

Business models analysis of Finnish food retailers - Case K-chain, S-chain and Lidl

How to determine right channel to enter grocery retail market as
a new supplier with new products in Finland

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with new products in Finland)

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Abstract

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Abstract

This thesis is written in sake of understanding the crucial elements for being a successful business in food manufacturing in Finland. In this paper we look at the current food trade market in Finland and then analyze the business models of the three biggest grocery retailers in Finland. We use a business model canvas to understand the business model of the case companies. Therefore this thesis is also a multiple real life case study of three Finnish grocery retailers. The research question tries to determine the right channel to enter grocery retail market for a new supplier with new products in the Finnish market. Moreover, this paper aims to assist Baba Foods (a small food manufacturer) with right strategy on choosing right channel to enter the Finnish grocery market after its one year of operations. For solving the research question we have used interviews with decision makers of various chains and other relevant persons. Additionally, annual reports and journals have been researched to suggest the best channel choice for Baba Foods. Therefore, this study is merely a qualitative research. After this we built up a compatible table to determine right channel for Baba Foods. This compatible table suggested that out of the three biggest grocery retailers K-Chain is the most favorable and suitable retailer and partner for Baba Foods' products. Finally, this study can help also other new and small food manufacturers in various industries to understand the selection process of grocery chains in the food industry in Finland.

Keywords Business model, Business model canvas, Finnish food trade, grocery retailing, food manufacturing, supplier, retailer, K-chain, S-chain, Lidl, Baba Foods

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1. Introduction

Demand for products of domestic and small food trade companies in Finland are in steep growth. Small food trade companies and their diversity is vital for grocery trade sector in Finland. For a small food manufacturer it is challenging to get their products to retailers' shelves and selection and then also be successful partner and supplier with retailer in the long run. Naturally the resources are much more limited to be small supplier for retailers what it is for medium and big size food manufacturers. **(Finnish Grocery Trade Association PTY, 2013)**

Overall the Finnish food trade and grocery business is one of the few industries that have grown slightly in sales in these hard economic times in Finland. Moreover the competition in the Finnish grocery business has tightened in the recent years. Recently, we have read about the fall in price and overall price competition between K-Chain, S-Chain and Lidl. **(Kauppalehti, 2014)**

In this thesis we are discussing and analyzing the Business Models (BM) of three major grocery retailers in Finland. This study compares the different Business Models of these three case companies and then later be a basis for the initial research question. Firstly, we are looking into relevant BM theories and search for right conceptual framework to analyze food retailers' business models in a correct way. Also, a market review in the Finnish Food trade market is presented in the thesis to have an insight what is going on in the Finnish Food market. The ultimate goal of the thesis is to help a family business, Baba Foods Oy which is a small food manufacturer in the Finnish market, to determine the right retailers and sale channels for their new food products. Therefore, the research pursues to find relevant and compatible factors from the business models' of the grocery retailers and suggest the right sales and distribution channels for Baba Foods to effectively and successfully enter the grocery retail market with their new products.

1.1 Research objectives and question

This research is worth doing in the sake of Baba Foods' success and continuity as a family business in the food industry market in Finland. This research will directly benefit the shareholders of Baba Foods Oy, and its workers now and in the future. Indirectly this research will benefit people who are interested in food trade business models and grocery retail market in Finland. Moreover, people who are interested in grocery foods sales and marketing strategies for start-ups who are mostly offering new grocery food products. In the research we are analyzing three case companies in the Finnish food trade market (K-Chain, S-Chain and Lidl). Finally, the research is based on a real life business models which aim to help Baba Foods to determine its potential retailers better.

The theoretical framework used is based on the nine business model building blocks, later developed to Business Model Canvas (BMC) (Osterwalder, 2005; Osterwalder and Pigneur, 2010). First, we will analyze the business models' of the three case companies by using BMC. Then we will go through Baba Foods' business strategy and plans and try to determine with use of compatible table the right channel choices for Baba Foods' products to enter the grocery food market.

Therefore the research question is:

- **How to determine right channel to enter the grocery retail market as a new supplier with new products in Finland?**

Like said, we try to determine the right channels for Baba Foods' products to enter the Finnish retail market by analyzing the Finnish food trade business and especially the business models of the case companies. Moreover, by using a compatible table we can suggest the most favorable sales channels to a small food manufacturer within these three case companies. The case companies will be the three biggest food trade companies in Finland. Thus, we chose the three biggest players in the market, K-Chain, S-Chain and LIDL, since their distribution channels and market

potential is the greatest for a food manufacturer (e.g. Baba Foods Oy) and its new products.

1.2 Research methodology

This is a completely a qualitative research. First we are taking an insight to business model literature to determine a conceptual framework to analyze the three food trade companies. So, in this part we are building the conceptual framework for the business model analysis. Then we are using articles, annual reports, journals, thesis and literature together with some interviews to understand the right factors when building the compatible table for this case. After that we go into Baba Foods' business plan to understand about this new local food manufacturer in Finland better and how it is compatible with the other case companies when considering right channel to go into market. All this is vital before creating a compatibility table which tries to answer the research question: how to determine the right channel to enter the grocery market as a new manufacturer with new products in Finland. Finally we will make conclusions and suggest the right channel for the case company (Baba Foods). The below figure is just a visualization of the qualitative research structure by main elements.

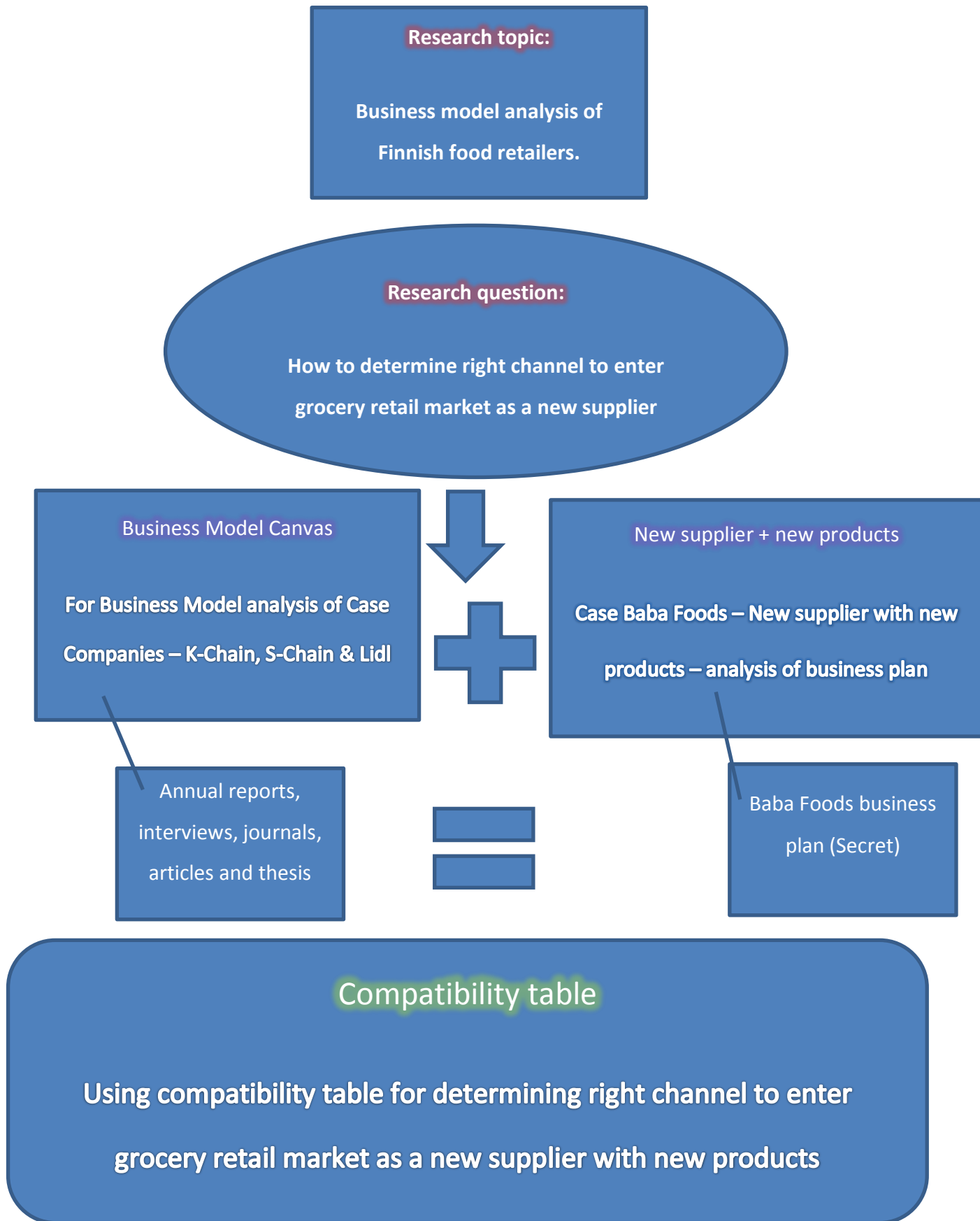


Figure 1: Visualization of the qualitative research.

1.3 Earlier research on business models

Business models have reached a broad spectrum of research in the past. Researchers have concentrated in different kinds of business models by investigating old and new possible business models. Moreover tools for analyzing BM as well as terminology and ontology have been widely researched over. Also, business design, strategy, concepts, tactics and innovation have been quite thoroughly researched in the recent years ([ZOTT AND AMIT, 2010](#); [CASADESUS-MASANELL AND RICART, 2010](#); [CHESBROUGH, 2010](#); [MCGRATH, 2010](#); [MAGRETTA, 2002](#); [TEECE, 2010](#); [OSTERWALDER, 2004](#); [OSTERWALDER ET. AL, 2005](#)). However, there is not much literature and research done of a new “niche” food product entry in the Finnish market. But, there are journals about different kinds of innovations in retail business models. Additionally, research has been done of food retailing and about retailing innovations in a globalizing retail market from both retailers and customers’ perspective ([SORESCU ET AL. 2011](#); [GEUENS ET AL. 2003](#); [REINARTZ ET AL. 2011](#); [SHANKAR ET AL. 2011](#)). Finally, [MORCHETT ET AL. \(2006\)](#) have investigated competitive strategies in retailing. So basically, there is rather much research and information regarding the literature of this current thesis topic.

In this paper, we aim to study the Finnish food market and the BMs of grocery retailers in Finland, in order to determine right sales channel for a new food manufacturer (Baba Foods) with its new products.

Research GAP

There is a lot of relevant research and articles about business models in different areas and perspectives. So overall, business models theories and business model ontology as well as strategy, design etc. has been researched quite thoroughly ([OSTERWALDER ET AL. 2005](#); [CASADEUS-MASANELL., RICART, 2010](#); [ZOTT., AMIT., 2010](#); [OSTERWALDER., PIGNEUR., 2010](#); [CHESBROUGH., 2010](#); [GUNTHER MC GRATH., 2010](#); [SORESCU., ET AL., 2011](#)). However, there is not a research done about current Finnish food trade business models (look at case companies) and an analysis or comparison of which channels would be the most favorable for small food manufacturer to enter

the grocery market with its new products. Moreover, in this research we want to determine compatibility between Finnish retailers' business models and most favorable sales channels for Baba Foods' new products.

1.4 Finnish grocery industry review

In this part we are looking at the food retail industry in Finland. More specific, we are concentrating on three biggest grocery retailers in Finland: Kesko Food Trade (K-chain), SOK Food Trade (S-chain), and Lidl Finland. These main three companies represent the key players in Finnish retail and grocery business. Moreover, they all have different business models and especially strategy that they are using somehow for gaining competitive advantage and increasing their market share ([MORSCHETT ET AL. 2006](#)). From the point of Baba Foods these players are always looking for products that will bring them some competitive advantage. In Baba Foods they believe that their niche products are something that could bring grocery shops this competitive advantage. Generally the competition in grocery retail business is between five entities: K-Group, S-chain, Suomen Lähikauppa, Lidl, and others. ([FINNISH GROCERY TRADE, 2014](#))

K-chain is one of the leading providers in the trading sector services in Finland. It was founded 1940 and it begun its operations one year later. Nowadays they operate in many different industries including grocery, home and specialty goods, building and home improvement, and car and machinery businesses. Moreover, it employs more than 45 000 people and its revenue in 2013 was 9 315 M€ and operating profit 230 M€. In the grocery shop its revenue (4387 M€) increased and in the other fields decreased in the year 2013. Finally, K-chain has about 2000 stores engaged in chain operations in Finland, Sweden, Norway, Baltic countries, Russia and Belarus. ([KESKO ANNUAL REPORT, 2013](#))

SOK (S-chain) is the other leading company in the retail and service trades in the Finnish market. Likewise K-chain, S-chain also competes in multiple industries; however, they both have slightly different areas of businesses they are competing in. S-chain provides services in the grocery and consumer goods, service in stations

and fuels, tourism and hospitality, automobile and auto accessories and in agricultural trade. In the grocery business S-chain is the biggest competitor of K-Group and other players have only a small share of the grocery and retail market. S-chain's revenue in 2013 was 8 539 M€, operating profit 226 and they have approximately 42 000 employees. [\(SOK ANNUAL REPORT, 2013\)](#)

Lidl is a German grocery chain company which operates internationally in 25 countries in Europe. It arrived to Finland in 2002 and nowadays it has 141 stores in all Finland. Moreover, Lidl operates in Finland as an independent subsidiary, Lidl Finland Ky. Lidl's revenue in 2013 was 960 M€ and it has approximately 4000 employees. Lidl has succeeded to gain market share basically every year since it came to the Finnish market. At present, Lidl has about eight percent market share in the grocery business whereas K-Group has 34% and S-chain 46% being the market leader. [\(LIDL SUOMI KOMMANDIITTIYHTIÖ, 2013\)](#)

Due to the complexity of K-chain's and S-chains's businesses we are narrowing down our analysis and comparison only for the grocery business which is also the only relevant one from Baba Foods' perspective. However, the business models are analyzed as a whole, because otherwise we cannot determine the big picture.

