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Competitive positioning and value chain configuration in international markets for traditional food specialties

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Summary

In this paper we discuss the relations between the increased quality standards of traditional food products and the structuring and management of the value chain. We address the importance of different quality dimensions, and how they are combined in superior strategic configurations to achieve competitive advantage in particular in up market segments. We elaborate on the competitive positioning tools and the resource configuration of the value chain necessary for creating sustainable competitive advantage for small and medium-sized enterprises. We present results from 11 in-depth interviews with representatives from the fragmented Norwegian value chain for lamb products. The results show that to achieve customer-oriented differentiation focus effect and at the same time be competitive on price you have to include rigid regimes of coordination and control throughout the value chain. Implications for management of the value chain and contract relations between the actors in the chain are discussed.

KEYWORDS: quality differentiation, value chain, configuration, management, contracts

Introduction

Several industries experience significant changes in market structure and competition. This paper focuses on strive towards new competitive tools through expanded quality standards related to origin and ethical or ecological production. The agro-business sector has traditionally been regarded a fragmented industry characterized by regional dispersion and limited, cross-national activity (Porter, 1986).

Only a few studies have so far centered on the business-strategy patterns of fragmented and regionally dispersed industries. The main focus of strategy research during the 1980s and 1990s has been the strategic action of firms that have expanded into international markets (McDougall et al., 1994) or firms that have been "global born" (Knight & Cavusgil, 1996). In particular, the global strategies of multinational corporations (MNCs) have been reviewed in detail (Dess & Davis, 1984; Hambrick, 1983a; Kim & Lim, 1988; Morrison & Roth, 1992).

Today's up market consumers are increasingly quality conscious in their product choice among the rising range of food products available. Quality aspects like different sensory attributes based on traditional conservation and processing methods, regional food culture and an ethical sound production chain has caught the attention of the postmodern consumers. This opens for new opportunities for countries with a marginal, small scale food production, focusing on the potential for increased export of agriculture small-scale products based on natural resources and traditions. Quality aspects such as clean nature and plant and animal health are also stressed as comparative advantages. The marketing of the immaterial quality dimensions have consequences not only for the processing and end product. It also means that we have to develop a strategy emphasizing the new quality standards throughout the value chain. The objective of this paper is to show how the increased quality standards of traditional food products and the competitive strategy positioning needed have consequences for the structuring and management of the whole value chain.

In this paper we address the importance of each of the different quality dimensions, and how they are combined in superior strategic configurations to achieve competitive advantage in particular in up market segments. An important challenge is that quality dimensions included in such advanced product concepts demand adaptation of production

throughout the value chain. We consider both the competitive positioning tools and the resource configuration of the value chain necessary for creating sustainable competitive advantage for small and medium-sized enterprises within these segments. The central research questions are: 1) How do up-market consumers react on combined higher-order quality dimensions related to environment, production methods and traditional recipes? 2) How should different higher-order quality dimensions be integrated into a combined competitive positioning concept? 3) What consequences have the combined positioning strategy as to the configuration and the management of the whole value chain?

In section two we present relevant theory for the discussion of competitive tools and configuration of the value chain. In section three and four we present the methodology and the results of case studies within two value chains. In the final section, we conclude and discuss both scientific and practical implications.

Theory

To understand how a small- and medium-sized firm should adapt to new market challenges we need a broad understanding of strategic tools and how they are generated within the organization. Strategy researchers have made significant efforts in categorizing strategic adaptation in different industrial settings. In particular, the development of the strategy-structure-performance perspective has provided an understanding of how firms adjust to environmental challenges (Ansoff, 1971; Hofer & Schendel, 1978; Porter, 1980; Ginsberg & Venkatraman, 1985). This study adds to this tradition by analyzing the strategic features of firms competing in more niche oriented markets with strongly differentiated products.

To improve both the rigor and relevance of the strategy construct, several authors contend that business strategy should be conceptualized according to sub strategies at the level of the business unit. This approach would facilitate the study of strategy from a managerial perspective, and would reduce the risk of creating models that are too simplistic (Chrisman et al, 1988; Hofer & Schendel, 1978; Morrison, 1990). The sub strategy approach may also provide a general manager with a more useful set of tools with which to make the strategic decisions.

