

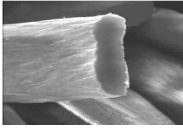
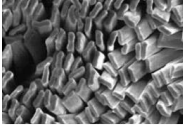


International MSc in Business Administration

The colourful American Opportunity
Fisipe - Strategic change and US market supply

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The **Colourful** American opportunity



Abstract

Title: The Colourful American Opportunity

Author: Mariana Rocha Mota Martins Contreiras

The Colourful American Opportunity analyses the strategic turning point of a Portuguese acrylic fibre producer – Fisipe, in 2005. Whilst, internally, Fisipe was changing its strategy from mainly focusing on product to focusing more on the client, driven by the specifications of its new technology on colour fibre, externally the acrylic industry was giving signs of contraction resulting in acrylic producer's closures. In this context, Fisipe conducted a market research to assess profitable sectors when it foresees an attractive opportunity to supply with colour fibre one of the biggest American textile manufacturers.

Resumo

Título: The Colourful American Opportunity

Autor: Mariana Rocha Mota Martins Contreiras

The Colourful American Opportunity refere-se ao ponto de viragem na estratégia corporativa de um fabricante português de fibra acrílica – Fisipe, em 2005. Ao mesmo tempo que a empresa mudava a sua estratégia interna de produção para stock para uma produção direcionada ao cliente, em grande parte exigida pela introdução da nova tecnologia, a fibra de cor, externamente a indústria acrílica dava sinais de recessão resultando na extinção de fabricantes desta fibra. Neste contexto, a Fisipe realiza estudos de mercado a fim de determinar sectores atrativos quando surge a oportunidade de fornecer fibra de cor a um dos maiores produtores têxteis mundiais, nos EUA.

Acknowledgements

I must thank those that supported me and helped me through this journey of developing my master dissertation. First I would like to mention prof. Nuno Guedes who wisely oriented my work and was constantly available to help me. Furthermore I would like to thank my family, in particular my father who always inspired me and was the reason why I developed a case study on Fisipe. Finally I must thank Tiago Gonçalves and Jeff Dellinger from sharing with me their knowledge and memories.

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I | INTRODUCTION



Introduction

The following dissertation presents managerial and strategic dilemmas of a company in a specific point in time. The aim of the present work is to produce a case that can be used as a teaching vehicle in class, through the deployment of a critical sense and analytical skills in the reader. This thesis is divided mainly in a Case Study, a Literature Review and a Teaching Note.

In the Case Study section the reader is confronted with the reality where Fisipe was operating in 2005 and some of the company legacy. Important facts to illustrate the situation where the protagonists were involved and their conflicts are presented. From the case study it is possible to extract strategic themes worth of reflection and analysis.

The approach followed in the Literature Review was to focus on specific topics related to the company and its sector, in contrast to general academic reviews in business strategy. The result is a compilation of findings from academic literature on the chosen strategic subjects.

In the last section, the Teaching Note, a class plan with potential assignment questions is proposed, to guide a possible analysis on the case. The topics addressed in this analysis are open for discussion and concern the strategic implications of a company once operating in a mature and commodity type industry, the implementation of a challenging strategy in face of organizational culture obstacles and how to answer to a market opportunity while overcoming a damaged reputation. All the personal analysis developed on this section is one of many possibilities, since the teaching notes are living documents in constant evolution.

The present thesis aims to provide lessons on the business strategy field by merging factual information provided on the case study, the knowledge acquired on the academic review, and personal inputs and predictions on the outcome of the story.

II | CASE STUDY



In July 2005, José Miguel Contreiras – COO of FisiPE – was seated in a 9 hours Lisbon-Newark TAP flight, together with Tiago Gonçalves – America and Africa Regional Sales Manager. They were finishing the last couple of slides to present at Coats and Clark¹ the next morning. FisiPE was having its second chance on supplying the largest American producer of Hand Knitting Yarn with *gel dyed fibre*. This was undoubtedly a great opportunity for FisiPE to build a new reputation and establish itself as a respectful supplier in the American market.

1. FISIPE - history of the company

FISIPE – Fibras Sintéticas de Portugal, S.A. was a 78 million €² Portuguese producer of acrylic fibre based in Lavradio, Portugal (see exhibit 1). The company was incorporated in 1973, through a joint venture between CUF (Companhia União Fabril) with 60% of the capital and the Japanese firm Mitsubishi, represented by Mitsubishi Corporation (MC) and Mitsubishi Rayon Company (MRC), owning the remaining 40%. FisiPE entered in the acrylic fibre market in order to fulfil the gap in raw material supply (acrylic fibre) for the national textile industry (see exhibit 2). However, at an international level, the oil crisis and the consequent energy and raw material price inflation did not create a welcoming environment. Due to the social and economic consequences brought by the 1974 Portuguese revolution, FisiPE only started its activity two years later, with a production capacity of 12.5000 ton/year.

1.1. The take-off

The introduction of FisiPE's fibre into the national market was a success, mainly due to a pre-marketing strategy with fibre produced and imported from MRC. Thus, when FisiPE started producing its own fibre, whose characteristics were similar to the Japanese's, its clients were already familiar with FisiPE's product. However, the chaotic environment present in the country, still a consequence of the revolution, impaired FisiPE's financial situation. Moreover, CUF was nationalized and renamed Quimigal.

¹ Coats and Clark – “America's #1 name in sewing and needlecraft products, is part of the world's largest textile/thread manufacturing company with products sold in over 150 countries for industrial and home use.” Source: <http://www.coatsandclark.com/About+Coats/>

² Sales volume in 2004.

In 1980, a project to increase production capacity to 23.000 ton/year was completed. The Portuguese Government authorization to proceed with this project was fundamental for the company to become a competitive European player. Nonetheless, Fisipe reported negative net losses until 1984, as a result of high debt and interest rates, as well as of the strong contraction felt in the European textile industry.

1.2. The golden era (1984 to 1988)

From 1984 onwards, and after two capital increases, Quimigal became owner of 83.60% of Fisipe's capital while the Mitsubishi group owned 16.40%.

Meanwhile, Fisipe started to export its fibre, developing an international strategy for new markets; first to Spain and Italy and later to South Africa, Morocco, Kenya, Greece, Pakistan and Turkey. A "golden" era was about to begin, as Fisipe's CEO – João Dotti confirmed in an internal report:

"We achieved the competitive conditions to survive by ourselves in the open market. Our fibre is more and more according to the market demands. All our forecasts in terms of net profit to 1986 are based on competitive prices at an European level. We continue to produce and promote fibre with greater added value, while having quality and innovation as our main concerns".

In 1987, three years after entering the Lisbon stock exchange, Fisipe opened its capital to its employees, reaching a market cap of 9 million€ for 1.9 million shares. At the end of this year, Fisipe's production capacity reached 30.000 ton/year; nevertheless Fisipe was still a small player in comparison to other international competitors. The Portuguese market continued to be the most profitable one representing a market share around 75%. Yet this scenario was about to change, since the government decided to put an end to the custom's protection that Fisipe had been enjoying that far. As consequence, the company kept investing in a volume strategy, to assure its ability to compete at a global level, in the near future.

1.3. Consolidation in the international markets.

During the 90's and first decade of the XXI century, the European and US acrylic markets suffered a recession. The forecast for the European acrylic market demand,

from the year 2005 to 2008, was a reduction to 1/5 of the year 2000 value (see exhibit 3). This was a consequence of the huge imports of textiles from Asia, Turkey and Mexico allowed by international trade agreements, such as *GATT*³. As a result, the industry rivalry intensified and only 6 acrylic producers (in Western Europe and Turkey) kept its activity: AKSA in Turkey, Montefibre in Spain and Italy, Acordis in the UK, Dralon and Dolan in Germany, and Fisipec in Portugal (see exhibit 4). Fisipec, with a 60.000 ton/year capacity, continued reinforcing its position as an exporter mainly outside of the European Economic Community (see exhibit 5).

1.4. R&D

Since Fisipec's foundation there was a technology exchange agreement with MRC. Up to 1998, Fisipec only had know-how to produce a commodity fibre. At that time MRC was showing unwillingness to provide the Japanese know-how on modern, more complex and higher value added fibres – the specialities. Hence Fisipec decided to establish its own R&D structure and build a pilot line to develop specialities fibres. Ever since, the investment in R&D was established as a strategic component of the company.

1.5. Acquisition of Acordis Barcelona - “One company, two plants”

In 1997, Quimigal, the major shareholder, was privatized and Fisipec returned to be under the CUF umbrella, keeping the same management structure.

In December 2000, CUF finished negotiations with an English competitor, Acordis Grimsby, to acquire Acordis Barcelona. Fisipec's group already included Fisipec Lavradio, Fisipec Hungary (started in 1999) and the commercial society Munditextil (see exhibit 6).

With Barcelona, Fisipec was confirming its position as an international player. In 2000, It became the third largest European producer with a total of 126.000 ton/year capacity. The two plants complemented each other, in terms of products and markets; whilst,

³ GATT was signed in 1947 and lasted until 1994, when it was replaced by the World Trade Organization in 1995. GATT was a multilateral agreement regulating international trade. According to its preamble, its purpose was the "substantial reduction of tariffs and other trade barriers and the elimination of preferences, on a reciprocal and mutually advantageous basis."

Fisipe Barcelona was selling *coloured fibre*⁴, using a modern *gel dyed* technology, mainly to Spain and Egypt, Fisipe Lavradio supplied Asia, Middle East, Europe and Latin America and Africa with raw white and black commodities.

1.6. Closures and industry restructuring

After the nine eleven in 2001, the oil prices went up with an immediate impact on the raw materials and energy costs⁵. The high energy and labour costs and the worldwide reduction of demand led Fisipe Barcelona and Fisipe Hungary to be economically unsustainable. As an anticipation measure to Fisipe Barcelona closure, in 2004, the *gel dyed* technology started to be developed in Fisipe's Lavradio plant and for the following years, it was the player with the latest *gel dyed* technology⁶. One year later, Fisipe decided to close its factory in Hungary. Both closures meant huge losses to Fisipe Lavradio and a difficult financial situation to manage.

The textile industry was suffering dramatic changes; many companies were leaving some markets while others were in fact, exiting the acrylic fibre business. As stated by Fisipe's commercial director, José Miguel Contreiras:

"We were sure that gel dyed fibre was the future, but we also knew that a lot was happening out there. At the end, it all comes to the question: What should we do to survive?"

2. Events and opportunities until 2005

2.1. Pressures in the Acrylic Fibre (AF) industry

Polyester and Cotton

The acrylic fibre industry was showing signs of maturity whilst it was suffering pressures. It was being challenged by its major substitutes - polyester and cotton. Polyester price was historically lower than acrylic ones, but over the years this gap was

⁴ In the coloured acrylic fibre there were two production processes: the gel dyeing and the dope dyeing one. The gel dyeing process was characterized by short duration, a continuous mass production, a low colour deviation and a lowest water consumption. The gel dyed acrylic fibre had applications such as hand knitting yarn, carpets, and home textiles.

⁵ Acrylonitrile was the raw material to produce acrylic fibre which was directly correlated with the oil price.

⁶ Fisipe developed the gel dyed technology later than other competitors such as Montefibre, Kaltex and Aksa.

gradually increasing. Acrylic demand was growing slowly and losing market share for both substitutes (see exhibit 7 and exhibit 8).

Acrylonitrile (AN)⁷ and Energy costs

The AF sector was consuming less AN due to its considerable cost, greatly influenced by the oil price volatility. In the last quarter of 2005 the acrylonitrile producers were confronted with a shortage in propylene, due to oil refinery cuts. As a consequence, Acrylonitrile prices increased which together with the substantial energy cost inflation (natural gas) pressured the AF production costs and margins (see exhibit 9 and Exhibit 10).

2.2 AF Demand and Capacity

In 2005 the AF production was significantly higher in China and Western Europe when compared with other markets. Both regions dominated the global output. Since 2000, China and the Asian region were increasing capacity while America and Europe were gradually divesting (see exhibit 11). This fact was partly justified with the excess of Chinese demand over its production, which led to a need for greater imports and investments in domestic plants capacity. The European and American behaviour resulted from the challenging environment lived in the sector along with the contraction of these regions demand (see exhibit 12 and exhibit 13).

Hence, many producers closed their plants during the early 2000's. Mainly in the "western world" and Japan there was a capacity lost around 900 kt⁸, while in other regions, like China, there was an increase of 650 kt (see exhibit 14 and exhibit 15). The set of closures, together with a rise of market opportunities, with respect to clients undersupplied who were left in several markets, allowed the remaining players to raise their capacity utilisation rates, contributing to higher efficiency and profitability.

⁷ Acrylonitrile (AN), as the most important raw material for Acrylic Fibre (AF) production, accounts around 80% of the total production costs for commodity fibre and 70% for special/coloured fibre. AN cost depends on propylene (major raw material) and oil prices (used to produce propylene). Natural gas, as an energetic cost, was the other substantial cost in AF production.

⁸ Kt = Kiloton, 1 kt = 1000 ton

3. Fisipe Strategy for 2005-2010

Gradually, Fisipe evolved from a company producing basically standard textile fibre (raw white and raw black commodities), with a focus on cost rationalization (in energy and labour costs), to a producer of acrylic specialities fibres (see exhibit 16). Fisipe's product portfolio was divided in two main types of fibres: a commodity fibre (raw white and raw black) with low differentiation and lower market value and the specialities (coloured/*gel dyed* and functional fibres) with higher value and complexity. Knitwear, hand knitting yarn and home decoration were some of the end uses for Fisipe's acrylic fibre.

The strategy outlined for 2005-2010 represented a clear turning point in the company (see exhibit 17); it stated a new cycle with a strong orientation toward the markets (a production directed to the client with specific attributes) opposed to a commodity-base stock production policy. Internal changes were designed for all Fisipe's departments, in order to change a predominant commodity textile culture to a more specialities and technical⁹ mindset.

In HR a policy of staff renewal, through the recruitment of younger employees with higher formal education levels, was pursued. Moreover, agreements with universities, such as *Instituto Superior Técnico*, *Universidade do Minho* among others, were established for new fibres' functionality trials and also for recruiting to chemical areas. In addition, there was a great investment in the modernization of the equipment and its adaptation to specialities production.

The investment in R&D was maintained, in order to innovate constantly in new products and processes, to become more competitive and follow the trend on technical applications. Finally the communication flow between clients, agents, commercial division, operational division and managers was facilitated, in order to fasten the response to client's requirements and enabling a higher customization. Internal training actions and partnerships with clients to promote new fibres aimed to

⁹ Technical fibre (non-textile fibre) had applications in the automotive industry, road construction and building construction, among others. The fibre mixed with friction materials, bituminous and concrete improved the material's resistance and durability. One of the end uses was to prevent road and building fissures. Source: <http://www.fisipe.pt/gca/index.php?id=69>

expand the offer on the specialities and gradually to gain know how on the technical fibre.

3.1 Mission

Fisipe Strategic plan 2005-2010 stated that its mission was:

“To create value for our shareholders by promoting the competitiveness of our clients through the development and valorisation of the most suitable acrylic fibres for the various consuming industries worldwide.”

Fisipe’s goal was to become an international reference in the specialities. In order to achieve it, Fisipe focused on three main strategic vectors:

- Dynamism in innovation, through a continuous research in new applications for acrylic fibre and a constant focus on the latest product demand;
- Flexibility and operational efficiency aligned with process creativity and productivity gains;
- Excellence In supply through the 6 c’s: competency, cooperation, communication, celerity, credibility and consistency.

3.2 Positioning

Fisipe positioned itself *“as the supplier that has more proximity to the client”*, which was reflected through a customer oriented policy present in all departments. Thus, Fisipe considered the identification and satisfaction of client’s requirements combined with the ambition to go further in client’s expectations as its main competitive advantage. The strategy was focused on providing a customized product supported by flexible logistics and a technical assistance to its client’s. Fisipe’s product was conceptualized in a broader view: the product itself (fibre), the service and the technical assistance. The company was committed with the value creation on these three dimensions.

3.3 Clients

Typically in the textile industry, clients had a considerable negotiation power over fibre producer’s. The tenuous differentiation among fibres, especially in commodities, cut

suppliers leeway. In 2005, Fisipe had 311 clients in 37 countries over the 5 continents (see exhibit 18 and exhibit 19). The company exported 95% of its sales, distributed as follows: 40% in the Euro area, Europe and Magrebe and 60% in Dollar area markets.

Fisipe maintained a diversified client's portfolio since the beginning of its existence, to spread the commercial risk; no client accounted for more than 10% of the total gross margin. Even with a wide and constant evolving client's data base, the company had kept key clients in several sectors of the market, who constitute the "*hard nucleus*" typically composed by long lasting clients. Potential clients were selected based on their dimension and market share within the textile industry. This aligned with the company's strategy and production capacity, guaranteed Fisipe's ability to fulfil its commitments. Over the years, a client's "*solid and loyal database*" was established, built on a constant and transparent communication.

3.4 Agents

The company was also committed to establish a trusty relationship with its agents who, in addition to its own market managers and technical assistants, were "*the eyes and ears of Fisipe in the world*".

Fisipe had a local agent per country or in some cases per region and it established an exclusivity contract with them. The agent's commission was on average 1.5% to 2.5% of the price. At least twice a year, the market manager met with the local agent to visit clients. This practice together with informal meetings not only had helped to establish confidence with potential clients but also allowed for a face to face knowledge over the years. The agents were contracted according to its know-how on the market, on specific clients and their identification with Fisipe's business values: "*ethics; innovation as a factor of progress; professional qualification and human development; social and environmental responsibility*".

4. The American Opportunity

Prior to 2004 there was a number of acrylic fibre producers supplying the US and Canada markets. Sterling and Solutia had manufacturing plants in the US, whilst Acordis and AKSA exported fibre from Europe to America. Kaltex supplied these markets in limited quantities from Mexico. In 1998 Sterling stopped producing, leaving

Acordis, AKSA and Solutia. The latest had the largest market share, due to its advantage as a domestic player. However, in 2004 Solutia decided to close its acrylic fibre plant due to declining margins, and new environmental guidelines that were imposing great costs to upgrade its power generation facilities. The American market was left with no local AF producer and, therefore, a supply shortage of commodities and coloured fibre.

During 2005, Acordis was struggling with financial problems and running at low rates. It started by reducing its number of spinning lines for textile acrylic opposing to an increase on lines for carbon fibre and special fibres. Acordis, who had been the number one supplier for the hand knitting yarn market, was expected to cease its acrylic unit by the end of the year.

Fisipe was studying the American market in face of such events. The company realised that there was demand for three different sectors: the machine knitting fibre sector – with a raw white commodity product, the hand knitting fibre sector – with a *gel dyed* product (coloured fibre) and the outdoor fabrics fibre sector – with a pigmented dyed coloured product for outdoor application.

The last two sectors were very attractive in terms of margins, presenting a higher market value. However, Fisipe only had technology to supply the commodity fibre (machine knitting sector - AKSA and Kaltex were already supplying it) and the *gel dyed* fibre (hand knitting sector – AKSA was already supplying it). In the latest sector, Fisipe enjoyed a modern technology and a good colour fibre quality¹⁰.

AKSA, Montefibre and Kaltex were the potential threats to Fisipe regarding these two sectors. AKSA the worldwide leader had competitive prices due to its cost efficiency, a good quality and a wide colour catalogue. In addition, it was growing in Maghreb and entering the Egyptian and Middle East markets. However, Fisipe believed that AKSA had a poor CRM policy. Montefibre also displayed a very complete colour portfolio and a respected reputation in Italy, Spain and Maghreb. It was investing a lot in softness and colour fibre quality, but in Fisipe's opinion its aggressive negotiation strategy was

¹⁰ Fisipe possessed a modern *gel dyed* technology, a wide colour portfolio and it was good at replicated colour, meaning that it managed to reach the same colour standards over productions.

its major drawback. Kaltex aimed for a greater supply role in the market, but it struggled with continuous quality and service problems.

4.1 Coats and Clark

The American textile culture was known as practical but conservative, in terms of taking risks with new suppliers. The contracts were typically agreed in a long term perspective in order to avoid variation on the final product. The quantities supplied and delivery times were agreed beforehand leaving the price with some margin for negotiation, due to raw materials' price volatility. Textile producers were commonly supplied by more than one fibre manufacturer.

Coats and Clark was the largest American producer of *hand knitting / craft yarn*, whose major suppliers were Solutia, AKSA and Acordis. Fisipe Barcelona tried to supply this major client with *gel dyed* fibre in the past. However Coats and Clark standards for a good supplier were not present in Barcelona. Barcelona lack of commitment, support to its agent and clients and additionally its delays on deliveries created a bad reputation for the company on the American market.

