Market orientation of the Swedish pork sector - The case of the demutualization of Swedish Meats

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Abstract

In 2007, the largest slaughterhouse in Sweden, the farmer cooperative *Swedish Meats*, demutualized. That was the end of cooperative dominance in the Swedish meat industry. Paper VI claims that *Swedish Meats* demutualized because members no longer perceived the benefits from dealing with the cooperative to exceed the costs. This was possibly due to decreased market transaction costs (external transaction costs) and increased internal transaction costs, e.g. agency costs, caused by the problems of Vaguely Defined Property Rights (VDPR). This thesis explores why the demutualization came about following the hypothesis that lack of market orientation caused lower profitability and poorer member benefits. Market orientation is analyzed using one external and one internal perspective. The external perspective reflects that market orientation requires correct market intelligence regarding consumer needs and correct market signals to the upstream actors. This perspective is discussed using the results from Paper I, II and III in this thesis. Paper I shows that even though pork is an overall low involvement product, branded pork has more involved consumers enabling producers to apply a differentiating strategy. It is indicated that *Swedish Meats* was successful in communicating that consumers should buy Swedish meat. The potential of differentiating the supply of pork with the help of branding also enabled suppliers to overcome difficulties associated with situational factors, which influence consumer choice. Paper II provides a comparison between results regarding consumers' purchasing decisions studied at the Point-of-Purchase versus in other settings. As the supermarket category manager is the gate-keeper to the pork consumer, the supplier market orientation is dependent on the category manager's decision-making. This is discussed in Paper III. The market intelligence collected from the consumer and retailer has to be considered when the cooperative members make strategic decisions regarding product development and marketing. This internal perspective of market orientation is discussed using the results from paper IV, which indicates that the problems of VDPR aggravated the cooperative's ability to respond to the market conditions.

Keywords: Cooperative, Means-End Chain, Laddering, Pork, Retail, Transaction Costs, Vaguely Defined Property Rights

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Dedication

To Mårten, Torsten and Hillevi.

I would never die for my beliefs because I might be wrong.
Bertrand Russell

Contents

List of Publications

This thesis is based on the work contained in the following papers, referred to by Roman numerals in the text:

I Lind, L. W. (2007). Consumer involvement and perceived differentiation of different kinds of pork – a Means-End Chain analysis. *Food Quality and Preference* 18, 690-700.

II Lind, L. W. Methodological implications of conducting Laddering interviews in a Point-of-Purchase setting. Manuscript submitted to *Appetite*.

III Lind, L. W. How local producers get access to retail shelf space. Decision-making by supermarket category managers related to small-scale purchases of perishable goods. Accepted for the 21st Annual IFAMA Forum and Symposium, June 20-23, 2011.

IV Lind, L. W. The reasons behind the demutualization of a meat marketing cooperative – the case of Swedish Meats. Manuscript submitted to *Journal of International Food & Agribusiness Marketing*.

Paper I is reproduced with the permission of the publishers.

Abbreviations

HVM Hierarchical Value Map
IOF Investor Owned Firms
MEC Means-End Chain
PoP Point-of-Purchase
TCE Transaction Cost Economics
VDPR Vaguely Defined Property Rights

1 Introduction

1.1 Background

Corporate adaptation to consumer needs and preferences is a condition for successful business conduct. Market orientation is defined as "organizationwide generation, dissemination and responsiveness to market intelligence" (Kohli and Jaworski, 1990, p. 6). Grunert et al. (2005) expand this definition by stating that the market orientation of a value chain is the chain members' generation of intelligence regarding current and future end-users' needs, the dissemination of this intelligence to the other members of the chain and the chain's responsiveness to it. Having insufficient market orientation will preclude sustainable development of the firm due to the failure of products developed to fulfill the perceived needs of consumers (Narver and Slater, 1990). The profitability of the firm will deteriorate, as consumers will not have the opportunity to turn to new or improved products when the current products of the firm enter the decline stage of their lifecycle.

In order to succeed in adapting to consumer demand, firms must continuously learn and find solutions to the expressed and latent needs of their target customers and communicate these solutions efficiently (Narver et al., 2004). Successful product development and customer communication require market information. The collection of market intelligence does not have to be evenly undertaken in the value chain, but all parties have to be involved in market intelligence dissemination (Grunert et al., 2005). Otherwise, it is reasonable to expect that the intelligence will be generated predominantly by the downstream actors and the responsiveness will mostly concern the upstream producers. The market signals have to reach the upstream producer and the producer must interpret them correctly, enabling the development of efficient marketing and competitive strategies (Slater and Narver, 1994; Day, 1994).

Firms operating in the early stages of a supply chain need the market signals to be transferred through actors later in the chain. A firm will focus on its immediate customers but must make use of market intelligence from other chain actors. As these actors filter the information, it is altered and diminished before reaching the firms earlier in the chain (Hernàndez-Espallardo and Arcas-Lario, 2003). This delays market adaptation and decreases the competitiveness of the whole chain (Grunert et al., 2005). The alteration of information can be intentional or unintentional. Opportunism can cause actors in the chain to alter the information flow to work for their best interests. For instance, due to the information asymmetry of consumer demand, the retailer can act opportunistically towards the producer (Wathne and Heide, 2000). This problem is becoming more important as production-related competencies are increasingly being supplemented by market-related competences. This is due to increased customer segmentation and increasing risks related to product development (Grunert et al., 2005). These aspects highlight the importance of correct and sufficient market information flowing in the supply chain.

In the supply chain for pork, the market intelligence needs to be disseminated to farmers. This is primarily because they are the producers of the raw product, but also because they have traditionally owned the main slaughterhouses and processing firms in the form of cooperatives. Cooperatives have an important role in the market, as they represent a yardstick for the competition (Sexton, 1986). The existence of a cooperative thus decreases the information asymmetry and results in farmers not being subjected to opportunistic pricing from the actors downstream in the processing chain. In Sweden, *Swedish Meats* had the role of competitive yardstick until 2007, when this slaughter and processing cooperative was sold to the Finnish HK Ruokatalo. *Swedish Meats* had been the dominant actor in the Swedish slaughter industry, accounting for 77% of pigs slaughtered in 2000 and 71% in 2006 (KCF, 2008). The slaughter industry is the first of the agricultural industries traditionally dominated by farmer cooperatives to have abandoned the cooperative ownership structure, thus allowing the competitive yardstick to disappear from the market. The risk is that farmers will receive lower prices for their products in the future, causing Swedish animal rearing and the supply of meat of Swedish origin to decline. This change in the slaughter industry also sets a precedent for other industries, e.g. dairy and grain production. Therefore, studying the recent transformation of the slaughter industry can provide valuable lessons regarding the challenges posed by market orientation to the cooperative ownership structure as the competition increases. Such challenges include having to balance different stakeholder interests, e.g. consumers and owners.

1.2 Aim of the thesis

As the demutualization of *Swedish Meats* had extensive influences on the Swedish meat market, it is important to explore the driving forces behind the change in ownership. The reasons behind the demutualization can also provide important lessons for the other agriculture markets dominated by cooperatives. Thus, the demutualization of the *Swedish Meats* cooperative is the focal point of this thesis, which investigates why this change of ownership came about. The apparent answer to that question is that the cooperative was no longer perceived to bring sufficiently large benefits to its members. One of several conceivable reasons behind the demutualization of *Swedish Meats* was that the turbulent market conditions caused failing market orientation (Edwards and Shultz, 2005).

Thus, *the aim of this thesis was to explore the reasons for this lack of market orientation*. This question can be tackled from two perspectives – an external and an internal perspective.

1.3 The external and internal perspective of market orientation

The *external perspective* reflects the fact that market orientation requires correct market information. In this study, the market of interest was the consumer market for fresh pork, not the restaurant market. The organization needs to generate marketing intelligence (Kohli and Jaworski, 1990). Thus, one explanation for the lack of adaptation can be that the cooperative did not receive the necessary market information. This could have been either because the cooperative did not have the correct information about consumer needs and wants, i.e. consumer attitudes towards the products were not as the cooperative anticipated, or it did not receive the correct signals. Furthermore, the cooperative might not have been able to fulfill the needs and wants of the retailer, the customer closest to the organization and the gate-keeper to the end-consumers. These aspects would be the external explanation for the problem.

In order to be adaptive to consumer and retail demand, the organization needs to make strategic decisions that match this demand. The organization must disseminate and have a responsiveness to the market intelligence received (Kohli and Jaworski, 1990). The owners and managers need to adjust the organization's strategies to suit the perceived needs of the consumers. The *internal explanation* for the problem of market orientation is when managers and owners fail to do this.

This thesis *uses the external and the internal perspective of consumer adaptation to explain why the Swedish Meats cooperative was demutualized*. This question is answered using the results from Papers I-IV. The external perspective is investigated through a presentation of consumer reasoning regarding differently labeled cut pork using the Means-End Chain approach (Papers I and II) and a literature review of aspects important to retail store category managers when accepting products for display in their stores (Paper III). The Means-End Chain approach is suitable as it gives insights into buying motives, while linking these motives to the buying behavior. Important product attributes, as well as the consequences achieved and values fulfilled through product choice, provide a deeper explanation of the motives. Furthermore, collecting the data in the actual decision-making situation allows elucidation of the actual motivational structure underpinning consumer choice.