Earlier studies of integrated and global industries have been focused on competitive positioning tools in particular. A competitive positioning sub strategy is the implementation of tools that relate the firm to customers in the market and restrict competition through the creation of entry barriers (Porter, 1980; 1985). It includes finding the geographic setting of the firm's products, deciding whether to compete on price or customer differentiation, the degree of active marketing efforts. Not the least, we have to include degree of focus on niche orientation, where specialized markets or geographic areas are served (Carter et al., 1994).

Limiting the study to positioning could prove insufficient. We have to look into the organizational and managerial configuration of the firm to see if the firm manages to enter more complex differentiation strategies (Chandler & Hanks, 1994; Brush & Chaganti, 1998).

Hofer & Schendel (1978) stated that a business strategy should include at least three interrelated substrategies; competitive positioning, organizational and political. Reve (1990) emphasized the need for an integrated model, which included both competitive positioning and strategies for the organization of the unique resources within a firm. A resource-focused organizational substrategy include the structural configuration of the value-chain, functional parts within the firm, as well as parts of the value chain controlled through cooperative relations with other organizations that facilitate the development of mutual resources across organizational borders to create scale and scope advantages.

Strategic positioning and organization

The choice of market strategy is a complex task within small firms. While larger firms may have the resources available for a fine-grained positioning adapted to power play in the market, the smaller firms often have to be more creative in applying existing resources through organizational and governance oriented tools (Borch et al., 1999). We should therefore look at both the competitive tools and the resource configuration of these firms to decide upon their opportunities for creating sustainable competitive advantage (Bamberger, 1999; Rangone, 1999). When it comes to competitive strategy, Porters's (1980, 1985) theory of generic competitive strategy has been among the most influential for the last two

decades. According to this theory firms have three specific choices; differentiation, cost leadership and focus. For very small firms in the food industry a focus strategy, and especially entering niche markets with a differentiation focus strategy, has been recommended (Borch & Forsman, 2003).

According to Porter's (1980, 1985) theory, firms failing to choose between the alternative strategies of cost leadership and differentiation risk being ousted on all fronts. However, there has been a critique of the normative postulate inherent in the dominant Porter-inspired paradigm. This critique is related to the opportunities for combined differentiation and cost leadership strategies (Murray, 1988) and the possible success of following a non-distinct flexibility strategy (Cambell-Hunt, 2000).

In competitive markets with increasing internal rivalry, the producer needs to develop additional tools in order to secure future competitive advantages. The increased rivalry from other firms, import products and substitutes, and the increased negotiation power of the wholesaler-retailer chains imply a high degree of focus on the cost dimension *together* with the efforts towards differentiation (Borch, 1999; Borch & Brastad, 2003).

New organizational resources may increase flexibility in choosing among strategic tools. One may expect extra opportunities for enterprises that are flexible on different tools to meet new opportunities and changing trends (Borch et al., 1999; Cambell-Hunt, 2000; Rangone, 1999). In particular, when few financial resources are available for buying new resources cooperative strategies are at hand. Through including cooperative relations, the small firm may develop bundles of internal and external resources that may increase the range of competitive tools for the small firms including mixed cost and differentiation strategies and non-distinctive flexibility strategies The strategic advantages of closer links with other firms in the value chain compared to the traditional arm-length market exchange have been highly emphasised within small business research (Borch, 1999).

Day & Wensley (1988) and Spender (1993) criticized strategy research for not sufficiently addressing the conversion of organizational skills and resources into positional advantages in the market. Including the resource-based dimensions of competence, routines and working culture may accentuate the intra-organizational premises for achievement and the maintenance of competitive advantage (Barney, 1991; Black & Boal, 1994; Leonard-Barton, 1992). An integrated organization and resource base substrategy is defined as the immaterial quality of an organization in terms of competence, routines, personal commitments and working culture inside the organization and in the interplay with partners outside the firm (Cooper, 1993; Brush & Chaganti, 1998)

The configuration of the value chain

Implementing a more customer oriented adaptation of products with a strongly differentiated strategy implies higher dependency of a quality approach throughout the value chain. As the firm may not easily achieve internal control over the whole value chain, there is a need to have inter-organizational coordination mechanisms. Also, within larger firms the value chain is split into several companies working more or less independently within the corporation. Thus, superior communication, coordination and control mechanisms are needed both inside the single production unit and between all the companies taking part in the value chain of the quality-differentiated products in question.