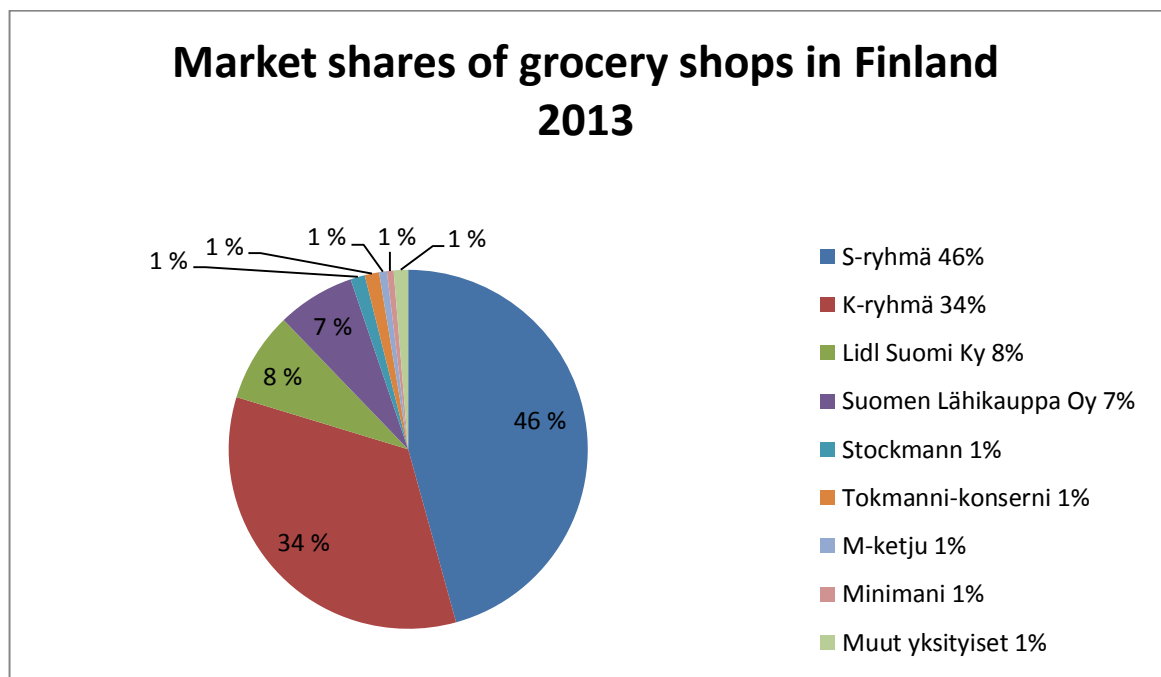


Figure 2: Market share of grocery shops in Finland

According to Finnish Grocery Trade Association (PTY) statistics, S-chain and K-chain have a duopolistic situation in the Finnish grocery trade in 2013 withholding together about 80 % of the all market (*Figure 2*). S-chain is the biggest player in the Finnish grocery trade by holding 46% of all market, Kesko hold 34% of the market. The trend has been in the last decade that S-chain has succeeded to increase its market share in the business. Lidl on the other hand has only a bit more than 8% of the market share but it does not try to penetrate the market share too much. Now it has 141 stores in Finland and its goal is to have not more than 150. So basically, Lidl is aiming to be and stay profitable and to keep its market share steady. However, in the last three years Lidl has succeeded to increase its market share over 3%. ([FINNISH GROCERY TRADE, 2014](#))

According to the Nielsen Company's annual report Suomen Lähikauppa has now approximately 7% of the market and Lidl has 8%. In 2013 groceries we sold altogether with over 16,5 billion Euros. Additionally, Siwa chain (Suomen Lähikauppa) has been cut down strongly; however they still have the most shops in Finland with over 500 shops in all country. According to the research institute of the Finnish economy in spite of the centralization of the Finnish grocery stores the competition is in fair levels. The different companies compete with each other in importing, so the centralization does not necessarily mean higher prices which have been a concern for the consumers in the last years. Many different researches suggest that the grocery prices in Finland are one of the highest in the world. ([FINNISH GROCERY TRADE, 2014](#))

1.5 Introduction of Baba Foods Oy

Baba Foods Oy was founded in February 2014 as a small family business owned by five shareholders. Baba Foods has three direct sales channels: primarily (B2B) to grocery shops like food retailers with varying size, secondly direct sales (B2C) to

circle of friends and web sales (www.baba.fi) and thirdly catering business to both private customers and companies.

Baba Foods recipes is based on Chef Avi's know-how and experience in the food business over 40 years. Baba Foods started with three cutting edge products but during the year 2014 Baba Food was producing seven products for grocery shops and all together over 10 products for its customer range. The current products are: Baba Hummus, Chili Hummus, Antipasto, Baba Ganoush, MinttuCoiso, Olive paste, Harissa, Mustard, Baba Falafel, Bulgur salad and other seasonal products like potato salad etc. Baba Foods products are handmade in Helsinki, genuine, fresh and local food. Moreover, all the products are milk-free, lactose-free and most of them gluten-free too. Baba Foods uses only fresh and quality raw ingredients. The products represent mainly the eastern Mediterranean regime diet with a touch of Finnish flavor.

Baba Foods currently concentrates sales on the market in Helsinki. It has 11 business customers as retailers (grocery shops 1.1.2015) which are the key retailers for consumers. In spring 2015 Baba Foods goal is to double the number of its distributors mainly by focusing on expansion in Helsinki area.

Baba Foods used the first three grocery shops as its test market for its new ready to eat products. The test market was spring 2014 and the beginning of autumn 2014. Overall, the customer feedback and sales have relived that the products are good enough for the market and the products have potential market. Therefore, Baba Foods continues its expansion for potential retailers in Helsinki area for the year 2015. Now Baba Foods needs to determine a strategic move on which sales channels to concentrate on, especially when entering grocery retail market with new products as a small food manufacturer in the food industry in Finland.

1.6 Structure of the thesis

In this thesis we are going through very straight forward the literature review as well as the business model concepts of the case companies. After this introduction

we are looking in section two into data and methods used in this thesis. In section three, we are researching business model literature, and what are relevant theories and concepts to use for our case companies. In section four, we are analyzing these three case companies by using the business model canvas to understand their business as whole, all companies are discussed and analyzed in separate subsections. Moreover, also Baba Foods' business plan is looked over since it is important for understanding the big picture what comes between all the case companies and their needs. Section five reveals the main findings of this research and reveals a compatible table between the three grocery store case companies and Baba Foods. Finally in section six we discuss about the grocery business in Finland and Baba Foods possibilities as well as other similar manufacturers in the future. Section seven concludes the thesis and summarizes the research as well as have suggestions for further research.

2. Data and methods

This is a qualitative research as the research topic is business model analysis of case companies and research question is: how to determine the right channel to enter the grocery retail market as a new supplier with new products in Finland. Therefore, the research method is based in multiple case study and on building a conceptual model which is outlined from Business model Canvas and then later developed to compatibility table for analyzing this multiple case study research question. Data sources used are documents and texts (e.g. journal, articles, thesis etc.), online material like annual reports and then finally interviews of Finnish Grocery Trade Association for objective view of relevant factors. Moreover, the all the shareholders has been interviewed too what comes to Baba Food's business plan. Therefore the data analysis method used is based on comparison of the case companies and then developed for a compatibility table which weights the favorability and suitability of the three case companies for Baba Foods channel choice.

We have used in this research the following evidence in the business model analysis for the three case companies as well as with Baba Foods: Notes from case companies including interviews, annual reports, documents such as journals and articles, tabular material and narrative. This evidence is sufficient for building up a competent compatibility table for analyzing the research question.

2.1 Qualitative research

Qualitative data can be found from K-Chain's and S-Chain's annual reports 2013. Lidl's data is collected from various sources, mainly from journals, articles and Lidl's website since Lidl does not publicly announce any extra information from itself and it has not mandatory reporting while being a limited partnership (GmbH). All this data and information is used to build up the business model canvas of each retailer together with information from the interviews made with Finnish Grocery Trade

Association (PTY) and the representative of K-chain, S-chain and Lidl Finland. The interviews were made by questionnaire sent by email. The email was sent to six carefully chosen decision maker and top people in their field:

- Ruokakesko's general manager Jorma Rauhala,
- HOK-Elanto Liiketoiminta Oy's vice president Veli-Matti Liimatainen
- LIDL's general manager Lauri Sipponen and sales manager Virpi Kaikkonen
- Finnish Food Trade Association's general manager Kari Luoto and manager Ilkka Nieminen

Four out of six of the respondents answered to the questionnaire based on business model and other relevant questions related to the research questions. The two that did not answer were Lidl's manager Mr. Sipponen and sales manager Mrs. Kaikkonen. Also Ruokakeskos's general manager did not answer himself to the questionnaire, but instead Ruokakeskos HR Business Partner Marja Lähteenmäki gave some answers. Also an important objective answers and perspective to the questions was received by both of the Finnish Food Trade Association's respondents. **(See appendix for more detailed interview questions)**

We executed the interview questions fairly simple for getting straight forward answers to the research questions. With the interview questions we wanted to understand the main criterion for getting a new product into the grocery store for sale from both grocery store and decision maker's perspective. Moreover, the business model related questions for interviewed person were there to support the annual reports and public statements found from other sources. Also, the annual reports were great sources to understand the culture, values and strategies of S-chain and K-Chain and thus the bigger picture. Finally, the interviews brought depth and real life opinions for this particular case.

After this Baba Foods' data was collected from their business plan (2014) together with information gathered by open interviews and discussions with the shareholders. The information and data used in the thesis about Baba Foods is mostly based on the secret business and marketing plans. However, additional

information and knowledge is added to this case by having deep discussions and open interviews with the five shareholders of Baba Foods. The most important factors regarding the interviews were the factors which determine the optimal variable for Baba Foods in the compatible table. Thus, these factors are key for the channel choice result and therefore, the shareholders opinions on the factors play in big role in creating the compatible table. So, only after this all this data and info was used for developing the forthcoming compatibility table. So in building up this compatible table we have use data and information from Business Model Canvas of the three grocery retail companies and Baba Food's business plan. Then also we have added the information and knowledge we got from the interviews and other relevant material considering the research question. Thus, we can have a deeper look at the compatible table on the findings section.

2.2 Trustworthiness of the study

This study is based on real life cases so the observations, annual reports, relevant publications mainly by Finnish Food Trade Association (PTY) and interviews play a big part of this study. Moreover, the compatibility table and its variables are in key role when determining the right channel for Baba Food's products in the Finnish market. In this study, we chose the business blocks from business model canvas for part of the variable criterion for the compatibility table. Moreover, variables from [DUKE \(1998\)](#) were taken into consideration as well as important factors mentioned by the interviewed persons as well as factors mentioned in the PTY publications about micro companies who can be successful in partnering with grocery retailers and also the fundamental guide to suppliers. Finally, compatibility table and its variables with most favorable and optimal variable results were determined by board of directors of Baba Foods. Meaning what is the most optimal retailer partner for a supplier and food manufacturer as Baba Foods is. Therefore the optimal variable choice can vary depending on the supplier and its business and products. Then, for simplicity the most favorable, suitable and right channel choice is made based by these compatibility factors which summed and scored in the end.

3. Business model literature

In this part we will have a look at the business model (BM) literature and go through the relevant topics, concepts and business model theories currently.

3.1 Business model concept

Business model (BM) can be described in many ways and researches have suggested multiple different description. In this paper, we define business model concept according to [OSTERWALDER ET AL. 2005](#):

“A business model is a conceptual tool that contains a set of elements and their relationships and allows expressing the business logic of a specific firm. It is a description of the value a company offers to one or several segments of customers and the architecture of the firm and its network of partners for creating, marketing, and delivering this value and relationship capital, to generate profitable and sustainable revenue streams.”

If we want to describe business model idea in very simple way we can quote [McGRATH 2010](#), who state the basic idea of a business model is, that a company can create a competitive advantage by doing something differently than others. However, to have a deeper understanding about business model we have to understand the essence of a business model and the difference between business model and business strategy. [TEECE 2010](#), defines the manner by which the company delivers value to customers. Moreover, how companies lure customers to pay for value and how to convert customers money into profit. Therefore, business model reflects management’s presumption about what customers want, how they want it, and how the company can do business so that their meet customers’ needs and make profit out of it. [TEECE 2010](#), also points out the significance of business models and explore their connection with business strategy, innovation management, and economic theory.

[MORRIS ET AL. 2005](#), synthesize the literature and draws conclusions regarding a number of core issues in entrepreneurial context and tries to unify the business model perspective. They propose that “ a business model is a concise representation of how an interrelated set of decision variables in the areas of venture strategy, architecture, and economics are addressed to create sustainable competitive advantage in defined markets.” However, [OSTERWALDER ET AL. 2005](#) make a distinction between business model and business process models. They note business model literature has shown that the business model concept is generally understood as a view of the firm’s logic for creating and commercializing value. Additionally, they state that people get confused with the terms strategy and business model. [MAGRETTA 2002](#), makes a practical distinction between strategy and business model. Business models are described as a system that shows how the pieces of a business fit together whereas strategy also includes competition.

For making another distinction between business model and business strategy, we can lean on [CASADESUS-MASANELL AND RICART 2010](#) research, in which they present a conceptual framework to separate the concepts of strategy and business model. They argue, that business model is a reflection of the firm’s realized strategy. According to them “business model refers to the logic of the firm, the way it operates and how it creates value for its stakeholders; strategy refers to the choice of business model through which the firm will compete in the marketplace; while tactics refers to the residual choices open to a firm by virtue of the business model it chooses to employ.”

