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Market Orientation in a New Competitive Environment

– The Case of Apoteket AB

In the beginning of 2010, the Swedish pharmacy market opened up to competition after almost 40 years of state-owned monopoly. Former monopolist Apoteket AB is now facing competition to a higher extent than ever. Therefore, the company was forced to re-examine and develop its business before the reregulation took effect. During its monopolist years, Apoteket had no real need to be strongly market oriented, but market orientation theory states that it is a necessity in competitive markets. Thus the aim of this thesis was to establish a link between market orientation and regulatory changes – specifically transitions from monopoly to competition. The results showed that Apoteket has a rather strong market orientation overall and that it has improved somewhat during the reregulation process. Hence, a link between the two notions was established, which illustrates the importance of being strongly market oriented in order to gain competitive advantage on a market characterized by fierce competition. Furthermore, the results showed that Apoteket's risk aversion is an obstacle to attaining strong responsiveness. If a certain level of risk aversion is inherent in state enterprises, this finding is likely to hold true for other state monopolists as well.

Keywords: Market Orientation, Monopoly, Reregulation, Swedish Pharmacy Market

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1. Introduction

1.1 Background

In the beginning of 2010, new players entered the reregulated Swedish pharmacy market after almost 40 years of state-owned monopoly. Former monopolist Apoteket AB, from now on referred to as Apoteket, is thus facing competition to a higher extent than ever. Today Apoteket competes directly with new pharmacy chains as well as supermarkets, other shops and vending machines with permission to sell over-the-counter (OTC) drugs. The situation has forced Apoteket to re-examine and develop its business over the past few years. By focusing its efforts on brand management, Apoteket has accomplished to turn its corporate brand into Sweden's strongest health brand (Superbrands, 2009).

The reregulation is not going to create a pharmacy market characterized by perfect competition. Instead, the Swedish pharmacy market is expected to follow a development similar to other European countries with reregulated pharmacy markets. In Norway and Iceland, for instance, relaxed restrictions to ownership and competition have led to significant horizontal integration (Anell, 2005). The Norwegian market has also become vertically integrated since merging pharmacy groups have integrated with wholesalers. Apoteket Hjärtat's recent acquisition of Apotek 1 is a sign of the impending market concentration on the Swedish pharmacy market. Based on insights from the development in Iceland and Norway, it is very likely that the Swedish pharmacy market will also become oligopolistic with a few dominant players. If this scenario becomes reality, we can also expect growth in the total number of pharmacies on the market as well as a smaller average pharmacy in terms of sales and staff (Anell, 2005).

Apoteket's goal is to remain market leader on the new pharmacy market. The company has an advantage in being the most experienced and established player on the Swedish market and, arguably, far ahead of competition (Fernvall, 2010). However, an interesting aspect is that not much will differentiate the corporate brands in the beginning. The new players acquired many existing pharmacies from Apoteket and the employees were simply transferred to the new employer. Consequently, the service has not changed overnight and the pharmacies still have a rather similar store layout and product range, with the exception of private label products. The new players can to a large extent benefit from the brand image and associations that Apoteket has built since customers do not perceive any significant difference between them (Henriksson, 2010). This confusion is not beneficial for any of the parties in the long run, however. All actors are now facing the challenge to create a superior brand that differentiates their company on the

market. Apoteket already has a very strong brand, but the company has not faced competition to this extent since its creation in 1970. Is Apoteket truly prepared for competition and does it have the potential to remain market leader and retain or enhance its strong brand? One of the keys is market orientation. The following statement illustrates why market orientation should be the desired strategy for any company operating in a competitive market:

> "A market orientation is a strong source of sustainable competitive advantage because it is difficult to imitate, focuses the firm on finding opportunities for growth, and reduces the time lag for responding to those opportunities."
>
> (Kirca, Jayachandran and Bearden 2005, cited in Martin et al. 2009)

1.2 Problem Area

It is a generally held belief that market orientation has an impact on performance, regardless of the nature of the market. However, market orientation may not be *necessary* in monopolistic markets. Kohli and Jaworski (1990) argue the following:

> "A market orientation requires the commitment of resources. The orientation is useful only if the benefits it affords exceed the cost of those resources. Hence, under conditions of limited competition, stable market preferences, technologically turbulent industries, and booming economies, a market orientation may not be related strongly to business performance."

In other words, Apoteket did not necessarily have to commit resources to being highly market oriented before it was known that the market would be reregulated. Considering that Apoteket was a monopolist on the pharmacy market for about 40 years, we assume that strong market orientation was neither a priority nor a necessity for the company until discussions about reregulating the pharmacy market began. Since the reregulation, however, Apoteket's market share has dropped from 100 to 35 percent and the company is facing fierce competition. According to basic marketing theory (Best, 2009), Apoteket now needs to implement a market orientation strategy in order to survive on the new pharmacy market in the long run. Accordingly, we want to study to what extent Apoteket is market oriented in order to determine whether or not the company is prepared for competition and able to retain its position as market leader.

This thesis is of interest for the branding and market orientation fields since it examines the marketing challenges of a company that has transitioned from a monopolistic to a competitive market. Even though it is a single-case study, we hope to contribute with new insights into market orientation that can be applied to other markets facing reregulation.

1.3 Purpose

The purpose of this thesis is to examine Apoteket's degree of market orientation and assess it on a scale ranging from weak to strong. We will specifically try to answer the following question: *To what degree is Apoteket market oriented?*

Then, based on our answer to this question, we will engage in a discussion on whether or not the company is prepared for the new challenges induced by the reregulation. It is a subjective approach that will result in our judgment on whether or not Apoteket is managing the new competitive situation in the best possible way. The question we will attempt to answer is the following: *Based on Apoteket's actions this far, is the company likely to succeed on the new market?*

1.4 Previous Research and Expected Contribution

Market orientation is a central marketing concept and its importance for company performance has been studied for several decades. The main conceptualizations were developed by Jaworski and Kohli (1990), and Narver and Slater (1990), which we will return to later in this chapter. Studies concerned with the concept have been conducted in several settings. To name a few, Martin et al. (2009) studied the implementation of market orientation in small manufacturing firms, Brettel et al. (2008) conducted a cross-cultural comparison of the antecedents of market orientation, and Megicks and Warnaby (2008) examined the link between market orientation and performance among small independent retailers in the UK. However, none of the studies treated a setting similar to ours.

Many studies have also treated different forms of reregulation. Numerous papers discuss reregulation of the banking industry (Bexley et al., 2000), the telecommunications industry (Noam, 2006) and the electricity industry (Borenstein and Bushnell, 2000). The pharmacy market has also attracted researchers' attention and become subject for several studies. Schmidt and Pioch (2005) have for instance studied the increasing competitive pressure on UK community pharmacies. Another example is Anell (2005), who has studied the consequences of relaxed restrictions to ownership and competition on the Norwegian and Icelandic pharmacy markets. The latter is highly relevant to our study as it provides us with possible future scenarios for the Swedish pharmacy market.

Furthermore, several academic theses have been written specifically about Apoteket, especially in connection to the reregulation. However, they do not have the same focus as our thesis. The reregulation was completed very recently and the other theses were written during the change process. They are primarily concerned with the internal and external changes that Apoteket has

undergone. Some of the theses discuss the consequences of the transition from monopoly to competition, for instance. However, our objective is to conclude whether or not Apoteket has the prerequisites to survive on the new market based on market orientation theories. We will not examine the changes that have occurred in the last few years per se; instead, we will focus on Apoteket's position and market orientation and the company's prospects for the future.

Even though de-/reregulation of markets has attracted researchers' attention and resulted in numerous scientific studies, we could not find any study that links reregulation and market orientation. However, the market orientation literature suggests that strong market orientation is not always optimal for monopolists. Furthermore, it has been shown that a relatively high level of market orientation is necessary in competitive markets. We therefore conclude that increasing the degree of market orientation should be the desired strategy for a company like Apoteket that is transitioning from monopoly to competition. It is consequently of great interest to examine if this is actually the case and if a former monopolist can successfully adapt to a competitive environment and be highly market oriented.

The study will not only result in strategic implications for Apoteket, but also serve as a guide for companies facing the same situation. It can therefore be of interest in the case of a future reregulation of the Swedish spirits market, for instance.

1.5 Delimitations

Our study is limited to Apoteket in particular since the company has unique conditions on the reregulated market. Unlike the new players, Apoteket enjoys very high brand awareness among consumers and is even considered as the final link in the healthcare chain (Persson, 2010). We have also limited our study to the Apoteket Consumer division as opposed to the company's B2B operations since the purpose of the reregulation was to improve the convenience and availability for consumers. Our study is qualitative and based on interviews since it allows us to gain a deeper understanding and uncover additional issues perceived by the management. The reregulation has interesting consequences for employer branding since Apoteket competes for both consumers and personnel. However, it is outside the scope of this thesis to include employer-branding considerations.

1.6 Definitions of Terms and Useful Facts

1.6.1 Reregulation of the Swedish Pharmacy Market

The reregulation of the Swedish pharmacy market has been a hot topic for discussion during the past decade. Sweden has very few pharmacies per capita by international standards with only one pharmacy per 10,000 residents, whereas most EU countries have one per 5,000 residents. The Swedish pharmacies have also had limited opening hours, which restricts availability (Apoteket Omstrukturering, 2009). Therefore, the purpose of the reregulation was to enhance availability, increase efficiency, and exert pressure on prices. Apoteket describes the reregulation as a win-win situation for both customers and employees. In addition to better availability, customers gain access to a broader product range and receive superior service. From the employees' perspective, the reregulation has resulted in several employers to choose between as well as the possibility to run one's own pharmacy (Apoteket, 2010).

The reregulation process took almost two years to complete (see *Table 1*). The remit was presented to the government in January 2008 (Regeringskansliet, 2008), and by September the reregulation of the nursing and healthcare market was in effect. The following year, in April 2009, the goverment decided to open up the drug retail trade to competition as of 1 July. In November 2009, the retail trade (i.e., convenience goods stores and supermarkets) was allowed to sell non-prescription drugs approved for the Swedish market. The identities of the players who had acquired the pharmacies for sale were also disclosed. Finally, during the first quarter of 2010, the new players took over the sold pharmacies (Apoteket, 2010).

