

Value Proposition Design in Business Model Innovation

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A case study at Dutch FMCG Wholesalers



ROTTERDAM SCHOOL OF MANAGEMENT
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A Case Study at Dutch FMCG Wholesalers

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Preface

This research is the end result of two years of part-time studying at the Rotterdam School of Management. It contributes to the value creation that takes place when innovating a business model; value that should be searched for, determined and captured in a continuous changing environment. This value is comparable to all knowledge and insights this education has given me for the past two years. All intensive study sessions, lectures and reading together with a professional career and a private life have been like a roller coaster for me, one that you will not find in any theme park in the world. I'm glad I didn't take the ride all by myself and for that I would like to specially thank some important people.

First, I want to thank my girlfriend Joyce, for her patience, love, support and finding a balance between work, study and private life. I also want to thank my coach Peter de Wolf and Fabian Sting for helping me out during this thesis period. Finally, I would like to thank Bert Meulman and the company B&S for giving me such great opportunity to develop myself.

I wish you a lot of pleasure when reading this research; may your insights on value creation be enriched...

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Executive Summary

Digitalization and globalization have been influencing companies tremendously in the past decades. It will affect businesses in future decades, while changing supply chain models and business models revolutionary. Due to the increased online commercial activities and vertical integration, traditional models are being disrupted. Due to the rise of digitalization, producers and manufacturers are now able to reach the end customer directly. Not only retailers face these problems of digitalization; It has also moved wholesalers to rethink their business models. To survive and keep on delivering and capturing value to their customers, wholesalers should move to enhancing a directive role in their respective business areas (ING Economisch Bureau, 2016).

In business model literature, most emphasis has been laid on retailers, while it lacks focus on wholesalers. The future effectiveness of the last group seems to be undermined by changes in their external environment. It motivates to find out what drivers and antecedents of business model innovation take place at wholesalers. By narrowing the gap in academic literature of business model innovation at wholesalers, this study pursues to answer the following question: **“How can wholesalers determine value strategies when innovating a business model?”**

To find relevant answers, this research has been conducted at Dutch FMCG wholesalers. The research consisted of a qualitative study with semi-structured interviews, that took place at five FMCG wholesalers, one FMCG producer and one FMCG retailer.

The research results showed that wholesalers were all focusing on one of three value strategies, as determined by Treacy and Wiersema (1993): **Cost Leadership, Product Leadership** and **Customer Intimacy**. The results were subtracted into different topics that were connected subsequently to each of the value strategies. Cost leadership consisted of the focus for vertical integration and self-service (cash & carry) distribution. Product leadership was linked to food waste, corporate social responsibility and product life cycles. Finally, customer intimacy was connected to customer focus, blurring, customer behavior, extensive delivery and online purchasing. The large-sized wholesalers have been focusing mainly on cost leadership to decrease operational costs and to work as efficient as possible. Now, this group of wholesalers has changed their focus towards customer intimacy. The SME-sized wholesalers have been focusing mainly on customer intimacy, so a high level of service could be provided. Now, this last group is changing its focus towards product leadership, in favor to stay relevant with unique products.

Keywords

Business model innovation, FMCG industry, e-commerce, wholesalers, wholesale distribution, value creation.

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List of abbreviations

B2B	Business to business
B2C	Business to consumer
B.V.	Besloten Vennootschap (Ltd, limited company).
FMCG	Fast Moving Consumer Goods
HACCP	Hazard Analysis and Critical Control Points
M	Million
FTE	Full Time Equivalent
SCM	Supply Chain Management
SME	Small and Medium-Sized Enterprises
SKU	Stock Keeping Unit

1. Introduction

1.1. The problem

Digital transformation is not driven by technology: it's driven by strategy. Strategy is the key-driver in the digital arena. Digitalization will affect many businesses in the upcoming decades and will change supply chain models revolutionary. In the 20th century international business relationships were established through physical meetings and inefficient processes. Nowadays, those same relationships can be established through more effective and efficient ways: Australia is just one click away. In that perspective, business models will be tested to see if they can keep up with current digitalization. In specific retail markets (e.g. travel industry) the online channel has obtained a dominant role. This movement can be considered as a disruptive development, since the companies such as Booking.com have pushed away the traditional travel intermediaries (Christensen & Raynor, 2003). Besides this example, digitalization has become more visible in the Fast-Moving Consumer Goods (FMCG) sector. In May 2017, Heineken announced the takeover of Beerwulf.com, an online web shop where consumers can buy Heineken's brands (which take 20% of their total assortment) and local beers from smaller breweries (Bos & Smit, 2017). Due to the rise of digitalization, manufacturers can now reach the end customer through online possibilities. This change will lead to shorter supply chains and higher profit margins for producers, while the desires of the end-customers can be analyzed and served directly. If we look further into supply chain, not only retailers face these problems of digitalization; It has also moved wholesalers to rethink their business models. To survive and keep on delivering and capturing value to their customers, wholesalers should move to enhancing a role in their respective business areas (ING Economisch Bureau, 2016).

1.2. The context

1.2.1. Wholesale in The Netherlands

Consisting of 79.000 companies, 485.000 employees and a turnover of € 435 billion, wholesalers in the Netherlands play a very significant role in the Dutch economy (ING Economisch Bureau, 2016). For 2017 the Rabobank expected the Dutch economy in general to grow, but it seems that the Dutch wholesalers are not gaining huge benefits from that economic prosperity; the total growth at wholesalers is estimated to be only 1,7%. Although still representing an important role in the supply chain, the wholesalers have no longer a singular and infinite position within the chain. Wholesalers suffer from pressures on pricing because of the increased competition with other links in the chain. Producers sell their products directly to consumers and wholesalers are starting own retail formulas or start producing their own private labels. Links in the chains are losing their original function and so all links are directing to new positions, thriving for survival. If wholesalers don't respond to this trend, they will lose their significant role. To adapt to the current developments and differentiate from others, B2B wholesalers have been putting more emphasis on operational excellence (Rabobank, 2017). Logistic solutions, efficient warehousing and process optimization can contribute to the trend that wholesalers are becoming providers of logistical services. Because of the changing buying behavior in both B2B and B2C, wholesalers need to have clear multi-channel strategies to effectively interact with their customers.

1.2.2. FMCG wholesalers

According to Rabobank (2017) FMCG wholesalers will be challenged the most. Volume growth is expected to be only 0,5%, which is lower than the general expectation of 1,7%. The main reason for the lower growth rate is, because FMCG business is known to be a stable non-cyclical business. Because of this non-cyclicity, FMCG wholesalers are challenged even more. Current developments show, that purchasing organizations of grocery stores (food retail) are becoming more dominant because of their purchasing power. Furthermore, food safety and transparency are more mentioned on political agendas than ever before. Wholesalers need to reach high health standards; it will be not enough to use it as a distinctive selling point; it has become license to operate.

1.3. Facing change

The growth of online FMCG business forms a challenge for wholesalers. The wholesalers can distinguish themselves from each other by offering additional service to their clients. Optimal ordering and delivery service, inventory optimization, profitability of small deliveries, decreasing failure costs flexibility and adaptability will become the strategies; devices, distribution and data will become the weapons.

According to Vikram Khanna (2016) online grocery shopping is growing tremendously. While most major brick and mortar retailers now offer online shopping and delivery, the birth of smaller online retailers with tight product lines and competitive prices will begin to emerge. The first "Tesla" of FMCG hasn't been founded yet. As consumers, we are familiar with disruptors (e.g. Uber, Whatsapp, Netflix) and so we are purchasing online on a regular basis through web shops and other mobile apps. B2B buyers are bringing their personal B2C buying expectations into their professional environment. A relevant example of this development is taking place at Nespresso. This brand is offering its coffee cups directly to their customers, through its online web shop and brick and mortar retail shops. In this way Nespresso isn't relying on wholesalers for distributing their products and services any longer.

1.4. Research question

This research thrives to contribute to business model innovation literature, since business model innovation has been researched widely at retailers (Sorescu, et al. 2011; Neslin, et al. 2006, Leeflang et al. 2014), but scarcely when looking at wholesalers. The introduction has shown, that established wholesalers play a significant role and their business models still contribute to profits and revenues. Nevertheless, their future effectiveness seems to be undermined by changes in their external environment. It motivates to find out what drivers and antecedents of business model innovation take place at wholesalers. By narrowing the gap in academic literature of business model innovation at wholesale companies this thesis has been conducted to answer the following research question:

How can wholesalers determine value strategies when innovating a business model?

In order to obtain the answer to this research question, an explorative and qualitative study took place, based on in-depth interviews. Because of the work field of the researcher at the international FMCG wholesaler B&S International, this research contains a case study at five national wholesalers, one retailer and one producer, all doing business in FMCG.

1.5. Road map

This thesis consists of several chapters, that explain the research motivation, current literature, empirical findings and contribution. In chapter 2 the literature review shows relevant research regarding business model innovation and value creation. Next, in chapter 3 the FMCG industry will be analyzed through existing literature. Chapter 4 explains the methodology of this research by determining the research method, data collection and data analysis. In the same chapter clarifications are made how validity and reliability are guaranteed in this research. The empirical findings of this research are described and analyzed in chapter 5. Finally, a summary, interpretation, limitation and evaluation are concluded in chapter 6.

2. Literature review

In this chapter the existing literature regarding business model innovation and value creation will be discussed, while different perspectives and contexts will be applied regarding the research subject.

2.1. Wholesalers

Wholesalers can be divided in two different categories. The first group takes title to merchandise and intends to sell goods for a higher price than they paid for it. These wholesalers are known as merchant wholesalers. The second group acts for another person or organization and obtains a fee or commission when selling the goods. They act as an agent and so are called agents or functional wholesalers (Converse & Jones, 2013).

Within the first group of merchant wholesalers, the service (or full-function) wholesalers play the most important role. The service wholesaler buys in big quantities, divides lots and carries them in stock, before delivering small partials to retailers while extending credit to customers. Most merchant wholesalers are service wholesalers and their sales is larger than any other type of wholesaler (Converse & Jones, 2013).

If wholesalers didn't exist, the manufacturers would have to manage higher regional stocks and should hire more salesmen to sell their goods to the retailers. However, some people are doubting the importance of the role of the wholesaler as middleman and they argue that he should be abolished. Manufacturers, that became large, are selling goods through their own salesmen or they are setting own branch wholesale houses. On the other hand, when retailers are getting larger they will have enough power to buy straight at the manufacturer. The wholesaler cannot survive unless he fulfills necessary functions. He needs to be of relevant importance for both manufacturers and retailers, but nowadays the wholesaler seems to be declining in this (Converse & Jones, 2013).

Companies in general have been searching for ways to react to the emerging technologies that were caused by digitalization already for many years. Furthermore, wholesalers have been dealing with their customers in a changing environment, that has been revolutionary in scope but difficult to predict. Some companies have been creating new markets (e.g. Spotify) while others have disrupted existing business models (e.g. Uber and AirBNB). Retailers on their turn are changing into multichannel firms, that serve their customers through different channels for multiple desires, such as facilitating information, purchasing offline and providing customers support (Sorescu et al. 2011).

Given these current developments wholesalers are thriving to maintain their function within the supply chain and so will continue delivering value to their suppliers (manufacturers and producers) as well as to their customers (retailers). Due to the changed environment, business models are being reconsidered.

2.2. Business Model Innovation

Business models have been always present, but during recent years this topic has obtained increased interest among academics and practitioners (Sosna et al. 2010). The research conducted by Chen and Ching (2002) was one of this first academic researches, that looked at business models in relation to the transition of traditional commercial activities to electronic commerce (e-commerce). Several companies in diverse formats and sectors (e.g. Apple, Amazon and Dell) have applied business model innovation, which became the key driver to success. Although it may sound that these ideas came straight from the drawing board into implementation, which lead the organization to success, these ideas rarely succeeded from the first moment without failure (Sosna et al. 2010).

