory during research process actuates redirection or change of analytical model which is referred as systematic combining. The figure 3.2 explains the continuous interplay between theory and empirical study. The systematic combining involve the nature of abductive approach. Hereby matching theory and reality can create various new directions which are not known in advance. The systematic combining approach is related to evolving analytical framework and the role of theory during the research process which we realize is a proper basis for the research regarding our understanding and developing a business model in a scientific way.

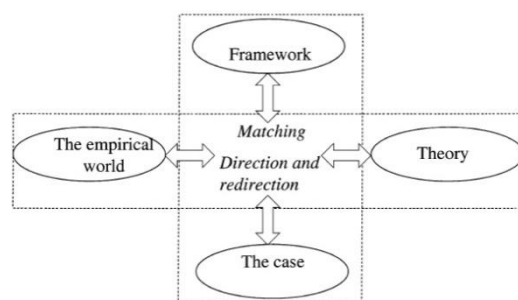


Figure 3.2 systematic combining (Dubois and Gadde, 2002)

In the beginning we have done basic research of the industry and organizations by using internet. We concluded that business model theory, business market networks and distribution were the most important objects for the literature review. Later on we concentrated on understanding the market and how to design a business model for Keski according to systematic combining which means elaborating the case, theory, analytical framework and empirical reality. We have used the theory background and the knowledge of the case to create our own analytical framework. The framework is therefore the combination of theories

and practice observed in the preliminary study of the industry. During the thesis we discovered particular actors in the market and divided them in suitable groups of potential customers or stakeholders. This was made comparing the empirical world from the perspective of case study. We drew the list of potential collaboration partners for Keski based on our observation from the markets. The empirical world mainly directed how to put each company in the suitable group. The semi-structured interview guide was derived from the analytical framework from the knowledge from theory of business models and industrial network. Regarding research methods we concluded that semi-structured interviews were most suitable for our thesis. The interview questions were reconstructed a few times during the first interviews based on feedback from Keski. During the thesis process we got our directions and redirections from the combination of theory, analytical framework and real world. The empirical observations from companies during the interviews opened many new and different views to think business models. After each interview we gather new valuable information of potential customers or collaboration partners for Keski and therefore we could say that the process of getting interviews was proceed as a snowballing manner and we let us be flexible when choosing the companies we wanted to interview since we got new input from each interview. According to us, we prefer to work as a systematic combining theory because the situation may change a lot during the research. The thesis consists of many mini cases which also give different opinions and views of the industry and give us new directions and redirections. As a researcher the main thing is to detect best ideas for the research objective and add these to the main case study of Swedish markets. We agree with Dubois and Gadde (2002) that the process of systematic combining is challenging but valuable way to gather information and have suitable results for the case study at hand. Our case study is rather short term in relation to the scope of the topic. The systematic combining may be at best in a long term study where the subject can develop and mature during a long research period. However it is a good approach to make any business development research.

### **3.4 Reflection of quality**

Easton (2010) claims that the results of case studies can be criticised among others by the lack of controllable research units in data collection circumstances which is taken place in the studied entities. The justification of the results of used case method can be under critics but on the other hand Easton (2010) explains that the justification can be motivated by the nature of interesting results and applications of specific models in studied phenomena. On the other hand Dubois and Gibbert (2010) suggest that research quality can be increased in case studies by strengthening links between the empirical and theoretical areas providing description of the interplay between theoretical, empirical and methodological choices. The systematic combining presented Dubois and Gadde (2002) supports the reliability in the quality of case study where the continuous interplay between theory and empirical observation during the research process creates new and interesting information producing answers to research questions which underpin the purpose of the ultimate research. Similarly regarding “a critical realist” approach Easton (2010) describes that setting research questions which identify the phenomenon of interest helps to discern key entities and events to be studied in case studies.

In our master’s thesis we were forced to make some limitations. One practical limitation was that some of the potential companies that we wanted to interview have no time or were not able to answer to questions. Our aim was to find suitable companies for each actor group presented. Therefore we aimed to find reliable companies and by that we could draw conclusions. The scope of potential stakeholders in each group were limited to the companies we were able to got contact and get time for interview. The selection of potential interviewees came up during internal discussions in research process but also with external help of Keski. According to Keski the focus should be on different types of customers in food service and



retail markets. According to proposal and our empirical information we made a list of companies. The problem here was that food related markets cover a huge scope of actors and after first interviews we found more potential companies and the snowballing effect was actual. Our list of potential customers was therefore quite unpredictable and flexible. On the other hand it gave us ability to dig deeper in the network and understand the markets for bakery products even better. We were able to connect with credible actors in the market. Many of them are leading companies of their field and we consider that answers to our questions are reliable and they create useful case specific knowledge. The information is very qualitative and the interpretation of data is made according to our assessment which is rather independent from the intervention of respondents or Keski.

The time and experimental “try and contact” behaviour constrained the amount of companies to explore. The limitation of interviewed companies was made according to the groups in interview guide which include main company types to study. The sample of interviewed companies was rather small but we were able to catch at least one actor in each interested type. A particular limitation with stores was coffee houses which were mainly focused on selling bagels. In addition to all bagel coffee shops except one were in Gothenburg Centrum. The one was in Stockholm. We consider that bagel coffee shops in general are for city people and Gothenburg as city is reliable enough for market studies. The one coffee shop we interviewed in Stockholm was the biggest bagel coffee chain in Sweden. The company was also referred in other interviews with other companies in Sweden which acknowledged the credibility of the business in Swedish markets. In general bagel coffee shops gave us a good information package about bagels and coffee shop business.

During the interviews we had some problems with follow the questions in total which we concluded after the first interview since we thought it was better to let the one that we interviewed talk about their business and thoughts. The main areas were covered as much as possible with the special focus on the view of that specific company. The semi-structured interviews were therefore a good choice when we did the questions. By let the people we interviewed talk we conducted much valuable information and also new potential customers, which raised our quality of the research. It was also easier to increase the trustworthiness in the results when we let the interviews speak with a broader perspective of their business and the bakery market if we compared with only asking questions without ability to make follow up questions.

At first our intention was to conduct personal face-to-face interviews because we wanted to understand how the interview situation proceeds. After that experience we were more able to have phone interviews. The reason for phone interviews was because of time limitation and the people we interviewed preferred having phone interviews instead of meetings. By having two types of interviews can have affected our results but according to us we conducted nearly the same scope of information regardless if we had phone or face-to-face meetings. Therefore we say that it is ok to combine both types of interviews if researcher is able to manage telephone conversations smoothly. Of course the results could have been affected by having both types of interviews especially when the time frame of interview is longer in face-to-face meetings and the personal contact opens up the atmosphere to talk freely about the issues.

## 4. Empirical study

This chapter presents our empirical studies conducted regarding the case study of Swedish bread market. The empirical part explores companies in the markets and supports the analysis of business model for the bagel manufacturer to start selling their products in Sweden.

### 4.1 Background for consumer markets

The market of end-consumers for bakery products can be divided to different business areas in food industry. There is food which is meant to make at home and food which is made and served outside home location for example in restaurants and cafés. Regarding bread products customers use the product at home, eat it at the restaurant type of place or buy take away products. The food which is consumed as a service outside home is referred to foodservice. The concept covers all kind of actors that work for making food for consumers as a service. The International Foodservice Distributors Association (IFDA) defines foodservice shortly as the industry that serves food which is not prepared at home. ([www.ifdaonline.org](http://www.ifdaonline.org), 2013)

According to Swedish trade organization for convenience, fast food and café the food retail trade is usually divided into two parts which are food retail and convenience trade. The convenience industry is based on service and in Sweden called “servicehandeln”. The convenience trade is rather new market and operates on the middle ground between foodservice and food retail market. The picture 4.1 shows the compilation of food related markets. The convenience types of stores are usually located in central places, they offer services and their opening hours are flexible. Fast food and coffee shops are also included in “servicehandeln” or generally describing in the convenience trade according to Swedish convenience trade organization. The convenience sector with serving fast-food and take-away is overlapping the foodservice definition and food retail as well. The convenience trade is easy way for consumers to buy fast-food but also retail food products which make the convenience trade partially related to both foodservices and food retail. The price level in convenience retail is a bit higher than in common food retailing since convenience trade is service oriented, more fragmented and the economies of scale benefits are smaller than in general food retail. On the other hand convenience trade has taken huge steps of development in recent years in respect to the number of fast-food providers and coffee houses. Today convenience industry has many chain type of organizations with own franchising brands. The convenience trade involves different operators such as convenience stores, kiosks, restaurants, coffee shops, fuel stations and many more like snack bars, newspaper, gambling and tobacco shops. The sector is very multifaceted in nature as it incorporates different chains and many independent companies. ([www.svenskservicehandel.se](http://www.svenskservicehandel.se), 2013)

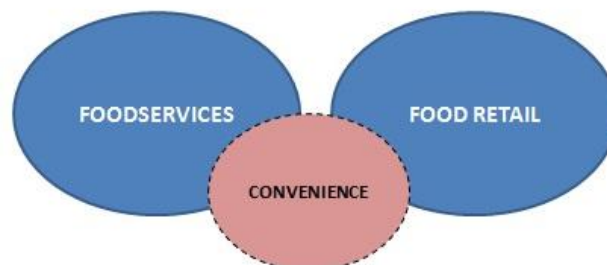


Figure 4.1 The compilation of markets

The traditional food retail industry serves consumers who buy food products from supermarkets. The food retailing aims to offer customers such as households their daily needs for food products. There is different size of stores adapted to certain locations in the food retail industry. The stores have become fewer but bigger in size. Also many food retailers have private label products in their product portfolios. According to Swedish Competition Authority (2011) the food retail market has a high concentration which means that a small number of companies rule the large part of the business and use the economies of scale in the industry. The main food retail groups in Sweden are ICA, Axfood, Coop, Bergendahls and Lidl. The food retail industry is described as an hourglass model where the narrow middle represents a few central food retail groups. The model affects positively on food prices for consumers when the benefits of economies of scale are exploited. However a high concentration both in supplier and food retail level undermines the competition in the food retail markets. (Konkurrensverket, 2011)

#### **4.1.1 Finpro market report**

We were able to use a former research report which was made for Keski to develop an internationalization plan. The research was conducted by the consultation organization Finpro. The project name was “Go Global” and it was made during the spring 2010. Finpro analyzed business possibilities for Keski in Scandinavian countries. The information is based on interviews and Euromonitor International which is specialized for market research and analysis.

Finpro interviewed three food retailers, ICA, Coop, and Bergendahls. The conclusion was that Pågen, Fazer and Polarbröd are the biggest bread suppliers in the food retail market. Finpro assumed that it is beneficial to seek partnership with suppliers which have already established collaboration with central food retailer groups. In general food retail chains expect that their supplier is quality certified company and is able to run marketing and promotion activities for their own products.

Background research in 2010 presented that Coop was not very positive for selling bagel type of products, whereas ICA and Bergendahls were seen more potential channels to Swedish market. Finpro emphasized the country wide distribution ability which is best reached together with existing bakeries and their distribution organizations which have the current collaboration with big food retail chains. The main reasoning to use distribution partners is that fresh bread suppliers take care of the distribution logistics on their own. Because Finpro weighed on the distribution partnership in selling products in the food retail market a possible partnership was seen as the main factor to be able to get in the markets in a large scale. The study shows that the domination of a few bigger bakeries is the general pattern in Swedish and Danish bakery industry in respect to food retail market. In addition to that there are companies who take care of all sales and distribution operations and provide sales development, distribution and logistics services. Findings from the Finpro report claim that a short shelf life concerning fresh bread requires direct deliveries to stores. The Shelf life is defined as the length of time food products are suitable for sale. It is concluded that fresh bread is delivered very seldom through central warehouses in grocery markets.

Bagel products have been as a small market product from the view of food retailers. In 2010 bagels were seen not so interesting since the demand had been rather low for a long time. The Finpro suggested that the bagel market should be developed together by actors in order to create opportunities for growth for demand. They also proposed that the shelf life for bagels should be extended in a way that it comes more attractive for grocery retailers. In 2010 the bagel market was seen rather limited. In general bagel suppliers were small and rather local

operators. However through the active development of bagel market these products may have more potential among end consumers. The bagels were distinctly seen more popular in the coffee shop type of sector which based on our study is related to convenience trade in foodservice settings. That approach was also seen as one driver to increase the bagel demand.

Particularly in the coffee shop sector companies want to increase the lunch time sales by providing new products for consumers such as variety of salads and sandwiches. There has been a growing trend for the popularity of cafés. Take away food is also growing all the time. Coffee shops provide food services and products which are ready to eat or taken away such as salads, wraps, bread, soup and sweet cakes. There is some differences between Italian style and American style coffee shops. Italian style coffee shops have a small presentation of food whereas American style ones have a wider food presentation. The current trend is not to increase the variety of food in coffee shops but the focus is on the freshness and quality.

In general Finpro report presented that bagels were considered positive and well-known products. Many food retailers have tried to add bagels into their categories. The groceries suggested alternative package solutions such as shielding gas, frozen or other methods where products are for example defrosted on their way to stores. The partnership with distributors or bakeries is seen important factor to get in to the food retail markets since the central grocery groups buy from bigger suppliers with wider product portfolio. Some examples were Pågen and Polarbröd. The report emphasized that locality, climate smart, ecologic and organic food trends have some influence on Swedish markets where as in Danish markets consumers are more critical about price that in turn put weigh on low price retailers and private label products. Other indicated trends in Danish market were bake-off, wellbeing and healthy issues. Bake-off means frozen bakery products which are ready after a short bake time in the oven.

## **4.2 Mini case interviews**

This section presents market research in terms of mini cases regarding Swedish bakery markets. We have interviewed selected companies and collected information by writing the results in a short story form. The case within case approach gives tangible information about the companies their current operations in the markets.

### **4.2.1 Stores**

The following part includes mini case stories about stores including some coffee shops, small restaurant, convenience retailer and supermarket. The stores in our research sell bakery products for end consumers.

#### **4.2.1.1 Hemköp**

*Hemköp is a supermarket chain which belongs to Axfood Corporation. Supermarkets are located in all over Sweden targeted to be near city canthers and living areas. The supermarkets offer a broad category with affordable prices and high service level. Hemköp focuses on presenting groceries from daily food to specialty products. We interviewed Michael Hellberg on the 10th April 2013.*

Hemköp supermarket is located at Vasagatan close to Avenyn in Gothenburg. They have bake-off, frozen and fresh bread for selling and the bake-off alternative have increased continuously. The fresh bread is the most sold and have high value for the stores, but frozen bread has seen increasingly interested for households. In addition to that the supermarket sees the bake-off category as valuable for customers to have fresh “new-baked” bread as a speciality product. For customers it is important that the bread is soft and in high quality. The

most important value is that the store has always bread in the shelf and the service level is absolutely perfect. In some occasions the bread deliveries come late which affects directly to the service level for customers. Fresh bread in plastic bags is delivered directly from bakeries as Pågen, Polarbröd and other big bakeries. Those firms take care of the old bread when they deliver new ones to the store. Regarding wastage bread in bake-off products the disposal is made by the store.

Hemköp see possibilities for bagels at the store and they prefer bake-off and frozen bagels. Bake-off products have directed to more quality conscious consumers and frozen bagels in a bag would be directed to families who prepare food at home. Hemköp means that it would be a good combination to have bagels as a bake-off offer and frozen bagels in bags. They think that selling bigger size of bagels as bake-off products at store and smaller bagels in frozen to people who wants to have bagels at home in the fridge. The price is important regarding bagels but they rather want to have high quality. Regarding new suppliers Axfood takes care centrally around 95% of the decisions to choose suppliers for Hemköp. However the particular Hemköp at Vasagatan in Gothenburg is able to take their own decisions of which bakery products they would like to purchase.

Regarding this Hemköp store Swedish bread market was seen not very positive since it is not so healthy according to current trends when many people not eat bread. Therefore they also think it is good to have frozen and bake-off bread because people who buy the frozen bread want to have it home and the bake-off alternative will be more exclusive product to buy at stores. Hemköp is seeing potential for bagels since they do not have any bagels in the store at the moment. They would like to offer bagels to their customers. Therefore they would like to collaborate with bagel bakeries but the price is very important as well as the quality. This particular store also suggests it is important that the size of the bagel is different in respect the bake-off and frozen bagels.

