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Developments in Distribution Channels
- A Case Study of a Timber Product Distribution Channel

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“...so many fragments..., so many beginnings..., ...so many pleasure...”

- Roland Barthes

ABSTRACT

This thesis describes and analyses the trends and developments of actors along distribution channel. In particular, the study focuses on resellers and manufacturer based on the empirical material from one particular case study. The study has three main goals: (1) to investigate the challenges arising from channel actor developments, the effects of these developments on the structure of the retailer supply chain and their implications for manufacturers and suppliers, (2) to identify explanations for manufacturer's vertical integration of distribution and the resulting impacts and, (3) to conduct a preliminary customer value analysis relating to the distribution channel of solid wood products.

The study has taken an exploratory and qualitative research approach with an abductive reasoning process. A case study strategy was adopted, which studied a distribution channel consisting of a Sweden-based timber manufacturer that vertically integrated a distributor in the UK. Semi-structured interviews comprised the primary data collection technique in this study. A two-step data collection process was conducted between May 2009 and April 2010, including 29 interviews with 24 interviewees from eight organizations, representing the manufacturer, distributor and reseller in the distribution channel. Non-participating observations were carried out by attending sales meeting and joining account managers on store visits. All interviews were documented and transcribed and the information was collated into case units, along with any supporting secondary data, such as company magazines, web resources, annual reports, sales reports, meeting presentations, etc.

This thesis has produced several findings. Reseller developments have promoted the formation of reseller demands, such as integrated solutions with respects to logistics, marketing, merchandising, innovation, etc. Retailer developments have driven the change of a retailer supply chain structure, and have opened up a number of new questions to be posed on manufacturer and its positioning in the supply chain. The most important factors driving the manufacturer's vertical integration of distribution are customer demands, the manufacturer's repositioning strategy with regard to its business focus and its positioning in the supply chain. The vertical integration of distribution transforms the manufacturer into a direct supplier to large timber product resellers. It also offers the supplier a great opportunity to enhance offerings and establish strategic relationship with customers. The output of suppliers has expanded from solely manufacturing goods to also include services and knowledge associated with goods. In practice, it can be complicated for a supplier to create and communicate value. A full understanding of what timber product customers seek in terms of value elements has not yet been achieved. This study has assisted in terms of understanding the differing value that channel actors place on a range of product, physical distribution, service and supplier value elements by developing a value analysis framework. Suppliers can use this framework when designing, customizing and marketing offerings for customers.

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1. INTRODUCTION

Many companies do not sell their products directly to end users. In mass production and consumption industries in particular, many manufacturers rely on distributors, representatives, sales agents, brokers, retailers or some combination of these intermediaries to distribute their products (Hughes and Ahearne, 2010). These intermediaries perform a variety of functions and constitute a marketing channel, that is also referred to a trade channel or distribution channel (Kotler and Keller, 2008). The importance of channel intermediaries has grown in recent years, largely due to increased size, improved level of product knowledge, technical competence, specialisation and various other factors (Kalafatis, 2000). In a typical distribution channel for consumer goods, for example, manufacturers sell to retailers, which sell to consumers in markets. Retailers break bulk, holds inventory, provide shelf space, create promotional displays and advertising, create one-stop-shopping convenience and a pleasant shopping environment, all of which increases demand for the manufacturer's product (Desiraju and Moorthy, 1997). Retailers gain a central position in many industries thanks to their increasing degree of concentration and internalisation, successful launching of retailer brands and by controlling more and more of the value-adding functions with the distribution supply chain (Burt, 2000; Dawson, 2000; Elg, 2003).

1.1 Changing Retailer Characteristics

The conditions for conducting business in the retailing industry are changing rapidly, as they are in many other industries. Driven by a complex mix of technological, social, economic and political factors, mergers, acquisitions and internal restructuring have reshaped the competitive environment of retailing industry (Hingley *et al.*, 2006). Changes have occurred in various areas of the business and, in almost all the cases, they have involved an increase in concentration. For most consumers, retailers represent the final and therefore the most visible point of supply chain. Consequently, development at this level consequently has a direct effect on suppliers and consumer choices (Dobson *et al.*, 2003).

Bigness

Firstly, and perhaps most obviously, is the size of retailers. Large retail chains have emerged, commanding significant share of national markets. The example of Walmart, with 2009–2010 sales of \$405 billion and with 7820 stores worldwide (Walmart, 2010), suggests that some retailers continue to pursue the benefits of large scale. Synergies in distribution and customer acquisition, enhanced infrastructure sharing, and cost savings resulting from better resource deployment are usually cited as the benefits of growing retail scale (Dragun and Howard, 2003). Apart from the traditional economy of scale, large size gives retailers potential power over many aspects of buying relationships (Dawson, 2000). Size, and the resulting buying power, allows large retailers to obtain more favourable terms from suppliers (Chen, 2003), as well as to charge suppliers directly for

access to their shelf spaces, for instance through listing charges or shelf-space fees (Dobson *et al.*, 2003).

Along with the development of bigness, a number of terms have been attached to super retail operations, including “hypermarkets”, “big-box retailers”, “discount retailers”, “mega-retailers” and “category-killers”. There is commonality among these retail formats in terms of their physical size but, more importantly, these retail formats represent different retail operations on several dimensions, including breadth and depth of product assortment, level of service, price policy and customer demographic profile (Arnold and Luthra, 2000).

The success of big retailers has been based on particular management systems and philosophies, for which centralisation has been a key mechanism, both for implementation strategies and for achieving economies associated with size (Dawson and Shaw, 1989). A high degree of management centralisation, covering central buying operations, labour policies, advertising, administration and distribution, has a number of implications related to developing and maintaining a quality image across a retail chain. According to Burt (2000), the centralised operational decisions relating to product assortment, merchandising, store layout, pricing and promotion, allow retailers to develop a clear, consistent image and market position for their customers. Moreover, such a management system makes it possible to build up a coherent set of core values through the retail offer and ensured that these values are delivered consistently (Burt, 2000). Similar to the concept of centralisation, researchers have also used standardisation to describe retailers’ strategies (e.g., Rigby and Vishwanath, 2006). For decades, dominant chains such as Walmart and Best Buy have pursued single-minded strategies of standardisation, unifying their store format, merchandise mixes and operating and marketing processes.

Retail Consolidation

Retailing industry has undergone major structural change, which has primarily been associated with growth in the market share of large retailers. Throughout the 1990s and into the new millennium, there has been a trend towards consolidation in retailing (McGurr, 2002). Retailers have been motivated to deliver their growth, either organically or acquisitions or a combination of thereof. The success of big retailers has led to the demise of many small and medium-size retailers, resulting in a small number of chains increasing their market shares (Chen, 2003). Increased operating scale by retailers has led to increasing domination of a limited number of large-format and multiple-store retailers that attract the majority of consumer spending take shape (Guy, 1998). In Europe, retail market consolidation is not restricted to national borders but involves an increasing number of cross-country mergers. According to Wrigley (2002), the majority of consumer spending in Europe is concentrated into the three largest markets of Germany, France and the UK. The majority of national retail markets in the EU are highly concentrated with five-firm market shares between of 60 and 75 percent (Wrigley, 2002).

Retail consolidation has several implications, both for retailers and manufacturers. It makes life harder for independent or small retailers, because they cannot buy efficiently or invest enough in technology to keep their operations competitive (Kumar, 1996). Small retailers have to change the way in which they conduct business, reduce their number of employees or change their pricing, product mix and store positioning (Cotton and Cachon, 2007). Additionally, as retailers have gradually learned how to integrate operation tightly, especially with respect to purchasing, the pressure on manufacturers has increased (Kumar, 1996). The operations scale of large retailers enables them to drive down the prices and margins that suppliers receive. In addition to these contractual elements, retailers seek further payments after contracts have been signed. Examples of the additional payments consist of contribution to store openings and extensions as well as discounts in the events of mergers and acquisition or anniversaries (Dobson *et al.*, 2003).

Retail Supply

A shift has taken place in the distribution pattern in the retailing industry. Prior to the 1980s, it was a common practice for suppliers to deliver products directly to individual stores. In the mid-1980s, however, retailers gradually moved towards central warehousing: suppliers then delivered to the retailers' distribution centres, which enabled the retailers to supply their stores more efficiently (Blanc *et al.*, 2006). According to Fernie *et al.* (2000), leading UK retailers such as Sainsbury's and Boots began to build distribution centres in the late 1960s and 1970s. By the mid 1980s, many grocery and department store companies had also rolled out the centralised distribution pattern. Electrical, Do-It-Yourself (DIY) and other specialist retailers followed this movement in the late 1980s (Fernie *et al.*, 2000). Retailer's distribution centres receive incoming orders from suppliers and redistribute them to individual stores (Buzzell and Ortmeier, 1995). Distribution centre could function as a "flow through" centre that only distributes orders to stores, or it may distribute some stock and hold some stock for future replenishments (Nahmias and Smith, 1994). Distribution centres play a critical role in reducing logistics costs, increasing operation efficiency and providing a better service to customers (Voss *et al.*, 2005; Yang *et al.*, 2010).

Retailers have prioritised buying decisions (Mulhern, 1997), which has had a dramatic influences on the retailers' overall performance. Historically, the number of suppliers registered at a retailer was large because the retailer tended to use a competitive approach of involving a lot of suppliers to lower prices (Rittenberg and Tregarthen, 1999). However, recent trends have encouraged companies to use fewer suppliers and establish closer relationship with them (Ogden, 2006). Collaborative sourcing or partnership sourcing has been widely discussed in the literature as a dominating method of improving supplier performance (e.g., Macbeth and Ferguson, 1994; McIvor *et al.*, 1997; Parker and Hartley, 1997). According to Sarkar and Mohapatra (2006), a prerequisite for developing a strong supplier-retailer relationship is having a small number of suppliers. Dowlatshahi (2000) reports three rationales for supply base reduction: (1) a smaller supply base reduces supplier development cost, (2) close and workable relationships can only be developed

with a limited number of suppliers and (3) substantial business can be rewarded to only a limited number of suppliers (Dowlatshahi, 2000).

1.2 Challenges for Manufacturers

The challenges posed to manufacturers can be illustrated in various ways, the most notable of which include the position in supply chain, business strategy focus and the output of a manufacturer offer. A major characteristic of a distribution channel is that the retailer is closer to the end consumer than manufacturer. Therefore, the retailer is often better informed about demand conditions than the manufacturer (Desiraju and Moorthy, 1997). The distribution structure makes product distribution possible but often obstructs effective communication between manufacturer and consumer. Consequently, manufacturers may push products through distribution system without a clear view of the exact preferences of their eventual customers (Ciccantelli and Magidson, 1993; Gradde, 2004; Pitta and Franzak, 1997). Apart from inadequate knowledge of final demand, manufacturers have found it is increasingly difficult to develop their marketing strategy if they are isolated from the particular retailer's strategy (Crosten and Kumar, 2005).

Besides, the ways in which manufacturing is perceived and practiced are changing. Manufacturers supplying to a mass marketplace have long had a production focus by placing great emphasis on meeting production quotas, ensuring quality levels, and suitably pricing their products for retail distribution in order to perform competitively (Blois, 2001). However, an increasing number of manufacturers have shifted their focus from internal to external concerns, such as the competition environment, competitor movements, trends and changing customers' needs. The pioneers of market orientation studies (e.g., Kohli and Jaworski, 1990; Narver and Slater, 1990) highlighted the fact that market-oriented firms focus on the customers, the competitors and cross-functional coordination by generating and communicating market intelligence throughout the organization and responding to it effectively. Kohli and Jaworski (1990) also noted that it is critical for businesses to identify the needs and preferences of not only the end-consumers, but also of the distributors of their products. This point indicates that this market orientation involves all the components of the distribution channel, as opposed to a restrictive strategy that involves only the distributors or the end consumers.

Furthermore, the output of manufacturers has been broadened from manufacturing goods along to include services and knowledge associated with goods. As many authors have noted, manufacturers tend to deliver more high-value services and customer-focused solutions (e.g., Davies, 2004; Gebauer *et al.*, 2005; Penttinen and Palmer, 2007). Some authors of business strategy literature (e.g., Slywotzky and Morrison, 1998; Wise and Baumgartner, 1999) argued that many of the world's leading manufacturers have built their success on the movement from manufacturing to services, which represents an increasing proportion of their total revenue. Services are become attractive because they provide revenue streams and higher profit levels and require fewer assets (Wise and

Baumgartner, 1999). Brax (2005) concluded that the changes to manufactures identified in earlier research include (1) the changing nature of the manufacturing company's offering (2) shifts in the manufacturer's value chain position and (3) the nature of the transformation process from a manufacturing company to being a service business (Brax, 2005, p.143).

1.3 Changing Times, Changing Channel

In order to response to retail developments and remain competitive, manufacturers have made several shifts regarding their business strategies and practices. Distribution strategy has, and is likely to continue to enjoy increased attention as a means of achieving a sustainable competitive advantage (Rosenbloom, 2007). Rosenbloom (2007) also argued that the main reason for this development is that it is more difficult for competitors to quickly copy well-formulated and well-managed distribution channels. Developments of distribution channels have exhibited certain characteristics. Firstly, the multiple channel strategy is widely used by companies to deliver their products and services to customers. Examples include the sales force channel, the distributor channel, the sales rep channel, the e-commerce channel (Friedman and Furey, 1999) and the newly emerged m-commerce channel including mobile telephony, SMS and text messaging, and WAP and 3G mobile services (Payne and Frow, 2004). Stone *et al.*, (2002) argued that companies are moving towards multiple channel integration, characterized as a synergistic combination of channel functions (Görsch, 2000). Apart from the diversification of channel types, forward integration into distribution channel, especially the integration of downstream customer interface, draws the attentions of manufacturers and makes it popular in the modern business environment (Osegowitsch and Madhok, 2003).

1.4 Research Project

When starting as a PhD student at the division of Industrial Marketing, I was fortunate to be involved in the research programme of Lean Wood Engineering (LWE), a research platform based on cooperation between three universities and more than 20 industrial companies. The objective of LWE is to integrate R&D between technology and management, within the three following supply chains:

- Industrial timber housing,
- Wood components, products and systems
- Furniture and interior solutions

All of LWE's projects are based on specific industrial needs, which ensure the industrial relevance of the projects. The research project in which I have been involved falls within the scope of business development of wood components and products manufacturing industry. The industrial partner of the project is SCA Timber, a Sweden-based timber products supplier. The company has undergone several transformations since the early 2000s, both at the strategic and operational levels.

In the British market, which is one of the company's key foreign markets, do-it-yourself (DIY) retailers and builders' merchants (BMs) are developing side by side. These sectors represent the last step of marketing channel before a timber product reaches its customer. Although to some extent, they are competing for the same customer group, they have different mindsets regarding running business and timber supply. Traditional suppliers generally find it difficult to keep up with the demands from DIY retailers and BMs, examples of which could include weekly deliveries of small quantities, support in marketing, and new product development etc. Beyond the new demands posed by large buyers, the sawmilling industry itself has been challenged by intensified competition within the industry and increasing substitution of other materials (Roos *et al.*, 2001). In order to cope with these challenges, and also in line with SCA Timber's new strategy of taking the supplier role in the distribution channel, SCA Timber set up a distribution platform in the UK, which enabled them to distribute more products in the UK market. A few years after the strategic move in the UK, the company launched a similar business model their home market: Scandinavia.

The company's new distribution channel, involving vertical integration, has exhibited certain characteristics that fit well with the trends discussed in previous sections. On the buying side, the DIY retail market is a large and growing sector in the UK, reaching a value of £12.7 billion in 2009 (Verdict, 2010). It is the second-largest market in Europe, after Germany and in terms of the market structure, it is highly consolidated. Approximately 62 percent of the market share is registered at four large chain stores: B&Q, Homebase, Wickes and Focus (Mintel, 2009). These retailers also tend to use fewer but larger suppliers. On the selling side, the manufacturer adopts multiple channels to dispose their products. Moreover, firstly in the British market and then in the Scandinavian market, the company has expanded its business scope into distribution.

1.5 Research Purpose and Research Questions

The above discussion raises some vital issues regarding distribution channel and the actors within it. Developments in the manufacturing and retailing stage have effects on channel actors in relation to the position in the supply chain and the business focus. The trends and developments of channel actors have given rise to companies' transition in channel management. Nevertheless, vertical integration- one of the changes that have occurred to manufacturers' distribution strategy- has received less attention in the literature on distribution channel. Instead of taking a close look at every development, this thesis argues that it is more significant to understand the meanings of these developments and their resulting consequences for distribution channel and the actors within it. Accordingly, the overall purpose of this dissertation is *to describe and analyse the developments of different actors along the distribution channel and their resulting consequences from a supplier's perspective.*

As one of the methods through which manufacturers can sell, modern retailers have evolved from being merchants who make profits from differences in their buying and selling prices to businesses that create value by providing a broader range of products and service (Mulhern, 1996). Retailers strengthen their position in distribution channel as a result of certain trends and developments, including retail consolidation, control of distribution centres, their access to scanner data, and successful launch of private brands. More importantly, retail trends and developments have significant implications for manufacturers and consumers. This leads to RQ1, which studies developments among reseller, including retailers and merchants, and the implications for supply chain and supplier.

RQ1. How can resellers' developments be described and analysed?

As Blois (2001) noted, manufacturing firms naturally have production orientation, especially for those manufacturers that supply to the mass marketplace. However, the production orientation, involving efficient operation, low cost production and lower prices, has been criticised because it does not create a great deal of value for the consumers in terms of customer satisfaction, or in the form of additional product benefits (Jones *et al.*, 2008). Apart from the criticism of manufacturers' traditional business strategy focus, value migration has also stimulated the transformation of manufacturers, not only in the business logic but also in the scope of business. Wise and Baumgartner (1999) pointed out that production, the traditional role of manufacturers in supply chain has become less and less attractive because value and profits are moving down to the downstream, at which point channel actors seems to enjoy more profit. As value has been shifting toward customers, distribution has gained in importance (Wise and Baumgartner, 1999). In order to improve competitiveness and profitability, some manufacturers have reshaped their distribution strategies, for instance by integrating downstream business. Therefore, RQ 2 is proposed to address the changes to manufacturers' distribution strategy.

RQ2. How can manufacturers' distribution strategy developments be described and analysed?

Current researches have put a lot of efforts into highlight the importance of value in customer decision-making. The value concept is likely to be applied to distribution channel actors as well, because resellers must be able to assess the value provided by suppliers in order to make more informed decisions concerning new supplier selection and existing supplier retention (Simpson *et al.*, 2001). This argument indicates that value creation leads suppliers to more effective customer satisfaction, which further builds long-term relations with customers. Kohli and Jaworski (1990) showed that many firms find it critical to know the needs and preferences not only of their end consumers but also of the distributors that market their products. As a result, it will be especially valuable to understand value for actors in the distribution channel and how to address customer needs

when designing and marketing offerings to markets. The above discussion gives rise to RQ3:

RQ 3. How can suppliers address customer needs when developing and marketing offerings?

In sum, this study looks at the distribution channel from the supplier's perspective, with the intentions of exploring the developments of channel actors and analysing the consequences of these developments.

1.6 Relevance of the Research

1.6.1 Theoretical Relevance

This research has been motivated by some gaps in existing literature, namely the importance of retailer, rationales and impacts of vertical integration, and value creation in distribution channels. Growing retailer size and scope not only aggregates retailers' buying power but also influences the retailer supply chain structure, which has implications for other actors in the supply chain. Moreover, vertical integration, which this dissertation refers to as "elimination of contractual or market exchanges and the substitution of internal transfers within the boundaries of the firm via internal development or merger" (Mahoney, 1992, p.559), is driven by some factors that have not been discussed extensively in the existing literature. Last but not least, while the importance of customer value has received a great deal of attention, customer value is still in its early stage in terms of research. The theoretical rationales for this study are discussed below.

The Importance of Retailer is Overlooked

The literature on distribution channels has largely neglected the importance of the retailer. Although the existing literature has noted the growing size of retailers and its influences on channel power, this interest has been limited to the power shift between manufacturer and retailer (e.g., Amato and Amato, 2009; Bloom and Perry, 2001; Messinger and Narasimhan, 1995). The importance of understanding the power shift in distribution channels lies in the theoretical and empirical links between channel power and profits and in the potential for lower price for consumers when powerful retailers balance the power of large manufacturers (Amato and Amato, 2009). The theoretical argument suggests that large retail market shares may allow the channel power to shift from manufacturers to retailers. The growing size of retailers indicates a likely shift in channel power in certain markets from manufacturers to large retailers. However, the empirical literature offers mixed evidence that retailers can transform channel power into higher profits (Amato and Amato, 2009). The frequently cited Progressive Grocer survey confirms practitioners' perception of the relative power gains by retailers in the grocery industry (Messinger and Narashimhan, 1995). However, Aliawadi (2001) argued that there is no certainly empirical evidence for an overall shift in market power toward retailers. Apart from the

investigations and debates about power shift, as well as its effects on financial performance, little research has attempted to understand retailer concentration and its influences on their decision making—such as the buying function—with which manufacturers and suppliers are most concerned. Besides, there is no existing study of the relationships between structure features of the retail sector in consumer goods (Nordås, 2008).

Understanding of Vertical Integration Need Some Updates

There is no lack of studies on vertical integration strategy. Several disciplines, including economic, strategic management and law, have given a great deal of attention to understand vertical integration. Some commonly cited explanations of vertical integration consist of technological and operational interrelationships relating to scale and scope (e.g., Chandler, 1977), uncertainty and risk considerations (e.g., Arrow, 1969), information externalities (e.g., Green, 1986) and strategic purpose (e.g., Balakrishnan and Wernfelt, 1986). Transaction costs analysis (TCA) (e.g., Williamson, 1979; Williamson 1985) is particularly strong at explaining vertical integration. According to John and Weitz (1988), the TCA approach embraces a blend of economics theories, organisational theories and contract law. However, it is somewhat surprising that most studies concerning vertical integration were conducted in between the 1960s and the late 1980s. Thirty years later, it is worth asking whether these explanations are still relevant in today's business environment. Some authors have attempted to explore this question. For instance, Osegowitsch and Madhok (2003) argued that recent cases of vertical integration indicate that explanations such as market power, monopoly profit and transaction cost are increasingly considered as insufficient to explain current vertical integration strategies, especially for those companies that move down to the customer interface. Besides, although studies regarding vertical integration have touched upon marketing aspects, such as the integration of selling functions (e.g., Anderson and Schmittlein, 1984), the marketing literature has a scant understanding of vertical integration.

Research into the impacts of vertical integration is not comprehensive. A majority of studies regarding the impacts of vertical integration have focused on market power (e.g., Hastings *et al.*, 2005; Normann, 2009), and market outcomes, such as the price of the final product and product quality (e.g., Arya *et al.*, 2008; Matsubayashi, 2007). The TCA approach is also strong in this problem area. Almost no existing studies have been found regarding the influences of vertical integration on a company's position in the supply chain or offerings to customers.

Value Creation in Distribution Channels is in its Formative Stage

The changing business environment, characterised by progress of globalisation, rapid technology change and the saturation of markets, has challenged many companies to achieve sustainable advantages through collaborative relationships with their channel partners (Cousins and Spekman, 2003; Mentzer *et al.*, 2000). The ability of suppliers to provide superior value to their customers would constitute competitive advantages that are rare, valuable and difficult to imitate (Simpson *et al.*, 2001). However, according to

Simpson *et al.* (2001), almost no research has been conducted to examine how value is created for a channel partner, or the consequences that accrue to channel members. In addition, Lepak *et al.* (2007) argued that there is little consensus about what value is or how it can be achieved. The ability of value creation to affect competitive advantage has led some academics to call for research that focuses on channel partner value creation (Simpson *et al.*, 2001), and customer perceptions of value (Ulaga, 2001).

1.6.2 Practical Relevance

In practice, some problems have been observed in the distribution channel of timber products. First of all, due to the current push-mode production strategy and the heterogeneous nature of resource, production is geared towards getting as many as products from logs as possible, and production output mix is not accurately known. Additionally, the industry is set up to produce commodities based on standard sizes and grades. Production units are usually large in order to take advantage of economies of scale. Consequently, processing of large batches, large inventory and low flexibility are common.