Business model innovation is not just a basic thing that companies can apply in these times of technological innovations without having 100% focus. According to Chesbrough (2007) business model innovation has become essential, because most of the current service and product innovations are inadequate. These innovations became insufficient, because companies are facing difficulties to differentiate just one product or service alone, while more options are presented to the consumers (Bucherer et al., 2012).

Kim & Mauborgne (1999) argue that at the end it's not the product or service innovation itself that decides whether a game changer can be established; it's the business model innovation that will lead to rewrite the rules of the game.

2.2.1. Business model – definition

To find out how business models could change these rules of the game, a clear definition of business models will be pointed out. Since the 1990s business models have been researched in various contexts and so different meanings have been addressed (Ghaziani & Ventresca, 2005). Because of the transition from traditional commercial activities to online sales, business models have been addressed broadly to this transition. The essence of a business model is a construct in which the suppliers deliver value to customers, convinces customers to pay for value and to convert those payments to profit (Teece, 2010). Therefore, business models play a significant role in each business. Without a complete value creation and capture process no business will last. Within this process, scholars have showed that value creation must take place before value can be captured (Nickerson, Silverman, & Zenger, 2007).

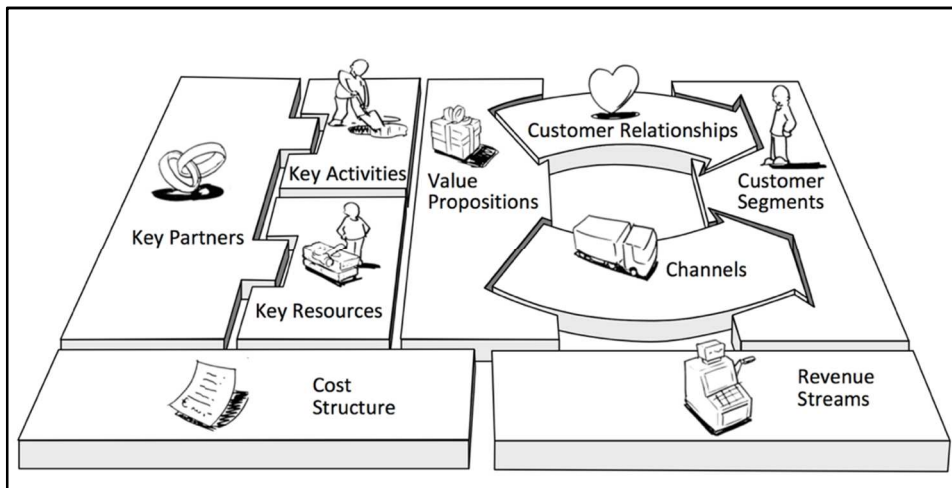
Zott and Amit (2007) formed a definition about the business model concept and stated, that it is *'the design of transaction content, structure, and governance, so as to create value through the exploitation of business opportunities.'*

Zott and Amit (2010) described the business model as a key activity system and entrepreneurial task. Some researchers have stated that new business models designs are created through ongoing technology improvements, while others highlight the need for business model innovation (Chesbrough & Rosenbloom, 2002). On a more operational level, they define a business model regarding six specific functions, as shown in table 2.1.

Table 2.1. Functions of a business model	
1	Articulate the value proposition , i.e. the value created for users by the offering based on the technology.
2	Identify a market segment , i.e. the users to whom the technology is useful and for what purpose, and specify the revenue generation mechanism(s) for the firm.
3	Define the structure of the value chain within the firm required to create and distribute the offering, and determine the complementary assets needed to support the firm's position in this chain.
4	Estimate the cost structure and profit potential of producing the offering, given the value proposition and value chain structure chosen.
5	Describe the position of the firm within the value network linking suppliers and customers, including identification of potential complementors and competitors.
6	Formulate the competitive strategy by which the innovating firm will gain and hold advantage over rivals.
Source: Chesbrough and Rosenbloom (2002)	

A business model describes the business not on an operational level, but on a more conceptual level (Osterwalder et al., 2005; Bucherer et al., 2012). Osterwalder & Pigneur suggested that ‘*a business model describes the rationale of how of how an organization creates, delivers and captures value*’ (Osterwalder & Pigneur, 2010, p 14.). They designed a business model canvas, which is a conceptual tool to help describing and (re)thinking the business model of an organization so new strategic alternatives can be created. The business model canvas contains four main pillars with nine relevant building blocks, as shown in figure 2.1. Each variable within the business model canvas has been pointed out in table 2.2.

Figure 2.1. Business Model Building Blocks



Source: Osterwalder & Pigneur (2010): Business Model Generation, pp 18-19.

The business model canvas will be used as a guide in this thesis, as this scheme is a workable tool, appropriated for each type of industry. The framework covers all segments that need to be considered when applying business model innovation, while other definitions of business model innovations are interpreted as general.

Table 2.2. Business Model Building Blocks		
Pillar	Business Model Building Blocks	Description
Offer	Value Propositions	Describes the bundle of products and services that create value for a specific Customer Segment .
Customer	Customer Segments	Describes the different groups of people or organizations an enterprise aims to reach and serve.
	Channels	Describes how a company communicates with and reaches its Customer Segments to deliver a Value Proposition .
	Customer Relationships	Describes the types of relationships a company establishes with specific Customer Segments .
Infrastructure	Key Partners	Describes the network of suppliers and partners that make the business model work.
	Key Activities	Describes the most important things a company must do to make its business model work.
	Key Resources	Describes the most important assets required to make a business model work.
Financial Viability	Cost Structure	Describes all costs incurred to operate a business model.
	Revenue Streams	Represents the cash a company generates from each Customer Segment .

Source: Osterwalder and Pigneur (2010)

Due to the rise of new communications and computing technology, the traditional balance between customer and supplier has changed. Existing business models that have lasted for many years are becoming insufficient and not future-proof. Teece (2010) argues that these developments in the global economy lead to customers having more choices while having variegated needs in a transparent environment. Wholesalers must change their business models accordingly to anticipate to the customer needs, while capturing value from providing new products and services.

2.2.2. Business model innovation – definition and practice

The early business model research shows a static image, but recently new studies have showed that business models are being revised and adapted through an experiential ‘trail-and-error’ learning (Sosna et al. 2010.), so business model innovation is an ongoing process. In current literature, business model innovation is not always an antecedent of disruption; business model innovation can still create benefits for the innovator. Amit & Zott (2012) argued that business model innovation can occur in three different ways: by adding novel activities (content), by linking activities in a new way (structure) or by changing one or more parties that perform any of the activities (governance). Cavalcante et al. (2011) added that only changes at the core repeated standard process of a business model will lead to a change in the business model. They suggested four types of business model change:

1. Business model creation

Business model creation takes place when an initial business idea has been resided in the mind of an entrepreneur. Before going in practice, the business idea will face several modifications. The business idea cannot rely on previous processes or working practices, because every single part must be designed from scratch, such as critical processes to potential customers, partners, suppliers and other stakeholders (Harper, 1996). The key processes are defined in a vague picture at the initial idea stage, which will lead to final processes. During this defining period, the entrepreneur might face challenges in law, finance and marketing and so he cannot come up with a viable future-proof business model (Andries & Debackere, 2006).

2. Business model extension

This category refers to adding new activities to the current business model or expanding existing processes in that same business model. Birkinshaw & Gibson (2004) described this as exploration and exploitation in company’s ambidexterity. The business model extension will lead to explore new opportunities to grow the current business and to exploit commercial opportunities. The Naturhouse case (Sosna et al., 2010) was one of the first studies that looked at the implementation of 40 new stores, while implementing a new business model in just one year.

3. Business model revision

The third category refers to removing one specific process in the business model and replacing it with a new process. Revision takes places when:

- the way of doing business must be re-designed because of new business opportunities;
- customer demands and needs have been changed over time and the business model doesn't meet these new requirements anymore;
- competition designed new processes that threaten the market share of the company;
- new companies are entering the market with a total new approach to meet customer demands.

Kodak also applied a revision of their business model in order to remain valid in their respective camera and film industry (Macher & Richmann, 2004). Instead of developing new technology internally, Kodak worked together with other companies in joint ventures that already possessed the needed technological innovations. Although these joint ventures had the intention to change the core processes of Kodak, it wasn't an easy task to change the old business processes into new ones. It required some fundamental changes in various elements, such as organizational inertia (Kelly & Amburgey, 1991), employees' resistance to change (Isabella, 1990) and path-dependency (Sydow et al, 2009; Driel & Dolfsma, 2009), where organizations keep using the current (in the past) successful processes, while they face problems to change to new trajectories.

4. Business model termination

In this last category, the business model will be ended. This means that current processes will be abandoned, since these processes don't generate value or money for the company anymore or the company doesn't have trust that it will do so in the future. Besides ending the process, a business-unit (when it has its own business model) or the company itself could be closed. When closing a business-unit, the company can focus on developing other units that have the potential to remain profitable in the future.

According to Johnson et al. (2008) established companies can often introduce new disruptive products and services while not fundamentally changing their own business model. Procter & Gamble developed several "disruptive market innovations" in household items (e.g. Swiffer and Febreze), which were built on the existing business model. However, in some occasions, such as at the FMCG wholesalers, important changes might be needed in all four building blocks; the CVP, profit formula, key resources and key partners. Johnson et al. (2008) determined five situations that often require business model change, as shown in table 2.3.

Table 2.3. Circumstances with need for business model change	
1	The opportunity to address through disruptive innovation the needs of large groups of potential customers who are shut out of a market entirely because existing solutions are too expensive or complicated for them
2	The opportunity to capitalize on a brand-new technology by wrapping a new business model around it or the opportunity to leverage a tested technology by bringing it to a whole new market
3	The opportunity to bring a job-to-be done focus where one does not yet exist. That's common in industries where companies focus on products or customer segments, which leads them to refine existing products more and more, increasing commoditization over time. A jobs focus allows companies to redefine industry profitability.
4	The need to fend off low-end disrupters.
5	The need to respond to a shifting basis of competition. Inevitably, what defines an acceptable solution in a market will change over time, leading core market segments to commoditize.
Source: Johnson et al. (2008): Reinventing Your Business Model, pp 64-65	

According to Bucherer et al (2012) it seems that business model innovation has not been a widely-used method in nowadays' business. For this reason, research within this topic seems to be even more relevant, so conclusions can be made how it this type of innovation can be successful, especially when looking at the FMCG wholesalers. What should they do to innovate their business model? Even though business model innovation at wholesalers hasn't been examined widely yet, it would be interesting to look at another group within the same supply chain, that also determines and redesigns the value propositions continuously.

2.3. Business model innovation at retailers

Within the FMCG supply chain, retailers are facing similar problems, because of the digitization. Business model innovation in retailing has attracted increasing interest since the 2000s (Sorescu et al., 2011; Coughlan, et al. 2001; Grewal et al. 2009). Retailers are bringing a broader range of activities in action, as they expand the boundaries of their target market and apply new forms of customer interactions and channel parties (Sorescu et al., 2011). Retailing business models (RBM) consists fundamentally of two unique characteristics, which underlie the rationale behind retailing innovations (Sorescu et al. 2011). First, retailers sell primarily products manufactured by others and it's more about how the retailer sells, not about what he sells. Second, retailers engage in direct interactions with end customers and so the relationship with the end customer has become important. Retailers optimize their direct interactions with end customers and that's why the emphasis in retailing has moved from transactional point of view, where the retailer sold his goods or services to the end customer (Coughlan et al. 2001) to a view where customer experience is the key (Verhoef et al. 2009; Grewal et al. 2009). In today's global economy retailers can no longer be treated as merchant intermediaries, but more as orchestrators that provide two-side platforms. Value is created and delivered by the retailer to the customer, while that same value is appropriated by the retailer together with its business partners (Sorescu et al., 2011; Converse and Jones, 2013). Retailers have changed their traditional business models of just procuring, stocking and delivering products to one that takes place in a (digital) ecosystem, so value can be delivered to customers in new ways. Sorescu (2011) describes three interconnected core elements that should be determined to conceptualize a new RBM; the retailing format, the retailing activities and the retailing governance.

