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Dealing with Low-Cost Competition - Impact and Strategy

An explorative investigation into the effects of low-cost competition on Nordic-based industrial companies and their strategic responses

Master of Science Thesis
in the Master's Degree Program Management and Economics of Innovation

VIKTOR MÅRDSTRÖM

Department of Technology Management and Economics
Division of Operations Management
CHALMERS UNIVERSITY OF TECHNOLOGY
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VIKTOR MÅRDSTRÖM

Tutor (Triathlon Consulting Group): Martin Karlsson & Kristoffer Claesson

Tutor (Chalmers): Dan Paulin

Department of Technology Management and Economics

Division of Operations Management

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Department of Technology Management and Economics
Division of Operations Management
Chalmers University of Technology
SE-412 96 Gothenburg, Sweden
Telephone: + 46 (0)31-772 1000

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Gothenburg, June 2014

Viktor Mårdström

Note 1: The impetus for this study came from Triathlon Consulting Group, henceforth referred to as Triathlon. Triathlon is a management consultancy firm serving large, multinational, industrial clients based in the Nordic region. The firm focuses on management issues within the areas of strategy, operations and finance (Triathlon, 2014).

Note 2: In addition to Triathlon, input and feedback has been provided by ISEA, Industry Senior Advisors, an organization consisting of a large number of executives and experts in the later stages of their careers. ISEA has direct access to senior expertise in many areas through its partners and through individual members (ISEA, 2014).

Note 3: The companies participating in this study include, but are not limited to: ABB, AkzoNobel, Alfa Laval, Arkivator, Assa Abloy, AstraZeneca, Atlas Copco, Autoliv, Electrolux, Ericsson, ESAB, Getinge, Husqvarna, Kemira Kemi, Kongsberg Automotive, Mölnlycke Health Care, Plastal, SAAB EDS, Sandvik, SCA, SKF, SSAB, Unicarriers, Volvo Buses, Volvo Trucks and Yara International. A few companies choose to remain completely anonymous and other than that the specific data of individual companies cannot be disclosed.

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Viktor Mårdström, 2014

Department of Technology Management and Economics
Chalmers University of Technology

Abstract

Low-cost competition (LCC), whereby a company achieves a significant cost advantage either through comparative advantages or a lean cost structure, is posing an increasing challenge to established companies all over the world. This master's thesis investigates how large multinational industrial companies based in the Nordic region are affected by LCC, what strategies they use to meet the challenge and how such strategies can be improved.

The literature review revealed that most previous material on LCC focuses mainly on business-to-consumer examples such as Ryanair, while this study investigates companies that primarily operate in a business-to-business environment. The framework for data collection that was eventually devised is meant to investigate how the studied companies use performance, relational and price value strategies to compete with LCC.

The data collection consisted of three unstructured face-to-face interviews as a pre-study that was used in conjunction with the literature review, as well as 34 structured/semi-structured interviews with company representatives via telephone. The interview guide was constructed in such a way as to enable both quantitative and qualitative data to be gathered.

The study shows that the reviewed literature is mostly relevant for investigating the chosen context but that there are differences when compared to the empirical data on issues such as value chain and branding, most likely due the somewhat different focus of the literature and data. Moreover, the investigated companies are generally affected by LCC but quite successful in competing, although there are a few outliers that are not subjected to LCC or subjected and unsuccessful in competing. The study also reveals that most of the investigated companies use a mix of performance value and relational value to deal with LCC, which is generally successful. However, it is also argued that the investigated companies are less successful in competing with LCC in developing markets than mature ones, which is why the thesis concludes by recommending confronting LCC with a price value strategy in addition to further emphasizing solutions as a way of competing with LCC.

Keywords: Low-cost competition, LCC, incumbent strategy, mature markets, developing markets, competitive advantage, comparative advantage, performance value, relational value, price value

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1. Introduction

The introductory chapter describes the background of the thesis as well as the concept of low-cost competition. The aim of this chapter is to create a general understanding of low-cost competition and its importance as an area of research. Following the background, the purpose of the thesis is established and the scope is discussed. The chapter ends with a description of the disposition of the thesis.

1.1 Background

Incumbent companies are under constant pressure from potential rivals that seek to gain market share by presenting customers with an offer that is perceived as better, along a large set of possible parameters. One of the most fundamental ways to accomplish this is to present a similar offer to that of a market incumbent at a lower price. Broadly speaking, there are two possible ways for a challenger to do so: first, it is possible to design the business in such a way as to make its costs lower than those of the market incumbent (Porter, 1980) (Ryans, 2009). Secondly, so-called disruptive innovations, a term popularized by Clayton Christensen (1997), can be dramatically cheaper and over time become "good enough" in traditional metrics and displace prior solutions. Regardless of which, the situation typically presents significant difficulties to the managers of the incumbent company for a variety of different reasons (Kumar, 2006). This thesis investigates the concept of low-cost competition (LCC) and how companies that compete primarily based on a lower price affect market incumbents, as well as how those market incumbents respond.

Price-based competition among different parties may well be one of the oldest and most fundamental features of modern capitalism. In his magnum opus *An Inquiry into the Nature and Causes of the Wealth of Nations,* Adam Smith (1776) discusses price-based competition between companies in the emerging industrial society, which has since become one of the cornerstones of classical economics. I addition, Michael Porter (1980) famously incorporated overall cost leadership as one of the generic strategies in his competitive framework.

As argued by Kumar (2006) however, the type of price-based competition being investigated in this report is fundamentally different from the generic strategy outlined by Porter (1980). According to Kumar (2006), traditional competition based on price has been pursued by companies that can easily identify and benchmark against similar competitors, where even marginal changes in price may result in customers switching provider. However, recent trends in price-based competition show the emergence of LCCs with much more dramatic differences in prices compared to industry incumbents, sometimes up to 40% lower (Ryans, 2009; Dobruszkes, 2006).

Kumar (2006) further argues that this is one of the reasons why market incumbents frequently find it difficult to deal with the threat of LCC, since they tend to get into the habit of benchmarking against other incumbents that operate in more or less the same way. This tendency has been more broadly described as partly responsible for company stagnation and inertia, as it makes it difficult to perceive fundamental market shifts (Christensen, 1997; Christensen, 2006; Christensen et al., 2010), while McGrath & MacMilian (2005) argue that companies can't outperform their rivals if they compete in the same way. In addition, LCCs are typically either benefiting from comparative advantages or set up in a way that allows them to achieve very low costs (Ryans, 2009; Kumar, 2006; Bernard et al., 2006). Because of this, the cost structure of the incumbent is often virtually impossible to trim down to a level that allows for matching prices without incurring significant losses, while managers from a traditional premium-focused company might have a hard time accepting that a simpler product or service is outcompeting their advanced one (Ryans, 2009; Bernard & Koerte, 2007).

The emergence of LCC is often associated with the rise of China globally and the lower costs enjoyed by Chinese companies due to comparative advantages, most prominently lower wages than in the west (Bernard & Koerte, 2007; Bernard et al., 2006; Bowen & Wiersema, 2005; Carr, 1993). However, several writers point to the fact that many LCCs originate from the western world where a lean business model rather than comparative advantages is the source of the cost advantage, while further stressing that a similar situation was perceived during the rapid rise of Japan as an industrial powerhouse in the late 20th century (Ryans, 2009; Kumar, 2006; Langlois & Steinmueller, 1999).

As noted by the Boston Consulting Group (2004) however, there is a much broader consensus on what drives the emergence of LCC in its present-day context. First, there is a general agreement that *globalization* and globalized sourcing enable the exploitation of comparative advantages that allow all kinds of customers to access a much more diversified range of offers based on price. Second, just as noted by Smith (1776) and linked with globalization, the continuously expanding economy makes further and further *specialization* in terms of business model and value creation possible. This allows niche LCCs to focus on repeatedly selling a specific and standardized offer in large volumes while incurring as low an overhead as possible. Finally, globalization and specialization yield an ever-increasing *commoditization* of offers which means that more and more offers are disseminated, standardized and made widely available to various LCCs. This makes differentiation of offers increasingly difficult and incumbent companies are thus no longer as able to charge a premium for a capability that was previously much rarer. The drivers of the emergence of LCC are illustrated in figure 1.

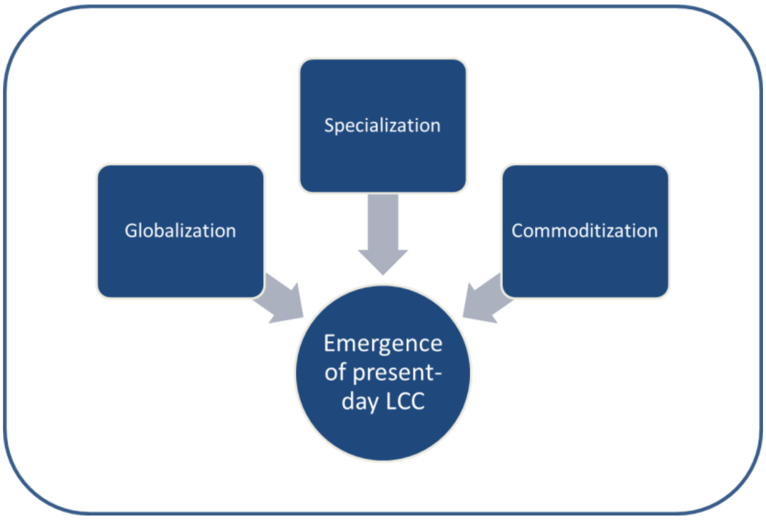

Figure 1 - Drivers of the emergence of LCC

The phenomenon of LCC, centered on dramatically lower prices compared to incumbent companies, cuts across industries. Ryans (2009) discusses how hard discounters in the German retailing sector, such as Lidl, have been gradually redefining the local market since the Second World War. In another famous and often-cited example, the American low-cost carrier Southwest Airlines completely displaced incumbents and conceived a radically different business logic around its no-frills aerial transport service (Dresner et al., 1996). In recent years, the difference in various measures of success between low-cost and incumbent airlines all over the world is especially poignant and has been covered extensively in literature from different points of view (Dobruszkes, 2006; Barry & Nienhueser, 2010).

While LCC can be both domestic and foreign to the incumbent company, western multinationals are increasingly under pressure from LCC originating from the developing world since the mid-20th century (Ryans, 2009; Bernard & Koerte, 2007). The issue has become especially pronounced in recent years as Chinese and Indian LCCs have been making inroads into western markets. Given the usually low input costs and massive domestic markets of these companies, the scenario that is gradually emerging is that of LCCs being able to accumulate potentially insurmountable economies of scale domestically before venturing abroad (Ryans, 2009, Ernst & Young Global Limited, 2012).

However, despite the fact that the situation warrants significant attention, there appears to be comparatively little academic material on the effects of LCC on incumbent business-to-business (B2B) focused companies in the western world. Most of the literature on the subject focuses on well-cited cases of business-to-consumer (B2C) companies such as Southwest Airlines and Aldi while there appears to be relatively scant academic material on B2B cases (The Nielsen Company, 2007; Dresner, 1996; Ryans, 2009). In addition, literature that deals with strategic responses to LCC largely seems to be under the premise that the issue can be understood as being about competition from low-cost countries (Bernard & Koerte, 2007). However, as previously mentioned there are other ways of achieving a lean cost-structure than benefiting from comparative advantages. Therefore, one must be open to the possibility that the LCC threat experienced by western multinationals does not necessarily originate from low-cost countries.

The global nature of LCC means that it affects market incumbents based in the Nordic region just as much as anywhere else. However, the Nordic countries are heavily export-dependent and the Swedish economy in particular relies on a limited number of large multinational industrial companies that are incumbent in their established markets since many decades, such as AB Volvo, SKF and Scania AB (QFINANCE, 2009; Bergman & Ejermo, 2011; Ekonomifakta, 2013). Such companies are potentially highly vulnerable to the threat of LCC and their prominence in the Nordic economy means that the question of their international competitiveness has ramifications for the economy of the region more broadly. Furthermore, international LCCs are increasingly making inroads into the established markets of these incumbents, making the issue more urgent each passing year. Prominent examples of this include the Swedish telecommunications network manufacturer Ericsson and its struggle to contain the presence of its Chinese competitor Huawei in what was previously virtually uncontested markets (Bloomberg, 2013; Hagen, 2010).

Given the background of LCC as well as the situation described above, this report investigates the effects of LCC on large multinational industrial companies based in the Nordic region, the strategic responses to LCC of these companies and how their competitive position versus LCC might be improved.

1.2 Purpose

The purpose of this thesis is to investigate the effect of low-cost competition on large multinational industrial companies based in the Nordic region, their current strategies against low-cost competition and how those strategies can be improved.

1.3 Scope and Limitations

A brief discussion on the scope of the thesis is necessary to establish the research focus. First of all, two central concepts form an important dichotomy in the study and are highly recurrent: LCC and incumbent. Exactly what is meant by LCC differs depending on author and perspective (Ryans, 2009; Kumar, 2006; Dobruszkes, 2006; Eden & Molot, 1996; Langlois & Steinmueller, 1999) and to make matters worse, many researchers such as Bernard and Koerte (2007) use the abbreviation LCC for the overlapping term low-cost countries. As has been previously discussed, there are many potential delimitations that can be made on the concept depending on strategic angle and whether the LCC is domestic or foreign. In this thesis, LCC simply denotes companies that compete primarily based on significantly lower prices while specific variations are discussed case-by-case. LCC can thus denote both companies and the concept but the context should make it obvious which is intended.

Moreover, the term incumbent is used to denote the companies that are and have been established in their industries and segments for a significant amount of time. These companies employ business models that can be characterized as “traditional” in their industries and are potentially threatened by LCC and unable to express the problem in terms of their previous experiences. These definitions are both quite broad but are necessary not to exclude important theoretical or empirical material since the exact nature of LCC and market incumbents in this context varies depending on author and perspective.

Though broadly classifiable as market incumbents, it is necessary to further define the specific companies that are participating in the study. First and foremost, the investigation focuses on large multinational industrial companies based in the Nordic region. In this case, these companies have revenues that range from approximately SEK 10 billion to SEK 230 billion. Together, these companies constitute a sizeable portion of the total exports from the Nordic region and can thus arguably be said to be systemically important (QFINANCE, 2009; Bergman & Ejermo, 2011; National Board of Trade, 2010). In addition, a number of smaller companies that are typically in a supplier relationship with one or more of the larger companies are also included in the study. Virtually all participating companies are multinational and active globally, primarily in B2B. The investigated companies are R&D and product development focused and based or partially based in the Nordic region.

The heterogeneous and diverse nature of the different markets of the investigated companies was discovered early on in the research process. The consequence of this is primarily that it becomes difficult to investigate and evaluate specific geographic and national markets that are discussed in the collection of empirical data and such specificity is consequently outside the scope of the thesis. As will be evident in the following chapters however, that delimitation does not necessarily mean that isn't possible to generalize the results of the study in terms of market characteristics rather than specific geographic or national markets.

It is worth noting that the focus of the investigation is primarily strategic, which was established during the literature review that turned out to be heavily based on Porter's (1980, 1985, 1990) theories on competitiveness as well as theory on comparative advantage (Bernard & Koerte, 2007; Bernard et al., 2004a; Bernard et al., 2004b; Bowen & Wiersema, 2005; Burda & Dluhosch, 2001; Grant, 1989). Consequently, the analysis also mainly focuses on strategic aspects while certain more operative themes are emergent during the data collection process.

Finally, the scope also entails two important limitations that need to be mentioned. First of all, the opinions presented on the phenomenon of LCC during the data collection are exclusively from the point of view of market incumbents. It could arguably be interesting to collect similar data from LCCs but time constraints meant that such considerations had to be placed outside the scope of the thesis. Moreover, the lack of market focus makes it impossible to provide recommendations or deeper understanding on any specific market, which might be interesting to pursue as an area of further research. Table 1 summarizes the key concepts discussed in this section.

Table 1 - Key concepts

Key Concepts	Meaning	Implication
LCC	Low-cost competition	Competes based on lower prices, broad term to avoid exclusion
Incumbent	Established companies	Established, often industry leaders with traditional business models
Investigated companies	Large multinational industrial companies based in the Nordic region	Revenue of SEK10-230 billion, some smaller suppliers, no LCC opinion
Heterogeneous markets	Markets of investigated companies highly diverse	Cannot analyze/recommend/deepen understanding in specific markets
Strategic focus	Level of analysis is on competitive strategy	Draws heavily on Porter and comparative advantage

1.4 Disposition of Thesis

The thesis is structured in the following manner:

1. The introductory chapter provides background, purpose and scope.
2. The second chapter details the reviewed literature and describes the theoretical framework for data collection.
3. The third chapter focuses on the methodology used in this thesis, describing research strategy and design as well as the research process. Furthermore, the research questions are outlined, followed by a discussion on quality criteria and reflections on the research process.
4. Chapter four accounts for the results of the investigation, organized in the same manner as the theoretical framework.
5. Chapter five analyzes the findings in order to answer the research questions and identify emergent theory.
6. The concluding chapter provides explicit answers to the research questions as well as a concluding discussion, pointing to potential weaknesses of the research and further research.
7. Chapter seven lists the sources used in the study.

2. Literature Review

This chapter reviews available literature on the subject of LCC, identifies knowledge gaps of interest to the thesis and defines concepts that are used for interpreting and analyzing the data. The theoretical framework serves as the main tool for data collection and analysis, while simultaneously putting the phenomenon of LCC in its context. The chapter ends by explaining how the framework is meant to be applied.

The literature review revealed two broad trends in the literature dealing with LCC that are of importance to this thesis. First, most of the literature that uses empirical data overwhelmingly cites B2C cases and companies, often employing high-profile examples such as Ryanair and other low-cost airlines or low-cost retailers (Ryans, 2009; Dobruszkes, 2006; Barry & Nienhueser, 2010; Dresner et al., 1996; Forsyth, 2002; Kumar, 2006; Nielsen, 2007). Secondly, the lion's share of the literature that deals with the issue of LCC from a strategic perspective is either considering competition domestic to the company or competition originating from low-cost countries, both conceptually and empirically. In these cases, the domestic LCC is almost exclusively discussed in terms of Porter's (1980) framework for generic competitive strategies and more specifically overall cost leadership (Porter, 1980; Porter, 1985; Campbell-Hunt, 2000; Grant, 2008), while theory about competition foreign to the company has an equally singular focus on comparative advantage through e.g. lower wages (Bernard & Koerte, 2007; Bernard et al., 2004a; Bernard et al., 2004b; Bowen & Wiersema, 2005; Burda & Dluhosch, 2001; Grant, 1989).

Although the sustainability of the competitive advantage proposed in these frameworks has been debated over the years (Hill, 1988; Barney, 1991; Grant, 1991), the important point is that there is an apparent lack of material dealing either with LCC in a B2B context as well as in a way that is agnostic to the specific country of origin of the LCC. Drawing on the scope established in the introductory chapter, this lack of material is arguably what motivates the academic contribution of the thesis. The studied companies are focused on B2B as well as established in a broad range of different geographical markets, thus making the dichotomy of domestic and foreign LCC largely irrelevant. The theoretical positioning of the thesis is summed up in figure 2.

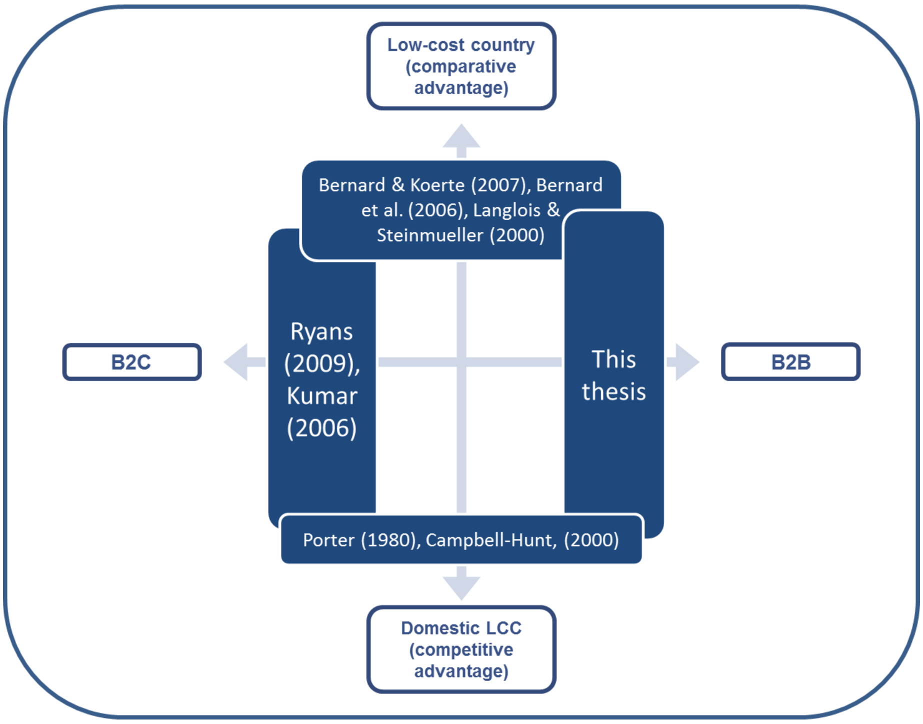

Figure 2 - Theoretical positioning

It is important to note that while the lack of literature in this area opens for the possibility of contributing to the academic knowledge on the subject, it also means that the relevance of the available literature in this specific context is uncertain. As will be described in greater detail in chapter three, a pre-study was conducted to allow for additional perspectives of potential importance to be included in the framework. However, given the exploratory nature of the thesis it is ultimately left to the main study to ascertain exactly what perspectives and issues that were eventually included in the theoretical framework are significant.

2.1 Theoretical Framework

The theoretical framework is the result of reviewing literature and identifies the key factors warranting investigation about incumbent strategy against LCC. First, the theoretical background to the framework is presented in how the reviewed literature describes LCC. Subsequently, the framework itself is outlined followed by a discussion on its intended application.

There is according to Ryans (2009) a clear pattern to be observed in markets where LCC is making inroads. Typically, LCCs will enter the low-end segments of the market where price value is most important, something that several other writers have also observed (Zou et al., 2003; Simon, 2005; Hill, 1998; Bernard et al., 2006). At this stage, incumbents are typically operating in the mid-level segments and upwards and might not notice the LCC that is so far only active in the periphery. However, as noted by both Kumar (2006) and Ryans (2009) this is a crucial point in the evolution of the LCC threat since incumbents have a chance to take preemptive steps while their markets are still relatively unmolested. Awareness of the potential LCC threat and especially early awareness is therefore taken to be an important indicator of success (Ryans, 2009), which also reflects the importance of understanding one's competitive environment (Grant, 2008).

Over time, especially if the product in question is disruptive and therefore lacking in traditionally important performance parameters (Christensen, 1997), the LCC may achieve a level of quality that is acceptable to mid-level segment customers (Ryans, 2009). At this stage, the often dramatic differences in price will cause more and more customers in the mid-level segments to switch from buying from incumbents operating in the middle market segments to the LCC. The high-end segments are still relatively unaffected since the LCC lack the level of performance and quality required by these customers. This type of customer concentration into either price value offers or high-end offers where performance value is more important is according to Ryans (2009) symptomatic of LCC entry and can cause the middle segment customers ty dry up, causing disruption among incumbents. This development is illustrated by Ryans (2009) as a pyramid-shaped market distribution turning into something that more resembles an hourglass, as shown in figure 3 below.

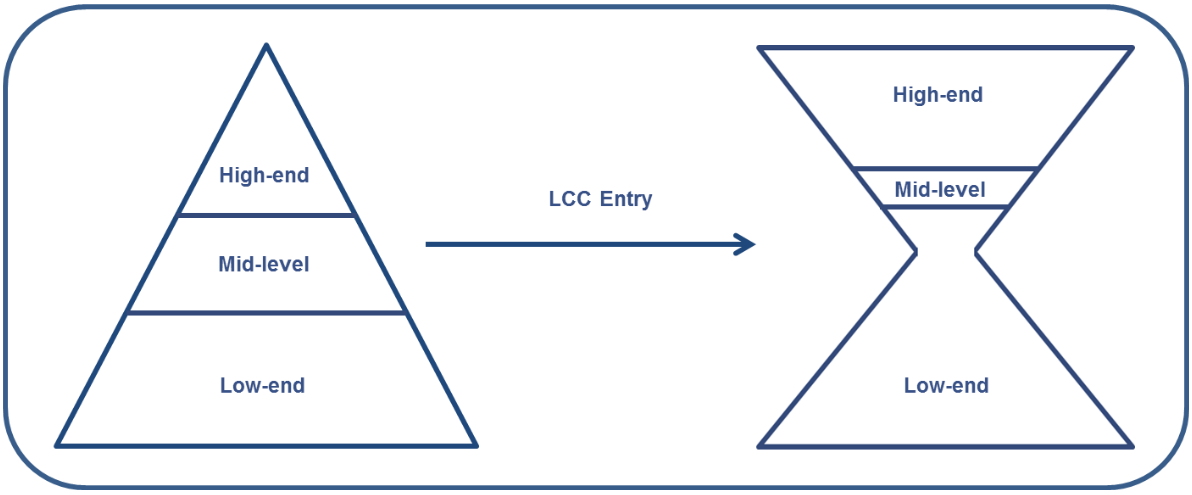

Figure 3 - Market segment effects of LCC entry

It is in this context that the threat of LCC to market incumbents needs to be understood. Gradually, market incumbents will no longer be able to rely on the mid-level offers and segments, thus causing them to have to rely more and more on their high-end offers. While these segments are typically very profitable, various sources reviewed for this thesis point to the fact that lack of other viable market segments means that incumbents risk losing economies of scale, something that is typically crucial for their business models (Ryans, 2009; Bernard & Koerte, 2007; Kumar, 2006; Zou et al., 2003; Burda & Dluhosch, 2002). Moreover, Zou et al. (2003) assert that entering the low-end segments is the best way for an entrant to gain a foothold in new markets. Gradually, it will seek to move upwards in segments and thus pressure the incumbent from below as its capabilities in the new market increases.

Drawing on the insights of Bernard & Koerte (2007), Ryans (2009) and Kumar (2006) there are two general strategic choices open to incumbents: First, the incumbent can choose to migrate upwards in the market hierarchy, differentiating itself in various ways to secure the high-end customers. This strategy revolves around avoiding competing with LCC and has appropriately been termed *avoidance* by Bernard & Koerte (2007), which is also the term used in this thesis. Alternatively, the incumbent company can choose to tackle the LCC head on by launching products that are cost-efficient enough to compete in low-end segments. The writers discussed in this context all cover this possibility in one form or another but a unifying term is absent, which is why the term *confrontation* is introduced.

