Total Quality Management as a Competitive Advantage

— From a Marketing Perspective

A Case study of HMS Industrial Networks AB and Ernst & Young LLP

Masters Dissertation in Marketing (30 credits)

Authors:

Ngasu-Betek Ngole
Haroon Munir

Supervisor: Venilton Reinert
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Abstract

This research study focuses on how a company can achieve competitive advantage through total quality management from a marketing mix standpoint. To gain a deeper grasp of the research topic, a research question was formulated and the thesis is based on the marketing mix and competitive advantage model which is the theoretical framework of this study.

The research is a qualitative study and the empirical data was collected from two international companies operating in Halmstad i.e. HMS Industrial Networks AB and Ernst & Young LLP.

The findings show that quality is not an extra cost for the company, rather it is a way to increase your productivity, the better quality you have, the fewer products you discard and the better planning you have. Hence it was deduced from the research that competitive advantage is achievable by ensuring proper quality management in the pricing, product, promotion and distribution strategies implemented by a company.
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1 Introduction

In this first chapter, the background to the study will be presented, followed by the problem discussion from which the purpose and the research question will emerge.

1.1 Background

In the global economy today, many companies resort to Total Quality Management to gain competitiveness in the market place and it has become an essential part of every organisation. Having an edge over your competitors, producing products and services that are of superior quality to that of potential rivals is highly sought for. Quality is a discipline that attracts the interest of managers at all levels of the organisation and it is no longer an isolated function, dominated by technical experts. At a growing number of companies, it has entered the corporate mainstream, becoming an activity as worthy of attention in the marketing of commodities. (Garvin, 1988). There is considerable and growing interest in quality for several reasons; customer’s increasing demanding quality requirements, higher competition in markets, demands for improved profitability and growing complexity of goods and services as well as product liability legislation (Sandholm, 2000). The most progressive organisations are embarking on a journey of transformation towards TQM and this is coupled with its spread, from manufacturing to the service sector and on to public services (Dale, 1999). The focus of this research is directed towards manufacturing and service companies, to examine how the tenets of TQM are applied by companies to achieve competitive advantage through the marketing mix i.e. Price, Product, Place and Promotion.

During the past decades, quality management has been recognised as a major edge for competitiveness and long term profitability (Isaksson, 2004). This is an art of Management that originated in the Japanese industry in the 1950s and has become steadily more popular in the west since 1980’s. According to Clark (1996), TQM is a management strategy that focuses on the awareness of quality within all organisational processes like R&D, manufacturing, marketing and administration. Simply put, it is the cooperation of everyone in the organisation and associated processes to produce products and services that meet and exceed the needs and expectations of customers. In this research project, TQM will be examined from a
marketing perspective to unveil how feasible is competitive advantage through these marketing variables. As the quality of life improves, demand for better quality products and services also increase. The emphasis on quality in product and services is forcing the industries to adopt internationally recognised and proven management systems in their operations to stay in the business (Jay, 2004).

Competitive advantage is at the heart of a firm’s performance in competitive markets. Many firms have lost sight of competiveness in their scramble for growth and pursuit for diversification (Porter, 1985). According to Porter (1998), competitive advantage is about how a firm actually puts the generic strategies into practice; how it can differentiate itself from competitors and how it can defend its competitive position.

According to Kotler, Wong, Saunders & Armstrong (2000), the marketing mix is the set of controllable tactical marketing tools that the firm blends to produce the response it wants in the target market i.e. price, product, promotion and place. These are those delicate areas in the field of marketing, that have to be managed effectively to meet and exceed the target customer needs better than the competition. They are the pillars of a viable marketing strategy and for a firm to successfully compete in the market place these variables need to be blended.

Since the 1980’s, the leading companies around the world have scrambled to adopt the Japanese business model based on quality Management. During the same period, most of the research writings on quality management in the academic research focused on understanding the impact of quality as a competitive tool (Garvin 1988). With regard to quality as competitive tool, a number of studies researched the topic of quality as to its implementation and the strategic potential it provides to a business. Benson et al (1991) quoted in Mehra & Agrawal, (2002), analysed the effect of an organisation’s quality background on its actual quality related advantage. In recent writings, some authors have strongly argued that quality and strategic planning are complimentary and that good quality management is the key source to competitive advantage (Fynes & Voss, 2001) cited in Mehra & Agrawal (2002).

TQM requires a change in the completely organisational culture where management is empowered and encouraged to use their capabilities (Singh, Qureshi & Butt, 2007). In an industry, there is always rivalry among companies for market leadership or
dominance, be it defined in terms of market share, growth rate, profitability sales revenue and so on. One way of achieving this objective is by instilling quality in the marketing mix, which entails offering quality products, quality pricing policies, promotion and distribution channels. Doing business in a highly competitive market is very challenging, hence TQM can be vital in enhancing a consultancy role of better products and services geared toward achieving a viable customer base.

The main theory of this research is competitive advantage, which will be correlated with quality and marketing mix. The idea behind this liaison is to examine the feasibility of competitive advantage by instilling quality into the marketing mix. In this light, a model initiated by Jobber (2001) will be used in this research, which portrays the relationship between competitive advantage, marketing mix and some quality dimensions. This is illustrated in fig 1.1 below.

**Fig 1.1: The Marketing Mix and Competitive Advantage Model**

<table>
<thead>
<tr>
<th>Customer</th>
<th>Economic</th>
<th>Psychological</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance</td>
<td>Self-image</td>
<td></td>
</tr>
<tr>
<td>Availability</td>
<td>Quiet life</td>
<td></td>
</tr>
<tr>
<td>Reliability</td>
<td>Pleasure</td>
<td></td>
</tr>
<tr>
<td>Durability</td>
<td>Convenience</td>
<td></td>
</tr>
<tr>
<td>Productivity</td>
<td>Risk reduction</td>
<td></td>
</tr>
</tbody>
</table>

Source: Principles and Practice of Marketing, By David Jobber (2001)
1.2 Research Problem

Total Quality Management is a management phenomenon brought into eminence by the Japanese and proven to be a potential competitive tool in the global business arena. It is an ideal weapon to meet and exceed the expectations of your clientele as well as enhancing repeat business. However, the problem that arises at this juncture is whether TQM is effective in achieving competitive advantage through the 4 Ps. Organisations need to identify this source of competitive advantage through quality improvement because it eases customer persuasion especially when the customers are knowledgeable or aware that the product is of quality.

The rationale of this thesis is to examine the relationship between total quality Management and competitive advantage from a Marketing standpoint i.e in connection to the 4Ps. The compatibility of these three theories in propelling a business forward towards success is also worth investigating.

1.3 Purpose of the Research

None of the previous academic researches emulated the liaison between TQM, competitive advantage and the marketing mix. This is the raison d'être why this project was undertaken and it forms the basis of originality. During the 1980’s and 1990’s, there has been an increasing global emphasis on quality Management and it has become a trend in today’s organisation (singh, Qureshi & butt 2007). Every second organisation is ISO certified to achieve the qualitative results at lower prices by reducing their waste. According to Wadsworth, Stephens & Godfrey (2001), the world is becoming a global village, the globalisation of trade has made high quality low cost products available through out the world, hence enhancing the competitiveness of international companies. Global competition has given the consumer access to high quality goods and services at affordable prices. Hence for companies to remain competitive they have to embark on quality management policies at all levels of the Marketing spectrum be it in terms of Advertising, Promotion, Price, Product features, or logistics (place).
The centre piece of this research is focused on one main question:

➢ How feasible is competitive advantage via Total Quality Management using the 4 Ps.i.e Price, Promotion, Place and Product.

1.4 Delimitation

The demarcation of this research is varied and geared towards manufacturing and service firms, to grasp the picture of how vital Total Quality Management is in achieving a competitive edge in this sector. As a result of time constraint, two case studies are chosen in order to complete the project in time and to gain a deeper understanding of the research topic as well as obtaining possible answers to the research problem. A qualitative investigation with one manufacturing and one Service Company is utilized, due to geographical and financial considerations.

1.5 Structure of the Thesis

The thesis starts with the introduction (chapter 1) which describes the background to the initiation of the thesis and contains one major research question to be answered in the end of the thesis. The purpose and demarcation are also included in this chapter. In Chapter 2, the theoretical frame of reference is treated to emulate the platform of the research. Chapter 3 describes the methodological choices and strategies utilised by the researcher. Empirical findings with a brief overview of the companies are addressed in Chapter 4. Discussion and case analysis follows in chapter 5 and finally in chapter 6, a vivid conclusion is drawn from the results obtained.
1 Literature Review

In this chapter, the relevant theories to the research question will be presented. This section starts with a sound concept of the marketing mix, next the Total Quality Management Approach will be analysed and then the theory of Competitive Advantage. In the last section, these relevant theories will be summarized in a conceptual framework.

1.1 The Marketing Mix

The marketing mix is the set of controllable tactical marketing tools that the firm blends to produce the response it wants in the target market (kotler, Wong, Saunders & Armstrong, 2000). Similarly the Chartered Institute of Marketing (CIM) describes it as the combination of tactics used by a business to achieve its objectives by marketing its products or services effectively to a particular target customer group (CIM Study Guide, 2004). In highly competitive, crowded markets it is absolutely essential for drawing customers towards your product. The advantage may be created mainly through one element of the mix, or through a combination of them (Brassington, 2000). A product may have a combination of high quality and good value (price and product) that a competitor cannot match. Hence an effective and unique communication campaign combined with an excellent product living up to all its promises can make an organisation’s offering stand out above its competitors. According to the findings of Blanc & Boutonnet (2006), the marketing mix variables are not considered with the same attention. Generally communication is the most important one even if the product is not forgotten.

To make the marketing mix continually useful and important to Marketing management, total quality should be blended as an element of the marketing mix. Since the key objectives of marketing, are the attainment of customer satisfaction, customer loyalty and long term customer retention, total quality and continuous improvement enable a firm to align its efforts to achieve the perpetual renewal of strategic differences.
1.1.1 Product

This involves deciding what goods or services should be offered to a group of customers (Jobber, 2001). A product is a physical and intangible attributes that individuals or organizations regarded as so necessary worthwhile or satisfying that they are prepared to exchange money, patronage or some other unit of value in order to acquire it. The product is at the heart of the marketing exchange. If the product doesn’t deliver the benefit the customer wanted or if it doesn’t live up to the expectation created by the other elements of the marketing mix, then the whole exercise has been in vain (Brassington, 2000).

An important element is new product development. As technology and taste change, products become out-of-date and inferior to competition, so companies must replace them with features customers value. It is the goods and services combination the company offers to the target market. There are relevant issues faced by an international marketer when planning and developing consumer products for global markets. As indicated by Jain (1989), there are two product strategies; standardization and adaptation or customerisation. Standardization means offering a common product on a national, regional or worldwide basis while Adaptation entails making appropriate changes in a product to match local perspectives. According to Jain (1989), there is need for product adaptation over standardization in order to cater for the unique situation and demand in each country, rendering the company’s products more attractive to the local market. Through Standardization, a company benefits from more rapid recovery of investment, easier organisation, reduced costs through economies of scale and effective control of the organisation. The decision for most companies to standardize or adapt is based on a cost / benefit analysis of what they believe the implication of adaptation and standardization might be for revenue, profitability and market share (Doole & Lowe, 2004).

1.1.2 Price

The amount of money charged for a product or service or the sum of the values that consumers exchange for benefits of having or using the product or service (Kotler, Wong, Saunders & Armstrong, 2000). Marketers should take into account the necessity to discount and give allowances in some transactions. Payments periods and
credit terms also affect the real price received in any transaction. These decisions affect the perceived value of a product or service offering (Jobber, 2001). At first glance, price might seem to be the least complicated and perhaps the least interesting element of the marketing mix, not having the tangibility of the product, the glamour of advertising or the atmosphere of retailing. It does however play a very important role in the lives of both marketers and customers and deserves as much strategic consideration as any other marketing tool. Price not only directly generates the revenues that allow the organization to create and retain customer at profit. It can also be used as a bargaining tool and a competitive weapon. The customer can use price as a means of comparing product, judging relative value for money or judging product quality (Brassington, 2000).

From the buyer's perspective, price represents the value they attach to whatever is being exchanged. The marketer has been making promises to the potential buyer about what this product is and what it can do for that customer. The customer is going to weigh up those promises against the price and decide whether it is worth paying (Zeithaml, 1988).

In the implementation of pricing strategies and tactics, it is essential to estimate the likely consumer and competitor response by evaluating similar situations which have arisen in other international markets. According to Doole & Lowe (2004), there are three main pricing strategies vis-à-vis international marketing; Standardisation or Ethnocentric Pricing, Adaptation or Polycentric Pricing and Invention or Geocentric Pricing. Standardization pricing is based on setting a price for the product as it leaves the factory, irrespective of its final destination. Whilst each customer pays the same price for the product at the factory gate, they are expected to pay transport and import duties themselves. Adaptation Pricing allows each local subsidiary or partner to set a price which is considered to be the most appropriate for local conditions and no attempts is made to coordinate prices from country to country. Invention Pricing involves neither fixing a single price, nor allowing local subsidiaries total freedom for setting prices either but attempt to take the best of both approaches.

According to Kotler (1996), the pricing strategy adopted by a company is based on the customer, costs and the competition, from which it has to examine thoroughly in order to enter into international markets.
1.1.3 Promotion

Decisions have to be made with respect to the promotional mix: advertising, personal selling, sales promotion, public relations, direct marketing and internet and online promotion. By these means, the target audience is made aware of the existence of a product or service and the benefits (both economic and psychological) that it confers to customers (Jobber, 2001). These activities communicate the product or service and its merits to target customers and persuade them to buy. According to Doole & Lowe, (2004), the promotion mix is elucidated as follows:

**Advertising:** it represents non personal and mass communication

**Personal selling:** it covers face-to-face and personally tailored messages.

**Sales promotions:** it involves tactical and short term incentives that attract the customers to behave in a certain way.