Year	Date	Event
2008	8 January	The SOU 2008:4 remit was presented to the government
	1 September	The reregulation of the nursing and healthcare market took effect
2009	29 April	The government decided to open up the drug retail trade for competition
	1 July	The drug retail trade opened up for competition
	1 November	The retail trade was allowed to sell non-prescription drugs
	9 November	The identities of the players who acquired the pharmacies for sale were disclosed
2010	Q1 2010	The new players took over the sold pharmacies

Table 1 The reregulation process

Apoteket sold 615 pharmacies out of 930. 465 were sold to four new players – ApoPharm AB, Kronans Droghandel Retail AB, Medstop Holding AB, and Vårdapoteket i Norden AB – and 150 to private entrepreneurs through Apoteksgruppen i Sverige AB, which was established in 2009 for this purpose. Apoteket will retain the remaining 315 pharmacies at least until July 2012. The pharmacies were sold in clusters and the employees of these pharmacies were transferred to

the new employer (Apoteket, 2010). They were not forced to switch to the new employer, although Apoteket recommended it, but very few chose not to. No pharmacy was closed in connection to the sale. *Figure 1* illustrates the acquisitions and includes sales figures and the number of employees for the acquired pharmacies:

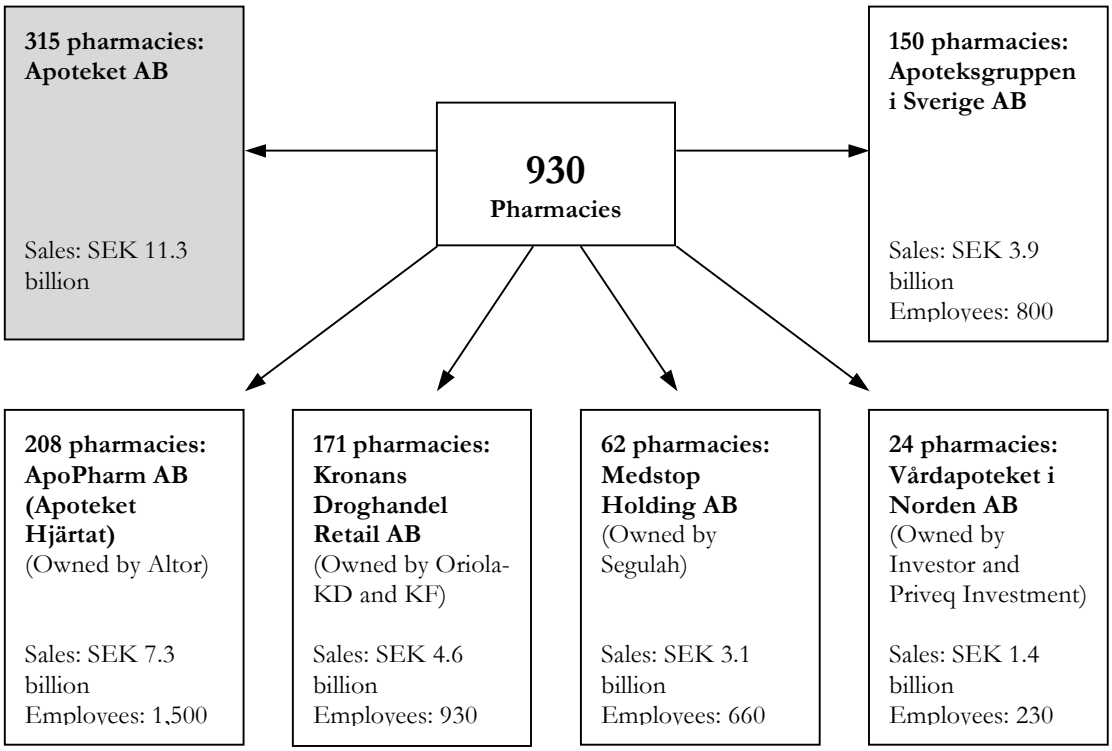

Figure 1 Overview of pharmacy acquisitions (Apoteket 2010)

In addition to the companies illustrated in the figure, several other actors are planning to enter the market or have entered during the past few months. Some of these companies are Doc Morris, Fox Farmaci and perhaps also Boots (Enström, 2010). On the reregulated pharmacy market Apoteket is still owned by the government but competes under the same conditions as the new players (Apoteket, 2010). The state will continue to set the prices for prescription drugs (Apoteket, 2009). All pharmacies must supply all prescription drugs and they will be recognizable through the new pharmacy symbol, a green cross marked "Apotek" (Apoteket, 2010). The symbol means that the pharmacies have permission from the Medical Products Agency (*Läkemedelsverket*) to sell all approved drugs (Apoteket, 2009). Each pharmacy is also required to employ at least one qualified pharmaceutical specialist (Apoteket, 2010).

1.6.2 Apoteket

Apoteket was established in 1970 and was a state-owned monopolist between 1971 and 2009. In 2009, the company's net sales amounted to SEK 43,073 million and operating earnings to SEK

804 million. The average number of employees was 10,319. 2009 was the most successful year in the company's history (Apoteket, 2010).

Apoteket has four business segments: Apoteket Consumer, Apoteket Farmaci, Apoteket Distribution and Other Operations. Apoteket Consumer, which is the focus of our study, comprises the pharmacies. Apoteket Farmaci is oriented towards the hospital, nursing and healthcare markets while Apoteket Distribution is responsible for product supply, IT operations, distance trading and Apoteket's Customer Centre. Other Operations include Apoteket International and Apoteket Production & Laboratories (Apoteket, 2010).

Apoteket currently remains market leader with a market share of approximately 35 percent. However, the company's market share has obviously decreased dramatically, which has required cutbacks and a focus on the future. Apoteket has invested in private label products and in the development of future IT support for these reasons (Apoteket, 2010).

1.6.3 Market Orientation

Market orientation is not a new concept. Its effect on market performance was uncovered in the 1960s by Levitt (1960) and later by Kotler (1984) and Webster (1988) (cited in Narver and Slater, 1990). Several perspectives have been developed but they all agree on four fundamental dimensions, which Lafferty and Hult (2001) synthesize as the following: (1) emphasis is put on the customers; (2) shared knowledge, i.e. information, is very important; (3) there is an interfunctional coordination of marketing activities and relationships; and (4) the company is responsive to market activities.

Although these dimensions are the same for all perspectives, there are two dominant definitions of market orientation that have laid the foundation for other studies on the subject for the past two decades. These definitions were developed by Kohli and Jaworski (1990) and Narver and Slater (1990). Kohli and Jaworski (1990) provide a market-intelligence perspective and consider a market-oriented organization as "one whose actions are consistent with the marketing concept". They formally define market orientation as follows:

> "Market orientation is the organizationwide *generation* of market intelligence pertaining to current and future customer needs, *dissemination* of the intelligence across departments, and organizationwide *responsiveness* to it."

Market intelligence generation refers to the consideration of current and future needs of customers and exogenous market factors. It is the responsibility of all departments throughout the orga-

nization. The intelligence must then be effectively disseminated within the organization and finally acted upon (Kohli and Jaworski, 1990).

Narver and Slater (1990), on the other hand, argue for a culturally based behavioral perspective and suggest that market orientation consists of three behavioral components. The first element, customer orientation, means that a company needs to have a sufficient understanding of the customer in order to be able to create products or services of superior value for them. The second component, competitor orientation, concerns the understanding of the strengths and weaknesses of the company's current and potential competitors and their long-term capabilities and strategies. Finally, interfunctional coordination emphasizes the importance of departments working together to create superior value for customers (Narver and Slater, 1990).

We have chosen to base our study on Kohli and Jaworski's definition of market orientation since the market intelligence perspective allows us to study the actions rather than cultural aspects of Apoteket. However, both perspectives as well as other studies on market orientation will be taken into account when appropriate.

1.7 Disposition

In the next chapter, theories regarding market orientation and reregulation of markets will be presented in order to lay the foundation for our analysis. Chapter three will discuss our methodological choices as well as introduce our interview subjects. The results of our interviews and other empirical data will then be presented in chapter four. Based on this data, we will conduct our analysis in chapter five. Finally, chapter six will present our conclusions as well as the limitations of the study.

2. Theoretical Framework

In this chapter we will present the theories upon which we base our research and analysis. We will start by introducing literature related to the reregulation of markets and then present the market orientation model in depth.

2.1 Reregulation

Since our interest is not limited to Apoteket's market orientation but also covers the relationship between reregulation and market orientation, we will first introduce important elements of re-regulation theories and studies. We will present the consequences of regulatory changes, look into similar cases and explain the link between market orientation and market reregulation.

2.1.1 Regulatory Changes

Regulatory changes can create opportunities as well as obstacles for the actors on the markets in which they occur. Apoteket is now facing fierce competition for the first time in the company's history and needs to defend its position as market leader. The reregulation has thereby created a challenge for Apoteket to focus on its market orientation. It is interesting to examine what actions Apoteket needs to take in order to remain the leading pharmacy chain since the company has been able to create one of the most liked brands in the country without pressure to be strongly market oriented.

Research linking de-/reregulation and a company's marketing can be found within the area of industrial organization, but we could not find any appropriate theory that fits our market orientation approach. Furthermore, the other studies we found are case studies where it is difficult to generalize the findings to suit other industries. An example is Chan (2000), who studied the development of the reregulated world airline industry between 1978 and 1998. However, it is apparent that reregulation does have an effect on the choice of marketing strategy since it affects the entire competitive environment. There is also research that attempts to classify the different competitive situations that arise after a market reregulation. However, we will focus on the case studies described next, which treat cases similar to ours, our objective being to show how the market is likely to develop and thus why strong market orientation is so important.

2.1.2 Similar Cases: Norway and Iceland

Anell (2005) has conducted a very interesting study on the reregulation of the Norwegian and Icelandic pharmacy markets, which were implemented in 2001 and 1996, respectively. The study could possibly give us a hint about what is going to happen on the Swedish pharmacy market in

the near future. The cases of Norway and Iceland have also served as a foundation for the Swedish government's decision to reregulate the pharmacy market, which further supports their relevance (SOU 2008:4). Anell found that a more competitive pharmacy market led to significant horizontal integration in both countries, which resulted in market concentration where a few actors dominated the market. The Norwegian market also experienced vertical integration, which was not legal in Iceland. In other words, the pharmacy markets in both Norway and Iceland are oligopolistic and the pharmacy groups have significant power. This underlines the importance of having a competitive offering that allows Apoteket to retain and later increase its market share. Anell also found that the reregulation resulted in growth in the total number of pharmacies as well as smaller average pharmacies in terms of sales and staff. His study concludes that location and availability are the two most important competitive factors on the pharmacy market, which are important forms of responsiveness as we will show later.

There is also a study conducted in the UK that is related to our topic. Schmidt and Pioch (2005) have researched the challenges facing community pharmacies in the Manchester area as a result of market concentration. Their focus was to examine whether or not retail branding could help the pharmacies withstand competition. However, they found that the players in the community pharmacy sector do not make good use of the retail branding tools available because they often have an inward-looking, reactive and short-term approach.

2.1.3 The Link between Reregulation and Market Orientation

Kohli and Jaworski's model, which we have selected as a basis for our thesis, mentions that market orientation may not be optimal for monopolists. Therefore, we believe that there is an important link between the concepts of market reregulation and market orientation. A new competitive situation has consequences not only for the market and the consumers, but also for the marketing strategies of the companies in the industry. However, there is no research that connects the two concepts. It is surprising that the link between reregulation and market orientation has not attracted more interest among researchers since a reregulated industry is full of opportunities for new players and hence an effective marketing strategy becomes vital for success. It would be very interesting to identify the competitive situations in which strong market orientation is not optimal. However, our study will focus on the importance of market orientation in a market that has transitioned from monopolistic to competitive.

2.2 Market Orientation

"The companies that *survive* and *grow* will be the ones that *understand change* and are leading, and often creating, change" (Best, 2009). This citation underlines the importance of market orientation. Everything surrounding a company is subject to change – customers, competitors and the environment. Customers change in needs, demographics, lifestyle, and consumption behavior. Competitors change as a result of new technologies and shifting barriers to foreign competition. The environment changes as a result of shifts in political, social and technological forces. In order to be proactive and not simply reactive, a company needs to be market oriented. It needs to understand all of these changes and adapt its offering accordingly.

We adopt the market intelligence perspective on market orientation, which means that we focus on the actions of Apoteket as opposed to the mindset and culture, although they will be intertwined to some extent. Kohli and Jaworski's (1990) model represents this perspective and is thus our primary reference.

2.2.1 The Construct

Kohli and Jaworski (1990) argue that market orientation consists of three organization-wide activities: intelligence generation, intelligence dissemination and responsiveness (see *Figure 2*). More specifically, a "[m]arket orientation entails (1) one or more departments engaging in activities geared toward developing an understanding of customers' current and future needs and the factors affecting them, (2) sharing of this understanding across departments, and (3) the various departments engaging in activities designed to meet select customer needs" (Kohli and Jaworski, 1990).