Secondly, the route that timber products take from raw material to end users is long-winded and expensive. From the forest to the hands of end users, timber products pass through several stages of producers and intermediaries. To a large extent, deals are made in a chain in which middlemen obfuscate customer requirements and demands from manufacturers. The lack of knowledge about markets and end users is partly due to the timber manufacturers' production-oriented strategy, multiple-level distribution channels also account for this problem. Middlemen are not so active in sending messages about markets to upstream partners. The middlemen often blind upstream companies to changing market conditions, which hinders the manufacturers' ability to develop fully customer-oriented, market-driven strategies.

Thirdly, along with the DIY retailer consolidations, they have consolidated their supply base in order to increase supply chain efficiency. Retailers largely view timber products as a different or special range to be bought and handled, in comparison with other product ranges. DIY retailers usually have their own distribution centres, which centralises the coming goods and then distribute them out to branches. However, these DIY retailers focus on delivering high-value and low-bulk products. They refuse to distribute low-value and high-bulk products (uglies) from their own distribution centres. Hence, DIY retailers prefer to purchase timber products from suppliers that source from multiple sources and operate distribution centres.

Lastly, building material distributors, including DIY retailers and builders' merchants, have achieved dramatic growth, especially in the DIY sector. Apart from the efforts of some market research companies, such as Mintel, Verdict and Data Monitor, there have been relatively few academic studies of this important retail industry (Williams, 2008).

1.7 Delimitations

This dissertation delimits to the distribution channel to the chain consisting of manufacturer, distributor, resellers and consumers. However, because this study focuses on business-to-business interactions, the consumers of resellers are not emphasised. The overall study takes the supplier perspective; although investigating the reseller is one part of the study, the main purpose is to look at the consequences of resellers' developments for the supplier.

1.8 Contributions of Papers and Their Linkage to Research Questions

The proposed research questions are contributed by individual papers. Table 1.1 displays the research focus of different papers and how they connect to research questions. Paper 1 discusses several trends that have impacted resellers in the British building material retail/trade market and summaries. The findings towards resellers' demands contribute to the solution of RQ1. Moreover, the research findings of Paper 1 provide an explanation for the manufacturer's vertical integration of distribution from the customer or market side. At the same time, the discovered customer demands could serve as important attributes to consider when developing new offerings. Paper 2 explains the supplier's strategic development in distribution and analyses its impact on the supplier, thereby contributing to RQ 2. However, the research findings reveal a great influence on the supplier's offering development, which is the topic of Paper 3. In this sense, Paper 2 is believed to contribute to the first two research questions. Paper 3 studies a new product development case with the purpose of answering RQ 3.

Table 1.1 Papers and Their Connections to Research Questions

Paper	Focus	Method	Linkage to R.Q.
Paper 1	Resellers' developments	Multiple case studies	R.Q.1 R.Q.2 R.Q.3
Paper 2	Downstream integration in distribution	Single case study with embedded units	R.Q.2 R.Q.3
Paper 3	Addressing demands of channel actors	Single-case study	R.Q.3

1.9 Outline of the Thesis

This thesis contains three papers, which build the foundation of the research. The synthesis section is organised as follows:

- **Chapter 1. Introduction:** Introduces readers to the problem area being investigated, provides the rationale for conducting the study and presents the research purpose and research questions.
- **Chapter 2. Framework of Reference:** Start by reviewing theories associated with the research questions in order to help the readers understand the theoretical domain. The chapter then relates theories to the research questions and develops a theoretical framework for analysis.
- **Chapter 3. Timber Products Distribution:** Describes the distribution channels of timber products as well as the channel actors.
- **Chapter 4. Methods:** Presents and rationalises the research methods chosen and discusses the research process.
- **Chapter 5. Data Presentation:** Presents the empirical evidence and results.
- **Chapter 6. Analysis and Findings:** Discusses and analyses the empirical results.
- **Chapter 7. Conclusions and Implications:** Concludes the thesis with a summary of the research contribution, implication, limitations and suggestion for future research.
- **Chapter 8. Summary of Papers:** Summarises the appended papers in terms of purposes and research findings.

2. LITERATURE REVIEW

This chapter has two main purposes. The first is to review the theories associated with the research questions in order to provide readers with an understanding of the theoretical domain. The second purpose is to relate the theories to the research questions and develop a theoretical framework for analysis. The reason for discussing the theories is not to produce a comprehensive survey of their richness but rather to provide a framework within which to facilitate the collection of empirical evidence, conduct the analysis and, finally, achieve solutions to the research questions.

2.1 Supply Chain

2.1.1 Descriptions of Supply Chain

As a result of the growing interest in industrial markets and networks, researchers have found themselves flooded with a number of terms, such as “supply chains”, “demand pipelines”, “value streams” and “support chains”. The supply chain concept originated in logistics literature, and logistics has continued to have a significant impact on the concept (Chen and Paulraj, 2004). Initially, the emphasis of this concept was on assisting product movement and coordinating supplier and buyer (Bechtel and Jayaram, 1997). Logistic managers in high inventory industries, such as the grocery and retail industries, observed a great benefit from the management of materials coming in and going out. Since its introduction in the retail industry, the supply chain concept has spread to many other industries (Bechtel and Jayaram, 1997).

The supply chain is the chain links each element of the manufacturing and supply process, from raw material to end users (New and Payne, 1995; Scott and Westbrook, 1991). A supply chain consists of all parties that are directly or indirectly involved in fulfilling customer demands. Typically, this includes the manufacturer, supplier, transporter, wholesalers, retailers and customers (Chopra and Meindl, 2007). The scope of supply chain can be defined in terms of the number of firms involved in the supply chain and the functions involved (Cooper *et al.*, 1997). Cooper *et al.* (1997) also defined that supply chain structure is the configuration of companies within the supply chain. Dimensions to consider include the length of the supply chain and the number of suppliers and customers at each level.

New and Payne (1995) described that the supply chain as including activities such as planning, product design, fabrication, assembly, transportation, warehousing, distribution, post-delivery and customer support. Cooper *et al.* (1997) used a slightly different perspective to describe the activities involved in a supply chain: business process, which a set of activities designed to fulfil certain objectives. Typically there are seven processes: (1) customer service management, (2) demand management, (3) order fulfilment, (4) manufacturing flow management, (5) procurement, (6) product development and (7) commercialisation (Cooper *et al.*, 1997). The discipline of supply chain management

(SCM) has received increased attention due to the fact that it focuses on creating both top- and bottom-line improvements by streamlining the flow of material and information across the chain, which creates competitive advantages for the supply chain or companies in the supply chain (Christopher, 1992).

2.1.2 Position in Supply Chain

Nicovich and Dibrell (2007) described how value is added within an industry, through a series of sequential operations or stages in a supply chain. A specific company may undertake a few stages but the company will tend to favour one or the other as its primary focus. The position chosen in its industry supply chain will have significant economic and marketing implications (Nicovich and Dibrell, 2007). Harland (1997) added that the industry supply chain can be separated into two halves: upstream and downstream. Upstream operations tend to provide a harder, more tangible package to customers, while intangible service elements are often more important in the downstream (Harland, 1997). Companies with activities centred in either half differ greatly in aspects of success factors. According to Nicovich and Dibrell (2007), companies in the upstream are closer to the raw material end of supply chain, at which value is added through transforming raw materials into standardised commodities or intermediate products, which can be used by downstream members. In the upstream, therefore, competitive advantage is more likely to involve process and cost-oriented mechanisms that facilitate the achievement of low-cost position. On the other hand, companies in downstream are relatively closer to the ultimate consumers. These companies are characterised as being able to produce products that meet the diversified needs of consumers (Nicovich and Dibrell, 2007). Value added in the downstream is the contribution that intermediaries make to complete exchanges with end customers (Kim and Frazier, 1996). Value is added through advertising, positioning products and marketing channels. Instead of competing based on cost position, success at the downstream lies in proprietary features, product development and customisation (Nicovich and Dibrell, 2007). It is also worth noting that value added by downstream intermediaries might not be economic or monetary value; the development of close social and personal relationships may also be regarded as adding value to the products and distribution (Kim and Frazier, 1996).

2.2 Distribution Channel in Focus

Coughlan *et al.* (2006) defined a distribution channel as a set of independent organisations involved in the process of making a product or service available for use or consumption. The ultimate goal of a distribution channel is to bridge the gap between producers and consumers by adding value to products or services (Kim and Frazier, 1996). Typically, manufacturers, intermediaries (wholesaler, retailer, specialized) and end users are perceived as the key actors of a distribution channel (Coughlan *et al.*, 2006). Based on these definitions, it is not easy to determine where the distribution channel actually starts, since there might be multiple producers involved in manufacturing the final products at

different levels. Some of these producers are close to the end at which raw material is supplied, while others are closer to the end that deals with final buyers or users.

There are two essential decisions when designing a channel of distribution: a strategic decision and a tactical decision. The former one decides the number of levels between supplier and consumer, while the latter determines the intensity of the selected structure and policies of channel management (Rangan and Jaikumar, 1991). The complexity of these decisions is increased by widely different social, culture, economic and political patterns (Ensign, 2006). Compared to supply chain management, distribution channel seems to have a view of “inside the chain”. It is more common for distribution channel studies to investigate the seller-buyer dyad, and they often take either the seller’s perspective or the buyer’s perspective (e.g., Amato and Amato, 2009; Deusen *et al.*, 2007). In contrast, supply chain management appears to have a view of “over the chain”, which means that studies of supply chain management tend to take a globe angles and try to encompass multiple interfaces (e.g., Gunasekaran and Ngai, 2005; Love *et al.*, 2004).

2.2.1 Distribution Channel Matters

Strategic management of distribution channels is growing in both popularity and significance in the business world (Levi and Weitz, 2008). There are several reasons for this. Firstly, as value has shifted towards customer, distribution has moved from being the backwater of strategy to the main stream, since it is where much of the profit in many industries can be found nowadays (Wise and Baumgartner, 1999). In other words, distribution and its network have become an important source of success and competitive advantage. This phenomenon has been emphasised extensively. Anderson and Narus (1990) reported that it is mutually recognised and understood that the success of manufacturers and distributors depends on the other firm. Their statement indicates that a manufacturer’s success can not be reached from their own effort alone; having a good partner in distribution is very important. Loomba (1996) also suggested that in order to compete effectively, today’s firms must re-evaluate their existing distribution and make adjustments when necessary. Hyvönen and Tuominen (2007) claimed that the changing business environment has recently challenged many firms to seek out new methods to achieve sustain performance advantage through market orientation and distribution channel collaboration.

Secondly, distribution channel strategies affect many other aspects of marketing strategies. According to Kotler and Keller (2008), distribution affects sales, since if the product is not available, it cannot be sold. Most customers will not wait until it can be reached. Delivery is seen as a part of the product that influences customer satisfaction.

Thirdly, the choice of distribution network has long-term consequences. The structure of the distribution network is one of the most difficult decisions to change. According to Chopra and Meindl (2007), the impacts of selecting a distribution network often lasts for

decades. Changing on the channels and channel shifting is too costly. In the long run, distribution channel strategies involved in strategic alliances and partnerships that are founded on trust and mutual benefits create distinguishable interests (Chopra and Meindl, 2007).

2.2.2 Channel Functions

The channel function concept has already been extensively discussed by academics (e.g., Ajzen and Fishbein, 1980; Mallen, 1973; Rangan *et al.*, 1992). McCammon and Little (1965) argued that functions are considered to be the basic determinants of channel structure; that is, a system designed to carry out necessary tasks. Some researchers have discussed channel structure in terms of the functions performed by channel members (Mallen, 1973). The basic idea was that channel functions could be allocated in different combinations among various channel actors depending on the characteristics of the channel (Wren, 2007). Channel functions are categories of activities and services that add value to physical goods as they move from manufacturers to customers (Atwong and Rosenbloom, 1995). Rangan *et al.*'s (1992) list of eight channel functions is described briefly below:

- Product information: Provide information about products for customers, particularly for those products that are new to market and are technically complex.
- Product customisation: Adjust product technical configuration to fit the customer's requirements. Even a standard product must satisfy a specific customer's requirements for factors, such as size or grade.
- Product quality assurance: Ensure product reliability for customers.
- Lot size: Provide jointed purchase effort if the product has a high value.
- Assortment: In some cases, a customer may need a broad range of products under one roof. In other cases, assortment may be related to the breadth of the product line.
- Availability: Customer demand might be difficult to predict; if so, the channel must support a high degree of product availability.
- After-sales service: Provide services, such as installation, repair, maintenance and warranty.
- Logistics: Provide transportation, sorting and supplying products to end users (ibid)

2.3 Importance of Retailers

2.3.1 Retail Developments

Retailer Image

Approximately one-third of all consumers' spending passes through the retail sector (Nordås, 2008). Retailers are selective in terms of what merchandise lines are carried in the stores, so as to simplify the consumer shopping experience (Sternquist, 1994). Retailers

provide manufacturers with access to market segments and consumers (Levi and Weitz, 2008). Right from its origins, the function of retailers in distribution channels has been to break down bulky supply into separate stocks (Mulhern, 1996). Retailers were originally only considered as merchants who made profits from the price difference between their buying and selling prices (Levi and Weitz, 2008). However, the scope of the retailing business has moved far beyond breaking bulk and is now defined as a set of activities that involve selling products and services to end consumers (Mulhern, 1996). Retailers today take many forms, including department stores, mass merchandisers, supermarkets, convenience stores, specialty stores and online stores, etc. (Coughlan *et al.*, 2006). The total offer to consumers is becoming more complex, involving a mix of products, services and facilities (Elg, 2003). The most successful modern retailers are not only outstanding merchants but have also developed a unique and strong brand image (Levi and Weitz, 2008). For instance, Walmart has defined itself as an “everyday low-price” retailer, and B&Q has positioned itself as a lifestyle retailer. These retailers create value for consumers by providing more services and a broader range of products.

Retail Growth and Retail Consolidation

Modern retailers have achieved organic growth, which involves developing new products or brings existing products to new markets, and acquisition growth, which involves acquiring business or assets (Bahadir *et al.*, 2009). Retail growth, especially acquisition growth, affects the retail market structure in a significant way. The retail consolidation that has occurred in Europe and North American has led to the emergence of large retailers (Dragun and Howard, 2003). Market share for small and medium retailers is shrinking and moving towards two extremes. Gagnon and Chu (2005) described these two extremes as mega retail format and focused specialist retail format. When it comes to the reasons for retail consolidation, Dragun and Howard (2003) introduced three causes of retail consolidation: greater buying power, synergies and cost-saving potentials.

Retail Supply Management

According to Dawson and Shaw (1989), the success of multiple retailers has been based on particular management systems and philosophies. One such system has been a strong central control of operations, covering buying operations, labour policies, advertising, administration and distribution. The move by retailers towards distribution centre operation can be seen primarily as a response to the risk of running out of stock (Dawson and Shaw, 1989), and also about controlling retail distribution (Ferne *et al.*, 2000). Moving to a centralised distribution also potentially extends the supply base for retail brands. Burt (2000) explained that reducing the number of delivery points allow smaller suppliers and new entrants without established distribution capabilities to supply retail brand ranges.

When it comes to the supply base of retailers, one significant change is the reduction in the number of suppliers. Historically, many companies have adopted a competitive approach of involving many suppliers in order to obtain a better condition in prices

(Ogden, 2006). However, multiple sourcing usually results in lower prices but requires more time for negotiation and might delay or disrupt production schedules (Cruz, 1996). With the growing importance of purchasing as a field, in order to improve the overall performance of a supply chain, many companies are adopting the strategy of supplier base reduction and long-term collaboration development (Sarkar and Mohapatra, 2006). Supplier base reduction is often associated with purchase strategy, just-in-time (JIT), supplier management and partnership (Ogden, 2006).

Retail Brands

In some markets, such as the UK, retail brands have reached a mature state, while in other markets, such as Spain and Italy, they are still in an early or developing phase (Elg and Paavola, 2008). Despite the divergence of developments, more and more authors argue that retail brands are becoming a major threat and challenge to the leading manufacturing brands (Elg and Paavola, 2008). From the retailer's perspective, retail brands have a significant impact on a retailer's differentiation and competitive superiority (Lymperopoulos *et al.*, 2010). Aliawadi *et al.* (2008) added that retail brands might also improve customer loyalty. Their study found out that consumers who buy retail brand from a retail chain are likely to build some chain loyalty, while those who do not buy retail brands have no such loyalty.

2.3.2 Implications of Retail Developments

Retailers play a more active role towards manufacturers by setting product standards, promoting products and obtaining and sharing information on consumer behaviour (Nordås, 2008). Retailers are also networking organisations in distribution channels, due to the fact that they coordinate products from different suppliers (Elg, 2003). Giant retailers always have a large market demand in the retail market and are frequently the largest buyer for the manufacturers. Secondly, giant retailers can offer more demand-stimulating services to promote manufacturers' products. Consequently, the giant retailers have made themselves attractive to manufacturers (Yan and Wang, 2010).

A small number of retailers have taken a larger portion of the market share. Consequently, the "gate-keeping" role of retailers is becoming obvious due to the fact that their location in distribution channels is believed to have become increasingly significant (Burt and Sparks, 2003). The concept of retailers acting as gatekeepers can be traced back to the 1960s. Gross (1967) adopted the term "gatekeeper" to describe the role of big retailers in distribution channels. A gatekeeper refers to an individual or a group of individuals with the power to make a decision that allows a particular item to enter or not enter a particular channel. Gross (1967) argued that large-scale retailers' go or no-go decision are very critical to ensure consumer exposure at the point of sale and, ultimately, the manufacturer's chances for success, especially the success of newly developed products. Thus, in order for a new product to find its space on the shelves of a retail chain, it must be allowed by the gatekeepers who have the authority to accept new products (Gross,

1967). Hansen and Skytte (1998) echoed Gross's (1967) idea, saying that retail chains in most European countries have grown so large and powerful that wholesalers are removed, although their functions are shifted either forward or backwards in the distribution channel. Retail chains buy the products directly from the manufacturers, if they accept the products. If the retailers do not accept the products, however, it becomes almost impossible for the producer to market them (Hansen and Skytte, 1998).

2.4 Expanding Offerings of Manufacturers

A product is generally defined as “anything that can be offered to a market for attraction, acquisition, use or consumption that might satisfy a want or need” (Kotler and Keller, 2008, p. 358). With regard to the total product, Levitt (1980) argued that marketers must think through different levels of the product, each of which adds more value to the consumers. Four such levels are generally defined: generic, expected, augmented and potential product (Levitt, 1980). Lindgreen and Wynstra (2005) argued that the competition nowadays occur in terms of what is added to products in the form of packages, service, advertisement, financing, means of delivery, stock policies and everything else that customers may value.

There used to be a clear partition of products, which divided products into goods and services (Vargo and Lusch, 2004). However, the boundaries between services and goods have become blurred, as products today are often characterised by bundles of services and goods (Wise and Baumgartner, 1999), which are usually sold in a single package that delivers value to end customers (Corrêa *et al.*, 2007). As Vargo and Lusch (2004) explained, either the word “product” or “service” is not sufficient to describe the true nature of what is exchanged today on the market. Goods and services are combined in offerings. Following Brax's (2005) approach, the present study uses the term “offering” to denote “any physical good, service, information or combination of these that a company can offer to its customers” (Brax, 2005, p.143).

Another competitive strategy that has clearly emerged since the mid-1990s is that of the “total solution provider”. Rather than just provide goods, companies have to manage services to match with goods in order to provide value (Corrêa *et al.*, 2007). According to Brown (2000), customer demand is believed to be one major reason why manufacturers have been transformed into solution providers. Companies are encouraged to focus on their core competences and outsource many of their other business activities to external providers. This creates a growing demand for suppliers to conduct many other types of service activities which were once performed by customers themselves. The second reason noted by Brown (2000) is the company's seek of a unique competitive advantage. Manufacturers find it difficult to differentiate their products. Service businesses, however, often offer sustainable forms of differentiation, which enable manufacturers to obtain higher margins (Brown, 2000).

A variety of authors have described the transition line from pure product manufacturer to service provider. Oliva and Kallenberg (2003) proposed a framework that illustrates the change in industrial firms' offerings, with a continuum that ranged from absolute product to complete service provider (Figure 2.1).

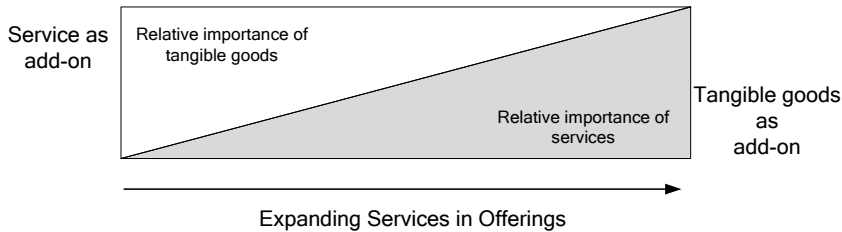


Figure 2.1 Product Service Continuum

(Adapted from Oliva and Kallenberg, 2003, p.162)

Gebauer *et al.* (2005) added two dimensions – share of service revenue and cumulative investment in the service business – to measure the transition from products to services (Figure 2.2). Similar to Oliva and Kallenberg's (2003) model, Gebauer *et al.* (2005) assumed that at one end of the continuum, a product manufacturer produces core products, with services purely as an add-on to the products. In this case, revenue and profits are generated mainly through the company's core products and the contribution of service to revenue is low. At the other end of the cotinuum was a service provider whose product is just an add-on to services. The major share of revenue comes from providing services and products only represent a small part of value creation. The transition starts up with a few product related services business and ends up with a large number of service offerings, such as customer support, maintenance contracts, consulting services, financial services, etc. Furthermore, Gebauer *et al.* (2005) also pointed out that there is a potential risk of making this transition. Some companies might be trapped by the service paradox, which means that high investment in extending service business leads to increased service offering and higher costs, but dose not generate correspondingly higher returns.

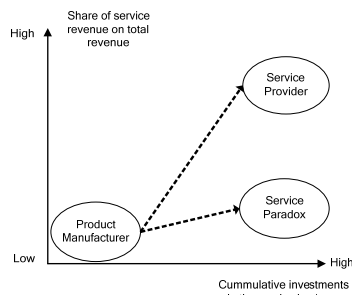


Figure 2.2 Transition line form Product Manufacturer to Service Provider

(Adapted form Gebauer *et al.*, 2005, p.15)

2.5 Customer Analysis

2.5.1 Customer Needs

A fundamental theme of marketing is the expression of customer needs, also known as customer demands. Customers have compound needs that affect purchase decisions (Shiv and Hubber, 2000). Customer needs describe the benefits that a product or service must fulfil (Griffin and Hauser, 1993), which may address several issues, including utility, functionality, aesthetics, prestige, usability and pleasure (Khalid and Helander, 2004). In a business-to-business context, the selling company has a limited number of large customers, each of which must be handled individually (Håkansson *et al.*, 1977). The authors further stated that the relationships with industrial customers are complex, involving several departments and decision makers on both the seller's and buyer's side to solve the buyer's technical, commercial and delivery needs. These three dimensions are explained below:

- **Technical needs:** Technical needs are often relate to the technical complexity of the product. The degree of technological complexity is likely to be determined by several factors, such as the required component and subsystem integration and technological newness (Kim and Wilemon, 2003). The customer may need an understanding of the product components and the component integration, by which ensure they understand the value obtained. This mainly concerns quality and functional aspects.
- **Commercial needs:** Organizational buyers use various means of competition in their marketing activities. The common used means include advertising, sales promotion, personal selling, technical service, delivery, quality and price (Håkansson *et al.*, 1977). Thus, customers require coordination with their suppliers on purchasing side in order to ensure the delivery of the marketing mix.
- **Logistical needs:** Logistical needs describe customers' requirements to get the product from the seller to the buyer physically, legally and on time. The logistical operation must be coordinate with other events, such as production schedules and delivery of other products (Håkansson *et al.*, 1977).

2.5.2 Customer Value

Defining Customer Value

Value is an abstract concept with meanings that vary according to context (Patterson and Spreng, 1997). Professionals in academia and industry have long struggled to clarify the meaning of value (Kummerow, 2002). The diversity of definitions of the term is caused by the way in which the definitions are constructed. They rely on other terms, such as utility, worth, benefits and quality, which are not well defined themselves. Value concepts also differ in terms of the conditions within which customers think about value (Woodruff, 1997). In the past, customers judged the value of a product or service on the basis of some combination of quality and price; the concept of value has expanded, however, to

convenience of purchase, after-sales service, dependability and so on (Treacy and Wiersema, 1993). According to Simpson *et al.* (2001), the generally accepted definition for value focuses on the total worth of the benefits received for the price paid. Value in business markets is the monetary worth of the technical, economic, service and social benefits a company receives in exchanges for the price it pays for a market offering (Brandenburger and Stuart, 1996). Bowman and Ambrosini (2000) argued that value has two components: perceived value and exchange value. Perceived value is subjective and is determined by customers, based on their priorities. Exchange value is realised when the product is sold. It is the amount paid by the buyer to the producer for the perceived use value (Bowman and Ambrosini, 2000).