As Tiago Gonçalves stated over Coats and Clark:

"We needed to gain their trust. Barcelona was a bad experience with bad agents. Yet we were facing a great opportunity in the craft yarn market."

4.2 Jeff Dellinger - Agent

In early 2005, Fisipe made the first contacts with Jeff Dellinger inviting him to visit Fisipe's plant. Jeff had worked for Sterling, Acordis (as North American Market Manager) and Solutia (as Director of Sales). He knew these producers and the North American market very well, where he kept a long relationship with its customers. Jeff helped to close the Solutia plant and then went to work for Foss Manufacturing Polyester Company as Sales Director.

As Jeff stated: *"I was basically finished with acrylic. Having already been part of three acrylic companies, which two had closed, I was really not interested in getting back. I was employed at Foss, and certainly not interested in leaving that job to become a*

commissioned acrylic fibre sales agent. I especially was afraid of Fisipe, since their earlier efforts with their previous agents had been such a disaster”.

José Miguel Contreiras knew that for Fisipe to successfully re-enter the North American market, it needed someone who knew the market and had the customers’ trust. Jeff was the perfect candidate.

In March 2005, Jeff flew to Lisbon for a weekend to see the plant and to discuss on what Fisipe was doing to become a *“world-class fibre producer”* as Jeff stated. According to José Miguel Contreiras the main objectives of the visit were:

- *“Jeff Dellinger to know Fisipe, plant and product portfolio.*
- *Fisipe to know the North American market potential for Fisipe’s products.*
- *To discuss an “Agent Contract” terms with Jeff.”*

After the traditional tour on Fisipe’s plant, Jeff commented the following:

- *“Fisipe is very similar to Solutia plant but better maintained.*
- *Solutia is a 50 year old plant.*
- *Equipments are in a poor condition compared to Fisipe.*
- *Some equipments in Solutia’s Cutting and Balling area are more recent and in good condition.*
- *Solutia already received the visit of AKSA, Montefibre and the Mexicans of Kaltex in order to analyse any buying potential”*

Fisipe proposed to Jeff the possibility to become its agent and to keep his job in Foss Manufacturing, at the same time. Fisipe would advance him commissions to get started and Tiago would give him all the support. By the end of the weekend, Jeff was convinced to give it a try. He returned to the US as Fisipe’s agent.

However, Jeff was aware that Fisipe’s reputation was damaged by its first attempt to enter the market through Fisipe Barcelona. He considered that the Spanish were not responsive and were difficult to work with. In addition their agents were not well respected in the US market.

According to Jeff the fibre price was not the key issue for the North American customers. Instead, he knew that what was essential to make business in the US was:

- Communication – keep the customer informed;
- Honesty – Do not try to hide mistakes, preferably try to solve it together with the clients;
- Service – Have a flexible, creative, responsive and quick service;
- Quality – The North American clients wanted products that would run efficiently with no problems. This allowed them to keep a low labour force and compete with China.

4.3 The kick off meeting

Tiago recalled what Audie Mcdearis, Coats and Clark Manufacturing Director, said on the first meeting at Georgia: *“I am only receiving you because of Jeff.”*

Audie’s relationship with Jeff, together with his concern on Acordis situation, motivated Coats and Clark to give Fisipe a second chance. By the summer of 2005, Jeff started receiving calls from other clients worried about not having enough stock by the start of the hand knitting yarn season. They were interested in Fisipe as a potential substitute to AKSA and Acordis.

Flying home in a 9 hour TAP flight Newark – Lisbon, Tiago Gonçalves and José Miguel Contreiras were wondering about the opportunity with Coats and Clark. Both were discussing Jeff’s recommendation regarding Fisipe to become member of the *craft yarn council*¹¹ and the possibility to rent a local warehouse near the Coats and Clark factory to assure enough *gel dyed* fibre stock.

¹¹ A clients, producers and suppliers association responsible for streamlining the Hand knitting yarn (craft yarn) American market. It organized conferences, fairs and developed promotional ads.

Exhibits

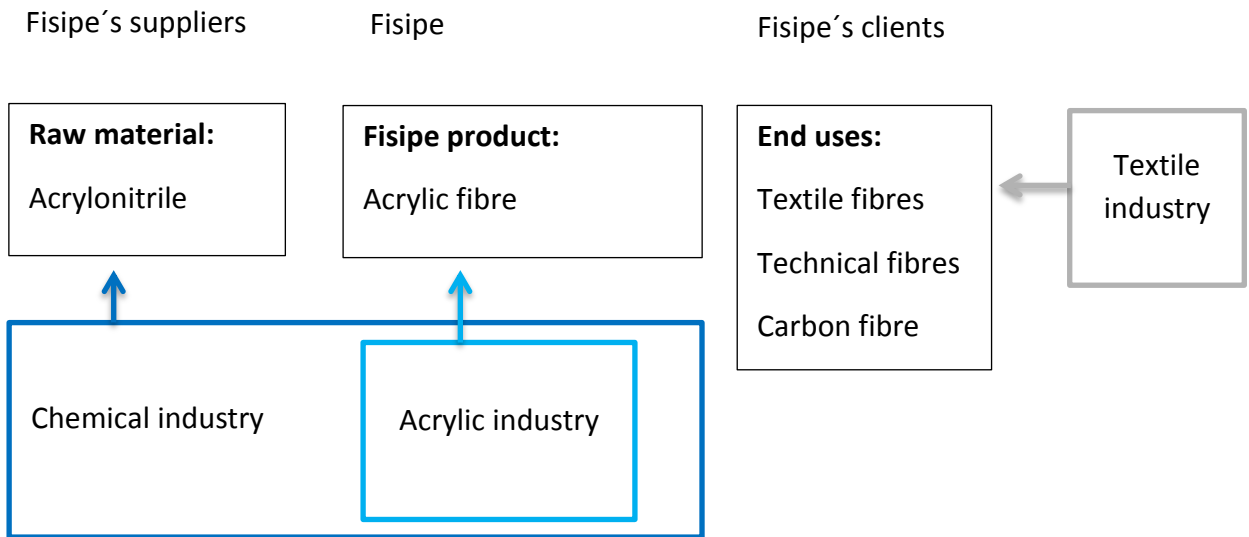
Exhibit 1 – Fisipec's picture and data in 2004



| | |
|---------------------|---------------------|
| Location | Lavradio (Portugal) |
| Area | 20 Hectares |
| Nº of employees | 270 |
| Activity | Acrylic fibre |
| Production capacity | 60.000 ton/year |
| Business Volume | 78.000.000 €/year |
| Exports | 98% of total sales |

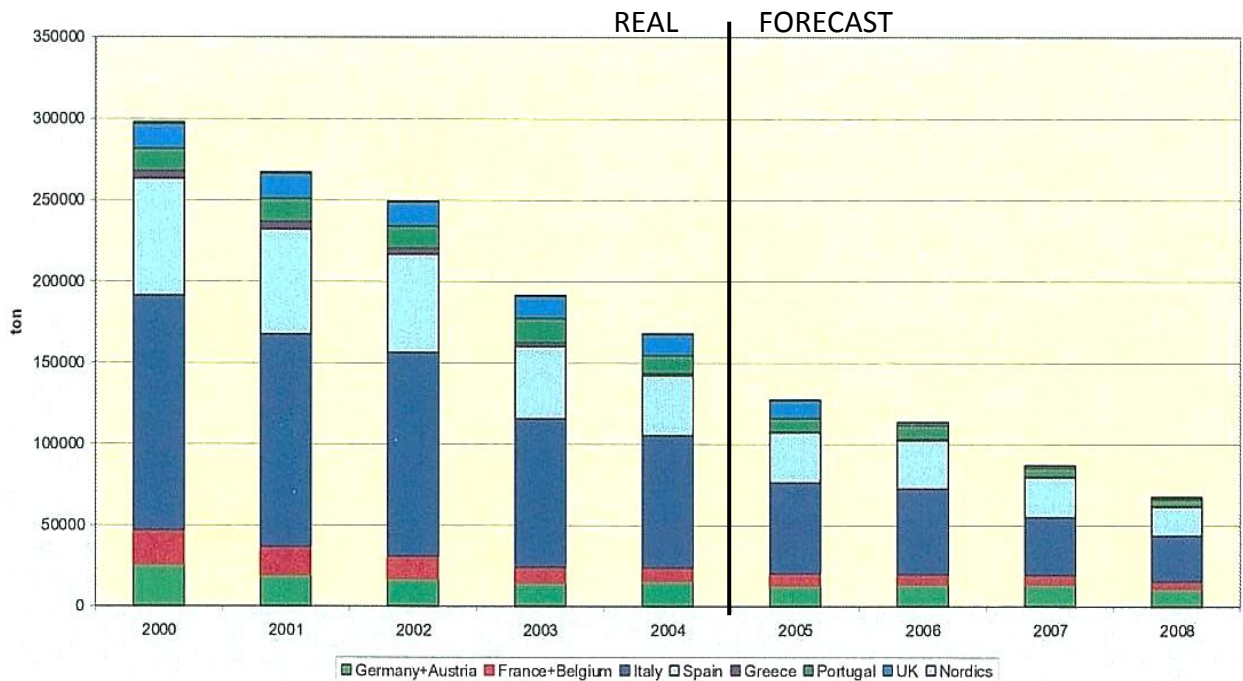
Source: Strategic plan 2005-2010 and CMVM data for Fisipec annual report 2004

Exhibit 2 – Simplification of Fisipec's supply chain



Source: Adapted from Fisipec supply chain diagram on Fisipec documents.

Exhibit 3 - Acrylic Fibre Demand



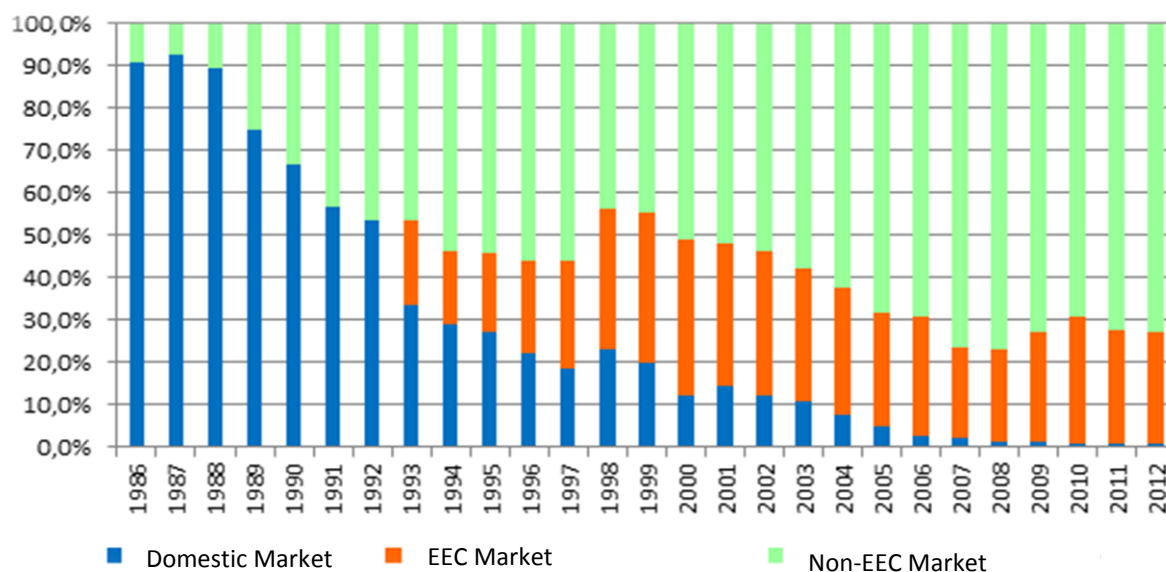
Source: Data from Fisipec market research.

Exhibit 4 - Western European and Turkish Competitors capacities' in 2004 (ton/year)

| | Country | Plants | Capacity in 2004 (ton/year) |
|-------------------|----------|--|------------------------------------|
| AKSA | Turkey | Ialova (Turkey) | 300.000 |
| Montefibre | Italy | M.Ebro (Spain) Porto Marghera (Italy) | 90.000 140.000 Total 230.000 |
| Dralon | Germany | Dormagen (Germany) Lingen (Germany) | 120.000 55.000 Total 175.000 |
| Acordis | England | Grimbsy (England) | 90.000 |
| Kaltex | Mexico | Altamira (Mexico) | 70.000 |
| Fisipe | Portugal | Lavradio (Portugal) | 60.000 |
| Dolan | Germany | Kelheim (Germany) | 15.000 |

Source: AESE case on Fisipe.

Exhibit 5 - Fisipec sales evolution in value (2005-2012 forecasts)



Note: EEC (European Economic Community)

Source: Data from Fisipec documents.

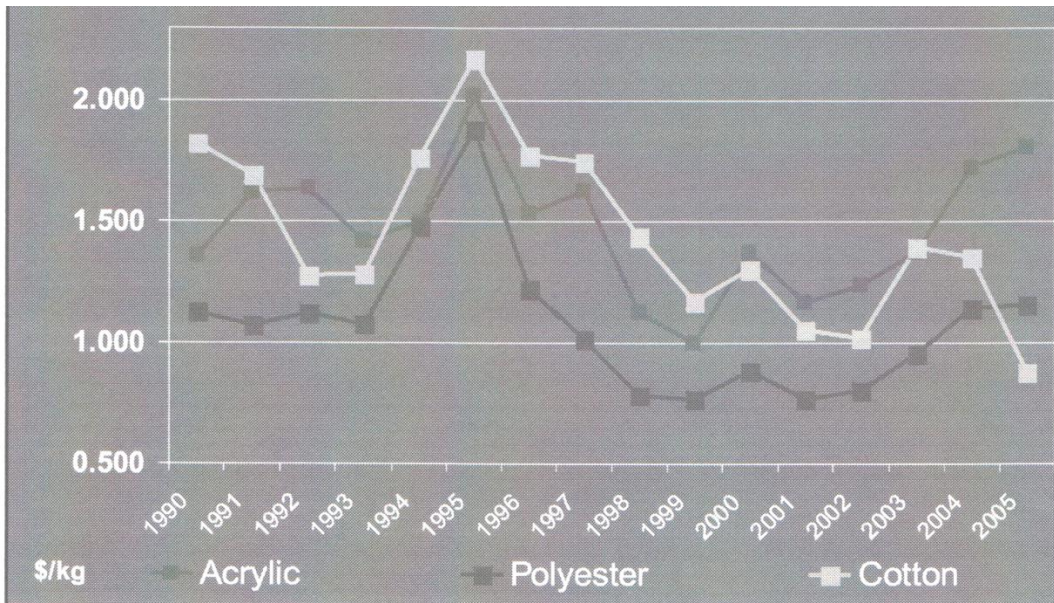
Exhibit 6 - Fisipec Group in 2000

| Year 2000 | Fisipec Lavradio | Fisipec Barcelona | Fisipec Hungary | Munditextil |
|----------------|-----------------------------------|---|-------------------|--|
| Product | Commodity (raw white + raw Black) | Gel Dyed fibre | Top Acrylic fibre | Acrylic Open End Yarn |
| Plant Capacity | 60.000 ton | 66.000 ton | 3.000 ton | 3.500 ton |
| Markets | 35 countries in all 5 continents | Spain (60%) Egypt (25%) Rest of the world (15%) | Hungary | Italy (80%) Spain (10%) Portugal (10%) |

Note: Fisipec Hungary capacity was not included in the total Fisipec capacity since its production was dependent on Fisipec's Lavradio and Barcelona plants.

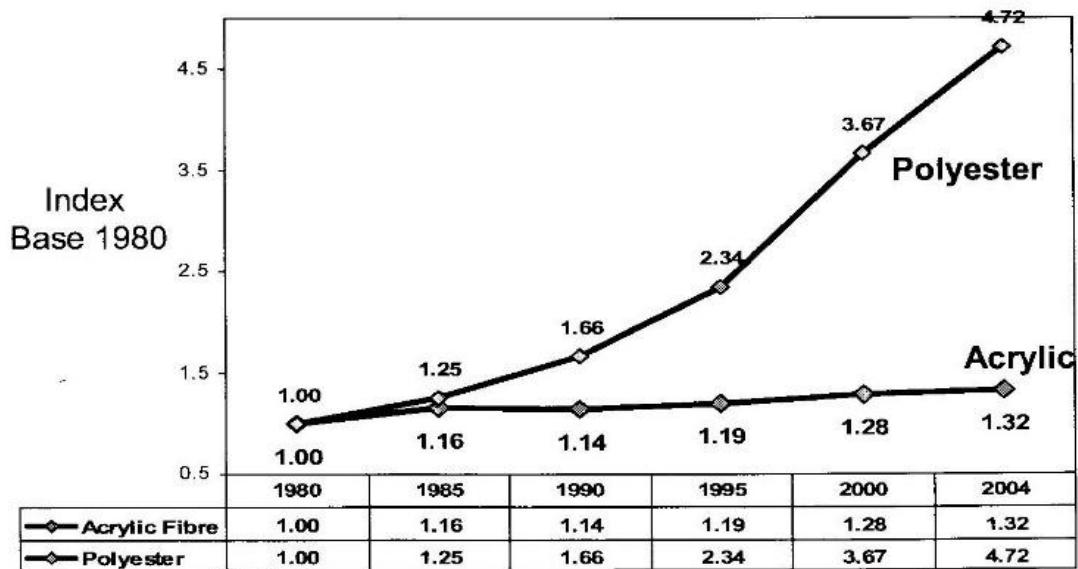
Source: Commercial department data in 2000

Exhibit 7 - Acrylic, Polyester and Cotton Price trend



Source: *Acrylic Fibre market scenario and Future development* by Montefibre.

Exhibit 8 - Demand Growth of Polyester and Acrylic 1980-2004



Source: PCI in *Reviving Acrylic Demand – a look at antipilling fibre* by Thai acrylic Fibre Co in CCFEI conference.