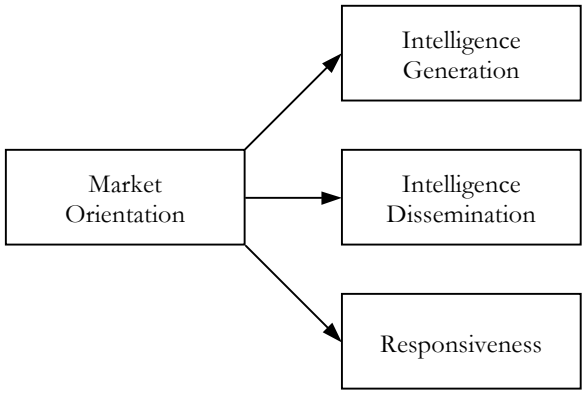

Figure 2 Kohli and Jaworski's conceptualization of market orientation

Market intelligence comprises customers' verbalized needs and preferences as well as the exogenous factors that influence these (Kohli and Jaworski, 1990). Exogenous factors are for instance gov-

ernment regulation, technology, competitors, and other environmental forces. Market intelligence generation is not the sole responsibility of the marketing department; instead, individuals and departments throughout an organization need to generate it. Mechanisms must therefore be in place in order to disseminate market intelligence effectively within the organization. *Intelligence generation* can take the form of customer surveys and formal market research, meetings and discussions with customers and trade partners, analyses of sales reports, and analyses of worldwide customer databases (Kohli and Jaworski, 1990). Slater and Narver (2000) also emphasize the importance of intelligence generation by stating that "[a] well-developed intelligence-generation capability is positively associated with superior customer value."

In order to respond effectively to a market need, virtually all departments in a company need to participate: R&D has to design and develop the new product, manufacturing has to produce it, purchasing has to find vendors, finance has to fund activities etc. *Intelligence dissemination* is thus of great importance "because it provides a shared basis for concerted actions by different departments" (Kohli and Jaworski, 1990). This dissemination can take several forms, for instance "hall talk", telling stories about customers' needs and personality characteristics, interdepartmental meetings, and circulation of documents throughout the organization. Horizontal communication is central for successful intelligence dissemination (Kohli and Jaworski, 1990).

Finally, once market intelligence has been generated and disseminated, a company needs to respond to it, to act. Examples of *responsiveness* are to select target markets; to design and offer products and services that meet customers' current and anticipated needs; and to produce, distribute and promote the products in a way that elicits favorable end-customer response (Kohli and Jaworski, 1990).

2.2.2 Antecedents of a Market Orientation

"Antecedents to a market orientation are the organizational factors that enhance or impede the implementation of the business philosophy represented by the marketing concept" (Kohli and Jaworski, 1990). Kohli and Jaworski present three categories of antecedents: senior management factors, interdepartmental dynamics and organizational systems.

Senior management factors are related to the organization's top management. Jaworski and Kohli (1993) find that top management's emphasis on market orientation has a positive effect on (1) market intelligence generation, (2) intelligence dissemination, and (3) responsiveness of the organization. However, they only find partial support for their hypothesis concerning top managers' risk aversion which, contrary to their beliefs, does not have any effect on intelligence generation

or dissemination. Risk aversion does nevertheless have a negative effect on the responsiveness of the organization, which suggests that top managers need to be willing to take risks related to market developments in order for the organization to be responsive to the changing needs and preferences of customers.

Implementing and managing market orientation is a top-down process where senior management's role is seen as fostering a market orientation (Kohli and Jaworski, 1990). This requires the CEO/presidents to have a cognitive model for the company that includes market orientation as a fundamental part of the business (Martin et al., 2009). *Table 2* illustrates this cognitive model and specifies the characteristics of market-oriented CEOs. Although the results are drawn from a study on small manufacturing firms, the findings are still of interest given that the managerial emphasis in implementing a market-oriented approach is central in the behavioral perspective we have chosen. The characteristics described correspond well to Kohli and Jaworski's model but constitute a less theoretical checklist. It will thus serve as a guideline for our study of Apoteket.

Layers of cognitive model	**Market-oriented CEO/Presidents**
Expressed values	• Commitment to excellence from top management • Open communication • High value for innovation • Strong widely shared values • Employees as internal customers of each other • Strong coordination among functional areas • Uncertainty and challenges as opportunities for the company
Expressed norms	• Expectations for employees to treat each other as customers/suppliers • Employees expected to know and track organization's goals and performance • Employees expected to participate in planning • Employees expected to generate, share, and respond to market-oriented information
Self-described artifacts	• Customer-focused language is common • Company and customer performance charts are posted • Market-oriented stories are common • Monthly meetings with entire company – focus is on customers
Desired employee behaviors	• Encourage participation in market-oriented behaviors such as acquiring market information, sharing market information, and responding to market information • Employees involved in planning and generating production ideas • Top management gathers and shares market information • Company-wide discussions of customer needs and problems • Cross-functional area meetings • Internal customer/supplier concept fulfilled
Desired structure for implementation	• Low degree of departmentalization • Developed and implemented three market-oriented organizational components: internal customer/supplier networks; performance management systems that include internal and external customer-related performance; and open communication system

Table 2 Market-oriented CEOs (Martin et al., 2009)

The second set of antecedents is *interdepartmental dynamics*, which refers to interdepartmental conflict and connectedness. The authors found support for their hypotheses that conflict between

departments inhibits intelligence dissemination and organization responsiveness, and that connectedness has a positive effect on these. Interdepartmental connectedness thus promotes market orientation (Jaworski and Kohli, 1993).

Finally, *organizational systems* refer to reward systems, formalization, departmentalization and centralization. *Formalization* stands for "the existence of formal rules and regulations in an organization and the organization's efforts to enforce those rules" (Jaworski and Kohli, 1993) and *departmentalization* refers to the number of departments. As hypothesized by the authors, market intelligence generation, intelligence dissemination and the organization's responsiveness are positively affected by reward systems based on market factors, such as customer satisfaction or building customer relationships, for evaluating and rewarding managers. The authors also show that centralization negatively affects an organization's market orientation. However, they cannot find any relationship between formalization and market orientation on the one hand, and departmentalization and market orientation on the other hand. The authors instead suggest that what is more important is the *nature* of the rules in an organization – they could for instance be designed to facilitate market orientation – and the *connectedness* or *conflict* between departments (Jaworski and Kohli, 1993).

2.2.3 Consequences of a Market Orientation

Although we will focus on the antecedents and characteristics of market orientation, it is important to mention the consequences in order to gain an understanding of the potential benefits of market orientation. Jaworski and Kohli (1993) recognize three sets of consequences of a market orientation, which are related to business performance, employees, and environment.

First, the results of their research provide mixed support for the link between market orientation and business performance. When assessing overall performance using judgmental measures, the link is clear. However, when using the objective measure of market share, no relationship is found. They comment on these results by discussing whether or not market share is an appropriate indicator of performance and if there is a lag in the effect of market orientation on market share (Jaworski and Kohli, 1993). Other researchers have tried to establish this relationship. For instance, a UK study by Harris (2001, cited in Kaur and Mahesh 2010) suggests that only in contexts with medium to high competitor hostility and medium to low market turbulence does an association between market orientation and performance exist. Diamantopoulos and Hart (1993) also found a stronger association between the two in more competitive markets. Anwar (2008), on the other hand, suggests that "[t]he link or relation between market orientation and performance may be 'hidden' or 'undercover', not necessarily explicit or apparent, and that the benefits of

having a market orientation may only be realized over the long term or long run, not immediately."

Second, the authors show that a market orientation has a positive effect on employees' organizational commitment and esprit de corps. As they explain, "[i]t appears that a market orientation nurtures a bonding between employees and the organization, as well as promotes a feeling of belonging to one big organizational family dedicated to meeting and exceeding market needs and expectations" (Jaworski and Kohli, 1993). Other researchers have found similar effects. For instance, Ruekert (1992, cited in Kaur and Mahesh 2010) found that a market orientation positively affects job satisfaction and trust in leadership, in addition to organizational commitment.

Third, Jaworski and Kohli (1993) do not find any support for the hypothesis that market turbulence, competitive intensity and technological turbulence have moderating effects on the linkage between market orientation and performance. This suggests that the link between market orientation and performance is robust across contexts with different levels of these three environmental factors. However, as mentioned above, other researchers (e.g. Song and Parry, 2009) have come to the conclusion that market turbulence and competitive situation do have an effect on the linkage. Also Kohli and Jaworski (1990) suggested in their first study that the competitiveness of the market moderates the link between market orientation and company performance in that the benefits afforded by a market orientation are greater for companies operating in competitive industries than for those in less competitive ones. It is thus difficult to know for certain whether moderating effects exist and how strong they are. If they do exist, however, it means that Apoteket's desired level of market orientation should be high since both market turbulence and competitive intensity are high on the pharmacy market.

What matters in the end is well emphasized by Slater and Narver (1994): "[A] substantially market-oriented business should find more opportunities in any environment than its less market-oriented competitors." One particular market situation that stands out and is interesting for this thesis is the monopoly. In a market without competition, market orientation is not a necessity and thus its effect on performance is moderated. A monopolist may perform well regardless of whether or not it adapts its offerings to changing customer preferences. This should be more difficult in a competitive market.

Figure 3 summarizes Kohli and Jaworski's market orientation model.

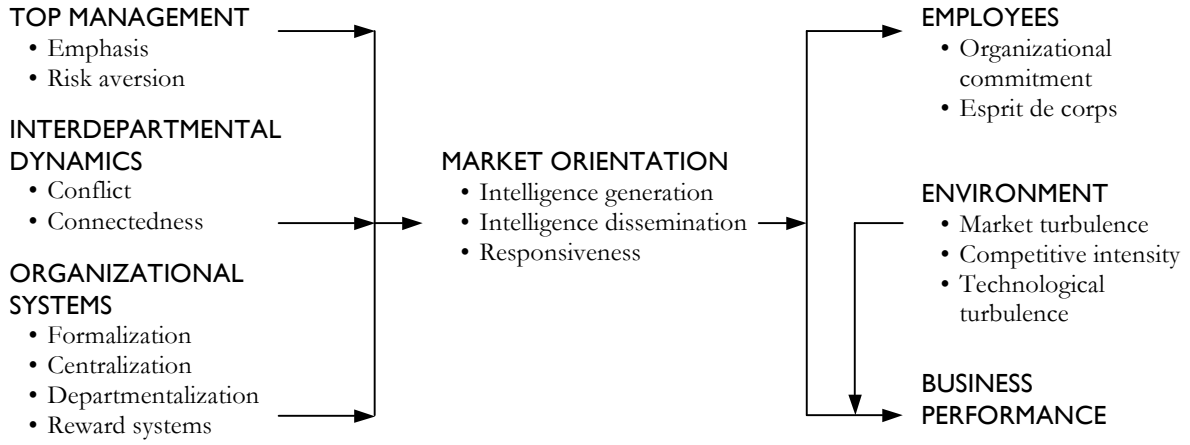

Figure 3 Antecedents and consequences of market orientation (Jaworski and Kohli, 1993)

2.2.4 Measurement

In order to assess a company's level of market orientation, Kohli and Jaworski (1990, 1993) have developed a market orientation measure called MARKOR. The measure assesses the *degree* to which a company is market oriented, which Kohli and Jaworski (1990) explain as the following: "[O]rganizations differ in the extent to which they generate market intelligence, disseminate it internally, and take action based on the intelligence. It therefore is appropriate to conceptualize the market orientation of an organization as one of degree, on a continuum, rather than as being either present or absent."

The operationalization of the market orientation construct resulted in a 32-item scale (see *Appendix*), where the market-orientation score is calculated by equally weighting and summing the item scores of intelligence generation, dissemination and responsiveness. The scale has, however, been subject for criticism by for instance Matsuno et al. (2000). The authors argue that the MARKOR scale's operationalization and psychometric properties need to be improved and they consequently suggest an enhanced scale. Also Kohli et al. (1993) point out that stakeholder or within-stakeholder variation may be useful to consider when further developing the scale. Although we are aware of the criticism and thus will be cautious with the interpretations of the results, we have primarily based our data collection on the original MARKOR scale and used it as a basis for our interview guide.

