In Search of Maintaining Competitiveness through Industry Analysis

The case of the rubber subcontractors in the automotive industry

D-Level Dissertation in International Marketing, 30 ECTS

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Authors:
Sohail Draoui
Yifei Liu

Supervisors:
Gabriel Baffour Awuah
Svante Andersson
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Sohail Draoui

Yifei Liu

¹ The name of the company is confidential
² The name of the respondent is confidential
Abstract

With the purpose of expanding our understanding on the main causes that make maintaining competitiveness a challenging issue for companies in an industry, a qualitative research is conducted in this thesis based on Porter theoretical framework (i.e. the five competitive forces model); thereby selecting a single case study with a Swedish rubber subcontractor. The findings show that the threat of new entrants, the rivalry among the existing rubber subcontractors, the bargaining power of carmakers, the bargaining power of suppliers and the role of the Swedish government all highly concern and challenge the competitiveness of the case company. However, given the fact that close substitute products to the case company’s product are absent from the market, their threat does not represent any distress for the competitiveness of the company.

Keywords: Competitiveness; Subcontractors; Rubber; Carmakers, Automotive Industry
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FIGURE 2.1 FORCES DRIVING INDUSTRY COMPETITION

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Chapter One- Introduction

In this introductory chapter the discussion starts with a general background about the competitiveness and the importance of industry analysis followed by the statement of the purpose and some areas of delimitation within this study.

1.1 Background

The concept of competitiveness lies at the ability of companies to maintain a strategic competitive position, thereby fulfilling customers’ needs and creating value for shareholders in addition to continuously exploiting the opportunities and purging the threats emerged in the market. Competitiveness has a strong link with companies’ business strategies development. Companies may face difficulties in upgrading their competitive position in the marketplace if they are poorly improving their competitiveness. Companies are in need to make the necessary adaptations regarding the various changes appearing in the business environment in order to remain competitive; thereby taking the right actions.

The search for competitiveness is complex and ongoing process. Companies are not looking only to maximize the profits and to better satisfy the shareholders but also to be active competitors in the marketplace. This stimulates competition among them to increase, particularly when the number of companies focusing on satisfying the same target market is increasing. Given the increased intensity of competition in the local and international market, nowadays the global competition is challenging all the players within a specific market. This would make the search for competitiveness even a more complex issue for all companies.

Searching for the means that would help to attain competitiveness is a great concern for every company. In this age of the increasingly global competition while the business environment is becoming more dynamic, companies are in need to recognize suitable areas wherein they would be capable to be more competitive and to develop appropriate strategies that could help them to maintain competitiveness. As there are various elements within the external environment that surround companies, they significantly influence the competitiveness of the companies. One of the key elements is the industry wherein companies are influenced by the rivals and other actors; hence, there is a need for a thorough analysis of a particular industry in order to perceive what factors/forces that influence the competitiveness of companies in an industry.

The term industry analysis is a type of business research that focuses on investigating the position of an industry or an industrial sector. The industry analysis is an approach used by companies with the aim of looking for a valuable competitive position in the keen competitive industry market. It is also a competitive strategy that would help companies to

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3 Feurer, and Chaharbaghi (1994)
4 Akimova (2000)
5 Mathews (2006)
6 Feurer, and Chaharbaghi (1994)
7 Wayne and Eric (1996)
8 Meredith et al. (1994)
9 Mathews (2006)
10 Barringer and Ireland (2006, P.92)
create a profitable and sustainable site against the threats and the forces that might affect industry competition\textsuperscript{11}

Along with the advance of globalization, competition within industries is becoming higher today. Industry analysis is a precondition and crucial work for both new and already existing businesses within a particular industry in order to explore their potential competitive advantage at both the company level and the product/service level\textsuperscript{12}. Indeed, Competitive advantage is considered as the heart of a company’s performance in competitive markets; and the ability to compete is the core of the success/failure for companies\textsuperscript{13}. Then, through recognizing the current situation- the weaknesses and/or the strengths, companies would find unique/appropriate position for themselves in the market so as to achieve further profitability\textsuperscript{14}. Therefore, industry analysis is very useful tool for companies in order to perceive how to maintain their competitiveness.

The above discussion leads us to the formulation of the main research question of this study that is presented below:

\begin{center}
\begin{tabular}{|c|}
\hline
\textbf{Our main research question} \\
Why is it becoming highly severe and challenging for companies to maintain their competitiveness in an industry? \\
\hline
\end{tabular}
\end{center}

This research question will reveal the possible threats/forces that would affect the competitiveness of companies within a particular industry.

\section*{1.2 Purpose}

The purpose of this thesis is to expand our understanding on the main causes that make maintaining competitiveness a challenging issue for companies in an industry; particularly to find out the main aspects to take into consideration in order to maintain competitiveness in the marketplace by means of industry analysis.

\section*{1.3 Delimitation}

In order to be more efficient in gaining a better understanding of the topic and to come up with good analysis and valuable findings, the study has to be delimited. Therefore, the areas of delimitation within this study are the following:

Topically, we delimited the scope of this study to examine the automotive industry. Indeed, after going through a thorough multiple brainstorming sessions, we decided to narrow it down by focusing on the subcontractors of carmakers which are considered as a key and active element in the automotive industry. In addition, since it is quite difficult for us to

\begin{flushleft}
\textsuperscript{11} Porter (1998, P.1)  \\
\textsuperscript{12} Barringer and Ireland (2006, P.77)  \\
\textsuperscript{13} Porter (1998, P.1)  \\
\textsuperscript{14} Barringer and Ireland (2006, P.77)
\end{flushleft}
cover the subcontractors’ various segments (i.e. metal, plastic, surfacing and rubber) because of resources constraints, we decided to delimit our case study to the rubber segment merely. What is more, we decided to investigate the subject from the perspective of the subcontractors due to time and cost limitation. Therefore, the empirical findings within this paper will be based on the viewpoint of the subcontractors solely.

Geographically, given that we are in Sweden wherein car production is a fundamental sector, and we are restricted to cover the high costs involved in conducting our research in another country, we decided to limit our study within the area of Sweden.
Chapter Two- Frame of Reference

This chapter starts a brief description of the previous studies about the area of competitiveness. Afterward, a thorough description of Porter five competitive forces model is presented as the working model to be used in the course of this study; thereby, providing extensive description of six key factors influencing competitiveness (i.e. the threat of new entrants, the threat of substitutes, the rivalry among existing firms, the bargaining power of suppliers, the bargaining power of buyers, the role of the government).

2.1 Previous Studies about Competitiveness

Even though the issue of competitiveness is quite complex, it is an attractive research area to various researchers by using different methods and theories. Indeed, there are a plenty of studies conducted by researchers about the subject of competitiveness (e.g. Persson, 1991; Meredith et al., 1994; Pizzolato and Canen, 1998; Denton, 1999; Burcher and Lee, 2000; Pitelis, 2003; Zylbersztajn and Filho, 2003; Bilalis et al., 2006).

Kumar et al. conducted an attractive research by focusing on the dimension of quality as a key tool in boosting the competitiveness of firms, and with the aim of developing a framework namely “the quality competitiveness index” (QCI) that would help firms to boost their competitiveness in the marketplace. Within their research, it has been proposed for firms to follow a set of quantitative measures that are essential in detecting the quality’s course of actions as important tools for the enhancement of competitiveness. Finally, the framework was developed wherein firms are required to pursue five steps in order to rank their quality and then perceive what needs to be improved in order to maintain their competitiveness. The purpose of our study seems to be significantly different from their research because the intention within our study is neither to stress on the dimension of quality as a vital factor in assuring companies’ competitiveness nor to develop a new theoretical framework, but rather the intention is to focus on the dimension of industry analysis in order to maintain competitiveness by using an existing/appealing theory (i.e. the five competitive forces model) to be used as a map in our study.

The ability to possess efficient supply chain system is essential factor in enhancing the competitiveness of firms. In fact, Howgego discussed, in his general review paper, the importance of sustaining competitiveness which is a similar topic to our study. Yet, the key difference is that his key focus was on maintaining competitiveness by means of the supply chain while ours is through industry analysis. Another difference is that the aim of his paper was to understand “how retailers can best deal with the potential issue of a retail downturn”, while our purpose is to expand our understanding on the main causes that make maintaining competitiveness a challenging issue for companies in an industry. From these two differences, it is clearly perceived that both the purpose and the focus of his research are different from ours.

15 Akimova (2000)
16 Kumar et al. (1999)
17 Kumar et al. (1999)
18 Howgego (2003)
20 Howgego (2003, P.605)
Akimova\textsuperscript{21} conducted an interesting research a propos the issue of competitiveness in Ukraine by interviewing 221 managers of Ukrainian companies. Our study is similar to her study in a way that we all are focusing on the subject of competitiveness. However, unlike her research, ours is conducted in Sweden by interviewing one manager. In addition, the purpose of her research was to “investigate the level of the development of market orientation and competitiveness\textsuperscript{22}” which is also different from our purpose (i.e. to expand our understanding on the main causes that make maintaining competitiveness a challenging issue for companies in an industry). Her findings show that the level of companies’ competitiveness in the emerging environment of a transitional economy has a strong association with the intensity of market orientation development. All in all, our study adopts a different methodology and purpose compared with her research.

In a nutshell, based on the above researches discussion, one can perceive that the common similarity is solely about the main topic (competitiveness) while the differences are numerous e.g. the purpose and methodology. Overall, our study differs from the aforesaid researches in the way that we intend to focus on the dimension of industry analysis as a key element in maintaining competitiveness of firms. Given that none of the researchers have concentrated on the study of maintaining competitiveness by means of industry analysis. Therefore, we are looking forward that our study would contribute not only in filling this gap within the area of competitiveness but also in helping firms to recognize the key factors that challenge their competitiveness in the marketplace.

2.2 The Working Model: the Five Competitive Forces Model

Virtually, there are numerous industry-specific factors that would influence the firm’s competitiveness that is highly attributed by industry competition\textsuperscript{23}. Hence, a thorough analysis of these specific factors’ power is highly recommended for the firms as a mean of measuring/detecting the severity of each factor\textsuperscript{24}. In order to better perform this analysis in a simplified and practical way, firms could choose among the various models developed by researchers in the business field. One of these is the five competitive forces model developed by Porter (1998) as he is known as one of the foremost scholars when it comes to industry analysis\textsuperscript{25}. Although this five force model has been an area of criticism by some scholars (e.g. Grant, 2004); yet, it is considered by others (e.g. Wright et al., 1998; Thompson and Strickland, 1997; Johnson and Scholes, 1999) as a famous and applicable framework for understanding the structure of an industry since it significantly helps in not only classifying and analyzing the industry-specific factors that would influence the firm’s competitiveness in the market but also determining whether it can create an attractive position in that industry\textsuperscript{26-27}.

“Five forces analysis is a means of identifying the forces which affect the level of competition in an industry, and which might thus help managers to identify bases of competitive strategy”\textsuperscript{27}

No matter a company is offering products/services or operating in the domestic/international market, the main aspects that determine the profitability of an industry include: the threat of

\begin{itemize}
  \item Akimova (2000)
  \item Akimova (2000: 1128)
  \item Barringer and Ireland (2006, P.77)
  \item Grant (2004, P.73)
  \item Wright et al. (1998, P.32)
  \item Barringer and Ireland (2006, P.78)
  \item Johnson and Scholes (1999, P.115)
\end{itemize}
new entrants, the threat of substitutes, the rivalry among existing firms, the bargaining power of suppliers, the bargaining power of buyers28. Indeed, these aspects “influence the prices, costs, and required investment of firms in an industry-the elements of return on investment”29. Moreover, owing to the significant role of the government, we saw the need to incorporate this factor within this study. Therefore, there will be six factors/forces to be analyzed within this paper (i.e. the threat of new entrants, the threat of substitutes, the rivalry among existing firms, the bargaining power of suppliers, the bargaining power of buyers, and the role of the government); they are thoroughly described below:

**Figure 2.1 Forces Driving Industry Competition**

![Figure 2.1 Forces Driving Industry Competition](image)

**Source:** Porter (1982, P.4) with Modifications

### 2.2.1 The Threats of New Entrants

If an industry has high profitability, it would become a magnet to various new entrants. Along with the increasing participation of new competitors, the threats from the new entrants become greatly stronger30. Although in most industries new entrants may not have equal strengths compared with the existing firms, they still strive to take market shares from the existing firms. Thus, that the intensity competition increases with low profitability would be an inevitable phenomenon within those industries31 unless there are some barriers. If these barriers are higher in terms of severity, they would restrain the competitiveness of new

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28 Porter (1998, P.4)
29 Porter (1998, P.5)
30 Grant (2004, P.75)
31 Porter (1982, P.7)
entrants and keep their number low; hence, the threat of entering a particular industry would be low\textsuperscript{32}.