Avoidance-based strategies can best be understood as some form of differentiation as defined by Porter (1980). Typically, this involves the incumbent company differentiating in a way that allows it to tap ever-more premium market segments (Ryans, 2009), while also accounting for the possibility of finding "Blue Oceans", new markets that LCCs are unable to reach (Kim & Mauborgne, 2004; Carpenter & Nakamoto, 1989). Ryans (2009) suggests that such a differentiation is most easily defined by the manner in which it seeks to create customer value, which is why he suggests using the three customer value disciplines as outlined by Treacy and Wiersema (1992). In this case, differentiating to avoid LCC equates to serving segments that low-cost actors are unable to, which is why product leadership and customer intimacy strategies (Treacy & Wiersema, 1992) are both considered to be avoidance-based strategies. The terminology used in the thesis will follow Kumar's (2006) nomenclature and henceforth refers to product leadership and customer intimacy as *performance value strategy* and *relational value strategy*, respectively.

Conversely, confrontation-based strategies revolves around trying to achieve overall cost leadership (Porter, 1980) or operational excellence (Treacy & Wiersema, 1992). In this context, it translates to incumbent companies attempting to meet LCC in mid-level or low-end segments by reducing the cost structure in such a way as to become reasonably competitive price-wise, or even transforming themselves into an LCC (Ryans, 2009; Kumar, 2006). Again, this part of the framework is largely inspired by the concept of operational excellence (Treacy & Wiersema, 1992) but uses Kumar's (2006) suggested nomenclature as in the case of the avoidance-based strategies. Thus, the term *price value strategy* is used throughout the thesis.

Other than these three general ways of shaping strategy versus LCC, certain contextual factors impact the competitiveness regardless of what specific combination of strategy is used. When taken together, the three general strategies for creating customer value and the impact of contextual factors form the framework used for understanding how incumbent companies respond to LCC in this thesis. The framework is illustrated in figure 4 below, while each of the different segments is addressed in detail one by one in the coming sub-chapters.

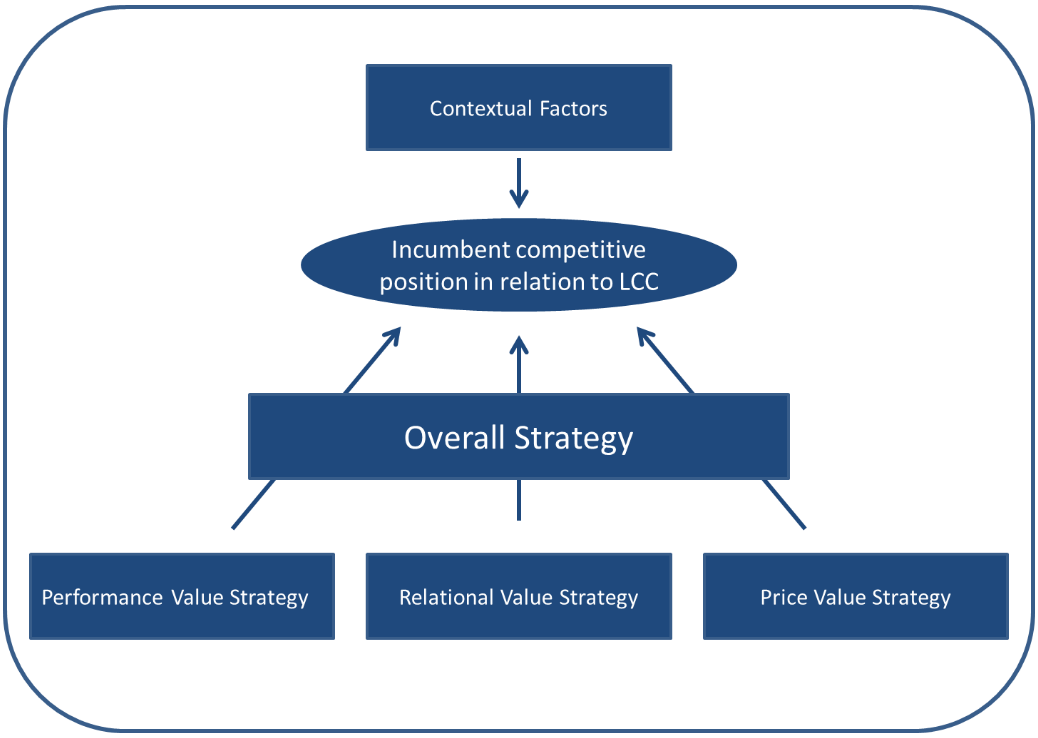

Figure 4 - Theoretical framework

Treacy and Wiersema (1992) assert that a company needs to choose one customer value strategy to focus on in order to be successful. However, while both Ryans (2009) and Hagen (2010) state that it might ultimately be necessary for an incumbent company to commit to either the price value or the high-end segments, Ryans (2009) argue that the fundamental issue facing most incumbent companies is how to properly balance these strategic choices. In addition, Kumar (2006) asserts that a broad approach utilizing different strategic possibilities is necessary, which is supported by Spanos et al. (2004) who claim that hybrid strategies are generally more effective than pure ones. What is of interest in this thesis is to attempt to discern what combinations of strategies are used by the studied companies and what can be said about their relative success.

Regardless of exactly how an incumbent company chooses to balance these three general ways of creating customer value, as well as how it is affected by contextual factors, both Ryans (2009) and Kumar (2006) argue that the choice of strategy needs to be clear and conscious. This view is largely representative of fundamental theory on strategic management more generally, and it was consequently considered relevant to include items asking the respondent about company strategy in the interview guide (Grant, 1991; Grant, 2008; Schilling, 2005; Harvard Business Review, 2010). Signs of a clear strategy to compete against LCC are considered to be success indicators in the thesis.

In the following sections, important factors of context and strategy that are identified in the literature are outlined. Taken together, they serve as guidance for important areas of inquiry during the data collection. Moreover, they form the framework for the collection of empirical data in that the reviewed literature suggests how an incumbent company might best position itself along these factors so as to be as competitive as possible against LCC: Testing how the investigated companies position themselves and correlating those answers with their success in competing with LCC will yield insights into the relevance of the reviewed literature in this context. In order to enable such testing, the interview guide is based closely on the theoretical framework.

2.1.1 Contextual Factors

The literature review points to certain contextual factors that are important to consider when evaluating an incumbent's competitive position against LCC. The reviewed authors suggest that the specific characteristics of those factors are important when determining how and with what degree of success an incumbent company can compete with LCC. Table 2 outlines these factors in brief, while they are explained in more detail below.

Table 2 - Contextual factors

Contextual Factor	Impetus	Evaluation point
Time subjected to LCC	Authors observe time subjected differs substantially from case to case	Incumbents subjected for a longer time are expected to be more successful
Time-to-market	Short time-to-market helps nullify sudden rollout of LCC offer	Shorter time-to-market expected to indicate success against LCC
LCC sourcing	Globalized LCC sourcing allows incumbents to adapt to comparative advantages	Higher degree of low-cost sourcing is expected to indicate better competitive performance
LCC in value chain	LCC has been known to evolve out of an incumbent's value chain	If incumbent experiences this problem it's expected to inhibit success
Entry barriers	LCC find it difficult to cope with certain barriers	Incumbents protected by such barriers expected to be more successful
LCC entry intensity	Certain markets face a proverbial torrent of LCC entrants	High intensity incentivizes incumbents to go for performance differentiation
LCC offer quality	The quality of certain LCCs approaches that of incumbents	High quality incentivizes incumbents to go for relational value, highly inhibiting to success

Early during the literature review it became apparent that the length of time of which an incumbent has been subjected to LCC might be important. The perspectives on this issue are different depending on whether the source considers present-day LCC like Ryans (2009), Kumar (2006) and Bernard and Koerte (2007) or have a more historic perspective (Burda & Dluhosch, 2002; Campbell-Hunt, 2000; Eden & Molot, 1996; Langlois & Steinmueller, 1999). Regardless, both Ryans (2009) and Hagen (2010) argue for careful planning and timing when launching a strategy against low-cost actors, which is considered to be facilitated by having more experience of LCC. An incumbent being subjected to LCC for a long amount of time would thus be an indicator of a more strategically mature response and should theoretically signify greater probability of success.

Moreover, the concept of different periods of time and timing recur elsewhere in the literature as well. Specifically, market responses to entry of low-cost actors should ideally be as quick as possible, something supported by several pieces of literature both in and outside of the LCC context (Ryans, 2009; Bernard & Koerte, 2007; Antoniou & Ansoff, 2004). Consequently, the time-to-market is identified as an important factor and the shorter it is the better it is expected to be in the face of LCC.

The prominence of low-cost countries in discussions about LCC highlights the importance of comparative advantage and sourcing. Some authors attribute much of the cost advantage of LCC originating from low-cost countries to the theory of comparative advantage, usually in the form of significantly lower wages than in the west (Bernard et al., 2007; Grant, 1991; Hunt & Morgan, 1995; Kogut, 1985; Porter, 1990). Assuming this to be the case, market incumbents pressured by LCC can potentially alleviate some of the problems by increasing their sourcing from low-cost countries, thereby nullifying parts of the cost advantage of the LCC. A high degree of low-cost sourcing would thus signal adaptation and should point to better chances of success for the incumbent.

Looking at the specific case of LCC stemming from low-cost countries, it is apparent that there are numerous earlier cases that are similar to the present situation. Although the current discussion on competition from low-cost countries invariably involve China and to a lesser extent India, western incumbents faced the same type of problem earlier in the 20th century due to the industrial expansion of Japan, fuelled in no small parts by Japan's protectionist and pro-industrialization policies. (Eden & Molot, 1996; Toner & Butler, 2009; Langlois & Steinmueller, 1996)

Conversely, even if incumbent companies face LCC from other parts of the world than low-cost countries as suggested by both Kumar (2006) and Ryans (2009), a globalized sourcing strategy from low-cost countries can still be highly conducive in making the overall cost structure more competitive (The Boston Consulting Group, 2004; Bernard & Koerte, 2007; Bernard et al., 2006; Gupta & Govindarajan 2001; Hamel & Prahalad, 1985). Moreover, there is a convincing case to be made that companies that exploit sourcing strategies to approach the cost-structure of LCC originating from low-cost countries in combination with differentiation strategies can maintain or even enhance their competitive position over rivals from low-cost countries (Kalafsky & MacPherson, 2003; Langlois & Steinmueller, 2000).

However, Ryans (2009) also cautions against integrating low-cost suppliers too closely into the value chain, since knowledge diffusion has sometimes been known to turn such suppliers into competitors over time. Further, supply chain dependence on low-cost countries also poses a dilemma to incumbent companies facing LCC pressure from the same countries. For instance, Ericsson Telecommunications is pursuing numerous different avenues to try to combat the threat of Huawei, while at the same time being critically reliant on Chinese low-cost subcontractors (The Economist, 2012a). In sum, an elaborate low-cost sourcing strategy is expected to signify success in competing with LCC, while having LCC evolving out of the value chain might seriously inhibit success.

As pointed out by both Ryans (2009) and Bernard & Koerte (2007), some industries are surrounded by significant entry barriers as defined by Porter in his five forces framework (Grant, 2008; Harvard Business Review, 2010). The authors argue that this is usually due to high capital requirements to enter, something that can be difficult for an LCC to amass if the organization is slim and designed to be cost-efficient. The existence of such and similar barriers to entry can afford some protection for market incumbents and is expected to be an indicator of success.

Finally, Bernard & Koerte (2007) suggest trying to gauge the intensity of LCC market entry, as well as the quality of the offers of the LCC when determining the competitive position of market incumbents. Intensity refers to the rate of market entry into the markets of the incumbent, which is naturally related to entry barriers and also discussed by Ryans (2009) as highly problematic if left unchecked. A high intensity is mainly expected to deter incumbents from using price value strategies and try to differentiate via performance.

The LCC quality on the other hand, refers to the quality and performance of the offers of the LCCs that enter a market. Obviously, a high intensity combined with low quality might be manageable, since an incumbent company can rely on a performance value strategy to provide a differentiation edge. However, Bernard & Koerte (2007) note that when the quality also increases, it tends to put incumbents in a difficult position since performance value becomes less viable. According to Ernst & Young, (Ernst & Young Global Limited, 2012) Asian companies that for several years have competed via a low-cost model are currently pursuing a shift of focus toward high-end products while retaining much of their low-cost advantage. Higher quality usually presupposes high intensity and is expected to push incumbents towards relational value strategies as well as seriously inhibit success.

Table 3 - Relation between LCC intensity and quality

Intensity and Quality matrix	Low quality	High quality
Low intensity	No LCC threat	Non-scenario
High intensity	Incumbents go for performance	Incumbents go for relation and solutions, “good enough” LCC highly problematic to incumbents

2.1.2 Overall Strategy

Issues of the overall strategy of an incumbent company against LCC revolve around whether or not an incumbent has an explicit strategy to compete, as well as how the three strategies of creating customer value are balanced.

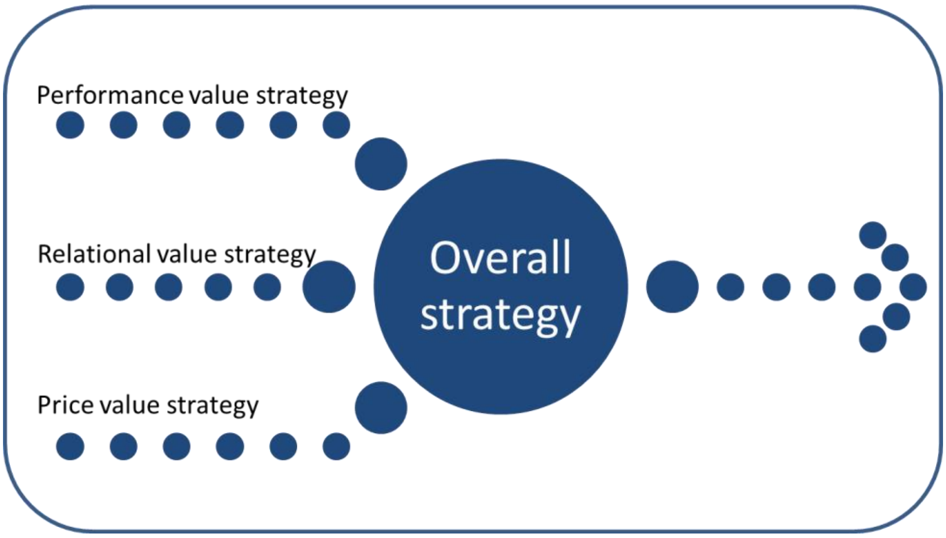

Figure 5 - Overall strategy

First of all, the question of whether the incumbent has an explicit strategy to compete with LCC is a factor that warrants investigation (Ryans, 2009; Kumar, 2006). Specifically, Kumar (2006) cautions against treating LCC like other, more similar competitors to that of the incumbent company. Rather, incumbents that understand and appreciate the threat of LCC in its own right are expected to be more successful than those who don't. Having a clear strategy for competing is often emphasized in literature on competitive strategy more generally. Grant (2008) discusses how clear long-term goals, understanding of the competitive environment and objective appraisal of resources are key to any successful strategy. This is very much in line with Ryans (2009) and Kumar (2006) who argue for understanding LCC as different from other comparable competitors. The insight of an incumbent into these matters is an important factor and is more indicative of success the better the incumbent understands LCC.

In addition, questions probing into the overall nature of an incumbent's strategy for competing against LCC need to address how it balances the three strategies for creating customer value. Specifically, it is of interest to determine why an incumbent would chose to opt for a certain strategy and their perceived success in doing so. As previously noted and discussed by Ryans (2009) and Hagen (2010), there is little academic consensus on whether a company is best off committing to a single line of strategy (Treacy & Wiersema, 1992) or a hybrid of generic and specific strategies (Spanos et al., 2004).

2.1.3 Performance Value Strategy

A company pursuing a performance value strategy aims to deliver value to its customers through superior product/service performance (Treacy & Wiersema, 1993; Kumar, 2006). Studies on low-cost country competition suggest that incumbents that are subjected to LCC tend to move into ever-more premium segments requiring higher skill, competence and capital. Thus, there is a trend of avoidance among companies subjected to this type of competition (Bernard & Koerte, 2007; Bernard, Jensen and Schott, 2006; Feenstra & Hanson, 1996; Grant, 1989). Although this thesis is agnostic as to the market origin of LCC, the globalized nature of large multinational industrial companies based in the Nordic region is such that much of the LCC they experience can be assumed to originate from low-cost countries (Bergman & Ejermo, 2011; Andersson, 2008). Because of this, it is reasonable to assume that many of the investigated companies mainly pursue a performance value strategy. A number of factors relating to performance have been suggested for evaluation in the reviewed literature, summarized in table 4.

Table 4 - Performance value factors

Performance Factor	Impetus	Evaluation point
Performance value strategy	A performance value strategy is one of the fundamental ways to create customer value	How do the investigated companies utilize R&D and product development to compete with LCC?
Technology protection	LCCs being unable to tap high-end segments	If incumbents considers itself protected by technology it would indicate success
Increasing willingness to pay	If customers are willing to pay more for better performance over time it yields expanding high-end segment	Incumbents experiencing such willingness are more likely to be able to sustain performance differentiation, thus expected to be more successful
Patent protection	Performance value is dependent on intellectual protection	Incumbents active in markets where patents are enforceable would be expected to be more successful against LCC

A performance-based differentiation against LCC is potentially effective if the LCC is unable to match that performance and there is a corresponding market demand (Ryans, 2009; Kumar, 2006; Bernard & Koerte, 2007; Bernard et al., 2006; Hill, 1988). However, Kumar (2006) and Ryans (2009) both argue that while differentiation is a conceptually popular way to reduce the impact of LCC on incumbent companies, it is frequently very difficult to implement in practice. Moreover, Bernard and Koerte (2007) assert that such a strategy is bound to become increasingly less viable as the LCC starts catching up in terms of product technology.

However, the engineering-heavy and product development-centric business models of large multinational industrial companies based in the Nordic region (Johansson & Lööf, 2008; National Board of Trade, 2010; Backman et al., 2007) make it probably that the investigated companies will look primarily to their technology and attempt to overcome the issue of LCC through performance-based differentiation. Moreover, Johansson & Lööf's (2008) investigation into the R&D strategies of Swedish industrial manufacturing companies showed that applying systematic R&D yields better productivity and profitability, thus potentially opening up high-end segments inaccessible to LCC. How the companies figuring in this study utilizes R&D and product development in the face of LCC thus needs to be investigated.

The observation that incumbent companies that are subjected to LCC and attempt to differentiate through superior performance carries interesting implications (Ryans, 2009; Bernard & Koerte, 2007). First of all, so long as there is a market demand for products and services of increasing performance, such a market space can be said to constitute a blue ocean (Kim & Mauborgne, 2004) due to it being inaccessible to LCCs who have yet to catch up to the incumbent's level of technology. Secondly, if customers are continuously willing to pay for increased performance this addresses the identified potential lack of long-term viability of performance-based differentiation. Sustained differences in performance levels is also interesting in the context of LCC from low-cost countries, since it is suggested to be a driving factor in trade between countries of different endowments and comparative advantages as outlined by e.g. Posner (1961). Thus, a positive relationship between increasing product performance and customer willingness to pay is arguably a powerful indicator of success in a performance value strategy and needs to be investigated.

Finally, the literature indicates that the competitiveness of a superior technology is dependent on some sort of protection of the underlying intellectual property (Schilling, 2005; Mogee, 1977). Schilling (2005) notes the importance of strong patent protection to ensure a viable performance value strategy in markets where patents are readily enforceable and effective. Moreover, there might be substantial differences in the enforceability of patents depending on market, while the protection afforded by patents may be weak in key low-cost countries such as China, which is arguably an important factor to the investigated companies (Andersson, 2008). In sum, a strong and readily enforceable patent portfolio can be expected to be an indicator of success to a performance value strategy and will consequently be evaluated in the data collection.

2.1.4 Relational Value Strategy

A company pursuing a relational value strategy aims at delivering customer value through superior relations and service (Treacy & Wiersema, 1993; Kumar, 2006). In the context of an incumbent and its competitive position versus LCC, it entails attempting to integrate more closely to customers and offering solutions rather than products (Ryans, 2009). Like the performance value strategy, this is an avoidance strategy in that it largely seeks to cater to more complex and multi-facetted customer needs that a low-cost actor might find difficult to meet. Moreover, it represents a strategic direction that is often pursued when performance-based differentiation is no longer viable (Bernard & Koerte, 2007; Ryans, 2009; Kumar, 2006; Treacy & Wiersema, 1993; Anderson et al., 2006). Table summarizes key factors of relational value that are indicative of success.

Table 5 - Relational value factors

Relational Factor	Impetus	Evaluation point
Relational value strategy	A relational value strategy is one of the fundamental ways to create customer value	How does relational value contribute to success against LCC
Products vs solutions	An incumbents degree of focus on either products or solutions is important when considering LCC	An incumbent which is more solution-focused is expected to be more successful against LCC
Process management	Managing the processes of the customers and thus integrating with them makes the incumbent harder to displace for LCC	An incumbent which is more focused on managing the solutions it offers to customers for them is expected to be more successful
Brand	Brand is identified by several authors as potentially important in against LCC	The importance of branding in competing with LCC in business markets is uncertain

The most interesting factors to investigate in the context of a company pursuing a relational value strategy are whether the company in question offers mainly products or complete solutions and to what extent those solutions are managed by the company for the customer (Kumar, 2006). Ryans (2009) discusses the highly relevant case of the Australian explosives supplier Orica Mining Services (OMC), which started to feel the effect of LCC on its largely commoditized range of products for mining excavation during the 1990s.

OMC responded by starting to sell the actual rock blasting performed with its products as a service solutions to its customers, which turned out to bring about numerous advantages. First of all, assuming responsibility for the blasting allowed the mining operations to focus on their core activity, mining. For OMC, specializing in performing the blasts also lead to learning effects and better performance relative to having the mining operations conduct the blasts themselves. Further, managing the blasting for its customers made it difficult for OMC’s competitors to isolate individual parts of the offer that were previously vulnerable to price competition. Because of this, the impact of commoditization on the core products of OMC was reduced. Finally, the customers became increasingly dependent on the services of OMC since blasting competence gradually withered as OMC assumed management of the process.

Thus, a solution-focused approach is much less likely to be under threat from commoditization than products (Ryans, 2009; Treacy & Wiersema, 1993). This is especially important in the context of LCC since a key part in achieving a comparatively small cost-structure is often intense specialization in a few low-end products with few intangible features

(Ryans, 2009; Kumar, 2006). Further, solution-based offers are more difficult to displace based only on price since they are less transparent, while the increasing customer dependence makes it less likely for a customer to switch to another supplier due to switching costs (Thompson and Cats-Baril, 2002; Williamson, 2005). Thus, the extent to which the incumbent company sells solutions as opposed to just products needs to be investigated in the data collection, as well as to what extent the processes of the solutions are managed by the company. These two factors are both considered to be indicators of success for the incumbent company.

Ryans (2009) and Kumar (2006) both discuss the impact of branding in the context of customer relations when facing LCC. Ryans (2009) states that the importance of a brand in competition with a company that focuses on price is uncertain, which is likely even more true in the context of this thesis considering that Ryans's (2009) examples are mostly B2B. Even so, authors writing specifically on the topic of low-cost country competition state that branding might play a certain role in business markets as well, since there are certain biased stereotypes against products from low-cost countries (Bernard & Koerte, 2007; Davies & Walters, 2004; Insch, 2003). A strong brand on the part of the incumbent company could therefore form a stark contrast, just as western company for a long time took advantage of the fact that Japanese companies needed decades to shrug off low-quality association of their brands (The Economist, 2012b).

2.1.5 Price Value Strategy

A company pursuing a price value strategy attempts to deliver customer value through offering the best overall price (Treacy & Wiersema, 1993; Kumar, 2006). This is obviously closely related to overall cost leadership, since the ability to offer lower prices at maintained margins is directly proportional to cost reductions (Porter, 1980). In this thesis, companies that go for price value try to compete with LCC in low-end segments based on price (Ryans, 2009; Bernard & Koerte, 2007). It is assumed throughout the thesis that a price value strategy has to be employed in conjunction with some type of differentiation strategy, since the fundamental problem of being subjected to LCC is the often well-nigh impossible task of matching their cost and price levels. Indeed, cases of companies that try to employ cost reduction/cost leadership strategies in the face of competition from low-cost countries are relatively well documented (Bernard & Koerte, 2007). Studies done on individual companies indicate that an exclusive focus on overall cost leadership in such situations results in lost market shares and eroding competitive position (Eden & Molot, 1996; Carr, 1993). Important factors for investigating relating to price value are summarized in table 6.

Table 6 - Price value factors

Price Factor	Impetus	Evaluation point
Price value strategy	A price value strategy is one of the fundamental ways to create customer value	Does the incumbent segment to compete against LCC in low-end segments?
Reduced prices	Some incumbents have been known to try to combat LCC by cutting prices across the board	Incumbents that cut costs across the board display some measure of panic and this is expected to inhibit success seriously
Separate brand strategy	Separate low-end brands tend to be intended only to block LCC market growth	Incumbents that have separate low-end brands that can decide their own strategy for competitive viability are expected to be more successful
Brand synergy	Synergy between low-end and high-end brands are important for transferability of customers and sharing of costs	Incumbents with a high degree of synergy between high-end and low-end brands are expected to be more successful

Out of all the discussed ways of attempting to compete with LCC that has been outlined in the literature, the most cautioned against is across the board reduction of prices at the expense of margins (Ryans, 2009; Kumar; 2006; Bernard & Koerte, 2007; Simon, 2005; Song & Parry, 1997). Even if it is a strategic decision to ensure important deals and market share, it typically offers no competitive advantages in the long run since the cost structure of the incumbent likely requires the higher margins to be maintained. Moreover, the lowered prices will almost certainly not be competitive with those of the LCC from a purely price-based perspective anyhow. Rather, such moves by market incumbents have a tendency of causing price wars (Ryans, 2009), while Kumar (2006) asserts that companies that price below cost, so-called predatory pricing, might in some jurisdictions be in violation of the law for anticompetitive strategies, although Demsetz (1997) argues that this is a rather common occurrence since it is difficult to prove in court. Regardless, the habitual occurrence of price reductions to compete against LCC is usually a sign of lack of consistent strategy and therefore needs to be investigated.

Instead, assuming that the core products of the incumbent are in the mid-level segments and upwards, the more commonly recommended approach is to have separate lines of products aimed specifically at the low-end (Ryans 2009; Kumar, 2006). According to both these authors, the difficulty lies in deciding whether to keep such a line of products under the company main brand, or to use a separate brand. This is mostly an issue of potential brand dilution, since the company might be more inclined to have its brand associated with its high-end products rather than its low-end ones. Further, Ryans (2009) and Kumar (2006) argues that an incumbent company should avoid launching a new budget brand only to block LCC market growth, which implicitly acknowledges the limited competitive viability of the new brand in its own right. Instead, Ryans (2009) asserts that the brand should ideally be reasonably independent from the original company and pursue its own strategy for competitiveness. In addition, Kumar (2006) recommends setting up the new brand in a way that creates synergies between the high-end and low-end brands, which ideally should encourage migration from the low-end to the high-end brand over time.

2.2 Summary & Application

The intended application of the framework is twofold: First, the framework details several factors of the different strategies where the theory suggests how an incumbent company should act to maximize the likelihood of success against LCC, a type of best practice. Thus, the respondents will be asked how their companies position themselves along those factors, which will be followed by a mapping of these answers against the perceived success of the companies versus LCC.