The **retailing format**, that describes the way in which the most important retailing activities will be executed, contains the key elements of the retail mix, such as location, marketing, pricing strategy, customer interface and product assortment (Levy & Weitz, 2013). Different formats can be used in different product categories and multiple formats at the same time are possible as prior research has shown. Bhatnagar and Ratchford (2004) showed an example in the food industry, where food is being sold at grocery stores, convenience stores, online grocers, or warehouse stores with different assortments prices, locations and customer interfaces. The design of the retailing format for has been changed tremendously in the past few years due to the digitalization. Retailers are changing the design (e.g. one-stop-shops where customers can buy everything or specialty store), the structure of the interface (e.g. kiosks or e-commerce) and the channels to offer their products (online & offline). Retailers are changing their business models in a continuing process that made them change from the traditional offline brick-and-mortar companies into online click-and mortar companies (Rangaswamy & Van Bruggen, 2005; Pentina et al., 2009). These retailers haven't seen digitization as a threat; on the contrary, they enhanced this current development as an opportunity to restore their function within the supply chain.

The **retailing activities** consist of acquiring, stocking, showing and selling the goods or services to meet the customer's demands. The format of the store will determine which retailing activities a retailer will exploit. Recent research has explained the role of these activities, for example when looking at communication, pricing and branding (Zhang, 2009; Koçaş & Bohlmann, 2008, Hollenbeck et al. 2008). Other studies showed, that retailers can apply specific retailing activities, so the customer engagement will increase, e.g. by looking at increasing of customer brand-identification (Borghini et al., 2009).

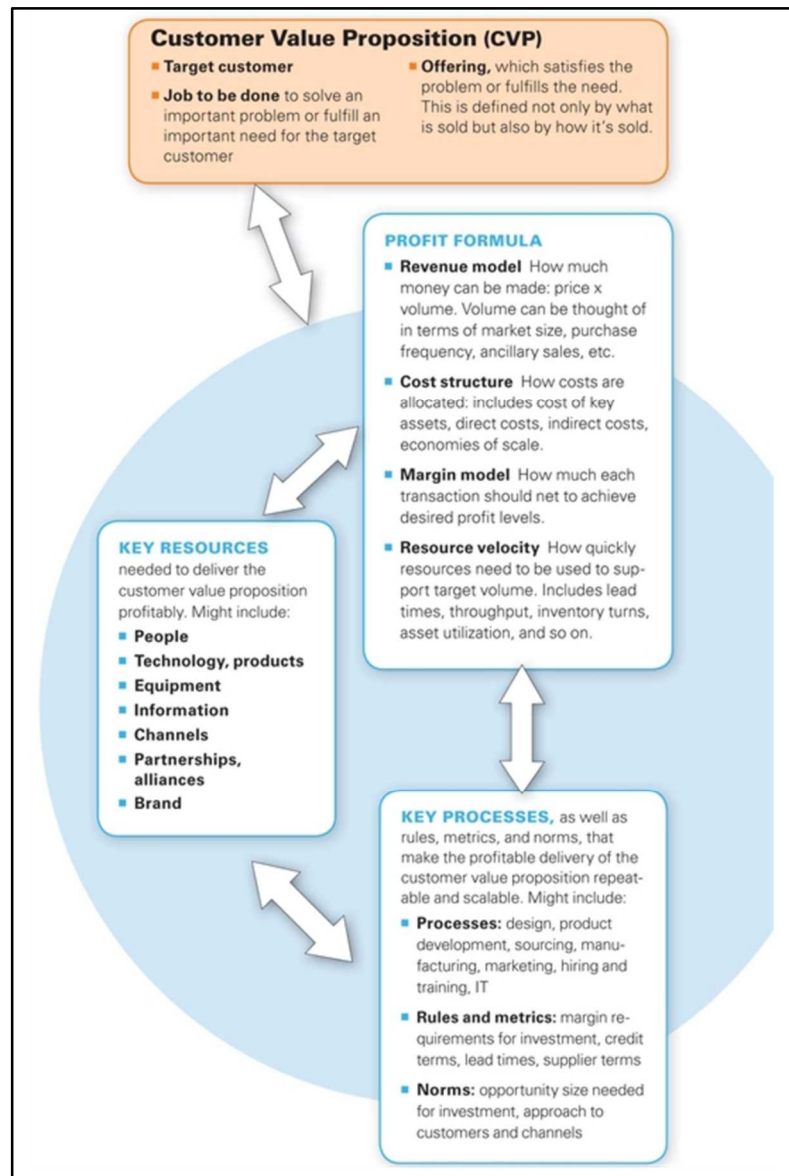
The **retailing governance** assists in creating and delivering customer experiences. It concerns every group that is involved by fulfilling the customers experience. The retailing governance doesn't only consist of the retailer and its customers, but also the retailer's network of partners in the supply chain. In today's business, retailers are working together closer with customers and suppliers than ever before, due to the increasing co-creation activities retailers have, for example in grocery shopping (self-scanning) and in banking (internet banking). On the other hand, Coughlan and Soberman (2005) suggested, that suppliers can also assist in enhancing the customer experience by modifying the supply chain in response to customer needs.

As literature shows, most emphasis has been laid on business model innovation at retailers, mainly on the downstream offering of services, products and customer experience towards end customers. Research at wholesalers has been executed scarcely, so it would be very interesting to find out how wholesalers are looking at business model innovation and how they are determining and redesign their value strategies.

2.4. Business model building block: Customer value propositions

As literature shows, delivering and capturing value is essential and one of the challenges for successful business model innovation. Johnson et al. (2008) determine that Customer Value Propositions (CVP's) are one of the four interlocking elements in a business model. The current business model can be evaluated and redesigned through these four interlocking elements and so companies can understand how the business model meets specific CVPs using a specific key resources and key processes, while gaining profit. The elements are shown in figure 2.2.

Figure 2.2. Customer Value Proposition (CVP)



Source: Reinventing your business model, Johnson et al. (2008)

The biggest challenge of a CVP is the need to get the customers job perfectly done. This seems to be difficult to achieve, since companies have focussed on several 'jobs to be done' than just one; when executing many activities at the same time a company cannot perform one really well. CVP's are creating and delivering value for customers in a way to help customers getting an important job done.

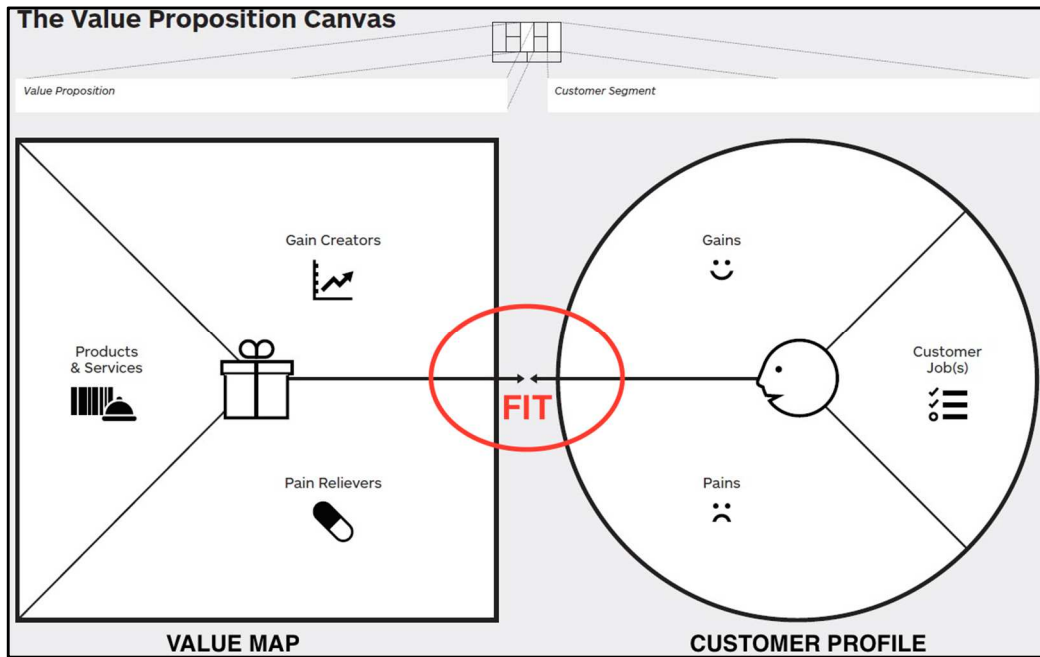
When a specific job is very important to the customer, it would take a significant amount of effort to reach the level of customer satisfaction to get the job done. The CVP is at its best, when it solves a specific problem in a better way than existing alternatives.

Osterwalder and Pigneur (2010) describe value propositions as one of the central building blocks in business model design. Customers choose company A over company B, because of a certain value proposition; value is delivered to satisfy a specific need or solve a specific problem. This value can be determined in goods or services that meet the requirements of a specific customer segment. Value propositions can be innovative when offering new or disruptive propositions, while others are identical to current market offerings, but contain additional features. Osterwalder & Pigneur (2010) distinguish three contributions of value propositions as shown in table 2.4.

Table 2.4.: Customer Value Propositions - contributions	
Contribution	Description
Newness	Satisfying an entirely new set of needs that customers previously didn't perceive, due to no similar offering.
Performance	Improving a product or service performance in order to create value.
Customization	Satisfying specific needs of individuals by offering tailoring products and services through mass customization and customer co-creation.
Source: Business Model Generation, Osterwalder & Pigneur (2010)	

Recently Osterwalder et al. (2014) zoomed into the business model canvas and designed a Value Proposition Canvas, as shown in figure 4. The canvas consist two sides: a **Customer Profile** (description of a specific customer segment) and a **Value Map** (description of the way of intending to create value for customer).

Figure 4: The Value Proposition Canvas



Source: Osterwalder et al. (2014)

When the products, services, pain relievers and gain creators meets one or more of the customer jobs, pains and gains, both sides will achieve **Fit**. A detail description of each segment of this Value Proposition Canvas has been pointed out in table 2.5.

Sides	Building blocks	Description
Value Map	Gain Creators	Describes how products and services create customer gains.
	Products and Services	The value proposition has been built around the list of product and services.
	Pain Relievers	Describes how the products and service mitigate customer pains.
Customer Profile	Gains	Consists of the customer's desired outcomes and benefits
	Customer Jobs	Describes what customers want to achieve in work, expressed in their own words
	Pains	Describes bad outcomes, risks, and obstacles to customer jobs.

Source: Osterwalder and Pigneur (2010)

Now that all current research and literature has been pointed out, it still remains unclear which value propositions lead to successful business model innovations and how they are designed, especially at wholesalers in a sector like foodservice. These initial thoughts and conclusions contribute even more to find answers for the research topic of this thesis and to see how FMCG wholesalers should determine their value propositions in order to keep on playing a significant role in their respective sector.