Exhibit 9 - Acrylonitrile – Offer/Demand in 000 tons

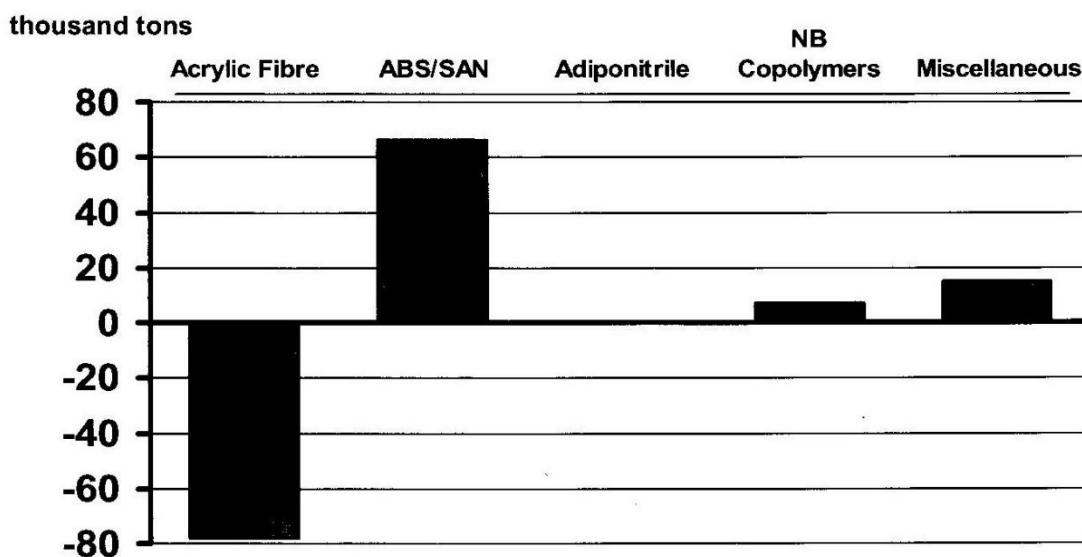
| | 1995 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2000-2010 average/year |
|--------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------------------|
| End - Uses | | | | | | | | | | | | | |
| Acrylic Fibre | 2327 | 2531 | 2450 | 2563 | 2479 | 2509 | 2490 | 2600 | 2680 | 2746 | 2796 | 2862 | 1,2% |
| ABS/SAN | 1000 | 1283 | 1227 | 1332 | 1444 | 1528 | 1585 | 1623 | 1708 | 1818 | 1932 | 2000 | 4,5% |
| Adiponitrile | 443 | 463 | 412 | 378 | 374 | 371 | 361 | 361 | 357 | 354 | 361 | 361 | -2,5% |
| Copolymers NB | 137 | 187 | 190 | 199 | 208 | 222 | 229 | 238 | 232 | 236 | 260 | 266 | 3,6% |
| Other | 256 | 379 | 409 | 402 | 411 | 422 | 432 | 441 | 421 | 445 | 476 | 490 | 2,6% |
| Total Consumption | 4163 | 4843 | 4688 | 4874 | 4916 | 5052 | 5097 | 5263 | 5398 | 5599 | 5825 | 5979 | 2,1% |
| Production | 4629 | 5471 | 5782 | 5417 | 5921 | 6006 | 5944 | 5944 | 5964 | 5994 | 5994 | 6004 | 0,9% |
| Ut. Rate | 89,9% | 88,5% | 81,1% | 90,0% | 83,0% | 84,1% | 85,8% | 88,5% | 90,5% | 93,4% | 97,2% | 99,6% | |

Real

Forecast

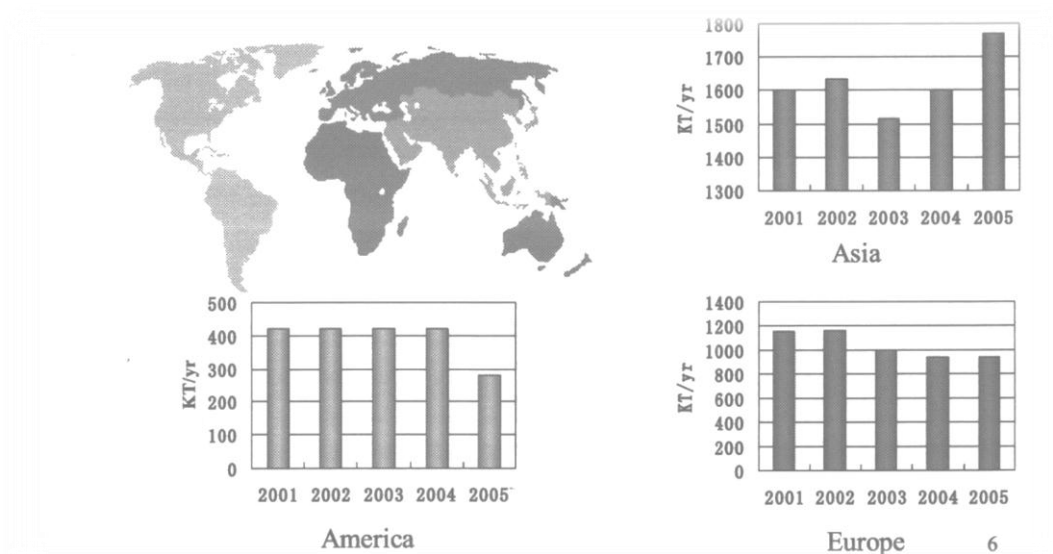
Source: PCI, Asahi Mitsubishi 2005.

Exhibit 10 - Acrylonitrile Growth Forecast 2004-2005



Source: PCI in *China International Acrylonitrile & Acrylic Fibre forum*.

Exhibit 11 - Variation of Global Acrylic Fibre Capacity in recent years



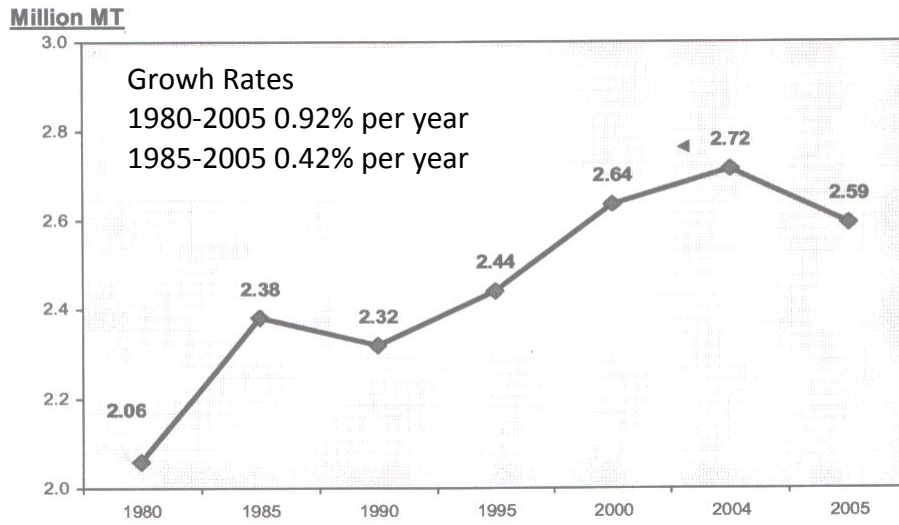
Source: Review on Acrylic Fibre market in 2005 and perspective on market for 2006 from China chemical Fibre Economic Information Network (CCFEI)

Exhibit 12 - Industrial Consumption of Acrylic Fibre

| | 1990 | 1995 | 2000 | 2002 | 2004 | 2006 | 2008 | 2010 | 2010/2005 |
|-----------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| North America | 195 | 158 | 161 | 128 | 120 | 80 | 70 | 59 | -8,10% |
| Latin America | 162 | 128 | 179 | 146 | 157 | 154 | 156 | 157 | 0,00% |
| Western Europe | 451 | 349 | 310 | 260 | 175 | 127 | 118 | 104 | -6,43% |
| Eastern Europe | 262 | 154 | 118 | 130 | 138 | 150 | 156 | 170 | 2,81% |
| Turkey | 130 | 191 | 214 | 267 | 295 | 305 | 315 | 327 | 1,74% |
| Af.Mid.East | 102 | 167 | 267 | 276 | 273 | 277 | 289 | 300 | 1,76% |
| Australasia | 5 | 7 | 8 | 2 | 2 | 1 | 1 | 1 | 0,00% |
| South Asia | 155 | 240 | 309 | 278 | 221 | 200 | 180 | 157 | -5,83% |
| India | 52 | 86 | 111 | 114 | 111 | 120 | 133 | 141 | 3,98% |
| China | 324 | 653 | 794 | 985 | 1120 | 1338 | 1467 | 1600 | 4,74% |
| S.Korea | 199 | 75 | 34 | 47 | 35 | 24 | 18 | 17 | -8,15% |
| Taiwan | 118 | 92 | 56 | 42 | 33 | 28 | 23 | 19 | -8,73% |
| Japan | 186 | 113 | 86 | 36 | 28 | 27 | 27 | 25 | -2,24% |
| Total | 2341 | 2413 | 2647 | 2711 | 2708 | 2831 | 2953 | 3077 | 1,93% |
| Capacity | 2766 | 2939 | 3099 | 3167 | 3026 | 3098 | 3140 | 3250 | 0,83% |
| Ut. Rate | 84,6% | 82,1% | 85,4% | 85,6% | 89,5% | 91,4% | 94,0% | 94,7% | |

Source: PCI of 2005

Exhibit 13 - Acrylic Fibre – Demand Growth 1980-2004



Source: PCI in *Reviving Acrylic Demand – a look at antipilling fibre* by Thai acrylic Fibre Co in CCFEI conference 2006.

Exhibit 14 - AF Capacity loss 2000 to 2005

| | |
|-----------------------------------|--------------------------|
| Solutia (135kt) | Ohis (30kt) |
| Sterling (70kt) | Sasol (36kt) |
| Argentina (14kt) | Hanil (65kt) |
| Sudamericana Brazil (18kt) | Tae Kwang (50kt) |
| Maerkische (20kt) | Asahi (88kt) |
| Montefibre Ottana (90kt) | Kanebo (38kt) |
| Fisipe Barcelona (68kt) | Toho Rayon (10kt) |
| Acordis (70kt) | CYDSA (90 kt) |
| Zoltek (14kt) | |

Total of -906 kt

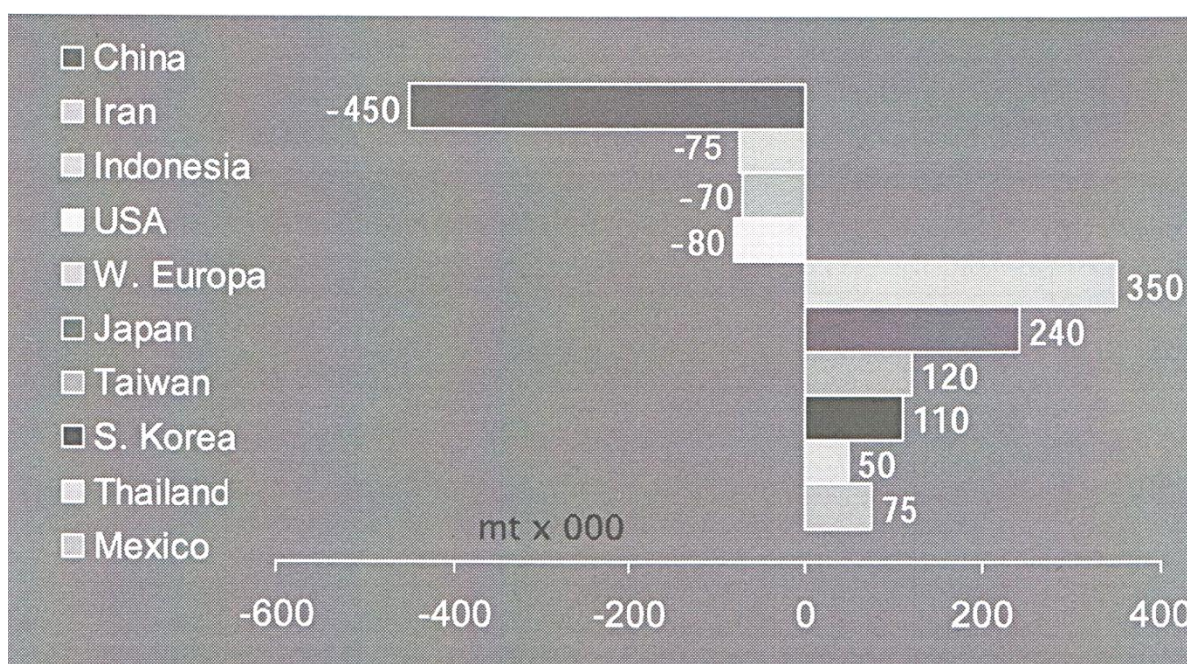
AF capacity Added since 2000

| | |
|--------------------------|---------------------------|
| Crylor (10kt) | Jilin (90kt) |
| Fisipe (13kt) | MRC China (50kt) |
| Polyacryl (38kt) | Hanzhou Bay (60kt) |
| AKSA (25kt) | Pasupati (13kt) |
| Alexandria (18kt) | IAL (7kt) |
| Daqing (30kt) | CSFC (2kt) |
| SPC (107kt) | Dewan (24kt) |
| QHD (20kt) | FPC (15kt) |
| Qilu (15kt) | Tong Hwa (5kt) |
| Anqing (35kt) | TAF (40kt) |
| Xueyin (20kt) | Toray (8kt) |

Total of +650 kt

Source: PCI in *China International Acrylonitrile & Acrylic Fibre forum 2006*.

Exhibit 15 - Acrylic fibre Surplus Deficit by Countries



Source: Acrylic Fibre market scenario and Future development by Montefibre.

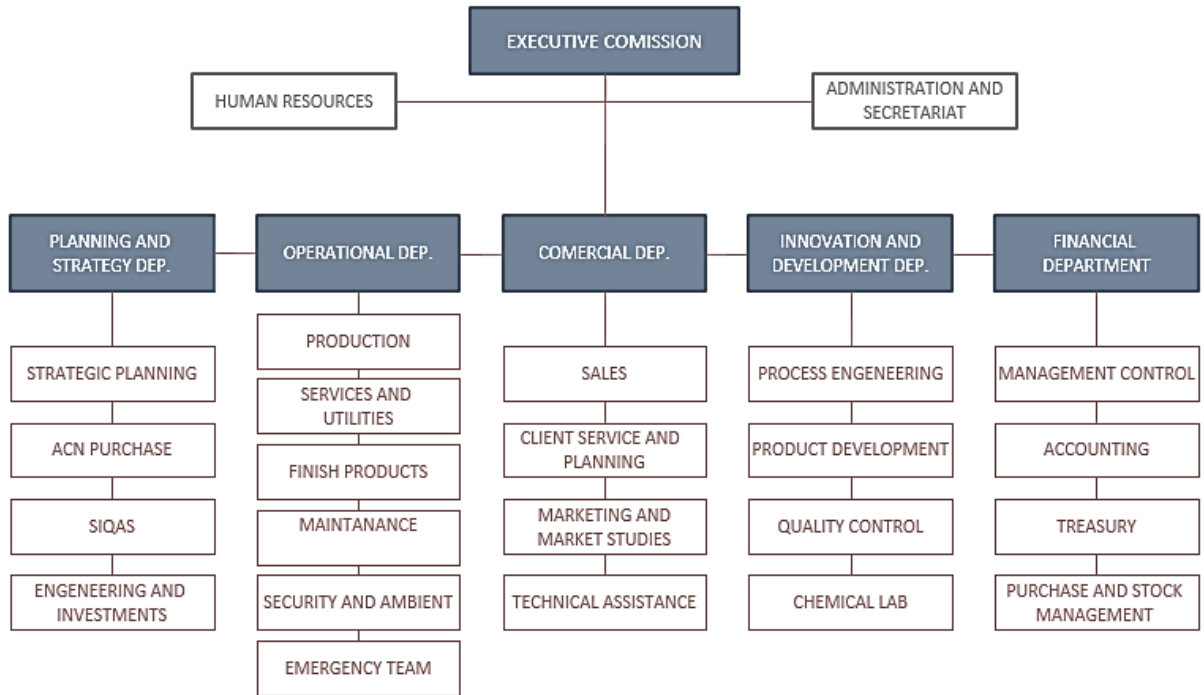
Exhibit 16 - Fisipe sales - Evolution

| Ton | 2001 | 2002 | 2003 | 2004 | 2005 (until June) |
|-----------------------|-------|-------|-------|-------|-------------------|
| Commodities | 46494 | 44045 | 48720 | 48993 | 22373 |
| Specialities | 3546 | 2711 | 3752 | 5949 | 4224 |
| Total | 50040 | 46756 | 52472 | 54942 | 26597 |
| % Specialities | 7% | 6% | 7% | 11% | 16% |

| Ton | JAN | FEB | MAR | APR | MAY | JUN |
|-----------------------|------|------|------|------|------|------|
| Commodities | 3003 | 3525 | 4634 | 3879 | 3847 | 3485 |
| Specialities | 400 | 476 | 813 | 661 | 901 | 973 |
| % Specialities | 12% | 12% | 15% | 15% | 19% | 22% |

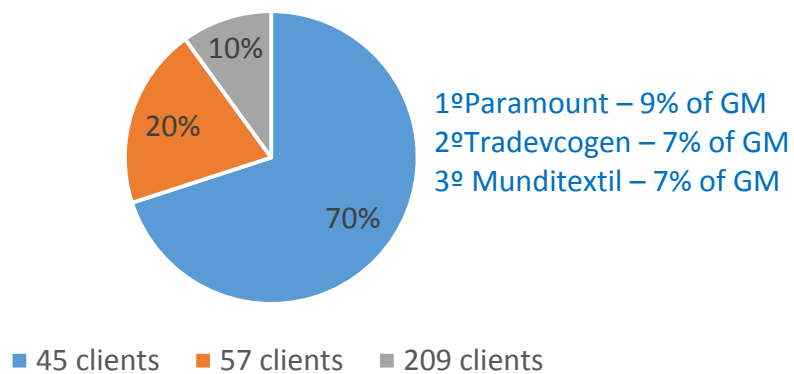
Source: Fisipe Strategic Plan 2005-2010

Exhibit 17 - Fisipec's Organizational Chart in 2005



Source: Fisipec document's

Exhibit 18 - Fisipec Total Clients in 2005



Note: GM = gross margin

Source: Fisipec strategic plan 2005-2010

Exhibit 19 - Fisipe Worldwide presence in 2005



Source: Fisipe Strategic plan 2005-2010



The present Literature Review focus on strategic and managerial subjects specifically related to the main themes of the case. Thus more general and widely known literature on competitive strategy was left out of this review.

1. B2B Relationships and relationship marketing

Business-to-business relationships offer opportunities to establish competitive advantages and achieve superior results (Jap, 1999; Panayides, 2002; Ulaga, 2003 quoted in Cater & Cater, 2010).

According to Hutt & Speh (2004) cited in Cater & Cater (2010) B2B marketing essentially consists in building long-term relationships with customers, by establishing and maintaining high levels of customer loyalty (Berry & Parasuman, 1991 cited in Cater & Cater, 2010), which can lead to higher levels of profitability (Reichheld and Sasser, 1990; Jones and Sasser, 1995; Reichheld,1996 cited in Rauyruen & Miller, 2007). In this sense, the concept of Relationship Marketing has gaining power in the industry sector as source of competitive advantage and has its foundation on the commitment-trust theory developed by Morgan and Hunt (1994) quoted in Pillai & Sharma (2003).

In the academic field the term relationship marketing and CRM (Customer Relationship Management) are often used interchangeably (Parvitiyar and Sheth 2001 quoted in Payne & Frow, 2006). "CRM relates to strategy, managing the dual - value creation, the intelligent use of data and technology, the acquisition of customer knowledge and the diffusion of this knowledge to the appropriate stakeholders, the development of appropriate (long-term) relationships with specific customers and/or customer groups, and the integration of processes across the many areas of the firm and across the network of firms that collaborate to generate customer value" (Boulding et al.,2005 quoted in Payne & Frow, 2006)

When there is an intensity of competition, many suppliers shift from a differentiation strategy focus on the product itself (Ulaga, 2003 cited in Cater & Cater, 2010) to focus on the business relationships (Cater & Cater, 2010). Additionally, it has also been evident a shift from a transaction-based to a relationship-based marketing perspective, over the years (Pillai & Sharma, 2003). As companies become relational-oriented they must engage with relational norms and relational behaviours (Pillai & Sharma, 2003),

and focus on building trust and establish commitment with customers through information exchange systems (Sarkar, Echambadi, Cavusgil, & Aulakh, 2001 quoted in Pillai & Sharma, 2003). Nevertheless it is expected that both - trust and a relational culture – to progress over the stages of a buyer-seller relationship (Pillai & Sharma, 2003).

2. Relationship quality

The concept of relationship quality has been explored in the relationship marketing field, by authors like Crosby et al. (1990) and Dwyer et al. (1987) cited in Rauyruen & Miller (2007) and, although there are different definitions of this concept, there is agreement in considering it as an higher order construct (Lages et al., 2005; Bejou et al., 1996; Crosby et al., 1990; Dorsch et al., 1998; Hennig-Thurau and Klee, 1997; Kumar et al., 1995; Storbacka et al., 1994;Walter et al., 2003;Wulf et al., 2001 quoted in Rauyruen & Miller, 2007) aiming to elevate indifferent customers to loyal ones (Berry and Parasuraman, 1991 cited in Rauyruen & Miller, 2007).

Hence, Relationship quality has been linked with customer loyalty (Hennig-Thurau & Klee, 1997; Roberts, Varki, & Brodie, 2003 quoted in Liu, Guo, & Lee, 2010) through components such as: overall quality (Hennig-Thurau & Klee,1997), commitment (Hennig-Thurau & Klee, 1997), satisfaction (Crosby et al., 1990; Dwyer & Oh, 1987) and trust (Dwyer & Oh, 1987; Hennig-Thurau & Klee, 1997) (Liu, Guo, & Lee, 2011). Customers not only judge their relationships on their expectations, predictions, goals and desires but also on past experiences (Crosby, Evans & Cowles, 1990, cited in Liu, Guo, & Lee, 2010).

Other authors (like Woo, 2004 and Ennew, 2005) believe on the quality of B2B relationships as a crucial element to succeed in the market (Rauyruen & Miller, 2007), since it affects how relationships evolve, its revenues, its costs and its profitability (Holmlund, 2008 cited in Cater & Cater, 2010).

3. Relationship quality components

According to Rauyruen & Miller (2007) relationship quality can be divided in an interpersonal level (relationship quality with the employees) and in an interfirm level (relationship with the supplier as a whole). In addition these authors propose that

customer loyalty (behavioural and attitudinal loyalty) is influenced by relationship quality through the following dimensions: trust, commitment, satisfaction and perceived service quality.