On the other hand, [TEECE 2010](#) states that business model is more generic than a business strategy. Also, coupling strategy and business model analysis is needed to protect competitive advantage resulting from new business model design. Teece is writing more in the designing new business models to keep up with the competition and creating always new competitive advantage. He also acknowledges that the chances of good design are greater if entrepreneurs and managers have a deep understanding of user needs, consider multiple alternatives, analyze the value chain thoroughly so as to understand how to deliver what the customer wants in a cost-effective and timely fashion.

However, if we try to link business model and business strategy somehow, then [McGRATH 2010](#) has suggested in her study, that the business model concept is a powerful idea for strategic thinking and strategic research. Moreover, in new business models the key is experimentation, which can take place inside a company and across businesses. Also noteworthy according to [McGRATH 2010](#), that there is a human dimension to competing on new business models. Therefore, this note is also remarkable when determining strategic moves for choosing the right sales channels for a new company entering i.e. grocery retail market.

Overall BM literature has been developing during the millennium. Researches and business professionals have been suggesting many views and definitions about what business model is and how it differs from business strategy or tactics. Until recent years there has not being consensus regarding the definition, nature, structure and evolution of business models ([MORRIS ET AL. 2005](#)). To this day, BM literature and ontology have been clarified and described by many researchers. ([OSTERWALDER ET AL, 2005; HAMEL, 2000; MAHADEVAN 2000; CHESBROUGH AND ROSENBLOOM, 2000; MAGRETTA, 2002; AMIT AND ZOTT, 2001; APPLEGATE AND COLLURA 2001, MAITLAND AN VAN DE KAR, 2002](#))

It is common to all the business model literature that they agree that it is different from company's strategy. Moreover, a review about business model literature also reveals that BM can be used for managers to capture, understand, communicate, design, analyze, and change the business logic of their company [OSTERWALDER ET AL. 2005](#). On the other hand, BM can be a tool for business partners or third parties to analyze other potential businesses and their synergies or supply chains [MARTIKAINEN ET AL. 2014](#).

[MARTIKAINEN ET AL. 2014](#) also introduced a process of building potential business models for a logistics service provider operating in a local food supply chain. This case is relevant when later analyzing Baba Foods strategy and business plan for determining which retailers could represent the most favorable channel to distribute Baba Food's products. In [MARTIKAINEN ET AL. 2014](#) paper they connect business models and service offerings by using a Business Model Canvas.

[OSTERWALDER AND PIGNEUR 2010](#), presented a framework on how to define a business model. The framework is called Business Model Canvas (BMC) and it contains nine building blocks for business model (**Figure 3**). It has been noted that the business model concept lacks theoretical foundation, but at the same time agreed to be a good enough tool to analyze different business models in various industries [TEECE 2010](#). In this paper, we are using BMC to analyze these three biggest Finnish food trade companies. Even though BM is argued to be a tool for managers and stakeholders to understand the business and its essentials we argue that it can also be a suitable theoretical conceptual framework to analyze other businesses in order to understand what sales channels could be right one for other business partners. Finally and accordingly [SHAFFER ET AL. 2005](#) have concluded that business models provide a powerful way for executives to analyze and communicate their strategic choices.

3.2 Theoretical Framework - Business Model Canvas

When discussing on business models and its usage as a concept, we can lean on [OSTERWALDER ET AL. 2005; 2010](#). They outline in their paper the origins, the different understandings, and the evolution of the business model concept. They use a nine business model building blocks to analyze different business models. They also outline general uses, roles and potential of the business model concept in a company in their paper. However, their study is discussed more in the relationship with Information Systems area. Nonetheless, business model concept and analysis can be applied across industries. As [OSTERWALDER ET AL. 2005](#) also point out that the business model concept can be seen as an instrument to analyze, design, change, align and innovate new businesses. [MARTIKAINEN ET AL. \(2014\)](#) note, that the business model has been criticized for not considering all areas of the firm. However, they also acknowledge that the aim of the Business model Canvas (BMC) is to pinpoint the essential elements of the business when innovating new ways to operate.

So after a thorough literature research, we found that organization business models can be best described by Business Canvas Model [OSTERWALDER AND PIGNEUR, 2004; 2010](#). It has nine basic building blocks: Customer segment, your value proposition for each segment, the channels to reach customers, customer relationships an organization establish, revenue stream generation, key resources and key activities an organization acquire to create value and finally the key partners and cost structure. When we structure these elements we get the Business Model Canvas as shown below in figure 3.

Key Partnerships • Acquired and outsourced activities necessary to offer and deliver the value to customers.	Key Activities • Key activities are performed to offer and deliver the value to customers.	Value Proposition Value proposition seeks to solve customer problems and satisfy customer needs.	Customer Relationships • Customer relationships established and maintained with each customer segment	Customer Segments • Customers to whom the value is delivered
	Key Resources • Key resources are the assets required to offer and deliver the value to customers.		Channels • Value propositions are delivered to customers through communication, distribution and sales channels.	
Cost Structure • The business model elements result in the cost structure.			Revenue streams • Revenue streams result from value propositions successfully offered to customers.	

Figure 3: Business model Canvas (Osterwalder and Pigneur, 2010)

This Business Model Canvas is argued to help to map, discuss, design and invent new business models ([OSTERWALDER AND PIGNEUR, 2004; 2010](#)). We can briefly go through the different building blocks to understand better how they work as a tool of analyzing the whole business model.

Firstly, customer segments are all the people in the organization which a company wants to create value for, also known as paying customer. For each segment companies have a specific value propositions, these are the bundles, products and services which create value for a customer. Then channels describe which touch points companies are using to interact with customers and delivering value.

Secondly, customer relationship outlines the type of relationship when a company is establishing with its customers. Then the revenue streams make clear how and which pricing mechanism a business is using to capture the value. Key resources block is used for describing the infrastructure to create, deliver and capture value. The key resources also show, which assets are indispensable in a business. The key activity block show which things a business really needs to perform well. Moreover, the key partnership block is used to show who can leverage a business model, since usually a business cannot own all key resources by itself, nor perform all key activities. Then finally, when the business model's infrastructure is understood a business will know its cost structure. So with this business model canvas we can map out a business model of a company in one image.

4. Analyzing BM of Case

Companies – K-Chain, S-Chain, Lidl

Before we go through the business models of the three case companies we need to understand the basic fundamentals that need to be fulfilled by a new and small food manufacturer for being a worthy supplier for retailers. Firstly, the product needs to be good enough, meaning it needs to fulfill certain criterion. Good enough means that the product has to be distinguishable from rivals' products and also be interesting from consumers' perspective. Moreover the product needs to be safe and fulfill Finnish Food Safety Authority - Evira's food standards as well as Eu's regulations about food safety. Secondly, food manufacturer (in this case small supplier for retailers) needs also to fulfill basic criterion. Logistics has to be convenient meaning that delivery needs to be reliable and electronic exchange of product, order and billing information has to work sufficiently between supplier and retailers. Additionally, self-monitoring is mandatory for supplier, because the cold chain has to be managed perfectly without any failures in the cold chain. Self-monitoring is vital also for the products' safety until the food products are

manufactured and finally consumed by customer. Then the product packaging has to be accordingly and hopefully distinguishable too. Product identification is also one of the basic criterion that retailers requires. For this EAN-codes are use in the products. Finally, marketing is the crucial part for a new small food manufacturer to get awareness for its products. This means that supplier needs to take care of right kind of pricing, effective and felicitous marketing as well as good promotion for its new product. ([FINNISH FOOD TRADE ASSOCIATION PTY, 2007](#))

So in this part we are analyzing the BM of the three biggest retail players in the Finnish retail industry. Moreover, we are analyzing these BM by using Business Model Canvas ([OSTERWALDER 2010](#)) and after looking at the business plan of Baba Foods to determine the possible and most favorable channels to enter the grocery market with new food products.

4.1 Business model of K-Chain

In this part we're going to focus mainly on business models in grocery store and retail business. Kesko was first founded in 1940 with the merging of four domestic agricultural and retail companies. The parent company has since divided these different business areas to food trade, home and specialty goods trade, building and home improvement trade, car and machinery trade.

K-chain was the leader in domestic food sales for a long time, until last decade, when it was surpassed by S-chain in terms of market size (K-chain today has 34% and S-chain 46%). The business logic for both groups nowadays seems to aim at building large conglomerate enterprises which span different business areas (like car sales and retail banking). The aim here is to get the customers to concentrate all their purchasing by giving discounts. ([KESKO ANNUAL REPORT, 2013](#))

4.1.1 Key resources, activities and partners

K-chain and its chains' retailer vendors (entrepreneurs) employ total of about 45 000 people. K-chain describes itself in its annual report (2013) as follows: "K-chain is a highly valued listed trading sector company. It manages retails store chains that are valued by customers, and efficiently produces services for retails store chains' purchasing, logistics, network development and data management". Kesko operates in four different business divisions: 1) food trade, 2) home and specialty goods, 3) building and home improvement, and 4) car and machinery trade. Like said, we are concentrating mainly on the food trade in this analysis. Food trade is Kesko's key operator and it accounts almost 50% of all retail sales. ([KESKO ANNUAL REPORT, 2013](#))

Kesko's divisions and chains act in close collaboration with retail entrepreneurs and other partners. For example, all K-food retailers are private entrepreneurs/merchants. Moreover, Kesko has more than 900 K-food stores overall (including K-Citymarket, K-Supermarket, K-Market and K-Extra stores). Then, partner network building comes also in the form of different brands, not only stores or industry segments. Pirkka for example is a well-known, fairly cheap Finnish brand that is only sold in K-stores, and there are many others as well. Therefore there exists competition over exclusive rights to sell certain brands, which are in turn used to improve offerings. Nowadays, K-chain also offers a very cheap brand called K-Menu, which usually represent consumers' basic products from vinegar to cheese. Moreover, Kesko Food Trade guarantees the quality of K-Menu products. ([KESKO ANNUAL REPORT, 2013](#))

Kesko's value network can be divided to these already mentioned four divisions. In food trade division value network is created by k-retailers. These k-food shops are all together 920 in Finland and Russia. K-food operates in four chains depending on the size and supply of the shop (K-Citymarket, K-Supermarket, K-Market, K-Extra). Then Kespro is Kesko's food subsidiary and is the leading wholesaler in the Finnish hotel, restaurant and catering (HoReCa) business and acts as a business partner for its customer companies in Finland. In the company's own retail selling, competitive advantage is attempted by using economies of scale. ([KESKO ANNUAL REPORT, 2013](#))

4.1.2 Value Proposition

Kesko lists four key values which can be seen as their value proposition. First, they want to exceed their customer's expectations, especially when it comes to grocery shopping. Generous rebates are given for concentrating purchases on stores owned or partnered by Kesko. Secondly, they want to be the best operator in the trading sector. Thirdly, they try to create good community work and finally, to bear their corporate responsibility.

The value creation can be also divided to four sections by the strategic themes that Kesko tries to pursue. First of all, they try to strengthen sales growth and thus increase shareholder value. Secondly, they are trying to focus on e-commerce and multi-channel services, because Kesko assumes an increasingly important role in consumers' purchasing behavior and international online retailing intensified competition. Moreover, they believe that in multi-channel transactions, customers expect stores to provide real-time information about product selections, properties, prices and availability. Thirdly, they are exploiting business opportunities in Russia which account now somewhat of 4% of all net sales. Lastly, they pursue responsible operations which they believe to increase customer visibility. ([KESKO VUOSIKERTOMUS, 2013](#))

4.1.3 Revenue streams and cost structure

Unlike its main competitor S-chain, Kesko is a private listed company. Whereas S-chain is owned by its customers, Kesko's goal at the end of the day is of course to create value for its shareholders. The interesting question here is whether or not a private company can actually win in this kind of setting. Companies which work with a retail co-operative business model (e.g. S-chain) transfer their profits to customers directly, whereas private companies transfer their profits to shareholders (e.g. K-chain). In Kesko's case these private vendors are responsible for k-store sales. Kesko is using a multi-channel services to serve its customer and by a K-Plussa bonus card system trying to create loyalty within consumers. Moreover, e-commerce is one

new channel to generate revenue in the grocery business and is becoming more and more popular among consumers.

Kesko's customers are willing to pay a little bit extra due to the better selection than in an average grocery store (e.g. S-Market vs. K-Supermarket or K-market vs. Alepa etc.). Kesko's customers are also known to ask from a private vendor to have some grocery item that they would like to buy every now and then. Usually the private vendor wants to satisfy these unique and niche customers' needs that exist among the loyal customers. Revenue streams in grocery stores are rather simple – consumers buy what they need and shopping is paid on the cashier by cash or credit/debit cards.

The most cost for K-stores come from personnel, goods purchase and stock. Personnel is a key resource in every shop, since costs occur every second the shop is opened for consumers. Moreover, every store has a huge stock all times, the shelves need to be filled and thus stock has a great value. Finally, the premises, usually a rented premises or built building holds great costs too. ([KESKO ANNUAL REPORT, FINANCIALS, 2013](#))

4.1.4 Channels

There are few ways how Kesko deliveries the goods and services to customers. Kesko is using a multi-channel distribution as well as e-commerce to serve the customers. The traditional way to serve K-chain's customers is all the 1547 physical shops and retailers out there in 2013. In addition to that the newer way to serve customers is e-commerce channels. Kesko aims to offer online shopping services in all of its divisions over the course of 2014. Kesko has services in the following online store sites: NetAnttila.com, kodin1.com, citymarket.fi (food trade), mustaporssi.fi, budgetsport.fi and kookenka.fi. Kesko states that it continues to develop e-commerce and services in all product lines in 2013. In food trade, the ruoka-citymarket.fi online food store was launched in the Greater Helsinki area in 2013.