Within the marketing literature, the word “value” has a customer orientation (Woodall, 2003). On many occasions, therefore, the terms of “customer value” (e.g., Woodruff, 1997), “customer perceived value” (e.g. Monroe, 1991) appear as synonyms for value. Value is created by identifying and understanding customers’ benefits and sacrifices (Walters and Lancaster, 2000). Customer value is something perceived by customers rather than objectively determined by a seller (Uлага, 2001). The benefits provided by customer value can be direct and easily measured or indirect and hard to quantify. The direct value added by a supplier is derived from activities that can be expressed in a monetary sense, and include benefits that lead to decreased costs or increased sales. The indirect value comes from intangible aspects of the relationship (Simpson *et al.*, 2001). A lot of research has been conducted to investigate the construct of value; however, research in the context of business-to-business markets is limited (Homburg and Rudolph, 1997; Uлага and Chacour, 2001).

Perspectives of Customer Value Creation

Uлага (2001) summarised a variety of articles included in the special issue of *Industrial Marketing Management* regarding consumer value in business markets and concluded that there are three perspectives of value creation (Figure 2.3). The buyer’s perspective looks at how suppliers create value in products or services compared to competition. The seller’s perspective deals with attracting, developing and retaining customers. Finally, value creation through relationships, partnering and alliances is considered as the third perspective (Uлага, 2001).

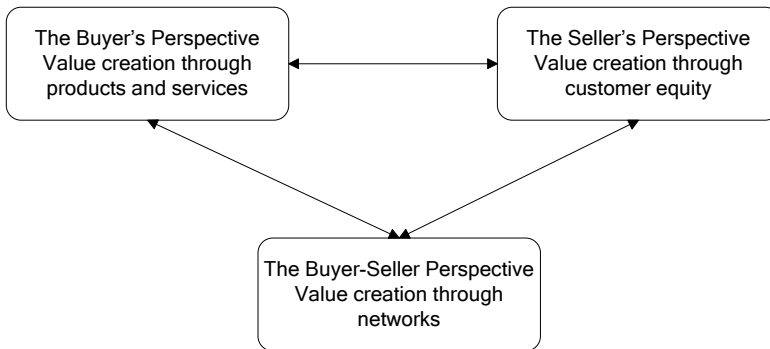


Figure 2.3 Three Perspective of Customer Value (Uлага, 2001, p. 317)

Uлага's (2001) framework indicates that suppliers can create customer value by providing products and services as well as building and maintaining seller-buyer relationship. The augmented product concept presents four value-adding levels of product: the core product, the expected product, the augmented product and the potential product (Lindgreen *et al.*, 2009). Besides products and services, the relationship between supplier and buyer is another source of customer value. Establishing closer relationship between a supplier and a buyer is increasingly cited as a notable differentiator of high and low performance in distribution channels (Hyvöene and Tuominen, 2007), since practitioners and consultants recognise that supplier-buyer relationships possess inherent mechanisms that inhabit the development of value (Aastrup *et al.*, 2007). The vital purpose of a supplier and a buyer engaging in a collaborative relationship is to work together in ways that add value for both companies (Anderson, 1995). Following Anderson and Narus's (1990) definition of distributor and manufacturer working partnerships, the present dissertation defines the supplier-reseller working partnership as the extent to which there is mutual recognition and understanding that the success of each company depends in part on the other firm, with each firm taking action to provide a coordinated effort that focuses on jointly satisfying the requirements of the customer marketplace.

Customer satisfaction is often regarded as the impact of customer value, because consumers have first-hand experience and familiarity on which to base satisfaction evaluations and satisfaction, which will have an influence on re-purchase intentions (Patterson and Spreng, 1997). Overall satisfaction is the customer's feelings in response to the evaluation of one or more use experiences with a product (Woodruff, 1997).

2.6 Different Perspectives of Business Integration

The topic of the importance of integrating suppliers, manufacturers, distributors, and customers has received a great deal of research attention (e.g., Clinton and Closs, 1997; Reck and Long, 1988; Rudberg and Olhager, 2003; Stevens, 1989; Troyer and Russell, 1995). Researchers have addressed this problem through several different approaches

including SCM (e.g., Lambert *et al.*, 1998), process engineering (e.g., Birou *et al.*, 1998), and supplier/customer involvement in new product development (e.g., Petersen *et al.*, 2005). Two major fields of literature – strategic management and organizational economics – and the SCM literature have made significant contributions to business integration.

2.6.1 The Supply Chain Management Perspective: Supply Chain Integration

Supply chain management (SCM) has been described as the integration of all value adding business processes, ranging from raw material extraction to the consumption of products by end users (Cooper *et al.*, 1997; Wisner and Tan, 2000). The challenge with integrating of business processes is that supply chain integration not only involves integrating cross-functional business processes within a company but also involves integrating processes among actors of the supply chain (Lambert *et al.*, 2005). Internal integration occurs across company functions, while external integration occurs across supply chain actors (Richey Jr. *et al.*, 2010). External integration involves coordinating and integrating the forward physical flow of deliveries to customers (Saunders, 1997; Trent and Monczka, 1998) and the backward coordination of the flow of materials and information from manufacturer to suppliers (Martin, 1992; Trent and Monczka, 1998). In the former type of integration, manufacturers engage in downstream distribution activities, so it is recognised as downstream integration. In contrast, the second type is referred as upstream integration (Trent and Monczka, 1998).

Typically, the goal of supply chain integration is to achieve lower costs and/or better services (Troyer and Russell, 1995). Collaborative planning, reduced inventories, lower distribution and transportation costs, improved cycle times and customer services levels are possible outcomes for a properly managed relational integration (Richey Jr. *et al.*, 2010).

2.6.2 The Strategic Management and Economic Perspective: Vertical Integration

Vertical integration (VI) is a corporate strategy that is of interest to the field of strategic management and organisational economics (Mahoney, 1992). VI relates to a range of decisions concerning whether companies should provide certain products or services in-house, through their business unit, or acquire them from external organizations instead (Harrigan, 1985). VI can be realised through two approaches: vertical financial ownership and vertical contracts (Mahoney, 1992). Vertical financial ownership eliminates company boundaries via merge and acquisition. Vertical contracting, such as exclusive dealing, resale price maintenance or exclusive territories, is a viable alternative to vertical financial ownership (Mahoney, 1992). According to Klein (1978), by shifting ownership of an organizational asset, vertical integration may imply an increased ability to direct cooperating inputs compared to a long-term contractual arrangement (Klein, 1978). Most theories of vertical financial ownership that have been provided in the literature are described more accurately as theories of vertical integration strategy (Mahoney, 1992).

The empirical VI literature has defined two separate groups. The first group includes those papers that consider the decision of whether to integrate forward to distributing and retailing. The second group contains those studies that look at the “make-or-buy” decisions, which is the decision about whether to integrate backwards (Lafontaine and Slade, 2007).

2.6.3 Comparison of Supply Chain Integration and Vertical Integration

Stonebraker and Liao (2006) argued that in management theory, vertical integration is a precursor to supply chain integration. Unsurprisingly, these two concepts share a number of characteristics that can be exemplified by consistency of organisational culture and policies, organisational fit, and complements of various organisational strategy components (Stonebraker and Liao, 2006). However, the distinctions can be characterised along two dimensions. Firstly, transactional cost economics (TCE) provides a theoretical basis for vertical integration (Hobbs and Young, 2000) while supply chains can be based on the theory of industrial dynamics (Chen and Paulraj, 2004). Secondly, while the primary integrating mechanism of vertical integration is ownership, but cooperation and coordination are the major integrating mechanisms used in supply chain integration (Lee and Ng, 1997; Stock *et al.*, 1998).

2.7 Vertical Integration

2.7.1 Driving Forces of Vertical Integration

A great deal of attention has been paid to the question of why business integrates (Lafontaine and Slade, 2007). The explanations of vertical integration (VI) can be organised into two major theoretical frameworks: the traditional framework and the transactional framework (Majumdar and Ramaswamy, 1994). The traditional framework views VI as a response to technological and operational interdependencies between two successive stages of the activity chain (Bain, 1968; Chandler, 1977). Transaction cost economics state that an integrated firm will do better than its non-integrated competitors if there are high profits in the supply chain (Klein *et al.*, 1978; Williamson, 1979), because the two parties in a bilateral monopoly market will spend a lot of resources bargaining over profits. In vertical integration, the incentive of a bargain is restrained bureaucratically (Balakrishnan and Wernfelt, 1986). In other words, by integrating forward, the monopolist can convert efficiency loss in two successive stages into its own profit and therefore expand input use to the optimal level (Vernon and Graham, 1971; Warren-Boulton, 1974). Next, VI is viewed as a strategic response to monopoly market power (McDonald, 1985). If there are variable proportions between input and output, then integrating between two successive monopolies maximises joint profits (Majumdar and Ramaswamy, 1994). Besides, VI may serve as an entry barrier and therefore lead to excess profits. By integrating into additional stages of a product, the manufacturer has raised the capital requirements for entrants (Balakrishnan and Wernfelt, 1986). Similarly, Waterson (1993) argued that VI

may raise its rivals' cost or leave the market thin, thereby restricting the expansion of its competitors.

The transaction cost analysis (TCA) approach distinguishes production costs from distribution costs. Distribution costs relate to running the system, such as searching for information, bargaining, monitoring and contract enforcing (Arrow, 1969). Williamson (1985) argued that uncertainty is a principal factor involved in forward vertical integration. In a distribution channel, uncertainties can exist with respect to many marketing activities, for example: sales targets and promotional activities. The TCA approach points out that a proper reaction to uncertainties is to internalise the transaction (John and Weitz, 1988). There are two reasons for this. Firstly, VI allows sequential decision making to precede more smoothly and secondly, the authority structure formed by VI permits faster resolution of conflicts (John and Weitz, 1988). Barrera-Rey (1995) added that forward integration by manufacturers may also be driven by the separation of downstream markets for the purpose of price discrimination, which could happen in the case of a monopoly selling to two industries.

Many of the explanations for VI were written in between of the 1960s and the 1980s and their relevance and ability to explain the modern situation is debateable. Osegowitsch and Madhok (2003) argued that the recent cases of VI might be driven by reasons that traditional explanations based on economic theories have not addressed. They argued that the current popularity of VI makes a departure from traditional motivations based on altering industry structure and minimising cost. The traditional rationales for VI still exist but they are being increasingly surpassed by new considerations (Osegowitsch and Madhok, 2003). Beyond this, most of the existing VI studies have been conducted at the micro-analytic level; analysis from a supply chain perspective is sparse, however, which might be more necessary in this non-perfect, fast changing and interrelated market environment.

The following is a list of driving forces for VI, excluding power and cost considerations.

Technical Complexity: As a result of high penetration rates and longer product life spans in many manufacturing industries, the number of products in use has grown dramatically relative to the number of products sold in any given year (Osegowitsch and Madhok, 2003). Thereby, a significant portion of value-added activities have shifted away from manufacturing towards maintaining and servicing existing products. This trend has been reinforced with the rise in technical complexity, which further leads to a growth of expenditure in their service requirements (Osegowitsch and Madhok, 2003).

Differentiation: According to Etgar (1978), one important vehicle for achieving product differentiation is to provide customers with a higher level of service at the distributive level. The use of distribution services for product differentiation is especially important for products that cannot be easily differentiated by the products' own attributes, because of

the lack of physical differences or because consumers do not perceive any existing physical differences as being significant. In order to achieve differentiation through distribution services, forward integration is often required (Etgar, 1978). Osegowitsch and Madhok (2003) added that not only has there been a decline in the portion of value-added by traditional production activities, such as product design and manufacture, but their margins have also dropped. In many mature industries in particular, the products have reached levels of performance that already satisfy the requirements of most customers. Marketing, distribution, after-sales services and all interactions with customers can potentially have an impact on the company's image. Thus, differentiation strategies frequently lead companies to integrate forward in an effort to totally control their offerings and get closer to customers (Osegowitsch and Madhok, 2003).

Higer profit: Wise and Baumgartner (1999) wrote that downstream markets offer important benefits in addition to large new sources of revenue. Downstream markets also tend to have higher margins and require fewer assets than product manufacturing. Thus, the real money lies downstream, not in the production function (Wise and Baumgartner, 1999).

Strategic partnership with customers: Anderson and Narus (1995) also addressed the capability of downstream activities to create competitive advantage. They argued that service offerings in the customer interface provide supplier with powerful means of retaining and expanding business with their most valuable customers, and bear potential opportunities for companies to become more strategic business partners of the customers, thereby improving customer retention (Anderson and Narus, 1995).

Customer needs of integrated solutions: Many companies are compelled by their customers to offer an ever greater range of products and services (Osegowitsch and Madhok, 2003). As customers concentrate more and more on their own core competencies, they increasingly rely on their suppliers to provide them with solutions that could be integrated in their businesses processes (Osegowitsch and Madhok, 2003).

Synergies: Close relations between manufacturing and sales can lead to synergies and powerful synergies can also be obtained by suppliers that penetrate into their customers' decision making process (Osegowitsch and Madhok, 2003). For example, becoming involved in customers' inventory management, suppliers have access to more timely and accurate information about demand, which can be used to optimise the company's manufacturing plan (Osegowitsch and Madhok, 2003).

Learning: The distribution structure can isolate a manufacturer from its end markets, so it is common for a manufacturer to push its products through the distribution channel without adequate knowledge about the final demands (Gradde, 2004); this could undermine the manufacturers' profitability and competitiveness. It is necessary, therefore, to learn about downstream customers and markets. Downstream integration facilitates

access to both information and knowledge about customers (Osegowitsch and Madhok, 2003). The knowledge extends beyond insight into what customers want, to in-depth understanding of why particular offerings are seen as desirable by customers, how best to provide them and what future offerings might look like. Such knowledge can only be generated through intimate contacts with customers (Osegowitsch and Madhok, 2003).

To summarise, the above-mentioned factors, can be grouped into the following five categories: economic, technical, customer, marketing and strategic (Table 2.1).

Table 2.1 Factors Driving Vertical Integration

Category	Factors
Economic factor	Higher profits
Technical factors	Technical complexity
Customer factors	Customer needs of integrated solutions
Marketing factor	Differentiation
Strategic factors	Synergies; partnership with customers; learning

2.7.2 Impacts of Vertical Integration

The literature has examined the impact of vertical integration on market power (e.g., Normann, 2009; Hastings *et al.*, 2005) and market outcomes, such as the price of the final product and product quality (e.g., Arya *et al.*, 2008; Matsubayashi, 2007). Besides market power and market outcomes, vertical integration influences company's position in supply chain (Majumdar and Ramaswamy, 1994). The position is important because it determines the resources, capabilities and competitive advantages needed in competition (Nicovich and Dibrell, 2007). Including distribution business is also expected to influence what to offer to customers and how to provide these offers. The declining value added by core product design and production indicates that manufacturers need to provide more extensive services, together with core products, in order to increase customers' overall satisfaction (Anderson and Narus, 1995; Gebauer and Friedli, 2005; Penttinen and Palmer, 2007). Most of the existing literature, however, has focused on the enhancement of service of industrial products (e.g., Chase, 1981; Gebauer *et al.*, 2005; Oliva and Kallenberg, 2003), with very few studies looking at goods sold through retailers or merchants. Beyond the lack of research, management literature is also almost unanimous in suggesting to manufacturers how that they should integrate services into their core product offering. Furthermore, the literature is surprisingly spare in describing the extent to which services should be integrated (Oliva and Kallenberg, 2003).

However, impacts encompass possible negative results, which are not explicitly differentiated from disadvantages in literature. Harrigan (1984) pointed out that the possible disadvantages of VI include increasing internal cost because of the overheads

3. TIMBER PRODUCTS DISTRIBUTION

This chapter is a bridge of the theories discussed in chapter two and the case studies in chapter five. So it is a mixture of the relevant knowledge written in existing literature and the secondary data collected from multiple sources. UK market is addressed by the reason that it is a very representative market within Europe.

3.1 Sawmill Sector is Essential in Forest Industry

The forestry industry is of great importance to the national economies of countries like Canada, Sweden, Finland, Chile and New Zealand (Carlsson and Rönqvist, 2005). In Sweden, the forestry industry accounts for more than four percent of the country's GDP and almost 13 percent of its export of goods (Swedish Forest Industries Federation, 2009). The forestry industry covers broad sectors, from road building, harvesting and transportation to production at sawmills, paper mills and heating plant. The dominant sectors include sawmills, pulp and paper and the wood board industries (Statistics Sweden, 2010). Among these, the sawmill sector is an essential part of the entire forestry industry. Besides its purchase of saw-logs from either domestic or foreign sources, the by-products of sawmills are important input for the pulp and paper industry, the wood board industry and the energy sector (Lundmark, 2006). The sawmill sector is involved in many production, consumption and trade activities that occur in geographically diversified locations. Thus, it has a central position in the forestry industry that influences the entire industry (Lundmark, 2006).

Studies and reports on the sawmilling industry have concluded that the industry has been and remains production-oriented, since the industry is predominantly focusing on technological advancements, functionality and internal competences striving to create superior customer value (Nord, 2005). The sawmilling industry has also been traditionally regarded as a low-margin industry, within which the price of sawn timber is an important factor for competition among sawmills. As a result, the strategy of sawmills has been orientated towards costs and larger units. The purpose of this strategy is to increase productivity and pooling fixed investment, such as machines, energy production, logistics, management and marketing (Björheden and Helstad, 2005).

3.2 An Old Material Facing Challenges

Wood, as building material, has an extremely long history. It has been facing some serious challenges, however, which fall broadly into three categories: (1) intensified competition, both between individual sawmills and between exporting countries, (2) increasing substitution by other materials, such as concrete, glass, plastic and steel for wood and, (3) new demands from powerful customers (Roos *et al.*, 2001). Competition of the forest industry within the domestic markets will continue to grow, especially in the case of wood products, to which comparatively little value has been added and where the critical factor in competition is in production cost (Lundmark, 2006). According to Björheden

and Helstad (2005), the key factors driving the substitution of other materials for wood consist of low added value, the perceived unpredictability of wood and the need for expertise in order to use wood successfully. Additionally, leading consumers of sawn wood products increasingly demand fast response, precision and flexibility in deliveries. New markets for sawn wood, such as DIY retailers and builders' merchants (BMs), exert a great deal of influence on supply chains structures (Nord, 2005). However, traditional wood suppliers had problems with keeping up with the retailers' developments. They are not always able to meet the demands of weekly deliveries of small quantities, merchandising support, product development and many others (Henningsson, 2005).

In order to increase competitiveness and improve profitability, sawmills have striven to re-orientated their business strategies towards market-orientated production and the value adding process. The principal ways of improving profitability consist of three options: increasing either value-added share, volume or productivity (Roos *et al.*, 2001). Producing smaller pieces with specific dimensions and quality features, instead of standard products offers sawmills great potential to improve their profitability. Moreover, sawmills have to strategically position themselves appropriately and decide how production- or market-oriented degree the company will be (Nord, 2005). In other words, sawmilling companies need to have high operational effectiveness and, at the same time, must focus on the production environment. Turning to the supply chain, the sawmill sector has called for better coordination and integration of technology, logistics, organisation and information, both upstream to the logging operations and more importantly downstream to the markets (Roos *et al.*, 2000).

3.3 Supply Chain of Timber Products

Several former studies have described the supply chain of timber products. Some of them describe the supply chain in a general manner (e.g., Henningsson, 2005; Nord, 2005), while others explain it in a specific geographic context (e.g., Frayret *et al.*, 2007). Based on the available literature and documents, a brief introduction of timber products is provided below.

The timber supply chain comprises a vast number of operations, from harvesting of timber to the sawmill, wood processor or importer, then to the distributor, merchant or retail outlet, or to the manufacturer and, ultimately, to the final user. Forestry management may include initial planting or germination of new trees and assessment of an existing forest area. Once wood is removed from the forest during felling, it is sorted by its potential end usage. Larger and higher quality logs are usually transported to sawmills, while smaller logs and forest thinning is used to make paper, biomass fuel and wood-based panels, such as oriented strand board (OSB) and medium-density fibreboard (MDF). Companies that undertake the initial processing of wood are based close to forest resources and often referred to as primary processors. Once primary processing has been undertaken, the wood products will be packaged for transportation, which might be by lorry, train or ship.

Primary processors who sell to overseas markets often adopt agents based in the target market to represent their interests. Agents have the expertise to understand the needs of both sellers and buyers; such companies will earn a commission on each transaction in return for their expertise. The first owner of timber or timber products that arrive in the country is commonly referred to as the importer. Such companies purchase massive quantities of timber and then break them up into smaller lots, which they either sell to distributors and merchants or to secondary processing manufacturers that produce finished wood products like machined mouldings, treated fencing or decking. The retailer represents the final link in the timber product supply chain; they break large volumes into smaller quantities in each transaction.

The above descriptions of the timber product supply chain focus on illustrating a series of activities, which link a group of firms together. If the spotlight is put on the firms involved in these activities, the timber product supply chain can be simply illustrated as follows:



Figure 3.1 Supply Chain of Timber Products

(Adapted from TTF, 2010)

The forestry department fells trees in a forest and cut them into logs; the logs are then shipped to sawmills, which cut logs into sawn timber. The sawn timber can be further processed into panels, doors and windows and so on. These finished products will be distributed through distributors or wholesalers to retail stores, where end users make their purchase (Figure 3.1).

3.4 Distribution Channels of Timber Products

Timber product manufacturers use several different distribution channels to distribute their products (Figure 3.2). The traditional route to markets for the sawmill sector is via various types of middlemen, with products passing through the hands of multiple wholesalers, distributors, exporters and importers (Nord, 2005). The major members of timber product distribution channels are follows:

- **Distributor:** Timber product distributors are wholesalers who distribute timber products to downstream buyers (Nord, 2005).
- **Builders' merchant:** A builders' merchant (BM) is a coordinator and distributor of construction materials for private individuals and construction companies (Nord, 2005). Throughout history, builders' merchants have played a significant role in the construction industry. At the initial stage, they act as the intermediary between building material producers and contractors. However, their role has shifted to a source of working capital for contracting firms (Agapiou *et al.*, 1998). Large BMs operate national wide and are able to supply large construction companies. In

contrast, small independent merchants operate in local or regional market. In order to obtain better bargaining power and compete with large BMs, some independent BMs choose joining buying groups.

- **Further processor:** A further processor is the manufacturer who buys from sawmills and utilises the purchased products as inputs (Nord, 2005). Value-adding processes are applied to transform inputs into final products for various uses. Further processors include manufacturers of furniture, window, door, and staircases (Roos *et al.*, 2001).
- **DIY retailers:** DIY is a complex phenomenon that can simultaneously appear as leisure, work, consumption and production. For many, DIY is a form of leisure, whilst for others it is work. Either way, DIY certainly involves consumption because it consumes materials and tools. At the same time, because material transforms domestic space and often enhance property value, DIY can also be seen as production (Watson and Shaove, 2005). One definition of DIY is “home maintenance and improvement work conducted by household members on their own household without the paid services of professionals” (Williams, 2008, p312). Examples of DIY activities include repairing or adding additions to a home or garden, fixing a fence, building a barbecue, internal and external painting, staining or wallpapering and so on (Mintel, 2005). DIY retailers provide one-stop-shopping solution to serve private consumers or contractors with product needs for home improvements (Nord, 2005). DIY retailers sell a wide range of building materials, from ‘hard’ items like bricks and cement to ‘soft’ items like wallpaper and paint. Among the entire product range, wood-based products, are strategically important products from a retail trade perspective; often accounting for 4–20 percent of a retailer’s total turnover (Henningsson, 2005).