Research by Athanasopoulou (2009), Holmlund (2008) and Woo and Ennew (2004) propose a different set of relationship quality components as adaptation, knowledge transfer, trust and cooperation (Cater & Cater, 2010). Being the first two linked with a technical dimension (Cater & Cater, 2010) whereas the last two are associated with a social dimension (Holmlund, 2008 quoted in Cater & Cater, 2010).

The first technical dimension – adaptation - stands for the modifications made by one firm (Brennan & Turnbull, 1998:31, cited in Cater & Cater, 2010) to meet particular needs of another firm (Cannon and Perreault, 1999:443, cited in Cater & Cater, 2010). This concept includes both the investments needed to close a transaction and the adjustments made over time (Hakansson, 1982 quoted in Cater & Cater, 2010). Through adaptation value is created for both firms. On one hand, who adapts is creating entry barriers for competitive suppliers (Hallén et al, 1991, quoted in Cater & Cater, 2010) and it is influencing its partner to stay in the relationship through a normative commitment - moral obligation (Cater & Cater, 2010). On the other hand value is created for the other firm (Cannon & Perreault, 1999; Powers & Reagan, 2007; Wilson, 1995 quoted in Cater & Cater, 2010) who sees products and processes being adapted towards its capabilities (Cater & Cater, 2010).

Other authors even consider switching barriers as affecting customer loyalty. While satisfaction and trust can be considered as pull-in forces, which influence customers to stay within a relationship on the long term, switching barriers, as tangible and intangible costs of switching, act as a push-back force and focus more on the short term relationships (Liu, Guo, & Lee, 2011). Nevertheless it is believed that product quality is an indispensable customer value element and it contributes to higher levels of customer loyalty in any B2B relationship (Cater & Cater, 2010). However product quality is only an entry condition (Ulaga, 2003, quoted in Cater & Cater, 2010) to start a relationship, that can be elevated to a level where both sides benefit beyond the simple transaction of goods (Ford, 1980, quoted in Cater & Cater, 2010).

All in all suppliers need to invest in both relationship quality dimensions and product/service quality dimensions (Rauyruen & Miller, 2007), as independent variables (Cater & Cater, 2010).

4. Commitment, loyalty and trust

Commitment and trust are central factors that contribute to successful relationship marketing because they lead to cooperative behaviours and produce outcomes that promote efficiency, productivity and effectiveness (Morgan & Hunt, 1994 quoted in Cater & Cater, 2010).

However the appropriateness of commitment as relationship quality dimension in b2b context frameworks is not consensual (Athanasopoulou, 2006; Boles, Johnson & Barksdale, 2000 cited in Cater & Cater, 2010). Instead there are findings telling that commitment acts as a mediator between relationship quality and customer loyalty (Cater & Cater, 2010).

Customer loyalty can be divided into behavioural loyalty and attitudinal loyalty (Rauyruen & Miller, 2007). The first, according to Chaudhuri and Holbrook's (2001) quoted in Rauyruen & Miller (2007), relates to the intention to repurchase and therefore, to maintain a business relationship. The second, attitudinal loyalty regards the psychological attachments from the customer with respect to the supplier (Chaudhuri & Holbrook, 2001, quoted in Cater & Cater, 2010). For instance, positive word of mouth and disposition to recommend the product or service to others are seen as attitudinal loyalty behaviours (Zeithalm et al., 1996 quoted in Rauyruen & Miller, 2007).

Commitment can be broken in calculative commitment (positive and negative), affective commitment and normative commitment (Ruyter & Semeijn, 2002; Geyskens, Steenkamp, Scheer, & Kumar, 1996; Kumar, Hibbard, & Stern, 1994; Sharma, Young, & Wilkinson, 2006 quoted in Cater & Cater, 2010)

Calculative commitment represents a rational (Gilliand & Bello 2002:25 cited in Cater & Cater, 2010) or instrumental reasoning (Geyskens et al.,1996, and Kumar et al., 1994, quoted in Cater & Cater, 2010) of attachment to the supplier. The nature of the attachment can be positive or negative (Sharma et al., 2006 cited in Cater & Cater,

2010), for instance if a firm do not change supplier because does not have an alternative, we face a negative / locked – in commitment (Cater & Cater, 2010).

On the other hand, if the commitment derives from the set of benefits inherent to the relationship, it is named positive calculative commitment (or value–based commitment). It is believed that trust contributes to a positive calculative commitment. (Cater & Cater, 2010)

The affective commitment relates to emotional, social (Gilliland & Bello, 2002: 25, quoted in Cater & Cater 2010) and friendship feelings (Sharma et al., 2006:65,69 quoted in Cater & Cater 2010). Several authors believe that affective commitment is also positively influenced by the levels of trust (de Ruyter & Semeijn, 2002; de Ruyter et al., 2001; Geyskens et al., 1996; Gounaris, 2005; Wetzels et al., 1998 quoted in Cater & Cater, 2010) and cooperation (Mavondo & Rodrigo, 2001, quoted in Cater & Cater, 2010) on the business partner.

Nevertheless trust or commitment for the employees and not for the supplier, as an organization, finds no support to its contribution to gain loyalty among the customers. Therefore, B2B Managers ought to invest in brand image and its credibility as an organization. (Rauyruen & Miller, 2007)

At last, normative commitment as the name says comes from moral and obligation factors (Bansal et al. ,2004, and Kumar et al., 1994 quoted in Cater& Cater 2010).

Both affective and normative commitment are more emotional componets and more dependent on social dimensions like trust and cooperation (Cater & Cater, 2010).

Studies on B2B manufacturing relationships evidence the importance of the emotional/social side as reason to stay in the relationship over the rational/technical factors, such as knowledge tranfer or adaptation. Thus long term relationships based on trust are pointed out to create an affective and positive calculative commitment which leads to either behavioral and attitudinal loyalty. (Cater & Cater, 2010)

5. Customer value anticipation

Suppliers not only must know what customers value, they also need to anticipate what those customers will value (Flint, Blocker, & Jr., 2011). In this sense it is important to react (Cannon & Homburg 2001 quoted in Flint, Blocker, & Jr., 2011) but also to develop the expertise in anticipating emerging needs (Flint, Blocker, & Jr., 2011). Such

ability in suppliers relationships is defined as customer value anticipation which positively affects customer satisfaction and customer loyalty (Flint, Blocker, & Jr., 2011). Customer value anticipation is gaining importance simultaneously with the changing role of the industrial agent (Flint, Blocker, & Jr., 2011), namely from a persuasive skilled to a managerial skilled agent (Weitz & Bradford, 1999; Wotruba, 1996 quoted in Flint, Blocker, & Jr., 2011). To firms that are focusing too much on the present and on keeping its customers only satisfied, customer value anticipation can be advantageous over competitors, by having a forward-looking vision likely to anticipate what will be the next market opportunities and customer demands (Flint, Blocker, & Jr., 2011).

6. Commodity products

Commodity products are seen as non-differentiated industrial products perceived by the suppliers as homogeneous products (Unger, 1983; Rangan and Bowman, 1992; Sinclair and Seward, 1988 quoted in Robinson, Clarke-Hill, & Clarkson, 2002) that are functionally identical to those of the competition and its production satisfy basic needs with standard or fixed specifications (Robinson, Clarke-Hill, & Clarkson, 2002).

According to Unger (1983) quoted in Robinson, Clarke-Hill, & Clarkson (2002), undifferentiated materials or products are produced in similar forms by different suppliers and are used in a number of different applications, having typically low-to-average profitability. On the other hand, the same author conceptualizes differentiated materials (or products) as differing according to suppliers, or marketed differently, with fewer applications and sold according to specifications on how they perform, having therefore above-average profitability.

The figure below shows different commodity categories, that according to Unger (1983) quoted in Robinson, Clarke-Hill, & Clarkson (2002) can also be used in industries other than the commodity chemical.

| CATEGORIES OF PRODUCTS | | |
|------------------------|---|--|
| | Undifferentiated Products | Differentiated Products |
| High Volume | True Commodities <ul style="list-style-type: none"> • Sold at relatively low unit values • Widely used in a variety of applications by many customers • Sales concentrated in a few large customers • Contract pricing | Pseudo Commodities <ul style="list-style-type: none"> • Produced to accepted performance specifications but with minor differences • Sales concentrated in a few large customers • Some degree of differentiation exists |
| Low Volume | Fine Products <ul style="list-style-type: none"> • Substantially identical product form and composition • High unit price • Small numbers of customers in low or moderate volumes | Speciality Products <ul style="list-style-type: none"> • Differentiation by formulation • Produced by various suppliers based on performance in use • Designed to solve customer's specific problems • Relatively high unit price • Large numbers of customers |

Figure 1 – Categories of products
Source: (Robinson, Clarke-Hill, & Clarkson, 2002)

7. Commoditization process

According to some authors all products and services reach a commodity status at a certain point, and business organizations are in fact, confronted with a commoditization phenomenon (Matthyssens & Vandenbempt, 2008).

The commoditization process according to Matthyssens & Vandenbempt (2008):

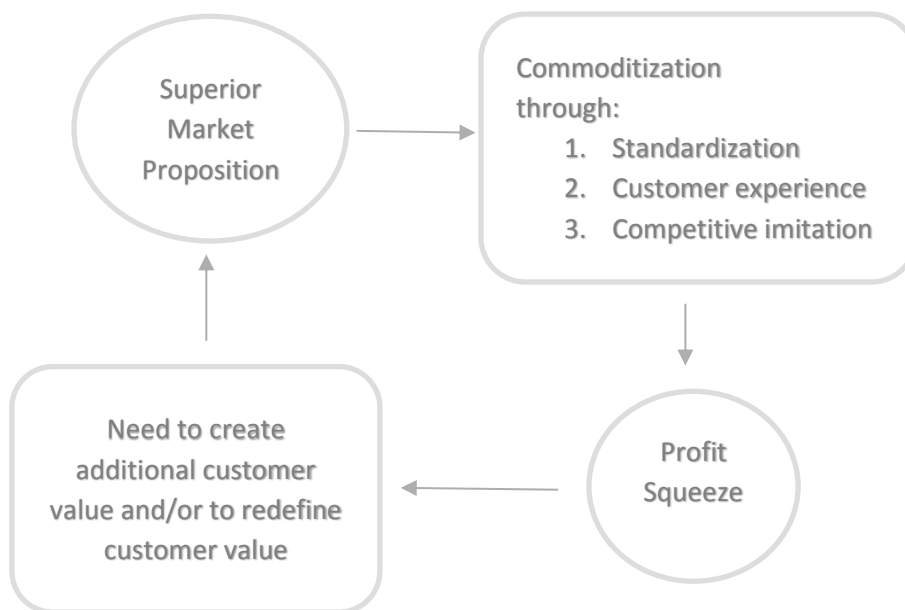


Figure 2 - Commoditization: drivers and effects
Source: (Matthyssens & Vandenbempt, 2008)

Commoditization occurs when a company with a competitive advantage in the market faces standardization, higher customer experience by increasing market offerings and successful imitation by rivals. All these market forces create difficulties in keeping the firm differentiated and deteriorate the firm financial position through profit squeezing. (Matthyssens & Vandenbempt, 2008)

In a commodity steel industry study of Albert (2003), quoted in Matthyssens & Vandenbempt (2008), a customized service pack for building differentiation is proposed. Similarly for the commodity chemical industry, Robinson, Clarke-Hill and Clarkson (2002), quoted in Matthyssens & Vandenbempt (2008), propose a “servitization” approach as a way of fighting the commoditization phenomena.

Finally also in studies developed on business markets in general, this logic of transitioning from products to solutions (by adding services) in order to recapture competitive differentiation is much recommended (Matthyssens & Vandenbempt, 2008), as product and price are less differentiating factors nowadays (Ulaga and Eggert, 2006 quoted in Matthyssens & Vandenbempt, 2008).

In fact, literature suggests for companies dealing with commoditization, to shift from basic-product offerings to service-based ones (Matthyssens & Vandenbempt, 2008).

As Gebauer and Friedli (2005) stated, “competing through services enables product manufacturers to earn higher margins” (Matthyssens & Vandenbempt, 2008).

However it is not easy to develop a service-value approach in traditionally commoditized companies. Its success will depend on the extent that companies integrate the “new” rules into its operations (Auguste, Harman and Pandit, 2006 quoted in Matthyssens & Vandenbempt, 2008) and consider service support and personal interaction as fundamental (Matthyssens & Vandenbempt, 2008).

But how can a company build a competitive differentiation and implement a de-commoditization strategy?

Having in mind Porter (1980, 1985); Barney (2002); Buzzell & Gale (1987); Mintzberg (1988); Treacy & Wiersema (1995) cited in Matthyssens & Vandenbempt (2008) there are three value propositions that lead to competitive differentiation:

- Product leadership proposition – differentiation based on product innovation and superior product qualities;

- Customer linking proposition - differentiation based on service innovation and customer bonding;
- Cost leadership proposition - based on operational excellence and price-based offers.

For companies that do not pursue a cost efficiency strategy and do not compete through a price base strategy, the third value proposition is not recommended. On the contrary a de-commoditization strategy based on 'non-price' value offering is proposed, namely product leadership or customer linking propositions. However this does not mean that increasing manufacturing efficiency is not beneficial, yet it creates a short term and temporary advantage.

To succeed in adding customer value it is necessary to develop ground-breaking initiatives, a proactivity and customer-centred attitude and cooperation logic with partners in the supply chain. All the potential supplier value creation efforts demand a close bond with customers but also with customers' customers.

All in all a de-commoditization process which consists in evolving from a basic product offer to a service and augmented solution implies a value creating network view and involves a cultural change within the company and supply chain.

(Matthyssens & Vandenbempt, 2008)

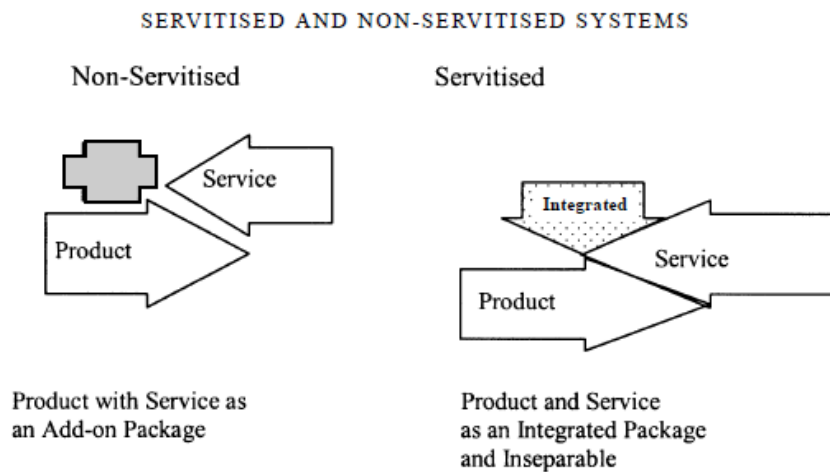
8. Servitisation

According to Levitt (1972) quoted in Robinson, Clarke-Hill, & Clarkson, (2002) "there are no such thing as service industries, there are only industries whose service components are greater or less than those of other industries. Everybody is in service."

In industrial markets service is associated with after sales interventions, mainly due to some problems that might have occurred with the product itself (Robinson, Clarke-Hill, & Clarkson, 2002). Nevertheless, a different managerial mind-set emerged as the term Servitisation has broken through with Vandermerwe and Rada (1988) work (Robinson, Clarke-Hill, & Clarkson, 2002). Servitisation considers the total customer offer as an integrated bundle of both goods and services, thus it goes beyond the augmented product concept and additional services traditional approaches (Robinson, Clarke-Hill, & Clarkson, 2002).

Quinn et al. (1990) believe that management must break with the traditional reasoning that considers manufacturing (or goods production) as separate from the service activities (Robinson, Clarke-Hill, & Clarkson, 2002).

In fact in the typical industrial product offering, service is something additional while in the servitised mind-set, the core product and the service are linked, as figure 3 shows (Robinson, Clarke-Hill, & Clarkson, 2002).



Adapted from Van Looy, Van Dierdonck and Gemmel, 1998, p.35.

Figure 3 - Servitised and Non-Servitised systems

Source: (Robinson, Clarke-Hill, & Clarkson, 2002)

9. Service as a differentiating factor

Service and relationship management strategies' are used to escape from the commodity trap (price dominated) and be able to build competitive advantages in commodity-type industries (Robinson, Clarke-Hill, & Clarkson, 2002). Literature, in the commodity sector of the chemical industry (Wei et al., 1979; Emerson, 1983; Stobaugh, 1988; Quintella, 1993; Black, 1994) shows that industrial marketing is based mainly on price and production efficiency as companies' core activity (Robinson, Clarke-Hill, & Clarkson, 2002).

In a study developed with respect to marketing in the commodity chemical industry, conclusions on the key service attributes and its importance were found as listed below:

- "1. Regular contact with customers
- 2. Order handling procedures

3. Emergency response to accident and prevention
4. Technical information
5. Delivery on time
6. Credit terms
7. Technical service and assistance
8. JIT delivery procedures”

(Robinson, Clarke-Hill, & Clarkson, 2002)

If commodity industries want to differentiate themselves and avoid cost leadership strategies, a possible strategy is augmenting product attributes through service.

Service is in fact recognised as a valuable and differentiator factor in the commodity industries and as a way to overcome price as the only determinant factor.

All in all it is possible to truly overcome the challenge of applying service marketing in non-differentiated markets, as some commodity chemical companies have already put in practice a servitized system, by reducing the distance between parties and building close relationships. The concept of relationship marketing is closely linked with the existence of a regular contact with customers, not being possible to establish a strong supplier-customer relationship without it.

(Robinson, Clarke-Hill, & Clarkson, 2002)

10. Strategy focus on the product vs focus on the relationship

As companies augment their product offerings with services, and the value proposition changes from product-centric to customer-centric, they are expected to face considerable challenges (Kindström, 2010).

According to Neely (2008) quoted in Kindström (2010) these challenges, faced by product-based companies in their “servitization” process, are the following: “challenges of shifting mind-sets, challenges of timescale (related to a longer time horizon) and challenges of business models/customer offerings (related to an increased focus on value-in-use)”.

Managers in many industries are confronted with the erosion of the traditional product based business model (Malleret, 2006 quoted in Kindström, 2010). For many companies, including manufacturing, placing a higher orientation in business service may be a growth area (Jacob and Ulaga, 2008 cited in Kindström, 2010).

Product-based companies, that want to increase their service orientation and to address it in a more focused manner, should consider the inclusion of services that meet changing customer needs (Kindström, 2010) since services demand higher integration and coordination with customers (Oliva and Kallenberg, 2003 quoted in Kindström, 2010).

In such context, companies need to approach change in all areas of their business model and not only in isolated elements. To change the value proposition and to make further alignments - both internal and external – are necessary to create and capture new value. The traditional focus of change has been in product development and production operations, yet as the service content increases, the focus shifts to other business model parameters as the following framework suggests.

| Business model parameter | Key issues | Managerial goal |
|--------------------------|---|--|
| Value proposition | <ul style="list-style-type: none"> – Articulated offering – Visualization – Closer customer interaction – A dynamic offering portfolio | Structuring the new offerings and making them tangible Communicating the new value created, which may be intangible Achieving an excellent understanding of customer operations and business Reaching all potential customers |
| Revenue mechanisms | <ul style="list-style-type: none"> – New revenue model | Putting focus on new selling parameters primarily driven by customer perceived value creation instead of internal costs. |
| Value chain | <ul style="list-style-type: none"> – Dedicated roles for service development – A structured service development process – A new reward system – Extending the resource base | Achieving momentum and organizational focus Creating a decision process and establishing development stages Creating momentum and change Acquiring resources in e.g. service delivery not previously available in-house |
| Value network | <ul style="list-style-type: none"> – Finding partners that can add value to the new offerings | Supplying additional services not available in-house Provide local access and responsiveness |
| Competitive strategy | <ul style="list-style-type: none"> – Branding – Differentiation | Loading the product brand with service values Increasing differentiation possibilities |
| Target market | <ul style="list-style-type: none"> – New customer segmentation | Addressing the right customers in the right way with the appropriate product/service mix based on functional needs |

Figure 4 Service based business models: key elements

Source: (Kindström, 2010)

All in all managers who are determined in investing in new service development (NSD) or in service innovation must consider: first, to develop the company’s ability to promote and explain the service value propositions, which require different promotional techniques; second, to develop relationship building competences (more proactivity and ability to capture customer needs for instance) in all organization parts; third, to understand customers’ processes and even customer’s customer activity, fourth, to design a dynamic portfolio that changes according to customer needs; fifth to establish service delivery infrastructures, either with internal or external resources; and sixth, to develop new revenue mechanisms based on customer profitability.