Secondly, given the exploratory nature of the thesis, the framework will also serve as a starting point for discussion during the empirical study, which is meant to generate new theory on how to best compete with LCC. The balance of theory testing and theory generation will be elaborated upon in the next chapter on the method used in this thesis, while key points regarding the different sections of the theoretical framework are summarized in table 7.

Table 7 - Summary of framework

Framework factors	Impetus	Evaluation points
Contextual factors	There are contextual factors that an incumbent might not be able to control that impacts competitiveness against LCC	How favorable is the environment and general situation towards the incumbent in competing with LCC?
Overall strategy	Literature suggests having dedicated strategy against LCC	Does the incumbent have a dedicated strategy and how would the respondent describe that strategy?
Performance value strategy	Superior performance one of the three main ways of creating customer value, investigated companies likely emphasize this	To what extent is performance value emphasized, how successful is such a strategy?
Relational value strategy	Excellent relations and solution-selling one of the three main ways of creating customer value, important when LCC catches up in offer quality	To what extent is relational value emphasized, how successful is such a strategy?
Price value strategy	Best price is one of the three main ways of creating customer value, low-end offers take the fight to LCC	To what extent is price value emphasized, how successful is such a strategy?

3. Methodology

This chapter describes the methods used in order to achieve the purpose of the thesis. The research strategy and design of the study are presented, followed by an account of the research process and the specific methods used. Subsequently, the research questions are formulated and explained, followed by a discussion on various quality criteria used to ensure the integrity of the results. The chapter ends with a brief discussion on reflections on the research process.

3.1 Research Strategy

There are two primary concerns in choosing research strategy, the first of which is whether the study has a quantitative or qualitative approach. A quantitative approach is characterized by a focus on numerical data that can be readily measured and expressed in terms of parameters. A qualitative approach on the other hand, focuses on data that carries meaning which cannot be readily measured but needs to be interpreted instead, such as words and text (Bryman & Bell, 2007).

The second concern is about the relation to theory. If the study mainly seeks to test already available theories, it is deductive in nature. On the other hand, if the principal aim is the generation of new theory the study is inductive (Björklund & Paulsson, 2007). Bryman and Bell (2007) argue that traditionally, a quantitative approach has often been associated with using numeric data to test established theories, i.e. a deductive approach. Conversely, qualitative data has similarly been associated with exploring new areas of research, i.e. an inductive approach. However, this is mainly a rule of thumb and Bryman and Bell (2007) stress that most business research studies combine quantitative and qualitative methods, while simultaneously having both deductive and inductive elements.

This study utilizes questions of a quantitative nature in the interview template, using Likert scales as suggested by Bryman and Bell (2007). However, the main purpose of these scales is to have a method of comparing the different answers as well as to be able to verify the relevance of the issues raised in the theoretical framework. The analysis itself is qualitative in nature and thus expressly seeks the opinions of the respondents so as not to confuse them with numerical facts. Thus, the analytical nature of the study is mainly qualitative, while quantitative tools and methods are used to support the analysis.

The literature review and the pre-study are mainly meant to result in the theoretical framework for organization and compilation of data, while also allowing for the testing of the relevance of previous theory in this specific context. Therefore, the study is partly deductive in that it originates from and test previous theories concerning LCC. However, a fundamental assumption is still that new theory needs to be generated concerning the nature of LCC in a B2B context that is not market-specific. Based on the lack of literature in this area, an inductive approach is needed that allows for the exploration of new concepts and an expanded understanding of the subject matter. Because of this, the study is mainly exploratory in nature. An exploratory thesis aims to provide fundamental knowledge on the subject and to produce a better understanding of the context (Wallén, 1996). Thus, the thesis is primarily inductive but with certain deductive elements.

Furthermore, the need for going back and forth between theory and empirical data in order to gradually build an understanding of the subject matter means that the thesis can be described as abductive (Bryman & Bell, 2007; Dubois & Gadde, 2002). An abductive approach revolves around using and developing theory in order to explain the observed data as well as possible. As Dubois and Gadde (2002) discuss, abductive research is mainly concerned with theory development rather than theory generation, which arguably describes the methodology of this thesis in an accurate way. Crucially, it allows for an understanding that increases over time and the researcher can thus speculate on certain outcomes of the study, such as was done in chapter two.

3.2 Research Design

The research design is the overall structure of the data collection and analysis, which is to say how and why data is collected and analyzed (Bryman & Bell, 2007). The research design is important in any research in that it guides the understanding of causal relations and influences what patterns can be discerned, while simultaneously affected the generalizability of the results and analysis (Bryman & Bell, 2007). Broadly speaking, there are five main types of research design used in modern research: experimental, cross-sectional, longitudinal, case study and comparative.

This thesis is built upon two separate phases of data collection. The first phase, which is referred to in this thesis as the pre-study, is meant to gather data for supporting the theoretical framework, identify topics of interest to the thesis, formulate research questions and calibrate the final interview guide. As of such, it cannot be said to utilize any specific research design since the gathering of the data is largely unstructured and the analysis based on emergent patters rather than on an expectation of what to find.

The second phase of data collection however, which is to say the main study, is arguably best characterized as cross-sectional. A cross-sectional design entails collection data from multiple sources at a single point in time, after which the data is connected to pre-defined variables in order to identify patterns (Bryman & Bell, 2007). Crucially, the use of a relatively structured interview guide (see Appendix 1) with pre-defined topics and variables means that the study cannot be described as a case study or a comparative design.

3.3 Research Process & Method

The main steps in the research processes are conceptually summarized in figure 6.

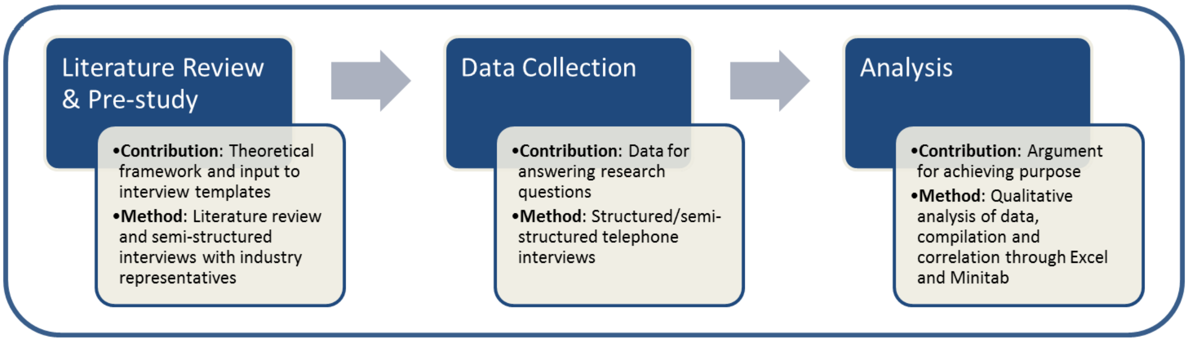

Figure 6 - Research Process

3.3.1 Literature Review & Pre-study

The research started with an initial literature review and mapping of areas for research, mainly with the aim of establishing potential gaps in available literature on LCC. As has been mentioned earlier, this literature review resulted in a framework focusing on how to balance three fundamental strategies for creating customer value, which are:

- Performance value strategy
- Relational value strategy
- Price value strategy

Furthermore, certain contextual factors that impact the competitive position of an incumbent company but that may be largely beyond its control were identified. The literature review also revealed that specific research on the impact on industrial companies with mainly B2B business is scant at best. This, coupled with the tendency of earlier research to group LCC into mutually exclusive groups of either domestic or originating from low-cost countries, quickly revealed how the thesis might make an academic contribution.

However, the lack of relevant literature in the specific research area also meant that more input would be needed ahead of the main data collection. A pre-study consisting of semi-structured face-to-face interviews with industry representatives was therefore undertaken to investigate the relevance of the questions raised during the literature review, as suggested by Bryman and Bell (2007). In addition, some new perspectives emerged during the course of these interviews, such as the potential importance of the patent portfolio of the incumbent and the difficulty of classifying the markets of large multinational industrial companies based in the Nordic region according to how they are presented in the studied literature. The outcomes of the pre-study were discussed with Triathlon and ISEA Sweden in order to make suitable adjustments to the theoretical framework and interview guide.

The new perspectives that emerged during the pre-study mainly contributed to the theoretical framework and interview guide by prioritizing factors. During the initial literature review, it was quickly discovered that it would be impossible to include more than a selection of the theory in either the framework or the interview guide. Because of this, the pre-study greatly contributed to an understanding of which factors to discard and which to retain. The key factors that were affected by this process and their relevance during the pre-study are presented in table 8.

Table 8 - Factors discussed during pre-study

Factors	Reason
Length of time competing with LCC	Differed significantly between companies and respondents emphasized their experience in competing with LCC
Time-to-market	Respondents emphasized this as crucial in order to respond to new LCC entrants
Degree of low-cost sourcing	Suggested by ISEA Sweden as measure of how incumbents have adapted
Patent portfolio	Marked as important but also almost binary depending on enforceability
Brand	Brand equity was consistently seen as one of the most difficult parameters for LCCs to match

The face-to-face interviews were conducted with representatives of three of the larger companies that later participated in the main study. A fundamental assumption was that a larger company would have had more opportunity to encounter, and by extension develop strategies for competing with LCC. When referring to the interviewed representatives of the companies, both during the pre-study and the main data collection, the term "respondent" rather than "interviewee" is used as suggested by Bryman and Bell (2007).

3.3.2 Data Collection

During the main study, data was collected from a total of 34 interviews, which was considered large enough to draw general conclusions, given the qualitative nature of the analysis. It would have been ideal to have been able to conduct additional interviews but this was not possible, primarily due to time constraints. It is important to point out that the sample size is too small to draw any statistical inferences, as indicated by Bryman and Bell (2007). However, possible correlations are investigated during the analysis but are used only as a basis for discussion.

Triathlon supplied an initial list of recommended companies to approach for an interview, which was eventually expanded and modified as new information emerged and other companies apart from the ones originally included became interesting. In addition, a few of the approached companies ultimately either failed to produce a willing representative or declined to participate altogether, often citing either a lack of interest in the specific issue or sensitive strategic nature of the questions. Eventually, the companies could be grouped into different industries, namely Automotive, Chemistry & Materials, Equipment & Machinery, High-tech, Industrial Equipment and Med-tech.

Selection was based on quota sampling as well as convenience sampling as suggested by Bryman and Bell (2007), since this was quickly established to be the only realistic alternative given the constraints. In addition, these sampling techniques were later supplemented by snowball sampling and purposive sampling, also suggested by Bryman and Bell (2007).

Convenience sampling, defined as using a sample which is simply available rather than probabilistic (Bryman & Bell, 2007), was important in securing respondents with relevant knowledge and authority within the interviewed companies. The reason for this is primarily that it turned out to be very difficult to accurately predict exactly which individual or function in a given company was interested in the issue of LCC. The position of the respondents thus varied significantly, although all were in a manager position with authority to comment on the strategic issues concerning LCC. Examples of positions of the respondents are product director, R&D manager, segment director, business development director and chief engineer.

Furthermore, since identifying suitable respondents was usually a process rather than a straightforward discrete occurrence, snowball sampling and purposive sampling was sometimes to seek out specific respondents. Snowball sampling means asking previous respondents to supply suggestions for additional ones, while purposive sampling entails the researcher applying his or her own judgment to select suitable respondents (Bryman & Bell, 2007).

The interview guide for the data collection was created after considering both the literature review and the information uncovered during the pre-study. The guide was then evaluated and optimized in cooperation with Triathlon and ISEA Sweden, which lead to changes in formulation and the cutting of questions since the original draft was considered too long and including items of questionable relevance. Further, minor changes in the phrasing and formulation of questions as well as question order were made after the first few initial interviews, as it turned out that they might be ambiguous.

When it comes to the disposition of the interview questions, Bryman and Bell (2007) recommends putting general questions about any given subject before the specific ones. The reason is that respondents tend to discount elements in a general question that have already been asked about more specifically. Thus, the ordering of topics and questions in the guide were structured to make the scope of the questions gradually narrow. However, Bryman and Bell (2007) also note that the exact order of questions is a common source of frustration since there's little conclusive evidence to indicate that any generic approach is better than any other. Because of this, this thesis attempts as far as possible to adhere to simple, basic suggestions of question structuring rather than trying to build an elaborate structure.

Bryman and Bell (2007) recommends using Likert scales that allows for the respondent to "opt out" by allowing for neutral or "don't know" types of answers. In this thesis however, great care is taken to ensure as far as possible that the selected respondents are in a position to be capable of giving more definitive answers to a Likert scale question. Because of this, the 1-6 scale was adopted and neutral alternatives deemed unnecessary. Moreover, the pre-study indicated that respondents have a tendency to opt for the "neutral" answer when not wanting to disclose any preference. This was problematic and became a further reason to adopt the 1-6 scale. However, it also became apparent that it was important to let the respondents elaborate upon their answers if they felt that it was difficult to convey an accurate answer through the scale alone.

The data collection was conducted mainly through telephone interviews, which were technically semi-structured due to the possibility of qualitative answers and further probing by the interviewer. However, the questions were of a structured and pre-defined nature and contained a large number of quantitative questions. The qualitative answers and need for occasional explanation was deemed necessary however, since the nature of the interviews was largely exploratory and needed to account for the possibility of input not originally envisaged during the formulation of the guide. The interviews were conducted in such a way as requiring some sort of pre-defined answer to most questions which could simply be checked as the interview proceeded. Furthermore, explanations and other forms of more prolonged reasoning on the part of the respondent were noted in addition to registering the pre-defined answer.

In addition to the telephone interviews, the guide was sent as a self-completion questionnaire survey to a number of additional respondents but the response rate turned out to be very low. However, a few useful answers were gathered and used in the analysis. Using the same interview guide as a basis for the survey meant that a few identified ambiguities in the original guide could no longer be clarified to the respondents. Thus, minor adjustments were made to a number of questions to make them as precise and unambiguous as possible.

A difficulty that revealed itself during interviews was that the questions cover an area of knowledge that is typically too wide for a single individual to answer unless he or she is knowledgeable more broadly about the company’s strategy versus LCC. Respondents that were especially interested in the subject matter were thus sought, to try to enable as relevant answers as possible on a broad range of topics. However, a few respondents declined to answer certain parts of the interview since they perceived their knowledge of the subject matter to be too poor.

3.3.3 Data Analysis

The data analysis was carried out continuously from the start of the pre-study and onwards, while naturally intensifying as the main study was drawing to a close. A continuously ongoing analysis over time is recommended by Huberman and Miles (1994), especially since emergent patterns and theory may take a long time to uncover. Once all of the interviews in the main study were finished, the data was summarized and complied. This process resulted in certain investigated areas being dropped from the analysis, since they were not deemed to produce any meaningful new understanding.

The first step in the data analysis was to compile and synthesize the quantitative results, which were then used in Microsoft Excel to produce graphs in order to establish numerical relations. Most of this material is outlined in chapter four and served as a starting point for analysis by displaying the distribution of answers among the respondents. Furthermore, Minitab was used to calculate the correlation between various answers. Some of this material can be found in chapter five and the primary importance of this is to verify any connections between the investigated factors and the perceived success of the interviewed company in competing with LCC, which serves to evaluate the relevance of the theoretical framework.

Furthermore, the qualitative data was compared and contrasted with the reviewed theory in order to further substantiate any patterns suggested in the quantitative data. Moreover, the analysis of the qualitative data allowed for the dominant patterns of strategy when competing with LCC to be established, as well as characterizing the investigated companies depending on their competitive position versus LCC. This process was rather extensive and meant to provide a solid foundation for generalizations about how to succeed in competing with LCC.

The final part of the analysis consisted of explicitly formulating some of the key patterns identified. This meant generalizing about the emergent theory that resulted from the study and builds upon the combined results generated in the earlier parts of the analysis. Founding these generalizations broadly on the emergent theory was considered to be crucial due to the importance of properly grounding theory in results. This process eventually enabled explicitly answering the research questions.

3.4 Research Questions

After the literature review and pre-study, the following research questions were formulated in order to achieve the purpose of the thesis:

The first and most fundamental question that was raised early during the literature review was to what extent the available literature is relevant, considering how the review failed to uncover more than a handful of examples of how industrial B2B-focused companies are dealing with LCC. This question also provides the basis for the theory-generating purpose of the thesis since it can be assumed that the empirical data will allow for a better understanding of LCC in this specific context. Thus, the first research question is:

1. *To what extent is the reviewed literature on low-cost competition relevant in the context of large multinational industrial companies based in the Nordic region, primarily engaged in B2B transactions?*

After assessing the relevance of the literature and generating additional and/or adjusted theory fitting the context of large multinational industrial companies based in the Nordic region, the overall relevance of the thesis has to be seen in the light of how much of a concern LCC actually is to the investigated companies. Thus, the second research question is:

2. *To what extent are large multinational industrial companies based in the Nordic region affected by LCC?*

Furthermore, assuming the issue of LCC is of importance to these companies, it is necessary to investigate whether the strategies that are employed can be mapped with reasonable accuracy to the framework outlined in chapter two. Moreover, if respondents suggest strategies that the framework fail to account for, this will provide input for generating new theory. This leads to the third research question:

3. *What strategies are used by large multinational industrial companies based in the Nordic region to preserve and improve their competitive position against LCC and to what extent are they successful?*

Finally, based on the input of information and analysis of the two preceding main research questions, comparing and contrasting the empirical data with the theoretical framework is intended to generate suggestions for how to more successfully deal with LCC. Thus, the fourth research question is:

4. *How can the current strategies to maintain and improve the competitive position of an incumbent company against LCC be improved?*

3.5 Quality Criteria

A number of quality criteria have to be considered and addressed in order to ensure the research integrity of the thesis. The two most important of these are arguably validity and reliability, while a brief discussion on replicability is also warranted (Bryman & Bell, 2007).

3.5.1 Validity

The validity of research concerns the integrity of the conclusions drawn based on the data and analysis, which in turn can be sub-divided into different categories of validity (Cepeda & Martin, 2005; Bryman & Bell, 2007; Wallén, 1996).

The internal validity of research refers to causality and causal relations and whether or not the relationship between cause and effect as argued in the thesis is sound (Scandura & Williams, 2000). In this thesis, it is somewhat problematic to draw general conclusions about how LCC impacts the companies and thus their strategies, since other factors not accounted for most likely exert influence over these issues as well. Furthermore, isolating the success of the efforts against LCC from the general success of the interviewed company depends mostly on the opinion of the respective respondent. However, both of these concerns are somewhat mitigated by the fact that the sample is relatively large and consequently some discrimination can be applied so that only patterns evident in more than a handful of companies are taken into account in the analysis. Therefore, the internal validity of the thesis is considered to be acceptable to high.

The external validity of research is the extent to which the results from a study involving a sample can be generalized to the entire population from which the sample was drawn, as well as to other populations (Scandura & Williams, 2000). In the case of this thesis, the sample space is large multinational industrial companies based in the Nordic region, which combined with the industry grouping and quota sampling (Bryman & Bell, 2007) means that the results are arguably generalizable to the larger sample. However, the generalizability of the results to populations beyond that sample is at best uncertain.

Construct validity means the degree to which the various measures used in a research project represent the theories and concepts that they are meant to (Scandura & Willimas, 2000). The issue of construct validity in this thesis is mostly relevant with regard to the relevance of the questions asked and the topics covered in the interview guide. The construct validity of the thesis is considered high since the questions were evaluated on multiple occasions with the help of Triathlon and ISEA Sweden, as well as with the industry representatives interviewed during the pre-study. Further, multiple respondents explicitly recognized the relevance of many questions in their current discussions on how to handle LCC.

Content validity is the extent to which the measures are both relevant and representative for the targeted construct (Haynes et al., 1995). In essence, this translates to the exhaustiveness of the research and whether all relevant aspects have been taken into consideration. Due to the aforementioned lack of holistic and exhaustive research on LCC, the issue of content validity in this thesis is difficult to assess properly. However, while the specific content validity of the thesis is elusive, steps have been taken to increase it. For example, the reviewed literature takes multiple different perspectives on the issue of LCC, thus allowing for an aggregated position to emerge.

Finally, ecological validity means the methods and setting of a research project should be as close to the real-world issue that is being examined as possible (Bryman & Bell, 2007). However, in the context of this type of study no efforts are made to ensure a probabilistic and statistically representative sample, nor to conduct even approximations of experiments for data collection. Indeed, it would hardly be realistic to do so under the constraints imposed on the project and the ecological validity is therefore low. However, it should be noted that this does not really have an impact on the study and is not important to its overall validity.

3.5.2 Reliability

The reliability of a study is the degree to which the research and results are repeatable and stable (Bryman & Bell, 2007). The interesting issue in this thesis is mainly whether the questions of the interview guide could be posed in the same setting at a later stage and produce the same answers. To ensure that the reliability is as high as possible, the questions were tested during the pre-study and evaluated continuously during the formulation of the interview guide. Moreover, several companies in the study were represented by more than one respondent to increase reliability, while the wording of the questions where considered carefully to minimize ambiguity.

However, since the questions where consciously geared toward investigating the opinion of the respondents, there is the risk that their opinion changes. In addition, Bryman and Bell (2007) point to the fact that the reliability of a study can typically be expected to deteriorate at an increasingly rapid pace as time passes. Furthermore, the rate of decay is arguably greater when the studied phenomenon is fragmented and rapidly changing, as is the case of LCC. Therefore, it is permissible to say that the extent to which the reliability of this thesis can be increased beyond its present point is probably low.

3.5.3 Replicability

The last point that needs to be made on quality criteria is that of the replicability of the study. According to Bryman and Bell (2007), the replicability of a study is concerned with how well the study can be replicated by other researchers at a later point in time. Although the researcher of this study has attempted to document the study as well as possible, the nature of the interviews and the focus on personal opinions means that replicating the study at a later point in time will arguably be very difficult.

3.6 Reflections on the Research Process

During as well as after completing the main study, various realizations concerning the research process gradually emerged. Reflecting back on the research process, a few points are worth being made. First of all, when conducting a study that contains both inductive and deductive elements, classification can sometimes be challenging. The realization that the thesis is largely abductive in nature and focuses on gradual theory development came relatively late during the process. This in turn followed the arduous task of deciding and properly describing the research design used for the study. The problem that tends to present itself is arguably that when research classification is not straightforward the lack of clear guidelines and conventions always risks introducing subjectivity into the process. Researcher bias can occur at any time during a study and it is important to be constantly aware of one's prejudices.

Furthermore, the abundance and richness of the qualitative data generated during the main study quickly became difficult to overview and thus to analyze. At a certain point during the analysis, using specialized software for aiding the management and analysis of qualitative data was considered but was eventually deemed not to be worth the effort. Still, when combining the issues presented by the sheer amount of qualitative data with the amount of time needed to identify emergent themes in the study, overall data analysis required significantly more work than was originally envisaged. The prior experience in academic writing of the researcher behind this project was only partially sufficient in preparing for the task.

4. Results

This chapter presents the outcome of the main study, describing the data that was gathered. The data is presented in the same order as the framework, starting with contextual factors and proceeding by detailing each of the fundamental strategies. Moreover, the chapter ends by outlining additional findings on topics that were not included in the interview guide but brought up by respondents during the interviews. The presentation is meant to be as objective as possible and serves to provide input for the analysis, where the data is interpreted.

The data is mainly presented with the aid of various graphs, showing relations between the different responses to questions. Generally, the percentage of companies giving a certain answer is shown. In some cases, the questions are open-ended rather than pre-coded (Bryman & Bell, 2007) and are thus described in a more qualitative manner. Furthermore, many respondents wished to elaborate on the quantitative questions, which is also included in the discussion.

4.1 Contextual Factors

The data on the contextual factors aims at providing relevant background information about the strategic choices an incumbent company can make in order to preserve and enhance its competitive position against LCC. These include how long an incumbent company has been competing with LCC, to what extent they are sourcing from low-cost actors, barriers to entry, incumbent awareness of the LCC threat as well as the perceived intensity and quality of the LCC.

As shown in figure 7, the most common answer among respondents is that their company has been in competition with LCC since between 1-10 years ago, typically citing the emergence of Asian LCCs in the early 2000s. However, a notable minority perceive themselves as having been competing for much longer, with a few up to 30 years and with the exceptional outlier of up to 50 years. The respondents giving these answers typically caution against quoting these figures as facts rather than estimations, while also stating that the nature of the LCC that they encounter has changed over time. Moreover, they tend to stress the globalized nature of their companies, thus being subjected to LCC stemming from low-cost countries much earlier than other incumbents. It is also worth noting that another rather sizeable minority don’t perceive themselves as competing with LCC at all.

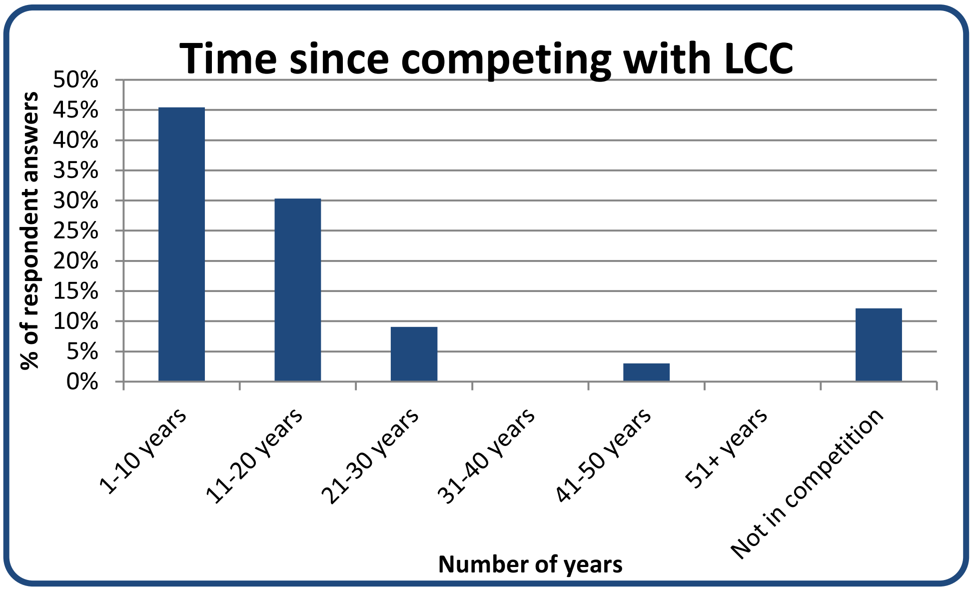

Figure 7 - Time since competing with LCC

The time-to-market of the products of the interviewed companies also varies significantly according to the respondents. Several respondents found the question difficult to answer in any definitive way, since the time-to-market of their different products also vary. Most were able to answer in intervals rather than a fixed number of years. The distribution of various lengths of time to market is shown in figure 8 below.

