Customer Value Over price in the Battle for More Market share

-a case study of Alfa Laval India Limited

Vinita Batra and Jessica Lister
ABSTRACT

To optimize performance and create competitive advantage, which ultimately leads to greater market share, firm knowledge and understanding of where customer value resides is of upmost importance. Theory indicates that price is a significant factor affecting purchasing decisions but is considered to be of lesser importance for long-term commitments between firms where other factors of customer value play a greater role. This knowledge of customer value can be utilized in order to draft persuasive value propositions to retain and satisfy existing customers, set appropriate value-based price levels, and acquire new customers by developing new offerings that attract buyers.

The objective of the study is to research methods by which an MNC in an emerging market can capture more of the expanding domestic Indian food processing technology market share without competing on price. A case study approach involving field research in the dynamically emerging market of India is credited for confirming the authors’ suspicions that price, although very important, is secondary to alternative factors of value when making a purchasing decision. Through the investigation of employees and customers of the case company Alfa Laval India Limited., as well as industry consultants, the authors have managed to isolate factors upon which an MNC in an emerging market can leverage its values and enhance its operations. Ultimately, this study allows for the authors to provide recommendations on how to increase market share in an emerging market by means other than competing on price, such as continuous innovation, providing total solutions, effective market communication, organizing the organization for valuable after-sales service commitment as well as other factors of value.

Keywords: Value creation, Value communication, Price, Price wars, Factors of value, Leveraging values, Market share, Emerging market.
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Gothenburg 3 June 2010

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Vinita Batra  Jessica Lister
# List of Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
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<tr>
<td>AIFS</td>
<td>All India Field Sales</td>
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<tr>
<td>B2B</td>
<td>Business-to-Business</td>
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<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<td>EU</td>
<td>European Union</td>
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<tr>
<td>ISO</td>
<td>International Organization for Standardization</td>
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<tr>
<td>L&amp;T</td>
<td>Larsen &amp; Toubro</td>
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<tr>
<td>Ltd.</td>
<td>Limited</td>
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<tr>
<td>MD</td>
<td>Managing Director</td>
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<tr>
<td>MNC</td>
<td>Multinational Corporation</td>
</tr>
<tr>
<td>NDDB</td>
<td>National Dairy Development Board</td>
</tr>
<tr>
<td>Pvt.</td>
<td>Private</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Research &amp; Development</td>
</tr>
<tr>
<td>ROI</td>
<td>Return On Investment</td>
</tr>
<tr>
<td>SSI</td>
<td>Small-scale Industry</td>
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<tr>
<td>US</td>
<td>United States</td>
</tr>
<tr>
<td>USD</td>
<td>United States Dollar</td>
</tr>
<tr>
<td>VOT</td>
<td>Vegetable Oil Technology</td>
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<tr>
<td>VP</td>
<td>Vice President</td>
</tr>
</tbody>
</table>
TABLE OF CONTENTS

1. INTRODUCTION .................................................................................................................................................. 1
  1.1 Problem background ............................................................................................................................................. 1
  1.2 Problem discussion .............................................................................................................................................. 3
  1.3 Problem definition .............................................................................................................................................. 4
    1.3.1 Research question ................................................................................................................................. 4
    1.3.2 Sub-questions ........................................................................................................................................... 4
  1.4 Purpose ............................................................................................................................................................ 5
  1.5 Thesis structure ................................................................................................................................................... 5
  1.6 Delimitations .................................................................................................................................................... 6

2. METHODOLOGY ...................................................................................................................................................... 8
  2.1 Research approach ............................................................................................................................................. 8
  2.2 Research method ............................................................................................................................................... 8
    2.2.1 Exploratory study ...................................................................................................................................... 8
    2.2.2 Case Study ................................................................................................................................................ 9
      2.2.2.1 Selecting a case/sampling .................................................................................................................. 10
      2.2.2.2 Interviews ........................................................................................................................................ 10
    2.2.3 Data collection ........................................................................................................................................... 15
    2.2.4 Evaluation of results ................................................................................................................................. 15
      2.2.4.1 Validity and reliability ...................................................................................................................... 15

3. BUSINESS ENVIRONMENT ..................................................................................................................................... 17
  3.1 Point of departure ............................................................................................................................................. 17
    3.1.1 The food processing industry in India ..................................................................................................... 17
      3.1.1.1 Vegetable oil industry ...................................................................................................................... 17
      3.1.1.2 The Indian dairy industry ............................................................................................................... 21
    3.1.2 Alfa Laval .................................................................................................................................................. 22
    3.1.3 Competitor analysis ................................................................................................................................... 27
      3.1.3.1 Vegetable oil .................................................................................................................................... 27
      3.1.3.2 Milk powder ................................................................................................................................... 30
  3.2 Exploratory study .............................................................................................................................................. 32
    3.2.1 Interview with consultant 1 .................................................................................................................... 32
    3.2.2 Interview with consultant 2 .................................................................................................................... 33
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.3.5</td>
<td>Increase use of marketing</td>
<td>94</td>
</tr>
<tr>
<td>6.3.6</td>
<td>Adjust management strategy of after-sales services</td>
<td>94</td>
</tr>
<tr>
<td>7. CONCLUSIONS</td>
<td></td>
<td>96</td>
</tr>
<tr>
<td>7.1</td>
<td>Conclusion</td>
<td>96</td>
</tr>
<tr>
<td>7.1.1</td>
<td>The new battle for market share</td>
<td>96</td>
</tr>
<tr>
<td>7.1.2</td>
<td>The authors’ contribution to existing theory</td>
<td>97</td>
</tr>
<tr>
<td>7.1.2.1</td>
<td>Introduction</td>
<td>97</td>
</tr>
<tr>
<td>7.1.2.2</td>
<td>Description of synthetic model</td>
<td>98</td>
</tr>
<tr>
<td>7.2</td>
<td>Concluding remarks</td>
<td>102</td>
</tr>
<tr>
<td>7.3</td>
<td>Future studies</td>
<td>102</td>
</tr>
</tbody>
</table>

**LIST OF FIGURES**

- Figure 1: Organizational structure of Alfa Laval India Limited ................ 24
- Figure 2: Market shares within the vegetable oil and milk powder ............... 26
- Figure 3: The five major elements of strategy ....................................... 38
- Figure 4: A model of business buyer behavior ......................................... 46
- Figure 5: Considerations in setting price ............................................ 49
- Figure 6: Direct communication effects of advertising ............................ 51
- Figure 7: Indirect communication effects of advertising .......................... 52
- Figure 8: Indirect sales facilitating effects of advertising ...................... 52
- Figure 9: The value creation framework ............................................... 59
- Figure 10: The Indian recipe for success: Value delivery and return in an emerging market .............................................................. 101
1. INTRODUCTION
The ambition of this thesis is to ultimately identify ways in which an MNC can gain more market share in an emerging market without competing on price. The following chapter serves as a guide through the problem area which inspired the authors’ study as well as defines their problem definition and presents their research questions.

“The future depends on what we do in the present.” – Mahatma Gandhi

One of the most common inhibitors of success in business today is the failure to plan for the future. Lacking a suitable corporate strategy, that permeates the entire organization, identifies organizational goals and caters towards market demands, inevitably prevents a multinational corporation (MNC) from achieving its full market potential. Proper strategic planning on the other hand, directs companies towards success by compelling them to evaluate their business environment, match company strengths with external opportunities as well as pinpoint their own weaknesses. (Jha et al., 2009, p. 52)

1.1 Problem background
The world has been witness to the ongoing diffusion of economic power as a byproduct of globalization. More specifically, over the past decades emerging markets have enjoyed sustained growth advanced by factors such as developments in information and communications technologies, population growth, market liberalization, greater credit availability, and the increasing size and geographic reach of MNCs. Emerging markets such as Latin America, Asia and Eastern Europe, provide new sources of growth due to increased purchasing power in new customer segments creating new opportunities for firms willing and able to access them. (Accenture, 2008)

In order to optimize business performance and create competitive advantage, which ultimately leads to greater market share, firm knowledge and deep understanding of where customer value resides is of upmost importance. Customer value, defined as a “strategic marketing tool to clarify a company’s proposition to its customers, thus creating a differential superior offering compared with the competition,” is regarded as the key to creating and sustaining long-term business-to-business relationships which, in turn, creates a sustainable competitive advantage for MNCs. (Ulaga & Chacour, 2001) Price is often argued to be a significant factor affecting purchasing decisions but is considered to be of lesser importance for long-term commitments between firms where other factors of customer value play a greater role.
Conducting field research to study superior value delivery which enhances commitment and loyalty can support firms in their marketing efforts. This knowledge of customer value can be utilized in order to draft persuasive value propositions to retain and satisfy existing customers, set appropriate value-based price levels, and lastly acquire new customers by developing new offerings that attract potential customers. The gathered knowledge and understanding must thereafter be translated into the internal processes and business strategies present in organizations in order to ensure that the delivered value is consistent with customer’s desired value in an offering. (Anderson & Narus, 1998; Kotler & Armstrong, 2008 p. 267) A number of studies have been conducted concerning customer value in industrial markets, however, it has been recognized that there is a lack of research compiling different factors of value in an emerging market into one study (van der Haar et al., 2001; Ulaga & Chacour, 2001; Sharma et al., 2001; Anderson & Narus, 1998). Therefore, a need has been identified to not only study multiple factors of value for business buyers but also to reveal how an MNC can increase the value perception of its products offer, thus demanding premium prices in an emerging market.

Price and value are two very different, yet interlinked concepts. In fact, value makes up a large portion of the definition of price which is, “the amount of money that has to be paid to acquire a given product. Insofar as the amount people are prepared to pay for a product represents its value, price is also a measure of value” (Britannica, 2010). Finding the right price for a product is thus understandably critical to a company’s success. In fact, price is the only component in the marketing mix that produces revenue, whereas the remaining three factors represent costs. Today customers are increasingly price conscious as the internet has made it easier for customers to skim the market for bargains offered by competitors. Fortunately, price is also characterized as being flexible and can change very quickly and accordingly. However, impulsively cutting prices is not always the best answer as it can lead to lost profits, price wars and it can signal to customers that price is more important than the customer value that a product delivers. Therefore, an alternative understanding of price, such as that which is “the sum of all the values that customers gain when purchasing a product or service”, should instead be considered when setting prices. (Kotler & Armstrong, 2008 p. 267)

Interestingly, industrial demand is considered to be generally inelastic, or less sensitive to price changes, and thus, this factor is reflected in respective firms’ pricing strategy. Furthermore, the industrial market is regarded as having a production- rather than market-
orientation of business-to-business transactions. Consequently, customers consider a combination of several non-price factors of influence when making a purchasing decision such as, environmental, organizational and individual; for example, business buyers tend to respond to both reason and emotion when making buying decisions (Kotler & Armstrong, 2008 p. 151; Frederick et al., 1974). Companies tend to authorize themselves to be as economically efficient as possible, and thereby allocate too much emphasis on price as a decisive factor, due to competitive pressure. Thus, companies find themselves in a situation where they are forced to compete on price and/or engage in price wars, which actually work towards the detriment of all manufacturers by leading to decreased profits and a loss of buyer goodwill. In conclusion, it is in the interest of industrial companies operating within the premium segment not to compete on price when alternative means are at their disposal. A persuasive pricing strategy rather involves understanding how much value industrial customers place on the benefits they acquire from the particular product and subsequently set a price that captures this value. Ultimately, companies should sell value, not price. (Mason, 1974)

1.2 Problem discussion
The emergence of a number of Asian markets present opportunities which are particularly appealing for large MNCs that are eager to expand within these promising markets. However, not only do market characteristics and business behavior in these emerging markets present new prospects for future growth but also obstacles and challenges. The flourishing Indian market presents an attractive arena for the authors to study due to its great potential in practically all industrial and service sectors where demand is currently unmet. Within India exist characters that are found in other emerging markets. For example, a few multinational companies are at present offering premium products while local imitators of technology also offer copied or similar technology of lesser quality and service at significantly lower prices. Being a highly competitive market with both local and international players, multinationals in India are required to have a very strong customer focus in order to succeed. (World Bank, 2008) Further, India is home to so called, “Entrepreneurial Advancers” which are established business communities familiar with complex offerings and premium brands. Members of these business communities appreciate and desire quality and brand status, not to mention, have little price sensitivity representing a group of potential customers for large MNCs providing high-technology industrial products. (Accenture, 2009)
The authors find the Indian food processing industry, in particular, to be a highly interesting industry to study, not only due to the fact that India is one of the world’s largest producers of food, but also because of the tremendous growth that is expected within this industry over the next couple of years. The food industry is currently characterized by relatively low consumption of processed and prepared foods although demand is increasing due to the growth of modern and organized stores as well as rising disposable incomes of India’s young population. It is expected to be further initiated by a processed food development policy that the government of India is considering to establish. The Indian food processing industry has attracted investments from a number of foreign multinationals, particularly after the sector’s deregulation in the early 1990’s. (EIU, 2006) The authors have limited their study to two industries; the vegetable oil technology (VOT) industry and the milk powder industry. These two business divisions, in particular, represent two major growth markets in India and are therefore intriguing to study.

1.3 Problem definition

1.3.1 Research question

*How can an MNC in an emerging market capture more of the maturing and expanding domestic food processing technology market share, in the face of increasing local and international competition, without competing on price?*

Alfa Laval India Limited (Alfa Laval) is one example of an MNC that has been present in India since a number of decades. This positions the company in an advantageous position to capture opportunities available within the food processing industry, and thereby enjoy the taste of success. The case of Alfa Laval in the food processing industry in India provides a platform for conducting a comprehensive study that answers the main research problem of this thesis. A number of sub-questions within different research areas related to the case study have been formulated in order to solve the research question.

1.3.2 Sub-questions

1. *What image does Alfa Laval aspire to outwardly portray concerning the position of its products within the vegetable oil and milk powder on the Indian food processing market?*

In order to study and provide recommendations on how more market share within the Indian food processing market can be captured it is important to investigate and outline what Alfa
Laval’s current corporate strategy looks like. By comparing the current strategy and image that the company aspires to portray, the authors will be able to distinguish areas in which the strategy can be adapted so that it fits with what customers actually value within the specific industry. In order to be able to give these recommendations, a comprehensive study of Alfa Laval’s customers is required which leads into the second sub-question of this thesis:

2. **How do Alfa Laval’s customers perceive the company’s products within the vegetable oil and milk powder product divisions?**

By conducting research on how Alfa Laval’s current customers perceive the company’s offerings within the specific product divisions, the authors will be able to determine how the company’s perceived image deviates from the image that the company aspires to portray. This knowledge will help to provide the company with recommendations on how its current corporate strategy can be altered. The incredible potential of the Indian food processing market also presents opportunities for gaining new customers. Deep knowledge and understanding about factors of customer value enables a company to tailor superior offerings that attract new customers. This leads to the third and final sub-question:

3. **What potential or existing factors, excluding price, do Alfa Laval’s customers within the vegetable oil and milk powder industries regard as factors of value?**

**1.4 Purpose**

The objective of the authors’ study is to research and analyze methods by which an MNC in an emerging market can capture more of the maturing and expanding domestic food processing technology market share in India. Furthermore, the purpose is to give recommendations on how Alfa Laval India Limited can further enhance its position while facing increasing competition from both local and international competitors in India without competing on price.

**1.5 Thesis structure**

The aim of the introductory chapter in this Master Degree Project is to present the overall problem background and discussion. Furthermore, the problem definition and research questions are stated. The following chapter explains the methodology employed in this thesis and provides the reader with a profound description of how the empirical data was collected. The chapter ends with a thorough discussion concerning the validity and reliability of the
The objective of the next chapter is to provide the reader with a platform for the remaining thesis and begins with an illustration of the current situations within the Indian vegetable oil and dairy industry as well as the case company; Alfa Laval India Limited. The business environment background also aims to acquaint the reader with the current competitive landscape of the two industries. The chapter is followed by a theoretical framework that intends to familiarize readers with existing literature within the fields of strategic marketing management and serves as a basis for analysis. The fifth chapter presents the empirical findings that reveal what attributes Alfa Laval employees perceive their customers to value as well as what virtues customers actually claim to value. The chapter is followed by an analysis where the authors compare, investigate and conceptualize the gathered empirical evidence using knowledge obtained from the literature review. Thereafter recommendations that have evolved from the analysis are put forth for the case company. In the final chapter a conclusion is presented and a new synthetic model is introduced. The chapter closes with proposals for future studies within the field of value creation and delivery.

1.6 Delimitations
The study has, due to limited time and resources, been restricted to only two of Alfa Laval’s business divisions; vegetable oil technology and milk powder. In addition, the purpose of this study is not to compare these two business divisions but to analyze the company’s performance in these two industries. Also, it should be noted that the analysis and recommendations answer the research questions according to Alfa Laval and its related food processing technology industry specifically. Thereafter, the authors have broadened their findings in an attempt to contribute to academia in relation to a wider range of MNCs active in industrial operations in emerging markets. Furthermore, the authors have, in order to get an appropriate scope on this project, taken the decision to limit the research to only internal organization and market factors (competitors and customers) affecting a company’s performance. The customer delivery process will, however, not be included in this research due to limited time and resources. The study also does not take any political, macroeconomic, social, geographical or regional aspects, which may affect a company’s performance, into consideration.

In the thesis the authors use the words total solutions, systems selling, turnkey projects, plants and project solutions as synonyms that all refer to the provision of an entire plant and everything that is included in this. Literature often sees a difference between the different
definitions mentioned above yet the authors have chosen to refer to them as the same thing. Alfa Laval India Limited will be referred to as Alfa Laval throughout the duration of the thesis.
2 METHODOLOGY

The objective of this chapter is to delineate the methodology the authors employed throughout the research process of the study. A description of the research approach and method will be presented where the authors explain the means of exploration.

2.1 Research approach

Of the two most common forms of reasoning, induction and deduction, the authors will employ a combination of both, which is described as an abductive approach or one which is gradually developing and refined throughout the research process via perpetual interaction between existing theory and the primary data collected in the study (Denzin 1978, p.110). By this the authors mean that the pre-conceptualization phase, the collection of the empirical data and the re-development of the resulting conceptualization all transpire concurrently (Schweizer 2005, p.49). Basically, the authors will identify what is logically or theoretically expected of related existing regularities and later observe and test whether or not what is theoretically expected, in fact, occurs in reality. Thereafter, theories will continuously be consulted in order to develop and guide the process of data gathering. The authors will also look upon different theories in the process of analyzing the gathered data. The authors’ firsthand experience in data collection might confirm existing norms or confront existing regularities with new observations that do not necessarily fit within the existing theoretical framework, and thus the case study observation may eventually lead to the redefining of existing framework. (Alvesson and Sköldberg 1994) This regular and continuous methodological approach where both theory and reality is consulted during the entire thesis writing process clearly depicts the abductive nature of this thesis.

2.2 Research method

2.2.1 Exploratory study

An exploratory study is conducted in order to gain greater insight and understanding of the Indian business market as well as the food processing industry. The exploratory study is essential in formulating the interview guides that will be used in the empirical study while interviewing employees and customers. Non-probability sampling, in the form of purposive sampling, is used for this exploratory study since the authors are intending to pursue a first study that will provide useful data on the specific topic and problem studied. (Babbie, 2004, p. 183; Malhotra, 2007) According to Malhotra (2007), interviews with “industry experts”
should be conducted through unstructured personal interviews in order to gather as much information as possible.

Exploratory interviews were conducted with two consultants within the vegetable oil segment on 10 March and 17 March 2010. The employees interviewed were selected by a market segment manager on the basis of providing the authors with the opportunity to speak to experts within the industry that are not associated with one particular company. A semi-structured interview guide was formulated by the authors in order to ensure that as much insight as possible in different areas was gathered. The interview was recorded and thereafter transcribed in order to analyze all information in a proper manner.

2.2.2 Case Study

Utilizing a case study approach to the authors’ research was a natural choice for a number of reasons. To begin with, Babbie (2004, p.282) states that field research typically yields data that is more qualitative in nature, or in other words, data that is descriptive and observed rather than measured. Case studies, more specifically, are a favored means of study when “how” or “why” questions are being posed (Yin, 1995, p. 1) Given that the basis of the author’s study is to capture explanatory insight on how an MNC can increase its market share in an emerging market without competing on price which is distinctively qualitative, a case study is thus appropriate. Additionally, a case study can provide researchers with a comprehensive perspective of a particular phenomenon by observing attitudes and behaviors within their natural setting as opposed to a survey, which would likely yield limited, inflexible and standardized results. (Babbie 2004, p.274-275, 282) Finally, field research as described by Lofland & Lofland (1995, p.101-113) is particularly suitable for instances of analyzing social indicators such as roles and relationships, to name a few. Considering that the authors will be interviewing and analyzing employees of an organization in relevant roles such as market segment managers and process developers, as well as studying the perceived value of the relationships between the organization and its customers, a case study approach to the study is applicable. More specifically, a particularistic case study is deemed to be the best possible means to achieve the authors’ objective due to the possibility this method provides of conducting a bounded, in-depth examination of a certain organization, which can later be used to identify gaps or flaws in existing theories or even be used as the basis for the development of a new theory. (Merriam, 1998)
Like all research methods, some strengths as well as weaknesses can be identified with a case study approach. As previously mentioned, a noticeable strength of the case study approach is the deep insight into real-life situations it reveals, while other methods such as surveying may be accused of being more superficial. (Babbie 2004, p.274 and 307) Further, the degree of flexibility that case studies permits is another advantage. For example, the authors’ research design can easily be modified at any time as conditions in the authors’ case study warrant, which is contrary to a survey where new variables of importance cannot be factored in once the survey is sent out. A general weakness of case studies is owing to their qualitative nature, and that is that results are not suitable for obtaining statistical descriptions of large populations. (Babbie 2004, p.307) A potential weakness specific to the particular case study is the potential for the authors to have a bias in favor of Alfa Laval due to the fact that they are funding the majority of the study. This might lead to a conflict of interest where the author’s are hesitant to mention any fault or wrong doing on the part of Alfa Laval. The authors are aware of this danger, however, and will take this into consideration in the analysis and recommendations.

2.2.2.1 Selecting a case/sampling
In terms of the case selection for the authors’ research, non-probability sampling was utilized when deciding upon studying Alfa Laval and its relevant customers. Although choosing a case company based on its availability as opposed to pure probability does not permit any control over the representativeness of the sample, Alfa Laval is one of the most visible and leading MNCs supplying the food processing industry in India and therefore the authors feel that this fact alone is significant enough to consider their choice of company as being most useful in representing the majority of MNCs within this industry. The authors limited the study to two of Alfa Laval’s several business divisions; vegetable oil technology and milk powder. These two divisions were chosen due to their great future market potential as well as in order to make the authors’ study feasible given the time limitation. The authors employed a form of non-probability sampling that Babbie (2004, p. 183) refers to as purposive sampling, which is a type of sampling where the researchers select the units to be observed on the basis of their own judgment about which units are the most useful or representative.

2.2.2.2 Interviews
The sample selection of employees and customers to be interviewed was also chosen on the basis of non-probability sampling. The authors are currently unaware of the factors
influencing Alfa Laval to decide upon the customers that are interviewed but do acknowledge that there is a risk of bias in favor or choosing customers apt to respond positively towards their products and related services.

The majority of the empirical study in this case consisted of semi-structured interviews. A number of standard questions were formulated to be used in the beginning of the interview in order to establish a common basis for the analysis. These questions were more quantitative in nature compared to the remainder of the interview which was more open-ended. This provided the authors with the opportunity to deviate as necessary and obtain more in-depth insight on an individual basis. By using probing techniques during the interviews, the interviewers aimed at creating as little bias as possible. Probing is a technique where respondents are asked to clarify, elaborate or explain their response. It is also common that probing is used when the respondent is not willing to answer a specific question or has not understood the question. There are a number of different probing techniques including repeating the question, asking the respondent to clarify his/her question or using a pause.

It is understood that a certain degree of bias while interviewing can affect the acquired results. According to Malhotra (2007, p. 415), the wording, sequence or manner in which questions are asked during interviews can affect its meaning and thereby create a bias in the interviewees’ answer. Furthermore, the lack of structure in a personal interview as well as the risk of discrepancies in the interpretation make the results more prone to bias. In order to decrease the risk of bias caused by an interviewer’s bias, both authors were present during all interviews.

2.2.2.2.1. Employee interviews
In total, 25 Alfa Laval employees were interviewed in order to collect empirical data from the point-of-view of the authors’ case company. All interviews were conducted between 2 March 2010 and 5 March 2010, except for one interview, which was conducted in Sweden via telephone on 15 April 2010. The employees interviewed were selected by a market segment manager on the basis of providing the authors with the opportunity to speak to workers representing the VOT and Dairy market segments in addition to those employees representing various parts of the value chain such as the vice president of process technology, engineering and sales, parts and services, as well as regional managers. The former Managing Director was also interviewed so as to provide an overview and clarification of Alfa Laval’s activities (See Table 1 for a complete list of employees interviewed). All employee interviews took
place in person at Alfa Laval’s headquarters in Pune, India with the exception of seven of the eight interviews with regional managers, which were conducted via telephone conference due to time and logistics constraints. The time duration of the employee interviews ranged from 20 minutes to one hour depending on how willing each particular employee felt to deviate from the structured questions and speak more open and freely.
### Table 1: List of employees interviewed

<table>
<thead>
<tr>
<th>Employee</th>
<th>Department</th>
<th>Vegetable Oil</th>
<th>Dairy</th>
<th>Both</th>
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<tbody>
<tr>
<td>Employee A</td>
<td>VP Process Technology</td>
<td></td>
<td>X</td>
<td></td>
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<tr>
<td>Employee B</td>
<td>VP AIFS</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Employee C</td>
<td>Former MD Alfa Laval India</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Employee D</td>
<td>Manager Market Segment</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Employee E</td>
<td>Manager Market Segment</td>
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<tr>
<td>Employee F</td>
<td>Manager Market Segment</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Employee G</td>
<td>Market Segment</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Employee H</td>
<td>Market Segment</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Employee I</td>
<td>Market Segment</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Employee J</td>
<td>Engineering &amp; Sales</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Employee K</td>
<td>Engineering &amp; Sales</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Employee L</td>
<td>Engineering &amp; Sales</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Employee M</td>
<td>Engineering &amp; Sales</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Employee N</td>
<td>Pune Regional Manager</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Employee O</td>
<td>Delhi Regional Manager</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Employee P</td>
<td>Chennai Regional Manager</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Employee Q</td>
<td>Bangalore Regional Manager</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Employee R</td>
<td>Baroda Regional Manager</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Employee S</td>
<td>Indore Regional Manager</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Employee T</td>
<td>Kanpur Regional Manager</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Employee U</td>
<td>Hyderabad Regional Manager</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Employee V</td>
<td>Manager Parts &amp; Services</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Employee W</td>
<td>Parts &amp; Services</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Employee X</td>
<td>Parts &amp; Services</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Employee Y</td>
<td>Equipment Division, Flow</td>
<td></td>
<td>X</td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors’ own, 2010
2.2.2.2. Customer interviews
Several Alfa Laval customers were interviewed in order to obtain empirical data from the point-of-view of the authors’ case company’s patrons. All interviews were conducted between 8 March 2010 and 17 March 2010. Of the 15 Alfa Laval customers that were interviewed by the authors, seven represent the dairy market segment and nine represent the VOT market segment. The majority of the dairy interviews were conducted via telephone due to time and logistical constraints, while the majority of the VOT interviews were conducted in person at customers’ office locations due to the fact that many VOT customers are located in clusters nearby one another. The locations of the customers interviewed via telephone represent various regions throughout India, whereas the locations of customers visited to conduct interviews in person include New Delhi, Ahmedabad and Indore. The particular customers who participated in interviews via telephone were selected by the Dairy and VOT market segment managers while the customers which were interviewed in person were selected by each respective regional manager. The market segment managers and regional managers selected customers to interview based on the following criteria recommended by the authors:

- A loyal and satisfied Alfa Laval customer
- A company loyal to one of Alfa Laval’s competitors
- A dissatisfied customer who recently switched from Alfa Laval to a competitor
- A new customer who recently switched from a competitor
- A customer who purchases from Alfa Laval and a competitor almost equally
- An anti-Alfa Laval company

The variety of customers selected ensures that the results will reflect the total population of Alfa Laval’s customers. The most common positions of the subjects interviewed were either the owner, managing director or general manager; however, technical directors and marketing directors were also among those interviewed. The average duration of customer interviews was 30 minutes, although; some interviews were as short at 20 minutes and others lasted as long as one hour. The duration of the customer interviews depended on how much time each interviewee was able to spend with the authors as well as how willing each interviewee was to deviate from the structured questions and speak more open and freely.
2.2.3 Data collection

Data collection for this thesis has mainly been based on primary data and has been complemented by secondary data in order to gain knowledge and a deeper understanding about the food processing industry and factors of value for Alfa Laval’s customers. Primary data has been gathered during both the exploratory study as well as during in-depth interviews with Alfa Laval’s employees and customers. Primary data collection is defined as the collection of data for a specific purpose by a researcher but has the disadvantage of being both time-consuming and relatively expensive. The use of mainly primary data, gathered through interviews, may pose some concerns regarding subjectivity due to the biased behavior of participating actors. The data collected can be both biased in terms of the subjective response of the interviewee as well as the subjective interpretation of the interviewer. (Malhotra, 2007, pp. 106-107)

Secondary data has been gathered in order to better define the problem and to develop a deeper understanding of the studied industries, thereby providing a supporting platform for the empirical study. Secondary data has mainly been abstracted from journals, annual reports, industry reports, newspapers and the Internet. However, the lack of relevance and accuracy of secondary data due to the fact that it has been gathered for a different purpose has been acknowledged. Secondary data is, however, relatively cheap and less time-consuming to gather than primary data. In order to increase the reliability and validity of the research, triangulation has continuously been used during the data collection. Triangulation can be described as a process where a number of methods are used, more than once, to check the results gathered. (ibid)

2.2.4 Evaluation of results

Validity and reliability are two fundamental aspects that have to be considered when conducting a study. Validity refers to the degree to which the empirical data adequately portrays the real meaning of the concept under consideration whereas reliability describes the ability of a particular method provides the same results when repeated (Babbie, 2004 pp. 141-143).