In this study we emphasize the need for quality improvements throughout the value chain and how this is achieved through new organizational mechanisms.

In the study of Stabell and Fjellstad (1998) three alternative value configurations are proposed as a foundation for a theory of value configuring for competitive advantage. Theirs work is building upon Porter's (1985) original value chain framework and Thompson's (1967) typology of long-linked, intensive and mediating technologies. Stabell and Fjellstad (1998) propose that the *value chain* models the activities of a long-linked technology, further that the *value shop* models firms where value is created by mobilizing resources and activities with the purpose of resolving a particular problem related to the consumer, and finally the *value network* models firms that create value by facilitating a network relationship between their customers using a mediating technology. By introducing these three configurations it's also stated that there'll be a need for transforming the value chain analysis into a value configuration analysis (Stabell & Fjellstad, 1998).

All three configurations focus upon critical value activities, the distinction between primary and support activities, and the analysis of cost and value drivers. Stabell & Fjellstad, 1998 suggest that the value chain requires a machine bureaucracy organization of primary activities, then that the value shop is organized according to either the professional bureaucracy of the operational adhocracy, and that the value network often is organized according to an administrative adhocracy, particularly when the technology of the infrastructure is complex and requires highly specialized development activities.

Mason et al. (2005) focus upon supply chain configurations shifting from traditional vertical integration to virtual integration, known as networks, shamrocks, value added partnerships, alliances and virtual integration. All of these, configurations becoming more and more common and adopted by large, successful and international firms like Dell, Benetton and Nike.

(Mason et al. 2005 suggest three main implications for managers. First, there's the appropriate selection of integration typologies in order to facilitate a demand driven supply chain configuration. Second, there's the recognition of the need for careful identification of supply chain partners in order to facilitate supply chain influence. Finally, there's the way firms define and manage supply chain influence with partnering firms. This study support the theory that the level of market orientation achieved will be significant affected by the relationship focus, channel power, channel leadership, communication, and co-ordination technology present in quasi-integrated forms.

The use of the value network configuration as an alternative to the value chain is discussed in a study by Fjeldstad and Ketels (2006). They state that introducing multiple value configurations e.g. value chain and value network reflects the view that firms differ systematically in the way that activities relate to each other according to their underlying value creation (Fjeldstad & Ketels, 2006:110). Further, they state that the choice of this value creation has implications for the development of the business strategy. Value creation occurs differently within the value chain and the value network. In a value chain, the value creation derives from products implied that the products match customers needs. On the other hand, value networks create value by enabling exchanges. Competitive advantage occurs when the network matches the needs of its members (Fjeldstand & Ketels, 2006). A value chain product or service properties are at the centre, whilst in a value network the customer is set in the centre.

These findings have three important implications. First, the activity model, either value chain or value network, will not be effective in use if it's not in accordance with the representations of the firm nor been seen as valid by its executives. Second, different value configuration are suggested to become the starting point for gaining a more systematic understanding of which of these choices are critical, and how they interact for different classes of companies. Finally, it's said that in certain situations the value network configuration may prove to be a more appropriate tool than the value chain configuration.

"The value chain sell something that they produce, while the value network sell something that they organize but don't technically own " (Fjeldstad and Ketels, 2006:126).

The concept of netchains is introduced among others by Lazzarini et al. (2001) in order to fill the voids of the supply chain analysis literature and the network analysis literature. A netchain is defined as a set of networks comprised of horizontal ties between firms within a particular industry of group, such that these networks are sequentially arranged based on the vertical ties between firms in different layers (Lazzarini et al. 2001). An important aspect of netchain is the fact that this concept explicitly differentiate between horizontal and vertical ties, to point our how agents are related to each other, either within the same layer or between the different layers. The purpose of the netchain is to integrate both the supply chain analysis and the network analysis. This is to be done through recognizing that complex inter-organizational settings includes different kinds of interdependencies associated with sources of values like strategic variables yielding economic rents, and associated with coordination mechanisms involved in an inter-organizational collaboration (Lazzarini et al. 2001).