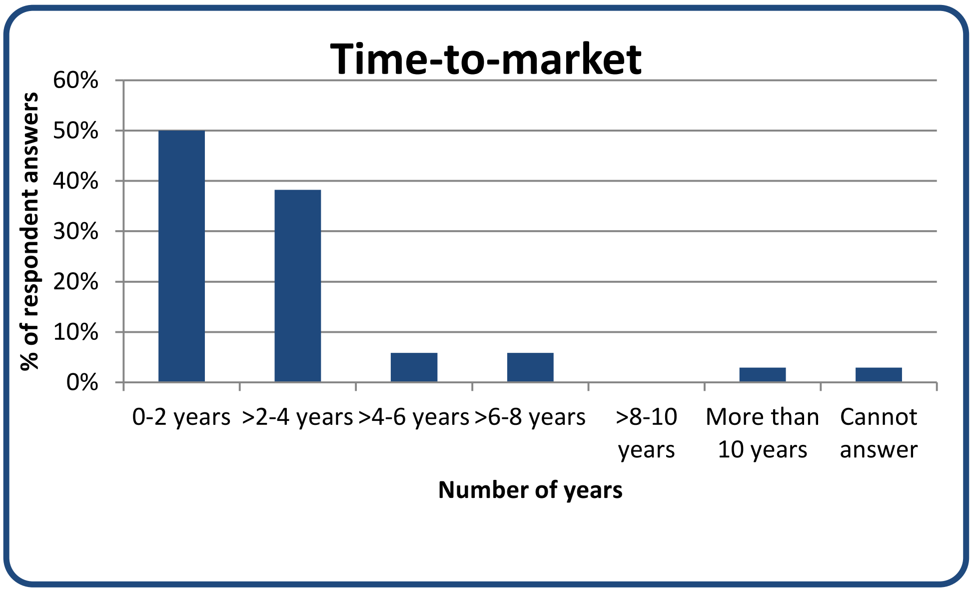

Figure 8 - Time to market

Most respondents tend to put the percentage of total sourcing from low-cost actors below 50%, with an emphasis on the lower end of the spectrum. However, many respondents also admit to not knowing the number exactly and therefore being able to provide only an approximation. Conversely, quite a few respondents were able to provide exact figures since it is being closely monitored by the company in question. A few respondents claimed their company source the majority of its input materials from low-cost actors, while one or two are virtually completely dependent on low-cost suppliers. In addition, there was a sizeable minority of respondents who were unable to provide an answer, citing various reasons such as not knowing, not being able to supply an aggregated answer, being dependent on world-market prices and thus rendering the issue moot etc. The answers are summarized in figure 9.

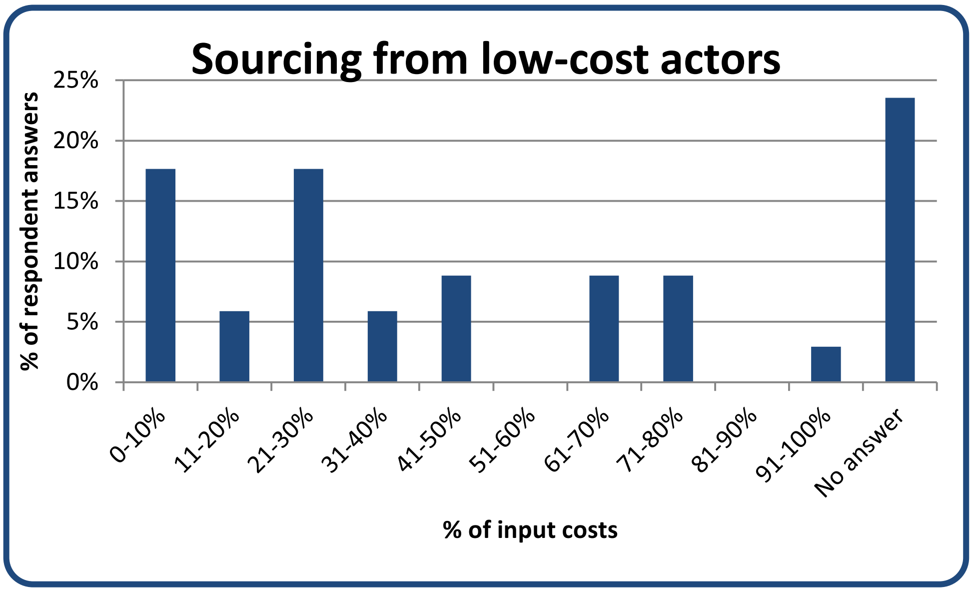

Figure 9 - Sourcing from low-cost actors

As to whether their low-cost suppliers turn into competition over time, most respondents did not seem to think that this was an issue of any concern, as can be observed in figure 10. While a very limited number of respondents answered either that it didn't happen at all or that it happens very frequently, most answers stressed that it is known to happen but very rarely. Many respondents felt that it would not be realistic for any of their suppliers to turn into competitors, since they often provide only a very limited part of the final product. In these cases, the respondents asserted that their company had an integrating capability that none of its suppliers could match.

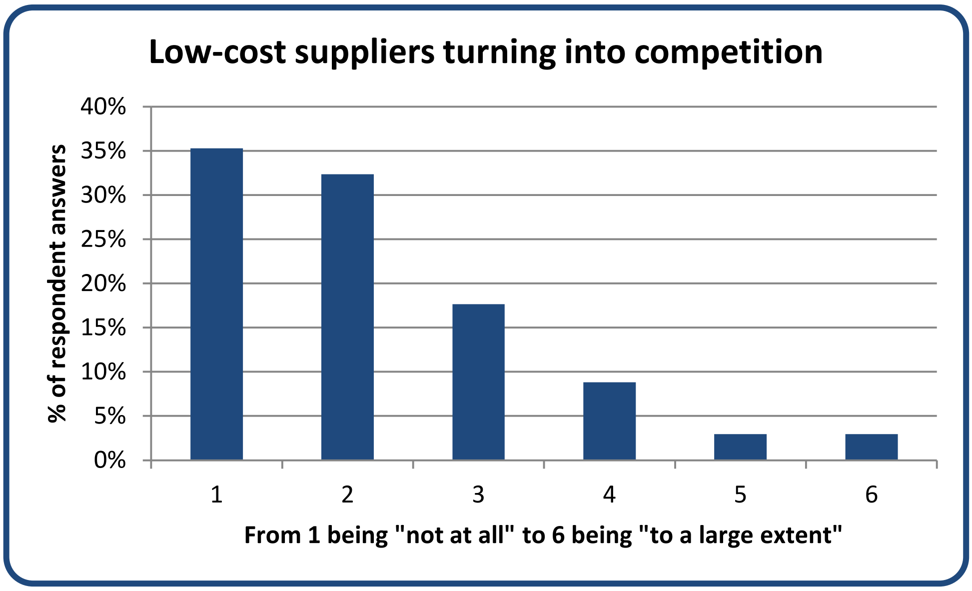

Figure 10 - Low-cost suppliers turning into competition

On the other hand, a few respondents indicated that some of their low-cost B2B customers have been known to turn into competitors, something that seemed to be much more concerning than suppliers doing so. While in the previously discussed cases the company's role as an integrator made it difficult for suppliers to compete based only on their narrow capabilities, the respondents that experienced customers turning into competitors emphasized that the role as integrator was different depending on context. In some cases, their customers served to integrate solutions that the company of the respondents provided. Thus, companies further down the value chain turning into competition is often perceived as more problematic.

When asked about entry barriers, most respondents seemed to think that their industry is neither especially easy nor difficult to enter. However, a few respondents emphasized the importance of economies of scale in their industries, thus making it difficult for LCCs that are highly specialized to enter. Further, different types of regulatory frameworks were emphasized by some respondents as creating high entry barriers. Some respondents also asserted that many of their markets are already very clearly divided among a few key companies, thus making entry of an LCC less likely. In general however, the existence of entry barriers was not seen as a significant impediment to LCC entry.

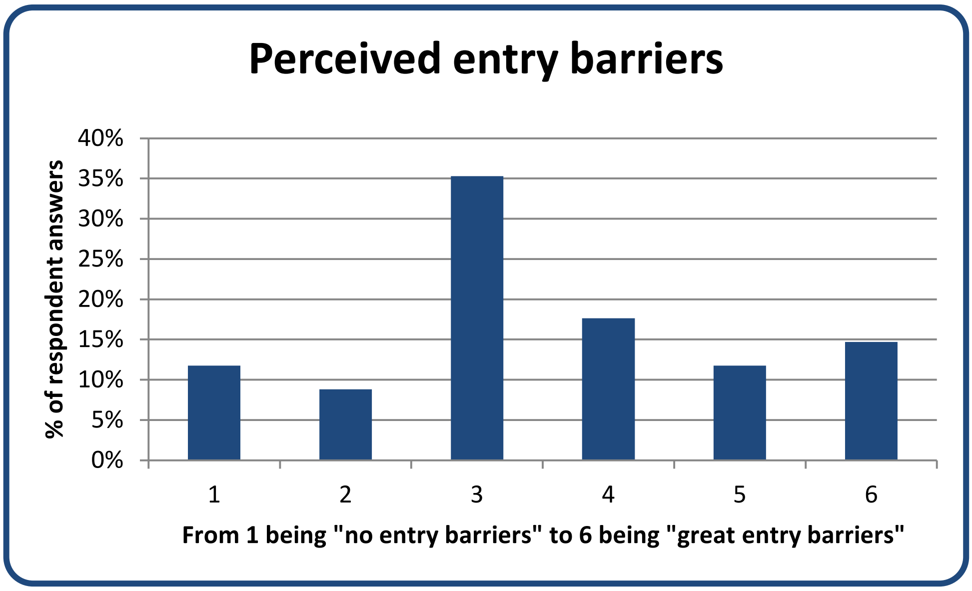

Figure 11 - Perceived entry barriers

When asked about the complexity of the technology of their products compared to the industry overall, most respondents rated their company's technology as more complex but not necessarily much more. Many respondents emphasized that minute differences in technology sometimes make a substantial difference when competing, while simultaneously recognizing that their LCC was catching up quickly and that technological prowess is not necessarily as powerful a differentiating factor as it used to be. Figure 12 shows the results of asking the respondent about the complexity of their technology.

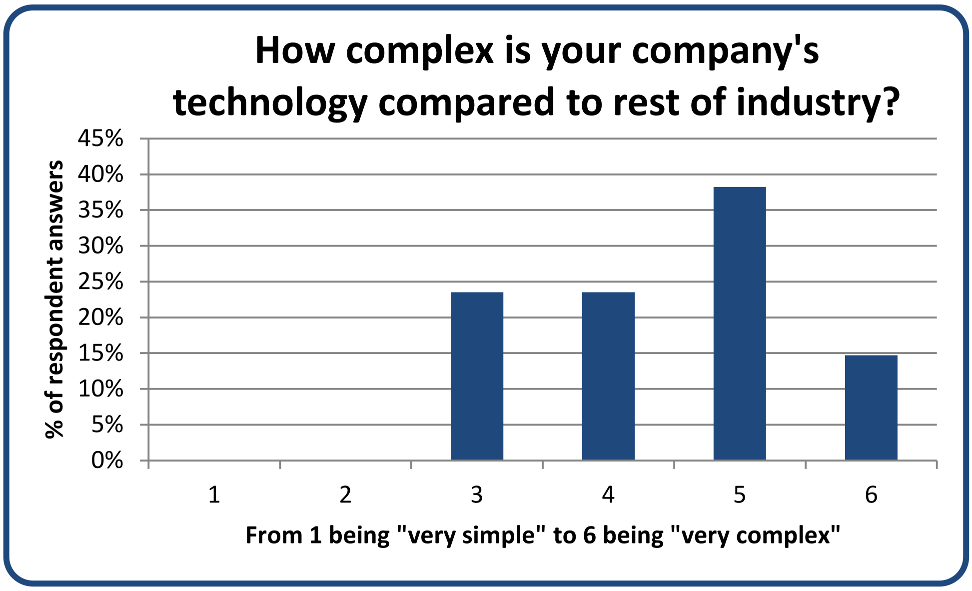

Figure 12 - How complex is your company's technology compared to rest of industry?

Many respondents highlighted the fact that this question is difficult to answer since their companies operate multiple product segments with varying degree of technological complexity. In those cases, their less sophisticated products might not be very different from those of their competitors but their more advanced products might be significantly more complex.

While respondents had a rather broad range of different opinions about how threatening LCC is to their companies, figure 13 shows that most respondents rated the awareness of their company as high on this issue. Several respondents also emphasized that while LCC might not be much of a problem at present, it is considered a high priority to keep track of developments. Many respondents explained that there is such a clear trend of LCC entry in many industries that it would be overly complacent not to try to stay informed.

Conversely, a minority of respondents indicated that the issue was not being monitored largely because it did not seem to warrant attention. Further, among those that rated their awareness as 3 or 4, it was common for the respondent to add that potential LCCs should ideally be monitored more closely but that the company in question had currently not been able to assemble the necessary resources or willpower to do so.

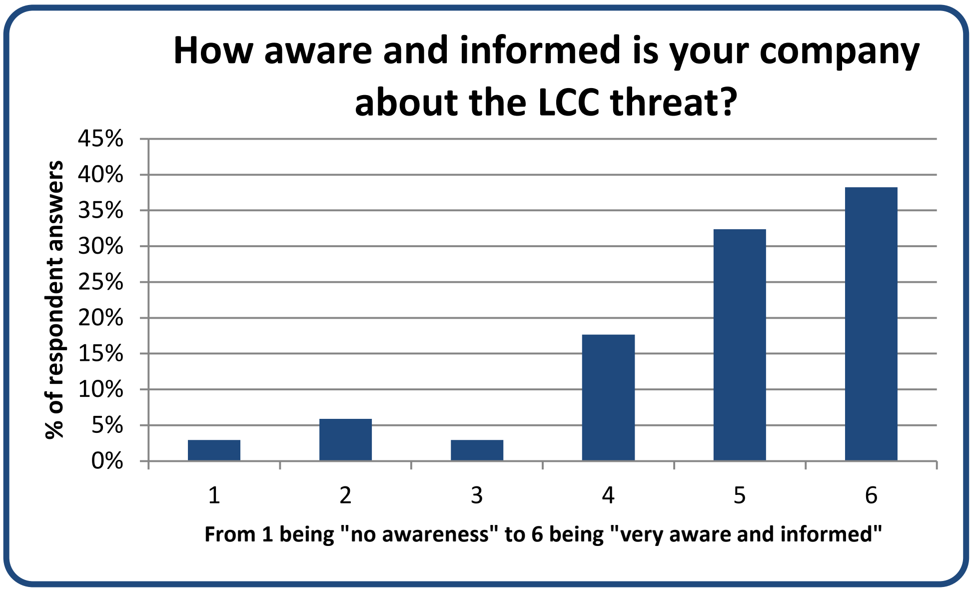

Figure 13 - Awareness of LCC

By inspecting figure 14, one can see that although very few respondents seemed to believe that there are no low-cost entries into the markets of their companies, the answers are relatively evenly distributed over the other possible answers. Many respondents were of the opinion that although there is an increasing number of LCCs entering their markets, they are still seen as a secondary threat as compared to other market incumbents.

Moreover, the interviews indicate a “wait and see”-approach on the part of the companies of many of the respondents. The opinion of many of the respondents seemed to be that they are aware of the market entries, but since it still isn’t a major concern most are content to wait and see how the situation develops.

However, a sizeable minority of respondents that rated the intensity of market entry as 5 or 6 emphasized that LCC entry into their markets is intense and in some cases very worrying. One respondent described that the speed at which primarily Chinese LCCs were entering the markets of his company is currently giving rise to quite some alarm. Other respondents said that considerable LCC market entry had already become a fact of life in their industries since quite some time and that they had already been trying to adjust accordingly. In those cases, some respondents also asserted that there is a trend whereby LLCs that originate from low-cost countries and enters the markets of the industrialized world gradually tries to move up into more premium segments and thus partially lose their low-cost edge over time.

Overall, the answers to this question are fairly fragmented, with some respondents indicating high intensity of LCC market entry, some experiencing no LCC market entry whatsoever and essentially everything in between those extremes. Furthermore, many respondents emphasized that a more detailed answer to such a question would require some sort of geographical delimitation, since some national markets are more subjected to LCC entry than others. For instance, many respondents felt that LCC is much more problematic in their Asian markets, which are considerably more price sensitive. In addition, regardless of market, some respondents claimed that the nature of their industry is such that it is very difficult for companies that are not indigenous to the market to enter, regardless of whether they are low-cost or not. Reasons for this that were mentioned include laws and regulations, highly specific market knowledge and high indigenous brand recognition and domination.

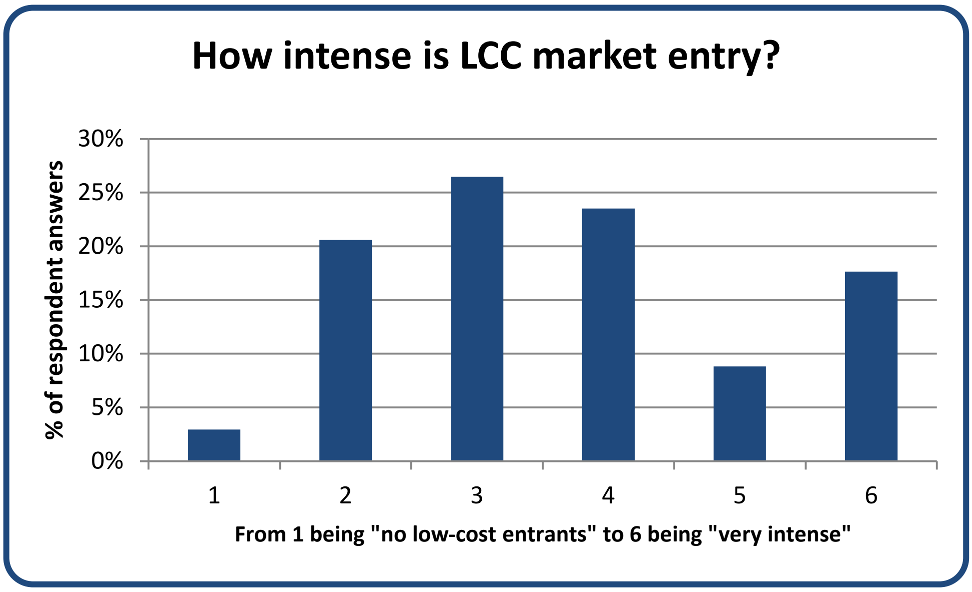

Figure 14 - LCC market entry intensity

The respondents' perception of the quality level of the LCC offers can generally be described as lower than their own but not exceptionally so. Rather, as can be seen in figure 15, the majority of the answers are concentrated toward the middle of the spectrum, while a minority opts for either extreme. Generally speaking, the few respondents that believe that their LCC has a level of product quality approaching their own identify this as part of a broader problem in which their products are increasingly commoditized. Conversely, respondents that indicate that their LCC is significantly behind them in terms of product quality generally represent sophisticated integrator companies whose competencies and capabilities give them a significant technological edge over LCCs.

Some respondents that indicate that the level of quality of their LCC is low link it with a corresponding lack of LCC entry into their key markets; the level of product performance and technology are simply too high to permit any serious LCC market penetration thus far. Again, these respondents instead emphasize that their main competitive threat comes from other comparable market incumbents. However, many of these respondents were in turn of the belief that this could be potentially problematic going forward, as LCCs would instead opt to enter the lower segments of a market where the company of the respondent has virtually no market presence and thus isn't competitive. This problem is tied together with the fact that virtually all respondents, regardless of how wide they think the quality gap is, are convinced that the gap is getting smaller over time. Many respondents felt that just a few years ago, the gap was so wide that their product performance alone was often enough to exclude LCC from the high-end segments, as the LCC alternative was nowhere near viable for these customers regardless of price. Recently however, these respondents perceive that LCC challengers from China are making such strides in their quality that their products might be competitive with their high-end alternatives in as little as five years.

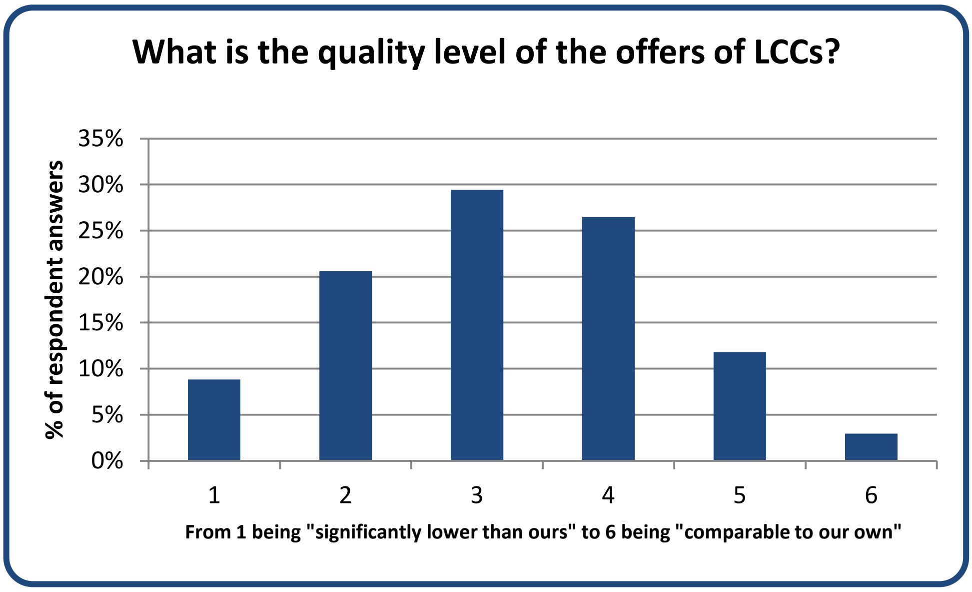

Figure 15 - Perceived quality level of LCC offer

Following the discussion on contextual and influencing factors, the fundamental strategies were investigated.

4.2 Overall Strategy

The part of the framework relating to overall strategy is meant to shed light on how the respondents themselves would describe the strategy of the company to compete against LCC. Further, the three fundamental strategies are presented to the respondents in order to asses which they think fits best with their company. Moreover, the section on overall strategy also attempts to assess how the respondent thinks that the company is performing against LCC generally.

On the question of how the company sets itself apart from LCC the answers were very mixed, although a few common themes can be identified. First of all, most respondents tended to emphasize the quality and functionality of their products, often featuring a combination of the two that LCCs simply cannot compete with effectively. The most global companies that participated in the study that has proliferated in most of the world's markets also tended to regard their industries as oligopolies on a global scale, with specialized LCC niche players only being able to compete in certain local markets.

A sizeable minority of the respondents also emphasized the sheer knowledge of their products and industry, as well as their ability to share that knowledge and offer related consulting services to their customers. Most respondents indicated that their LCCs usually offered very little service or long-term relationships beyond the actual product and that this thus was possible to turn into a point of differentiation on the part of the company of the respondent.

There was a considerable difference in the amount of specificity in the answers of the respondents. Quite a few of the respondents gave answers that were characterized by abstract corporate jargon and few concrete examples. Other respondents were much more specific and seemed eager to describe exactly how their company differentiated itself from its LCC.

Another common theme was that of innovation and a perceived leading technological position. Respondents emphasizing product performance and quality also tended to emphasize the importance of constantly innovating to stay ahead. However, there was a very tangible worry on the part of the majority of these respondents that it was becoming more and more difficult to perpetuate such a technological edge. While these respondents invariably stressed the crucial importance of maintaining a broad product range, some considered specialization necessary.

As suggested by figure 16, 61% of respondents claimed that their company had an explicit strategy to compete with LCC, although quite a few commented that exactly what can be considered a strategy is somewhat open to debate. Some respondents described how they have a strategy for being competitive more generally and considered the issue of LCC to be a part of that framework. Moreover, other respondents were able to specify much more concretely how they deal with LCC as a strategic issue. Conversely, most of the respondents that answered no commented that their companies are aware of and monitoring their LCC competition but do not have a specific strategy. Further, some of the negative replies also seemed to stem from the nature of the word “explicit”, which was taken to mean outspoken and detailed in e.g. policy documents.

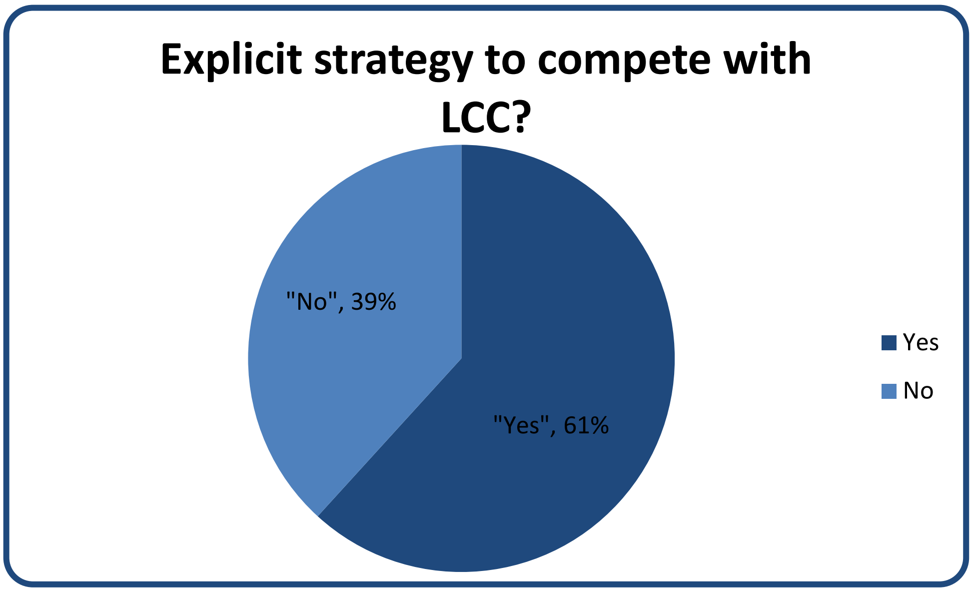

Figure 16 - Explicit LCC strategy

When given a brief description of the three fundamental strategies, the majority of the respondents chose a combination of performance and solutions, as presented in figure 17. Significant minorities chose only performance or solutions, while the sum of all other combinations to appear was only slightly above 20%. Specifically, the number of respondents that included the option “best price in budget segments” in their answer in any way was only four. The typical comments revolved around most respondents claiming that a focus on performance and solutions is of crucial importance to remaining competitive in the high-end segments. Conversely, very few respondents indicated that their company had any plans or interest in trying to compete with low-cost actors in low-end segments.

Figure 17 - Characterization of strategy versus LCC

As is evident in figure 18, when asked about their success in competing with LCC generally, the answers center around 4 and 5. Furthermore, not a single respondent would say that his or her company was outright unsuccessful. Generally, most answers tended to characterize the efforts of the company as being more successful than not but that there is still substantial room for improvement. Among the slightly fewer than 10% that thought that their companies were very successful, most were of the belief that either their industry or their offers were simply not susceptible to LCC at the moment, thus potentially representing businesses insulated from LCC rather than outcompeting them on equal terms. Conversely, respondents that rated their success against LCC lower typically commented that it was becoming increasingly difficult to differentiate their offers from those of LCCs, while further having an especially hard time to compete in important developing markets.