#### **4.2.1.2 Bagel street café**

*Bagel street cafe is a café which is specialized for genuine bagels with plenty of fillings and varieties. They offer a broad range of coffee and the facilities are designed to be cozy for people to spend time with friends or just working or studying. The Bagel street café has own brand and it operates as a franchise concept. The aim is to emphasize locality in the area it exists. They have today six cafés. We interviewed Erik Ekström on 10th April 2013.*

Bagel street café wants to offer genuine quality bagels with delicious and rich fillings. The bagels are filled and they can be eaten for example as lunch. Bagels in general should be satisfying dish in terms of fillings and bread quality. The café offers coffee, other drinks, salads and soups for its customers. They want to be categorized as best in class in Sweden for bagel coffee shops. They consider that the brand is important and emphasize that brand should be imprinted in all from products to facilities. They want to deliver original bagel products with a nice experience. The taste is the most important value since customers should enjoy eating their bagels. Other value is that they want to offer natural and preservative free bagels. Bagel street café has not so big focus on ecological, diet or healthy bagels.

In their assortment Bagel street café has a normal wheat plain bagel, full grain bagel and mini bagel. Bagels are with and without seeds on. They have asked for their Danish supplier to investigate if they can produce gluten- and lactose-free bagels. Regarding the size they have 150gr and 50gr size bagels. They have seen that 1 kg bagels are available some countries which could be a nice addition to offer specialties for families. Bagel street café has frozen products which they defrost, roast and fill. They have tested bake-off products but it is not

very efficient for them since they emphasize efficiency in kitchen and all processes they have. They consider that high quality related to originality is a number one feature for them. They do not see paying any higher purchasing price for a bagel even if the quality is better since the company is growing and they focus on having volumes. The coffee shop uses all the bagels they buy so they do not worry about returns for wastage or the shelf life of bagels. They think that pre-sliced bagel would be a good idea regarding efficient kitchen operations but there is a risk that the bread dries faster. They were still positive and saw that pre-slice bagel maybe works fine in the coffee shops.

Bagel street café has own Danish supplier for their bagels. They have organized distribution through Svensk Cater which takes care of warehousing and distribution for the products. They have daily deliveries for bagels together with other products provided by Svensk Cater. In overall they are very pleased within the Danish supplier and current operation model. The Danish supplier is a big bagel manufacturer producing 27 types of different bagel variations. Svensk Cater operates as the intermediary between Bagel street café and the supplier by providing logistics.

Bagel street café is open for new suppliers and can try new products. Since they have a strong focus on their own brand they could be interested to purchase private label products from the supplier. They see possibilities to test other bagels as they keep their eyes open for other options in order to be on the top of their business. In general they like to work with a close collaboration with already known supplier since changing supplier needs always some adaption time before everything works smoothly. They emphasize volumes which they see as the key factor for the profitable business. In overall Bagel street café prefers long lasting relationships with their partners. They think there is some demand for bagels in Swedish market but the price has to be low. The consumers would be interested to buy bagels in the supermarkets but he was unsure if the price is enough attractive since it is a bit more expensive product comparison to normal bread.

Bagel street café wants to be the local bagel coffee house in their area where they operate. They treat customers personally and aim to have direct relationships. Hence they get feedback from customers directly. Marketing takes place at the coffee house in a personal way. They call it as a direct marketing when the customers come to their coffee house. The main target is that the customer comes back. In addition they use digital media for marketing through facebook, instagram, twitter and website. They do not have specific marketing campaigns.

#### **4.2.1.3 Bönor & Bagels**

*Bönor & Bagels is a bagel coffee shop company in Gothenburg. They sell original filled bagels, some served with soup or as a part of different menus. The company fosters the originality and the taste of bagel bread and quality coffee. We interviewed Nathan Barg on 20th March 2013.*

Bönor & Bagels is a company in Gothenburg that sells bagels for meals. The company wants to deliver high quality products and they think that the products need to be real cooked bagels and have some taste of sweetness as in the USA or England where the original recipe for bagel bread is popular. The main characteristics of their products are that bagels are soft and chewy in consistence. Because they want do deliver quality to their customers therefore the main strategy is to have high quality products which consider not only the bagels. The company uses genuine and high quality ingredients such as crème fraiche, cheese, salmon, ham, chicken etc. They say they have developed a niche market themselves by being as good high quality bagel company as possible. They have left other products in background like

salads, juice, smoothies and sandwiches and put the focus on bagels and coffee. According to Bönor & Bagels it is valuable to have a variety in the product range so customers can choose between different bagels. Today they have four different bagels plain, wholegrain, with poppy and sesame seed. They consider it has shown to be a benefit for the company.

Currently they sell each day between 70 bagels and in the summer season the sales are between 1300 - 1500 bagels each week. The bagels keep their freshness well in two days. The bagels are delivered to the company in frozen packages. The one bag consists of 8 bagels. They tell that bagels are frozen and about 90 % baked. The bagels need to bake-off in the rest 10% that takes place in a grill. In overall bagels should be easy to cut and not split when they cut the bread in two pieces. They do not use already sliced bagels since they think that the bread will dry inside much faster.

Today Bönor & Bagels buy their bagels from the London based bagel producer. Each bagel costs around 7 kronor. The supplier delivers bagels to many countries all around the world. They have a close relationship between each other and the supplier always delivers in time with good quality. If Bönor & Bagels wants to have fast deliveries then the London-based company can arrange the express delivery in three days. This will of course be a little more expensive. The normal delivery is one to two pallets once a month. The one pallet has around 40 boxes and the box includes 48 bagels in one box. The products are delivered deep frozen to the frozen warehouse locating in Gothenburg. They pick up frozen bagels from the warehouse to replenish the store at Linnégatan. The reason why they have chosen to have bagels in the warehouse in Gothenburg is because of bigger purchase volumes and pricing.

Bönor & Bagels tries to collaborate with customers as much as possible through facebook which is the most important communication channel for them. They also arrange happenings at evenings and have the special offer for the week. The company has tried to sell “jumbo bagels” which could be compared to having to traditional big bread but the product failed. Eventually it was too big and no one was able to eat whole bagel. They also try new bagel variations like blueberry and chocolate. In this way customers can try new products and be more interested in the bagel market in general.

The company expresses how successful bagels are in the USA and considers that bagels are on their way to Sweden in 3-4 years. The current problem in Sweden is to build a market for bagels. In Sweden many of the coffee shops do not sell original bagels. The bagels that Espresso house and other coffee chains call bagels are just traditional round filled sandwiches. According to current offering in the coffee chains people get a wrong idea about the bagels. It seems that some work for markets has to be made in order to get people understand how a traditional bagel looks and tastes. According to the company bagel market will grow. For example in Norway bagels are grown a lot in latest years. The same they have seen in Sweden if they compare the growth of their own company. Bönor & Bagels would be interested in buying real bagels from another supplier if price and quality are good. However the company stressed quite much about the price and the price has to be competitive for bagel coffee entrepreneur. For them quality and price are main decision factors regarding new suppliers.

#### **4.2.1.4 Bistro Soup´n Bagel**

*Bistro Soup´n Bagel is locating in Gothenburg. It is a cozy little restaurant for dining or order take-away meals. They are focusing on to serve delicious soups, bagels, salads and pasta for their customers. Beside that bistro offers different kind of coffee, wine and beer. We interviewed Svante Boberg on 17th April 2013.*

Soup'n Bagel has been there for four years and Svante the owner has seen a growth since he started this small restaurant business. The company offers a huge range of different fillings to their bagels. On the general menu we can find salads, pasta, cheese, desserts and of course their soups. The most valuable for the company is the combination of a soup and a bagel. This consists the 90 % of all the sales. According to company the most valuable bagels for them is the ones that look healthy and have lot of wholegrain and with the seeds on it. Soup'n Bagel is not so interested in plain bagels because they prefer the wholegrain much more. The society today avoids eating white bread and therefore bistro rather prefers to sell wholegrain bagels for their customers. They have chosen to have one type of bagel instead of many different since it is the most efficient way to work. The variety will bring more questions to the employees that are making bagels. It is also easy for the customers at the same time when they order as they only have one bagel to choose.

In the beginning Soup'n Bagel bought bagels from the local bakery in Mölndahl but the quality of products were not high enough. The bagels were not "heavy" enough and at the same time Menigo, the food wholesaler for restaurants, started to sell bagels in their category. As Soup'n Bagels buys all the other products from the wholesaler they decided to buy also bagels from there. The bagels which are sold by Menigo are frozen come from the company in England called Brakes. The Brakes Group is the owner of the Menigo in Sweden. In general Soup'n bagel considers that the bagel has to have both good price and good product to raise interest for them as the bagel selling business. In addition to that the company is interested to try new bagels if they are good enough.

The sales of Soup'n Bagel is quite stable. During exhibitions in Scandinavium or events like Gothia Cup the sales increase a lot. They recognize that same people come back in the next year when they are visiting Gothenburg again. The owner has also seen a lot of American customers coming to buy bagels when they are in Gothenburg during vacations. The reason is that bagels are very common food in the USA and they want to have them in the holidays as well.

Soup'n Bagel is doing a lot of marketing activities. They are for example in Let's deal -portal which is the internet service providing many different deals for consumers in Sweden. Other marketing channels they use are newspapers and special happenings at evenings. A couple of weeks ago they did the invitation by e-mail for the customers that they have chosen to get direct marketing. The invitation was to the event where customers could try different wines and have special price for bagels. The owner of the bistro thinks bagels is not a new or trendy product. It has always been there in food markets. He thinks it is important to sell the idea of bagels to the markets in Sweden. The customers should understand how to make the real bagel with fillings and how the bread is roasted. One thing to promote the idea of bagel is that they make all the bagels in front of the customer after they have ordered a meal.

#### **4.2.1.5 Statoil fuel & retail**

*Statoil fuel & retail is one of the leading fuel companies in Sweden. It is a subsidiary for Norwegian Statoil fuel & retail AS which is owned by Canadian convenience store corporation Couche-Tard. In Sweden the company has around 700 fuel stations serving for both passenger and heavy traffic. The network consists of full-service stations which offer a broad range of products and services for travelers. Among others the company offers fresh and nutritious food with organic good fair trade coffee. We interviewed Isabelle Nordin on 18th April 2013.*



Statoil fuel & retail has a huge range of products and services for their travelling type of customers segment. They have different food, a car rental service, petrol, car wash and much more. In their assortment Statoil has some fast food products. They use different bake-off bakery products as well as much traditional filled sandwiches pre-packed in a plastic package. The bake-off products are meant to serve as fresh bakery products for customers at store location. Regarding the market offering today the company has different levels for product categories. The levels are depending on customer wants, needs and the willingness to pay for a quality of product offering. As they have both cold and warm bakery products some products are made at the store in a compact kitchen facility. The effective kitchen operations are very important for Statoil fuel & retail since the customers visit a rather short time at the store. The company's focus is on customers that are travelling by cars. The products need to be fast and easy to enjoy.

Statoil fuel & retail buys food products from Axfood wholesales operator for foodservices. The Axfood delivers products to Statoil fuel stations. The pre-packed sandwiches are made at a sandwich producer and delivered through Axfood distribution. The personal at Statoil fuel stations avoid handling sandwiches because of the health issues. The healthy environment in the Statoil stations is prioritized high and they have collaboration for example with Anticimex. The company has seen that the food trends of LCHF (Low Carb High Fat) and GI (Glycemic Index) have had the effect on customer requirements. In general customers want to be healthy and favour wellbeing lifestyle. However the most of consumers actually choose white bread in the end. According to studies and media it has reasoned that white bread is not healthy but many times when customers need to take a fast decision the customer choose to give up themselves and prefer the good taste. According to Nielsen market reports in 2012 the incomes from bread products have decreased. Currently the trend has seemed to change and Statoil sees lot of potential in bake-off range.

The company considers that it will be some market share for bagels and other premium products. There might be some market share for bagels and it is possible that bagels can fit in existing assortment. The company is working with high quality products and the price level of the products can be higher in those cases. In general company values high quality products adapted to the needs and wants of different consumers. Right now Statoil fuel & retail only have one bagel type of bread and they are keen to offer more product variety for their customers. Regarding bagels the products should fit in the fuel station service model and be easy to make and serve for customers.

#### **4.2.2 Distributors**

This section includes mini cases about distributors. Interviewed companies include foodservice wholesalers, a central food retailer, sales and distribution firm and a large foodservice provider. These types of companies operate mainly in B2B settings.

##### **4.2.2.1 Menigo**

*Menigo is a foodservice wholesaler who provides food and beverages for business customers. They have a broad product range from fresh and frozen products to everything else in foodservice field. Their goal is to be a complete supplier. Menigo is owned by Brakes Group. The group is the leading food service operator in Europe having presence in England, France, Ireland and Sweden. We interviewed Anette Gull on 17th April 2013.*

Menigo has many foodservice customers which mainly are restaurants. They have also customers in public sector, different restaurant chains, coffee and convenience stores. In their categories they offer many brands but they also have own private label brands. For the bread

products they have own private label that is La Boulangerie. It includes a wide range of different bakery products with different wheat types, seeds and toppings. They also have 5 different bagels in their current category. There is a one bigger supplier for bagels and the products are made in the UK. Brakes Group gives opportunities to Menigo to access large resources of the parent company and their assortment.

Menigo sees that the main value is quality because they want that customers buy products more than once. Healthy and ecological issues are also important especially for public customers in which case “Nyckelhål” symbol was mentioned. The keyhole symbol expresses healthier food options for customers. They have three price levels which are good, better, best to offer their customers’ needs. They also see possibilities for exclusive products and bake-off bakery products. Today they have both bake-off and deep frozen products. They consider that the bagel segment is rather low at the moment and they would like to see more volumes in the bagel market.

They have complete logistic network in Sweden and they can provide all kind of deliveries from refrigerated, cold and normal logistics. The main warehouse is in Strängnäs. Other warehouses are located in Sundsvall, Gothenburg and Malmö. The biggest volume comes from Stockholm where they also have their central sales office. They can provide daily deliveries for customers, but a normal frequency is a few times per week because of cost rationality. Customer orders are placed mainly through web and telephone sales.

Regarding new suppliers Menigo requires some track record, quality products and strong marketing ability. If the brand is known and the supplier has a good marketing plan to show for Menigo possibilities to be a partner improve much. They are open for new companies but the whole operation model around the company must be good from economical situation to branding. The ability to believe in the product and set products in the market is essential. In addition they think that it is good way to come in the markets through wholesalers with a large customer base. Still the manufacturer should have some volumes in the background like having some bigger key customers in Swedish markets such as Scandic Hotel -chain.

#### **4.2.2.2 Svensk Cater**

*Svensk Cater is a food wholesaler in foodservice markets. They are full-line wholesaler and exist in 20 different places all around Sweden. The goal is to be close to local customers. Svensk Cater belongs to the same group with Dansk Cater. The group is half owned by Euro Cater A/S and Altor Fund II which is in turn owned by employees of the group. We interviewed Lars Samuelsson on 18th April 2013.*

Svensk Cater operates as a local foodservice wholesaler for their customers. The reason is that they maintain the strategy to understand local customers and market in different areas in Sweden. The company has local warehouses from Gällivare in the north to Malmö the south of Sweden. They have the basic product assortment with some customization for local needs in different areas. This has been advantage for Svensk Cater. Their core value is to be a flexible partner that delivers service, care and value to the customer. The company delivers many restaurants, coffee shops and fast food businesses. They claim that their biggest customer group is fast food.

Svensk Cater have a lot of bakery products in their category. According to the company it is important to be able to satisfy every customer’s special needs. If customers want to have a specific product the company will look for the supplier and buy the right product. Price and quality is very important because food wholesalers have a lot of competition. The most popular bakery products for Svensk Cater are in a bake-off category. The bake-off sales have

grown a lot in previous years. Today they have four different bagels in assortment. The bagels are bought from VAASAN and Lantmännen. Their assortment of bagels consists of plain bagel, bagel with seeds, poppy seed and jumbo bagel. The weight of the products is between 110-150 grams. Today the company thinks that bagels have a small market share and Swedish market needs to be inspired and influenced of other countries to have more demand for bagels. For Svensk Cater it is very costly to have bread products in their inventory since the products eat up space in the storage and bagels are not sold in high volumes.