Kesko states, by the end of 2014, all of Kesko's chains will offer an online shopping option to their customers, while also shifting the emphasis even more towards targeted marketing and customer rewards. ([KESKO ANNUAL REPORT, 2013](#))

Kesko's innovation model is quite traditional one. They are now at operational excellence zone, where they are focusing on new segments and market like Russia. Thus they are trying to expand abroad their markets. Moreover, Kesko already has its own cheap brand Pirkka and K-Plussa customer loyalty program which helps them to develop and tailor operations to better meet customer needs. Their objective is actually to be able to provide individual service to each customer at every K-store.

E-commerce and online shops cannot be accounted for new innovation since it has become a standard and predicted to be the future key for serving customer needs. The K-Group's principal business model in Finland is the chain business model, in which independent K-retailers run retail stores in Kesko's chains. Therefore, Kesko lists its store site network as one of the strategic competitive factors. This is not exactly an innovation model, but one of the competitive factors that is common to Kesko's business model.

In the food trade business we can acknowledge actually few innovations. One is Kesko's Food's Consumer Service with the principle "We will always answer you". Then also one significant factor was the refurbishment of fresh foods departments in K-food stores. These are minor innovations, but essential to keep up on the good change for better. Lastly, only on 2013 K-food launched an online food store ruoka.citymarket.fi, which delivers products to consumers and business customers in the cities of Greater Helsinki. This is nowadays a must and not exactly an innovation, however it is change model necessary to keep up in the competitive business. ([KESKO ANNUAL REPORT, 2013](#))

4.1.5 Customer relationships and segments

Traditionally in the retail industry, (as in many other industries) there exist two business model strategies that companies can follow: either cost-leadership or the attempt to offer superior value proposition. From the information gathered from Kesko, it seems clear that unlike Lidl for example, Kesko is focusing heavily on creating superior value proposition through selection, customer satisfaction and – information. On the other hand, they are trying to reap the advantages of economies of scale on certain areas, like in their own retail selling. With the size of markets ranging from your small neighborhood quick market to large department stores, there also seems to exist a desire to act both nationally and locally and a bit globally (e.g. Russian market).

Target market, as stated by Kesko, is families with children. Their strategy is to offer superior offering in vegetables, fruits, bread, and fresh meat with higher customer service when compared to competitors. They are mapping the possibilities to expand abroad to countries like Russia. Finally, one noteworthy factor is that 900 000 customers visit K-food stores every day.

In addition, Kesko states that e-commerce and online selling will grow and become even more significant competitive drivers. The company also notes that such services will further improve both customer satisfaction and sales. ([KESKO ANNUAL REPORT, 2013](#))

4.1.6 Business model canvas of K-Chain

The canvas below wraps up the key points of K-Chain's business model

<p>Key Partners ?</p> <p>1. Who are your key partners?</p> <p>Food Trade - retail entrepreneurs</p> <p>K-Citymarket K-Supermarket K-Market K-Extra</p> <hr/> <p>Partner network</p> <p>Comes in the form of different brands:</p> <ol style="list-style-type: none"> 1. Pirkka 2. K-Menu <p>Sourcing Solution:</p> <ol style="list-style-type: none"> 1. Kespro - is the leading wholesaler in the Finnish hotel, restaurant and catering (HoReCa) business and acts as a business partner for its customer companies in Finland 	<p>Key Activities ?</p> <p>1. What are your key activities?</p> <p>Business divisions</p> <ol style="list-style-type: none"> 1. Food trade 2. Home and Specialty goods 3. Building and home improvement 4. Car and Machinery trade <hr/> <p>Grocery sales</p> <ul style="list-style-type: none"> - Multi channels grocery sales network - E-Commerce 	<p>Value Proposition ?</p> <p>1. What are your value propositions?</p> <p>Key values</p> <ol style="list-style-type: none"> 1. Exceeding customer's expectations in grocery shopping 2. Being best operator in the trading sector 3. To create good community work 4. Bear corporate responsibility 	<p>Customer Relationships ?</p> <p>1. Your customer relationships?</p> <p>Value proposition for customers</p> <p>Value created for customer:</p> <ol style="list-style-type: none"> 1. By wide selection 2. customer satisfaction and information 3. Bonus card system as a loyalty programme 4. Economies of scale (own retail selling) 5. Grocery stores from neighborhood markets (K-Extra) to large department stores (K-Citymarket) 	<p>Customer Segments ?</p> <p>1. Customer Segments</p> <p>Target market Edit x</p> <ol style="list-style-type: none"> 1. Families with children 2. Offer superior offering in vegetables, fruits, bread and fresh meat with higher customer service when compared to competitors <ul style="list-style-type: none"> - This means usually a bit higher prices too, because with higher service levels cost are usually higher. - E-commerce customers
<p>Key Resources ?</p> <p>1. What are your key resources?</p> <p>K-Group</p> <ul style="list-style-type: none"> -Personnel > 45 000 employees -Stock - groceries -Properties as retail stores (over 900 retailers in Finland) - Machinery and equipment - Kespro wholesale 	<p>Key Resources ?</p> <p>1. What are your key resources?</p> <p>K-Group</p> <ul style="list-style-type: none"> -Personnel > 45 000 employees -Stock - groceries -Properties as retail stores (over 900 retailers in Finland) - Machinery and equipment - Kespro wholesale 		<p>Channels ?</p> <p>1. Channels</p> <p>Multi-Channel distribution in Food Trade</p> <ol style="list-style-type: none"> 1. Four K-Chains (K-citymarket, K-Supermarket, K-market, K-Extra) 2. E-Commerce <ul style="list-style-type: none"> - Online food store, ruoka.citymarket.fi 3. Kesko has other channels in other business divisions including stores and online stores 	
<p>Cost Structure ?</p> <p>1. What about your cost structure?</p> <p>Key resources</p> <p>Biggest key resources are the biggest direct cost:</p> <ol style="list-style-type: none"> 1. Personnel 2. Stock - groceries 3. Retail stores (rent, new properties) 4. Machinery and equipment 			<p>Revenue Streams ?</p> <p>1. What are your revenue streams?</p> <p>Private listed company</p> <p>Creating value for shareholders:</p> <ul style="list-style-type: none"> - Multi-channel services - E-commerce <ol style="list-style-type: none"> 1. By K-plussa bonus system 2. Loyal grocery customers paying by cash or credit/debit cards 	

Table 1: Business Model Canvas of K-Chain

Here we have pointed out the SWOT of K-Chain shortly to underline the issues that are not necessarily mentioned in the canvas.

<p>STRENGTHS</p> <ul style="list-style-type: none"> - Value proposition - -Brands - -Selection - -Domestic company 	<p>WEAKNESSES</p> <ul style="list-style-type: none"> - Financing - Managing different business areas - Cost efficiency (compared to Lidl)
<p>OPPORTUNITIES</p> <ul style="list-style-type: none"> - Expanding to new countries - Further improvements in value proposition using customer information - Capitalizing on domestic migration towards growth centers - e-Commerce 	<p>THREATS</p> <ul style="list-style-type: none"> - Expanding to new countries - Growing price pressures - Governmental tax policies (Finland has one of the highest food prices in Europe) - Lagging behind S-chain in terms of acquiring new partners to the network

Table 2: SWOT of K-Chain

4.2 Business model of S-Chain

In year 1904 Suomen Osuuskauppojen Keskuskunta (SOK) was founded to arrange the common purchases of the individual co-operatives and to consult them. Shortly after the foundation, SOK started its own production in Helsinki. From that time SOK has developed itself to the leading grocery chain in Finland. ([SOK ANNUAL REPORT, 2013](#))

4.2.1 Key resources, activities and partners

The purpose of the S-chain is to provide services to its customer owners. The services are, however, linked to products, so even though they are working in service sectors, the products are very closely linked to SOK services. Due to the close linkage of the services and tangible products, the growth potential of the company comes merely by increasing the volumes and improving the processes than inventing new services. The S-chain is legally a retail co-operative. The Finnish law

defines the purpose of a retail co-operative to serve its owners. In the case of S-chain the owners are quite often also the customers of the company. In this sense, the company structure marks it out from competitors. As mentioned, the purpose of the S-chain is to serve the customer-owner, so the company is involved in many kinds of activities ranging from agricultural trade to travel business. One could state that anything one needs can be bought from S-chain stores. There are 2,1 million owners in the company i.e. nearly 36 % of the Finns are owners. ([SOK ANNUAL REPORT, 2013](#))

There are approximately 42 000 employees working in the S-chain in Finland. So far human intensive grocery business requires large amounts of work force. However, S-chain may face problems due to the high turnover of workers. The majority of the employees are their mid-twenties, so minority of them is going to passionate from the current job.

Like mentioned earlier, the S-chain is working in variety of branches and they have concentrated some functions to one company. This infrastructure ranging from different retail shops to concentrated group functions gives a competitive advantage in the market. The customers and the owners are bind to this infrastructure in different “binding” points throughout the whole supply chain. According to S-chain’s annual report, they are able to “lead the whole value creation chain from the suppliers to customers.” ([SOK ANNUAL REPORT, 2013](#))

The S-chain does business in the following business areas; banking, gasoline trade, car and car accessory business, travelling and restaurants, **retail trade** and agricultural trade. With help of this portfolio they try to offer different kind of products to owners. ([SOK ANNUAL REPORT, 2013](#))

One of the important logistics factor is the Inex Partners Ltd. who’s task is to produce grocery and consumer goods logistics business in a strengthening way. The distribution is mainly centralized and two third of the grocery goods were delivered straight from centralized distribution to stores. The rest one third were delivered straight from supplier to stores. SOK Market trade’s chain management is also one of the key partners of S-Chain as well as its customer owners.

4.2.2 Value proposition

S-chain states as its value proposition “olemme asiakasta varten – we are there for a customer”. [\(SOK ANNUAL REPORT, 2013\)](#). Moreover, they target to operate profitability and to carry responsibility of people and environment. Finally, they pursue to renew their operations continuously. So accordingly, HOK-Elanto’s vice president Mr. Liimatainen states as their value proposition as follows: “The easiest shopping and the best product availability, low cost of shopping cart and the best selection overall.”

As mentioned earlier, S-chain is supposed to provide different kind of services to owner. Due to the variety of services they provide, S-chain can integrate some functions and thus provide cost savings compared to smaller players. For example doing this “horizontal” integration, S-chain has concentrated its logistics to a certain company. In addition to the “horizontal” integration, S-chain has done “vertical” integration for example in food market. S-chain has processes which integrates the whole value creation chain. S-chain has arranged that they act on the whole food value chain from the farmer to the home cook or restaurant customer. Operating this way they create value in different, sequential steps to the customer. [\(SOK ANNUAL REPORT, 2013\)](#)

Furthermore, S-chain has several local participant retail cooperatives. With help of the local businesses they can act locally and at the same time gain from the Finland-wide operations. According to S-chain’s annual report this way of working guarantees an efficient business model. [\(SOK ANNUAL REPORT, 2013\)](#)

4.2.3 Revenue streams and cost structure

The earning model of the S-chain is to commit the owners to the S-chain. The commitment is done with help of the bonus system. The more you buy, the more money you get. In addition, the S-chain encourages you to buy more from the S-chain because the bonus percentage (i.e. the percentage amount you get from your total monthly purchases) increases stepwise according to the total purchases.

This earning model seems to be working because the S-chain has increased its share of the total market during the last few years. S-chain accounts now (2013) for 45,7 % of the total retail trade in Finland. [\(SOK ANNUAL REPORT, 2013\)](#)

Their cost structure is more or less same than K-chain's. Personnel, goods procurement, stock and premises hold the majority of the total costs. Of course, also the bonus card system creates some costs but it is greatly changed into advantage what comes to knowing the customer needs and buying habits.

4.2.4 Channels

There are several ways how S-chain deliveries the goods and services to customers. S-chain is using a multi-channel distribution as well as e-commerce to serve the customers. First of all, the most traditional way is that customers go to shop or super market and buy the products they need and carry them home. The super markets and shops are however not the only way to get food from S-chain. You can buy your food also from smaller stores located at the gas stations. Due to the legislation, these shops are allowed to be open more freely. According to S-chains's annual report there are nowadays 863 markets and 106 stores located at the gas station integrated. [\(SOK ANNUAL REPORT, 2013\)](#)

According to SOK annual report the S-chain carries on supermarket trade using three concepts: hypermarkets (Prisma), supermarkets (S-Market), and grocery stores (Alepa, Sale) and additionally, the ABC service station market that also sells grocery goods nationwide.

S-chain has been paying attention to the online food shopping. They state they are forerunner in the online grocery business with the foodie.fm online store. They have over 160 000 registered customers there which is a huge social network in Finland. So far they serve its online grocery shop service in Helsinki and couple other cities. Interestingly, we can see that SOK is paying attention to new technologies and developing new ways in doing business. They have announced

that one of the key focuses is enhancing the customer interaction with better customer service. [\(SOK ANNUAL REPORT, 2013\)](#)

As most of the Finns have noticed, SOK has widened its services from traditional markets to new delivery channels. Firstly, innovative business models as small food stores at gas stations have utilized the legislation loopholes successfully. Secondly, SOK has been one of the grocery e-buying pioneers. With help of innovative business models SOK has won market share from Kesko. Kesko has grown slower the past 20 years than SOK. Its growth has relied mainly on new stores, not on the existent stores. In addition, the duopolistic market is not optimal for creating new services and company might not have enough incentives to develop new services. [\(SOK ANNUAL REPORT, 2013\)](#)

4.2.5 Customer relationships and segments

As discussed earlier, many S-chain customers are at the same time owners of the company. In addition to this, the amount has been steadily increasing during the last years. In the end of year 2013 S-chain customer ownership amounted total of 2,109 million. Mr. Liimatainen lists as their key customer segment the households of Helsinki Metropolitan area and Keski-Uudenmaa households.