**Public relations:** public relations are about creating and maintain good quality relationships with many interested groups for example the media, shareholders and trade unions.

**Direct Market:** it involves creating one-to-one relationships with individual customers, often in mass market and might involve mailing, telephone and so on.

A generic marketing communications strategy centre around the extent to which a push or pull strategy could and should be adopted (Doole & Lowe, 2004). A push strategy means promoting the product or service to retailers and wholesalers in order to force the product or service down the distribution channel by using promotional methods, such as personal selling, discounts and special deals. A pull strategy on the other hand, means communicating with the final consumer to attract them to the retailer or distributor to purchase the product. In this case, mass advertising, sales promotions and point of sale promotions are the most obvious promotional methods.

1.1.4 Place

These are all company activities that make the product or service available to target customers. The place involves decisions concerning the distribution channels to be used and their management, location of outlets, methods of transportation and inventory levels to be held (Jobber, 2001). Placement plays important role in the success and failure of the product and also getting the competitive advantage. It is the responsibility of the marketers to make it possible that the right product reaches the
right customer at the right time. Place can be thought of as the distribution of the product in the most advantageous way possible.

The use of a retailing approach of distribution, such as door to door selling, common in inaccessible areas is worth mentioning. This mode develops a relationship approach based on proximity and it presents the advantages in the context of education, especially when the product is new and the consumers are unaware of it (Blanc & Boutonnet, 2006).

The objective is to ensure that products and services are available in the proper qualities, at the right time and place. Distribution channels consist of organisations such as retailers or wholesalers through which goods pass on their way to customers. If a firm is building an international competitive advantage in providing a quality product or service throughout the world, then channels that enable the firm to achieve rapid response in foreign markets will be important as will the development of a distribution system which gives total control in the market place and effective direct communication to their customers (Doole & Lowe, 2004).

According to Doole and Lowe (2004), most firms operating in international markets will endeavour to maintain a cost-effective balance between direct and indirect channels of distribution. Direct channels is a strategy whereby a firm uses its own sales force, in foreign markets where the company’s objective is to deliver high value solutions to buying problems in order to maximize customer satisfaction. This integrated channel generally affords the manufacturer more control and at the same time, brings responsibility, commitment and attendant risks. Integrated channels (direct) will be more helpful in ensuring that high levels of customer service will be achieved. Examples include; company-owned sales force, manufacturer’s agents e.t.c. Indirect channels on the other hand requires less investment in terms of both money and management time. Indirect channels also are seen to be beneficial in overcoming freight rate and negotiating disadvantages. An independent channel, therefore allows the international firm to tap the benefits of a distribution specialist within a foreign market such as economies of scale.
Figure 2.2: The 4Ps of the Marketing Mix

2.2. Quality

According to Oakland (1994), quality is often used to signify excellence of a product or service. Quality then is simply meeting the customer requirements and this has been expressed in many ways by other authors. For example fitness for purpose, features and characteristics of a product or service that bear the ability to satisfy a stated or implied need. In the draft international standard for quality vocabulary, quality is defined as the ability of a set of inherent characteristics of a product, system or process to fulfil requirements of customers and other interested parties (Sandholm, 2000). There must be a corporate understanding of the organisation’s quality position in the market place. It is not sufficient that marketing specifies the product or service because that is what the customer wants: there must be an agreement that the operating department can achieve that requirement (Oakland 1994). The benefits of making sure the requirements are met at every stage, every time, are truly enormous in terms of increased competitiveness and market share. Similarly Corbett and Rastrick (1999) defined quality as ‘you know it when you see it.

2.3. Total Quality Management Approach

Total Quality Management is a philosophy and practice of management that aims to enhance customer satisfaction through continuous improvement of product or service quality. Increasingly, organisations are recognising the strategic importance of quality management and have arrived at the conclusion that effective quality management can enhance their competitive abilities and provide strategic advantages in the market place (Anderson, Rungtunsunatham & Schroeder, 1994).

According to Mehra et al (2001) cited in Mehra & Agrawal (2003), there are key attributes that are essential for an effective total quality implementation. In the human resource dimension, the authors found that teams, incentives and training are indispensable. At the employee level, empowerment, recognition and reward systems play a crucial role in the success of quality systems. With regard to the management side, there should be a total management commitment to high quality with a visionary leadership, participative management, the development of quality standards and a strong commitment to customer satisfaction (Barczyk, 2000).
2.3.1. Total Management Commitment to High Quality

The top management and the entire staff of an organisation must be committed to the improvement of quality in all aspects of their operations (Barczyk, 2000). According to Anderson, Rungtunsunatham & Schroeder (1994), there should be a visionary leadership stating the role of top management in defining a long-range quality oriented vision of an organisation, implementing a plan of action and inspiring and motivating the entire organisation towards the fulfilment of this vision.

With regard to the management initiatives linked to quality practices, there should be adequate control throughout the supply chain. In some situations, it may require extension of the company’s supply chain to include internal production of some raw materials and/or components, reliable transportation and assuring timely communication along the value chain (Mehra & Agrawal, 2003).

2.3.2. Customer Satisfaction

The measurement of customer satisfaction often has been based on a customer’s perception of the quality of the products and services. Company reputation is in fact a major contributor of perceived quality. Its powers come from an unstated analogy: that the quality of products manufactured by a company today is similar to the quality of products it manufactured in earlier periods (Garvin, 1988). Customer satisfaction as stipulated by Anderson, Rungtunsunatham & Schroeder (1994), is an instrumental motivational force to quality improvement behind Deming’s approach to quality management.

2.3.3. Developing Quality Standards

In order to provide employees with guidelines, organisations must develop quality standards that can be used for comparison in quality control and measurement e.g. ISO 9000 and ISO 14000. ISO is a network of the national standards institutes of 157 countries, on the basis of one member per country, with a central secretariat in Geneva, Switzerland. According to ISO Management, ISO plays an important role in setting standardized and clear objectives in improving quality. According to ISO Certification, it helps the organisation to improve the quality of work by detecting potential nonconformities and causes of potential nonconformities in products and services (www.iso-quality-manuals.com, assessed on 15/03/2008).
These standards are not static. As an organisation works on problems to continuously improve its processes, its standards may change to reflect this improvements. In this regard, managers in manufacturing companies should not limit themselves to the use of their outdated technology. They should invest in new technology that will enable them to improve their productivity and competitiveness in the market place (Barczyk, 2000).

Based on the findings of Mehra & Agrawal (2003), if a company adopts quality standards, then their products must meet the required quality specification, regardless of where they are made. For other products, customer needs and competition would dictate the quality requirements.

2.3.4. Training

Training is defined broadly to include both skilled-based learning as well as education. Employees receive training in the use of quality measurement techniques so as to develop their problem-solving skills. Deming (1986) clearly emphasizes the importance of his thought that it applies to all levels of the organisation.

2.3.5. Participative Management and Empowerment

A central part of the TQM philosophy is developing a system in which there is a high degree of employee participation both at the bottom and in the middle levels of an organisation (Lawler, 1986 cited in Barczyk, 2000). It involves giving employees responsibility for quality and the authority to make decisions. According to Anderson, Rungtunsunatham & Schroeder (1994), there should be collaboration among different individuals, groups, where all entities are engaging in non-competitive, mutually beneficial, win-win activities.

Good, truthful and frank two-way communication is an essential process in quality management. Communication is the glue that binds an organisation’s efforts vis-à-vis total quality management. Communication channels in a quality oriented organisation flow upward, downward and laterally. Ineffective communication will doom the cleverest of quality management initiatives (Brocka and Brocka, 1992).

2.3.6. Continuous Quality Improvement

The concept of continuous improvement is receiving increased attention in part due to the inherent character of global competition that thrives upon the progress of product
quality (Garvin, 1988). Continuous improvement links higher quality to lower costs and higher market share (implying more satisfied and loyal customers) and provides organisations with the rationale for engaging in continuous improvements in quality. It entails better and better quality with less and less variation. Cost of quality must be kept at an acceptable level. If the cost is too high, it may have significant implications with regard to competitive pricing. Cost of quality includes costs of conformance and non-conformance (Mehra & Agrawal, 2003). Innovation is also integral to both the concept of continuous improvement; Deming advocated an incremental innovation over a wider span of the product life cycle, which makes it difficult for rival companies to copy (Deming, 1986).

2.3.7. Employee Incentives and Recognition

It is of great importance to develop a system of recognition and rewards for good ideas and meritorious quality performance. To encourage employees to provide ideas for improvement and perform in a quality fashion, a company needs a set of incentives. The incentives can be financial or non-financial, group incentives, as opposed to individual incentives, are most compatible with TQM (Deming, 1986). Recognition is worth important and leads to job commitment which represents the extent of agreement between the employee and the fundamental values and purpose of the organisation. To the extent that agreement exists, an employee could be more motivated to expend energy on organisational tasks and to provide high process, product and service quality to satisfy the organisational customers (Anderson, Rungtununatham & Schroeder, 1994).

Successful companies orient their activities distinctly towards the market. This means that they focus on their customers and their customer’s needs as well as keeping a close watch on their competitors. This is often referred to as market-driven quality (Sandholm, 2000).

According to Sandholm (2000), a marketing oriented approach to quality includes:

- **Focus on the customer**

  Customers, both existing and potential, are identical and their stated and implied needs are found out by means of market research. Customers are not forgotten once the goods or services have been delivered. The company takes initiatives to obtain information about what the customers think about the goods or services.
Customer attitudes are invested regularly and are given help when they need; any faults or failures are dealt with without trouble and at no charge.

- **Monitoring of competitors**
  
The company monitors competition on the market regularly and systematically.

- **Monitoring of trends**
  
  There are trends on the market. It is important to keep a close watch on the market in order to identify quickly and make the necessary adjustments.

- **Speedy Response**
  
  Lead times for new goods and services must be short. However, this should not mean that quality suffers. All activities from idea to product in the customer’s hand have to be planned and controlled in an organised way.
2.4. Competitive Advantage

‘Competitive advantage exists when a firm is able to deliver the same benefits as competitors but at a lower costs, or deliver benefits that exceed those of competing products. Thus a competitive advantage enables the firm to create superior value for its customers and superior profits for itself’ (Porter, 1985, p-3)’. Day (1984), discusses how to determine the value of a competitive advantage in the market by relating it to benefits which must be perceived by a customer group that is willing to pay for those benefits and cannot easily obtain those benefits elsewhere. The text also refers to the sources for advantages in the market as superior skills and resources, and links those sources to the ability of a business to either do more of something or do something better than is possible by its competitors.

Competitive advantage, from a simplistic standpoint, is that competitive edge that a company possesses over its potential rivals in the market place. The root cause of competitive advantage is a company’s relative ability to learn. This is a view shared by many authors in this field because it seems unlikely that competitive advantage can be created or sustained in the longer term without commitment to learning across the organisation (Gibb, (1997), cited in Jones & Tilley, (2003). Firms create competitive advantage by perceiving or discovering new and better ways to compete in an industry and bringing them to market, which is ultimately an act of innovation (Porter, 1985). Innovation shift competitive advantage when rivals either fail to perceive the new way of competing or are unwilling or unable to respond. There can be significant advantages to early movers responding to innovations, particularly to early movers responding to innovations, particularly in industries with significant economies of scale or when customers are more concerned with switching suppliers.

According to Porter (1985), Competitive advantage stems from many discrete activities a firm performs in designing, producing, marketing, delivering and supporting its products. He suggested 4 generic business strategies that could be adopted in order to gain competitive advantage. These strategies relate to the extent to which the scope of a business’s activities are narrow versus broad and the extent to which a business seeks to differentiate its products. The differentiation and cost leadership strategies seek competitive advantage in a broad range of the market or
industry segments. By contrast, the differentiation focus and cost focus strategies are adopted in a narrow market or industry. For the sake of this research, emphasis will be placed on the differentiation and cost leadership strategies.

2.4.1. Cost Leadership

Cost leadership is manifested when the company works hard to achieve the lowest costs of production and distribution, so that it can price lower than its competitors and win a large market (Kotler, Wong, Saunders, & Armstrong, 2000). This objective is to become the lowest-cost producer in the industry. This strategy is usually associated with large scale business offering standard products with relatively little differentiation that are perfectly acceptable to the majority of customers. A cost leadership competitive strategy helps reduce the threat of new entrants by creating cost-based barriers to entry, such as economies of scale and cost advantages independent of scale. (Barney, 1997). Firms with a low cost position also reduce the threat of rivalry. The threat of rivalry is reduced through pricing strategies that low cost firms can engage in.

Porter (1998) claims that if a firm can achieve and sustain overall cost leadership, then it will be an above-average performer in its industry provided it can command prices at or near the industry average. The strategic logic of cost leadership usually requires that a firm be the cost leader, not one of several firms vying for this position. When there is more than one aspiring cost leader, rivalry among them is usually fierce because every point of market share is viewed as crucial. According to porter, unless one firm can gain a cost lead and persuade others to abandon their strategies, the consequences for profitability can be disastrous.

2.4.2. Differentiation

This is when a company concentrates on creating a highly differentiated product line and marketing programme, so that it comes across as the class leader in the industry. (Kotler, Wong, Saunders & Armstrong, 2000). Product differentiation is a competitive business strategy whereby firms attempt to gain a competitive advantage by increasing the perceived value of their product or services (Barney, 1997). The existence of product differentiation, in the end, is always a matter of customer
perception, products sold by two different firms may be exactly the same, but if customers believe the first is more valuable than the second, then the first product has a differential advantage.

According to Porter (1998), differentiation selects one or more attributes that many buyers in an industry perceive as important and uniquely positions it to meet needs. Porter claims that differentiation can be based on the product itself, the delivery system by which it is sold, the marketing approach and a broad range of other factors. A differentiation, must always seek ways of differentiation that lead to a price premium greater than the cost of differentiation. According to Porter, the logic of the differentiation strategy requires that a firm choose attributes in which to differentiate itself that are different from its rivals. A firm must truly be unique at something or be perceived as unique if it is to expect a premium price.