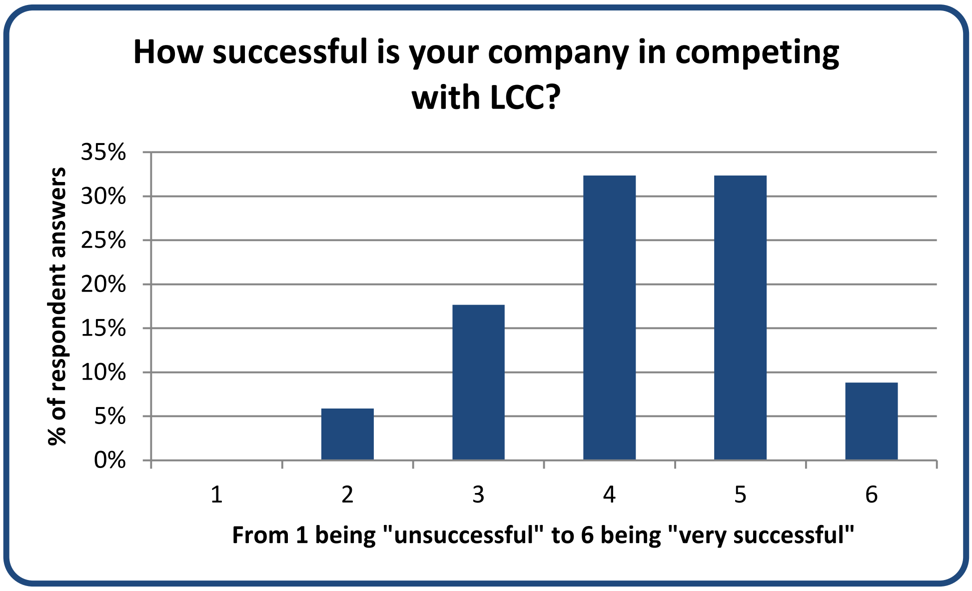

Figure 18 - Success in competing with LCC

The section on overall strategy is meant to investigate how the respondents themselves would describe how their companies balance the available strategic choices. Next, the attitude of the respondents towards each specific strategic choice was investigated.

4.3 Performance Value Strategy

The data collection dealing with product performance, R&D and product development is meant to investigate how those efforts enable an incumbent company to compete against LCC.

When asked about how R&D and product development contribute to their companies' ability to compete with LCC, most respondents discussed the need to stay ahead in terms of performance to be able to tap the high-end segments. Further, respondents that answered in this fashion invariably identified product performance and continuous R&D efforts as the cornerstones of their competitiveness and firmly placed themselves at the high-end of the spectrum. Moreover, new and more innovative products were frequently described as a way of continuously migrating from previously profitable offers that were becoming harder to differentiate. While the majority of respondents expressed similar views, a limited number of interviews indicated the R&D and product development efforts are considered to be so vital to the general competitiveness of the company that overall profitability are completely dependent on the success of new product development.

In contrast to the respondents emphasizing the need to differentiate offers and explore new product applications as a way of strengthening their competitive position versus LCC, a large proportion of respondents indicated that their current R&D efforts are mainly directed at lowering costs. Such efforts typically came in the form of more efficient manufacturing operations, or researching cheaper materials. Many respondents indicated that this was an important part of reducing overall differences in price compared with LCC, thus putting offers that are more sensitive to price-based competition on a more even footing.

In line with most respondents rating continuous improvements and advances in R&D and product development as their primary competitive edge, a clear majority of respondents also rated the protection from LCC afforded by their product performance and technology as very high, as can be seen in figure 19. Again, this was typically discussed by many respondents as reflecting the fact that product performance is often the most important differentiating factor when competing with LCC.

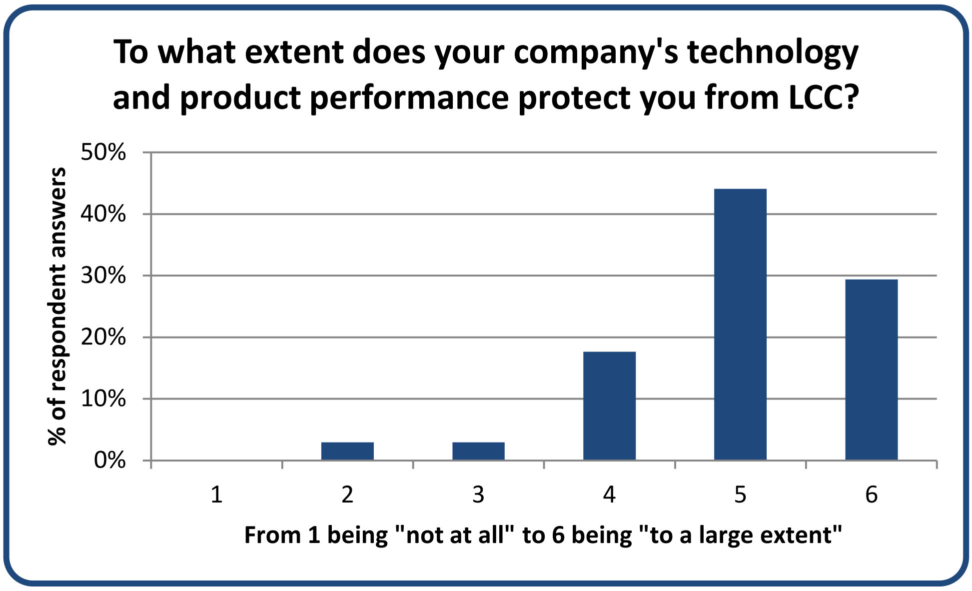

Figure 19 - Technology as protection from LCC

Similarly, respondents mostly agree that there is a continuous demand for increased performance in their high-end segments even if one takes that fact of correspondingly increasing prices into account. This is cited as being mostly due to a combination of continuously rising demands on quality for various reasons, as well as a demand for new and better applications. Some respondents also explicitly acknowledge that demand for increased performance is important in perpetuating a performance edge over LCCs.

However, a few notable exceptions were of the opinion that the opposite is true in their industries: customers are expecting increased performance at lower prices over time. Respondents who took this view also suggested that this situation presents problems that go beyond the issue of LCC, since it becomes increasingly uncertain whether they can expect to get the required payback on new investments in development projects.

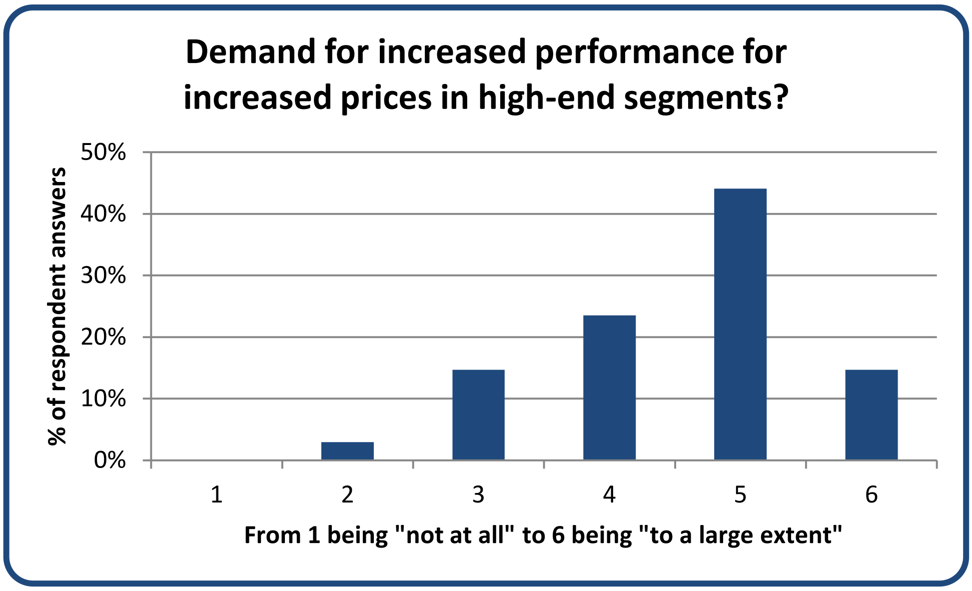

Figure 20 - Increased price for increased performance

The perceived importance of patents when competing with LCC was somewhat evenly distributed across the possible answers. Relatively few respondents placed themselves at either extreme, while there is an overall tendency towards rating the patent portfolio as more important than not as can be observed in figure 21. A minority indicated that patents were either completely unimportant or totally crucial as a weapon against LCC, while most respondents believe that patents and patenting are a requirement for operating but not a strategic issue.

However, among the respondents that rated the patent portfolio as especially important when competing with LCC, a common headache seems to be that the effectiveness of intellectual property rights can be almost binary depending on market. Specifically, several respondents indicated that while patent protection is important and effective against LCC in Europe and North America, it is much less so in Asia and particularly China since patents are not always enforceable and infringement much more commonplace. These respondents frequently linked this concern with a perception that LCC as a general threat is more troublesome in developing markets than in western ones.

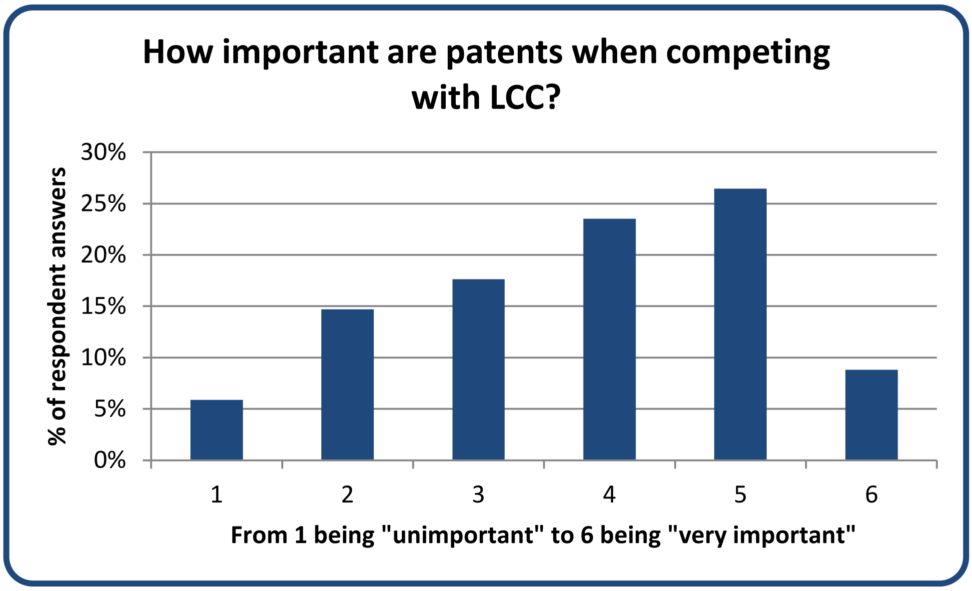

Figure 21 - Importance of patents

A majority of respondents rated their premium products as more successful than not, as can be observed in figure 22. More specifically, rating their premium products as very successful was the single most popular answer among respondents and typically reflects their overall perception as being strongest in the high-end segments. In addition, most respondents indicated that their competitive position in high-end segment is usually not a factor when considering LCC. Furthermore, respondents frequently commented that the main threat to their high-end segments comes from other comparable companies rather than LCCs.

While the descriptions provided by respondents who rated their high-end offers as successful are relatively similar to each other, respondents who rated their offers as less successful generally cited much more diverse reasons. For example, some respondents considered themselves firmly rooted in their high-end offers but has recently lost market shares to other incumbents, LCCs or both. Other respondents argued that performance-based segmentation isn't applicable to their business and thus found it hard to rate the issue in such a way.

Figure 22 - Success of high-end offers

As was noted in the section on overall strategy, many respondents linked the performance of their offers with softer service and solution-oriented capabilities when describing the source of their competitiveness against LCC. Their answers on issues relating to their relational value strategy are outlined in the next section.

4.4 Relational Value Strategy

The majority of respondents emphasized the role of services and solutions in creating the overall customer value of their offers. As has been touched on earlier, most respondents expressed some variation of the view that product performance provides only a temporary competitive edge versus LCC. Rather, there was a broad consensus that capabilities relating to services and solutions is much harder for LCCs to replicate and thus provides a more reliable differentiation in the long run. Further, respondents often returned to the fact that a perceived key weakness of most LCCs that they are aware of is that they focus on selling product-centric offers in large volumes while putting marginal efforts into aftermarket activities. A number of respondents also put this into the context of LCCs often being highly specialized to achieve cost advantages and thus not having the organizational capability to cultivate more lasting relations with their customers.

Among the interviewed companies on the other hand, only a small minority indicated that they add little customer value beyond their product, as can be observed in figure 23. On the contrary, solutions and aftermarket services where stressed by most respondents as being a defining competitive edge. It should be noted however, that the way services and solutions are understood and presented by the respondents differ significantly. For some respondents, the added customer value beyond the product was mainly due to their superior application knowledge, thus being able to provide consulting services to their customers on how to optimize their usage. These respondents perceived a broad range of advantages of “educating” their customers in this fashion since it also enables the customer to understand more subtle differences in quality between the offers of the incumbent and the LCC. Other respondents instead emphasized their distribution and service networks, often stressing the considerable amount of time it takes to set them up. Regardless of the specifics of the relational value that respondents choose to highlight, the recurring theme is that it is perceived as very difficult for LCCs to replicate and also that they have so far been unsuccessful in doing so.

However, relatively few respondents described themselves as complete solution providers, mostly preferring to discuss the value added through less tangible factors in terms of aftermarket activities. Rather, most respondents argue that their solutions enhance the value of their products, which are the core of the offer.

Figure 23 - Products versus solutions

Respondents gave very different answers when asked how integrated into the processes of their customers they are and to what extent they manage the solutions that they sell. A few respondents indicated that their companies basically manage the entire operation associated with their product for their customers, while others included very little customer integration as part of their overall offer. Furthermore, quite a few respondents argued that having their staff at least partially operating the processes associated with their products is less of a strategy and more of a necessity due to the complexity of these products. Many respondents who believed that their companies are not managing a great deal of their customers' processes indicated that they are currently working to increase customer integration. The somewhat fragmented nature of the different answers is reflected in figure 24.

Figure 24 - Degree of integration into customer processes

Branding and brand equity was overwhelmingly described by respondents as being very important, which is reflected in figure 25. While many respondents acknowledged that one may be excused for thinking that this is less of an issue in B2B markets, they argued that such an assumption is generally not true. Rather, brand equity takes a long time to build but can quickly be demolished if a company is not consistent in terms of quality. This was perceived as a crucial issue when competing with LCCs by many respondents since their companies are typically characterized by massive efforts to reduce variation and ensure quality. Conversely, many respondents claimed that while LCCs are sometimes able to put together offers of reasonable quality and substantially lower price, frequent unacceptable variations in quality are still commonplace and are an immediate deal-breaker in the eyes of many customers.

Some respondents linked this with the high capital requirements to enter their industry, noting that for customers whose balance sheet is dominated by machinery even slight variations in product quality can become incredibly costly if it causes malfunction. To such customers, relying on low-cost suppliers simply is not an option. By contrast, respondents stressed the long track record and resources put into building their brands as a crucial differentiator when comparing with LCCs. Typically, they argued that the brand of their company signals a measure of reliability which is rarely matched by low-cost alternatives. Respondents further argued that such an image of reliability is often highly pervasive, reflecting trust in the quality of the offers, the long-term commitment of the company to the deals made with their customers as well as the staying-power of the company in the industry. Similarly, respondents claimed that the opposite is true for LCCs who have acquired a reputation of being unreliable, often finding it difficult to engage customers in long-term relations.

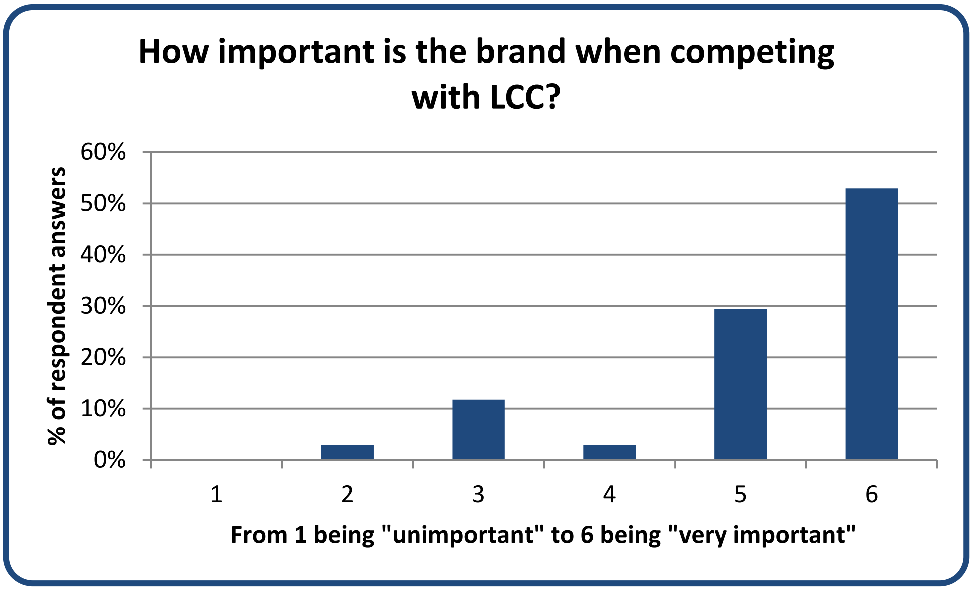

Figure 25 - Importance of brand

By and large, most respondents stressed a combination of performance value and relational value as making them competitive versus LCC. Relying on price value was less frequent, as will be outlined in the next section.

4.5 Price Value Strategy

On an aggregated level, most respondents don't consider themselves as competing with LCC with low-end offers, either under their company brand or a separate brand. Instead, respondents describe how their companies try to segment in such a way as to find markets for the offers that they have available, a process which sometimes put them in competition with LCCs. However, respondents generally stress that they don't actively seek to compete with LCCs, while asserting that pricing typically becomes a function of segmentation where LCC is viewed as a part of the competitive landscape.

On the whole, the respondents further emphasize that across-the-board price reductions to compete with LCC is rare and even more so when it threatens margins. Most respondents assert that this happens only as a part of a strategic decision to secure important deals and are very careful to point out that it is not allowed generally. Conversely, some respondents admit that they have gradually been forced into situations where lower margins have become more commonplace, sometimes even below the cost of doing business if the customer is perceived to be worth it in the long run. Figure 26 illustrates these relations.

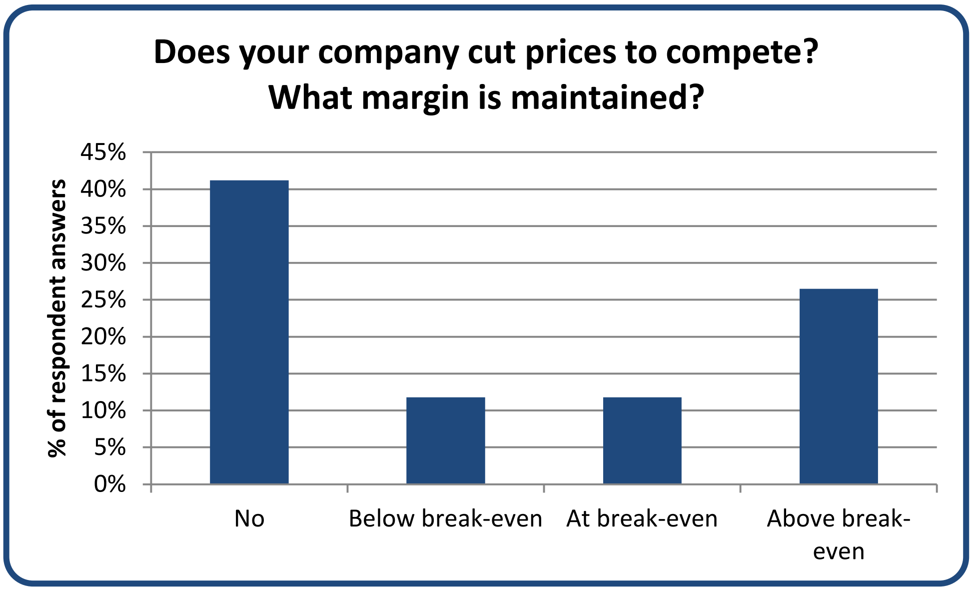

Figure 26 - Price reduction and margins

Competing with LCC in the low-end does not seem like a logical choice to most respondents, as can be seen in figure 27. In the context of competing with LCC, most respondents are instead more concerned about the pressure that is being exerted on their mid-level segments. Among the companies that do compete in the low-end, those that do so under a unified brand have typically operated a broad range of segments for quite some time. Some of these respondents also emphasized that they don’t primarily identify as a high-end brand, unlike the majority of respondents overall. Interestingly, the respondents that operate separate brands in the low-end typically appear to have the most elaborate strategies for competing with LCC, often indicating that a separate brand is necessary to deal with the growing problem.

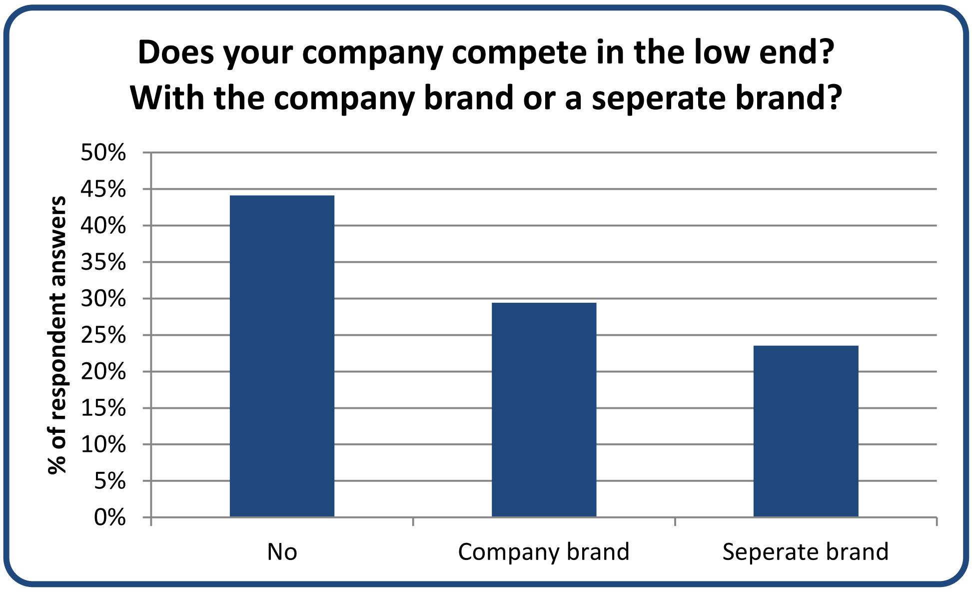

Figure 27 - Competing in the low end with company or separate brand

However, the respondents that claim to have a separate low-end brand generally indicate that the brand is part of an overall competitive strategy and thus subject to centralized control globally. As is indicated in figure 28, a minority of respondents allow their separate brands much more freedom in deciding their own strategy, typically explaining that the goal is to try to make the brand competitive in its own right rather than using it as a way to block LCC market entry.

Figure 28 - Strategic freedom of separate brand

Respondents from companies that operate separate brands had different opinions about the synergies between their brands. Some respondents saw significant synergies, often citing the ability to share certain useful and cost-efficient technologies across segments. Moreover, some companies that rely on a fundamental product design that is highly modular and can be adapted to various segments also indicated significant synergies. However, as can be observed in figure 29, many respondents think that there are no synergies between their low-end and high-end brands.

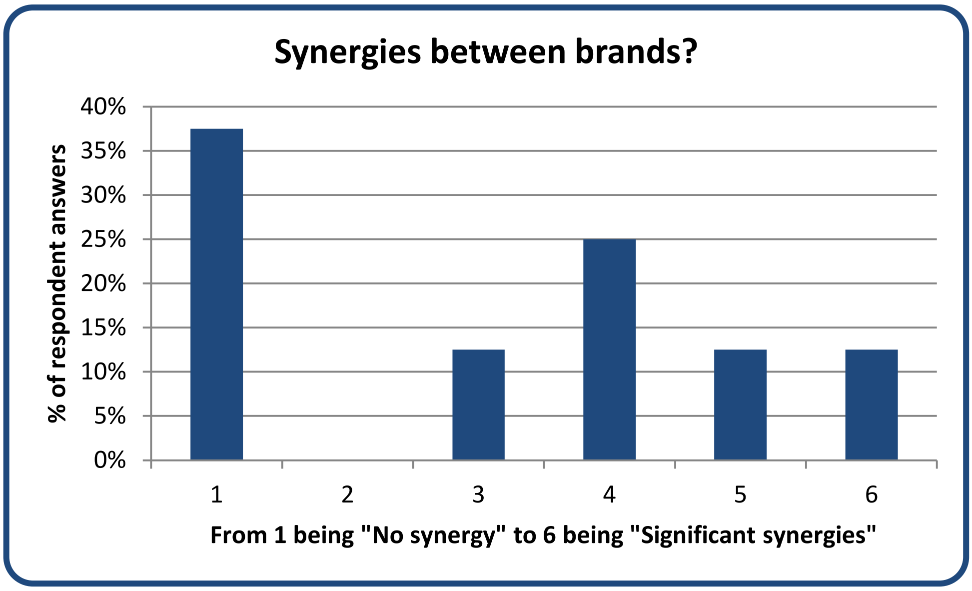

Figure 29 - Brand synergy

Finally, on the subject of the success of low-end offers, it is apparent that respondents generally think that these offers are less successful than their high-end ones. Figure 30 shows that compared to the high-end, there is much less certainty about how to properly compete in the low-end segments. Furthermore, a number of respondents discuss how the success of their low-end offers is as of yet uncertain, since the initiative to compete with LCCs is still being rolled out. Whilst a small minority of the respondents seemed convinced that their low-end offers were successful and competitive versus LCC, most seemed to believe that although actively competing with LCC is an issue destined to become more important as time progresses, how to do so successfully is still an open question. Core problems identified include a "high-end mentality" in many companies that cause cumbersome cost-structures to migrate from high-end to low-end segments, as well as a lack of understanding of how the low-end markets operate.