Consumer choice is also determined by the assortment decisions made by the retailer. Thus, the decision-making of retail store category managers is investigated through a literature review of retail decision-making (Paper III). Identifying the factors that determine retail product choice provides an understanding of the demands producers have to meet to get their products accepted and sold in retail stores. Paper III focuses on the demands facing smaller, local suppliers, but as larger producers such as *Swedish Meats* face the same retail store decision-makers, they are subject to the same demand. Small and large suppliers both have to be accepted by the retail store category manager to be sold in the store. Together with intelligence on the end-consumer, knowledge of grocery store category manager decision-making comprises market intelligence that has to be disseminated in the supply chain and responded to by producers, e.g. *Swedish Meats*.

The responsiveness of *Swedish Meats* is examined by taking a New Institutional approach. The New Institutional Economics (NIE) assumes that individuals are bounded rational and acting self-interest seeking (Williamson, 1989). The internal perspective is explored using Transaction Cost Economics (TCE) and the problems of Vaguely Defined Property Rights (VDPR). As this approach enables a visualization of the complete set of costs experienced by individuals when using a market institution, it is suitable in explaining why certain organizational institutions are chosen and others abandoned. Using the TCE framework in combination with the problems of VDPR also provides an explanation for *why* a certain organizational structure does not succeed in delivering the desired results. This theoretical framework is used to analyze interviews conducted with key stakeholders in the decision to sell off the *Swedish Meats* cooperative (Paper IV). From the interviews with the key stakeholders, the chosen theoretical framework enables an analysis of how well the external perspective was taken into account in the strategic decision-making.

In order to fulfill the aim of the thesis, i.e. to *explore the reason for lack of market orientation within Swedish Meats*, the following key questions had to be answered: 1) What implications did consumer attitudes to differently labeled pork have for the market orientation and profitability of *Swedish Meats*? 2) What implications did the situational context of the consumer purchasing decision have for the market orientation and profitability of *Swedish Meats*? 3) What implications did the demands of the retail category manager have for the market orientation and profitability of *Swedish Meats*? 4) How did *Swedish Meats* fail to be responsive to market intelligence, and why?

2 Theoretical and conceptual frameworks

2.1 Cooperatives

The demutualization of *Swedish Meats* saw the end of an era of cooperative domination in the slaughter industry in Sweden. It has been shown that waves of cooperative demutualization come after dramatic institutional changes or market changes leading to increased competition (Chaddad and Cook, 2004b; Chaddad and Cook, 2007; Fulton and Hueth, 2009). Through increased competition, the reason for the existence of the cooperative, counteracting market failure, becomes weaker. Cooperatives have traditionally been the dominant organizations in most agricultural industries, partly due to the characteristics of agricultural products.

There is often a long and complex chain between the raw product and the final consumer product (Ritson, 1997). That might give rise to opportunism towards farmers, especially since agricultural products are perishable. The farmers might end up in hold-up situations where information asymmetry enhances the advantage of the downstream actors. When a cooperative exists, this opportunistic behavior is reduced, as the cooperative has a competitive yardstick effect (Sexton, 1986).

In addition, agricultural products are bulky commodities, costly to transport and in need of processing, creating possibilities to attain economies of scale when undertaking these activities (Padberg, 1997). Hence, it is beneficial for farmers to use cooperatives as the marketing channels for their products.

A cooperative business is owned and controlled by its users. Barton (1989, p.1) presents the following definition:

> A cooperative is a user-owned and user-controlled business that distributes benefits on the basis of use.
> • Persons who own and finance the cooperative are those that use it.
> • Control of the cooperative is by those who use the cooperative.
> • Benefits of the cooperative are distributed to its users on the basis of their use.

The user of a cooperative is a member of the same. The members own the cooperative and receive a patronage refund based on the scope of their transactions with the organization. In traditional cooperatives, members invest a small amount of equity and they are not compensated through dividends at all, or only to a limited extent. As the members are the residual claimants of the cooperative, they instead receive the residual through the patronage refund. The members have the responsibility for controlling the cooperative.

Forming a cooperative, therefore, is not cost-free to the farmers. Compared with transacting through the market, they have to take on costs for controlling and monitoring the cooperative. Through the cooperative, the farmers integrate vertically in the supply chain.

2.2 Transaction Cost Economics

The transaction costs depend on the institution in which the transaction takes place (Williamson, 2000). Institutions can therefore be compared depending on the level of transaction costs that are experienced by the transacting parties. The transaction costs explain why some institutions are used and others not. Transaction costs are the costs of an exchange, such as costs for obtaining information, negotiating and monitoring or enforcing the deal (Hobbs, 1996).

These costs come about due to the underlying assumptions in TCE; that individuals are opportunistic, have bounded rationality, operate under uncertainty and experience some degree of asset specificity (Williamson, 1975). Individuals are assumed to be seeking self-interest with guile (i.e. opportunistic) and the information asymmetry creates uncertainty for the transacting parties.

The parties in the transaction are assumed to seek to minimize the transaction costs, provided that the production costs are constant, and therefore choose the institutional solution that brings the lowest total costs. Williamson (1989) suggests three dimensions of transaction costs; the frequency at which transactions between the parties take place, the uncertainty involved in the transaction, and the asset specificity in relation to the transaction experienced by the parties.

Asset specificity arises when a trading party has invested in assets that have little or no alternative value for other uses (Williamson, 1989). This can be resources in terms of site specificity, specific physical or human resources and assets in the form of resources dedicated to the particular transaction and the brand capital resource. The frequency is a source of transaction costs as transactions involving a higher degree of specific assets are more likely to be hierarchically organized if frequently occurring (Williamson, 1979). High frequency of transactions increases the opportunities to recover the relation-specific costs and also enables learning by doing, so the transaction costs decrease with frequency.

High frequency decreases the uncertainty, as it enables the creation of specialist transaction structures for which the trading partners strive to retain the costs. The uncertainty facing the exchanging parties can be divided into primary uncertainty (stemming from random acts of nature and unforeseen changes in consumer preferences), secondary uncertainty (arising from lack of communication) and behavioral uncertainty (strategic nondisclosure and distortion of information) (Williamson, 1989). Different institutional solutions can therefore be evaluated depending on the cost of information, negotiation and monitoring of the dimensions of frequency, uncertainty and asset specificity.

Farming activities and the food supply chain are characterized by high asset specificity (Roumasset, 1995; Allen and Lueck, 1998). The location of farms cannot be changed and the equipment for farming activities has no alternative use, creating physical asset specificity. The same features exist for the processing link of the supply chain. Investing in slaughter equipment or dairy machinery imposes asset specificity for the processor as well. Thus, for the parties to find it cost-efficient to make the investment, they need to ensure that the transaction between the two takes place. The farmers will not invest in farming equipment if there are very high transaction costs involved in selling the farm products and the processor will not invest in machinery for processing without being sure of acquiring sufficient products to process. Hence, vertical integration will create the lowest transaction costs for the parties. The high frequency of transactions recovers the relation-specific investments and the uncertainty facing the parties diminishes. The vertical integration stops at the transaction in the supply chain where the cost of using an alternative institution is lower. In the case of *Swedish Meats*, that was when selling the processed product to the retailer. The *Swedish Meats* cooperative could be regarded as an extension of the members' farms (Feng, 2010). The farmers were the owners of the slaughter and processing plant and had to make strategic decisions regarding its operations. Hence, the farmers took on other costs - governance costs. Accompanying the cooperative organizational structure are costs associated with the distribution of property rights of members, such as agency costs.

The ownership of an organization should be assigned to the patron that minimizes the transaction costs for all patrons in the organization (Hansmann, 1988). The cost of ownership arises due to owners having to stay informed, to communicate and to bring the decision to bear on the organization's management. Poor management of the members will result in the managers exploiting them and organizational slack will result in wasted earnings. Cooperatives bring lower transaction costs when there is malfunctioning market competition. In that case, members are the patrons minimizing the total cost of ownership. In general, the patron owning an organization should be the patron experiencing the lowest ownership or monitoring costs. However, if some patron group experiences high market transaction costs, this group will still be the most efficient owner as the group through its ownership will experience lower transaction costs. Hence, the total cost to the patron group will be reduced even though the cost of ownership is rather high.

Ownership consists of two elements, the exercise of control and the receipt of compensation in the form of residual earnings (Hansmann, 1988). The cost of ownership, or exercising control, is small if there are few owners, living in the neighborhood and transacting regularly. The cost of ownership increases if the owners have diverging interests, as not all of the owners' interests can be met. Hence, sub-groups achieving disproportionate influence can emerge. This is likely to happen if some group of owners can more easily participate in the decision-making than others, e.g. by being knowledgeable.

The cost associated with the second element of ownership, the residual earnings, is foremost the cost of bearing the risk of the organization (Hansmann, 1988). There is usually some group of patrons that can bear this cost to a lower cost than others, for example due to diversification. Thus, this group of patrons should be the owners. This is the usual argument for IOFs. In IOFs, the patrons with the lowest risk-bearing costs are the owners of the firm. The risk-bearing costs can be problematic in a cooperative, as the members invest in activities that are extensions of their farm activities, resulting in low diversification and high risk-bearing costs. In addition, liquidity problems can prevent patrons from providing the necessary risk capital, as the cooperative members prefer to invest in their own farms. However, as the cooperative members perceive that the costs of ownership are lower than the benefits from reduced transaction costs, they will still be assigned the ownership as they are the patrons that minimize the sum of costs for all patrons. Thus, the cost of ownership, e.g. the agency costs and other monitoring costs that occur due to the cooperative's VDPR, is acceptable to the members.