The netchain perspective suggests that the assessment of interdependencies in a given inter-organizational setting should be the first analytical step in a rent creation system. Further they encourage managers to develop social ties where activities are mutually adjusted instead of planned, at the same time as they're pursuing flexibility to position their firms in valuable networks to benefit from new information and knowledge diversity. Moreover, the

netchain perspective insists that the design of interdependencies is the first step in the formation of inter-organizational strategies (Lazzarini et al. 2001).
In this study we take as a starting point the basic value chain and look at the changes in value configuration as the complexity of the production increases due to higher quality ambitions. We emphasize that there may be more configurations present simultaneously to manage the demands of both efficient production, continuous improvements of the present products, and for more explorative activities towards new product platforms.

Methodology

We present results from in-depth studies of Norwegian companies exporting lamb products to Italy. Data were collected through 11 interviews with actors throughout the value chain. The interviews were either made by telephone or in person with representatives from each part of the value chain, e.g. farmers, managers of slaughtering, processing, distribution and sales. The persons interviewed represented the value chains of two different locations in Norway, named value chain A and value chain B in the following.
An interview guide was constructed in advance building upon relevant theory and all the respondents were asked the same questions and given keywords according to the specific part of the value chain they represented. First, the questions concerned their individual idea of a special quality of lamb meat products. Second they were asked about basic adaptations in their part of the value chain when dealing with an extra ordinary quality. Then questions concerning adaptations inside their organization were given followed by questions on adaptations in other parts of the value chain. Finally the respondents were asked to answer questions regarding the consequences the adaptations had for their performance in addition to cost implications.
The interviews were conducted over a three month period of time, all of them audio recorded with a length lasting from half and hour until two hours. The persons interviewed were recruited through the reference group of an interdisciplinary research project covering the whole value chain of lamb meat products.

Data and Analysis

The table below provides the results from the two value chains studied.

Table 1: Summary of results from value chain A and value chain B

	Value chain A					**Value chain B**				
	Quality dimensions	*Adaptations basic production*	*Intra organizational adaptations*	*Inter organizational adaptations*	*Performance Cost implications*	*Quality dimensions*	*Adaptations basic production*	*Intra Organizational Adaptations*	*Inter Organizational adaptations*	*Performance Cost implications*
Farming phase	Willingness to pay Meat body Fat content Directly from outfield "Organic" Pure product	Follows ordinary production Keep lambs off public roads Grazing geography in accordance with trademark	One day of extra work Hired extra personals Register lambs as specialities and label them to be sent to special processor	Deliver to special processor Register that lambs are to be separated from others at the slaughters Extra labelling Extra documentation	Must follow specific standards Increased costs related to traceability Special agreement with processor Need of increased competence	Mountainous taste Wild game flavour Willingness to pay	Sorting the lambs Weighting Extra infield pasture	Hire extra personals	Sorting the lambs More work in processing part	Increased costs Crop reduction Special Agreements More documentation
Slaughtering	Origin: artic environment Grazing area Appearance of the lambs Meat body Fat content Physical quality	Follows ordinary routines Classification Labelling Documentation Region of origin specifications Guidelines as to cutting Time of slaughtering during the day Extra sorting Extra labelling	Extra alertness and awareness among staff of the quality Extra control routines Updating and management of cutting depart. Enough resources Extra skilled workers More work separating and keeping special produce from	Extra work for shops and chains to promote these products Interested and enthusiastic producers *Farmer:* cooperation Documentation *Processor:* Takes the whole animal.	More demanding specifications No increased costs More work Increased wages Lack of raw material to own products Extra cost of buying more raw material	Slaughtering quality Meat quality Eating quality; meat body, fat content, tenderness	Follows routines as for ordinary production Keep the stream of animals at a steady motion	Extra planning as to transport Extra sorting and handling into a small stream of goods Extra measuring of pH, temperature Competence Create an attitude of understanding for small streams of goods	Producer's side, gain satisfying animal growth to gain tender meat	Marginal increase in cost because of small streams of goods