The new entrants may face several barriers when entering a particular industry\textsuperscript{33}:

- **Economies of Scale.** There are some difficulties for the new entrants to get in an industry; especially within the industry that requires the players to possess large economies of scale. No matter the level of economies of scale required should be small or large, it forecloses the entry of new players from penetrating this industry; thereby forcing them to choose between two undesirable options i.e. entering the industry at small size with the acceptance of supporting high unit costs or at large size with a strong willingness to face high-risk against the existing firms\textsuperscript{34}.

- **Capital requirements.** The high costs involved in penetrating a particular industry such as R&D, advertising, customer credit, distribution channels and start-up’s eventual losses all require large scale of capital operations. Therefore, new entrants have to accept the large investments involved with high-risk in order to establish their new distribution channels, retails, etc. Moreover, huge capital requirements in such an industry restrict the pool of likely entrants, especially when they are small-size\textsuperscript{35}.

- **Cost advantages.** Established firms may enjoy a cost advantage owing to their earlier entry which is not yet available for the newly entrants. To the established firms, the most critical advantage factors are often presented in their proprietary product technology, favorable access to raw materials, favorable locations, government subsidies and learning/experience curve. Still, some of these factors could be acquired by new entrants after their entry; but, this may require them to bear higher costs/time compared with the entrenched competitors\textsuperscript{36}.

- **Product differentiation.** Companies offering differentiated products usually find it easier to possess the advantage of brand recognition and customers loyalty in a particular industry. However, this seems to be difficult for the new comers to fulfill as they need strong resources and capabilities. This would force the new entrants to spend more money and time heavily on product development, advertising and customer service in order to build their own brand name and reputation in the market\textsuperscript{37}.

- **Switching costs.** As the new players enter a particular industry, there is a possibility that the buyers/suppliers of the existing players would switch to them. However, this would highly depend on the level of switching costs which could create a barrier for the new players to smooth their entry within the industry. Indeed, if the switching costs are high, the new players have to minimize the different costs and perform effectively in such a way that would attract prospect buyers/suppliers knowing that these new players would face difficulties to cover the different costs involved in acquiring the various resources such as employees, equipments, product design\textsuperscript{38}.

\begin{thebibliography}{9}
\bibitem{32} Barringer and Ireland (2006, P.79)
\bibitem{33} Porter (1982, P.7)
\bibitem{34} Grant (2004, P.76)
\bibitem{35} Porter (1982, P.9-10)
\bibitem{36} Porter (1982, P.12)
\bibitem{37} Porter (1982, P.9)
\bibitem{38} Porter (1982, P.10)
\end{thebibliography}
2.2.2 The Threats of Substitute Products

Companies are typically competing with firms offering same/similar products within an industry and substitute products within other industries—“Identifying substitute product is a matter of searching for other products that can perform the same function as the product of the industry” \(^{39}\). This makes buyers typically price-sensitive as they are continuously comparing the different products with their available substitutes in order to find the best deal. Also, some buyers hold strong willingness mainly in buying products available with the least price. As long as they find a substitute product with a reasonable price, they automatically prefer to switch to this product \(^{40}\). Thus, the more attractive prices are offered by the substitute products, the more likelihood that the profitability of the entire industry would be threatened as negative impacts would challenge its development and prosperity. This would occur because the firms would face an extreme competition from the substitute products that would lead to profits decline \(^{41}\). In this case, a thorough analysis of such a powerful substitute product is significant for the firms in deciding whether to stimulate the right/sufficient barriers to head off this substitute or to adopt it within their own products advisably. Sometimes integrating such a substitute product would be more sensible than suppressing it at all \(^{42}\). Meanwhile, products’ prices also depend on the availability of the substitutes. This means that the buyers would be comparatively insensitive to the existing price if close substitute products are absent from the market \(^{43}\); hence, this industry would be more profitable. In this way, it would be of great advantage if the company could supply superior products/services with higher quality, then the threats of substitute products would be debased \(^{44}\).

2.2.3 Rivalry among Existing Firms

In most industries, the degree of competition intensity among the established companies is the main determinant of industry profitability \(^{45}\). A severe rivalry takes place mostly when the competitiveness of companies is facing high pressure/threat from various competitors or when a profitable opportunity appearing in the market would help them to enhance their competitiveness. Indeed, rivals adopt various techniques/strategies regarding prices, advertising, customer satisfaction, product distribution and so on in order to effectively compete among each other \(^{46}\). Most of them usually focus on price competition strategy even if it is not a safe way in maintaining their competitiveness over the long term. Therefore, the nature and intensity of the competition among existing rivals are highly determined by a number of factors presented below \(^{47}\):

- **Numerous or equally balanced competitors.** The more competitors are in the marketplace, the more likely most of them will attempt to fight against each other and acquire further market shares thereby cutting the products’ prices. This is the chief

\(^{39}\) Porter (1982, P.23)  
\(^{40}\) Barringer and Ireland (2006, P.78)  
\(^{41}\) Porter (1982, P.23)  
\(^{42}\) Porter (1982, P.24)  
\(^{43}\) Grant (2004, P.73)  
\(^{44}\) Barringer and Ireland (2006, P.79)  
\(^{45}\) Barringer and Ireland (2006, P.80)  
\(^{46}\) Grant (2004, P.78)  
\(^{47}\) Porter (1982, P.18)
reason that stimulates price-war among the competitors as there is no clear leader able to adjust price-leadership in the market in order to restrain the un-balanced and destructive price-war. Moreover, foreign competitors whether they are exporting into the home market or participating directly through foreign investments all could have significant impact on the industry competition.

- **Level of fixed cost.** The level of fixed cost highly influences the intensity of competition in an industry. Unlike firms with low fixed costs, firms with high fixed costs are forced to achieve higher turnover in order to reach the break-even point. Indeed, this is one of the main reasons why firms with high fixed costs might cut the prices of their products in order to fulfill their capacities.

- **High strategic Stakes:** the intensity of competition in a particular industry would show strong instability and severity as long as some of the well-diversified rivals reveal a strong ability and willingness to pull further resources and capabilities in that industry. This would give them the possibility to hold a competitive position over the other rivals.

- **Lack of differentiation and switching costs.** The level of differentiation among the products offered by diverse companies highly influences the intensity of competition in a particular industry. That the existing competitors provide similar products in the marketplace could stimulate extreme fighting among them in terms of price-cutting in order to maintain/increase their turnover. Apparently, the customers in this case will opt to switch to anyone of them once the switching costs are not high.

- **Growth rate of an industry.** Competition in slow-growth industries is typically stronger than that in rapid-growth industries. Indeed, market saturation in slow-growth industries highly pushes the firms to fight for keeping and attracting new customers in order to earn sufficient market shares; thereby, decreasing the prices or increasing the quality of the products. In contrast, firms within rapid-growth industries are less likely to adopt price-cutting strategy as they are already maintaining an adequate number of customers.

- **Excess capacity.** One of the most significant reasons why industry profitability falls is the occurrence of unbalanced circumstances between the demand and the capacity provided. Indeed, unused capacity is a result of the over investments in production or a decline in the market demand. This would force the firms to lower the prices of their products and attempt to attract sufficient customers in order to get rid of the unused capacity.

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48 Barringer and Ireland (2006, P.81)
49 Porter (1982, P.18)
50 Barringer and Ireland (2006, P.81)
51 Porter (1982, P.18-19)
52 Porter (1982, P.20)
53 Barringer and Ireland (2006, P.81)
54 Porter (1982, P.19)
55 Barringer and Ireland (2006, P.81)
56 Grant (2004, P.80)
2.2.4 Bargaining Power of Suppliers

Powerful suppliers could highly suppress the buyers’ competitiveness seeing that there are a number of factors that could boost the suppliers group’s power in an industry\(^ {57}\). These factors are presented below:

- **Suppliers’ concentration.** In case that the suppliers are significantly involved in offering critical products to the buyers or there are few existing suppliers serving large amount of buyers in the marketplace, then the suppliers would highly dominate the negotiation process with superior bargaining power in setting the prices, quality, and terms. In this way, the buyers would find themselves obliged to comply with the suppliers\(^ {58}\).

- **Switching costs.** The level of switching costs is an important factor that strongly influences the suppliers’ bargaining power. Indeed, the buyers seem to be less likely willing to switch from their current suppliers to others if the suppliers have already built up strong relationship and higher switching costs in terms of money, time and vigor\(^ {59}\).

- **Threat of forward integration.** The appearance of a strategic opportunity wherein the suppliers may enter to compete in the buyer’s industry poses a serious threat to the buyers. This would highly occur as a result of an increase in the suppliers’ power\(^ {60}\).

- **The industry is not a key customer for the suppliers.** If the sales of the suppliers in a particular industry do not represent the main fraction of the overall sales, then the suppliers would possess superior bargaining power over the buyers within this industry. Conversely, the suppliers’ benefits may be strongly tied to the industry that encompasses important buyers\(^ {61}\).

- **The suppliers’ product is an important input to the buyer’s business.** When the buyers involve in the production process highly important inputs in terms of quality, the bargaining power of the suppliers over the buyers would increase. This occurs mainly when these inputs do not require storage\(^ {62}\).

2.2.5 Bargaining Power of Buyers

Powerful buyers hold strong influence on the profitability of the supplying industry because of their superior bargaining power position and their pressure over the suppliers in terms of the continuous quest for price reduction, high quality-service and so on\(^ {63}\). Indeed, several factors could affect buyers’ ability to put pressure on the suppliers and restrain the profitability of the industry wherein they purchase\(^ {64}\). These factors are discussed below:

\(^{57}\) Porter (1982, P.27)

\(^{58}\) Porter (1982, 27)

\(^{59}\) Barringer and Ireland (2006, P.82)

\(^{60}\) Barringer and Ireland (2006, P.82)

\(^{61}\) Porter (1982, P.27)

\(^{62}\) Porter (1982, P.28)

\(^{63}\) Porter (1982, P.27)

\(^{64}\) Porter (1982, P.24)
buyers group concentration. If the buyers are concentrated, which means, there are a plenty of suppliers offering products to only few but large buyers, then the buyers will hold the bargaining power position. The situation of the suppliers will be worse if the buyer is asking for basic products since he would maintain high bargaining power over the suppliers and still can switch to any supplier at any time without eventual loss. This would result in the importance of the buyers toward suppliers’ business process to increase. Buyers can also force the suppliers to lower costs and put huge influence on the profitability of the suppliers’ industry.  

products purchasing from the industry represent a significant fraction of the buyer’s costs or purchases. In some cases the buyers possess low bargaining power compared with their suppliers. Indeed, when the product as a part of the total costs is highly important and critical for the buyer, then he would be more sensitive to the price.

Degree of standardization of suppliers’ products. The degree of standardization of the suppliers’ products also influences the bargaining power of buyers. In fact, the more standardized and less differentiated are the products offered by the suppliers, the more bargaining power the buyers would have over the suppliers. Besides, the buyers would find it easy to switch from one supplier to another for the sake of getting the best offer in terms of price, quality and service.

Switching costs. Switching costs could make the suppliers highly dependent on particular buyers as the high switching costs already built by buyers would enhance their bargaining power over the suppliers. However, the suppliers’ power would strengthen if the buyers face high switching costs from their suppliers.

The importance of suppliers’ products. If the suppliers’ product does not influence significantly the quality of the buyers’ product/service, buyers generally would not be sensitive to the price. Besides, if the suppliers are offering basic product with high price, then the buyers may look for possible alternatives in order to switch to another supplier; or even to cancel their dependency on all suppliers; thereby producing the same product on their own.