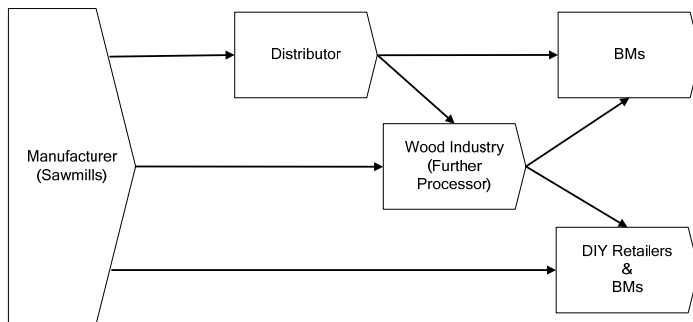


Figure 3.2 Distribution Channels of Timber Products

3.5 Timber Consumption and Distribution in the UK

3.5.1 Timber Consumption in the UK

The Swedish forestry industry is highly export-oriented. More than 85 percent of pulp and paper and 70 percent of sawn timber production is exported (Swedish Forest Industries Federation, 2009). The UK is one of the world's largest consumers of timber products and it is also the largest foreign market for Swedish timber (Timber Trade Federation, 2009). The UK currently imports around two-thirds of all the timber used in the country. Approximately 60 percent of wood and wood products are used in construction, both for new building projects and the renovation, maintenance and improvement (RMI) projects. The furniture industry is the second-largest consumer, using up 15 percent of wood products. The furniture industry primarily consumes sheet materials, such as chipboard and Medium Density Fibreboard (MDF). Another 15 percent of wood products, mainly softwood, are consumed by the packaging market. Fencing and outdoor accounts for seven percent of UK wood consumption (Timber Trade Federation, 2009).

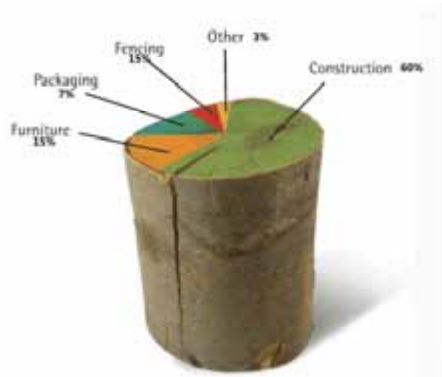


Figure 3.3 UK Wood Consumption by Sectors

(Source: Timber Trade Federation, 2009)

3.5.2 Timber Retailing in the UK

UK is the second largest DIY market in Europe and the UK DIY market experienced solid growth in 2007. However, 2008 and 2009 have proved much more challenging as a result of the economic downturn. The market is expected to begin to recover in 2010 and to reach a market size of £7.2 billion (AMA, 2010). According to Williams (2008), 61 percent of the British population actively participate in DIY activity and it has been estimated that active DIYers spend an average of £574 per year in the DIY retail market.

As in many others sectors, the intensive consolidation, which registers as a large portion of retail sales is taken by a reduced number of retail organizations (Burt and Sparks, 2003), has been observed in the British solid wood market during the past decades (Nord, 2005). Due to the advantages enjoyed from economies of scale, large retailing chains tend to

dominate the market (Espallardo, 2006). DIY superstores and trade building supply outlets are dominated by a small number of large companies, referred as the “big four”. The four largest companies – B&Q, Homebase, Wickes and Focus – control more than half of the all DIY retail sales in the UK (Williams, 2008). These giants have hundreds of stores dotted around the country and primarily sell large volumes of off-the-shelf products. These companies require comprehensive supply management to ensure that they always have an entire product range in stock. Table 3.1 provides a general description of these four retailers.

Table 3.1 Major DIY Retail Chains in the UK Market

Company	Owner	Number of Stores ¹	Turnover ¹	Market Share ²	Trade ²
B&Q	King Fisher	321 stores in the UK 9 stores in Ireland 60+ internationally	£3.8 billion (Year ended 31/01/2009)	35.0%	23%
Focus	Cerberus Capital	181 (May 2009)	£550 million	4.8%	4.8%
Homebase	Home Retail Group	345 (End of 2009)	£1.51 billion	15.3%	5%
Wickes	Travis Perkins plc	190+	£900 million	6.7%	33%

Source: 1. Annual company reports and accounts
2. Mintel (2009)

The domestic expansion by the very leading DIY retailers has meant that they are increasingly taking a larger share of the overall sales away from other retailers. The result has been a sharp increase in aggregate concentration. The consolidation in the British market reveals a certain degree of complexity at the same time, in which some competing brands actually belong to the same mother company. For example, the largest building material distributor in Europe, Saint-Gobain, purchased the British builders’ merchant brands Jewson and Graham in 2000. Focus acquired 139 Do It All (Holding) Stores in 1998. Two years later they acquired 131 Wickes stores and 98 Great Mills stores. In 2002, Focus merged with Wickes. However, Travis Perkins, the biggest builders’ merchant, took over the DIY chain Wickes in 2005.

Generally speaking, DIY retail chains are geared to serve private consumers. The figures in Table 3.1 show that all these four chains have a trade customer base in various degrees. Wickes, as a part of Travis Perkins plc, has one-third of their business conducted with tradesmen. Homebase, on the other end, highly focuses on serving private consumers.

3.5.3 Timber Merchanting in the UK

Very similar to the DIY sector, four national builders' merchants (BMs) account for over 60 percent of the total market share (Henningsson, 2005). Smaller independent builders' merchants with one or a few branches share the rest of the market share. Although market consolidations have been observed in the BM sector, the market is still very fragment, because there are thousands of independent BMs making their living on local areas. But under the huge competitive pressure from national BM chains, independent BMs find their way to compete: joining buying groups. Motivation behind this is to buy better and compete more effectively with their counterparts. Table 3.2 presents a brief description of the biggest four players in the BM sector:

Table 3.2 Major Builders' Merchant Chains in the UK Market

Company	Owner ¹	Number of Branches ¹	Turnover ¹	Market Share ²
Buildbase	Grafton Group plc	150+	€2673 million (Group Revenue)	10% (Grafton Group)
Jewson	Saint-Gobain	500+	€17.5 billion (Group turnover)	18%
Travis Perkins	Travis Perkins plc	611	£3,18 billion (Group Revenue)	15%
Wolseley UK	Wolseley plc	1900+	£3,14 billion (Year ended 31 July 2008)	19%

Source: 1: Annual company reports and accounts

2: SCA Timber Internal Presentation Material, 2009

Grafton Group plc, the mother company of Buildbase, owns other BM brands in the UK: Jackson Building Centres, Macnaughton Blair and Selco Builders Warehouses. Jewson and Wolseley are competing neck in neck in term of market share. Travis Perkins plc owns the retail brand of Wickes. Worldwide, Wolseley is the biggest specialist trade distributor of plumbing and heating products to professional contractors and a leading supplier of building materials to the professional markets. Jewson is the UK's leading supplier of timber and building products to the trade and general public. They operate over 500 stores across the country.

4. METHODS

This chapter presents and justifies the choices on methodology, which includes research purpose, research approach, research strategy, data collection and data analysis. Finally, the validity and reliability of this study will be discussed in order to control research quality.

The author's previous studies provided some knowledge and experience of academic research. As a PhD student, my research logic and methods have been strongly influenced by my supervisors and our research group. The system theory view and qualitative method is the dominant research paradigm and tradition in the Marketing Logistic Research Group.

4.1 Research Purpose

There are three options for research purpose: explanatory, descriptive and exploratory (Yin, 2008). Explanatory study aims to establish causal relationships between two variables, while descriptive study focuses on the accurate description of variables in the problem model (Saunders *et al.*, 2007). According to Frey and Fontana (1991), in exploratory research the researcher typically looks at a social context that is unfamiliar or new. The exploratory studies can be used "to satisfy a researcher's curiosity, to arrive at a better understanding of a social context, to test the feasibility of a more complex study, to develop methodological techniques, to identify nuances of a research setting that could impact the investigation, to identify key informants, to add precision to a research problem, and to serve as a source of grounded theory" (Frey and Fontana, 1991, p.177). Given the differences between the three research purposes, the exploratory purpose was chosen as the most appropriate for this study. The core of the aim of this study is to look at the distribution channel of timber products and finally reach a more precise understanding of the research problem. Besides, to some extent, this study intends to provide deep description of the distribution channel of timber products and its relevant variables. Therefore, the research purpose is partially descriptive.

4.2 Research Approach

4.2.1 Reasoning Process

There are two general approaches to reasoning that might lead to the acquisition of new knowledge, expressly inductive reasoning and deductive reasoning (Hyde, 2000). According to Hyde (2000), inductive reasoning is a theory-building process that starts by observing some specific circumstances and seeking to establish generalisations about the instances investigated. In contrast, deductive reasoning process is theory-testing approach that starts with an established theory or generalisation and looks to determine whether the theory applies to specific situations (Hyde, 2000). In brief, the inductive research approach reasons from a specific case or a collection of observation to general law, while deductive research approach reasons from general law to a specific case.

Initially, inductive research was seen as an appropriate research approach for this study. The original plan was that the study would start with an investigation of prior theoretical knowledge and then form a theoretical framework, which would be compared with real-life observations, and then seek to establish generalisations about the phenomena under investigation. However, when examining my entire research process, I felt that an inductive approach could not fully describe the reasoning process, since there were back and forth directions between theory and empirical study.

Looking back at the research process, I found out that data collection and theory development occurred simultaneously. I started out with a literature search and readings with the purpose of obtaining pre-perceptions and theoretical knowledge. During that phase, I took several courses, most of which related to the field of industrial marketing, logistics, and supply chain management, which I think are very helpful. After that, I picked up a few themes that I thought were interesting and relevant, such as distribution channel, retailing, sales etc. I then started another round of literature reading, but this time, I had a narrower scope of interests and read theories in depth. On top of that, I read a few published dissertations about the sawmilling industry and timber product distribution (e.g., Nord, 2005; Henningsson, 2005), which provided me with some research findings. In the end of the first phase, I formed preliminary research questions and a research framework. Interview guides revolving round research questions were also developed.

The second phase of study began with a trip to the UK to study the real-life situations. During that trip, I obtained a better picture of the building material distribution industry, especially the distribution of timber products. My pre-defined questions were answered by respondents from different organisations in the distribution channel of timber products. Some interesting themes emerged that I had not considered in the first stage, such as retailer owned distribution centres. At the same time, I found there was some mismatching between theories and my observations. For instance, category management is documented as a popular and widely applied management concept in the retailing sector. However, this concept was not obvious in the DIY retailer sector. A few respondents from the DIY retail sector claimed to have category management implemented but they did not actually have clear view on this strategy and their practices deviated from existing theories. Based on the comparison between theories and observations, I modified the theory framework that I had used prior to the observation. Along with analysing the collected data, I took a course relating to research methods, in which I obtained knowledge and skills of research design, data collection and data analysis. This led to an improved version of research design, including the research approach, research problem, research questions, and data collection as well as analysis methods.

Along with the evolution of the study, a second round of data collection was conducted to fill the gap identified in the former phase, to add new information and to double-check some perceptions. When data collection was completed, data analysis was undertaken in

order to obtain research findings. Finally, conclusions were drawn and suggestions for the theory were made.

The above process shows a mixture of deductive and inductive reasoning processes. In parallel to the data collection, the search for complementary theories continued, guided by the findings in the empirical world. This led me to believe that the abductive reasoning process was the most accurate concept for this study. Dubois and Gadde (2002) commented that case studies commonly use abductive reasoning. Following Kovács and Spens' logic (2005), the present study started with some prior theoretical knowledge. Closer examination of the empirical world suggested a "theory matching" or "systematic combining" attempt, which sought to find a new matching framework or theory extension. Finally, a new theory framework was formed and conclusions were reached (see Figure 4.1). According to Kovács and Spens (2005), the aim of this process was to understand the new phenomenon and suggest new theories. My purpose was to extend theories by integrating existing concepts and theories.

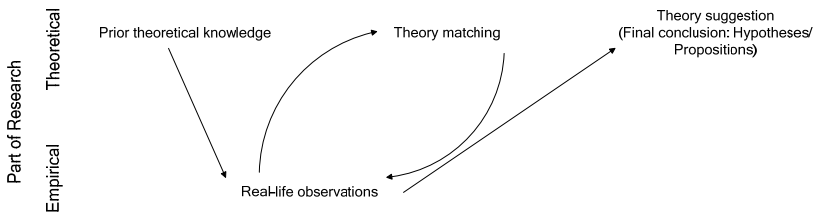


Figure 4.1 The Abductive Process

(Adapted from Kovács and Spens, 2005, p.139)

4.2.2 Enquiry Form

Qualitative and quantitative approaches refer to the method selected to treat and analyse the collected data (Saunders *et al.*, 2007). A qualitative method is used to study a small sample but in depth with the objective of creating a better understanding of the specific problem studied. In contrast, the focus of a quantitative study is to generalise, describe and explain. It concerns comparisons and trial. A higher level of formalisation is used and generalisations are sought (Saunders *et al.*, 2007). Given the options, I chose the qualitative enquiry approach, based on the reason that this study is more concerned with understanding the meaning of the phenomena within channel of distribution rather than with attempting to quantify these phenomena.

4.3 Research Strategy

4.3.1 Case Study and Units of Analysis

According to Yin (2008), the alternatives for research strategy are experiment, survey, archival analysis, history and case study. Each strategy can be used for all three research purposes and each of these strategies follows its own logic to collect and analyse data (Yin, 2008). The conditions of the research determine when it is best to use each strategy. Yin (2008) summarised three conditions: (1) the type of research questions, (2) the extent of control over behavioural events and (3) the degree of focus on contemporary events (see Table 4.1).

Table 4.1 Relevant Situations for Different Research Strategies

Strategy	Form of research questions	Requires control over behavioural events	Focuses on contemporary events
Experiment	how ,why	Yes	Yes
Survey	who, what, where, how many, how much	No	Yes
archival analysis	who, what, where, how many, how much	No	yes/no
History	how, why	No	No
case study	how, why	No	Yes

(Source: Yin, 2008, p.8)

A research strategy selection decision cannot be reached without considering the objectives and characteristics of the study (Woodside, 2010). Since, the author, as an investigator, cannot manipulate the behaviour of research units, the experiment is not a proper research strategy, at least according to Table 4.1. In addition, this study is designed to investigate contemporary events rather than to track a situation over a long period of time. For this reason, history strategy is not suitable either. Pure archival analysis is considered to have a lack of flexibility and richness for the problems studied. Thus, case study and survey seem to be possible research strategies. However, this study seeks deep insights into several phenomena, which are believed to be hard to obtain by survey. Woodside (2010) suggested that case research is useful when a phenomenon is broad and complex, where the existing body of knowledge is insufficient pose causal questions, and when a phenomenon cannot be studied outside the context in which it occurs naturally. Thus, case study research is frequently used in business-to-business marketing research to examine the decisions and behaviour of groups or individuals with organisation or across organisations context (Dobois and Gadde, 2002; Halinen and Törmroos, 2005). With a purpose of looking at trends and developments that happened to actors along timber

product distribution channel in a theory-building approach, I chose case study as the research strategy for this research.

Prior to data collection, another decision needs to be made with regard to whether single-case study or multiple-case study is more suitable for this study. Answering this question needs a clarification about what exactly is a case. Broadly speaking, cases include “individuals”, “organisations”, “processes”, “programs”, “neighbourhoods” and even “events” (Yin, 2008). Bonoma (1985) said that a case study is a description of a management situation. Specifically, a case is *“a description, directly obtained, of a management situation based on interview, archival, naturalistic observation, and other data, constructed to be sensitive to the context in which management behaviour takes place and to its temporal restraints”* (Bonoma, 1985, p.204).

Yin’s (2008) proposed two types of case study– single-case study and multiple-case study– each of which has two sub categories: holistic and embedded unit of analysis. Among these, the in-depth holistic case study with multiple embedded unit of analysis was chosen for the present study.

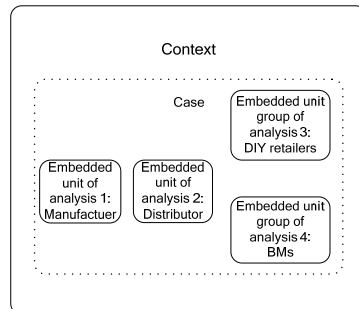


Figure 4.2 Design for Case Study

There is a degree of ambiguity between case and unit of analysis and there is currently no conceptual boarder line between the two (Grünbaum, 2007). Some believe that there is no distinction at all (e.g., Patton, 2002), while others separate case from unit of analysis, because the unit of analysis defines what the case study should focus on (Berg, 2001). Figure 4.2 displays my design for the case study. The present study treats case and unit of analysis differently. The case is the situation of of distribution channel that includes manufacturer, distributor, DIY retailers and BMs, in which the management behaviour takes place. The case is constructed to the context of timber products distribution. The channel actors form the units of analysis. Each DIY retailer or BM is a unit of analysis. However, due to their similarities, two unit groups, DIY retailers and BMs, are formed in order to facilitate cross-group analysis.

4.3.2 Selection of Case and Units of Analysis

Strategic selection of case can increase generalisability of case studies (Flyvbjerg, 2006). Flyvbjerg (2006) summarised two general type of selection, including random selection and information oriented selection. I chose the information oriented selection as my case selection strategy, because my goal was to maximise the utility of information from small sample. Following this logic, a critical case sampling was adopted. According to Flyvbjerg (2006), a critical case study is defined as having strategic importance in relation to the general problem (p.229).

The case selection for this study was based mainly on the following criterion: some major trends and developments that have happened to actors along distribution channel influence their strategies or operations. The recruitment of case and units of analysis was influenced by my research project. The choice can be categorised as theoretical sampling, in which “the cases may be chosen to replicate previous cases or extend emergent theory, or they may be chosen to fill theoretical categories and example of polar types” (Eisenhardt, 1989, p.537). Although the connection to a specific organisation could be seen as a limitation, the case of SCA is a relevant and interesting case to study. Their strategic move, the vertical integration of distribution, displays a major change of a manufacturer’s distribution channel. Their customers in the DIY sector represent an increasing retail sector that has reported several trends and developments, such as consolidation. Despite the growing importance of this retail sector, it has received limited research attention. Therefore, I believe the distribution channel and its actors fit well with the case selection criterion. Besides, the close connection with the supplier can also be seen as an advantage since the access to key respondents in both the supplying company and the downstream buying companies was secured. The close relationship with the case units allowed me to gather information through informal and formal conversations, meetings and field visits.

4.4 Data Collection

According to Saunders *et al.* (2007), data can be primary and secondary. Primary data is collected for the researchers’ own purpose and secondary data has already been collected by other researchers, for other purposes (Saunders *et al.*, 2007). Yin (2008) identified six sources of collecting data for case studies: documents, archival, records, interviews, direct observation, participant-observation, and physical artefacts. Yin (2008) also suggested that all the six sources have their advantages and disadvantages and that no single source is superior to the others. In fact, a good case study should use as many sources as possible. Frey and Fontana (1991) noted that case studies normally focus on two types of data gathering: observation and interviews. In the former case, a researcher plays one of the several roles as a participant observer watching and listening as events unfold and members interact in a setting. In the latter case, the researcher asks probing or directed questions that reflect earlier observation or theoretical orientation (Frey and Fontana, 1991).

The primary data collection technique employed in this study was semi-structured interview, which were conducted in an open-ended nature, but followed a certain set of questions. Semi-structured interview provided better flexibility; the questions crossed broad areas of decision activities and, as such, made it possible for me to ask for details on relevant points. In other words, the question order and probes did not follow exactly the same route for all interviews because of elaborations by respondents when answering. All the semi-structured interviews were conducted face-to-face.

The data collection was conducted between May 2009 and April 2010 and the entire process can be split into two stages. The first stage included a trip to the UK in May 2009. During that trip, I intensively visited the supplier's sites in Stoke and Whelspool, as well as some reseller stores, which comprised both customers and non-customers of the supplier. My interest was broad and open at that time, since the objective of that trip was primarily to explore the timber products distribution industry and draw a picture of the current channel of distribution. In the second stage, I made another visit to the UK in January 2010. Follow-up interviews were conducted with some of the respondents interviewed in the first stage in order to check whether anything new had emerged and whether their perceptions towards some questions had changed. The data collection became more focused and additional interviews were carried out in order to gather information for the questions brought forward during the course of study. Meetings were also held with managers based in Sweden as a part of the second stage. The discussion with Swedish managers evolved around two streams: one was to understand the distribution strategies from a strategic level and the second was to discover how the company's Swedish operation and British operation influence each other. A total of 29 interviews, ranging in duration from 30 minutes to 120 minutes, were conducted with 24 interviewees from eight organisations representing the manufacturer, distributor and reseller in the distribution channel.

It is important that the selected cases are relevant to the purpose of the study and that the respondents have sufficient information on the studied phenomena. Respondents from the supplier company included the marketing director and product manager in Sweden, the managing director, operation director, marketing director, three account managers, warehouse and transportation director and the purchase manager in the UK. These respondents were chosen because I felt they represented multiple functional areas in the organisation, which could provide perceptions from a variety of angles. Additionally, I believed that these respondents possessed information that was rich and relevant to the research questions.

DIY retailers and builders' merchants from the supplier's customer base were selected for two purposes. The first was to explore the developments of resellers and the second was to examine interactions between the supplier and its customers. The chosen DIY retailers and BMs are leading companies in the British market and account for a notable portion of the market share. In most cases, I talked with timber buyers and store managers. Table 4.2

presents the studied companies and the interviewed respondents. The figures in brackets represent the number of people interviewed.

Table 4.2 Companies Studied and Respondents Interviewed

Position in Distribution Channel	Company	Company Type	Respondents
Manufacturer	SCA Timber	Timber Manufacturer	<ul style="list-style-type: none"> • Marketing director • Product manager
Distributor	SCATS	Timber supply	<ul style="list-style-type: none"> • Managing director • Operation director • Marketing director • Account managers(3) • Warehousing and transportation director • Production manager • Purchase manager
Reseller	Homebase	DIY retailer	DIY manager and store manager
Reseller	Focus	DIY retailer	Trading manager, garden buyer and store manager
Reseller	Wickes	DIY retailer	Timber buyer and store manager
Reseller	Travis Perkins	BM	Timber buying manager and store manager
Reseller	Buildbase	BM	Store manager(2)
Reseller	Selco	BM	Store manager (2)

Non-participate observation was also used under certain circumstances. Firstly, I sat in one sales meeting when the supplier's sales manager was discussing the possibility of supply machined products to a particular client. I also visited the warehouses at two locations in the UK to observe how these warehouses were organised as well as how materials or products came in and were sent out if ordered. Last but not least, I joined two account managers on their regular visits to DIY and BMs stores during my two trips to the UK. My intention was to observe how the account managers interacted with customers in terms of solving problems, taking advices, introducing new products into a range and presenting new product ideas and so on.

In addition to primary data collected from interviews and observations, secondary data was collected from multiple sources. The secondary data sources included annual reports, sales report, sales meeting presentation materials, internal magazines, product lists, posters and

flyers at stores. Good arguments can be found in the literature to support the usage of mixed data sources. Bonoma (1985) stated that mixed data sources serve as a means of “perceptual triangulation” and provide a fuller picture of the business units being studied. In line with this statement, Woodside (2010) added that the use of mixed or multiple data collection methods in case study research usually contributes more than generality to increase accuracy and complexity/coverage in a study. A mixed method approach is likely to provide confirmation and disconfirmation of some beliefs and feelings of participants collected during interviews. A rich, deep insight into what is happening and why it is happening can emerge from such mixed-method research studies (Woodside, 2010).

4.5 Data Analysis

Data analysis was probably the most complex and challenging task of all of the phases for me in this qualitative project. The challenges lay in interpreting and structuring meanings from the data. Miles and Huberman (1994) recommended a three-phases method to conduct data analysis that included data reduction, data displaying and conclusion drawing.

- **Data Reduction:** The objective of this stage is to organise the data so that conclusion can be drawn and verified. For this reason, the selection, abstraction, simplification, focus and transforms of data should be carried out.
- **Data Displaying:** Once the unnecessary data has been excluded, the rest of the data should be displayed in an organised, compressed manner. This makes it easier for the reader to read and easier for researchers to draw conclusions.
- **Conclusion Drawing:** This is the final analytical activity for researchers. Here, the researcher must decide the meaning of things by noting regularities, patterns, explanations, possible configurations, causal flow and propositions (ibid).