3. The FMCG Industry

3.1. FMCG - Definition and current developments

Now that a brief introduction has been made regarding business model innovation, it will be interesting to gather knowledge of the specific sector in which the research has been executed. During the past years, many research has been conducted in the FMCG sector and so several definitions have been given to this specific business area. One of the first definitions was given by Cooper & Eil (1994), that described the FMCG goods as products for daily use, sold in large quantities, such as foods, beverages, cleaning items, toiletries etc. Later, Beck et al. (2002) stated that the FMCG sector contains *'the retailers and their suppliers who provide a range of goods sold primarily through supermarkets and hypermarkets. The core of their business is providing essentials such as various fresh and processed foodstuffs, but they also stock a wide selection of other goods as well including health and beauty products, tobacco, alcohol, clothing and more general household items.'* The definition given by Beck et al. is the most precise and detailed one, so their definition will be used in this thesis.

In general, the FMCG sector contains retailers (e.g. Carrefour, Tesco, Walmart, Albert Heijn) and FMCG manufacturers (e.g. Nestle, Unilever and Procter & Gamble). FMCG wholesalers are used by the manufacturers to reach these retailers, when the span of control would be too big for the manufacturer to reach the retailer. The sector, in which they operate, can be describe as hyper competitive, where low margins are earned by selling high volumes. Large chains dominate the market, because they employ advanced technology (Keh & Park, 1997). It makes it even more difficult for retailers to cope with that dominance. With such small profit margins, no inefficiency can occur; the retailers need to focus on improving their operational excellence (Cachon & Lariviere, 2001).

In the past decades the grocery industry has been going through several changes; the consumers attributes and behaviour have been redesigned and the industry had to react with several product and process innovations, new product and service approaches and corporate restructuring, such as joint-ventures, mergers and acquisitions (Keh & Park, 1997). Nowadays, the effects of these developments can be seen in productivity, marketing mix and the changed relationship between manufacturer, wholesaler and retailer. In order to fight these developments, Bell et al. (1997) described five obstacles: (1) Ensuring future growth, by maximizing market share, diversification beyond the original activities of the business and geographical expansion; (2) Increasing added value, by controlling the activities between the manufacturer and the final consumer, creating a own private label and offering product for which the consumer is prepared to pay more; (3) providing price and value, with the development of quality private label products and stocking an adequate range of branded products; (4) engineering an effective supply chain, by facilitating the necessary investment to drive its supply chains in order to reach economies of scale; (5) enhancing relationships between the retail chains and their stores, by requiring chains to control store operations.

These developments show that all groups in the supply chain (manufacturer, wholesaler and retailer) pursue two goals: store differentiation and efficiencies of operation. Resulting profits from differentiation diversify the required profits to invest in the supply chain.

3.2. Traceability and (food) safety

Besides the differentiation and operation efficiency, companies in the FMCG sector focus on traceability; especially companies that carry foodstuffs (Simchi-Levi, 2010). Cox & Blackstone (2005) defined tracibility as registering and tracking of parts, processes and materials used for production. A more detailed definition has been given in the International Organization for Standardization (2015) and has been used by EC regulation 178/2002 (European Parleмент, 2002) that tracability is *“the ability to trace and follow a food, feed, food producing animal or ingredients, through all stages of production and distribution”*.

Food companies were one of the first that pursued for risk mitigation strategies; food products needed and still need to be fit for human consumption and should not contain any hazard for human's health. Traceability is used to assure food quality and so to prevent any damage for human health. Since 2005 both European Union and USA authorities have required that all food companies have to maintain records in order to identify sources, recipients, and transporters of food items, from the manufacturer to the consumer. Food products compromised for any possible hazard for human's health can be traced in two ways; when the source of the food product needs to be found (backward trace capability) and when food items from the same source and production batch can possible be part of a health threat (forward tracing capability) (Simchi-Levi, 2010). Close collaboration between farmers, manufacturers, packers, distributors and retailers is demanded to obtain a high level of co-ordination; the food industry is going through this development because of government regulations. Manzini et al. (2007) designed an initial framework for an effective tracebability system, which is based on product identification, data to trace, product routing, and tools. Their research resulted in a systematic organic model for tracing in every single food supply chain.

3.3. Supply Chain Management

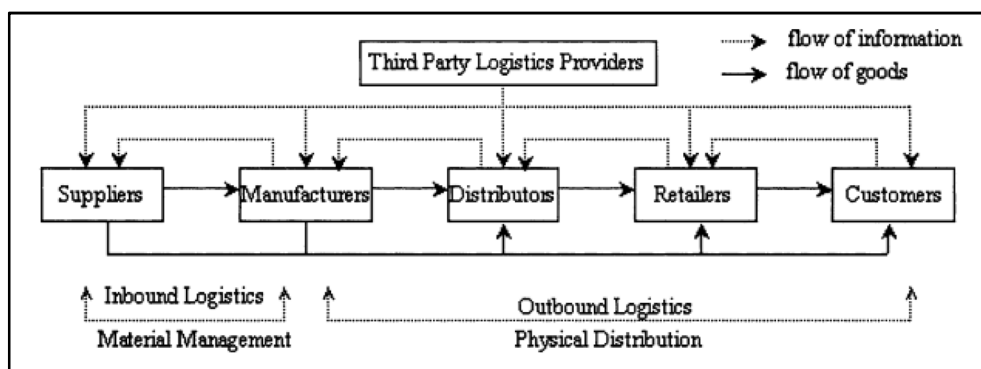
Although being a relatively young subject, supply chain management (SCM) has gained interest by researchers since the 1980s. Oliver and Webber (1982) were one of the first researchers that came up with the term SCM. Through SCM they approached integrated marketing channel management in a different perspective; the traditional approaches were regarded as adjective. From that moment on more researchers derived conclusions from SCM research (Jones & Riley, 1987; Stevens, 1990; Cooper & Ellram, 1993; La Londe & Masters, 1994; Lambert et al., 1998).

The determination of 'supply chain' has been described more frequent than the definition of 'supply chain management'. The most detailed definition of supply chain management has been given by Min & Zhou (2002). They determined *'supply chain' as 'an integrated system which synchronizes a series of interrelated business processes in order to: (1) acquire raw materials and parts; (2) transform these raw*

materials and parts into finished products; (3) add value to these products; (4) distribute and promote these products to either retailers or customers; (5) facilitate information exchange among various business entities (e.g. suppliers, manufacturers, distributors, third-party logistics providers, and retailers)' (Min & Zhou, p. 231, 2002). A clear overview of the supply chain process has been pointed out in figure 3.1.

In addition the supply chain contains raw material and component producers, product assemblers wholesalers, retailers, merchants, transportation companies and the final consumer that are all interacting upstream and downstream in order to maximize competitiveness and profitability for the whole supply chain (La Londe & Masters, 1994; Lambert et al., 1998; Christopher, 2010).

Figure 3.1. Supply Chain Process



Source: Min & Zhou, (2003)

According to Min & Zhou (2003) the main objective of a supply chain is 'to enhance the operational efficiency, profitability and competitive position of a firm and its supply chain partners'. Jones and Riley (1987) and Stevens (1990) concluded that integrated channel development should be considered in three ways: strategic, tactical and operative. Cooper et al. (1998) stated that a supply chain should consist of network between multiple businesses and relationships, rather than being a chain of one-to-one collaborations. According to Monczka et al. (1998) in SCM separate materials functions need to report to one responsible, that coordinates the complete materials process. Its objective is to implement and manage the sourcing, flow and control of materials, while operating in a system with multiple suppliers. When SCM is applied, the relationships among all supply chain partners change from an adversarial types to an integrated and interconnected strategic alliances in order to establish long-term cooperative partnerships (Tan et al., 1998). According to Mentzer et al. (2000) SCM is about managing inter-firm relationships an partnering would be essential when establishing and developing retail-supply chain relationships. Furthermore, Cooper et al. (1998) added that all parties in the chain should focus on the reverse supply chain, where information and data from the point of consumption is being transferred to the origin.

3.4. Traditional business model

FMCG wholesale companies have existed for many decades. In those decades their business models have shown to be conservative. In order to gain insights how their business models have worked, the business model canvas of Osterwalder & Pigneur (2010) has been pointed out in figure 3.2.

Figure 3.2. Business Model Canvas FMCG wholesalers



In general, FMCG wholesalers have focused on a group of customers that are using the FMCG products to sell to their customer, the end-consumer of the goods. Through selling the products with specific quality standards at the right price and offering a broad FMCG portfolio, value has been created. The portfolio consists of A-brand products, no-brands and private labels. The most-used channel is the self-service warehouse (cash&carry), where customers can purchase their goods and carry them along themselves. In these warehouses the revenues are made through sales. Another channel is the delivery possibility, where customers can buy their goods through order lists and the wholesalers delivers the orders by trucks to the customer. The cost structure has been divided in inventory costs and fixed costs. Through visiting customers at their offices and communication through phone and mail the customer relationships has been established and maintained. A FMCG wholesaler has several key activities, such as purchasing, procurement, sourcing, stock control and logistics planning to keep the business model in operation. Visiting food fairs is taking place to develop product knowledge and search for trends. In order to perform these activities the wholesaler needs the right human resources, a well-operating warehouse and product knowledge. Especially in a wholesale distribution company the warehouse is an essential resource, so all logistic processes can be performed in well order. Since FMCG wholesalers also work with food and veterinary products, governmental organisation (e.g. food and health authorities) are considered as key partners. Other key partners are manufacturers, logistical partners and banks.

4. Methodology

In this chapter the way of research in the empirical method will be described and the relevance of conducting this research will be explained. Next, the research units will be described, how they will be selected and how data will be collected and analyzed.

4.1. Research method

Business model innovation has been widely researched at retailers, but not at wholesalers. The grounded theory method is used, cause the research question is explorative (Corbin & Straus, 2015). Empirical research is used in order to build theory from data (Corbin & Strauss, 2015). The aim of this research is to develop theory in which a mutual relation will be pointed out among the research object, data and theory. Since business model innovation at wholesalers hasn't been researched widely, the cases have to be researched in a broad sense, so as much as possible interesting can be gathered. In qualitative research it's common to use this inductive research approach (Bryman & Bell, 2007); it also helps to understand motivations and actions of people in a certain business area (Myers, 2009).

Grounded theory is used, when little empirical evidence is given regarding the research topic. During this research, hypotheses will be rather generated than tested (Eisenhardt, 1989). According to Mäkelä and Turcan (2007) grounded theory is 'theory derived from data that has been systematically collected and analysed, using an iterative process of considering and comparing earlier literature, its data and the emerging theory.'

Business model innovation is not a well-known, daily-used theme at FMCG wholesalers. A qualitative approach fits the best, when looking at the (possible complex) value propositions at these wholesalers; interviews will help the researcher to find relevant data.

Multiple cases at various FMCG wholesalers will be used to compare the results and so a general theory can be created. Analyzing these cases is quite appropriated when explaining a specific phenomenon in a certain context (Yin, 2013). Rubin and Rubin (2012) designed a framework in grounded theory, in which theory can be inducted from interviews or retrieved data through analytical steps. These steps will be used during this research. Mäkelä and Turcan (2007) analyzed how grounded theory in entrepreneurship research was conducted. Their review showed several business areas, in which the approach of grounded theory could be improved. Their conclusions have been taking into account in this research.

4.2. Data collection

The data collection in this research consisted of multiple references and empirical findings, so data triangulation could be applied. Data triangulation helped to reduce the possible misinterpretation of data in grounded theory (Mäkelä and Turcan, 2007).