2.2.5 Market Driven versus Market Driving

The debate about market orientation has recently been revived by two new approaches – one that distinguishes between reactive and proactive customer orientation, and another that distin-

guishes between defensive/market-driven and offensive/market-driving management (Gotteland, 2007). The latter was developed by Jaworski, Kohli and Sahay (2000) and is of interest for our study since it develops their original conceptualization of market orientation.

Jaworski et al. (2000) put forward how being market oriented is often interpreted as being market-driven, which means that the business adapts its offerings to the voice of the customer. However, the authors show that a market oriented business can, and should, be both market-driven and market-driving. They define *market-driven* as "a business orientation that is based on understanding and reacting to the preferences and behaviors of players within a given market structure" and *market-driving* as "influencing the structure of the market and/or the behavior(s) of market players in a direction that enhances the competitive position of the business." The reason why businesses should pursue both strategies is that they often have to balance the need to manage present business opportunities with the need to plan for the future.

Jaworski et al. (2000) also present three generic ways of *changing the market structure*: (1) eliminating players in a market (*deconstruction approach*), (2) building a new or modified set of players (*construction approach*), and (3) changing the functions performed by players (*functional-modification approach*). *Table 3* provides some examples for each of these.

Approach	**Deconstruction approach**	**Construction approach**	**Functional-modification approach**
Definition	Reengineering the industry value chain, often to eliminate low value-adding players – from the customer's perspective. The success of this strategy often depends on the focal business being able to better deliver value to existing segments or more effective supply-side operations.	Developing a different set of players to deliver and meet some customer need. It may be a wholesale revision of the players or a relatively small addition of complementors.	Shift the functions performed by players in a market.
Examples	• Eliminate players in the channel of distribution. • Eliminate competitors in the focal firm's markets (joint ventures, hostile takeovers, partnerships, etc.). • Compete directly with suppliers to gain a lower cost position or increased functionality.	• Build a new web of players: could result in two competing standards, two sets of competitors, where the winner often takes almost all the market. • Adding complementors: addition of complementary players to the value chain.	• Typically involves the forward or backward integration of the firm attempting to shape the market structure.

Table 3 Three generic approaches to driving the structure of a market

In addition, the authors present various strategies for *shaping market behavior*, both directly and indirectly. The direct strategies include building or removing customer or competitor constraints.

Changing market behavior indirectly involves creating new customer preferences (either by introducing new-to-the-world offerings or new benefits), introducing new customer benefits for existing products, reversing existing customer preferences, creating new competitor preferences, or reversing existing competitor preferences (Jaworski et al., 2000).

The distinction between being market-driven and market-driving is important for this study in that market orientation cannot be limited to listening and reacting to customer preferences and needs. Being market driving is as important for Apoteket as being market driven since the company wants to remain market leader. Defining these two orientations is not the main focus of our thesis, however, and we will thus not examine them in depth. Nevertheless, since they are relevant and contribute to a more complete picture of market orientation, we will draw some preliminary conclusions upon our observations.

2.2.6 Research Model

Market orientation is a matter of degree and the desired level varies from company to company depending on the market environment. Nevertheless, we will attempt to assess if Apoteket's degree of market orientation is low, average or high and if it has changed during the reregulation process. In order to do this, we will focus on the antecedents and characteristics of market orientation. The question mark next to "Environment" (*Figure 4*) denotes that we do not know if there is an effect, but we want to examine whether or not the regulatory changes have affected Apoteket's market orientation. Then, in order to better evaluate Apoteket's prospects on the new market, we will examine if the company is both market driven and market driving. According to theory, Apoteket should be both in order to remain market leader.

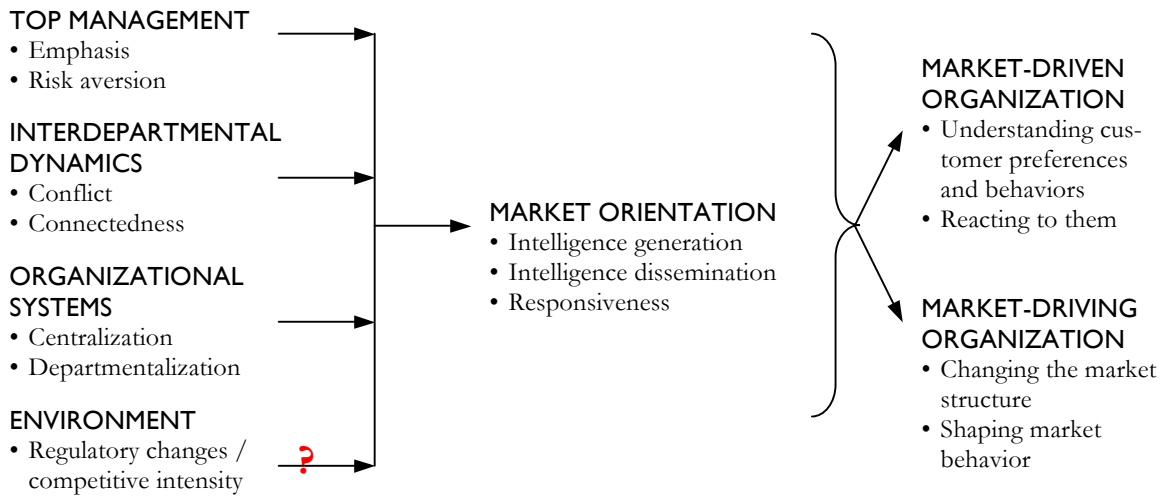

Figure 4 Research model

In chapter 4 (*Empirical Material*), each aspect of this model will be discussed in separate sections, starting with the antecedents (left-hand side of the model), then Apoteket's market orientation (middle), and finally Apoteket's approach to market orientation (right-hand side). However, in order to avoid repetition and create a better overview for the reader, chapter 5 (*Analysis*) will instead be divided into two parts corresponding to the two questions we want to answer. The antecedents as well as the facets of market orientation will be discussed separately in part 5.1, where the aim is to determine Apoteket's degree of market orientation. For this purpose, and as we will explain later on, much more emphasis will be put on the three facets of market orientation compared to the antecedents. Then, in part 5.2, all relevant aspects of the model will be discussed since the second question dealing with Apoteket's success on the new market is of a more general kind.

3. Method

3.1 Research Method

There are two methods for conducting research – the deductive and the inductive method. In the deductive method, the researcher begins with existing theories in the area in order to develop hypotheses that are then tested in an empirical study. The data collection is guided by theories and the hypothesis is deducted from these. In the inductive method, on the other hand, the theory is the result of the research, which means that the researcher draws generalizable conclusions from the observations that have been made. The observations and results thus constitute the starting point for the study (Bryman and Bell, 2005). For our study we chose the deductive method. Kohli and Jaworski's model of market orientation clearly guided our data collection as we based our interview questions on the authors' own measure of market orientation.

Next, we chose between conducting a quantitative and a qualitative study. A quantitative study normally tests theories as objectively as possible according to a scientific model. A qualitative study, on the other hand, typically emphasizes how the individuals perceive and interpret their environment and takes into account the changing aspects of the social context being studied (Bryman and Bell, 2005), even though this can be the case for quantitative studies as well. Since we want to study a specific company's behavior and focus on its management's perceptions, a qualitative approach is more appropriate. It allows us to gain a deeper understanding of the phenomenon and to look beyond the formal strategies that have been written down by the company. We can thereby observe the changes that have actually been perceived by the staff and uncover additional aspects during the interviews that are not specifically mentioned in the model. The study will result in our judgment on whether or not Apoteket is market oriented enough to remain market leader, and thus a reasoning approach is more suitable.

Qualitative research has been criticized for being too subjective, for the difficulties involved in replicating a study, for problems regarding generalization, and for lack of transparency (Bryman and Bell, 2005). The aim of this thesis is not to generalize, however, but to gain a contextual understanding. The findings can nevertheless be interesting for other companies or industries facing a similar situation. It is important to remember that they can only serve as guidelines, however, and should not be regarded as true for every company with a similar profile.

Furthermore, our thesis constitutes a detailed and thorough study of a single case – Apoteket – and is thus classified as a case study. We decided to focus on Apoteket since we were interested

in studying how the former monopolist has adapted to the new competitive environment. Apoteket is especially interesting to study since it is a very strong brand with incredibly high awareness and a positive image, unlike other state-owned companies. However, being a monopolist affects the company's strategies, and thus we assume that many strategic changes have been implemented since the decision to reregulate the market was made. Studying and comparing the other actors on the pharmacy market would have resulted in a more general study of success factors, whereas our study provides new insights into how former monopolists can succeed in a competitive environment.

3.2 Data Collection

In order to build a balanced theoretical background, we have used both books and scientific papers. The former have the advantage of providing established and recognized theories, whereas the latter are generally more up-to-date since they are published quicker (Patel and Davidson, 2003). In order to gain more insight into the reregulation process itself, we also studied related governmental documents, specifically SOU 2008:4.

We conducted interviews in order to collect the data necessary for the analysis. The interviews were semi-structured, which means that we had a list of themes and questions (based on Kohli and Jaworski's MARKOR measure) that we wanted to touch upon, but we let the interviewee affect the direction of the interview depending on what he or she found important (see *Appendix* for interview guide as well as the original MARKOR measure). As Bryman and Bell (2005) explain, in qualitative interviews the interest should be directed towards the interviewee's perceptions and it is thus desirable to let the interview move in different directions since it provides knowledge about what the interviewee finds relevant and important. Another positive aspect of interviews compared to for instance surveys is that one uncovers actual thoughts, experiences and viewpoints of people responsible for or affected by the change, which allows a more in-depth analysis. Each interview was structured according to the three aspects of market orientation – intelligence generation, intelligence dissemination and responsiveness – but a few questions were added to each of these (compared to the original MARKOR scale) that correspond to antecedents of market orientation (e.g. departmentalization and centralization) and differences due to the reregulation.

The interviewees from Apoteket were strategically selected on the basis of their positions within the organization. Persson, Henriksson and Fernvall represent different departments of the head office and provided us with in-depth insights into their areas of expertise – internal communica-

tions, sales and brand management, respectively. In order to study the communications between the head office and the pharmacies, we also interviewed two pharmacy managers; one from a pharmacy opened after the reregulation and the other from an established pharmacy. Finally, we wanted to complement the empirical study with information about the competitive situation as well as a deeper theoretical understanding of the market orientation concept. Therefore we also interviewed a branding consultant who has worked with one of Apoteket's closest competitors and a professor at SSE with great insight into market orientation. *Table 4* provides an overview of the conducted interviews.