			ordinary produce							
Processing	Feed Mountain grazing History Grazing conditions Handcraft Raw material Fat content Tradition	Full control of animals Process animals one farm at a time Labelling Communicate message of differentiation Make safe food Products made by hand Special spices Special packaging design Name of trademark Traceability	Long term strategies To influence our framework conditions Adapt our systems Trained, skilled personals Handling of small streams of goods Employed product and marketing coordinator Started a new business out of an old one	*Farmer:* Lambs directly from outfield *Slaughters:* get animals slaughtered within limited timeframe – extra costs Coordination Transportation Reporting Buy services from the farmer, slaughters, sale and marketing Special classification from slaughters Cooperation with cutters To train every part of value chain to act in accordance with our standards	Special agreements with the farmers; increased costs Increased production cost Time consuming work More following up Special agreements with sales firm	Access to raw material of good quality	Separate department for specialities Weather conditions – no use of machines New packaging and labelling	Employees have specialities as their special field of competence Small, integrated administration	*Farmer:* Specification of weight and fat content. No infield grazing No illnesses No medicine use *Slaughters:* Fulfil extra demands	Special agreements with suppliers Extra costs of personals Networking with slaughters
Distribution **Promotion (Both value chain A and B)**	Physical quality; meat body, fat content, bone Delivering at the right moment Origin/ Storytelling Health aspect	*Farmer:* Slaughtering outside the season Avoiding freezing *Slaughters:* Avoid stress Anatomic cutting	Special group of products Separate focus area Extra personals: sales managers, product manager, retail chain		Capacity slaughters Distinction in the streams of goods Computer systems					

	Outfield grazing No illnesses No medicine used	Hygiene Sort male/female *Processing:* Durability Temperature *Sale/Distrib.:* One location only Presentation Stable deliverance	negotiator.							
Export (Both value chain A and B)	Origin Health Outfield grazing No illness No medicine use	Positioning in up market segment Choose the best animals Thoroughly cutting Transport Distribution system	Established export department Economy systems Language barriers To be professional in an up market	Special agreements with farmers, slaughters *Farmer:* Pasture Feed Illness *Slaughter:* Measuring pH Classification Selection *Processor:* Packaging	Increased costs Differentiation Selling the worlds most expensive product Everyone has to take responsibility					

The data in table 1 shows that there are several extra quality dimensions included. This has consequences for the handling within the primary production and at the organizational level
It also has performance implications increasing the costs throughout the value chain, and at the same time increasing price in the final distribution part.

Quality dimensions

As shown in table 1 above, different quality dimensions both material (physical) and immaterial are listed by the respondent according to where in the value chain they are positioning. Also, there is some degree of overlap between the different phases of the value chain.
In every phase of the two value chains, there are a focus upon the physical quality aspect of the product, e.g. meat body, fat content, tenderness and so forth. The terminology differs, however, in the different parts of the value chain referring to it as either eating quality, meat quality or physical quality. This creates communication challenges throughout the value chain. Then there's the aspect of immaterial quality dimensions that varies in focus in the different parts. Aspects like origin, history or storytelling, and tradition are to be considered as central findings appearing in our data material in different forms. However, these quality dimensions may dominate in the primary (farm) part of the value chain and downstream towards the marketing of the end product.
In the farming-, slaughtering- and processing we found in value chain A much emphasis on the grazing conditions and weather of not the animals come directly from outfield to the slaughters. This is seen as a competitive advantage within the above mentioned phases of the value chain. The manager of one of the processing companies explained this as:

You become what you eat. If the lambs eat garbage before they are slaughtered it reflects on the quality. If they eat herbs etc. that grows in the mountain areas, then it shows in the meat.

When looking into distribution, sale and export, the health aspect becomes important, in relations with demands of absence of illness or medicine use. These parts of the value chain also mention origin and history as important quality dimensions. One representative of the slaughtering houses put this in the following way:
The origin factor from the environment we are in, the arctic environment. And the unique part of the country we live in. Then to use this as an advantage in building a trademark. Grazing areas here should also be seen as an advantage.