Nevertheless managers must keep in mind that establish good relationships with all customers is costly and challenging, therefore it can be beneficial to segment the customers portfolio in order to develop services accordingly to each segment. (Kindström, 2010)

11. Organizational culture

According to Edgar Schein quoted in Hampden-Turner (1992), corporate culture is a pattern of assumptions that are considered valid as the correct way to deal with problems that derive from external adaptation and internal integration. Schein argues that culture operates at three levels: basic assumptions, values and artifacts / creations as the following model shows (Hampden-Turner, 1992).

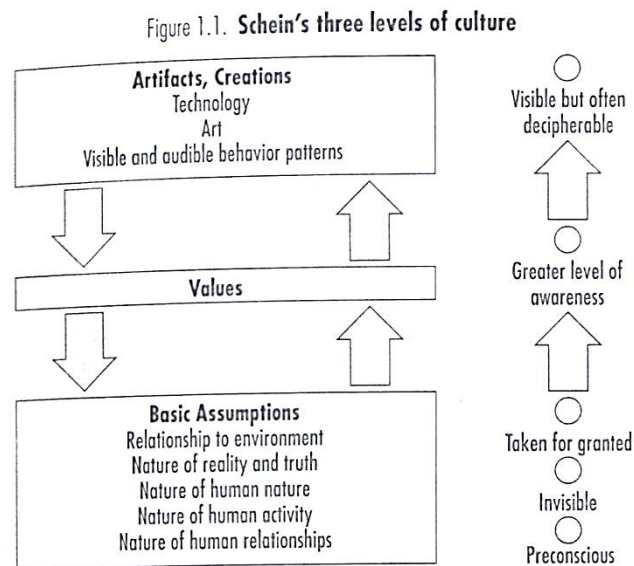


Figure 5 - Schein's three levels of culture

Source: (Schein, 2004)

This model can be used by companies as a way to identify and change corporate culture by taking into consideration all cultural aspects (Hampden-Turner, 1992). Companies must be aware that having a fit between strategy and organizational culture is required if any change or improvement in the present culture will be made (Muratovic, 2013).

If an organization is able to maintain a strong and desired culture, it is likely to enjoy higher levels of performance, a person-organization fit, job satisfaction and competitive advantages (Demir, Unnu, & Erturk, 2011). On the other hand, when

organization members identify with the culture, the work environment tends to be more enjoyable (Demir, Unnu, & Erturk, 2011) increasing the levels of teamwork, information sharing and openness to new ideas (Goffee, Jones 1996 quoted in Demir, Unnu, & Erturk, 2011).

But how to change or improve the corporate culture, since it is known to be hard to change it successfully? (Bresnen, Marshall, 2000 quoted in Demir, Unnu, & Erturk, 2011)

The first step is to diagnose the actual and the desired culture (Muratovic, 2013). An helpful tool is the "Organizational Culture Assessment Instrument" – OCAI, developed by Cameron and Quinn (1999), which is used worldwide to identify the preferred and perceived culture profiles based on core values, assumptions, interpretations, and approaches that characterize organizations (Demir, Unnu, & Erturk, 2011). This instrument is developed over the theoretical model - “Competing values framework” - developed by Quinn and Rohrbaugh (1983) (Demir, Unnu, & Erturk, 2011).

The Competing values framework (fig. 6) presented below proposes a four type culture classification: Clan, Hierarchy, Market and Adhocracy (Demir, Unnu, & Erturk, 2011).

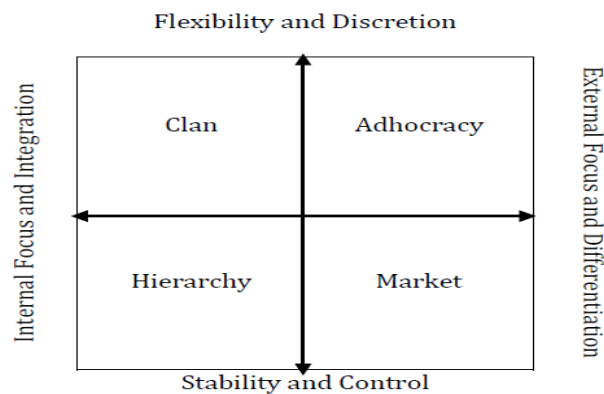


Figure 6 - The Competing Values Framework

Source: (Cameron & Quinn, 1999)

The four typologies vary along two dimensions of organizational effectiveness (Quinn, 1988 quoted in Demir, Unnu, & Erturk, 2011). The first dimension distinguishes to what extent the company favours flexibility, discretion, and dynamism over stability, order, and control. The second dimension discriminates between to what extent the company emphasises internal focus, integration and unity over external focus,

differentiation and rivalry. (Cameron and Quinn, 1999 quoted in Demir, Unnu, & Erturk, 2011)

The quadrant in which scores are the highest indicates the type of culture most present in the organization whose success depends on the ability to companies match its culture with the competitive environment (Cameron & Quinn, 1999).

The Clan culture (Collaborate)

The Clan culture emphasises internal maintenance with flexibility, concern for people and for customers; thus it has a focus on human relations and has flexible operational procedures (Demir, Unnu, & Erturk, 2011). Leaders in this type of organizations are mentors and loyalty is very present (Igo and Skitme, 2006 quoted in Demir, Unnu, & Erturk, 2011). At last, Clan-type firms value teamwork, employee involvement programs and corporate commitment to employees (Cameron, Quinn 1999 quoted in Demir, Unnu, & Erturk, 2011). An example is the modern industrial organization where a strong sense of community is present (Ouchi and Jaeger, 1978; Ouchi and Johnson, 1978 and Ouchi, 1980 quoted in Demir, Unnu, & Erturk, 2011).

The Adhocracy culture (Create)

Adhocracy culture concentrates on external positioning/focus and in a high degree of flexibility and individuality. There is a dynamic, entrepreneurial and creative environment where a risk taking attitude is promoted, by visionary and innovative leaders. (Demir, Unnu, & Erturk, 2011)

An organization with adhocracy culture values creativity, experimentation, risk autonomy, individual initiative and emphasises long-term growth (Igo, Skitmore, 2006 and Cameron, Quinn, 1999 quoted in Demir, Unnu, & Erturk, 2011).

The Hierarchy culture (Control)

The Hierarchy culture focuses on internal maintenance, stability and control, where there are clear tasks setting and strict rules. The leader's role is usually to coordinate and organize. (Demir, Unnu, & Erturk, 2011)

At last, in this culture there is a focus on economy, standardized rules and operations, control mechanisms, formality, rationality and obedience (Igo, Skitmore, 2006 and Cameron, Quinn, 1999 quoted in Demir, Unnu, & Erturk, 2011). Banks, insurance firms,

government agencies and utilities have characteristics of the hierarchical profile (Deal and Kennedy quoted in Demir, Unnu, & Erturk, 2011).

The Market culture (Compete)

The Market culture is characterized by being result-oriented with clear and rational goals that are achieved by high productivity and economical operations (Demir, Unnu, & Erturk, 2011). Competitiveness, perfectionism and aggressiveness are valued (Demir, Unnu, & Erturk, 2011). Moreover, the leaders play a tough and demanding role (Cameron and Quinn, 1999, quoted in Demir, Unnu, & Erturk, 2011). Attention should be paid to the term Market here, which represents an emphasis on the transactions with external players, such as suppliers and customers, (Demir, Unnu, & Erturk, 2011). This type of organizations values winning, competitive pricing and market leadership (Igo, Skitmore 2006 and Cameron, Quinn 1999, quoted in Demir, Unnu, & Erturk, 2011).

The OCAI tool is especially useful for a manager to uncover key culture aspects that are not easily identifiable. The OCAI questionnaire is divided in six clusters: Dominant cultural characteristics, Organisational Leadership, Management of Employees, Organisational Glue, Strategic Emphasis and Criteria for Success. After assessing the OCAI questionnaire it is possible to draw an overall culture profile, dependent on the quadrant of the competing values framework got the highest score.

(Cameron & Quinn, 1999)

In order to diagnose and change its culture, a firm should engage in a dialogue process by a selected group, potentially including different organizational level's (Muratovic, 2013). The optimal group can have ten to fifty people and the selection should represent a cross-section of the organization (Schein, 2004 quoted in Muratovic, 2013). These members should individually answer the OCAI questionnaire and later discuss the results among them (Muratovic, 2013). After reaching a consensus, the current and the desired culture profile can again be recorded into the tool, in order to compare both, using graphical representations and data provided by the OCAI instrument (Muratovic, 2013). This can help managers to know where to act and in what sort of activities to invest, to better create a strong culture (Demir, Unnu, & Erturk, 2011).

Cameron and Quinn (1999), propose the following six steps action plan for initiating a cultural change within an organization: first, “reach consensus on the current culture”; second, “reach consensus on the desired future culture”; third, “determine what the changes will and will not mean”; fourth, “identify illustrative stories”; fifth, “develop a strategic action plan”; sixth, “develop an implementation plan”.

Nevertheless, it is dangerous to believe that culture can be evaluated in an absolute way and to suggest the existence of a “right” organizational culture; hence a “good”, “bad” or “functionally effective” culture depends on its fit with the existing environment (Schein, 2004).

12. Reputation

Reputation has been conceptualized as the representation of a company’s past actions and future expectations on the firm key values when compared to its rivals by the stakeholders (Fombrun, 1996, p. 72 quoted in Brammer & Pavelin, 2004). Corporate reputation is also identified as an intangible asset (Keh & Xie, 2009) of considerable interest that contributes to competitive advantage of organizations in the long run (Dowling, 2004; Rose and Thomsen, 2004; Fombrun, 1996, quoted in Brammer & Pavelin, 2004). Besides, reputation is represented as the firm’s cumulative judgements over time (Fombrun and Shanley, 1990, p. 235 quoted in Brammer & Pavelin, 2004) and over the different relationship stages - from strangers to acquaintances to friends and to partners (Johnson & Selnes, 2004 quoted in Keh & Xie, 2009).

A reputation-based relationship is more evident in the beginning followed by a trust-based and, at last, a commitment-based relationship, where there is the willingness to pay a premium price (Keh & Xie, 2009). In this sense, in the initial stages of a relationship (with no previous transaction between both parties evolved) a good reputation can be synonym of the seller's competence (Campbell, 1999, quoted in Keh & Xie, 2009).

Corporate reputation management is crucial for companies (Dowling, 2004; Rose and Thomsen, 2004; Fombrun, 1996, quoted in Brammer & Pavelin, 2004), specially to those relationship-oriented (Keh & Xie, 2009), since there is evidence of a positive relationship among corporate reputation, financial performance (e.g., Podolny, 1993; Fombrun, 1996; Roberts & Dowling, 1997, 2002 quoted in Keh & Xie, 2009) and

customer identification (Keh & Xie, 2009). The reputation of a firm works as a mirror to communicate information on the product and service quality to target groups, in comparison to its competitors (Yoon et al., 1993, quoted in Nguyen & Leblanc, 2001).

A good reputation takes a long time to build, and it is a long term process within the organization, but it can just take a few moments to be dismantled (Keh & Xie, 2009).

A favourable reputation can be created if the company repeatedly succeeds in fulfilling its promises. On the contrary, if a company fails to respect its expressed intentions that leads to a negative reputation (Herbig and Milewicz, 1993, quoted in Nguyen & Leblanc, 2001).

Nevertheless, there are divergent opinions regarding how reputation is built or destroyed but, literature has focused on the role of social responsiveness as influencing stakeholder's perceptions of organizations and it is argued that social responsiveness positively influences the relationships between firms and primary stakeholder groups (Brammer & Pavelin, 2004).

Good relationships with stakeholders enable the creation of valuable intangible assets for firms (Hillman and Keim, 2001, quoted in Brammer & Pavelin, 2004). Findings suggest that in order to build a good reputation, firms should focus on CSR (Corporate Social Responsibility) activities, regarding employment, environment, community, supply chain management among other dimensions, but in accordance to the firm's size and the firm's business activity principles (Brammer & Pavelin, 2004).

In a B2B context, it is also important to mention the concept of customer identification (Keh & Xie, 2009). Customer identification and customer trust are positively influenced by corporate reputation (Keh & Xie, 2009) and a stronger customer-company relationship emerges with customer's identity with the company (Bhattacharya and Sen, 2003 quoted in Keh & Xie, 2009).

13. Corporate image

The higher the perception of a favourable corporate image and reputation the higher is the retention likelihood. A better understanding of both distinctive concepts - corporate image and corporate reputation - can help firms to communicate their position and strategy more effectively. (Nguyen & Leblanc, 2001)

Corporate image is the impression made on the minds of the public about an organization (Barich and Kotler, 1991; Dichter, 1985; Finn, 1961; Kotler, 1982 quoted in Nguyen & Leblanc, 2001). A company projects more than one image to its stakeholders which makes important the attempt of harmonizing the firm activities' and to be aware of the emotional and functional attributes of the corporate image components (Nguyen & Leblanc, 2001). Corporate image is a result of a process (MacInnis and Price, 1987 quoted in Nguyen & Leblanc, 2001) that is formed by ideas, feelings, and previous experiences later transformed into mental images (Yuille and Catchpole, 1977 quoted in Nguyen & Leblanc, 2001). Even if a consumer has not yet experienced any type of contact with a firm, some perceptions can be developed from other sources of information like advertising or word-of-mouth (Nguyen & Leblanc, 2001).

In corporate communication, marketing managers should emphasize and coordinate elements of corporate reputation to create a favourable image and higher customer loyalty levels (Nguyen & Leblanc, 2001).

14. Managing reputation

All corporations or institutions have two assets on which success and survival are based. Firstly, its Brand - upper case 'B' – that represents the image, reputation, financial assets, performance and people; and secondly, its brand – lowercase 'b' – meaning the products or services sold or provided.

(Cravens, Oliver, & Ramamoort, 2003)

One should not take precedence over the other, and efforts should be allocated on both (Harris, 1998, p. 22 quoted in Cravens, Oliver, & Ramamoort, 2003).

Associated with high reputation, corporations enjoy a set of advantages according to Fomburn (1995) quoted in Cravens, Oliver, & Ramamoort (2003) such as: their products and stock offerings capture more customers and investors – and command higher prices; their jobs attract more applicants – and generate more loyalty and productivity from the employees; the influence on suppliers is greater – and they pay lower prices for purchases and have more stable revenues, their risks of crisis are fewer – and when crises occur, the financial loss is smaller. The concepts of corporate reputation and image represent vital strategic resources. The model illustrated below presents a framework for managing the process through which both critical assets

(corporate image and corporate reputation) are created and preserved. Basically, the company's identity is translated into an image in the eyes of its several stakeholders through several communication mechanisms and channels. It is the management's responsibility to be in charge of the company's identity and communication system, as a way to develop and maintain a recognizable image and a favourable reputation. (Gray & Balmer, 1998)

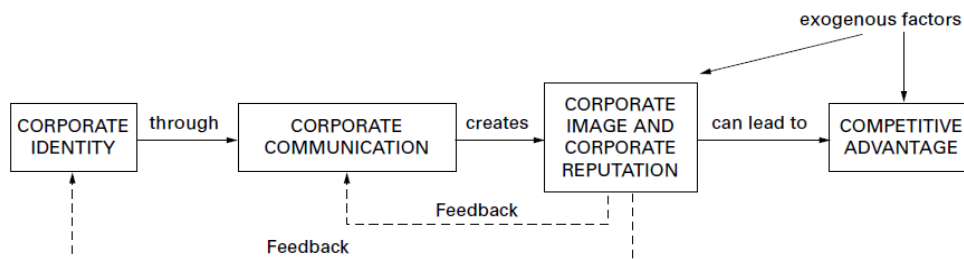


Figure 7 - Operational model for managing corporate reputation and image. Source: (Gray & Balmer, 1998)

This model illustrates the fundamental components of the process, namely corporate identity, communication, image and reputation. Besides, it traces the interrelationships amongst these components and highlights the importance of feedback to the efficacy of the process. Competitive advantage is considered the output of the process. However this outcome can be affected by exogenous factors.

Companies manage these components with two main objectives in mind: to create the intended image and a favourable reputation in the stakeholders' minds, which require an exemplary identity that can only be formed through consistent performance, usually over the years. A strategic advantage can be obtained if importance is given to corporate identity, image and reputation from senior management levels.

(Gray & Balmer, 1998)

Cravens, Oliver, & Ramamoort (2003) proposed a Reputation Index (Appendix 1) based on specific measures relating to: products, employees, external relationships, innovation and value creation, financial strength and viability, strategy, culture, and intangible liabilities. The reputation index attempts to be a standardized set of common and unique measures that are consistent across companies and industries. The nature of the index is such that a classification ranking is created rather than an absolute value.

After valuing from 1-9 each measure of the reputation index and after calculating for each component its average, an overall measure can be created by applying weights to each component. In this index there is a weights' suggestion, however these weights may vary significantly in importance according to specific company characteristics.

The last step to create a corporate reputation index is to have a classification ranking, which it will allow to classify the value obtained as corporate reputation level.

(Cravens, Oliver, & Ramamoort, 2003)

15. Generic competitive strategies

According to Porter (1985) there are two basic types of competitive advantage, either a firm has low costs or presents a differentiating attribute. Thus Porter (1985) proposes three generic strategies that a firm chooses from as a way to compete within an industry. The Generic strategies framework is presented below.



Figure 8 - Three Generic Strategies

Source: (Porter, 1985)

Cost leadership

When a firm chooses to follow a cost leadership strategy it is engaging in a low-cost production and has to be the industry cost leader. Thus it presents a cost advantage that may include economies of scale, and exceptional access to raw materials among other benefits.

Differentiation

When a firm chooses to a differentiation strategy it is choosing some attributes that make it unique when compared to the competition. But a differentiator is also concerned about costs and is looking for reducing them as long as it does not affect its differentiation assets.

Focus

The focus strategy consists of choosing a specific industry segment (target) to approach. The firm optimizes its strategy for that target in order to obtain a competitive advantage. A cost focus strategy exploits differences or particularities in buyers cost behaviour whereas differentiation focus seeks the target special needs. However Porter (1985) recognises that each strategy has inherent risks and presents a table with drawbacks for each strategy.

| RISK OF COST LEADERSHIP | RISK OF DIFFERENTIATION | RISK OF FOCUS |
|---|---|---|
| <p>Cost leadership is not sustained</p> <ul style="list-style-type: none"> ▪ Competitors imitate ▪ Technology changes ▪ Other bases for cost leadership erodes | <p>Differentiation is not sustained</p> <ul style="list-style-type: none"> ▪ Competitors imitate ▪ Bases for differentiation becomes less important to buyers | <p>The focus strategy is imitated</p> <p>The target segment becomes structurally unattractive</p> <ul style="list-style-type: none"> ▪ Structure erodes ▪ Demand disappears |
| <p>Proximity in differentiation is lost</p> | <p>Cost proximity is lost</p> | <p>Broadly targeted competitors overwhelm the segment</p> <ul style="list-style-type: none"> ▪ The segment's differences from other segments narrow ▪ The advantages of a broad line increase |
| <p>Cost focusers achieve even lower cost in segments</p> | <p>Differentiation focusers achieve even greater differentiation in segments</p> | <p>New focusers sub-segment the industry</p> |

Figure 9 - Risks of the Generic Strategies

Source: Adapted from Porter, 1985, page 21, table 1-1 Risks of the Generic Strategies

16. Industry life cycle

Industries are in constant evolution affected by external forces like technology, demand and economic growth and internal factors like the competition and their strategies. It is possible to detect some patterns, as a result of the external and internal forces, in industries allowing for a classification in the industry life cycle. Industries typically evolve over time across four stages: the introduction, growth, maturity and decline. Companies ought to be aware in which phase their industry is, in order to anticipate changes and successfully adapt to them.

(Grant, 2006)

Below, the industry life cycle and the four stages are presented.

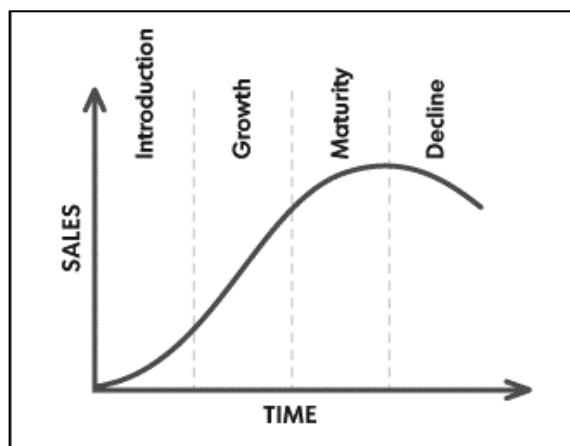


Figure 10 - Industry life cycle

Source: Adapted from Grant, 2006, page 373 figure 10.1

Growth, demand and technology diffusion are considered as critical factors affecting the industry evolution over the four stages.