Name	**Position and company**	**Short description**	**Date and time**	**Location**
Mattias Börjesson	CEO of BVD	MB's branding agency has worked together with one of the new actors on the pharmacy market and has great insight into the reregulated pharmacy market from a branding perspective.	12/08/2010 1 hour	Coffee shop in Stockholm
Jeanette Persson	Communications Manager, Apoteket Consumer	JP is responsible for a large part of the communication efforts in connection to the reregulation, primarily internal communications.	26/08/2010 1 hour	Apoteket's HQ in Stockholm
Björn Axelsson	Marketing Professor, Stockholm School of Economics	BA is an expert in the market orientation field.	13/09/2010 45 minutes	SSE office
Eva Fernvall	Brand Manager, Apoteket	EF is responsible for branding and external communications and has been highly involved in the intense branding work during the change process.	30/09/2010 45 minutes	Apoteket's HQ in Stockholm
Johan Henriksson	Sales & Concept Manager, Apoteket	JH is responsible for the retail operations and has great insight into how the reregulation has affected the shops.	01/11/2010 30 minutes	Apoteket's HQ in Stockholm
Angelica Kyrk	Pharmacy Manager, Apoteket Sergel	AK is the manager of Apoteket Sergel, one of the new pharmacies that Apoteket has opened after the reregulation.	12/11/2010 30 minutes	Apoteket Sergel
Kerstin Enström	Pharmacy Manager, Apoteket Scheele	KE is the manager of Apoteket Scheele, one of Apoteket's oldest and largest pharmacies.	15/11/2010 30 minutes	Apoteket Scheele

Table 4 Overview of interviews

Regarding the level assessment necessary to answer the first question, the degree of market orientation will be determined as strong if we perceive the empirical material and the theoretical model to be highly overlapping. If they are, on the other hand, overlapping only to some extent, and there are clear improvements to be made, the level will be determined as average. Lastly, in case we can hardly find any market-oriented activities, the level will be assessed as weak.

3.3 Research Quality

Two important considerations in business research are reliability and validity. Reliability concerns whether or not the findings of a study are repeatable within the frame of the same study. We have tried to make our analysis as clear as possible by providing detailed information about our sources and by conducting clear reasoning. We thereby made sure not to omit any important information that we have used in drawing our conclusions. We also attempted to standardize the data collection process by using a similar interview guide for all subjects. Additionally, we conducted half of the interviews together and in these we drew exactly the same conclusions. Regarding the rest of them, a detailed transcript was shared right after the interview, which limits to the greatest extent possible the effect a single observation compared to two could potentially have on reliability. Although it cannot yet be determined, we believe that we have taken all measures to ensure reliability.

Validity is perhaps even more important in business research. It concerns the assessment of whether or not the conclusions that have been drawn from the study follow from the premises (Bryman and Bell, 2005). Bryman and Bell distinguish between three types of validity: construct validity, internal validity and external validity. Construct validity refers to whether or not a scale measures the construct it intends to measure. We have used an established scale to measure Apoteket's market orientation and furthermore put forward the potential limitations of this scale, which should strengthen the construct validity. Next, internal validity is only a concern in experimental studies and thus irrelevant for this thesis. Finally, external validity concerns the generalization of the results. External validity is difficult to achieve with a single-case study, but the aim is to create a contextual understanding and lay a foundation for further studies.

4. Empirical Material

This chapter begins with an introduction to the special considerations of the reregulated pharmacy market and the current status of the players. It is followed by a thorough examination of Apoteket's market orientation, which is structured according to the research model presented in 2.2.6. It includes what the interviewees have shared about their thoughts and conclusions on the matter as well as information from official documents issued by Apoteket and relevant company rankings. In order to avoid confusion, our own analysis will be found in the next chapter and will more clearly focus on answering our two questions.

4.1 Competing on the Reregulated Pharmacy Market

4.1.1 Overview of Competition

Apoteket operates in several market segments and thus faces different forms of competition. The table below presents an overview of the competition in these different categories. Apoteket has a clear advantage regarding prescription drugs and e-commerce, which we will come back to later.

Category	**Competition**
Prescription drugs	Other pharmacies
Prescription drugs e-commerce	None
OTC drugs	Other pharmacies, retail trade (e.g. supermarkets and convenience stores), vending machines
Personal care products	Other pharmacies, retail trade, vending machines

Table 5 Overview of competition

4.1.2 Characteristics of the Industry

The retail pharmacy industry is different from regular consumer retail industries in several ways. Apart from the legal aspects and recent reregulation, there are several characteristics that affect the players in the industry. First, the pharmacy market is characterized by a *credibility requirement* on the consumers' part, which means that the actors on the market need to be perceived as safe. Since pharmaceutical products are of a sensitive nature, consumers need to feel secure and reassured that their integrity is not threatened (Börjesson, 2010). Therefore, the first challenge for the new players in the industry is to gain acceptance and legitimacy as trustworthy pharmacies. The credibility requirement does not really limit the differentiation possibilities, however. As long as a pharmacy chain is viewed as safe, professional and serious, it has great freedom to create a concept that differs from the competition (Börjesson, 2010). There is an important trade-off between pricing and credibility, however. According to Fernvall (2010), Apoteket Hjärtat has experienced a rather unfavorable development as a consequence of its price-cutting practices. A too strong

focus on low prices can have a negative impact on the company's credibility and reputation among consumers.

Second, the importance of *location* is very ambiguous and cannot be accurately estimated. Since prescription drugs constitute some 70 percent of the pharmacies' sales (Prop. 2008/09:145), one would suspect that the pharmacies located closest to the caregiver or to the customer's home would have an advantage that could hardly be overtaken by marketing efforts. If the customer has an urgent need for the drugs, it is likely that the customer would choose the nearest pharmacy even though he or she has a preference for another retailer. However, Fernvall (2010) argues that prescription drugs are rarely urgent purchases. Instead, many prescription drug buyers purchase their medicines regularly and therefore e-commerce has become an increasingly important channel. Enström (2010) does not share the latter opinion on the other hand. She has not noticed any significant growth in e-commerce of prescription drugs and argues that the growing number of physical pharmacies actually reduces the need for e-commerce, at least in larger cities.

Third, it is impossible to expand the consumer base for *prescription drugs* since physicians prescribe these drugs. Because these products constitute such a large share of the pharmacies' business, the companies can only gain significant growth in market share by capturing market shares from competitors. It should be mentioned, however, that prescription drugs are not very lucrative products (Enström, 2010). Instead, personal care products are most important for the business despite their relatively small contribution to revenues. As a consequence, the convenience goods stores constitute a significant threat to the pharmacies' sales of OTC drugs. Apoteket Scheele has already lost 25 percent of their sales in the category and Enström (2010) is convinced that the convenience goods stores are the reason behind this development. At the same time, Apoteket has a strong position with regards to prescription drugs thanks to their superior inventory.

Another consideration concerning the new market is that consumers are becoming more and more educated (Börjesson, 2010). Consumers have begun requesting more information than the pharmacists are used to and there is a greater interest in the pharmacy market overall. The companies' ability to provide relevant information is therefore crucial. The pharmacy market is very *'information heavy'* in general, which means that the importance of all forms of written and verbal communication is magnified (Börjesson, 2010). For instance information about prescription drugs and pamphlets about different illnesses need to be clear, credible and accurate and all of the communication needs to be homogeneous and consistent.

4.1.3 Apoteket's Current Position

In recent years Apoteket has worked hard on developing its brand and these efforts have made the company one of Sweden's strongest, most well-known and respected brands (Apoteket, 2010). Apoteket was also appointed Sweden's strongest health brand 2010 by Superbrands. In all categories, Apoteket placed fourth in Superbrands' classification after Google, IKEA and Orrefors. Furthermore, Apoteket ranked second after IKEA in Synovate's latest Corporate Image Measurement. Swedish people have a high awareness of Apoteket as well as a positive attitude to the firm. The customer encounter and a broad and attractive product range are the most important aspects of the brand. In a study by GfK for the newspaper Market, Apoteket has for the past three years been appointed the retail chain that provides the best service (Superbrands, 2009). Apoteket is perceived as trustworthy and knowledgeable and has scored high on satisfaction and loyalty:

> "The Swedish Quality Index – which measures customer satisfaction, expectations, product quality, service quality, price worthiness and loyalty – confirms that Apoteket's customers are more satisfied than all other retail customers. In particular, availability and personal service are the features that are most appreciated. Loyalty and confidence in Apoteket are also very high."
>
> (Apoteket, 2010)

It is interesting to consider whether or not Apoteket's position as a former monopolist has positive or negative consequences for the company on the reregulated market. Other state-owned monopolists have not always had as good a reputation as Apoteket and could well be discredited in a reregulated market. Since Apoteket is regarded very favorably among consumers, its former monopolist position should not harm the company. Enström (2010) confirms this theory and states that Apoteket has never before received as much positive feedback as after the reregulation. This has had a very positive effect on the employees since their work now feels more rewarding than before. Enström (2010) believes that an open market helps increase the loyalty among employees, which is positive for Apoteket.

4.1.4 Challenges Facing All New Players

The challenges facing all of the new firms on the market are to retain existing customers, win their trust and prove to be at least as good as the old pharmacy that they took over (Börjesson, 2010). This means that they need to gain legitimacy in the category and create preferences for their stores. They also need to minimize the ambiguity that has been a problem during the first months after the reregulation. Finally, they will have to differentiate themselves through their brands. At this stage the companies will thus focus on brand management and innovation. Pri-

vate label products will become a very important part of the branding strategy for the companies on the market.

It is important to remember that Apoteket and the new players have different starting points in the newly reregulated market. Apoteket enjoys very high awareness as a result of its former monopolist position. While Apoteket can focus on refining its brand image, the other players are focused on building a brand image to begin with (Börjesson, 2010).

4.1.5 Challenges Facing Apoteket in Particular

From an internal perspective, Apoteket's primary challenges are to develop its service, customer interface and product range while managing the increasing competition (Fernvall, 2010). The company also needs to adjust the information channels so that they are efficient and teach the staff that change can be positive (Persson, 2010). From an external perspective, Apoteket faces higher expectations from consumers than competitors do because of its state ownership. This means that change implementation and innovation needs to be carried out with caution. A successful example of this kind is when Apoteket launched sex products to its assortment in 2007. It was surprising yet credible and based on science (Fernvall, 2010). In general, competitors have somewhat more room to be innovative since they can afford more risk taking than Apoteket.

4.1.6 Perceived Similarity between Brands

Apoteket has retained its brand logo and company name after the reregulation. However, new players are allowed to use the words "apotek" or "apoteket" in combination with other words (Apoteket Omstrukturering, 2009). Some of the new players have chosen to imitate Apoteket's brand since it is important not to stand out too much on the new market (Börjesson, 2010). Excessive deviation could possibly damage the credibility of a firm at this stage. For now the store environment looks very much the same in the different players' stores, but there will be new store layouts and interiors soon. In February, Apoteket Hjärtat opened its first stores that had been acquired by Apoteket with the same store interior. However, in May they opened their first store that had not been acquired and began experimenting with a new decor.

The similarity between some of the new pharmacy chains and Apoteket is a double-edged sword. For the "copycats" it is a way to build credibility by associating themselves with Apoteket, which is a well-renowned brand. However, in the long run the confusion may be detrimental, as consumers do not perceive any difference between the brands (Börjesson, 2010).

4.1.7 Expected Development of the Pharmacy Market

There are three dominating expectations on the development of the pharmacy market:

- Consolidation
- Increasing change tolerance
- Broader product ranges

The pharmacy market will look very different in five years' time and as consumers get used to the new competitive situation, the companies will have more latitude in differentiating themselves on the market (Börjesson, 2010). There are already signs that the market will become an oligopoly as Apoteket Hjärtat has acquired Norwegian Apotek 1. Axelsson (2010) confirms that it is very likely that the market will develop in that direction. The primary reason why the market will be consolidated is that large scale will become increasingly important (Fernvall, 2010). A broader product assortment will also be critical for competing successfully on the new market. Therefore, Apoteket will for instance offer more exclusive beauty products in the near future (Enström, 2010).

Today the market is characterized by rather low change tolerance. Enström (2010) has for instance witnessed several consumers asking whether or not Apoteket Scheele is a "real" pharmacy. The low change tolerance concerns products as well. In Spanish pharmacies you could for instance find beach tennis sets for sale, but this would be unthinkable in Sweden at the moment. This is likely to change as consumers get used to the new environment, however (Börjesson, 2010). Apoteket has taken a first step towards this development and has just recently started to sell training equipment such as Pilates balls (Enström, 2010).