Threat of backward integration. The profitability of the suppliers may face significant threats from the buyers if a lucrative opportunity in the marketplace appears to the buyers as they would enter and be part of the rivals within the suppliers’ industry.

Information control. Buyers may get higher bargaining power over their suppliers if they could get access to significant data about the actual demand, and suppliers’ various costs. With these data, the buyers would get higher position over the suppliers not only in receiving the most competitive prices but also in forecasting and preparing the right opposition against threats that may arise from the suppliers or suppliers’ industry.

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65 Barringer and Ireland (2006, P.82)  
67 Grant (2004, P.82)  
68 Barringer and Ireland (2006, P.82)  
69 Porter (1982, P.25)  
71 Barringer and Ireland (2006, P.83)  
72 Porter (1982, P.26)
Low profits. Buyers typically would find themselves pushed to minimize as much as possible their various inputs’ costs as long as they perceive that they are facing low profitability within their business. Eventually, they would automatically put pressure over their suppliers to minimize the costs as well. However, buyers with high profitability are quite less sensitive to the prices; particularly if a specific product purchased does not constitute a big part of the total inputs.²³

2.2.6 The Role of the Government

The government policy, as a Macro environment factor, has significant functions during the process of creating/upgrading the firms’ or industries’ competitiveness. The main influence could be seen in its ability of affecting directly/indirectly the national competitive advantage. Indeed, government policies, rules/regulations such as governmental investments in social transportation, communication, infrastructure, and educated people all could give firms a suitable arena and further opportunities to create/sustain their competitiveness. Moreover, the government could provide positive/negative influence on the national competitive advantage. For instance, there is a contention in Sweden about the negative effects facing the profitability of companies as a result of high taxation policy—“the tax system in Sweden is built on high taxes and a generous welfare system.” In fact, the Swedish government collects 28% from firms and up to 55% from the personnel as tax-duty. In addition, the government may discourage or even reject the plan of such a firm in leaving the business if it perceives that this would have negative impact on the job market or the economy situation of a particular region.

²³ Porter (1982, P.25)  
²⁴ Andersson (2003)  
²⁵ Sölvell et al. (1991, P.45-46)  
²⁶ Porter (1982, P.128)  
²⁷ Andersson (2003, P.188)  
²⁸ Andersson (2003)  
²⁹ Porter (1982, P.20-21)
Chapter Three- Methodology

This chapter presents three sections, that is to say, the research strategy with some explanations regarding the methodological approach used in this study, then the data collection process; and finally a brief discussion about the quality level of this research.

3.1 Research Strategy

This section encompasses the approach adopted within this study. In fact, we are adopting a qualitative single-case study. All the motives behind this adoption are explained below:

3.1.1 Qualitative research

In most research method literatures, there are two main types of research approach: quantitative research and qualitative research. Qualitative method refers in the broadest sense to “research that produces descriptive data: people’s own written or spoken words and observable behavior”\textsuperscript{80}. Researchers develop/understand the concepts/insights within the qualitative method from the pattern in the data while within the quantitative method through collecting data to assess preconceived models, hypotheses or theories\textsuperscript{81}. In other words, the qualitative research emphasizes on words analysis method rather than the use numbers to make a statistical analysis\textsuperscript{82}. Furthermore, in quantitative study, the research question seeks out a relationship between little numbers of variables. In qualitative study, the research question typically is oriented to cases or phenomena\textsuperscript{83}. To us, we are seeking within this study to deeply understand a phenomenon regarding the research question; specifically, the challenging factors influencing competitiveness of companies in an industry. This requires a deeper interpretation of the studied phenomenon. Thus, we are adopting a qualitative research approach within this study in order to deeply analyze and explain the causes behind the phenomenon. Finally, as we are not going to make any statistical analysis, we believe that a qualitative research method is an appropriate choice in this study.

3.1.2 Case Study

There are different types of research strategies when doing social research i.e. experiments, surveys, histories, analysis of archival information and case study\textsuperscript{84}. The selection of a particular strategy is highly dependent on three conditions: “the type of research question, the control an investigator has over actual behavioral events and the focus on contemporary as opposed to historical phenomena”\textsuperscript{85}. Based on our topic, research question and purpose, we believe that the case study is significantly an appropriate research strategy for this study. Indeed, there are some supports from Yin’s\textsuperscript{86} perspective which could explain the reason behind the selection of this strategy. The case study is a suitable strategy when how or why

\textsuperscript{80} Taylor and Bogdan (1984, P.5)
\textsuperscript{81} Taylor and Bogdan (1984, P.5)
\textsuperscript{82} Maxwell (1996, P.17)
\textsuperscript{83} Stake (1995, P.41)
\textsuperscript{84} Yin (1989, P.13)
\textsuperscript{85} Yin (1989, P.13)
\textsuperscript{86} Yin (1989, P.13)
questions are being posed, particularly when the investigator has little control over the events and the focus is on a contemporary phenomenon within some real-life contexts. In our study we are adopting *why-question* in order to understand the main causes of the phenomenon. Indeed, according to our purpose we intend to get a deeper understanding on why companies are facing difficulties in maintaining their competitiveness in the marketplace. Moreover, our research field is about the competition among companies in an industry. This belongs to the real-life context and we precisely have no control over the events appearing within the phenomenon. Therefore, as the three conditions set by Yin are fulfilled within this study, we identify that adopting the case study in our research method is justifiable.

### 3.1.3 Single Case-Study

Given the importance that researchers when selecting case-study as a research approach need to choose either *single- or multiple case* designs before starting the data collection process, we decided from the very beginning of our research process to select single-case study designs. Indeed, it is because of time and resources limitation that we were unable to find more than one company as a case study even though we have made several attempts. Here, we agree with the idea of Yin that it would be better to select multiple-case studies in order to gain the opportunity of comparing each of the cases so that the research would be regarded more robust and appealing. However, given that the single-case study could be holistic with *single unit of analysis* or embedded with *multiple units of analysis* so that the choice of this type of study would be justifiable, we decided to select the embedded design. Indeed, as it is compulsory for any case study adopting the embedded design (within the single-case study design) to incorporate more than one unit of analysis, we decided to incorporate in our research six units (i.e. the threat of new entrants, the threat of substitutes, the rivalry among existing firms, the bargaining power of suppliers, the bargaining power of buyers, and the role of the government) with various subunits to be analyzed.

During our research process, we kept in mind the typical drawback within the embedded design; which stresses that the researcher may significantly focus on the subunits without looking back at the main units, leading to the lack of perceiving a clear picture of the phenomenon. Another drawback which concerns all types of single-case study is that “*a case may later turn out not to be the case it was thought to be at the outset*”; hence, a careful collection of the case evidence during the investigation process is highly important. To us, we were very careful about the whole process of our data collection.

Finally, we have chosen the company Y as a case company to be investigated within this study with the intention of achieving a deeper understanding on the phenomenon by observing and analyzing the phenomenon deeply and open out certain background in accordance with the phenomenon.

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87 Yin (1989, P.17)  
88 Yin (1989, P.13)  
89 Yin (1989, P.46)  
90 Yin (1989, P.46)  
91 Yin (1989, P.50)  
92 Yin (1989, P.49)  
93 Yin (1989, P.49)  
94 The name of the Company is confidential  
95 Yin (1989, P.47-49)
3.2 Data Collections

There are mainly six sources of evidence that are commonly used in data collection process: documents, archival records, interviews, direct observation, participant observations and physical artifacts. Indeed, one of the most important principles within the process of data collection is the quest for using multiple sources of evidence instead of a single one\(^\text{96}\). To us, we decided to conduct face to face interviews as the primary data in addition to various related documents, annual reports, etc. as the secondary data. The process of collecting both the primary and the secondary data is explained below:

3.2.1 Primary Data

Given that it is quite impossible for the researchers to observe all the details surrounding a particular phenomenon and most of the studied phenomena are about human affairs\(^\text{97}\), we believe that conducting an interview is a suitable and essential source of evidence in our study. Indeed, the interview would offer a better interpretation and understanding of the topic/phenomenon through a particular interviewee. It would offer also a better possibility to get more detailed and reliable answers compared with other less reliable sources. In addition, given that there is no fixed rule of how many interviews are needed to be conducted, the researcher can conduct a couple of interviews until he gets enough data\(^\text{98}\). In this way, we decided to conduct two interviews with the same respondent so that we can collect sufficient data for our study.

- **Interview**

There are mainly three ways of conducting an interview: *open-ended nature*, *focused*, and *survey interview*. *Open-ended* interview means that the investigator can ask the respondents the facts of a matter as well as his/her opinions about the events. *Focused* interview may just occur for a short period of time, such as one hour, and the respondents need to follow some certain questions which are already thought and formulated by the investigator. At last, the survey interview covers more structural questions similar to a formal survey\(^\text{99}\). To us, although the two interviews we have conducted were mainly *focused-interview* style, we still believe that they were a bit combined with *open-ended* style as well. Indeed, we have carefully prepared deliberate guided-questions\(^\text{100}\) with a mixture of specific and general questions related to our main research question and theory model for a face to face interview with Mr. X\(^\text{101}\) who has a very high position in the case company Y\(^\text{102}\), and a wide knowledge about the phenomenon studied. Some of the questions are mainly asked with the aim of perceiving the opinion of our respondent about a specific or general issue. To us, it was our plan to use both the *open-ended* and *focused* styles during the interviews in order to create a lively conversation. Each of the two interviews lasted for about one hour.

\(^{96}\) Yin (1989, P.84-85)
\(^{97}\) Yin (1989, P.90)
\(^{98}\) Travers (2001, P.37)
\(^{99}\) Yin (1989, P.89)
\(^{100}\) See the appendix
\(^{101}\) The name of the respondent is confidential
\(^{102}\) The name of the company is confidential
• **One respondent, but valuable answers**

The respondent usually plays a significant role in the interview; especially during the *open-ended* interview wherein he is supposed to provide his own insights regarding the interview subject. Therefore, choosing a well-informed respondent who can provide important insights about a specific subject seems to be necessary and crucial\(^\text{103}\). By keeping these factors in mind through the selection process of our respondent, we have decided to choose a respondent who has more than enough ability to give us not only the information about the case company but also his own perception and outlook about our topic. We therefore believe that we got very useful answers/data from him that would highly contribute to the quality of this paper.

### 3.2.2 Secondary Data

Secondary data as a source of evidence are generally the information that already exists. In almost every study, there is a need for getting access to these existing sources such as various newspapers, annual reports, correspondence or related issues to the research field\(^\text{104}\). The aim of using these documents is to corroborate and augment evidence from other sources, as well as to reinforce/support the validity of the data collected/presented in a particular study\(^\text{105}\). To us, based on these reasons, we have constructed an appropriate and ideal data gathering method with extensive search for secondary data that are relevant to the phenomenon studied. For instance, we have gathered constructive data from various books, articles, journals, reports and official web-pages related to the automotive industry through Halmstad University library database and internet. We consider these data to be helpful and indispensable complement in our study so that we can gain sufficient knowledge about the automotive field before conducting the two interviews.

### 3.3 Research Quality

An attractive research is usually required to meet a certain level of quality in order to be read with significant interest by the readers. To achieve this, it is of high importance to provide the reader with accurate data without any kind of bias or misleading directions. This would highly give support to the conclusions and recommendations of a particular research. In general, there are four variables to be tested in order to better measure the quality of such a case study research i.e. construct validity, internal validity, external validity and reliability\(^\text{106}\). These tests are discussed below:

#### 3.3.1 Construct validity

Construct validity test is about “establishing correct operational measures for the concepts being studied”\(^\text{107}\). In fact, this test could be highly improved through the use of multiple sources of evidence in a particular study during the process of data collection\(^\text{108}\). To us, in order to better enhance the construct validity of this study, we have used not only the data

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\(^{103}\) Yin (1989, P.89-90)  
\(^{104}\) Stake (1995, P.68)  
\(^{105}\) Yin (1989, P.86)  
\(^{106}\) Yin (1994, P.32)  
\(^{107}\) Yin (1994, P.32)  
\(^{108}\) Yin (1994, P.34)
given by the respondent but also the various data provided in the website of the case company. We agree here that we have relied more on the data given by one respondent mainly due to time limitation; and it is of high importance to interview multiple respondents so that to achieve superior validity within this test. However, as the investigators need to select the most suitable source of data collection in order to achieve high construct validity\(^\text{109}\), we believe that our respondent is one of the most appropriate persons to inquire within the company due to his wide knowledge about the phenomenon studied.