At the introduction stage, often the sales and penetration rates are low because the product is new and there are still few customers. The new technology, the small production scale, and lack of experience establish high costs of production and low quality. The customers have high bargaining power and seek for innovation.

At the growth stage, there is an accelerated penetration rate and the product innovation and technology start to become standard which is translated in a price decrease. In this stage the consumption becomes mass market consumption and the number of entrants is high as it is in the previous stage.

At the maturity stage the industry is considered has becoming saturated. There is increasingly a demand of replacement where the customers substitute the old products for new ones and companies become more concerned with costs efficiency. The standardization during the growth and maturity stages contributes for homogeneous products unless the companies manage to differentiate in other dimensions such as complementary services. In this stage, industries go through some restructuring periods, in average after 29 years of existence, reducing to half of the producers (S. Klepper and E.Grady, 1990 quoted in Grant, 2006). It is frequent to observe mergers and acquisitions and dropouts. Afterwards the number of entrants and exits stabilizes and the remaining are those that manage to survive. In the majority of the industries this stage is associated with an increase of concentration.

The last stage - decline - is characterized by the appearance of substitute products developed in other sectors with superior technology. The excess of capacity and foreign competition is associated with an intense price competition.

(Grant, 2006)

17. Key factors in mature sectors

The opportunities to obtain competitive advantages in mature sectors and profitability rates diminish due to the lower margin for differentiation, overall easy access to technology, stronger supplier's power, international pressure (namely from countries with lower cost structures), product standardization and price competition. With the stage of maturity the competitive advantages depend more on cost efficiencies as a result of standardization. Therefore it is important that companies tight their overall costs, look for scale economies and inputs at low cost. This strategy is recommended for companies whose competitive advantage is based on costs, which is many times difficult to maintain in face of the international pressure typical in this stage.

On the other hand, a success factor for companies in a mature industry is to segment and select clients, since the industry can present attractive market niches as profitable opportunities. Companies select the most attractive customers and transform the less valuable into more valuable clients.

Since the profitability of the overall industry tends to be squeezed and the source of differentiation becomes limited it is recommended to move from a differentiation

based on the product features towards the image. Moreover as the product becomes less differentiated, there is an increase investment on the complementary services as a source of differentiation. As the innovation on the product and process starts diminishing over the time, the strategic innovation gains relevance. (Grant, 2006)

Finally as companies in mature sectors are studied it is believed that:

- Each company has potential to rejuvenate;
- Companies are affected by the context where they operate but it is possible to be creative and succeed;
- When there is limitation on competitive advantages sources, strategic innovation gains a critical importance;
- Organizations need to establish an entrepreneurial spirit willing to experiment, and learn when embraces strategic innovation;
- Companies select where they want to compete;

All in all, the success in mature industries is many times dependent on the capacity of companies to reach operational efficiency whilst keeping innovation and client's responsiveness. Suitable organizational structure and management style are requested for the success.

(Grant, 2006)

LR Appendixes

Appendix 1 - Reputation Index

Table 1 Components of the Reputation Index

| Index components | Illustrative measures | Anchor scale values: | |
|---|--|--|---|
| | | 1= least desirable; | 9 = optimal (ideal) |
| Products/services | Quality associations | Almost none (poor) | Highest (perfect) |
| | Public awareness of corporate name and products/services | Almost none (poor) | Highest (perfect) |
| | Extent of brands and umbrella brands | Single brand item | Numerous brand lines |
| | Warranty claims | Often, numerous | Never |
| | Liability claims | Often, numerous | Never |
| Employees: | | | |
| All levels | Employee satisfaction with employer | Almost none (poor) | Highest (perfect) |
| | Turnover | Common, extensive | Almost none (perfect) |
| | Exit interviews | None conducted | Formal, informative |
| | Number of applicants for open positions | None, unfilled positions | Excessive, high interest |
| | Training and development efforts | None or rare | Extensive |
| | Employee feedback relative to meeting employee needs | None or rare | Highest (perfect) |
| | Coordination and communication efforts across functional and business areas | None, isolated, lack of information flow | Extensive and regular |
| Upper management | CEO personal reputation only | Almost none (poor) | Highest (perfect) |
| | Competency | Poor | Highest (perfect) |
| | Turnover | Common, extensive | Almost none (perfect) |
| | Compensation and evaluation packages and goal congruence with strategic objectives | Incongruent, at odds with long-term objectives | Congruent and contributes to achieving long-term objectives |
| | Information collection from subordinates | None, isolated | Regular, participative |
| External relationships (non customer): | | | |
| Suppliers | Payment terms | | |
| | Major supplier quality | Almost none (poor) | Highest (perfect) |
| | Relationship quality of major suppliers | Poor, no level of trust | Highest level of trust |
| | Relationship duration for major suppliers | Beginning | Enduring, long-term |
| Partners | Quality of suppliers for suppliers | Almost none (poor) | Highest (perfect) |
| | Existence of alliance relationships | None | Numerous |
| | Longevity of alliance relationships | None or beginning | Enduring, long-term |
| | Recognition of key strategic partners | Unknown | Well-known |
| Competitors | Reputation of key strategic partners | Poor | High |
| | Joint venture contractual agreements | None | Numerous |
| | Industry participation | Isolated | Active, exchange of info |
| | Competitor response to key corporate initiatives | Ignores | Immediately matches or responds to actions |
| Investors | Market premium | None | Highest |
| | Market stability | None, unstable | Long-term stability |
| Environment | Environmental policy | None | Formal, well-developed |
| | Dedicated employee positions | None | Dept. and sr. manager |
| | Liability claims | Often, numerous | Never |
| Society | Regulatory intervention | Often | Never |
| | Charitable endeavors | None | Extensive and varied |
| | Employee quality of life initiatives | None | Extensive and varied |
| Innovation | Formalized program to generate and evaluate innovation | None | Mature, successful |
| Value creation | Growth relative to customer needs | Stagnant (poor) | Steady and consistent |
| | New product/service development | None | Extensive at all stages |
| | Identification and responsiveness to customer needs | Unaware of customer needs | Anticipates and meets all needs |
| Financial strength | Customer retention | Frequent loss | No customer defection |
| | Information content of annual report | Almost none (poor) | Highest (perfect) |
| | Additional disclosures | None | Numerous and extensive |

Table 1 (Continued)

| Index components | Illustrative measures | Anchor scale values: | |
|-------------------------------|---|---------------------------|---|
| | | 1= least desirable; | 9 = optimal (ideal) |
| Strategy | Strategic priorities relative to reputation | Ignores reputation | Highest priority |
| | Integration of strategy across business units | None | Complete formal and operational integration |
| | Management control system fostering consistency | No formal system in place | Formal system with perfect consistency |
| Culture | Ethics policy | None in Place | Highly effective |
| | Reporting procedure for ethics violations | None in Place | Highly effective |
| | Upper management attitudes | Unethical or ignores | Corporate priority |
| Intangible liabilities | Ethics committee on the board | No | Yes |
| | Inadequate research and development process | No formal process | Highly developed and successful process |
| | Lack of adequate information infrastructure | No infrastructure | Well-developed |
| | Organizational structure – lack of flexibility | Totally inflexible | Highly flexible |
| | Bad word-of-mouth among customers | Numerous and common | Non existent |
| | Inadequate distribution channels | Numerous and common | Non existent |

Table 2 Relative Weights for Index Components in Developing an Aggregate Measure of Corporate Reputation

| Index Component | Range of weights (sum to 100%) |
|----------------------------------|--------------------------------|
| Products or services | 30–60% |
| Employees/suppliers | 1–20% |
| External relationships/alliances | 1–0% |
| Innovation | 0–20% |
| Value creation | 5–20% |
| Financial strength and viability | 0–10% |
| Strategy | 1–10% |
| Culture | 1–0% |
| Intangible liabilities | 0–0% |

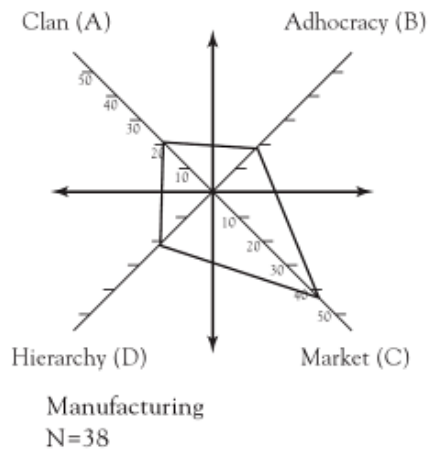
Table 3 Classification Rankings and Descriptions for a Corporate Reputation Index

| Index Value | Overall Scale Range | Description |
|-------------|---------------------|--|
| A1 | 9 | An ideal level of corporate reputation – rarely achievable |
| A2 | 8–8.9 | A more practical goal for corporate reputation |
| A3 | 7–7.9 | A high level of corporate reputation |
| B1 | 6–6.9 | |
| B2 | 5–5.9 | |
| B3 | 4–4.9 | |
| C1 | 3–3.9 | Corporate reputation has minimal value |
| C2 | 2–2.9 | Corporate reputation has marginal value |
| C3 | 1–1.9 | Corporate reputation has little or negative value |

Source: (Cravens, Oliver, & Ramamoort, 2003)

Appendix 2

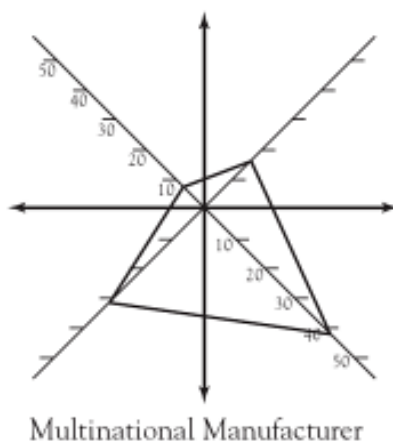
Average culture profile for Manufacturing Industry



Source: (Cameron & Quinn, 1999)

Appendix 3

Culture profile for a Multinational Manufacturer company



Source: (Cameron & Quinn, 1999)

IV | TEACHING NOTE



Case Synopsis

Fisipe – Fibras Sintéticas de Portugal was founded in 1973 by the Japanese firm Mitsubishi and the Portuguese group – CUF. In 2005 it supplied with acrylic fibre more than 300 clients spread in 35 countries.

Over the years Fisipe managed to be respected as an international player which was proven with the acquisition of Fisipe Barcelona and Fisipe Hungary. As the acrylic industry started to give signs of maturity, the company was forced to close both factories leaving Fisipe in a difficult financial situation.

R&D, innovation and anticipation to market opportunities was in the company's DNA since the beginning. With the Barcelona closure, Fisipe invested in the *gel dyed* technology considered as a market opportunity for the future. In the meanwhile, a challenging strategic plan for 2005-2010 was designed which represented a fundamental turning point at all levels. Fisipe wanted to place a customer oriented culture over the traditional commodity mind-set.

Worldwide many competitors were closing their acrylic plants leaving clients and segments undersupplied. In this context José Miguel Contreiras (COO) and Tiago Gonçalves (America and Africa Regional Sales Manager) targeted the American *gel dyed* market. Coats and Clark was the biggest client in this market and Fisipe was convinced that it had the technology and production capacity to become a Coats and Clark supplier. However Fisipe has gained a negative reputation with Fisipe Barcelona in the past. The lack of commitment and the delays in delivery time damaged Fisipe's image and credibility.

This time Fisipe was committed to find an agent who knew the US market and Coats and Clark. Jeff Dellinger – an ex senior manager of two major companies in the acrylic American market and trusted by Coats and Clark managers - accepted to be Fisipe's American agent. Jeff managed to arrange a meeting with Coats and Clark manufacturing director – Audie Mcdearis – who showed low expectations regarding the success of the business. To Dellinger, Contreiras and Gonçalves it was time to plan the next steps to gain Coats and Clark trust.

Learning objectives

This case presents strategic and managerial dilemmas of an international acrylic manufacturing company, in a B2B context. Thus, several themes can be discussed and used with a pedagogical objective in class. The main teaching and reflection points that can be raised in a strategic analysis are the following:

The challenges faced by producers in the acrylic industry - a commodity type industry;

- In a commodity type industry, like the case of the acrylic industry, manufacturing companies are traditionally focused on the product, and its performance. However margins decrease and price competition intensifies when products are similar. Producers, to avoid the commodity trap, should consider new differentiator factors and focus on the customer and augmented value propositions which can include service offerings.
- The acrylic industry as a mature industry demands companies to find new sources of competitive advantage and to target the most attractive clients.

The effective change of an organizational culture and its value proposition;

- A strategic plan, whose vectors and actions are challenging for an organization, is effectively implemented if the organizational culture is in accordance to such propositions.

The impact of a negative reputation and image as determinant factor for making business;

- A bad reputation derived from bad experiences with the brand can influence the willingness of a supplier to give a second chance to the firm. To overcome such obstacles and restart a relationship it is advised that companies show flexibility, credibility and a consistent performance over time. Thus the likelihood of the company to gain the client's trust and later retention increases.

Moreover the case can also provide basis for further analysis in other strategic fields, not developed in depth in this dissertation, such as:

- Internationalization - an analysis of the advantages and disadvantages of Fisipec's entry mode (exports through a local agent) can be debated.
- Management of a cross cultural client's portfolio – the analysis of the cultural diversity impact in the commercial department and the logistics needed to manage a client's portfolio spread all over the world.
- The Portuguese and American culture - similarities and disparities between the Portuguese and the American culture and whether the Portuguese culture is a benefit or a drawback to make business globally.
- The increasing power of China in the textile and acrylic industry.

All in all this case opens a wide range of managerial and business strategy themes worth of deep reflection.

Assignment questions

The following questions are suggested in order to help students prepare for the class discussion:

- I. How has Fisipe's strategy evolved over the years?
- II. How is Fisipe responding to the acrylic industry pressures?
- III. How can Fisipe succeed regarding the American opportunity?

Class plan

1. Fisipe's Strategy – (45 min to analyse the following questions)
 - a) How do you characterize Fisipe's strategy until 2005?
 - b) What are the similarities and differences between the strategy so far adopted and the strategic plan for 2005 -2010?
 - c) What are the risks and benefits of both strategies?
 - d) To what extent do you believe that the measures designed within the strategic plan 2005-2010 are in accordance to Fisipe's ambition to become a *"reference in the speciality market"*?
 - e) What other measures could be implemented in order to effectively change the *"predominant commodity culture"*?
2. Acrylic Industry – (30 min to analyse the following questions)
 - a) How attractive is the acrylic industry?
 - b) In what stage of the industry life cycle can the acrylic industry be placed, and what are the implications for Fisipe?
 - c) How is Fisipe managing to survive in face of the acrylic industry pressures?
3. American Opportunity – (35 min to analyse the following questions)
 - a) How is Fisipe's situation regarding its competitors' position in the American market?
 - b) Assuming that Coats and Clark after the first meeting decides on Fisipe to be one of its *gel dyed* suppliers how should Fisipe act in the short and medium-long term, to gain Coats and Clark trust and loyalty?
 - c) How can Fisipe build a positive reputation in the American market?

Analysis

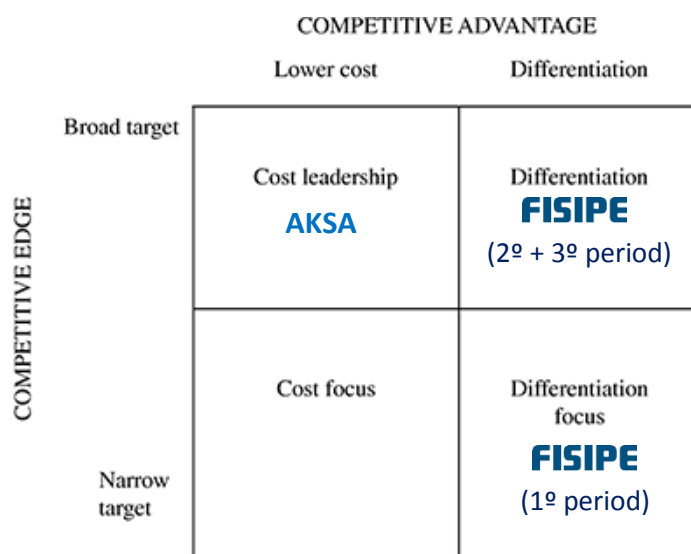
1.

a) How do you characterize Fisipe's strategy until 2005?

When Fisipe was under a custom's protection in the Portuguese market one may argue that the company was practicing a (differentiation) focus strategy, as it was selling to a narrow target – the national market. After this period, as domestic leader, Fisipe starts to increase its presence internationally and therefore it is broadening its target. Hence the company from an initial phase practicing a focus strategy evolves to a differentiation strategy. Nevertheless, the company was across both periods concerned on cost rationalization and practicing competitive prices, as João Dotti (CEO) stated.

On the other hand, it can be pointed out that AKSA follows a cost leadership strategy, which may justify its leadership position in the industry since a cost leader is the player with the lowest cost structure. Furthermore the possibility to practice low prices and experience economies of scale aligned with a substantial production capacity (according to the exhibit 4, AKSA in 2004 had 300.000 ton year capacity vs Fisipe 60.000 ton year capacity) may also justify AKSA leadership position.

Using the Porter Generic Strategies Framework, Fisipe can be placed in the Focus and Differentiation quarter and AKSA in the Cost Leadership quadrant.



The following table presents in more detail how Fisipec was strategically approaching the acrylic industry until 2005.

| Strategy | | | | |
|--------------------------|---|-------------------------------|------------------|--------------------------|
| Period | Position | Capacity | Products | Strategic vectors |
| 1 ^o period | Domestic player | Volume strategy 12.500 t/y | Standard fibre | Stock production |
| | | 23.000 t/y | | Quality |
| 2 ^o period | International player | 30.000 t/y | | Innovation |
| | | 60.000 t/y | | R&D |
| 3 ^o period | Expansion Fisipec Lavradio Fisipec Hungary Fisipec Barcelona | 126.000 t/y | Product division | |

The first period ranges from the beginning of Fisipec's activity until the company starts to export (around 1980). In this period Fisipec is a domestic company producing and selling standard fibre (raw white and raw black commodity) in Portugal. With a production of 12.500 ton/year it was still unnoticed in the acrylic industry.

The second period ranges from 1980 until 2000, approximately. At this point, Fisipec is an international player, first exporting to neighbour countries and later to South Europe (Greece), Western and South Asia (Turkey and Pakistan) and Africa. The company continued investing in successive capital increases in order to keep its volume strategy (from 30.000 t/y to 60.000 t/y) in order to reinforce its international position.

The third period ranges from 2000-2005, approximately. This period has Fisipec Barcelona and Fisipec Hungary acquisitions' as milestones. Here it is evident an expansion strategy that consolidates Fisipec as the third largest European producer with 126.000 t/y production. The company is no longer producing only one type of product

but it has invested in new technology to approach new markets, therefore indicating also a diversification strategy. The three plants (Lavradio, Barcelona and Hungary) complemented each other in terms of products and markets (Barcelona produced *gel dyed fibre* – coloured fibre, Fisipe Lavradio continued producing the commodity fibre and Hungary produced an *open end fibre*, as exhibit 6 shows). Fisipe was clearly investing in an internationalization strategy while it was decreasing its sales on the national market.

Along these three periods it is evident a pattern on strategic vectors such as the volume strategy, a stock production and an orientation towards the product and its performance. Furthermore, the investment in R&D and innovation on the product has evolved gradually as major strategic concerns, especially in the second and third periods.

- b) What are the similarities and differences between the strategy so far adopted and the strategic plan for 2005 -2010¹²?

Until approximately 2000, Fisipe followed a strategy focused on the product and scale; the commodity product was at the basis of the company's production and culture. The competitive quality, performance and price competitiveness were considered as the main differentiating attributes. The strategy designed for 2005-2010 meant a turning point to the company. At first, one can say that Fisipe is shifting from a strategic focus on the product to focus on the customers and markets. Hence the company is evolving from the traditional product-centric attitude to a customer-centric strategy, where the success of customer-supplier relationships determines the company's success. In addition the speciality fibres - with greater market value and higher need for customization – are established at the core of the company's activity as Fisipe aims for an international reference position in the speciality acrylic market. Thus it is possible to infer that the % of specialities sales (over the total sales) will continue to increase after 2005 (taking into consideration exhibit 16). Moreover the production system is no longer to stock but predetermined for a specific customer. In this manner the company's processes need to be flexible and creative, demanding a close interaction

¹² Note: This question addresses Fisipe Lavradio strategy, since in 2004 and 2005 Fisipe had already closed the other two plants. In the further analysis, the name Fisipe concerns to Fisipe Lavradio which represents now the entire corporation.

with its clients promoted by a constant communication between customers and the firm departments´.