Having reviewed the data analysis procedure, it was possible to identify three steps. Firstly, I adopted multiple methods to collect the data. All interviews were recorded and transcribed. Then data was reduced and only the relevant and significant data was kept; this meant that the data that matched or mismatched the frame of reference was kept. From the remaining data, the key points were marked with a series of code that were extracted from the text. The codes were grouped into similar concepts in order to make them more workable. Categories were found from these concepts. Tables and figures were also developed to integrate findings across respondents and to answer the focal questions. Interpretation of the data occurred by iterating from the data to the theory and back again in order to make sense of the data. The main goal was to obtain a holistic and illuminating grasp of meaning (Spiggle, 1994). The primary objective of analysing and interpreting the interview data was to determine categories, relationships and assumptions based on the respondents’ opinions of the topics through movement from data to observation and to conclusions, while also iterating with the theories at the same time (McCracken, 1988). Overall, interpretations of the data, along with triangulation from primary and secondary data analysis, resulted in common themes.

Within case units, the empirical findings for each research question included in this study were compared to the literature featured in the conceptual framework. The analytic process consisted of several stages, each of which represented a higher level of generality in a circular way in order to arrive at conclusions and to generate or confirm conceptual schemes and theories that describe the data (McCracken, 1988). Finally, the findings were verified with the theories mentioned in the previous chapter and conclusions were reached. Additionally, the case units of resellers were compared with each other in order to identify any similarities or differences. To summarise, several different approaches were utilised in order to analyse the case data. The primary analysis techniques included pattern matching, explanation building, within-case analysis and cross-case unit analysis. Various charts and tables were also utilised as part of the data analysis.

4.6 Quality Standards: Validity and Reliability

The quality concept in a qualitative study has the purpose of generating understandings (Stenbacka, 2001). A good qualitative study can help “understand a situation that would otherwise be enigmatic or confusing” (Eisner, 1991, p.58). Validity and reliability are the most commonly used criteria evaluating the quality of qualitative research.

4.6.1 Validity

Validity refers to whether the findings are really about what they appear to be about (Saunders *et al.*, 2007). Construct validity is especially significant in case study research. In order to overcome this problem, Yin (2008) recommended three case study tactics to increase the construct validity: (1) use multiple sources of evidence, (2) establish a chain of evidence and (3) have key informants review a draft case study report. Yin (2008) continued by pointing out that the internal validity is used for causal studies only and not for descriptive or exploratory studies. Therefore, the present study did not take internal validity into account. The external validity concerns whether the research findings can be applied equally to other research settings, such as another organisation (Saunders *et al.*, 2007).

External validity is commonly discussed in conjunction with generalisation, which deals with “what is the case in one place or time, will so elsewhere or in another time” (Payne and Williams, 2005, p.296). In business-school studies, researchers are interested not only in development, testing, and confirmation of theories, but also in applying of theories in real business settings. The most important form of generalisability in business-school research is the generalisability of a theory to a description which would be used in a new setting, for example, a setting other than the theory was empirically tested and confirmed (Lee and Baskerville, 2003). This type of generalisation is classified as generalising from theory to description. It involves generalising from theoretical statements, which have already been developed, tested and confirmed in a published journal articles to empirical statements (Lee and Baskerville, 2003).

Critics typically state that single case study offers a poor basis for generalising (Bonoma, 1985; Eisenhardt, 1989). However, Yin (2008) argued that such critics are implicitly contrasting the situation to survey research, in which a sample readily generalises to a larger universe. This analogy to samples and universes is incorrect when dealing with case studies, because survey research relies on statistical generalisation from a sample to a population, whereas case studies rely on analytic generalisation, in which the investigator is striving to generalise a particular set of results to some broader theory (Yin, 2008). As an echo to Yin's (2008) argument, Riege (2003) explained that the focus of analytical generalisation relies on an understanding and exploration of constructs. The understandings and exploration are usually achieved by comparing of initially identified or developed theoretical constructs with the results of single- or multiple-case studies (Riege, 2003). Maxwell (2005) differentiated internal generalisability from external generalisability, with the former referring to the generalisability of a conclusion within the underlying setting or group and the latter relating to generalisability beyond the group, setting or context. According to Maxwell (2005), internal generalisability is typically more important to qualitative research than external generalisability (Maxwell, 2005).

External validity of case studies could be jeopardised by threats that might occur at the research design/data collection, data analysis and/or data interpretation stages (Onwuegbuzie and Johnson, 2006). The literature suggests various techniques for establishing or enhancing external validity in case study research. For instance, Riege (2003) summarised that using replication logic in multiple-case studies, defining scope and boundaries of reasonable analytical generalisation for the research and comparing evidence with extant literature could help establish the external validity of case studies. Besides, triangulation is a frequently mentioned technique that is very helpful in enhancing research validity. According to Fielding (2010), triangulation uses more than one method and weigh up the outputs from these methods in order to assess the extent to which they confirm or contradict each other, and what this reveals. In particular, it can often be useful to use a combination of quantitative and qualitative methods to gain a broad overview and insight into what the data mean (Fielding, 2010). Triangulation aims to provide a larger database, further de-coding and interpretation of data and additional methodological rigor (Frey and Fontana, 1991).

In order to ensure the quality of research, some steps were taken to enhance the validity and reliability of the case study process. These steps are discussed below.

Construct validity: Multiple sources of evidence and informant review were utilised. Interviews were conducted with between two and 10 individuals at each organisation. The selection of informants was handled very carefully; only the individuals who were considerably involved in the managerial situations upon which the study focused were chosen. The respondents represented different actors along the distribution channel and different fields within the organization. After summarising the interview data, case descriptions were sent to the various organisations for review. Unfortunately, only very

few respondents had sent feedbacks to me. The reply rate from the customer side was particularly low. Based on the limited feedback received from the respondents, minor changes were made to the documents. As a supplement to the interviews, observations and analysis of documents were used to verify the data. Apart from mixed data collection methods, several theoretical schemes, such as distribution channel, retailing, purchase and logistics were used to interpret the phenomena.

Internal validity: The analysis of the case study involved looking for patterns among the various customer units and building explanations concerning as to why these patterns existed.

External validity: Replication logic was used in multiple-case unit studies to establish the domain to which the findings can be generalised. This step is important for ensuring external validity. The reseller case units represent different conditions, such as product and service, size of timber section and volume of purchase, with varying outcomes. Concomitant with this diversity, there are some commonalities among the resellers' developments and demands.

4.6.2 Reliability

Reliability deals with if a later investigation follows the same procedures of earlier studies, the later study should reach the same findings and conclusion (Yin, 2008). Four factors can pose great threats to reliability: participant error, participant bias, observer error and observer bias (Saunders *et al.*, 2007).

To ensure the reliability of this study, the tacit of case protocol suggested by Yin (2008) was considered. A case protocol, consisting of an overview of the case study project, the field procedure, the case study questions and a guide for the case study report, was developed with the assistance of several reviews by the author's supervisors to help increase the reliability of the research results. At the data collection stage, respondents were allowed to choose the most suitable date and time for them to do the interviews. Ideally, the interviews would take place when the respondents were not in a great hurry and they were neutrally motivated to answer my questions. Open-ended questions were used in order to allow the respondent to express their meaning in their own words rather being led.

4.7 Summary of Research Methods and Process

Table 4.3 summarises the research methods discussed above; options for each aspect are presented and then the author's choices are listed.

Table 4.3 Summary of Research Methods

Research Methods		Options	Methods chosen
Research purpose		Explanatory/descriptive/exploratory	Mainly exploratory, partially descriptive
Research approach	Reasoning process	Deductive/inductive/abductive	Abductive
	Enquiry form	Qualitative/quantitative	Qualitative
Research strategy		Experiment/survey/archival analysis/history/case study	Case study
Data collection	Type of data	Primary data/secondary data	Primary and secondary data
	Source of data	Documents/archival/records/ interviews/direct observation/ participant-observation/and physical artifacts	Documents/archival/records/ interviews/direct observation
Data analysis		Within case analysis/cross case analysis	Within case unit analysis/cross case unit analysis

Most of the research procedure is described in the sections on research approach, data collection and data analysis. Instead of repeating them here, the main steps taken during the research process are noted here (see Figure 4.3). I started with existing theories, most of which are published in the fields of marketing, logistics, retailing and supply chain management related. These publications offered theoretical knowledge and also some existing findings, both of which contributed to the development of the prediction framework. Research methods were then decided on and fieldwork was conducted in order to explore the real-life context. There was some back-and-forth. The theory framework was adjusted based on my observations in the UK. When the data collections was completed, a grand case report embracing all the information collected was documented but only the data relevant to my research questions was retained for the next step, which was data analysis. Data was compared with the prediction framework and matches and mismatches were recorded and discussed, which led to the final conclusions.

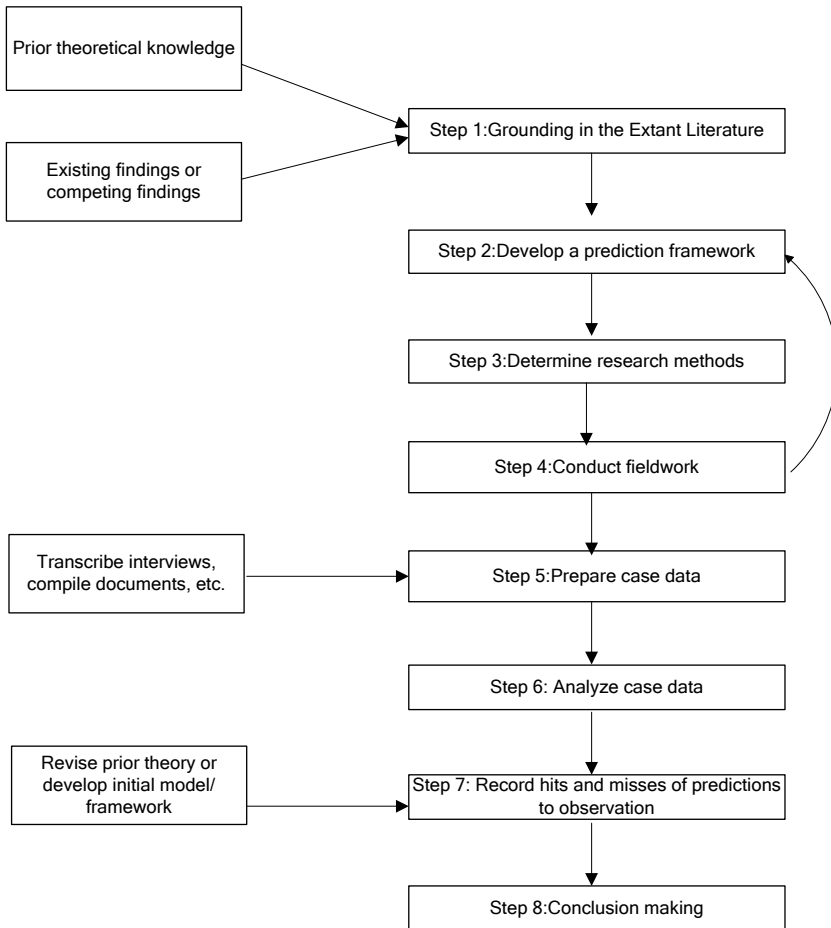


Figure 4.3 Research Process

5. DATA PRESENTATION

This chapter presents the empirical data collected from actors in three successive stages of the timber product distribution channel - manufacturer, distributor and resellers - the first two of which only included one case unit each. Multiple units were studied in relation to the last actor. Information is organised under sub-headings with the purpose of obtaining solutions for the research questions.

5.1 SCA Timber

SCA Timber is part of SCA's Forest Products, which produces publication papers for newspapers, magazines and catalogues, pulp and forest-based bio-fuels. SCA Forest Products also manages SCA's extensive forest holdings, supplies SCA's Swedish industries with raw wood materials and offers transport solutions to SCA's units. SCA Timber is one of the largest sawmill companies in Europe and it includes seven sawmills, wood-processing units, distribution and wholesale operations. The total production of solid-wood pre-cuts amounted to 1.8 million cubic metres in 2009.

During 2003 and the first half of 2004, SCA Timber conducted an extensive review of its strategy. It formed the following new strategy in response to the changing environment: *Gradually and systematically SCA Timber shall develop relationships with selected customers toward a supplier role implying that SCA Timber's own products can be supplemented with products produced through outsourcing or purchased, if needed.*

SCA Timber concentrates mainly on the market for solid wood products for visible end-use, such as wood for joinery and interior decoration. It places substantial importance on its preferred market segments, such as the wood industry and modern building material distributors. SCA Timber has adopted two principal directions in its strategy. The first is to become a supplier to the wood processing industry, providing products that have been made ready for the next stage in the processing chain. The second is to become a supplier of finished solid wood products to the builders' merchant sector. Today, the company has three lines of business:

- Traditional raw material makes up 35 percent of net sales (50 percent of volume)
- Industrial timber accounts for 40 percent of net sales. Developed timber products, such as components, are supplied directly to industrial manufacturers of windows, flooring, furniture and laminated wood beams.
- Supplies to DIY retailers and builders' merchants constitute 25 percent of net sales. A broad range of processed wood is kept in stock for rapid and precise deliveries to retailers and merchants depots in the UK, Scandinavia and the eastern United States.

Scandinavia, France and the UK (including Ireland), are the main markets for SCA Timber, making up 58 percent of total sales. Scandinavia is the largest market for SCA Timber. In terms of value, it is almost double size of the company's second biggest market, the UK. France is ranked third, followed by Japan and the US. SCA Timber provides a

wide range of products and services to these markets, as well as storage and advance distribution. In these markets, SCA Timber focuses on many different segments and has created its own strong in-house sales organisations and logistics systems. In addition, they offer a “just-in-time” service to the main markets from their supply terminals and wood-processing facilities. In England in particular, they serve the building material market from their distribution centre in Stoke-on-Trent in accordance with a “supply chain” concept.

In addition to these main markets, SCA Timber is also active in a number of niche markets. These are equally as important as the main markets, the difference being that SCA Timber specialises in just a few segments. It may involve supplying building materials to companies in the eastern USA, providing components to the Italian window industry and other appearance timber industries or products for house construction in Japan. These niche markets account for 24 percent of SCA Timber’s turnover.

5.2 SCA Timber Supply (SCATS)

5.2.1 Three Sites of SCATS in the UK

SCA Timber Supply (SCATS) is a subsidiary of SCA Timber. The operations in the UK include a distribution centre in Stoke-on-Trent (referred to hereafter as Stoke), a wood-finishing operation in Welshpool and a wholesale operation in Hull.

Stoke-on-Trent

Supplying DIY retailers is a totally different business from the traditional timber business. Retailers demand that suppliers offer holistic solutions and provide a skilfully crafted range of products, as well as warehousing distribution options. The customer base also calls for a product range that is more focused on wood, which is delivered shrink-wrapped and bar-coded. In order to extend its reach in the UK market and to sell more timber, SCA Timber started to investigate the possibilities of supplying the DIY segment. The investigation result showed that, in order to supply the DIY retailers in the UK, a distribution platform was needed.

In 2003, SCA Timber acquired BLC, a British distribution company. SCA Timber was a supplier to the British distributor, helping it fulfil customer requirements for redwood and white-wood products. BLC mainly supplied wood-based products to DIY retailers but also some builders’ merchants. Stoke lies in the heart of the populous Midlands region of the UK, with a substantial proportion of the English population living within a 100km radius. Many of the company’s customers are active in both the DIY and the builders’ merchant sector. The main concentration of the Stoke operations became the provision of supply chain management services to large DIY home improvement product retailers from its base. Using a break-bulk business model, BCL Stoke was able to offer swift and accurate procurement, selection and delivery of products, often using its small planning

mill and sheet material cutting facility to service highly specialised requirements. It also achieved Forest Stewardship Council (FSC) chain-of-custody certification.

In May 2004, BLC changed its name to SCA Timber Supply UK (SCATS). Through the acquisition, SCA vertically integrated further down in the supply chain and became a supplier to DIY retailers. In doing so, SCA Timber went from not supplying at all to being the second-largest supplier of solid wood to the DIY retailers in the UK. Adding SCATS to UK businesses not only provided SCA Timber with distribution and processing facilities in strategic locations, it also gave the company expertise regarding the needs of the British DIY retailing and BM sector.

SCATS supplies nearly 1000 DIY and BM branches across the UK. Including both indoor and outdoor storage, the distribution centre has a capacity of 42,000 cubic metres. Other than distribution capacity, SCATS has a complementary wood finishing facility with a smaller planning mill and packaging line. Most of the finished products are door frame components, which are packed in accordance with customer requirements and marked with a barcode. The capacity of the packing line is around 600 sets per hour. In addition, the facility carries out service planning of Plan-All-Round (PAR) and mouldings.

SCATS sources from over 100 external suppliers and handles over 800 types of products. Sixty-five percent of SCATS's inventory is distributed to the DIY sector. The SCATS warehouse is 22,000 square metres; it deals with 800 barcodes and is divided into three parts: tank area, shelf area, and ready-to-go area. The products arrive at the tank inventory area and are then broken into small batches and put on pre-defined shelves. When orders come in, workers drive trolleys around the shelves following an "S" route. Order pick-up should be completed when the trolley arrives at the end of the shelves. The last step is to move the ordered products to the ready-to-go area. About 20 trucks enter this area everyday and 15 leave it. Approximately 700 delivery drops are made every week in this warehouse to the DIY retail and BM trade. The transportation has been outsourced to a third-party logistics company. The company has attempted to optimise its transportation: a change of transportation provider occurred in 2008 in response to the old provider's costly service.

Welshpool

The second step on the way to becoming a "one-stop-supplier" was completed in 2007 with the acquisition of Severn Timber in Welshpool. This acquisition opened up a further substantial channel for supplying the builders' merchants market. Before the acquisition, SCA Timber and Severn Timber had cooperated in processing, distribution and sales for several years. The acquisition fits well with SCA Timber's strategy of increasing its proportion of finished products by reaching the building materials trade that focuses on the "professional" market (construction companies, carpenters and craftsmen). Severn Timber provides SCA Timber with a direct channel for finished solid wood products, from the

forest to the builders' merchants, which has strengthened their position as a supplier to professional builders.

Severn Timber has three planning mills, one automated saw line, two advanced value-adding bailing units and a treatment facility, as well as warehouses. Severn Timber turns sawn solid wood products into planed and treated products at its base in Welshpool. It is a major supplier of solid wood products to the BM sector. The production capacity is approximately 70,000 cubic metres. Due to the product specification, some raw materials are purchased from outside their mother company, SCA Timber. Approximately 300 delivery drops can be made per week to BM companies in England and Wales. In order to guarantee the supply to DIY and BM customers, two to three weeks' worth of stock is held in Severn Timber side and six to eight weeks' stock is held in Stoke.

After these two steps, SCA Timber made great progress in being a one-stop supplier to the DIY and BM sectors. Currently, SCATS runs two different businesses: a traditional bulk importer business and a distributor/wholesaler business. The traditional part of the UK business supplies bulk volumes of sawn timber mainly to other industries but also to the national BMs who have their own wood machining and distribution businesses.

Hull

SCATS's terminal depot and wholesale operation is strategically located in the city of Hull, a leading port for overseas trade, particularly for sawn solid wood products. Every two weeks, vessels from SCA Timber's sawmills arrive at the King George Dock. The ships are loaded with wood-based products made from raw materials originating in the pine spruce forest of northern Sweden.

The terminal in Hull receives 215,000 cubic metres of sawn solid wood products every year, and has a total storage capacity of 25,000 square metres, 15,000 of which are under cover. Solid wood products are stored here before being transported to customers in the timber industry and the BM sector, as well as to SCATS's own operations in Stoke-on-Trent and Welshpool.

Better access to market intelligence stimulates the entire company to be more market-oriented. For example, SCA Timber periodically reviews the effects of changes in their business environment, such as regulations and raw material supply volume. Interdepartmental meetings are held to discuss market trends and developments. Market intelligence can be generated from both formal meetings and informal talks, such as lunch with industry friends and talks with trade partners.

5.2.2 Offering

Core Products

At a strategic level, SCA Timber develops “visible wood” products for interiors and carpentry. A large market for the company is developed wood, which refers to products that are customised for the next stage in the processing chain and are supported by services and warehousing that is integrated into the customer’s distribution and sales. Another growing market is semi-industrial and industrial wood input materials, which are delivered as finished products in various lengths, dimensions and quality of selected raw materials.

Looking at the product portfolio, SCATS provides a full range of timber or timber-related products by its own production or external suppliers. The main products include planed wood products, mouldings, solid wood flooring material, door-lining and casing sets, decking/garden timber, edge-glued-panel(EGP)/furniture material, window material (blanks/components) and standard sawn solid-wood products. As a complement, kitchen worktops, chipboard flooring, melamine-coated chipboard, sheets and cut panels of MDF, chipboard, hardboard and plywood are sourced from other suppliers.

Delivery Services

The service business is growing within the company’s total offering. In order to meet the needs of various chains, a delivery service is available with both fully-loaded trucks to distribution centres and multiple-drops to branches with small quantities. In the UK, some chains have their own distribution centres, while others do not. For those who do not have distribution centre or do not want to distribute from their own distribution centres, the delivery service from outside the distribution centres directly to branches is required. Since the value of order from a single branch is low, it is beneficial for SCATS to have a distribution centre and make joint delivery with several types of products, as well as to make a few drops on each delivery.

Training

Training programmes are provided to customers, ranging from half-day basic housekeeping to the long-term Timber Champion course, which was provided to the store personnel from the Focus chain last year, for example. Participants gather once a month for lectures. After six months, a test was given. Those who passed the exam were rewarded with a trip to Sweden to visit the forest and production sites owned by SCA Timber.

Merchandising

There is a demand for private branding from all of the studied DIY retailers. This means that they require wrapping and label bar-coding services, which are not emphasised by BMs. In 2005, SCATS invested in a wrapping and branding station at the distribution centre in Stoke. SCATS also works together with another company G (not its real name) in merchandising support. G promises a two-hour call in-store call each month. They will

complete inventory and housekeeping tasks, including correct pricing, stock availability, removal of damaged items, project quantities, planagram integrity and photographs. In addition, they are responsible for setting and maintaining old stock clearance bin. A monthly DIY retail price tracker with movements and promotional updates is also available for retailers.

E-business Application

WoodShop, SCA Timber's Internet wood trading website, is the instant-access timber purchasing system from SCA Timber and an extension of SCA Timber's customer service capabilities. It simplifies the purchase of wood products from SCA Timber and the service is available for customers in 24 hours a day, seven days a week. WoodShop focuses on industry and supply chain management sales that establish direct contact with customer without wholesalers. SCA Timber feels that this e-business application can create higher product value by providing customer with a chance to monitor and streamline the supply chain.

Account Management

SCATS feels that its partnership with key customers is strategically important. At the highest level, SCATS has two large accounts: DIY and BM, within which sub-accounts are created. One or several managers are assigned to manage an account, depending on the size of that account. One account manager (AM) might be in charge of several accounts at the same time. AMs act as the liaison between SCATS and its customers and are responsible for monitoring those clients and coordinating the marketing- or sales-related activities in order to maximise the value of the products and services provided. AMs work closely with clients to determine the clients' needs and make sure that the products and services provided meet those needs. It is the AMs' duty to maintain and retain their portfolio of clients and sales is also a part of the AMs' job, although the current strategy is to grow sales with the existing customers.

Marketing Support

In addition to in-store merchandising and staff training, SCATS is now working with the Focus chain on a promotion campaign – Wood for Good. This generic wood campaign started in 2000 and is now the largest timber promotional campaign ever undertaken in the UK. The objective is to increase the value of wood sold in the UK by promoting wood's role in sustainable construction and in mitigating climate change through advertising and public relations, website, online learning, seminars and publications.

SCATS has cooperated with Focus to design a timber guide and how-to leaflets (a simple timber guide), covering Focus's whole range of products to help end consumers choose the right product for the right job. These can also be utilised for store staff training. Webcard is run alongside the timber guide and enable end consumers to visit the Focus website and download the information required. Since September of 2008, they have launched project flyers to run alongside merchandiser calls, in order to help consumers'

vision about timber usage. Posters of timber products usage developed by SCATS can be found in BMs' stores as well, such as Buildbase.

Partnership

A selective customer retention strategy is adopted. SCA Timber prefers customers that can make them profitable and enable them to do the same in return. SCA Timber has evolved from conducting deals via middlemen to collaborating on an increasingly closer and deeper level with its customers. They want to work with successful customers that are growing and have a high level of expertise. One of the criteria for this is that they purchase products that are profitable for SCA Timber. Above all, SCA Timber's priority customers are those who want to actively collaborate with them in order to lower common costs.