### 3.3.2 Internal validity

The internal validity test is very helpful in clarifying whether the empirical findings match with the main research questions of such a study or not\(^\text{110}\). Within this study, we have conducted two interviews with the same person. This means that we have asked the respondent during the second interview for more clarifications and explanations about some of the answers that we felt are not fully answered during the first interview. The respondent also gave us the chance to ask follow-up questions when it is necessary for us. All these facts have given us the ability to fulfill and to answer our main research question. What is more, this test reveals whether the investigators really achieved to study what was intended to be investigated or not\(^\text{111}\). To us, just after conducting the two interviews, we felt that we have highly understood the phenomenon with a strong ability to answer the main research question and to formulate the necessary implications for the case company.

### 3.3.3 External validity

External validity test is about “establishing the domain to which a study’s findings can be generalized”\(^\text{112}\). In other words, it is used to identify whether the findings of a particular study could be generalized or not. To us, even though some scholars point out that the findings of a single case research are far beyond to be generalized\(^\text{113}\), we believe that the findings of this study could be used as a map/guidance for companies in order to perceive the main reasons that make maintaining competitiveness a challenging and difficult matter for them nowadays. Indeed, we have identified numerous factors that need to be taken into consideration by the companies. Besides, we have set some practical recommendations that would help them in maintaining their competitiveness in the marketplace.

### 3.3.4 Reliability

Reliability means that if another investigation is done following the same manner/steps, it should unveil the same results. In other words, if another researcher investigates the same phenomenon with the same purpose by following the same procedures as done by a previous researcher, it would lead the afterward researcher to get the same results and conclusions\(^\text{114}\). To us, we believe that if another investigator would investigate the phenomenon studied with the same procedures we did by using the same questionnaire, theory and so on, his results

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109 Yin (1994, P.91)  
108 Yin (1994, P.106)  
111 Yin (1994, P.35)  
112 Yin (1994, P.33)  
113 Yin (1994, P.36)  
114 Yin (1994, P.36)
would corroborate with ours. However, as the name of the case company within this paper is missing (confidential), it seems to be difficult for a particular investigator to do so. Moreover, reliability is very helpful in minimizing errors and biases within a particular study\(^\text{115}\). Even though the respondent did not allow us to use a tape-recorder during the two interviews, we believe that we did not miss any important information/insights from him. In fact, the respondent gave us the necessary time to take notes while answering each question. Besides, we went to write down all the answers in details just after we have finished each of the interviews so that we do not miss any complementary data. At the same day, we have made a summary for each question to be used in the empirical part in order to facilitate the writing of this part.

\(^{115}\) Yin (1994, P.36)
Chapter Four - Background about the Automotive Industry

Before moving to the discussion of empirical study, we find it primordial to include this chapter in order to provide the reader with a general background about the automotive industry.

The automotive industry plays an essential role in the economic and the social development of many countries around the world owing to its great contribution in creating employment opportunities and attaining mass production\(^\text{116}\). Indeed, nearly nine million jobs worldwide are directly involved in the automotive industry. In addition, the share of this industry (not including sales, spare parts dealerships and service) represents 15% of the total world GDP\(^\text{117}\). Moreover, even though the automotive industry is over hundred years old, it is until the end of the 90’s that the European continent took the leadership within this industry in terms of the quantity of vehicles produced. However, this leadership position nowadays is possessed by Asian wherein vehicle production accounts for 36% of the world vehicle production\(^\text{118}\).

One significant player within the automotive industry, generally considered small in terms of size and capacity, is the subcontractor. The importance of the subcontractors is clearly seen as they are in charge of about 50% of the total R&D\(^\text{119}\) process and are taking part of about 75% of the finished products. The success of the automotive industry particularly in Europe is heavily reliant on the capabilities of these subcontractors in enhancing the products development process\(^\text{120}\).

The subcontractors in the automotive industry are key contributors in manufacturing sectors in Sweden. In fact, there are more than 1000 subcontractors in Sweden with a labor force about 75 000 people and an annual income over 100 billion SEK\(^\text{121}\). In addition, although around half of these subcontractors are small size players with an annual income amounted to less than 20 million SEK, the majority of them are characterized by fast-growth in adopting new technologies\(^\text{122}\).

In Sweden, the automotive industry is highly important and considered as a fundamental sector due to its large volume, rich know-how in production and compound value chain among the different players (i.e. carmakers, subcontractors, dealers and so on)\(^\text{123}\). In 2005, the Swedish automotive industry reached its peak level in this century by producing a total of 841 300 vehicles; leading to augment the production by 18% between the year 2000 and 2005\(^\text{124}\). Besides, the automotive industry provides considerable support in creating new jobs and growth sustainability for the country\(^\text{125}\). Indeed, the automotive industry offers 1400 000 work positions and represents 14% of the exported commodities. In addition, the export share of this industry commonly fluctuates between 85% and 90%\(^\text{126}\). Moreover, although

\(^{116}\) Mr. José Manuel speech at “CLEPA Technology Day, 10 May 2006, Brussels”
\(^{117}\) GDP stands for Gross Domestic Product
\(^{118}\) Regeringskansliet Report (2005)
\(^{119}\) R&D stands for Research & Development
\(^{120}\) Günter Verheugen speech at “CLEPA Technology Day, 10 May 2006, Brussels”
\(^{121}\) SEK stands for Swedish krona (the currency of Sweden)
\(^{122}\) Sweden.se Website: “The Motor Vehicle Industry in Sweden”
\(^{123}\) Regeringskansliet Report (2005)
\(^{124}\) Sweden.se Website: “The Motor Vehicle Industry in Sweden”
\(^{125}\) Regeringskansliet Report (2005)
\(^{126}\) The Scandinavian Automotive Industry Website: http://www.fkg.se/index.asp?langid=uk
Sweden holds about nine million inhabitants, its distinctiveness stands in the four prime carmakers and the thousand of subcontractors it encompasses. In fact, the three brands name i.e. Saab, Scania, Volvo are highly linked with Sweden\(^\text{127}\).

Though the automotive industry leads the manufacturing activities in the globe\(^\text{128}\), currently it is suffering from several challenges related to technological and social issues. This would be crucial for the different players within this industry to maintain their competitiveness in the marketplace. Thereafter, in the face of the rise of the global competition within the automotive industry, there is a need for subcontractors to look for technological improvements and to be more devoted to put in adequate budgets for the R&D process. This would create value for both suppliers and end customers.

The European automotive industry has enjoyed records in both production and sales during the 90’s; but now the European market appears to reach the saturation stage because of the dramatic increase of the local production and overseas imports particularly from Asia\(^\text{129}\). During the next coming years, current estimates show that the global demand for the automotive products/services is highly projected to be from the emerging markets such as India and China\(^\text{130}\). Accordingly, due to the fact that labor wages are moderately higher in Europe compared with Asia; there is a need for the European carmakers and their suppliers/subcontractors to provide the best of the best in quality, technology, products/services in order to maintain their competitiveness in the world marketplace. There is also a need for both small and large suppliers/subcontractors to enhance their capabilities in terms of innovation in order to embrace a superior position in the international market\(^\text{131}\).

In Europe, there is a debate among the different players in the automotive industry about the remarkable increase of the intense competition in the marketplace. To these players, the success of the automotive industry in Europe is important for the European society and economy seeing that the automotive industry is one of the European’s “flagship” segments in the international arena\(^\text{132}\). It is also the major contributor of growth, jobs and wealth to the European Union’s members\(^\text{133}\). Indeed, the European automotive industry is ranked at the top R&D investors in Europe as it spends on R&D around 5% of its total turnover (20 Billion Euro) annually\(^\text{134}\). In addition, there are about two million people in Europe that are working in the automotive industry\(^\text{135}\).

The pressure nowadays on car makers is becoming more intense from the different stakeholders parties. Indeed, most of the European governments are putting consistently new rules and regulations wherein these days the environmental and driver’s safety issues are becoming to a greater extent “hot topic” in mass media and carmakers’ associations. On the other hand, Suppliers/subcontractors are continuously under pressure in terms of maximizing quality in everything, working in efficient manner and enhancing the speed of products development; at the same time they are required to minimize the various costs within their entire value chain\(^\text{136}\).

\(^{127}\) Regeringskansliet Report (2005)
\(^{128}\) West and Burnes (2000)
\(^{129}\) West and Burnes (2000)
\(^{130}\) Günter Verheugen speech at “CLEPA Technology Day, 10 May 2006, Brussels”
\(^{131}\) Mr. José Manuel speech at “CLEPA Technology Day, 10 May 2006, Brussels”
\(^{132}\) Günter Verheugen speech at “CLEPA Technology Day, 10 May 2006, Brussels”
\(^{133}\) ACEA website (European Automobile Manufacturers Association)
\(^{134}\) Mr. José Manuel speech at “CLEPA Technology Day, 10 May 2006, Brussels”
\(^{135}\) Regeringskansliet Report (2005)
\(^{136}\) CLEPA Website (European Association of automotive suppliers)
Chapter Five- Empirical Study\textsuperscript{137}

This chapter provides at the very beginning a general overview about the case company Y\textsuperscript{138}. After that, the empirical findings of the factors affecting the competitiveness of the case company are presented. Again, it needs to be stressed here that the data within this chapter are collected solely from the two interviews conducted with the respondent Mr. X\textsuperscript{139}.

4.1 General Presentation of the Case Company

The case company Y\textsuperscript{140}, a Swedish medium sized company, is working as a subcontractor and employs about 175 employees. Indeed, it manufactures and sells the rubber and plastic materials to be used mainly not only in the automotive industry but also in other industries such as boatbuilding industry. The company focuses mostly on producing rubber more than the plastic products. The production of the rubber is mainly performed in Sweden even though there is a factory in Poland due to the cheaper production costs. Regarding the automotive industry, Europe as a key customer is considered as the main market for the case company wherein Sweden represents the biggest market share with 70\%, followed by Germany with about 5\% of the total turnover; knowing that the company today is generating a total turnover of 300.000.000 SEK annually. In addition, the company also exports to some non European countries (e.g. China) as this indicates that it is actively participating in the global market veritably.

- **Strengths**
  The excellent reputation of the case company is in providing the right solutions that could satisfy or even exceed the customers’ expectations- “we know how to make solutions\textsuperscript{141}”. The company is well known also for acting fast in giving rapid responses to the customers- “we act very fast...we deliver very fast\textsuperscript{142}”. Indeed, the case company can help the customers to find out innovative solutions to their actual problems as well as to give quick delivery of prototypes. In order to maintain this outstanding reputation, the company continuously invests in new technologies and does its best to add value and superior satisfaction to the customers by offering a flexible service, high quality, and competitive price.

- **Weaknesses**
  Although the case company’s production covers a great range of manufacturing methods which enable superior satisfaction of the customers’ needs and demands, it does not offer unique products that could highly boost its competitiveness among the rivals.

- **Mission**
  - To expand the business and make it more profitable;
  - To satisfy the stakeholders;

\textsuperscript{137} All the data presented within this chapter is solely based on the two interviews conducted with the respondent from the case company.
\textsuperscript{138} The name of the company is confidential
\textsuperscript{139} The name of the respondent is confidential
\textsuperscript{140} The name of the company is confidential
\textsuperscript{141} Respondent expression
\textsuperscript{142} Respondent expression
• **Business Strategy**
  - To develop and grow consistent with the customers “grow with our customers wherever and whenever they grow”\(^{143}\);

• **Future Goals**
  - To keep the existing shares and maintain the competitiveness of the company in the marketplace;
  - To pursue good profits and become a big player in the market;

### 4.2 Factors affecting the competitiveness of the case company

Until now, we have provided the reader with a general overview about the case company. In this section, the empirical results regarding the causes that make maintaining competitiveness a challenging issue for the case company will be presented in term of six key factors/forces.