2.3 Property rights and the problems of Vaguely Defined Property Rights

When the residual control and the residual rights are aligned, there are no problems regarding the property rights of an asset. When ownership is separated from control, agency costs emerge (Bager, 1996). The separation of ownership and control results in the need for contracts between principal and agent to ensure that the interests of the agent are in accordance with those of the principal. In cooperatives, the members are the principals and the management is the agent. As these contracts are imperfect, they give rise to problems of VDPR.

In cooperatives, problems of VDPR can be severe. Firstly, this is because the cooperative residual claim is not openly tradable (Nilsson, 2001). Secondly, the members have no individual ownership rights to the cooperative, only to their individual share in the cooperative society. This share is not appreciable and all decisions regarding the equity are made collectively, usually by equal voting power. Thirdly, the existence of unallocated equity enhances the collectivism in the decision-making. The result is that the members scarcely have any individual property rights to the cooperative, which creates problems of VDPR.

Furthermore, the members receive the cooperative's profits as patronage refund and improved terms of trade (Nilsson, 2001). No market signal reflected in the price of the share reaches members and management when they assess the performance of the cooperative. As the members lack the market signal from their shares to help in evaluating the manager, the agency problems are more severe than in an IOF. The problems of VDPR are the free-rider, the horizon, the portfolio, the control and the influence cost problems (Cook, 1995).

As all members gain the benefits of the cooperative's aggregated assets, accumulated through time, new members will be *free-riding* on the efforts of the old. The unallocated capital makes it possible for members to reap benefits without contributing accordingly (Cook, 1995). Due to the possibility to free-ride, members do not like to invest in the cooperative.

Members do not get any part of the unallocated capital when leaving the cooperative.

Because of the unallocated capital, a *horizon problem* exists as well. As members have different time horizons, they are unwilling to make long-term investments (Cook, 1995). Members will oppose investments that bring benefits after the member leaves the cooperative.

The lack of tradability, liquidity and appreciation of the residual claims also causes the *portfolio problem* (Cook, 1995). When having no other ties to a business than the equity investment, the owner can create a portfolio that matches the risk preferences (Sykuta and Cook, 2001). Cooperative members are tied to the cooperative because of their patron role. The cooperative can be regarded as an extension of the farm. The farmers' risk preferences will therefore have to be met by diversification of operations within the cooperative. As the members are a heterogeneous group, the cooperative will only be able to meet the preference of the average members or some specific group of members. The composition of the portfolio can create a conflict between the principal (the members) and the agent (the manager) (Nilsson, 2001).

The agent has to be controlled and monitored by the principal. In a cooperative, a *control problem* arises as no information regarding the performance of the agent is provided through the stock market (Cook, 1995). Hence, a cooperative has to undertake monitoring and controlling without this evaluation instrument. The agent has greater opportunities to act opportunistically. The information asymmetry and the agent's and the principal's diverging interests bring problems for the monitoring of the cooperative.

In addition, the heterogeneity among cooperative members may lead to some groups acting to promote their interests at the expense of other members (Cook, 1995). This causes an *influence cost problem*.

2.4 Cooperatives and market orientation

Market orientation can be seen as "the extent to which an actor in the marketplace uses knowledge about the market, especially about customers, as a basis for decision-making on what to produce, how to produce it, and how to market it" (Grunert et al., 2005 p. 428). Actors in a value chain interact to create value added to the end-user. In order to be successful, market intelligence from all actors in the chain needs to be used, not just market intelligence related to the immediate customers in the chain. The downstream actors, however, need to include more market intelligence in their decision-making. The actors upstream have to use this intelligence to adapt the product to end-user needs. The more differentiated the group of end-users or raw products, the more intelligence is needed downstream for adjusting the product to end-user needs. To enhance dissemination of market intelligence, the links between the actors should be short and strong. There also needs to be a power balance between them, enabling trust and commitment. In addition, a strong trade association, contributing to the dissemination of market intelligence, contributes to the process. The trust and commitment generated in these value chains create an openness that increases the market intelligence flow in the value chain and reduces hold-up problems that can otherwise prevent upstream actors from engaging in differentiation activities requiring segregation and traceability (Grunert et al., 2005). The trust and commitment determine the degree of market orientation of the chain.

Cooperatives are good at providing standardized and homogeneous products due to the principle of equal treatment (Grunert et al., 2005) and trust (Søgaard, 1994). They are regarded as being less well suited to providing differentiated products in response to consumer needs.

Traditional cooperatives are suitable when operating on a commodity market where economies of scale can be attained and members and products are homogeneous (Nilsson and Ohlsson, 2007), i.e. when cost leadership is the preferred competitive strategy (Porter, 2004). Under these conditions the VDPR problems become less severe as investments are small, the member interest more aligned and all members benefit from new members free-riding on previous members' efforts, as economies of scale bring larger benefits when the membership increases (Nilsson, 2001).

Problems can arise as the cooperative moves to more value-added activities that require more capital and market intelligence. The board's decisions tend to be more production-orientated than market-orientated (Staatz, 1984). There is also a tendency to avoid risky operations (Nilsson, 1998; Hendrikse, 1998). Thus, as cooperatives increasingly have to operate on value-added markets undertaking product processing and branding, cooperative structures other than the traditional form may be considered (Chaddad and Cook, 2004a). Following a differentiation or focus strategy makes more entrepreneurial cooperative structures efficient (Nilsson and Ohlsson, 2007). More risk capital is needed for these strategies.

Modifying the cooperative structure decreases the monitoring costs of members, as the property rights become more clearly defined. For instance, tradable and appreciable delivery rights decrease the horizon problem, as retiring members have a chance to get their investments back (Nilsson, 2001). As transferable, appreciable equity shares are introduced along with defined memberships, legally binding contracts and sizeable up-front equity investments, the VDPR problems diminish (Cook and Iliopoulos, 1999). Cooperative conversions occur when member control is ineffective (Chaddad and Cook, 2004b; Chaddad and Cook, 2007; Fulton and Hueth, 2009).

Market-orientated activities, such as branding, require long-term investments in marketing and product development (Hardesty, 2005). Hanf and Kühl (2005) regard branding as critical for the success of food manufacturers. As consumers have a positive attitude towards cooperatives, this can be used in the branding process, possibly together with some other attributes, such as locally produced (Nilsson et al., 2007). In addition, as a cooperative controls all the steps in production, it has a good opportunity to provide traceability and ensure the safety of the products. This is important to retailers as well as consumers (Skytte and Blunch, 2001).

Traditionally, agribusiness has been slow to develop brands and has instead relied on government protection, improved efficiency or reduced buyer power (Beverland, 2007). The future will demand strong brands, close relationships along the supply chain, market orientation and unique selling propositions. Traditional cooperatives seem to fail in these respects, while alternative cooperative structures have been found to be more successful (Zeuli, 1998). It has been found that cooperatives can charge value-added prices, but that the long-term viability of this strategy depends on the cooperative structure (Beverland, 2007). Long-term branding success has been found to demand alternative cooperative structures enabling more clearly defined property rights. This is because traditional cooperatives have difficulties maintaining member commitment to the value-adding strategy (Nilsson et al., 2009).

It has been shown that market orientation is positively associated with performance in countries with a culture distinguished by low power distance and low uncertainty avoidance (Kirca et al., 2005), e.g. Sweden (Hofstede, 1983). Introducing individual ownership improves the performance of cooperatives, while cooperatives using differential pricing policies strengthen their market orientation (Kyriakopoulos, 2000; Kyriakopoulos et al., 2004). In order for a cooperative to be successful in market orientation, an entrepreneurial firm culture is important. This is supported by McClure (2010), who found that bureaucratic structures are not effective to maintain a market-orientated strategy, but rather stable markets. Instead, culture explained the good market orientation. Internal processes influence market orientation performance more than organizational structures (Kirca et al., 2005). The results of market orientation are affected through innovativeness, customer loyalty and quality. Thus, incentive systems in organizations need to emphasize and ease processes leading to innovation, such as interconnection between departments.

As cooperatives have to rely on internal capital sources, the innovation capability is reduced (Holmström, 1999). The lack of price signals provided by the stock markets and the lack of active investors hamper cooperative development. Thus, members' voices have to be used to improve the performance. The tensions among members increase as the competition intensifies. The divergence in interests and preferences of members cause the voice instrument to become more costly to use. Hence, exit becomes a more attractive alternative, partly because the deregulation opens up other trading options for the farmers.

Changes in the market structure and technology open the way and make it necessary for organizations to be innovative (Holmström, 1999). Cooperatives have a disadvantage in this, as the members will have different opinions on which innovations to pursue. Evaluating innovations becomes more difficult as there is no capital market help in this assessment, e.g. no stock value increase when the organization undertakes profitable or promising innovative processes. As external investors do not have any influence in the cooperative firm due to the principle of user control, they have no interest in providing the risk capital needed. The cooperatives do not have to be innovative in a regulated market and therefore they do not have measures available for evaluating and rewarding innovative activities, resulting in the management lacking guidance for such activities. The activities should be directed towards fulfilling the needs of consumers. Thus, good market intelligence is needed in order to assess and discover innovations and market opportunities.