2.2.4.1 Validity and reliability

The authors took a number of measures to maintain a high level of validity and reliability throughout the duration of their study. This process of credibility building already began
when the authors decided to take a case study approach to their study. According to Babbie (2004, p. 307) field research in general seems to provide for measures with greater validity than do surveys and experimental measurements given the possibility of being there in person to listen and observe. For example, messages are said to be more powerful through field observation than through a statistical set (Babbie, 2004 p. 308). Case studies are, however, known to have potential problems with reliability due to the tendency of subjectivity or a bias among observers when interpreting qualitative data. The authors were conscious of this fact and took precautions in order to avoid any bias such as; both authors were always present during each and every interview to guarantee that the responses were interpreted by more than one observer. (Babbie, 2004 p. 142) Also, the interviews were recorded so that the data could be analyzed more than once, which reduces the risk of the observers mood effecting the interpretation of the responses. Babbie (2004 p. 142) further states that in order to increase the reliability of a case study, one should be sure to only ask questions that are relevant and that the respondents are likely to know the answers to. Otherwise, respondents are likely to give wrong information. The authors made sure to follow these guidelines when drafting questions for both employees and customers by formulating different sets of questions for each separate job position when interviewing employees as well as formulating different questions for different types of customers depending on their size, loyalty, and satisfaction with Alfa Laval’s products.

Yin (1995, p. 90), further recommends that in order to increase the validity and reliability of a case study, evidence should be gathered from multiple sources, or in other words case studies should take a triangulation approach to data collection. Some studies rely on isolated sources of evidence; however, there is a risk that data collected from one type of source may be a function of the way in which that particular source has been conceived. The authors, however, decided to employ a triangulation approach, which allowed for them to address a broader range issues. (Yin, 1995, p. 90-92) To elaborate, the authors’ data collection consisted of interviews with multiple sources such as employees, customers and industry consultants. Data was also gathered from company documents such as corporate presentations, reference lists and market research. The data was observed by multiple observes and then analyzed according to multiple theoretical approaches. By taking conscious precautions to their data collection, the authors increased the validity and reliability of their study which, according to Yin (1995, p. 92), results in a more accurate and convincing conclusion.
3 BUSINESS ENVIRONMENT

This chapter serves as an illustration of the current situations within the Indian vegetable oil and dairy industry as well as the case company; Alfa Laval. This background information is provided to acquaint the reader with the current competitive landscape of the two industries as well as the case company’s position within these industries in which the authors’ study is conducted.

3.1 Point of departure

The food processing industry is a market where suppliers use concepts and tools developed by food engineers to refine raw ingredients into value-added foods that are safer and more resilient in nature. The inherent nature of food processing may change the initial ingredient’s flavor, color and shelf life consequently making them durable enough to distribute. (The Culinary Institute of America, 2006)

3.1.1 The food processing industry in India

The Indian food processing industry in general is characterized by being highly fragmented meaning that a large number of entrepreneurs within this industry are small concerning production not to mention full capacity is most often reached. The structure of the industry is comprised of three major segments; unorganized, organized and small scale industries. However, a majority of the industry is represented by unorganized or, in other words, private processors. (MOFPI, 2010a)

3.1.1.1 Vegetable oil industry

India’s vegetable oil industry is by far one of great complexity. On a global scale, India is a major player in the edible oils sector as it is the world’s largest importer and the third-largest consumer after China and the EU. Around 10 million tons of edible oils are consumed each year by Indians. (Murughan, & Ramesh, 2008) Vegetable oil production within India’s own borders also occupies an important position within the agricultural economy with 32 million tons, or 8 percent of world production having been domestically processed in 2009 (India Oil & Fats Profile, 2009). In fact, Indian edible oil exports contribute to approximately 7.4 percent of world oilseed output and the value realized by Indian edible oil exports has reached approximately USD 100 billion (Department of Food and Public Distribution, 2010; Sundaram, n.d.).

India is home to a favorable climate for growing numerous types of oilseeds due to its different agro-climatic zones (Sundaram, n.d.). The states of Gujarat, Andhra Pradesh,
Madhya Pradesh, Rajasthan, and Karnataka are the main oil seed cultivating states while oil seed production is generally concentrated in India’s southern and central districts (Department of Food and Public Distribution, 2010). 38 million hectares in India are currently dedicated to cultivating its nine main oil seeds; mustard/rapeseed, linseed, groundnut, safflower, sunflower, soybean, sesame, niger seed, and castorseed (India Oil & Fats Profile, 2009; Department of Food and Public Distribution, 2010). However, India’s attention has lately shifted towards concentrating on increasing its output of rape, soybean and sunflower oilseeds as they are the most promising (India Oil & Fats Profile, 2009).

The vegetable oil production situation in India is currently made up of roughly 15,000 oil mills, over 700 solvent extraction plants, 625 vegetable oil refineries (60-70 percent of which are small), and almost 250 vanaspati, or hydrogenated oil units (Sundaram, n.d.). Typically, the three phases of processing operations, those being crushing, expelling or separating the oil from the solids, solvent extraction, which is the process of chemically removing residual oil from the oilcake solids and lastly, oil refining, are managed by one vertically integrated plant (Dohlman et al., 2003). However, in India, that is not the case except for a small share of oilseed production facilities. In fact, most oilseed production in India never undergoes solvent extraction and/or oil refining. Furthermore, many of India’s oil mills, solvent extraction plants and oil refineries are plagued with chronic low capacity utilization having 40 percent, 33 percent and 40 percent capacity utilization respectively. Small scale expellers are even known to operate at just 10 percent capacity (Edible oils market in India 2000). As a consequence, India’s stagnating domestic oilseed processing is not satisfying increasing domestic demand of vegetable oils which has ensured India’s dependence on global imports of edible oils in the foreseeable future (Sundaram, n.d.).

Demand of vegetable oil in India in 2010 is estimated to reach 15.6 million tons (Sundaram, n.d.). Yet, continuous low yields at about half the world average have led imports of vegetable oils from countries such as Malaysia, Indonesia, Brazil and Argentine, to constitute 45-50 percent of aggregate Indian consumption over the past decade as seen in Table 2 (Reuters, 2009).
Total Indian demand of vegetable oils represents 9.3 percent of global edible oil consumption. The edible oils’ penetration rate is high in India at about 90 percent. Per capita consumption is approximately 12 kg per year, which is considerably lower than the world average of 20 kg per year, not to mention western countries where per capita consumption is 44 kg to 48 kg per year (Murughan, & Ramesh, 2008). According to Ashok Sethia, (2009) President of The Solvent Extractors’ Association of India, edible oil consumption in India is highly skewed with about 75 percent being consumed by 25 percent of the population. A more accurate picture of Indian edible oil consumption reveals that the top 10 percent of the population consumes 20 kg of vegetable oils and fats per capita while the bottom 30 percent of the population consumes just 5 kg per capita, which indicates large potential for future growth (Sethia, 2009; Murughan & Ramesh, 2008).

India’s large population and steady GDP growth are important contributors to its estimated 6 to 7 percent annual increase in consumption of vegetable oils (India Oil & Fats Profile, 2009). However, due to its vastness, inhabitants of India have developed regionally specific preferences for certain oils, which largely depend on the availability of certain oils within their region (Department of Food and Public Distribution, 2010). Most vegetable oil in India is sold loose or as vanaspati, which is hardened vegetable oil shortening often used for baking. Only a small percentage of vegetable oil consumption is satisfied by pure refined packaged and branded oils sold at retail outlets. The branded portion of consumption, which is growing at a rate of 6.5 percent per year, is largely represented by the middle and upper class urban consumers (Vegetable Oil Technology India, 2010; Dohlman et al., 2003).

### Table 2: Indian Supply of Edible Oil from Domestic and Import Sources (In 100,000 Tons)

<table>
<thead>
<tr>
<th>Oil Year (Nov.- Oct.)</th>
<th>Production of Oilseeds</th>
<th>Net availability of edible oils from all domestic sources</th>
<th>Consumption of Edible Oils from domestic and import sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-2001</td>
<td>184.40</td>
<td>54.99</td>
<td>96.76</td>
</tr>
<tr>
<td>2001-2002</td>
<td>206.63</td>
<td>61.46</td>
<td>104.68</td>
</tr>
<tr>
<td>2002-2003</td>
<td>148.39</td>
<td>46.64</td>
<td>90.29</td>
</tr>
<tr>
<td>2003-2004</td>
<td>251.86</td>
<td>71.40</td>
<td>124.30</td>
</tr>
<tr>
<td>2004-2005</td>
<td>243.54</td>
<td>72.47</td>
<td>117.89</td>
</tr>
<tr>
<td>2005-2006</td>
<td>279.79</td>
<td>83.16</td>
<td>126.04</td>
</tr>
<tr>
<td>2006-2007</td>
<td>242.89</td>
<td>73.70</td>
<td>115.87</td>
</tr>
<tr>
<td>2007-2008</td>
<td>297.55</td>
<td>86.54</td>
<td>142.62</td>
</tr>
</tbody>
</table>

Source: Indian Department of Food and Distribution, 2009
The erosion of India’s self-reliance on vegetable oil has clearly created a large gap between supply and demand, which cannot be bridged quickly. With the demand for vegetable oil increasingly being linked to the price of petroleum due to the increasing use of bio-diesel made from vegetable oils, India is left vulnerable. (Kasturi, 2008) The Indian government is eager to once again pursue 97 percent self-sufficiency concerning its supply of vegetable oil just as it did up until the mid-1990s, but unfortunately a number of structural and policy problems exist and hinder India’s ability to meet rising demand (Sethia, 2009).

Government imposed trade policies are said to play a key role in determining the type and level of India’s vegetable oil imports. India’s market deregulation which occurred in the early 1990s, however, liberalized its restrictive oilseed and vegetable oil trade regime which used high tariffs on imports with the objective of providing good returns to domestic farmers (Dohlman et al., 2003; India Oil & Fats Profile, 2009). Liberalized trade was a key factor underlying the surge of Indian imports of oilseeds and vegetable oils. However, a number of domestic policies are still determining the competitive landscape of Indian edible oil processing. For example, India has a small-scale industry or SSI reservation policy which limits the processing of traditional oilseeds such as rape, sesame and safflower, strictly to small, fragmented producers which essentially allocates a large share of vegetable oil production to relatively inefficient processors. The result, India’s agricultural sector is seen by the WTO as having low labor productivity, which is a reflection of the nation’s inefficient production practices, minimal use of machinery, and thus a lack of scale economies. (Dohlman et al., 2003) Additional policies and factors affecting India’s ability to become more self-sufficient in the oilseed and vegetable oil sectors are numerous, such as the existence domestic policies that monetarily favor the production of competing crops like wheat and rice, a lack of irrigated land devoted to oilseed production leaving these crops vulnerable to weather-related risks and poor internal infrastructure limiting freight options and consequently increasing procurement costs (Dohlman et al., 2003; Sundaram, n.d.).

Oilseed and vegetable oil processing in India is thus far not as lucrative as its imported alternatives (Sundaram, n.d.). However, it has been argued that decreased dependence on edible oil imports could be realized through the consolidation of small plants so as to increase domestic production via increased efficiency, reduced production costs and economies of scale. Higher profits and higher return would increase the incentive for farmers to grow
oilseeds. India would also have to modernize its crushing facilities to include greater usage of solvent extraction to boost its production capacity utility. (Dohlman et al., 2003)

3.1.1.2 The Indian dairy industry
The Asian dairy market is characterized for being fragmented with many regional and national actors. Dairy cooperatives are common players in the market and offer farmers the possibility to get access to larger packaging and processing plants that allow for economies of scale and selling products to larger markets (Datamonitor Asia-Pacific, 2009). India is the largest milk producing country in the world and the Indian dairy market experienced an incredible compound annual growth rate of 10.1 percent between 2004 and 2008 reaching a level of $4.6 billion in 2008. This growth rate can be compared to those of Japan and China which reported being 2.5 and eight percent respectively. This growth of the Indian dairy market is expected to continue and is projected to have a value of $7 billion in 2013. This is an increase of 54.1 percent since 2008. (Datamonitor India, 2009) India’s large domestic market together with the low level of milk consumption and increasing purchasing power represents a great opportunity and potential for both local and international companies acting in this industry. This potential in the Indian market also creates an industry for process equipment and components that are needed for the manufacturing of not only milk but also more sophisticated products like milk powder, cheese and ice cream which are all part of the larger dairy industry. Approximately 54 percent of dairy production in India is processed into other dairy products. There is also huge potential in the manufacturing of more traditional products such as ghee, khoya and sweets like gulab jamun that represent 50 percent of all products that are produced. (MOFPI, 2010b)

The dairy market in India is quite concentrated in the sense that the three leading actors are holding 51 percent of the market share. Dairy cooperatives are common in India and there are approximately 100,000 dairy cooperatives that are organized into 170 “producer unions” that in turn make out 15 cooperative milk marketing federations at state level. (Datamonitor India, 2009) Approximately 60 percent of the processing capacity in the Indian dairy market is within the cooperative segment (MOFPI, 2010b). A number of these large dairy cooperatives own strong brands such as the Gujarat Co-operative Milk Marketing Federation’s (GCMMF) Amul brand. This cooperative markets and distributes products such as milk powder, cheese, butter and ice cream and is headquartered in Gujarat which also is where Alfa Laval’s largest competitors, Gea Niro, is headquartered (Amul, 2010; Gea Niro, 2010). Being a customer of
Gea Niro, GCMMF holds a striking 31.6 percent share of the total value of the Indian dairy market (Datamonitor India, 2009). Apart from these cooperatives, there are a number of strong private companies that are tapping the potential of the Indian dairy market. Among these companies are names such as Chitale, Haldiram, Bikanervala and Agarwal Sweets (MOFPI, 2010b).

There are great potentials for exporting dairy products from India to not only neighboring countries but also other continents. Exports of dairy products currently represent a growth rate of 25 percent per year in terms of quantity and 28 percent in terms of value since the year of 2001. (ibid) This export is supported by the increasing attempts to meet sanitary and hygiene specifications that are required in ISO certifications (Kjoeller, 2007).

3.1.1.2.1. The milk powder industry
Milk powder is concentrated milk that has been made into powder and is regarded as being a profitable way of extending a company’s product portfolio. Not only is it a stable product in the sense that it can be stored and shipped in bulk but it is also a very important and appreciated product since it is can be used in areas where milk and other dairy products cannot be used. (Alfa Laval, 2007) In India, milk powder is normally used during the country’s lean season where liquid milk is not sufficient for the country’s demand making people demand milk powder instead. In contrast, milk powder is normally made during the full season where powder is produced due to excess of milk (Interviews with Alfa Laval, March 2010). The manufacture of milk powder is a process that is carried out on a large scale where water is removed from milk under strict hygiene conditions (NZIC, n.d.).

Milk powder is produced by both large international players in the dairy market such as Nestle but also by a number of local companies like NNDB. Being large consumers of tea and coffee, the Indian market represents huge potential for milk powder and other forms of dairy whiteners. Apart from being used in domestic households, these products are also commonly used in institutions such as airlines, railways and hotels around the country. (MOFPI, 2010b)

3.1.2 Alfa Laval
Alfa Laval is one of the world’s largest manufacturers of products and solutions within heat transfer, separation and fluid handling. The company was founded in 1883 by Gustaf de Laval under the name AB Separator within the dairy industry and its operations have since then been extended to a number of industries. Alfa Laval serves ten customer segments which
broadly can be divided into two divisions; Process Technology and Equipment. The company’s products are used in industries such as food and beverages, chemicals and petrochemicals, pharmaceuticals, and biofuels. The company’s key technologies, known as their core components, are adapted to the specific market segment and are thereafter sold separately or combined to provide customers with a process solution (Alfa Laval Corporate Presentation, 2010). Apart from the MNC’s production units in 20 locations, its products are sold in more than 100 countries. Alfa Laval’s corporate mission is “to optimize the performance of our customers’ processes. Time and time again”. In order to do this the company focuses on creating value-added operations which provide a platform for reaching set financial goals. The company is currently also investing in expanding service facilities in order to be closer to its customers and enable quick response so as to reach its corporate mission to be the first choice of customers. Alfa Laval’s business concept is, apart from its key technologies, also built on technological knowhow and application expertise. Recognizing the need of continuous product development for strengthening sustainable competitive advantages, about 2.7 percent of Alfa Laval’s sales are invested in R&D. Thereby, the company is able to launch 30 to 45 new products every year (Alfa Laval India, 2009, Alfa Laval Corporate Presentation, 2010).

Alfa Laval’s operations in the Asian region have delivered good growth within areas such as sanitary and the food and processing industry. The company’s local head office is located in the city of Pune which is approximately 200 km south-east of Mumbai. A number of sales offices also exist throughout the Indian subcontinent. Alfa Laval has a long history in India which can be traced back to 1937 and is, since 1993, a subsidiary of the Alfa Laval Group which has an ownership of 88.8 percent. In 2008, Alfa Laval’s order intake represented 4.4 percent of total global order intake which is an increase of 18 percent since the previous year. Apart from being the industry where the company started its business in 1883, food technology is also Alfa Laval’s second largest division in regards to order intake with a share of 35 percent of total order intake (Alfa Laval India Ltd. Annual Report 2008, p.2; Alfa Laval, 2009).

Alfa Laval is recognized for being a global hub for carrying out Alfa Laval projects within distillery and vegetable oil refineries in South Africa, China, Nigeria, the Middle East, Turkey, Russia and Bangladesh. Furthermore, it is also a group manufacturing unit for a number of models of separators, decanters and sanitary flow equipment. There are currently
plans of further developing the manufacturing unit in India to supply both the domestic and global market. There have already been expansions of the current production facilities with advanced technology that matches international quality standards. (Alfa Laval India Ltd. Annual Report 2009, p.19) The units in India are also competent in project engineering (Alfa Laval India, 2009).

The way in which Alfa Laval India organizes itself identifies the way in which the company operates. More specifically, Alfa Laval’s organizational structure allocates the authority and responsibility of different functions (See Figure 1). Alfa Laval India is organized divisionally, having each individual organizational function constitute a separate division, which is typical when managing large sized firms. The divisions are currently distinguished as the Process Technology division, the Equipment Division, the Operations division, the Parts & Services division, and lastly, the All India Field Sales (AIFS) division. Each divisional leader takes directive from top management, while also having subordinate divisions of their own, such as the Engineering & Supply and Drying & Evaporation sub-units of the Process Technology division.

**Figure 1: Organizational structure of Alfa Laval India Limited**

Source: Alfa Laval Corporate Presentation, 2010
Alfa Laval’s Parts & Services department has been a focus area due to its vital role in optimizing the operations of installed components as well as supporting and nurturing current customer relations. The department, however, suffered from customers restraining investments in maintaining and replacing parts during the past year leading to only a slight growth in order intake. The division has drafted a number of medium- to long-term goals that include setting up new service centers all over the subcontinent in order to be able to be closer to customers, establishing performance agreements with customers to improve commitment, servicing all brands of components and shortening turnaround time on repairs and restoring. (Alfa Laval India Ltd. Annual Report 2009, pp.24-25) The company has a strong focus on customer services which provide good customer benefits through technical services and support (Alfa Laval Corporate Presentation, 2010).

Alfa Laval has a strong alliance with Tetra Pak despite not being part of the Tetra Laval Group anymore. Tetra Pak is one of the world’s largest producers of packaging systems (Tetra Pak, 2010). In 1991 Tetra Pak acquired Alfa Laval, forming the Tetra Laval Group and creating one of the world’s largest producers of food-packaging and processing equipment (Tetra Pak, 2008). A majority of its stakes in Alfa Laval were, however, sold in 2000 although the companies have been working closely in a number of fields since then (IK Investment Partners, 2000). The current alliance with Tetra Pak means that Alfa Laval uses Tetra Pak as the preferred distribution channel for the company’s products within segments such as dairy products, non-alcoholic beverages, ice cream and certain categories of prepared food (Alfa Laval Tetra Pak, 2004). In other words this means that Tetra Pak supplies the food processing market with products within liquid milk processing whereas Alfa Laval is responsible for the sale of equipment and processes within everything beyond liquid milk (Interviews with Alfa Laval, March 2010) As a result of this agreement, Tetra Pak is Alfa Laval’s largest customer accounting for order volumes of 100 million EUR every year. As partners in this alliance the companies also have mutual expectations from each other in the sense that Tetra Pak demands that Alfa Laval provides products that are needed by the market and that these then are produced in a cost-efficient way. Alfa Laval, on the other hand, requires that Tetra Pak provides large market coverage with their strong position in the market. (Alfa Laval Tetra Pak, 2004)

Orders within vegetable oil in India have contributed to Alfa Laval’s success during a number of years (Alfa Laval India Ltd. Annual Report 2009, p.21). The rising business opportunism is
expected to lead to increasing investments in the industry which may result in a growth in order intake for the company in the coming period (Alfa Laval India Ltd. Annual Report 2009, p.11). A recent example of the growing business in this industry is that Alfa Laval received an order of approximately $12.7 million USD for the largest heat exchanger ever from an Indian refinery on the 19 April 2010 (Alfa Laval Press Release, 2010). The dairy industry in India has particularly undergone an incredible growth the past few years and this is projected to continue in the coming decade. This creates potential for Alfa Laval’s operations in this industry due to the expected increase in investments on processing plants (Alfa Laval India Ltd. Annual Report 2009, p.21). Particularly investments in modern and automated dairies have increased lately which represent a great opportunity for Alfa Laval (Alfa Laval India Ltd. Annual Report 2009, p.17). Apart from its strategic alliance with Tetra Pak, Alfa Laval also has an agreement with the Danish company Anhydro since approximately 30 years for the provision of technology and solutions within the dairy market (Interviews with Alfa Laval, March 2010). Anhydro focuses on designing, developing and delivering technology within liquid concentration and powder processing solutions (Anhydro, 2010).

Alfa Laval is currently the market leader within the vegetable oil industry with a market share of approximately 50 percent (See Figure 2). There are a number of competitors in the industry with the largest one being DeSmet. Within the milk powder industry Alfa Laval holds the second largest market share with the largest competitor being Gea Niro (See Figure 2).

**Figure 2: Market shares within the vegetable oil and milk powder industries as of March 2010**

![Market shares within the vegetable oil and milk powder industries as of March 2010](image)

Source: Interviews with Alfa Laval, 2010
3.1.3 Competitor analysis

3.1.3.1 Vegetable oil

3.1.3.1.1 International competitors

DeSmet

DeSmet began operations in 1946 in Belgium when its founder successfully designed and produced the first horizontal process for continuous oilseed extraction. Since its incorporation, DeSmet has managed to extend its range of products to supply the full oil mill process to customers (DeSmet, 2010). According to the company’s website, DeSmet continuously evolves its processing technology so as to satisfy ever-changing governmental, economic, environmental and technical requirements. DeSmet’s self-proclaimed “Custom Research & Development” team works in coherence with customers by highly encouraging them to be involved in future product development starting from the laboratory development stage through the pilot-scale testing phase. Supposedly, some of DeSmet’s advanced customers consider DeSmet’s R&D team to be an extension of their own in-house research team. According to Alfa Laval employees, however, DeSmet still depends on Alfa Laval’s technology for core components within the oil refining process and is thus a customer of theirs (Employee Interviews, 2010). Nevertheless, DeSmet is equipped with technology to process over 40 raw materials such as soya beans, rapeseed, sunflower seed, palm oil and several more and has supplied plants of all sizes to approximately 1,500 oil millers (DeSmet, 2010).

Barclay’s Private Equity has been the majority partner in DeSmet’s capital since 2004 (Barclay’s, 2010). The same year DeSmet and Ballestra, an Italian process engineering company having corrective technologies in the areas of organic and inorganic chemicals, announced their agreement to merge their operations in order to benefit from strategic technical and commercial synergies (Ballestra, 2010). Together DeSmet Ballestra Oleo has a sales and engineering presence in 15 countries as well as a representation network in another 22 countries. Turnover realized between the two companies reached over USD 250 million. DeSmet and Ballestra consider their association to establish them as a global solution provider for seed crushing and oil refining that provides competitive services, equipment and plants with the latest technology (DeSmetgroup.com).
DeSmet entered the Indian market back in 1985 under the name ‘DeSmet Chemfood Engineering.’ DeSmet’s regional headquarters were originally in Mumbai, but later moved to Bangalore to meet growing regional demand (Monster India, 2010). Currently, DeSmet has approximately 26 percent market share within the Indian vegetable oil technology industry (See Figure 2) which makes it Alfa Laval’s main competitor. The fact that DeSmet’s operations are limited to the edible oils, fats, oleochemicals and bio-diesel industries is seen as a an advantage for DeSmet and a threat to its competitors due to the fact that its limited scope allows for more allocated resources and specialization (Employee Interviews, 2010).

Lipico

Lipico was incorporated in Singapore in 1996, supposedly by ex-Alfa Laval employees (Lipico, 2010; Employee Interviews, 2010). Having its headquarters in Singapore, Lipico is strategically located among the major oil and fats producing nations in Asia such as Malaysia, Indonesia, China and India. This location is seen as a way for Lipico to stay on top of the development within the industry. Services offered by Lipico include the design, supply and commission of a full range of oil and fats processing plants. Lipico also provides training for new plants, replacement parts, troubleshooting and plant expansion. (Lipico, 2010)

Currently Lipico’s market share is less than four percent in India; however their name was mentioned several times when interviewing customers (Alfa Laval VOT, 2010; Customer Interviews, 2010). The fact that the founders of Lipico are ex-Alfa Laval employees means that they were able to transfer the knowledge they acquired from working at Alfa Laval into their products. However, while Alfa Laval employees do acknowledge the fact that Lipico has Alfa Laval technology knowledge, they also mentioned that Lipico’s knowledge of Alfa Laval’s technology is limited in scope to the old technology from the time period in which Lipico’s founders worked for Alfa Laval (Employee Interviews, 2010).