The personal relationship becomes more important when SCATS are in a close partnership with its customers. To SCATS, it is important to have an open relationship between seller and buyer. This means that the relationship must be strong enough to be able to accept mistakes and 'bad days'. All personal relationships with customers are individual and must be maintained individually. A trend is that buyers are becoming more professional, which, to some extent, affects the way of working with customers and demands a more professional attitude and treatment from the supplier.

5.3 DIY Retailers

DIY retail is considered a strong, expansive and profitable customer segment for SCATS. The British market for solid wood has experienced a fierce consolidation phase. This trend is particular prevalent in the retail sector. SCATS supplies three out four large DIY chains in the British market. Table 5.1 presents a summary of these companies.

Table 5.1 Summary of DIY Retailers Studied

DIY Retailers	Number of Stores	Turnover	Customer Demographics
Homebase	345(End of 2009)	£1.51 billion	Home owners/ Home improvers
Focus	181 (May 2009)	£550 million	Home owners/ Home improvers
Wickes	190+	£900 million	Home owners/ Home improvers/trade

Source: Annual company reports and accounts

Homebase

Homebase is the UK's second-largest home improvement retailer, with more than 300 large, out-of-town stores throughout the UK and the Republic of Ireland. Homebase sells over 30,000 products across its DIY and decorating, home and garden ranges and has a

growing Internet offering. It serves over 70 million customers each year through its stores. Homebase added 14 stores in 2009, taking its portfolio to 345 stores. The portfolio was 287 stores in 2005. Homebase has increasingly been selling a broader range of home enhancement products and services alongside traditional DIY goods and materials. In the latter half of 2007, Homebase rolled out kitchen installation service. Over the year of 2008, they introduced a greater number of value lines across a large number of product categories.

Homebase serves as a good example of a DIY chain with an increasingly soft offer. Homebase has got new management and has started transforming its stores to offer a softer DIY with focus on furniture, paint, wallpaper and internal decorations. With the present strategy, although timber is only a small part of the total Homebase offering, it remains very profitable. Homebase does not aim to be the cheapest in timber, but instead to offer good quality and innovative products. Homebase's target customer group has higher economic competence, so its price level is slightly higher than that of Focus and Wickes.

Homebase has a partnership with its suppliers, and refers to its close partners as "category captains". The category captains are key suppliers who can manage a given product category of the business together with the retailer. That means that they will monitor sales, stock levels and so on. Category captain are seen as proactive drivers in the relationship and suggest improvements in the business, including marketing, logistics, product development, innovations and range reviews. As a result, the category captains take some of the workload off the buyer. The buyer is involved in a large number of product categories and, as a result, do not have time to fully focus on any one in particular. Consequently, the buyer requires a good partnership with its key suppliers who can take responsibility for the development of their category.

SCATS has been working with Homebase for over seven years. The products that SCATS supplies range from swan timber, architectural mouldings and claddings to linings, panels and worktops. All products are DIY consumer adapted. Once timber reaches the UK, it is taken to SCATS's distribution centre in Stoke. It is then finished, packed, labelled and bar-coded before weekly shipments are made to Homebase stores up and down the country.

According to the Homebase manager responsible for the company's DIY product range, SCA Timber's extensive and unrivalled holding is an important reason why Homebase chose it as a partner. The choice is generally characterised by a desire to use fewer, larger and better suppliers. In addition, good access to an independent supply of raw materials ensures long-term availability of finished products. Furthermore, vertical integration of distribution promotes an understanding of the importance of cost averaging at each stage. Because of these reasons, Homebase regards SCATS as an important supplier.

Focus

Focus serves the light DIY market sector and most stores have some form of garden centre. Focus operates 181 stores and aims to be the store of choice and convenience for DIY and products to consumers seeking to undertake light home improvement and maintenance projects. Focus offers a broad range of its own branded products for enhancing home and garden as well as the tools to carry out projects from paint, wallpaper, bathrooms and kitchens to power tools and building materials. In October of 2008, Focus launched the Payless DIY brand and gardening products, which aim to provide customers with great value at low prices. As part of a major business move, the first quarter of 2009 saw most stores re-fitted with pet supplies, household goods (cleaning materials etc.) and houseware. Focus's target customer group is average public.

Like its peers in the DIY market, Focus has been adversely impacted by a significant downturn in consumer demand and the long-term contraction in the size of the DIY market. With a store portfolio in desperate need of investment, the retailer has embarked on the rollout of its new Genesis store format, which includes a significant improvement in store layout and environment. The retailer has so far refurbished five stores based on this blueprint and has previously stated that it has plans to embark on a three-year rollout to the rest of its estate. As of January of 2010, there have been five new format stores, in Wantage, Pontardawe, Harrogate, Wymondham and Woking.

Usually, Focus has two to three suppliers for each category. For timber products, Focus now keeps three suppliers, one of which is SCATS. SCATS supplies Focus with DIY swan timber, architectural mouldings, flooring, edge-glued panels, chipboard and work tops etc. The purchase amount from SCATS was about £6.1 million in 2009. Focus is in close cooperation with some suppliers and the trading director claims the company has partnership with its suppliers. However, management sometimes still demands heavy price reduction from its suppliers, which undermines the partnership. Focus works with category management within the company but not opened up widely to the suppliers.

Although DIY retailers consider innovative products to be critical, not many new timber products have emerged on the British market over the last 10 years. Deck-in-a-Box is probably one of the few exceptions, which appeared as a result of Focus appealing for new products for their stores. The concept was an easy-to-assemble, modular system for decking because it was felt that there was no such DIY-friendly system available on the market. A product development project was started at SCA Timber in conjunction with three local subcontractors. The objectives were that the final product should include a minimum number of components, be easy to transport in a car and put together using only a screwdriver. In addition, the product should be FSC-certified and use a pressure treatment solution with a low environmental impact. Most importantly, the price should be in line with the corresponding price of buying the individual component parts. The finished product: Deck-in-a-Box, was ready to introduce after six months. The product is available in several different dimensions that fit different garden sizes. The box comes

complete with all the necessary screws and brackets to fit the deck and an instruction manual and checklist is attached. A number of innovative solutions and metal brackets allow for a slimmer construction and lower volume of wood consumption than for the same product built using solid timber. The product satisfies customer needs of three easy: easy-to-shop, easy-to-take home and easy-to-install. The product was also competitively priced. The product was distributed from SCATS's distribution centre and warehouse in Stoke and sold exclusively through Focus's stores since March of 2008.

However, when selling the product to Focus, the supplier encountered difficulties. The product manager from SCA Timber claimed that it was not easy for them to make Focus understand the value that had been generated. The supplier did some calculation and comparisons in order to show how much the end consumer can save, but the savings and potential to increase sales for retailers were not clearly realised and defined by either the supplier or the retailer.

Wickes

Wickes currently has a portfolio of over 190 stores. The Wickes range contains over 8,500 products, more than 3,500 of which are available on their website. Wickes' stores and website stock a wide selection of own-brand home improvement products designed to appeal to tradesmen who undertake general repairs, maintenance and improvement project for households and small business, as well as to serious DIY customers who carry out more complete and complex DIY projects. These customers are more demanding in terms of, quality and price. Wickes meet customers' expectations by offering a focused range of its high-quality primary brand and competitively priced home improvement products, such as timber, building materials, tools and bathrooms. They have a number of themed in-store showrooms highlighting their range of kitchens and bathrooms. Compared to the other two DIY retail chains, Wickes puts more effort on hard-side DIY products. However, some changes have been observed. In 2009, Wickes completely pulled out of the fitted bedroom and conservatory markets. The company had previously been the UK's largest conservatory retailers but in a change of taste, conservatories were no longer considered big sellers, so Wickes dedicated its store space to an expanded kitchen and bathroom range instead.

In order to successfully handle the challenge arising from the competitive market place, Wickes had radically reengineered its total supply chain. Three distribution centres were created and the company's supply base has been extensively consolidated. Only a very small number of suppliers (an average of four), are retained for each category. Timber product is an important product category for Wickes; more than one-third of Wickes products contain some timber or timber fibre and many of these products are FSC-certified. SCATS is the only supplier of consumer adapted decking products. The relationship with suppliers was changed to vender owned and managed within the distribution centres, which enables suppliers to take responsibility for the supply chain.

Wickes has rolled out forecasting software to suppliers in order to help reduce stock levels and the number of deliveries, in order to achieve savings.

Summary of DIY Retailer Growth

Growth is a common trend for the DIY retailers, which have delivered growth by adding new stores to the portfolio, new product lines and adding services items to their customer offerings. Growth in size can be exemplified by an increasing number of stores or selling space. Expansion in scope mainly refers to adding new product lines and service items to customer offering. Table 5.2 summarises some examples of the retailer growth.

Table 5.2 Growth of DIY Retailer

	Size	Scope
Homebase	<ul style="list-style-type: none"> • Number of stores: 287(2005) to 345 (2009)(purchased 27 stores from Focus in 2007) • Store selling space at year-end: 15,398,000 sq. ft. (2008) to 15,947,000 sq. ft. (2009) 	<ul style="list-style-type: none"> • Added product range of new-energy-efficient products • National roll-out of the installation services for kitchen and bathroom • Strengthened transactional sales via internet. Added 11,000 browseable product lines • Trialled “Check & Reserve” in 25 stores
Focus	<ul style="list-style-type: none"> • 1988-1998: Expanding from its base of 12 stores and 72 stores (organic growth) • 1998: Acquired 139 Do It All (Holdings) stores • 2000: Acquired 131 Wickes stores Acquired 98 Great Mills stores • 2002: Merged with Wickes • 2005: Sold Wickes to Travis Perkins • 2007: Sold 13 Tactical stores and 39 strategic stores to a number of retailers • 2008-2010: Refitted six existing stores to the new format 	<ul style="list-style-type: none"> • Launched the “Payless” brand of products • Rolled-out the kitchen design service • Expanded the range of products are available online
Wickes	<ul style="list-style-type: none"> • 2009: Launched two new stores and total retail selling space expanded by 0.4 percent 	<ul style="list-style-type: none"> • Refreshed showrooms which dedicated to kitchen and bathrooms • Expanded bathroom offer • Added new design consultant services

Summary of Offerings to DIY Retailers

Table 5.3 displays a summary of products and services provided by SCSTS to customers in the DIY sector. It is noteworthy that the timber products displayed here are very general. In fact, there could be many products that varied in wood species or dimensions belong to the same product type. The purpose is just to show the product types rather than provide a full list of products supplied.

Table 5.3 Offerings to DIY Retailers

	Homebase	Focus	Wickes
Timber products	Sawn, architectural mouldings, claddings, linings, flooring, panels, sheets, worktops etc. (FSC Certified)	Sawn, architectural mouldings, doors, claddings, linings, flooring, panels, sheets, worktops etc. (FSC Certified)	Decking boards and decking components (FSC Certified)
Delivery	Weekly shipments to stores or multiple deliveries per week for high order volume stores.	Deliver to Focus's distribution centres	Deliver to Wickes's distribution centres
Training	Half-day basic house keeping	<ul style="list-style-type: none"> Half-day basic house keeping Timber champion 	Half-day basic house keeping
Merchandising	<ul style="list-style-type: none"> Private labelled and wrapped Two-hour in store service per month completed by third party 	<ul style="list-style-type: none"> Private labelled and wrapped Two-hour in store service per month completed by third party 	Two-hour in store service per month completed by third party
Marketing support	How-to leaflets	<ul style="list-style-type: none"> How-to leaflets Promotion campaign :wood-for-good "Why choose wood?" guide 	N/A
Account management	Account managers take responsibility	Account managers take responsibility	Account managers take responsibility
E-business application	EDI in order making and tracking	EDI in order making and tracking	EDI in order making and tracking

5.4 Builders' Merchants

Three BM brands, which are Travis Perkins, Buildbase and Selco, have been studied. Table 5.4 summarises the company size and primary customer types for each of these companies.

Table 5.4 Summary of Builders' Merchants Studied

DIY Retailers	Number of Stores	Turnover	Customer Demographics
Travis Perkins	611	£3.18 billion (Group Revenue)	Trade/Home owners/ Home improvers
Buildbase	150+	£400 million+	Trade/Home owners/ Home improvers
Selco	28	£100 million	Trade only

Source: Annual company reports and accounts

Travis Perkins

Travis Perkins (TP) is one of the UK's leading builders' merchants, with more than 600 branches nationwide. The company supplies more than 100,000 products to specialist and generalist tradesmen ranging from sole traders to national house-builders throughout Great Britain. The key requirements of TP's customers are product range, availability, competitive pricing and customer Service. The company's product lines include kitchens, bathrooms, hand and power tools, landscaping materials, general building materials, painting and decorating materials, timber and joists. . In addition to products, TP offers various services, ranging from estimating services and timber services to tool and equipment hire, for self-builders.

TP has strengthened its role as a timber supply specialist by keeping its own production units which focus on fabrication and supply roof systems, internal door-set systems, flooring, joinery and MDF mouldings. Services relating to timber products include treatment, sawing, grading and direct delivery to site. Timber is a very important product category for TP. According to the store manager, timber products contribute an average of 20 percent of a branch's turnover, although this figure could vary from branch to branch. Instead of buying machined products from external suppliers, Travis Perkins runs three sawmills because they believe this is the most profitable option. TP sources timber materials from suppliers worldwide but mainly from Nordic countries and Russia. The buying manager in charge of the timber sector says that TP values the security of supply the most, since TP is such a big group and has a high demand level. He also believes that in the future, TP will buy finished products from competent suppliers, while TP itself, will just deliver the products from their distribution centres.

Grafton Group

Grafton is the UK's fourth largest merchanting business within the plumbers' merchant and builders' merchant sectors, as well as the growing DIY market. The group is divided into three divisions: merchanting, retailing and manufacturing. The merchanting division trades from 303 branches and accounts for 85 percent of the group's turnover. The huge buying potential ensures their ability to offer their customers competitive pricing. The company has more than 500 branches under brands such as Chadwickd, Buildbase, Heiton Buckley, Jackson, Selco, Plumbase, Euromix, Woodies and Altantic Home Care. In 2009, there was an increased focus on reducing the supplier base and developing closer alliances with key suppliers.

As a competitive buyer, Grafton Group puts emphasises of supplier selection on the following aspects:

- To offer a complete range of quality material for the construction industry and DIY retail stores
- To be able to compete with the competition on all aspects of service and product range
- To be geographically located in Grafton Group's markets
- To form strong supplier relationships

For the timber products, Grafton Group demands that its suppliers to meet five criteria:

- Able to supply quality FSC certified timber products
- Able to supply a complete range of merchant and DIY timber mouldings.
- Able to provide a just-in-time service
- Able to provide staff timber training
- Able to provide marketing support and innovation ideas

Currently, SCATS has won business from three brands within the Grafton Group: Buildbase, Selco and Chadwick Building Centre. In January 2010, SCA had just won another three-year contract, starting in 2010 with the Grafton Group. Jacksons is a potential customer for SCATS.

Buildbase

Buildbase is one of the UK's fastest growing builders' merchants, with more than 150 branches. The company's turnover reached £400 million in 2009 thanks to national wide operations. All of Buildbase's branches are long-established companies that have been serving local trades people for many years, with knowledge and experience to match. They believe strongly in understanding the needs of trade professional and their business is developed specifically to meet those demands – large amounts of stocks, top quality products, competitive pricing, reliable delivery, specialist staff and exceptional customer service. The target customers are renovation- maintenance-improvement (RMI) project contractors, often referred to as 'white van man', as well as small building contractors. Buildbase is committed to sourcing timber and timber products from legal and well-

managed forests. Buildbase believes that their customers demand a wide range of FSC-labelled high-quality timber, and they value maintaining long-term relationships with suppliers in order to remain both competitive and informed.

For many years, SCATS has been one of the biggest suppliers of solid wood products to Buildbase. Buildbase is also valued as a priority customer by SCATS. The collaborative relationship began when Buildbase approached Wheshpool-based Severn Timber Products (STP) to supply planed solid wood products. As SCATS and STP became closer, the collaborative relationship between SCA and Buildbase also began to develop. Today, approximately 90 percent of all finished wood sold in Buildbase branches comes from SCATS. Total purchase volume reached 16,000 m³ and a total turnover of £5.6 million was achieved in 2009.

Selco

Selco is a fast-growing, competitive and trade-only builders' merchant with branches spanning four regions in England and Wales. Selco has a strong and unique market position, as its target customers are RMI project contractors. Selco is also a priority customer for SCATS, which supplies Selco with doors, skirtings, claddings and mouldings, etc. In 2009, Selco contributed a total £3.5 million turnover with SCATS and the total volume was 10,000m³. Selco does not have its own distribution centre, so all deliveries from SCATS have been made to branches.

Summary of BM Growth

Similar to the DIY retailer studied, BMs are also able to show growth in terms of size and scope, as Table 5.5 shows.

Table 5.5 Growth of DIY Retailer Growth

	Size	Scope
Travis Perkins	<ul style="list-style-type: none"> • 2008: Opened its 600th store • 2009: Expansion was limited to the opening of six new sites to support local authority stores 	<ul style="list-style-type: none"> • Increased the range of renewable energy products • Built tool hire service around the needs of trade • Established “in-branch” local authority service point
Buildbase	N/A	<ul style="list-style-type: none"> • Added the product range of exhibition supplies
Selco	<ul style="list-style-type: none"> • During the year of 2009, the store network increased to 28 with the opening of three new stores. 	<ul style="list-style-type: none"> • Constantly introducing new products to the product range

Summary of Offerings to BMs

Table 5.6 organises the current offerings including products and services to BMs. Not all of the items supplied are displayed in this table; however, the general product range is illustrated.

Table 5.6 Offerings to BMs

	Travis Perkins	Buildbase	Selco
Timber products	Raw materials (FSC-certified)	Boards, door tops, skirtings, claddings, mouldings, door casing sets, door lining sets, specially machined items, edge glued panels, chip board panels (FSC-certified)	Boards, door tops, skirtings, claddings, mouldings, door casing sets, door lining sets, specially machined items, edge glued panels, chip board panels (FSC-certified)
Delivery	Deliver to Travis Perkins's warehouses	Weekly deliver to stores	Weekly deliver to stores
Training	N/A	Industrial training run together with British Woodworking Federation (BWF)	Industrial training run together with British Woodworking Federation (BWF)
Merchandising	N/A	Not necessary in most cases but a few products are privately labelled and wrapped (e.g., door lining set)	Not necessary in most cases but a very few products are privately labelled and wrapped (e.g., door lining set)
Marketing support	N/A	Pocket product guide	Product profile posters
Account management	Account managers take the responsibility	Account managers take the responsibility	Account managers take the responsibility
E-business application	EDI in order making and tracking	EDI in order making and tracking	EDI in order making and tracking

6. ANALYSIS AND FINDINGS

This chapter discusses and summarises the research findings from the case study and the appended papers. The chapter also presents a holistic analysis of the thesis's overall purpose and research questions.

6.1 Developments of Resellers

6.1.1 Growth of Resellers

This study has found that resellers' developments can be described in several ways. Firstly, resellers have been growing. Peng and Heath (1996) defined that firm growth as primarily involves "expansion of organizational size measured by assets and employees; increase in volume of sales, profit level, or activities; as well as generation of new economic functions or more lines of products and services" (p.495). Measurements such as assets, employees, volume of sales etc. are relevant when examining reseller growth. However, considering the major pattern for retail growth – developing new products or seeking new markets, and acquiring business or assets – size and scope was chosen to describe reseller growth in this study. Size refers to the number of stores or selling space, while scope involves adding new products or services to the offering range.

In the case study, the resellers studied have been able to deliver their growth through both organic and acquisition growth. Homebase, added 14 stores in 2009, taking its portfolio to 345 stores, up from 287 in 2005. Besides the growing number of stores, Homebase has been adding product lines (e.g., added new-energy-efficient product lines to its product range) and services (e.g., kitchen and bathroom installation) into their offerings. The case of Focus shows some complexity. During the 1980s and 1990s, Focus managed to grow by adding new stores though organic expansion. Between 2000 and 2005, however, a few acquisitions and sales occurred within the retail chain, causing the size of the chain to fluctuate. After 2007, the current Focus chain took shape and the development strategy has focused on refitting existing stores. In 2008, Focus launched the "Payless" brand products, which represent value for money and are fit for purpose. In addition, they have rolled out the kitchen design service and expanded the range of products are available online. Wickes experienced moderate growth in 2009; only two stores were added and total selling space expanded by 0.4 percent. The expansion in scope found expression in the form of refreshing showrooms, expanding the bathroom offer and adding a new design consultant service.

Like DIY retailers, BMs have shown growth in the form of both an increasing number of stores and expanding product or services items. Travis Perkins has increased the product range of renewable energy products and built tool hire service around the needs of trade. Buildbase has been able to add an exhibition product line that fulfils the need for

exhibition contraction projects. Selco added three stores in 2009 and has been constantly introducing new product to its product range, a recent example is solid surface worktops. Based on the above discussion, some interesting trends have emerged in terms of reseller growth. Most of the resellers have slowed down the pace with which they have added new stores due to the difficult economic conditions. Instead, the focus of growth has been placed on scope by adding new product lines or service items. In particular, installation and design services for private consumers and tool hire services for professionals have attracted a lot of attention. In the DIY sector, another common focus has been the expansion of the products range available online. In accordance with Elg (2003), the total offer of resellers is becoming more complex, involving a mixture of products, services and facilities.

6.1.2 Positioning of Resellers

Multi-location strategies are quite common nowadays. Wider geographic coverage is not only a matter of obtaining an economy of scale, but also attracting customers. In the case studies, retailers have shown the trends of developing their brand image. This is line with the observation of Levy and Weitz (2008) that successful retailers are not only merchants but they are also developing a unique and strong brand image. Retail brand image is reflected in a retailer's product assortments, services items, private label lines and pricing. For instance, Homebase has positioned itself as a home improvement retailer for homeowners, so its product assortment focuses on the soft DIY products: furniture, paint, wallpapers and internal decorations. Focus differentiates itself from its competitors by its positioning as a DIY and gardening retailer. Despite its traditional DIY product lines, Focus emphasises the garden centres in its stores. In contrast, Wickes has positioned itself as a brand for serious DIYers and tradesmen, so its product ranges are centred on hard-side materials and its price level is lower than Homebase. Building a consistent retail brand image is a fruit of retailers' market strategy and been secured by the management systems of centralisation and standardisation. Following Burt's (2000) argument, these management systems ensure that a coherent set of values are built up through a retailer's offer and delivered consistently. This means that when consumers walk into stores under the same chain, they can expect to receive the same set of value.

Manufacturer brands are almost non-existing in the timber section, where the reseller brands are dominated. This study offers two reasons for this. Firstly, branding is underdeveloped with timber product manufacturers, which usually do not have a large marketing budget, which means that the manufacturer brand is weak by itself. Secondly, the reseller's private brand strategy means there is no space for manufacturer brands. According to the store managers from Homebase and Focus, customer loyalty is not strong in the DIY sector because consumers often switch between retail chains for better value for money. Under these circumstances, DIY retailers want to have their names on timber product package in order to improve customer loyalty. As reported by Aliawadi *et al.* (2008), a private label is likely to build chain loyalty. Plus, the case of Deck-in-a-Box

illustrates that an exclusive-sold retailer-branded product could also be attractive for retailers, since it can be a differentiator (Lymeropoulos *et al.*, 2010).

Last but not least, the expansion of resellers' scope has blurred the boundaries between DIY retailers and BMs. The expanding product range has weakened the distinction between the reseller's customer groups, which used to separate DIY retailers from BMs. Some DIY retailers are increasingly offering products and services to professionals, while some BMs are gradually opening up to the public and offering DIY products. For example, Wickes from the DIY sector and Travis Perkins from the BM sector are trying to attract both private and professional customers, even though they have prioritised certain customer groups. Nevertheless, timber products sold through DIY retailers and BMs remain very different. In DIY stores, timber products are more adapted for customers without extensive knowledge of products and skills using products, while timber sold in BMs stores is more like raw material.