2.5 Means-End Chain

The consumer reasoning related to a firm's offered products can be derived using the Means-End Chain model (MEC). MEC is a theoretical construct whereby consumer values are connected to their behavior, thereby revealing how products derive personal value. The aim of the model is to create an excerpt from the consumer's cognitive or motivational decision structure (Grunert and Grunert, 1995).

According to Gutman (1982), the MEC model is based on two main assumptions; values are central to consumer decisions, and consumers reduce the complexity of the environment through creating categories. This categorization is done according to stimuli that are linked to desired end-goals. The categorization results in different products being chosen for further consideration and the categorization process will continue until only one product remains. The products considered are the evoked set and they have the attributes that are believed to have consequences leading to desired values. The consequences can be direct, indirect, physiological, psychological or sociological, and consumers act in ways to maximize the positive consequences and minimize the negative. Consumers learn which attribute leads to specific consequences, as well as the more important value that the consequences result in. The more important the value the consequence results in, the more important the attribute associated with that consequence will be to the consumer. Figure 1 shows the basic relationships within the MEC paradigm.

Attributes →	**Consequences** →	**Values**
- Concrete	- Functional	- Instrumental
- Abstract	- Psychosocial	- Terminal

Figure 1. Means-End Chain model (after Olson, 1989, p. 174).

According to Olson (1989), all consumers may not have complete MECs. They may have different product knowledge at different levels of abstraction. This comes about when consumers are naïve and have little product experience or when the product is very simple.

Costa et al. (2004) state that food products are often rich in abstract attributes and consequences. This is due to the habitual behavior associated with the choice of food items and meals, making it difficult for the respondents to connect their actions to their values. Other explanations for the richness of attributes and consequences are the lack of expert knowledge in food, which makes it difficult to envisage what consequences food attributes actually bring.

The respondent's perceived product attributes, consequences and values form mental chains that are aggregated into a *hierarchical value map* (HVM). These chains contain product knowledge (attributes and functional consequences) as well as self-knowledge (psychosocial consequences and values) (Audenaert and Steenkamp, 1997). With increasing consumer knowledge of, or involvement in, the product, a larger number of ladders are elicited (Gengler and Reynolds, 1995). There are structural differences between the HVM of high and low involvement products. Low involvement products have simpler and less interconnected maps than high involvement products (Gengler et al., 1995).

There are two views of MEC and what the HVM envisions – a motivational view and a cognitive structure view. The motivational view sees MEC as consumers' buying behavior motives, thereby giving a greater understanding of consumers' buying behavior. According to the cognitive view, MEC shows the product-related knowledge stored and organized in the consumer's memory and can thereby be regarded as an excerpt from the consumer's cognitive structure (Grunert and Grunert, 1995). LePage et al. (2005) state that the least abstract levels of an MEC have the best predictability of behavior. Parts or all of the structure must be activated before it can influence the consumer's behavior (Olson, 1989).

When investigating consumer decision making, the researcher must ensure that the most important cues are present in the consumer's mind. If an accurate image of the consumer's decision-relevant cognitive structure is to be attained, the consumer should undertake minimal strategic processing. Strategic processing can be reduced through keeping the data collection context similar to the actual decision-making situation (Grunert and Grunert, 1995). The data collection method suitable for MEC is laddering interviews.

2.6 Laddering interviews

Laddering interviews are the in-depth interview technique used to derive the MEC chains. The main concept of laddering is to get the interviewee to react and respond to his or her own answers through using questions such as 'Why is that important to you?', thereby attaining consequences and values at higher levels of abstraction (Reynolds and Gutman, 1988). When the consumer no longer has a ready answer, the interview stops. The interviewees might wish to stop the laddering probing as they perceive it to be too personal. This problem can be solved through evoking a situational context, as interviewees feel more comfortable in answering questions that are linked to an actual context or event. Laddering works best when interviewees provide associations while thinking of a realistic occasion in which they would use the product.

Laddering can be hard or soft. *Soft laddering* implies that the natural flow of interviewee answers is influenced as little as possible. This is opposed to *hard laddering*, which forces the interviewee to produce one ladder at a time (Grunert and Grunert, 1995). Soft laddering tends to generate categories at a low level of abstraction (Leppard et al., 2004).

When conducting laddering interviews, only the salient criteria that are most important to the behavior should be retrieved. Hence, the laddering interview should stop when the interviewee does not know the answer. Otherwise, strategic processing might occur, making the interviewee think in a problem-solving manner, in which case the HVM does not represent a correct image of the cognitive structure (Grunert and Grunert, 1995).

Strategic processing can be reduced through conducting the interviews in an authentic decision situation and through allowing '*forked answers*'. Forked answers mean that the interviewee is not forced to take one ladder at a time and can answer using more than one ladder, returning to a lower level of abstraction to elaborate another aspect of the product. When an excerpt of the cognitive structure is constructed, the cognitive process simultaneously influences this excerpt. It is thereby not possible to get a true image of the interviewee's cognitive structure (Grunert and Grunert, 1995). It is worth noting the criticism by Bagozzi and Dabholkar (2000), who emphasize that consumers are not aware of their mental processes. After the decision is made, consumers explain their reasoning in a way perceived to be the anticipated. The motives for the behavior are formed as the consumer expresses them. However, Grunert and Grunert (1995) present four criteria that should be fulfilled if the researcher is to be able to measure the interviewee's cognitive structure: (1) The raw data should be a result of the interviewee's cognitive structures and processes rather than of the researcher's cognitive structures and processes, (2) the data collection should not involve strategic processes not typical for the target market, (3) coding should preferably be based on cognitive categories widely shared among both consumers, researchers, and users of research results and not on the researcher's idiosyncratic cognitive categories, and (4) the algorithm used for data reduction should be based on theory about cognitive structure and processes. Conducting the interviews in the actual decision-making setting, for example by the meat counter in the store just as the consumer has chosen which meat to buy, should reduce the strategic processing since the reasoning is fresh in the mind and the interviewee has no time to rationalize his/her purchasing motives.

3 Approach

3.1 Qualitative approach

The data in this thesis were collected using a qualitative (flexible) approach. This approach is suitable as it provides the flexibility of study design needed when studying unpredictable objects, such as an individual's behavior, beliefs or attitudes, and makes use of methods providing output in verbal format (Robson, 2002). In Papers I-IV, the researcher is the instrument of data collection, the focus is on the participants' view of the studied phenomenon, and the studies aim at presenting multiple realities. The studies start with a phenomenon that the researcher tries to understand. To do so, different interview techniques are employed in the different studies.

3.2 Laddering interviews at the Point-of-Purchase

In the study on consumer attitudes towards differently labeled cut pork, soft laddering interviews were conducted with consumers of branded (Scan/Swedish Meats), unbranded (meat cut in the store), imported and locally/organically produced cut pork. This laddering was designed to derive the MEC of the interviewees, to be aggregated into HVMs. One HVM was produced per type of meat studied. In total, 127 interviews were conducted, 30-34 for each type of pork.

Soft laddering was chosen because the study topic is fairly uncomplicated due to food purchasing choices being categorized by low involvement (Costa et al., 2004). Soft laddering thereby results in the interviewer bias becoming smaller due to less complicated interpretation of the ladders (Grunert and Grunert, 1995). On the other hand, with a less complex subject hard laddering could be advantageous, since it provides the interviewee with more characteristics than would otherwise have come to mind (Russell et al., 2004). Russell et al. (2004) also claim that soft laddering results in more categories than hard laddering. Our motivational approach made it more interesting to derive a larger number of categories and get the consumer to recollect the associations, rather than recognizing them from an a priori list. This is because the purpose of the study was to provide as elaborate a view of consumer reasoning as possible. HVM created from soft laddering data are more complicated than HVM from hard laddering, but can provide more information. Russell et al. (2004) also recommend that soft laddering be used when the aim of the study is to broaden the picture of the participants' beliefs, which was the case in this study. Soft laddering has a tendency to generate connections at lower abstraction levels (Leppard et al., 2004), which needs to be taken into consideration when analyzing the HVM.

The interview used the type of pork chosen as the object of the interview. Direct elicitation was used. According to Bech-Larsen and Nielsen (1999), direct elicitation is the recommended technique when the aim of the study is to explore how the consumers are reasoning, rather than predict their choice or replicate their cognitive structure. Before the interviews, the interviewees were told that there were no right and wrong answers and that the questions might seem obvious and silly, but this was part of the method. This information was given in order to make the interviewees feel more at ease during the interview and to create some vulnerability on the part of the interviewer, hopefully making the interviewee speak more freely (Reynolds and Gutman, 1988). The interviewer tried to influence the interviewees' answers as little as possible.

3.3 Literature review of retail store category managers' purchasing decisions

In order to identify the factors influencing retailer category managers' purchasing decisions, models explaining the retailers' purchasing behavior in general were identified. As the literature in this area is limited, the literature review had to include findings in product categories other than food and on decision-making models at the central retail level. The literature review was conducted continuously from fall 2009 to spring 2011.

From the models of purchasing behavior reviewed, the most important aspects were identified, such as the assortment strategy, the product and supplier characteristics and the information used in the decision-making. The models also showed the need to include the personal characteristics of the decision-maker when studying the decision-making process. A thorough literature search was then conducted to identify as many influential factors as possible in order to apply them to the decision of accepting a perishable product such as cut pork to be sold in the retail store.