Gea-Westfalia

Westfalia has been operating for more than 110 years within research and development of the advancement of mechanical centrifugal separation technology, which includes chemical, pharmaceutical, and biotechnology industries as well as oils, fats and starch recovery. In doing this, Westfalia claims to have made numerous improvements, many of which have been groundbreaking in nature (Westfalia, 2010). In 1994, Westfalia was acquired by the Gea Group and is now headquartered in Oelde, Germany. With the addition of the resources,
competence and strength of the Gea Group, Westfalia is said to provide leading technologies for the future providing customers with continuous efficient and economical product developments. Westfalia claims to work closely with research institutes, universities and industry actors to achieve its goal of providing customers with the maximum value addition. (ibid) Currently, Westfalia has less than four percent of the domestic Indian vegetable oil technology market share as seen in Figure 2 (Alfa Laval VOT, 2010).

3.1.3.1.2. Local competitors

Glamptech Agro Process

Glamptech is self-described as an engineering company providing service to customers within the continuous solvent extraction and vegetable oil refining industries. The company was founded in 1990 and is considered by customers to be a domestic alternative supplier, which is considerably cheaper in terms of pricing than international suppliers such as Alfa Laval and DeSmet (Glamptech, 2010; Customer Interviews, 2010). Glamptech clearly states on its company website that it is fully capable of managing the design, supply installation and construction of oil refining plants on a turnkey basis, meaning that they can supply customers with nearly a complete range of equipment needed for oil refining. Although Glamptech’s technology does not originate from overseas, the company stresses that they are highly educated, experienced and qualified to successfully execute projects within the vegetable oil industry (Glamptech, 2010). As of now, Glamptech shares about 20 percent of the domestic Indian vegetable oil technology market share along with Mech-Tech as seen in Figure 2 (Alfa Laval VOT, 2010). According to Alfa Laval’s employees and customers, Glamptech’s customers are mainly small local oil refineries; however, large players in the industry also purchase products from Glamptech when spare parts are needed or in order to supply simple machinery or the less critical portions of a process (Employee Interviews, 2010; Customer Interviews, 2010).

Mech-Tech

Mech-Tech is another domestic Indian supplier within the vegetable oil refining industry. The flagship company Mech-Tech Group was founded in 1985 for the manufacturing and supply of custom process equipment, heat exchangers, pressure vessels, etcetera (Mech-Tech, 2010). Later, in 1993, Mech-Tech Engineering Construction was established for the erection of piping, electricity and instrumentation, followed by the creation of Mech-Tech Projects in
1998, meant to deliver project management and engineering deliverables for numerous types of process plant design as well as multi discipline engineering solutions. Other than vegetable oil, Mech-Tech is also involved in industries such as pulp and paper, water treatment chemicals, oil and gas and ceramics. As a whole, the Mech-Tech Group is ISO 9001-2008 certified for the design and engineering of process plants as well as the manufacture of heat exchangers, pressure vessels, agitators and screw conveyors. Mech-Tech has also established itself abroad, for example in Texas in order to deliver local support to customers within the oil and gas industry (Mech-Tech, 2010).

Mech-Tech, having more than 100 qualified engineers and a capacity of 180,000 man-hours, has completed more than 100 projects over the past 10 years. It currently shares 20 percent of the domestic Indian vegetable oil technology market share with Glamptech (Mech-Tech, 2010; Alfa Laval VOT, 2010). As in the case of Glamptech, customers perceive Mech-Tech as a cheaper alternative than international suppliers and often purchase from Mech-Tech when spare parts are needed or if customers cannot afford Alfa Laval or DeSmet’s equipment (Employee Interviews, 2010; Customer Interviews, 2010).

3.1.3.2 Milk powder

3.1.3.2.1. International competitor

Gea Niro

Gea Niro is a Danish company belonging to the German Gea Group and focuses on designing and installing processing equipment in single plants of full process lines. The company’s operations are divided into four divisions; Chemical, Food & Dairy, Pharmaceutical and After Sales. The Food & Dairy division is one of Gea Niro’s largest business activities and the company provides a full range of products within this division in segments such as milk products, baby food, fruits & tomatoes as well as coffee and tea. The company was originally founded as A/S Niro Atomizer in 1933 by Johan Ernst Nyrop and was acquired by the Gea Group in 1993. (Gea Niro, 2010; Datamonitor, 2009)

Gea Niro has been present in the Indian market since 1950 and was formerly known as L&T-Niro Limited and Food Division of Larsen & Toubro Limited since the two companies formed a joint venture in 1992. L&T sold it stakes in the company to Niro in 2005 leading to the foundation of Gea Process Engineering (India) Private Limited. The Indian company is
part of the global Gea Process Engineering Division which, according to their website, is the world leader in technologies within liquid and solid processing. Gea Niro’s technologies are utilized in a number of industries; dairy, food, chemical, petrochemical, starch, refinery, fertilizer, polyester, beverage, pharmaceutical and biotech. In India they currently provide customers with total solutions in automation with advanced technology in processes described as being both cost effective and reliable on the company’s website. Working on a “Concept to Commissioning” allows Gea Niro to provide its customers with entire turnkey projects that cover areas from engineering to procurement and finally construction. The company has supplied several large automated dairy plants on a process basis and proclaims to be the leaders in the Indian dairy industry. (Gea Niro, 2010) Gea Niro currently has a market share of approximately 19 percent which is higher than Alfa Laval’s 15 percent making it the company’s largest international competitor (Interviews with Alfa Laval, March 2010). Gea Niro in India offers services such as pilot plant testing and product development, consultancy for product quality improvement, application of new technology, precautionary maintenance guidance, spare parts and after sales service (Gea Niro India, 2010). The company’s headquarters are located in Vadodare (Baroda) in the state of Gujarat which also is the state where their largest customer and one of India’s largest dairy cooperative, NDDB (National Dairy Development Board), is located (Gea Niro, 2010; Amul, 2010).

Gea Niro in India has developed a Project Management Team which basically is a team that is responsible for each project or order that the company receives. The team has a project manager that is responsible for all functions such as marketing, engineering and procurement that participate in a project. (Gea Niro, 2010)

3.1.3.2.1. Local competitor

Food & Biotech Engineers (India) Pvt. Ltd.

Food & Biotech Engineers (India) Pvt. Ltd. is one of India’s largest local suppliers of equipment and solutions within areas such as dairy, food, fruit, herbal extraction and pharmaceuticals. According to the company’s website, they have specialized knowledge within this field as well as a number of well established facilities in order to support and provide customers with a variety of services. The company focuses on designing and fabricating efficient evaporation and drying plants as well as installing and execution of plants. In addition, Food & Biotech’s two manufacturing units located in Faridabad and
Haryana construct process components that meet high quality and standard requirements. Apart from this, the company markets its ability to complete projects on time with prices that are competitive. Food & Biotech has collaboration with a Finnish company called Ralli Oy which is a consultancy firm for the designing of evaporation and drying solutions. (Food & Biotech, 2010) Established in 1985, Ralli Oy has designed, manufactured and executed more than 100 projects in a number of different areas within dairy, starch, food and biotech for customers all over the world (Ralli Oy, 2010).

3.2 Exploratory study

3.2.1 Interview with consultant 1

The interviewed consultant in New Delhi considers Alfa Laval and DeSmet to be the two leading brands in the vegetable oil industry today but regards Alfa Laval’s after-sales to be better than that of DeSmet. Alfa Laval is today facing increasing competition from local suppliers that often are very poor quality-wise and are perceived as providing no reliability in their offered products. Investments in the products of local suppliers like Glamptech and Mech-Tech are therefore, according to the consultant, only suitable for short-term investments.

According to the interviewed consultant, Alfa Laval needs to focus more on providing customers an affordable product which produces high value without compromising on quality since technology according to him is frozen at this point. If customers regard the technology offered by suppliers in the market to be at par, they will invariably pick the customer that provides the product to the lowest price. Therefore, Alfa Laval should focus on convincing customers that their payback is less and that it is worth purchasing products of premium quality. This requires educating customers that the products of local suppliers are not of value in the long term which ultimately is the perspective customers have on their investments according to the consultant. Alfa Laval also needs to be more flexible in their pricing and consider whether they want to sell more products with a lower margin or sell less to a higher margin like today. If prices are kept at the same level as today, the consultant fears that the company’s market share will decrease due to the fact that their technology has been copied by local suppliers. However, large customers are today willing to pay more for getting an entire package or solution and according to the consultant these are the actors that are growing on the market today. Smaller customers will slowly disappear from the market in his opinion.
When asked what sources of information are preferred by customers today he responded that company’s website is a major source of information for customers. According to him customers also prefer being approached about new product developments and updates by suppliers.

Regarding whether or not the companies feel that their customers value that machines from Alfa Laval are used the consultant responded that the buyer of the final product does not really know who Alfa Laval is and that it therefore is not necessary to market this.

3.2.2 Interview with consultant 2
The second consultant who was interviewed works as a consultant for one of Alfa Laval’s customers within vegetable oil as well as other major companies in the industry. According to this consultant there are currently two brands that are number one in the industry; Alfa Laval and DeSmet. Alfa Laval is normally preferred due to their in-house production of equipment compared to DeSmet that has to get components and key products manufactured by other companies leading to lack of control. Alfa Laval’s long history in India is also another factor that plays a role in this common perception. The consultant perceives that customers prefer receiving an entire process rather than component parts and that they also are willing to pay more for this. Having purchased products from Alfa Laval he perceived the company as providing products of good quality but still considers that there is scope for improvement in every factor particularly the service department. Alfa Laval’s marketing department is regarded as being strong but this is not the case for the service department which despite having qualified people suffers from a lack of human resources. This has also affected their ability to handle complaints which is considered to be slow. The consultant also mentioned that Alfa Laval needs to be more innovative in order to not lose their current market share. There are a number of local suppliers which are gaining more market share within the industry but according to the consultant these are not providing the same value to their customers as Alfa Laval. The technology and long-term value of Alfa Laval’s products also contribute to this view. Purchasing products from local suppliers may be cheaper when making the initial investment but always ends up costing more in the long run. Alfa Laval, on the other hand, provides products that do not compromise on quality and therefore these require a premium price as well. According to the consultant a company cannot survive in the current market if they don’t provide good services without taking a reasonable margin at the same time. Having this in mind, the consultant regards Alfa Laval as a potential future
supplier although the final decision always depends on which company provides the better technology. Another reason for not having Alfa Laval as a supplier would be if the supplier is not able to supply the products on time. If competing suppliers have the same product in stock and are able to provide these faster they are then prioritized over Alfa Laval. The consultant recommends that it is better to focus on gaining more market share from international companies like DeSmet since the customers of these companies value what is provided. Local suppliers depend on local customers that do not care about the quality of the machines since they are more interested in selling their products. Educating customers on the value of purchasing high quality products that end up being a better investment in the long run will be important.

Like the previously interviewed consultant, he does not feel that final customers value that machines from Alfa Laval are used since they are more interested in receiving best quality products at the lowest price. The consultant also thinks that companies in the industry are affected positively by the fact that Alfa Laval is a Swedish company since it makes them perceive their products as being of international quality. According to the consultant, Europeans are renowned for being greatly engaged in R&D leading to quality products. He considers Alfa Laval to be meeting the needs of the Indian market despite R&D being mainly situated in Sweden.

Regarding marketing, the consultant was of the opinion that customers prefer to be actively approached by suppliers than having to approach them themselves. The internet, trade fairs, exhibitions, industry magazine, word-of-mouth and sales people were mentioned as major sources of information when searching for more information about different producers of food processing equipment and their products. He perceives Alfa Laval’s website to be satisfactory. The consultant also mentioned that newsletters would be appreciated if the company wants to inform their customers about recent news and updates. He also perceives marketing as a means of informing potential customers about their references. Knowing that other large companies are customers of Alfa Laval greatly affects the purchase decision if one is not aware of the supplier according to the consultant.
4 THEORETICAL FRAMEWORK

“He who loves practice without theory is like the sailor who boards ship without a rudder and compass and never knows where he may cast.” – Leonardo da Vinci

The aim of this chapter is to provide a comprehensive background of existing theories relating to strategic marketing management which will serve as a basis for the analysis.

4.1 Introduction

Theory is relied upon in this study as a foundation to guide the authors through existing norms and doctrines within the relevant areas of investigation. The ultimate intent of the theoretical chapter is to serve as a basis for the authors to refer back to when analyzing the empirical data collected in an effort to make relevant and worthy recommendations. Several topics are touched upon in this chapter, starting with a brief overview of strategic management as a whole, followed by numerous sub-topics. The specific theories that are presented were selected due to their contributive features concerning increasing customer perceptions of a product’s value and/or ways in which a company can organize itself to better cater to customer demands. Hence, theories selected for this study include those related to; corporate strategy, innovation, total processes, pricing strategies, marketing, leveraging assets and competencies, business-to-business (B2B) purchasing behavior and after-sales service. The compiled theoretical framework, which is presented in the larger context of industrial strategic management, will be utilized as insight and a review of the most relevant topics to the authors’ study and later adapted, if necessary, to support the authors’ findings.

4.2 Industrial strategic management

“Strategy is about choice. The heart of a company's strategy is what it chooses to do and not do”

(Gavetti & Rivkin, 2005)

The field of industrial management is a complex and challenging one that requires that the company engage in gaining deep knowledge and understanding of market conditions in order to be successful. This understanding then needs to be expressed in a corporate strategy so that the firm can improve its performance while facing competition from other companies. The challenges in a market evolve around aspects like creating customer value and responding to customer demands, the development of new products, managing the organization to deliver value, developing a network of meaningful and long-term relationships, implementing a successful pricing strategy and effectively communicating the firm’s values. All of these
challenges highlight the importance of having an appropriate and comprehensive corporate strategy and making successful strategic decisions. (Lancioni, 2005; Gadde et al., 2003)

4.3 Developing a comprehensive corporate strategy: A roadmap will lead to success

There is little debate concerning whether or not a corporate strategy is essential for successful business operations as nearly everyone acknowledges its importance. In fact, it has been said that no self-respecting business organization would function without a strategy. The real debate surrounding corporate strategy is therefore not concerning its relevance, but instead involves the process of creating one, as strategy still remains one of the most contested concepts in management theory today. (Maritz, n.d.) There are several different approaches to strategy such as adaptive, planning, visionary, transformative, etcetera (Dew et al, 2006). However, the most simple illustration of strategy starts by defining the Greek word strategos meaning “the art of the general,” which is the origin of the word “strategy.” This reference is not at all surprising considering that generals are responsible for managing multiple units on multiple fronts in multiple battles over an extended period of time. Just as a general must orchestrate several army units while considering the whole picture, CEOs and entrepreneurs must also guide the divisions of their organizations to form a coherent whole in order to achieve favorable outcomes that enhance the business’ prospects of survival and profitability. (Fredrickson & Hambrick, 200; Anderson, 1982) The sure way to maintain coherent business operations is thus to properly define a corporate strategy, which outlines where a firm will compete and how a firm will compete (Grant, 2002).

Strategy formulation, or in other words, envisioning a desired future scenario and designing effective ways of bringing it about, involves creating competitive advantages over rivals within relevant markets and is no easy task (Ackoff, 1970; Grant, 2002). Formulating a corporate strategy is particularly challenging for an organization that is performing rather well on the market due to the risk of employees becoming complacent (Dew et al, 2006). Important decisions and trade-offs must be made when formulating a corporate strategy such as short-term profit versus long-term growth, deep penetration of existing market segments versus developing new markets, and high growth versus low risk, as all business opportunities cannot fruitfully be pursued simultaneously (Jha et al, 2009, p. 53). Therefore, before a company drafts a corporate strategy, a few sub-activities should be completed prior, in order to assess the market environment as well as to become aware of company capabilities and limitations.
A SWOT analysis identifies company strengths and weaknesses as well as opportunities and threats in business environments. Once each threat has been assigned an estimated risk, each opportunity has been matched with competence, a more accurate and feasible corporate plan can begin to be made. Following a SWOT analysis, a company may begin to proceed to the next stage in strategy formulation which involves establishing specific goals for the upcoming planning period. (Andrews, 1997) When corporate goals are formulated they should be limited in respect to magnitude and time. Furthermore, according to Jha et al (2009, p. 52), in order for goals to be more likely achievable, the following criteria should be satisfied when composing company objectives:

1. Goals should be arranged hierarchically, from most to least important.
2. Goals should be quantitative when possible.
3. Goals should be realistic.
4. Goals should be consistent.

The criteria listed above will allow for each goal to be achieved in a timed and prioritized sequence of investment and effective deployment of resources (Andrews, 1997).

When it comes time to formulate an actual corporate strategy, there is a common misconception about what actually makes a corporate strategy a comprehensive strategy. For example, a pricing strategy and an R&D strategy are not complete strategies, but instead are parts of a strategy formed in isolation of each other that together make a collection of multiple strategies. If this situation exists, there is likely very little, if any integration among strategies, which can lead to confusion and undermine a company’s credibility. A strategy, in fact, is made up of several parts which must align and support each other. Figure 3 portrays an example of a holistic strategy consisting of five major elements providing guidance to five necessary strategic questions such as, where will the company be active, how will the company get there, how will the company win in the marketplace, and what will be the company’s speed and sequence of action? (Fredrickson & Hambrick, 2001)
Defining the arena in which a company will be active is said to be the most fundamental decision strategists need to make. When outlining an arena, it is most important to be as specific as possible concerning which product segments and which market segments a company is to target. Market segments can be isolated in several ways for example by either geographical scope and/or by price category such as discount or premium. How much emphasis which should be placed on each category is also necessary to specify. (Fredrickson & Hambrick, 2001) The vehicles specified in a strategy determine how a company will enter a
certain arena. Failure to mention how an entry strategy or expansion is intended could result in delay, additional cost or even failure. **Differentiators** are the competitive advantages a company plans to use in order to win over competition in the marketplace. Important to note is that a competitive advantage is most commonly a superior combination of differentiators rather than one extreme differentiator. Examples of differentiators include image, technology, quality, after-sales service, and price. **Staging**, on the other hand, does not refer to what executives plan to do in the same way arenas, vehicles and differentiators do. Instead, staging clarifies the speed and sequence of the individual strategic actions in order to best ensure success. The **economic logic** forms the heart of a corporate strategy. This portion must present a clear notion of how enough revenue will be generated to not only cover costs but also yield substantial profit. For example, some economic logics rely on obtaining premium price offerings by customers. (ibid)

It is only after all five elements of a corporate strategy are specified that a company is in the best position to begin implementation. Too often corporate strategies emphasize one or two elements but lack the remainder. However, a strategy developed without equal attention to all five elements leaves critical omissions. According to Hambrick and Fredrickson (2001), if a business lacks a proper strategy, “time and resources are easily wasted on piecemeal, disparate activities; mid-level managers will fill the void with their own, often parochial, interpretations of what the business should be doing; and the result will be a potpourri of disjointed, feeble initiatives.” Therefore, it is imperative that all elements of a corporate strategy form a unified whole. The strategic direction of a company defines its culture, character and image among employees, stakeholders and the market. In closing, the creative act of formulating a strategy that combines unique business capabilities with opportunities should continuously evolve to respond to new market conditions in the external environment. (Andrews, 1997)

### 4.4 Customer value

Delivering value to customers is dependent on a company’s ability to differentiate its offerings from competitors and position itself as providing greater value in its products and services (Kotler 2008). Developing sustainable competitive advantages through differentiation is commonly regarded as being one of the only ways to survive and successfully compete in increasingly competitive markets today (Berghman et al., 2005; Barney, 1991). Identifying, nurturing and exploiting a corporation’s core competencies are ways in which a company can
develop its sustainable competitive advantages (Srivastava, 2005). Thereafter, the company has to communicate and deliver its core competencies and positioning to the market in an effective manner (Kotler, 2008).

4.4.1 **Innovation**

Top performing companies, in general, have been identified as putting an emphasis on differentiating their products from competing firms in terms of performance of their products. Product leadership through innovation is, in other words, considered to be one way of differentiating a company’s products. This enables firms to provide a product that is hard to copy subsequently allowing them to act with strategies different from sheer pricing approaches. (Hooley & Jobber, 1986) The intense competition that exists in markets today also makes it important for companies to continuously maintain their competitive advantage by adding new competencies or attributes to their offerings. Long-term prosperity is regarded as being achieved by not only meeting the demands of customers today but also by continuously innovating to satisfy the needs and wants of current and potential customers tomorrow. “Intelligent innovation” allows a company to satisfy the needs of its customers and add superior value to its offerings. Innovation is therefore an imperial part of remaining competitive as well as attracting potential customers in the market. (Walley, 1998; Drucker, 2002; Berthon et al., 1999; Srivastava, 2005)

Successful innovation requires a broad platform consisting of a strong market orientation, a deep understanding and knowledge of the demands and needs of customers, an attractive and growing market, support from top management as well as strong market launch through marketing efforts (Ahmed & Shepherd, 2000). According to Kuczmarmski (1996) a company should measure the performance of its product portfolio during a five-year period since it takes a number of years for a product to develop and become profitable. Due to the fact that not all innovation leads to positive results, a company has to innovate continuously. Inevitably this means that quantity as well as the quality of products is an important factor. New product and process development is also very information- and knowledge-intensive meaning that it requires integration of both internal and external actors that possess skills and competencies at different levels (Lin & Chen, 2008; Corso & Pavesi, 2000). According to Hong et al. (2004) innovation in an organization depends on gathering information from customers, suppliers and the internal environment. This is particularly important for a customer-centric company aiming at providing customers with the best products and solutions since a lot of information
has to be transferred from the customer to the supplier in order to prosper the right ideas and innovations (Galbraith, 2002). A solutions provider must therefore not only focus on developing advanced technology but also concentrate on building deep customer relationships since these may lead to advantages caused by co-production. This is particularly important in knowledge-intensive industries where service offerings play an important role in providing a total solution. According to certain theories, customers are the ultimate drivers of innovations and provide the parameters that are needed for product development. Other theories argue that technological innovation shape the market and customer behavior by defining what customers need. Despite this, it can be argued that maintaining good customer relationships is of utmost importance in industrial markets due to the vital role that customers play in transferring knowledge about the market to its suppliers. (Andersson et al., 2004)

Customer involvement during the development of products and services has been recognized as having a positive effect on innovation and launching successful products. Apart from this, customers can also be of great assistance in improving manufacturing techniques, support and take part in market evaluations and pricing discussion as well as promotion and marketing activities. Long-term partnerships like strategic alliances and joint ventures with customers also have a positive effect on innovations since these allow for identifying customer needs and wants in a more detailed manner as well as lead to a greater willingness to invest in product development and innovation. Joint problem solving meaning that suppliers and customers collaborate in solving problems together and share responsibilities when faced with different issues is another factor that has been identified as providing more successful innovations since it allows for both parties to influence the on-going process and make necessary changes during this time. Companies that work in this way are also considered to provide better after-sales services, resolve customer complaints and offer better warranty and maintenance services. (Hong et al., 2004; Lin & Chen, 2008; Gadde et al., 2003)

Apart from transferring information from the external environment into the organization to promote innovation, intra-organizational information flow, through communication and cooperation, has also been recognized as being of great importance. This frequent transfer of information and knowledge within the firm leads to the creation of common ideas, synergy between different departments which subsequently ends in the development of better strategies for product development and innovation as well as marketing strategies. In other words there should be continuous knowledge sharing between the members of the R&D,
design, manufacturing and marketing departments in order to support new product development. (ibid)

4.4.2 Total solutions
Delivering value to a company’s customers is an important factor in order to build profitable relationships (Kotler, 2008, p. 191). Customer value is currently regarded as a strategic focus point for firms which are increasingly focusing on selling “customer value” rather than products. Therefore, gaining knowledge and a deeper understanding of value of a company’s offerings and how the value of this can be leveraged is regarded as being of great importance. Highly competitive business environments, where sources of competitive advantage in products and processes are easily imitated by competitors, are making it difficult for companies to differentiate based on merely technical competencies. Pursuing low price strategies, which in many cases can lead to a strong market position, are not appropriate for all companies particularly those trying to pursue a non-price-based differentiation strategy. (Matthyssens & Vandenbempt, 2008) Instead companies are required to offer total solutions that match customer needs and that provide room for keeping profit margins (van der Haar et al., 2001; Berghman et al. 2005). This is particularly considered to be a successful concept in industries that primarily rely on personal selling (Dunn & Thomas, 1986).

A total solution is often described as project or systems selling or a turnkey project where the company is responsible for supplying an entire plant. Briefly stated, it is a package or integrated system of products and services which is designed for the needs of a customer and that creates more value for customers than if they were to buy separate components only. (Cova & Salle, 2007; Galbraith, 2002) Service support, personal interaction and know-how that are included in this package are today regarded as core differentiators in business relationships and are major sources of customer value. In addition, these complementary services ensure the operation, maintenance and finance of the entire system during its lifetime. The intangible nature of solutions combined with tangible offerings also make them harder to copy. Whereas suppliers that focus on components specialize on few activities in which they attempt to become superior, system suppliers assemble components and are responsible for providing a selection of technologically advanced components that solve a certain problem. (Davies et al., 2007; Matthyssens & Vandenbempt, 2008) Suppliers of total solutions are often involved with customers at an early point in the process and are thereby able to influence the development of their customers’ requirements and are simultaneously able to
offer additional value in a number of ways (Jha et al., 2009). Ideally, solutions are also supposed to produce financial benefits for the supplier in the sense that they are present during an extensive time period and therefore should be profitable in the long term (Bonney & Williams, 2009).

The greater possibilities of differentiation in systems selling compared to product selling consequently result in greater freedom in pricing (Mattson, 1973). Furthermore, solutions are regarded as a means of establishing barriers to competing operations and creating new, long-term, sustainable and profitable growth opportunities and increasing sales by extending products and markets (Bonney & Williams, 2009; Ahmed & Shepherd, 2000). The greatest challenge in delivering solutions is to create an organization that supports this in a proper and efficient manner (Galbraith, 2002). In order to be able to deliver the best possible solution to customers, a provider of solutions is required to build both on customer relationship and advanced technology (Andersson et al., 2004). Technical competence consists of the knowledge and experience that the organization possesses regarding its products and services in order to provide effective solutions (Ahmed & Shepherd, 2000).

The organization within a firm generally has to be able to combat four main challenges regarding a change in the orientation and mindset of the company, a change of the structure and process within the organization, a requirement for new competencies and skills and finally, the execution of the transformation process in the organization including developing new performance indicators and pricing models in order to create a business that focuses on providing customer solutions. The greatest challenge, however, lies in the ability of the firms to make the organization and the product-structure customer-centric from having been product-centric and to handle the changed relationship with customers. This development requires a high level of information flow from the customer to the supplier as well as a high level of technology development and innovation. The concept of creating total solutions for customers requires a high level of knowledge, experience and thinking in order to make the components work together which means that companies are increasingly requiring highly qualified staff that has the ability to support this interaction. Furthermore, solutions cost more to develop, require a close interaction with customers and have longer sales cycles which therefore require a different sales approach.
Integrated solutions are in need of four capabilities within the organization; system integration capabilities, financing capabilities, operational service capabilities and business consulting capabilities. Business consulting services are often regarded as being the most important ones due to their ability to provide the platform for creating long-term customer relationships that allow the company to identify opportunities to create value in the future. Companies tend to primarily sell solutions to companies with which they already have a relationship where trust and commitment between the two parties exists and where there is room for an increased interdependence. This relationship allows the company to lock both parties in a beneficial, long-term commitment where the supplier is able to charge higher margins and generate future follow-up contracts as well as be aware of the customers’ on-going operations. This in turn creates a barrier for competition and offers great economic returns since the company does not have to participate in competitive bidding processes. (Andersson et al., 2004; Cova & Salle, 2007; Ahmed & Shepherd, 2000) A key success factor in marketing projects to new and present customers in the first stages is references which allow customers to gather more information about suppliers’ offerings (Cova & Salle, 2007; Cova & Holstius, 1993). System integration capabilities, on the other hand, refers to the ability of an organization to provide proficiency in the technical integration of its offered components as well as the capability of the firm to identify valuable business, process and organizational integration opportunities (Ahmed & Shepherd, 2000).