In general Svensk Cater buys products from companies around the world. Regarding inbound deliveries the company handles deliveries on their own or their partners independently take care of deliveries to Svensk Cater's warehouses. The model of inbound deliveries depends on the product. If the product is an expensive one delivery costs are not so important because the company can anyway earn by having these particular products in the assortment. If the products are cheap they often want their partners to pay deliveries. Regarding their customers and related products the idea is that products are available in the warehouse closest to the customer. Svensk Cater takes care of the outbound deliveries by using independent truck entrepreneurs to transport the products to customers' location.

The company considers that trends come and go. They have not seen that current healthy trend to avoid eating bread would have affected much on them. Since trends go up and down it is always something new in the markets which make companies to react and sell what customers want. The media also creates trends to guide people how and what they should eat. However Svensk Cater has seen that the share of wholegrain bread has increased. Regarding bagels they think that the market is not mature yet and suggest waiting until it is ready. They also think that a good way to come Swedish market would be to establish a light sales organization with one salesman who can make deals with customers to create some volume for the company.

#### **4.2.2.3 ICA Group**

*The ICA Group is a one of the biggest retail company in the Nordic region. They have around 2100 stores together in Sweden, Norway, and Baltic region. Their mission is to be the leading retailer focusing on food and meals. ICA aims to have strong market position with a local adaptation. In Sweden ICA have different store forms which are ICA Nära, ICA supermarket, ICA Kvantum, ICA Maxi hypermarket and ICA To Go. We interviewed Christian Andersson on 17th April 2013.*

ICA wants to deliver quality bakery products and respond to the needs for their customers in different locations. The ordinary meal kind of bread products is the basis for bread category but bake-off products have been coming more interesting for ICA since consumers would like to buy local bakery kind of fresh bread directly from stores. Baking bread in local stores is a growing trend in the food retail markets which gives value for consumers. The variety of bake-off products is also important. In overall ICA considers that bagels are not so interesting in grocery stores today. The bagel was concerned a bit old fashion product with rather low demand and lack of establishment in Sweden. However bagels are more common in other European countries.

Traditional fresh bread is mainly organized through sales and distribution companies such as Polfärskt and Pågen. ICA has an outsourced operation model for the traditional fresh bread and ice-cream categories. The sales and distribution companies deliver, do marketing and take care of products inside stores. The distribution and sales of bake-off and other frozen products is organized by ICA on their own. Bread suppliers typically buy marketing formats and

services from the ICA group. In addition to that bakeries can have own campaigns and tasting promotions at stores.

Regarding bagels a bake-off or frozen form was considered the best options. If a company wants to be new supplier for ICA they can try to be the direct supplier or come through some sales organizations with the ready established product range. Some examples of partners are VAASAN Sverige, Lantmännen and Polfärskt. In general being a supplier in ICA needs to fulfill quality criteria with approved certificates like BRC standard or similar. If the goal is to come in the market with the niche product like original bagel product it may need huge marketing efforts from the supplier to make bagel popular. In general ICA recommended having a model for bake-off and frozen bread for food retail markets through the partner or directly alone. But being a new supplier in food retail sector requires big and capable sales force. Sometimes the couple of stores have been functioned as a trial location for the introduction of new products from small suppliers.

The healthy trend in bread markets is considered as a macro trend but in latest years consumers are started to value better and tasteful white bread. In addition to that local “surdegbsageries” which means sourdough bakery concepts such as Fabrique have been coming trendier in the bread markets in Sweden. These types sourdough bakeries have also own branded bread products which some ICA stores have in their category in order to offer new products for consumers.

#### **4.2.2.4 Polfärskt**

*Polfärskt Bröd AB is one of the biggest selling bread distributors in Sweden. It is the most important partner for Polarbröd. Polarfärskt Bröd is partly owned by Polinova and regional Polarfärskt entrepreneurs are responsible for distribution, sales and local service in their respected area. We interviewed Christian Högfors on 16th April 2013.*

Polfärskt in Sweden includes more than 24 local distribution companies. The basis of the bread category for Polfärskt is frozen breads which are defrosted under the way to the stores. The company also distributes other bakery labels. The nationwide Polfärskt collaborates with six different bakeries and each day they have 270 distribution cars delivering bread to more than 3000 stores in Sweden. Polfärskt collaborates with brands such as Polarbröd, Hatting, Korvbrödsbagaren, GILLE, Va´gott and Hägges. They have over the 20% of the market share of food and coffee breads in Sweden.

The company wants to offer good services for their customers and therefore they visit stores once or twice a day a few times each week. This ensures that stores and Polfärskt know how much each bakery product needs to be ordered to fulfill the demand and avoid the waste. Polfärskt is always updated with the new information and does own prognoses for the products. They do their best to deliver bread to stores at the same time each day so that the stores are prepared. Polfärskt works a lot with the education of workforce so that they are capable to deliver right amount of products to avoid unsold bread. They deliver to all central grocery groups in Sweden. These are for example Axfood, ICA, Coop, Bergendahls and Menigo in foodservices. In general they have direct deliveries to stores belonging in supermarket chains. Today Polfärskt is a bread distributor for the all main supermarket chains in Sweden except Lidl.

From 2007 they have seen a growth of dark and healthy bread products because of the trend in society to avoid white wheat. In general their turn-over has been stable in bread products during the time bread consumption in society is questioned regarding healthy issues. Marketing activities are mainly done by their collaboration partners. All the partners like

GILLE, Hatting, Polarbröd, Korvbrödsbagaren, Va'gott and Hägges do their own marketing activities but the decisions of how to marketing is done in the field is discussed in collaboration with Polfärskt.

When Polfärskt is looking for new partners a prospective bakery products have to be a good compliment to the company's product portfolio and deliver value to the whole chain. They consider that value must be delivered both to them as well as to the supermarket stores. Polfärskt has their own board of directions that takes all decisions regarding new products and suppliers. The board makes the final decision if the supplier is a good collaboration partner or not for the company.

#### **4.2.2.5 Anonymous foodservice provider**

*The company is one of the leading foodservice businesses in Sweden. They have adapted to customers' needs in different service areas. The company and person are treated anonymously in the case report. We interviewed a strategic purchaser of food category on 24th April 2013.*

The company provides different foodservice solutions and continuously develops quality dining experiences in variety of situations. Bread products are a part of their food product portfolio and in overall they value organic and clean products. The customer demand guides the bread types they want to offer to their markets. The company provides foodservice for business and public customers which have different kind of requirements for the food. In general they have customer concept related working model which guides using a suitable bread products in each concept. The bread is considered rather important product since it covers a lot of different influences such as trends and culture. The bread products the company acquires have to be quality bakery products from reliable suppliers.

In their product category they have many bread types in fresh, frozen and bake-off range. The company works together with many bakeries from small to big ones. The distribution is either organized directly from bakery or through foodservice wholesaler which is for example Martin & Servera or Familjen Daggård. By using wholesalers they have access into appropriate products, large distribution network and deliveries all around Sweden. If a new supplier applies to the company some set of criteria should be met. Firstly there has to be a need for the product and new suppliers. Then the company makes sure that the supplier has credible operation in socially and financially. The company also makes audits in suppliers' facilities. For example the criteria of HACCP (Hazard Analysis and Critical Control Points) should be complied. It is a preventive approach to safe food products in the food industries. Another type of certificate for food industries is Swedish Seal (Svenskt Sigill) which is based on the IP food standard (IP Livsmedel). It helps small businesses to stand stronger in the market. The IP standard comply legal requirements of food safety, hygiene and traceability.

In general the company wants to operate with a few trusted partners. The company has 30000 deliveries annually and rather many locations. The number of deliveries steers the orchestration of product distribution more concentrated model. Exploiting the benefits in volumes and economies of scale is current aim for the company. The company sees bagel products very low in consumption today. The right type of concept for bagels may be in special situations like conference type of occasions. The bagel product should be as easy as possible to treat in the kitchen or readymade pre-packed bagels distributed quickly to the point of consumption. Regarding the markets trends they think wellbeing and healthy breads are important. The lesser additives that is better. The organic bread products, sourdough breads and full grain are expected to grow.

### 4.2.3 Bakeries

This section covers our interviews with bakeries that are manufacturers which are delivering their bakery products to consumer markets through different distribution practices. Interviewed bakeries offer food and coffee breads in terms of fresh and frozen fashion.

#### 4.2.3.1 Åkes Hönökakor AB

*Åkes Hönökakor AB is a family business and it was founded in 1934 in the archipelago of Gothenburg. The company manufactures original Hönökaka -bread which has a long tradition and a strong brand in the west coast of Sweden. The products have high quality and manufactured without preservatives. The company delivers fresh and frozen bread to supermarkets. The most important market area for their fresh bread is in the western part of Sweden. We interviewed Mats Olzon on 21st March 2013.*

Åkes Hönökakor offers the original hönökaka -bread. This is a flat and soft bread which is baked with a traditional recipe. The product category includes some varieties of bread which are wheat, rye and crispy bread. The company stresses three factors which are important in the bread markets. The bread products must have uniqueness in its taste and composition. The customers in the market require that bread stays soft as long as possible. Many times customers try the softness of bread at the supermarket when they grasp the packaging on the store shelf. The moment of decision is short and the bread must be soft enough to end to the shopping bag. Åkes Hönökakor has preservative free products which is a benefit in the market when many bakeries mix chemical ingredients to bread to extend the softness time of their bread. The company emphasizes that tracking customers' needs is very important and they are striving continuously to develop better and softer products to bring in the markets.

Regarding distribution Åkes Hönökakor has own selling distributors which deliver and sell fresh bread to many stores in the western part of Sweden. Today they have five selling-distributors which are important sales forces for the company. This is the common model of selling distributors in Swedish grocery market. A salesman drives bread to stores by a distribution truck. In addition to that the salesman takes orders and handles all store related activities such as returning waste products. The selling distributor visits the stores once to twice a day. The frozen products are shock frozen right after baking but delivered fresh at the store after defrosting on the way to the store location. In the freezing process products stay one day in minus 40 degrees. After that the bread is conveyed to a temperature controlled distribution chain in minus 22 degrees. Åkes Hönökakor has used the frozen model with Axfood where the products are stored and delivered by Dagab which is the supply chain operator for Axfood Group. Another model that they have tried is to store frozen bread in the supermarket where the personnel of bread department defrost and put out the fresh bread to shelves at a particular store.

In bread markets many customers require some system for returning waste bread. That is an important service the bakery must be able to offer since the stores do not want to take the risk of unsold bread. By providing the return service for unsold bread bakeries can sell bigger volumes to customers. This is the important part in customer service but it also contributes growing volumes and having as profitable as possible business in the bakery branch. The company has high quality standards and own quality policy. They have developed own quality control which is based on the principles of HACCP (Hazard Analysis Critical Control Point). In general Axfood requires BRC (British Retail Consortium) standard for food from their suppliers. That guarantees the quality of food and affirms the products are made in safe and lawful manner.

Regarding marketing Åkes Hönökakor has promotion presentations at shops. Some marketing efforts have been made through sales promotions in television, radio and newspapers. The ecologically produced food has been a trend. The company trusts their locality and the strong brand that comes from the originality of their products. Regarding the partnerships in general the company is open for new partners. They have already their own sales network in food retail markets which would be one possible collaboration area with other manufacturers. In overall the company has independent and solid position in Swedish bread markets.

#### **4.2.3.2 Almondy AB**

*Almondy AB former Mandelbagariet was founded in 1982 by two enthusiastic entrepreneurs. Their almond cake with daim is the Scandinavian best-selling frozen cake. The company has sales offices in Germany and England. Germany is the biggest individual sales market. They bake about 75000 cakes every day. Almondy is a bakery that produces frozen cakes to foodservice and retail customers. The sales are divided 70% to retail and 30% to foodservice sector. We interviewed Peter Haedge on 9th April 2013.*

The company started in Torslanda in Gothenburg 1982 and today they have sales offices in Hamburg, Germany and England. They have grown a lot in the previous years and they produce cakes for export to Europe, North America, Asia and Australia. Almondy exists in 41 countries and when they go into a new country they create partnership with companies that already are represented in the markets. For example they do not go directly to supermarket chains but through established businesses and their assortments. Almondy has the 30% market share of the Swedish frozen cake market. Almondy produces frozen cakes and their range of different varieties increases constantly. They have strong focus on product development of new products. The main characteristics of their cakes are that they need to have a good and real taste in spite of products have been in freezer. The products need also have high quality so that cakes do not melt too fast after these have taken out of the freezer. Almondy delivers quality in a good price and they have stable sales. All cakes are free from gluten which gives high value in markets.

Almondy sells to Axfood, ICA, Coop and Bergendahls which are the main food retail groups in Sweden. Almondy collaborates with SIA Glass AB in sales and distribution in both food retail and foodservice. SIA has the warehouse in Halmstad which takes care of all the Almondy orders. Customers get deliveries between 1-2 times each week. Physical deliveries are taken care by Bring Frigoscandia. Almondy replenishes the inventory hold by SIA based on the mutual information about sales in Sweden.

Regarding marketing strategies Almondy annually decides together with grocery groups how marketing activities will look like. It is very important for grocery markets that Almondy has powerful marketing activities in order to increase the sales at the supermarket chains. Together with the grocery groups the company decides for example how many times they should give a handbill as the special offer for customers and how many times they should physically present cakes at the stores or make other marketing efforts. Almondy has a limited marketing budget and therefore they do not use TV or radio commercialisation. The biggest challenge for Almondy is that consumers buy cakes as an impulse product at the store. The cake normally comes out of the shopping list. Therefore Almondy often goes into stores and let consumers try their cakes at the same time when they are buying other food products. Another challenge is that Frödinge which is another big cake producer in Sweden has the 50 % of market share. Therefore it is important that they are active in marketing and focusing on product development in order to not loose sales for rivals and maintain visible spaces at the shop locations.

#### 4.2.3.3 VAASAN Sverige AB

*VAASAN Sverige AB is included in the international bakery group VAASAN. It is one of the biggest bakeries in Finland and Baltic countries. VAASAN Sverige is leading company in selling bake-off products for grocery markets in foodservices and food retail trade. We interviewed Mikael Hage on 17th April 2013.*

VAASAN Sverige sells both crisp bread and bake-off products. They buy their products from different countries and suppliers. The headquarters is located in Stockholm. VAASANS assortment consist of products from the trademark of BONJOUR, FINN CRISP and Siljans knäcke. VAASAN Sverige is one of the biggest bake-off distributors in Sweden and it both produces and sells bake-off products for different customers in the market.

The company has focus on the bake-off portfolio both in food bread and sweet coffee bread assortment like cookies and cakes. They have products from the simplest to the most exclusive range to be able to meet different types of customers. They have seen the increase in demand of bake-off offering. This is the current consumer trend to buy fresh like bread from the supermarkets' bake-off department. That is why they have not been affected so much by the trend in society that you should avoid eating bread. People who buy white bread from the bake-off presentation at stores allow oneself something special and do not really care about the trends. The company claims that they have seen that crisp bread and traditional food bread have been affected most by the healthy trend.

Today they have bagels in their assortment and the company sees that the bagel segment has been quite still but has grown little bit. The company buys their bagel products from another country. VAASAN delivers bagels mainly to wholesalers like Menigo and then the wholesaler distributes products to restaurants and coffee chains. VAASAN Sverige purchases all the products for their portfolio and do all sales and marketing activities on their own. They represent the selection of bakery products and the products are bought from Europe. VAASAN emphasizes their marketing activities which is important in order to expand the visibility of bake-off assortment. VAASAN products are sold for example by ICA and Coop supermarket chains. The crisp bread products have FINN CRISP and bake-off products have BONJOUR and VAASAN labels. BONJOUR is a known bake-off label in the retail food market.