Farmers in both of the value chains believe that willingness to pay for theirs products are linked to the immaterial quality dimensions. In addition, they're concerned with the flavour of the meat being in accordance with the wilderness and a pure organic product. The slaughtering houses are, not unexpectedly concerned with the physical quality of the meat in a more material way than the others. The processors in both of the value chains mention raw material as an important aspect. In one way the raw material is important for the processing process because of it being done like handicraft work, and in another way the access of the raw material is seen as a quality aspect.

Looking into the distribution and sales, the representatives are very concerned with the ability to deliver the products at the right moment according to the market. This is a concern nobody else was taking into account.
To sum up, there are a combination of material- and immaterial quality dimensions are preferred and practised within the whole value chain. Further, this aspect of immaterial quality dimensions can occur in different ways according to which part of the value chain that is studied. As to differences between value chain A and B, there is more focus towards immaterial dimensions in value chain A compared to B. This may be linked to the fact that these two value chains represent two distinct parts of the country, the southernmost value chain having less distinct immaterial benefits.

Adaptation in primary value chain

In every part of the value chain there seems to be a common agreement concerning labelling as a central part of the adaptations in the primary value chain. This is accounted for in both value chain A and B. There's also interesting to see that several of the respondents initially claims not to adapt in a special manner, but states that they're following ordinary production routines and regimes. This is mostly true for those representing the slaughters as shown below with quotes from two different managers:

"Most of the time we run the same arrangements, at least in the season." (Manager value chain B)

"As a starting point, there are no significant adaptations that we need to do." (Manager value chain A)

When investigating this further, there is no doubt that they actually do make adaptations. Another finding that represents several of the respondents is the fact that they sort out the production, one way or another. For instance, in the slaughtering part of the value chain, the animals are slaughtered at a specific time during the day, sometimes also at separate weekdays than what's the reality of ordinary production. Then for the processors part, a separate department is handling these special products. The same occurs for the distribution and sales part of the value chain, where the production of specialities is placed at one regional division only.

In value chain A there is a strong emphasis on looking after the aspect of origin, through adaptations for the farmer to let the animals graze in a certain geographically area. Then for the slaughtering houses there are adaptations as to extra classification, labelling, documentation. In both value chains the processors make adaptations to process theirs products the old fashion way. In addition, the processors mention adaptations as to packaging and labelling, with special emphasis on the element of design. The representatives of both value chains focus upon anatomic or correctly done cutting of the slaughtered animals.

To sum up, every part of the value chain has made adaptations, even if they might claim not to, initially. Most of the adaptations in the basic value chain have to do with sorting the animals in the farming- and slaughtering face, followed by extra labelling and a more thoroughly made packaging in the part of sales and distribution. One other thing to take notice of is the fact that some activities in some parts of the value chain A and B are put at special locations.

Adaptations in the administrative support level

Overall, the results show that in almost every part of the value chain there has to be done adaptations regarding labour, personals, staff etc. In the farming face there's a need for hiring extra personal, but in the slaughtering face there's a need of more skilled and trained personals, with special focus on this type of production. This can be described with the following statement from the processing part of the value chain:

(…) this was done by informing and talking to those who do the practical work and for them to become aware of their work and how it affects the raw material in the next part of the chain. In this kind of production line, the product is never better than our weakest link!

Competence among the workers is important independently of which part of the value chain the workers are part of. In addition, adaptations like extra control routines, extra communications with updating and additional management capacity for coordination are also mentioned as important to consider.

In both value chains A and B, in the farming face, there are focus upon the need of extra labour. In the slaughtering- and processing face there are focus upon the handling and understanding of dealing with small streams of goods. One of the managers of the slaughters put it the following way:

The biggest need for adaptation is within competence. To create understanding that there's a need for the small streams of goods. During season, they're regarded upon as dirt in the machinery. It creates irritation and then you increase understanding."