Data collection took primarily place by conducting semi-structured interviews. This type is known for its open structure and so during the interviews new ideas could be highlighted by the interviewer. Since the research had an inductive purpose, it became relevant to add questions to new topics that are coming up during the interview. Before conducting the interview a set of predetermined questions were set out regarding the research variables, value propositions and business model innovation. This action would guarantee that all topics would be discussed (Bryman and Bell, 2007; Rubin and Rubin, 2012). Besides interviews, other secondary documentation (e.g. annual reports, industry websites, newspapers and other company documents) was used. These sources had been used to validate the data retrieved from the interviews, especially when the information was contradicting.

In grounded theory, a researcher doesn't use literature to induce concepts, themes or links between them and it doesn't aim on finding the limitations of a research or the scope in which the findings can be theorized (Corbin and Strauss, 2015). This method of deriving themes and concepts from retrieved data is called theoretical sampling. Keeping this receptive method in mind, the data analysis began after the first interview, so hereafter new concepts and themes were pointed out; theoretical sampling would eventually lead to more questions and more data collection. The researcher was lead by this theoretical sampling; this would stop when no new themes or concepts would arise from the data collection and so every case would be used to contribute to the emerging theory (Corbin and Strauss, 2015).

4.3. Case selection

Finally, the theoretical sampling consisted of a case selection strategy, in which cases were chosen in terms of the theory, by their deviance and by size during the course of the research (Silverman & Marvasti, 2008). The unit of analysis in grounded theory is a concept. The initial sample consisted of wholesalers, in this case the Dutch FMCG wholesalers. The research took place at Dutch FMCG wholesalers, because of the current digitization and the urge of applying business model innovation. In order to compare and check the data, one FMCG retailer and one FMCG producer were interviewed. The general managers, which were involved at each company, were interviewed how they evaluate, design and re-design their customer value propositions as a source for innovation. In total seven semi-structured, in-depth interviews took place at three large wholesalers, two SME wholesalers, one retailer and one producer, as shown in table 4.1. The large wholesalers were chosen from the annual analysis on FMCG wholesalers (ING, 2016). The two SME wholesalers, the retailers and producers were chosen from the network of the researcher.

Case	Company	Size	Job title
1	Wholesaler	Large	General Manager
2	Wholesaler	Large	National Sales Director
3	Wholesaler	Large	General Manager
4	Wholesaler	SME	Director
5	Wholesaler	SME	Director
6	Producer	SME	General Manager
7	Retailer	SME	General Manager

In order to gain insights in other parts of the supply chain, it was of great value to interview a producer of FMCG products. This producer plays a significant role in the current developments of vertical integration in the FMCG sector; this producer can exactly describe what the added value of having (or not having) wholesalers is now and could be in the future.

The interviewees were selected through judgement sampling (Sekaran & Bougie, 2016), because these selected participants are the ones in the optimal status to provide the required data. At the end of each interview participants were requested to name other potential participants that could be of essential use of this research.

4.3.1. Interview design

When the potential wholesalers were invited by phone or by e-mail to take part in this research, they received a general description of the research, as shown in Appendix I. In this general overview, the researcher, the research purpose and the main question were introduced to the participant. The interviews were conducted by the researcher in a one-to-one settlement. If allowed, the interviews were recorded. If the interviewee did not give permission for recording, notes would be made so immediately after the interview a summary could be made to avoid losing too much data and avoiding the interpretation of the researcher would affect the acquired data.

The interview questions were designed through the method of Rubin and Rubin (2012). Their method shows that the main question of the research would be brought down to a set of main questions, which participants can easily respond to because of their professional experience. It helps the interviewer to lead the interview in concepts as behavior, timing and wording. In the first part of the interview, the participants were asked to provide information about their professional experience, which is described by Rubin and Rubin (2012) as *tour*. Later, the same participants were asked to describe their initial thoughts regarding the research topic; as less information as possible was provided so the participants described their own non-biased thoughts. At the end of each interview the participants were showed more information regarding CVP's and business model innovations, and so they had the chance to change their previous thoughts and opinions.

4.3.2. Theoretical sensitivity

While information resources and conclusions in quantitative studies are mostly noticed as objective, qualitative research will never achieve that (Corbin and Strauss, 2015). Successful qualitative research and grounded theory methods are influenced by the engagement and interaction of the researcher (Charmaz, 2014). Engagement is also described as sensitivity, that is defined as '*a personal quality of the researcher, that indicates an awareness of the subtleties of meaning of data*' (Corbin and Strauss, 2015). The researcher adapts to this sensitivity, because he obtained a track record of five years of professional experience in the FMCG industry. This has helped the researcher to link themes and recognize new phenomenon's.

4.4. Data Analysis

When all empirical data had been collected during the interviews, the analysis started to create new theory on this research topic. The retrieved data was coded from the grounded theory approach, which is common in inductive research (Corbin and Strauss, 2015). This method contained three coding types through which data can be systematically be labeled, separated, combined and organized (Bryman & Bell, 2007). First, open coding took place by dividing the transcripts of the interviews in smaller pieces. Labels were added to these parts of raw data. Second, axial coding was applied to combine the labels from the open coding that arose from causes, context and other consequences. Third, theory had been formulated and explained through selective coding. The key categories were outlined, that led to the outcomes of the research. Although this systematical way of coding increases the reliability of the research, some researchers discussed that this way of coding will cause losing context and the complete storyline (Coffey & Atkinson, 1996). During the analysis, the definitions of certain topics were enforced by citations (Easterby-Smith et al. 2014).

After the *coding* step, new thoughts, concepts and questions were applied in the research to design the next interview. Coding was applied in the same way after every interview, which resulted in an *elaborated* systematic overview of the concepts; conceptual saturation was reached, when the concept was described by enough varied data. Thereafter, the context was determined by analyzing the data to determine the conditions of the specific situation. The process step included searching for the continuous flow of actions that took place in reaction to the events; this step took place upwards and downwards until all retrieved information matched. Finally, integration was applied to match the sub-categories around a central category, so the final theoretical determination could be trimmed and refined; theoretical saturation was reached, when all categories were sufficiently constructed in terms of properties, dimensions and variations (Corbin and Strauss, 2015).

4.5. Validity and Reliability

In grounded theory process, people are known to judge the usefulness of outcomes of the research, even though researchers are considering this process to be an integral part of the product (Charmaz, 2014). Maximizing the quality level of this qualitative research needed to be reached. According to Yin (2003), four types of validity are applicable to safeguard the quality of social empirical research; construct validity, internal validity, external validity and reliability of the research design.

In order to increase the validity of this research data triangulation was applied (Bryman and Bell, 2007). Internal validity is assured by comparing the retrieved data from the interviews to other company data that can be found in annual reports, company websites and other interviews reciprocally. Primary and secondary data would be combined. Conceptual validity would be guaranteed by using a conversion table. The data retrieved from the literature study would be applied in the empirical research by outlining few questions about the variables and the relation between these variables.

To increase internal reliability, interviews were conducted in a semi-structured way. To avoid that both interviewer and interviewee would influence the research results with their opinion, semi-structured questions were applied. Every interview was recorded (if approved by the interviewee), so the data collection and analysis could be checked. External reliability in qualitative research is very important and can be guaranteed by adding a professional and personal statement as a self-reflection in which the researcher declares his position towards the research topic (Mortelmans, 2011). The empirical data was analyzed with this self-reflection in mind and the potential bias of the researcher was considered.

Besides the validity concepts of Yin (2013), a clear distinction of quality and validity had to be determined. The method of Corbin and Strauss (2015) assisted in making this distinction, because in their method the term *credibility* is used to indicate “findings are trustworthy and believable in that they reflect participants’, researchers’ and readers’ experiences with a phenomenon but at the same time the explanation is only one of many possible ‘plausible’ interpretations possible from data” (Corbin and Strauss, 2015). The standards of their method were used to assess the quality of the research findings, as shown in table 4.2.

1	Fit
2	Applicability
3	Concepts
4	Contextualization
5	Logic
6	Depth
7	Variation
8	Creativity
9	Sensitivity
10	Evidence of memos

Source: Corbin and Strauss (2015).

5. Empirical findings

In this chapter the results of the empirical study are set out as indicated in paragraph 4.3. First, the seven cases will be described more in detail than the information provided in table 4.1. Second, the main themes and sub constructs, that were extracted from the interviews, will be pointed out. At the end of this chapter additional findings will be discussed and evaluated.

5.1. Cases

The seven cases are all operating in the FMCG sector. Three of them belong to the biggest five foodservice wholesalers in the Netherlands. Two of them belong to the smaller-sized wholesalers. The last two cases consist of a FMCG producer, that belongs to one of the biggest FMCG manufacturers in the world, and a national SME retailer.

Case 1

Case 1 is a public limited company (plc, NV in Dutch) and operates as a national wholesaler. In 2016 this company had a turnover of EUR 2,800 M. The company is listed at the Amsterdam Stock Exchange (AEX). The company supplies an assortment of over 60,000 foods and non-food items to consumers, food retailers, catering entrepreneurs, institutional customers, corporate restaurants and other major consumers. This is done through several self-service warehouses located throughout the Netherlands and through solutions in retail and wholesale deliveries. The activities of this wholesaler are divided into food retail and foodservice departments.

Case 2

Case 2 is a limited company (Ltd). In 2016 this company had a turnover of EUR 700 M. With a total amount of 70,000 SKU's, 1,700 FTE, 350 trucks, 25,000 customers and 16 branches this wholesaler presents itself as one of the leading online foodservice marketplaces in the Netherlands. Its assortment consists of a variety of frozen, dry and chilled foodstuffs and non-food items coming from global and local manufacturers. Its customer portfolio consists of restaurants, bars, hospitals, hotels and other catering facilities.

Case 3

Case 3 is a limited company (Ltd.) This wholesaler has 19 different branches in The Netherlands and Belgium and trades more than 80,000 SKU to mainly restaurants, bars and hotels. The wholesaler operates through self-service warehouses and delivery solutions. Besides offering their FMCG products, the company offers additional services to inspire their clients and create innovative solutions.

Case 4

Case 4 is a limited company (Ltd) and was established right after World War II in 1949. The company counts 350 employees and offers 20,000 SKU's in one assortment of frozen, chilled and dry foodstuffs and non-foodstuffs coming from mainly local manufacturers. Its customer profile consists of local restaurants, bars and hotels. This wholesaler operates on a local level.

Case 5

Case 5 is a limited company (Ltd) and provides work for 200 employees. This wholesaler operates on a local level with one warehouse and 28 trucks and 20,000 SKU's. Its client portfolio consists mainly of hotels, restaurants and bars, which are being delivered with frozen, chilled and dry foodstuffs and non-foodstuffs.

Case 6

Case 6 is a manufacturer of food products and household care products. This company provides work for 169,000 people. The company has branches and product facilities all around the world and is organized in four divisions; personal care, foods, refreshment and home care. The company is one of the oldest multinationals in the world. Innovations are being created, developed and implemented through R&D locations all around the world. Since some years the company gained incremental interest in innovation and sustainability, throughout their business, brands and partners.

Case 7

Case 7 is a chain controlled retailer, that operates on a national level with 30 restaurants and 18 delivery points. This retailer started as a single restaurant in Rotterdam and during the last decade it developed a complete franchise formula. Besides two restaurants all establishments are managed by franchise holders.

5.2. Main topics

The empirical research was executed to gain more insights about the drivers and antecedents of business model innovation at wholesalers and how value can be created and captured. To reach this goal, the method of grounded theory was applied. From all retrieved data, a new framework was designed; this will be discussed in the next chapter. The research results were analyzed in different stages; this will be discussed in this paragraph.

After conducting the first interview, the corresponding transcript was made immediately. This transcript showed several important topics, which were retrieved by coding. The essential concepts and ideas were further examined before conducting the next interview, so incomplete data and unexplained concepts could be found. The steps of analysis, as shown in paragraph 4.3., were followed in the order as stated, but also vice versa. This was a continuous alternating process that took place until the end of the analysis. After revising all data and after removing non-relevant topics, the main and sub topics were extracted from the interviews, as shown in table 5.1.