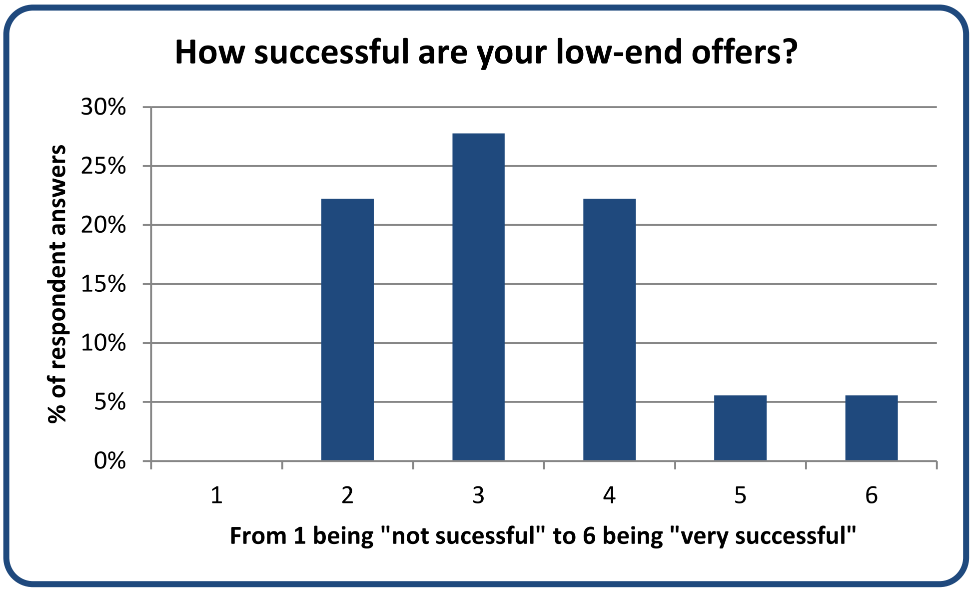

Figure 30 - Success of low-end offers

5. Analysis

This chapter analyzes the empirical findings by relating them to the theoretical framework and the research questions. First, important similarities and differences in theory and findings are discussed to establish the relevance of the theoretical framework. Next, the current strategies and competitive positions of the investigated companies are evaluated in order to find generalizable patterns. Finally, recommendations on how to better compete with LCC are presented based on a vetting of theory and findings.

5.1 Findings in Relation to Literature

Due to the primarily explorative nature of the study, it is natural to start the analysis by assessing how relevant the used academic literature is in the chosen context. As has been previously established, the reviewed literature on LCC is likely only partially relevant to the context of large multinational industrial companies based in the Nordic region.

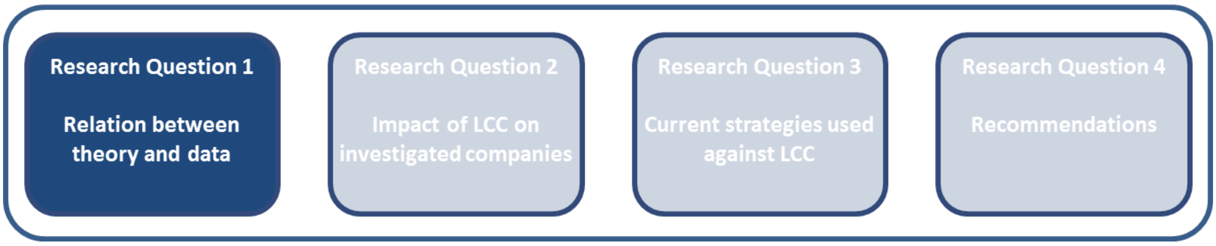

Figure 31 - Analysis orientation: Research question 1

This section aims to evaluate the relevance of the themes and measures that were included in the interview guide. In particular, whether the questions of the interview guide can be used to deduce the success of an incumbent company in competing with LCC is evaluated, as well as how the topics cover the essential aspects. In some cases, certain lines of inquiry did not seem to produce meaningful results and are thus not included in the analysis.

The data analysis was initiated by using Minitab to evaluate if and how the various investigated factors correlate with each other. However, few strong correlations between the investigated factors could be discerned, most likely due to the limited size of the sample. The correlations that are more significant will be presented and discussed, while the analysis relies more on qualitative data.

5.1.1 Contextual Factors

The aggregated answers on the contextual factors paint a picture that is largely in line with the reviewed literature. However, it is difficult to establish the correlation between factors as proposed in the theoretical framework through the quantitative answers, which is why such a discussion is based primarily on qualitative findings. In addition, there are certain interesting differences between the framework and findings that are addressed.

The empirical data indicates that there is a rather wide range of different degrees of sourcing from low-cost suppliers. In line with e.g. Kalafsky and MacPherson (2003) as well as with The Boston Consulting Group (2004), respondents who claim that their company sources a large percentage of their input materials from low-cost actors also point out that a global and efficient sourcing-strategy is vital in order to ensure costs are kept as low as possible. Although the correlation between increased degree of low-cost sourcing and success against LCC is low, the qualitative findings suggest that elaborate sourcing strategies seeking to exploit low-cost suppliers as much as possible are indicative of a generally more conscious strategy against LCC, in line with Ryans (2009), Hagen (2010) and Bernard and Koerte (2007).

This trend in the findings indicates that an informed sourcing strategy is more important than the exact percentage of input materials sourced from LCC, thus echoing The Boston Consulting Group (2004). Respondents who are capable of quoting an estimated percentage without much difficulty are typically also the ones who are most concrete in how and why they source from low-cost actors, regardless of exactly what the percentage is. By contrast, respondents who are uncertain of the percentage of low-cost sourcing generally don't seem to perceive this as an important issue. The fact that informed low-cost sourcing can mean both a high and a low degree of sourcing is illustrated in the following quote:

"We've had a development where about two decades back we were doing a lot in-house, then we were almost completely sourced for a while, and now we're getting back to the in-house stage. The pendulum is swinging back due to increasing demands on quality."

Furthermore, the perception that limited low-cost sourcing is dependent on factors that have little to do with how well an incumbent company leverages low-cost actors to its advantage is exemplified by the following quote:

"The price of our input is not dependent on who supplies it but rather set by world market raw material prices"

All in all, the empirical findings on low-cost sourcing support the theoretical framework in that an elaborate sourcing strategy is arguably important to success in competing with LCC. However, this is not the same as to say that a higher degree of low-cost sourcing is always conducive to success. Rather, while the issue of LCC springing out of an incumbents supply chain did not seem to be a significant concern to most of the respondents, figure 32 shows that it was rated as more problematic the more dependent the respondent perceives the company to be on low-cost suppliers. The degree of low-cost sourcing does thus not seem to be indicative of success but the merits of an informed sourcing strategy is supported by the findings.

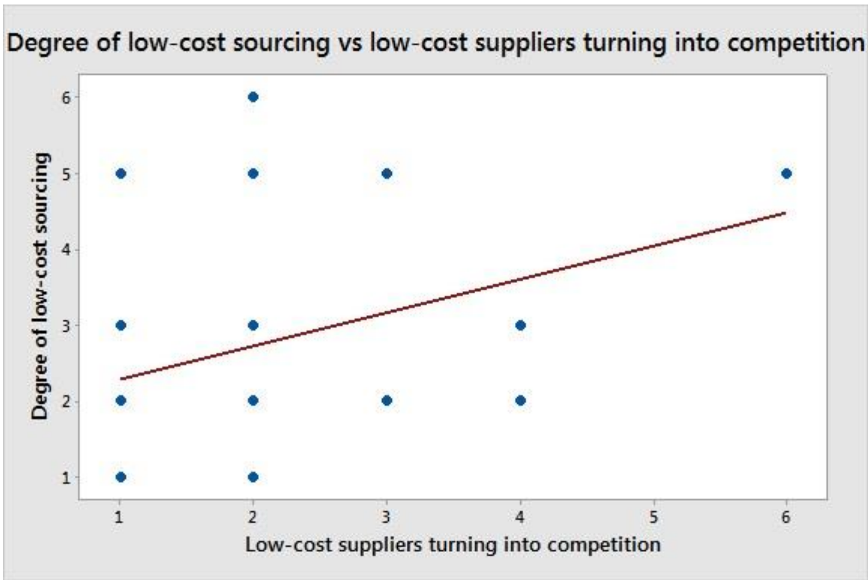

Figure 32 - Correlation between low-cost sourcing and low-cost suppliers turning into competition

The importance of being aware of the potential threat of LCC even if it's still peripheral as suggested by Ryans (2009), Hagen (2010) and Kumar (2006) is strongly supported by the empirical study. Most respondents clearly indicate that their companies are well aware about the LCC threat to their markets and also stress the importance of being so. Echoing the suggestion put forward by Kumar (2006), many respondents also emphasize the need of being informed about LCCs as different from being informed about other market incumbents, who are typically understood much better.

The importance of awareness of LCC is explained as being based on either a lack of understanding of these companies, or that the LCC landscape changes so rapidly that intelligence quickly becomes obsolete. Conversely, respondents that confess to their companies being less informed about the potential LCC threat typically point out that this is a problem that needs to be addressed. Similarly, a few respondents indicated that being aware of a potential LCC threat was a low priority until some type of alarming development involving LCC unfolds, at which point it becomes a strategic issue. Many of the given reasons for the importance of a high level of awareness are captured in the following statement:

"The problem of low-cost competition right now is that so many new players are emerging in China so fast that it's difficult to keep track of the bigger picture. Many don't want to recognize that the problem is there."

A perceived higher degree of LCC market entry intensity seems to go hand in hand with performance differentiation, as suggested by Bernard and Koerte (2007). Respondents who discuss how they feel that there is a great number of low-cost entrants into their markets typically also stress that the intention of their company is primarily to preserve and enhance their competitiveness in high-end segments. One respondent choose to put it in this way:

"The premium segment is where our strength is, we control almost 50% of the market there, it is in the budget segments that our potential problems are."

Similarly, the correlation between LCC market entry intensity and success of high-end offers is significant enough to lend further credibility to the claim that the empirical data supports the predictions made in the theoretical framework.

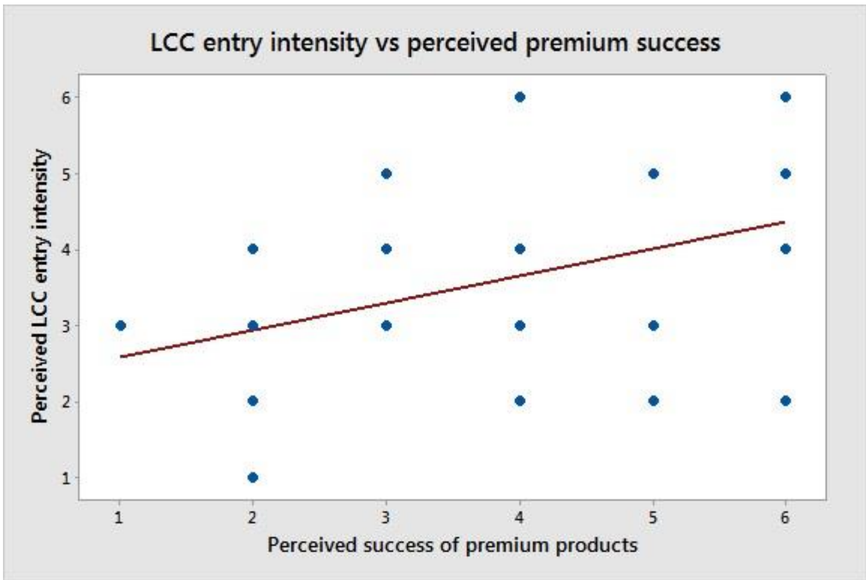

Figure 33 - Correlation between LCC entry intensity and perceived high-end success

Conversely, rather than considering low-cost suppliers turning into competitors a significant concern as predicted by Ryans (2009), most respondents instead point to customers turning into competitors over time. Reasons cited mostly center around the fact that low-cost suppliers to the investigated companies supply too small a part of the overall offer and lack the integrating capabilities necessary to compete. On the other hand, customers further down the value chain from the point of view of the investigated company likely possess such capabilities, as mentioned by several respondents. To quote one of them on the topic of such a customer:

"About a year ago they started to manufacture their own [products] for internal use. […] Their core competence is to produce cheap but solid. If they start competing actively this could present a big problem."

This is a clear example of how the framework that is mainly constructed on B2C cases differs from the empirical data focusing on B2B relationships. Specifically, since there might be low-cost actors further down the value chain in a B2B context, they can leverage their own integrating capabilities in a way that low-cost suppliers are unable to.

5.1.2 Overall Strategy

The section on overall strategy as outlined in the theoretical framework is meant to allow for respondents to frame the strategy of their company in competing with LCC for themselves in terms of the three fundamental strategies for creating and delivering customer value as proposed by Ryans (2009), Kumar (2006) and Treacy and Wiersema (1993).

The strategies that the investigated companies use to differentiate themselves from LCC can generally be said to be mature if comparing to the varying levels of awareness and responses discussed by Ryans (2009) and Kumar (2006). This is mainly due to the fact that an overwhelming majority of the respondents choose to emphasize their performance and services as a still difficult combination for LCCs to match. Further, completely in line with reviewed literature, these companies seek to exploit the lucrative high-end segments as much as possible but are largely unable to compete in the low-end. Somewhat in contrast to the reviewed literature, it is noteworthy that relatively few of the investigated companies opt for price value. However, this is largely to be expected considering the performance- and technology focused nature of the companies as discussed by e.g. Johansson and Lööf (2008) and Backman et al., (2007).

Interestingly, only about 60% of the respondents claimed to have an explicit strategy to compete against LCC and those that don't generally didn't indicate that it is seen as being important for success. Moreover, there is a pronounced difference of opinion on this matter since respondents who claim to have an explicit strategy often stress this as being important. The following two quotes showcase this difference in perspective, starting with a respondent who believes it is not necessary to have an explicit strategy:

"Our strategy has a broader perspective and doesn't differentiate between types of competitors."

By contrast, another respondent perceived an explicit strategy as being highly important:

"We have a very well-defined and explicit strategy, which in this case involve simply avoiding low-cost competitors as much as possible."

There is no obvious quantitative correlation with either perspective and success against LCC. However, one can arguably say that the perspective exemplified with the first quote is specifically warned against by Ryans (2009), Hagen (2010) and Kumar (2006). These authors stress that LCC should not be treated the same as other competitors and it is thus permissible to say that even though most respondents claim to be very informed about the LCC threat, many are arguably complacent. Thus, the findings are largely in line with expectations given the reviewed literature.

5.1.3 Performance Value Strategy

Unsurprisingly, most respondents emphasized product performance and quality in their high-end segments as their most important differentiating factor irrespective of specific type of competition, while similarly focusing on lucrative high-end segments and thus avoiding coming into direct competition with LCC. This overall pattern is consistent with pursuing an avoidance-based strategy as outlined by Bernard & Koerte (2007). Moreover, these results are in line with expectations of how these companies see themselves and define their competitive strategies (Backman et al., 2007; Johansson and Lööf, 2008).

By and large, the companies investigated in this study conforms quite well to the typical incumbent described in one form or another by most of the sources on the specific subject of LCC, in that they have grown to cater primarily to the high-end segments in their respective industries (Ryans, 2009; Grant, 1989; Kumar, 2006; Bernard & Koerte, 2007). As a consequence of this, the respondents typically feel that that their level of technology does protect them from LCC to a large extent. Furthermore, the majority of respondents think that there is indeed a demand for increased performance over time at increased prices, which thus allows for an expansion of high-end segments. Both of these factors are considered to be important by Ryans (2009), Bernard and Koerte (2007) and Kim and Mauborgne (2004) for retaining high-end segments relatively unaffected by LCC. Respondents support this view since few seem to think that LCC affects their high-end segments. This is also reflected by the fact that there is a noticeable correlation between success against LCC and protection by technology, as can be seen in figure 34.

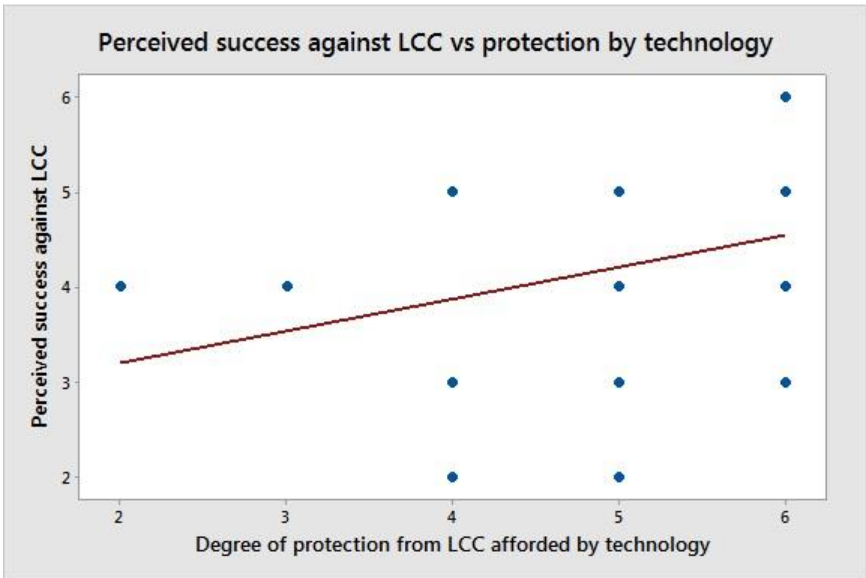

Figure 34 - Correlation between success against LCC and protection by technology

Furthermore, respondent views on the importance of the patent portfolio of their companies also support the reviewed literature. Specifically, respondents tend to rate the importance of their patent portfolio as high but not necessarily universally so, in line with Schilling (2005). A key concern is that patent protection is often much less reliable in developing markets such as China, as suggested by Andersson (2008). This is illustrated by the following respondent quotes:

"The main area of focus is in patenting the solutions that we do develop. This is not completely effective however, because our Chinese competitors simply don't care about infringement. Because of this, we spend a lot of money but it's a "never-ending story" to stay ahead."

"The reason patents are not that important, or should I say trustworthy as protection, is that the majority of infringements originate from China, where companies manufacture more or less carbon copies of our products."

5.1.4 Relational Value Strategy

The view that moving towards offering solutions and the overall importance of delivering relational value as a way of mitigating the LCC threat is supported by the empirical findings. Most respondents choose to describe their strategy at least partly as focusing on solutions rather than products, often explicitly recognizing that this is something that clearly sets them apart from LCC. For instance, on the subject of solution-selling, one respondent had this to say:

"This is something that a low-cost actor would never do, they sell [the product] in volume and that's it."

Another respondent further emphasized the perception that LCCs generally provide very little beyond the core product in the following way:

"Think of it this way: If our customers were buying stereo equipment from us, we would be providing the whole setup while the Chinese would be selling only the cd-player."

Respondent perception on providing relational value as a way of successfully competing with LCC is largely in line with Ryans (2009) and Kumar (2006). Some respondents went further and stated that delivering relational value is at the core of their general competitiveness, as illustrated in the following statement:

"Our competitiveness is primarily based on customer relations that allow us to develop and retain an understanding of the customers' needs in a holistic manner."

What stands out in this section is the endorsement among respondents of the importance of branding when competing with LCC, seeing as how Ryans (2009) states that its impact is uncertain. However, the main reason why respondents highlight the importance of the brand is due to it being able to signal reliability, something which LCCs are stereotypically not associated with as discussed by Davies and Walters (2004) as well as Insch (2003). Further, many respondents felt that the importance of being able to signal reliability is especially important in B2B markets, since many customers are wary of taking on any risks of variation and inconsistency whatsoever. One respondent chose to put it in this way:

"For example, our customers in the paper and pulp industry would never buy from a low-cost actor, the risks are simply too high."

The issue of branding is thus very interesting, since it turned out to be more important in competing with LCC than was suggested in the literature. Further, it is argued to be even more important in the context of a B2B environment, due to the importance of signaling reliability.

5.1.5 Price Value Strategy

As is evident from the previous chapter, only about half of the investigated companies currently have low-end offers to compete directly with LCCs. Furthermore, respondents generally admit that these offers are so far only moderately successful. As discussed previously, the investigated companies generally identify as catering to high-end segments and the idea of competing in the low end is frequently seen as unattractive and illogical. This is consistent with observations made by Ryans (2009) and Kumar (2006) indicating that the incumbent's perception of itself as a high-end player with superior offers often inhibits its ability to compete aggressively with LCC.

On the other hand, many respondents seemed to recognize the potential issues associated with a lack of ability to take the fight to the LCCs. Furthermore, respondents generally indicated that across the board price cuts to compete with LCC are not being used other than in exceptional cases to secure important deals. This would seem to signal that most participating companies are carefully considering appropriate responses to LCC instead of making rash decisions as cautioned against by Hagen (2010).

There are no obvious quantitative correlations between success against LCC and using separate independent brands in the low-end, or trying to leverage potential synergies between low-end and high-end brands as suggested by Ryans (2009) and Kumar (2006). In addition, few respondents seemed to think that such strategies would be conducive to success against LCC. For instance, many respondents who claimed that their companies operate separate low-end brands pointed to the importance of keeping strategy centralized so as to enable a concentrated effort against LCC. To quote one such respondent:

"Our budget brand is intended to nip the problem in the bud, before it gets out of hand. […] We want to slow them [The LCCs] down by building a Berlin Wall around the premium segment where the real money is."

On the whole, many suggestions in the reviewed literature on how to pursue a price value strategy against LCC are not supported by the study. However, it is worth noting that the respondents of companies with the most elaborate price value strategies stressed that these initiatives are still in the process of being rolled out and that it is still too early to evaluate their success.

5.1.6 Summary of Findings in Relation to Literature

To summarize the similarities and differences between the reviewed literature and the empirical findings, most of the theoretical framework can arguably said to be highly relevant in determining the success of an incumbent versus LCC. However, there are some differences that are mostly explained by the B2B nature of the companies. Furthermore, the high-end mindset of the investigated companies can to some extent be said to discourage elaborate strategies for competing in the low-end. Moreover, it is interesting to note that some respondents explicitly recognize that they think that there is a certain difference between LCC in the context of B2C and B2B. During the interviews, some of the respondents frequently returned to the fact that they believe it is easier to market products of low quality to consumer segments. The following quote illustrates this:

"[...] it's more difficult to enter in the professional segments than consumer segments, due to test requirements that are difficult for the Chinese."

The findings of the study in relation to the theoretical framework would thus seem to suggest that the B2B context is indeed what explains most the inconsistencies. One can arguably extent this argument to a more general discussion on how the difference between B2B and B2C customers is one of the most important contingency variables in business strategy, as argued by Hambrick and Lei (1985).

5.2 Current Situation of Investigated Companies

After comparing and contrasting the empirical findings with the theoretical framework, a number of interesting similarities and differences were found. These allow for updating the current theoretical understanding of the threat of LCC in the context of large multinational industrial companies based in the Nordic region focusing on B2B. Building on these results, this section analyzes and evaluates the current impact of LCC on the investigated companies as well as their strategies to deal with the situation.

5.2.1 Current Impact of LCC

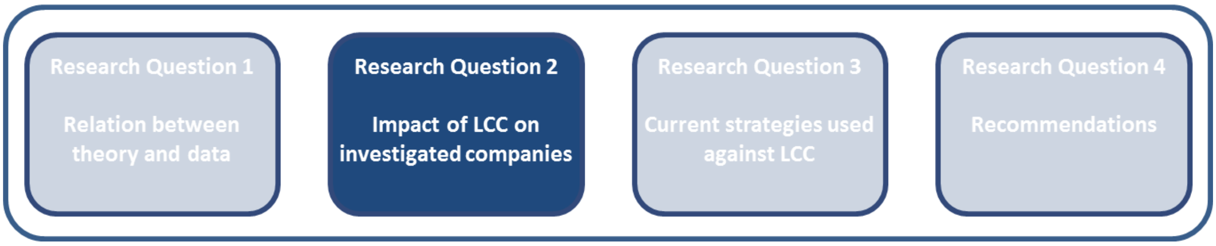

Figure 35 - Analysis orientation: Research question 2

Generally, there is no unifying answer from respondents concerning how affected the investigated companies are by LCC. Specifically, the answers to the questions concerning LCC entry intensity, product quality as well as incumbent success in competing with LCCs show that there is a broad range of different positions that the investigated companies find themselves in. Starting with the intensity of market entry, some respondents claim their company is experiencing very limited LCC entry and competition in their established markets, often related to some form of entry barrier or other type of protection that LCCs currently seem to be unable to get around. These respondents tend to emphasize that LCC is not their primary competitive threat and thus does not warrant a high priority. One such respondent put it this way:

"Low-cost actors are not the biggest problem but rather companies more similar to us"

Conversely, respondents who experience intense LCC entry into their markets typically associate this with a trend of commoditization of their core offers, in line with Bernard and Koerte (2007) and Ryans (2009). Even so, respondents feeling that their company is finding it difficult to cope with LCC typically stress that not all of their segments are affected uniformly. To quote one respondent:

"Obviously, I need to stress that at this level of aggregation, you're gonna get bland answers since our different segments are so dissimilar. In some segments, we don't even see any low-cost actors since the customer demands are too high. In others, low-cost actors are dominating completely and we've essentially given up those markets since there's no profitability for us."

In light of these diverse views on just how big of a threat LCC actually is, generalizations about the impact of LCC on the entire sample cannot readily be made. However, a few different types of competitive position versus LCC can be identified. These types are not mutually exclusive but rather serve to classify the investigated companies based on their overall competitive position versus LCC. The categories are outlined below and summarized in table 9.

Table 9 - Different types of positions versus LCC

Position against LCC	Explanation	Main characteristics
Protected companies	Favorable legislation and politics protect certain incumbents from LCC.	Profitable high-end segments with no obvious way for LCC to migrate from low-end to high-end.
Non-competitors	Companies currently not in competition with LCC.	Lack of LCC threat is at first glance positive but also leads to obliviousness and uncertainty among the companies.
Currently successful competitors	Incumbents who are currently managing to compete with LCC mainly due to success in high-end.	Profitable high-end segments not yet penetrated by LCC but potential problems with economies of scale.
Currently unsuccessful competitors	Incumbents who no longer have business segments out of reach for LCC.	Difficulty in differentiating high-end offers, downwards price pressure across segments.

First, there are the companies that in this thesis are called *protected companies*. These companies constitute a minority of those investigated in the thesis and their commonality is that a significant part of their markets is insulated from the threat of LCC for the foreseeable future. Moreover, the nature of their protection from LCC is such that it is dependent on factors on which the competitive and comparative advantages of LCCs have very little effect. Generally, these protections can be summarized as concerning either legislation or politics, or a mix of the two. These companies may belong to industries that are characterized by low susceptibility to LCC pressure as described by Ryans (2009), or may have company-specific idiosyncrasies favorable to competing with LCC that transcend industry-related features as described by Spanos and Zaralis (2004).

Around half of the companies that are protected have most of their high-end segments insulated due to restrictive legislation and regulations that LCCs by and large simply don't have the organizational capacity to live up to. These often take the form of complicated compliance tests that have to be conducted in order to be allowed to enter certain markets. The inability to live up to regulations in such markets due to the often slim and specialized nature of LCC is mentioned by multiple respondents from protected companies and is in line with the consequences of LCC specialization discussed by Ryans (2009), Bernard and Koerte (2007) and Burda and Dluhosch (2002). To quote one respondent:

"Low-cost competition is not a big problem in our industry due to its highly regulated nature. [The products of our industry] tend to have high [industry specific] prerequisites that make the threshold very high for low-cost companies. So far we're more protected than other industries."

Moreover, the other half enjoy protected markets mainly for their high-end products since LCCs are unable to enter for political reasons. Respondents representing companies that are protected for political reasons usually comment that politicians in certain markets are reluctant to allow LCCs market access for various reasons. Predictably, this is skillfully exploited by some protected companies as a comparative advantage, as suggested by Intarakumnerd and Fujita (2010) and Schuler et al. (2002). On respondent had this to say:

"Apart from product performance and quality, there's also politics. Global politics. The [industry] is much more deregulated than it used to be, [...] but there are still considerable barriers to entry for certain actors in certain markets."