#### 4.2.1 The Threats of New Entrants

With the development of globalization, the threats of new entrants in the rubber industry come no more only from the local but also from the international market as everyone of the new entrants is hunting for more profits. For instance, the case company in the Swedish market is actively facing the threats of new competitors from major European Union members’ countries such as Germany, France, England and Denmark. Also, the company could face the threat from other countries in eastern parts of Europe and Asia seeing that they have the possibility to take advantage from low production costs. Another threat could be the one coming from Turkey if this country could successfully join the European Union in the next coming years. Indeed, all the key subcontractors in the Turkish rubber sector are waiting for that moment in order to actively compete not only in Sweden but in all the European Union members’ countries. All these prospect players represent a big threat on the competitiveness of the case company.

Below are the main factors that would influence the competitiveness of the case company:

- **Economies of Scale and Capital Requirements.** The level of economies of scale in the rubber sector depends mainly on the size that the new entrants choose to start the business. It is not highly recommended for them to possess large economies of scale. The new rubber subcontractors usually choose to start as small-size players so as to minimize the risk of failure and to cover the high costs involved in the start up of the business—“*You need to start from somewhere*”\(^{144}\). As the new entrants become familiar with the role of the game within the marketplace, they automatically grow little by little. Hence, there is no exact requirement of economies scale seeing that the newly subcontractors either they are small or large size, they still can compete among the existing ones. This means that it does not require much capital for the small-size players so as to join the rubber sector. Even if some of the machines are quite expensive to acquire, the newly subcontractors still can buy few of them and fulfill the needs of few customers. In this way, as long as they possess the ability to serve further customers,

\(^{143}\) Respondent expression
\(^{144}\) Respondent expression
they would then acquire more machines and particularly the ones that were not possible to buy during the start up of the business.

- **Cost advantages.** The case company believes that all the various costs saving maintained as a result of the wide experience in getting access to cheaper raw materials and in enhancing the production process are not considered as the obvious competitive advantage in the rubber production to some extent. Indeed, unlike the existing players, the new entrants are somewhat free from the large overhead costs involved in the daily operations of the business if they start in small-size.

- **Product differentiation.** The case company is operating in a highly competitive sector wherein the various subcontractors are offering the same/similar products with nearly no chance to come up with differentiated products. This makes the competition among them reaching extreme levels and even harder for the new entrants. The case company is of the view that the new players are in need to adopt a clear strategy in terms of serving diverse industries apart from the automotive industry once they plan to start the business- “They need to start outside the automotive industry”. After that, they may attempt to serve the customers of the automotive industry as long as they get sufficient resources and capacities so as to be able to face the extreme competition.

- **Switching costs.** The case company believes in the fact that the new entrants will attempt to use diverse means of attractions while they are joining the rubber sector in order to win several deals with different suppliers and customers in the marketplace. To the case company, there is a high risk that its actual suppliers/customers may attempt to switch to the new entrants as long as they will perceive that the deal with the new entrants is more profitable in terms of price, quality and so on. If not, it would be quite difficult for the new entrants to do so. Moreover, unlike the big new entrants, the small ones owing to their low production capacity, they may face difficulties in attracting big suppliers/customers that usually ask for large quantities.

### 4.2.2 Threat of Substitutes Products

The case company believes that the existence of a powerful substitute product would represent a big threat to the competitiveness of the company. Up to now, there is no such a kind of substitute to the products of the case company in the marketplace that serve the automotive industry. However, the use of the rubber in cars production will disappear over the long term as the sealing products (the future substitute product) are going to replace it. Until now, the sealing products are still expensive; but as long as they will become cheaper, they will represent a big threat to the case company. Then it will be difficult to take rid of their strong competition. This would threaten the profitability of the case company and its industry; leading to a decline of the company’s competitiveness. The only thing the case company can therefore do is to add these substitute products to its products line- “you must be flexible enough”.

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145 Respondent expression
146 Respondent expression
4.2.3 Rivalry among Existing Firms

Today, there is a keen competition in the automotive industry. Indeed, the rubber subcontractors, as one of the key suppliers of carmakers, also confront an intense rivalry among the existing and the new players that are joining the competition of fulfilling the needs of carmakers—“everyone wants his part of the cake”\(^{147}\). Actually, the future strategy of the case company is to rely more on shipbuilding customers as they would greatly help in boosting the diversity of the buying industries and to advance the required resources and capabilities in order to be highly competitive among rivals in the automotive industry.

The competitiveness of the case company may face some threats from the existing competitors in the rubber sector as follow:

- **Numerous or equally balanced competitors.** Although there are many rubber subcontractors serving carmakers with same/similar products, the case company perceives that the biggest threat is coming from two main subcontractors in addition to some of the powerful Chinese companies that are very fast learners and growers. All of these subcontractors fight for the same things; this includes the various attempts to take the customers and market shares from each others. This makes doing business as a subcontractor of carmakers harder than before. Moreover, there is no clear market leader among the subcontractors that could control the prices. All the players seek to offer low-price for the sake of attracting maximum customers and enhancing their competitiveness. Therefore, it is quite hard to nominate a specific or few players that generate the price of the market.

- **Level of fixed cost.** With the aim of keeping the existing market shares so as to cover the fixed costs and maintain the profitability, many subcontractors adopt price-cutting strategy. Still, the intensity of competition will become severe if some of the subcontractors cut their prices more than enough in order to attract various customers; leading to price-war. Nowadays, one of the big challenges that threaten the competitiveness of the case company is the deadly effects of this price-war among the subcontractors. Even though the company is always doing its best to reduce production costs in order to serve the customers with cheaper price, sometimes it fails to do so chiefly because of price-war.

- **High Strategic Stake.** The case company would experience a severe situation if one of the well-diversified competitors decided to pull more investments on attracting and satisfying carmakers in order to be more competitive in the marketplace. This would highly force the case company to adopt reactive strategies in order to confront the threat that is challenging its competitiveness; thereby, opting to perceive where to make the right difference in terms of prices of raw materials, production process and so on.

- **Lack of differentiation and switching costs.** Given that there is no kind of meaningful differentiation within the products offered by the case company and its competitors in the marketplace, carmakers cannot abandon the rubber products within their inputs in the production. However, carmakers can still switch from one subcontractor to another almost at anytime without eventual loss as long as a profitable deal appears. Therefore unlike the case company, this switch typically does not involve high switching costs for

\(^{147}\) Respondent expression
these carmakers. As a result, the case company and its competitors significantly fight for achieving the least price of the market in order to keep dealing with the carmakers.

- **Growth rate of an industry.** The case company is of the view that slow-growth industries are typically more competitive than high-growth industries. Even if there is a slow growth within the rubber sector, the case company is still growing since the early stage of its foundation. Last year the company enjoyed growth in the total turnover by 20% which is a good indicator that it is performing well. In addition the company wishes that the rubber sector could experience at least a moderate growth during the next years in order to lower the actual severity of competition among the subcontractors of carmakers.

- **Excess capacity.** The case company constantly does not experience any excess capacity of production beyond the market demand because it never produces before receiving the orders from the customers- “We produce when we have the order... it will cost us too much if we produce before”\(^{(148)}\). Thus, the case company is nearly exempted from involving high storage costs.

### 4.2.4 Bargaining Power of Suppliers

The suppliers of the case company may threaten its competitiveness due to a number of factors that are discussed below:

- **Suppliers’ concentration.** There are plenty of suppliers in the marketplace that could serve the case company and its rivals besides serving other industries (such as plastic, paper branch, advertising, mobile phones and so on) with products that are used as raw materials or inputs in the production. In addition, the case company is dealing mainly with 20 key big and powerful suppliers seeing that they are always seeking to improve and offer what the company is looking for. The fact that they are big in size with strong resources and capabilities compared with the case company generally gives them more bargaining power.

- **Switching costs.** The case company has a very strong relationship with the suppliers. They meet every month and sometimes every week in order to exchange mutual needs and comments and to make the relationship more deepened. Indeed, the case company believes that by having good and strong relationship with the suppliers, its bargaining power would strengthen to some extent; in fact, it has been successful in gaining the bargaining position in several times. The company states that even though it possesses less bargaining power in most of the times, it is still maintaining sufficient profits. To the case company, it is quite difficult in the rubber business to change from one supplier to another as it would cost the company a lot of money and time to do so. Therefore, sustaining a strong relationship with the aforesaid 20 key suppliers is very strategic in order to maintain the competitiveness of the case company.

- **Threat of forward integration.** The case company believes in the existence of the threat that its suppliers could become active rivals at any point of time in the rubber sector if they are willing to do so in order to increase their profitability. If this event happens, it would mainly elevate negative effects on the competitiveness of the case company. The

\(^{(148)}\) Respondent expression
company will be then forced to look for other suppliers that could fulfill its requirements. The case company considers that finding the right ones will take time as there is then no other good choice.

- **The industry is not a key customer for the suppliers.** Even though the case company is not the main customer for its supplying industry, still, the rubber sector is considered as the key customer. Yet, the suppliers still have more bargaining power over the buying industry.

- **The suppliers’ product is an important input to the buyer’s business.** The case company does not manufacture any pieces of the product until it receives orders from the customers; this means that the case company does not rely on storing big quantities in the inventory for a long time. This fact makes the criticality of the company’s suppliers indirectly involved into the production process as they could threaten the relationship of the case company with its customers and competitiveness by increasing the prices and delivering after the due time. For instance, the case company will not be able to deliver on time to the customers if the suppliers deliver the products late; which means if one working hours is missed, which is caused by the delay, the company will lose about 1 000 000 SEK as a deal with the customers. This may push the customers to switch to close competitor as they would feel that they are not satisfied with the case company.

### 4.2.5 Bargaining Power of Buyers

The case company’s buyers could challenge its competitiveness due to a number of factors that are discussed below:

- **Buyers group concentration.** Given that the big carmakers are acquiring the small ones, their number is continually decreasing. During the coming years, their number will be even fewer. On the other hand, there are many subcontractors in the marketplace that could serve these big carmakers with the same or similar products. Owing to the fact that their number is few, they usually put pressure over the case company to seek costs reduction and quality enhancement. The customers of the company within the automotive industry represent 65% of the total turnover. The case company has a strong relationship with them as it believes that understanding what they expect and gaining their trust are keys to success in an attempt to reduce to some extent their bargaining power and to maximize their satisfaction.

- **The products purchasing from the industry represent a significant fraction of the buyer’s costs or purchases.** Even though the products of the case company do not represent a big part of the buyers total costs, they still represent a kind of criticality for these buyers when received late or not met an adequate level of quality. In addition the buyers of the case company are most of the time sensitive to the prices the company is offering. The buyers find it difficult sometimes to make a deal with the case company when they perceive that its close competitors can offer something cheaper for them.

- **Degree of standardization of suppliers’ products.** The fact that the case company and its rivals offer similar products without a clear differentiation makes the buyers enjoying high/strong bargaining position over all the rubber subcontractors. The buyers even can switch from one subcontractor to another without eventual loss as long as they find a
profitable deal.

- **Switching costs.** The case company considers itself dependent on the buyers. They typically possess more bargaining power over the company as they are less in number and big in size. Indeed, it is profitable for the case company to deal for instance with three big buyers seeing that they purchase massive quantities; however, the company will be in critical situation if it is one day ignored by the buyers that may switch to the competitors. The case company believes that its buyers could hunt for this switch not because of the quality concern but for the competitive price that the competitors could offer. The case company is confident about the high quality that it offers to the customers due to the numerous quality certificates awarded to the company. Yet, some of the buyers usually come back to deal with the case company as long as they perceive that the price the company offers becomes competitive and attractive- “you should never rely on particular customer”.