Performance implications

All the adaptations mentioned above, have performance implications for the different parts of the value chains. Most of these implications have to do with increased costs. This is the case of every part of the value chain except from the slaughtering part, which claims to have only marginal increased costs when dealing with production which needs special adaptations. The main reason why there is an increased cost combined with production of speciality products, has to do with the handling of small streams of goods. The following statement from the farmer of the value chain A explains why there are additional costs related to this kind of production:
I must follow specific standards. Increased costs are related to traceability. Special agreement with processor is needed. There is a need of increased competence.

The next statement shows how the increased costs are related to another farmers production in value chain B:
There is a crop reduction, and a need for special contracts. You also need more documentation.
In the slaughtering part of the value chain they face more demanding specifications which leads to more work. Despite this they don't claim to have increased costs, but that a bigger problem for them handling these special products..
For the processors part, there is the aspect of time. A handicraft production like they do is more time consuming work. Further, both in value chain A and B they focus upon the need for more work following up on the other parts of the value chain. To be able to do this, there has been made special agreements and contracts, and to some extent networking.

Conclusions

In this paper we have shown that the market positioning tools have to intertwine quality dimensions at different levels, with an increasing degree of immateriality towards ethical, cultural and emotional dimensions. At the same time the core product has to satisfy the highest standards. The intertwined quality dimensions including a high degree of immateriality towards ethical, cultural and emotional dimensions increase the technology level, and the strain on efficiency within the value chain
The findings imply that we have to emphasize rigid quality emphasized throughout the value chain and that an increase in the range of competitive tools has significant consequences for the configuration of the value chain. New resources both at operational and administrative level have to be included to manage the increased complexity following expanded quality marketing efforts. Within each phase of production special adaptation measures has to be taken.
The measures that make it possible to direct actions towards more targeted competitive strategies also have administrative and strategy implications. These are related to specific technical and operational adaptations in each part of the value chain, and administrative efforts to coordinate between the different parts. This also included increased uncertainty and needs for reciprocal communication to solve new problems that emerges, and feedback loops from the following stages in the production process as to how the previous steps have performed.
Also, there will be a need for close follow up as to the choice of customers and competitive strategy. Quality orientation, input quality focus and close customer relations are positively related especially to perceived customer satisfaction. These results imply that tools improving the firms' downstream relations towards the end user are critical in small firms within a mature industry setting. Consequently, the firms have to become more customer-oriented and put more effort on relationship marketing and reaching the customer through different and innovative marketing channels.
A very important strategic decision is the acceptance of increased costs, especially in the development process. Earlier studies (Borch & Forsman, 2004) have shown indications of negative relations between product development capability and perceived financial performance. The added quality dimensions will increase product costs strongly especially in the earlier phase of strategic reorientation. Small firms in particular will not have much slack to costly R&D and new product development processes; hence the products introduced have to be in line with customer needs from

the very beginning. This implies strong customer relations form the beginning of the product development process to reduce failure rate.

From an organizational perspective there may be a need for changes in the whole organization at its links to cooperation firms. The advanced layers of quality also have consequences as to the configuration of the value chain. There has to be frequent changes and improvements in both primary production procedures, the environment were production take place, value added processing and marketing. The processing part of the value chain plays a special role in coordinating both upstream and downstream. The value chain may take the form of a value shop in the fulfillment of combined differentiation focus strategies. The value chain may take the form of value network in the start up and product development phase. The three types of value configurations may be active at the same time. To conclude, the combined high quality differentiation demands high organizational flexibility. Different value chain configurations may be working in parallel. There will be increased complexity towards both value shops and value networks has to be built into the organization. There will be a need for new organizational resources and dynamic strategic capabilities. Also, one has to be open for periodic reduction in efficiency in the basic value chain operation

The results reveal that increased customer satisfaction through quality differentiation has to be a task for the whole organization. What is of utmost importance is that the configuration of the firm gives increased efforts and strains on the whole organization. There may be a need for new type of coordinative competence at both primary level and at middle management to deal with the increased communication and control efforts between the different parts of the value chain. Also the top management has to be more dynamic in their strategic decision-making process with frequent considerations of the match between customer satisfaction, competitive tools and organizational configuration. Each level of differentiation has to be followed up by analysis of the costs of adaptation versus the opportunities for increased income within the new niches chosen.

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