However, it should also be noted that respondents of protected companies recognized that the influence of politics can be arbitrary and erratic, sometimes becoming a nuisance. This was expressed by a respondent in the following way:

"There's a lot of politics involved in this, sometimes we fail or are successful mostly due to very subjective opinions of key decision makers."

For the companies protected by legislation and strict regulations, patents are typically extremely important, as is illustrated by the following quote on the question of the importance of patents in the interview guide, which is on scale from 1 to 6:

"On the question of the importance of the patent portfolio I would have chosen 7 if I could have. [Laughs]"

The downside of being reliant on patents when competing with LCC is, as has previously been noted, that they are ineffective in certain markets that are potentially very important. This problem is inherent in the fragmented nature of legislation globally when it comes to rules and regulations, which is also discussed by Andersson (2008) and Nakai and Tanaka (2010). While the high-end segments of these companies are insulated due to quality criteria that LCCs are unable to match, the respondents point out that their mid-level segments are still vulnerable to LCC. The core difference between these companies and those in the study that are not considered to be protected is that there is no obvious way for an LCC to migrate from the low-end to the high-end of the spectrum. In sum, the protected companies have insulated and profitable high-end segments that LCCs will likely be unable to reach for the foreseeable future.

Secondly, some of the investigated companies can be classified as *non-competitors*. These include the companies that are not in any readily identifiable way protected from LCC but so far experiences very little of it. Like the protected companies, they constitute a minority of the investigated companies and their lack of LCC is arguably more related to company-specific characteristics rather than industry, in line with Spanos and Zaralis (2004). The respondents of these companies typically suggested that it is debatable whether they experience any LCC at all, except for in fringe segments. To quote one respondent:

"We don't experience obvious competition from low-cost actors, except for in small niche markets. This might have changed in 2 years' time."

Furthermore, the respondents indicated that most of these companies are either oblivious to the potential threat of LCC or unsure of how to handle the situation. To quote one respondent:

"In general, we have great respect for the fact that there are Chinese low-cost actors on the rise and that they are likely to have completely different conditions in terms of cost structure. However, [our company] is not completely certain of how to deal with this situation."

While these companies generally do not consider LCC to be a tangible threat at present, the recurring theme of obliviousness and uncertainty is a significant cause for concern from the perspective of Ryans (2009), Kumar (2006) and Hagen (2010). These authors all caution specifically against ignoring or dithering in the face of an uncertain LCC threat that can potentially become more tangible in the future. As noted by respondents from these companies, time is undoubtedly the key factor in determining whether the LCC threat eventually materializes. At present however, their competitive position against LCC is indicated to be rather weak by many respondents since they have yet to experience it.

Thirdly, of those that are not in protected industries but competing with LCC, there are the *currently successful competitors*. Constituting the majority of the investigated companies, they are more often than not generally successful in their high-end segments where LCC has as of yet not been able to reduce the customer value to being about sticker price. However, unlike the previous two categories they are still subjected to LCC and can only rely on their own resources. Moreover, as is evident in the more general trends outlined in chapter four, some of these companies also operate low-end segments where they might not be as successful. The problems inherent in still being successful in the high-end but facing mounting pressure from below is captured in the following quote:

"Our premium products are top-notch, that's not where our potential problems are. Right now, we're able to offer them in system solutions that are very difficult to penetrate with low-cost and low-quality alternatives. [...] Our price value offers on the other hand are less successful. This is potentially a significant problem going forward since we lose markets where the sticker price is everything, thus impacting our economies of scale."

As the quote shows, incumbent companies that are subjected to LCC and are still successful in high-end segments but experiencing difficulty in the low-end can be argued to be the "canonical" type of incumbent as described by Ryans (2009), Kumar (2006) and Bernard and Koerte (2007). These companies have good reason to be worried that LCCs will gradually move up in the segments and ultimately start to threaten their high-end offers.

Typical for the currently successful competitors is that the customer demands on their high-end products are too high for LCCs to match. Further, customer risk tolerance is minimal which allows companies that have achieved a high level of quality consistency to charge a premium. Many respondents kept coming back to the fact that LCCs tend to find it difficult to achieve such a level of consistency and thus buying from them poses a risk that customers are unwilling to take. This is further emphasized by many respondents to be highly linked to the importance of branding when competing with LCC: a strong brand signals long-term reliability and consistency that is often contrasted with the LCC alternative. Thus, strong brand equity is very valuable when competing with LCC.

However, gradually losing mid-level segments and below invariably leads to problems in maintaining economies of scale, something which is crucial for many of the investigated companies and mentioned by several respondents. In addition, since scale is what is often keeping the highly specialized LCCs out of certain markets or segments, it is even more problematic to lose them in this context. This is more or less completely in line with the dynamics of economies of scale and specialization touched upon by virtually every reviewed text that deals explicitly with LCC (Ryans, 2009; Kumar, 2006; Bernard & Koerte, 2007; Burda & Dluhosch. 2002), while also being the stereotypical form of entry barriers identified by Porter (Harvard Business Review, 2010; Grant, 2008). All in all, the currently successful companies have thus far managed to preserve their competitive edge against LCC in their key high-end segments but may face difficulties in the future.

Finally, there are companies that can be considered to be *currently unsuccessful competitors*. These companies and their entire businesses are subjected to LCC and are not certain of how to handle the situation. Furthermore, they don't enjoy the same measure of high-end segments that are relatively untouched. The currently unsuccessful competitors constitute a minority of the investigated companies.

As discussed by Ryans (2009) and Kumar (2006), companies that are most negatively impacted by LCC typically find themselves trapped in a combination of different circumstances that are problematic in the context of LCC. Conversely, currently successful competitors might face a few circumstances against LCC that are troublesome but on the whole these do not impact their overall competitiveness. However, just as currently successful competitors risk losing their advantages over time if active measures versus LCC are not taken, currently unsuccessful competitors might be able to improve their situation over time.

A few especially problematic circumstances are worth highlighting specifically. First of all, most of the respondents that indicate significant concern about LCC link this with increasing difficulty in differentiating their high-end offers resulting in commoditization. One respondent commented:

"We're essentially manufacturing a commodity product, not any more simple or complex than those of our competitors. […] We're focusing a lot on trying to protect ourselves through performance but it's not always successful. I'd say we're coping but not much more."

Moreover, some respondents felt that their company was being squeezed both in the high-end as well as the low-end due to a gradual hollowing out of customer willingness to pay. These respondents perceived that this was due to LCCs being able to put together offers that are rapidly approaching competitiveness in the high-end and thus exerting a downward pressure on prices. In the words of one respondent:

"This industry has a very peculiar feature: For the last 25 years, we have constantly been reducing prices, in absolute terms. And then there's inflation on top of that! There is an expectation among customers that prices will constantly decrease and this is highly irritating. Somehow, being conscious of your costs has become embedded in the culture of [our industry]."

Arguably, the difficulties facing the currently unsuccessful competitors are different from those facing the successful ones primarily in that their high-end segments are seriously affected by LCC in addition to lower tier segments. The situation of these companies is conceptually similar to those discussed by Bernard et al. (2006) that are rapidly running out of options in competing with LCC.

The presented categories provide an understanding of the impact of LCC on the investigated companies. Crucially, it is evident that the impact of LCC is different from company to company, owing to a set of factors that may or may not interact with each other. However, it is permissible to say that the majority of the investigated companies are currently successful and can broadly be characterized by competitive high-end offers, while having a more difficult time in the mid-level segments and downwards.

On a final note, the industry classification of the investigated companies outlined in chapter three does not display obvious patterns that are significant enough to motivate further analysis, as can be observed in figure 36. Rather than a classification based on industry, the emergent classification outlined in this section turned out to be more revealing. This can arguably be said to be due to the fact that company-specific factors are generally more important than industry-related ones as argued by Spanos and Zaralis (2004)

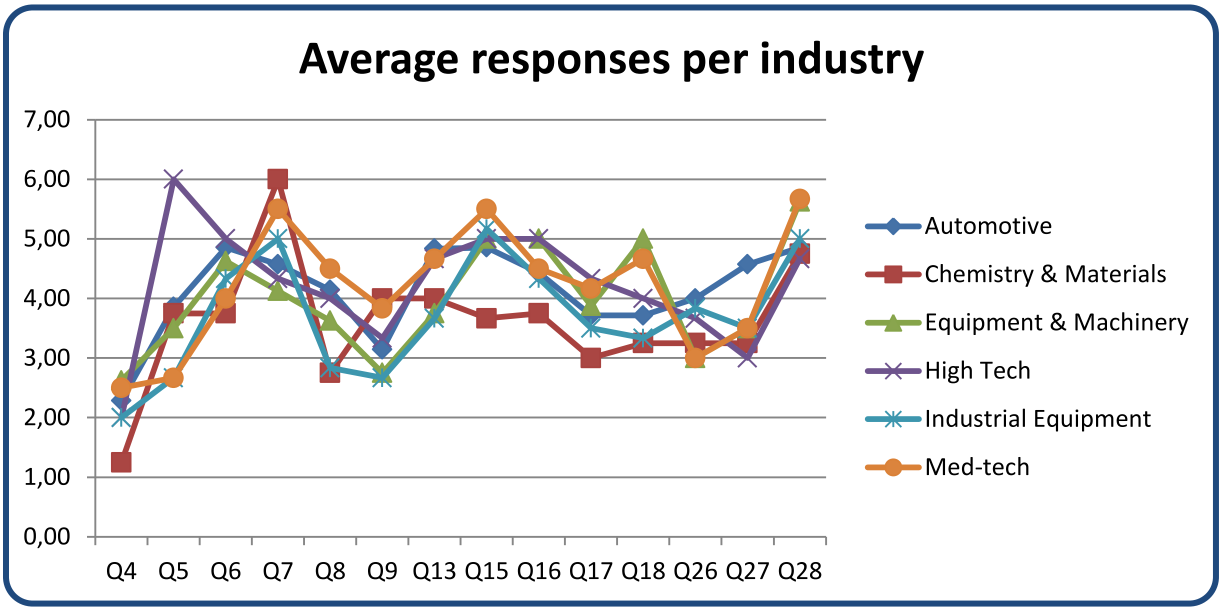

Figure 36- Average responses per industry

5.2.2 Current Strategies for Competing Against LCC

Following the evaluation of the current impact of LCC on the investigated companies, the next issue to consider is what can be said about the strategies employed to deal with LCC. This section provides an answer to the third research question, while also enabling a generalization about emergent theory.

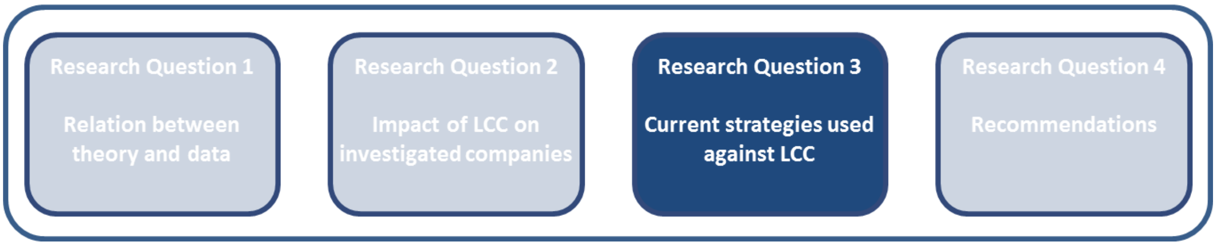

Figure 37 - Analysis orientation: Research question 3

As is evident from chapter four, respondents overwhelmingly describe the strategy of their company in competing with LCC as a combination of performance value and relational value, or either of the two. Conversely, attempting to compete with LCCs based on price is apparently more uncommon and thus far not that successful. Key points about the major strategic currents among the investigated companies are summarized in figure 38.

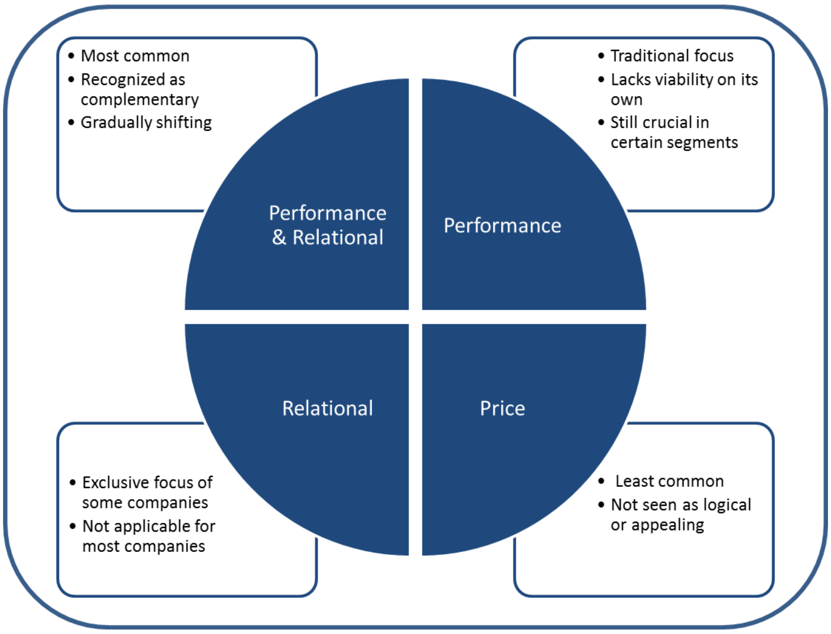

Figure 38 – Balance of strategies

A combination of performance value and relational value seemed most fitting to majority of respondents when it comes to describing their overall strategy for competing with LCC. As speculated and in line with Backman et al. (2007) and Bergman and Ejermo (2011), the investigated companies are traditionally highly focused on performance metrics and continuous application and performance improvement through R&D and product development. Many respondents believe this is still at the core of their overall competitiveness, since it allows for tapping into high-end segments and customers with requirements that competitors simply cannot match. One respondent put it bluntly when asked how he thinks his company is competing with LCCs:

"By maintaining a very high level of performance"

However, as argued by several authors, relying on performance value for differentiation against LCC tends to become less viable over time since LCCs are prone to catch up on factors that can readily be expressed in terms of numbers (Ryans, 2009; Kumar, 2006; Bernard & Koerte, 2007). Moreover, performance value strategies are dependent on market demand in high-end segments, something that is not necessarily a given as LCC entry changes the market structure (Bernard et al., 2006; Hill, 1988). The somewhat ambivalent stance on the part of respondents on whether there is a continuous willingness to pay for increased performance in premium segments is reflected by the fact that many respondents claims that their R&D is currently mostly focused on reducing costs rather than developing new applications. As two of the respondents chose to put it:

"R&D are actually the ones chiefly responsible for monitoring low-cost competitors since they're working extensively with cost reduction.

"Currently, product development is focusing a lot on new products that can be manufactured for a significantly lower cost."

The realization that performance differentiation alone is generally not enough to meet the threat of LCC is evident throughout the investigation. The following quotes are but a handful of all comments pointing towards the same trend:

It's getting difficult to differentiate only based on the product."

"You cannot differentiate with any long-term viability just through product and performance. Anyone who's ever been to China knows just how fast they're catching up on traditional parameters."

"As the capabilities needed to manufacture our [core products] become more widespread, differentiation based on optimizing technical parameters become less and less effective against low-cost competition. What are essentially carbon copies of our products keep popping up in China all the time."

Conversely, respondents generally recognize that complementing their traditional focus on performance value with relational value is especially effective against LCC, just as suggested by a number of different authors (Ryans, 2009; Kumar; 2006; Hagen, 2010; Bernard & Koerte, 2007). Respondents perceive that there are several advantages of doing so, especially since moving towards less tangible offers makes it difficult to break them down into their components and analyze to an outside observer. Furthermore, as has been mentioned several times, the degree of specialization of many LCCs means that they simply cannot put together an offer which continues to deliver significant value beyond the actual product. This is illustrated by the following quotes:

"There are a broad range of factors that are taken into account, such as physical proximity to customer, our ability to deliver meaningful service, engaging in problem solving on behalf of the customer etc... In these cases, the product is really just one part of a much bigger offer. LCCs typically cannot offer this, they are simply too specialized to be able to afford such an organization."

"We try to maintain a high level of knowledge and understanding of our customers, which we know that our low-cost competitors do not do."

"Low-cost actors just manufacture a product, while we try to consider what the customer actually wants."

Moreover, the first of these quotes indicates that incumbents can leverage the knowledge that they have accumulated about how their products work to provide more value to their customers through various forms of service. Numerous respondents emphasized that the application knowledge that they have accumulated as a consequence of their focus on increasing performance is highly valuable to customers and can be sold as a service.

A few respondents went even further and stated that focusing almost solely on relational value is the foundation of their competitiveness, regardless of segment and type of competition. However, these can to a large extent be considered outliers and the associated business logic is probably not applicable to most of the companies. Likewise, as has been mentioned earlier in the thesis, focusing on price value was rather unusual among the investigated companies, while the respondents generally felt that doing so was both contradicting the traditional high-end mentality of the companies as well as not being very successful.

To summarize, the majority of respondents agree that a combination of performance value and relational value allow them to leverage their key strengths when competing with LCC. It is also fair to say that the interviewed respondents feel that this also represents the most successful combination of the three proposed fundamental strategies of delivering customer value in the face of LCC. However, as will be seen in the next section, this is not necessarily true for all of the markets that the investigated companies are active in.

5.2.3 Emergent Theory: Market Type as Contingency Variable

After having analyzed the impact of LCC on the investigated companies as well as the strategies they use, an important piece of emergent theory that gradually became apparent during the investigation needs to be mentioned. Rather than being able to discuss any specific markets, two types of conceptually different markets are continuously evident throughout the investigation. The realization that this distinction can be made originates in two recurrent themes during the interviews, which are:

- In the majority of interviews, respondents indicate that a significant part of the LCC that they experience originates from China.
- LCC becomes problematic when the most important factor for the customer is sticker price. This is invariably a much bigger problem in developing markets concentrated in Asia, Africa and Latin America. Conversely, sticker price is a much less significant concern in mature markets concentrated in North American and Western Europe and the problem of LCC is thus much less pronounced.

Given that a clear majority of respondents stress the contrast between markets where their high-end offers are viable and those where they aren’t, it is obvious that some form of generalization with regard to the issue of markets is desirable. However, as has previously been stressed, this thesis is not in a position to comment on specific markets given the highly diverse and heterogeneous nature of the markets of the investigated companies. Instead, it is more interesting to propose a differentiation based on *types* of markets that is more amenable to broader generalizations among the investigated companies.

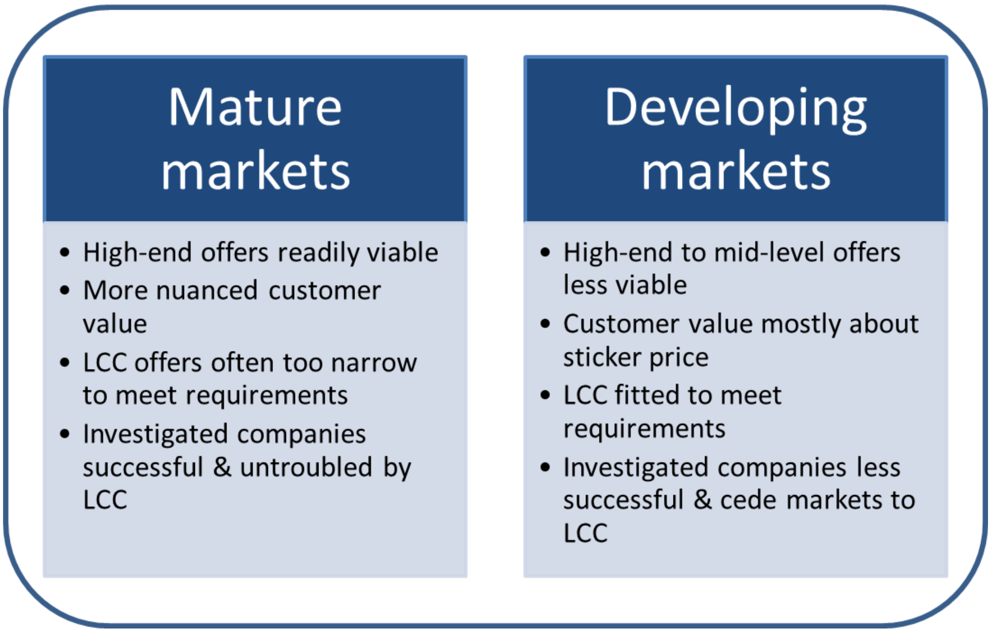

Figure 39 - Conceptually different markets

The first of these are the *mature markets*, where high-end offers incorporating considerable value beyond just the product are viable and customers willing to pay a premium for such offers. Secondly, there are the *developing markets*, where willingness to pay a premium is much lower and viability of high-end offers consequently reduced. In these markets, customer value is typically expressed more or less completely in terms of sticker price and even the mid-level offers of the incumbents might not be competitive based on price. These markets are not defined by national boundaries or geographical position, although that may be a correlating factor. Rather, they are defined by the general viability of high-end premium products.

Which market to address is thus the important contingency variable to take into consideration when competing with LCC. High-end offers incorporating a mix of performance value and relational value are seemingly very effective at competing with LCC in mature markets where there is an underlying market demand and lack of ability on the part of LCCs to match such offers. Predictably, these markets are where the respondents feel that their companies are most successful against LCC and the effectiveness of their offers is very much in line with the strategies proposed by e.g. Ryans (2009) and Kumar (2006). To quote a respondent:

"The premium segment is where our strength is, we control almost 50% of the market there [...]"

Conversely, the LCC that the investigated companies experience is perceived to originate from developing markets (primarily China) and thus mostly leveraging comparative advantages to achieve slim cost structures. This is not in line with Ryans (2009) and Kumar (2006) who paint a picture of LCC originating equally as much from mature markets, instead indicating that LCC from low-cost countries as discussed by other authors is the primary concern for large multinational industrial companies based in the Nordic region (Bernard & Koerte, 2007; Bernard et al., 2006; Bowen & Wiersema, 2005; Carr, 1993; Ernst & Young Global Limited, 2012). In addition, respondents recognize that the price value focus in developing markets means that their high-end offers are typically not viable, while simultaneously being less successful if at all engaged in the low-end segments. The high-end nature of the investigated companies combined with the percieved reluctance and lack of success in marketing low-end offers thus means that their competitive position versus LCC in developing markets is relatively weak. To quote one respondent:

"We're very successful against low-cost competition in Europe and the USA, not so much in Asia."

To summarize, one can arguably say that the most important emergent theme of this investigation is the difference in the viability of high-end and low-end offers in mature versus developing markets. A company's position in mature and developing markets has a major impact on its competitive position against LCC and is a crucial consideration to take into account when devising a strategy. Even if one of the interviewed companies is successful in the high-end segments, lack of viability of mid-level and low-end products is often perceived as leading to losing economies of scale, as predicted by e.g. Ryans (2009) and Bernard and Koerte (2007). Thus, the crucial issue is usually whether to try to make inroads into developing markets or to focus on mature markets and gradually change into an organization that is less reliant on economies of scale.

5.3 Recommendations for Competing with LCC

Based on the results and analysis up to this point, it is possible to put a number of recommendations to the investigated companies on how to improve their competitiveness against LCC. Furthermore, comparing and contrasting the empirical data with the reviewed literature puts this thesis in a position to identify and elaborate upon potential pitfalls that incumbents would do well to avoid. Thus, this section is aimed at answering the fourth research question concerning how large multinational industrial companies based in the Nordic region can improve their competitiveness against LCC.

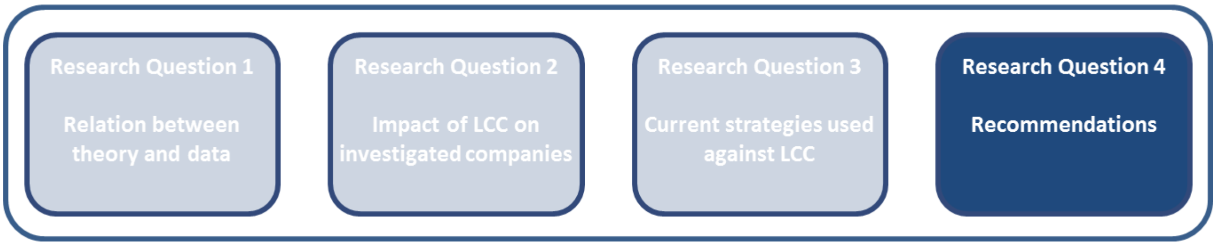

Figure 40 - Analysis orientation: Research question 4

As previously outlined, the participating companies are fairly different in their position against LCC, some arguably not being in competition with low-cost actors at all. Moreover, it is important to keep in mind that the results outlined in chapter four indicate that most respondents consider their companies to be successful in competing with LCC. Therefore, it would arguably be difficult to make recommendations that are applicable to all of the investigated companies. Instead, recommendations based on different scenarios will be presented, where the distinctions and patterns between the studied companies that have been outlined earlier in the analysis are used as a basis for classification. Furthermore, a number of especially interesting cases where an individual company is deemed to be successful, a type of "best practice", will be highlighted and evaluated.

While the primary level of investigation and analysis in this thesis is strategic and more often than not involving changes spanning over longer periods of time, the richness of the empirical data also allows for recommendations on a more operational level to be made.

5.3.1 Strategic Level

To reiterate, the fact that the investigated companies are impacted differently, the strategies they currently employ, as well as what type of market they are competing in against LCC all affect what types of recommendations can be made. Below, recommendations based on different scenarios are first dealt with, after which important pitfalls are discussed. The key such recommendations and pitfalls are summarized in figure 41.

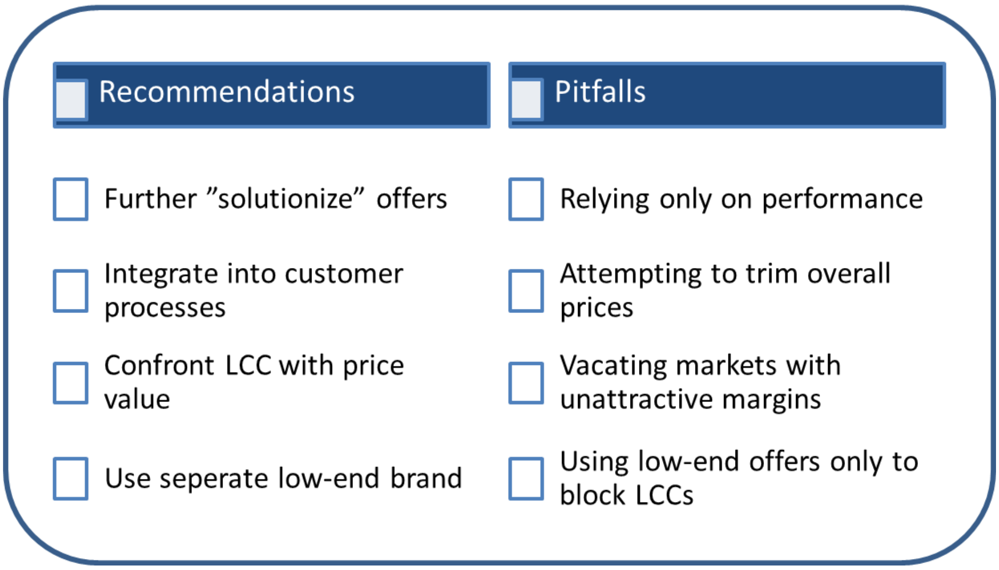

Figure 41 - Recommendations and pitfalls

Starting with the issue of maintaining and increasing competitiveness in the traditional, often mature markets of the investigated companies, this study finds broad support for the idea of meeting LCC market entry by "solutionizing" offers in both the reviewed literature and the empirical data. Ryans (2009), Kumar (2006) and Hagen (2010) all discuss the advantages of meeting high-end customers' requirements with offers that incorporate a substantial solution and/or service component that are effectively out of reach for LCCs. In this way, avoiding competing with LCC in markets where such high-end offers are viable also enables a cultivation of customers who appreciate and become reliance on extensive aftermarket, consulting services, advanced distribution networks and so forth that LCC typically cannot offer with their much more slim and specialized organizations. These views are supported by the study since most respondents indicate that a mix of performance value and relational value best describes the strategy that their company is pursuing against LCC. In addition, these respondents often explicitly recognize that their strategy is shifting away from performance value which has traditionally provided the main differentiation, into a more and more solution-driven approach to compete against LCC.