Timing, location, and company reputation are aspects that are very vital for product differentiation (Barney, 1997). Introducing a product at the right time can help create product differentiation; the critical issue is to be the first mover to introduce a new product before all other firms. Reputation is difficult to develop but once developed tend to last a long time. The ability of the firm to develop, nurture and improve its reputation depends on customer experiences with that firm’s products and services.

### Literature Review

#### 2.5. Porter’s Five Competitive Forces

According to Porter (1985), a firm develops its business strategies in order to obtain competitive advantage over its competitors. It does this by responding to five primary forces: (1) the threat of new entrants, (2) rivalry among existing firms within an industry, (3) the threat of substitute products/services, (4) the bargaining power of suppliers and (5) the bargaining power of buyers. A company assesses these five competitive forces in a given industry, then tries to develop the market at those points where the forces are weak (Porter, 1979). For example, if the company is a low-cost producer, it may choose powerful buyers and sell them only products not vulnerable to competitive forces while exploiting its unique advantage. A company can also achieve competitive advantage by altering the competitive forces. For example, firms establish barriers to deter new entrants from coming into an industry by cultivating unique or capital-intensive resources that new firms cannot easily duplicate.
2.6. The Marketing Mix and Competitive Advantage Model

A competitive advantage may be derived from decisions about the 4Ps. A competitive advantage is a clear performance differential over the competition on factors which are important to customers (Jobber, 2001). Companies have used product features to convey customer benefits in excess of what the competition is offering and this can be regarded as an attempt to establish a competitive advantage through product decisions.

According to Jobber (2001), low prices can also be used to establish a competitive advantage, a key customer requirement for most groups of customers. Using advertising as a tool for competitive advantage is often used when product benefits are particularly subjective and amorphous in nature. The size and quality of the sales force can act as a competitive advantage. Finally, distribution decisions need to be with the customer in mind not only in terms of availability but also with respect to service levels, image and customer convenience.

The starting point is the realization that customers evaluate products on economic and psychological criteria. Economic criteria include factors such as performance, availability, reliability, durability and productivity gains made by using the product. Examples of psychological criteria are self-image, a desire for a quiet life, pleasure, convenience and risk reduction. It is worth noting that these factors are linked to the philosophy of quality dimensions based on customer choice and taste. Hence meeting or exceeding these requirements better than the competition leads to the creation of a competitive advantage.
3. Methodology

In this chapter, the method for the data collection will be presented. Throughout the chapter, different Perspectives on research methods will be explained, along with justifications of the specific choices made for the study.

3.1 Research Purpose

In this section, the general research appropriate to this research project will be presented in order to collect data, to analyse and to understand how HMS Industrial Networks (Electronic Software Company) and Ernst and Young achieve competitive advantage through the Total Quality Management using the Marketing mix. This dissertation is based on the realist research that involves structuring a problem by breaking it into its constituent parts and analysing the recurrent patterns of the relationship between these parts (Fisher, Buglear, Lowry, Mutch, & Tansley, 2004).

This research is based on investigating how achievable is competitive advantage through Total Quality Management using the Marketing Mix. This is the focal point of this study from which relevant data is obtained through interviews with two renowned international companies i.e. HMS Industrial Networks and Ernst and Young.

3.2 Research Methods

There are two types of research methods that can be used when conducting a research; qualitative and quantitative methods. The use of one method does not exclude the use of the other; in fact both methods can be used within the same research. The distinction between the two research methods is linked to the treatment of data and the way the data is analysed (Denscombe, 1998).

According to Malhotra (1999), qualitative research provides insights and understanding of the problem setting. It is used to gather information that cannot be quantified for example feelings, thoughts, intentions and behaviour (Aaker, Kumar & Day, 1998). Qualitative research is chosen as the ideal research method in this study.

The main reason to use the qualitative research method is that it provides a broader and in depth understanding of the research problem. Qualitative research approach is an inductive approach which seeks reasoning by the process of observation of a phenomena or situation. Qualitative research tends to catch words as the central way of the analysis and tends to distinguish things in context and how things link together.
(Denscombe, 1998). For example, the relationship between competitive advantage and TQM in the marketing context. It is more suitable when conducting smaller and more in depth studies (Yin, 2003).

Quantitative research on the other hand is a way to produce numerical data, which is objective in the sense that they exist independently and they are not a result of too much involvement from the research. It mainly seeks to produce a data and to transform it from observations, reports and recordings into quantifiable numbers (Denscombe, 1998).

### 3.3 Type of Research

According to Yin (1994), there exist 3 types of research namely, exploratory, descriptive and explanatory.

Exploratory research is a type of research conducted because a problem has not been clearly defined Yin (1994). It helps to determine the best research design, data collection method, and selection of subjects. Given its fundamental nature, exploratory research often concludes that a perceived problem does not actually exist. The results of exploratory research are not usually useful for decision making by them, but they can provide significant insight into a given situation. Although the results of qualitative research can give some indication as to the “why”, “how”, and “when” something occurs, it cannot tell us “how often” and “how many”, (Gummesson, 1991).

Explanatory research is a style of research in which the primary goal is to understand the nature or mechanisms of the relationship between the independent and dependent variable. It uses experimental design and it is the most rigorous of all the research designs that allows causal inferences to be made. Explanatory research uses a random sample and randomization of subjects (Gummesson, 1991).

Descriptive research describes data and qualities about the population or phenomenon being studied. Descriptive research answers the questions who, what, when and how. Although the data description is factual, accurate and systematic, the research cannot describe what caused a situation. Thus, descriptive research cannot be used to create a causal relationship, where one variable affects another. Often the best approach, prior to writing descriptive research, is to conduct a survey investigation (Gummesson, 1991).
The research type of this study is descriptive but starts with some exploratory research based on secondary data to provide a clear insight on the dynamics between competitive advantage and total quality management from a marketing perspective.

### 3.4 Population and Sample of the Research

A Population is the aggregate of all the elements, sharing some common set of characteristics that comprise the universe for the purpose of the marketing research problem (Malhotra, 1996). The population group comprise of international companies operating in Halmstad which makes research follow-up easy. For circumstances, linked to money, time and diligence, researchers prefer to focus on their city of habitat.

A sample is a subgroup of the elements of the population selected for participation in the study (Malhotra, 1996). Judgemental sampling is used in this research and it is often called purposive sampling, where the sample elements are hand-picked because it is expected that they can serve the research purpose (Churchill & Iacobucci, 2005). Purposive judgement samples may be useful in exploratory designs. When researching for ideas and insights, the researcher is not interested in sampling a cross section of opinion but rather in sampling those that can offer some perspective on the research question (Ibid).

Two samples are chosen in this study; HMS Industrial networks which represents manufacturing companies operating in Halmstad as well as Ernst and Young, representing the service companies. The selection criterion of these companies was based on their internationalisation i.e they must be international companies and operating in Halmstad. More so, these companies are operating in a highly competitive market place with rival companies striving to outsmart them, hence it is really vital to discover or unravel, the quality strategies implemented by HMS and Ernst and Young, to achieve competitive advantage over its rivals through the marketing mix.

HMS industrial network and Ernst and Young are the convenience judgemental samples for this case study. According to Lunsford TK and Lunford BR (1995), a convenience sampling is a sample where the elements are selected, in part or in whole, at the convenience of the researcher. The researcher makes no attempt, or only
a limited attempt, to ensure that this sample is an accurate representation of some larger group or population.

3.5 Instruments of Data Collection

Case studies are most appropriate for research focusing interest on contemporary events, actual situation of the company and even future strategies and that is why it is being used in this study. According to Aaker, Kumar & Day (1998), a case study is a comprehensive description and analysis of a single situation. Yin (1994) describes a case study as an empirical inquiry that investigates a contemporary phenomenon within its real life context, especially when the boundaries between phenomenon and context are not clearly evident. The purpose of case studies is to seek conformity between the results and the theory. This means that the theory helps to identify other similar events to the result that can only be generalized after further studies (Yin, 1994).

3.5.1 Primary Data

The primary data is collected from the interview with the management of these companies. The selection criterion of the interviewee is based on his or her marketing knowledge as well as his or her position in the company i.e. the interviewee must have authority dealing with marketing issues. It is conducted in correlation with the theoretical framework which helps us to ask questions that fit more accurately to our research problem and also to get pure information. This helps the interviewer to understand what he or she is investigating about and what is the ideal way to explain it, as well as saving time.

The primary data is based on a one-on-one focused interview with open-ended questions which allows the respondent to elaborate freely and open-mindedly without feeling restricted. In a one-on-one interview, the interviewer tries to build a rapport quickly and then proceeds through a set of questions, from the general to the more specific, with the list of questions intended more as a guide than a structured survey (Churchill & Iacobucci, 2005).

A tape recorder is used during the interview process and the interview questions are classified into 3 three categories (as mentioned in Fig 3.1 below) with questions relating to the Marketing Mix, Total Quality Management and Competitive
Advantage. These questions were linked to the topic of this research which is based on how a company can achieve competitive advantage through Total Quality Management using Marketing Mix.

**Fig 3.1: Information Consider in Research**

<table>
<thead>
<tr>
<th>Information Category</th>
<th>Information</th>
</tr>
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| Marketing Mix Strategy        | ➢ Product Differentiation Concept  
➢ Product Strategy (Product or service Standardization and Adaptation).  
➢ Pricing Policy (basis of Pricing policy i.e. costs, consumer or competition).  
➢ Promotion Strategy  
➢ Distribution Strategy |
| Total Quality Management      | ➢ TQM Approach i.e. Management commitment to high quality, customer satisfaction, Quality standards, Training, Participative Management and Empowerment as well as Employee incentives and Recognition. |
| Competitive Advantage         | ➢ Objective of gaining competitive advantage.  
➢ Cost leadership.  
➢ Porter’s competitive forces.  
➢ The role of performance, reliability, durability, convenience and risk of the product vis-à-vis competitive advantage. |

### 3.5.2 Secondary Data

The secondary data is obtained from a wide variety of sources, with the main source being the internet. As Eloise (2001) stated, the internet provides market researchers with a new environment for research. Since the internet provides good opportunities for the research, the internet has been used as an efficient tool to find quite a lot of useful information concerning the research topic.

There are mainly 6 sources of evidence that are commonly used in the case studies according to (Yin, 2003): documentation, archives, interviews, direct observations, participate observations and physical artifacts. In this case study, we have decided to use the interview data collection method to conduct the research and analysis.
Methodology

3.6 Data Analysis
According to Yin (1994), the researcher, preparing a case study, can choose between two general analytical strategies, relying on theoretical proposition and developing a case description. The theoretical proposition is the analytical strategy chosen for this study and it is the most commonly used strategy based on questions taken from previous studies. The findings of the study can then be compared to the result from previous studies Yin (Ibid). Two case studies will be examined and a cross-case analysis will be carried out.

3.7 Validity and Reliability
The researcher has to measure the degree of validity of his research. Four tests are often used to establish the quality of any, empirical research. These four tests are: construct validity, internal validity, external validity and reliability (Yin, 1994).

According to Yin (1994), there are three kinds of quality tests regarding the validity of a study, namely:

- **Construct Validity**: which is establishing correct operational measures for the concepts being studied.
- **External Validity**: concerns establishing the domain to which a study’s findings can be generalised.
- **Internal Validity** refers to establishing a causal relationship, whereby certain conditions are shown to lead to other conditions, as distinguished from spurious relationships.

Yin (1994) notes that internal validity only applies to explanatory and causal studies and not for descriptive or exploratory studies. Since this research is mainly descriptive the internal validity will not be tested.

Construct validity concerns the establishment of correct operational measures for the concepts being studied. There are three ways to increase the construct validity. First is to use multiple sources of evidence, during the data collection. The second way is to establish the data collection. The third and final way is to construct a case study report which is reviewed by the key informants (Ibid).

With respect to conformity of validity of this research, multiple sources of evidence during the data collection is used (the interview and internet), a tape recorder was
Methodology

used in collecting the data and the interview was conducted with the right person dealing with Global sales and marketing of the companies under study. According to Svenning (2000), reliability is a concept that decides if the results are reliable. If you conduct two researches of the same kind, with the same method and purpose you should, in a non-changing population, get the same or similar results.
4. Empirical Study: Two Case Studies

The data for these case studies were collected through face-to-face interviews. At HMS Industrial Networks, we interviewed the Director of global marketing and sales (Staffan Dahlstrom) on the 2nd of April 2008 at the Company Headquarters located in Halmstad and it took approximately 30 minutes. Meanwhile in Ernst and Young, we interviewed Per Spolen who is the authority in charge of Marketing on the 8th of April 2008 and it took approximately 45 minutes. In both interviews a tape recorder was used during the interview process.

The interviewees were ideal because the theme of research is related to their sphere of interest i.e. marketing and it was a very warm and enchanting encounter, being able to gather as much relevant data as possible from the interview.

4.1 HMS Industrial Networks AB

HMS Industrial networks was founded in 1988 and became the leader in the field of industrial networks. It develops, produces and markets intelligent communication technology for automation equipment. (www.hms.se, assessed on 11 / 03 / 2008). HMS employs over 155 persons globally, of which 30% are full-time engaged with Research and Development. The head office, product development centre and main manufacturing facility is located in Halmstad, Sweden. Other offices include sales and support offices in Karlsruhe (Germany), Chicago (US), Shin-Yokohama (Japan), Beijing (China), Milano (Italy) and Mulhouse (France).

HMS has also built a global “Anybus” distributor network established in 30 countries worldwide. The group has a customer base of more than 1000 companies, including large automation companies such as ABB, Atlas Copco, Motoman, Rockwell automation, Schneider Electric, Siemens and Yaskawa. Products from companies such as Toyota, Daimler Chrysler, Nestlé, IKEA, Bosch, Peогоet, electrolux and General Motors are manufactured in automations systems HMS communication technologies.