- **The importance of suppliers’ products.** The products offered by the case company highly influence the quality of the buyers’ products. The company is required to meet strictly the quality standard level. Once it does not meet the agreed quality, the products are then returned in addition to the payment of all the administrative costs which account for about 2000 to 3000 SEK. When the products are returned, the case company is required to make the necessary corrections in order to resell them with the aim of minimizing the loss. But, sometimes the case company finds itself obliged to throw away these products when it concurs that there is no chance for any rectifications -“you can imagine how much big amount of money we will lose”. Eventually, the case company’s trust, value and relationship with the buyers will decrease sharply; leading to lower down the competitiveness of the company. The worst event will be then if the competitors take advantage from this situation and offer a better deal to the buyers of the case company. Subsequently, these buyers will find no need to continue doing business with the company- “you should know that the one who buys has more power”.

- **Threat of backward integration.** The case company considers the fact that its buyers might become part of the competitors is not at all beneficial for its competitiveness. The company does not admit this event to happen; even if it has occurred rarely and particularly in the past. The buyers of the case company are seeking more than before further outsourcing of major parts of their production process to diverse subcontractors in order to achieve costs reduction in the whole value chain. This is a key reason why nowadays these buyers are barely thinking of being part of the case company’s competitors. Carmakers find it convenient and advantageous due to their big size and capabilities to hold high bargaining power position over their subcontractors and put pressure on them in terms of improving the quality and reducing the prices in order to get maximum satisfaction. They even can compare the price of the case company with that of the competitors so as to get the best deal.

- **Information control.** The case company’s buyers are very good at doing market intelligence. They actually get access to a lot of information about the case company and its competitors such as the costs of different processes, quality and so on in order to

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149 Respondent expression
150 Respondent expression
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prepare a thorough benchmarking that would help the buyers to know about the market situation in terms of the actually best dealings and the key competitive subcontractors. All these, highly elevate the bargaining position of the buyers over the case company.

- **Low profits:** Nowadays, carmakers are continuously seeking to minimize the various costs within the entire value chain in order to maximize the profitability and maintain a competitive position in the international market. One of the obvious strategies to them is to shift their pressure to the case company with the purpose of getting the products with cheaper prices. The case company is doing everyday its best so as to achieve higher results beyond the expectations of the buyers.

### 4.2.6 The Role of the Government

The Swedish government mainly plays *indirect* role in upgrading the rubber sector such as enhancing the means of communication, transportation, education, innovation and so on. The case company believes that this *indirect* role generally has positive influence on its competitiveness. However, sometimes the rules set by the government directly affect negatively the competitiveness of the case company particularly in the international market. For instance, Sweden has high taxes compared with many countries over the globe. This fact makes the rubber subcontractors from China for example competitive in terms of prices compared with their counterparts in Sweden. What is more, the Swedish government plans in the next few years to apply new rules regarding the salaries issue as the companies have to increase the wages by 10% each three years- “How could the government ask for increasing the salaries while we are struggling to minimize our costs?”. This would force many subcontractors to switch their production to Eastern Europe and Asia as long as the government will moderately find no means to stop them in doing so. As a result, this would have negative effect on the job market in the area of Sweden.

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Chapter Six- Analysis of the Factors Affecting the Competitiveness of the Case Company

This chapter provides the reader with the analysis of the factors affecting the competitiveness of the case company; this means to make a comparison between the theory and the empirical data. Indeed, the analysis of the main causes that make maintaining competitiveness a challenging issue for the case company will be presented in terms of six key factors/forces (i.e. the threat of new entrants, the threat of substitutes, the rivalry among existing firms, the bargaining power of suppliers, the bargaining power of buyers, the role of the government).

5.1 The Threats of New Entrants

- **Economies of Scale and Capital Requirements.** The large economies of scale required in a particular industry typically would restrict the entry of new players\(^\text{155}\). However, the case company highlights that it is not an absolute requirement to possess large economies of scale for the new players in order to serve carmakers with the rubber products. Indeed, even though the new players may have small capital, they still can participate in the strong competition against the case company. Moreover, even though there are two ways of entering a particular industry i.e. large-size with high risk-taking or small-size with a threat of high unit costs\(^\text{154}\), the case company believes that in order to serve carmakers the new subcontractors would rather choose to start small-size at the beginning; afterward, they would seek further growth when becoming big players in the market. This strategy aims at minimizing the risk of failure and covering the high expenses involved in the establishment of the new business. The new players can buy few but necessary machines according to their capital capacity. Accordingly, this would represent a big threat to the competitiveness of the case company.

- **Cost advantages.** Established companies may benefit from various costs advantages compared with the new players in terms of product technology, favorable access to raw materials, locations and so on\(^\text{155}\). Nevertheless, the case company believes that all these so-called costs saving are not so highly important for the new subcontractors knowing that most of them start as small-size players. This typically exempts them to some extent from bearing the large overhead costs involved in the daily operations compared with the existing players such as the case company. Therefore, costs saving advantage could not be considered as a strong barrier against the new subcontractors that are willing to serve carmakers with the rubber products. Therefore, cost advantages are not fully serving the case company to maintain its competitiveness in the marketplace.

- **Product differentiation.** Although it is quite easier to gain the advantage of brand recognition and customer loyalty in a particular industry if the new players can offer differentiated products\(^\text{156}\), the case company believes that it is quite difficult for neither the existing subcontractors nor the new ones to opt for product differentiation in the

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\(\text{\textsuperscript{155}}\) Grant (2004, P.76)
\(\text{\textsuperscript{154}}\) Grant (2004, P.76)
\(\text{\textsuperscript{155}}\) Porter (1982, P.12)
\(\text{\textsuperscript{156}}\) Porter (1982, P.9)
rubber marketplace. Indeed, there are plenty of rubber subcontractors offering same/similar products to carmakers and operating in a highly competitive environment. For these reasons, it seems in this case that it is beyond the capacity of the new players to attempt for product differentiation strategy, particularly when they are entering the rubber sector as small-size players. Therefore, the new entrants are forced to cover the large amount of money and time that should be spent on advertising, customer service and so on in order to establish their own brand and reputation in the market. Yet, to the case company, the new players usually do not have the capacity to cover these large amounts of money and time given that they typically start as small-size players. Eventually; the case company is of the view that the new entrants could go for other choices that could help them in enhancing smoothly their entry in the market; specifically serving other industries rather than the automotive industry during the start up of producing rubber products. Then, they could serve the various carmakers just after becoming powerful enough so as to be able to face the extreme competition in the automotive industry. In this way, this would significantly threaten the competitiveness of the case company.

- **Switching costs.** It is possible that the current suppliers/customers of the existing companies may switch to deal with the new players once they are highly attracted in terms of cheaper prices, high quality, and so on. Indeed, the case company believes that the new subcontractors use different strategies with the aim of attracting the actual suppliers/customers of the company; thereby minimizing the various costs and perform effectively. This minimization could put stressful pressure and difficulties over the new entrants in covering the expenses involved in the acquisition of various resources and capabilities needed for the daily operations of the business. In fact, the case company affirms that the new subcontractors, especially the small-size ones that usually afford low production capacity, may experience severe difficulties in attracting carmakers given that these carmakers are big in size and usually ask for large quantities products. In addition, the efficacy of these strategies would not succeed if the level of switching costs between the companies and their suppliers/customers is so high; hence, it seems here that the case company is experiencing advantageous position over the new players in terms of keeping the current suppliers/customers. This would help the case company to maintain its competitiveness in the automotive industry.

### 5.2 Threat of Substitutes Products

Companies usually compete with rivals of the same industry offering the same/similar products and rivals of other industries offering substitute products. Luckily, until now there is no single kind of substitute product to the case company’s product that could serve carmakers. This gives a great advantage to the company as the buyers are highly dependent on the rubber products. Yet, even though in this case the buyer will be relatively insensitive to the price, the case company is facing strong pressure from its customers in terms of lowering the prices; otherwise they could switch to a close competitor that offers a better deal. This fact puts the case company into a critical situation wherein it should mostly
comply with what the customers are asking for in order to maintain a competitive position among the rivals; eventually, maintaining the competitiveness of the case company in the marketplace would be a challenging issue.

In order to minimize the threat of substitute products, companies are in need to offer high quality products/services\textsuperscript{163}. However, the case company believes that this strategy is not at all convenient in the rubber sector. Indeed, the company is aware of the fact that the sealing product is planned to be the future powerful/competitive substitute to the rubber product. Carmakers will no more look for using the rubber products in their production as long as this future substitute would become cheaper. Therefore, it will be impossible at all for the case company to lessen the threat of the sealing product. To the case company, it is of high importance to adopt the sealing product in the products-line once the customers are planning to buy it. Indeed, adopting powerful substitute products in the products-line is a strategic choice if the firm perceives that it is quite difficult to block the high threats they represent\textsuperscript{164}. Until now, it seems therefore that the threat of substitute products is very low over the case company and it is not representing any negative influence on competitiveness of the case company right now. This event is considered as a good indication that it is a profitable industry\textsuperscript{165}. Indeed, one could agree with this view; but the fact that there are a plenty of subcontractors offering same/similar products with a strong bargaining power of customers makes it highly competitive and difficult to take even a little piece of this existing profitability.

5.3 Rivalry among Existing Firms

- Numerous or equally balanced competitors. As long as there are many players competing within a particular industry, the intensity of competition among them would be highly reinforced to the extreme level\textsuperscript{166}. In fact, the case company has two main highly competitive subcontractors with strong capabilities internationally in addition to plenty of others. Nowadays, the case company is even facing hard competition from various strong Chinese subcontractors seeing that they learn and grow fast. This situation makes the case company strongly feels that it is becoming much harder than before to maintain competitiveness in the market as a subcontractor of carmakers. In fact, in order to face this high competition besides to maintain the current and to acquire further market shares, the existing players normally attempt to offer low-prices among each other\textsuperscript{167}. Actually, the case company exactly faces the same problem given that most of the subcontractors seek to cut their prices, which eventually leads to price-war. This situation needs a strong market leader that could generate the market price among the existing players in order to reduce the negative effects of the price-war on the profitability of the companies within an industry\textsuperscript{168}. Unfortunately, the case company is of the view that this leader does not exist among the subcontractors given that all of them opt for price-war. This fact makes maintaining competitiveness a challenging matter for the case company.

\textsuperscript{163}Barringer & Ireland (2006, P.79)
\textsuperscript{164}Porter (1982, P.24)
\textsuperscript{165}Barringer & Ireland (2006, P.79)
\textsuperscript{166}Barringer & Ireland (2006, P.81)
\textsuperscript{167}Barringer & Ireland (2006, P.81)
\textsuperscript{168}Barringer & Ireland (2006, P.81)
Level of the fixed cost. The level of the fixed costs significantly influences the intensity of rivalry in a particular industry seeing that firms with high fixed costs are more eager to pursue high turnover in order to cover the large expenses\(^{169}\). This situation to the case company seems to be quite obvious among the subcontractors of carmakers with high fixed costs. In this way, most of these subcontractors would adopt low-price strategy with the aim of maintaining the profitability of the business\(^{170}\). This is considered to the case company as one of the main reasons that would stimulate price-war which would make maintaining competitiveness a challenging concern for all the subcontractors of carmakers.

High Strategic Stake. The intensity of competition would experience significant instability and brutality if a well-diversified firm pulls massive investments on a particular industry\(^{171}\). As a matter of fact, the case company admits that it would face severe challenges if this situation occurs within the rubber market. Here, it is understood that the case company fears from the threat that this well-diversified firm would highly achieve a competitive position among the subcontractors of carmakers. Definitely, this situation would greatly force the case company to adopt some reactive strategies in terms of getting cheaper prices of raw materials as well as enhancing the efficiency of production process in order to confront this threat. Therefore, the occurrence of the above described situation would influence negatively the competitiveness of the case company.

Lack of differentiation and switching costs. As long as the number of rivals in a specific industry offering undifferentiated products is large, there would be a high possibility that the customers will opt to switch from one firm to another with the aim of getting the best deal\(^{172}\). Indeed, given that there are many subcontractors in the rubber sector offering same/similar products to carmakers, it seems quite normal that these carmakers could switch to anyone of the subcontractors whenever a profitable opportunity appears; particularly owing to the fact that the carmakers will need to bear only low switching costs. Yet, the situation is becoming worst for the case company with the actual price-war among the rubber subcontractors of carmakers which makes the switching possibility of the customers even higher and the costs even lower. Unluckily, this represents a big threat for this kind of business, particularly when dealing with giant carmakers. As a result, this would generate some difficulties for the case company to maintain its competitiveness in the marketplace.