Industry	Industry development
	Distribution
	Digitalization
Value strategies	Operational Excellence
	Product leadership
	Customer intimacy

The first main topic contains the subjects that describe the sector of the wholesalers. It consists of developments within the sector, distribution and digitalization. The second main topic consists of the various value strategies that were applied by the wholesalers.

All the mentioned main topics are divided in various corresponding sub-topics, that show the underlying aspects of the main topics. When all interviews were conducted, it appeared that no additional applicable data nor findings could be added to contribute to the research topic. At that moment, the data of all transcript interviews was put together so the analysis of topics that became evident and topics regarding the context could be finalized. One of the next steps was to find relations between specific themes and variables, especially in the transcripts that showed simultaneously mentioned themes. An example of this approach has been given in the following example:

(5) "... Last year we started to offer total solutions for customers in a digital way; if a wholesaler lacks automatized processes and services, then it doesn't have the right to exist anymore".

In this phase a relation was made between automatization and the right to exist of wholesalers in the future. The links were mentioned in the context phase of the analysis, while in the process phase the actual relationships between the features were determined. Normally in grounded theory analysis related literature would not be consulted. In this research, this was consulted, just to avoid missing logical relations. Finally, after determining all features and connections, the research results started to form a bright and logical outline.

5.3. Industry

The first outline became visible in the sector industry, in which many relations were discovered. Because the sector part contained all sorts of connections, it was recommended to only zoom in at the most relevant sub topics; a total number of five sub topics have been marked in table 5.2 and will be analyzed in more detail.

Table 5.2. Industry	
Industry developments	<u>Customer interaction</u>
	<u>Vertical integration</u>
	Food waste
	Corporate Social Responsibility.
	Product life cycles
	<u>Blurring & consumer behaviour</u>
	Distribution
Self-service	
	<u>Delivery</u>
Digitalization	Online Purchasing

5.3.1. Customer interaction

In the past view years, the distribution model of FMCG wholesalers has changed. All wholesalers acknowledged that their position has changed in the market.

- (1) *“Wholesalers do still have a specific role and function, although their position has changed during the past few years”.*
- (2) *“As a traditional wholesaler we only offered and invoiced the client; now we also have to inspire him and interact with him.”*
- (3) *“In the past retailers were used to come to the self-service warehouse to buy their goods. Nowadays a lot has changed in the market.”*

(5) *“In the past the client called to do business, now we’re providing him with information in advance, so he can obtain specific information before purchasing.”*

The interview results show that, where wholesalers used to have a conservative position as an intermediary between manufacturers and retailers (supply and demand), it now has shifted towards an innovative one that should operate as an orchestrator between various links (stakeholders). This development can be explained by various reasons. The first one is the rise of the Internet. Nowadays retailers can fulfill their consumption needs online, not being in a physical market place with relative ease of use and without any time or space restriction. (Chen & Cheng, 2009) (Brown & Jayakody, 2009). FMCG items are known for their high level of commodity. Together with the rise of the internet it has become easier for competition to sell their goods to a wider target group. Competition is high and so wholesalers needed to search for other jobs than only offering and invoicing the client. Additionally wholesalers should inspire the retailer and interact with him. As a response to this development, wholesalers started with showrooms in their cash & carry facilities, where new products, knowledge and trends are shown to inspire the retailer.

5.3.2. Vertical Integration

Vertical integration has always been applied in the FMCG industry in order to shorten the supply chain. The main purpose would be to save costs and increase profit margins (Grossman & Hart, 1986). Lately, FMCG manufacturers are applying this method, as shown in the example of Nespresso, given in the introduction. Although these developments show that FMCG manufacturers are intending to offer their goods straightly to the end-consumers, they will not succeed in taking out the wholesale function completely. The following quotes illustrate the recognition of this consequence.

(1) *“Consumers can buy various sorts of coffee cups in the supermarkets, but no, they want the original and then you’re dealing directly with a brand and not with a producer”.*

(2) *“Nestle is trying to set up its own distribution, it has not succeeded. For Nespresso it did, but for complete food service it did not”.*

(5) *“Retailers want to have a wide assortment, that can be changed anytime. They don’t want to have one fixed assortment and rely too much on one specific producer. They want to offer several brands and make their own choices.*

(6) *“To be honest, no single manufacturer wants to take over the role completely, even though vertical integration is a movement in the market”.*

The quotes show, that the idea of the new approach by FMCG manufacturers is innovative, but the execution of the idea is showing just a little effect. The consumer approach has a specific brand-focus instead of a complete portfolio-focus. In order to analyze this focus, Nespresso is discussed as a relevant example. Nestle created a unique proposition with its coffee cups. They created additional value

around the coffee cup itself. Nowadays it's not about the coffee cup itself or the price anymore, it's about the total new approach to customers, a well-developed retail-formula and emotion around the specific brand. A specific target group of consumers doesn't want a coffee cup anymore; they want the brand.

For brand-specific approaches FMCG manufacturers are able now to skip the wholesale function. Nevertheless, general FMCG producers are known for their wide assortment of various types of goods. Their target is to increase the sales of their complete product portfolio to as many final consumers as possible. To reach that target they will need distributors and agents, that have a differentiated network of potential customers. Wholesalers are the ones that own this specific network. Besides this network, end-consumers do not buy just the brands of one specific producer. The end-consumer always buys its FMCG items of several brands of different producers. The FMCG producer agrees with this, as shown in following quote:

(6) "At the end we can be satisfied if 5% of the total food consumption of the end-consumer consists of our products. We will need wholesalers to help us increase that percentage."

5.3.3. Blurring & consumer behavior

If we need groceries, we go to the supermarket. When we go out for dinner, we go to a restaurant. This was sounding quite normal, a decade ago. Nowadays a new trend in the FMCG industry has been coming up. Where industries had clear definitions and fixed customer focusses in the past, now through blurring these definitions have become indistinguishable. The main purpose of blurring is to increase the revenue per guest, by offering additional services and products which were never offered before. The concept of blurring is showing increased interest:

(5) "If we talk about blurring, you can see that gas stations for example are starting to provide food service."

(6) "We expect that blurring nowadays, saying the development of concepts from food retail to food service and vice versa, is going to play a significant role not only at the end-consumers, but also in other underlying segments."

(6) "If a food retailer steps into the world of food service with a blurring focus, the food retailer has a data-wise advantage of 10 years compared to the rest of the Dutch foodservice market."

Blurring can be defined as the development of combining traditional business models by various entrepreneurs to create new concepts (Schildkamp, 2015). The retailing landscape is changing radically and continuously. The commitment of the end-user is decreasing, as consumers are getting less predictable and less persistent towards their shop choice. Consumers visit different retailers and decide to buy (or not) based on purchase prices, offers, product range, emotion and ambience in a store. This development is challenging retailers even more to attract customers by offering additional services and innovation to search for added value for the consumer. The consumer expects choice, quality and

experience. Retailers are responding to this expectation by combining retail, catering and services in one single area. One of the famous Dutch blurring examples was V&D and LaPlace. V&D used to be one of the biggest national department stores. Next to their core business (selling various consumer goods) they started with food service catering in their department stores; the LaPlace restaurant became a huge success.

So, when looking at blurring, a retailer should fulfill one of the consumer's needs: (1) Offering a low-priced standardized solution, (2) offering a convenience solution meals at home, when traveling or at a specific location, (3) offering a full-service solution at home or at a specific location.

Although acknowledging this trend, it seems that only the FMCG manufacturer has a clear idea of what the concept means and how wholesalers should respond to this trend, not the wholesalers themselves. He also refers to the danger of FMCG retailers, that have more data and knowledge about customer focus and marketing than a wholesaler. A retailer uses several models to analyze and determine its strategy regarding distribution and display of the goods. He looks at the buying profile of customers, analyzes the business of customers by looking at his company location and tries to find a way to increase the average drop of sales based on cross-selling. All these activities are not performed by a wholesaler, because the traditional wholesaler doesn't collect data and accordingly adjusts his strategy based on that data. Wholesalers should link customer behavior to the goods they can sell. Investments in marketing are necessary to become more aware of customer behavior and the customer behavior of their customers. Some wholesalers are trying to apply this data-strategy, although not yet successful.

(1) "They say, that the ones that can get grip on data and know how to cope with that data by using it to increase transactions and customer relationships, will be the winner who takes it all."

(6) "The role of the wholesaler should be more data-driven. Some wholesalers are already retrieving and analyzing data, but it must change from superficial analyzing to profound analyzing."

5.3.4. Delivery

In the traditional business model, next to the cash & carry distribution FMCG wholesalers operated with additional limited delivery solutions. During the past years, delivery solutions have been developed and nowadays they play a significant role in wholesale distribution:

(1) "Traditionally we are a cash & carry wholesaler, we didn't provide any delivery possibilities... At some moment, we realized that in foodservice, as being B2B, you also need order systems."

(4) "Six years ago 75% of our sales was done through cash & carry, 25% through distribution. Now, it changed to 50-50."

Sales through delivery channels increased, so wholesalers started to invest in delivery solutions. Instead of only offering products and service in a physical warehouse, customers could now order goods and get them delivered straightly at their business location. Delivery solutions are being developed incrementally nowadays. Wholesalers deliver extra value to their customers, because these concepts are designed to make things as easy and convenient as possible for the customers. Wholesalers apply closely-knit distribution systems to supply their goods to their customers. It's a form of distribution, which manufacturers cannot perform, as illustrated by the following quotes:

(2) *“.. But that would mean that manufacturers will perform the closely-knit distribution themselves. That will not happen according to my opinion.”*

(4) *“Because of the broadly divided consumer-portfolio of our products, the closely-knit distribution will increase. We will always need a partner for that and wholesalers are still the only ones who perform well on this level.”*

Although delivery solutions have increased and improved, wholesalers recognize that physical contact with the customers will always play a significant role. FMCG products are manufactured to be used by consumers on high-frequent basis. It means that consumers buy a specific product to fulfill their needs on that daily basis. In this case it's likely that a consumer will not change his product selection easily as long as it is fulfilling his needs. In order to influence the customer and change his purchasing pattern, companies need to get in touch with the consumer physically on a regular basis. This will not lead immediately to increased sales in the cash & carry facilities, but will increase the purchase portfolio of a specific client on the long term.

(1) *“The challenge is to re-attract customers to visit the cash & carry on regular basis, so they can get in touch with new products, contact with industry participants and innovations. The assortment we are selling to the client increased due to this physical approach in our cash & carry.”*

(3) *“We own some cash & carry's where retailers come to get inspired a few times per year.”*

(4) *“Today we have six food yards, which are locations, where we perform special food sessions for chefs. Every time chefs go home with many ideas. We are trying to inspire the chefs in that way.”*

5.3.5. Online purchasing

Due to the changed consumer behavior and developments in delivery solutions, online purchasing increased the last decades. To better serve their customers, wholesalers designed online tools that gave a new dimension to purchasing. In B2C experiences (e.g. Amazon, Coolblue) consumers have access to all kind of products and services with just one click away. Increasingly B2B buyers want to apply their B2C expectations into their B2B environment. Current orders processes show that the B2C prioritizing and speed isn't matching at all with B2B purchasing. It's interesting to see that foodservice wholesale companies need several days to process while a food retailer handles the order within one single day. Although start-up retail companies are created through successful innovative technology, but in operation it lacks the extra dimension of contact and creativity.

(1) "People think from a technological point of view, from that point of view everything's possible. The only limitation is creativity and fantasy."