## 5. Analysis of mini cases

### 5.1 Analytical overview for selected cases

In this chapter we elaborate mini cases. Analysis incorporates the most important topics in each case. We also expand mini cases for the evaluation of business model approach. We have analyzed each case depending on market, market offering and distribution to get an easy overview about the most important things that Keski needs to be aware of when entering into markets.

#### 5.1.1 Analysis of stores

The results of interviewed stores are analyzed in this section. The following analysis ends with a brief summary of similarities and differences among explored companies.

##### 5.1.1.1 Hemköp

###### *Markets*

Today it is a trend in society that people should not eat white bread. The GI and LCHF are two healthy orientations. Hemköp therefore do not see any potential of increase their assortment of food bread packed in plastic bags. On the other hand the bake-off products have grown since it is more exclusive for the customers to buy newly baked bread. Hemköp let bakeries present new products at the store so that customers can try novelties. This is an important sales promotion in food retail market because consumers get knowledge of new products and brands.

###### *Market offering*

This particular Hemköp is interested of bagels since they do not have it in the assortment today. They think it is a good combination to have two product lines, bake-off and frozen bagels in their assortment. They suggest frozen standard product for families so that they could make bagels at home by having bagels in their fridge. The second one is a bake-off offering as a premium fresh product for customers which require exclusiveness for their bread. Bake-off and frozen bagels would be beneficial for Keski to get into food retail market.

###### *Distribution*

Hemköp supermarket chain is a part of Axfood group and the 95% of purchasing decisions are made centrally in the group. However this particular Hemköp store is able to make their purchasing decisions. This could be a chance to get a potential customer for Keski in Hemköp chain. The supermarket receives fresh breads from bakeries but frozen products are distributed by Axfood. If Keski should deliver to Hemköp directly they may have at first a distribution partner with refrigerated deliveries.

##### 5.1.1.2 Bagel street café

###### *Markets*

The brand is very important for Bagel street café and they want to strengthen it even more. Therefore the company is interested of buying private label products from suppliers. Bagel street café brand is well known already and they are focusing on pushing the bagel trend forward. In general it is important to do marketing activities for bagels since the market is small and with an attractive brand it is possible. Bagels could be considered as life style products such as latte coffee for a few years ago. They emphasize that tasty fillings make the

bagel attractive at the Swedish market. Bagel street café supports preservative free products and is looking for producers that can make gluten- and lactose free bagels. Healthy issues regarding white wheat is considered but it does not affect on bagels so much since the taste is the qualifying factor. However some awareness of offering healthier products is important for bakeries. If Keski could be able to produce diverse bagels without preservatives, gluten and lactose free products they could positively convince Bagel street café.

#### *Market offering*

The company offers quality bagels with delicious fillings; they deliver a good bagel combined with nice eating experience and focus on that the customers could enjoy eating bagels. They have three types of bagels in the assortment; whole grain, plain and mini bagel. They prefer frozen bagels which they can easily defrost, roast and fill to serve customers. According to their market offering Keski needs to be aware to deliver different types of bagels to satisfy market needs. Bagel street café sees potential of having pre-sliced bagels since it should increase the efficiency in the kitchen. In general they consider price is very important factor for the company and they would not pay anymore if the quality is above current products.

#### *Distribution*

Today Bagel street café has six locations and they aim to grow. This could be a good partner for making bagels known in Sweden. However the company wants emphasize own brand which affects on collaboration. Bagel street café has a Danish supplier and has organized distribution through foodservice wholesaler Svensk Cater. To having a supplier in Finland does not seem to be a problem for the company. However the current Danish supplier can produce and deliver in high volume which is important regarding price level. Bagel street café sees possibilities of having another supplier and therefore Keski could be one alternative for them. The possible dispersion of the bagel coffee shop chain in the future also favors the partnership in building more interested bagel market.

### **5.1.1.3 Bönor & Bagels**

#### *Markets*

The sales of bagels have increased in last years in Sweden but also in Norway, which shows that there is potential for a bagel market. Bönor & Bagels means that things that are successful in USA come to Sweden later on which may be truth for bagels as well. The company thinks that original fresh and chewy bagels should be marketed in Sweden in order to tackle the wrong understanding of bagels as a round filled sandwich. The LCHF of bread trend has not affected on them and they think bagels are the niche market which may have protected them from the pressure of healthy objectives. Regarding bagels the taste and originality is the benefit and customers in essential want to enjoy when eating bagels. Bönor & Bagels is connected with customers to gather feedback by using facebook.

#### *Market offering*

They offer high qualitative products in both of the bagels as well as in the fillings. It is important that the bagels do not get dry and the bagels needs to be sliced without getting broken during the cut. Bagels need also to be soft and have right chewiness in the consistence. Today Bönor & Bagels have four bagels, plain, wholegrain, poppy and sesame seed. The variety in the product range satisfies different customer wants. Bönor & Bagels values personality which is a important part of the business and the bagels with different fillings are named after the employees. The market offering builds a bagel culture and the personality is a

kind of attractive business concept. However the customer values organic or ecological products and operations. Therefore it is important for them to get a new supplier. Bönor & Bagels type of coffee shop is very potential customer for Keski but the bakery needs to focus on delivering ecologically manufactured products.

#### *Distribution*

Bönor & Bagels buys their bagels from the bakery in London. They have a close relationship and communication works well. The English bagel company can deliver high volumes and Bönor & Bagels can get express delivery if they need. The flexibility in distribution is rather important so coffee shops do not have to take care of big inventories on their own. Currently the company buys two pallets at once and has pallets stored in the frozen inventory in logistics provider Frigoscandia. Bönor & Bagels is interested in having a new supplier if they have better price and quality. Keski as a supplier should focus on long-term relationship, the quality of bagels and flexible delivery service for satisfying this kind of customers. The reliable distribution service may be organized through own distribution or wholesaler which would be beneficial for Keski to get into wider area in Sweden.

#### **5.1.1.4 Bistro Soup´n Bagel**

##### *Markets*

The company claims that wholegrain has been valuable since the product looks healthy. The reason why they consider it important is because of the healthy awareness of end-consumers. The wholegrain bagels enhance the adoption of the bagels in the market. It also looks more exclusive for the consumers as well. For Soup´n bagel they have seen growing interest in bagels and soup during special events where the customers are able to try bagels combined with wine. They also have special offerings by email to their selected member customers. Soup´n bagel collaborates with Let´s deal website to deliver special offerings in internet. It seems that the company has made clear activities to expose the bagels in the local markets in Gothenburg. Soup´n bagel suggested that the best marketing for bagels in general is to sell the idea of bagels and teach people to eat different bagels.

##### *Market offering*

They have only one bagel in the assortment since it makes the selling process easier for both the staff and customers. The company differentiates from other bagels coffees by having only one single product in the range. Bagels should include both healthiness and originality. The bagel sells better together with a soup which they have seen being a good complementary asset for the company. Soup´n bagel thinks the soup is very crucial driver to sell also more bagels. Without soup the sales of bagels may decrease. For Keski it is important that they focus on delivering wholegrain bagels since the trend of being healthier is seen in the demand of wholegrain and seeds on the top of bread.

##### *Distribution*

The company buys their bagels from Menigo wholesaler who has five different bagels in the product range. Since the physical distribution is made by the wholesaler Soup´n bagel do not need to care about the cost of distribution which of course is valuable for them. They are willing to try some other supplier if price and quality would be better than with Menigo. It could be expensive for Keski to have own distribution in whole country and therefore it is an advantage to get into wholesalers product categories to reach customers like Soup´n bagel. It would not be successful to sell to these types of small and scattered companies because of the

volumes are not enough for Keski to invest into own distribution. If Keski wants to have own distribution it may be better to start in one region in the beginning.

#### **5.1.1.5 Statoil fuel & retail**

##### *Market*

They have seen that food trends of LCHF and GI have had effect on customer requirements but in general customers in their fuel stations usually chooses white alternatives anyway. The bakery products in this kind of convenience business must be easy to enjoy at place or take away to cars. Statoil sees potential for bagels in their assortment and is a very prominent actor to collaborate with.

##### *Market offering*

Statoil fuel and retail station offer newly baked bake-off products, both coffee and food bread. In general fuel stations are known by filled sandwiches which are pre-packaged in plastic bags. Currently they have a few levels of product categories depending on the exclusiveness to satisfy customers' needs. Bagels could be well fitted in the Statoil concept. For Keski they could start delivering one bagel type in the beginning that is developed together with Statoil. The bagel could be pre-packed corresponding sandwich type of products or then roasted in a grill at place and filled like original bagels are done. Keski should make a careful decision how they define their bagels in the market. Since the filled round sandwich is very general product in food service bagels must be differentiated from other sandwich bread. Maybe bringing a bagel developed with Statoil could open possibilities to compete with the sandwich category.

##### *Distribution*

Statoil fuel stations have appearance everywhere in Sweden. The distribution network of Statoil fuel stations is rather broad. Regarding physical distribution Axfood's foodservice wholesaler takes care of all deliveries to the Statoil fuel stations. This means that Keski could be able to get their offering in wholesaler's product assortment or collaborate in logistics. In order to do that the willingness of Statoil to have bagels in their market offering plays a crucial role.

#### **5.1.1.6 Analytical comments on stores**

##### *Similarities*

The awareness of the health trend is important. However it seems that the healthy trend does not hit so remarkably for bagel type of special bread products since these are more for enjoying good food and not everyday food like other bread products.

The ability to deliver a range of different types of products like plain, wholegrain, with the variety of seeds, gluten- and lactose-free bagels are clear assets. The markets will have the selection of products which is suitable for many consumers depending on healthy and ecological thinking. Healthy and ecological thinking may also be a trend among people which should be considered to be possible bagel consumers. This is because bagels could be a trendy product for urban people which follow other life style trends in the market.

Another similarity between stores is that they prefer price and quality. The stores also value close relationship to supplier and wish that they get a delivery when they need. The stores we

have interviewed also say that they are interested of collaborate with a new supplier and willing to try bagels.

Stores see potential for original soft and chewy bagels in Swedish market even if the market is rather small today for bagels. The big issue is to make original bagels known and differentiated from a common round-shaped filled sandwich with hole in the middle. The bagel market is not ready yet and it should be built up.

Original bagels are served in roasted and filled. The quality and variety of fillings are important. Frozen bagels are appropriate for foodservice. Supermarkets are interested in bake-off and frozen bagels for food retail. Normal fresh bread category has been decreasing during latest years.

### *Differences*

Coffee shops and supermarket stores are different and work in different end-consumer markets. Bagels are more interested in foodservices as it is considered more fast-food type of products.

The coffee shops vary in size and form. They also are buying different volumes. The market is scattered and small independent coffee houses are not so interested in to take care about the distribution since it costs a lot of money and time.

The range of many bagel varieties is beneficial in order to cover consumer needs. However one coffee shop prefers to have only one type of bagel and this is the wholegrain option with seeds on it. This could be a good idea to start in Swedish markets.

## **5.1.2 Analysis of distributors**

The results of mini cases for distribution actors are analyzed in this section. The following analysis ends with the brief summary of similarities and differences among the explored companies while reflecting the needs of distribution for Keski.

### **5.1.2.1 Menigo**

#### *Market*

Menigo considers the importance of having ecological and healthy products in their product category since the demand of these products are growing. They mentioned the keyhole symbol is valuable in the foodservice markets. From their perspective the bagel segment is low although they have bagels in their product range. The bagels come to their assortment through the UK based owner Brakes Group.

#### *Market offering*

Menigo provides a huge range of fresh and frozen products to foodservice customers. They have to fulfil the needs of many customers like different restaurants, coffee chains and convenience stores. The large customer base of Menigo is a benefit. In the addition of known brands Menigo looks to emphasize their private label assortment. This seems to be one of their business strategies. One possibility of Keski to get into the wholesale business would be private label manufacturing. However the owner Brakes Group locating in the UK might have the advantage to acquire bagels in big volumes from their English suppliers. To tackle that finding potential customers in Sweden for Keski's products is important to get visibility for their products.

### *Distribution*

It would be beneficial to get into Menigo's assortment to reach the customer base of the company. However the wholesaler takes their own margin in the selling price and there should be enough demand for Keski's products. Menigo seems to be interested in having new suppliers constantly but they have strict criteria. The new supplier needs some track record, quality products and strong marketing ability. Menigo should see potential for Keski's products to have bagels in the assortment. Keski should focus on marketing strategies. Having some big reference customers as Scandic Hotel or bigger coffee chain would be a clear asset. In addition to that ability to offer a broad bagel product line with healthy varieties would be advantageous.

#### **5.1.2.2 Svensk Cater**

##### *Market*

Svensk Cater trusts that trends come and go and they have not been affected by LCHF and GI trend. The company does not see much potential for the bagel business in Sweden because of low demand. Svensk Cater considers that customers prefer to collaborate with a flexible wholesaler in terms of delivery, service, advice to customers and therefore they focus on expanding these capabilities. The company has seen the growth of bake-off products and according to the interviewee Keski should aim to deliver bake-off or frozen products. The healthy aspect is quite important and in Svensk Cater's assortment wholegrain and dark bread have increased.

##### *Market offering*

The core value for Svensk Cater is to understand customers and therefore they have differentiated assortment in their warehouses depending on which area the warehouses exist. They buy products from for example from VAASAN. Therefore it would be a good way for Keski to become a collaboration partner with VAASAN. This might be a huge challenge regarding volumes and Keski may need to expand their sales and find customers that can buy high volumes. Then it could be much easier for VAASAN to be convinced of being in their assortment. Keski could also go to Svensk Cater as a first step into markets but then Keski needs to take care of the distribution to warehouses and this could be expensive since they do not have any customers today in Sweden. To find a suitable foodservice customer for example hotel or coffee house chain would be great for Keski. This could convince both Svensk Cater or VAASAN to start collaboration.

##### *Distribution*

Svensk Cater has many locations in Sweden which helps the dispersion of products in wider area. As Svensk Cater serves local customers Keski could collaborate with this distributor also in some selected area. The wholesaler purchases products from companies around the world have some organization to handle inbound logistics. The inbound logistics is solved by either the suppliers own or wholesaler's transports depending on products.

#### **5.1.2.3 ICA Group**

##### *Market*

ICA has a different market concept for different customer needs. According to ICA they have seen a growing demand for bake-off bread because customers prefer "locally baked" bread. Currently ICA does not see any interest of bagels in their supermarkets because of the lack of

establishment in Sweden. The market is not interesting enough. Therefore Keski should focus on trying to get in having promotions at some stores and let people try their assortment. This is how the company can make bagels known also for households. This is how to teach them to make and eat bagels at home.

#### *Market offering*

ICA has all kind of bakery products in their assortment. There is fresh, frozen and bake-off bread in the range. The possibility to sell fresh bagels in a plastic package in the store is unlikely. The bake-off assortment would be viable if people are buying bagel products as newly baked in a loose form and make them later at home. However frozen product category might be the easiest way to start. By all information from ICA a marketing strategy and effort to make the idea of bagel products attractive is very important. If the demand grows big grocery groups like ICA would be interested in bagels but not before there is a clear sign of potential sales.

#### *Distribution*

ICA Group is very established in Sweden and have big customer base. The group takes care of the distribution of frozen and bake-off bread to stores. The fresh bread assortment is outsourced to the sales and distribution partners. A new supplier could be direct supplier to ICA or be a part of some sales organisation's assortment. Polfärskt is one example. ICA expects that a supplier has a big own sales force. In sales and distribution collaboration would be a good opportunity for Keski to get into supermarket chains. Regarding frozen products a partnership with ice-cream distributor would be the option since ice-creams are similarly outsourced like fresh bread. On the other hand similar option would be if Keski outsources its sales activities and delivers frozen products directly to ICA Groups distribution.

### **5.1.2.4 Polfärskt**

#### *Market*

Polfärskt has seen growing demand for dark and healthy bread. The company has many brands they represent. They have also expanded the number of their collaboration partners and currently have the market share of 20% in food and coffee breads in Sweden. The possibility to offer food but also coffee breads for Swedish markets through Polfärskt could be a good option. As Keski has a long experience of traditional coffee bread bagels they would be able to present interesting bagel assortment for Polfärskt.