Personal selling is an integral part of selling both components and projects. Selling solutions to a certain extent requires different competencies in the sense that the selling teams need to be composed of people from different functions including commercial managements, technical design and project management. This allows the company to supply a solution that solves the customer’s entire problem (Brady et al., 2005). In order to be successful in selling solutions, salespeople must be sensitive to the developments that occur in both internal and external environments. This includes identifying and understanding a customer’s problem as well as their entire business and operational context. Thereafter the company must provide an appropriate response that in turn provides profits. (Bonney & Williams, 2009)

Salesperson autonomy has been recognized as an important source of encouragement to provide a sense of ownership and choice for employees completing tasks in sales offices. Salespeople that are provided with this independence to control different situations are proven to be more likely to recognize new opportunities while promoting and selling solutions.
However, a too decentralized organization may lead to that the dispersed sales offices do not gain enough information from each other. Being disconnected and not receiving adequate feedback and suggestions may consequently lead to that new opportunities are not recognized since the salespeople are not completely informed about how to select and most efficiently take advantage of opportunities available in the market. This lack of structural integration and information from the rest of the organization can also result in that the salesperson is not able to provide the right solution to the customer’s problem. A moderately linked networked of sales offices is recommended in order to encourage a useful flow of information and knowledge. (ibid) Keeping everyone within the organization up to date about changes and new technologies and knowledge is regarded as being of utter importance to facilitate the above mentioned issues and requires effective communication. Compensation schemes and reward systems in order to promote successful solutions selling should be taken into consideration when re-focusing the company’s orientation from being product-centric to solution-centric. (Ahmed & Shepherd, 2000) Sales representatives’ ability to recognize sales opportunities and effectively satisfy current customers may also be hampered by the existence of too much workload, time pressure and a considerable number of tasks (Bonney & Williams, 2009; Amabile et al. 1996). Effective measures to keep the management updated about whether the new strategic repositioning is working or not are important and can help to avoid issues and problems in the new organizational orientation (Ahmed & Shepherd, 2000).

### 4.4.3 Industrial buyer behavior

This section of the thesis provides a platform for the empirical data to later be analyzed in chapter 6 according to a business-to-business or, in other words, an industrial buyers’ perspective.

Business markets and business buyer behavior are interesting to study due to the profound differences that exist in these arenas compared to consumer markets. Business buyer behavior is defined by Kotler & Armstrong (2008, pp. 150-153) as the “the buying behavior of the organizations that buy goods and services for use in the production of other products and services or for the purpose of reselling or renting them to others at a profit”. The business or industrial buying process is recognized as being a highly complex and dynamic process where a number of organizational divisions and functions are involved that may have conflicting goals and criteria for their decisions. The buying organization is often described as constituting of two major parts; the buying center, which consists of people in the
organization, and the buying decision process (See Figure 4). Both of these are influenced by the internal organization, the external environment as well as interpersonal and individual factors.

**Figure 4: A model of business buyer behavior**

<table>
<thead>
<tr>
<th>The environment</th>
<th>The buying organization</th>
<th>Buyer responses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Marketing stimuli</strong></td>
<td><strong>Other stimuli</strong></td>
<td><strong>The buying center</strong></td>
</tr>
<tr>
<td>Product Economic</td>
<td>Technological</td>
<td><strong>Buying decision process</strong></td>
</tr>
<tr>
<td>Price</td>
<td>Cultural</td>
<td>(Interpersonal and individual influences)</td>
</tr>
<tr>
<td>Place</td>
<td>Competitive</td>
<td></td>
</tr>
<tr>
<td>Promotion</td>
<td></td>
<td>(Organization influences)</td>
</tr>
</tbody>
</table>

Source: Kotler & Armstrong, 2008, p. 153

Sheth (1973) has identified that *product users* generally search for factors like prompt deliver, proper installation and efficient service when evaluating suppliers whereas *purchasing agents* attempt to maximize value for money and want efficient logistics. *Engineers*, on the other hand, are characterized for looking for superior quality. Depending on how oriented the company is towards one element, the decisions will be made accordingly where one aspect may be prioritized. For example, technology-oriented firms are more likely to prioritize the criteria of the engineers in the company when making a purchasing decision. (ibid) According to Sheth (1973), product quality, delivery time, quantity of supply, after-sales services and price, in that order, are the most common goals of business buyer behavior. Other factors that may influence the decision are reputation of the company, size, location, the relationship with the supplier, technical knowledge and understanding, source loyalty, personal goals, emotions as well as salesmanship. (Frederick et al., 1974; Sheth, 1973)

The business purchasing process may be quite time consuming, requiring information from several different sources and include a number of inter-organizational relationships. (Frederick et al., 1974; Lincoln et al., 1984) The technical complexity of purchase decisions as well as the inherent uncertainty of investments puts pressure to evaluate numerous elements which therefore leads to the fact that the process takes a long period of time.
(Williams & Rao, 1980). According to Kotler & Armstrong (2008, pp. 150-151), the greatest differences between business and consumer markets are evident in the marketing structure and demand where business markets are characterized for having fewer but larger buyers that are more geographically concentrated. This aspect is also emphasized by Håkansson & Wootz (1979) that acknowledge that an industrial supplier’s ten largest customers may actually account for a large share of the firm’s sales. They also recognize that the power dependence relationship between buyers and sellers in industrial markets is more even or symmetric due to the fact that buyers in this market have larger resources meaning that they interact more with their suppliers than buyers in consumer markets. Consequently, buyers and sellers often develop close and long relationships. According to Sharma et al. (2001) the even power dependence relationships between buyers and sellers are also a result of increased information availability due to technological development and globalization.

Another characteristic of business markets is that demand is more inelastic that consumer markets meaning that buyers are not as affected by price changes in the short run (Kotler & Armstrong, 2008 p. 151). In addition, the price sensitivity of current buyers in future purchasing decisions has been identified as being influenced by their customer satisfaction (Qualls & Rosa, 1995). High levels of satisfaction have also been found to be directly linked to repeat patterns where buyers purchase from the same supplier during a longer period of time (Williams & Rao, 1980).

4.4.4 Pricing strategies

Being successful in industrial markets today requires that companies are able to pursue an effective pricing strategy. The pricing issue is a particularly sensitive aspect for companies that are market leaders in their industries since these firms have to protect their market position. The main gist of a pricing strategy is to keep prices at par with the value that buyers see in the brand as well as always fulfill the promised value. High market share combined with high prices can only be achieved if the product or service provides the customer with high value. (Kotler & Armstrong, 2008 p. 281; Morris & Calantone, 1990; Hinterhuber, 2004)

Pursuing low price strategies is often argued as being an effective approach to obtain more orders and customers. Avila & Dodds’ (1993) study, however, clearly depicts how buyers appreciate attributes such as product and service over price, which, in fact, is regarded as being secondary. This is also emphasized by Bundschuh and Dezvane (2003) who found that
customers appreciate if a company focuses their efforts on other factors like response time, parts coverage, after-hours availability and add-on services rather than price.

A company’s pricing strategy is only one of many parts of its larger marketing and corporate strategy which therefore has to be formulated before a company can begin compiling its pricing strategy. Once the company has developed a relevant corporate strategy where it targets a specific market and position, the objectives of its pricing strategy should be quite clear. The company’s pricing plan involves setting a number of objectives that generally derive from its overall corporate strategy as well as implementing a number of control procedures and coordination plans so that the pricing blends with the rest of the company’s strategic management and action plans. The integral role of pricing in a company’s overall strategy means that it should be viewed as a long-term strategic process that should be based on annual pricing plans containing details about pricing goals, strategies and efforts by different divisions during the year. Short-term plans are recognized as resulting in lower sales, loss of customers, lower market share and inevitably even lower profitability. For example, a company that is pursuing an overall differentiation strategy has the opportunity to charge higher margins than competing firms due to the higher value that is being provided. Customers that see little differences between competing products are generally more price sensitive which highlights the importance of having an effective market communication to transfer information about the benefits and values of a firm’s offerings. Brand loyalty, which is developed through differentiation, also contributes to this since it makes customers less price sensitive. (Kotler & Armstrong, 2008, p. 275, 281; Lancioni, 2005; Morris & Calantone, 1990)

Industrial markets are characterized by prices that a company charges for its offerings reflect the value and the degree to which customers are willing to pay for receiving this value. A majority of firms are today, however, basing their pricing strategy on costs mainly due to the ease to implement and manage this. The set prices are therefore often not appropriate given the conditions in the industry. Conducting a strategy that is based on the market involves conducting a proper analysis of a number of both internal and external elements. (Morris & Calantone, 1990) A cost-based pricing strategy, which is product driven, involves setting prices based on the costs of manufacturing, distributing and selling a product with an added margin. Value-based pricing, on the other hand, is when companies set their prices depending on the buyer’s perception of the value of the product or service. The strategies and prices of
competitors is an important aspect when conducting a market-oriented strategy since buyers base their decisions and judgments in comparison to similar offerings provided by other firms in the market. If buyers perceive that the firm’s products provide a higher value, the company can then charge a higher price. In contrast, if they perceive the company’s products as being of lower value, the company will have to lower its prices or make adjustments in buyer perceptions for example through market communication. (Kotler & Armstrong, 2008, p. 267 & 281; Jain & Laric, 1979) Lancioni (2005) identifies the value-adding components in a firm’s pricing as being dependent on product availability, form utility, level of R&D and quality. Product availability is a factor of the company’s inventory in relation to market demand whereas form utility is the ability of the company to present buyers with products that are customized which ultimately requires flexibility and good response time. The level of R&D invested a firm can be seen in its innovative and reengineering capabilities. Figure 5 depicts the main considerations in setting an appropriate price.

**Figure 5: Considerations in setting price**

<table>
<thead>
<tr>
<th>Customer perceptions of value</th>
<th>Other internal and external considerations</th>
<th>Product costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price ceiling</td>
<td>Marketing strategy, objectives and mix</td>
<td>Price floor</td>
</tr>
<tr>
<td>No demand above this price</td>
<td>Nature of the market and demand</td>
<td>No profits below this price</td>
</tr>
<tr>
<td>Competitors’ strategies and prices</td>
<td></td>
<td></td>
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</tbody>
</table>

Source: Kotler & Armstrong, 2008 p. 267

The long-term orientation of a firm’s pricing strategy requires a certain level of flexibility for changes in environmental and market conditions. The importance of flexibility in a firm’s pricing for profitability can also be supported by the willingness of different customers to pay different prices for the products that they are demanding depending on what drives their purchasing decisions and the nature of the demanded product. (Morris & Calantone, 1990) Industrial markets are greatly influenced by other elements such as credit terms, delivery schedules, promotion and quantity discounts which make flexible price setting of utter importance (Jain & Laric, 1979). Generally, pricing objectives and policies are set by the top
management while still allowing salespeople to negotiate with customers within certain price ranges (Kotler & Armstrong, 2008, p. 276). Some firms also insert different levels of pricing depending on what is included in an offered package which allows for some degree of customization and offered flexibility in pricing (Bundschuh & Dezvane, 2003).

4.4.5 The importance of marketing

Successful marketing involves targeting a market that presents the best opportunity for a firm and where it can develop its offerings in a manner that enables it to deliver and communicate a chosen position that provides benefits for customers. Market focus is of upmost importance since not all customers are suitable for the company’s offerings and positioning. In order to be able to deliver and communicate this position, the company has to design the marketing mix consisting of the product, place, price and promotion so that the strategy is supported from all angles. In other words, the ultimate goal of marketing is to create customers and this is done by creating an environment where customers appreciate the supplier’s offerings. Effective marketing allows a company to create a beneficial image, recognition and customer retention by focusing on a certain target market. (Kotler & Armstrong, 2008 p. 195; Jha et al., 2009 p. 15, 21, 35, 402, 456; Hudson, 2006; Graham, 2001) In addition to this, top performing companies have been identified as greatly accentuating advertising and sales which clearly expresses the great importance of marketing for organizational performance (Hooley & Jobber, 1986). Marketing has been recognized as being of particular importance in markets where products are sophisticated and technologically complex making the difficult to understand. Firms engaging in communicating values inherent in their offered products and values are thereby able help current and potential customers to take new investment decisions. Market communication and promotional activities have been recognized to be of vital importance when launching new products due to the challenges and risks that this situation brings. Communicating the positioning of the new offerings during this time supports the ability of the product to be accepted and appreciated by the market. (Chen et al. 2007) Promotional activities are also important when customers have a difficult time recognizing the differences between brands (Park et al., 1988). In this situation, marketing may be the only tool that enables customers to make a decision that is not based solely on price.

Park et al. (1988) have identified direct communication effects, indirect communication effects and indirect sales facilitating effects as the three most important effects of advertising in an industrial market. The direct communication effects of advertisement is described as
affecting purchasing decisions through the creation of awareness and attraction at a brand-level which allows the customer to realize a difference between the firm’s brand and competing brands. The customer will subsequently prefer the brand over others leading to a purchase decision and later a repeat purchase behavior due a favorable usage experience (see Figure 6).

**Figure 6: Direct communication effects of advertising**

![Figure 6: Direct communication effects of advertising](image)

Source: Park et al., 1988

Promotional activities also have indirect communication effects in the form of word-of-mouth communication which basically means that information is spread to other actors in a market through a recipient. This information can be conveyed between end-users, between intermediaries or among end-users and intermediaries (Figure 7). Indirect communication effects can be beneficial in the sense that they may strengthen existing brand awareness as well as differentiate the brand from competing brands to individuals that have not seen or been exposed to the advertisement at all. In the long run this may facilitate in creating brand loyalty and commitment.
Advertising has also been recognized as having indirect sales facilitating effects which basically means that it facilitates the relationship between the company and end-users and intermediaries (Figure 8). These effects can be identified in that it may enhance the company’s name and reputation though the visibility and credibility it gains from promotional activities. This may consequently convince customers to make a purchasing decision. Another important effect of promotional activities is that it facilitates salespeople in their sales efforts since it manages to establish a certain level of brand awareness and favorable perception of the brand which in turn creates a foundation for further marketing. The study by Park et al. (1988) also depicts how advertising can be a means of retaining and recruiting high performing sales staff as wells as motivating them to perform better. The importance of marketing as an effort to create a beneficial environment for a company’s salespeople has also been recognized by Graham (2001).
Graham (2001) recognizes the need of creating a promotional plan that enables the company to demonstrate its knowledge and expertise in its offerings. The article also highlights the importance of creating a marketing program that not only focuses on potential customers but also on how to care about and give attention to current customers.

Communicating a company’s target position and value to inform, persuade and remind customers to prefer its products and services over competitors can be conducted by using a number of tools. Personal selling is an important and effective way of marketing in industrial marketing, particularly when providing customers with total solutions (Park et al., 1988; Dunn & Thomas, 1986). This form of promotion has the advantage that it allows the company and the customer to build long-term relationships by solving customers’ problems. This relationship consequently may give a preferred access to customers’ future plans allowing the firm to prepare for coming investments. The importance of personal selling for the company’s future relationships places emphasis on the need to develop salespeople’s’ skills in relationship development and management. Another advantage of personal selling is that it comes with a great deal of accountability meaning that the marketing department acquires knowledge about the results of their investments instantly. The sales force consisting of individuals is another aspect that can be perceived as a disadvantage of personal selling since it actually means that changing personnel can be challenging as well as expensive. The involvement of individuals inevitably may also create deviations in the company’s policies in managing elements like price and product benefits. (Kotler & Armstrong, 2008 p. 386; Powers, 1989; Harker, 1998; Gadde et al., 2003)

Direct marketing through direct mail, magazines, catalogs and telephone marketing have the advantage that they are messages that are sent to specific individuals or firms which allow them to be customized (Kotler & Armstrong, 2008 p. 386). Research by Vredenburg and Droge (1987) highlights how customers see publications sent by suppliers as valuable sources of information and that the contents of these are greatly discussed within the company thus creating the positive effects of word-of-mouth. Trade shows are also other appreciated promotional activities by which a company can reach out to current and potential customers (Park et al., 1988).
4.4.5.1 Leveraging competencies

Customer value is recognized as being a cornerstone in consumer and business behavior and relationship marketing today (Ngo & O’Cass, 2009). Therefore, understanding, creating, delivering, capturing and sustaining customer value are commonly regarded as the keys to successful marketing that will provide the company with a platform to grow and increase profitability. This requires that the firm is able to present its competencies and capabilities into customer arguments that are relevant and appreciated. Leveraging products’ unique values compared to competing offerings also results in firms being less sensitive to prices. Therefore, competence-based marketing is also a path towards avoiding price wars since it enables the firm to present customers with value propositions instead. (Jha et al., 2009 p. 39; Håkansson & Waluszewski, 2005; Ritter, 2006; Hinterhuber, 2004) It is commonly argued that business buyers aim at making rational decisions where factors such as price and quality are taken into consideration. However, a number of authors like Lindgreen et al. (2010) highlight that industrial buyers, much like consumers, make their purchasing decisions based on emotional and functional benefits that may evolve around the reputation, service and innovation that is part of the offering. Factors like these are commonly all integrated under a common brand umbrella and are thus important aspects that a company should try and leverage. This is particularly the case when the business buyer perceives that quality and price requirements are satisfied.

Performing a customer value analysis is an integral part in discovering a company’s strengths that should be leveraged in its market communication. This involves recognizing attributes and benefits that customers in the particular industry actually value and that differentiate the company from its competitors. Customer relationship management is an effective way of identifying buyer behavior and their needs and demands. By identifying valued attributes the company can efficiently respond to different opportunities in the market and outline personalized value messages to buyers. Personalizing communication is of upmost importance today when buyers are being overwhelmed with information from different sources. Segmenting and customizing communication with clear and effective message content allows a company to highlight unique competencies and characteristics that are of value for current and future customers. Market communication of a firm’s competencies and capabilities are also importance since these are more competitive. Whereas products are easy for competitors to duplicate, competencies are recognized as being hard to understand and duplicate. (Jha et
Ritter (2006) underlines the importance of informational messages for industrial purchasers since they are able to comprehend technical and product-related information quite easily. Relational messages where information is associated with the parent brand that has strong brand equity can also be beneficial since it provides customer trust and confidence in new products. The article also describes how a company can use its market communication to portray different competencies in the firm; process competence, product competence, market competence and finally customer and network competence. A company can also leverage other associations in its market communication that involve aspects such as collaborations or alliances with other companies that provide an additional characteristic to offerings that customers value (Jha et al., 2009 p. 263).

4.4.5.2 Leveraging customer references

The initial phase of a business-to-business relationship is often characterized by low experience and high uncertainty. The potential buyer’s uncertainty concerns whether or not the supplier will in fact deliver its value proposition. In situations such as this, it is vital for suppliers to seize the opportunity to leverage their customer references as a means of increasing credibility and reducing potential buyer concerns. A customer reference is basically the utilization of previous or existing customers to advocate a supplier’s relationship, technological, product and/or service capabilities. (Jalkala & Salminen, 2009) The idea behind utilizing references is that existing customers attract new customers given that a company’s previous and existing sales are the sincerest reflection of its talent (Hudson, 2006).

References can be conveyed in numerous ways for various reasons. Testimonials, hosting reference visits, providing information, contributing a case article in trade journals, press releases, reference lists, promotional material, seminars and the internet are all means of communicating past and present customer sentiments regarding a supplier. Proper reference exploitation allows for suppliers to sell more to existing customers, pursue new customers, enter new promising markets and assist marketing new innovative products. (Salminen & Möller, 2006) Thus, references are considered valuable marketing tools for growth strategies of firms in industrial environments, particularly those companies operating in the field of process technology, where convincing buyers about supplier technological expertise, partnership abilities, reliability and the total value of the solution is imperative when
competing in bidding. (Jalkala & Salminen, 2009) Customer reference list’s importance is generally taken for granted (Salminen & Möller, 2006). However, given supplier’s dependence upon them, it is therefore necessary that references are presented properly in order to maximize the gain. Jha et al (2009, p. 178) mention the seven keys to successfully developing customer reference stories as follows:

1. State the customer’s needs in compelling terms.
2. Emphasize the barriers in satisfying customer needs.
3. Describe the company’s solution in terms of value.
4. List quantified results, especially those that affect return on investment (ROI).
5. Differentiate offerings from those of competitors.
6. Provide a brief comprehensive summary.
7. Include numerous customer quotes.

The above recommendations suggest that an adequate reference description focuses on detailing the specific product or project delivery starting with the customer’s need and finishing with a qualitative and quantitative description of the delivery and results of the supplier’s solution (ibid).

Customer references are not to be confused with word-of-mouth marketing, which refers to informal customer communication between each other about a particular supplier and its products and their performance. Contrary, customer references are when suppliers actively employ their portfolio of past and present customers in their marketing functions. Hence, large customers that would otherwise have no informal contact with small customers or vice versa and customers is distant locations are able to influence each other’s purchasing decisions via reference lists. With that being said, it is beneficial for suppliers to have large and prestigious or demanding customers on their reference list so that it might provide a valuable reference effect where smaller buyers mimic the purchasing behavior of large successful players in the industry. (Jalkala & Salminen, 2009) Once a supplier earns the trust of a buyer, they will likely be more reluctant to switch suppliers in the future (Hudson, 2006).

4.4.6 Organizing after-sales services
Customers’ increasing consciousness about value has led to an increasing demand for more intangible offerings apart from delivering competitive products. Superior customer service in terms of product delivery and after-sales services are today an important integral part of
customers’ product purchase decisions. (Loomba, 1998; Morris & Davis, 1992) After-sales service support can be described as all activities that the company engages in, in order to make sure that the product serves its purpose in a proper manner during its entire life span. This includes services such as maintenance, repair, product installation, commissioning, spare parts supply and product upgrading. (Gaiardelli et al., 2006; Loomba, 1998; Cavalieri, 2009) After-sales service is something which commonly is a source of dissatisfaction for customers not due to that they expect products to be perfect but because they expect instant help and solutions to their problems (Agrawal et al., 2006).

After-sales service is increasingly viewed as an important source of differentiation for companies, particularly in an industry where most companies apply the same standards in the production process making it difficult to distinguish the company’s products from competitors, and may therefore be a strategic means of retaining customers. Providing flawless performance in terms of technical, economical and qualitative performance is currently regarded as means of surviving in highly competitive markets making it increasingly important to offer other services. These services also provide the foundation for long, strong and stable customer relationships. In addition, the company is able to extend and leverage its presence even after the initial product sale. After-sales services are also important sources of revenue generation for firms due to the high profit margins that these provide in exchange for relatively small investment compared to the margins that exist for the original purchase. Apart from this, it is also a great method for companies to market and promote the company’s brand. (Cavalieri et al. 2009; Agrawal et al., 2006; Gaiardelli et al., 2006) A company’s after-sales service is also a great source of information and knowledge for new product development since it allows for a thorough evaluation of products (Goffin & New, 2001). In addition it gives the company a deeper knowledge about customers’ technologies, processes and future plans which provides them with information that competitors cannot obtain easily. This in turn provides the company with a sustainable competitive advantage. (Agrawal et al., 2006)

The strategic role of after-sales in a company’s operation makes it even more important that it is well functioning and appreciated by customers thus requiring an efficient management structure (Gaiardelli et al., 2006). After-sales networks for companies that are dispersed are normally found to be quite complex since they operate in a market that is unpredictable and inconsistent due to that demands most often appear unexpectedly (Agrawal et al., 2006).
Having an organizational structure that supports an efficient provision of after-sales services is therefore of upmost importance. Centralizing the service support means that all responsibility, accountability and control is conducted from one single corporate center. A centralized support function can under the right conditions be an efficient way of ensuring that the management is optimized and that specialists are available at the right places at the right time. The central office can also control that someone is responsible for conducting the job as agreed and that the right level of support is provided to the company’s network of customers. Centralization also allows for reaching economies of scale in a company’s after-sales support and is identified as being beneficial for specialization and efficiency in providing services. However, centralization sets demands on communication since the central office is expected to maintain control which instead may strain the communication since compromises have to be made. Decentralization is recognized as being beneficial for a company’s support activities when it allows the dispersed units to be responsible and accountable for their operations in a manner that does not create confusion or disorder. Decentralization has the advantage that it allows for adaption to local requirements meaning that managers in each local office can make appropriate decisions knowing what is required from their own market. Lack of communication between the different divisions may, however, lead to that the managers make decisions that are most optimal for only their own region and not for the rest of the organization. In order to achieve coordination in such an organization, communication and a realization of interdependence for efficiency is important. In fact, the realization of an increased need of coordination in such as organization normally results in better communication than in a centralized organization. (Vorster, 2008; Agrawal et al., 2006; Alonso et al., 2008) Hybrid versions between centralized and decentralized organizations where some functions and activities are controlled by the head office and others controlled by local offices are often recognized as being the most optimal in today’s increasingly complex organizational structures and highly competitive markets (Wickman, 2008). A company’s after-sales services should, in other words, be organized in a manner that allows it to respond the dynamics of the market (Agrawal et al., 2006).

4.5 A framework for value creation in markets
Value creation in business markets has undergone an incredible transformation during the past century. Sharma et al. (2001) have developed a framework for creation of value in firms which includes two strategic processes; the management decision process and the value
creation process consisting of the technology deliver process, the product delivery process and the customer delivery process.

**Figure 9: The value creation framework**

By carefully distributing and optimizing the company’s resources to a selected number of customers, the firm is able to create value in all parts of the value creation process. The value creation process, in turn, supports the company to formulate and develop suitable value-based strategies. According to Sharma et al. (2001) companies that develop value-based strategies without formulating an appropriate value creation process cannot succeed in the market. The management decision process describes the increasing customer selectivity and differentiated offerings that characterize firms aiming at creating value today. Business markets are becoming increasingly selective about customers and are focusing on serving a smaller group of buyers not only due to the high degree of diversity of firms in terms of size, locations and type of business but also because managers have more information about their customers. Customer orientation enables firms to optimize their distribution of resources while simultaneously providing value to a specific group of customers. This allows them to serve the demands of the chosen customers in a more efficient and better manner. (ibid)

The technology delivery process includes the delivery of value in the company’s R&D and product development efforts. This includes defining the company’s current knowledge resources, attaining new knowledge as well as maximizing the firm’s output given the

Source: Sharma et al. (2001)
available resources. The product delivery process involves providing value during product development as well as when delivering tasks in order to ensure that products meet the demands and needs of customers and internal requirements on quality, costs, delivery and speed-to-market. An increasing number of companies are today investing in customization of products and services with the aim to nurture individual relationships. The final step in the value creation process includes the customer delivery process which is described as providing value through effective supply-chain management, covering sales, proper execution, and service of products. Sharma et al. (2001) emphasize the importance of sharing information on the internet for firms today in order to satisfy customers. Value creation strategies of the firm include value-based pricing as well as value-based communication that are based and dependent on the value creation process. According to Sharma et al. (2001), customers are increasingly disowning quality as a sufficient factor for paying a premium price and are instead valuing other factors such as cycle time reduction, cost saving and customer service. The communication of value is another aspect that has to be taken into consideration and is recognized as being an integral part of its value creation strategies. (ibid)

4.6 Conclusion
Several generally accepted understandings and theories within the field of industrial strategic management have been examined and will be further referenced to in the following chapters as a means for the authors to analyze their empirical data in a relevant context. The theories described above provide the foundation for the authors’ ability to analyze the empirical evidence in a structured manner. The authors intend to employ all the above mentioned theories when analyzing how the case company can increase customer value perceptions and thus compete by means other than price. In addition, The value creation model framework presented in 4.5 and The five major elements of strategy presented in 4.3 will serve as a basis for the analysis and recommendations. The value creation model framework is deemed appropriate for this study due to its extensive description of the entire value creation from the management decision through the value creation process and finally value-based strategies. As for The five major elements of strategy, its necessity lies in its straightforwardness and comprehensiveness in the sense that it clearly distinguishes each component comprising a strategy which ultimately determines a company’s approach to all its value enhancing activities. If the opportunity to adapt or contribute to existing theory should come about after
analyzing the empirical data, the authors intend to make every effort to produce an addition or modification.
5 EMPIRICAL EVIDENCE

The goal of this chapter is to present the empirical data, which was collected through primary research via interviews, conducted with both Alfa Laval employees and customers. These findings essentially reveal what attributes Alfa Laval employees perceive their customers to value as well as what virtues the customers actually claim to value. The empirical data will guide the authors to make relevant recommendations on how to strategically manage the company’s value propositions.