(6) "Having a website with just a picture and a nice product description will not lead instantly to the actual purchase."

The latest improvements in online purchasing are small compared to what FMCG retailers expect. This was clearly visible on the 16th of June, 2017. Amazon announced the take-over of the food retailer Whole Foods by paying USD 13,700 M (FD, 2017). Immediately after the announcement stocks of the traditional food retailers decreased tremendously. This tendency has showed that the market expects food retailers in current forms do not have the capability to respond to the potential power of Amazon.

(6) "The connection between data and knowledge is getting improved by retailers, but even more by digital companies. If you don't do anything you will be overtaken."

In the past decade we have seen physical traditional retailers taking over innovative digital retailers. An example of this was the take-over of Bol.com by Ahold in 2007. Traditional retailers lacked innovation and so the "bricks" took over the "clicks". By taking over companies who possessed that digital knowlegde they could attempt to secure the company's continuity. Now the opposite occurs, as illustrated in the example of Amazon; the "clicks" are taking over the "bricks". Digital companies agree that even though e-commerce is still increasing, it still has its analyzing limitations. As previoulsy discussed you never have the physical contact with the customer in a webshop.

5.4. Value strategies

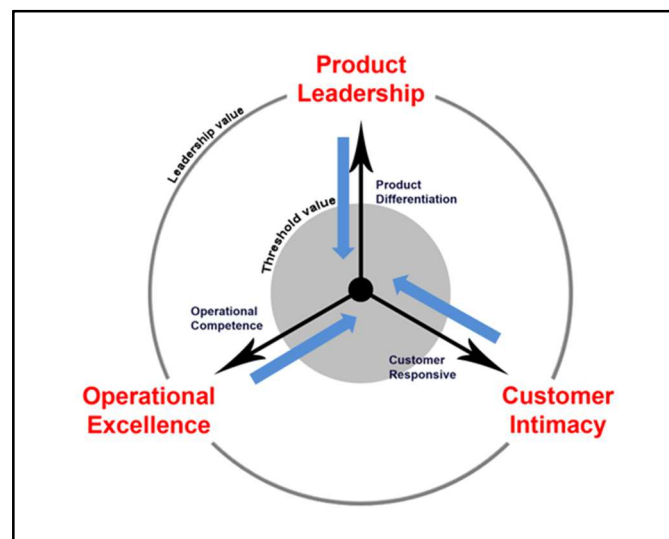
The next theme consisted of defining the different value strategies performed by wholesalers. In the FMCG industry it appeared that wholesalers operate in a highly competitive market and so each wholesaler is attempting to differentiate from its competitors. Wholesalers are trying to break through the traditional model of wholesaling in order to create new value for customers. One of the goals of this research was to define the value propositions that FMCG wholesalers are currently carrying out, how

the value propositions can contribute to business model innovation and why wholesalers should pursue these value propositions. The value propositions are used in different value strategies, which will be described in the following sub-paragraphs. These value strategies are connected to the sub-topics of paragraph 5.3.

The research data showed three different value strategies. Although companies have applied some strategies for some time now, in their current form they lack innovativeness. When increasing the focus and improving the strategy, the industry can be changed. The value strategies match with the theory of Treacy and Wiersema (1993);

1. Operational Excellence
2. Product leadership
3. Customer Intimacy

Figure 5.1. Value Disciplines



Source: Treacy and Wiersema (1993)

The purpose of the value strategies of Treacy and Wiersema is to create a specific focus on value without losing sight of other values. When all values are approached equally, the Treacy and Wiersema model creates a triangle with equal sides and so further focus must be determined on one of the three strategies. In the following sub-paragraphs, each strategy will be analyzed and quotes will be added to contribute to business model innovation theory.

5.4.1. Operational Excellence

In operational excellence or cost focus, the company focusses on a certain strategy in production and delivery of products and services. The company offers relatively standardized products or services at the most competitive prices with minimal inconvenience and differentiation. Value is created for the company by minimizing its costs through high-frequented and transaction-based products and services and by standardizing company processes as much as possible. In the traditional wholesale model this

value strategy was applied in order to execute business as efficient as possible. In current business models this cost-efficiency focus still plays in an important role.

Table 5.3. Themes connected to Operational Excellence		
Industry developments	Customer interaction	OPERATIONAL EXCELLENCE
	<u>Vertical integration</u>	
	Food waste	
	Corporate Social Responsibility	
	Product life cycles	
	Blurring & consumer behaviour	
Distribution		
	<u>Self-service</u>	
	Delivery	
Digitalization	Online Purchasing	

These following quotes show, that the traditional cost focus is still applied by wholesalers, although in different forms.

- (1) *“Fifteen years ago we were “box movers”, moving efficiently from A to B.” “...that’s not exciting anymore; it has become a hygiene factor for wholesalers.”*
- (3) *“Internet arose and companies with a cost focus are still suffering from that. Because of companies like Coolblue, these wholesalers have a big problem.”*
- (4) *“The margins are quite low, so you will always have to keep an eye on your costs.”*
- (7) *“In cost-leadership strategies the customer experience is not mandatory, so for commodity products it might still work.”*

When wholesalers are attempting to deliver value through low-pricing and standardized processes in offering products and services, other value will hardly be created. Due to this cost focus, wholesalers will be marked as box movers and intermediaries that just bring supply and demand together, nothing more, nothing less. The product types, as shown in the second quote, mostly consists of commodity-trade items, which are known for their standardized character. In other businesses (such as the taxi-industry), it appeared that these traditional business models suffered; disruption entered the market and tech start-up companies applied an innovative approach by bringing supply and demand together in a digital environment. When applying this cost focus strategy, wholesalers perform as a platform. Online

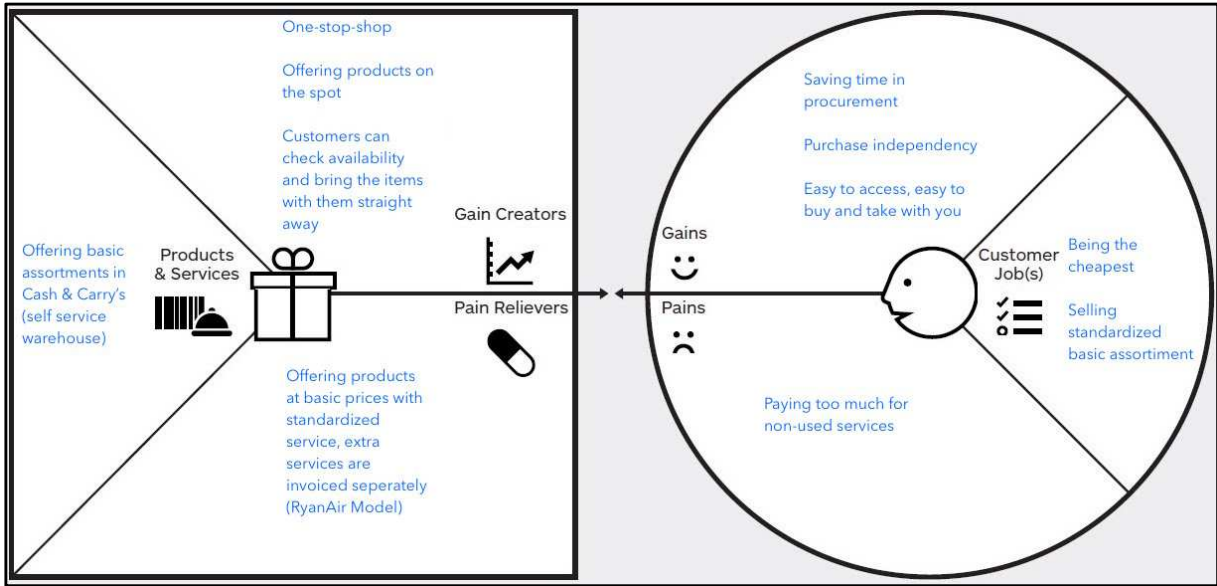
business possibilities should be embraced. Wholesalers should not be *doing digital* by optimizing existing structures. Instead, they should change into *being digital*. Digital possibilities will not be applied within a structure, but they form the basis of the structure (Molenaar 2017). These new structures show various advantages in a dynamic world. Reply speed, direct contact and flexibility will be the new determinants to become successful. In that essence, it will become essential to have distribution locations near the customers. This will decrease lead-time and costs. The value map of the operational excellence focus is shown figure 5.2.

(2) *“We thrive to have as many stocks as possible as near as possible to the customer.”*

(4) *“Physically it remains important to be in the close area, so like that you can guarantee your service.”*

(5) *“Strategic position plays also an important role in the connection to the area.”*

Figure 5.2. Value proposition canvas – Operational Excellence



Source: Osterwalder et al. (2014)

5.4.2. Product Leadership

The second value strategy is known for organizations that excel on developing and offering innovative products or services. These organizations strive to have a wide and up-to-date assortment that matches the latest trends and developments in the market. These organizations cannot afford to stay behind. By offering nicer, better or more intuitive products than the competitor, organizations can distinguish themselves from others.

Table 5.3. Themes connected to Product Leadership	
Industry developments Customer interaction Vertical integration <u>Food waste</u> <u>Corporate Social Responsibility</u> <u>Product life cycles</u> Blurring & consumer behaviour Distribution Self-service Delivery Digitalization Online Purchasing	PRODUCT LEADERSHIP

As highlighted before in the previous value strategy, the traditional business model of wholesalers was to ‘move boxes’ from A to B in the most efficient way. The wholesalers could source products and design a proper product placement, but in terms of product leadership the innovation would not come from their hands; manufacturers were the innovators. This made it hard to have the product leadership strategy as a focus. The research data show that the wholesalers in this research admit that their businesses lacked the product leadership focus for their current assortment.

(1) *“If we are talking about products, for example our tubes of mayonnaise, it’s the same as our competitor and has a comparable price. Sometimes we are cheaper, sometimes they are. This cannot be a competitive advantage for the long-term.”*

(2) *“In menus of a restaurant one will always find beer and cola. We are not able to distinguish ourselves in those commodity items.”*

The quotes illustrate that the FMCG wholesalers are not able to make a difference in their basic assortment. When consisting of only A-brands and commodity items, wholesalers cannot distinguish themselves from competitors. Nevertheless, the research data showed a trend regarding local products. Retailers are searching for uniqueness in their menus and so they are looking for unique products that have local origins. When putting local products on menus, retailers trigger recognition at consumers and so extra value to their consumers is created.