The pharmacy market is expected to develop fast in the coming years. Most of the new players have realized that proactive healthcare is the key to success on the new market (Fernvall, 2010). There will also be an increasing focus on lifestyle when it comes to product assortment choices. This development can already be observed in France, for instance. There will also be increasing cooperation between pharmacies and other companies or institutions. Finally, the retail concepts will be developed (Börjesson, 2010).

4.2 Antecedents of Market Orientation

Antecedents of market orientation are factors that either inhibit or promote an organization's market orientation. They are primarily concerned with the top management, interdepartmental dynamics, organizational systems and the environment. In this section we will examine how these four factors influence Apoteket's market orientation.

4.2.1 Top Management

Apoteket's company culture is rather risk averse since the company faces high expectations from consumers and society. Therefore, the company had a long time to market and was used to extensive processes during its monopolist years (Persson, 2010). However, the management's emphasis on market orientation is apparent. All interviewees stress that Apoteket is highly customer focused and has been even before the reregulation of the pharmacy market was announced. For instance, the company has always engaged in extensive market research and open communications within the organization (Henriksson, 2010). Persson (2010) is of the same opinion and adds that the importance of the customer encounter is clearly communicated throughout the organization. Moreover, the head office actively inquires the pharmacies about suggestions for improved operations (Kyrk, 2010). Accordingly, the top management's emphasis on market orientation has traditionally been high.

In addition, the reregulation has induced changes in Apoteket's executive management (Apoteket, 2010). The company has gained an advantage from the change in that there are fewer managers now and that the communications are much faster. It has thereby become easier to implement changes (Persson, 2010). Greater emphasis has also been put on the brand during the past three years (Fernvall, 2010). Evidently, the 'Brand Manager' position was created three years ago (Henriksson, 2010).

4.2.2 Interdepartmental Dynamics and Organizational Systems

None of our interviewees think that there are interdepartmental conflicts within the organization. However, the connectedness between them could be improved to some extent, especially between the head office and the pharmacies. Although Henriksson (2010) states that the collaboration between departments is good and that the company engages in open communications, Enström (2010) believes that it has become more difficult to get hold of people at the head office. However, Apoteket regularly arranges interdepartmental meetings at the head office as well as regional meetings for pharmacy managers, which promotes cooperation throughout the organization. Furthermore, pharmacy managers have the possibility to take part in virtual meetings, which is convenient and thus increases attendance (Kyrk, 2010).

Regarding organizational systems, both Henriksson and Kyrk state that Apoteket is characterized by a low degree of centralization with regards to the fact that the local pharmacies have significant influence. However, Henriksson also mentions that Apoteket is working on a clearer chain management, which is important on the new market. Additionally, the market department is re-

sponsible for all data collection, which makes this activity highly centralized. Finally, fewer managers have resulted in a lower degree of departmentalization.

4.2.3 Environment

Apoteket was prepared for the reregulation long before the final decision was made (Fernvall, 2010). There have been continuous investigations about a possible reregulation and thus the decision did not come as a surprise. Apoteket has had a long time to transition and the change process has actually been quite long. The process started with the reregulation of the OTC medicine market and Apoteket began focusing on brand management already in 2006/2007 (Fernvall, 2010). However, the reregulation process itself has caused some turbulence on the market. It took at least a year longer than expected and, as a consequence of the delay, many changes were implemented at the same time (Enström, 2010). The time lag between the convenience goods stores' release of OTC drugs and the sale of Apoteket's pharmacies was supposed to be longer than it turned out to be.

The reregulation was the single largest change in the company's history. Before the reregulation Apoteket was mainly focused on social responsibility and provided other parties with statistics about the pharmacy market etc. The reregulation meant that Apoteket was ordered to help its competitors and the company now focuses less on social responsibility. Internally, the change has had psychological effects. The coworkers need to deal with the fact that the consumers have options now and that their old colleagues have become competitors. This means that sharing information has become more sensitive. Another change is that several services are now handled by external parties rather than internally. For instance, Apoteket Service AB provides services for all of the pharmacy chains and Apoteket needs to purchase the services like everybody else. The competition also means that Apoteket's employees need to work harder on their service. Another change is that the intranet is shared among all of the companies on the pharmacy market since it is vital for smooth operations. Overall, Persson (2010) thinks that the transition has been very smooth. From the pharmacy managers' perspective, on the other hand, the change has been somewhat confusing and disruptive (Enström, 2010).

4.3 Apoteket's Market Orientation

In this section we will describe what the three facets of market orientation look like in Apoteket's organization.

4.3.1 Apoteket's Intelligence Generation: Understanding the Customer

Data Gathering. Apoteket's formal data gathering is carried out in a manner where each department orders market research from the marketing department, which gathers all of the market data. The data available is extensive and covers many areas of interest. The staff that works with new establishments can for instance order important data regarding attractive locations, the profile of new firms and the contracts they have. This kind of data is collected through surveys on a month-to-month basis (Henriksson, 2010). The HR department has access to employee surveys that are distributed throughout the organization and the sales representatives have access to sales data that is collected externally through IMS & Nielsen. Furthermore, the marketing department can choose between an array of customer surveys that concern consumer demands and attitudes. Mystery shoppers are also used for quality assurance purposes and function as support for local pharmacies (Henriksson, 2010).

Apoteket also conducts customer intelligence generation on a local level through the pharmacies (Kyrk, 2010). For instance, the pharmacies have certain cards in their shops that encourage the customer to write down his or her opinions and suggestions. These cards have questions with multiple response options. The pharmacies also use a system called C2 in order to communicate customers' opinions to the head office. This system was created last year as a consequence of the reregulation. Enström (2010) believes that the C2 system is not optimal, however. Since it is very new it is still perceived as somewhat complicated and time-consuming. This means that, in many cases, only people who work with quality assurance use this system in practice. In addition, only extreme opinions are communicated through C2, which is confirmed by Kyrk (2010).

Another method for intelligence generation is customer service, where people can phone in and describe their opinions or suggestions. If the opinions concern a specific pharmacy, they are communicated to the pharmacy manager in the particular pharmacy. Most opinions concern prescription drugs as many people are annoyed with the fact that the different pharmacy chains cannot view each other's inventory. Apoteket has an advantage in their inventory since the new players often have small ones (for cost reasons) and thus quickly run out of products.

Changes in Intelligence Generation. Apoteket has always conducted market research very thoroughly. Since the transition, however, they have begun measuring the brand image from an emotional perspective. They have also increased the amount of mystery shopping and started a consumer panel that consists of regular customers and customers who want to voice their opinions. The panel shares information on what they think about the private label products and so on. Apoteket also measures campaigns and buying intentions very carefully. Although the company

could not do very much during the stand still period, it produces brand reports each quarter. This information is spread to a smaller circle based on function and to the group executive board (Fernvall, 2010).

The amount of market research has not increased with the reregulation this far; however, its general focus has changed towards competition (Henriksson, 2010). The pharmacies receive a competitor surveillance report once per month with information about upcoming competitor establishments and other competitor intelligence. Meanwhile, Henriksson (2010) stresses that Apoteket has always had a customer focus. Persson (2010) is of the same opinion but believes that it has improved somewhat after the change. Apoteket is now particularly focused on its private label products and has communicated the importance of the customer encounter.

The company is still collecting information through surveys as well as the previously mentioned internal system C2, where pharmacists enter consumers' opinions and suggestions into the computer system. Next year, however, Apoteket will increase the number of surveys and studies but combine measures in order to make them more useful (Henriksson, 2010). Henriksson believes that the intelligence generation will become more efficient if similar things are measured at the same occasion, since it will provide a better overview of the situation. The objective is to make all market research useful for the entire organization, from top management to local pharmacies.

4.3.2 Apoteket's Intelligence Dissemination: Sharing the Understanding

Sharing Information. Apoteket has several channels for internal communications, but the three most frequently used are e-mail, the intranet, and meetings. The company uses a method that they call *the cascade* when informing the whole organization about changes (Henriksson, 2010). This method is structured as follows:

- The top management meets with regional managers
- Regional managers meet with pharmacy managers
- Pharmacy managers inform pharmacy employees

Relevant information is shared via the three most common communications channels; however, matters that cannot be influenced by local pharmacies are not shared throughout the organization (Henriksson, 2010). All pharmacies receive information about the results of their own efforts concerning marketing campaigns and the management is informed of the aggregate results. However, market data and consumer insights do not seem to be shared with all departments. Only Market & Assortment and the top management appear to receive a significant amount of marketing information.

Formal versus Informal Communications. The communications managers within Apoteket have regular and formal meetings and are serious about measuring how the communication flows on a regular basis. At the same time the head office has an open plan and encourages informal interaction. Communications has definitely gained importance as a result of the transition from monopoly to competition and, as mentioned earlier, the reduced number of managers has resulted in faster and more effective communications internally. The external communications efforts have experienced some obstacles, however. As the Ministry of Health and Social Affairs decided that Apoteket was going to help its competitors during the transition, Apoteket was not allowed to run any campaigns or similar for a year. Apoteket has just come out of the standstill. However, the high demands on communications have led to improved internal communications within the company and the workload motivated Apoteket to hire consultants for additional help.

Internal Communications. The reregulation has made the art of communications more important than ever. The external communication needs to create security for the consumers as well as the employees. As some of Apoteket's shops were sold in closed biddings, management could not inform the employees who the new employer would be or when the change would take place. However, Apoteket was very concerned with internal communications and hired a consultant to complement Apoteket's own staff because of the substantial change.

There were two large information efforts during this process. The first took place in the beginning of May as the communications manager announced that some pharmacies were to be sold, and the second almost six months later when the new employers were revealed. Apoteket used the previously mentioned *cascade method* for this purpose. As Apoteket collected feedback and responses from the employees in the pharmacies, they used a *reverse cascade method.*

The communications work included close cooperation with HR. It turned out to be difficult, as management could not tell the employees when they would receive further information. The actual sale of the pharmacies was conducted by Omstruktureringsbolaget AB, and Apoteket themselves thus did not know anything. Apoteket has shown great concern for their employees during the transition. Nobody was forced to work for the new employer; however, the management emphasized that it would be beneficial for the consumers if they stayed (Persson, 2010). There were not many employees who refused to transfer to the new employer. A factor that contributed to their decisions was that they had friends and colleagues in the shops and did not want to leave them.

External Communications. The Market & Assortment division is responsible for all external and internal communication but the bought communication is created by strategic communications agency Forsman & Bodenfors. During the change process, Apoteket's external communications have been mainly reactive since consumers and other parties have requested specific information (2008-2010). Since Apoteket was forced to a standstill in its external communications during much of the reregulation process, we cannot examine the changes in external communications in detail. Besides, the focus of intelligence dissemination is internal communications.

Changes in Intelligence Dissemination. As mentioned earlier, the communication between departments at the head office have become much faster and more efficient than before the reregulation as a result of the fewer managers. However, from the pharmacies' perspective, Enström (2010) thinks that it has become more difficult to get hold of people at the head office when necessary.

4.3.3 Apoteket's Responsiveness: Meeting Customer Needs

New Market-Oriented Practices. The core of Apoteket's business is its assortment, shops and communications (Fernvall, 2010). An attractive assortment is not only important for attracting consumers but also for keeping employees satisfied. Fernvall argues that it is very important that the employees are proud of the assortment. Apoteket has not been completely monopolistic over the years since they have also sold some products that face competition, for instance toothbrushes etc. The latter category will become increasingly important for winning customers (Henriksson, 2010).

Apoteket has undergone several changes during the reregulation process and become much more commercial. The company has changed its tone of voice in its communication and become more edgy than before. Their popular Apoliva series is also part of the transition towards a competitive environment (Fernvall, 2010). In addition, Apoteket has created a new visual identity for the brand as well as a new shop concept.