6.1.3 Reseller Supply Management

Buyers from resellers are becoming more and more professional in terms of product knowledge and customer tastes. This trend has a significant effect on the way of working with suppliers as it demands more professional attitude and treatment from suppliers. The buyers at DIY stores usually shift their position between product categories regularly in order to avoid personal connections with suppliers. This can sometimes lead to a lack of knowledge when a buyer is transferred to a new category about which they have no prior knowledge or experience. External experts are sometimes hired to aid buyers. For instance, Focus hires wood consultants to assistant buyers when making complicated buying decisions. Compared to DIY retailers, the buyers from BMs are sort of experts in their product field. The buyers interviewed at BMs have at least three years' experience of timber purchasing and they are quite familiar with the habits of the industry and the preferences of their customers. As the marketing director from the supplier commented, this trend is a reminder that research into the timber supply chain, from forest to customer, should be constantly conducted with different parties in order to keep pace with the industry.

Modern DIY retailers and BMs prefer to use fewer and better suppliers. Choosing the most appropriate source of supply has long been considered as one of the most important functions of the purchasing department because a firm's ability to compete effectively in the market can be hampered significantly if the firm does not have a competent supplier network (Ogden and Carter, 2008). The logic of reducing the number of suppliers for a given product category or service is twofold. Firstly, following Sarkar and Mohapatra's idea (2006), a prerequisite for developing a strong supplier-retailer buyer is to have a small number of suppliers. Focus's timber buyer commented that it is not possible for the company to offer relationships to many suppliers at the same time due to the resource limitation. The only feasible way is to condense the supplier base and offer relationships to

the selected active and large suppliers that carry wide product assortments. Secondly, reducing the number of supplier can release valuable resources that can be more effectively utilised in other supply management strategies (Ogden and Carter, 2008). The statement of Homebase's DIY manager supports Ogden and Carter's (2008) argument. The manager noted that the category captains' active participation in assortment and store development take some workload off the purchasing and sales managers at Homebase. He believes the released time and energy can be used in many other managerial activities, such as evaluating suppliers and improving service level in stores. As a consequence of the supplier base reduction, qualified suppliers must carry wide assortments and be able to supply a product category, or at least a large portion of it.

Although the resellers have reduced the number of suppliers registered at their supply base, this thesis argues that a strategic relationship has not yet been formed between the resellers studied and their suppliers. According to Lambert *et al.* (1996), a strategic relationship is a tailored business relationship "based on mutual trust, openness, shared risk and shared reward that yields a competitive advantage, resulting in business performance greater than would achieved by the firms individually" (p. 10). In the case study, buyers from resellers were not totally open to suppliers. One piece of evidence of this agreement is that resellers are not fully comfortable with involving the supplier in their purchase decisions. External experts are preferred to build the knowledge base. Another piece of evidence is that Focus has been working with category management, although they are not widely open for to suppliers. Focus drives its category management to retain some information for themselves. Resellers are willing to work with a small number of suppliers, who offer relationships with them, but leave opportunities open, which means that the possibilities of switching to an alternative supplier still exist and, in turn, price competition still exists. One account manager said that SCATS easily lost one product line with Focus because another supplier could supply a similar product cheaper. In conclusion, relationships in the case studied involving joint commitment and long-term cooperation exist between the supplier and their customers, but sometimes both parties maintain their independence.

6.1.4 Comparison between DIY retailers and BMs

Although DIY retailers and BMs have made some similar developments in their business, in many ways they remain very different. Regarding competition, the market for DIY retailing has gone through intensive consolidation. The current market is kept under the thumb of a few large retail chains but this is not the cases for BM market, which is scattered, with almost 40 percent of the market share taken by a large number of independent merchants. With regard to operations, DIY retailing chains are generally standardised. DIY chains have a unified store image, decoration, store layout and product presentation. When customers walk into any branches under same brand, they will not be surprised or confused by the store atmosphere. Information technology (IT) is widely applied in DIY stores, from point-of-sales data collection, to order and inventory management. DIY chains seem are also more likely to have distribution centres in order to

have fully control of the supply to branches. For suppliers such as the company studied, the advantage of this type of arrangement is that the supplier gains all the volume from the chain's branches. However, retailers possess stronger control of supply to their branches and branches can only be supplied what the distribution centres carry. Therefore, there is no way for a supplier to influence a branch's purchase decision. Some actual demand from branches might be neglected if their distribution centres cannot supply. However, the supplier can have a bigger purchase value on each delivery, which improves the efficiency of warehousing and logistics. DIY retailers have strong demands in private labelling and wrapping, which BMs do not stress. BMs attach more importance to volume availability, since they usually keep large timber stocks in-stores.

In contrast, the BM's operating methods differ from chain to chain and branch to branch. Some of them have a refined management style, like that of the DIY retailers studied in this research. TP, Buildbase, and Selco are all quite advanced in terms of store management, employing methods such as unified store image, a clear and bright shopping environment, unified assortments and application of IT etc. Centralised and standardised operations with respect to purchasing, store format, merchandise space and assortment, as well as the marketing mix, reduce the distinctions of between DIY stores and BM stores in terms of management systems. BM stores usually have strong connections with local business and the operation of these stores is highly dependent on store managers' experience. Just like DIY retailers, centralisation and standardisation enhance the image of a BM chain and ensure that a set of value can be congruously delivered to customers nationally. In this case, customers keep coming back to a chain rather than a specific store.

A problem that might result from the mechanism of centralisation and standardisation is the balance between standardisation and adaptation (e.g., Cox and Mason, 2007). Providing standardised products and services across all locations is critical to the success of the retail system. However, some actual customer demands may be neglected due to the variations in consumer characteristics, special demand drivers and competitor characteristics. One example to illustrate this conflict can be the appearance soft wood products, for example mouldings. In the UK, different regions have produced their version of mouldings. In addition to that, there have been different standards of each version. The store manager from Focus commented that a standardised product range could reduce their cost of inventory and warehousing, however, the risk is also obvious—loss of sales.

Although the BM case units studied have shown some uniformity, one account manager from SCATS added that this does not provide a full picture of the BM business, since the operation of BMs could be very different. In order to provide a different picture of BM business, the account manager showed a family-owned BM that still works in a very traditional way. The product range is very limited and most of products are stored in uncovered yards. The branch does not use computers, so customer orders are hand-written. The competence of the branch is very much based on the branch owner's

experience and connections to local builders. Table 6.1 presents a comparison between the two sectors of DIY and BM based on the chains studied.

Table 6.1 Comparison between DIY retailers and BMs

Aspects		DIY retailer	BM
Market competition		Highly consolidated	Scattered
Major customer		Private	Professionals
Product range		Focus on home improvement, repair materials and tools	Focus on house building and improvement materials and tools
Requirements on timber supplies	Product type	Suited to home improvement projects; small-size and easy to use	Suited to construction projects
	Labelling and Wrapping	High demand	Low demand
	Stock	Stable stock and quick replenish	Massive stock in project quantities
	Training	<ul style="list-style-type: none"> • Half-day basic house keeping • Wood Champion 	Industrial training run together with British Woodworking Federation (BWF)
	Merchandising	Required	Not required
Operation		Highly centralised and standardised	Moderate level of centralisation and standardisation

6.1.5 Implications of Reseller Developments

DIY retailers deal actively with manufacturers by defining products, setting product standards, promoting products (Nordås, 2008). DIY retailers also have an influence on the assortment and distribution structure. In fact, these retailers control more and more value-adding channel functions, such as product information, product customisation, product quality assurance, assortment, logistics and after-sales service, which put them in a more central position in the supply chain. The role of DIY retailers as gatekeepers in the supply chain is becoming clearer. As Burt and Sparks (2003) remarked, the retailer's position is critical in the distribution channel. Because retailers are the final link in the distribution channel, they control the shelf space and the dominance of a few chains on the market, which means that manufacturers have few alternatives in terms of routes to market. This means that these large chains are, in effect, gatekeepers for access to consumers.

Increased scale and information power can be used in two ways to manage distribution channels. The first way is to reinforce existing trading relationships with a focus on price. Alternatively, the ownership of information can be used to amend the trade relationship so that manufacturer and supplier can both use their skills and competencies to create mutual benefits. Burt (2000) indicated that these two different ways lead to two types of relationship: the traditional arm-length governance, which is based on intensive price competition, and strategic relationships, which are based on mutual dependence in innovation and development. Timber products are characterised as standardised commodities for which production specifications can be easily transferred between suppliers. One solution for a timber products supplier is to increase interaction, mutual interest and proactive retailer involvement in order to raise the barrier of supplier switching.

6.2 Developments of Manufacturer Distribution

6.2.1 Driving Forces of Vertical Integration of Distribution

In the case study, the vertical integration strategy of distribution is driven by customer demands, which concurs with Osegowitsch and Madhok (2003), and can be understood from several perspectives. Firstly, resellers are expanding in their size and scope but the number of supplier registered at their supply bases is dropping due to the concentration of supplier management. In such cases, qualified suppliers must carry quite a wide product assortment. External sourcing is required to complement the product assortments. Secondly, in order to supply the entire building material market suppliers should be able to supply both the DIY and BM sectors which are very different in supply management. Even within the BM sector, BMs are dramatically diversified in terms of the sophistication of their operation. The mixed customer demands require suppliers to be able to supply products that are adapted to both builders and ordinary consumers and to make deliveries in flexible ways. Therefore, a distribution platform is considered necessary in the British market. Thirdly, resellers expect more services. As retailers become more and more concentrated on their core business, they increasingly rely on suppliers to provide more solutions that can be integrated in their business process (Osegowitsch and Madhok, 2003). This phenomenon is especially notable in the DIY sector. Activities such as product development, design of promotional materials and merchandising, which used to be conducted by retailers themselves, are now being passed to suppliers. Large retail and merchandising chains tend to work directly with manufacturers that have extra organising product assortments as well as distribution capabilities, rather than with intermediaries. This makes it necessary to have a downstream position that could have frequent and close interactions with retailers.

Although customer demand is an important driving force, it is not the only one in the case studied. The manufacturer's repositioning strategy regarding business focus and position in supply chain also motivated its integration strategy. Like many other manufacturers, SCA

Timber used to put great emphasis on meeting production quotas, ensuring quality levels and pricing their products suitably for distribution (Blois, 2001). However, the production orientation and low profitability of sawmills were seriously challenged by the current competition environment. Repositioning the business focus to market-oriented production and value-adding processes was a response to those challenges. SCA Timber has shifted to a business focus with a higher level of marketing orientation, in which it is essential to learn about customers and markets. Understanding customers is especially important in today's market environment, which is characterised by intense competition and uncertainties. One account manager commented that understanding customers is not only about studying reseller's purchase needs and requirements; it also includes understanding customer's industry, how and why customers run businesses. Working directly with resellers bears rich opportunities to discover insights into customers' current and future tastes, as well as their businesses. It also provides a powerful way to maintain the most valuable customers, thereby improving customer retention. Consequently, a downstream position was needed. Besides, knowledge gained could be applied in developing service offerings, which, in turn could help transform potential opportunities into strategic partner relationships (Anders and Narus, 1995).

With regard to the positioning in the supply chain, just like the new strategy indicates, SCA Timber planned to become a supplier to DIY retailers and BMs. This decision made it necessary to use external sourcing and distribution capabilities in order to complement the original business. Changing the position in supply chain was not limited to getting closer to customers: the rationale for integration also included some other operational and strategic considerations toward the supply chain. Timber industry is characterized as a process industry, in which efficiency is highly important for competitiveness. Managing more stages of the supply chain might enhance the total performance of the supply chain. Strategically speaking, a company's positioning in the supply chain relates to appropriating value for itself by participating in a supply chain (Cox, 1997). Ideally, companies should position themselves to possess those supply chain resources that have a low propensity for contestation, and around which they can build market entry barriers (Cox, 1999).

In sum, bringing a distribution centre into a manufacturer's business range is a decision made based on strategic and efficiency considerations. Strategically, a supplier expects to obtain greater control over the entire supply chain, which will, in turn, influence the purchase of reseller chains. Operationally, a company with its own distribution centre can stimulate suppliers to maximise their production capacity and improve the efficiency of their warehousing and logistics.

6.2.2 Impacts of Vertical Integration

The impacts of vertical integration identified in this study can be categorised into two groups: the impacts on the supplier and the impacts on the supplier-customer interface. These impacts are discussed respectively in the following section.

Position in Supply Chain

Before vertical integration, SCA Timber located at the first half of the supply chain and played the role of a manufacturer that supplied to wood manufactures, wholesalers and exporters. The business focus was to improve production efficiency and increase production volume. Value was then added by transforming raw material into finished products or semi-finished products for downstream members. In contrast, the company now operates both upstream and downstream. It has become a supplier to resellers of timber and timber products. The competitive advantages involve process and cost-orientation as well as complete exchange with customers. Conforming to Nicovich and Dibrell's (2007) argument, SCATS can currently create value by advertising, customising, packaging, positioning and distributing products. When a firm changes its position in the supply chain, it must develop new capabilities. SCA Timber and SCATS now have a priority to develop marketing capabilities.

Being a direct supplier dramatically influences the company's knowledge about customers and markets. The major problem facing consumer product manufacturers is that they have no access to end users. This is because consumer products are typically sold in retail situations, which separates the company from the end market (Pitta and Franzak, 1997). Retailers possess information on end users based on sales data, some of which is passed on manufacturers. In many cases, however, retailers keep this knowledge for themselves. The further up the chain one goes, the less intelligence generation and dissemination there seems to be on end users, especially in those cases where manufacturers supply products to the retailer's private labels. Being a direct supplier leads to a better access to market intelligence, which could affect the company's practice. In the case of SCA Timber, regular reviews of business environment involving competition, industry policy, upstream supply conditions and customer changes are made to adjust production and marketing strategies. One of the results of this is that the product lines SCA Timber selling depend more on real needs than internal politics.

Offerings

In order to create better value for customers, companies must fully integrate resources to use the core capability of the company to deliver products that fully satisfy the needs at a competitive price (Kothandaraman and Wilson, 2001). Research findings show that the centre of timber offerings for DIY and BM customer is a package that includes three key aspects: quality, price and delivery. Since timber products are natural products, the quality of raw material is very important for buyers. If the quality is acceptable to the resellers, then suppliers need to make the other two factors acceptable. Price is a particularly important issue in timber sales. The timber product price is basically based on raw material, cost of sawing and cost of machine. Price is a sum of a margin and the cost. Delivery is equally important as price for customers because it has a notable impact on resellers' operation cost in terms of inventory, warehousing, and quality of customer service. In addition to the package, this study discovered that there are some surrounding service items that can be described on two dimensions: technical and commercial. Technical

services consist of new product development, definition of timber product assortment, optimisation and staff training. Commercial services include marketing, promotion, merchandising, rebates and bonuses support. These service items contribute to either increasing resellers' sales or decreasing their cost. In agreement with Lindgreen and Wynstra's (2005), the expanding offering observed in this study indicates that competition nowadays occurs not only in terms of product but also in the form of packages, service, advertising, delivery methods and other aspects that customers may value.

SCA Timber's marketing director explained that the company's interest in providing services is based on the differentiation logic. As Brax (2005) emphasised, differentiation is not simply the addition of services to physical goods; the point is that suppliers must view services as a means of differentiating their offerings. Although the service items provided to customers are increasing, they are still perceived as add-ons to the timber products. According to the marketing director at SCA Timber, sawmilling is a process industry that relies heavily on raw materials and the outputs – timber products – are classified as standardised commodities. Based on these reasons, it is not surprising that profits from the timber industry come from high volume instead of managing services.

Supplier-Reseller Interaction

Interaction between suppliers and resellers is predominately about sales and services. The sales process is less about selling a product and more about creating relationships (Storbacka *et al.*, 2009). The evidence is that the SCATS's sales are moving to account management, in which it is very hard to separate sales from services. Combining sales and services extends into the marketing domain, where marketing towards resellers is heavily relationship-orientated. The marketing of SCATS aims to retain existing customers and improve customer satisfaction. It places a high priority on growing business with existing customers into new product categories instead of expanding the customer base. This observation is in line with Piercy's (2009) statement that relationship-orientated marketing can be characterised as the strategic management of customers and a customer relationship has a higher priority than conventional marketing activities, which is evidenced by companies transferring resources from marketing to strategic sales and account management initiatives.

Not only are suppliers moving to a relationship approach to managing customers but the customer companies studied have also shown an increased interest in concentrating their purchase with fewer suppliers or distributors, to which they can provide long-term commitment. As a result, customers are involved in fewer, but increasingly significant, working partnerships in which better coordination of marketing and technical activities are critical (Anders and Narus, 1990).

SCATS is now seeking an open relationship with its valuable customers. SCATS's account manager explained that the term 'open relationship' means that cooperation is not secured purely by written contracts but by the mutual understanding, trust and even competition.

In fact, the relationship between supplier and reseller is a combination of partnership and competition. SCATS's marketing director explained that while suppliers and retailers are locked together in a joint effort to sell products to consumers, they also sometimes compete for greater profits. Interestingly, the literature has echoed this observation: "the days of power play between retailers and manufacturers are far from over" (Kuipers 2001, p. 25). In addition, all relationships with customers are individual and must be maintained individually. The management attention of strategic relationship is based on alignment between the organisations managing across marketing, sales, purchase, supply strategy and external partner partnership. Overall, the relationship with customers can be handled at the personal, product and company levels. Account managers, the caretaker of customers, are increasingly acting as relationship managers who manage the ongoing relationships in order to coordinate delivery and customer service.

6.3 Addressing Customer Demands through Value Analysis

In business-to-business marketing, product and service offerings are often customised (Flint and Woodruff, 2001). Customisation requires knowledge of key customers or customer segments. It even requires an intimate knowledge of the different value requested by different channel actors. Since retailer perceived value is positioned to influence its commitment, cooperation and satisfaction (Simpson *et al.*, 2001), it is important for retailers to understand the value of the new product. Understanding the value of a new offering is a very complex topic, comprised of several factors. The first factor lies in the concept of value itself. As Lepak *et al.* (2007) put it, despite the tremendous efforts have been made by researchers and practitioners to understand what value is and how it can be achieved, there has been little consensus so far. Another factor is that retailers are focusing on the entire consumer offering rather than a single product, which means that they have paid little attention to understand the value created by a specific product and adding value to it. Besides, retailers and their customers may have different interests regarding value and the customer have usually not been involved in the process of value creation, so it is difficult for supplier to understand potential areas of value creation.

Due to the complexity of value, suppliers often have difficulty with understanding and communicating the value generated for customers and customer are often not fully aware of the value received either. As Lindgreen and Wynstra's (2005) argued, the identification of value elements enables the suppliers to develop and market their products appropriately. The findings derived from in-depth interviews show that suppliers can use a value element analysis when designing, customizing and marketing offerings for customers. Suppliers could focus on distinctive value elements along the dimensions of product, service, physical distribution and supplier. For retailers, although these four categories are relevant, the importance of them varied at different stages of new product development. For instance, product attribute consumes most efforts when designing a new product, while physical distribution and service attributes matter most when rolling the product out to

markets and supplier attribute are more relevant in the retailer's pre-purchase decision phase. Moreover, it is not necessary for one product to stress all the value elements, but suppliers need to ensure that the combinations of certain value elements solve the problems of distribution channel actors.

6.4 Summary of Research Findings

At the end of this discussion on the research findings, I would like turn back briefly to the research framework presented in Chapter 2 (see Figure 2.4 in p.29). There are two reasons for this. Firstly, the above discussion and research findings have been organised in the light of individual research questions. Although these researches questions are somewhat interrelated, a holistic view is needed to understand the research purpose. Reviewing the research framework makes it possible to connect these dots. Secondly, I hope that the analysis here can promote the research into a higher level, in which I could draw general conclusions and suggest theories.

This study has described and analysed the notable trends and developments of two major actors along the timber distribution channel: reseller and manufacturer. The reseller's developments have promoted the formation of reseller demands, such as integrated solutions regarding logistics, marketing, merchandising and innovation etc, which are driving factors for manufacturer's downstream integration. The offering of manufacturer, the position and functions of manufacturer in distribution channel have also been changing. Beyond looking at the trends and developments, this study is also interested in the effects that these changes have on the structure of the retailer supply chain and the implications for manufacturers. On the whole, this study implies theories along two lines:

- *Retailer developments have driven the change in the supply chain structure and opened up a number of new questions for manufacturers and their positioning in the supply chain.*
- *Vertical integration has reinforced manufacturer's role as supplier in supply chain. This transformation can be understood from two perspectives. Firstly manufacturing has becoming a process that brings combinations of products and services through internal and external collaborations. Secondly, manufacturing companies are playing more and more strategic functions in the supply chain.*

6.5 Generalisability of Results

The complexity of this case study can be seen as fairly high. The generalisability of this study differs between the case level and case unit level. At the case level, many factors could affect the working of the organisations studied. However, the trends that have affected the channel actors are not unique or limited to the timber products retail industry. For instance, retail consolidation and supply base reduction, which has been observed in other retail sectors in different geographic locations. For example, Dobson *et al.* (2003) found out that the consolidation process in food retailing has occurred across all EU

member countries to a greater or lesser extent. Wrigley (2002) recorded that a majority of the national food retail markets in the EU are highly concentrated with five retailers account for 60 percent to 75 percent market share. Ogden (2006) conducted case studies across diversity industries, such as transportation, pharmaceutical, education and computer manufacturing, all of which have displayed the trend of supplier base reduction in varied levels. On the case unit level, DIY units show a high degree of similarities, such as the products supplied and the need to service items. On the whole, this qualitative study is expected to generalise about underlying settings rather than beyond groups.

7. CONCLUSIONS AND IMPLICATIONS

7.1 Conclusions

7.1.1 Retailer supply chain structure:

Retailers are continuously adapting themselves to changing market conditions. In support of Dobson *et al.*'s idea (2003), large DIY retailers actively source product range to meet consumers' needs and instruct suppliers to tailor products and develop private label products. Large DIY retailers also dispense with the need for a separate wholesaling function due to the fact that they integrate separate suppliers into their process by implementing sophisticated logistics systems based on warehousing and distribution to their own stores. The implications of this trend are twofold. Firstly, the retailer's gatekeeper role has been strengthened. In the retailing business, consumer needs are met by the systematic management of category of products and/or services (Holmström, 1997). By implementing the process of meeting consumer needs, large retailers make choices about the width and depth of product ranges to ensure consistent and competitive value that match their positioning strategy regarding price level and service level (see Coughlan *et al.* 2006). The choices make retailers functioning like filters that keep those product items that do not fit their purpose off consumers' sight. Beyond this, due to the high level of retail concentration, the interfaces with consumers have been aggregate into the control of a small number of large retail chains. The remaining options through which manufactures can reach consumers are limited. Therefore, large retail chains play the critical role of gatekeepers in deciding which product items to stock at their stores (Burt and Sparks, 2003; Gross, 1967).

Secondly, retailers are more likely to work with large producers and bypass intermediaries that undertake the wholesaling function. The decision of whether to use middlemen has long been regarded as a channel design problem in marketing and distribution channel literature (e.g., Anderson *et al.*, 1997; Rangan, 1987; Rangan and Jaikumar, 1991). The formation of a manufacturer's distribution channel is also a consequence of the retailer's choice of the type of supplier with which they want to work. The commitment to a centralised purchase and distribution system has, to a large extent, replaced the wholesaler by undertaking the functions the wholesaler used to undertake, such as sourcing, logistics and ensuring availability. Instead, large retailers tend to work directly with large and sophisticated suppliers that have production, sourcing, distribution, marketing and innovation capabilities. This can significantly reduce the number of incoming order deliveries can be significantly reduced and, in turn, improve warehousing and distribution efficiency. These implications lead to Proposition 1:

Proposition 1: Active initiatives taken in sourcing, developing private product ranges and managing supply systems based on warehousing and distribution to their own stores have strengthened the role of retailer as gatekeeper in the supply chain and prompted them to bypass intermediaries and work directly with large and sophisticated suppliers.

The developments in the retailer supply management system not only change who they want to work with; they also affect the structure of the retailer supply chain. Following Cooper *et al.*'s (1997) argument, the supply chain structure can be examined in two aspects: length of the supply chain, which is the number of supply chain levels, and the number of suppliers at a particular level. As mentioned above, the tendency to remove intermediaries may decrease the number of supply chain actors, thereby shortening the length of supply chain. At the same time, as retailers move from multiple to single (or a few) supplier(s) for each product category, the number of suppliers registered at the supplier-retailer level has been dramatically reduced. The above discussion gives rise to some further speculative propositions, which are consistent with the data and for this study and which deserve further investigation:

Proposition 2a: Developments in the retailer supply management system have reshaped the structure of the retailer supply chain by shortening the length of the supply chain and reducing the number of suppliers at the supplier-retailer level.