What comes to the food trade, S-chain states in its annual report (2013), they prefer local food and make high investments to web grocery sales. Moreover, the selection of products is going to be unique and vary by each grocery store. Additionally, they state that customer service is going to improve as well as being a pioneer in corporate responsibility. Finally, S-chain has also acknowledged that food e-commerce is growing quickly, which means investment on IT and e-commerce business in future is very important. [\(SOK ANNUAL REPORT, 2013\)](#)

S-chain is also using private labels to lure customers who are price sensitive. Rainbow and X-tra are the private labels used by S-chain. They offer all the common goods under these private labels varying from toilet paper to vegetables and fruits. Inex Partners enables to serve S-chain customers with these products.

S-chain's innovation model is quite traditional one. They are now at operational excellence zone, where they are paying attention to new segments and are thus trying to expand their markets. SOK's processes are already very streamlined and they have paid attention to value-engineering as well (i.e. private labels). Now they are focusing more on the business model innovations. For example they are now working with "eat-now" concepts, which mean that they are building cafes and restaurants to their shops. In this way they try to find new synergies between the different concepts.

4.1.6 Business model canvas of S-Chain

Below is a table where S-Chain's business model is wrapped in the canvas.

<p>Key Partners ?</p> <p>1. Who are your key partners?</p> <p>Logistics Partner</p> <p>Inex Partner Ltd. - produces grocery and consumer goods logistics business</p> <hr/> <p>S-Group a retail cooperative</p> <p>The purpose of a retail co-operative to serve its owners</p> <hr/> <p>SOK: Business areas</p> <ol style="list-style-type: none"> 1. Banking 2. Gasoline trade 3. Car and car accessory business 4. Aravelling and restaurants 5. Retail trade 6. Agricultural trade 	<p>Key Activities ?</p> <p>1. What are your key activities?</p> <p>S-Group</p> <p>From agricultural trade to travel businesses</p> <hr/> <p>Grocery sales</p> <ul style="list-style-type: none"> - Multi channels grocery sales network - E-Commerce <hr/> <p>Key Resources ?</p> <p>1. What are your key resources?</p> <p>SOK</p> <ul style="list-style-type: none"> -Personnel > 42 000 employees -Stock - groceries -Properties as retail stores (over 900 stores in Finland) - Machinery and equipment 	<p>Value Proposition ?</p> <p>1. What are your value propositions?</p> <p>Number 1.</p> <p>"Olemme asiakasta varten - we are there for a customer"</p> <hr/> <p>Other values</p> <ol style="list-style-type: none"> 1. Profitable operations 2. Carry responsibility of people and environment 3. To renew operations continuously <hr/> <p>Horizontal integration</p> <p>Logistics to a Inex Partners - cost savings</p> <hr/> <p>Vertical integration</p> <p>In the food market. S-group has arranged that they act on the whole food value chain from the farmer to the home cook or restarant customer. Operating this way they creat value in different, sequential steps to the customer</p>	<p>Customer Relationships ?</p> <p>1. Your customer relationships?</p> <p>S-Group</p> <p>"Customers are at the same time the owners of the company"</p> <hr/> <p>Bonus Card System</p> <p>S-Etukortti</p> <hr/> <p>Private labels</p> <ul style="list-style-type: none"> -Rainbox -X-tra <hr/> <p>Channels ?</p> <p>1. Channels</p> <p>Multi-Channel distribution in Food Trade</p> <ol style="list-style-type: none"> 1. Five S-Chains <ul style="list-style-type: none"> - Prisma (hypermarket) - S-Market (supermarket) - Alepa (grocery store) - Sale (neighbourhood store) - ABC (service station, gas & groceries) 2. E-Commerce <ul style="list-style-type: none"> - Online food store www.foodie.fm 3. SOK has other channels in other business divisions including stores and onine stores 	<p>Customer Segments ?</p> <p>1. Customer Segments</p> <p>Grocery trade</p> <ul style="list-style-type: none"> - Selection of products is unique and vary in each grocery store - pioneers in corporate responsibility
<p>Cost Structure ?</p> <p>1. What about your cost structure?</p> <p>Key resources</p> <p>Biggest key resources are the biggest direct cost:</p> <ol style="list-style-type: none"> 1. Personnel 2. Stock - groceries 3. Retail stores (rent, new properties) 4. Machinery and equipment 		<p>Revenue Streams ?</p> <p>1. What are your revenue streams?</p> <p>S-Group - Bonus system</p> <p>The earning model is to commit owners to the S-Group. This is done with the help of S-Etukortti bonus system</p> <ul style="list-style-type: none"> - The more you buy, the more bonus money you get. 		

Table 3: Business Model Canvas of S-Chain

Here we have pointed out the SWOT of S-Chain shortly to underline the issues that are not necessarily mentioned in the canvas.

<p>STRENGTHS</p> <ul style="list-style-type: none"> - Private labels. Private labels allow company to provide good quality products at lower price and react to business cycles. - Very efficient logistics and distribution - Wide coverage and multiple distribution channels - Committed customers - Control over the supply chain 	<p>WEAKNESSES</p> <ul style="list-style-type: none"> - The growth relies heavily on the new stores - According to the press, S-chain has tight connections to local politicians.
<p>OPPORTUNITIES</p> <ul style="list-style-type: none"> - e-Commerce - continuous improvement oriented company 	<p>THREATS</p> <ul style="list-style-type: none"> - The SOK-group heavily affects the selection of the stores. Are they able to react on the individual customer needs? - Due to the duopolistic markets there might be market share for new companies

Table 4: SWOT of SOK

4.3 Business model of Lidl Finland

Lidl’s data is collected from various sources, mainly from journals, articles and Lidl’s website since Lidl does not publicly announce any extra information from itself and it has not mandatory reporting while being a limited partnership (GmbH).

German discount supermarket chain Lidl first opened shop in Finland in 2002. For Lidl’s business model to be profitable, they needed to build a comprehensive store network. That is exactly what they have done. The hundredth store opened its doors in 2006. Since then, the growth rate has been smaller: as of October 2013 there are 141 Lidl stores in Finland. Furthermore, Lidl only plans to get to 150 stores in the future.

The investments in new stores has kept Lidl's profits subzero for every year except 2007, 2009 and 2011. The investments are, however, essential for Lidl to gain the economies of scale needed to operate profitably in Finland.

As the expansion rate has declined, Lidl has been able to concentrate more on marketing and developing and expanding its product range the past few years. The amount of Finnish products has gone up, Fair trade products have been added to the selection and Lidl has become a regular advertiser on television. ([LIDL WEBSITE, 2015](#))

According to [UUSITALO ET AL. 2004](#) Lidl build stores according to their own plan next to existing hypermarkets or supermarkets. Lidl refuses to give any information about its plan to the media. Lidl product range consists mostly of private label products. Some of these products are supplied by Finnish producers.

4.3.1 Key resources, activities and partners

Unlike the market leaders Kesko and S-chain, Lidl Finland concentrates solely on grocery and daily consumer goods and offers no extra services. Furthermore, Lidl carries the narrowest range of products of any grocery store retailer in Finland. When Lidl first came to Finland in 2002, it offered only 800 different products (most of which were private label), whereas even the smallest of its competitors had over 2 000 products on its shelf. As a result, Lidl had to settle for being a supplementary store. Lidl naturally was not too content with its position, so it had to expand its selection. In 2008 Lidl already offered some 1 300 unique products, most of the newcomers being the same branded goods as in Finnish stores. In the future, Lidl expects to further develop its product range in Finland.

Every Lidl store in Finland is owned by Lidl Finland itself. The company owns 90 % of the properties of the shops. In the remainder Lidl is a tenant. Lidl does not keep track of the profitability of individual stores, because that would only increase accounting and bureaucracy.

The organization is extremely flat; there are only seven managers in Lidl Finland. The company optimizes the processes and improves margins at every stage possible. Even the CEO of Lidl Finland takes part in product range planning, pricing, and campaigning. Lidl Finland employed over 4000 people in 2013. ([LIDL WEBSITE, 2015](#))

As Lidl business mission is to offer customers high quality products in cheap prices. The cheap prices are enabled with major buy in purchases, logistical solutions and tight pricing together with flat organizational structure.

Lidl generally likes to keep to itself, but it does have some occasional partners. Already in 2007 there were 14 Lidl's with unmanned gas stations on their property. The stations belong to Conoco Jet, NeX, Shell Express, and SEO. As usual, Lidl does not publicly announce any plans of upcoming partnerships. Nowadays, in most of the Lidl retail stores they have own shop bakery where they produce fresh bakery products. ([LIDL WEBSITE, 2015](#))

4.3.2 Value proposition

Lidl's main value proposition is its unrivalled low prices. Lidl itself states: "The superior quality-price ratio defines our competitive position." Additionally, the layout of a Lidl store is pretty much identical everywhere you go. This makes the shopping experience swift even when you are visiting a particular store for the first time, creating some added value for the customer.

4.3.3 Revenue streams and cost structure

Lidl's earning model is fairly simple. As Lidl's only focus is on retailing daily consumer goods, that is where the money comes from. Lidl has no loyalty program or any other services to lure the customers in. It merely competes with prices.

Lidl is known for its industry-leading low prices. Lidl is able to combine its low prices and high quality products, because it has found large subcontractors in Central Europe, negotiated advantageous contracts and created a straightforward

purchasing model. Thanks to its cost-effective and strict operations, Lidl seldom needs to sell products below their wholesale cost. In fact, Lidl could probably drop their prices even further, as its margins are still reasonable, because of minimal number of employees. All the while Lidl has never had to sacrifice the quality of its products. Finally, Lidl has mostly ready packed products and they have no fresh fish or meat service counters. ([LIDL WEBSITE, 2015](#))

4.3.4 Channels

Compared to K-chain and S-chain, Lidl is not nearly as multifaceted. Its only distribution channels are the physical supermarkets. Lidl also pales in comparison to its big brothers when it comes to the amount of stores: Lidl only has 141, whereas Kesko has 942 and S-chain has 1019. ([LIDL WEBSITE, 2015](#))

After the increase in the amount of Finnish products in Lidl's selection, Lidl has become an attractive distribution channel for Finnish manufacturers. Some Finnish products have even made it to the shelves of foreign Lidl stores. Even though Lidl is able to press its purchasing prices very low, its procedure is still more beneficial to Finnish manufacturers than that of Lidl's Finnish counterparts. Lidl buys a bulk of products at once. If it cannot sell them, it is Lidl's loss. Finnish retailers, however, bind their purchases to the amount of sales of the product, leaving the manufacturers at risk.

4.3.5 Customer relationships and segments

Lidl does not exactly have a target audience but due to its value proposition, it attracts customers mostly concerned about prices, and not so much about a wide selection of products or personalized service.

Because Lidl is an institution, and is not therefore required to publish its annual results in its homeland Germany, Lidl has opted to keep pretty much every bit of information to itself. The whole Lidl concern has avoided publicity for years. The

management has not responded to interview requests, nor has it been allowed to even film in stores.

All of this constitutes to somewhat poor customer relationships. At least for the time being it does not, however, concern Lidl as it is merely concentrating on making a profit.

Differing from the norms of the concern, Lidl Finland has had to advertise substantially in newspapers, television, and especially by direct advertising to speed up sales. The innovation model is based on simplicity and efficient stores with great logistics and centralized purchasing. Thus, Lidl can offer low prices for its customers. Moreover, Lidl makes very precise business decision what comes to Finnish market and the current trends. Therefore, it keeps up in the grocery business trends and attracts new customers as well as satisfies the customer needs. The result of this strategy is the market share increase to 8% in the end of year 2014. ([LIDL WEBSITE, 2015](#))

Lidl keeps up in change by following the need of customers per country. For example, they have succeeded in assimilation to Finnish culture and buying habits and nowadays they are offering right kind products and also they have more targeted services for customers. ([LIDL WEBSITE, 2015](#))