3.4 Interviews with key stakeholders of Swedish Meats

In order to fulfill the aim of the study – to explain why *Swedish Meats* was demutualized – it was deemed appropriate to use a qualitative method or flexible study design (Robson, 2002; Anastas and MacDonald, 1994). Firstly, a literature review of the reasons for cooperative demutualization was conducted. Based on this literature review, a question guide was developed.

Following the recommendation by King (1994), interviews are appropriate when individual historical accounts are needed about a change, in this case the demutualization of *Swedish Meats*. Due to the complex and sensitive nature of the questions that had to be asked, personal interviews were needed. Two-way communication between the interviewer and the interviewee was required. Thus, semi-structured interviews were conducted. During the interviews, the interviewees could speak freely. However, to ensure that all relevant aspects identified in the literature review were covered, the interviewer used the question guide. The interviewees were allowed to study the question guide before the interview. The questions in the question guide were open-ended in order to enhance the flexibility of the interview, allow the interviewee to provide an in-depth interpretation of the phenomenon in question, and provide him/her with the opportunity to produce unexpected or unanticipated answers (Robson, 2002).

Before the interviews were conducted, a general list of potential interviewees was constructed. Key stakeholders of *Swedish Meats* were identified, both those who took an active part in the decision to sell the operational part of the organization (directors) and those who were subject to the decision (rank-and-file members). The stakeholders were persons raising their opinion either against or for the sell-off in the public debate. These were targeted for interview as they were perceived to be knowledgeable regarding the status of the organization. All interviewees had been members of the cooperative and pig farmers.

The answers provided by the interviewees were continuously aggregated under headings summarizing different aspects of the decision process, such as 'Reasons for lacking profitability' and 'The influence of the member representatives'. On doing this, patterns in the answers could be visualized. During the process, it became apparent that the interviewees were not providing contradictory responses. Even though the interviewees had had different stand-points at the time of the decision to sell the operational part of the organization, they all provided the same rationale as to why the process came about. In addition, a pattern emerged in the answers and as no new information was added by the sixth interview, saturation occurred (Robson, 2002). The pattern resulting from the interviews was then analyzed using the theoretical framework suggested by previous studies.

The interviews were held over the telephone and lasted between 30 and 75 minutes. Conducting telephone interviews results in information losses caused by lack of visual cues, but this can be counterbalanced by the smaller interviewer effect and lower tendency for socially desirable responses (Bradburn and Sudman, 1979). The interviewees were asked if the interviews could be recorded and they all agreed to this. The recordings were transcribed and the interviewee had the opportunity to comment on the transcript to ensure its validity.

The interviews were supplemented by secondary data from the industry to provide the external framework for the decision to sell the operational part of the organization.

4 Results

4.1 Paper I: 'Consumer involvement and perceived differentiation of different kinds of pork – a Means-End Chain analysis'

Paper I analyzed consumers' motivational structure for imported, unbranded (cut in-store), branded (Scan-labeled, i.e. the brand of *Swedish Meats*) and locally/organically produced pork. The HVM derived for imported pork diverged as it only included one chain of reasoning. Imported pork consumers chose it because it was cheap, resulting in the consequence of them saving money to be used on other things. The simplicity of reasoning, i.e. the low number of chains, indicates that the consumers of this kind of pork have low involvement in their purchasing decision.

The second least complicated HVM was derived from the unbranded pork consumers. The most important attribute determining why they chose the unbranded pork was that it was Swedish, but it was almost equally important that it was sold in a convenient size of pack. Convenient size of pack and the pork being cheap led to the consequences of saving money and time. The attribute 'Swedish' was perceived to ensure good handling of the animals and no diseases in the meat. This resulted in the consumers staying healthy and the value of security. A third group of attributes related to the appearance of the pork and the taste, leading to the consequence of good taste, ending in the hedonistic value of enjoying the food.

Consumers who chose locally/organically or branded pork showed a higher level of involvement. A range of attributes were important for the consumers of locally/organically produced pork. Some bought this pork because it was locally produced and they wanted to favor Swedish farmers. Others bought it because it was the first one they came across and thereby saved them time. Still others chose the pork because of the convenient size of pack, because it saved them money and gave no leftovers. Another group chose it because it was the right type of meat and had an attractive appearance. Again, this was perceived to lead to good taste and end in the hedonistic value of enjoying the food. The most important attribute was that the product was organically produced. This attribute was supported by the attribute of the pork being Swedish, which was perceived as ensuring quality. This quality was connected to the good taste of the product and hedonistic values, but also to caring for the animals and the universalistic value of animal welfare.

Regarding the consumer choice of a branded pork product, the results clearly demonstrate that the most important attribute was the country of origin, in other words that it was Swedish. Few interviewees mentioned the brand itself as being the reason for choosing the branded pork. Domestic origin was primarily believed to imply good quality and health. Quality was associated with good taste, indicating that domestic pork was perceived as tastier than imported. Five values were present in the HVM for branded pork, the largest number of values for all HVMs. For the buyers of branded pork, the hedonistic value 'Enjoy the food' seemed to be the most important, followed by the universal value 'Animal welfare'. The three values presented in the map sorting under Schwartz's (1992) value categorization 'Security' seemed less important to the interviewees.

Moreover, consumers of branded pork believed that domestic pork is produced in a good manner and does not entail any diseases, thus leading to healthiness.

4.2 Paper II: 'Methodological implications of conducting laddering interviews in a Point-of-Purchase setting'

Paper II examined the methodological implications of conducting laddering interviews in a Point-of-Purchase setting. To minimize the strategic process when conducting laddering interviews, the data collection context needs to be similar to the actual decision-making situation (Grunert and Grunert, 1995). Conducting the interviews at the Point-of-Purchase (PoP), as done in Paper I, was expected to achieve this. On comparing the results from data collection at the PoP with previous research and of data collection in a controlled environment, it was found that almost all concepts found in previous studies also appeared in the PoP study. This indicates that the data loss was not severe. The main difference was that the PoP study included practical attributes and consequences that were typical of the situational context and thereby not included in other studies. These attributes and consequences included convenient size of pack, the pork being the first that the consumer came across, being the right type of meat and saving time.

Nylund (2009) conducted a soft laddering study of consumer perception of the same pork categories as in Paper I, but carried out the interviews in a controlled environment separate from the actual decision-making situation. Some concepts appearing in that study were missing in the PoP study, such as discussions about transportation, the demands of the family, environmental concerns, traceability, holding producers responsible and propaganda. On the other hand, the PoP study emphasized more practical aspects, such as good taste. Instead of environmental concerns, the PoP study included animal welfare. Animal welfare is easier to relate to pork than the environmental impact of animal husbandry. Thus, animal welfare is more likely to be elicited at the PoP. Overall, the PoP study generated categories that were less abstract than those in the study by Nylund (2009). The HVMs of imported pork clearly indicate the difference between the two interview settings. Being asked in the actual decision situation showed how simple the decision actually is for the consumer, whereas being asked later led to rationalization and elaboration of the reasoning behind the choice.

The PoP study apparently resulted in less elaboration to higher abstraction levels and it did not encourage elaboration of all ladders. On the other hand, more concrete and possibly more salient concepts were elicited.

4.3 Paper III: 'How local producers get access to retail shelf space. Decision-making by supermarket category managers related to small-scale purchases of perishable goods'

The literature review of the purchasing behavior and the criteria important for getting products accepted by the retail store category manager resulted in a conceptual model (see Figure 2).

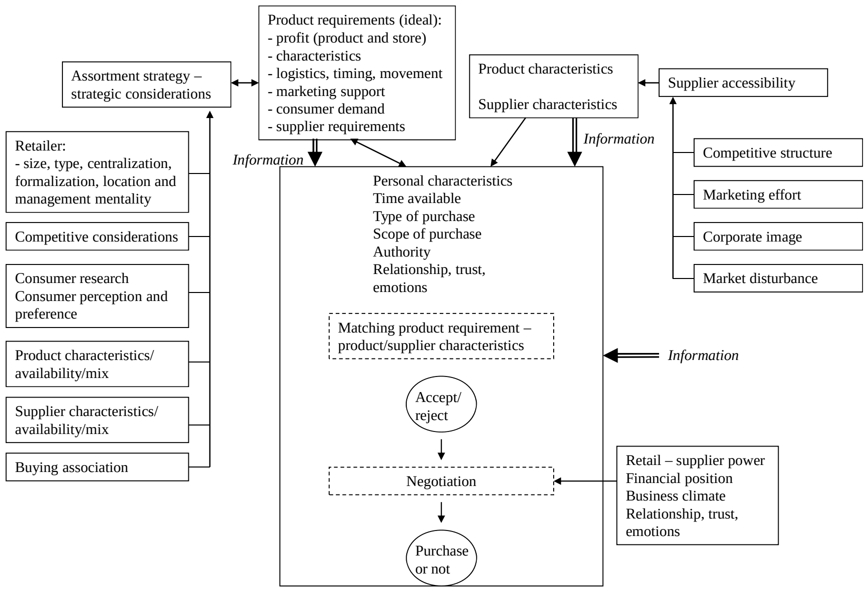

Figure 2. Perishable purchase decision-making model for supermarket buyers.