Marketing Mix Strategy

HMS tries to understand what the customer benefit is, in relation to the objective for differentiating their product. “The company never looks at how competitors solve problems; instead they work with their own solutions which might be better or worse
than the competition.” “HMS doesn’t looks at competition as a benchmark for product development rather it does a lot of products by innovation and based on customer benefits.”

Company reputation is very important vis-a-vis product differentiation because the products manufactured by HMS are used for installing big machines that are in oil, gas and paper mills, and if they break, it will cost a lot of money for the owner and so reputation and quality is extremely important for the company in the industrial market. “The timing is also worth mentioning; the first product (HMS) was launched in 1995 and the same products are still shipped to the same customers, hence we talk about products with very long life cycles.” The company has a market opportunity of several years i.e. five, six, seven years, during which a product can be sold. According to HMS, the market they launch is based on when the product is available, the documentation, training and things like that.

HMS responds to out-of-date products as technology and taste changes by discontinuing old products that have very long life cycles, as well as keeping old products alive for a long time. They are quite a new company and don’t have a lot of old products but more and more problems are encountered with the older products because when they are taken away from the market, some customers are dissatisfied because they need the product.

In relation to the product policy utilised by the manufacturing company, they look at the needs of market when developing the product from the outset. More so, in some countries, certain certifications and functions are needed but normally HMS has these requirements from the beginning before new products are specified. For example in Brazil, the company might need to do some product adaptations but it’s more case by case.

“The Pricing Policy utilised by HMS is such that in each of the major countries where they have their own subsidiaries, they sell in the currency of that country for example in North America, they sell in US Dollars, in Japan they sell in Yen, in Germany and Europe they sell in Euro, in Great Britain, in British pounds.” So, the company tries to adapt to the local currency of the major markets but when they sell to Brazil for example, they don’t convert to their local currency; instead they sell in US Dollars or Euro. According to HMS, if they have the same price in Euro and US Dollars at the same time, when the currency fluctuates, then the US Dollar goes up and the Euro...
goes down, the prices are not normally changed. So they tend to stick to the market price of the local currency of the market.

HMS always tries to get the feeling of what the customer value is and what competitors charge for their products. Then, they try to determine the cost for manufacturing the product that can make enough money on it. The most important criterion for the pricing policy according to HMS, is the customer value and benefit for the customer and secondly the competitors and third, the costs of the product.

In connection to the pricing strategy used when launching a new product, the company tends to put the price a little more on the expensive side, when they are not sure about the market price. This is because if it is a wrong product idea, it is easy to lower the price. But if they are not sure and price it low, it is almost impossible to raise the price later.

HMS never lowers the price to come under the competition because they think they have better quality products. When the competition is tough, they lower the price to come close to the competition and the sales force should always be able argue correctly a 10% price higher than the competition, if the company cannot get that, then the customer does not recognise the quality of the product. Hence, HMS tries to be cheaper but also strives to be in line with the competition.

The company embarks on international trade shows, and adverts in some magazines as its promotion strategy. This not withstanding, the most important are technical articles written by engineers about technology and to show that the company represent knowledge in the communication software technology industry. To be able to have the magazine published (these articles), you need to be a customer; you need to buy some adverts to get some technical articles in this magazines as well as the website. Industrial websites and industrial trade press are the media often used to promote their products. HMS has 1000 customers worldwide and may be 50 in Sweden, so if the company is successful, it might get 20 more customers its domestic market. HMS does not deal in commercial products, rather it operates with industrial products, so they cannot broadcast information about the product on the TV (broadcast media), instead they focus on a set of potential customers, other wise known as pin-point marketing.

Logistically, HMS has a distribution network with exclusive HMS distributors in 30 countries but they also have their own subsidiaries in 6 countries, so it is a mix of
distributors and direct sales. Furthermore they have a similar distribution structure in the key markets, focusing on the major industrial markets.

**Total Quality Management Approach**

The management commitment to high quality is very strong and active. The management team meets every quarter to review quality and the management team recognises quality as one of the key factors for success. “Ten years ago, products could be sold without high quality but today it is impossible to sell a product without high quality and you must have high quality or otherwise you are not part of the game. In different markets like Japan, they are very detailed and know more about quality and always want to know the root cause of mistakes, so that they can analyse why there was a failure in order to become better next time. In America, it is more “this doesn’t work, send me a new one”. So different markets have different quality demands. Quality is really both important for the company as well as their customers. Because the cost of failure is tremendous, HMS has embarked on quality goals which is aimed currently at 500ppm (Power per million), this means that if the company manufactures 1000 products, and if one breaks we have 1000 ppm and so if we have 10,000 products that are manufactured, 5 of them can fail and the company goal is to come to 100 ppm which represents very high quality targets.

HMS is certified according to ISO 9001-2000 and they work a lot with continuous quality improvements within all organisational processes, as a way to respond to the changing nature of these quality standards. It is a framework that helps to organise operations efficiently and it is the responsibility of the company to fill it with a lot of details and daily task. The possession of ISO 9000 doesn’t mean you have high quality, it just means you have a quality system; you can have cheap quality but still be ISO 9000. HMS began with a new standard and ISO 9001 had a 1994 version and the 2000 version. They began with the 2000 version and were the first in Sweden to get this certification. So, HMS works with this certification organisation, once or twice a year and this helps the company to improve quality. This certification organisation is not regarded as a police to check the company regularly rather they are regarded as a partner to help the organisation to improve even more.

In relation to training given to employees, the company has different levels or techniques on how to manufacture a product. Within certain rules, when HMS used to
be a small company, there were more people with full authorization to take their own
decision vis-à-vis ensuring quality. Today with the large size of the business, it is
more like, “this person does this and this is what they can change”. In a nutshell,
everyone has the rights to say “this is not good, i can’t do this and we need to change
this”.
HMS utilise a mix of formal and informal communication in ensuring top quality. IF
a problem is seen and someone starts to write a big report to some manager about it, it
will take a long time. For small problems, it is important to solve the problem yourself
and you feel it is your responsibility to solve it. But when you see for the second time,
the same problem is coming, then you should file a report about it because then you
see that it didn’t help to fix it, so the structure of the way things are done need to be
changed. Based on communication, the company does a lot of measurements when it
comes to their quality targets and these are openly communicated to everyone, so they
can see what is good or bad.
To encourage the employees to perform in a quality fashion, HMS works a lot with
“Kaizen”, which is a Japanese philosophy that entails involving every employee in the
quality work. Quality is not about having a quality department, it is about everyone in
the company being able to understand how they can be better and HMS works with
small continuous improvements, “doing this better and better all the time”.
The recognition given for merit based quality performance is based on team effort.
There is no financial reward at the moment and with respect to rewarding inventions,
the company does not have a system for it and it also depends on if you work in the
development department and you come up with an invention, that’s what you are
hired to do, hence the company does not really have a programme for this type of
innovations. It probably also depends on the function of that person and if you are
hired to develop products, you get your salary, so your job is actually to invent
products. HMS is a public company and has a stock programme where employees can
buy stocks and be part of the company and everyone is interested that the company is
successful.

**Competitive Advantage**
The decision of potential customers to have HMS as a business partner, rather than
their competitors depends on the products on offer as well as their unique selling
points. It comes down to quality, technology and customer service. The company vision is to take care of their customers and don’t regard themselves as a supplier but as a partner with each customer, to become a good partner with them and to solve their communication problems.

HMS Industrial Networks AB is working in a very small segment of the market called industrial communications. They work in a worldwide basis and deal in specialised products for industrial applications. HMS doesn’t really have a problem of having many competitors but they have two or three head to head competitors for example the ABB group (Automation and Power technologies), which is its main competitor. This notwithstanding there are technical differences between the manufacturing company and its competitors, for instance HMS is double the size of its competitors and most of their competitors are small companies that are regional. HMS has two or three competitors in Germany. In many cases, their biggest competitors are their customers. Companies like ABB (Automation and Power technologies) and Siemens and other big companies develop their own communication products. The trend now is that, HMS is striving to offer these products to these companies so that they can benefit from zero development costs and zero time to market the products. By buying from HMS, these companies can save a lot of money and use their engineering resources to focus on other things. This philosophy is called “making versus buying”. So, this is a trend in the industry that companies are trying to find partners like HMS, that of course companies like ABB Group (Automation and Power Technologies) could say “why should we use you”? “We have done this for 20 years ourselves, so we can continue to having our own resources”. Therefore HMS comes in and competes with the internal resources of these companies; hence it is more of a substitute than a competition.

Gaining a lead in the market for communication devices is a top priority for HMS. Every company in this business would like to work with the winner because the winner has the highest volumes; the one with highest volumes probably has the lowest costs and the biggest profits, and the one with the biggest profits is more successful and potentially will survive the longest time, which means they can have a partner for a very long time. Many companies in this industry and many others always tend to work with the market leader. According to HMS, they are the market leader in the market for communication devices for automation equipments but it is also important for them to be perceived as a marker leader. People might think a company is the
market leader, meanwhile it isn’t. To be perceived as a market leader is the key for the company.

HMS does not respond too much to competition among existing firms in the industry for communication devices. They don’t look too much on the competition. The competitors keep them alert and need to be watched but it is not really a competitive market at the time. In connection to the response to the threat of new companies in the industry, HMS tries to follow that. Communication devices for automation equipment are a very small market segment, so it is not a lot of companies that are entering this business. It’s more or less becoming a little bit solid and mature but when a new company comes in, they are being watched quite closely. HMS is more concerned about the threat of substitute products. There might come a new machine / technology that can solve a particular problem in a completely different way. So, it becomes like a something new in the market, that is difficult to follow and that it what HMS is more concerned about, that someone comes up with something completely different that actually competes with their products as a substitute.

The company follows a low cost of production strategy in order to get lower costs and more profits. More so, if HMS can get lower costs, it might be able to enter into certain market segments where the cost is very sensitive; today the company can’t go there. So, the company is looking for how it can reduce the costs of their products and technology, to enter into new markets that they cannot access today, not to survive but to expand further. So cost is very important for the growth and success of the company.

The performance, reliability and durability of the product in achieving that lead in the market is very important in this communication software industry. This is because if you buy a mobile phone or CD player, after three years, you anyway want to buy a new one because there is a new technology available, but the products offered by HMS are used for 10 years and they are expected to work everyday 27/7 in 10 years.

The ease of use and risk reduction of the product also plays a vital role in achieving competitive advantage. HMS is at least double the size of their competitors and so if the company is large, there is less risk to work with it because they are more financially stable. Some customers only focus on a short term i.e. on ease of use and price, which makes them happy. Other customers especially larger companies look more on what is the cost of a life time and how HMS makes sure there is less risk, so
the larger customers the company has, the more risk assessments they are doing. Small customers just buy the products and seem to be happy. Quality is not an extra cost; it is a way to increase your productivity. The better quality you have, the fewer products that you discard, and the better planning you can have. In the automobile industry, with Toyota versus General Motors, much quality can be seen in making your performance grow. Initially people think quality is a cost but long term quality is an asset that can make you more competitive. If you have good quality, the cost of your manufacturing is probably lower. So, this means that you get less warranty claims and high productivity as well. You cannot charge more for a quality product because today people expect quality from the beginning, so if you have a low quality, you will not be able to sell it at all, so quality is a must that customers don’t want to pay for but is a base requirement.

4.2 ERNST & YOUNG LLP

Ernst & Young is an international service company founded in 1989. It provides global services in assurance, tax, transactions and advisory (www.ey.com, assessed on 05/04/2008). Ernst & Young is a global leader in assurance, tax, and advisory services. There are 130,000 talented people working for the company with a shared way of working and commitment to quality. Globally, Ernst & Young focuses on seven major industry groups: financial services; technology, communications and entertainment; energy, chemicals and utilities; industrial products; retailing and consumer products; health sciences; and real estate, hospitality and construction. Their practices provide specific services for additional industries on a country-by-country basis (IBID).

It aims to have a positive impact on businesses and markets, as well as on society as a whole. Through these services, Ernst & Young helps to retain the confidence of investors, manage risks and strengthen controls and achieve potentials. They assemble the right multi-disciplinary team for their business, drawing on their global network of professionals. Their open culture offers continuous personal and professional development because when their people grow and succeed; it is the company that benefits (IBID).
Marketing Mix Strategy

There exist four big companies in this auditing and assurance business i.e. Pricewaterhousecoopers, Lloyds, KPMG and Ernst and Young and there are not many differences between the services offered by Ernst and Young and its competitors. This is because they are compelled to follow a lot of rules and policies, besides the company have auditing gaps that are similar to those of its competitors. Ernst and Young tries to work very closely to its customers, listening a lot about their wishes and demands and trying to deliver not only what they are compelled to deliver but to deliver a little bit more value. That’s the company philosophy or way to work and their customers are very satisfied with their way of working; Ernst and Young are very much customer oriented, it is a dialogue and the objective is to deliver more value to the customer.

The services offered by Ernst and Young are almost similar from year to year but there are lot of changes in tax laws, accounting laws and so on. If a piece of advice is given today concerning taxes, that same advice can’t be given in a future date because of the enactment of new laws. So the company responds immediately and does not give advice that is out-of-date. All the same, they have to listen and learn what is changing now in order to make certain adjustments in that light.

Ernst and Young do not have to modify their services to satisfy the needs of their clients abroad; the company is striving to work in the same way all over the world. They don’t work directly with a client abroad, rather a report is sent to an auditor who works for Ernst and Young abroad and he or she has the contacts with the client. So, it is not a big deal for Ernst and Young and they always try to communicate in the same way all over the world. More so, the way the service is offered is very standard, having a lot of specifications with respect to how they document their work. The company listens a lot to customers but their basic services i.e. auditing is performed in the same way worldwide. Local gaps and rules have to be followed but the way a piece of work is documented is almost the most.