#### *Market offering*

Polfärskt sells and distributes frozen bread products that are defrosted during the transportation. Their collaboration partners are big companies that are able to produce high volumes and their brands are recognized at the Swedish market. If Keski can have a prominent brand with interesting bagel assortment the collaboration with Polfärskt would be effective way to enter into Swedish markets. This might be made together with own and partner's marketing efforts. Keski could be a suitable collaboration partner since Polfärskt does not have bagels in their assortment today.

#### *Distribution*

Polfärskt takes care of complete distribution to more than 3000 stores in Sweden. They deliver to main grocery groups like Axfood, ICA and Coop. Polfärskt wants to have new partners to collaborate with but the new supplier needs to be a good compliment to Polfärskt

own product portfolio. The practical issue for Keski in the distribution is that they should be able to deliver frozen bagels from Finland to Polfärskt distribution systems. In order to do that Keski needs a partner to connect product flows between bakery's own production and the distribution network of Polfärskt.

#### **5.1.2.5 Anonymous foodservice actor**

##### *Markets*

This foodservice actor sees bagels as very low consumption for restaurant services they have today. Many of their restaurants operate serving meals for lunch. They still think that bagels could be suitable in special situation like conferences and special events. Wellbeing trend and healthy objectives in food consumption are considered important since the company also has public customers. The company thinks that organic bread products, sourdough breads and full grain will have increasing demand in the future.

##### *Market offering*

They offer a huge range of bread products in their product portfolio. This foodservice actor have focused on delivering "clean" products which they have seen being having demand across their customers. In their business fresh, frozen and bake-off products have their own place but bake-off is not very attractive as it needs extra handling before offering to customers. Their customers may have high standards for requirements of the food products. Therefore this foodservice actor is always looking for bread products with high quality from reliable suppliers. The long-term relationships are in the focus and the company wants to decrease the supplier base to cover trusted suppliers. Being a part of wider product assortment in this foodservice operator is an asset but alone it is not enough if the bagel market stands still and gets nowhere. Hence marketing of bagels is important as the products are coming up in the markets.

##### *Distribution*

In their product distribution the foodservice provider has around 30000 deliveries each year in all over the Sweden. Their operation model prefers the economies of scale. For them it is important that they have high volume products in the product assortment. As the foodservice operator wants to operate with few trusted suppliers the close relationships are important. This could be a good possibility to have one long term key account for Keski in the beginning of entering in new markets.

#### **5.1.2.6 Analytical comments on distributors**

##### *Similarities*

Distributor type of actors in general have very established distribution network with a broad customer base. Distributors can ensemble and distribute several products to a large regional area to many business customers. They offer the possibility to reach Swedish markets comprehensively.

Regarding bagels foodservice wholesalers already have different types of bagels in their assortment to satisfy their customers. It is a prerequisite for wholesaler to have healthy and ecological choices for their customers. The supplier should be able to offer bagels with a high quality and in varieties such as wholegrain. Wholesalers normally have a few different price and quality categories in their product portfolio



There is very low demand for bagels. The bagel market is not interesting for distributors yet. Marketing must do to build up and generate demand for bagels. There is demand of bake-off and frozen products in general. Wholesalers try to follow the demand of their B2B customers so they sell what customers want. Many times it is a customer's need that initiates the possibility to access to the distributor's assortment.

Distributors have their own margins in the selling price which can cause some pricing challenges for Keski especially in the beginning of entering in the market when volumes are low. Wholesalers request that the prominent supplier is able to invest in marketing and promotion of their own products. The significance of own sales force is mentioned both in foodservices and food retail markets. The own marketing budget for a new supplier is requested.

Distributors have high quality criteria on their suppliers. The supplier needs to fulfil quality and market requirements as well have a good economical form. The certificates in these areas improve credibility. The products should also fit into distributors own market offering and strategy.

### *Differences*

Distributors may operate with different approach. They can be specialized to serve for example local customers and fast-food sector like Svensk Cater does. There can be different customers like public customers, business customers, restaurants, convenience stores, coffee shops or fuel stations.

The operation model of distributors can differ. For example Svensk Cater has more local inventories which serve the local customer requirements whereas Menigo has big central inventories and emphasize on private label products. The strategy can for example follow the economies of scale or economies of scope.

Foodservices and food retail markets are organized differently. Grocery retail is very concentrated with own supermarket chains whereas foodservice sector has different relation between the wholesaler and customers.

The sales and distribution actor Polfärsk is uniquely adapted to grocery retail markets. The distribution, sales and return of the wastage is organized by that company. According to ICA Group only fresh bread and ice-cream categories in grocery retail businesses are outsourced for similar actors and can give opportunities to access food retail markets.

### **5.1.3 Analysis of Bakeries**

The results of interviewed bakery type of businesses are analyzed in this section. The following analysis ends with a brief summary of similarities and differences among the explored companies while reflecting business opportunities for Keski.

#### **5.1.3.1 Åkes Hönökakor AB**

##### *Market*

Åkes has seen that other bakeries produce more softer breads and it has shown that customers prefer softer bread that keeps their softness for many days. According to Åkes other bakeries have a lot of additives that makes the bread softer. This is something that consumers many times do not understand. That is why it is very important to emphasize healthy aspects of additive free bakery products. Traditionally white, soft and sweet-tasting bread is popular in

Sweden. We may assume that the taste tradition in Sweden helps bringing bagel type of products in the market.

#### *Market offering*

The company delivers both fresh and frozen bread to supermarkets chains. The products need to have uniqueness in their taste. The composition of bread should be soft enough for the customers. Åkes Hönökaka breads have a sweeter taste than many other types of bread. Therefore Keski and Åkes have a lot in common because bagels also have sweet kind of taste. As the bagel market is low or even almost does not exist in the retail markets in Sweden Keski could introduce a new market offering of bagels with softness, uniqueness in taste and consistence. The product range should also have different varieties from sweet soft white bagel to healthier option like wholegrain alternative. Axfood grocery group has pressed Åkes to produce bread which sustains its softness in longer time period. This aspect should also be taken into account regarding bagel production and marketing in Sweden.

#### *Distribution*

Åkes has sales and distribution resources on their own. They are able to distribute bread to stores in certain area in the western parts of Sweden. According to Åkes they rather prefer to have control on their own distribution than outsourcing that as a service. They have long term plans to have own facilities to deepfreeze their bread. Keski could consider Åkes as a partner for distribution in a certain region. Åkes also has connections to grocery groups which is a benefit regarding whole Swedish markets. For Keski this partnership possibility could be the first step to distribute and introduce new products in Swedish markets. On the other hand partnership with Åkes could create other mutual advantages if both companies are willing to expand into new markets in Sweden or abroad.

### **5.1.3.2 Almondy AB**

#### *Market*

Almondy has the market share of 30 % in Swedish frozen cake markets. Their business keeps still on growing and the brand is well-known. The company sells frozen products both in foodservice and food retail sectors. It seems that markets accept frozen cakes very well even if those are sold from freezer at supermarkets. In foodservice sector frozen products are easy to make because the cakes only are defrosted before sold for end-consumers for example at coffee shops. In general Almondy shows that it is possible to construct a successful business model around frozen bakery products.

#### *Market offering*

The company offers a huge assortment of different types of cakes that are frozen. The brand and product range seem to be the asset for the company. Keski is aiming to sell frozen products and therefore they have a lot in common. The difference is that Almondy have their strong brand and people already know what they get when they buy Almondy cakes. Almondy does not think much about the health perspective. They rather think consumers buy the Almondy cake when they will enjoy and luxuriate themselves. This aspect is very interesting regarding bagel products as well since there is demand for tasty bakery products in spite of healthy trends. It may be possible to avoid the affect of healthy trends if products are made for pleasure and not for having diet or enhance healthy lifestyle. On the other hand it is also ethically appropriate if the cakes are consumed within limits and not over consumed. In this case the responsibility of wellbeing is quite much in the consumer side.

### *Distribution*

Almondy has grown globally by having partnerships with sales and distribution organisations in other countries. These sales companies have already their own assortment in food retail chains which makes the entry into extensive distribution network possible in foreign markets. Almondy strongly focuses on marketing activities and representatives are often in stores to let customers try and have good offerings to their customers. In Sweden the distribution and sales of Almondy products is taken care of SIA ice-cream. This is interesting collaboration possibility regarding frozen bagels as well since the established sales organization and distribution of ice-cream producers can open business opportunities both foodservice and food retail sectors.

#### **5.1.3.3 VAASAN Sverige AB**

##### *Market*

VAASAN is a bakery which operates like sales and distribution organization regarding bake-off products in Sweden. They see that the bake-off segment is growing even more. Customers think it is more exclusive to buy fresh bread from bake-off section at the supermarket store. The feeling and smell of freshly baked bread is attractive. The company has bagels in their assortment but have not seen a huge interest from the market. They have seen that the crisp bread and the traditional white fresh bread in plastic bags have been most affected by the LCHF trend in the society. The bake-off segment has not been affected since people who buy these products allow themselves something special. Keski could try to get bagels into the bake-off category. Frozen bake-off and pre-baked bread seems to be valuable at markets. But at the same time the bagels should be marketed for consumers as the bagels are not very interested among consumers yet.

##### *Market offering*

VAASAN has a large product assortment of bake-off and crisp-bread. The bread products are produced by bakeries around the world. Their main customers are foodservice wholesalers and big grocery retail groups. Since they cover a big market they would be good collaboration partners to Keski regarding bake-off segment. According to VAASAN they are interested to collaborate with a new supplier but the criteria is high and the company needs to deliver high volumes with high quality. VAASAN takes care of all marketing activities and their suppliers are only manufacturers. This would be easy way for Keski since they do not need to think about marketing and distribution. Collaborating with VAASAN they would be able to get into markets with low investment costs. The challenge is how they could convince VAASAN about the need of bagel products as the building up bagel markets requires financial investments.

##### *Distribution*

VAASAN delivers directly to wholesalers and grocery retail groups own distribution network which further distributes products to supermarkets. Since for example grocery group and VAASAN have their own margins the pricing for Keski may be challenging because of middle men takes their own share of market prices. Therefore Keski should be able to produce volumes to have reasonable profit. The collaboration with VAASAN type of companies should be made with very close collaboration and this may lock-in Keski in a certain operation model with the partner.

#### 5.1.3.4 Analytical comments on bakeries

##### *Similarities*

The common view is that bakeries should provide unique products but follow the customer wants and needs. Bakeries have seen a growing demand for bake-off products. The distribution of frozen products is established and accepted by the markets.

Customers prefer healthier values and therefore bakeries are forced to produce alternatives according to trend of LCHF and GI. Making additive free products is also a benefit.

Both the foodservice and food retail sectors are potential markets for bakeries. All the bakeries have same challenge regarding marketing and distribution. They have to decide “make or buy” what comes to marketing and distribution activities. At the same time specialization into own operation is important to manufacture unique bakery products. The sales and distribution model is crucial for manufacturer firms. Almondy is the good example of successful brand, marketing and distribution around frozen bakery products.

Bakeries do not give any clear indications or willingness to operate with other bakeries in collaboration. Bakeries may consider other companies as rivals and are afraid of cannibalizing the sales of own products when collaborating.

##### *Differences*

Bakeries are specialized to be able grow or succeed in competition. Companies have different business models regarding product, region, marketing and distribution. The make or buy decision differentiate bakeries in the distribution of bread. When other collaborates with sales and distribution companies some will have the control of distribution on their own hands.

VAASAN is specialized for bake-off products. It is a big bakery and they sell both own and other bakeries products. They are specialized for selling and distributing bake-off products. ALMONDY is growing abroad and entering into new markets by having collaboration with companies that already are in the grocery retail assortment. This has shown to be a good way to grow in new countries for them. The size of bakery may limit the possibilities to deliver to whole country and get into the grocery retail groups in Sweden. Åkes is a good example for a regional operator that competes in the pressure of big concentrated grocery groups.

The bakery product may be “impulsive-buy” and therefore a product development and making own brand as strong as possible are very important ways to be successful in the industry.

#### 5.2 General level analysis

We come to present general level analysis about Swedish markets from two market perspectives regarding our thesis study. In the early investigation we found that both foodservice and food retail markets sell bread products to consumers. In addition to that convenience market is positioned somewhere between these two distinct markets. Based on the structures of the markets we considered to treat them as two different market areas with their own possibilities and challenges. In our study convenience trade is merged with foodservices due to the similarities in diverse structure of convenience and foodservices. Many times they clearly overlap such in fast-food and coffee houses. In the following sections these two market domains foodservice and food retail are described and their characteristics generalized based on our case studies.

### 5.2.1 Foodservice market

Foodservice market includes all the businesses which make and sell food for consumers outside their own homes. Generally thinking all common restaurants and coffee houses in different places perform foodservices. There are a lot of differences in size and operation model in foodservice companies. Also consumers who use foodservice offerings have different needs and wants for the service. In addition to that much attention should currently be given to growing convenience trade which seems to be the growing part of foodservices today. The convenience can be called as serving “to-go” food for consumers. The convenience trade incorporates several businesses with varying structures such as franchised convenience chains and individual kiosk entrepreneurs. The general examples of these companies in the foodservice market are fast-food, convenience stores and coffee houses. McDonalds, Subway, Bagel Street Café, Bönor & Bagels, Sibylla, Pressbyrån, My Way, Shell/7-Eleven, ICA to go, Statoil fuel & retail, Espresso House and Wayne`s Coffee could be mentioned as potential customers for bakeries selling their products to the multifaceted foodservice market.

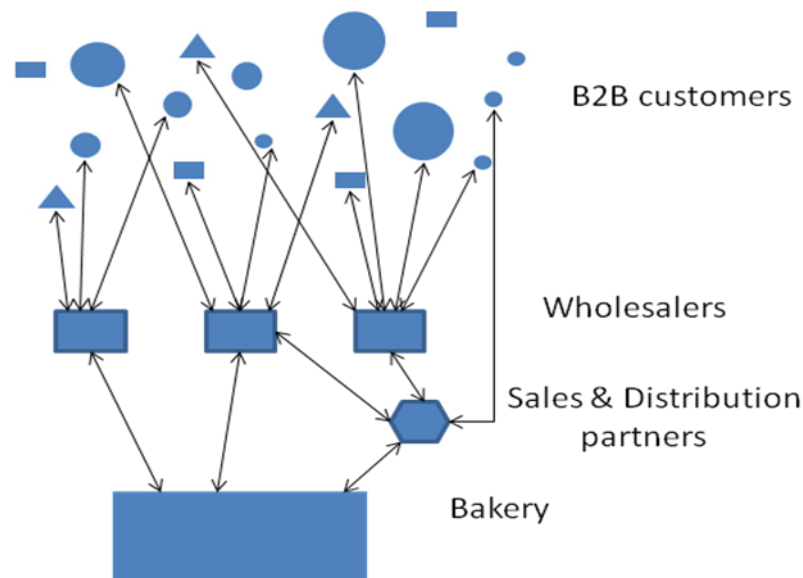


Figure 5.1 Foodservice in general

The figure 5.1 is a simplified network picture about the foodservice market. Foodservice B2B customers are rather diverse and market seems to be fragmented. Wholesalers like Menigo, Svensk Cater, Axfood Närlivs and Martin&Servera ensemble and distribute foodstuff for the foodservice customers. The wholesalers are offering local services but having a wide range of products and raw materials for their customers. Restaurants for example can visit wholesalers “cash and carry” type of outlets or have deliveries directly from wholesalers´ warehouse. Restaurants have purchase agreements with wholesaler but they are not always firmly committed to one wholesaler. Wholesaler can buy products directly from manufacturer or their sales and distribution partners such as SIA Glass for Almond cakes or VAASAN Sverige for many bake-off bread products. We have observed that sales and distribution companies have emerged from the needs of manufacturing industry. For example VAASAN bakery has developed the sales and distribution organization which collaborates with other bakeries distributing their products to the foodservice markets. Other important actors are logistics service providers which take care of deliveries and are a part of supply activities in the distribution of goods.