5.1 Introduction

A number of employees from various departments and customers of all sizes and degrees of loyalty and satisfaction in regards to Alfa Laval were interviewed in order to collect the empirical evidence for the authors’ study. Naturally, having interviewed over 20 individuals, not all employees represent the same department or job function and so the authors decided to draft different sets of relevant questions for each separate department. Employees holding positions as regional managers, market segment managers, AIFS, engineering & sales, parts & services, equipment, process technology and the former MD were all asked to answer the given questions from the perspective of their position and related services. The majority of the structured questions concerned how Alfa Laval perceives its customers to value its brand. Therefore, many questions focused on quality, technology, marketing and customer relationships, competition, customer demands, customer satisfaction, Alfa Laval’s own organizational structure’s strengths and weaknesses as well as after-sales service. Employees were interviewed a week prior to customer interviews so trends in employee responses were later used to draft the authors’ customer interview guides. This allowed the authors to gather responses to similar questions from both employees and customers and then compare the answers. A wide variety of customers were interviewed which exposed the authors to skeptical as well as highly satisfied customer opinions of Alfa Laval’s products and after-sales services providing for comprehensive results.

In an effort to clarify the exhibition of the empirical data, the authors present their findings first in written summaries of employee and customer responses as seen in Appendix II and in this chapter in the form of a table. The table is structured according to topic in relation to the factors that have been identified as value enhancers. This format was selected as a way of identifying means other than price that Alfa Laval can compete upon. These value enhancers will then be used in the analysis to answer the research question as well as sub-questions posed.
### Table 3: Summary of empirical evidence

<table>
<thead>
<tr>
<th>Topic</th>
<th>VOT Employees’ Responses</th>
<th>VOT Customers’ Responses</th>
<th>Dairy Employees’ Responses</th>
<th>Dairy Customers’ Responses</th>
</tr>
</thead>
</table>
| Comprehensive corporate strategy | - Answers were completely scattered when employees were asked whether Alfa Laval targets market share or individual customers  
- Responses to the question asking which arena Alfa Laval should target to capture more market share were highly varied and contradictory to each other  
- Alfa Laval underestimates the amount of time it takes to complete a project leading to delays | - No corporate strategy is exists or is used to guide operations within each segment  
- Employees then shape their own motivations in the market  
- Answers were completely scattered when employees were asked whether Alfa Laval targets market share or individual customers  
- Responses to the question asking which arena Alfa Laval should target to capture more market share were highly varied and contradictory to each other  
- Alfa Laval underestimates the amount of time it takes to complete a project leading to delays |
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Innovation</strong></td>
<td>-Being more innovative will allow Alfa Laval to capture more market share from both local and international suppliers</td>
<td>-Alfa Laval needs to innovate in terms of new technology and continuous updates</td>
<td>-Gea Niro’s technology is just as good as Alfa Laval’s</td>
<td>-Alfa Laval lacks innovation</td>
</tr>
<tr>
<td></td>
<td>-No new innovation has been introduced in VOT since 1998</td>
<td>-Alfa Laval is lagging behind DeSmet</td>
<td>-Alfa Laval’s technology is better than all of its competitors</td>
<td>-Alfa Laval needs to invest more in new innovation and technology and improved and updated equipment</td>
</tr>
<tr>
<td></td>
<td>-Alfa Laval’s technology is better than all of its competitors</td>
<td>-DeSmet offers new technologically advances products</td>
<td>-Alfa Laval is a trend setter in terms of innovation</td>
<td>-Competitors in the industry are ahead of Alfa Laval</td>
</tr>
<tr>
<td></td>
<td>-Alfa Laval is a trend setter in terms of innovation</td>
<td>-It seems as if Alfa Laval is not focusing on innovation and design improvements</td>
<td>-Alfa Laval must invest in re-engineering and optimizing its process solutions in order to remain competitive as customers are looking for new innovation</td>
<td>-Between Alfa Laval and Gea Niro, customers choose the one with the best perceived technology. If quality is at par with each other, price and offered services are the decisive factors</td>
</tr>
<tr>
<td></td>
<td>-Alfa Laval must invest in re-engineering and optimizing its process solutions in order to remain competitive as customers are looking for new innovation</td>
<td>-Alfa Laval needs to improve on operating cost and maintenance costs to remains competitive</td>
<td></td>
<td>-Gea Niro is considered to provide good and well engineered machines</td>
</tr>
<tr>
<td>Topic</td>
<td>VOT Employees’ Responses</td>
<td>VOT Customers’ Responses</td>
<td>Dairy Employees’ Responses</td>
<td>Dairy Customers’ Responses</td>
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<td>------------------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------</td>
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</tr>
<tr>
<td><strong>Product offering</strong></td>
<td>-The Indian market is more project oriented</td>
<td>-The majority of customers prefer their supplier to provide an entire process because it’s easier to have one supplier than many</td>
<td>-The industry perceives Gea Niro as being the best supplier in the industry</td>
<td>-The majority of customers prefer their supplier to provide an entire process because it’s easier to have one supplier than many</td>
</tr>
<tr>
<td></td>
<td>-Today Alfa Laval is a provider of both components and entire processes, although the company focuses on core components</td>
<td>-Poor execution of projects</td>
<td>-Today Alfa Laval is a provider of both components and entire processes, although the company focuses on core components</td>
<td>-Poor execution of projects</td>
</tr>
<tr>
<td></td>
<td>-Alfa Laval is an equipment company</td>
<td>-Do not have good engineering or project coordination teams</td>
<td>-Alfa Laval is an equipment company</td>
<td>-Do not have good engineering or project coordination teams</td>
</tr>
<tr>
<td></td>
<td>-Focusing on components allows for quick response in terms of technology delivery</td>
<td>-Inability to deliver products on-time</td>
<td>-Focusing on components allows for quick response in terms of technology delivery</td>
<td>-Execution problems due to lack of human resources</td>
</tr>
<tr>
<td></td>
<td>-Lacks in offering good complete solutions due to a different management strategy</td>
<td>-Alfa Laval should focus more on processes than products</td>
<td>-Alfa Laval is a complete solution provider and has its own fabrication possibilities and that is why customers choose them over DeSmet</td>
<td>-Inability to deliver products on-time</td>
</tr>
<tr>
<td></td>
<td>-Alfa Laval is one of the best companies in providing total solutions</td>
<td>-Alfa Laval is a complete solution provider and has its own fabrication possibilities and that is why customers choose them over DeSmet</td>
<td>-Lacks in offering good complete solutions due to a different management strategy</td>
<td>-Customers are willing to pay 10-20 percent more for a total solution</td>
</tr>
<tr>
<td></td>
<td>-The greatest threat to Alfa Laval is international suppliers</td>
<td>-Alfa Laval is one of the best companies in providing total solutions</td>
<td>-Alfa Laval is one of the best companies in providing total solutions</td>
<td>-Gea Niro is ahead of Alfa Laval in providing complete solutions</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-Customers think it’s</td>
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Chapter 5
Empirical Evidence

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<thead>
<tr>
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<th>VOT Customers’ Responses</th>
<th>Dairy Employees’ Responses</th>
<th>Dairy Customers’ Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>for component parts and local suppliers for total solutions</td>
<td>solutions</td>
<td></td>
<td>impossible for a company to survive as being only a component manufacturer today</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-There are many advantages to providing both products and processes</td>
<td></td>
<td>-Gea Niro is preferred by customers wanting a total process due to the company’s process orientation</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-Supplying processes is much more complicated since it involves many different parties and requires completely different knowledge</td>
<td></td>
<td>-Gea Niro’s knowledge and understanding of process solutions is appreciated</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-Only selling components allows Alfa Laval to reach out to more customers while Alfa Laval can only focus on a few projects simultaneously</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Pricing strategies**

- Price is the most influential factor among customers when making a purchasing decision
- High quality and product life justify higher prices but Alfa Laval tries to focus on technology and competes on features rather than price in
- Alfa Laval charges too high of prices and should be more flexible
- Price is the most influential factor among customers when making a purchasing decision
- High quality and product life justify higher prices but Alfa Laval tries to focus on technology and competes on features rather than price in
- Alfa Laval charges too high of prices and should be more flexible
- Gea Niro’s prices are lower because Gea Niro is desperately trying to gain more market share
<table>
<thead>
<tr>
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<tbody>
<tr>
<td></td>
<td>order to avoid price wars in a cost-driven market</td>
<td>order to avoid price wars in a cost-driven market</td>
<td>-Gea Niro’s prices are the same as Alfa Laval’s</td>
<td>-Alfa Laval has high prices for component parts</td>
</tr>
<tr>
<td></td>
<td>-Alfa Laval employs a cost-plus pricing strategy</td>
<td>-Alfa Laval employs a cost-plus pricing strategy</td>
<td>-Because Alfa Laval has no major technological difference it can leverage, it uses cost-plus pricing</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-Alfa Laval looks at competitors prices to compare, adds a margin and then sells the product</td>
<td>-Concerning components, there is a major technological difference and so Alfa Laval can use a value-based pricing strategy, but they don’t</td>
<td>-Alfa Laval’s price margins are too rigid</td>
<td>-Alfa Laval will not sacrifice</td>
</tr>
<tr>
<td></td>
<td>-The margin is not based on value, but it should be</td>
<td>-Alfa Laval’s price margins are too rigid</td>
<td>-Alfa Laval’s aim with its pricing strategy is to target market share</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-Value-based pricing is only appropriate for components, not projects</td>
<td>-Alfa Laval needs to be more flexible and have a fixed margin per annum rather than per product</td>
<td>-Alfa Laval’s aim with its pricing strategy is to target market share</td>
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<tr>
<td></td>
<td>-Alfa Laval’s price margins are too rigid</td>
<td>-Alfa Laval’s aim with its pricing strategy is to target market share</td>
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<td></td>
<td>market share</td>
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<td></td>
<td>- Alfa Laval could gain more market share if prices were lowered, but then the right margins would not be achieved</td>
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<td></td>
<td>- Pricing strategies should involve lowering prices, at least initially, and then raise prices once the customer is acquired</td>
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<td></td>
<td>- In the face of low-price competition, regional managers must educate customers about the value they get from purchasing Alfa Laval products</td>
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<td></td>
<td>The importance of marketing</td>
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<tr>
<td></td>
<td>- VOT participates in industry exhibitions once or twice a year depending on budget allowance</td>
<td>- Customers must approach Alfa Laval themselves when a new component or project is needed</td>
<td>- No marketing activity is currently taking place now</td>
<td>- Customers must approach Alfa Laval themselves when a new component or project is needed</td>
</tr>
<tr>
<td></td>
<td>- VOT marketing activity is valuable, particularly for new</td>
<td>- In most cases customers are only contacted when a new</td>
<td>- Milk powder rely on keeping in contact with customers</td>
<td>- In most cases customers are only contacted when a new</td>
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| technology    | -Print ads are also run to keep customers informed of their market presence  
                 -There is more room for marketing in their activities  
                 -One regional manager solicits business right from the conceptual stage in order to educate the customers in order to shape their demands. This makes it easier to spot new inquiries, negotiate later and avoid price competition and actively seek new customers. Such a proactive approach is reflected in the fact that this region has the highest gross margins of all Alfa Laval branch offices.  
                 -Regional managers keep in regular contact with customers in order to keep them informed | product is launched or when they want to inform customers about something  
                 -Some customers have informal relationships with Alfa Laval employees which ensures that they are continuously updated  
                 -Alfa Laval should take a more proactive marketing approach meaning that Alfa Laval should be in contact with them more often to inform them about new technology and developments  
                 -Approaching customers will also allow for customers to share their needs which may lead to new innovation  
                 -DeSmet is appreciated due to the newsletters they frequently send out to customers  
                 -References, Alfa Laval | Alfa Laval’s marketing presence since they are well known in the industry  
                 -One regional manager solicits business right from the conceptual stage in order to educate the customers in order to shape their demands. This makes it easier to spot new inquiries, negotiate later and avoid price competition and actively seek new customers. Such a proactive approach is reflected in the fact that this region has the highest gross margins of all Alfa Laval branch offices.  
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<tr>
<td></td>
<td>informed</td>
<td>contacts and word-of-mouth are the main sources of information</td>
<td></td>
<td>-Newsletters, magazines, conferences, trade fairs and the internet were other commonly mentioned sources of information</td>
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<td>-Newsletters, magazines, conferences, trade fairs and the internet were other commonly mentioned sources of information</td>
<td>-Alfa Laval is bad at leveraging its values but could ask for a higher price if they started doing so</td>
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<td></td>
<td>-Premium quality offerings</td>
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<td>-Reliable and committed</td>
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<td></td>
<td></td>
<td>-Innovative</td>
<td>-Innovative, long history in India, closeness to customers, Gea Niro’s technology is slightly superior to Alfa Laval’s, believe their international image makes customers think that their quality and prices are higher than local competition</td>
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<td></td>
<td>-Long history in India</td>
<td>-Trustworthy and reliable products</td>
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<td>-Closeness to customers</td>
<td>-Low maintenance cost machines</td>
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<td></td>
<td>-Best supplier of domestic oil refining mills</td>
<td>-Provide proper and good guidance within the entire</td>
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<td></td>
<td></td>
<td>-Believe their international</td>
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**Strengths and competencies**

- Alfa Laval is bad at leveraging its values but could ask for a higher price if they started doing so
- Premium quality offerings
- Reliable and committed
- Innovative
- Long history in India
- Closeness to customers
- Best supplier of domestic oil refining mills
- Believe their international
- Low utility consumption
- Good references
- DeSmet’s technology is at par with Alfa Laval’s, leaving price as the decisive factor
- View Alfa Laval as an Indian company due to its long history and integration with local companies in India
- Trustworthy and reliable products
- Low maintenance cost machines
- Alfa Laval is bad at leveraging its values but could ask for a higher price if they started doing so
- Premium quality offerings
- Reliable and committed - innovative, long history in India, closeness to customers, Gea Niro’s technology is slightly superior to Alfa Laval’s, believe their international image makes customers think that their quality and prices are higher than local competition
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- Low maintenance cost machines
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<td></td>
<td>image makes customers think that their quality and prices are higher than local competition</td>
<td>-Have own R&amp;D based on long experience in industry</td>
<td>-Think customers associate Alfa Laval with high quality after-sales service</td>
<td>process line</td>
</tr>
<tr>
<td></td>
<td>-Think customers associate Alfa Laval with high quality after-sales service</td>
<td>-Appreciated sales team</td>
<td>-Good delivery time, better than Gea Niro’s</td>
<td>-Appreciated sales team</td>
</tr>
<tr>
<td></td>
<td>-Good delivery time</td>
<td>-In-house production</td>
<td>-Competitive payback period</td>
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<tr>
<td></td>
<td>-Competitive payback period</td>
<td></td>
<td>-Brand image</td>
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<td></td>
<td>-Brand image</td>
<td></td>
<td>-Won’t abandon customers in times of need</td>
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<tr>
<td></td>
<td>-Won’t abandon customers in times of need</td>
<td></td>
<td></td>
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<tr>
<td>Factors valued when making a purchasing decision</td>
<td>-In-house production of core products</td>
<td>(In order of importance specified by customers)</td>
<td>-Collaboration with Anhydro</td>
<td>(In order of importance specified by customers)</td>
</tr>
<tr>
<td></td>
<td>-Value for money</td>
<td>-High quality and reliability</td>
<td>-In-house production of core products</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-Innovation</td>
<td>-Operating cost</td>
<td>-Value for money</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-Peace of mind</td>
<td>-Payback or ROI</td>
<td>-Innovation</td>
<td></td>
</tr>
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<td></td>
<td>-End product quality</td>
<td></td>
<td>-Peace of mind</td>
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<td></td>
<td>-Energy efficiency in</td>
<td></td>
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</tr>
<tr>
<td>production</td>
<td>-Price</td>
<td>-End product quality</td>
<td>-Price</td>
<td>-Price</td>
</tr>
<tr>
<td>-Receiving entire process solution</td>
<td>-Innovation and re-engineering</td>
<td>-Energy efficiency in production</td>
<td>-Innovation and re-engineering</td>
<td>-Innovation and re-engineering</td>
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<tr>
<td>-Commitment and reliability</td>
<td>-After-sales service</td>
<td>-Receiving entire process solution</td>
<td>-After-sales service</td>
<td>-After-sales service</td>
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<tr>
<td>-Number of references</td>
<td>-Hygiene</td>
<td>-Commitment and reliability</td>
<td>-Hygiene</td>
<td>-Hygiene</td>
</tr>
<tr>
<td>-Widespread sales presence</td>
<td>-Operational flexibility</td>
<td>-Number of references</td>
<td>-Operational flexibility</td>
<td>-Operational flexibility</td>
</tr>
<tr>
<td>-After-sales service</td>
<td></td>
<td>-Widespread sales presence</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-Quality and reliability are the very important when customers make their purchasing decisions</td>
<td></td>
<td>-After-sales service</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organizing after-sales service</td>
<td>-It is time consuming to get a service engineer to the customer’s location and ordering parts from third-party</td>
<td>-Problems with after-sales service</td>
<td>-It is time consuming to get a service engineer to the customer’s location and ordering parts from third-party</td>
<td>-Problems with after-sales service</td>
</tr>
<tr>
<td></td>
<td>-More problems with Alfa Laval’s after-sales service</td>
<td></td>
<td>-Lack of human resources to solve problems due to over-</td>
<td></td>
</tr>
<tr>
<td>Topic</td>
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<td>VOT Customers’ Responses</td>
<td>Dairy Employees’ Responses</td>
<td>Dairy Customers’ Responses</td>
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<td>suppliers</td>
<td>-Customers get irritated by slow response time</td>
<td>than DeSmet’s</td>
<td>suppliers</td>
<td>commitment to too many projects</td>
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<td></td>
<td>-Alfa Laval could reduce its response time by further developing its service engineers competence, creating an expert pool, increasing the number of service engineers and providing better logistics for its service engineers</td>
<td>-Lack of human resources to solve problems due to over-commitment to too many projects</td>
<td>-Customers get irritated by slow response time</td>
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<td>-There is a lack of service engineers</td>
<td>-Lack of technical knowledge</td>
<td>-Alfa Laval could reduce its response time by further developing its service engineers competence, creating an expert pool, increasing the number of service engineers and providing better logistics for its service engineers</td>
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<td>There is a lack of competence among existing service engineers</td>
<td>-Local suppliers do not provide services comparable to Alfa Laval’s</td>
<td>-There is a lack of service engineers</td>
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<td>-After-sales service was better when it was decentralized which allowed for more knowledge and control.</td>
<td>-One large customer mentioned however that local suppliers’ service is good because they have a limited amount of customers</td>
<td>There is a lack of competence among existing service engineers</td>
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<td></td>
<td>-After-sales service was better when it was decentralized which allowed for more knowledge and control.</td>
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5.2 Summary of empirical evidence table
The empirical evidence confirmed the authors’ suspicion that price, although important, is secondary to a number of alternative factors of value. These factors recognized as value enhancers are highlighted and thus determined the structure of the table. According to employees at Alfa Laval, the company seems to be lacking a comprehensive corporate strategy. Regarding Alfa Laval’s innovative capabilities there’s split among employees meaning that some are convinced that Alfa Laval’s technology is the best in the Indian market while others feel Alfa Laval is falling behind its top competitors. On the other hand, an overwhelming majority of customers believe Alfa Laval’s innovation is in need of updating. By nature, Alfa Laval favors selling equipment rather than a total process whereas customers state that they prefer total solutions. According to most employees, price is the most influential factor when making a purchasing decision, however customers have asserted that it is not. Alfa Laval is said to base its prices on the total cost of manufacturing and selling plus a profit margin. However, some employees think that Alfa Laval should leverage its value more in terms of pricing. Furthermore, employees would like to see more flexibility in terms of the company’s pricing strategy. Marketing is the next factor highlighted in the table and Alfa Laval’s marketing strategies are currently seen as being sufficient in the opinion of many employees but not customers, who desire more contact from Alfa Laval in the form of newsletters and phone calls. Onto the strengths and competencies, employees and customers perceptions of Alfa Laval’s align somewhat, with a few discrepancies having been noted. As previously mentioned, customers do not support that price is the most influential factor when making a purchasing decision. Finally, both employees and customers realize that the company’s after-sales services have to be improved since this is a common source of criticism.

The conditions gathered via the empirical evidence will be compared to the previously presented theoretical framework in the following chapter. This analysis will be followed by the authors’ recommendations to the case company.
6 ANALYSIS & RECOMMENDATIONS

In this chapter the authors will analyze the gathered empirical evidence in an attempt to bridge it with previously described theories. The chapter begins with a repetition of the study’s research question and sub-questions in order to guide the reader through the analysis. Finally, the authors will provide recommendations which have evolved from the analysis.

6.1 The platform for analysis

The overall objective of this chapter is to answer the main research question:

How can an MNC in an emerging market capture more of the maturing and expanding domestic food processing technology market share, in the face of increasing local and international competition, without competing on price?

In order to reach a comprehensive verdict to the main research question, three sub-questions were posed. These questions assisted the authors in isolating the main purpose and thus direct the study towards the desired focus areas.

- What image does Alfa Laval aspire to outwardly portray concerning the position of its products within the vegetable oil and milk powder on the Indian food processing market?
- How do Alfa Laval’s customers perceive the company’s products within the vegetable oil and milk powder product divisions?
- What potential or existing factors, excluding price, do Alfa Laval’s customers within the vegetable oil and milk powder industries regard as factors of value?

A number of aspects and factors within each sub-question have to be taken into consideration due to the profound and complex nature of the study. The authors have distinguished a number of elements that were identified as being either strong factors of value or weaknesses in Alfa Laval’s ability to provide customers with superior value, thus decreasing the sum of all the values that customers perceive they gain when purchasing the company’s products. This consequently threatens Alfa Laval’s right to demand a premium price on their products.

In order to gain more market share within the specified business divisions, VOT and milk powder, in the emerging market of India, the authors will analyze the empirical findings in congruence with theory explained in the theoretical framework and subsequently provide the company with recommendations on how to compete by means other than price. In the following analysis, each sub-question will not be answered specifically, however, the reasoning behind these will instead be provided indirectly under each topic.
As previously stated (see 2.2.2.1. Selecting a case/sampling), the case in hand is believed to represent the majority of MNCs present in the Indian subcontinent due to the fact that it is one of the most visible and leading companies supplying the food processing industry in the country. Therefore, this case research should be viewed as being applicable to other MNCs presently operating in an emerging market where price sensitivity may be seen as a major factor among industrial buyers. However, as clearly identified in the empirical evidence of this case study, customers in an emerging market still do not perceive price as being the most influential factor when making a purchasing decision. It is therefore interesting to explore what other factors weigh heavily in the minds of business buyers.

6.2 Analysis of the case study
While the overall consensus of Alfa Laval among employees and customers alike is that the company produces and provides high quality products and services, which rightfully demand premium status and price, a few factors have been identified by the authors as being critical for increasing the value perception among customers today and well into the future. Being mindful of these concerns and subsequently seizing the opportunity to improve upon them will provide Alfa Laval with a new foundation of factors of value other than price, upon which the company can battle for more market share in India.

6.2.1 Developing a comprehensive corporate strategy
Alfa Laval is identified as lacking a comprehensive corporate strategy that permeates the entire organization and is identified as being of utter importance for the success of a company to produce value in both The value creation framework as well as The five major elements of strategy. This perception was realized and affirmed by employees’ actions as well their declarations. When gathering empirical data, it was discovered that the responses to certain critical as well as minor questions widely varied. For example, when employees were asked which customer segments Alfa Laval targets, or in other words, from which arena, either local competitors or international competitors, does the company attempt to capture more market share (See 4.3), there was little agreement. This observation was concerning for the authors considering the wide spectrum between targeting market share from local competitors compared to international competitors. Understandably, different priorities and goals are necessary for targeting the two segments, which is perceived as being counter-productive. When employees were subsequently asked if any guidelines or a corporate strategy existed to guide them as to which direction their energy and resources should be focused, they replied
that no corporate strategy was currently being followed. Maritz (n.d.) states that having a corporate strategy is essential for successful business operations and that no self-respecting business organization would function without one. Further, according to Fredrickson & Hambrick (2001), outlining the arena in which a company operates is the most fundamental decision taken when developing a strategy. This is due to the fact that if the market segment that a company serves is not well-defined, the result is often wasted time and company resources as employees likely pursue their own incompatible objectives.

The former managing director, however, asserted that a corporate strategy does exist. The authors conclude that although a corporate strategy exists, it is incomplete and has failed to permeate the entire organization. Generally accepted theory argues that a complete corporate strategy is composed of five integrated elements; arenas, vehicles, differentiation, staging and economic logic. These elements together confirm the critical strategic decision of where the company will be active, how it will get there, how the company will win in the marketplace, what will be the company’s sequence of action and how will the company obtain returns. (Fredrickson & Hambrick, 2001) In The value creation framework by Sharma et al., the management decision is only found to highlight the arena and differentiator as factors that affect the value creation process. Another factor such as the economic logic is postponed until later in the process while vehicles and staging are completely neglected. This is recognized as a short-coming of Sharma et al.’s framework and also presents an opportunity for further elaboration. The authors prefer Fredrickson and Hambrick’s illustration of a corporate strategy compared to The value creation framework due to the former’s all-encompassing character which emphasizes that everything relies on and should be guided by the corporate strategy. Due to the role the corporate strategy plays in shaping all activities within an organization, it should also define what aspects and factors of value should be emphasized more than others as identified by the staging process of The five major of strategy thereby directing the company’s resources appropriately. Incomplete strategies may inevitably lead to confusion among customers as there is a risk that their image of the supplier’s brand may become diluted. Due to the varying motivations of employees within the same market segments, it is presumed that Alfa Laval’s strategy is missing a clearly defined arena. The reason Alfa Laval may be neglectful in terms of strategy formulation may be due to the fact that its long history operations in India have generally been successful. In the words of Dew et al. (2006), strategy formulation is extremely challenging, particularly for those companies
performing rather well. The authors suspect that due to Alfa Laval’s past success, the company has become somewhat complacent in assuming that things will continue to go well and have thus failed to properly plan. Sooner or later, however, Alfa Laval may realize that a coherent corporate strategy is vital for a company’s profitability and its ability to survive in competitive environments (Anderson, 1982).

**6.2.2 Innovation**

A number of researchers have recognized innovation and product leadership as being one of the most important means of differentiating a company’s products from competitors in the market. *The five major elements of strategy* describes the importance of having predetermined differentiators such as innovation when compiling a corporate strategy. Kotler & Armstrong (2008 pp. 491-493) highlight that market leaders, in particular, should focus on continuous innovation in order to maintain their leadership position. Innovation or technology delivery is also recognized as an important aspect for value creation by Sharma et al. (2001) in *The value creation framework*. In addition, the importance of innovation as a means to maintain a company’s market leadership in India was also emphasized by one of the interviewed consultants. Although Alfa Laval is currently the market leader in VOT and one of the leading suppliers to the milk powder industry, it has been observed that innovation is not among the company’s top priorities. According to employee interviews, very little, if any, innovation has occurred over the past decade within VOT and milk powder, which leaves Alfa Laval’s market leadership vulnerable to its competition. Employees do at Alfa Laval, however, acknowledge innovation as being a step in the path towards capturing more market share from both local and international customers.