Ernst and Young have a price per hour, but the services are priced depending on the value; what benefit the client will gain from the exercise. The prices are higher abroad than in Sweden because there are lot of competitors, compared to London for example, which is much higher. This pricing strategy is based on the consumer as well as the competition. The customer is of profound value for Ernst and Young and
for their sake, a good price can be taken just to secure a viable customer base. In Sweden, for example, there is a lot of competition, so the price will be a little bit lower, but first and foremost, it is an agreement between the company and its clients; what is the price of these services as well as the benefits for the consumer. They don’t depend so much on the costs, and the company has rather high fees compared to very small auditing firms. A lot of money is spent to cater for the corporate brand, in that way costs are incurred for safeguarding the company reputation and to cover these costs, a higher price has to be charged.

Ernst and Young is not of the opinion that charging a lower price is a good practice to win over your rivals. The priority for the company is to deliver a high quality work and to follow all rules and laws. If the laws and rules can’t be followed, because the customer is not willing to pay the price, they rather say no. Sometimes, it can be good for the company to get references for example; a client company can be targeted because it is well known in Halmstad or in Sweden. IF it is an important client in that way, low prices can be taken just to get references.

Ernst and Young work more with meetings, which are normally face-to-face. Potential clients are invited and briefed about the company as well as the services offered by the company. Advertisements is not a good way to reach potential clients in a small city like Halmstad, rather they are invited for launch, meeting for one or two hours, that’s a much better way of telling them about the business objectives.

This not withstanding, Ernst and Young work a lot with TV adverts and promotion at their head office in Stockholm, but that’s a way to create brand awareness.

**Total Quality Management Approach**

Ernst and Young have a quality management policy which is geared towards the protection of the company brand. The company’s aim is to work with serious customers and so the first thing to do with a new customer is to have some sort of client acceptance. There is a checklist, from which a lot of questions posed and from that the company can determine how serious the customer is. There also exist rules that just partners have the authority to accept a new client for example and there are a lot of policies; how to perform, how to deliver services. More so, the company has internal auditors checking the quality of service, ensuring that rules and policies are being followed and all of that is to avoid destroying the company brand. According to
the company the customer does not have so much influence vis-à-vis ensuring quality; it is based on consumer effort.

The quality standard that exists in Ernst and Young is based on laws and rules that have to be followed. For example, if someone is in charge of accounting, to preserve that title, every 5 years, he or she has to write down what he or she have done during these 5 years. Then that will be evaluated by internal auditors to determine whether the person is apt to preserve the title. The Management of Ernst and Young however responds spontaneously to changes in these quality standards by keeping a close watch on current events.

The company utilises regular training in the form of education and meetings to improve quality in the organisation. In this way a lot of information is obtained and there exist an intranet which eases communication with the head office in Stockholm. The employees at Ernst and Young are responsible for taking their own decision related to quality as long as they follow the company policies. This notwithstanding, if a step is taken in contravention to the policy, approval have to be obtained from a superior authority.

The flow of communication in the company starts from the United States and all over the world to Sweden and to the offices. It flows from up to down i.e. from superior to subordinate.

Ernst and Young is compelled to perform in a quality fashion. If the internal auditors of the company are not satisfied with the task, they urge the employees to do better and it is checked in three months time. So checking is continuous all the time, encouraging the employees to do their best. Internal auditors are employed by the company and have to report to the management. There is a branch authority, not in Ernst and Young, is more for all auditors and they can check how employees perform. The kind of recognition given for merit-based quality performance is based on individual goals and there are meetings every year, discussing what employees will receive as reward during the next year. Quality is one part that the company is looking at and it depends on how well they perform.

**Competitive Advantage**

According to Ernst and Young, the decision of their clients to do business with them, rather than their competitors, is based on their quality service. Ernst and Young has
three main competitors i.e. KPMG, Pricewaterhousecoopers and Lloyds. These companies are organised rather in the same way as Ernst and Young. They are Swedish companies and members of their respective international organisations like Ernst and Young International.

Gaining a market lead is of top priority for the company. Being the market leader will be easier for the Ernst and Young to have the best employees and the best reputation. They don’t have to be the biggest company in the sector but to have the best reputation. Worldwide, Ernst and Young is number one and in Sweden they are number two. The first is Pricewaterhousecooopers followed by KPMG.

In relation to responding to competition among existing firms in this sector, Ernst and Young is always striving to get new customers and inviting them for meetings and that is the company’s way to fight against the competition. There are no threats what so ever with respect to emerging new companies. There are four big companies in this sector and the rest are very small. The main competitors are these three big companies i.e. KPMG, Pricewaterhousecoopers and Lloyds and there are no threats of new companies, not for the moment, perhaps in the future. More so, the threat of substitute services or products is not a big problem for the company.

The reliability of the service in achieving that edge over potential competitors is very vital for Ernst and Young. If the service is not reliable, customers will not do business with the company, so it is always important to have high quality, so that customers can rely on the services offered, hence it is based on business confidence.

Risk reduction plays an essential role vis-à-vis achieving a market lead. If there are any risks for the company, the services are not offered at all but the client is referred to another company. Ernst and Young never give advice that it is sure that it is the best for the customer because if there are any risks for the customer, there will be a risk for the company as well. So, every advice is always strong and checked up to ensure that rules are not violated and that goes back to quality standards that has to be followed. If someone is not sure that the advice he or she is giving is the right one, he or she has to ask a partner or next in line, for a second opinion to ensure that the right decision is taken.
5. Analysis of Empirical Data

We will begin by using a within-case analysis to reduce our data and compare it with prior theories for both companies. Then we will do a tabular analysis in order to compare the data between the two companies. To simplify the data, a table will be displayed to show the comparison with the theories that were stated in the theoretical framework. The drawn conclusions will be presented in the final chapter.

5.1 Within-case Analysis – HMS Industrial Networks AB and Ernst & Young LLP.

Marketing Mix Strategy

According to (Barney, 1997), Product differentiation is a competitive business strategy whereby firms attempt to gain a competitive advantage by increasing the perceived value of their product or services. Porter (1998) states that the objective of product differentiation requires that a firm chooses attributes in which to differentiate itself that are different from its rivals. A firm must truly be unique at something or be perceived as unique if it is to expect a premium price. According to HMS Industrial Networks, the objective of product differentiation is based on customer benefit, paying no attention on how competitors solve their problems. Instead, they work with their own solutions which might be better or worse than the competition. HMS doesn’t look at competition as a benchmark for product development rather it does a lot of products by innovation and based on customer benefits. The objective of product differentiation from an Ernst and Young standpoint is based on closeness to the customer, to deliver more value to the customer so as to secure a loyal and viable customer base.

Timing, location, and company reputation are aspects that are very vital for product differentiation (Barney, 1997). Introducing a product at the right time can help create product differentiation; the critical issue is to be the first mover, to introduce a new product before all other firms. Reputation is difficult to develop but once developed tend to last a long time. The ability of the firm to develop, nurture and improve its reputation depends on customer experiences with that firm’s products and services (Barney, 1997). HMS affirms that company reputation and timing are important vis-à-vis product differentiation. In relation to company reputation, the products manufactured by HMS are used for installing big machines (Oil, gas and paper mills)
and if they break, it will cost a lot of money for the owner and so reputation is extremely important for the company in the industrial market. The timing of the product is also worth mentioning, HMS launched their first product in 1995 and the same products are still shipped to the same customers, hence we talk of products with very long life cycles. The company has a market opportunity of several years i.e. five, six, seven e.t.c., during which a product can be sold. According to HMS, the market they launch is based on when the product is available, the documentation, training and other relevant issues. This view is also shared by Ernst and Young, reiterating that, they take very good care of their reputation and brand.

Brassington (2000) states that, as technology and taste change, products become out-of-date and inferior to competition, so companies must replace them with features customers value. It is the goods and services combination the company offers to the target market. HMS responds to out-of-date products as technology and taste changes by discontinuing old products that have very long life cycles, as well as keeping old products alive for a long time. The company is quite new and don’t have a lot of old products but more and more problems are encountered with the older products because when they are taken away from the market, some customers are dissatisfied because they need the product. The services offered by Ernst and Young are almost similar from year to year but there are lots of changes in tax laws, accounting laws and so on. If a piece of advice is given today concerning taxes, that same advice can’t be given in a future date because of the enactment of new laws. So the company responds immediately and does not give advice that is out-of-date. All the same, they have to listen and learn what is changing now in order to make certain adjustments in that light.

Companies have used product features such as performance, reliability, durability, risk reduction and ease of use to convey customer benefits in excess of what the competition is offering and this can be regarded as an attempt to establish a competitive advantage through product decisions (Jobber, 2001). According to HMS, the performance, reliability and durability of the product in achieving that lead in the market is very important in the communication software industry. This is because if you buy a mobile phone or CD player, after three years, you anyway want to buy a new one because there is a new technology available, but the products offered by HMS are used for 10 years and they are expected to work everyday 27/7 in 10 years. The reliability of the service in achieving that edge over potential competitors is very
vital for Ernst and Young. If the service is not reliable, customers will not do business with the company, so it is always important to have high quality, so that customers can rely on the services offered, hence it is based on business confidence. The ease of use and risk reduction of the product also plays a vital role in achieving competitive advantage. HMS is at least double the size of their competitors and so if the company is large, there is less risk to work with it because they are more financially stable. Some customers only focus on a short term i.e. on ease of use and price, which makes them happy. Other customers especially larger companies look more on what is the cost of a life time and how HMS makes sure there is less risk, so the larger customers the company has, the more risk assessments they are doing. Small customers just buy the products and seem to be happy. Ernst and Young never give advice that it is not sure that it is the best for the customer because if there are any risks for the customer, there will be a risk for the company as well. So, every advice is always strong and checked up to ensure that rules are not violated and that goes back to quality standards that has to be followed. If someone is not sure that the advice he or she is giving is the right one, he or she has to ask a partner or next in line, for a second opinion to ensure that the right decision is taken.

As indicated by Jain (2003), there are two product strategies utilised by firms in their internationalisation process; standardization and adaptation or customerisation. According to Jain (2003), there is need for product adaptation over standardization in order to cater for the unique situation and demand in each country, rendering the company’s products more attractive to the local market. HMS agrees with this concept, where in some countries, certain certifications and functions are needed but normally the company has these requirements from the beginning before new products are specified. For example in Brazil, the company might need to do some product adaptations but it’s more case by case. Ernst and Young do not have to modify their services to satisfy the needs of their clients abroad; the company is striving to work in the same way all over the world. They don’t work directly with a client abroad, rather a report is sent to an auditor who works for Ernst and Young abroad and he or she has the contacts with the client. So, it is not a big deal for Ernst and Young and they always try to communicate in the same way all over the world. More so, the way the service is offered is very standard, having a lot of specifications with respect to how they document their work. The company listens a lot to customers but their basic services i.e. auditing is performed in the same way worldwide. Local
gaps and rules have to be followed but the way the piece of work is documented is almost the most. According to Doole & Lowe (2004), in the implementation of pricing strategies and tactics, it is essential to estimate the likely consumer and competitor response by evaluating similar situations which have arisen in other international markets. There are three main pricing strategies vis-à-vis international marketing; Standardisation or Ethnocentric Pricing, Adaptation or Polycentric Pricing and Invention or Geocentric Pricing (Doole & Lowe, 2004). HMS utilises both standardisation and adaptation strategy based on certain situations. The pricing policy used by the company is such that in each of the major countries where they have their own subsidiaries, they sell in the currency of that country but there are exceptions like Brazil where they sell in either US Dollars or Euro since company needs time to adapt to the local currency. Ernst and Young utilises a mix of adaptation and standardisation based on the situation on the market. The company has a price per hour, but the services are priced depending on the value; what benefit the client will gain from the exercise. The prices are higher abroad than in Sweden because there are lot of competitors, compared to London for example, which is much higher. So the company follows the Adaptation pricing policy.

According to Kotler (1996), the pricing strategy adopted by a company is based on the customer, costs and the competition, from which it has to examine thoroughly in order to enter into international markets. HMS always tries to get the feeling of what the customer value is and what competitors charge for their products. Then, they try to determine the cost for manufacturing the product that can make enough money on it. The most important criterion for the pricing policy according to HMS is the customer value and benefit followed by the competitors and cost of the product. The pricing strategy implemented by Ernst and Young is based on the consumer as well as the competition. The customer is of profound value for the company and for their sake, a good price can be taken just to secure a viable customer base. In Sweden, for example, there is a lot of competition, so the price will be a little bit lower, but first and foremost, it is an agreement between the company and its clients; what is the price of these services as well as the benefits for the consumer. They don’t depend so much on the costs, and the company has rather high fees compared to very small auditing firms. A lot of money is spent to cater for the corporate brand, in that way
costs are incurred for safeguarding the company reputation and to cover these costs, a higher price has to be charged.