## *Opportunities*

Opportunities in the foodservice market are the wide range of different B2B customers which are not highly engaged to their wholesalers and suppliers. Especially independent entrepreneurs can freely try different products and if they are convinced they could buy the product directly from the manufacturer or through wholesalers. Wholesalers have also private label products which may be a chance to collaborate in manufacturing. The foodservice stores like coffee houses and convenience stores are concentrated to the central places where many people visit such as shopping malls and city centres. This may open possibilities to quickly reach a certain geographical region and get the products known in the market. Bigger restaurants, coffee shops or convenience chains could be potential gates to the larger part of the market. For example collaboration with Statoil fuel & retail would open a large distribution network for bagels. The collaboration with chains implies deeper collaboration and development of suitable products. The positive signal is that some demand for bagels exists and according to our empirical study bagel coffee shops believe the rise of original bagels in Sweden. As the foodservices market is rather diverse and not so concentrated there could be possibilities to get quickly to consumer interface by collaborating with well known chains or establishing vertical integration in terms of own bagel outlet.

## *Challenges*

Many times the name of the company is the most famous brand in foodservices such coffee shop chain Wayne's Coffee or fast-food restaurant McDonalds. The products are playing a supporting part in brand awareness even if the food is important to taste good and have high quality. It is a challenge for the producer to decide how they create their own brand and should it be famous among B2C or B2B markets or both. Since the bagel is a consumer product the brand among consumers is important. Regarding coffee shop chains they are very established today. To get co-operation with these established chains requires marketing and sales capabilities from manufacturer. Regarding bagels the demand is low and the challenge is to teach consumers to eat original bagels and make them attractive for consumers. Because the market is fragmented sales and distribution to a wide customer base or a large regional area can be a challenge without the help of wholesale intermediaries. Regarding these distribution intermediaries like wholesalers they have own margins in the market price. Every actor needs to have own margin in order to the whole business be profitable. The pricing of bagel products may be a challenge in the beginning of expansion for a manufacturer. Those issues also bring out the question about "make or buy" regarding the distribution model for manufacturer.

### **5.2.2 Food retail market**

Food retail market belongs to the fast moving consumer goods business. The end-consumer normally buys food products from supermarkets. These food retail chains in general are operated by big concentrated grocery retail groups such as ICA, Axfood and Coop. The groups have their respective supermarket chains which are adapted to the certain consumer behaviour and region. There is a clear division between hypermarkets and smaller entities. For example ICA Group has ICA Maxi, ICA Kvantum, ICA Supermarket, ICA Nära and ICA To Go concepts in comparison to Coop Forum, Coop Extra, Coop Konsum, Coop Nära and Coop Daglivs. The supermarket chains are centrally coordinated but in some cases individual stores have freedom to buy products outside the centralized assortment like Hemköp in Göteborg does. Hemköp belongs to Axfood grocery group which have stores run by owners which collaborate with Axfood through agreements. Under the Axfood's distribution system are for example Hemköp, Willys, Prisxtra and Tempo stores.

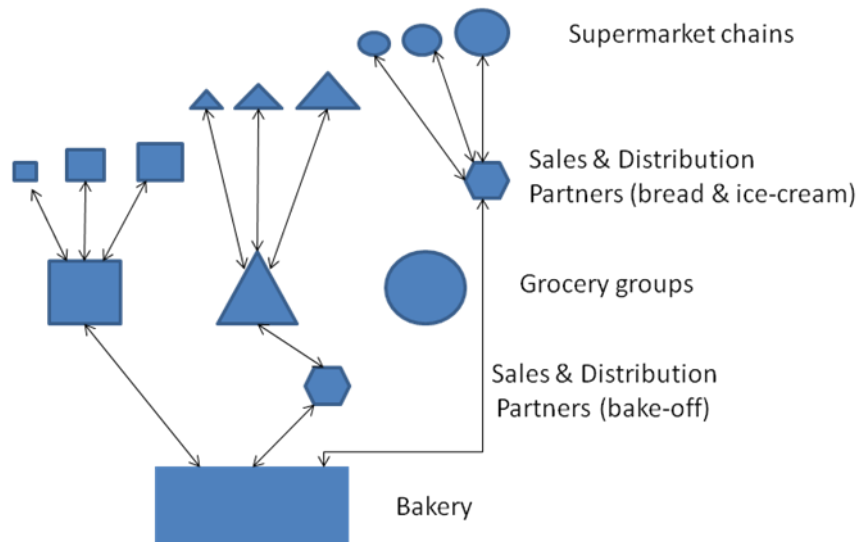


Figure 5.2 Food retail in general

The figure 5.2 is a simplified network picture about food retail market. The concentrated grocery retail groups have their centralized organizations and product assortments. They also centrally take care of sourcing, purchasing and distribution of their products. For example Axfood owns logistics provider Dagab which is the central logistics partner for the stores belonging to Axfood. The centralized purchasing organization that handles product assortment makes important for a manufacturer to get through the narrow “hourglass”-shaped structure to the retail markets. If the manufacturer sells their products for supermarket chains the products in general should be purchased by the central category organization in order to get into wider distribution in all over Sweden. The sales and distribution partners like Polfärskt for food and coffee bread, SIA Glass for ice-cream or Valoratrade for consumer goods enable smaller manufacturer’s brands to get in to the retail markets in conjunction to wider product portfolio and the effective sales force of the partner. VAASAN Sverige together with Polfärskt are good examples how bakery products can be introduced and distributed to food retail markets. VAASAN sells bake-off products directly to the central purchasing organization. There is very interesting sales and distribution partnership between Almondy and SIA Glass where frozen cakes are distributed to many central grocery groups. The same collaboration between Almondy and SIA is existing in both foodservice and food retail markets.

### *Opportunities*

Individual stores are potential B2B customer especially in the groups where store owners are entrepreneurs and tied to the central grocery group by agreements. The stores related to Axfood can be favorable for direct business relationship in the beginning of entering into markets. If the bagel product convince the market are central grocery groups crucial to reach a large group of consumers and a great volumes through the retail distribution. Collaboration for example with SIA Glass with frozen products or Polfärskt with coffee and food bread provides a clear opportunity to get into food retail markets. The collaboration with sales and distribution partner is a long term business relationship which requests commitment from both parties.

## *Challenges*

High concentration and central product categories can hinder the sales to food retail markets. The requirements of suppliers are rather high in centrally organized grocery groups as the groups dominate the large part of the market. The supplier should be credible enough to get into the distribution system. Marketing and brand building is in a big role in consumer demand based products. The competence in launching new products is also important for success. Without consumer demand the product is not viable and lacks interest by the central grocery groups. The low demand of real bagels makes hard to enter into markets through central grocery groups. The conclusion is that the actual market is very low and not properly exists yet in the food retail markets in Sweden.

### **5.3 Two inspirational businesses in the market**

We want to present two inspirational companies and elaborate their business model. After empirical study we concluded that Almondy and Statoil fuel & retail have developed their practices in a good way in Swedish markets. Their brand and activities of how they act in food industry are really interesting according to us. Almondy is a bakery and Statoil fuel & retail operates in convenience trade. Both companies are also good examples for Keski. Almondy as a manufacturer is a good example in branding and distribution through their partners. Statoil fuel & retail is a potential customer for bagels in Swedish markets and they have built a nice operation model around the consumer needs visiting in fuel stations. At the same time we reflect the dimensions of our analytical business model with Almondy and Statoil fuel & retail before we complete the business model recommendation for Keski.

#### **5.3.1 Business model of Almondy**

We concluded that we want to have Almondy as an example of manufacturer's business model. The three dimensions are assessed; market, market offering and distribution. These are important for our analytical model to understand the business models of companies.

#### *Market*

Almondy works close to their customers both in terms of collaboration partners but also close to their end-consumers. The bakery brings the idea of having delicious cakes just easily unfreeze and serve them in place of homemade ones. In foodservice market their end-consumers are people who buy cakes for example at coffee houses. In food retail market customers mostly are families and older people that would like to indulge themselves with a cake or serve a cake when they will have guests at home. Almondy emphasizes that they want to deliver the cake with high quality at a good price and therefore they focus on having good ingredients. The cakes are made to enjoy food and therefore they have left light version products out of the scope of business. It is rather significant that the pleasure type of consumption has safeguarded Almondy from the effect of LCHF and GI healthy. Almondy is aware of quality and healthy standards. The company was hit the harmless bacteria issues with cakes addressed to IKEA in this year. According to IKEA Almondy uses Hazard Analysis Critical Control Point (HACCP) and is certified through the British Retail Consortium (BRC) Global standard<sup>9</sup>. The specialization in frozen products requires high quality standards to avoid any harm in the company image. The brand in the food industry is very sensible for bad rumors and news. Almondy have succeeded to build the strong brand

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<sup>9</sup> [http://www.ikea.com/gb/en/about\\_ikea/newsitem/almond\\_cake\\_sales](http://www.ikea.com/gb/en/about_ikea/newsitem/almond_cake_sales) [Accessed: 2013-05-20]



and have very positive growth in a few years. The reason is that they have understood what the customers value. Consumers in the market value delicious taste, cheap price, easy to handle at home, the time of unfreezing is long enough to guarantee the cake is good after the shopping trip, cakes look as exclusive as confectioner's products and Almondy cakes have a wide product range. These things together with brand building have been success factors to get sales for the products. The cakes look exclusive and therefore Almondy cake has been accepted in the society. It is easy to unfreeze and serve at home and the cake is comparable to confectionery or homemade products.

#### *Market offering*

Almondy has specialized in cake manufacturing, product development and marketing. They have increased their product portfolio and really succeeded to find products that customers are satisfied with. The market offering is a delicious frozen easy to handle cake for many situations. This is the core of the value creation which involves work with environmental and quality policies including activities how to produce Almondy cake, how to educate employees, the organization to deliver better products and the interest continually to make production more efficient. Briefly Almondy develops, bakes, markets and sells attractive cakes in a nice looking package. One success factor for Almondy is that they work continuously in the consumer interface to get feedback by visiting at stores and letting the customers try their assortment. Sometimes some cakes become less successful and therefore they work continuously with product development to create new cakes and meet the needs of consumers. By keeping customers on focus it will be easier to understand how the market is looking like and how the sales develop. Almondy seems to create close relationships with B2B customers like groceries while getting close to end-consumers at stores.

#### *Distribution*

Almondy has created an interesting sales and distribution partnership. They have chosen to collaborate with ice-cream company SIA Glass. The reason is that both companies manufacture frozen products and SIA has sales and distribution resources to sell and distribute products to foodservice and food retail markets. Hence Almondy has the outsourcing model for field sales and distribution in Sweden. The physical distribution of frozen products has been conducted by the aid of Bring-Frigoscandia. The collaboration network has been created based on the need of sales and distribution resources. Almondy considers that when they outsource sales and distribution they can have the control of the costs. Almondy has some own distribution trucks but it is used for local deliveries. The cakes are sold for example at Axfood group and the central food retail group has high quality criteria that Almondy needs to live up to. Axfood wants that their suppliers have own marketing activities which they are responsible for. Axfood values close relationships, on time deliveries with right volumes, quality, price, effective marketing activities and product development. Regarding the sales in other countries than Sweden they go by sales and distribution organizations that already are in the markets. Outsourcing sales and distribution is their operation model when entering into new markets. In all Almondy is only responsible for their product development, brand and marketing activities in the new markets they go into.

### **5.3.2 The business model of Statoil fuel & retail**

We considered Statoil fuel & retail could be potential customer and distributor of bagels in Swedish markets. We reflect the analytical model with this inspirational example and bundle up three dimensions market, market offering and distribution.

### *Market*

Statoil fuel & retail have customers that are in hurry and need to have both fuel and food as service which taken place very fast. Statoil therefore focus on finding products in their stores that are easy to eat so you can have it in the cars while driving. Customers are professional drivers, families and other to go characterized customers. At Statoil stores the “to go” -type of customer does not choose the healthiest alternative. Instead customers buy impulse products what they want in that moment when they would for example indulge them self of having something tasty in the car. So it is not common to prefer healthy options at fuel stations but Statoil fuel & retail has paid a lot of attention to serve better and healthier alternatives for consumers for example breakfasts. Since customers are in hurry the toasts have not been as popular as they thought even if hotdogs are very famous at fuel stations. Statoil fuel & retail sells quite much pre-packed sandwiches at stores as they contribute efficient operations at stations. They have to also avoid handling fresh food at the stations regarding healthy aspects as food is sold in combination of car related products. However companies which handle food packages must be registered at Swedish food agency (Livsmedelsverket) and follow the basis legislation of handling food stuff at their companies. ([www.livsmedelverket.se](http://www.livsmedelverket.se))

### *Market offering*

Statoil fuel & retail is focusing on delivering value to car driving customers by combining petrol, washing of cars, car rental and services but also food, drinks, cookies, candies, medicines etc. Statoil has a wide range of assortment and seeks to satisfy all customer needs during their travelling. They therefore offer many service at one place and foodservice is one area at the station. The products are sometimes much more expensive compared to ordinary food stores since the company knows that customers needs to buy the products for this price because Statoil has some kind of monopoly at that particular place beside the road. Together that place advantage Statoil uses effective marketing which contributes the market offering. They have also developed their food assortment to be more attractive than a typical fuel station. Today Statoil has “to-go” assortment with a few different market offering levels. Alternatives include good, healthy and nutritious meals for to-go customers which typically do not have time to think about health aspects. The idea of serving and taking care of customers` health is favorable in society. Some products have seasonality and more taste for everyday life. In addition to pre-packed sandwiches Statoil has also bake-off products in order to serve fresh bakery products for customers. Some examples of products are cinnamon bun, donuts and croissants. Briefly Statoil fuel & retail is focusing on giving services to end-consumers, building and marketing the attractive to-go assortment and store network. Statoil is very dependent on having credible and long term relationships with food manufacturers and Axfood wholesaler in order to maintain effective assortment together with physical distribution.

### *Distribution*

Statoil fuel & retail has their distribution network of stores all around Sweden. Bakery products like pre-packed sandwiches are purchased from sandwich manufacturer which collaborates with Axfood foodservice wholesaler that further delivers all the food products from Axfood´s warehouses to each Statoil store. Therefore Statoil fuel & retail has outsourced manufacturing and distribution for other companies. Statoil needs the knowledge of food industry and the delivery capability of Axfood to distribute food stuff to many locations in Sweden. The relationship with Axfood is close and the trust to Axfood resources to deliver products to Statoil stores is very good. They have also seen it is more beneficial get the service from one wholesaler instead of having many different. Eventhough they have several

food manufacturers the volumes of physical distribution goes through Axfood which makes the control of product flow efficient. In addition to that the relationship between food manufacturer and Statoil fuel & retail must be good since the products should be developed to meet the needs of rather special on the road convenience trade. The food products introduced at Statoil fuel & retail is actually the result of the collaboration between manufacturer, Axfood wholesaler and Statoil. The marketing is important for Statoil. They have successful special offerings for their customers for example take two and pay for one or get an extra coffee after having bought 10 coffees in a row. Statoil has strong brand and together with effective marketing activities the company can increase customers willingness to make “impulse buy” decisions. That is valuable to get customers to try something new and increase sales. In addition customers buy more products at the same time with special offerings.

## **6. Proposal of business model for Keski**

The design of business model is to be constructed in relation to the company and its situations in the external network of which it is a part of. It is the way how business can be successfully made in practice. As the value creation is an essential factor for the stable business we decided to suggest Keski to distinguish foodservice and food retail markets in order to have a sound standpoint for the expansion into new country. It is justified by the empirical studies of the markets regarding bakery products and bagels in particular which belong to a niche segment in Sweden.

The demand of bagels in the food related markets are low in Sweden. All the decisions which stimulate the increase of the bagel markets are relevant. Since the marketing budget is restricted all the activities to breed bagel markets should be carefully done. The business model must be adapted to stimulate the interest of bagels in the market. Following in this chapter we represent the business model and the comprehension of dual market condition considering the dimensions of our analytical model.

### **6.1 Two-folded market**

The potential markets are distinguished in foodservices and food retail market. It is beneficial to have an adapted orientation for these two markets. The demand of bagels in Sweden is low and there is a “startup” like challenge to create more demand in markets. We have noticed that there is some expectation of growing bagel interest in the foodservice market which we suggest is the first potential market domain for Keski when entering into Swedish markets.