It was gathered from interviews with customers that aspects such as high quality and innovation are recognized as being amongst the most influential factors of value when making a purchasing decision, which further highlights the importance of continuous product development for maintaining Alfa Laval’s present and future competitive edge. When employees at Alfa Laval were questioned concerning the company’s innovation capabilities, mixed responses were given. A few employees were convinced that Alfa Laval’s technology is better than all of its customers and believe customers perceive Alfa Laval as being a trendsetter in the industry. Some employees within VOT specifically, however, specified that no new innovation has been introduced since 1998; something which seriously may impede on the company’s competitive edge and stated preferred supplier status. Customers confirmed
the VOT employee’s reservations as innovation was a common source of criticism among Alfa Laval’s customers. Customers repeatedly mentioned that they perceive Alfa Laval as not emphasizing innovation and design improvements enough resulting in unmet demands, which has induced some customers to inquire or purchase from competitors. Thus, a discrepancy was found to exist between Alfa Laval’s perception of its own innovative capabilities and the perception of its innovative capabilities among its customers.

Theory states that the ability to differentiate a company’s products from competitors through innovation is believed to allow a firm to act with strategies different from sheer pricing approaches which consequently will enable them to leverage other factors of value (Hooley & Jobber, 1986). The value creation framework sufficiently illustrates technology delivery’s importance and the role of innovation in a company’s corporate strategy by identifying the firm’s current knowledge resources in order to subsequently maximize its output given those resources. The framework, however, does not specify the weight of innovation in relation to the other factors of value. The authors gather that Alfa Laval will have to focus on innovation and provide customers with better innovation in order to capture more of India’s market share within VOT and milk powder. Furthermore, long-term prosperity is defined as being achieved by not only meeting the demands of customers today but also by continuously innovating to satisfy the needs and wants of current and potential customers tomorrow (Walley, 1998; Drucker, 2002; Berthon et al., 1999; Srivastava, 2005). Innovation will be an imperial part of Alfa Laval’s ability to remain competitive and attract potential customers in the future.

According to VOT customers, Alfa Laval is lagging behind its main competitor DeSmet in terms of product innovation and development. DeSmet is in many cases appreciated over Alfa Laval for offering new technologically advanced products. Alfa Laval’s lack of innovation was also noticeable in the milk powder industry where a number of customers mentioned that the company is second to its largest competitor Gea Niro in terms of technology and the provision of total solutions.

Innovation will not only provide Alfa Laval with the foundation for offering a high-quality product, which was found to be the top most prioritized factor by customers when making a purchasing decision but also enable the company to leverage their superior value and technological advancement over competitors, thereby allowing for a value-based rather than cost-based pricing strategy (See 6.2.4). Both consultant concede with this statement and
further stress that if Alfa Laval’s technology is at par with competitors, customers will invariably pick the company offering the lowest price.

Successful innovation by Alfa Laval will, however, require a strong market orientation in the sense that it requires integration of both internal and external actors that possess different skills and knowledge about the market. It is believed that since Alfa Laval should be more customer-centric, they should aim at providing customers with the products and solutions according to their needs and wants. Theory confirms that customers are the ultimate drivers of innovations and provide the parameters that are needed for product development. This, therefore, requires a close contact and relationship with customers during the entire product development process.

6.2.3 Providing total solutions

The changing market conditions in the Indian food processing industry and the increasingly fierce competition has made it important for Alfa Laval to sharpen its offerings and provide customers with superior value. Theory acknowledges that companies today are required to offer total solutions that match customer needs, thereby providing room for keeping profit margins (van der Haar et al., 2001; Berghman et al. 2005). It was gathered from interviews with customers that they prefer their supplier to provide an entire process mainly due to the fact that it is easier to have one supplier over many. For VOT specifically, customers stated that Alfa Laval is preferred due to the fact that the company has its own manufacturing units for the entire process whereas suppliers like DeSmet have to procure their components from others.

Although Alfa Laval does supply customers with entire projects, this is not the company’s main focus at present since they identify themselves as being an equipment company. There is thus a discrepancy between Alfa Laval’s current offerings and what the market is actually demanding. The idea of emphasizing and focusing on total solutions is supported due to the noticeable immaturity of the Indian food processing market, where companies active in this industry are expanding greatly. This incredible growth is shaping demand towards requiring entire plants, thereby providing Alfa Laval with great potential within total solutions. The value creation framework acknowledges the importance of meeting the needs of customer demands in the product delivery process, however, it does not cover the vitality of focusing on total solutions specifically which is the common need and recipe for success in emerging
markets today. This as well as the fact that it once again does not weigh how important product delivery is for a firm’s value creation process presents a short-coming in the existing theory. In order to be competitive and successful in a market characterized by fierce competition today, companies have to fulfill the needs and demands of their customers. In fact, a number of customers mentioned that they perceive it impossible for a company to survive in the Indian food processing market today as being only a component manufacturer and explain how they are willing to pay 10 to 20 percent more for a complete solution. For Alfa Laval this means that the company has to focus more on total solutions and promoting these to current and potential customers. The importance of process solutions for the market today can also be seen in the fact that Alfa Laval is second to the more process-oriented Gea Niro in the milk powder industry. According to customers, this is mainly due to Gea Niro’s process orientation in the Indian market and their deep knowledge and understanding of process solutions compared to Alfa Laval. The changing demands of the Indian food processing market was also acknowledged by the interviewed consultants that stated that customers, particularly large ones, today prefer receiving an entire process over components and are in turn willing to pay more for this. Research conducted by Mattson (1973) also concedes that companies have greater freedom in pricing in systems selling compared to product selling.

A number of interviewed employees at Alfa Laval acknowledge that the market increasingly is demanding total solutions due to the growth that it is subject to. Despite employees having this knowledge within the organization, it seems that the reason why Alfa Laval chooses to focus on core components on the Indian subcontinent is due to the ease of providing this offering as opposed to providing only components. A number of employees stated that Alfa Laval lacks in offering good complete solutions due to the fact that the company’s management strategy deliberately has chosen to focus on only core components. Employees admitted how supplying processes actually is much more complicated since it involved many different parties and requires a completely different knowledge within the organization. Furthermore, they explained how the company by only selling components would be able to reach out to a greater number of customers. Selling projects, however, limits Alfa Laval’s ability to focus on customer volume since the company can only focus on a few projects simultaneously. It does not benefit Alfa Laval to base the company’s business strategies on this argument due to the fact that the company should, in order to maintain its premium
pricing strategy, focus on value in its product offerings rather the quantity of orders (See 6.2.4.).

It is argued that in spite of the inherent risks of providing projects such as differences in input prices, prolonged project management and unfavorable development of customers’ activities ending in project delays, which ultimately have an effect on the company’s management strategy there are other aspects that also have to be taken into consideration. What is learned from the data collection is that total solutions will be the most vital differentiator in India’s highly competitive food processing industry not only in the coming years but also in the near future. Therefore, Alfa Laval should not hesitate in increasing their focus on total solutions. Numerous studies in the area of total solutions argue that the intangible nature of solutions combined with tangible offerings make them harder to duplicate (Davies et al., 2007; Matthyssens & Vandenbempt, 2008). This fact alone should convince Alfa Laval of the importance of focusing on total solutions in a market where the company is facing increasing competition from local suppliers that declare that they are providing the same products as Alfa Laval. These local suppliers have been recognized as posing great challenge for Alfa Laval in their attempt to battle for more market share in the VOT and milk powder segments.

While arguing that Alfa Laval needs to focus more on process solutions, it must be acknowledged that a number of employees did emphasize the importance and advantages of providing both products and processes. Apart from a number of direct positive effects such as that the two provide business for each other, they are also vital for balancing the company’s business portfolio.

According to theory, the greatest challenge in delivering solutions is to create an organization that supports this in a proper and efficient manner (Galbraith, 2002). In order to be able to deliver the best possible solution to customers, a provider of solutions is required to build both on customer relationship and advanced technology (Andersson et al., 2004). This once again stresses the need of Alfa Laval to continuously invest in new product development and innovation as mentioned in 6.2.2. Apart from emphasizing innovation, Alfa Laval will also have to develop their selling teams so as to allow the company to supply solutions to customers’ problems. Bonney & Williams (2009) describe how salespeople in a company that offers solutions have to be sensitive to the developments that occur in both internal and external environments in order to be successful. This includes identifying and understanding a customer’s problem as well as their entire business and operational context. Thereafter the
company must provide an appropriate response that in turn provides profits. A decentralized organizational structure, particularly for after-sales services, has been recognized as allowing a firm’s salespeople to identify new opportunities to sell and promote total solutions. According to Ahmed & Shepherd (2000), compensation schemes and reward systems in order to promote and identify solutions are effective means of making a company more solution-centric from having been product-centric. Therefore, it is important for Alfa Laval to adjust the company’s current sales plan as to promote solutions more.

A great amount of criticism lies in Alfa Laval’s inability to execute projects according to customers. Customers themselves notice that this is mainly due to lack of human resources and knowledge within engineering and project coordination teams. The authors are therefore convinced that Alfa Laval will have to invest more in knowledgeable staff within execution, in order for the company to be able to be successful and competitive within the food processing industry in India.

6.2.4 Pricing strategies
The five major elements of strategy states that a firm’s pricing strategy or economic logic (see 1.2.1) accounts for just one of the many parts of its larger corporate strategy. In order to achieve coherence within the organization, it is presumably better for companies to develop their corporate strategy prior to formulating their pricing strategy so that the company’s goals and target market segment are clearly identifiable and accordingly, the pricing strategy can be drafted in a manner which reflects the target market. (Kotler & Armstrong, 2008 p. 275)

Contrary to The five major elements of strategy, The value creation framework emphasizes its pricing strategy as the final phase of delivering to customers. This is viewed as being unconventional since a firm’s pricing strategy should guide the value creation process as to be able to set appropriate value-based prices. The framework is, therefore, regarded to be somewhat inadequate to describe the true importance of pricing as a part of a company’s overall corporate strategy. Many theorists state that pursuing a low pricing strategy is an effective approach to obtaining a higher quantity of orders from customers (Kotler & Armstrong, 2008 p. 267; Morris & Calantone, 1990; Hinterhuber, 2004). Contrarily, it is presumed that a company which pursues a premium pricing strategy would decrease the quantity of orders from customers, while at the same time increase the value of the orders. Conceding with theory, a need is seen for companies to distinguish in their business strategies which potential customers they wish to target and then set an appropriate pricing strategy.
Considering the fact that Alfa Laval is a large MNC providing superior quality products to the market, it is deemed appropriate for Alfa Laval to focus on the value rather than the quantity of orders and continue with its premium pricing strategy, even though some employees, particularly salespeople stated that Alfa Laval’s profit margins are too rigid and are stifling Alfa Laval from gaining more market share. Although sympathetic to the salespeople, tradeoffs must be made, such as short-term profit versus long-term growth (see 4.3) when formulating a business plan. After interviewing one of the consultants who mentioned that the large processors are the companies that are growing in the market today while the small companies are either being acquired by large companies or ceasing operations, the authors are convinced that it would be in the best interest of Alfa Laval to target the few large buyers and thus sacrifice the quantity of orders and instead focus on increasing the value of each order.

Onto the topic of pricing methods, Morris & Calantone (1990) declare that industrial markets are generally characterized by prices that reflect the value and the degree to which customers are willing to pay for receiving this value. Such a pricing method is referred to as value-based pricing, which is when prices are set depending on the buyer’s perception of the value the product or service provides. Alfa Laval, on the other hand, utilizes a cost-based pricing method, according to employees, which is product rather than market driven and involves setting prices based on the costs of manufacturing, distributing and selling plus and added margin for profit. (Kotler & Armstrong, 2008, p. 267 & 281). According to Morris & Calantone (1990), when industrial companies base their pricing method on cost, it is usually due to its ease of implementation and management, not its relevance. Some employees defend Alfa Laval’s use of cost-based pricing rather than value-based pricing and claim that no major technical differences exist among its products that Alfa Laval can leverage against its major competitors while other employees outright state that although Alfa Laval’s margins are generally not based on value, they think it should be. Component parts, however, do provide superior technical quality and could demand a value-based price and there was a general consensus among employees that they should. Lancioni (2005) mentions a number of value-adding components companies can leverage to increase value perceptions of their products, such as product availability, quality, and R&D, or the firm’s innovative capabilities to name a few. Yet, several employees are under the impression that price is still the most influential factor when customers are making a purchasing decision. According to one of the consultants, price is only the decisive factor when all else is equal. Further, Avila & Dodds (1993) found
that buyers appreciate factors such as product and service over price, which further supports the concept of value-based pricing. In addition, one of the consultants mentioned that large customers are willing to pay more for receiving an entire solution rather than a single product. In short, Alfa Laval should focus on maximizing their value propositions by concentrating on increasing differentiating factors such as quality, innovation, total solutions and after sales service. Alfa Laval must then work to effectively communicate the values its products have to offer to its customers. Ultimately, Alfa Laval should do away with cost-based pricing and rather adopt a value-based pricing method by matching their prices to the value that customers see in the products, rather than one based on expenditure.

A major topic of discontent among several employees at Alfa Laval surrounding the current pricing policy as a whole is its supposed rigid inflexibility. Employees stated numerous times that Alfa Laval’s price margins are too rigid and need to be more flexible to gain new customers and thus market share. Theory claims that the long-term orientation of a firm’s pricing strategy should contain a certain degree of flexibility to allow for environmental and market changes. Morris & Calantone (1990) further state that flexible pricing is supported by the willingness of different customers to pay different prices for products depending on what motivates their purchasing decisions. While conducting research, it was observed that no two customers listed their purchasing priorities identically and therefore see a need for some flexibility in terms of price. Kotler & Armstrong (2008, p. 276) write that although pricing objectives and policies are generally set by top management, salespeople are still some freedom to negotiate with customers within a given range. According to employees, however, that is not the case at Alfa Laval. Employees claim top management specifies the profit margin per product and that salespeople have no authority to be flexible on price when negotiating with customers. Employees mentioned that they are aware of Alfa Laval’s policy to never sacrifice quality for price. In order to increase business without decreasing quality, employees suggested that top management at Alfa Laval set profit margins per annum rather than per product, which would leave a degree of price flexibility to the salespeople to allocate as deemed appropriate. One of the consultants highly advocates the adoption of more flexible pricing as he fears that Alfa Laval’s market share will decrease if it remains as rigid as it is today. Considering theory in congruence with employees interviews, the authors encourage Alfa Laval to consider being more flexible with profit margins as a means of competition.
6.2.5 Importance of marketing

Kotler & Armstrong (2008, p. 195) affirm that an effective marketing strategy targets the market where the best opportunities exist and creates a favorable image of the firm in the eyes of those within that particular arena. Marketing activities thus create a beneficial environment for a company’s salespeople, according to Graham (2001). Alfa Laval employees mention, however, that currently very little outright marketing is taking place. As of now, employees state that Alfa Laval heavily relies on word-of-mouth, references and personal contact as their main sources of marketing themselves to customers in respective industries. There is a clear distinction between VOT and milk powder, according to employees, who claim that VOT attends trade shows once or twice a year and runs print ads in industry magazines, whereas milk powder employees claim that no other marketing activities are currently taking place. A distinction also exists among employees within VOT and milk powder concerning the opinion of the utility of more marketing. VOT employees value marketing and support the increase in use of existing channels as well as the introduction of new channels, while milk powder employees claim that Alfa Laval’s presence is known within the industry and therefore customers will come to them when they have a need, and thus marketing is not necessary.

Alfa Laval is seen to be somewhat neglecting marketing as it was observed that Alfa Laval’s apathetic approach towards marketing activities in general, is negatively reflected in its customers opinion’s of the company’s efforts to reach out to them. Nearly all customers interviewed stated that in most cases, they must initiate contact with Alfa Laval when they have a need, but would appreciate it if Alfa Laval would take a more proactive approach to marketing and be the first to initiate contact. Given that marketing has been recognized by Chen et al. (2007) as being crucial in markets, such as VOT and milk powder, where products are sophisticated and complex making them difficult to understand, there is a need of customers for Alfa Laval to better communicate the values inherent in the product offering to help current and potential customers make new investment decisions.

Theory states that personal selling is an effective marketing tool in industrial markets. One advantage of personal selling is the long-term relationship built by solving customers’ problems which may consequently give a firm preferred access to customers’ future investments. (Park et al., 1988; Dunn & Thomas, 1986) Alfa Laval employees claim that their regional presence allows them to stay in regular contact with customers nearby. One customer even stated that he maintains an informal relationship with one of his customers. The majority
of other customers, however, did not support this statement. Although, one regional manager in particular mentioned that his regional office takes a different approach to personal selling compared to other regional branches. Employees in his region are sure to make contact with customers within his region at the conceptual stage, before the customer outwardly expresses a need. This allows him to educate the customers and shape their demands to fit with the solutions offered by Alfa Laval which then eases the job of negotiating and helps to avoid price competition. Similarly, customers have stated their eagerness to share their needs, which may even lead to new innovation. That particular region’s additional marketing efforts are reflected in the fact they produce the highest gross margins of all branch offices. In accordance with theory, establishing contact with customers at the conceptual stage rather than the bidding stage perfectly exemplifies the value produced by personal selling. There is a demand from customers to be contacted and the authors suggest that Alfa Laval should satisfy it before a competitor does.

In addition to personal selling, promotional advertising activities have been identified by theorists as being valuable when customers have a difficult time recognizing the difference between brands which is sometimes the case with Alfa Laval and its top competitors, DeSmet and Gea Niro as described by some customers (Park et al., 1988). In order for Alfa Laval to distinguish the quality and technology of its products from its top competitors and in turn, persuade customers to make a decision that is not solely based on price, there is a need for Alfa Laval to focus on a more aggressive advertising campaign. Customers visited most often had competitors’ pamphlets on their desks and referred to them often. Customers also appreciate the monthly newsletter they receive from DeSmet and long for something similar from Alfa Laval. Further, research by Vredenburg and Droge (1987) highlights how customers see publications sent by suppliers as valuable sources of information and that the contents of these are greatly discussed within the company thus creating the positive effects of word-of-mouth which may consequently convince customers to make a purchasing decision. Alfa Laval should not continue missing out on such opportunities for business and brand awareness and reputation building. Market communication is also described as part of a larger value-based strategy in the *The value creation framework*. In the framework, this value-based strategy is derived from the company’s value creation process. This is regarded as an optimal means of communicating all factors of value in a company’s offerings.
6.2.5.1 Leveraging competencies

Research has identified an efficient marketing strategy to be dependent on a company’s ability to present its competencies and capabilities into customer arguments that are relevant and appreciated. Leveraging products’ unique values compared to competing offerings also results in buyers being less sensitive to prices. Therefore, competence-based marketing is also a path towards avoiding price wars since it enables the firm to present customers with value propositions instead. (Jha et al., 2009 p. 39; Håkansson & Waluszewski, 2005; Ritter, 2006; Hinterhuber, 2004) This was also described as being the case by the interviewed consultant who explained that in order to be competitive today, Alfa Laval has to convince the market of the value in their products over both international and local suppliers. If customers regard the technology offered by suppliers in the market to be at par, they will invariably pick the customer that provides the product to the lowest price. Therefore, Alfa Laval should continue focusing on leveraging their values. This will not only allow the company to convince customers of the superior value in their offerings but also allow them to compete effectively while facing increasingly fierce competition. This will, as a number of employees and both interviewed customers recognized, also include educating customers on the value of purchasing high quality products that end up being a better investment in the long run will be important.

Employees believe that Alfa Laval is bad at leveraging its values in its marketing and that the firm actually could ask for a higher price if they started doing so. It is particularly important for the company to leverage its values within the milk powder industry due to its current second position after Gea Niro. By marketing their competencies and capabilities, the company will not only be able to compete better against this company but also adjust the market’s perception of Gea Niro superiority over Alfa Laval.

Leveraging a company’s values ultimately involves recognizing attributes and benefits that customers in the particular industry actually value and that differentiate the company from its competitors. After interviewing both employees and customers, the authors are of the impression that Alfa Laval is a highly appreciated company in the VOT and milk powder industries in India although there is considerable room for improvement. The company’s ability to capture more market share will depend on its ability to leverage its values in an efficient manner. Customers see Alfa Laval’s strengths as being factors such as trustworthy and reliable products, in-house production, good references and the provision of good and
proper guidance during the entire purchasing process. This more or less aligns with the employees’ perception of Alfa Laval’s strengths and thereby affirming that management is emphasizing the right factors. One noticeable difference is, however, the employees’ belief that the company’s after-sales service is valued by customers when this factor in fact is highly criticized (see 6.2.6).

6.2.5.2 Leveraging customer references
Customer references are one of a number of strong points the authors credit Alfa Laval as leveraging on the Indian market to win over new customers and hence more market share. Customer references are defined in theory as being the utilization of previous or existing customers to advocate a suppliers relationship, technological, product and/or service capabilities. Theory continues that references are appreciated by potential buyers as they ease the uncertainty surrounding the new supplier’s ability to deliver its value proposition. (Jalkala & Salminen, 2009) The empirical data confirms theory, given that both customers and industry consultants value Alfa Laval’s reference list. Customers also acknowledged that smaller companies who aspire to grow their businesses are influenced by the appearance of larger companies on reference lists. These circumstances may potentially have a “snowball effect” leading to the acquisition of new customers.

Specific details regarding the management of Alfa Laval’s reference list were not gathered and therefore it can only be reinforced that to realize maximum benefits, references must be exploited properly. More specifically, it is stressed that in accordance with theory, Alfa Laval maintain its reference list adequately by focusing on detailed specifics regarding the product or project delivery starting with the customer’s need and finishing with a qualitative as well as quantitative description of the results of the solution (Jha et al., 2009 p. 178) Thus, the authors, customers and consultants all concur that the use of a reference list is a valuable marketing tool for growth in industrial markets, not to mention, a mean other than price upon which Alfa Laval can compete.

6.2.6 Organizing after-sales services
Research has acknowledged after-sales services as an important source of differentiation for companies, particularly in industries where customers have difficulties in distinguishing the company’s products from competitors. According to Gaiardelli et al. (2006) this strategic role of after-sales in a company’s operations makes it even more important that it is well
functioning and appreciated by customers thus requiring an efficient management and organizational structure. According to Sheth (1973), receiving satisfactory after-sales services is one of the most appreciated aims of business buyer behavior. *The value creation framework* lacks in its entirety to mention anything after market communication. Value commitment, for example in the form of after-sales services, after marketing and the sale should be viewed as part of the company’s commitment to the customer and maintaining the brand image. Therefore, *The value creation framework* is regarded as being insufficient in this aspect. This can be confirmed by the customers who also described after-sales services as being an influential factor of value when making a purchasing decision, which once again highlights the importance of providing services of high quality. Alfa Laval’s after-sales service was a very common source of criticism among customers where a number of customers stressed that Alfa Laval’s services were worse than the largest competitor DeSmet’s. In addition, a majority of employees mentioned that they are aware of customers’ irritation regarding Alfa Laval’s after-sales services and explain that this partly is due to the company’s slow response time as well as the lack of number and knowledge of service engineers.

The main reason for Alfa Laval’s slow response time in after-sales is due to the company’s current organizational structure where the after-sales service is centralized. According to these customers, the centralized structure of Alfa Laval’s after-sales structure had inevitably led to a loss of accountability since one specific employee no longer is responsible for a complaint or support case. This leads to a more formal relationship between the company and its customer which undoubtedly plants the seed for even more complaints and dissatisfaction. This managerial decision to centralize after-sales is something that also was criticized by a number of employees that mentioned that they perceived after-sales to be better when it was decentralized allowing for more knowledge and control in regional offices. There are, as a few employees explained, many advantages with centralizing a support function since this allows for optimizing responsibility and the functionality of the service. The advantages of decentralization should, however, not be neglected since it allows each local office to make appropriate decisions due to the fact that they know what it is best for their own market. Theory highlights the importance of communication and a realization of interdependence for efficiency is important in order to achieve coordination in such an organization (Vorster, 2008; Agrawal et al., 2006; Alonso et al., 2008). One employee stressed that communication of knowledge within Alfa Laval had to be improved upon not only to develop the company’s
after-sales but also other functions within the firm. Having these factors in mind, the authors are convinced that a hybrid organizational structure for Alfa Laval would be the most appropriate solution. The current centralized after-sales structure is not allowing the company to respond to the market dynamics in a proper manner which has led to the current situation where after-sales service is a major source of complaint.

Another major concern of Alfa Laval’s after-sales services in India is the fact that the company lacks service engineers. This is also highlighted by one of the interviewed consultants that explained that Alfa Laval’s service department is commonly regarded as lacking human resources which unfortunately has affected the company’s ability to handle complaints. In addition to this, current engineers are perceived by both employees and customers as not being competent enough which poses a severe issue for Alfa Laval’s ability to provide its customers with valuable after-sales services. In order to maintain the company’s preferred supplier status in the Indian food processing market today, Alfa Laval has to make improvements in its after-sales services. More specifically, the company will apart from having to reorganize its after-sales in order to provide customers with high-quality services also invest in upgrading the quality and quantity of its service engineers. In addition to contributing to maintaining its market share, researchers have also recognized after-sales services to be important sources of revenue generation for firms due to the high profit margins. Furthermore, after-sales services should also be recognized as an important means of marketing and promoting the company’s brand. The authors are of the opinion that the flaws that exist in Alfa Laval’s after-sales should be realized as being of great damage for the company’s brand in the Indian market and that it therefore urgently has to recognize the importance of improving its after-sales services. Efficient and high-quality after-sales services may also be a great source of information and knowledge for new product development since it allows for a thorough evaluation of products (Goffin & New, 2001). Therefore, Alfa Laval should also recognize well functioning after-sales services as a determinant for the success of its innovation capabilities (see 6.2.2.).

6.2.7 Conclusion
Capturing more of the Indian domestic food technology market share requires a company to not only be attentive to the present opportunities, but also have a clear understanding of its own organizational priorities and intentions. The value creation framework by Sharma et al. (2001) is recognized as being a suitable model for the description of a company’s value
delivery process. The framework, however, is insufficient in a number of aspects that have been identified as being of value for a firm’s ability to perform better in an increasingly competitive emerging market without competing on price. First and foremost, Sharma et al.’s framework does not highlight all elements of a corporate strategy in an exhaustive manner which presents an opportunity for elaboration. Fredrickson and Hambrick’s depiction of a corporate strategy in *The five major elements of strategy* is found to be more accurate and descriptive due to its all-encompassing character which fits better with the authors’ opinion of what a company’s corporate strategy should include. Furthermore, *The value creation framework* unsuitably places the pricing strategy separate and subsequent to the value creation process whereas it has been found that pricing should be integrated in the overall corporate strategy which thus influences the other factors of value. On the other hand, market communication is viewed as being correctly placed since it allows the firm to leverage all of its competencies. While the framework does focus on the importance of product delivery process it does not overly state total solutions which has been found to be of increasing importance in rapidly expanding emerging markets such as India. Lastly, it should be remembered that value creation does not stop at the point of sale. Value commitment, in the form of after-sales services, has not been depicted whatsoever in *The value creation framework* and should be viewed as a serious flaw in the above mentioned framework. All of the above mentioned strengths and shortcomings present an opportunity to combine and elaborate these existing theories with the empirical findings of this study to provide academia with a wholesome picture of how a company can effectively deliver value in an emerging market.

### 6.3 Recommendations

From the theoretical framework, the exploratory study with the two consultants, the extensive empirical evidence as well as the information and knowledge gathered from the case company, the authors have developed an understanding of how Alfa Laval could improve its market position by means other than price. The authors realize that a number of recommendations stated below cannot be implemented instantaneously but suggest that all recommendations can be used as future goals and guidelines for the organization. Below please see the authors’ recommendations for Alfa Laval:
6.3.1 Develop a comprehensive corporate strategy
- Conduct a new SWOT analysis to match business environment opportunities with company competencies.

- Compile a comprehensive and integrated corporate strategy consisting of an arena, vehicles, differentiators, staging and an economic logic.