Growth rate of an industry. Competition within slow-growth industries is typically much more severe than high-growth industries\(^{173}\). In fact, the industry of the case company is experiencing slow growth; leading to the appearance of negative effects on the competitiveness of the company and rivals. This slow growth would lead to a strong battle among the competitors by forcing each other to focus on quality improvement and price reduction\(^{174}\); hence, the case company would face difficulties in maintaining its competitiveness in the market. This is why the company strongly wishes that the rubber sector could experience a reasonable growth during the coming years in order to lessen the brutality of this serious battle. But still, the case company is maintaining good

\(^{169}\) Barringer & Ireland (2006, P.81)  
\(^{170}\) Porter (1982, P.18-19)  
\(^{171}\) Porter (1982, P.20)  
\(^{172}\) Porter (1982, P.19)  
\(^{173}\) Barringer & Ireland (2006, P.81)  
\(^{174}\) Barringer & Ireland (2006, P.81)
achievements in terms of turnover growth since its establishment; and particularly when it reached 20% growth within the total turnover last year.

- **Excess capacity.** Excess capacity occurs in such a situation wherein companies overestimate the market demand. This event causes them to endure a surplus in the production and therefore leads to high risk of profits’ decline if the storage costs are high\(^ {175} \). Fortunately, the fact that the case company never produces before receiving the orders from the customers is indeed considered as an advisable strategy that could help the company to avoid undertaking this kind of risk to some extent. In addition, it also could strongly help the case company to gain a competitive advantage over the competitors that experience severe loss because of the excess capacity and high storage costs. This would strongly aid the case company to maintain its competitiveness in the marketplace.

### 5.4 Bargaining Power of Suppliers

- **Suppliers’ concentration.** As long as there are few suppliers supplying products to large amount of customers, then the suppliers would automatically possess more bargaining power over the customers\(^ {176} \). Yet, the suppliers of the case company enjoy superior bargaining power even though there are many suppliers serving many subcontractors. This is highly due to the fact that these suppliers are powerful with strong resources and capabilities compared with the subcontractors. The latter is forced most of times to agree with the suppliers without strong opposition. These facts strongly challenge the competitiveness of the case company in the market.

- **Switching costs.** It is significantly critical to change from one supplier to another due to the high switching costs involved in terms of time and money\(^ {177} \). This is why the case company is working on sustaining a strong relationship with its 20 key suppliers in the market. The fact that the case company and its suppliers keep on regular mutual visits would make the relationship among them even stronger. It is understood that the company seeks within this strategy to lessen as much as possible the bargaining of the suppliers; but the main question one can ask is how far is it effective? The case company reveals that it has succeeded in gaining slight bargaining power in few times. Still, it is not helping enough the enhancement of the case company’s competitiveness since the customers are regularly asking for price reduction.

- **Threat of forward integration.** Suppliers may enter the buyer’s industry as soon as they would perceive a profitable opportunity; the occurrence of this incident would represent a significant threat over the buyer\(^ {178} \). Indeed, the threat that the suppliers of the case company may become part of its rivals in order to earn more profits always challenges its competitiveness. The case company believes that it will be obliged to seek other reliable suppliers once this incident occurs. This requires the case company to be vigilant about the market situation with the aim of detecting any possible attempt from the suppliers in doing so in order to save time in looking for the new suppliers.

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\(^{175}\) Grant (2004, P.80)
\(^{176}\) Porter (1982, P.27)
\(^{177}\) Barringer & Ireland (2006, P.82)
\(^{178}\) Barringer & Ireland (2006, P.82)


- **The industry is not a key customer for the suppliers.** Suppliers would possess low bargaining power over the buyers if the buying industry is the key customer. However, the suppliers of the case company enjoy superior bargaining power over the rubber sector even if it is the main customer. This mainly happens for the reason that these suppliers are big in size and strong in terms of capabilities. It seems here that the suppliers are professional in enhancing their bargaining power even when it comes to deal with the most important buying industry. The case company may need to learn from the experience of the suppliers how to master the bargaining power as this would help the company to maintain its competitiveness.

- **The suppliers’ product is an important input to the buyer’s business.** Suppliers could put strong pressure on the profitability of the buyers if they are involved in products that require high quality and fast delivery. This view corroborates with what the case company occasionally experiences. The fact that the case company starts the production process just after specific orders are received from the customers highly requires the suppliers to offer the exact quantities by respecting the quality and the deadlines agreed with the company. Sometimes the suppliers fail to respect these requirements, leading the case company to confront severe moments with the customers. Eventually, this would highly challenge the competitiveness of the company. Indeed, the case company will then experience not only the loss of 1 000 000 SEK for each one working hours missed but also the threat that these customers may switch to deal with the rivals. Therefore, the company is in need of highly competent staffs in the purchasing and logistic departments that could dramatically minimize these possible threats from the suppliers. This would help the case company to maintain its competitiveness.

### 5.5 Bargaining Power of Buyers

- **Buyers group concentration.** Strong buyers would possess high bargaining power if they have the possibility to choose among plenty of suppliers in the market. Indeed, the case company belongs to a market wherein there are many rubber subcontractors that could serve carmakers with the same/similar products. The case company believes that gaining the trust and the satisfaction of the customers is very important for the sake of decreasing their bargaining power to some extent; but, the question that may arise here is how this could happen while the subcontractors are mostly under pressure from the customers in terms of lowering the costs. The case company adds that the situation of the subcontractors in the automotive industry is going from bad to worst seeing that the number of carmakers is constantly decreasing as giant players acquire the others. This would make the customers highly influencing the profitability of these subcontractors. Therefore, maintaining competitiveness would be difficult for the case company.

- **The products purchasing from the industry represent a significant fraction of the buyer’s costs or purchases.** Buyers would be sensitive to the products’ price if the products are highly important and critical. Indeed, the case company states that its products are quite important and still could represent a kind of criticality for the buyers when they are

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179 Porter (1982, P.27)
180 Porter (1982, P.28)
181 Barringer & Ireland (2006, 82)
182 Barringer & Ireland (2006, 82)
not received on the due time or not reached the quality required. Although the buyers in this case would have low bargaining power over the suppliers\(^{184}\), the case company is experiencing the opposite. The main reason for this is that the switching costs are quite low for the buyers; eventually, they may switch to close competitors almost at anytime. This fact represents a great challenge to the competitiveness of the case company.

- **Degree of standardization of suppliers’ products.** The bargaining power of the buyers would increase if the supplying industry offers similar/same products\(^{185}\). Indeed, the fact that the case company and its rivals are serving carmakers with similar/same products makes these carmakers enjoying higher bargaining power. This situation would give strong ability to the buyers to switch from one subcontractor to another without meaningful loss\(^{186}\). This strongly pushes the case company to work more on deepening the relationship with the buyers in order to lessen their bargaining power and to increase slightly their dependency on the company; eventually, this could significantly help the case company to enhance its competitiveness.

- **Switching costs.** The case company affirms that it has spent a lot of time and money in order to attract powerful buyers as this fact made it difficult to switch from one buyer to another. Here, the high switching costs would make the suppliers dependent on the buyers\(^{187}\); and this is really what the case company is experiencing. Indeed, the case company is strongly dependent on three giant buyers more than the others due to the large quantities they buy. In this case the buyers would typically possess superior bargaining power over the suppliers\(^{188}\). As the case company is exactly facing the same, nowadays it is afraid that the buyers could find a better deal and switch to the competitors. Besides, even though the case company is confident about the high quality it provides to the customers, the price factor is still a big challenge to overcome not only for the case company but also for the other rubber subcontractors. This price factor highly challenges the competitiveness of the case company.

- **The importance of suppliers’ products.** The buyers would show significant sensitivity to the price if the supplying products highly affect the quality of their products\(^{189}\). Indeed, the products offered by the case company highly influence the quality of the buyers’ product; leading the buyers to show strong sensitivity to the quality of the products it offers. These buyers are even acting strictly when it comes to the quality level that should be maintained by the case company. In fact, the buyers would reject to receive the products from the case company if not meeting the quality required. This would put the case company into experiencing the threat of profitably decrease or the loss of some of the buyers that may switch to the competitors. As a result, the competitiveness of the case company would experience severe moments.

- **Threat of backward integration.** The suppliers may face the threat of the entry of their buyers into the supplying industry as long as these buyers would perceive a profitable opportunity\(^{190}\). However, the case company believes that its buyers would hardly ever

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185 Grant (2004, P.82)
186 Barringer & Ireland (2006, 82)
188 Porter (1982, P.25)
190 Barringer & Ireland (2006, 83)
think of serving the same products like it. In fact, carmakers are encouraging the idea of outsourcing the various activities within the production process with the aim of minimizing the different costs. It seems here that this is an advantage for the case company seeing that this kind of threat is quite low. One need to imagine if this threat is high, then how could the case company face the massive power of these giant carmakers?

- **Information control.** The bargaining power of the buyers would strengthen once they obtain important data about the suppliers\(^{191}\). To the case company, its buyers are genius in doing market intelligence as they collect various data not only about the company but also about the other rubber subcontractors. Eventually, the bargaining power of buyers would be even stronger. This would significantly help the buyers as well to get the best deal in the market and to prepare reactive strategies in case of detecting future threats before their occurrence in the market\(^{192}\). This seems to be a rigid factor facing the privacy and the competitiveness of the case company.

- **Low profits.** The buyers would seek to reduce the various costs of their inputs once they identify a decrease in their profitability\(^{193}\). As the various carmakers are experiencing the same, they find it as a strategic choice to use their strong bargaining power and put pressure over their subcontractors to provide low cost products. In fact, putting this pressure over the suppliers is one of the common solutions that these buyers would adopt in order to maintain the profitability\(^{194}\). The question here is how much these subcontractors could reduce the prices; there must be a limit. Indeed, this situation would set strong pressure and challenge over the case company in term of enhancing its competitiveness.

### 5.6 The Role of the Government

Governments could have *direct/indirect influence* on the profitability of a particular industry in terms of the various investments in communication, social transportations and so on\(^{195}\). Indeed, the case company perceives that the Swedish government cooperates indirectly more often than directly in promoting the subcontractors of carmakers. Unlike the *indirect*, the *direct influence* usually stimulates negative effects on the competitiveness of the case company. The expression “*Sweden is built on high taxes and a generous welfare system*”\(^{196}\) highly shows the strong severity of the *direct influence* of the Swedish government. The case company further expresses its worries about the future plans of the Swedish governments if the new rule regarding increasing the salaries of the personnel by 10% each three years starts to be applied. The case company believes that once this new rule is applied there would be high possibility that the subcontractors will opt to move their production to Asia and Eastern Europe. The question here that one may arise is: could the government accept this strategic move of subcontractors from Sweden to other countries seeing that this move may lead to a serious clash in the Swedish job market? Yet, in this case the Swedish government may use its influential role in discouraging or refusing the plan of any kind of production move\(^{197}\); but, the case company believes that it would be quite difficult for the Swedish government to

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\(^{191}\) Porter (1982, P.26)  
\(^{192}\) Porter (1982, P.26)  
\(^{193}\) Porter (1982, P.25)  
\(^{194}\) Porter (1982, P.25)  
\(^{195}\) Sölvell et al.(1991, P.45-46)  
\(^{196}\) Andersson (2003, P.188)  
\(^{197}\) Porter (1982, P.20-21)
prohibit such production move. Therefore, providing attractive incentives to the subcontractors could be the strategic choice for the government so that they could keep the production in Sweden; knowing that they are facing a strong competition from their Chinese counterparts which are good at price competition. This would help the Swedish subcontractors to enhance their competitiveness in the marketplace to some extent.
Chapter Seven- Conclusions and Recommendations

This concluding chapter provides the reader with the answers to the main question and purpose of this study. Therefore, conclusions followed by some recommendations are presented. Finally, some of the interesting areas for further research are suggested.