On the other hand, one can argue that a “servitisation” mind-set has arisen being materialized with Fisipe’s new value proposition. In fact the company proposes an integrated offer combining the product itself (fibre supply), a service during the transaction and a technical assistance. Such proposition is supported by Fisipe’s position as close to the client and the face to face contact kept over the years with clients.

To sum up Fisipe has gradually adopted a customer centric strategy over a product centric one, but it has maintained the operational efficiency and productivity as constant concerns. Moreover the decision in keeping a diversified clients portfolio has also remained as a strategy, together with the constant innovation effort and R&D investments.

c) What are the risks and benefits of both strategies?

Starting with the differentiation strategy, as Fisipe’s generic strategy to compete in the Acrylic industry, one can argue that the differentiator factors that a company present as unique proposition and sources of competitive advantage can be imitated by competitors at a certain point; as consequence companies are challenged to update their differentiator attributes and be proactive in establishing new ones. Additionally, and even if competitors do not imitate, markets as dynamic forces might value other characteristics and undervalue the ones established by the firm at a certain point. This risk can represent a threat for firms that only react and do not anticipate what customer’s will value in the future; therefore companies that enjoy customer value anticipation ability might overwhelm the competition and benefit from customer satisfaction and customer loyalty.

On the other hand, when shifting from producing only a commodity product to starting producing a coloured / speciality fibre it meant a change on the strategic focus and organizational culture. In the framework presented below it is possible to classify Fisipe’s two products.

CATEGORIES OF PRODUCTS

| | Undifferentiated Products | | Differentiated Products |
|--------------------|--|-----------------|---|
| High Volume | True Commodities <ul style="list-style-type: none"> • Sold at relatively low unit values • Widely used in a variety of applications by many customers • Sales concentrated in a few large customers • Contract pricing | Standard | Pseudo Commodities <ul style="list-style-type: none"> • Produced to accepted performance specifications but with minor differences • Sales concentrated in a few large customers • Some degree of differentiation exists |
| Low Volume | Fine Products <ul style="list-style-type: none"> • Substantially identical product form and composition • High unit price • Small numbers of customers in low or moderate volumes | | Speciality Products Speciality <ul style="list-style-type: none"> • Differentiation by formulation • Produced by various suppliers based on performance in use • Designed to solve customer's specific problems • Relatively high unit price • Large numbers of customers |

* Adapted from Unger [1983].

Even if not all the characteristics listed are true for Fisipec's fibre we may position the commodity / standard fibre in the axis between a true commodity and a pseudo commodity, since the standard fibre meets the commodity conceptualization as a homogeneous product that functions identically to those of the competition, with relative low margins and widely used by many customers for different applications. But in Fisipec's case it is also true that this fibre has to comply with accepted performance specifications, justifying the classification of this product (commodity/standard fibre) between the true commodity and the pseudo commodity categorization.

On the other hand, the coloured / speciality fibre can be classified as a speciality product since it matches the characteristic of being designed to solve customers' specifications, as reflection of being a more customized product. In addition the coloured / speciality fibre represents higher margins as consequence of higher market value.

Fisipec diversified its portfolio by introducing a coloured fibre to escape somehow to the "commodity trap", meaning that the company is avoiding price to be the dominant

(decision making) factor and costs as the determinant component. Nevertheless we have to notice that Fisipec is still competing in a commodity type industry, where products are homogeneous being harder to differentiate only through product performance.

To overcome this challenge Fisipec developed the new offering proposition where it included two service dimensions (service during the transaction and technical assistance after the transaction). Nevertheless a “servitization” process can be risky if companies are not able to shift its mind-set towards the service dimension of the business model; in other words if the organizational culture sticks to the past and it is not able to become a “servitised” culture.

With regard to Fisipec’s strategy in keeping a diversified clients portfolio (where no client accounts more than 10% of gross margin, in order to spread a commercial risk), this can post logistic implications and questions can be asked to the company’s ability in reaching the wanted position as the “supplier that has more proximity to the client”. In this sense it can be difficult for Fisipec to effectively change the strategic focus and differentiator factors from the product (quality and performance) towards the customer. One might foresee that the success of the strategy for 2005-2010 is much dependent on Fisipec’s ability to manage customer relationships, without losing product quality and its success in implementing a “servitised” culture.

- d) To what extent do you believe that the measures designed within the strategic plan 2005-2010 are in accordance to Fisipec’s ambition to become a “*reference in the speciality market*”?

As mentioned in the case, the measures that Fisipec designed within the strategic plan were the following: first, a “staff renewal” policy in order to “recruit younger employees with higher formal educational levels”; second, the equipment modernization and adaptation towards a speciality fibre production; third, investments in R&D in order to develop new products and keep innovating in the existing processes; fourth, the simplification on the communication systems with clients and across departments; fifth, development of training actions for employees; sixth, partnerships with universities and clients in order to cooperate in the creation of new speciality fibres and to develop Fisipec’s technical fibre know how; seventh, the

integration of service elements in the traditional product offering, establishing therefore a “servitised” system.

The diagram presented (horizontally) facilitates the following analysis on the measures appropriateness for Fisipe positioning “as the supplier that has more proximity to the client” and ambition to establish a “servitised” system.

It is clear that the company invested in both relationship quality dimensions and product quality dimensions. These are independent but critical variables for a company to build solid B2B relationships with its customers, which in some cases leads directly to higher levels of loyalty or through commitment mediation, as mentioned in the academic review.

The improvements on the communication systems can facilitate the company’s ability to cooperate with customers and better adapt to their demands through a greater bilateral knowledge exchange. Hence cooperation, knowledge transfer and adaptation, as relationship quality dimensions, materialize indeed a strategy focus on the customer.

As the case does not specify on the nature of the internal training actions, one can propose that some of the training could be oriented to develop relationship competences and a “servitised” culture in all areas of the organization. For instance, training on new promotional techniques for the commercial and sales department to effectively communicate the new value proposition could be developed. As another example, explanatory sessions on customer’s activity and fibre specifications could lead to higher production adaptation and consequently customer satisfaction. Thus training is crucial to gradually disrupt with the commodity culture and gradually establish a “servitised mind-set”, but it must be developed at all organizational levels and in an integrated/coordinated way.

The new offer/value proposition, if consistent and effectively implemented, can increase trust, satisfaction and perceived service quality. Moreover the technical assistance service can, for instance, discourage customers to switch suppliers and keep choosing Fisipe over competitors.

Regarding the strategy to develop partnerships with clients this would positively develop the relationship between the two firms since there is a higher cooperation,

trust, adaptation and potential satisfaction for the customer. The partnerships with universities would allow Fisipe to try new products and develop a dynamic portfolio that can change according to customer's demands. Besides, Fisipe would be able to better anticipate the future demands of the partner since it gained knowledge on its activity.

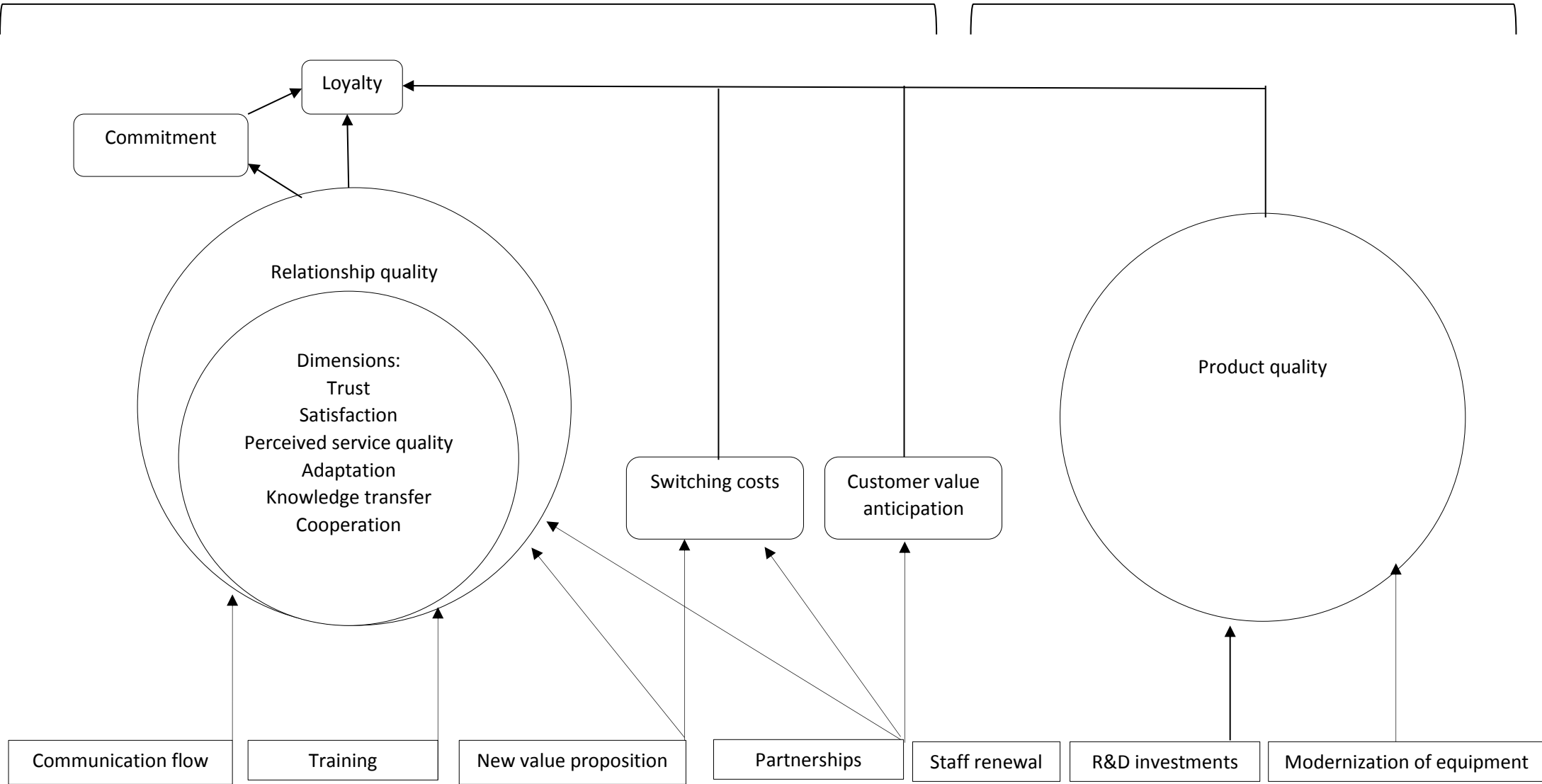
The recruitment of younger and higher qualified employees is not directly related with relationship quality or product quality dimensions, but if those employees were proactive (a needed relational skill) such attitude can be spread, contributing to break with the commodity culture.

With respect to the R&D investments towards the speciality and technical fibres together with the modernization of the equipment, both will influence product quality which is an indispensable customer value element. Therefore Fisipe could focus on establishing relationship dimensions in order to achieve its strategic goals and proximity to the client. A superior product quality is also proposed for firms choosing differentiation strategies as a competitive differentiation factor.

All in all, Fisipe's seven measures have potential to establish both relationship quality and product quality which can influence customer's loyalty and commitment. Fisipe is indeed building on a relational-based strategy over a transaction-based strategy; through shifting from basic product offerings to service based ones. Thus Fisipe if committed to implementing such actions is engaging in a de-commoditization process through the incorporation of a "servitised" culture.

Customer linking proposition

Product leadership proposition



Differentiation factors not focused on product and price
Avoidance of commodity trap
De-commoditization

Understand customer's processes

Contributes to design a dynamic portfolio

- e) What other measures could be implemented in order to effectively change the “*predominant commodity culture*”?

As referred in the literature review there is no such thing as the right culture. Therefore the ability to match Fisipe’s culture with the competitive environment where the company operates is indeed what is going to determine Fisipe’s culture effectiveness and success. Fisipe should be aware that its culture is not only expressed and translated in what is visible (for instance behaviours) and what is established and well known (like the values and procedures) but it is also present in basic assumptions that are taken for granted and therefore difficult to perceive. Fisipe should consider the three levels of culture and gradually move from establishing the desired culture, starting with visible aspects and after with deeper ones’. Thus, Fisipe could for instance improve norms and internal procedures while top levels were committed on giving the example and expressing the new culture in their attitudes, decisions and way to approach the client. Other concern that Fisipe should bear in mind is the level that the current culture is shared among members and how deeply it is. This is important in order to plan the whole process of changing, because it enables Fisipe to decide which type of activities should be developed and to whom be addressed. If potentially there is more than one culture different approaches to different groups might be requested in order to end up with a common culture. For instance the commodity culture might be more evident in departments with higher percentage of elder people than those that incorporated new staff.

Having considered all of the above, Fisipe could develop an action plan following the six steps recommended by Cameron, which, in my view, can be summarized in two main steps, first “to reach consensus” (on the current and desired culture) and after to determine what changes will be set. The use of OCAI questionnaire could help the company on both steps; the questionnaire would help to discuss results on both profiles and later to decide on the actions. For this process and to get realistic results, a group composed by 2 people from each of the 5 different departments could be selected, since it is a small company.

The help of a consultancy firm in this process could also be considered if Fisipe diagnosis is, in fact, in the presence of a culture that is creating strong obstacles to

reach a company-environment fit. The advisory service could help Fisipe in developing internal training and for instance to redefine a reward system dependent on different variables, such as client satisfaction, more related with a “servitised” system and culture.

2.

a) How attractive is the acrylic industry?

To assess the acrylic industry attractiveness and profitability one can use the five forces model of Porter. Although in the case there is not information regarding all the aspects that characterize each of the forces, a brief analysis on this subject can still be made.

- Threat of new entrants

In the AF industry it is required to have a considerable amount of capital to acquire equipment and set up a factory to produce fibre. Moreover, it is expected to live up to high legal requirements in terms of pollution and workers and installations security procedures, since it is within the chemical industry and uses acrylonitrile as raw material. The likelihood of the ones already established in the industry to enjoy economies of scale is high since there is a great dependency in gaining scale and production capacity to be able to compete within the industry.

Therefore we can consider that the threat of new entrants is not significant.

- Bargaining power of suppliers

The acrylic producer’s suppliers are mainly acrylonitrile suppliers which are highly dependent on external prices such as oil prices, therefore the suppliers can easily drive up prices justifying it with the oil prices volatility. Moreover acrylic producers are extremely dependent on this input to produce any fibre which undermines their power to negotiate prices. Nevertheless since acrylonitrile is a true commodity, producers can easily switch suppliers and not be detected in their products.

All in all suppliers force is considered to be significant.

- Threat of substitutes

Polyester as a direct substitute of acrylic fibre has had historically lower prices than acrylic fibre. Natural fibres, such as cotton, have prices similar to acrylic prices.

Therefore it can be considered a moderated force threatening acrylic producers.

- Bargaining power of buyers

As a commodity acrylic fibre is by nature a homogenous product and significant differences are difficult to perceive, buyers, in the textile industry, typically can switch among acrylic producers without engaging in relevant costs. Moreover buyers can choose over many players in the industry which leverage its power to negotiate prices over producers. For non-commodity fibres the handicap for acrylic producers is reduced.

Therefore bargaining power of buyers is considered significant to moderate.

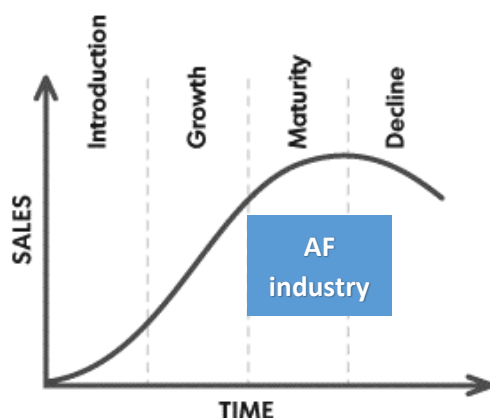
- Industry rivalry:

There are a high number of acrylic producers/competitors who are already established over many years in the industry. The exit barriers are significant since it is required a great investment to establish all the manufacturing processes therefore leaving the market entails high costs. Acrylic fibre is typically a commodity product which leads to price becoming the main decision factor and therefore being difficult to differentiate. Therefore the industry competition is considered significant.

All in all, three out of five forces are considered significant (being one of them significant to moderate); hence we may say that the acrylic industry has little attractiveness or profitability for those who are considering to enter.

- b) In what stage of the industry life cycle can the acrylic industry be placed, and what are the implications for Fisipe?

The acrylic industry shows signs of saturation and therefore it can be placed in the stage of maturity in the industry life cycle.



In the following analyses it will be listed some industry facts and what are its implications to Fisipe.

It was registered a decreasing AF demand in Western Europe, since 2000, and only in Eastern Europe, Turkey, Africa, Middle East, India and China an AF consumption growth (of 0.6% a year, on average) is forecasted, for the period 2005-2010 in PCI reports. China and India are expected to be the most attractive regions with 0.9% and 0.8% growth/year. Whereas in regions like North America, Western Europe, South Asia, South Korea, Taiwan and Japan a decreasing consumption around 1% a year is forecasted on average.

[Implications for Fisipe](#)

Fisipe can look for niche opportunities in the regions that are declining (North America, Western Europe) in supplying speciality fibres, which are more customized and modern. At the same time the company could start supplying or intensify its presence in regions like China, India, Iran and Indonesia either because they are growing or presenting AF shortage and therefore importing from other regions.

Acrylic fibre is becoming less attractive when compared to its substitutes, cotton and polyester. The last one is typically cheaper than acrylic, and its demand keeps increasing since 1980 (exhibit 8). On the other hand, AN total consumption is forecasted to increase on average for the period 2005-2010 around 3.5% a year, but its consumption by AF (one of the end uses of AN) presents a decrease on average of 0.3% a year, for the period 2000-2005 and it is forecasted to increase consumption on 2% on average for the following 5 years (exhibit 9).

[Implications for Fisipe](#)

Fisipe uses AN as raw material to produce its fibre, accounting for 70%-80% of the total production cost. The price of AN is much dependent on external factors namely the oil price, thus Fisipe has little control in obtaining inputs at low cost or in negotiating AN prices together with its suppliers.

AN consumption by AF producers is expected to increase around 2% a year which can be justified mainly with China and similar regions growth and increasing capacity, which indicates that competitors from the other regions are disinvesting in the acrylic fibre production, leaving Fisipe within a more concentrated industry.

Implications for Fisipe

Fisipe is being pressured in two fronts, on one hand its gross margin is much dependent on price, and the majority of its production cost depends on external factors. On the other hand, in order to survive in a mature sector Fisipe must consider to tighten its costs. However this can only be achieved in reducing fixed costs. At last, the international pressure from traditional low cost regions, pushes Fisipe to invest on its image, complementary services and R&D to keep innovating, hence it is avoiding a competition on prices and moving away from the commodity product.

Many producers closed their acrylic plants and exited the acrylic industry, in many cases to invest in the carbon fibre production. This milestone represents a restructuring period commonly seen in a mature sector after 29 years of existence (if we consider the closure of Fisipe Barcelona and Solutia in 2004 it accounts for 29 years since the beginning of Fisipe's activity in 1975). There was a worldwide capacity loss of 256 kt in 2005 (exhibit 14) leaving countries like China, Iran, Indonesia and USA with an AF deficit.

Implications for Fisipe

Fisipe can analyse the opportunities brought from the closures of big players, such as Sterling, Solutia and Acordis, and select undersupplied clients as profitable opportunities. Fisipe has the opportunity to decide where to compete and also with which products. Many times what is not attractive to some companies it is so, for smaller players such Fisipe.

c) How is Fisipec managing to survive in face of the acrylic industry pressures?

Fisipec is establishing a new culture focused on the customer and supported by flexibility and operational efficiency. In this sense Fisipec is being proactive and innovating strategically in order to survive in face of industry maturity.

Moreover through its partnerships and R&D investments to cooperate for new fibres and develop latest technology the company is increasing the clients switching costs and it is extracting more value out of its portfolio, avoiding its customers to choose mainly on price and shift to competitors with lower cost structures.