It is very important to assess the business model to respond to the market characteristics and its opportunities and challenges. Therefore the market entry should take place in right sequence first in foodservice market and later on in food retail market. We propose that entering successfully into foodservice market can initiate the overall growth of bagel demand in Sweden. If Keski wants to be involved in creating the bagel trend in Sweden it is important to stimulate the awareness of original bagels. It is more possible through the actors of foodservice market than food retail market. That is because of the structure of market in terms the versatility of foodservices and high concentration and establishment of food retail markets. We consider the foodservice market is more flexible and could work as the catalyst to bagel demand. If the bagel trend grows the central grocery groups in food retail market are naturally interested to have the products in their assortment because they have to follow consumers. This also prevents Keski not to stick in the middle if they start from foodservices and are strongly established there before entering to food retail markets.

## 6.2 Model for foodservice

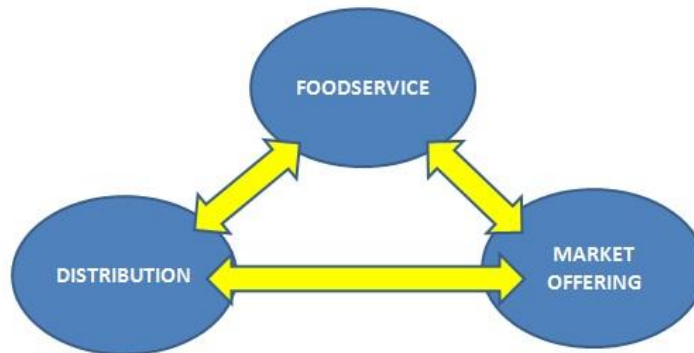


Figure 6.1 Model for foodservice

### *Market*

The foodservice market is multifaceted. The flexible structure shows that there are possibilities to build a business concerning bagels in the market. Customers in foodservice markets are for example coffee chains, small independent cafés, convenience stores, hotels and restaurants etc. The bagels could be best fit for coffee and convenience stores, hotels and restaurants. Bagels are suitable as fast-food, lounge dinner or lunch with friends in coffee house style. Keski should sell bagels to many different customers in the foodservice market. They can start from small independent coffee shops which have shown to be potential customers and rather open for co-operation based on our empirical information. The volume gathered from the variety of small customers is valuable to build a new business in the market. In addition to that bigger chains with established operation model and brand equity are important to spread products to the wider area and boost the bagel concept in the markets. It is important not to sell bagel bread but the bagel culture like the lifestyle phenomena such as latte trend has been in Sweden. To convince the consumer market is a one challenge for Keski. The other is to sell the idea of original bagels to B2B partners in the foodservice market. Without doubt this request a grassroots work to convince the market but also investments and collaboration partners.

Selling bagels to foodservice markets requires the awareness of trends in the markets. Healthy food is a macro trend which has been influencing consumers quite a long time. Consumers prefer wellbeing values and avoid carbohydrates. The ecological thinking like protecting the nature by sustainable business operations is a very important value to be a credible company. That is important especially for the young generation and educated urban people which may be the potential consumer segment for bagels. The organic food trend which favours additive-free products is also worth observing to develop products which are as clean as possible. Especially families appreciate additive-free products. Based on empirical studies, consumers do not think so much about carbohydrates when they want to indulge themselves and enjoy delicious food. However, wholegrain products represent wellbeing and would be essential for consumers who are conscious about trends. The quality control of food production is important in food-related markets. Hazard Analysis Critical Control Point (HACCP) in the food manufacturing industry and the standard of British Retail Consortium (BRC) were emphasized in our study.

### *Market offering*

Some of foodservice customers want to have full baked frozen bagels because of the effective kitchen work. In some situations bake-off bagel can have value in order to emphasize bakery feeling for end-consumers at the location. The most important for foodservice B2B customers is the frozen bagel. It is existing model concerning both foodservice wholesalers and bagel coffee shops. Therefore we suggest Keski to deliver frozen bagels primarily fully baked frozen but also later on frozen bake-off bagels depending consumer requirements. The bake-off bagels in the future would have been suitable for convenience stores like Statoil fuel & retail where the consumers value the original bakery feeling with the smell of freshly baked bagels. Frozen full baked bagels are more focused on traditional coffee chains and fast-food where speed and efficiency of serving food are key values. The original bagel bread should not dry and it should be easy to cut without the shape of the bread to break. The quality of fillings and the look of outer appearance make bagel exclusive in foodservice markets. Wholegrain bagel with seeds on top is a good bagel in Swedish markets where consumers value healthy and organic aspects. The plain bagel is also appropriate but the overall appearance of bagel products despite if it is filled or not should be attractive. Price is important for B2B customers since bagels compete with a lot of different bakery products and customers who sell to end-consumers such coffee houses must be profitable. The quality of bagels must also be high in terms of the look and consistence regarding the originality and chewiness of bagels. The originality also differentiates the bagel from other round-shaped bread products. Foodservice B2B customers appreciate flexibility in deliveries to their store and prefer close relationship with their partners. The bagel supplier should be service oriented both in terms of deliveries but also in terms of new product development in order to make bagels successful in the markets together with customers. The closer they are with each other the better products served and the bagel trend is able to grow. The close relationship especially with actors working with end-consumer interface is preferable to create demand for bagels in the market. Foodservice customers like bagel coffee shops see as very important that bagel products will have growing demand in the future. Professional and inspirational sales force with attractive bagel concept is a key driver to build co-operation with the B2B customers in the foodservice.

### *Distribution*

The distribution of bakery products to foodservice markets mainly goes through foodservice wholesalers. The sales and distribution partners are also presented in the foodservice market and contribute new products to get into wholesalers assortment. The distribution channel of bakery products is rather short. In early times consumers bought fresh bakery products directly from local bakeries. Today when the bread can be delivered in frozen model the length of distribution channel can be longer. However there is intense competition in the market which advocates avoiding intermediaries between manufacturer and consumer to keep pricing as reasonable as possible. We suggest Keski to avoid or carefully think about intermediaries in the beginning of entering into Swedish markets. The company could sell bagels first in a small region like Stockholm to convince the variety of customers and deliver products by the aid of a logistics partner or with a warehouse partner and own truck. Stores require flexible deliveries and buy rather small volumes especially in the beginning. Logistics costs should be as low as possible at first. Having an own car in the beginning in a small region and later on logistics partner for the larger area is one option. Keski should also focus on bigger chains like Statoil fuel & retail with several outlets in Sweden. This can open

possibilities to distribute bagels to all around the country. However the establishment in the smaller region actuates that wholesalers might be interested to have bagels in their assortment. The potential wholesaler in this case is Svensk Cater who knows the needs of local customers. In addition to that Keski can consider building a concept store for bagels which contributes trying out products, gathering feedback and strengthening the brand in Sweden. In this case the model follows vertical integration and supports the idea of boosting bagel trend in Swedish markets for example being visible in the big shopping malls and city centres. Having a coherent brand regarding bagel concept stores and delivery trucks would contribute the awareness of bagel business in a small region. It also reminds the originality of local bakery businesses in early times and follows the trend of local type of businesses like sourdough bakery Fabrigue<sup>10</sup> or Gateau<sup>11</sup>.

### 6.3 Model for food retail



Figure 6.2 Model for food retail

#### *Market*

Food retail market is very established and bagel demand there very low at the moment. The biggest retail chains and their stores are potential customers for Keski. Even though biggest food retail groups have a central decision-making power over their respective store's assortment there are possibilities to sell bagels directly to supermarket which are driven by owners. Especially the stores of Axfood group are suitable according to our empirical information from Hemköp. Before bagels can be popular and achieve demand must the "original bagel" idea be sold for end-consumers and decision makers in the food retail market. Customers like households and families should learn to make and eat bagels at home. Keski must do marketing activities to stimulate the market. The company should let people try their products and present original bagels with different recipes how to make filled bagels.

Trends in food related consumer markets influence on the adoption of bread products in food retail market. The macro trend of avoiding carbohydrates in society has little bit lowered down the sales of fresh white bread. However the willingness of consumers to buy bake-off products from baking spot at the local stores has increased the demand of more exclusive

<sup>10</sup> <http://www.fabrique.se> [Accessed: 2013-05-22]

<sup>11</sup> <http://www.gateau.se> [Accessed: 2013-06-03]

white bread products. The prominent keyhole symbol called Nyckelhål in Swedish expresses healthier food options for consumers. Also the awareness of sustainably produced food guides consumers to follow ecological grade in food products. The KRAV marking is the most general in food related products. To have alternative products in assortment creates value for food retailers since store chains currently want to position themselves to be businesses that sell healthy products. End-consumers make impulse decisions at stores especially when they want to buy products for weekend parties or indulge themselves with delicious food. By promotions and visible product displays at store the sales of bagels can increase.

To be a supplier for food retail markets requests credibility from the company. High quality and operational standards with recognized certificates are important as central grocery groups make decisions in a long term sight and lead supermarket concepts holistically. Regarding our empirical studies Hazard Analysis Critical Control Point (HACCP) and the standard of British Retail Consortium (BRC) were used by bakeries.

### *Market offering*

Central grocery groups in food retail market suppose that suppliers have own capable sales force and working marketing strategy to make sales promotions for their own products. In addition to quality products the supplier must believe their products and show it to the central decision makers. The market offering should fit to the food retailers own assortment and product launches should take place with mutual goals with grocery groups. The product development with variety of bagel alternatives is important. In addition to plain bagel, wholegrain, lactose- and gluten-free bagels create value for end-consumers. Collaboration with decision makers in central groups and promotion activities at stores are important to enhance the entry of products in supermarkets. The bakery must also be credible and be able to arrange constant and predictable supply.

According to our empirical results food retail market is used to accept frozen products such as bake-off bread. Consumers are used to buy frozen bakeries such cakes but frozen bread is rather unfamiliar. Polfärskt model which means that bread is defrosted during the transportation to stores and sold as fresh for consumers is well functioning. The market share of fully baked frozen bread is unknown but we consider it could be applicable for bagels as it works for Almondy cakes. However the idea of bagels and what it could bring for consumers is more important than the product itself. The increase of bake-off bread assortment contributes the form of frozen bread offering to food retail markets. End-consumers would buy frozen bagels from freezer area at supermarket stores if they first try bake-off bagels from the baking location at stores. In addition to that one alternative could be possible collaboration with Polfärskt which in turn supports selling fresh defrosted bagels. The collaboration with Polfärskt would be a good thing to build the awareness of bagels at stores because it works as selling distributor for many brand products in Sweden.

The alternatives are fresh, bake-off and frozen. Each of them requires some type of distribution collaboration which should be developed together with sales and distribution companies and central grocery groups. Currently Bake-off bread products are rather anonymous at stores. In respect to promotion of bagels and prospective brand fresh or deep frosted bagels are most relevant. Regarding deep frozen bagels and self life of products frozen bagels could be the first offering to food retail markets. The bagels should have strong focus on attractiveness in packaging, positive ideas of making bagels at home in terms of interesting recipes and in overall create a real bagel atmosphere by marketing efforts. The presentation of products at stores is important to expose frozen bagels for consumers. Almondy is a good



example how frozen cakes brings positive image about homemade delicious cakes and similarly finding a right content for bagel ideas may increase the conception of the product.

*Distribution*

The distribution of fresh bread and ice-cream functions independently in food retail market in Sweden. It is a kind of outsourced model for food retail groups that runs beside their own distribution systems. Bake-off products are distributed through central distribution system to respective supermarket stores. Regarding food retail markets Polfärskt for fresh bagels and SIA Glass for frozen bagels are potential sales and distribution partners. To be able to enter to food retail markets with niche product line such bagels the function of the sales and distribution collaboration is important. We consider distribution to supermarkets in wider scale should be taken care by the aid of intermediaries. However Keski should obtain enough volumes in Swedish markets to be competitive and keep bagel business profitable. Successful establishment in the foodservice market contributes the later entry to the food retail market. The company can start promoting bagels at supermarkets in urban areas at first but expand with rapid schedule to wider areas in Sweden by the help of sales and distribution collaboration. The collaboration provides ability to punctually deliver and promote products in the extensive network of supermarkets all over the country. The volume and centralized operations are in focus on the distribution activities to food retail markets which is possible by the aid of intermediaries.

**6.4 Presentation of the business model for Keski**

In addition to the previous recommendation for business model adaptation for two-folded markets we briefly present main features in one section. The following part also highlights a few important factors regarding the business model for the company.

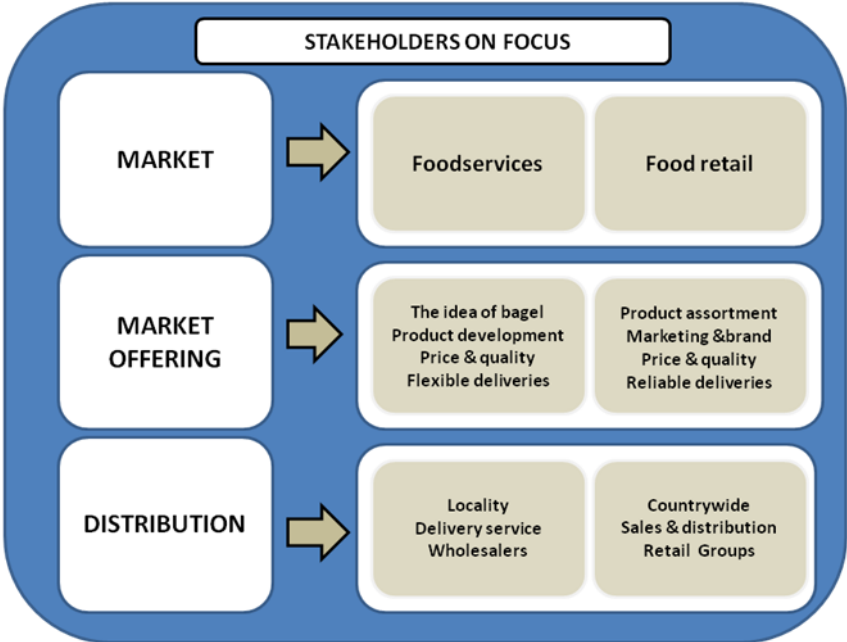


Figure 6.3 Business model dimensions

## *Market*

- **Customer segments;** Keski should focus at first on the foodservice market. There are essential segments in the market. Coffee house chains and independent entrepreneurs both small and big are very important. Convenience stores and fast-food restaurants can take bagels in their assortment. Hotels and restaurants are also potential customers if they are convinced the use of bagels in bars, conferences and for example in room services. In general Keski is forced to try different kind of customers because the market for bagels is quite small and they need to build reputation and signal the new trend of bagels to foodservices. We consider the success in foodservices can be transferred to the food retail market. There in the food retail the stores which are located in city centers can be the best supermarkets to start selling bagels to urban people with healthy and ecological values. The differentiation from common sandwiches and fast-food like hamburgers and hot-dogs is crucial.
- **Market standards;** in food related markets there are rather uniform standards regardless foodservices or food retail. To build trustworthy and successful business in new markets Keski should be aware of quality, health and ecological standards in all processes from manufacturing to delivering bagels for end-consumers. It is very good if standards are associated with the brand in the market.
- **Marketing and brand;** these are very important to make bagels famous in Swedish market. Local bagel concept stores at shopping centers and distribution car with a nice and coherent image builds the awareness of Keski bagels. Keski can start from urban regions like Stockholm and move forward to other big cities. The company market and sell bagels to different customers in one area and at the same time develop the brand. When the time is ready to move in food retail markets bagels could be exposed to many different consumers not only for urban people but all households. The company must arrange presentations and let consumers try bagels at stores. The bagel can be nice unifying family food for the weekend parties for example. Visibility in social media and internet is more important today.
- **Concept bar for bagels;** instead of a café type of coffee house Keski could have a bagel bar to avoid costs of running the bigger facilities. By having their own bagel concept store they are able to spread the knowledge about bagels but gather real time information from consumers when working in the consumer interface. The strategy of own bagel bars gives the real understanding of consumers and help to develop a right model to make bagel business. It can also stimulate the market and contribute that other actors begin to be interested in bagels. This can benefit the growth of bagel products.