4.3.6 Business model canvas of LIDL

Below is shown the canvas of Lidl's business model

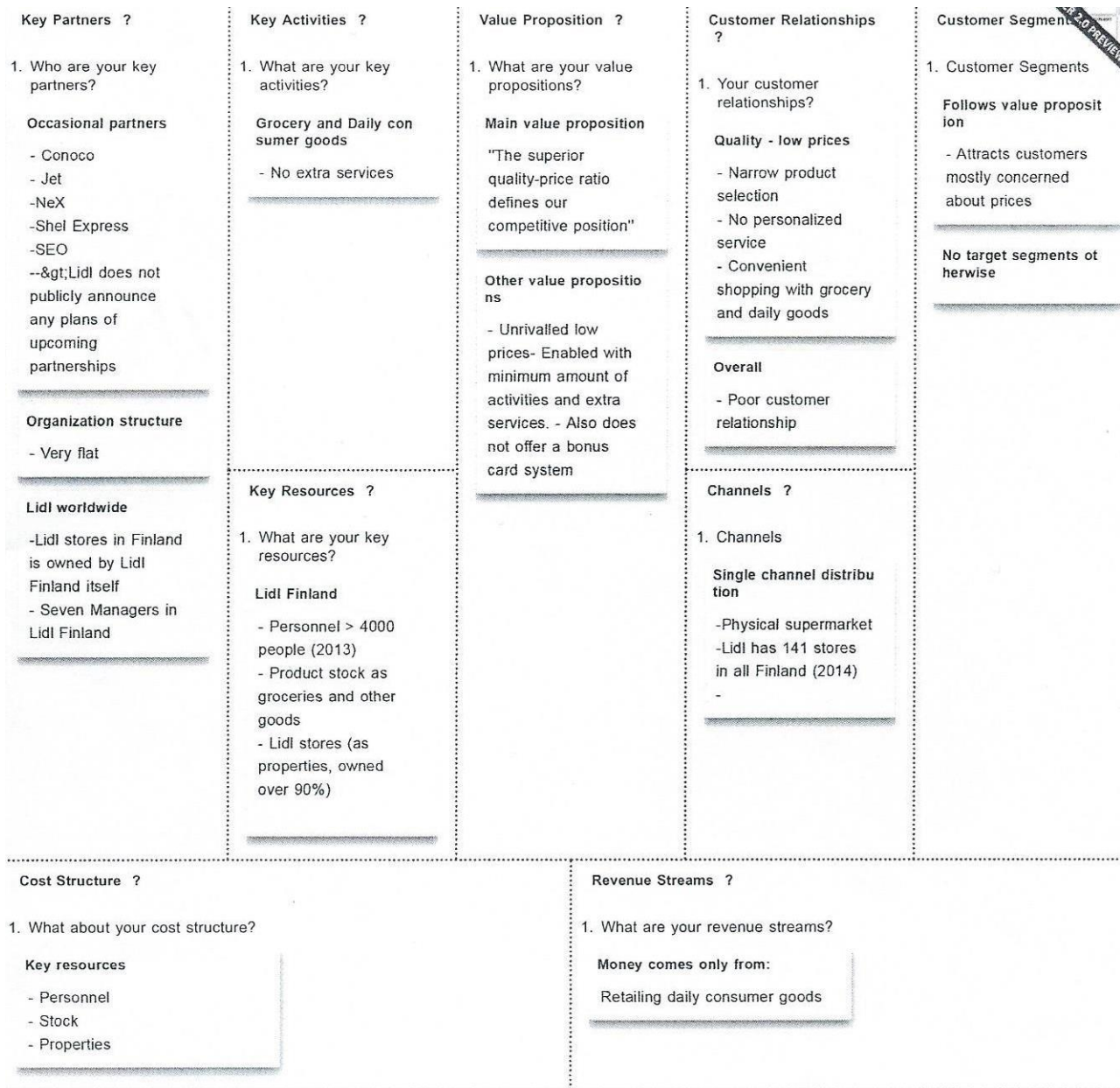


Table 5: Business Model Canvas of Lidl

Here we have pointed out the SWOT of Lidl shortly to underline the issues that are not necessarily mentioned in the canvas.

<p>STRENGTHS</p> <ul style="list-style-type: none"> - Cost efficiency - Efficient logistics - Superb quality-price ratio - Flat organization model 	<p>WEAKNESSES</p> <ul style="list-style-type: none"> - Narrow selection - No loyalty program (Finns are accustomed to them) - Lack of distribution channels - A foreign company
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OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> - Improving their image as a poor man's choice - Still a young player in Finland, establishing a firmer grip on the market as time goes by 	<ul style="list-style-type: none"> - Relatively small stores (Finns love hypermarkets) - Need to start posting constant profits

Table 6: SWOT of Lidl

4.4 Business model summary

Now when the business models of the three case companies are clear and we understand the basic criterion what a food manufacturer as a supplier needs to fulfill to be a trusted partner for a retailer. So now, we can wrap up the business model section and then take a deeper look at the food manufacturer case company Baba Foods' business plan and the possible suitability between being a good enough supplier for most favorable retailers.

The Finnish grocery trade market is very developed and it can be described as duopoly. S-chain and K-chain have succeeded in conquering 80 % of the grocery retail market. Both companies do not only concentrate on the grocery trade even though it counts for the major part of their overall businesses. S- and K-chain have both a bonus card system which tries to commit the customer in all their purchases. Due to the multichannel strategies these companies' intention is to consolidate all of the consumers' purchases to the groups' shops and partners. However, it is commonly known and clear that these strategies together with concentration (e.g. duopolistic market) only raise the average prices in groceries ([KANNIAINEN, 2015](#)). Additionally, since the consumers can have the bonus cards of the both companies it does not necessarily guarantee customer locality to just one of these groups.

When Lidl entered the Finnish market it managed rapidly started to win a small but steady share of the grocery trade market. Lidl uses a totally different business model than S- and K-chain which are on the contrary very similar to each other. Lidl gains the competitive advantage by offering groceries with cheaper prices than the rivals – thus having a cost leadership strategy ([MORSCHETT ET AL. 2006](#)). Moreover, in

[AALTO-SETÄLÄ \(2000\)](#) study, the main result was that store-level economies of scale do exist in grocery retailing. This means, large stores have on average 10% lower costs per sold unit than small stores. Lidl is known to have standard supermarket which create these store –level economies of scale and thus lower prices. Additionally, Lidl has a very efficient supply chain and flat organizational structure which enables these cheap prices ([KOISTINEN ET AL. 2009](#)). Overall the customer segment is much narrower in Lidl’s case than with the two other companies which have a broad target market segment with the key customer segment being families. On the contrary to Lidl, S-Chain and K-Chain is following differentiation strategy which strives to create and market unique products and service for different kind of consumers. Moreover this strategy aim to create superior fulfilment of customer needs in order to develop customer satisfaction and loyalty (e.g. bonus card system). Thus, this differentiation strategy aims at reducing competitive pressure and price sensitivity of consumers by offering uniqueness which is done by both of these retailers ([MORSCHETT ET AL. 2006](#)).

According to data of US retail markets and findings [DHAR ET AL. \(2001\)](#), the best performing retailers usually offer a wider selection of products, use private labels, charge substantially lower prices and use feature advertising to drive store traffic and display to increase in-store purchases. This applies highly in the Finnish grocery retail market where S-chain together with K-chain hold this duopolistic market share of the overall grocery market. Moreover they both have private label products and use advertising. However, Lidl is known for offering the lowest purchase basket for consumer when comparing similar products between these retailers due to their competitive strategy ([MORCHETT ET AL. 2006; KOISTINEN ET AL. 2009](#)).

As what comes to the future S- and K-Chain have noticed that e-commerce and e-shopping are the next big success factor as the younger population grows older. Additionally, multi-channel and online retailing are becoming increasingly important

too in the retail environment ([CAMPO, 2014](#)). When comparing these three companies Lidl is clearly missing this type of innovation in its business and can easily drop out from the future shopping e-trend. Now only a tiny part of the grocery shopping is done via Internet but it obviously is one of the key success factors in the future ([CAMPO, 2014](#)). According to [SORESCU ET AL. 2011](#), retailers should keep up with new technologies and monitor any new that can reduce the cost structure of their business or that can increase efficiencies and satisfy customer needs. For instance, both S- and K-chain have mentioned that it is essential to develop and innovate the e-shopping experience for satisfying the customer needs in the future ([KESKO ANNUAL REPORT 2013; SOK ANNUAL REPORT 2013](#)).

All in all, the Finnish grocery market is in its mature phase and not very many changes in the market situation are seen in the near future. The duopolistic situation will most likely remain as now and S- and K- chains will increase their market shares. Moreover, the key success factor will be the new innovations that could differentiate and separate better these two big players from each other, since their business models are strongly similar to each other when one looks it from the consumers' perspective. Finally, according to [CHESBROUGH \(2010\)](#), business model innovation is vitally important, but very difficult to achieve. He argues that the success of established business models strongly influence the information that subsequently gets routed into or filtered out of corporate decision processes.

4.5 Baba Foods' business plan

After analyzing by BMC these three biggest retail stores in Finland it is important to look into Baba Foods products and business plan. Then we can determine the compatibility factors which are important for making the right channels choice for a supplier/manufacturer with its new products when entering the grocery retail market. The information and data is collected also by discussions and open interviews with the five shareholders of Baba Foods.

First, let's look at the current product range that Baba Foods offers for potential customers. Altogether they have 12+ different products.

Products

The common factor for Baba Foods' food is eastern Mediterranean tastes with touch of Finnish flavor. Baba Foods is specialized in salads, dips and pastes. Recipes are made by Chef Avi, who has learned these recipes from his 40 year career from Persia all the way to Finland.

1. Baba Hummus – chickpea dip
2. Baba Chili Hummus – spicy chickpea dip
3. Baba Antipasto – stewed vegetable salad
4. Baba Ganoush – roasted eggplant dip
5. Baba Oliivitahna - Olivepaste
6. Baba Minttu Coiso – pepper and eggplant in honey and mint marinade
7. Bulgursalaatti – Tabouleh – Bulgur salad
8. Baba Harissa - Chilipaste
9. Baba Sinappi - Mustard
10. Baba Tahini – sesame sauce
11. Baba Falafel – Falafel as vegetable ball
12. Baba seasonal products – Potato salad, coleslaw salads, avocado salad etc.

Baba foods target market is grocery shops in Helsinki area. Priority number one are retailers who could offer quality and a bit pricy products for its customer base. Therefore, not all the grocery shops are potential sales channel and good retailers for Baba Foods. In Baba Foods business plan they list as their potential customers (distributors B2B) in Helsinki area:

1. Grocery shops, priority in individual retailers like K-retailers, M-retailers
2. Other small individual retailers (Mumu, Kumpuoti etc.)
3. Bigger grocery shops like Prisma & Citymarket
4. Ruohonjuuri
5. Anton & Anton
6. Stockman
7. Local food circuits.

For now Baba Foods Oy (limited company ltd.) has a kitchen and an office of 200 square meters in Konala, Helsinki. The rent for the business place is around 1500€/month. The place has enough space to grow a medium player as a fresh food manufacturer in the convenience/ready food industry. Moreover, the leasing contract is for indefinite period. The place has space for producing the food, inventory of raw materials, cold storage, packaging and back office. The office passed regulations of the Finnish food safety authority (Evira), which are very tight in Finland.

SWOT

Baba Foods lists as its product strengths the following: Special and unique food, superior taste, niche product, good looking packaging, no additives or preservatives, local fresh food, once you taste – you are in love with the taste. Baba Foods has noticed that especially now there is a urging trend for good fresh local food. Baba Foods' products are serving a niche market so far and rivals are only in the production of Hummus. In other products there is low or very low rivalry. This means pros and cons, since Baba Foods needs to create the demand by itself for these niche products, but on the other hand it does not face straight rivalry in these products.

Some weaknesses of its products are: challenges of shelf life for Hummus, manual packaging when heading for economies of scale as well as being the first one in the market with niche products. However, the products have many possibilities: it attracts food conscious people with its taste and offers many gluten free products for consumers. Also, all the products are milk-free and it has the potential to become a well-known quality brand in vegetable fresh foods in Finland.

The biggest challenges are basically in finance when building economies of scale concept and targeting as many customers as possible. Baba Foods has limited producing capabilities and thus it cannot target all the potential grocery shops at once. Therefore, it needs to plan a specific marketing and sales plan. Only, then it can target potential retailers and keep production up with sales. Furthermore, at some point Baba Foods need to solve its delivery challenge. Now Baba delivers products with own forces and delivery to retailers is not yet outsourced. Thus, when there are bigger number of retailers/distributors Baba Foods cannot manage delivery of its products only by own forces.

Opportunities Baba Foods sees in direct sales (B2C), which would grow the margin profit per product greatly compared to B2B sales for retailers. Additionally, catering business is great for increase in the margin profit. Finally, the e-grocery sales via own websites or sales via other e-grocery markets could generate a positive income and be a great sales channel for Baba Foods' products. Especially it would assist the inventory management in many cases, since the production would meet actual demand and sales.

Potential end customers

Baba Foods determines its end customer as urban food conscious 25+ year old men and women. Therefore, Helsinki is a good starting point for the business. The aim is to expand first to Helsinki area and then in other large cities (Turku, Tampere, Finland, Tallinn, Gulf etc.) End customers could be Finns, Scandinavians, Europeans, Americans. End customers' buying habits are people who prefer prepared fresh foods, pay attention to nice packaging and enjoy great tastes. Potential end

customers also seek for superior taste experience. Today, internationalization and traveling has boosted a food culture that Baba Foods is ready to serve in Finland. Especially in Helsinki people are looking for new, fresh and delicious dishes, salads and pastes, which they assume to meet end customers' needs. The decision to purchase will be affected by purely quality, taste, appearance and slightly by price, since the products are handmade and thus a bit pricy.

Market and rivals

The market situation in grocery business is rather stable in Finland (according to Baba Food's sources). The demand is hard to predict for this kind of foods but Baba Foods is determined to take the chance to test the market potential for its products. Like said, many of the products are niche products which have not seen in the Finnish market yet. The only exception is Hummus, since couple of companies produces Hummus, which is sold in the grocery shops.

Baba Foods' direct competitors especially in Hummus are Pirkka, HK, Silva which have their own brands and other salads and dips similar to Hummus and Baba Foods' products. Indirect competitors are restaurants that serve eastern Mediterranean Foods like Fafa's. However, these kinds of restaurants can be seen also as promoters of this kind of foods and thus they spread the consciousness of this food genre. The strengths of the direct rivals are low price and well-known brand positions whereas Baba Foods has yet no brand value and the price is higher compared to rivals. Price in this case is also a differentiator factor from rivals since Baba Foods wants to brand their product high quality and handmade food which should be sold a with exclusive prices.

All in all, Baba Foods wants to differentiate from its rivals by several factors. Firstly, superior taste and freshness in these ready to eat convenience foods play the biggest factor. Secondly, nice transparent packaging is vital in sense of a new niche product since end customer wants to see what one is buying. Finally, higher price

suggests from a quality handmade in Helsinki product which is also one of the punch lines of Baba Foods.

Business know-how

Baba Foods is family owned business. It has five shareholders and three daily employees. Tomer Hovav is the manager of Baba Foods and is responsible of production and sales in the first place. Ronit Hovav-Halonen is responsible of back office and sales functions. Daniel Hovav is preparing the foods in kitchen and responsible for packaging and deliveries.