In addition to the model, some specific aspects seem to be of importance in order to get the product accepted by the category manager. The most important factor for getting a product accepted is that it can bring profits to the retailer (Park, 2001). Elg (2007) shows that even though retailers state liking to get consumer intelligence from the supplier, it is the price that matters. Skytte and Bove (2004) use the MEC approach to study the concept of retail value. Retail value is associated with the retailer interpreting the consumers' needs. Danish and German retailers believe that the most important attributes related to pork products are sufficient quantities, good perceived product quality, consistent quality, wide product range, national supplier, good producer reputation, long-term orientation in the relationship, low-cost price, and traceability of the product (Skytte and Bove, 2004). The consequences are a desire to supply what is believed to be demanded, assurance of repeat purchases by consumers, improvement of perceived consumer satisfaction, good image and increased competitiveness. The important values are sales, profit, growth and survival of the chain.

It has been shown that the assortment offered affects consumers' choices (Sloot and Verhoef, 2008; Simonson, 1999). The retailer should provide a constant assortment, because changes affect consumer satisfaction and purchasing behavior. In addition, retailers can apply a single or a multiple sourcing strategy. Stores using single sourcing accept paying higher prices to suppliers as they value consistency of assortment (Swift, 1995). Retailers preferring single sourcing rather than multiple sourcing use different manufacturer selection criteria, for example they regard dependability as being more important than the multiple sourcing retailers do. The latter regard low price as being important. The single sourcing retailer perceives technical assistance to be important and puts more emphasis on product reliability. It has to be noted that the retailer foresees a risk of becoming dependent on a focal supplier. Many difficulties can follow from focal supplier opportunism, such as lower performance of the retailer and militant behavior by non-focal suppliers (Morgan et al., 2007).

The dependability also emphasizes the importance of the relationship between the category manager and the supplier. The relationship is further enhanced by the category manager liking a constant assortment and having a long-term orientation related to assortment strategy (Skytte and Bove, 2004). Bengtsson et al. (2000) concluded that the more suppliers a retailer has access to, the more it reduces its purchases from its old suppliers. At the same time, the collaboration with the old suppliers becomes more important. This is true both for the retailer's main and complementary suppliers. The collaboration with suppliers does not decrease as the access to new products and suppliers within a product area increases. A larger number of suppliers implies that old suppliers are trying to adapt more to the retailer.

The choice of supplier is crucial for the retail buyer. Different aspects of producer characteristics matter in the retailer's dealings with the producer. The producer can benefit from brand equity, but also from trade equity acquired through being a trustworthy partner in inter-organizational exchanges (Davis and Mentzer, 2008).

Pellegrini and Zanderighi (1991) concluded that previously used suppliers have a better chance of getting their new products accepted than suppliers that have not been used before. Newness and quality always seem to be important determinants for the retail buyer's actual choice of product (Hansen and Skytte, 1998).

The decision situation will be different depending on whether the product is a re-buy or a first time purchase for the retailer. Johansson (2002) suggests that the purchase of new products is a strategic decision that involves extensive information searches, both regarding market trends and consumer behavior. In contrast, re-buy decisions are based on internal information.

4.4 Paper IV: 'The reasons behind the demutualization of a meat marketing cooperative – the case of Swedish Meats'

The results from Paper IV indicate that *Swedish Meats* was demutualised because it could not offer competitive prices for the members' products. The reason for this seems to be the problems of VDPR increasing the internal transaction costs for the members, making it too costly to efficiently govern the organization compared with trading with IOFs. The interviews with the key stakeholders revealed that the cooperative was offering lower prices that the IOFs, causing members' trust in the cooperative to decline to the point where it was no longer considered disloyal to trade with an IOF, but rather good business sense. This made it easier for many members to leave the cooperative. The cooperative then ended up with inefficient operations, not being able to reap the benefit of the economies of scale. Data relating to the Swedish pork industry suggest that the decline in number of pigs and pig farmers has affected *Swedish Meats* to a larger extent than the other slaughterhouses.

According to the interviewees, the members perceived the cooperative to be too large and complex, making it hard for the member representatives to monitor and control the management. There was reported to be no quality assurance in the organization and no flexibility, compared with the IOFs. The members and elected representatives perceived that they only received the information that the management wanted them to have. This increased the agency costs and worsened the *control problem*. In addition, as the representatives were full-time farmers, they were unable to involve themselves in all complex issues. They lacked knowledge regarding markets and product development, strategically important issues for the cooperative. To worsen the control problem, the members did not perceive all of the representatives to be competent, increasing the agency costs. The members found the whole structure of the cooperative too complex and they felt themselves unable to monitor the performance of the representatives or of management. The members were weak as owners and afraid of conflicts. They continuously demanded changes to improve the profitability of the cooperative, but they never followed up on whether the management or the representatives fulfilled their promises. A culture of management and influential representatives involved in mutual backscratching emerged.

There were also problems relating to the *influence cost problem*. The interviewees state that members who were critical of the existing running of the cooperative were silenced. It was perceived that representatives were sometimes elected for the wrong reasons. Some of them were charismatic rather than competent for the task at hand. Too much politics were involved in the decisions, e.g. saving meat plants in the representatives' own districts, etc. The representatives wanted to be popular. They raised the prices for the members' products even though the cooperative was not really in a financial position to do so. They did not discuss the strategic questions that really mattered for the long-term ability to pay a good price for the members' animals. On top of that, the cooperative had no strong leader that could make up for the heterogeneity of the members and that could make and communicate unpopular but strategically necessary decisions to all the members.

The larger members had more to lose from the cooperative's inefficient operations. Therefore they put more effort into monitoring and controlling the cooperative and ensuring that the smaller members voted according to their interests. This created a *portfolio problem*, as the smaller farmers might not have had the same risk preference.

The *free-rider problem* became severe for the cooperative, as the low profitability of the cooperative and the small profits returned to members as patronage refund resulted in low member loyalty. The low performance by the cooperative in the past discouraged members from investing in it, resulting in a vicious circle where essential investments were not undertaken. The members took advantage of the existing situation without contributing. In addition, the decreased loyalty resulted in many members trading with IOFs, further lowering the profitability of the cooperative due to lack of economies of scale. The members took advantage of the cooperative being a yardstick for the competition, without contributing to it.

The members and management also focused on short-term investments to streamline slaughter. No long-term investments in marketing and product development were undertaken, leading to difficulties in sales. There was no money for these investments. The members were engaged in the cooperative for the benefit of their farm, not the long-term survival of the cooperative. There was a *horizon problem*. This prevented long-term investments in marketing and product development, as the farmers wanted the profits as patronage refunds rather than invested in the cooperative. The result was demutualization of the cooperative.

5 Analysis

5.1 The cause of demutualization

Our starting hypothesis as to why the dominant supplier of pork in Sweden, the *Swedish Meats* cooperative, demutualized in 2007 was that its members no longer perceived that they were receiving benefits that exceeded the costs associated with dealing with the cooperative. This hypothesis was verified by Paper IV. The cooperative suffered from low profitability and the members were unable to reverse this trend due to the existence of ownership problems related to the VDPR. One reason for low profitability can be poor market orientation. This thesis use one external and one internal perspective of market orientation.

The internal perspective of achieving market orientation is that the owners of the business need to interpret customer demands correctly and develop appropriate strategies. The external perspective provides an explanation founded on the market intelligence. Attributes differentiate products in the minds of the consumers. Therefore, actors in a supply chain should understand the attributes that are relevant for their segment. For a processing firm such as *Swedish Meats*, two customers need to be kept in focus, the end-consumer and the retailer, the latter being the gate-keeper to the end-consumer. Thus, there was a need for *Swedish Meats* to have an understanding of the demands of both customer categories.

5.2 External perspective of consumer adaptation

Food purchasing is generally a low involvement decision (Costa et al., 2004). Thus, purchasing pork is a rather routine behavior. The Swedish consumers of differently labeled pork examined here were found to use different cues when choosing which pork to buy (Paper I). Consumers of imported pork had a low level of involvement and bought the cheapest pork. Price had some influence for consumers of other kinds of pork too, but they also attached some value added to the products. The attribute 'Swedish' was important to them, particularly consumers choosing pork produced by *Swedish Meats* and bearing the label 'Scan'. This attribute seemed to be more important to the consumers than the brand of the pork, leading to the following questions:

What implications did consumer attitudes to differently labeled pork have for the market orientation and profitability of Swedish Meats?

As Paper I shows, *Swedish Meats* had clearly communicated that consumers should choose Swedish meat and consumers seemed to respond to this. However, *Swedish Meats* was not as successful in communicating the benefits of its brand, which is essential for the performance of an agribusiness firm (Hanf and Kühl, 2005). The consumers purchasing Scan-labeled pork associated the quality of the pork primarily with being Swedish. However, the importance of the attribute Swedish was exploitable by other producers, who could free-ride on the efforts that *Swedish Meats* had put into promoting the value added of Swedish production. While promoting Swedish meat or 'Swedishness' was in line with what the cooperative *Swedish Meats* had to do to increase the benefits of its members, it enabled IOFs to also take advantage of this marketing drive.

Another factor influencing consumer choice was the price of the product. Finding cheap meat was important to the consumers purchasing imported and unbranded pork. Thus, the higher price of Scan-labeled pork might have restricted sales volumes and prohibited retail acceptance of Scan products (Park, 2001). This further emphasizes the importance of branding and pursuing a value-adding, differentiation strategy if unable to compete on price.

What implications did the situational context of the consumer purchasing decision have for the market orientation and profitability of Swedish Meats?