- Highlight realistic, time-specific and prioritized organizational goals within the strategy to guide employees in their daily operations.

- Identify a well-defined arena, or market segment to focus operations and direct time and resources.

- Do not focus on customers who purchase the most, instead prioritize those customers whose purchases produce the most value. Smaller buyers tend to follow the industry leaders and thus Alfa Laval can acquire those new customers when their business has matured enough to afford to pay premium prices.

- Make certain that the strategy has permeated the entire organization and is being followed by monitoring the actions and objectives of each market segment.

6.3.2 Prioritize innovation
- Focus on continuous innovation in order to maintain their leadership position.

- Develop a strong market orientation to develop successful innovation.

- Continuous design improvements and reengineering to meet the changing needs of customers.

- Innovate to create a technological differentiator upon which to act with strategies different from sheer pricing approaches.

- Maintain close customer relationship during the entire product development process in order to develop offerings according to market demand.

6.3.3 Increase focus on total solutions
- Create an organization that supports a project-oriented focus in a proper and efficient manner.

- Build on customer relationships to develop total solutions.

- Innovate to develop effective and appreciated total solutions.
- Develop selling teams to allow Alfa Laval to supply solutions to customers’ specific problems and their operational context.
- Adjust the company’s current sales plan and strategies to promote solutions.
- Initiate compensation schemes and reward systems to identify and promote solutions.

### 6.3.4 Adjust pricing strategies

- Derive Alfa Laval’s pricing strategy from its corporate strategy.
- Continue with the company’s premium pricing strategy.
- Focus on the value rather than the quantity of orders as a guideline for the pricing strategy.
- Adopt a value-based pricing strategy by matching their prices to the value that customers see in the products.
- Recognize total solutions as one way of receiving a premium price
- Implement flexible pricing and profits
- Set profit margins per annum rather than per sold offering

### 6.3.5 Increase use of marketing

- Implement proactive marketing at the conceptual stage to shape customers’ demands.
- Be open to customers wanting to share their needs since this can support innovation.
- Develop a more aggressive advertising campaign.
- Leverage competencies in order to avoid price wars.
- Educate customers on the value of purchasing high quality products as an investment for the future.
- Leverage references that focus on detailed specifics regarding the product or project delivery with a qualitative as well as quantitative description of the results of the solution.

### 6.3.6 Adjust management strategy of after-sales services

- Create a hybrid version of an organizational structure since this will Alfa Laval to respond to the dynamics of the market.
- Keep one specific employee responsible for one customer in order to create a feeling of trust and accountability.
- Efficient management of after-sales requires improved knowledge communication in the organization.
- Increase the number of service engineers.
- Educate the company’s service engineers to raise the competency level.
- Use knowledge gathered from after-sales as a source for new product development and innovation.
7 CONCLUSION

In this closing chapter, the authors will provide concluding remarks. Thereafter, their adaptations to a previously presented model will be introduced in an effort to contribute their findings to existing theory. The chapter thenceforth closes with proposals for future studies.

7.1 Conclusion

The authors’ comprehensive study, which includes an exploratory study as well as an intrusive field study, allows for them to draw an all-encompassing conclusion on how a firm in an emerging market can gain more market share without competing on price, hence providing them with a platform to answer the main research question of this thesis.

7.1.1 The new battle for market share

"The road to success is dotted with many tempting parking places"

Alfa Laval has been present in the Indian market since 1937 and is well renowned as a highly admired company in the domestic food processing industry. The company’s success in this market is unquestionable, however, nothing is guaranteed forever. The authors have observed a tendency for Alfa Laval to take their market share for granted and assume that their customers will continue to buy from them. The company’s apathetic approach to new innovation, to new market demands (i.e. total solutions), and to marketing reflect Alfa Laval’s complacency with their current market position. However, the tides are turning and market conditions and demands are reshaping the competitive landscapes in emerging markets such as India. The importance of realizing these changing market conditions cannot be emphasized enough. Those companies that identify potentials, respond in an appropriate and efficient manner as well as successfully leverage their own competencies to meet and captivate the potentials of the market will enjoy the taste of success.

Alfa Laval’s complacency is allowing for its top competitors to succeed. These companies are gaining market share through their recognition of the need to meet and exceed customer demands which is evident in DeSmet’s increasing market share and Gea Niro’s market leadership position. Furthermore, Alfa Laval’s negligence has planted the seed for smaller companies such as Lipico to grow in the market via effective value communication. The authors gather from their extensive data collection that Alfa Laval’s perception of its value propositions and delivery does not directly align with the market’s perceptions and demands.
A major concern that was identified was the incomplete nature of Alfa Laval’s corporate strategy which lacked penetration throughout the organization. The lack of a clearly defined arena as observed by the authors has led to counter-productive employee motivations. As a result, the company will inevitably waste considerable time and resources when contradicting objectives are pursued within the same market segments. Increased focus on innovation will be vital to Alfa Laval’s competitiveness in a market which values technologically advanced and efficient product solutions.

Furthermore, it is recognized that Alfa Laval is neglecting to focus on what the Indian food processing market actually demands; total process solutions. Right now, food processors in India are experiencing rapid growth undoubtedly requiring new entire plants which presents the opportunity for those companies willing and able to provide the best total solution. This requires the company to be process-oriented regardless of the fact that being equipment-oriented is more convenient. Also, the pricing strategy that Alfa Laval is currently implementing is more product-oriented than market-oriented meaning that prices do not accurately reflect the value of the product. A value-based pricing is deemed more appropriate and will more precisely portray the value of the product.

Alfa Laval’s current marketing activities are seen as being extremely limited in scope and as of now Alfa Laval does not see a need and hence, has no intentions of increasing its market communication. The market, on the other hand, is of a different opinion. Marketing activities lead to valuable relationships, which provide the foundation for commitment and loyalty, and perhaps even supplier preference. Lastly, Alfa Laval’s value commitment to customers is presented in the form of after-sales services and is viewed as needing improvement in order to avoid damaging the company’s brand image and reputation in the Indian market. In conclusion, improving on these conditions mentioned above, the authors are convinced that this would allow Alfa Laval to successfully gain more market share without competing on price in the emerging market of India.

7.1.2 The authors’ contribution to existing theory

7.1.2.1 Introduction
This chapter is purely an effort to transfer the acquired knowledge from the previous chapter, based on empirical evidence gathered specifically from the Indian domestic food processing
technology industry, to a broader spectrum. This is the authors’ attempt to contribute to wider academia.

7.1.2.2 Description of synthetic model

During the course of this study the authors have recognized a need to propose a synthetic model that analyzes and combines a number of factors, which create value capable of enabling an MNC offering a premium product to compete successfully in an emerging market, on factors other than price. The synthetic model depicted in Figure 10 is the result of the authors’ identification of a need to combine more than one model in order to construct a wholesome perspective on a firm’s endeavor to create value. The models that greatly inspired the authors in the creation of their synthetic model were *The value creation framework* by Sharma et al. (2001) and *The five major elements of strategy* by Hambrick and Fredrickson (2001). Most of the authors’ framework was derived and adapted from *The value creation framework*. *The value creation framework*, however good, is lacking the entire aspect of value commitment, and the pricing strategy is perceived as being misplaced. *The five major elements of strategy* model is seen as being a complete description of what comprises a successful corporate strategy and its comprehensiveness is seen as a necessity and provides the foundation for a firm’s ability to perform well in all functions that create and deliver value to customers. Therefore, *The five major elements of strategy* has been selected over the management decision process found within *The value creation model* due to its inadequate description in the latter model of all aspects that are found to be needed in the management decision process from this study.

The synthetic model developed by the authors is based on the assumption that a company’s success is dependent on its ability to plan and perform well within all aspects of value creation, and then manage to transfer the value to the targeted market. The adapted model is an attempt to capture a company’s corporate strategy, innovation creation, business portfolio, value pricing, value commitment and finally, its value communication to a specific market in one framework. Corporate strategy (see 4.3) was purposely placed on top to serve as the origin for guiding a firm to successfully serving a defined market in stages via differentiators and specified vehicles by utilizing a specified economic logic. The five elements comprising a strategy are clearly depicted to stress the importance of including all features. The core of the synthetic model is composed of the five vital steps in the process of creating, delivering, communicating and committing to value. Each step is listed in the order of occurrence,
however; value communication has been deliberately placed in the tip of the arrow as an indication that all factors have to be leveraged in order to convince customers of the value in the company’s offering. The first four, innovation creation, business portfolio, value pricing, and value commitment, should be applied or leveraged in a prioritized manner as depicted by their height within the model. For example, the empirical evidence of the study has determined that quality and payback or ROI, as a result of innovation and re-engineering are the most highly valued factors by customers and therefore its height reflects its importance over the others.

Innovation creation was included due to its ability to allow a company to differentiate its products from competitors, thereby enabling it to act with strategies other than sheer price permitting a company to leverage other factors of value. The business portfolio aspect, meaning the ratio of processes versus components a company chooses to prioritize within its portfolio has been emphasized in the model due to the incredible growth that emerging markets have been experiencing, thereby requiring total solutions. Total solutions are further regarded as effective means of competing due to their ability to establish entry barriers and the fact that they are difficult to duplicate. Once a company has differentiated its products by innovation creation and has a properly balanced business portfolio that caters to the demands of customers, a company is then able to utilized an appropriate value-based price method as an indicator of the sum of the values that the product or service provides as opposed to cost-based pricing which is utilized when all else is equal, which inevitably is known to lead to price wars. Value commitment appears next in the synthetic model which is stresses as an important differentiator particularly in industries where customers have difficulties in distinguishing suppliers’ products apart from competitors. The strategic role of after-sales services as part of a companies’ larger value commitment also presents a great opportunity for knowledge and information acquisition for new product development. Value commitment should therefore be viewed as a determinant for the success of a company’s innovation capabilities. Value pricing has been assigned the lowest priority among these four factors as it is a function of the successful creation of the other three values. Basically, there must be values to leverage before a value-based pricing method can be applied. Efficient market communication is dependent on a company’s ability to present its competencies and capabilities into customer arguments that are relevant and appreciated. In turn, buyers are less sensitive to prices, thereby allowing for a value-based pricing method. Leveraging the four
illustrated capabilities and competencies by properly communicating them to the market is also a means of avoiding price wars since it enables a firm to present customers with value propositions instead. The combination of these factors of value, guided by an all-encompassing corporate strategy has been identified by the authors as allowing an MNC in an emerging market not only to gain profit, but also to capture more market share, without competing on price. This desired state is depicted in the synthetic model by the company delivering relevant and appreciated factors of value (the prominent arrow) supported by a comprehensive corporate strategy subsequently followed by the market’s response in the form of capitalizing profit and market share (the two arrows back).
Figure 10: The Indian recipe for success: Value delivery and return in an emerging market

Corporate Strategy

Arenas

Staging

Economic logic

Vehicles

Differentiators

Innovation

Creation

Business Portfolio

Value Pricing

Value Commitment

Communicating Value

Profit

Market

Market share

Source: Authors’ own adaptation, 2010
7.1.2.1.1 Strengths of the synthetic model
The synthetic model can be used by companies operating in industrial industries in emerging markets. The strength of this model lies in the fact that the empirical data behind this study has identified factors that industrial buyers actually value when making a purchasing decision and thus enable the firm to differentiate itself from its competitors. The synthetic model is based upon a stable and complete corporate strategy foundation, unlike other relevant models, which increases the likelihood of success. Also, the factors of value contained by the model are weighed according to their importance in order to guide and provide firms with insight when planning the staging portion of their strategy so that there is coherence within the organization concerning company priorities. Finally, the synthetic model emphasizes targeting a specific market to direct a company’s resources for optimal performance.

7.1.2.1.2. Limitations of the synthetic model
Despite its strengths, the synthetic model does, however, have some limitations, as do all models. To begin with, value commitment is, in fact, created after the point of sale and therefore cannot be communicated directly. However, in order to counter-balance this limitation, it is possible for a company to leverage the fact that it has a differentiating competence within this area, for example by exploiting references. Also, this model does not take into consideration the sum of all the lesser factors of value, which do add up to be significant influences when industrial buyers make purchasing decisions.

7.2 Concluding remarks
The case study of Alfa Laval within the Indian food processing industry has revealed how an MNC in an emerging market can capture more market share, in the face of increasing competition, without competing on price. The results presented provided significant contributions within both the academic as well as industrial spheres.

7.3 Future studies
During the course of this research the authors have come across a number of interesting tracks that would be interesting to study. The purpose of this section is to encourage further research which will guide researchers and scholars within the intriguing topic of value creation and delivery as a means of competing without price in an emerging market.

The authors study was limited to only the case company Alfa Laval India Limited but it would be interesting to compare the findings of this study to other companies in India or other
emerging markets where price may be commonly considered to be a competitive weapon to gain more market share.

This study was also limited to only organization and internal factors as aspects that may affect a company’s performance but the authors encourage studies that also take external elements into consideration.

Finally, the authors also encourage a more ingoing study of the value of the customer delivery process including the supply chain and distribution for a company’s success in an emerging market, all of which this study does not encompass.
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APPENDIX I – INTERVIEW GUIDES

Alfa Laval employee interview guides

Process Technology Division

(please specify individually for the vegetable oil and dairy industry)

1. What do you think your customers value?
2. What values do you think your customers associate with the Alfa Laval brand?
3. How attractive do you think Alfa Laval’s products are compared to competitors?
4. What do you think convinces your customers to choose your products over your competitors?
5. What do you think convinces your customers to choose your products over Gea Niro specifically?
6. The company is said to have a strong market positioning and a preferred supplier status and experts to capture a major share of the available business opportunities in the edible oil industry. Do you think that this remains true?
7. How innovative do you perceive Alfa Laval to be?
8. Do you perceive your customers as being aware of their preferences?
9. What do you define as a customized product?
10. How much more does it cost for Alfa Laval to produce customized products versus standardized products? What percentage increase does a customized product result in?
11. What is the reasoning behind providing a total solution within the dairy industry but not the vegetable oil industry?
12. Are the same machines used to refine domestic and exported products?
13. Why has Alfa Laval India been designated a group manufacturing unit (hub) for separators and decanters?

All India Field Sales Managers

(please specify individually for the vegetable oil and dairy industry)

1. What do you think your customers value?
2. What values do you think your customers associate with the Alfa Laval brand?
3. Why do you think you have been successful in India? What is the secret of your consistent success?
4. What qualities are emphasized in your marketing today?
5. What lessons have you learnt from the Indian market?
6. What do you think convinces your customers to choose your products over your competitors?
7. What do you think convinces your customers to choose your products over Gea Niro specifically?
8. What barriers to business exist in these industries other than governmental/sanitary regulations?
9. Do you target market segments through your marketing or do you focus on individual customers?
10. What is your motivation for cost-based pricing?
11. Have you ever considered implementing another pricing strategy?

Market Segments (VOT and milk powder)

1. What do you think your customers value?
2. What values do you think your customers associate with the Alfa Laval brand?
3. What do you think convinces your customers to choose your products over your competitors?
4. What do you think convinces your customers to choose your products over Gea Niro specifically?
5. What is the average length of your customer relationships? i.e. what length of customer relationship produces the most business value?
6. What factors do you think influence your customers the most in their purchasing decision? Eg. Corporate reputation, information sharing, distribution, fairness, flexibility, overall image of the brand, product quality, reliability (few faults & little downtime), product safety, low operating costs, design/style of its equipment, sales services, price, second hand value, durability, friendly and helpful staff, reputation, short delivery time, amount of maintenance, other? Please specify whether they are less important, important or very important.
7. What qualities are emphasized in your marketing today?
8. Approximately what portion of market share are you hoping to capture from Gea Niro and approximately what portion are you hoping to capture from the remaining 70 percent?
9. Within the vegetable oil industry, which processing function are you
10. Do you think that the fact that Alfa Laval is an international/Swedish company affects your purchasing decisions?
11. Which media channels do you utilize to market your products to existing and potential customers?
12. Do you target market segments through your marketing or do you focus on individual customers?
13. What barriers to business exist in these industries other than governmental/sanitary regulations?
14. What is your motivation for cost-based pricing?
15. What is the pricing strategy eg. Discourage others from lowering their prices, convey a particular image, discourage entry by new competitors, target market share, other?
16. Have you ever considered implementing another pricing strategy?

Regional Managers
1. Could you please briefly describe your job description/daily responsibilities?
2. What is the ratio of projects versus components sold in your region?
3. On a scale of 1-10 what do feel is the satisfaction level of your customers in your region about – Alfa Laval as a whole, Sales presence, services being provided, execution.
4. What things do you do differently in your region for providing sales and service quality in your region compared to other regions?
5. Why do you think the situation is like this?
6. Has any customer expressed their demands from Alfa Laval?
7. Is there anything unique about customer demands in your region?
8. What do you do to actively maintain customer relationships?
9. Do your marketing activities differ from other regions?
10. Is there a significant local competitor that has an advantage due to its location in the region?
11. Do you think Alfa Laval’s brand image in your region differs from its image in other regions?
12. What lessons have you learnt from the market in your region?
13. Do you think Alfa Laval’s organizational structure is suitable to cater to your regional market?
14. Are there any hindrances due to the organizational structure that effect the execution of the proper services?
15. Do you feel that there is a disadvantage since Alfa Laval’s head office is not located in your region?
16. Do you have enough human resources to effectively obtain available business opportunities?
17. Do any other factors exist in your region which affects your ability to most effectively perform your job function?

Engineering & Sales

1. Please describe your job description/daily responsibilities briefly.
2. What values do you think your customers associate with the Alfa Laval brand?
3. What do you think convinces your customers to choose your products over your international and local competitors from an E&S perspective?
4. What do you think convinces your customers to choose your products over Gea Niro and DeSmet specifically? (What feedback you get from your customers about your competitors.)
5. The company is said to have a strong market positioning and a preferred supplier status and expects to capture a major share of the available business opportunities in the edible oil industry. Do you think that this remains true? Why or why not?
6. How innovative do you perceive Alfa Laval to be from an E&S perspective?
7. Do you perceive your customers as being aware of their preferences?
8. How satisfied do you perceive your customers to be within the milk powder and the vegetable oil industry? Have there been any concerns repeatedly brought to your attention by customers?

9. What kind of feedback do you receive from your customers when you visit their facilities?

10. What exactly you do for your customers to be satisfied.

**Parts & Services**

(please specify individually for the vegetable oil and dairy industry)

1. Please describe your job description/responsibilities briefly.
2. What values do you think your customers associate with the Alfa Laval brand?
3. What do you think convinces your customers to choose your products over your competitors from a parts & services perspective?
4. How satisfied do you perceive your customers to be within the milk powder and the vegetable oil industry? Please specify whether you perceive them as being not satisfied, satisfied or very satisfied.
5. To what extent are your services required? How often do your customers require new parts or services?
6. Following a request for parts and services, how long does it take for this request to be satisfied on average?
7. What lessons have you learnt from the Indian market?
8. Do you personally feel that there is room for improvement on Alfa Laval’s response time?
9. If yes, how do you intend to reduce the response time?

**Equipment division**

1. What values do you think your customers associate with the Alfa Laval brand?
2. What do you think convinces your customers to choose your products over your competitors?
3. How satisfied do you perceive your customers to be within the milk powder and the vegetable oil industry? Please specify whether you perceive them as being not satisfied, satisfied or very satisfied.
4. How innovative do you perceive Alfa Laval to be?
5. What lessons have you learnt from the Indian market?
6. How attractive is it to only buy a single piece of equipment rather than an entire process?
7. What is the reason for only buying one piece of equipment rather than an entire process?
**Alfa Laval customer interview guide**

1. Do you feel that you gain significant value from your investments in Alfa Laval’s products? Why or why not?
2. Does your company have a short-term or long-term perspective in terms of your investments?
3. Do you as a customer prefer to be actively approached by potential suppliers or do you prefer to approach potential suppliers yourself?
4. Which are the sources of information that you use when you want to know more about different producers of food processing equipment and their products? E.g. word of mouth, trade fair/exhibitions/shows, industry magazines, the internet, sales person, other?
5. You state on your company website that quality is a priority. Please state approximately what percentage increase you are willing to pay for higher quality.
6. Please number the following factors to consider in descending order (1 being most important, and 15 being the least important) when making a purchasing decision:

<table>
<thead>
<tr>
<th>Factor</th>
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<td>Operating cost</td>
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<td>Closeness to customer (proximity)</td>
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<td>Business-to-business relationship/bonding</td>
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<td>Innovation/re-engineering</td>
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<td>Product life-span</td>
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<td>Payback or return on investment</td>
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<td>Quality and reliability</td>
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<td>Customization options</td>
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7. Which brand do you perceive as being number one in this industry?
8. What factors do you think Alfa Laval can improve upon?
9. How innovative do you perceive Alfa Laval to be?
10. Do you prefer your supplier to provide component parts or an entire process?
11. What do you perceive as being the major differences among Alfa Laval and its local competitors such as Glamptech/SSP and Mechtech/Food & Biotech as well as its international competitors such as Niro/Desmet?
12. Desmet/Niro serve niche markets. Does this factor have a positive or negative effect on your purchasing decision compared to Alfa Laval?
13. How do you consider Alfa Laval to be at handling complaints?
14. Do you feel you are being sufficiently serviced with proper support by Alfa Laval?
15. How do you feel about Alfa Laval’s human resources?
16. Are you willing to sacrifice quality for a lesser cost?
17. On average, how many potential suppliers do you inquire before making a final purchasing decision?
18. What quality standards do you follow? National/international?
19. How often do you invest in new machines?
20. How do you perceive Alfa Laval’s collaboration with Anhydro?
21. Do your customers value the fact that Alfa Laval is your supplier?
22. How does the fact that Alfa Laval is an international/Swedish company affect your impression of its products?
23. If a small supplier does not fulfill their criteria, how do you handle this risk?
24. What are your expectations of the local government concerning support for your operations in this industry?
25. How do you perceive Alfa Laval’s website?
26. If financing for carbon trading was available, would this have a positive effect on your investments?
27. **Small companies only** Who do you find more attractive as a supplier?
28. **For Alfa Laval customers only** Having bought Alfa Laval’s products in the past, how likely are you to prioritize Alfa Laval above its competitors during your next purchase?
29. **For Alfa Laval customers only** Do you think your customers value the fact that Alfa Laval is your supplier?
30. **First choice Alfa Laval but also purchase from competitors** Why do you prefer to buy your products from Alfa Laval?
31. **First choice Alfa Laval but also purchase from competitors** Why do you maintain business relationships with competitors?
32. **Second choice Alfa Laval, first choice competitor** Why do you prefer to buy products from the main supplier you have?
33. **Second choice Alfa Laval, first choice competitor** Why do you maintain business relationship with Alfa Laval?
34. **Purchase from Alfa Laval but are critical** Do you think that you will continue to buy products from Alfa Laval?
35. ***Anti Alfa Laval*** Did you have a bad experience with Alfa Laval products or services in the past? If yes, explain. If no, then what is your reasoning for disliking Alfa Laval so much?
APPENDIX II – EXTENDED EMPIRICAL EVIDENCE

8.1 Introduction
The empirical text first elaborates on the brand image perceptions followed by factors of value identified by both employees and customers. Subsequently, empirical evidence on factors valued in Alfa Laval’s products and services specifically are presented. Following, customers were asked to identify the most influential factors of consideration when making a purchasing decision and their responses are subsequently presented. Thereafter, a brief discussion is presented from the point of view of employees only regarding which market share Alfa Laval should target to capture more market share. Later, parts of the marketing mix i.e. product, price and promotion will be analyzed respective to Alfa Laval’s current situation from the perspective of both employees and customers. The empirical evidence closes with remarks concerning Alfa Laval’s after-sales service.

8.2 Brand perception and recognition
The majority of employees interviewed at Alfa Laval claim that overall; Alfa Laval is the best food processing technology provider within the domestic Indian market. The reasons stated by employees as to what makes Alfa Laval the best were factors such as its long history of operations in India as well as their premium quality product offerings and lastly, Alfa Laval’s widespread market presence allowing for more closeness to customers. Concerning vegetable oil technology specifically, employees perceive Alfa Laval as being the best supplier to domestic oil refining mills. As for the dairy segment, employees stated that Alfa Laval is perceived by customers as being second to Gea Niro as they admitted that Gea Niro’s technology is slightly superior to Alfa Laval’s.

According to most customers within vegetable oil, Alfa Laval is currently the number one brand in the industry. A few customers, however, mentioned DeSmet’s offering as being at par making the price of the product as being the decisive factor. One large customer of both companies recognized Alfa Laval as being the leader due to the low utility consumption of their products and regards DeSmet to be at second place due to their good quality equipment. An interviewed DeSmet customer, however, regards DeSmet to be ahead of Alfa Laval.
Customers within the milk powder industry are, on the other hand, not as convinced that Alfa Laval is the number one brand in the industry. Many customers answered that it depended on the product and that the competition within the industry is quite fierce. A majority named Alfa Laval and Gea Niro as being the leaders depending on the type of demanded product. One large customer mentioned that Alfa Laval, according to them, was the number one brand 15 years ago but that the current competition has changed this. This growing competition is mainly explained by the deregulation of the Indian market and the incredible market opportunities in the Indian food processing industry making it attractive for companies to enter the market.

The responses from employees on the topic of whether or not the fact that Alfa Laval is an international/Swedish company affects their customers purchasing decisions were undoubtedly mixed. The responses between market segments did not vary, however. Some employees feel that some customers value the international image and quality and are therefore willing to pay a premium price for Alfa Laval’s products. Employees also mentioned that other customers cannot afford Alfa Laval simply because of its international image and quality. Lastly, it was identified that some customers do not even consider Alfa Laval to be an international company due to its large presence and local manufacturing facility in India. Overall, employees stressed that concerning price, the fact that Alfa Laval is an international company leads to higher prices according to customers and concerning technology and quality, Alfa Laval’s international image works in its favor.

The company’s Swedish heritage is not viewed as something affecting customers’ impressions of its products or the purchasing decision to a great extent. All customers are aware of this but still choose to view Alfa Laval as an Indian company due to its long presence on the subcontinent and its integration with local companies. A few companies mentioned that this fact only affected them in the sense that it assured them that the offered products were of international quality.

An overwhelming majority of the employees answered that customers associate a premium quality and reliability with the Alfa Laval brand. This, in turn, is considered to give confidence to customers that Alfa Laval’s products are up to the mark. A number of employees also stated that customers associate the Alfa Laval brand with high quality customer- and after-sales service. One employee described Alfa Laval’s services as a focused
service business meaning that they provide a complete service package and value through the entire life-cycle of the plant.

Regional Managers overall do not feel that Alfa Laval’s brand image is different in their region. Most presumed that Alfa Laval’s image as is fairly well established as a leading, high quality MNC. Two Regional Managers did mentioned that they think Alfa Laval’s brand image differs in their region due to the fact that one does not have a major customer in his region and the other Regional Manager stated that because his territory is in the region as Alfa Laval’s headquarters, that he has an advantage and therefore the brand image in his region is superior.

8.3 Factors of value

Employees at Alfa Laval mainly consider value for money as being the most important factor that customers appreciate in the company’s offerings. Other factors such as innovation, peace of mind, end-product quality, and energy-efficiency in production, receiving an entire process solution, commitment and reliability combined with a number of references were also mentioned as important determinants. The company’s widespread sales presence and geographical proximity as well as services and after-sales services are also factors that employees consider as being valued by customers. Within the milk powder industry, employees specifically consider Alfa Laval’s collaboration with the Danish company Anhydro as being of value to their customers. A few employees also mentioned Alfa Laval’s in-house production of core products as a competitive advantage. This allows customers to only contact Alfa Laval if there is a problem since all products originate from one supplier leading to faster response time as well. Having a manufacturing unit is also considered to support the service team in terms of building competence for trouble shooting and execution of projects.