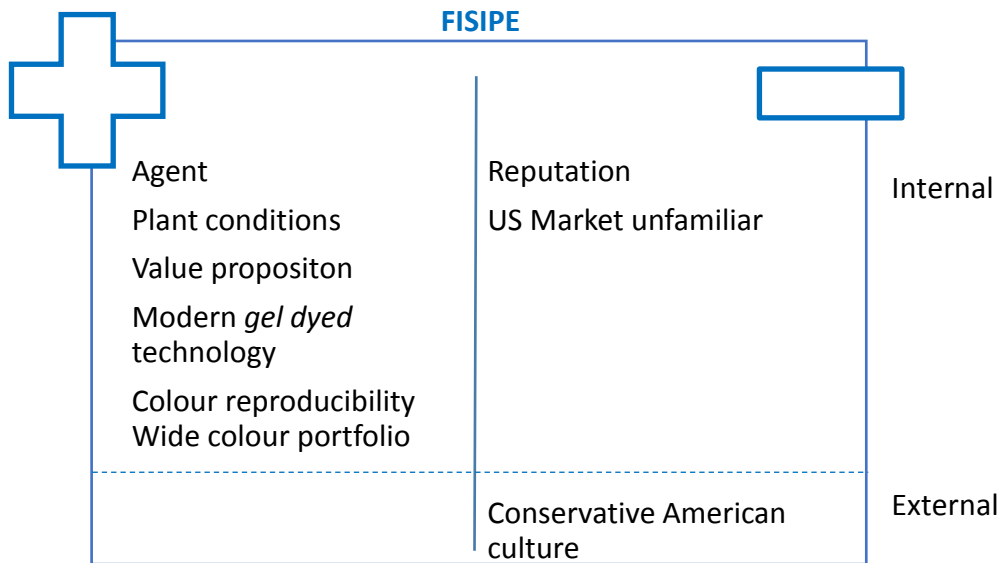
Fisipec keeps its portfolio diversified and spread worldwide not to be much dependent on few customers or in particular regions, thus it is surviving to the demand contraction on some regions. The company, according to exhibit 19, is already selling to undersupplied regions like China and Iran, but it could even study the possibility to enter India and Indonesia.

Fisipec is demonstrating to be attentive to market moves, for instance when Fisipec Barcelona closed, Fisipec Lavradio started previously to invest in *gel dyed* technology as anticipation to the plant closure and future market preferences. Also in face of a restructuring period in the industry, the company was doing market research looking for opportunities left in the US, for instance. Fisipec is being able to look outside its walls and adapt to market preferences (speciality fibre and development on technical know-how) whilst changing internally in order to establish a flexible organizational structure and a new image (through training actions, staff renewal policy, modernization of equipment, constant communication and integrated service offering).

3.

a) How is Fisipec's situation regarding its competitors' position in the American market?

In order to analyse Fisipec and its competitors regarding the US market, it is helpful to list what are the pros and cons for Fisipec, Montefibre, AKSA and Kaltex. These aspects can either be internal or external to each company.

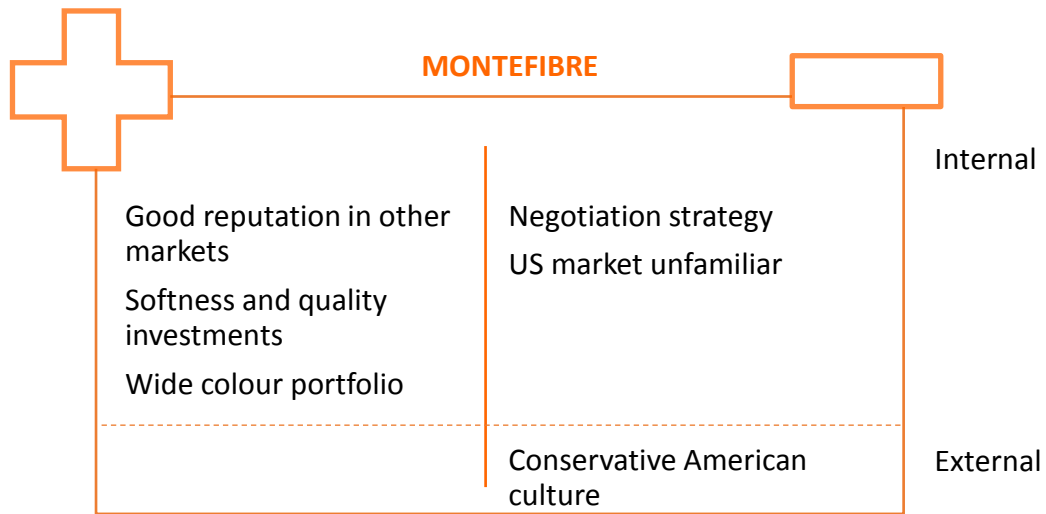


Fisipe hired Jeff Dellinger to become its agent in the US market. Jeff had worked for Sterling, Acordis and Solutia so he knew very well the acrylic American market; his knowledge on what is valued by the American clients (communication, honesty, service, quality) and how competitors performed constitutes one of Fisipe's strengths; which can be used to overcome the negative reputation left by Fisipe Barcelona and Fisipe's unfamiliarity with the US market. Furthermore Jeff's presence could give confidence to clients to start doing business with Fisipe and step aside the American conservative culture. At least this could be achieved together with ex-Sterling, ex-Acordis and ex-Solutia clients and assuming that they have a good impression of Jeff. According to Jeff, Fisipe's plant, when compared to Solutia, is better maintained and newer, which can impact Fisipe's ability to produce a good quality fibre and meeting American client's expectations.

Fisipe's new strategy supported by better communication channels, augmented offer (product and service), flexible logistics and focus on customers is in line with some of the key factors to enter the US market pointed by Jeff, namely keep customers informed and have a flexible service.

In 2004, Fisipe started to develop *gel dyed* technology in Lavradio as anticipation to Barcelona closure. Therefore, and in comparison to Montefibre, Kaltex and AKSA, Fisipe presents a more updated technology which can have consequences in producing a higher quality fibre and ability to replicate colour effectively. However it can also

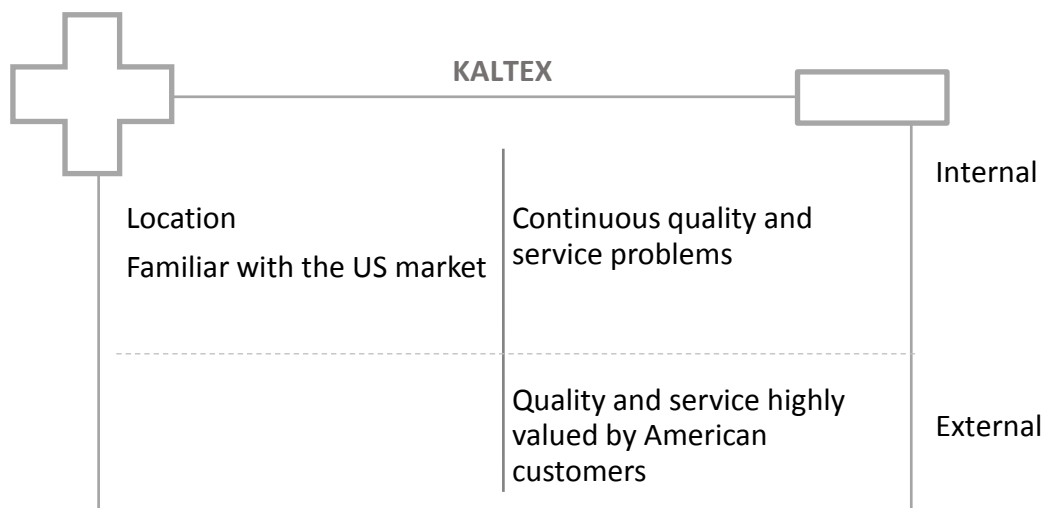
mean that the other three producers enjoy higher production efficiency and learning curves effects in comparison to Fisipe.



Montefibre can benefit in the American market from its reputation and credibility in Spain, Italy and Maghreb, because as referred in the literature review, even if a consumer has not experienced any type of contact with a firm, some perceptions can be developed from other sources of information like advertising or word-of-mouth. Therefore if Montefibre communicates its image and reputation as strategic resources to enter the US market, it might succeed.

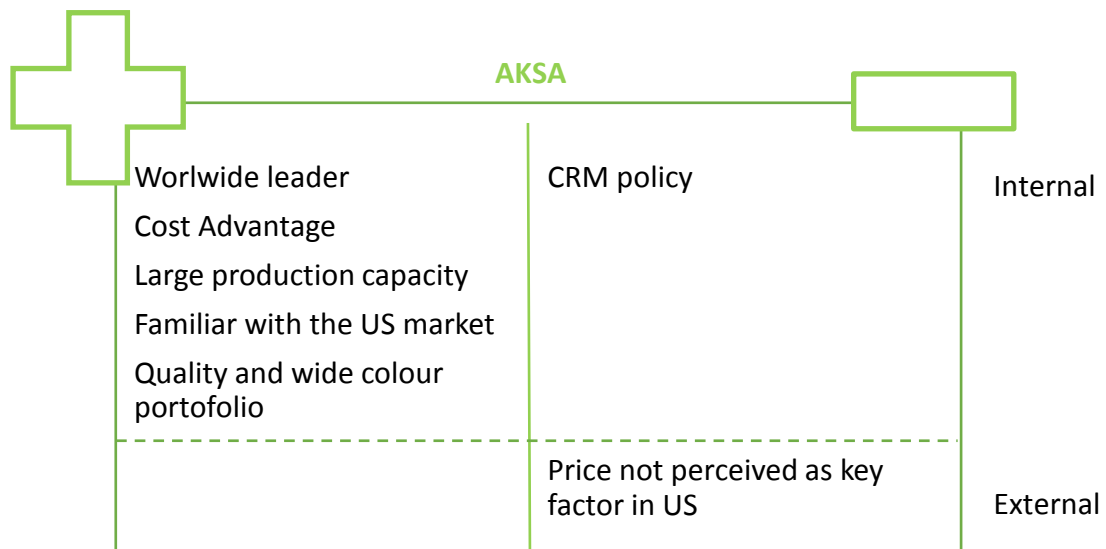
This player invests in softness and fibre quality; it presents a wide coloured fibre portfolio which can allow the company to target a wide range of customers or to supply one customer with different colours.

However Montefibre should consider its negotiation strategy when approaching new markets, as the conservative US market, because an aggressive attitude can convey a negative first impression and fail to close some deals especially with clients that are averse to risk and to change.



The Mexican company Kaltex (together with AKSA) already supplies the machine knitting fibre sector, which can constitute an advantage since the company is already familiar with some clients and therefore it can manage to intensify its position in other sectors. We may say that the risk aversion culture, in the US, can actually post an opportunity for Kaltex. On the other hand, being located in Mexico allows for quicker delivery times and lower shipping costs which can post an advantage when compared to players based further.

However Kaltex may face some barriers in growing within the US market if it does not manage to overcome its quality and service problems, considering that in order to make business in this market it is essential to provide both, according to Jeff's experience.



The Turkish worldwide leader – AKSA – has a competitive cost structure allowing the practice of attractive prices. AKSA has high production capacity (300.000 t/y) and it supplies already the US machine knitting sector, with a commodity fibre. Therefore AKSA might benefit from greater brand equity on the US market. Furthermore, and as consequence of its leading position, it might symbolize a strong brand and a trusty supplier leading to potential clients to choose AKSA over other companies as a consequence of its worldwide leadership.

According to Fisipe's opinion, AKSA presents a faulty CRM policy which might be connected with its strategy based on competitive prices and low production costs instead of a relational and customer oriented strategy. In the US market, price is not

mentioned as a key factor for making business according to Jeff, which might limit AKSA's ability to expand to non-commodity sectors (for instance the hand knitting sector – speciality fibre) whose clients value other attributes beyond price.

After assessing each company pros and cons in the US context one can conclude that having a quality product and a wide colour catalogue might be a requisite of the industry since it is possessed by more than one player (Fisipe, Montefibre and AKSA). We may foresee that Fisipe is in a good starting point to enter the US market with Jeff as North America agent and displaying a modern technology and equipment. Nevertheless we do not have information regarding competitor's agents which limits our conclusions in this matter. Finally, Fisipe might consider approaching the US market cautiously regarding its negative reputation left by Fisipe Barcelona and taking into consideration the unfamiliarity with such conservative culture. It is possible that Fisipe might need to gain client's trust at first, by being transparent and not dismissing the need to fulfil client's requirements in terms of quality and service.

- b) Assuming that Coats and Clark after the first meeting decides on Fisipe to be one of its *gel dyed* suppliers how should Fisipe act in the short and medium-long term, to gain Coats and Clark trust and loyalty?

In the Short term

- Fisipe internally could delegate in the sales department someone to focus on Coats and Clark and be responsible to manage effectively this client.
- Product quality - the assurance of providing quality *gel dyed* fibre should be the primary concern of Fisipe. The company should try to meet all the specifications imposed by Coats and Clark and be consistent over time regarding product performance. Succeeding on that, Fisipe is developing reasons for Coats and Clark to repurchase and therefore stay within this relationship (behavioural loyalty), through a positive calculative commitment also named as value-based commitment.
- Flexibility – Fisipe should rent the local warehouse near the Coats and Clark factory to prevent it to run out of stock especially assuring enough stock for the start of the hand knitting yarn season. This decision would prove Fisipe's commitment and long term vision towards this client. At the same time it enhances the firm capacity

to adapt and being flexible, which once again would lead Coats and Clark to stay in the relationship (behavioural loyalty).

- Credibility – Fisipec needs to meet (and be consistent overtime) with what was agreed on the contract that typically regards quantities and delivery times. Acting in this way Fisipec is avoiding to fall into Barcelona errors and establishing a credible and trusty image.
- Visit Fisipec’s plant - Fisipec could propose for Coats and Clark to visit Fisipec’s plant, like Jeff did before his acceptance to be Fisipec’s agent. Upon the visit Fisipec would be able to communicate its values in order to establish a sense of identification with Coats and Clark. Moreover Fisipec would be able to show the factory, promoting its modern equipment and technology. At the end, the company could also guide the visit to the quality control, technical assistance and R&D departments, in order to Coats and Clark meets Fisipec’s employees who eventually would work with them. Such visit, together with informal dinners would potentially establish an affective commitment between both firms and a relationship quality with the “supplier as a whole” (at an interfirm level) avoiding the development of trust or commitment only for the employees and not for the organization.

In the Medium-long term

- Social components - Keep always an eye on the emotional side and not focus only in the rational side, meaning that although a transaction based relationship between both firms is expected in the beginning, later on Fisipec should focus more on building a relational based relationship, as it is expected to occur over the time. In order to do so Fisipec should focus on the emotional/social components such as cooperation. Thus the company could propose a Partnership to Coats and Clark where both firms would cooperate in developing and sharing knowledge on new colours, alternative fibre applications and textile trends.
- CRM - Fisipec should focus in relationship quality dimensions to elevate Coats and Clark to loyal customers, through the implementation of an integrated CRM system (CRM information technology system and CRM applications) across departments which would allow Fisipec to closely manage its relationships, not only with Coats and Clark but also with other clients. For example Fisipec could invest in a software application where clients can trace its merchandise and also post questions to the

firm. Such investment, in order to be effective, presupposes CRM training across departments (especially to those who would daily use such tools) and a CRM culture across the organization. It would create value for both sides, since the clients could be better informed about its product and Fisipe would better adjust its production and procedures to meet Clients requirements.

- If Fisipe would not have financial capacity to do such investment it could consider to visit more often the US market, especially Coats and Clark in the beginning of the relationship.

Besides these actions regarding Fisipe and Coats and Clark relationship, other strategic decisions could also be considered by the company to gradually establish itself in the US market:

- Craft Yarn Council - If the company becomes member of the Craft Yarn council it could establish a network with various stakeholders. Moreover the company would become familiar with the US market and customer trends, which could leverage its relationship with Coats and Clark, for instance. Besides it would be an opportunity to develop marketing initiatives in this market such as: attending fairs, conferences, among others.
- US clients - Fisipe could check the possibility to supply other clients who contacted Jeff. My recommendation is that Fisipe should trade-off between focus in establishing a safe relationship with Coats and Clark whilst approaching other clients. If Fisipe succeeds in becoming supplier of Coats and Clark (the number one producer of kraft yarn) it is already creating brand equity within the US market which will certainly attract and reassure other clients.
- Solutia plant - consider visiting Solutia, as the other players already did, for a potential acquisition of the plant, or just to check on Solutia's Cutting and Balling area.

c) How can Fisipe build a positive reputation in the American market?

Fisipe, together with the investment in its product performance and service quality (the lower case "b"), should also consider its Brand (the upper case "B"), which represents the company image and reputation, among other crucial assets.

If Fisipe manages to develop a favourable reputation within the American market it would allow it to strengthen its existent relationship, with Coats and Clark for instance, and develop new ones. Moreover the link between the firm and other stakeholders could also become strengthened, since a favourable reputation attracts investors, job applicants, partnerships and financial gains.

In order to overcome the unfavourable reputation left by Barcelona, Fisipe managers should engage in managing Fisipe's corporate identity, corporate image and corporate reputation. It is crucial that management levels really engage in a process where corporate identity (meaning Fisipe's DNA – strategy, decisions, values, attitudes) is consistently communicated through communication channels with the objective of creating an intended image and reputation in the stakeholder's minds, which ultimately can create a competitive advantage. However in this process managers must be open to incorporate internal and external feedback and shape companies actions constantly. Moreover a consistent performance over the years is crucial to show credibility to strengthen the intended image within the markets.

Fisipe's managers could use the reputation index, as a tool to assess and classify the company reputation. First, the management level ought to engage one or two employees, across departments, to assess the index. This "committee" could be heterogeneous in terms of sex, profiles and position/status within the departments to better assess employees opinions and overall satisfaction regarding the company. All the agents involved in such activity should previously receive a training session in order to guarantee their understanding on why the company is developing such activity and how it will work. After the "committee" assess the reputation index and the reputation classification obtained, it can discuss how to build the company reputation and particularly identify critical component results, obtained on products, employees, external relationships, strategy, and culture, among others. Such information would allow top management to decide whether or not branding is critical to Fisipe and how to develop it.

In my point of view, the company could look at the consistency of its corporate identity elements, and more important if these elements project the "new" - relationship oriented Fisipe. The company could modernise for instance its website, social media pages, logo, slogan, layouts of business documents, or even transform the office in

open spaces to leverage communication and a dynamic culture. This recommendation would not only contribute internally for employees to better embrace the new culture and feel motivated about it, but it would also communicate the firm's strategy when agents or potential clients visit Fisipe's offices.

On the other hand, Fisipe can also judge its engagement with Corporate Social Responsibility (CSR) and whether such activities are important at Americans eyes. Solutia closed due to new environmental guidelines in the US, hence it can be a sign of the relevance of environmental issues and that potentially, companies concern with CSR activities are better off. Therefore, Fisipe might already benefit of its updated technology, probably more environmental friendly, but it should continuously be aware of its environmental impact, regarding for instance its pollution levels and controls.

To sum up, for Fisipe to recover from a bad reputation within the US market it should assure consistency in its performance, develop the marketing of its "new" strategy internally and externally and promote its CSR initiatives.

V | CONCLUSION



Conclusion

“The future has several names. For the weak, it is impossible; for the fainthearted, it is unknown; but for the valiant, it is ideal.” Victor Hugo

After concluding my dissertation I am aware that nothing in business is black or white, there is always some grey area. In other words, managers many times see themselves in face of tough situations, where they need to dare, take risks and decided based in the available information.

In this case, Fisipe decided to implement a new strategy which broke with some established procedures and with the organizational mind-set, in response to external pressures. Nevertheless, I believe that the company was able to find a medium term in this process, because it did not fully discontinue some policies, for instance the maximum of 10% GM per client, and it was still able to innovate and anticipate market trends.

On the other hand, in a business context that is no longer profitable for big players there can be attractive opportunities for smaller ones'. Fisipe was able to target undersupplied markets and overcome the industry contraction. Therefore, in my understanding it is crucial to keep always an eye on the “outside” - competitor’s moves, consumer trends, latest technology – and not only being focused on the “inside” - production efficiency, cost rationalization - to benefit of the perfect timing.

Moreover, and although nowadays there are less face to face interactions in b2b context, in this situation I consider that it was fundamental to start and build relationships.

Fisipe believed in its strengths and used them to approach market opportunities, (product quality, and flexibility, among others); nevertheless in face of an unfamiliar market, it was wiser to first acquire some knowledge on the field.

The company in face of an adverse historical trend and business environment was able to set a new strategy to face up its future.

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