LCC is arguably most problematic for companies whose offers are turning into commodities, a common theme for the currently unsuccessful competitors. As argued by Ryans (2009) and Hagen (2010), it is crucial for such companies to assess how they create customer value and to start bundling services and solutions with the core product. Furthermore, many respondents echo Kumar (2006) in that LCCs are typically mostly interested in selling what they produce in large volumes, making it crucial for the incumbent companies to invest time and resources in more fundamentally understanding customer needs before starting to market an offer. While the currently successful competitors are generally more developed along these lines, there is definitely room for improvement.

First of all, it might not be all that surprising that the investigated companies generally see themselves as marketing a performance-focused core product bundled with services and solutions. However, as discussed by Hagen (2010) and reflected in many of the interviews, product-based differentiation along performance parameters is becoming a less and less viable way of competing with LCCs as they catch up in performance quality. It would arguably be optimal to gradually move towards becoming a total solution provider, as envisaged by Kumar (2006) and also discussed by Ryans (2009) as a way of creating offers that are more or less impervious to price-based competition while simultaneously fostering customer dependence on the solution provider. Furthermore, developing capabilities such as extensive distribution networks as suggested by Hagen (2010) and mentioned by many respondents as being important has the added advantage of gradually raising the bar in terms of customer expectations thus creating barriers to entry.

This thesis would also strongly suggest looking into trying to integrate into the processes of the customer, thereby assuming responsibilities of processes that are part of the overall solution provided for the customer by the company. This further fosters customer dependence and the empirical data suggests that there is considerable room for improvement in such factors, while simultaneously being suggested by numerous authors both in and outside of the LCC context (Ryans, 2009; Hagen, 2010; Anderson et al., 2006; Barney, 1991; Treacy & Wiersema, 1993).

Among the investigated companies, one stand out in particular as representing “best practice” in seeking to turn its offers into solutions in order to make them less susceptible to LCC and price-based competition. The respondent representing this company explained how it seeks to sell its offers in what is maybe best described as a type of leasing program, where its customers pay per use of the core product. This offer is backed by a very extensive service network and consulting services offering application knowledge, with the ultimate goal of the company to more or less manage all parts of the solution on behalf of the customer while seeking to maximize customer dependence of the solution.

While the investigated companies are working to ensure the continued success of their high-end offers via a mix of performance and relational value, the respondents generally confessed to being less successful in markets where their high-end offers are less viable. Respondents often pointed to unacceptable margins in such markets, while also stressing that their offers are typically not competitive based on price. The empirical data thus suggests that these types of markets present a completely different problem for the investigated companies since the price-based competition model of LCCs is much more attractive than in mature markets where high-end offers are more viable. Ryans (2009) and Hagen (2010) both argue that such markets present a highly difficult situation for companies with a high-end profile since they struggle to motivate the relation between value and price to prospective customers. Moreover, Kumar (2006) asserts that the only way to compete in markets where price has become the primary factor is to offer lower prices than competitors.

The core concern, as has been touched on previously, is whether to accept that there is little profitability for the investigated companies in such markets and focus on markets where their more lucrative high-end offers are viable. However, doing so risks negatively impacting the economies of scale of the investigated companies, something that is more often than not a cornerstone in their business models. Losing economies of scale as a result of difficulty in finding profitability outside high-end segments is identified as being very alarming when competing with LCC by Ryans (2009) and Hagen (2010), a view which is supported by Zou et al. (2003) and Burda and Dluhosch (2002).

Considering how LCCs have a tendency of gradually moving up into higher segments and other markets once a low-end market presence is established (Nakai & Tanaka, 2010), this thesis strongly recommends a confrontational price value strategy to actively meet LCC in low-end segments, especially in developing markets. Doing so will hopefully prevent a gradual LCC advance upwards in segments, while simultaneously securing economies of scale by being able to market competitive offers outside of the high-end segments. Moreover, since the studied companies thus far seem to have had moderate success with low-end offers, it is necessary to seek advice in the available literature in order to propose improvements.

There is a clear consensus among reviewed authors that low-end offers on the part of incumbents should ideally be under a separate brand and as independent as possible, something that few of the investigated companies seem to practice (Ryans, 2009; Kumar; 2006; Hagen, 2010). The reasons for doing so are many: First of all, developing a portfolio of brands serving different segments prevents brand dilution, something identified as a concern by many respondents owing to the somewhat unexpected importance of the brand in B2B markets. Moreover, a reasonably independent low-end brand can devise a strategy to become successful in its own right, hopefully not being as encumbered by the traditional cost structure of the parent company.

Furthermore, while most respondents indicate that the current strategy of their companies seeks to keep their low-end offers integrated into their overall business, surprisingly few seem to think that there are significant synergies between their high-end and low-end offers. In line with Kumar (2006), this thesis recommends trying to focus on identifying and exploiting any and all synergies to take advantage of organizational capabilities that might not be available to LCCs. This should ideally be combined with more independent low-end brand strategies to simultaneously shore up perceived organizational weaknesses when competing with LCC.

The potential strength of established incumbents to compete in the low-end in developing markets should not be underestimated. Shankar et al. (1998) discuss how innovative late entrants with capabilities whose advantages are not immediately obvious can often out-compete pioneers. Further, various authors highlight that there is a potential to pursue so-called “blue oceans” in markets where new segments are gradually emerging, thus indicating that the companies investigated in this thesis can benefit from establishing a low-end market presence and introducing high-end offers over time (Carpenter & Nakamoto. 1989; Kim & Mauborgne, 2004).

In setting up independent low-end brands, primarily two of the investigated companies stand out as examples of best practice. Perhaps unsurprisingly, the two are arguably among the most global of the investigated companies and the respondents describe elaborate branding strategies aimed for different markets, trying to leverage their strengths as much as possible to create independent low-end offers. In line with Ryans (2009), these respondents also discuss the importance of establishing footprint in developing markets in the form of factories and operations, both to be able to capture comparative advantages but also to gain understanding of local conditions. Establishing footprint and treating local markets individually is very much recommended by e.g. Johanson and Vahlne (1977) and Porter (1988, 2000) in order to capture both local advantages and those of globalization.

Pitfalls that have been identified during the study mostly revolve around not heeding previously outlined recommendations on how to deal with LCC. As predicted by Kumar (2006) and Ryans (2009), the studied companies are finding it more and more difficult to differentiate their offers only based on performance. This problem is especially poignant for the companies that face customer expectations of gradually falling prices over time, thus providing limited opportunity of expanding high-end segments based around traditional parameters. The obvious pitfall here is to not start to increasingly bundle the core product with solutions to ensure that high-end offers are less affected by LCC. Similarly, there is broad consensus in the reviewed literature that incumbents should avoid across-the-board price reductions of offers to attempt to counter LCC, since they will most likely not be competitive with the offers of LCCs based on price anyhow (Bernard & Koerte, 2007; Bernard et al., 2006; Ryans, 2009; Kumar, 2006; Hagen, 2010). Fortunately, such price reductions seem to be relatively rare among the investigated companies outside of strategic decisions to secure important deals. Regardless, price wars or situations that are akin to price wars should be avoided by the studied companies at all costs since they never play out in the favor of the incumbent according to Kumar (2006) and Hagen (2010).

Furthermore, as is evident from the discussion on competing with LCCs in developing markets, a major pitfall identified in this study is to vacate markets where high-end offers are not viable and profit margins lower. As discussed by Kumar (2006), Bernard and Koerte (2007) and Ryans (2009) the danger lies in losing economies of scale in the long run, while there is simultaneously a risk that LCCs will move from developing markets into mature markets where the investigated companies currently make most of their money through high-end offers (Nakai & Tanaka, 2010). In addition, while the proposed way forward is to try to retain footprint in developing markets and take the fight to the LCCs, many of the respondents indicate that they set up low-end businesses mainly to try to block the advance of low-cost actors. This is explicitly advised against by several authors since it is not genuinely aiming at achieving profitability and may thus be a considerable drag on overall businesses (Ryans, 2009; Kumar, 2006; Hagen, 2010). Therefore, setting up low-end alternatives merely as a ploy to cause problems for LCCs should be avoided and the investigated companies would do well to aggressively set up separate low-end brands that have the freedom to devise strategies for becoming competitive in their own right.

To summarize, one can draw on Kumar (2006) and conclude that there will always be customers demanding price value, performance and relational value so that in theory incumbents and LCC can coexist. However, this thesis argues that the risk of losing economies of scale and gradually being forced to serve a dwindling high-end market is simply too great. The investigated companies should try to keep LCCs out of high-end segments by becoming more and more solution-oriented, while simultaneously setting up separate low-end brands to be able to compete in developing markets.

5.3.2 Operational Level

The recommendations that are put on an operational level mainly concern change management. This is arguably most important for protected companies and non-competitors, who currently do not experience much difficulty with LCC.

Of the issues that do not directly relate to choice of strategy, maybe the most striking one when comparing theory with data is that of awareness and vigilance. Hagen (2010) emphasizes that one of the main problems with LCC is that incumbents are often oblivious to the threat it poses. Specifically, incumbent companies tend to regard and compare LCC with previous experiences and competitors similar to themselves, causing them to overlook what makes LCC different. Even though the majority of respondents profess to be aware of and monitoring the LCC situation, the specifics of the results show that a substantial minority do not consider themselves to have an explicit strategy to compete against LCC. Instead, most describe how they incorporate the issue of LCC into their general competitive strategy, something that is explicitly warned against by Hagen (2010), Ryans (2009) and Kumar (2006) since LCC is fundamentally different from other forms of competition. As asserted by Kumar (2006), do not ignore LCC; they will force you to eventually vacate segments. Moreover, just as Hagen (2010) and Ryans (2009) discuss, the empirical data on LCC springing out of the value chain shows how potential LCCs can be right under the nose of the incumbent company. A high degree of vigilance is recommended.

This thesis recommends investing more resources in assessing and properly understanding the LCC situation, so as to be able to design a viable strategy. Crucially, Kumar (2006) and Ryans (2009) both urges considerable vigilance as LCCs starts to enter peripheral markets to the incumbent company. Allowing LCC to achieve a foothold upon which to build a market presence can be a potentially devastating mistake, which incumbent companies need to do their best to prevent. Furthermore, as discussed by Hagen (2010) and Zou et al. (2003), achieving a foothold in new markets via low-end offers and subsequently progress upwards in segments is a well-known strategy that both LCCs and other types of entrants have often employed traditionally.

The investigated companies should ideally start to spread a sense of urgency within their organizations about the threat of LCC, as suggested by Kotter (2008). Change management should also try to create capabilities within organizations to identify and assess LCC presence in related markets that are currently outside the scope of the incumbent in question, such as described by Nakai and Tanaka (2010). This thesis also recommends for the investigated companies to try to conceptually disentangle LCC from other types of competitors so that the threat is readily identifiable by the entire organization.

Furthermore, there's potentially a lot to be learned from LCC, although this thesis advices against trying to copy or replicate an LCC cost structure in its entirety. Instead, it is advisable to develop methods for benchmarking against LCC in addition to benchmarking against comparable incumbents. This goes hand in hand with increasing the overall understanding of how LCCs operate and quite a few respondents discussed the need for being able to compare their cost structures to those of their low-cost rivals in order to assess the possibility of becoming more competitive in terms of cost.

Finally, it is worth pointing out that becoming more competitive against LCC requires the investigated companies to be made more aware of their strengths and weaknesses in this context. For instance, an incumbent should consider whether it enjoys any sort of idiosyncratic protection from LCC and if such a protection can be expected to last for the foreseeable future. Furthermore, it is likely going to be vital to evaluate the importance of economies of scale for an incumbent as well as starting a discussion on the possibility of accepting lower margins in certain markets. Understanding and mapping the threat of LCC to an incumbent is arguably dependent on that incumbent fully appreciating its own situation first.

6. Conclusion and Discussion

This chapter presents the conclusions reached and details the answers to the research questions, thereby achieving the purpose of the thesis. Further, a concluding discussion about themes that were uncovered during the course of the study is presented, which is followed by a brief section on possible research limitations. Finally, given the diverse and branching nature of the topics investigated in the thesis, a discussion on possible future research is presented.

6.1 Research Questions

Four separate research questions were presented in chapter three, which have subsequently been used to guide the research. The analysis of the empirical findings compared and contrasted with earlier literature allows for answering the research questions.

6.1.1 Research Question 1

The first research question was meant to gauge the relevance of the reviewed literature in the specific context of this study. This was considered a natural starting point of the thesis since there were elements of the proposed study that were sparsely covered in earlier academic writing, notably industrial B2B-focused companies and lack of specific market focus.

The answer is that parts of the reviewed literature are relevant but the empirical study shows that certain aspects are more important than others. For instance, the technology-focused nature of the investigated companies meant that respondents generally identified themselves as high-end and prioritizing performance, while competing with LCCs on price seemed less logical. Furthermore, some of the areas chosen for study are more affected than others by the fact that the reviewed literature largely has a B2C focus while the studied companies primarily engages in B2B transactions. For example, the respondents often emphasized the problem of customers turning into competitors rather than suppliers.

Finally, some aspects that were thought to be of less importance in the investigated context turned out to be more important than was first believed. For instance, branding turned out to be rated as especially relevant when competing with LCC by the respondents, while the reviewed literature described its importance as uncertain.

6.1.2 Research Question 2

The second research question is meant to evaluate the impact of LCC on large multinational industrial companies based in the Nordic region. It presupposes an answer to the first research question since it is important to know what part of the earlier literature that can be tested and applied and how much new theory needs to be generated.

Since there is an apparent lack of earlier academic material covering this specific topic, it is conceivable that the impact of LCC on the investigated companies is quite marginal. However, the literature review and pre-study would seem to indicate that this is unlikely to be the case.

The study shows that the investigated companies can be sorted into different categories based on their exposure to LCC and how they manage the competition. Some companies are affected only to a limited extent, since they have different types of regulatory and political barriers that protect them. Further, the interviews indicate that some companies don't experience much LCC. However, among those that do, there are certain discernable characteristics of those that are generally successful and those that are not. Generally speaking, the companies that are currently fairly successful in competing with LCC represent the majority of those participating in the study.

6.1.3 Research Question 3

The third research question guides the investigation in understanding how the companies participating in this study are presently dealing with the threat of LCC on a strategic level. Through the reviewed academic material, an expectation of the companies being mainly focused on performance and product development emerged. However, the investigation shows that the type of used strategy is very different from company to company, with a significant portion of the respondents indicating that their company does not pursue a dedicated strategy to combat LCC.

More often than not, the best way to describe the strategy of the investigated companies is that it is generally a mix of performance and relational value. The reason for this is that while most of the companies have a traditional focus on performance value as a basis for competition, they simultaneously recognize the merits of relational value and solution-driven approaches in competing with offers based mostly on price as suggested by the literature. One can arguably say that there is a trend towards strategies emphasizing relational value and that the investigated companies mostly try to avoid coming into direct competition with LCC. Further, this strategic focus is arguably successful in competing with LCC in mature markets, while being less so in developing markets. This distinction is important since directly confronting LCC with a price value strategy turned out to be less common and often perceived as less successful by the respondents.

6.1.4 Research Question 4

The fourth and final research question concerns how current strategies to compete with LCC can be improved and what recommendations can be put to the investigated companies. Generally, the recommendations are dependent on the emergent theme of what type of market the investigated company is competing in. In mature markets, where most of the companies are primarily active and their high-end offers viable, strategies combining performance value and relational value are indicated both in the theory and data to be successful in making competition based around low prices less effective. The thesis concludes that the investigated companies are relatively successful with current strategies and mainly proposes to further move in a direction of less dependence on product and more focus on solutions.

However, the investigated companies seem to be in a more difficult position in developing markets, where their high-end offers are less viable. The issue confronting the companies is typically that low-end offers are often required in such markets and the respondents indicate that these offers are less successful than their high-end ones. Given the risk of losing economies of scale associated with vacating markets where profit margins are considered unsatisfactory by the investigated companies, this thesis recommends trying to achieve competitiveness with low-end offers. Moreover, in line with the reviewed literature, low-end offers of an incumbent company should ideally be under a separate brand with the freedom to pursue its own strategies in individual markets. Furthermore, the companies should try to exploit synergies between such a brand and its other lines of businesses more than what presently seems to be the case.

Finally, on a more operational level there seems to be quite some complacency among the investigated companies about the threat of LCC. This thesis recommends starting a process of change management by which the organization becomes more aware of the potential threat of LCC as well as more able to distinguish LCC from other forms of competition.

6.2 Concluding Discussion

Other than the four research questions used to be able to achieve the purpose of the thesis, emergent themes of interest gradually became obvious as the study progressed. Out of those emergent themes, the most important is arguably that of two types of markets where the nature of LCC and the strategies to compete are different. Such a distinction allows for an understanding of how the investigated companies can sometimes be successful in mature markets but less so in developing ones. Crucially, it allows for generalizations across the markets of the investigated companies without addressing specific geographical markers, which was established to be outside the scope of the thesis at an early stage.

Ultimately, the question of the competitive position of the investigated companies versus LCC comes down to the type of market that they're competing in. Thus far, most respondents were clear that the problem of LCC is less pronounced in their mature markets, typically in Europe and North America. In developing markets such as in Asia however, LCC is a bigger problem and the investigated companies are subjected to intense competition. An alternative approach to a study such as this one might therefore have been to select markets before selecting companies to investigate.

6.3 Research Limitations

During the course of the investigation, a number of potential weaknesses inherent in the study were identified. These are briefly discussed below.

A potential weakness that was revealed at an early stage of the study that respondents tend to point out that the quantitative answers become bland due to lack of specific market or geographic focus. This, combined with the relatively small sample, is the probable cause of the lack of clear correlations when analyzing the answers via Minitab. However, the richness of the qualitative material adequately compensated for this problem by allowing the respondents to elaborate on their answers.

Another potential weakness is that the only method of gauging success in competing with LCC used in the thesis is to ask the respondents about their subjective opinions. This problem was identified at an early stage and alternative methods of assessing performance were investigated. However, there are few effective methods available to this thesis for separating the success of a company in competing with LCC from its overall performance. This problem was eventually concluded to be inexorable and consequently individual answers must be assessed with this in mind. Similarly, a company whose respondent claimed success in competing with LCC is not necessarily as successful overall. However, the patterns identified based on an analysis of the aggregated level are likely not impacted significantly by this.

6.4 Further Research

The final section of this thesis discusses issues and questions that emerged during the investigation but were considered to be outside of the scope of the investigation. As of such, it is speculative in nature and primarily aims to suggest topics for future research.

First of all, it is obvious that the diverse nature of the participating companies is a mixed blessing. On the one hand, it allows for numerous different interesting perspectives on LCC to emerge. On the other hand, it makes it impossible to be specific with regard to the markets of the companies since they are very different. It would arguably be interesting to see a market-specific approach in future studies on the same topic. Similarly, the fact that the specific market of China kept recurring during the interviews raises the question if it needs to be addressed specifically. If so, a future study might also want to assess the issue of state capitalism and if the favorable treatment a Chinese company receives in China impacts the question of LCC and comparative advantage, as was suggested by a few respondents.

Quite a few respondents expressed the belief that LCC in mature markets is more problematic in consumer markets since individual consumers are more inclined to prioritize price. There was no room for delving deeper into such a claim but comparisons on the impact of LCC on companies who operate both B2B and B2C businesses would probably be very interesting.

Since it is argued in the beginning of the thesis that LCC as it is understood today is closely related to globalization, it might have been interesting to view the phenomenon in a historical perspective and analyze trends. For instance, when discussing western multinationals facing LCC from low-cost countries, looking at the case of the rise of modern Japan might be interesting for comparison.

The empirical data is exclusively collected from incumbent companies that are facing LCC. Therefore, the claims about LCC made by respondents are generally not possible to verify. Future studies would arguably be advised to incorporate views from LCCs as well to present a more nuanced picture of the situation.

Finally, a few respondents cast the issue of LCC in the light of global logistics and sustainability. Their perception was that the success of LCC often hinges on externalities caused by the global supply chain not being internalized and that it might therefore be incompatible with an increasing interest in sustainability. Some of the reviewed sources linked this to the ongoing discussion of re-engineering and re-localization of manufacturing, which would arguably be interesting to address in a future study.

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Appendix

The Appendix lists supporting information not included in the main text.

Appendix 1: Interview Guide

Company	Business Unit	Interviewee	Position of Interviewee	Answer representation

The questionnaire is divided into 5 parts, investigating company and industry characteristics, strategies for competing with low-cost actors, R&D, pricing and segmentation, and customer relations.

The questions are all posed in English so that all respondents are asked in the same way. Note that since the questions are preset, a respondent might discuss a topic in an open question and be asked about that specific topic a few questions later. If this happens, answer all questions as if though the topics had not been covered before.

A brief note on low-cost competition and low-cost actors: In this thesis, the terms are used interchangeably and both refer to companies that in one way or the other manage to compete based on significantly lower costs. This does not necessarily mean that they originate from low-cost countries, although that may often be the case. The thesis is agnostic as to the specific reason why a company manages to compete based on significantly lower costs.

Contextual factors, company and industry characteristics

This section aims at evaluating how contextual factors impact the threat of low-cost competition and how your company is positioned relative to those factors.

Q 1	If your company is competing with low-cost actors, approximately how long would you say that it has been?

Q 2	What is the approximate length of the time-to-market of your new products, from product development to launch, excluding research?

Q 3	In terms of value, approximately what percentage of your company's input materials would you say is bought from low-cost actors?

Q 4	In terms of the value of what they supply, to what extent would you say that low-cost actors that you source from turn into competitors over time?						
Not at all	1	2	3	4	5	6	To a large extent
Comment							

Q 5	In your view, how great are the entry barriers to becoming competitive in your industry?						
No entry barriers	1	2	3	4	5	6	Great entry barriers
Comment							

Q 6	How complex would you say that the technology of your products is compared to other companies in your industry?						
Very simple	1	2	3	4	5	6	Very complex
Comment							

Q 7	In your view, how aware and informed is your company about current and potential low-cost competitor threats?						
No awareness	1	2	3	4	5	6	Very aware and informed
Comment							

Q 8	In your view, how intense is the low-cost competitor entry into the markets of your company?						
No low-cost entrants	1	2	3	4	5	6	Very intense
Comment							

Q 9	In your view, what is the quality level of the products of your company's low-cost competitors?						
Significantly lower than ours	1	2	3	4	5	6	Comparable to our own
Comment							

Strategies for competing with low-cost actors

This section aims at evaluating what strategies your company uses to compete against low-cost actors.

Q 10	How would you say that your company sets itself apart from its low-cost competitors?

Q 11	Does your company have an explicit strategy to compete with low-cost actors?	
Yes	No	Comment

Q 12	Please indicate which of the below that you think best describe the strategy of your company, explicit or otherwise, to compete against low-cost actors. You may tick more than one alternative.
	Superior performance that low-cost competitors are unable to match.
	Best price in budget segments
	Solutions rather than products, making it difficult for low-cost actors to compete on price
	None of the above accurately reflects our strategy
Comment	

Q 13	How successful do you perceive your company to be in competing with low-cost actors?						
Unsuccessful	1	2	3	4	5	6	Very successful
Comment							

R&D, product development and performance

This section aims at evaluating the importance of R&D, product development and performance in competing with low-cost actors.

Q 14	In you view, how do R&D and product development enable your company to compete with low-cost actors? Please elaborate and provide an example.

Q 15	To what extent would you say that your company's level of technology and product performance protects it from low-cost competition?						
Not at all	1	2	3	4	5	6	To a large extent
Comment							

Q 16	In your premium segments, to what extent would you say that there is a demand for increased performance over time assuming that prices rise accordingly?						
Not at all	1	2	3	4	5	6	To a large extent
Comment							

Q 17	In your view, how important is your company's patent portfolio in handling low-cost competition?						
Unimportant	1	2	3	4	5	6	Very important
Comment							

Q 18	How successful do you perceive your company's premium products to be?						
Unsuccessful	1	2	3	4	5	6	Very successful
Comment							

Pricing and segmentation

This section aims at evaluating what roles your company's pricing and segmentation play in the competition against low-cost actors.

Q 19	In you view, what roles do pricing and segmentation play in your company competing with low-cost actors? Please elaborate and provide an example.

Q 20	Does your company often offer products at reduced prices to compete with cheaper products? If yes, at what margin are they sold?		
No	Below break-even	At break-even	Above break-even
Comment			

Q 21	Does your company compete with low-cost actors in budget segments? If yes, are those products sold under the company brand or a separate brand?	
No	Company brand	Separate brand
Comment		

Q 22	If, in question 21, you answered Separate brand, how free would you say that brand is to decide its own strategy?						
Not free	1	2	3	4	5	6	Completely free
Comment							

Q 23	If, in question 21, you answered Separate brand, to what extent would you say that there are synergies between your premium and budget brands?						
No synergy	1	2	3	4	5	6	Significant synergies
Comment							

Q 24	If, in question 21, you answered Separate brand or Company brand, how successful would you say that your company's budget segment products are?						
Unsuccessful	1	2	3	4	5	6	Very successful
Comment							

Customer relations

This section aims at evaluating the importance of your company's customer relations strategy in competing with low-cost actors.

Q 25	In you view, what role does customer relations play in your company competing with low-cost actors? Please elaborate and provide an example.

Q 26	In your view, does your company mainly sell products or provide complete solutions?						
Mainly sells products	1	2	3	4	5	6	Mainly provides solutions
Comment							

Q 27	To what extent would you say that your company manages the solutions that you offer to your customers for them?						
Not at all	1	2	3	4	5	6	Completely
Comment							

Q 28	In your view, how important is the brand of your company when competing with low-cost actors?						
Unimportant	1	2	3	4	5	6	Very important
Comment							

Summary

Q 29	Is there anything you would like to add that has not been addressed enough?