One of the fiercest debates about the retailer supply chain regards who holds the whip. Based on a study of the European food retailing market, Dobson *et al.* (2003) concluded that producer market power has largely given way to retailer buyer power. Their conclusion indicates that large food retailers are now the main drivers of the supply chain. The research findings derived from case study of timber products distribution both match and mis-match the conclusion of Dobson *et al.* (2003). I agree with their conclusion, to some extent, because DIY retailers, like food retailers, are active in some areas, such as using centralised distribution systems to control their supply to stores, and instructing suppliers to customise private label products and packaging. The actions have altered suppliers' behaviour and decision making. For example, supplier must to invest wrapping and packing facilities in order to meet retailers' needs of private labelling.

However, once DIY retailers pushing some responsibilities back to suppliers of uglies (large-volume and low-value products), suppliers can actually gain control of more supply chain activities, such as delivering orders to distribution centres or stores, as well as the activities of merchandising and marketing their products in stores. Product innovation and customer relationship, in particular, are driven mostly by suppliers. Examining the activities involved in a supply chain (see Cooper *et al.* 1997; New and Payne, 1995), reveals many activities that have been driven by suppliers, especially the suppliers of uglies. These activities include production, warehousing, distribution, merchandising, new product development and commercialising. In this sense, I argue that in the DIY retailer supply chain, neither the supplier nor the retailer hold the whip exclusively, but they do hold one end of it because they are driving the supply chain in different aspects. This leads to Proposition 2b:

Proposition 2b: The retailer supply chain structure is driven mostly by retailers and supply chain activities are mostly driven by suppliers.

Developments such as the concentration of the supply base, distribution centres, private brands and the use of both buying and information power to restructure retailer supply chain, are linked to the management mechanism of centralisation and standardisation. In line with Burt (2000), transferring most of the operational decisions that relate to store format, product assortment, pricing, promotion and service level from the store level to the regional or even national levels allows retailers to develop a clear, and, more importantly, consistent image and market position for their customers. Although centralisation and standardisation make a critical contribution to retailers' business success, they can also cause problems. Because of diversity in consumer characteristics, special demand drivers and competitor characteristics, some actual consumer demands might be undermined, which can lead to a loss of sales. Thus, adaption or localisation has been proposed as a substitution strategy for standardisation (e.g., Rigby and Vishwanath, 2007). A major challenge for retail chains is to strike a balance between central control and local touch. In the present case study, this challenge has great relevance and significance for BM chains, since the connections to local businesses are critical to BMs' business and customer needs are diversified from one region to another. For suppliers, the diversification of local needs leads to wide product varieties, which presents problems for suppliers in terms of receiving accurate demand forecasts for different products, controlling the proliferation of inventory and service performance (Lee and Tang, 1997). This sub-section concludes by introducing proposition 3:

Proposition 3: Developments of retailer increasingly involve the management mechanism of centralisation and standardisation, which enables retailers to develop a clear and consistent image to their customers and ensure that a set of value is consistently delivered through retail offerings.

7.1.2 Vertical Integration Strategy:

Björheden and Helstad (2005) concluded that there are two battlegrounds, other than mill productivity, for competitive advantages in the sawmilling industry. These are control and management of raw material flows and the establishment of close contact with the market of sawn products. Controlling the distribution business fits the second battleground of competitive advantage. This study supports Osegowitsch and Madhok's (2003) idea of vertical integration (VI), that a supplier's vertical integration is no longer limited to power or governance efficiency. Instead, VI of distribution is primarily driven by external factor of retailers' demands and internal factors of a manufacturer's repositioning strategy, involving repositioning of the business strategy of market orientation degree and repositioning of position in supply chain. These points can be summarised with Propositions:

Proposition 4: A supplier's vertical integration of distribution in today's business environment is mostly driven by demands posed by customers and the company's strategic considerations regarding its business focus and positioning in the supply chain.

In an increasingly tough competitive climate, manufacturers focus more intently on highly processed products with higher knowledge content. This means that soft values such as smart logistics, technical support and after-sales service have been assigned greater importance. This trend is a response to customer needs of integrated solutions (Osegowitsch and Madhok's, 2003), and, at the same time, it is a major consequence of the manufacturer's vertical integration strategy. The findings of the present study also reveal that the provided services should not be bundled with the product; services can encompass many areas that relate to decrease resellers' costs or increase resellers' sales. Service providers are not restricted to suppliers alone; third parties can also be used. Working directly with resellers bears rich opportunities for researching customers and discovering their needs and requirements in many aspects, including goods, services and knowledge. The knowledge obtained from interacting with customer represents a powerful means of improving the total offering, which in turn, improves customer retention. This leads to Proposition 5:

Proposition 5: Improved knowledge of customers and the market and broadened offering from manufactured goods, along with to service, technology and knowledge, are the important consequences of a supplier's vertical integration of distribution.

Positioning of Manufacturer

In the supply chain context, interaction between companies is a key aspect in accessing and utilising other actors' recourses and competencies (Cox and Lamming, 1997; Svahn and Westerlund, 2007). When manufacturers move down in the distribution channel, their role as suppliers is strengthened. Suppliers act as networking organizations in the supply chain, undertaking the supply chain functions of organizing product assortments, product customisation, assuring stock availability, logistics and providing after-sales services. Thus, a richer understanding of manufacturing and manufacturer is required. In agreement with Riis *et al.*, (2007), manufacturing cannot be seen simply as a fulfilment activity; it is a process that brings combinations of products and services through internal and external collaborations.

Undertaking more functions in a supply chain demands intensive collaboration with other suppliers in the business network, such as product suppliers, logistics suppliers and service providers. The intensive collaboration actually exposes the supplier to more interaction. Consequently, the key managerial capabilities, such as influencing, controlling, coordinating and integrating (Svahn and Westerund, 2007), need to be strengthened. This leads to Proposition 6:

Proposition 6: Although a supplier's vertical integration strategy internalises the interactions between two successive supply chain actors, it leads the company to more external interactions with other suppliers of goods and services.

Becoming a supplier to DIY retailers or builders' merchants through vertical integration can also lead to several problems, one of which is the loss of competition focus. From a manufacturer's perspective, the priority when making sales is what can be produced. As a supplier, however, they might need to use external manufacturers when fulfilling customer demands. Furthermore, there is potential conflict between operations and marketing in practice. Operations favour stable production of narrower product lines to encourage operational efficiency. Conversely, marketing commonly focuses on satisfying customers quickly with wide product diversity (Malhotra and Sharma, 2002; Shapiro, 1977). Inter-firm coordination becomes increasingly necessary. The coordination opportunities between the two areas are situated on strategic planning integration, strategic or visionary forecasting, new product /or process development, tactical forecasting, marketing/sales and operation planning, and operational integration (Malhotra and Sharma, 2002).

Offering of Supplier

Jones *et al.* (2008) suggested that manufacturers must concentrate on multiple factors, such as product quality and price, in order to be competitive, and that company factors and product factors are both vital to a company's performance. The argument that must be made in this study is that to be successful, suppliers need to think over offering attributes regarding product, physical distribution, service and supplier. Product attributes capture elements such as price, advantage, technology sophistication functions, innovativeness, etc. (Henard and Szymanski, 2001). The product-based attributes are fundamental, but they are not unique factors that influence customers' purchase decisions. Following Simpson *et al.* (2000), customers' purchase decisions might be considerably affected by intangible service- and relationship-based factors (Simpson *et al.* 2000). The discussion above leads me to the following proposition:

Proposition 7a: Product based attributes are the most fundamental factor that influence resellers' purchase decisions, upon which intangible service- and relationship-based factors may have considerable influences.

A large number of research has engaged in managing the industrial service of capital products (e.g., Oliva and Kallenberg's, 2003; Kindström and Kowalkoski, 2009; Mathieu, 2001a; Mathieu, 2001b; Smith, 1998; Penttinen and Palmer, 2007). However, the literature on offerings for retailers is not sufficient. The present study provides an empirical inquiry of the transformation from product to offering focusing on the retailing context. It argues that although service is becoming more in timber offerings, it is still not the primary source of profit for suppliers, and this situation is unlikely to change in the near future. Process industries, such as sawmilling, rely intensively on raw materials and timber products are characterised by a lack of differentiation in physical attributes. The value per product unit is low, so volume plays a critical role in supplier's profitability. This leads to Proposition 7b:

Proposition 7b: Providing services is not the main source of profits for process manufacturing industries whose outputs are characterised by high-volume and low-value commodities.

Organic growth is both a desire and a challenge for many companies (Hamel and Getz, 2004; Harmancioglu *et al.*, 2007). Stimulating growth through product/service innovation becomes increasingly important for timber manufacturers competing in such a competitive market. Moreover, I argue that innovation has increasingly been regarded as an important element of the supplier offering because it is not unusual for large chains to list innovation ability as one of the criteria of supplier selection. The increasing importance makes innovation the fifth dimension of offering, after product, physical distribution, service and supplier (see Proposition 7c):

Proposition 7c: Innovation has become an important aspect of supplier offering.

Innovation in the timber product industry has certain features that make interesting to look at. First of all, technology is not a major driver for innovation. Compared to the high-tech industry, which has been characterised as more complex, information-intensive, turbulent, and uncertain, because of rapidly changing technologies (Henard and Szymanski, 2001), the timber product manufacturing industry is often described as a low-tech industry. Because technology developments in this industry have reached a mature phase in countries like Sweden, radical technology change is less likely. Secondly, innovation has not been limited to product; it has been extended to service for large buyers, including retailing chains and merchanting chains, which is manifested in the high involvement of supplier in stores.

Thirdly, there is an innovation gap in the supplier-retailer-consumer chain. The consumer waits for the retailer to come up with innovative products that solve their problems faster and cheaper. However, retailers generally, undertake little fundamental research of product developments and tend to push development responsibilities back to suppliers, who have little contact with consumers, which make it difficult for suppliers to understand potential development areas. There is clearly, a gap between the supplier's technological capabilities and the know-how of consumers. Therefore, competences relating to technology and relating to consumers (Danneels, 2002) are essential. This summed up in Proposition 7d:

Proposition 7d: The biggest challenge for commodity supplier innovation is not technological; it depends on the supplier's abilities to close the gap between technology and the know-how of end markets.

Sales of Supplier

The business-to-business exchange literature has demonstrated that the move away from individual exchanges to a relational approach is extremely popular during the past 20 years (Hingley, 2005). This study reveals that supplier sales focus on growing with current

customers into new product categories, and they are moving towards the relational approach. An argument can be made that to build a strong, enduring and flexible relationship, it is important to select the most valuable customers, who are willing to engage in relationship at the same time, is important. This leads to the two following propositions:

Proposition 8a: Sales to retailers focus on growing current customers into new product categories instead of attaining new retailers.

Proposition 8b: A premise of customer management is the selection of the most valuable customers, who are willing to engage in the relationship.

As noted by Storbacka *et al.*, (2009), sales in the business-to-business context are increasingly associated with account management and solution development. The account management process means that there is no fixed start or end-point in the sale process. The transition from product selling to offering selling, from one-time sales to long-term service obligations requires strategies beyond traditional marketing concerns to manage the supplier-customer relationship, which could lead to substantial economic and learning benefits, such as the coordination of marketing efforts and blocking of competitors. The research finding also reveals that supplier has a individual retailer focus, which views product, selling, pricing, promotion, logistics as an integrated whole to be decided on the basis of the position of the individual retailer. Over and above this, account management requires the commitment of substantial resources, especially in the form of managerial time and effort. This study also shows that the relationship between supplier employees and the business decision influencer from the buying side are extremely important in the industrial buying context (e.g., Lindgreen *et al.*, 2009). Proposition 9a and 9b refer to marketing to large retail chains:

Proposition 9a: Customer management is a continuous business process including offering development, sales and long-term services obligation, and it requires strategies beyond traditional marketing concerns.

Proposition 9b: Supplier marketing to retailers is moving towards an individual customer focus, which views the marketing mix as an integrated whole to be decided in the light of the position of the individual retailer.

Some studies have concluded that managing customer can lead to superior financial performance (e.g., Boulding *et al.*, 2005; Lambert, 2004; Payne and Frow, 2005). In practical terms, however, the evaluation of account management investment may involve consideration of the trade-off between sale costs and benefits. Account management requires investment in facilities, personnel, software and so on. Long-term service obligation will also generate expenses, although these investments and costs will hopefully lead to increased sales. Some questions remain: can the increase of sales compensate these expenses? Is there a trade-off between sales cost and benefits? Is there a limit for sales

increase? Although the present study cannot answer all of these questions, they do create opportunities for future research.

The transformation from manufacturer to supplier has a number of implications in terms of how manufacturing is positioned, perceived and practiced. Riis *et al.*, (2007) argued that positioning manufacturing in its supply chain environment has become a question of fit and focus. Adjusting the degree of market orientation, involving downstream business, expanding offerings and investing in customer management are examples of manufacturers' strategic responses to changes in their environment in order to fit in. As discussed in an earlier section, however, these strategic moves carry the risk of causing the manufacture to drift off its main track of operation- production- and obscuring its competition focus.

I believe there are two different types of logic of positing manufacturing in the supply chain behind the problem of fit and focus. If a company focuses on a particular sphere of knowledge, then they need to position themselves in the supply chain based on that knowledge. I refer to this type of logic as position fit-and knowledge focus because, in this case, the company uses its knowledge focus to fill a position in the supply chain. If a company focuses on specific markets that they intend to supply, however, then the company must position itself based on the needs of supplying these markets. The company may occupy a number of different positions in the supply chain in order to fulfil the goal of supplying the chosen markets. I characterise this type of logic as position fit-and-market focus. The case of SCA Timber is a good example to illustrate the position fit-and-market focus logic. The company set itself a goal of supplying both the DIY and BM sectors. In order to fulfil this goal, their research results indicated that they need a distribution platform and the vertical integration decision was then made in order to acquire a downstream position in the supply chain. Furthermore, I believe that adopting the later logic will not limit a company's focus to a specific position or certain activities in the supply chain, which will, consequently, encourage the company to gain a richer understanding of its roles in the supply chain. Proposition 10 can be presented here to summarise the above discussion:

Proposition 10: There are two types of logic for positioning a company in the supply chain: position fit-and knowledge focus as well as position fit-and-market focus. These refer to fitting a company's knowledge with a position and fitting a company's market focus with a position (a set of positions), respectively.

7.1.3 Customer Value Creation

The extant literature has a common view that value is the total worth of benefits received for the price paid (Simpson *et al.*, 2001). Products and solutions are central to assessment of a supplier's value creation for customers (Möller and Törrönen, 2003). In practice, however, estimating a product or offering value can be very problematic for suppliers. Value estimation and communication is a complex issue that cannot be determined by a

single rule. Comparatively speaking, it may be easier for suppliers to evaluate the cost of a product or offering, but the benefits associated with the product or offering depends on some soft aspects and perceptions of different actors in distribution channel. Soft features, like differentiation and relationship, are very hard to be quantified in monetary terms. The more intangible a service, the more problematic the evaluation of value. Based on the above, the following proposition is made:

Proposition 11a: Evaluating the benefits associate with an offering is the most ambiguous but crucial task in value creation. The more intangible the benefit, the more problematic the value evaluation is.

It is important to make downstream channel actors understand that the value created is equally as important as value creation, since it determines customers' willingness to purchase and the prices they would like to pay. The case study in this research implies that demonstrating and communicating value created do not always adequately demonstrating the value created. An effective way to help customers understand the value could be to divide the offering value into smaller elements. This leads to Proposition 11b:

Proposition 11b: The supplier's ability of value to demonstrate and communicate vale is as important as its value creation capability.

In conclusion, this study make three majorly contributions to distribution channel research. Firstly, it provides a better description of distribution channels for timber products. Research findings contributed to the previous understanding of implications of retail developments for the supply chain and actors within it (Burt, 2000; Burt and Spartks, 2003; Elg, 2003). Secondly, the conceptual discussion and findings of this study add to the existing explanations and impacts of vertical integration from a marketing perspective. This study also provides substantive support for some previous research findings about driving forces, such as customer demands, learning, differentiation and strategic partnership with customers (Anderson and Narus, 1995; Etgar, 1978; Osegowitsch and Madhok, 2003). Last but not least, this study contributes to the research on value creation in business markets (Anders and Narus, 1999; Lindgreen and Wynstra, 2005; Walter *et al.*, 2001) by focusing on indentifying the value elements emphasised by downstream actors.

7.2 Implications for Managing Practice

The managerial implications of this study can be expressed through the eight following propositions:

1. Integrating downstream business could imply high investment, and, therefore, high risks. Managers must understand the physical resources that are required within a supply chain to deliver a finished product or service to customers. More importantly, managers must understand the recourse and competences that are required to perform the functions of certain position in the supply chain, because being manufacture and distributor requires different sets of resources and capabilities.
2. Suppliers need a profit focus in order to understand the position of a supplier in the distribution stage of the supply chain, particularly when sales conflicts with production. Although vertical integration has internalised the manufacturers' interactions with distributors, it actually increases the interactions with other organizations due the needs in purchasing, logistics and marketing. Thus, vertical integration in the supply chain calls for an emphasis on the key managerial capabilities, such as influencing, controlling, coordinating and integrating.
3. Managers should better constantly study consumer preferences and needs. A company can use knowledge about customers in the areas of product development and customer retention in order to achieve market success.
4. Business-to-business sales often involve customisation. Marketing to retailers requires suppliers to treat retailers individually, therefore, products, selling, promotion, and logistics should be treated as a whole and decided based on each individual retailer' positioning. The individual customer focus might challenge managers' traditional method of customer segmentation. The approach of a segment-of-one (Rigby *et al.*, 2002) might be an alternative to traditional customer segmentation, which groups several customers together based on certain attribute.
5. The success of offerings is about more than just about price. It is a combination of several factors that are carefully blended and balanced to satisfy a particular consumer need. Customised products or exclusively sold products should be strengthened in the future. The rationale lies in co-development and high levels of retailer involvement enhance interactions between supplier and buyer, which lower the risk of replacement by other suppliers. Interactions could be between the research and development and the marketing functions,
6. The transition from products to offering demands that salespeople are knowledgeable about not just marketing, but also about operations and finance, such as product issues, quality control, R&D, delivery reliability, profit information, etc. Suppliers should consider the role of salesperson's role as that of a cross-functional coordinator rather than an order taker.

7. Relationship exists at the company level but has been maintained at the individual level. Therefore, the role of account managers must to be emphasised. Managers should also realise that it takes commitment and skills to manage relationships with customer. Therefore, suppliers should have strategies in place for cultivating and developing employees' skills and the ability to manage customers. Managing the supplier-customer interaction requires resources, an effective organisational structure and a well implemented communication channel. Moreover, managers should notice that relationship may take a longer time to produce results.

8. In reference to Lindgreen and Wynstra, (2005) a key issue in the development of new products is how to identify, determine, increase and measure the (potential) value of the new product for a customer in order to maximise the chances of adoption. For managers, the importance of value creation for customers cannot be overemphasised. The complexity of value makes it a difficult task for managers. One of many ways to break the ice is to disassemble total value into four interrelated dimensions: product, service, physical distribution and supplier. Product and service cannot be split when satisfying customers needs. Managers must also understand that value creation is definitely not another fuzzy word that induces customers to pay more but a mean to satisfy customer needs, and so forth. Linking value to customer needs is the secret recipe for successful value creation.

7.3 Limitation and Future Work

This study has some limitations that have impacted my interpretation of the findings and that create opportunities for future research. First of all, the research is based on interviews with respondents from eight companies, representing multiple positions in the distribution channel, including manufacture, distributor and retailer. The single-case approach is one limitation of this study. Although information was obtained from a sample of the case units and not merely from one single company, the approach still reflects the same distribution channel. This creates an opportunity to validate the research with vertical integrated distribution channels of non-timber materials in the same market (grid 2 in Figure 6.1). Alternatively, comparative studies of a similar distribution channel applied in a different geographic location (grid 4 in Figure 6.1) could be conducted in the future. Secondly, the reseller case units were selected from the supplier's customer base, an choice considering the research purpose of examining the supplier-customer interactions. However, it is might not be comprehensive when describing the resellers' development. Studying more case, could help identify additional characteristics that are important to consider upon the resellers' developments.

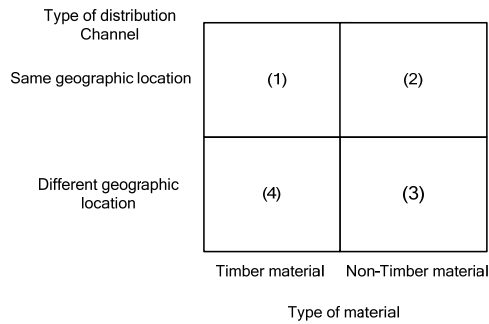


Figure 7.1 Research Options

There are several promising areas for future research. Firstly, this study has investigated a manufacturer that integrated a downstream distributor. In practice, some manufacturers restructure their distribution strategy by skipping intermediaries and setting up their own stores to distribute products. This type of strategy has some similarities with the vertical integration studied in this research. However, there must be some new merged features that are worthy of future studies.

There is a high demand for the merchandising from DIY retailers. However, there are different solutions to this problem; some allow suppliers into their stores and put them in charge, while others prefer to hire another organisation to do the job. It would be interesting, therefore, to examine and compare different merchandising strategies across DIY chains and product categories.

As noted elsewhere, suppliers and retailers have both attached importance to improving product assortments through product innovation. However, retailers have less interest in becoming specialists in any product category, so there is little product development effort from retailers. Suppliers' know-how about market development is often fragmented and it becomes difficult for suppliers to understand potential development areas. One possible direction for future studies would be to extend the study scope to the interface of reseller and their consumers. These studies could focus on how distributors organising offerings for their customers; how they are deal with their suppliers to deliver offering to customers, how they take in new products and sell them and what kind of support they demand from suppliers. This could lead to discussion of insights into potential areas for future product or service innovation for suppliers.

DIY retailers and BMs are two distinctive business types, as touched on in this study. However, due to the limitation of the sample of reseller cases, the configurations of builders' merchants studied are more or less similar, which leaves room for future study. A comparison study could be conducted in order to investigate these two sectors in depth

and compare them. Implications of the differences and similarities for suppliers could then be discussed.

Previous sections have raised question of the trade-off between sales cost and benefits. However, this study is unable to answer these questions, so they could be the subject of future studies.

Lastly, understanding what customers seek in terms of value elements is still not fully understood. This study has attempted to understand the differing value that channel actor place on a range of product, physical distribution, service and supplier value elements. This study has focuses on value elements for retailer but customer of retailer has not been stressed. In addition, this study has not dealt with closing the gap between value and willingness to pay. These questions deserve further study in order to reach greater understandings.

8. SUMMARY OF PAPERS

Paper 1:

This paper investigates the retail push, in which leading building material distributors are placing greater demands on their suppliers. The research purpose is to investigate the challenges arising from this transformation, thereby obtaining a better understanding of retailers' supply requirements and the consequences for suppliers. The study results indicate that supplier's proactive strategic moves, such as becoming a "one-stop shop" supplier for DIY retailers comprising complete product portfolios and wide range of service items by taking advantage of the distribution channel, are actually changing the structure of supply chain.

Paper 2:

This paper studies the cause and consequences of vertical integration of distribution with a case study of timber product manufacturer. This paper adopts a marketing perspective, by which adds to the explanations and impacts of vertical integration in the extant literature. The research findings include that customer demands, manufacturer's repositioning strategy regarding business focus and its positioning in the supply chain are the most important factors driving the manufacturer's vertical integration of distribution. First and foremost, vertical integration of distribution transfers the manufacturer into a direct supplier to large timber products retailers/trades. It also offers the supplier a great potential to enhance offerings and establish strategic relationship with customers.

Paper 3:

Different actors in distribution channel have different purposes and the perceptions of value may vary, with potentially conflicting agendas. For manufacturers, customer needs are the most important aspect to address when developing new products. This paper takes a case study approach to examine various tangible and intangible value elements requested by channel actor within the context of a new product launch. A framework of customer value analysis is suggested. The findings derived from in-depth interviews demonstrate that suppliers could focus on distinctive value elements along the dimensions of product, service, physical distribution and supplier. For retailers, although these four attributes are relevant, their relevance and importance are varied at different stages of the new product process. This study also argues that communicating value of a new product with customer has equal importance as value creation and it should be a joint effort between a supplier and its customer.

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