The father of Baba Foods is Chef Avi Hovav, which is behind the recipes of all foods produced. He is quality manager and responsible of ordering quality raw materials. Then as rest of board of directors and business advisors play Paula Hovav and Tomi Halonen. Both have decades of experience in entrepreneurship as well as managing director in successful companies. They are responsible of the big picture and business strategy of Baba Foods. As a family business everyone has cross functional tasks but in overall these are the major function of each of the shareholders.

Financials

Baba Foods' shareholders invested 20 000€ to start with growing the company. They calculated that the business is profitable in long-term when Baba Foods would sell 1000 kg of foods per month. The average sales price (B2B) is 15€/kg (VAT free). This would generate a turnover of 15 000€/month and approximately 180 000€/year. This is the required sales that would be breaking point for Baba Foods to be profitable by employing three daily employers. However, these are only estimates and calculated for first two or three years. Since, Baba Foods want to grow bigger they will have to recalculate and evaluate the financial when the business factors are more specific. Baba Foods acknowledges that only time will tell the truth about the business. They are willing to give a real try! (Source: [Baba Food's financial measures](#)).

Current sales and retailers

Table 7 shows the current B2B customer distributors of Baba Foods. The key six products so far are the two Hummus, Baba Ganoush, Oliivitahna, Antipasto and Harissa, which are mainly sold in the grocery shops.

Distributors (B2B customers)	Business co-operation started
Local market - Mumu	March 2014
Local market – Kartanon Kyläkauppa	March 2014
Herttoniemen Ruokapiiri	April 2014
Laajasalon Ruokapiiri	May 2014
M-Market Kaartin Kotikauppa	May 2014
M-Market Tullinpuomi	August 2014
M-Market Arabia	September 2014
Local market and web grocery shop – Tuoretori	October 2014
K-Supermarket Munkkivuori	November 2014
K-Supermarket Postitalo	December 2014
K-Supermarket Lauttasaari	December 2014

Table 7: Baba Foods' retailers (B2B customers)

Baba Foods concentrates sales on the market in Helsinki. It has currently (January 2015) 11 business customers as retailers (grocery shops) which are the key distributors/retailers for end customers. In spring 2015 Baba Foods goal is to double the number of its retailers by focusing on right channel choices.

Food manufacturer partnering with grocery retailers

Baba Foods is using Vendor Management Inventory tactic in its partnering initiatives. [WALLER ET AL. 1999](#), states that Vendor-management inventory (VMI) is one of the most widely discussed partnering initiatives for improving multi-firm supply chain efficiency. VMI means that the supplier (usually manufacturer) makes the main inventory replenishment decision for the consuming organization (grocery retailers). In more details, this means that the vendor monitors the buyer's (retailers) inventory levels and makes periodic resupply decisions regarding order quantities shipping and timing. Transactions customarily initiated by the buyer are initiated by the supplier.

According to few key researches on the topic, VMI benefits range from cheaper new product introductions to reduced returns at product end-of-life. Buyers benefit from VMI because it resolves the dilemma of conflicting performance measurer. Also with VMI greater coordination supports the supplier's need for smoother production without sacrificing the buyer's service and stock objectives. Additionally, transportation costs are reduced with VMI. So basically, VMI reduces costs and improves services levels, as well as create business opportunities to both retailers and vendors. Interestingly one of the most difficult tasks is demand forecasting for both retailers and suppliers in the supply chain. The most obvious benefits of VMI are inventory cost reduction for the retailer and total cost reduction for the supplier. On the other hand, the major weaknesses of VMI are the risk of loss of control by the retailer, the increase of vendor's administrative cost and minimal benefits for supplier. ([WALLER ET AL. 1999](#); [DONG AND XU 2002](#); [TYAN AND WEE 2003](#))

According to [DUKE \(1998\)](#) study the potential eight factors affecting buyer-supplier relationship in the UK grocery retailing are the following: power, nature of negotiation, personal factors, organizational factors, retailer objectives (and how they contrast with supplier objectives), political and governmental pressure, and the stance of negotiating partner and inter-firm communications.

[DUKE 1998](#) notes that the balance of power in buyer-supplier relationship lies in the retailer' favor (buyer). Moreover, retailers have used this monopolistic power to

extract favorable prices and delivery terms as well as to force manufacturers (suppliers) to pay in-store promotional activity and display materials, to pay for the retailer to stock their products or to pay overrides and to supply own-brand products. What is remarkable in nature of negotiations is that in retailer dominated transactions (weak brand and commodity products) retailer power is overwhelming and suppliers accepted their weak positions. Moreover, personal factors such as age, gender, experience, and psychological profile can be indicated as potentially significant. Finally he notes that small retailers are generally keener on alliance with manufacturers than large ones and the degree to which retailers and manufacturers have common objectives will clearly influence the nature of the buyer-supplier relationship. All this information is reality when food manufacturer is partnering with possible grocery retailers, however these factors are very hard to measure in this case, and thus these detailed issues are not taken into consideration in the compatible table.

5. FINDINGS

In this part we are going to go through the key findings of the most important issues we have dealt so far. Basically this means, that we point out the most important factors from the BMC together with the matching findings of Baba Food's business plan, which are relevant when putting together these elements and building up the final compatible table; to answer sufficiently the research question in order to determine the right channel for Baba Foods or other similar and new food manufacturer with new products in Finland.

Currently (beginning 2015) Baba Foods is targeting potential and best retailers partners as for its products' distributors for its products. So after analyzing BM of these three key grocery store players in Finland we can suggest most suitable channel choice for Baba Foods by leaning on the compatible table and its results.

Before we look at the specific findings of the case companies it is appropriate to look at Baba Food's possibilities in delivery options and then have an insight of the procurement management of grocery retailers. So firstly, Baba foods has basically three options in delivery.

1. Products can be delivered to markets straight from manufacturer (direct delivery)
2. Deliveries via terminals (terminal delivery).
3. Deliveries via Food Trade distribution centers (warehouse delivery)

(FINNISH FOOD TRADE ASSOCIATION, 2007)

Like mentioned before Baba Foods' has chosen direct deliveries for its strategy and now the challenge is to find market that is big enough to make good business Baba Foods' products and thus we need to understand the procurement management and divisions of each of the case companies.

From PTY's guide to suppliers we have a clear table that shows us the procurement divisions of each Food Trade company in Finland. However, Lidl is not in the list and we need to investigate it separately.

In K-Chain and S-Chain procurement divisions are divided to three sections: national, regional and local procurement and selection of products. In K-Chain national and regional level Ruokakesko is the division which needs to be approached if wanted to have one's products in their selection. Then private store can be approached individually in local level and market. S-Chain has a different approach in their procurement. They have more centralized procurement process. In national level SOK and INEX partners Oy is managing the selection and procurement. In regional level the S-chain's regional cooperatives are the ones who make the decisions of what is in their selection and finally, in local level also the regional cooperatives or local stores make the procurement decisions about new products that manufacturers are trying to sell them. ([FINNISH FOOD TRADE ASSOCIATION, 2007](#)). Lidl is a different story in Finland, they write in their website that the procurement department responsible for all the new product procurement. So basically in Lidl's case this means that their procurement is very straight forwards but meanwhile it is not easy to get new products to Lidl's selection since their selection is so narrow. Also they prefer low prices with certain quality. Finally, they state that they negotiate price and result-oriented but they are also open to competition and new business relations. ([ACCESSED TO LIDL'S WEBSITE 10.03.2015](#))

So now when we have looked at the procurement process of each case company we can continue to the main findings of each grocery retailer.

5.1 Findings of Baba Food's potential retailers

We can start with K-Chain and its pros in case of using them as retailer partner. Firstly, every K-grocery shop is operated by independent k-retailers who make the decision what is sold in their shop ([KESKO ANNUAL REPORT 2013](#)). This means, that if they see potential buyers for the product they can make decision quickly and with low bureaucracy. Secondly, like it is said in Kesko's annual report (2013) in an organizational level K-shops are aiming for superior fresh foods departments and Baba Foods products represent this part. Also, they want to have the best selection

which helps Baba Foods to sell its products to K-retailers (as retailers of Baba Food's products), since they want to have wide range of products with great quality and they can decide quite freely their selection and offering ([PAULAMÄKI, 2007](#)).

Moreover, in Kesko's annual report ([2013](#)) they say that fresh food department is their competitive advantage. Thus, Baba Foods products will only add value for this statement. Finally, they also state in their report that K-retailers serves the best, which means that they must have wide product range with only quality products for its customers and naturally this also helps Baba Foods to sell its products to K-retailers with some good arguments. However, a big difference is made with the taste and outlook of Baba Foods products, but in the M-Market test market period Baba Foods received very good feedback both in taste and product outlooks, so that should not be a concern when entering to these bigger retailers. Moreover, in the PTY report ([2013](#)) they mention that most important factor is a good product meaning that it is distinguishable and interesting from perspective of the consumer, and also the bottom line is that the product is safe and according to the law. So the main requirements for a food manufacturer are to take care of the food safety management which means functional internal control and then take care of supply reliability. Similarly, General Manager of PTY mentions in his interview ([LUOTO, 2015](#)), the main and most vital factor from grocery retailers' point of view is that the product is solid, good and selling and the supply side is reliable. Moreover he says, that it is essential that there is demand for the products, and delivery reliability is high as well as the price needs to be affordable. Finally, he concludes that it is vital to understand the grocery store's choice process for supplier.

K-Chain and S-Chain have both more or less 1000 grocery shops in which potentially could be sold Baba Foods' products. When taking into consideration Baba Foods current situation (a new start up or micro company which operates from Helsinki with 3 full-time employees), we need to evaluate other factors in potential retailers too. So, let's look into S-Chain BM and their values and interest level in selling Baba Foods' products.

S-Chain writes in its report ([SOK ANNUAL REPORT, 2013](#)) that the demand of local food as well as fresh and additive-free products is growing. Moreover they write that customers demand also variety of special foods is growing in numbers. This info is more than positive in the eyes of Baba Foods possible future sales. Additionally, they state in the report that one of S-Chain's social and economic responsibility is to prefer local foods and local small producers in their selection. In the interview HOK-Elanto's Vice president Mr. Liimatainen says that S-Chain wants products that satisfy their customer needs by territories. Moreover, he states that new products need to supplement their current offering and selection. Other main criteria for new products are trendiness, novelty value, healthiness, packing size and origin of the product. Therefore, Baba Foods' product and sales seems to have good timing now when the trend is that these big chains both prefer many factors which Baba Foods represents: local food, small food manufacturer, freshness,, healthiness and handmade in Helsinki etc. To support this even more, in the interview of PTY's Manager ([NIEMINEN, 2015](#)) says that grocery retail shops are interested in buying products that is something new in the selections and arouses curiosity of consumers and finally is a good product that consumers will buy again.

Lidl's competitive advantage is its high quality and low price combination. Baba Foods' products represent high handmade quality and high price combination. Therefore, if we set priority levels for retailers of this case, Lidl loses to K- and S-chains in this compatibility factor. In PTY report ([2013](#)) they mention that a product of new micro company (which Baba Foods represents) has to be with quality and the price competitive, however consumers are willing to pay premium of quality and special product. Finally, the package needs to be sustainable and delivery reliable and only then grocery retailers will consider a new food supplier. What comes to the quantity of retailer, K- and S-chain outnumber Lidl with the amount of retailers both in Finland and especially Helsinki area. Thus, Lidl is not very tempting retailer for Baba Foods products at least for now. They have very narrow range of products compared to its rivals.

The highlights of the interviews ([LUOTO AND NIEMINEN, 2015](#)) can be divided to two perspectives which both need to fulfill criterion that serve the other part: grocery

retailer and food manufacturer perspective. Firstly, grocery retailers insist that the minimum criterion is fulfilled when a new food manufacturer wants to sell its new products. The minimum criterion consists of the following factors; good, solid and selling product which arouses curiosity of consumers, then also delivery and supply need to be reliable that grocery retailers has what to sell, competitive price is also very vital and finally there has to be demand for the product in the long run.

Secondly, when asked which grocery chain of the case companies are the most favorable and the easiest to approach the answers were rather vague. However, one point of view was that food manufacturer needs to determine the scale of operations and then contact the potential grocery retailer. Since this was basically the challenge we were trying to answer in this research it turned out to be not very helpful. But, what was insightful that there were certain activities how to operate with each of the case companies. So finally, the PTY managers concluded that Lidl should be approach only via store chain, S-Chain should be approached usually via regional cooperative (alueosuuskauppa) and in K-Chain food manufacturer can contact straightly the private merchant.

5.2 Compatible table between grocery retailers and Baba Foods

All in all, we have built up by using all the data and information in the case the following compatible table which tries to suggest the best answer for the research question: **How to determine right channel to enter the grocery retail market as a new supplier with new products in Finland?**

So finally, the compatible table is based on the Business Model Canvas analysis, Baba Food's business plan, interviews, annual reports, relevant publications and articles, market situation analysis and other relevant information gathered

throughout the research. Next we will concisely describe how the compatible table is built up and how it should be read.

In the key factors section we have used all the most important factors that were most relevant when determining the optimal variables to make right channel choice for Baba Foods. Then we have compared the three case companies in each key factors' category. Green color suggest that the company is favorable partner for Baba Foods and could be an optimal grocery partner and retailer for Baba Food's products. Then yellow represents medium suitability in terms of favorable retailer and finally, red color suggest that the company is not suitable grocery retailer for Baba Foods in that specific category. Then each category is given point only by calculating the green parts together, and each green gives one point. The more point the grocery retailer gets the better. Since the study is qualitative each category represents one point and thus is equal with each other. Finally, the optimal variable value for Baba Foods was determined by the data, information and knowledge taken from the case. Basically this means that the most rational, correct and most suitable variable value which favors and matches the best between Baba Foods and the specific retailer.