## *Market offering*

- **Products;** customers in foodservice market value quality products with a low price. The bagel needs to look good and be healthy because of the health bread trend in society. Keski should have at least wholegrain and plain bagels in their assortment but to reach the wider range of customer gluten and lactose free bagels are important too. The bagel needs to be easy to slice and do not get dry at once. It also needs to have original chewy consistence but soft enough so it will be easy to eat. Sweet bread is popular in Sweden so this is a benefit for bagels.

- **Price;** bagels need to have reasonable pricing. Maybe the same or lower price than foodservice actors today have. The reason is that the bagel market is quite small and customers are not willing to pay higher prices of products even though quality is better. This may have caused from the fact that the volumes are rather low in Sweden and bagel is considered expensive than normal sandwiches. However it is good to differentiate from sandwiches and not to set a price level too low in the beginning since the higher quality of bagels.
- **Close relationships;** it is important to have product development together with foodservice actors in order to offer bagels that fit in customer's assortment. This is also important for the promotion of the idea of bagels resulting products and services that satisfy both B2B customers and end-consumers. The personal contact with the customers in the beginning is crucial in business relationships.
- **Deliveries;** flexibility and reliability create competitive advantage. Together with reliable delivery service the company can create credibility among customers. The concept of selling distributors having a trusted salesman who delivers sells and has know-how about products is very useful to ensure smooth personal business relationships with customers.

#### *Distribution*

- **Distribution partners;** when Keski expands to wider areas in Sweden the deliveries either are should be outsourced to a logistics service provider. Also both the sales and distribution can go through a wholesaler in foodservices. A sales and distribution partner can take care of physical distribution for food retail market. Own distribution car can serve only a small local area at first and works as a promotional instrument to create awareness in a particular region.

### **6.5 Action plan for Keski to enter Swedish market**

According to our business model Keski should concentrate to influence Swedish consumer markets for bagels at the same time they establish in the two folded market conditions. Our recommendation is that Keski enters into regional area such Stockholm, starts selling bagels to the variety of local foodservice customers, delivers by own truck and set up bagel concept bars in the shopping malls. The concept store and truck have the same commercial image which advocates local brand. Depending on the acquisition of new customers and growing volumes in foodservice market Keski can move on to sell bagels to wider area in Sweden through foodservice wholesalers. More opportunities may emerge as the result of market demand from wholesale customers in Swedish markets. This actually shares the conception of having both "push" and "pull" approach regarding markets what was the idea of Keski and came up with the preliminary discussion with the company. In a long term model local bagel bars and foodservice market in general generates bagel awareness and ground for a trend which can lift up bagels to be more interesting in food retail markets as well. That implies that Keski has established operations in Sweden and bagel markets remains in a level that the country wide distribution through supermarket chains is possible. Below we have inspirational figure 6.4 about the stages of expansion and market strategy to take over bigger markets for bagels.

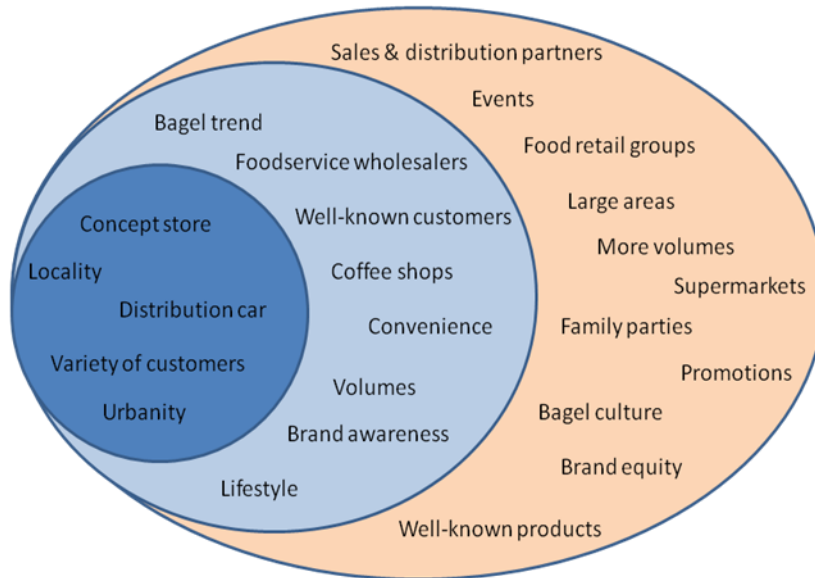


Figure 6.4 Inspirational overview about entering Swedish market.

## 6.6 Discussion

The business model recommendation which is the result of our case study, analytical model and empirical exploration generates a guideline for Keski on how to expand in Swedish markets. The business model itself refers to the architecture of business made by the company. The factors that reinforce the company's vision should be intertwined in the business model in order to conduct the business in a unique way. The business model influences how business is made in practice and the company's own existence creates the ultimate business model. We consider that the result of our thesis can be the frame of how Keski constructs its business in new markets. However, the genuine business model will be ready when Keski puts their own strategic and practical approach to the results of this study and goes live with the expansion actions.

We present some outcomes of the analytical business model that the company can reach when implementing the business model in practice. To expand in new markets means new business relationships that can guide the direction of the company immediately. It is important to carry out a cost-benefit analysis before entering into a relationship with a new business partner. This refers also to making or buying a dilemma about outsourcing activities. There can be trade-offs involved in business relations. Viewing business as a network helps the company to perceive the wanted position in the markets, avoid a lock-in situation and possibly strengthen its own position in the network. In general, partners are important to get in to new markets on a wide scale. It may be beneficial to start in one area to be able to be focused and have control of costs. To establish and spread the reputation of one's own company is also dependent on the nature of business relationships. In order to reach the right customer segments and generate demand, collaboration requires mutual goals. It would be possible to create uniqueness in products and brand independently in a limited regional area, but collaboration partners later on are vital in expanding to a broader area and reaching more markets.

Innovation and uniqueness create a competitive advantage. Own bagel bars in shopping centers can "wake up" people's interest, which will be the greatest marketing activity instead of having a television commercial or advertising in newspapers. A concept store is also a tangible evidence of business taking place in consumer markets and favors trying new products as an impulse

purchase. The feedback is also immediate if product is suitable or not. To perform business in a trustworthy way requires constant promise of keeping own values for example delivering delicious but healthy food. The products may not necessarily be innovative, but how the whole market offering is delivered or how effective processes to sell and distribute products to markets are, can create competitive advantage. Services for B2B customers, personal and rapid product development, taking care of end-consumers, creating experiences and good feelings in a way that customer can be connected to certain values for example to sustainable lifestyle, family values or having fun in everyday life are important. Stylish American type of small bar, local bakery experience or e-commerce solutions can be some ideas to increase uniqueness. In general bakery business has a lot of competition so operations management and the most direct route to end consumers are important.

## 7. Conclusions

The purpose of this thesis is to deliver a business model that Keski could use when entering into new markets. To be able to deliver the good result we did the literature review, created our own analytical framework, and gathered empirical information from Swedish food related markets. We applied the information on the framework and delivered the business model for the company. The result of this thesis has given us and for the company valuable information about the bread markets in Sweden. It was a challenge to be able to fulfill the purpose but with the help of the literature review, empirical exploration and flexibility of finding companies to interview we generated the business model that can be used as the frame to enter into new markets. We gathered information from key persons in different companies with experience-based knowledge and compared the information to each other and reflected the empirical findings with the theory to build up the business model. Communication has been important during this research to get important pieces that are valuable to gather the holistic view of Swedish markets. To be able to analyze markets it has been important to think “out of the box” and understand things from the perspective of companies already in the market but also preserve the idea of making the business model for Keski. We have also concluded that this has been challenge for us to understand many sided markets for food products with several businesses and their own objectives.

The conclusion of this thesis is that the business model of Keski should be able to adapt to the dualistic market condition. To successfully enter into both foodservice and food retail market requires the ability to stimulate the demand for bagels. The foodservice market works well in purpose of teaching the idea of bagels for consumers and also contributes the idea of own concept store. The flexible structure of the foodservice allows Keski to have customers and obtain the track record needed to convince foodservice wholesalers and central food retail groups. How Keski could act is to focus on all foodservice actors in one regional area at the time and at the same time do effective marketing activities. In parallel the company can find collaboration partners to be able to reach a broad range of end-consumers. When Keski spreads the knowledge of how to make the real bagel the demand will increase and the company can get crucial feedback from end-consumers. Later on when Keski have created brand in the market and is more established they can focus on supermarket chains and move on to other areas in Sweden.

The result of the thesis reveals particular market conditions and presents the potential business model approach for the company to take over new markets. Therefore the study could be considered as the general handbook for planning the expansion model in any country. The recommended approach is the outcome of the thesis research. The theory behind business models and business networks is essential to understand the business model but the association with real world is inevitable to create viable models. The challenge left after the results for the company is to reproduce the model and conduct actual practices to bring the model to life.

For the future investigation for Keski we recommend that the company makes a broader market research among end-consumers and works with branding strategies to have a coherent and attractive image in facilities, products and promotion when entering in Sweden or other foreign countries. It is also worth to study how physical distribution is organized from the practical point of view to bridge the manufacturing to foreign functions in export markets.

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## Appendix A: Interviews for stores

### Interview guide for stores

#### MARKET

- **What do your customers want from bakery products?**
  - *Quality, price, trust, delivery, health, sustainability, ecological bread?*
- **What are the current market trends regarding bakery products?**
  - *Bake-off, easy to make, ecological bread, other?*
  - *Healthy, diet , wellbeing bread?*
  - *Are you able to adapt these trends?*
- **How do you see the markets concerning your products in the future according to trends?**
- **Do you see potential for demand of bagels in the future?**
  - *Are you interested in collaboration with bagel companies?*
  - *Are you interested to try new products or add another supplier in your current product range?*
  - *Can you estimate what is the optimal price level for bagels in your store?*
- **Are there particular standards you need to follow in your business sector related to bakery products?**
  - *Institutions, laws and instructions?*

#### MARKET OFFERING

- **What do you offer?**
  - *What kind of bakery products do you like to sell?*
  - *The main characteristics of bakery product you deliver?*
  - *Do you have pre-packaged products?*
  - *Do you pack product yourself?*
  - *What is important considering your products?*
  - *How do you take care of the unsold bread?*
- **What is included in your product portfolio according to bakery products?**
  - *The most valuable products?*
  - *Bake-off, fresh, frozen?*
  - *Pre-packed?*

- *What are the most value-adding features for your customers and for you in terms of product and services?*
- **Do you see possibilities for bagels in your product categories?**
  - *Are you interested Bagels? What do you think about bagels?*
  - *What are the determinant factors if you are interested about bagel products: price, quality, packing, shelf life or other?*
  - *In quality: taste, softness, chewiness, look?*
  - *Shelf life: how long shelf life for fresh bread, frozen and bake-off? Do you prefer frozen products?*
  - *Are you willing to pay more if for example the quality of product is over the current offering in the markets?*

## **DISTRIBUTION**

- **How does your distribution channel look like?**
  - *Do you have direct deliveries from bakeries or through your warehouses or intermediaries?*
  - *How do you would like to have your products delivered to you?*
- **How do you choose your suppliers?**
  - *Do you have any criteria for partnership?*
- **How your customers are integrated in your company?**
  - *Feedback or returning system?*
- **How is your logistics organized?**
  - *Do you consider transportation and the distance between you and your partners when you choose to collaborate?*
  - *Do you have refrigerated (-18), cold (+4) and normal (+20) logistics?*
  - *How often you replenish your storages/stores?*
- **Are you able to be flexible to satisfy customer wants?**
- **What kind of marketing activities do you have?**
  - *Events, advertisement, exhibitions or special offers?*
- **Do you suggest close relationship between business participants?**

## Appendix B: Interviews for distributors

### Interview guide for distributors

#### MARKET

- **What do your customers want from bakery products?**
  - *Quality, price, trust, delivery, health, sustainability, bake-off, ecological bread?*
  
- **What are the current market trends regarding bakery products?**
  - *Bake-off, easy to make, ecological bread?*
  - *Healthy/diet/well being bread?*
  - *Are you able to adapt these trends?*
  
- **How do you see the bread market in the future according to trends?**
  
- **Do you see potential for demand of bagels in the future?**
  - *Are you interested in collaboration with bagel companies?*
  
- **Are there particular standards you need to follow in your business sector related to bakery products?**
  - *Institutions, laws and instructions?*

#### MARKET OFFERING

- **What do you offer?**
  - *What kind of bakery products do you like to deliver?*
  - *The main characteristics of bakery product?*
  - *What is important considering the product and services when you deliver?*
  
- **What is included in your product portfolio according to bread?**
  - *The most valuable bakery products?*
  - *Bake-off, fresh, frozen?*
  - *The package of products?*
  - *What are the most value-adding features for your customers and for you in terms of product and services*
  
- **Do you see possibilities for bagels in your product categories?**
  - *Do you have bagels in product category?*
  - *What are the determinant factors if you are interested about bagel products: price, quality, packing, shelf life or other?*
  - *In quality: taste, softness, chewiness, look*

- *Are you willing to pay more if for example the quality of product is over the current offering in the markets?*
- *Should it be fresh, bake-off or frozen?*

## **DISTRIBUTION**

- **How does your distribution channel look like?**
  - *Do you have direct deliveries from bakeries to customers or through your warehouses or intermediaries?*
  - *Do you distribute in whole country?*
  - *Do you have customized services like packing, making changes or filling sandwiches etc.?*
  
- **How do you choose your suppliers?**
  - *Do you have any criteria for partnership?*
  - *How do you take new suppliers? What kind of process for buying products from new suppliers?*
  
- **How your customers are integrated in yours operations?**
  - *Feedback or returning system?*
  - *How long contracts you have with your customers?*
  
- **How is your logistics organized?**
  - *Do you consider transportation and the distance between you and your partners when you choose to collaborate?*
  - *Do you have refrigerated (-18), cold (+4) and normal (+20) logistics?*
  - *How often you deliver to your customers? Replenish your stores or warehouses?*
  - *How customers place orders for products?*
  - *How do you take care of the unsold bread?*
  
- **Are you able to be flexible in delivering to satisfy customer wants?**
  
- **What kind of marketing activities do you have?**
  - *Events, advertisement, exhibitions or special offers?*
  
- **Do you suggest close relationship between business participants?**

## Appendix C: Interviews for bakeries

### Interview guide for bakeries

#### MARKET

- **What do your customers want from bakery products?**
  - *Quality, price, trust, delivery, health, sustainability, bake-off, ecological bread?*
- **What are current market trends regarding bakery products?**
  - *Bake-off, easy to make, ecological bread?*
  - *Healthy/diet/well being bread?*
  - *Are you able to adapt these trends?*
- **How do you see the bread market in the future according to trends?**
- **Do you see potential for demand of bagel products in the future?**
- **Are there particular standards you need to follow in your business sector related to bakery products?**
  - *Institutions, laws and instructions?*

#### MARKET OFFERING

- **What do you offer?**
  - *What kind of bakery products do you like to deliver?*
  - *The main characteristics of bakery product?*
  - *What is important considering the product and services when you deliver?*
  - *How do you take care of the unsold bread?*
- **What is included in your product portfolio according to bread?**
  - *Bake-off, fresh, frozen?*
  - *What are the most valuable features for your customers and for you?*
  - *What kind of packing?*

## **DISTRIBUTION**

- **How does your distribution channel look like?**
  - *Do you have direct deliveries to stores or through your own warehouses or intermediaries?*
  - *Do you distribute in whole country?*
  
- **How do you choose your suppliers, service providers or partners?**
  - *Would you like to have partnerships in marketing and distribution?*
  - *Do you have any criteria for partnership?*
  
- **How your customers are integrated in yours operations?**
  - *Feedback or returning system?*
  
- **How is your logistics organized?**
  - *Do you consider transportation and the distance between you and your partners when you choose to collaborate?*
  - *Do you have refrigerated (-18), cold (+4) and normal (+20) logistics?*
  - *How often you deliver for your customers? Replenish stores or warehouses?*
  - *How customer place orders?*
  
- **Are you able to be flexible in delivering to satisfy customer wants?**
  
- **What kind of marketing activities do you have?**
  - *Events, advertisement, exhibitions or special offers?*
  
- **Do you suggest close relationship between business participants?**