Paper II showed that at the PoP, situational factors were probably more influential for consumer choice than motivational structures regarding the product, retrieved at a later point in time. The display of the pork proved to be essential, as indicated by the importance attributed to choosing the first pork the consumer came across. The appearance of the pork also influenced the actual decision, as did having the right type or cut of pork available in the brand. If not, consumers would choose pork of a different brand (Sloot and Verhoef, 2008). This part of consumer adaptation calls for a large assortment, something that can be costly and resource-demanding.

These practical aspects influencing consumer choice are difficult to control by a supplier, since they are decided by the retailer's category manager. Thus, it is important to have a good relationship with the retail category manager (Skytte and Bove, 2004).

Again, the situational aspects of consumer choice can possibly be somewhat overruled using branding. In the HVM for branded pork, situational aspects such as 'the first I came across' were less important than for unbranded pork. Again, this indicates the need for successful branding in order to get consumers to choose the product even when it is not being favored by the situational factors.

What implications did the demands of the retail category manager have for the market orientation and profitability of Swedish Meats?

The increased centralization of the retail sector has caused the distance between farmer and end-consumer to increase, preventing the farmer from getting access to accurate information regarding consumer needs (Hernàndez-Espallardo and Arcas-Lario, 2003). The retailer likes to make a profit on the products sold either directly or indirectly, e.g. by using it to attract customers to the store (Park, 2001; Loxbo, 2009). Thus, there is a focus on the profit margin of the products being offered. At the same time, consumers like to get a low price, which the retailer communicates to the supplier. Much of the market information available to the producer is delivered by the retailer. Due to the information asymmetry of consumer demand, the retailer can act opportunistically towards the producer (Wathne and Heide, 2000). This involves exaggerating the importance of some product features to serve the interests of the retailer rather than those of the consumer, such as the demand for low-price pork. This is supported by findings of Elg (2007) that retailers claim to like getting consumer intelligence upon which to base their purchasing decisions, but in practice ask for money and cheap labor to accept the product.

It has been shown that retailers try to avoid focal supplier opportunism (Morgan et al., 2007). In the present case, that implies that retailers have encouraged competitors of *Swedish Meats*. They may even have been willing to give these competing firms more favorable terms in order to secure access to more than one supplier of Swedish meat, especially since attribute

'Swedish' was very important for consumer choice (Paper I). Giving more favorable conditions to Swedish competitors would have resulted in *Swedish Meats* not getting as much pork accepted for sale in retail stores as they should have, given that their large size and dominant position enabled them to gain economies of scale, resulting in lower consumer prices. Favorable treatment of the competitors would thus have resulted in *Swedish Meats* having to lower their prices even further, decreasing the profitability of the firm. This is supported by findings by Bengtsson et al. (2000) showing that as retailers get access to more suppliers, they reduce their purchases from their previous suppliers, who are then forced to become more adaptive to retailer demands. However, the retail assortment needs to be consistent in order for the retailer not to lose sales from customers failing to find the required product (Simonson, 1999; Sloot and Verhoef, 2008). Therefore, there would still have been room for *Swedish Meats* products. Retailers like to purchase from a previous supplier with whom that they have built a relationship (Esbjerg and Skytte, 1999; Davis and Mentzer, 2008). In such cases the retailer knows what the products are like and that the supplier can meet retailer demands.

It is more likely that *Swedish Meats* could have got new products accepted if the products were perceived as new, of high quality and bringing a value at large to the category (Rao and McLauren, 1989; Hansen and Skytte, 1998; Johansson, 2002). Thus, it is import to undertake continuous product development in order to get products accepted by the retailer, something that proved problematic for *Swedish Meats*. A product has to be perceived as new and unique in order to be preferred when competitors are being treated favorably in relation to current product offerings.

When retailers accept a new product, they are relying on information regarding consumer behavior (Johansson, 2002). Thus, it is important that the supplier has the right information about consumer demand. As retailers like to get marketing support from the suppliers in order to make sure that the consumers purchase the products offered, suppliers should develop a consumer pull for their products. This pull will encourage retailers to accept the product.

5.3 Internal perspective of consumer adaptation

The market conditions and the demands from end consumers and retailers need to be interpreted and taken into consideration by cooperative members when making strategic decisions regarding their business.

Assuming that they have access to relevant market information, failure to adapt to the situation can only be explained by members failing to interpret it correctly and make the appropriate strategic decisions. The members have to undertake collective actions to meet the demands.

How did Swedish Meats fail to be responsive to market intelligence, and why?

Traditionally, the cooperative dealt with commodities, focusing on quantities, but the food market has become saturated with increased competition, increasing the importance of product quality and other value added aspects (Hanf and Kühl, 2005). This poses challenges for cooperatives. In the present case, it is apparent that *Swedish Meats* had been successful in communicating to Swedish consumers that they should purchase Swedish meat. When a producer launches a marketing campaign of some sort, this puts pressure on the actors downstream in the supply chain. The scope of the campaign signals to the downstream actors that the producer is serious and believes in the product, affecting the decision of the downstream actors to accept the product (Mattson, 1969; Nilsson, 1980). This might have been part of the rationale behind the campaign to promote Swedish meat. More importantly, however, as a cooperative *Swedish Meats* served the interests of all Swedish animal farmers since they could all be members of the cooperative. The farmers could be regarded as a third market that the cooperative needed to serve, in addition to the consumer and retail markets. Thus, it is understandable that *Swedish Meats* sent a marketing message satisfying the demand of the farmers, its present and potential future members. It is often argued that cooperatives are more product-orientated than market-orientated (Knutson, 1985). If the demands of the two stakeholders are not aligned, a conflict emerges.

In farmer cooperatives, management is predominantly knowledgeable regarding production issues (Søgaard, 1994; Kyriakopoulos, 2000; Bond, 2009). The reason for this is partly because recruitment is an internal process and partly because production knowledge is promoted at the expense of market knowledge. As a result, the management might be unable to make a correct analysis of the market and does not know what market-related knowledge is lacking within the organization. This agrees with Hardesty (2005), who reported that the user control of cooperatives, resulting in a lack of non-member representatives in the board of directors, suffers from a lack of expertise as the members are rather homogeneous regarding their skills. Furthermore, the interviews in Paper IV indicated that the members of *Swedish Meats* were not strong enough regarding replacing managers who failed to deliver on their promises. The members were afraid of conflicts and of being 'black-listed' in the Swedish cooperative sphere. There was a control problem in *Swedish Meats*.

The production orientation of cooperatives also promotes investment in tangible assets rather than in intangibles. Cooperatives tend to invest in assets that are visible to their members. The interviews in Paper IV indicated a focus in *Swedish Meats* on streamlining the slaughter industry and improving payment systems, rather than product development and marketing. Assets that are included in the annual report were more likely to be acquired and approved by the members than investments in marketing and other intangible assets. The members' lack of knowledge regarding product features, as well as of the consumer and retail market demands, further decreased investments in these intangibles.

In order to create a market pull for their products cooperatives need to invest in marketing, which is a risky and long-term investment. In the case of *Swedish Meats*, product processing was an activity far from the cooperative members' own farms. They did not have a lot of knowledge about these processes and the information asymmetry between the principal and the agent thereby increased. In such cases, the agency cost to safeguard that the agent undertakes these activities at a satisfactory level for the principal becomes high. *Swedish Meats* members had more knowledge regarding the slaughter process, resulting in a focus on strategic issues related to the cooperative's activities closer to the farmers' own operations. There was thus a focus on streamlining the slaughter process instead of investing in marketing activities and product development (Paper IV).

The *Swedish Meats* cooperative ended up in a situation where it undertook market push instead of pull. Instead of marketing and product development, activities that could have enabled the cooperative to create value added for its products and charge consumers accordingly, it focused on trying to cut costs. It was forced to compete using a price strategy instead of a differentiation strategy. A cost leader strategy is the most likely and suitable for a traditional cooperative operating close to farm activities, as it implies economies of scale (Nilsson and Ohlsson, 2007; Nilsson and Ollila, 2009). When seeking other strategies, such as product differentiation or a focus strategy, other cooperative models may be considered (Chaddad and Cook, 2004a).

The effort by *Swedish Meats* to cut costs was encouraged by the retailers emphasizing consumer demand for cheap products. The strategy by the retailer of using multiple sourcing of Swedish meat, along with the lack of market pull for *Swedish Meats* products, resulted in low profitability for the cooperative. The cooperative could not offer to match the prices offered by other slaughterhouses. As a result, members left the cooperative and it began to suffer from excess capacity and could not achieve economies of scale. This made it even harder for it to compete on price. In addition, the cooperative could not prevent members from selling their animals to the cooperative, so it had to take on the costs of exporting meat when there was a surplus on the more lucrative Swedish market. Exportation ruled out the possibility of charging for the value added by domestic origin, further decreasing the profitability.

Paper IV provides an explanation why the cooperative failed. The VDPR problems prevented members from making appropriate strategic decisions. Because of the free-rider problem, members took advantage of the cooperative's competitive yardstick role and delivered elsewhere, instead of trying to improve the cooperative's conditions. The control costs were perceived to be very high, as the cooperative was large and the information asymmetry between principal and agent increased. Being full-time farmers and not having a lot of knowledge about processing activities caused the members to focus on the area closest to them, the slaughter process, instead of controlling the agent's efforts in marketing and product development. The influence cost problem caused the charismatic rather than the knowledgeable representatives sometimes being elected, worsening the state of strategic planning in the cooperative. The cooperative paid higher prices than it could afford and paid patronage refunds instead of undertaking the necessary investments in marketing and product development. These investments were associated with higher risks that the members were not willing to accept, hence a portfolio problem. Furthermore, the members focused on short-term investments, such as cost cuts in production, rather than long-term investments. This horizon problem arose as the members demanded short-term benefits, perhaps because they were discouraged by the poor results of the cooperative and foresaw leaving it in the near future.