HMS never lowers the price to come under the competition because they think they have better quality products. When the competition is tough, they lower the price to come close to the competition and the sales force should always be able to argue correctly a 10% price higher that the competition. If the company cannot get that, then the customer does not recognize the quality of the product. Hence, HMS tries to be cheaper but also strives to be in line with the competition. Ernst and Young is not of the opinion that charging a lower price is a good practice to win over your rivals. The priority for the company is to deliver a high quality work and to follow all rules and laws. If the laws and rules can’t be followed, because the customer is not willing to pay the price, they rather say no. Sometimes, it can be good for the company to get references for example; a client company can be targeted because it is well known in Halmstad or in Sweden. IF it is an important client in that way, low prices can be taken just to get references

Doole & Lowe (2004) states that a generic marketing communications strategy centre around the extent to which a push or pull strategy could and should be adopted. HMS Industrial Networks implements the pull promotion strategy where it embarks on international trade shows, and adverts in some magazines. This not withstanding, the most important are technical articles written by engineers about technology, to show that the company represent knowledge in the communication software technology industry. Industrial websites and industrial trade press are the media often used to promote their products. HMS does not deal in commercial products, rather it operates with industrial products, so they cannot broadcast information about the product on the TV (broadcast media), instead they focus on a set of potential customers, otherwise known as “pin-point marketing”. Ernst and Young work more with meetings, which are normally face-to-face. Potential clients are invited and briefed about the company as well as the services offered by the company. According to Ernst and Young, advertisements is not a good way to reach potential clients in a small city like Halmstad, rather they are invited for launch, meeting for one or two hours, that’s a much better way of telling them about the business objectives. This not withstanding, Ernst and Young work a lot with TV adverts and promotion at their head office in Stockholm, but that’s a way to create brand awareness.
According to Doole and Lowe (2004), most firms operating in international markets will endeavour to maintain a cost-effective balance between direct and indirect channels of distribution. HMS utilises a mix of direct and indirect channels of distribution. Logistically, the company has a distribution network with exclusive HMS distributors (“Anybus” distributors) in 30 countries but they also have their own subsidiaries in 6 countries, so it is a mix of distributors and direct sales. Furthermore they have a similar distribution structure in the key markets, focusing on the major industrial markets. Ernst and Young cannot relate to this factor because it is not applicable in the service industry.

Fig 5.1 Marketing Mix Strategy

<table>
<thead>
<tr>
<th>Theories</th>
<th>Company</th>
<th>HMS</th>
<th>Ernst &amp; Young</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Objective of Product Differentiation.</strong></td>
<td></td>
<td>No (differentiation is objective is based on customer benefit).</td>
<td>Yes (To deliver more value to the customer as well as being close to the customer).</td>
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<tr>
<td>- To increase the perceived value of the product or service.</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>The role of Timing, location and Company reputation vis-à-vis product or service differentiation.</strong></td>
<td></td>
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</tr>
<tr>
<td>- Very important</td>
<td></td>
<td>Very important</td>
<td>Very important</td>
</tr>
<tr>
<td><strong>Response to changes in technology and taste</strong></td>
<td></td>
<td>To some extent (Discontinuation of old products that have very long life cycles).</td>
<td>Yes (The company does not give out-of-date advice).</td>
</tr>
<tr>
<td>- modify the products or services with features customers value</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>The role of performance, reliability, durability of the product or service vis-à-vis competitive advantage.</strong></td>
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<tr>
<td>- Very important</td>
<td></td>
<td>Very important</td>
<td>Very important</td>
</tr>
<tr>
<td><strong>The role of risk reduction of the product or service vis-à-vis competitive advantage.</strong></td>
<td></td>
<td>Very important</td>
<td>Very important</td>
</tr>
</tbody>
</table>
## Analysis of Empirical Data

<table>
<thead>
<tr>
<th>Theories</th>
<th>Company</th>
<th>HMS</th>
<th>Ernst &amp; Young</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product Strategy</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- <strong>Product Adaptation and Standardization</strong></td>
<td>Product Adaptation</td>
<td>Product Standardization</td>
<td></td>
</tr>
<tr>
<td><strong>Pricing Strategy</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- <strong>Adaptation and Standardisation Pricing</strong></td>
<td>A mix of Adaptation and Standardization Pricing</td>
<td>A mix of Adaptation and Standardisation Pricing</td>
<td></td>
</tr>
<tr>
<td><strong>Pricing Strategy criteria</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- <strong>Customer, costs and competition.</strong></td>
<td>Customer, costs and competition</td>
<td>Customer &amp; competition</td>
<td></td>
</tr>
<tr>
<td><strong>Promotion Strategy</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Push and Pull Strategy</strong></td>
<td>Pull Strategy (International trade shows and adverts in some magazines).</td>
<td>Pull Strategy (business meetings).</td>
<td></td>
</tr>
<tr>
<td><strong>Distribution Strategy</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Direct and Indirect Channels of distribution</strong></td>
<td>Both direct and indirect channels i.e. mix of distributors and direct sales</td>
<td>Not applicable</td>
<td></td>
</tr>
</tbody>
</table>
Total Quality Management Approach

The top management and the entire staff of an organisation must be committed to the improvement of quality in all aspects of their operations (Barczyk, 2000). According to Anderson, Rungtunsunatham & Schroeder (1994), there should be a visionary leadership stating the role of top management in defining a long-range quality oriented vision of an organisation, implementing a plan of action and inspiring and motivating the entire organisation towards the fulfilment of this vision. The Management commitment to high quality at HMS is very strong and active. The management team meets every quarter to review quality and the management team recognises quality as one of the key factors for success. Quality is really both important for the company as well as their customers. Because the cost of failure is tremendous, HMS has embarked on quality goals which is aimed currently at 500ppm (Power per million), this means that if the company manufactures 1000 products, and if one breaks we have 1000 ppm and so if 10,000 products are manufactured, 5 of them can fail and the company goal is to come to 100 ppm which represents very high quality targets. Ernst and Young have a quality management policy which is geared towards the protection of the company brand. The company’s aim is to work with serious customers and so the first thing to do with a new customer is to have some sort of client acceptance. There is a checklist, from which a lot of questions are posed and from that the company can determine how serious the customer is. There also exist rules that just partners have the authority to accept a new client for example and there are a lot of policies; how to perform, how to deliver services. More so, the company has internal auditors checking the quality of service, ensuring that rules and policies are being followed and all of that is to avoid destroying the company brand.

Customer satisfaction as stipulated by Anderson, Rungtunsunatham & Schroeder (1994), is an instrumental motivational force to quality improvement behind Deming’s approach to quality management. HMS reiterates that in different markets like Japan, they are very detailed and know more about quality and always want to know the root cause of mistakes, so that they can analyse why there was a failure in order to become better next time. In America, it is more “this doesn’t work, send me a new one”. So different markets have different quality demands. According to Ernst and Young, the customer does not have so much influence vis-à-vis ensuring quality; it is based on consumer effort.
In order to provide employees with guidelines, organisations must develop quality standards that can be used for comparison in quality control and measurement. According to ISO Certification, it helps the organisation to improve the quality of work by detecting potential nonconformities and causes of potential nonconformities in products and services (www.iso-quality-manuals.com, assessed on 15/03/2008). HMS is certified according to ISO 9001-2000 and they work a lot with continuous quality improvements within all organisational processes, as a way to respond to the changing nature of these quality standards. The framework helps to organise operations efficiently and it is the responsibility of the company to fill it with a lot of details and daily tasks. So, HMS works with the certification organisation, once or twice a year and this helps the company to improve quality. This certification organisation is not regarded as a police to check the company regularly rather they are regarded as a partner to help the organisation to improve even more. The quality standard that exists in Ernst and Young is based on laws and rules that have to be followed. For example, if someone is in charge of accounting, to preserve that title, every 5 years, he or she has to write down what he or she have done during these 5 years. Then that will be evaluated by internal auditors to determine whether the person is apt to preserve the title. The Management of Ernst and Young however responds spontaneously to changes in these quality standards by keeping a close watch on current events.

Deming (1986) states that employees receive training in the use of quality measurement techniques so as to develop their problem-solving skills that has to be applied to all levels of the organisation. In relation to training given to employees, the HMS has different levels or techniques on how to manufacture a product. Ernst and Young utilises regular training in the form of education and meetings to improve quality in the organisation. In this way a lot of information is obtained and there exist an intranet which eases communication with the head office in Stockholm.

A central part of the TQM philosophy is developing a system in which there is a high degree of employee participation both at the bottom and in the middle levels of an organisation (Lawler, 1986 cited in Barczyk, 2000). It involves giving employees responsibility for quality and the authority to make decisions. According to HMS, within certain rules, when the company used to be a small, there were more people with full authorization to take their own decision vis-à-vis ensuring quality. The employees at Ernst and Young are responsible for taking their own decision related to
quality as long as they follow the company policies. This not withstanding, if a step is taken in contravention to the policy, approval have to be obtained from a superior authority.

According to Brocka and Brocka (1992), good, truthful and frank two-way communication is an essential process in quality management; communication channels in a quality oriented organisation flow upward, downward and laterally. HMS utilises a mix of formal and informal communication in ensuring top quality. Based on communication, the company does a lot of measurements when it comes to their quality targets and these are openly communicated to everyone, so they can see what is good or bad. The flow of communication in Ernst and Young starts from the United States and all over the world to Sweden and to the offices. It flows from up to down i.e. from superior to subordinate.

The concept of continuous quality improvement is receiving increased attention in part due to the inherent character of global competition that thrives upon the progress of product quality (Garvin, 1987). Continuous improvement links higher quality to lower costs and higher market share, implying more satisfied and loyal customers (Ibid). This concept of continuous improvement is connected with “Kaizen”, which is the Japanese philosophy used by HMS that entails involving every employee in continuous quality improvement within all organisational processes. Ernst and Young is compelled to perform in a quality fashion. If the internal auditors of the company are not satisfied with the task, they urge the employees to do better and it is checked in three months time. So checking is continuous all the time, encouraging the employees to do their best. Internal auditors are employed by the company and have to report to the management. There is a branch authority, not in Ernst and Young, is more for all auditors and they can check how employees perform.

Deming (1986) states that, it is of great importance to develop a system of recognition and rewards for good ideas and meritorious quality performance. To encourage employees to provide ideas for improvement and perform in a quality fashion, a company needs a set of incentives and the incentives can be financial or non-financial, group incentives, as opposed to individual incentives, are most compatible with TQM (Deming, 1986). According to HMS, the recognition given for merit based quality performance is based on team effort. There is no financial rewards in the company at the moment and with respect to rewarding inventions, the company does not have a system for it and it also depends on if you work in the development department and
you come up with an invention, that’s what you are hired to do, hence the company does not really have a programme for this type of innovations. It probably also depends on the function of that person and if you are hired to develop products, you get your salary, so your job is actually to invent products. The kind of recognition given for merit-based quality performance at Ernst and Young is based on individual goals and there are meetings every year, discussing what employees will receive as reward during the next year. Quality is one part that the company is looking at and it depends on how well they perform.

**Fig 5.2 Total Quality Management Approach**

<table>
<thead>
<tr>
<th>Theories</th>
<th>Company</th>
<th>HMS</th>
<th>Ernst &amp; Young</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management commitment</td>
<td></td>
<td>Management commitment to high quality is very strong and active.</td>
<td>Management commitment to high quality is geared towards the protection of the company brand.</td>
</tr>
<tr>
<td>-Based on a forward thinking leadership with a long range quality-oriented vision.</td>
<td></td>
<td></td>
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<th>Customer Satisfaction</th>
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<th>Customer satisfaction is vital to quality improvement to some extent because different markets have different quality demands.</th>
<th>Customer satisfaction does not have much influence.</th>
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<td>-Vital force to quality improvement</td>
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<th>Quality Standards</th>
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<th>The company is certified according to ISO 9001-2000 and it helps them to organise operations efficiently, there by</th>
<th>The quality standard is based on accounting laws and rules that have to be followed.</th>
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<th>Theories</th>
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<td><strong>Employee Empowerment and</strong></td>
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<td>Participation</td>
<td>Employees have responsibility</td>
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<td>follow the company policies.</td>
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<th>Communication Flow</th>
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<td>- A good, truthful and</td>
<td>A mix of formal and informal</td>
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<td>frank two-way communication is</td>
<td>communication is used, with a lot of</td>
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<td>management, flowing</td>
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<td>upwards, downwards and</td>
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<p>| Continuous Quality        | Matches with the well known      | Continuous quality improvement is |
| Improvement               | company philosophy called        | enhanced by internal auditors     |
|                           | “Kaizen” which involves every    | employed by the company to ensure |
|                           | employee in the continuous       | that the company performs in      |
|                           | quality improvement within all   | a quality manner.                 |
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<th><strong>Continuous quality improvement</strong></th>
<th><strong>Matches with the well known company philosophy called “Kaizen” which involves every employee in the continuous quality improvement within all organisational processes.</strong></th>
<th><strong>Continuous quality improvement is enhanced by internal auditors employed by the company to ensure that the company performs in a quality manner.</strong></th>
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<td><strong>Employee incentives and Recognition</strong></td>
<td><strong>The company does not have a system of recognition and rewards;</strong></td>
<td><strong>Recognition for merit-based performance is based on individual goals.</strong></td>
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<td><strong>- It is important to develop a system of recognition and rewards for good ideas and meritorious quality</strong></td>
<td><strong>- Continuous quality improvement links higher quality to lower costs and higher market share, implying more satisfied and loyal customers.</strong></td>
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**Competitive Advantage**

The decision of potential customers to have HMS as a business partner, rather than their competitors depends on the products on offer as well as their unique selling points. It comes down to quality, technology and customer service. The company vision is to take care of their customers and don’t regard themselves as a supplier but as a partner with each customer, to become a good partner with them and to solve their communication problems. According to Ernst and Young, the decision of their clients to do business with them, rather than their competitors, is based on their quality service. Ernst and Young has three main competitors i.e. KPMG, Pricewaterhousecoopers and Lloyds. These companies are organised rather in the same way as Ernst and Young. They are Swedish companies and members of their respective international organisations like Ernst and Young International.

According to Porter (1985), competitive advantage exists when a firm is able to deliver the same benefits as competitors but at a lower costs, or deliver benefits that exceed those of competing products. Thus a competitive advantage enables the firm to create superior value for its customers and superior profits for itself (Ibid). Gaining a lead in the market for communication devices is a top priority for HMS. According to HMS, every company in this business would like to work with the winner because the winner has the highest volumes; the one with highest volumes probably has the lowest...
costs and the biggest profits, and the one with the biggest profits is more successful and potentially will survive the longest time, which means they can have a partner for a very long time. Many companies in this industry and many others always tend to work with the market leader. From their perspective, they are the market leader in the market for communication devices for automation equipments but it is also important for them to be perceived as a marker leader. Gaining a market lead is of top priority for the Ernst and Young. Being the market leader will be easier for the company to have the best employees and the best reputation. They don’t have to be the biggest company in the sector but to have the best reputation. Worldwide, Ernst and Young is number one and in Sweden they are number two. The first is Pricewaterhousecoopers followed by KPMG.