6.1 Conclusions

As mentioned in the introduction part, the purpose of this thesis is to expand our understanding on the main causes that make maintaining competitiveness a challenging issue for companies in an industry; particularly to find out for companies the main aspects to take into consideration in order to maintain their competitiveness by means of industry analysis. Therefore, after a thorough analysis of the empirical data we find that each of the six forces/factors has a particular influence on the competitiveness of companies. They are summarized below:

- **The Threats of New Entrants**
  From the empirical analysis we find that the threats from the new entrants are quite high for the case company as they represent a big challenge for its competitiveness. Indeed, the case company and the other existing subcontractors are significantly not able to retrain the entry of the new players mainly because some of the barrier factors are not critically higher enough to discourage their entry. In a word, the threats of new entrants over the case company are still high with significant influence on competitiveness of the company.

- **Threat of Substitutes Products**
  We find that even though there is no substitute product to the case company’s product that could serve carmakers, these carmakers are still possessing superior bargaining power over the case company. However, over the long run the sealing product will become a strong substitute to the rubber in car production as soon as it becomes cheaper. In a nutshell, up to now the threats of the substitute products over the case company are still very low with no challenging influence on its competitiveness.

- **Rivalry among Existing Firms**
  We discover that the competition among the subcontractors of carmakers is rigorously intense as their number is higher today. Given the fact that the rubber sector is experiencing slow growth in addition to the absence of the opportunity to offer a meaningful differentiated product while the existing subcontractors are facing high overhead costs, the intensity of competition becomes even stronger and the switching costs for carmakers even lower. We find that this automatically pushes the case company and its rivals to focus mainly on price-competition strategy that typical leads to price-war among the subcontractors. Eventually, all these factors form a big challenge on the competitiveness of the case company and its whole industry.

- **Bargaining Power of Suppliers**
  We find that there are many powerful suppliers enjoying superior bargaining power over the case company and its rivals even though they are the main buying industry from these suppliers. In addition, the case company, unlike its suppliers, is significantly dependent on them with high switching costs. Moreover, the company is constantly afraid that one of its
suppliers could become part of its rivals in the future. We find also that the suppliers may indirectly and negatively affect the relationship of the case company with its customers (i.e. carmakers) if they send their products late or without enough quality. In brief, all the above facts would generate difficulties for the case company to maintain its competitiveness in the marketplace.

- **Bargaining Power of Buyers**
  We find that there are many subcontractors besides the case company that could serve the carmakers with the same/similar products. Besides, the case company is experiencing high switching costs and low bargaining power compared with its buyers. We find also that the buyers of the case company are efficient in doing market intelligence and sensitive to the prices and quality of the company’s products. This greatly facilitates the buyers to possess high bargaining power position over the case company although the products of the company could entail criticality to them. All in all the influence of the buyers is significantly challenging the competitiveness of the case company.

- **The Role of the Government**
  The Swedish government plays more *indirect* than *direct influence* on the case company. The *indirect* such as the means of transportation and communication are considered to have positive effects. However, the *direct influence* (e.g. the high tax system, the future plan to require companies to increase the salaries by 10% each three years) is the main concern for the case company; leading to negatively affect its competitiveness as the company will face difficulties in tackling price competition against the rivals from the emerging countries. In a word, the influence of the Swedish government is slightly damaging the competitiveness of the case company.

### 6.2 Recommendations for the case company

- **Threat of Substitutes Products**
  As identified in this study, the sealing product will become powerful substitute to the rubber products in car production as long as it would become cheaper. Therefore, we recommend the case company to be alerted and prepared for this event. The company is required to plan for all the necessary adaptations in production and logistical issues in order to facilitate the adoption of this future substitute in the products-line. We recommend the company to find out how to be the pioneer in producing the sealing product for carmakers. This would highly attract the customers of competitors to buy the sealing product from the case company if the reaction of the rivals is slow.

- **Rivalry among Existing Firms**
  As we discover that the price-war among the rubber subcontractors is a result of the high fixed costs that most of them are facing, we highly recommend the case company to locate efficiently where it is feasible to strategically reduce its high fixed costs. This may help the company to maintain a reasonable profitability even while enduring the negative effects of price-war.

  Based on the findings, the case company would face a big threat if a well-diversified competitor decides to pull massive investments on the rubber sector in order to further attract various carmakers. Here, we recommend the case company to further diversify its buying
industries in order to reduce the negative effects of this threat that may highly challenge its competitiveness.

- **Bargaining Power of Suppliers**
  According to the findings, even though the rubber subcontractors of carmakers are the main buyers for the suppliers, still, the latter is enjoying superior bargaining power. Thus, we recommend the case company and its rivals to establish a kind of cluster/association with the aim of joining their forces together and put pressure over these suppliers; eventually, the subcontractors would boost their bargaining power over the suppliers. Moreover, we recommend the company to learn from its suppliers how their bargaining power is enhanced.

  The findings show that the case company is dependent on the suppliers and it is facing their threat of becoming part of the rivals. Here, we recommend the company to adopt this old saying, that is to say, hope for the best and prepare for the worst. Indeed, the case company must plan for alternative suppliers that would satisfy its requirement before this event happens.

- **Bargaining Power of Buyers**
  The findings indicate that the giant customers (i.e. carmakers) of the case company are very good in doing market intelligence which gives them the ability to possess higher bargaining position over the company. Therefore, the case company must find out how to tackle this issue. On the other hand, we recommend the company to seek doing market intelligence as well in order to face the various threats in the marketplace.

- **The Role of the Government**
  Based on the findings, the negative influence of the Swedish government on the case company and its rivals are the high taxes and the future plan to require them to increase the salaries by 10% each three years. We therefore recommend the case company and its rivals to explain jointly to the Swedish government how this negative influence is not helping them to maintain their competitiveness in the marketplace. On the other hand, we believe that the Swedish government must play a positive rule in promoting these subcontractors of carmakers so as they could keep their production in Sweden; otherwise, Sweden may face job crisis in the future.

### 6.3 Further Research Areas

Here, a number of areas of interest for further research are presented below:

- In our study, we conducted a single-case study. Other research with multiple-case studies is highly appreciated with the aim of making a thorough comparison.

- We focused in this study solely on the rubber subcontractors. We greatly salute other studies focusing on other subcontractors such as the metal, surfacing, etc.

- Given that we limited our research to investigate the subject exclusively from the perspective of the subcontractor, other research based on the perspective of suppliers, buyers, government would give wider point of views about the subject.
Since the rubber sector is free from the existence of substitute products, other area of research could focus on a particular subcontractor who is facing a severe competition from strong and powerful substitute products.

In our study we decided to explore six factors influencing the competitiveness subcontractors (i.e. the threat of new entrants, the threat of substitutes, the rivalry among existing firms, the bargaining power of suppliers, the bargaining power of buyers, the role of the government). Other studies could precisely focus on the relationship between a rubber subcontractor and one factor from the aforesaid factors with a mega-in-depth investigation such as buyer-subcontractors relationship or supplier-subcontractor relationship. Moreover, other studies could include other factors that would help to explore comprehensively the subject from other angels such as “SLEPT” analysis (Social/culture, Legal, Economic, Political, and Technological).

Since our study is solely focused on Sweden, other studies could be performed in other countries. Besides, a comparison between Sweden and another country is encouraged.

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198 Doole and Lowe (2004, P.7)
References

• Books


• **Articles**


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  Günter Verheugen, Vice-President of the European Commission responsible for Enterprise and Industry, “Future Automotive Technologies: Road Safety, Environment and Beyond”; speech at “CLEPA Technology Day, Brussels, 10 May 2006”
  Mr. José Manuel Silva Rodriguez, European Commission, Director-General DG Research, Keynote Speech “EC Policies and Programmes concerning Research and Development for the Automotive Sector”; speech at “CLEPA Technology Day, 10 May 2006, Brussels”
  Sweden.se Website: “The Motor Vehicle Industry in Sweden”:
  The Scandinavian Automotive Industry Website

- **Interviews**
  Two face to face interviews are conducted with **Mr. X.** from the case company **Y**. February 09th 2007 and April 02nd, 2007.

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199 The name of the respondent is confidential
200 The name of the company is confidential
Appendix: Interview Guide Questions

- **General Questions**
  1. What are the most important cornerstones of your company’s history? Why?
  2. What is your core business?
  3. What is your role and position in the value chain in your industry?
  4. What kind of strengths and weaknesses does your company have?
  5. What would you consider to be your competitive advantage?
  6. What would you consider to be the competitive advantage of your product?
  7. On which markets are you present and active if they are any besides Sweden? Why?
  8. Then, how is your export share (in percent) between the different export markets?
  9. Which were the primary driving forces for your decision to start this kind of business?
 10. In your opinion, what do you think about the size of your company (small, medium, large)?
 11. What are your goals for the future? What about your vision? What is the mission of your company? What kind of strategies you adopt/plan in order to achieve them?

- **Questions Related to the threat of New Entrants**
  11. Is there any threat from new entrants in your industry? If yes from where and whom? What kind of threat they represent? How do they affect your business?
  12. What do you think about the number of the new entrants joining your industry? Is it large or small? Why?
  13. Does your industry require new players to possess large or small economies of scale? Why?
  14. Could diversification be good choice for new entrants to face strong competition of the already existing players? Why?
  15. Is it easy for the new entrants to offer differentiated products in your industry? Why?
  16. Does your industry requires high capital for new entrants? Why?
  17. Could your suppliers and buyers switch to the new entrant do business with? Why?
  18. Could cost saving (access to raw material, experience in production…) be considered as a barrier for new entrants? Why?

- **Questions Related to the threat of Substitutes Products**
  19. Is there any threat from substitute products in your industry? If yes from where and whom? What kind of threat they represent? How do they affect your business?
  20. Could substitute product result in a decline of your profit? Why?
  21. What will you do if you perceive that your substitute products are getting higher profits than you? Will you adopt/add them to your products offer? Why?

- **Questions Related to the Competitions**
  22. Who are your primary competitors?
  23. How many are they (few, many, large)? Is there any threat from the existing competitors in your industry? If yes from where and whom? What kind of threat they represent? How do they affect your business?
  24. What kind of preparations did your company went through to face them? Was it highly effective?
25. Do you think that competitors in your industry put pressure on each other to improve themselves (in terms of capabilities, quality, innovation, and so on)? Why?
26. Is there any frequent change of competitors in the market (some appear and others disappear)? Why?
27. Is there any market leader that regulates the prices so that there will be no price war in your industry? Why and how?
28. Does your industry belong to slow or high growth industries? Why? So what do you do in order to keep on adapting your company to the new changes in the market?
29. Which industry has a higher rate of competition? Slow or high growth industries? Why?
30. What should be done with a product with high fixed costs particularly storage costs? Why?
31. In case that a well-diversified competitor decided to pull more investments on your industry in order to become more competitive, what will be your situation? What will be your reaction?
32. Does excess capacity in production leads to the profitability of your industry to decline? Why? How you solve the problem of excess capacity?

- Questions Related to the Bargaining Power of Suppliers
  33. How many suppliers are the market (few, many. Large)? Which are your most important suppliers (Many, few, one...)? What is their size (small, medium, larger)?
  34. How much are you dependent on your supplier? How does the relationship look like? Who has more bargaining power? Why?
  35. How can the supplier threaten your profitability? Why?
  36. Do you think that your supplier could enter your industry in the future? Why?
  37. Does your suppliers are involved into critical parts of your products? How?
  38. Could you consider your industry as the main customer of your suppliers? Why?

- Questions Related to the Bargaining Power of Buyers
  39. Who are your target buyers/buyers (Many, few, one...)? How much are you dependent on your buyer/buyer? How does the relationship look like? Who has more bargaining power?
  40. Are you offering critical products to your buyers? How? Does you buyer show sensitivity to the prices? Why?
  41. Could your buyers easily switch from your company to another one? Why?
  42. Do you think that your buyer could enter your industry in the future? Why?
  43. Is it important for your buyers to get access to important data about your company in terms of prices and your various costs? Why?
  44. Does you buyer put continuous pressure on you to reduce the price and increase the quality? Why? How is your reaction?

- Questions Related to the Role of the Government
  45. How does the government affect your industry positively and negatively? Why?
  46. What do you think about the role of the Swedish government in promoting the automotive industry as well as in providing help and support to the suppliers like your company?