As mentioned earlier, Apoteket conducts market research very thoroughly. However, Henriksson points out that Apoteket has not taken into account or acted upon the results from all of the market research simply because there have been too many different surveys and studies. There are plans to make better use of all market research by for instance combining different measures and thus reducing the number of surveys and inquiries. Henriksson grades Apoteket's responsiveness as "average" but there is certainly potential for improvement – all departments can have better use for the gathered market data. This is especially important since the differentiation be-

tween the players on the new market will become more apparent and Apoteket has a vulnerable position as market leader.

Keys to Success. Private label products will be crucial for all actors on the competitive market. Not only do the new actors need to replace the Apoliva products, but these products are also part of their branding strategy and a method for building sales volume. The brand is the most important aspect of differentiation in the early stages of the new market. Other important factors are innovation and courage, according to Fernvall (2010).

An aspect of Apoteket's former monopolist position that has a significant impact on its prerequisites on the new market is that Apoteket has attained basically full brand awareness. This means that Apoteket can focus on refining its brand image as opposed to building it as the other actors do. It is crucial that Apoteket is responsive to the changes on the market so that the company is not outrun by competition in the long term. Apoteket is facing increasing pressure to change and develop and although the company is popular, it does not have the same freedom of action as the new companies. Apoteket has an extremely established brand, which is certainly positive in many respects but also limiting. The limitations do not need to be negative by definition, however. Apoteket has no reason to change direction at the moment since they have such an established position both in relation to consumers and caregivers (Fernvall, 2010).

Apoteket's Strengths and Future Development. Apoteket's primary strengths are credibility, knowledge, width (healthcare and consumer) and e-trade of prescription medicines (Fernvall, 2010). In order to remain market leader, Apoteket will have a broader focus on health and proactive care. Apoteket's formal statement is that they will take the lead in the new market by continuing to offer customers a safe and secure supply of drugs, promote favorable drug utilization and lead industry development. "In the reregulated market, Apoteket's objective is to retain and strengthen its market position as a leading health player with unique expertise in pharmaceuticals" (Apoteket, 2010). The company has now initiated a repositioning from pharmaceutical distributor to pharmaceutical expert and health adviser (Superbrands, 2009). In line with the company's vision A Life of Health, the company will continue to sharpen its health focus by for instance launching Apoteket's Health Check (*Apotekets Hälsokoll*) in around 100 pharmacies during 2010 and increasing their counseling services. Another strength is Apoteket Farmaci, a service that is exclusive for Apoteket.

Furthermore, Apoteket will increase the share of private label products by extending their existing product lines (Apoteket, Apoliva, Hudsalva Försvaret) as well as offer products such as Apo-

teket's mustard, saffron and other (Apoteket, 2010). Apoteket will develop by offering exercise products, enhancing the company's e-tools and focusing on well-being (beauty, nutrition etc.). Concerning prescription drugs, Apoteket wants to help consumers use the medicines correctly and also recommend other products that could be suitable together with the medicine for attaining additional sales.

Apoteket's core values are credibility, consideration, innovation and proactivity. Enström (2010) is convinced that these values will remain important also in the future. Apoteket's overall objective for 2012 is to "be the leading and most attractive pharmacy player in Sweden", which includes the following (Apoteket, 2010):

- Be positioned as the modern retail chain in the health area
- Be the nursing and healthcare sector's most attractive partner in terms of the supply of drugs and the safe use of drugs by patients
- Offer high efficiency and favorable profitability
- Be the market leader in products aimed at the veterinary market
- Have a strong position as a franchiser and business partner

4.4 Apoteket's Approach to Market Orientation

Although the focus of this thesis is not to determine to what extent Apoteket is market driven and market driving, respectively, this section is dedicated to examining if we can distinguish signs of both approaches based on our observations.

4.4.1 Market Driven

Being a market-driven company involves understanding and reacting to the preferences and behaviors of players within a given market structure. The previous description of Apoteket's market orientation shows that the company has a highly market-driven and customer-focused mindset since the organization is very much in tune with customers' needs and requests through their extensive research and customer feedback system. However, as a state-owned enterprise with high ethical demands, Apoteket suffers from a rather long time-to-market. When consumers demand new products, it takes a long time before they are available on the shelves because of the extensive testing and investigation that needs to be conducted before launching the product (Kyrk, 2010). There is thus a weakness in implementation.

4.4.2 Market Driving

Being a market-driving organization, on the other hand, requires offensive as opposed to defensive management. A market-driving company can influence the structure of the market as well as the behaviors of the other players. Consequently, the company can strategically enhance its competitive position. This approach is viable in the long run since it is not only focused on the current situation. As we presented in section 2.2.5, there are three primary ways of changing the market structure. A company can eliminate players on the market, build a new or modified set of players or change the functions performed by players. Our study of Apoteket does not suggest that the company is consciously performing any market-driving activities at the moment. Implicitly, however, Apoteket aims to eliminate players on the market by maintaining and possibly increasing their market share. All of our interviewees agreed that there will be consolidation on the market and thus some players need to be eliminated. In the long run, however, Apoteket has potential to become market driving since they have an advantage in supply-side operations. Also, by introducing new products to their assortment, the company has the potential to create new customer preferences and thereby shape market behavior. This would probably require less risk aversion and a more offensive approach from the management, however. For now, Börjesson (2010) views it as unlikely that Apoteket will be the leader of any market changes.

5. Analysis

In this chapter we will conduct the analysis that will help us answer our two questions – it will thus be divided into two parts. First, we will analyze Apoteket's degree of market orientation by comparing our collected information with the theories. The analysis of the antecedents will be focused on top management while the other aspects will be conveniently interwoven with the three activities that define market orientation. We will in each case attempt to determine the degree on a simple scale that ranges from weak to strong. After this is accomplished, we will discuss the findings that will allow us to answer the second question concerning Apoteket's success on the new market.

5.1 Apoteket's Degree of Market Orientation

5.1.1 Antecedents of Market Orientation

As mentioned earlier, management's emphasis on market orientation has a positive effect on intelligence generation, intelligence dissemination and responsiveness (Jaworski and Kohli, 1993) and is thus highly important. Our study has shown that Apoteket is very customer oriented and commits substantial resources to gathering market data. All interviewees believe that Apoteket has been customer focused for a long time and not only as a result of the reregulation. This opinion is supported by Apoteket's high rankings in corporate image and customer service measurements. Furthermore, the list of characteristics of market-oriented managers, enumerated by Martin et al. (see *Table 2*), fits Apoteket's profile very well. Our interviewees who belong to Apoteket's top management emphasize the open communications and strong coordination among functional areas within the organization. In addition, the reduction in the number of managers has resulted in a lower degree of departmentalization, which promotes market orientation. Employees are also to some extent expected to generate and share market-oriented information. We thus conclude that management's emphasis on market orientation is strong.

The second aspect of this matter is the top management's risk aversion, which has a negative effect on the organization's responsiveness. Managers need to be willing to take risks in order to be highly market oriented. According to Persson (2010), however, Apoteket is not very risk tolerant because of associated credibility issues. We believe that this could potentially hold Apoteket back in their endeavors to remain market leader. Apoteket needs to express a certain degree of innovativeness on the reregulated market in order to maintain a competitive offering (Fernvall, 2010). However, they still need to be cautious since they cannot risk losing their credibility. Apo-

teket needs to find a balance between innovation and credibility in order to avoid being outrun by competition. Hence, our analysis is that Apoteket has a medium-level risk aversion that could negatively affect the company's responsiveness.

5.1.2 Intelligence Generation

Our second objective was to determine the status of Apoteket's intelligence generation. As mentioned earlier, good intelligence generation is positively associated with superior customer value. Again, Apoteket's high rankings in for instance the Swedish Quality Index suggest that the company knows its customers' preferences very well. Accordingly, the information we have gathered shows that Apoteket has a strong customer orientation and that the company engages in extensive intelligence generation in the form of market research, customer surveys, employee surveys, price inquiries, sales reports, mystery shopping, studies, meetings and discussions. We believe that this represents a good mix of in-house and bought research. Our only concern with the sources of market data concerns the customer data that is collected by pharmacy employees. As described earlier, the employees enter the customers' opinions into a computer system. However, although the information is relevant, it is not representative since it is only collected occasionally. We thus question the benefits of only taking into account extreme opinions.

Our study has uncovered that Apoteket's intelligence generation is *too* extensive and could therefore be improved by being more focused, which would lead to improved usefulness and resource efficiency (Henriksson, 2010). The management is aware of the problem and is planning changes that will be implemented next year. Consequently, our judgment is that Apoteket's intelligence generation is strong but needs to be improved in order to be more focused and better serve the entire organization.

5.1.3 Intelligence Dissemination

After having studied Apoteket's intelligence dissemination, we may conclude that it is rather strong. Our interviewees emphasized the good communications within and between departments, both formal and informal, and stressed that most of the information is shared. Other positive aspects of Apoteket's intelligence dissemination are frequent interdepartmental meetings, circulation of documents within Apoteket's head office and between the head office and the pharmacies, and good use of the intranet. This strong coordination is vital for efficient intelligence dissemination.

We propose that there is room for improvement regarding Apoteket's intelligence dissemination, however. As mentioned earlier, Henriksson believes that the internal communication is not opti-

mal. His opinion is that too much information is spread via too many channels, and that the information thus does not have optimal reach. In addition, all departments do not receive all of the information. We claim that it is not necessary to spread all information throughout the organization since not all of it is relevant. Nevertheless, if the information was more condensed it could be spread throughout the organization more efficiently. We also suggest that Apoteket should consider involving pharmacy employees in the intelligence dissemination to a higher extent since they are closest to the customer.

5.1.4 Responsiveness

The final aspect of market orientation is responsiveness. Apoteket's high rankings in corporate image and customer service measurements show that Apoteket has been successful in offering products and services that meet customers' needs as well as in producing, distributing and promoting these in a way that elicits favorable end-customer response. The pharmacy managers we interviewed also believe that Apoteket has a competitive offering and is focused on retaining its credibility, which is greatly important on the pharmacy market. Additionally, Persson states that reducing the number of managers has resulted in better responsiveness.

However, there is potential for improvement here as well. As mentioned earlier, Apoteket is still rather risk averse which, according to theory, has a negative impact on responsiveness. It is very likely that the management's risk aversion has indeed created a slight weakness in Apoteket's responsiveness. As mentioned in the theoretical section, risk aversion can only affect responsiveness, which is consistent with Apoteket's profile of strong intelligence generation and dissemination and average responsiveness. Also, as discussed earlier, conducting more concentrated market research would ideally lead to more relevant information and thus better responsiveness. Conclusively, our opinion is that Apoteket's responsiveness is neither strong nor weak.

5.2 Apoteket's Prospects on the New Market

After having discussed Apoteket's degree of market orientation, we will try to answer the following question: *Will Apoteket succeed on the new market?*

In summary, our analysis shows that Apoteket has a strong, yet slightly unfocused, intelligence generation as well as strong intelligence dissemination. This means that Apoteket has a good understanding of its customers and that the understanding is shared throughout the organization. However, there are concerns regarding the company's responsiveness. Apoteket's state ownership and former monopolist position creates obstacles for efficient responsiveness since it implies a certain degree of risk aversion and a rather long time-to-market. The slow responsiveness

has not constituted a problem this far with regards to the company's positive results in recent brand and image measurements. However, as more and more competitors enter the market and consolidation between them is impending, it can become a problem that could potentially impede Apoteket from remaining market leader. Slow responsiveness is undoubtedly difficult to combine with being market driving, which, as discussed earlier, is an important aspect of market leadership. Therefore, Apoteket needs to focus its efforts on becoming a market driving organization in order to achieve its goal of remaining market leader. The company certainly has a strong position on the market thanks to its long experience and broad expertise. However, it is not certain that these qualities will entirely offset a weak responsiveness.