Key Factors in determining right channel for Baba Foods	Optimal variable value for Baba Foods	K-Chain	S-Chain	Lidl
Key Resources	Personnel oriented - High	High	Medium	Low
Key Activities	Food trade oriented - High	High	High	High
Key Partners	Amount of partners - High	High	High	Low
Value Proposition	Neutral	"Exceeding customer's expectations in grocery shopping"	"We are there for a customer"	"The superior quality-price ratio defines our competitive position"
Revenue Stream	Multi-Channel distribution & E-commerce	Yes	Yes	No
Cost Structure	Irrelevant	-	-	-
Channels	Multi-channel	Yes	Yes	No
Customer Relationship	High	High	High	Low
Customer Segment	Broad	Broad	Broad	Broad
Price	High	High	Medium	Low
Flexibility for new supplier	High	High	Medium	Low
Favorable for new products	High	High	Medium	Low
Product Range	Broad	Broad	Medium	Narrow
Promotion /Visibility of new product	High	Medium	Low	Medium
Favors local products	High	High	High	Low
OVERALL Compatibility factor	The higher the better	12	7	2

Table 8: Compatibility between grocery retailers and Baba Foods

We can easily read the result from the compatibility table between grocery retailers and Baba Foods. K-chain got the highest score with 12 point out of 13 possible points. Two of the key factors which determined the right channel for Baba Foods were considered neutral or irrelevant since they were impossible or hard to compare with each other or they were just irrelevant for the compatibility perspective. S-Chain came second with 7 out of 13 points and Lidl got last with 2 compatibility points with Baba Foods.

On this account the study recommends that that Baba Foods first channel choice should be K-chain. Additionally, it suggest that K-chain represent a channel that could have the best market potential for Baba Foods products as well as most suitable partner to be Baba Food's possible retailer. What Baba foods should do is to be a reliable supplier and fulfill all the basic criteria a grocery retailer obligates. In the long run, being a trustworthy supplier who offers a good, distinguishable and interesting product will succeed in the food manufacturing business. At the end of the day consumers are the ones who decides the success of a small food manufacturers' – Baba Foods destiny.

6. DISCUSSION

This study is about business model analysis of the three biggest (measured by market shares) grocery retail players in Finland. The study concentrates on building the business model theory based on business model research which later end up to analysis of business models with BM canvas created by Osterwalder and Pigneur (2010). In this study this was used as a ground base for building the theoretical framework to answer the research questions which is the ultimate goal of this study.

In this study we chose these three biggest grocery companies in Finland since they represent the biggest retail distribution potential for small food manufacturers and in this case specifically for Baba Foods. This new family business is aiming to produce tasty, fresh, quality and locally produced salads, dips and other foods for consumers. To find out the best distribution channels we had to go through the business models of each case company. We could have used other strategic or business tools for analyzing these case companies and then also they could have been relevant enough. However after a thorough research on business model literature, business model canvas offered a sufficient theoretical framework for this analysis and thus it was used in this multiple case study.

Business model literature is rather extensively researched. The topics vary from side to side, but in this study we have concentrated to the main researches concerning business models in general and topics that relate either to retailing or somehow is relevant for this study. Therefore, business models was explored overall from many aspects e.g. design, e-business, strategy, tactics, innovation, e-commerce, entrepreneurial and ontology sides of business models. Each topic is related to the understanding of different business models and fundamentally to building up a relevant and suitable theoretical framework for this study. ([ZOTT AND AMIT, 2010](#); [APPLEGATE, 2001](#); [CASADEUS-MASANELL ET AL., 2010](#); [CHESBROUGH, 2010](#); [HOME, 2011](#); [MCGRATH, 2010](#); [MORRIS ET AL., 2005](#); [OSTERWALDER AND PIGNEUR, 2010](#); [SHAFER ET AL., 2005](#); [TEECE, 2010](#))

When we started to investigate the case companies we found out that Finland is duopolistic market place in the food trade industry. K-chain and S-chain hold over 80% of the market and rule the competition and determine the overall price levels. In the recent years Lidl has managed to steal a bit from the market sharer but still is holding less than 10% of the grocery market. Additionally, a notable finding in the grocery retailing was to notice that K- and S-chain are very similar to each other. The main differences between these players are the level of centralization and organizational structure as well as the form of the ownership. Therefore S- and K-Chain are also the main rivals in Finland and are doing everything to beat some market share from the other. However, Lidl represents a business model which is quite inverse to the two other grocery retailers. Lidl has its own strategy that it enforces in order to get satisfactory market share of the Finnish grocery market. So far it has succeeded in getting a few percent of the market share each year, so Lidl is doing well and their business model can be said being functional in Finland.

In this study the fundamental aim was to find the most suitable and favorable channel to market new products for a new small food manufacturer. In the Finnish Food Trade Association study (2007), was listed some main strengths for a small food manufacturer in order to be a supplier for these kind of case companies that we have represented in this study. One of the main strengths is flexibility and agility to react for consumers' changing needs. This means that if consumers start to demand for locally and organically produced foods a small manufacturer can react accordingly. Moreover, small and usually local food manufacturer knows local habits and preferences of consumers. Also Baba Foods has some silent knowledge about consumers in Helsinki. However, it lacks information and thus knowledge about consumers in Turku for instance. Secondly, the small food manufacturers have the chance to do differentiation of products rather easily compared to big food manufacturers like Atria or HKScan. PTY also predicts that local brand value for markets and consumers are rising and thus it favors smaller food manufacturers.

PTY (2007) also reports that small food manufacturers have quite many weaknesses in the competition. Firstly, the labor-intensive food manufacturing industry holds its weight in small companies. Also the work processes are usually inefficient and labor

costs high especially in Finland. Secondly, insufficient capacity to serve as a supplier nationwide distribution, and thus creating business that generates money by high volume. Thirdly, small manufacturer have their weaknesses in managing electronic data exchange in order, deliver and billing. Additionally, small food manufacturers have the threat that bigger companies starts to produce similar kind of products with lower prices. However, for this smaller companies can respond with quality, humane and non-industrial factors especially in the food trade. Finally, the most important issue for a small food manufacturer is to be a reliable supplier what comes to deliveries and sales promises. They need to fulfill promises altruistically to be a trustworthy partner for the big grocery retailers.

The current trends in the retail operating environment are also interesting for this study and for future research. In the last years, we have seen a steep growth of e-commerce and multi-channel retailing in all product lines. Both S-chain and K-chain is investing to these two issues. In turn Lidl does not use either of these methods and therefore being old fashioned and believing in traditional kind of grocery retailing more than its rivals. However, due to easiness of information and web consumers are increasingly product-aware and price sensitive in the grocery business. Moreover, they are very demanding and thus grocery shops are careful with offering only high quality products. Web services have increased the transparency of selections, prices and availability. Also we all have noticed the importance of social media in purchasing decisions and that will definitely still increase in the future. Not long time ago, in Finland a famous social media persons who is also a well-known chef posted in twitter one recipe which recommended use of Mutti tomato sauce. This social media tweet lead to out-of-stock situation in many grocery shops throughout Finland. This example reflects the power of social media. Therefore small food manufacturers should try to exploit the power of social media in marketing their new products.

Even though we mentioned in the beginning of this study that Finnish food trade and grocery business is one of the few industries that have grown slightly in the recent years, we can predict a slow or even negative growth in the next couple of years in Finland. This means that consumers will be price-aware and most likely

prefer cheaper products (like cheap shop brands like Pirkka and X-tra etc.) and thus small food manufacturer will suffer from lower demand for their more pricy products than the cheap brands that bigger manufacturers can offer. Eventually, this trend will lead to increasing proposition of retailer's private label brands. For instance, not long time ago K-chain introduced its really cheap private label product K-Menu. Finally customer loyalty programs will be interactive and provide more individual rewards in the future. E-time will only increase the targeted offers and reward especially in K- and S-chains. It will remain a mystery how Lidl will keep its market position growing when taking into consideration these future trends.

All in all, the Finnish Food Trade Association has mentioned that their common goal is to get into grocery shops good, local food products that consumers are interested in, and which remains in the selection. Finally, they state that when basics are in order, a local food manufacturer can, at will, open growth paths and expand gradually to regional or national selection in grocery shops and thus become a well-known brand nationwide.

7. CONCLUSIONS

In this part we conclude the research and suggest some practical implication, look at the limitations of the study and finally suggest topics for further research.

7.1 Research summary

This research is about business model analysis of Finnish food retailers. The study is a multiple case study where three biggest grocery store companies are analyzed with a business model canvas. Moreover, the research questions is how to determine right channel to enter grocery retail market as a new supplier with new products and Baba Foods represents this new small food manufacturer and supplier.

For building up a theoretical framework we have used a business model canvas which is used for business model analysis of the three case companies: K-chain, S-chain and Lidl. The information of these companies is gathered from various sources of data. Publication, annual reports, interviews, articles, journals and websites are used to gather all the relevant data for the sufficient analysis of these case companies. Since the goal is to answer the research question as good as possible a compatible table is created for determining the right channel for Baba Foods to enter the grocery retails market with its new products. Before creating the compatible table between grocery retailers and a new small supplier a review of Baba Foods' business part is investigated to understand the possible and relevant compatible factors with these grocery retailers better.

Data and methods part explains the qualitative research methods and practice used in this case. But overall the research is purely qualitative and thus also interviews were made with managers of the case companies as well as with Finnish Food Trade Association's representatives. Then the main findings were that from these three case companies the most suitable and favorable channel for Baba Foods was K-chain according to the compatibility table. S-chain would have been the second

match and Lidl the most unfavorable retail partner for Baba Foods. The optimal variable values which determined the suitability of each case company with Baba foods products were determined with the information and knowledge built up throughout the research. Finally, in the discussion part we were looking for some general trends in the Finnish Food trade sector and grocery business in the future and how a small food manufacturer will be seen as potential supplier in the future grocery market. Overall, the prediction for small food manufacturer is pretty bright in Finland since local preferences in food selection is increasing within consumers. Finnish people value local and Finnish quality products over foreign similar product, even though we cannot underestimate the economic situation and thus preferences also for cheaper basic food products.

7.2 Practical implications and limitations of the study

We can notice a few practical implication from this research. First of all, it is very practical already in the sense that it is a real world multiple case study and all the information and data is based on real life issues. Moreover, the business model canvas can be used in all other industries than just food trade. Secondly, business model canvas can also be used to do similar study in other countries as well as with other companies very easily. One just have to change case companies and the practicalities will suggest different results. Finally, the compatible table is a purpose-built tool for just this case, but it could work in other fields too and especially with minor changes it is a practical tool for building a new kind of framework for a study.

Main limitation of the study was a narrow number of interviews and also not getting interview from Lidl at all. So therefore, all the data and information was based on other qualitative data and information, mainly information what Lidl writes in its website. However, we got enough interviews and opinions from

decision makers and top managers which strengthen the value of the answers to the questionnaires.

The literature review on business model was rather extensive but always it could be even more extensive. But when taking into consideration the research question and how to get good answer for it the literature review is sufficient enough. Overall, the research has some limitations both in literature review as well as with interviews but in general it takes into consideration most of the relevant data and information relevant to the research.

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7.3 Suggestions for further research

Further research could be done in many aspects. Firstly, there could be more extensive study which would analyze the whole Finnish grocery market and their business models with the canvas framework, and not just the three biggest players. Moreover, in this case the new supplier that was determining a right channel choice for its new products was Baba Foods, and therefore the perspective was studied by Baba Foods' products. So basically, bread or a beverage manufacturer could make their own study from the same topic. The results would be most likely very different. So basically, different approach and different case company instead of Baba Foods would be interesting to do for a similar kind of small manufacturer company in Finland. There must be plenty of them.

Also, a research that is based somewhat more on quantitative data would be interesting as well. Also it would lead to totally different approach to have a sufficient answer for the research question. For example, a study that would start from consumers' perspective, and find out what kind of product they would like to have in the selection of the Finnish grocery stores. This kind of study would actually be more interesting to food trade companies than this study, which tried to determine a right channel for a new small food manufacturer. All in all, the Finnish consumers will decide at the end of the day what is sold in the Finnish grocery shops and which products and companies will become successful – Fazer also

started as a family business in 1891 and every Finn since have had a taste of this story.

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Baba Food's secret business records:

(11). Business plan and financials

(12). Files, archive, interviews with shareholders

Appendix

Interview questions for the Finnish Grocery Trade Association (PTY):

Voit vastata kysymyksiin suomeksi tai englanniksi. Ihan miten sinulle parhaiten sopii.

Nimi, ikä ja sukupuoli:

Työpaikka ja tehtävänimike:

Research question: How to determine right sales and distribution channel for a new food manufacturer with new products?

1. Mitkä ovat ruokatuottajan (alihankkijan) valintakriteerit päivittäistavarakaupan näkökulmasta (ts. minimivaatimukset uudelle ruokatuottajalle?)
2. Mitkä ovat uusien ruokatuotteiden valintakriteerit (ts. ostokriteerit) päivittäistavarakaupan näkökulmasta?
3. Mille kauppaketjulle (K-ketju, S-ketju tai Lidl) on lähituottajan suotuisin ja helpoiten lähestyttävä uusilla tuotteilla mielestäsi?
4. Mitä jakelukanavaa tai kanavia suosittelisit uudelle toimijalle ja sen uusille ruokatuotteille?
5. Jotain muuta sydämellä – vapaa sana =)?

BM-questions: *Additional questions for the case company representatives:*

1. Who are your **Key Partners**?
2. What **Key Activities** does your value proposition require
3. **Value proposition.** What core value do you deliver to customers?
4. What **relationship** that the target **customer** expects you to establish?
5. **Customer segment.** Which classes are you creating value for?
6. **Key Resource.** What key resources does your value proposition require?
7. **Distribution channel.** Through which channels that your customer want to be reached?
8. **Cost structure.** What are the most cost in your business?
9. **Revenue Stream.** For what value are your customers willing to pay?