According to Hansmann (1988), cooperative members are the owners of the organization because they are the group that creates the lowest costs for all interested parties. As the members face large transaction costs prior to the existence of the cooperative, the total cost of transacting becomes lower after taking on the ownership costs of the cooperative, even though these are high. When the Swedish pork market was regulated, the cooperative arrangement functioned well. When the market was deregulated, competition increased and at the same time, more slaughter options became available. The competition resulted in lower sales volumes for *Swedish Meats* and alternative slaughterhouses emerged, competing to get the members' animals. Thus, the transaction costs experienced by the farmers decreased. At the same time, the ownership costs were high. In fact the costs were possibly so high that members chose to deliver their animals elsewhere instead of taking ownership responsibility and trying to find an efficient response to the changed market conditions. The members were then no longer the group of patrons that could create the lowest costs for all the interested parties. Hence, the cooperative demutualized.

Another explanation can be found in the fact that cooperatives lack the management assessment instrument provided by the stock market. As cooperative shares are not tradable, the capital market does not help to evaluate the organization's initiatives to be innovative and to respond to market intelligence. Thus, this has to be done solely by the cooperative members (Holmström, 1999). In IOFs, investors react and force the firm to take appropriate action. If the investors do not believe in the future of the firm, they will withdraw their capital. In the case of a cooperative this is a slower process, as the members have to discover these problems themselves. The only economic evaluation instrument to which they have access is the price the cooperative pays for their produce. The cooperative tries to keep this high for as long as possible, as this is what its members prioritize. Therefore, it can take some time before the impact of the lack of market orientation becomes apparent. In addition, as the members have previously not had to consider market issues to a large extent, because the market has been regulated, they do not have experience in market-related issues. The outcome is that they take cost-saving actions rather than launching activities promoting innovation and market orientation. Thus cooperatives tend to be producer-orientated rather than market-orientated (Staatz, 1984). As the profitability of the business becomes worse, the cost for members to use their voice in order to change the situation increases, and the exit option is chosen (Holmström, 1999).

6 Discussion and conclusions

6.1 How can cooperatives improve their market orientation?

There are aspects of the cooperative structure that could be used in order to improve the market orientation. For instance, the cooperative could take advantage of its ability to trace products back to farm level (Skytte and Blunch, 2001). This is a feature of products demanded by retailers. As cooperatives control the production chain, they should be able to do this at a lower cost than competitors, which have to buy inputs and information regarding the products from external parties.

Safety is another attribute found to be important to the consumer and the retailer. If the cooperative can manage to signal quality to the consumer, the information asymmetry can be reduced, resulting in reduced risks for the consumer (Hanf and Kühl, 2005). Again, controlling the whole processing chain would ensure safe products. Consumers could learn to infer trust into cooperative products.

Furthermore, the cooperative ownership structure can be used as a way to position products (Hardesty, 2005). Consumers have positive attitudes towards cooperatives (Nilsson et al., 2007). This attribute is therefore something that the cooperative could use in its marketing, preferably together with some other aspect, such as local production. A strategy to connect the member and consumers and move from a product/price orientation to a value/experience orientation could possibly be successful (Hardesty, 2005). This trend is emerging in the Swedish dairy sector, where farmers invite consumers to attend when the cows are being let out for grazing for the summer season.

However, in order to be able to undertake the market-orientated activities mentioned, risk capital needs to be attracted. Thus, increased market orientation might require a change of cooperative structure in order to avoid being hindered by the problems of VDPR. If they do not pursue this route, cooperatives should focus on their core competences, possibly being the supplier of bulk products to processors providing the final value-added product (Hanf and Kühl, 2005)

In order to overcome the problems resulting from VDPR, causing difficulties acquiring the capital needed to be successful following a differentiation or focus strategy, cooperatives should convert to entrepreneurial forms of cooperative structure with external co-owners or closed membership. Thus, *Swedish Meats* could possibly have avoided the problems of VDPR if it had converted to another cooperative model (Chaddad and Cook, 2004a; van Bekkum, 2001). However, *Swedish Meats*, organized as a traditional cooperative, instead tried to cut costs *and* differentiate its products to retain market share as competition increased.

As *Swedish Meats* disappeared as a cooperative, there was turmoil among all the actors within the meat industry (Liang, 2009). The new owner, HK Scan, had to reduce the cost level substantially, which meant that several plants were closed down. It was necessary to reduce the excess capacity. In this situation, several slaughterhouses tried to expand their production capacity and actively recruited suppliers that previously delivered to *Swedish Meats*. In this turbulence, the major meat cooperative in Denmark, Danish Crown, acquired two slaughterhouse firms in Sweden, thereby further increasing the intensity of competition. Danish Crown seems to be successful in its market orientation, enabling entrance on the Swedish market (Grunert et al., 2005).

6.2 Contribution of the thesis and policy recommendations

VDPR problems aggravate the difficulties in adapting to consumer demands by distorting the market signals in three ways. Firstly, the wrong signals are sent to the capital market, as the members are not interested in investing. Secondly, the input market is distorted as members free-ride and take advantage of the cooperative's operations without contributing accordingly. Lastly, the market signals are twisted, as the wrong price level is signaled to the producers and poor corporate governance prevents relevant information flows in the organization. Thus, in order to get a functioning market, the problems of VDPR need to be addressed.

These problems become paralyzing for the cooperative as markets saturate and competition increases. Thus, actions need to be taken to allow and encourage traditional cooperatives to transform into structures with more market-orientated characteristics. The cooperative has the possibility to acquire the risk capital necessary to continue providing a competitive yardstick role and thereby ensuring that farmers are not subject to opportunistic pricing. As the cooperative then becomes less open, the free-riding of the yardstick effect can be counteracted.

As shown in Paper I, even though purchasing pork is a low involvement product to which it is difficult to attach value added, there are differences between different kinds of pork. It is easier to attach value to branded pork, such as that produced by *Swedish Meats*, since this, along with locally/organically produced pork, was purchased by more involved consumers. That fact enables product differentiation on the most salient values for consumers to attain a profitable target market. For instance, producers should use the values associated with their products to improve the efficiency of their marketing.

Paper II showed the importance of conducting consumer research at the PoP. It appeared that when asked about purchasing decisions outside the actual decision making context, the situational aspects of the choice were forgotten by consumers. The product choice was given more importance and consumers reported more deliberate action than may actually have been the case. Even though some aspects may have been lost when studying consumer decision-making at the PoP, these results may still be highly valid, as that loss is compensated for by the most salient aspects being reported. This aspect needs to be considered by practitioners and researchers when carrying out market analysis.

The review of retail store category manager decision-making (Paper III) was important as it provided a model of the aspects that suppliers need to consider when trying to get their products accepted. This can be valuable to local producers and producers of other value-added products, who do not have the resources to undertake the same marketing campaigns to convince the retail buyer as larger producers have. Selling value added products in the retail store enables the producer to retrieve the production costs, which are higher than those facing foreign farmers. Thus, it is important to know the product aspects needed to get the product accepted, regardless of producer size. As the purchasing decision-making process of retail store category managers dealing with perishable goods had not been studied previously, Paper III makes a valuable contribution to the literature.

Paper IV makes another important contribution as it provides an explanation why cooperatives might demutualize. It points out the importance of getting to grips with VDPR problems in order to ensure the survival of the cooperative. In short, the members have to become better owners. This can be achieved for instance by enabling them to spend more time governing their cooperative. This can be done by decreasing the administrate burden on farmers at farm level through complicated subsidy systems and animal welfare regulations. Paper IV also makes a theoretical contribution, as it merges VDPR problems with the TCE framework.

In order for farmers to get the value added associated with Swedish production, the country of origin needs to be stated on the products. This will come about either through legislation or through market demand. If consumers are willing to pay value added for domestic production, this will be worth communicating on the products. It is already done for cut meat, but it is not mandatory for processed products.

Market orientation is a process that has to be undertaken in the entire value chain. In order to be successful, there needs to be trust and openness between the parties, enabling dissemination of marketing intelligence. In the case of *Swedish Meats*, as indicated in Paper IV there was a lack of trust and openness in its relationship with the retailers. The members interviewed gave the impression that they perceived the retailer to have a much stronger position, hindering trust. The implications of this lack of cooperation in the value chain for the fulfillment of the end-consumers' need to be considered. For example, it might prevent consumers from getting access to products that they are demanding, but do not yet know about.

According to Grunert et al. (2005), a strong trade association is important in order to achieve an open and trusting value chain. The trade association should help in disseminating market intelligence. The role and impact of the trade associations therefore need to be considered by its members. As trade associations can have a role in ensuring trust, resources are needed to make this function as efficient as possible.

To summarize, it is not easy to run a successful IOF. It can be argued that it is even more difficult to run a cooperative due to the VDPR problems. Members face a major challenge governing their organization in an increasingly competitive market. Involvement and learning are required if they are to be successful in their ownership role. Alternative cooperative structures suited for the changed market conditions and the growing need for investments may enable members to alleviate the problems of VDPR.

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