The slow responsiveness could possibly be attributed to Apoteket's state ownership. As Fernvall argues, Apoteket faces much higher expectations than the competitors because of the state's involvement. The processes are longer and more thorough as they are scrutinized from an ethical perspective, among other things. Kyrk explains that when consumers demand a new product, Apoteket needs to conduct extensive product development, quality control, ethical scrutiny, customer research and so on. If state ownership entails slow responsiveness by definition, this relationship should affect all state-owned monopolies when they face competition.

6. Conclusions and Discussion

6.1 Conclusions

After having performed our analysis, we will now present the answers to our research question as well as our discussion topic.

To what degree is Apoteket market oriented?

As our analysis reveals, Apoteket's market orientation is characterized by strong intelligence generation, strong intelligence dissemination and average responsiveness. Our conclusion is that Apoteket is on the upper end of the scale overall, although there is certainly room for improvement with regards to the company's responsiveness. It is interesting that market orientation has been part of Apoteket's strategy for a long time as opposed to appearing on the company's agenda as a result of the reregulation. Nevertheless, it has obviously improved since then.

Based on Apoteket's actions this far, is the company likely to succeed on the new market?

We believe that the company has great chances to retain and perhaps even strengthen its position as market leader on the pharmacy market. As our analysis has demonstrated, Apoteket has a strong market orientation overall, which according to theory should be viewed as a prerequisite for competing successfully on a highly competitive market. However, as we have explained, in order to be fully market oriented and thus gain an even stronger position, Apoteket needs to be market driving in addition to being market driven.

6.2 Discussion

Our objective with this thesis was to illustrate the importance of being strongly market oriented on a newly re-/deregulated market. The fact that Apoteket was already highly market oriented before the reregulation is a sign that even monopolists can appreciate the importance of the concept. Since the company enhanced its market orientation as a result of the reregulation, we are convinced that there is a relationship between changes in competitive environment and the importance of market orientation. However, the study would have been even more interesting had Apoteket possessed a lower degree of market orientation before the reregulation. A greater contrast could have demonstrated a stronger link between market reregulation and market orientation.

Moreover, we have not placed much emphasis on some specific factors that may also have an effect on Apoteket's position on the new market. The most important of these factors, related to

responsiveness, is location, as it clearly influences the consumer's choice of pharmacy. The question is to what extent. One could argue that location is the deciding factor for consumers purchasing acute prescription drugs. However, Fernvall (2010) believes that these cases do not have a significant impact overall since they are relatively few. Instead, a large share of the prescription drugs is purchased by consumers who consume them over a longer period of time. Therefore, e-trade is a more important factor, especially in less populated areas. As mentioned, Apoteket is the only player who is allowed to sell prescription drugs over the Internet, which is an obvious competitive advantage. Location is an important factor of course, and in order to remain market leader and increase the company's presence on the consumer market, Apoteket's plan for 2010-2011 is to open new pharmacies as well as rebuild and modernize existing pharmacies. Nevertheless, Apoteket primarily focuses its efforts on creating customer loyalty through attractive shops and assortment. Private label products are especially important for this purpose. A new store concept was launched in spring 2010 and the product range will soon be broadened: "The customer experience will be the key feature in determining the pharmacy chosen by customers. This is the starting point in the shaping of the store concept, product range and customer loyalty programs" (Apoteket, 2010).

6.3 Implications

For Apoteket, the managerial implications of the study are firstly that the company needs to engage in more focused market research. Apoteket has already planned improvements for next year but it is important to follow through and develop measurements that can benefit the entire organization. Secondly, Apoteket should work on its responsiveness in order to retain its market leader position. This involves reviewing the management's risk aversion in order to determine if it is optimal in relation to the company's innovativeness on the one hand and credibility on the other. Finally, the company needs to understand the importance of being both market driven and market driving in order to become fully market oriented. If Apoteket is to be market driving, the management must have a more offensive approach, which also requires a higher risk tolerance.

Our study may also have general implications for state-owned monopolists. We suggest that state ownership inherently implies a certain level of risk aversion because of the high expectations from society. This risk aversion has a negative impact on responsiveness, which means that other state monopolists may have a similar profile to Apoteket with strong intelligence generation, strong intelligence dissemination and a somewhat weaker responsiveness. Therefore, in order to become fully market oriented and market driving, state-owned monopolists that transition to a competitive environment must find the optimal level of risk tolerance.

6.4 Limitations of the Research

Since this thesis is a case study, the generalizability of the research is limited. The pharmacy market holds several specific characteristics that do not apply to most markets, and thus our findings do not apply to every company facing a similar situation. This, however, was not our aim. The research is intended to provide a contextual understanding, illustrate the importance of market orientation, and lay a foundation for further studies. Another limitation is that the data we collected may present a biased view of the situation since only current managers of Apoteket were interviewed and some issues may be exposed to subjectivity. We do believe, though, that the interviewees were open about both positive and negative aspects concerning Apoteket's market orientation since we did not encounter any major contradictions. Also, we determined Apoteket's degree of market orientation based on a scale ranging from strong to weak, which was subjective in nature rather than determined by a quantitative measure. However, setting only three levels should limit the effects of subjectivity on the results and thus make them reliable. Finally, it may seem too early to forecast what is going to happen to Apoteket as a result of the reregulation, but the study shows that Apoteket has the prerequisites to succeed.

6.5 Suggestions for Further Research

There are certainly more aspects of the reregulation of the Swedish pharmacy market that would be interesting to study further. For instance, it would be interesting to study the entire pharmacy market with Kohli and Jaworski's model as point of departure, and then engage in a comparative study. Also, a quantitative study of success factors in the newly reregulated industry could yield interesting insights into strategy implementation. In addition, Apoteket has been reacting strongly in terms of branding, which is an aspect that is not very apparent in Kohli and Jaworski's model. Thus, it would be interesting to engage in studies clearly linking reregulation of markets with brand management theories and specific branding practices.

It is important to remember that the reregulation also means that the companies are competing for employees. Therefore, the situation could be interesting to study from an employer branding perspective. Finally, as the link between reregulation and market orientation is poorly investigated, we believe that a thorough study that aims to pinpoint the competitive situations where market orientation is not optimal would contribute greatly to the market orientation field.

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8. Appendix

8.1 MARKOR

The following scale is extracted from Kohli et al (1993). (R) denotes reverse coded items.

Intelligence generation:

1. In this business unit, we meet with customers at least once a year to find out what products or services they will need in the future.
2. Individuals from our manufacturing department interact directly with customers to learn how to serve them better.
3. In this business unit, we do a lot of in-house market research.
4. We are slow to detect changes in our customers' product preferences. (R)
5. We poll end users at least once a year to assess the quality of our products and services.
6. We often talk with or survey those who can influence our end users' purchases (e.g., retailers, distributors).
7. We collect industry information by informal means (e.g., lunch with industry friends, talks with trade partners).
8. In our business unit, intelligence on our competitors is generated independently by several departments.
9. We are slow to detect fundamental shifts in our industry (e.g., competition, technology, regulation). (R)
10. We periodically review the likely effect of changes in our business environment (e.g., regulation) on customers.

Intelligence dissemination:

11. A lot of informal "hall talk" in this business unit concerns our competitors' tactics or strategies.
12. We have interdepartmental meetings at least once a quarter to discuss market trends and developments.
13. Marketing personnel in our business unit spend time discussing customers' future needs with *other* functional departments.
14. Our business unit periodically circulate documents (e.g., reports, newsletters) that provide information on our customers.
15. When something important happens to a major customer of market, the whole business unit knows about it within a short period.
16. Data on customer satisfaction are disseminated at all levels in this business unit on a regular basis.
17. There is minimal communication between marketing and manufacturing departments concerning market developments. (R)
18. When one department finds out something important about competitors, it is slow to alert other departments. (R)

Responsiveness:

19. It takes us forever to decide how to respond to our competitor's price changes. (R)
20. Principles of market segmentation drive new product development efforts in this business unit.
21. For one reason or another we tend to ignore changes in our customer's product or service needs. (R)
22. We periodically review our product development efforts to ensure that they are in line with what customers want.
23. Our business plans are driven more by technological advances than by market research. (R)
24. Several departments get together periodically to plan a response to changes taking place in our business environment.
25. The product lines we sell depends more on internal politics than real market needs. (R)
26. If a major competitor were to launch an intensive campaign targeted at our customers, we would implement a response immediately.
27. The activities of the different departments in this business unit are well coordinated.
28. Customer complaints fall on deaf ears in this business unit. (R)
29. Even if we came up with a great marketing plan, we probably would not be able to implement it in a timely fashion. (R)
30. We are quick to respond to significant changes in our competitors' pricing structures.
31. When we find out that customers are unhappy with the quality of our services, we take corrective action immediately.
32. When we find that customers would like us to modify a product or service, the departments involved make concerted efforts to do so.

8.2 Interview Guide

The following questions served as a basis for the interviews we conducted. The interviews were conducted in Swedish; we have thus included both the original questions and their translation.

Intelligence generation	
• Genomför ni kundundersökningar? • Hur samlar ni in marknadsdata? Vad är det för typ av data? Hur analyserar ni den? • Vilka källor hämtar ni marknadsdata ifrån (grad av expertis och trovärdighet)?	• Do you conduct customer research? • How do you collect market data? What type of data do you collect? How do you analyze it? • From which sources do you collect your market data (degree of expertise and credibility)?
Intelligence dissemination	
• Hur förmedlar ni marknadsdata inom organisationen? • Är förmedlingen formell eller informell? • Samarbetar avdelningarna i tolkningen och användningen av marknadsdata? • Har alla avdelningar tillgång till marknadsdata? Används den? • Finns det konflikter mellan avdelningarna? • Är kontakten/kommunikationen mellan avdelningarna god? Har ni regelbundna formella möten där de olika avdelningarna möts? • Är avdelningarna öppna för idéer från andra avdelningar? • Vilken grad av ”departmentalization” (uppdelning i tydliga avdelningar) finns inom organisationen? Formalisering? Centralisering?	• How do you disseminate market data within the organization? • Is this dissemination formal or informal? • Do departments collaborate in the interpretation and use of market data? • Do all departments have access to market data? Is it used? • Do conflicts exist between departments? • Is the contact/communication between departments good? Do you have regular interdepartmental meetings? • Are the departments open to ideas from other departments? • What is the degree of departmentalization within the organization? Formalization? Centralization?
Responsiveness	
• Hur implementerar ni informationen i marknadsdatan? • Agerar ni utefter resultaten från er kundresearch? • Vilka aktiviteter utför ni som är marknadsorienterade? • Har ni kundfokus idag? Hur? Har det blivit någon skillnad sedan omregleringen?	• How do you implement the information from the market data? • Do you act according to results from your customer research? • What activities do you engage in that are market oriented? • Are you customer oriented today? How? Is there any difference since the reregulation?
Market-oriented leadership	
• Förespråkar ledningen marknadsorientering? Hur kommuniceras detta? Reflekteras detta i strategiimplementeringen? • Är ledningen risktagande eller riskavers? Tolereras misstag? • Hur ser ledningen på förändring? Positiv eller negativ inställning?	• Does management advocate market orientation? How is this communicated? Is it reflected in the strategy? • Is management risk-taking or risk-averse? Are mistakes tolerated? • Does management view changes positively or negatively?
Market orientation (general)	
• Anser ni att ni är marknadsorienterade idag? I vilken utsträckning och hur? • Vad innebär marknadsorientering för Apoteket? • Hur implementerar ni den? Vilka aktiviteter och vilken ”filosofi”?	• Do you consider that the organization is market oriented? To what extent and how? • What does market orientation mean for Apoteket? • How do you implement it? What activities and what ”philosophy”?