Porter (1985) states that, a firm develops its business strategies in order to obtain competitive advantage over its competitors. It does this by responding certain competitive forces such as, the threat of new entrants, rivalry among existing firms within an industry as well as the threat of substitute products/services. Contrarily, HMS does not respond too much to competition among existing firms in the industry for communication devices. They don’t look too much on the competition. The competitors keep them alert and need to be watched but it is not really a competitive market at the time. In connection to the response to the threat of new companies in the industry, HMS tries to follow that. Communication devices for automation equipment are a very small market segment, so there are not many companies that are entering this business. It’s more or less becoming a little bit solid and mature but when a new company comes in, they are being watched quite closely. HMS is more concerned about the threat of substitute products. There might come a new machine / technology that can solve a particular problem in a completely different way. So, it becomes like a something new in the market, that is difficult to follow and that it what HMS is more concerned about, that someone comes up with something completely different that actually competes with their products as a substitute.

Cost leadership is manifested when the company works hard to achieve the lowest costs of production and distribution, so that it can price lower than its competitors and win a large market (Kotler, Wong, Saunders, & Armstrong, 2000). This view is shared by HMS which follows a low cost of production strategy in order to get lower costs and more profits. More so, if the company can get lower costs, it might be able to enter into certain market segments where the cost is very sensitive; today the company
can’t go there. So, HMS is looking for how it can reduce the costs of its products and technology, to enter into new markets that they cannot access today, not to survive but to expand further. So cost is very important for the growth and success of the company. Ernst and Young cannot relate to this factor because it is not applicable in its line of business.

**Fig 5.3 Competitive Advantage**

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<tr>
<th>Theories</th>
<th>Company</th>
<th>HMS</th>
<th>Ernst &amp; Young</th>
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<tr>
<td><strong>Objective of gaining competitive advantage</strong></td>
<td>- To create superior value for its customers and superior profits for the company.</td>
<td>To realise bigger profits and the minimization of costs.</td>
<td>The ease of having the best employees and best company reputation.</td>
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<tr>
<td><strong>Company response to competition among existing firms in the industry</strong></td>
<td>- Viable strategies are implemented to win over competitors.</td>
<td>Do not respond too much to competition (due to the very small market segment of the business) but keeps them alert.</td>
<td>Responds to competition by striving to get new customers and inviting them for meetings to develop a stronger customer rapport.</td>
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<tr>
<td><strong>Objective of Cost Leadership</strong></td>
<td>- To achieve the lowest costs of production and price lower than the competition.</td>
<td>To achieve lower costs and more profits necessary to enter new markets.</td>
<td>Not Applicable</td>
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6. CONCLUSION

In this chapter, the conclusion will be presented followed by the implications and the proposed further studies based on the research topic.

The research findings of this study is based on how feasible is competitive advantage through total quality management using the marketing mix. First and foremost, it can be deduced from the results that competitive advantage is achievable by ensuring proper quality management in the pricing, product, promotion and distribution strategies implemented by a company.

In connection to the marketing mix strategy utilised by the companies in the case studies (HMS Industrial Networks and Ernst & Young), it was found that the companies embark on product differentiation based on customer benefit as well as customer closeness, to deliver more value to the customer in order to secure a viable customer base. The research results show that the companies utilized a standardization strategy and a mix of standardization and adaptation product strategy in their internationalization process. The rationale for standardization vis-à-vis this study is based on consistency in offering the same services worldwide, while a mix of standardization and adaptation is adopted to cater for the unique situation and demand in each market.

A mix of standardization and adaptation pricing strategy is used by the companies which depend on the economic situation prevailing in a particular market. The criteria for such pricing policy as per the findings are based on the customer, competition and costs incurred by the company. This notwithstanding, the companies pay more attention to the customer value; how the customer will benefit from their services.

According to the results of this study, a pull promotion strategy is implemented as the preferred marketing communication approach hallmarked by international trade shows, adverts in magazines and business meetings. Industrial websites and industrial trade press is chosen as the solicited media to promote a company’s products so that they can focus on a set of potential customers, otherwise known as pin-point marketing. On other hand, TV adverts is solicited because it is a way to create more brand awareness.

The distribution strategy implemented is a mix of distributors and direct sales.
Conclusion

Total quality management is a key factor for the success of the company, which is geared towards the protection of the company brand. More so, there is a strong management commitment to quality. As per the findings, customer satisfaction is an instrumental motivational force to quality improvement to some extent because different markets have different quality demands.

The role of quality standards is worth mentioning and it helps the company to organise operations efficiently, thereby improving the quality of its products. To respond to the changing nature of these standards, continuous quality improvements known as the “kaizen philosophy” is implemented within all organisational processes as well as keeping a close watch on current events.

Regular training in the form of education and meetings is indispensable in quality enhancement and it is a way to improve the talents of the employees.

Effective total quality management requires a high degree of employee participation both at the bottom and in the middle levels of the organisation. According to the results of this study, employees are responsible for taking their own decisions related to quality as long as they follow the company policies.

Formal and informal communication is vital in ensuring top quality and the communication flow is often from up to down i.e. from superior to subordinate.

It is of great importance to develop a system of recognition and rewards of good ideas and meritorious quality performance. However, this recognition given for merit based quality performance as per this research is based on team effort on one hand and on individual goals on the other.

Competitive advantage enables the firm to create superior value for its customers and superior value for its customers and superior profits. Based on the research findings, gaining a market lead is a top priority for the companies because it is easier for the company to have the best employees and reputation as well as high profits and low costs. It is also important for the company to be perceived as the market leader.

In a nutshell quality is not an extra cost; rather it is a way to increase your productivity. The better quality you have, the fewer products you discard and the better planning you have. In other words quality is an asset that makes a company achieve competitive advantage by implementing quality marketing strategies.
6.1 Implications

It is highly indispensable for an international company, doing business abroad to engage in sound quality management operations in the implementation of marketing strategies. Quality management leads to competitive advantage and marketing managers should not regard quality as a cost but rather as an asset to improve the worth of their product or service.

Marketing managers should always be customer oriented, because being customer geared makes the company to have that quality oriented thinking i.e. “how will the customer benefit from the product idea and what level of quality is enough to gain customer loyalty.” Hence marketing strategies should have that customer focus vis-à-vis international marketing and with that, the company can achieve competitive advantage over its rivals.

6.2 Further Studies

This research study is limited to two companies based in Halmstad, Sweden. i.e. one manufacturing and one service company. Hence further research is recommended to include other companies operating in Halmstad and Sweden as a whole, in order to gain more relevant information on how achievable is competitive advantage through total quality management from a marketing mix perspective.

Furthermore, there will be more credit to the research study if the marketing mix theory could be extended to include the positioning, people and probing concepts. In that light, all the aspects of the marketing mix will be examined in its entity.
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**Interviews**

Staffan Dahlstrom, Director of global marketing and sales, HMS Industrial Networks AB, Halmstad (02-04-2008).

Per Spolen, Authority in charge of Marketing, Ernst and Young, Halmstad (08-04-2008).
Appendix I

Interview with HMS Industrial Networks

How different is your product from those of your competitors?
HMS is working in a very small segment of the market called industrial communications. We work in a worldwide basis and deal in specialised products for industrial applications. We don’t really have a problem of having many competitors. We have two or three head to head competitors but there are technical differences between us and the competitors such as HMS is double the size of their competitors and most of their competitors are small companies that are regional.

What is the objective for differentiating your product?
We try to understand what is the customer benefit and what kind of hard times will a customer have with this problem. We never look at how our competitors solve the problem, we always work with our own solution, and then it might be better or worse than the competition. We don’t look at competition as a benchmark for product development. We do a lot of products by innovation and based on customer benefits.

What role does timing and company reputation play in product differentiation?
It is very important especially in our case i.e. company reputation because our products are used for installing big machines that are in oil and gas, paper mills and if they break, it will cost a lot of money for the owner and so reputation and quality is extremely important for us in the industrial market.
The timing is not so important for us. We launched our first product in 1995 and we still ship the same products to the same customer and so we talk about products with very long life cycles. We have a market opportunity of several five, six, seven years we can sell a product. So, for us the market we launch is based on when the product is available, the documentation, training and things like that.

How do you respond to out-of-date products as technology and taste changes?
We need to discontinue old products that have very long life cycles, so we also keep old products alive for a long time. We are a quite new company and so we don’t have a lot of old products but we are seeing more and more problems with the older products because when you take them away there is always someone who is upset because he needs the product.
How do you modify your products to satisfy the needs of your clients abroad?
From the beginning, our home market is not Sweden. Our 3 major markets are Japan, US, and Germany. So when we develop the product from the beginning, we look at the needs of these markets but of course in some countries we need certain certifications, certain functions but normally when we specify new products we have these requirements from the beginning and these are our base requirements for the products and later on to go into a market like Brasil for example, we might need to do some product adoptions later but it’s more case by case.

What strategy do you use when pricing your product abroad? Do you charge a fix price for your products in all foreign countries?
Our policy is that in each of the major countries where we have our own subsidiaries, we sell in the currency of that country for example in North America, we sell in US Dollars, in Japan we sell in Yen, in Germany and Europe we sell in Euro, in Great Britain, we sell in British pounds. So, we try to adapt ourselves to the local currency of the major market but when we sell to Brazil for example, we don’t convert to their local currency, we sell in US Dollars or Euro. And of course if we had the same price in Euro and US Dollar at the same time, when currency fluctuates, then the US Dollar goes up and the Euro goes down, we don’t change the price normally, so we tend to stick to the market price of the local currency of the market.

On what do you base this pricing strategy? Is it on costs, consumer or competition? And why?
We always try to get the feeling for what is the customer value, how much is he willing to solve this problem, so that is the number one. But of course, number two, are there other competitors? What do they charge for solving this problem? Then we ask ourselves, what is the cost for manufacturing this product that can make enough money on this? I think first, the most important is the customer value and benefit for the customer, and secondly the competitors and the third the costs of the product.

Which Price strategy do you use when launching a new product?
I think that, when we not sure about the market price, we tend to put it a little more on the expensive side, because we feel if it was wrong, it is easy to lower the price. But if we are not sure and price it low, it is almost impossible to raise the price later, so if we are not sure, a little bit on the high side, I reckon.
Under what circumstances do you think charging a price lower than your competitors is a good business practice to win over your rivals?

We never lower the price to come under the competition because we think we are better, we have better quality products, that is our view. When the competition is tough, we lower the price to come close to the competition, and our sales force should always be able to argue correctly a 10% price higher than the competition, if we cannot get that, then this customer cannot recognise our quality. We don’t try to be cheaper but try to be in line with the competition.

How do you promote your products? Is it through Adverts, publicity, sales e.t.c.

We do international trade shows, adverts in some magazines but the most important is technical articles written by engineers about technology and to show that your company represents knowledge in this industry. To be able to have the magazine published (these articles), you need to be a customer; you need to buy some Ads to get some technical articles in this magazines as well as the website.

Which Media do you use to promote your products? And why?

Industrial websites, number one and industrial trade press, number two. We have 1000 customers worldwide and we have may be 50 customers in Sweden and if we are really successful, we might get 20 more. We are not a commercial product, we are an industrial product, so we cannot just broadcast our information, we need to say OK, here is a segment we can be successful with a set of customers and the TV is a broadcast media, we don’t use broadcast media, we only use pin-point marketing.

How do you distribute your products?

We have two ways. We have a distributor network with exclusive HMS distributors in 30 countries but we also have our own subsidiaries in 6 countries, so we have a mix of distributors and direct sales.

Do you have the same distribution structure worldwide and why?

More or less. We have similar distribution structure in the key markets. We focus on the major industrial markets.

Do you recognise a quality product when you see it?

I think quality is really important both for us and for our customers. Because the cost of failure is tremendous, so our quality goals is currently 500ppm (Power per million), this means if we are manufacturing 1000 products, if one breaks we have 1000ppm and so if we have 10,000 products we manufacture, 5 of them can fail and our goal is to come to 100ppm, which represents very high quality targets.
Does your company have a Total Quality Management policy or approach? Describe it?
We are certified according to ISO 9001-2000 and we work a lot with the quality about how to improve it. We work with continuous improvement to become better.

How is the Management commitment to High Quality?
The management team meets every quarter to review quality and I think the management team recognises quality as one of the key factors for success. 10 years ago, you could say that you could sell your product without high quality but today it is impossible to sell your product without high quality and you must have high quality or otherwise you are not part of this game.

How does the customer influence quality improvement programmes in the company?
In different markets like Japan; there are very detailed, they know more about quality and they always ask us to say, ok, this was a mistake, tell us about the root cause and they will analyse why this was a failure to understand how it can become better. If you look at America, is more, “this doesn’t work, send me a new one”. So different markets have different quality demands.

Does your organisation have a quality standard? What role does it play vis-à-vis Total Quality Management?
It is a framework that helps us to organise ourselves and then of course it is our responsibility to fill it with a lot of details and daily tasks. Just because you have ISO 9000, doesn’t mean you have high quality, it just means you have a quality system, you can have cheap quality but you still can be ISO 9000.

How does the organisation respond to the changing nature of these quality standards?
We started this with a new standard, and ISO 9001 had a 1994 version and the 2000 version. We started with the 2000 version and we were first in Sweden to get this certification. So, I think we work with this certification organisation, once or twice a year and they help us to improve quality. So, I think we don’t see them as a police to come here and check us but we see them as a partner to help us improve even more.