A number of customers state on their websites that quality is a priority in manufacturing and underline the importance of this in the current competitive market. Customers are willing to pay a premium of 10 to 15 percent if the product they receive from Alfa Laval is of a higher quality compared with competitors. One customer within vegetable oil mentioned that since the products of Alfa Laval and DeSmet are at par, this premium only applies compared to local suppliers. A similar response was received from a customer in the milk powder industry that prefers Alfa Laval products but still is critical to the company. This customer stated that
Alfa Laval normally would receive a 15 percent premium compared to local companies and a premium of three to five percent compared to international companies although Gea Niro, for example, is perceived as supplying equally good products. Another customer within milk powder that prefers Alfa Laval over Gea Niro mentioned that they were willing to choose Alfa Laval over competing companies if their prices were no higher than five percent above others. This in spite of acknowledging the better quality of Alfa Laval’s products compared to competitors. The customer explained that this is due to the low margins in the industry forcing them to purchase a reasonably good product at a reasonable price.

In addition, no interviewed customers were willing to sacrifice quality for a lesser cost for both components and entire plants. One large customer within vegetable explained that this was due to that the company has a brand that they have to look after. However, one company, despite being a loyal customer, mentioned that they were willing to sacrifice quality for cost when purchasing spare parts due to the high prices that Alfa Laval charges for their brand. All interviewed customers within both vegetable oil and milk powder stated that they have a long-term perspective in terms of their investments. One customer within milk powder added to this by saying that they in some cases have a short-term perspective on their investments but only when it comes to small investments. This was explained to be due to the low margins in the milk powder industry making them pick a supplier with reasonably good machines offered to a reasonably good price.

Perceived value in Alfa Laval’s products and services
All interviewed customers within the vegetable oil segment perceive that they gain significant value from their investments in Alfa Laval’s products and the company is recognized as being a high quality brand within the industry providing trustworthy and reliable products. A number of customers mentioned low maintenance costs of machines as being an advantage with Alfa Laval’s offerings. Low utility consumption in plants was also mentioned as an advantage. Customers value the fact that Alfa Laval has their own R&D based on long experience within the industry compared to competitors like DeSmet that purchase part of their offerings from outside the company. One customer, however, mentioned that DeSmet’s products provide higher yield than Alfa Laval’s products. A number of major, large customers also mentioned that they have come across problems with Alfa Laval’s after-sales service and that they perceive that they have more problems with Alfa Laval’s services compared to competitors like DeSmet, particularly since approximately one year back.
Compared to DeSmet, Alfa Laval is perceived as not having people that are able to solve problems. One customer identified this as being due to lack of human resources as well as over-commitment to too many projects at the same time. Customers also recognize that Alfa Laval does not have the right technical people for providing solutions in case of problems and that there is a lack of technical knowledge among the staff that is executing projects. Some customers experience that Alfa Laval does not have a good engineering or project coordination team. This has resulted in execution and commissioning problems which have been mentioned as being a major problem among many of Alfa Laval’s major customers. One customer within milk powder was very critical towards Alfa Laval’s ability to properly commission and execute projects and identified this as mainly being due to lack of human resources. Contrary to this response, another milk powder customer stated that they perceive that Alfa Laval has good technical people and that they always are provided with proper and good guidance within the entire process line. Other customers expressed their concerns over Alfa Laval’s continuous inability to deliver products on time. The customers acknowledged that it seems as if Alfa Laval does not understand the difficulty to delaying projects. Poor communication and lack of or slow response and action between divisions and customers are also other worrying issues according to customers.

Customers interviewed within the milk powder had mixed responses concerning whether they felt that they gained significant value from their investments in Alfa Laval’s products. A number of customers mentioned that they did get value from their investments and that they believed that the company’s products were of good quality. A few other more critical customers, however, mentioned that they did not feel that they were gaining any significant value from Alfa Laval compared to competitors’ offerings. Several milk powder customers described how they were facing problems related to execution of projects and that this is an area in which Alfa Laval needs to improve since it gives a bad impression of the company. One of these customers also mentioned that they perceived that improvements had to be made in Alfa Laval’s after-sales service. Comments were also given about the fact that Alfa Laval charges too high prices and that they should be more flexible with prices. One customer was also demanding to see Alfa Laval focus more on processes rather than components. By focusing and investing more in supplying processes this customer concludes that Alfa Laval will be able to gain more from the market. A significant issue mentioned by a number of customers was the high prices that Alfa Laval charges compared to competitors. One
customer within milk powder was greatly concerned over the rising price difference between Alfa Laval and its main international competitor, Gea Niro. This customer described how Gea Niro lately has been making desperate tries to gain more customers within the private sector by offering lower prices than its competitors.

Alfa Laval’s sales team is greatly appreciated compared to the company’s competitors in the industry. In addition, the company’s sales presence and availability in a number of regions is regarded as being advantageous compared to other suppliers. A number of customers within the vegetable oil specifically mentioned that local suppliers such as Glamptech and Mech-Tech cannot be compared with Alfa Laval due to the lack of services from these suppliers making customers repair these machines themselves. Another large customer within vegetable mentioned that they do not use any local Indian suppliers at all due to their low quality and inability to handle large volumes. One large customer within milk powder explained that the main difference between Alfa Laval and other competitors in the industry is the company’s great sales presence making it easier to receive service and allowing for deeper customer relationships. A number of interviewed customers also maintain relationships with small suppliers due to several different reasons. The main reason for this is the price difference especially for small plants and spare parts that often are duplicates of the original. Price and quick delivery are two important factors for these kinds of projects and products and local suppliers are therefore considered to be a better alternative despite their flaws. Another large customer described the after-sales service of local suppliers to be of satisfactory quality due to their small size meaning that they attend few customers.

8.4 Values influencing the purchasing decision

The noticeable trend in the responses of Alfa Laval employees concerning the reasons why their customers choose to purchase their products over competitors’ products is that quality and reliability and company commitment are the distinguishing and convincing factors. Delivery time, a good reference list as well as better technology than competitors were also stated by more than one employee. Concerning the milk powder segment alone, Alfa Laval’s association with Anhydro was also mentioned as an attractive factor for customers. Other factors mentioned by both market segments were payback period and the fact that Alfa Laval is an international brand and of international quality but has a local cost base are also perceived as being enticing to customers.
An obvious distinction between the milk powder and the VOT market segments was noticed when employees were asked what do they think convinces customers to purchase Alfa Laval’s products over their strong international competitors such as Gea Niro and DeSmet specifically. For the milk powder market segment, employees consistently responded that Gea Niro’s technology is just as good as Alfa Laval’s, if not better. Gea Niro is currently the market leader and operates only within the dairy industry so they are in a sense specialized. Employees continued to say that the industry perceives Gea Niro as being the best supplier in the industry and their prices are the same as Alfa Laval’s. The reason employees think some customers still choose to purchase from Alfa Laval is because they state that Gea Niro is dependent on Alfa Laval for some of its technology, because Alfa Laval has an association with Anhydro in Denmark, also because Alfa Laval’s delivery time record is significantly stronger than Gea Niro’s and finally because employees feel customers perceive Alfa Laval as being more reliable and a fundamentally stronger company to work with. Concerning the VOT market segment where Alfa Laval is the market leader, factors that employees stated as convincing customers to choose their products over DeSmet’s include the fact that Alfa Laval is a complete solution provider and has its own fabrication possibilities whereas DeSmet outsources the complete manufacturing of what goes into their process, Alfa Laval’s products are more energy efficient, Alfa Laval has good references, the fact that Alfa Laval produces international quality at a local cost base, and finally, Alfa Laval has a much greater service presence in the Indian market compared to DeSmet.

When asked if employees feel that price is a factor, the answers were scattered. Some employees mentioned that Alfa Laval’s quality and product life far exceed competitor’s products and so that is the reason Alfa Laval’s prices are so high. Another employee said that Alfa Laval tries to fight on technology and not price because if price is the focus then a price war will result. Lastly, one employee clearly stated that Alfa Laval is operating in a cost-driven market and that everyone wants to earn more profit, yet Alfa Laval still competes on features and provides the best products, but not the cheapest.

Alfa Laval employees clearly demonstrated that they are under the impression that price is the most influential factor among customers when making a purchasing decision. Brand image was also mentioned more than once. Other factors mentioned were low operating cost, amount of maintenance, and delivery time. There was a noticeable difference between the VOT and milk powder market segments responses concerning quality and reliability. The
VOT market segment feels that quality and reliability are very important factors for customers when making a purchasing decision, whereas the milk powder segment has been led to believe that quality and reliability are less important factors due to the fact that 70 percent of the industry market share is held by local suppliers, which offer significantly lower quality products that are much less reliable than Alfa Laval’s product offering.

When customers were asked to state which five factors they consider most important when making a purchasing decision, an overwhelming majority mentioned quality and reliability of the product as the most important factor. Thereafter, the operating cost of the machinery was mentioned the second-most and was perceived as being very important when determining which supplier to choose. Thirdly, Payback or return on investment was mentioned as the next most important deciding factor. Price was a factor that was also mentioned a significant amount of times and can therefore be considered as very important. Lastly, innovation and re-engineering were the fifth-most mentioned factor of importance when distinguishing between suppliers. The importance of innovation was also stressed quite a lot during open discussions with customers (See Table 3).

Other factors that were mentioned several times by customers as being important, but did not make the top five include the quality of after-sales service, hygiene, and operational flexibility in descending order. On the other hand, it became quite evident that certain factors such as closeness to customer, the business-to-business relationship as well as education and training of products are not viewed as being significant factors influencing which supplier a customer will choose when making a purchasing decision.

When asked about whether customers would prioritize Alfa Laval’s products over competitors most customers replied that the supplier definitely would be in the list of companies to be inquired due to previous experience and relationships and thereby would be prioritized. However, comparisons regarding quality and prices would be made. One customer within milk powder described that the company, when deciding between Alfa Laval and Gea Niro, normally always picked the supplier which provides the better technology. Several customers mentioned that if the quality is at par, price and offered services would be decisive factors. One milk powder customer underlined the importance of being competitive against Gea Niro that increasingly is trying to capturing more of the market by offering products of the same or better quality at lower prices. A customer within vegetable oil
perceived there as being great differences in prices in the market. Alfa Laval’s advantage of producing everything in-house and not having to depend on other suppliers like DeSmet is appreciated since this is perceived as providing greater margin for price negotiations. Only one small customer said that Alfa Laval would be given preference due to good previous experience. Another critical customer with previous problems stated that this would depend on whether and how their current issues were solved. When customers that have Alfa Laval as a first choice but still purchase from competitors were asked why they maintain business relationships with competitors replied that this was the best way of receiving more information and keeping updated about technology, engineering and innovation within the industry. A number of customers also replied that this allowed them to compare prices and gain more bargaining power.

8.5 Promising potential
When employees were asked where they think the best opportunity to gain more market share is, either from local or international competitors, they provided mixed responses. One employee stated that it would be too difficult to go after market share from the leading international competitor and so Alfa Laval should focus on capturing market share from local competitors once the market consolidates resulting in production of higher volumes. Another employee clearly stated that local competitors’ customers are too small and they value a lower price over higher quality and since Alfa Laval will not compromise its quality they are not an option. Later the same employee did state, however, that the small local customers are where the big potential is waiting because they will be the large customers later on. The former Managing Director stated that he thinks Alfa Laval can successfully capture from both local and international suppliers by being more innovative. On that note, two other employees specified that they would like to obtain 20 percent of the international competitor’s market share and 10 percent of local competitors’ market share. A Regional Managers perspective was that Alfa Laval’s orders would increase in terms of value if it should go after international competitor’s market share, or increase in terms of volume if it captured local competitor’s market share. When asked which alternative he believes is more attractive to Alfa Laval, he responded that Alfa Laval prefers vendors who are able to pay the highest price where competition is limited to international suppliers. The mixed responses to this question and others lead to an inquiry regarding strategy. The response to whether or not a strategy exists to guide employees’ operations within business segment was negative.
Appendix II

Apparently, employees at Alfa Laval have their own goals and objectives for their activities that shape their own motivations.

8.6 Providing value in every promise

Maximizing gained value from a company’s offerings inevitably means that the company has to engage in decisions and strategies during the entire value creation process. This value creation process starts as early as during the product development to setting a price that reflects the value and finally establishing and communicating the product’s value through proper promotion.

Product: Components versus total solutions

When six regional managers were asked to specify the ratio of projects verses component sales in their respective regions, projects dominate sales in three regions, while component products dominate sales in two regions and sales of projects and components are nearly equal in one region. Alfa Laval is currently a provider of both entire processes and component parts although the company chooses to focus on core components. According to one employee this is due to that customers mainly require components since this allows for a quick response in terms of technology delivery. Other employees were more critical to the decision to only focus on components and perceive Alfa Laval to be lacking in offering good complete solutions due to a different management strategy and argue that the Indian market is more project-oriented. The former Managing Director did not seem to agree with this statement and described Alfa Laval’s operations in India as focusing on providing solutions since this is the only way the company can successfully operate in the market. According to him, Alfa Laval is one of the best companies in providing total solutions within milk powder and vegetable oil.

All interviewed customers but one stated that they prefer their supplier to provide an entire process over component parts. The reason for this is mainly that customers find it less complicated to have only one supplier that is responsible instead of several when an entire plant is needed. One milk powder customer mentioned that they preferred Alfa Laval when they needed an entire plant and used other alternative suppliers for components due to Alfa Laval’s high component prices. Another milk powder customer responded that they were willing to pay 10 to 20 percent more for a solution since this allows them to avoid the hassle of buying components from several different suppliers. According to this Alfa Laval’s
competitor Gea Niro are ahead of them in providing complete solutions. Gea Niro supplies an entire process irrespective of whether they manufacture everything themselves or not and in addition provide a guarantee for the entire process. This customer also stated that it is impossible to survive as only being a component manufacturer in current market conditions. Gea Niro is preferred by the customer when buying an entire process due to their process-orientation and heavy investments in process development compared to Alfa Laval which is regarded as a more component-oriented company. Despite Alfa Laval’s acknowledged strength in components, the customer stated that they would compare the performance of the offered components due to Alfa Laval’s lack of innovation. A customer in vegetable oil said that they apart from entire plants only bought components from Alfa Laval if the equipments were particularly important to the function of the plant.

One employee explained that there are many advantages of providing both processes and components since this allows for the project-team to promote products and for the product-team to promote projects. Supplying processes is, however, more complicated than components since it requires a completely different knowledge and involves many different parties that have to be satisfied. Selling components also allows Alfa Laval to reach out to more customers while the company only can focus on a limited amount of projects simultaneously since that takes more effort. However, customers demanding entire processes are today prioritized ahead of those only buying a component.

Two interviewed engineers at the company explained that Alfa Laval does not manufacture ten percent of the parts that are supplied in their process solution and these therefore have to bought from other suppliers. Major capital equipment in the solutions are, however, designed and manufactured by the company. If and when customers demand something that they do not make, these products are purchased from other parties. According to the former Managing Director, the greatest threats to Alfa Laval in terms of competing suppliers are international suppliers for components and local suppliers for total solutions.

**Innovation for value creation**

The responses to the question asking how innovative the employees perceive Alfa Laval’s products mostly concerned the VOT market segment as it was discovered that no new major innovation has taken place since 1998 and is therefore perceived to have a technology lag among some employees. Despite the absence of new technology, some employees still claim
that Alfa Laval’s technology is better than all its competitors, including the main international competitor, and is the trendsetter in the market. According to one employee, Alfa Laval takes feedback from customers into consideration and subsequently modifies new models. Another employee states that Alfa Laval needs to improve on its innovation but it is unfair to compare its products with DeSmet’s, as they are strictly an oil company, so vegetable oil refinery is their core competence, whereas Alfa Laval is active in many industries. Three employees, one of which is the former Managing Director, stated that Alfa Laval must invest in re-engineering in optimizing its process solutions in order to remain competitive as customers are looking for new innovation. They further claimed that competitors are now threatening Alfa Laval’s market leadership after having re-engineered their process designs. The competitor has since reduced its prices by 10-15 percent. The general consensus among employees was that, although Alfa Laval’s technology is good, new innovation is needed. The former Managing Director mentioned that approximately 2.5 to 3 percent of sales value goes back into R&D projects for new innovation.

A number of large customers within vegetable oil mentioned innovation in terms of new technology and continuous updates on offerings as being a factor that Alfa Laval greatly can improve upon. Compared to DeSmet that is perceived as continuously launching new and technologically advanced products, Alfa Laval is lagging behind and is regarded as offering old technology. One large customer mentioned that it seems as if new innovation and design improvement is not Alfa Laval’s focus at present and that many of the company’s competitors, including smaller ones like Lipico which mainly has former Alfa Laval employees, are offering better product designs. Another loyal Alfa Laval customer underlined that improvement within operation costs and maintenance costs has to be focused on in order to be competitive in the current market conditions.

A few customers within milk powder also responded that they would like to see Alfa Laval invest more in innovation, new technology and improved and updated equipment. According to these customers there is still room for improvement in innovation although the company’s products are not considered to be bad. One critical Alfa Laval customer, however, mentioned that they perceive Alfa Laval to not be innovative at all and that other suppliers in the industry are ahead of them when it comes to this. Alfa Laval’s largest international competitor Gea Niro is considered to provide good and reliable machines that are good in
engineering. Their understanding of local Indian conditions and needs of local companies as well as process solutions are also other factors that are appreciated.

**Price: Every promise has a price**

*Employees* explained that Alfa Laval generally uses a cost-plus pricing strategy for several reasons. Some were more skeptical than others, for example, one VOT employee stated that Alfa Laval looks at competitors’ prices to compare, adds a margin and sells the product. He continued to state that his boss sets the price and he follows it. “The margin is not based on value, but it should be” according to that same employee. As for milk powder, the corresponding employee mentioned that because Alfa Laval has no major technological difference that they can leverage, they choose to utilize cost-based pricing. As for component parts, this employee stated that there is an obvious technical difference and so Alfa Laval can employ a value-based price. After speaking to two sales employees, they agreed that value-based pricing is appropriate only for components and not for projects. They expressed some frustration with Alfa Laval’s rigid margins and recommended that Alfa Laval instead set a fixed margin for the whole year so there is room for flexibility in pricing for new customers. Their argument for this was that due to Alfa Laval’s inflexible margin demands, they are allowing local competitors to grow because customers are picking cheaper alternatives. Subsequently, local competitors’ reference lists also grow as a result and the cycle continues. These employees strongly expressed that Alfa Laval is losing old customers due to price inflexibility.

On the topic of what the goal of Alfa Laval’s pricing strategy is (i.e. whether it is to discourage others from lowering their prices, convey a particular image, discourage entry by new competitors, target market share, or something else) *employees* consistently responded that Alfa Laval’s aim is to target market share. More specifically, Alfa Laval tries to support maintenance of a certain amount of market share. The company is said to try to keep its prices similar to competitors. One employee mentioned that Alfa Laval could gain a lot of market share if it lowered its prices but then it would not achieve the right margins.

After asking whether or not Alfa Laval has ever considered implementing a different pricing strategy, not one response gave a simple yes or no answer, but were instead full of pricing recommendations. The former Managing Director of Alfa Laval stated that although cost-plus is used for pricing both components and projects, the values of the products should be better
incorporated into the price. He stated that Alfa Laval has been bad at leveraging values in the past but could ask for a higher price if it started doing so. The market segment and sales employees, however, recommended pricing strategies that involved lowering prices, at least initially in order to acquire more customers, and then subsequently increase prices. It was stressed though, that Alfa Laval will not sacrifice quality to lower its prices.

**Promotion: Communicating value**

It became evident that the VOT and milk powder market segment *employees* have two different approaches to utilizing media channels to market their products to existing and potential customers. As for milk powder, there are currently no marketing activities taking place. Prior to Alfa Laval’s separation from Tetra Pak more advertising was being done but has since declined. Milk powder segment employees solely rely on keeping in regular contact with customers to stay informed about their future needs. Otherwise, they feel that there is no need to expand their marketing presence due to the fact that they do not cover the entire diary process and that Alfa Laval is so well known in the industry already. The VOT market segment however, does participate in industry exhibitions once or twice a year depending on budget allowance. They claimed that this activity has proven valuable, particularly for new technology. They do not display their existing machines as they claimed that no one is interested in old technology. VOT also specified that they run print ads in approximately four local and international industry magazines to keep people informed of their market presence. One VOT employee expressed that regardless of the existing marketing, there is still room for much more. Concerning regional managers, one said that he isolates an area with a lot of potential growth and then he maintains active communication with customers in that segment within his region.

According to Alfa Laval’s *customers* they normally have to approach the company themselves when a component or project is needed. Customers are in most cases contacted only when a new product is launched or when they want to inform them about something. Only one small customer mentioned that they were approached frequently by Alfa Laval regarding future requirement, expansions and new products developed by the company. Another customer described the informal relationship that they have with Alfa Laval’s employees ensures that they are continuously updated about the company’s offerings. Apart from these two exceptions, most interviewed customers responded that they would like Alfa Laval to have a more proactive approach meaning that the company should be in touch more
often, such as once a month, and inform customers about new developments and technology. This will also allow the company to find out whether the customers have any new requirements or demands and will also provide room for sharing needs. Alfa Laval’s largest competitor within vegetable oil is appreciated partly due to the newsletters that they frequently send out to their customers. One large customer mentioned that they would like to see a similar newsletter with internal reports and marketing from Alfa Laval as well.

A majority of companies mentioned that references, contacts and word-of-mouth are the main sources of information that is used when they want to know more about different producers of food processing equipment and their products. Others also responded that they inquire suppliers that they are regularly in touch with or that they know since previously. Newsletters, magazines, conferences, trade fairs and the internet were other commonly mentioned sources of information. Several interviewed customers were also displaying different magazines that they had received from suppliers such as Lipico during the interviews.

When Alfa Laval employees were asked whether they target individual customers or target market segments to establish new business, the only difference in responses was between employees at headquarters and employees at regional offices. No difference between market segments was noticed. Employees at headquarters stated that they target individual customers whereas the employee in charge of all regional offices stated that due to Alfa Laval’s vast presence across India, Alfa Laval has the opportunity to target market segments in each region. It was stressed, however, that at the end of the day, the majority of business comes from repeat customers.

**Regional differences: Adding local flavors**

*Regional Managers* were also asked if they do anything differently and what they do differently in their region for providing sales and service quality compared to other regions. The responses varied drastically from region to region. The only thing each Regional Manager had in common was that they all mentioned that they were unaware of what happens in other regions. The first Regional Manager interviewed stated that his employees have a better knowledge base in order to handle customers in his region which he described as being more slow and cautious in nature and therefore make finer evaluations of the technical aspects of products when making purchasing decisions. The second Regional
Manager interviewed stated that he manages to be active in soliciting business right from the conceptual stage in order to educate the customer to go for a particular technology or a particular solution which makes winning the project for him, much easier than if he would enter the negotiation later and have to compete on price and possibly face price wars. This particular Regional Manager manages to enter negotiations right at the conceptual stage by spotting inquiries and actively seeking new customers instead of waiting for customers to contact Alfa Laval. He mentioned that the positive results of his actions are evident in the fact his regional office has the highest gross margins of all Alfa Laval offices in India. Other Regional Managers mentioned that they give fast response to key customers to satisfy demands, conduct internal meetings every few months to review business and/or concentrate on selling certain products. One region in particular mentioned that customers in its area are very conservative when it comes to price as the majority of businesses are small to medium in size. In the face of low-priced competition, that particular manager makes an extra effort to educate customers of the value they get from purchasing Alfa Laval products.

In different regions, customer relationships are seemingly handled in very similar ways by all Regional Managers interviewed. The most common response was to actively contact customers on a regular basis and/or to go out and meet with customers whether or not there is an active order at that moment just to stay informed of their present and future needs. This relationship building results in more transparency. One Regional Manager also specified that his office always tries to put themselves in the customers’ shoes in order to create a win-win situation for both Alfa Laval and the client.

Value delivery

In general, the employees at Alfa Laval perceive their customers to be highly satisfied with Alfa Laval’s products. Although, only one employee stated that he thinks customers are 100 percent satisfied. Most others feel customers are happy with the products for reasons such as, Alfa Laval is loyal and committed to its customers and will not abandon them if there is a problem with the product, Alfa Laval provides complete product life-cycle offerings and Alfa Laval’s products are of better quality than its competitors. A few employees mentioned some factors which might decrease customer satisfaction as well, such as delivery and execution delays or the fact that some customers will never be satisfied.
Concerning customers’ satisfaction levels of Alfa Laval as opposed to its products, employees feel customers rate Alfa Laval as being generally good. Sales presence was regarded as being valued highly by customers as Alfa Laval has regional offices throughout India which makes it easy for customers to approach Alfa Laval. Alfa Laval’s services being provided are perceived by employees to be quite good as well. However, Alfa Laval’s execution of projects is where the self-criticism lies. There have been some engineering issues arising in the past during execution of some plants which leave customers unsatisfied. One employee rated Alfa Laval relatively higher on customer satisfaction because while there is always room for improvement, customers’ demands are also increasing day-by-day.

*Regional Managers* responded similarly when asked what kind of feedback they receive from customers in their respective regions. Many stated that many customers are satisfied and happy with Alfa Laval’s brand, products, local presence and reliability. One manager mentioned that at his level he only hears major complaints. The general pattern of negative feedback was the result of either late delivery or installation/execution issues. One manager explained that Alfa Laval has a history of underestimating the amount of time it takes to complete a project in their timetables. This is said to happen with projects only, not components because Alfa Laval is dependent on outside suppliers and is late in placing orders with them. He blamed too much bureaucracy for this issue. However, having those items in stock to avoid this wait is not an option as these parts are mostly customized solutions. Unfortunately, if 10 percent of the project is late than 100 percent of the project is delayed and the customer is left unsatisfied.

*Parts & Services employees* at Alfa Laval were asked to what extent their services are needed and the response was that generally more assistance and service is required by customers within the first 1-1.5 years of operation of a new machine, which are often adjustments in speed, etcetera. Customers subsequently utilize their competent in-house maintenance after the initial stage. Customers without in-house maintenance understandably require more help. The amount of maintenance also depends on whether or not the customers follow the service and maintenance guidelines, whether or not the machine is self-cleaning, stationary or simple in its operations and whether or not pirated spare parts exist on the market, which is generally the case for older technology. Employees specified that when there are issues with Alfa Laval products, the responsible party is both Alfa Laval and the customer an equal amount of the...
time. Alfa Laval is said to provide an 18 month warranty obligation from the date the product was shipped or 12 months from installation, whichever comes first.

Following a request for services, Alfa Laval Parts & Services’ engineers stated they aim to respond within 24 hours, but that customers usually receive a response within 48-72 hours. The most time consuming aspects are getting a service engineer to the customer’s location and ordering parts from third party suppliers if necessary. Another factor which increases response time is India’s poor infrastructure. If the issue is small, customers might receive help immediately, however issues involving factory design understandably take longer. The general process is for the service engineer to identify the cause of the problem, look at possible solutions and finally, seek approval from the manufacturing or engineering perspective. Employees stated that customers get irritated when they receive a slow response. An employee said that Alfa Laval could reduce its response time by further developing its service engineers’ competence, creating an expert pool, increase the number of service engineers and providing better logistics for service engineers.

8.7 Managing the organization for value delivery
Regarding the question about whether or not Alfa Laval’s organizational structure is suitable to cater to the market and if there are enough human resources within the organization to obtain available market opportunities, all eight responses were nearly identical. Employees expressed that the organizational structure is suitable; however there is a definite lack of service engineers and mention of a need to increase competence in the existing service engineers. This lack of human resources was stated as a hindrance to obtaining available market opportunities. One Regional Manager specifically stated that Alfa Laval’s organizational structure was much better previously back in 1991 when after sales service was more decentralized and he, as a manager had more knowledge and control over what was going on in his region. Today, he claims that if a customer tries to contact him regarding a project, he has no idea what is going on with the supply and delivery. He further claimed that not even the Market Segment Manager at headquarters knows what is happening and that he almost lost an order due to this. This employee recommended a project manager be assigned to coordinate with headquarters so those circumstanced wouldn’t occur again.