What kind of training does the organisation use to improve quality in the organisation?
In manufacturing, we have different levels or techniques on how to manufacture a product.
Do employees have the responsibility for ensuring quality and the authority to make their own decisions?
Within certain rules, when we used to be a small company, I think there were more people with full authorization. Today with the large size of our business, it more like, this person does this and this is what they can change. In a nutshell, everyone has the rights to say this is not good, I can’t do this and we need to change this.

How can you describe the communication flow within your quality-oriented organisation and to what extend is it important in ensuring top quality?
I think it is important to have a mix of formal and informal communication. If you see a problem and you start to write a big report to someone manager about it, it will take a long time. I think for small problems, it is important to solve the problem yourself and you feel it is your responsibility to solve it. But when you see for the second time, the same problem is coming, then you should file a report about it because then you see that it didn’t help to fix it, so we need to change the structure of the way we do it. Based on communication, we do a lot of measurements when it comes to our quality targets and these are openly communicated to everyone, so they can see that this is good and this is bad.

How do you encourage the employees to perform in a quality fashion?
We work a lot with Kaizen, which is a Japanese philosophy, how to involve every person in the quality work. Quality is not about having a quality department, quality is about everyone in the company to understand how we can be better and I think we work with small continuous improvements, “doing this better and better all the time”.

What kind of recognition is given for merit based quality performance?
I think it is a team effort, we have our goals but today we don’t have any financial rewards at the moment. With respect to rewarding inventions, we don’t have system for it and it also depends on if you work in the development department and you come up with an invention, that’s what you are hired to do, so we don’t really have a programme for this type of innovations. It probably depends on the function of that person and if you are hired to develop products, you get your salary, so your job is actually to invent products. We are a public company, so we have a stock programme and so employees here can buy stock and be part of the company and everyone is interested that the company is successful.
Why should customers do business with you rather than your competitors?
It depends on the products we have and what we call our unique selling points. I think it comes down to quality, technology and customer service. Our vision is that, we should take care of our customers; it is only to supply a product. We don’t regard ourselves as a supplier but as a partner with each customer, to become a good partner with them, to solve their communication problems.

Who are your potential competitors?
I think we have two or three competitors in Germany. I think in many cases, our biggest competitors are our customers. Our products in the History, ABB, and Siemens and all these big companies, they develop their own communication products. The trend now is, we are telling them, why are you developing all these products? We have all these products; no development costs, zero time to market, there are available, buy from us and you can save a lot of money and use your engineering resources to focus on other things. So we call it ‘making versus buying’. So this is a trend in the industry that companies are trying to find partners like HMS, that of course companies like ABB Group (Automation and Power Technologies) could say, why should we use you, we have done this for 20 years ourselves, so we can continue to having our own resources. So therefore we come in and compete with their internal resources. So it is more of a substitute than a competition I would say.

Is gaining a lead in the market a top priority for the company? And why?
We have products with very long life cycles. Everybody in this business would like to work with the winner because the winner has the highest volumes, the one with highest volumes probably has the lowest costs and the biggest profits, and the one with the biggest profits is more successful and potentially will survive the longest time, which means they can have a partner for a very long time. So, I think, this industry and many others always try to tend to work with the market leader. I think for us, we think we are the market leader but it is also important to be perceived as a market leader. People might think you are the market leader meanwhile you are not. To be perceived as a market leader is the key for us.

How do you respond to competition among existing firms in your industry?
Not too much actually. We don’t look too much on the competition. They keep us alert, we need to watch them of course but it is not really a competitive market at the time. We have competition in some markets in Germany, in the US, so we have different competitions in different markets.
How do you respond to the threat of new companies in the industry?
We try to follow that. Let’s keep in mind that it is a very small segment, so it is not a lot of companies that are entering this business. It’s more or less becoming a little bit solid and mature but of course when someone new comes in, we watch them quite closely.

How do you respond to the threat of substitute products or services?
We are more concerned about that. There might come a new machine/technology that can solve this problem in a completely different way. So it becomes like a something new in the market, that is difficult to follow and i think that is what we are more concerned about that someone comes up with something completely different that actually competes with us as a substitute.

Does your company follow a low cost of production strategy? What is the reason for following such a strategy?
We would like to get lower costs to get more profits and also if we can get lower costs, we can go into certain market segments where the cost is very sensitive; today we can’t go there. So we are looking for how we can reduce the costs of our products and technology, to come into new markets that we can assess today, but not to survive but to expand further. So cost is very important to us.

How important is performance, reliability and durability of the product in achieving that edge over your competitors?
It is extremely important in this industry because if you buy a mobile phone or CD player, after three years, you anyway want to buy a new one because there is a new technology available, but our products are used for 10 years and they are expected to work everyday, 27/7 in 10 years.

What role does convenience and risk reduction of the product play in this competitive lead in the market?
That’s extremely important too. We are at least double the size of our competitors. So I think, if you are a larger company, there is less risk to work with them, they are more financially stable. Some customers only focus on a short term i.e. on ease of use and price, which makes them happy. Other customers especially larger companies, look more on what is the cost of a life time and how can we make sure that there is less risk, so I think the larger customers we have, the more risk assessments they are doing, small customers just buy the products and seemto be happy.
Do you think an effective quality management makes you competitive and why?
Quality is not an extra cost and it is a way to increase your productivity. The better quality you have, the less products that you discard, and the better planning you can have. I think if you look at the automobile industry, with Toyota versus General Motors, you can see how much quality is making your performance grow. Initially people think quality is a cost but long term quality is an asset that can make you more competitive and we are very sure about that. If you have good quality, the cost of your manufacturing is probably lower. So this means that you get less warranty claims, you get high productivity. I think you cannot charge more for a quality product because customers today people expect quality from the beginning, so if you have a low quality product, you will not be able to sell it at all, so quality is a must that customers don’t want to pay for but is a base requirement.
Appendix II

Interview with Ernst and Young

How different is your service from those of your competitors?
There are 4 big companies, pricewaterhousecoopers, Lloyds, KPMG and Ernst and Young. Compared to these 4 big companies, there are not so much differences between our services because we are forced to follow a lot of legal rules and policies and we have auditing gaps that are similar between these companies. We try to work very close to our customers, listening a lot about their wishes and demands, and trying to deliver not only what we are forced to deliver, we want to deliver a little bit more value. That’s our philosophy or way to work. Our customers are very satisfied with our way to work and what they say is that we are trying to listen, it is a dialogue and the objective is to deliver more value to the customer.

What role does timing and Company reputation play in service differentiation?
We take very good care of our reputation, our brand, Ernst and Young is very important for us. So we never offer any service that is not right for us.

How do you respond to out-of-date services as technology and Preferences changes?
Our services are almost the same from year to year but you have a lot of changes in tax laws, accounting laws and so on, of course so we have to change in that way. IF I give you an advice today concerning taxes, I can’t give you the same advice because you have new laws. So we respond immediately and we can never give advice that is out-of-date. All the same, we have to listen and learn what is changing now, you have a new government, and they have started to change a lot of laws and of course we try to listen and even have to change our businesses in that way.

How do you modify your services to satisfy the needs of your clients abroad?
We don’t have to modify our services because Ernst and Young is trying to work in the same way all over the world. Often we don’t work directly with a company abroad, we send a report to an auditor by Ernst and Young abroad and he or she has the contacts with the customer. So it is not a big deal for us, we are working in the same way and have the same way to communicate.
Under what situations do you decide to standardize your service?
We have demands with respect to how we document our work so it is very standard. So we have to listen to our customer needs but our basic services i.e. auditing is performed in the same way worldwide.
You have to follow the local gaps and rules but the way you document your work is almost the same. If I would work in Ernst and Young in London for example, I will recognise the way to work because it is very similar with the way in Sweden or in the United States.

What strategy do you use when pricing your service abroad? Do you charge a fix price for your service in all foreign countries?
We have a price per hour, but we also try to price our services depending on the value; what it is for our customer. The prices are higher abroad than in Sweden because we have a lot of competitors compared to London for example which is much higher.

On what do you base this strategy? Is it on costs, consumer or competition? And why?
Consumer and competition. Consumer as I said, it of a very big value, for the consumer, we can take a good price, in Sweden for example, there is a lot of competition, so the price will be a little bit lower, but first it is an agreement between us and the consumer, what is the price of these services as well as the benefits for the customer. We don’t depend so much on the costs, normally we have rather high fees compared to very small auditing firms. We spend a lot of money to take care of our brand, so in that way, we have costs for our reputation and our brand and of course also to cover these costs, you must have a higher price.

Under what circumstances do you think charging a price lower than your competitors is a good business practice to win over your rivals?
We don’t think in that way. The first thing we always have to take into consideration, it is to deliver a high quality work and to follow all rules and laws and so on. And if we can’t do that because the customer is not willing to pay the price, we rather say no. Sometimes, it can be good for us to get references for example; we want to have that company because it is well known in Halmstad or in Sweden. If it is an important customer in that way, we can take a low price just to get references.
How do you promote your services? Is it through Adverts, publicity and why?
We work more with meetings, face-to-face. We invite companies and tell them about Ernst and Young and what we can help them with. We don’t think Advertisements is a good way to reach our clients in a small city like Halmstad. We rather invite them for launch, meeting for one, two hours that’s a much better way of telling them about our business.
In the head office, they are working a lot with TV adverts, promotion but that’s a way to show our brand.

How do you reach your clients?
Through man-to-man meetings.

Do you recognise a quality service when you see it?
Yes. I think so. For example if I read an annual report, I can see if it is a big auditing firm that has helped the customer, if it is a small firm so you can see it. So the job is performed in a particular standard or way, more so the small accounting firm does not have the knowledge and skill to do it in a good way.

Does your company have a Quality Management Policy or Approach? Describe it?
We have a lot of them and we take very good care of our brand. We just want to work with customers who are serious and so the first way if we have a new customer, is that we have some sort of client acceptance, we have a checklist, we ask them a lot of questions and we can feel that this is a serious customer, that the number one. We also have rules that just only partners have the authority to accept a new client for example and we have a lot of policies, how to perform, how to deliver our service and we have internal auditors checking us, how we are working, ensuring that we are following our policies and all of that is to avoid destroying our brand.

How does the customer influence quality improvement programmes in your company?
I don’t think actually that the customer has so much influence, it is more ourselves and the auditing branch rather than the customers.

Does your organisation have a quality standard? What role does it play vis-à-vis total quality Management?
The quality standard is that, we have laws and rules that we have to follow and as I said we have internal auditors checking us. For me, for example, I am in charge of
accounting and to have that title, every 5 years, you have to write down what you have worked with during these 5 years and they have to say ok, you will have you title for another 5 years and so on, so we have a lot of standards and rules.

**How does the Management respond to the changing nature of these standards?**
We respond spontaneously.

**What kind of training does the organisation use to improve quality in the organisation?**
We have a lot of education and meetings where we get information and we have an intranet where we get information from our head office and there is training every time.

**Do employees have the responsibility for ensuring quality and the authority to make their own decisions?**
Yes and as long as we follow our policies, you can take your own decisions. But if you take a step from the policy, you have to get approval from your superior.

**How do you describe the communication flow within your quality-oriented organisation and to what extend is it important in ensuring top quality?**
The flow of communication starts from the United States and all over the world to Sweden and to the offices. The communication flows from up to down i.e from the superior to subordinate.

**How does the company encourage the employees to perform in a quality fashion?**
We are forced to perform in a quality fashion and we have internal auditors checking us up. If they are not satisfied with our work, they tell us that we have to do better and we check it up in 3 months, so this checking continues all the time.

Internal auditors are employed by the company and have to report to the management. We have a branch authority, not in Ernst and Young, is more for all auditors and they can check how we evaluate performance. I would say that it is almost impossible not to follow all these rules and as I said again we are very good at taking care of our brand.

**What kind of Recognition is given for merit-based quality performance?**
Our recognition or rewards is based on individual goals and we have a meeting every year, sitting down and talking about what we will receive as reward during the next year and quality is one part that we are looking at. The reward depends on how well you perform.

**Why should customers do business with you rather than your competitors?**
Well, we hope that they can be sure that they are doing the service in a very high quality way. It is based on our quality service.

**Who are your potential competitors?**

There are KPMG, Pricewaterhousecoopers and Lloyds. These companies are organised rather in the same way as Ernst and Young. There are Swedish companies and members of their respective international organisations like we are members of Ernst and Young International.

**Is gaining a lead in the market a top priority for your company? And why?**

It is really a top priority for us and because if we are the market leader, we think it is easier for us to have the best employees and the best reputation and brand. We don’t have to be the biggest company in this industry but to have the best reputation. Worldwide, Ernst and Young is number 3 and in Sweden we are number 2. The first is Pricewaterhousecoopers followed by KPMG.

**How do you respond to competition among existing firms in your industry?**

We are always trying to get new customers and inviting them for meetings and that’s our way to fight against the competition.

**How do respond to the threat of new companies in the industry?**

There are no threats what so ever. There are four big companies in this industry and the rest are very small. Our main competitors are these three big companies i.e. KPMG, Pricewaterhousecoopers and Lloyds and no threats of new companies, not for the moment, perhaps in the future.

**How do you respond to the threat of substitute services or products?**

It is not a big problem for us.

**How important is reliability of the service in achieving that edge over your competitors?**

It is very important. If we are not reliable, our customers will not do business with us and so we will not achieve that market lead in the industry, so it is always important to have high quality so that our customers can rely on our services, so it is based on business confidence.

**What role does convenience and risk reduction of the service play in this competitive lead in the market?**

Risk reduction is very important. If there are any risks for us, we don’t offer that service, so we say no, thank you, go to another company. We never give advice that
we are not sure that it is the best for the customer because if there are any risks for the customer, there will be a risk for us as well. So every advice is always serious and checked up to ensure that we don’t violate any rules and that goes back to quality standards we have to follow. If I am not sure that this is the right advice, I have to ask my partner or next in line, for a second opinion to ensure that the right decision is taken.