(1) *“In the past years it seems that every village and city has been brewing their own beers, it has become more popular than ever before.”*

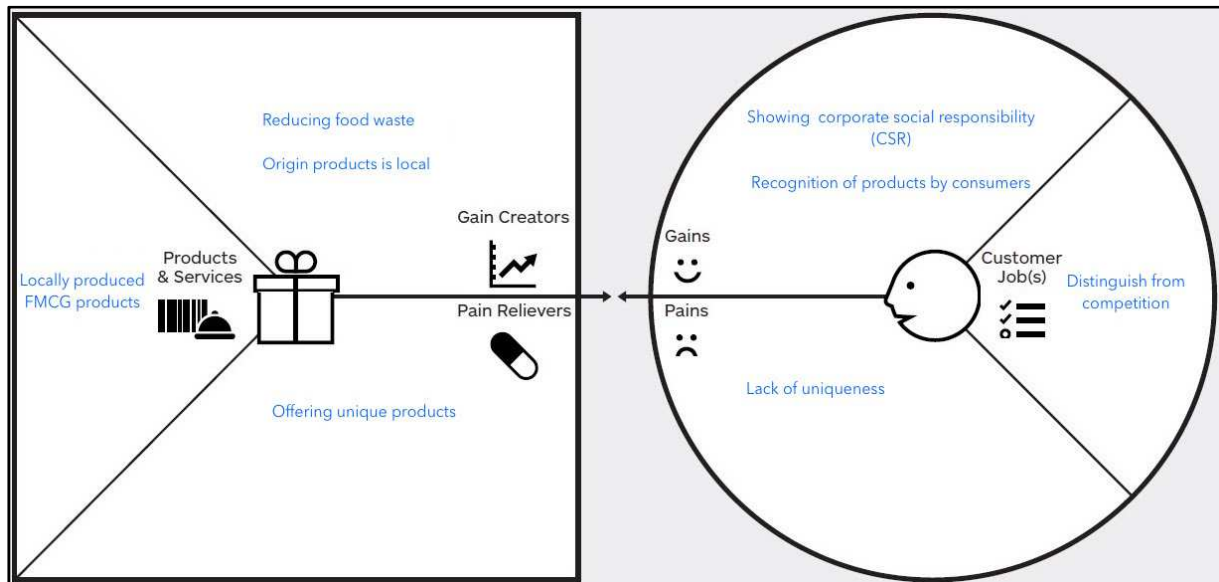
(2) *“In Amsterdam we sell geoses that were shot around Schiphol Airport. Retailers should focus on those kinds of trends. I believe that the value of a wholesaler can be carried out in promoting local products.”*

(5) *“Local production is becoming more interesting. We see increasing demands for local products, consumers want recognition.”*

The trend of local products has been noted by all FMCG wholesalers, although only the SME sized are focusing on this trend. The value creation by these companies is done through offering special products to service the client as high as possible. Large wholesalers are more focused on value delivery through high-frequency transactions and are incapable to manage this regional product procurement.

The value map of the product leadership focus is shown in figure 5.3.

Figure 5.3. Value proposition canvas – Product Leadership



Source: Osterwalder et al. (2014)

5.4.3. Customer Intimacy

In this value strategy, the focus is settled on the relationship with the customer. Organizations that excel on this value strategy continuously adapt their products and services on the demands and needs of customers, that are fitting to a gradually finer definition. These companies do not believe in one-time transactions. Companies with a customer intimacy focus are willing to invest now in customer relations to benefit from that same relationship in the long-term. Value for the company is created through life-time value of the customer, not through one single transaction. The offered solutions to customers by companies with this value strategy are considered as workable, although not being the low-priced or unconventional solutions.

Table 5.3. Themes connected to Customer Intimacy	
<p>Industry developments</p> <p style="padding-left: 40px;"><u>Customer focus</u></p> <p style="padding-left: 40px;">Vertical integration</p> <p style="padding-left: 40px;">Food waste</p> <p style="padding-left: 40px;">Corporate Social Responsibility</p> <p style="padding-left: 40px;">Product life cycles</p> <p style="padding-left: 40px;"><u>Blurring & consumer behaviour</u></p> <p>Distribution</p> <p style="padding-left: 40px;">Self-service</p> <p style="padding-left: 40px;"><u>Delivery</u></p> <p>Digitalization</p> <p style="padding-left: 40px;"><u>Online Purchasing</u></p>	<p>CUSTOMER INTIMACY</p>

This value strategy of customer intimacy has gained more interest at FMCG wholesalers. In the past few years after the last international crisis of 2008, companies have focused on cost-reductions. Cost leadership was the motto, so now costs have reached an all-time low. The following quotes illustrate this:

(1) *“At our competitors in the industry no investments were made, not in truck, not in humans, not in systems.”*

(7) *“Our businesses focused on cost-efficiency in the past years, today companies really have to change their focus on delivering additional value to the customer. “*

As retailers are now focusing more on service excellence towards their customers, wholesalers respond with customer intimacy solutions. The purpose of this new approach is still selling, but in a long-term value capturing way instead of a short-term transaction-based value creation way.

(1) *“In the old model, the wholesaler’s function consisted of selling, very efficient, offering products in sales and huge commercial campaigns. The end-goal was to fill up the shopping cart as much as possible. The goal is still selling, but also inspiring.”*

One of the essential service contribution is product and industry knowledge. By showing affinity with customers, wholesalers distinguish themselves from others by bonding with customers through knowledge distribution.

(1) *“We have to get rid of the box-movers’ mentality, because like that we are redeemable. We want to be more than that through customer bonding, customer experience, inspiring, those kinds of things.”*

(4) *“The distinction towards the customers is extracted from service and inspiration through providing knowledge. “*

(5) *“Logistics are going to be important, but the most important focus now is attention. Everybody want attention, despite all technology. Loyalty is decreasing, we are suffering hardening in the market.”*

After the exploration of the product and industry knowledge, the wholesalers interact with customers to exploit this knowledge. First, wholesalers are still using account managers and visit clients. Second, a new approach has been introduced recently, which takes place at the wholesalers' cash & carry. The current development has shown in previous paragraphs that more focus has been set on delivery solutions through online portals. Although being an innovative development, wholesalers agree that through online portal the customer interaction is limited and sales stagnate at a specific level. As a wholesaler, you need to bring the customer in contact with the goods and services you can provide. The physical showrooms at cash & carries play a significant role in this.

When focusing on customer intimacy, a wholesaler strives for strategic partnerships with its clients. This partnership is based on four core values. First, trust from customer to wholesaler needs to be established, so customers can rely on their supplier. The second value is commitment, which is achieved by focusing on the customer relationship, interaction and solutions offers the wholesaler has. Next, the quality plays a significant role. Products need to reach specific quality standards, which is the basis of the business. The last core value is dedicated to customer drive. Before, companies responded to customers' requests through standard procedures. Now, customer drive is focusing on responding to those requests with tailor-made solutions and personal care, as show in the following quotes.

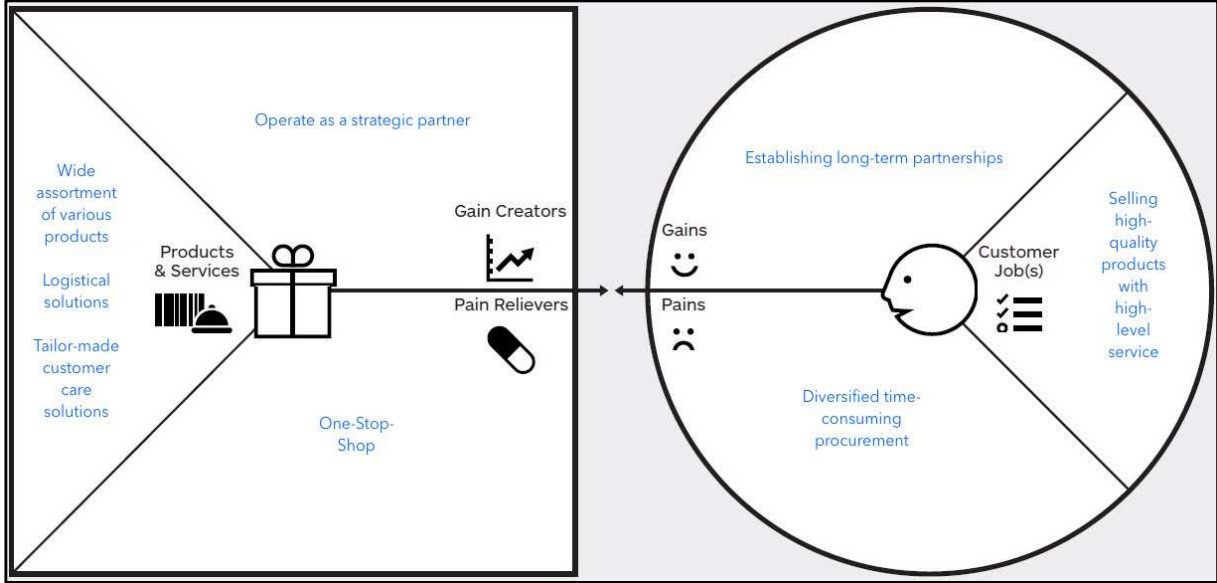
(1) *“The last couple of years we are searching for inspiration and additional value creation for our customers and their respective businesses. We want to be part of their business journey.”*

(3) *“At the moment we are extending our services, for example through offering full meal solutions, so no preparation, cooking etc. has to be done.”*

(4) *“We have our own fruit and vegetables process unit, so salads can be made quick and fresh. It's more efficient than letting the retailer do it himself, it's service, it's ease.”*

The value map of the customer intimacy focus is shown in figure 5.4.

Figure 5.4. Value proposition canvas – Customer Intimacy



Source: Osterwalder et al. (2014)

6. Conclusion

In this chapter the research results will be summarized. Afterwards, the interpretation of the results is discussed and findings are created into new theory. Next, limitations of this research will be explained. The last paragraph consists of the evaluation of this research.

6.1. Summary

This research has been dedicated to the contribution to value propositions design in business model innovation. The research has been done at five wholesalers, one producer and one retailer. In recent years, business model innovation and value creation at retailers has been researched extensively (Sorescu et al., 2011; Coughlan, et al. 2001; Grewal et al. 2009). Theory lacked corresponding findings at wholesalers. Since the position of wholesalers has been threatened the past few years because of vertical integration in the supply chain, the research was executed to form an answer on the main research question: **“How can wholesalers determine value strategies when innovating a business model?”**

The results of the research illustrated that the customer interaction has changed over time in the FMCG industry due to the changed wholesale function. Wholesalers changed their role from being an intermediary between manufacturers and retailers to an orchestrator between various stakeholders, due to the rise of the internet and increased e-commerce possibilities. Besides offering and invoicing the client, wholesalers are increasing their focus on inspiring and interacting. Besides the changed customer focus, vertical integration is still taking place in the FMCG industry. Manufacturers can now reach the end customer through online possibilities. This leads to shorter supply chains and higher profit margins for producers and manufacturers, while the desires of the end-customers can be analyzed and served directly. Nevertheless, the manufacturers do rely on wholesalers, due to their network and the brand independence of retailers. Mainly through blurring, retailers are offering new and other services to customers, that have never been offered before. New business concepts are created through blurring. Retailers possess essential customer data and analytics, which form the basic elements of blurring. The dividing lines between food service and food retail are slowly disappearing, so wholesalers should take a directive role in this trend. These FMCG wholesalers haven't been taking such directive role in distribution innovation in the past decade. Due to the development of closely-knit distribution, wholesalers own a unique distribution network that manufacturers can hardly obtain. Next to (online) delivery solutions wholesalers still rely on their brick & mortar facilities in order to influence the customer on the short-term and change the buying pattern on the long-term.

The research results showed three value strategies, which are applied by the investigated FMCG wholesalers. The operational excellence focus still forms the basis of each wholesaler, due the high efficiency and logistics focus. Other industry developments were mostly linked to product leadership and customer intimacy. Retailers try to distinguish from competitors by offering unique products; through product leadership focus this uniqueness can be reached when offering local products. Local production

and decreasing food waste are contributing to CSR. When focusing on customer intimacy, a wholesaler strives for long-term partnerships, based trust, commitment, quality and customer drive.

6.2. Interpretation

Now that the research findings are described, the next step is to analyze the retrieved data and interpret the findings to answer the research question. The purpose of the value strategies of Treacy and Wiersema (1993) is to create a specific focus on value without losing sight of other values. Wholesalers should focus on the three value strategies equally, but current theory does not reveal when they focus a specific value strategy. This research has been conducted at three of the five biggest national FMCG wholesalers in the Netherlands and two smaller sized wholesalers. The results showed that the biggest three show a current focus on operational excellence but are moving towards customer intimacy. On the other hand, the smaller sized wholesalers are focusing on customer intimacy and are directing to a more product leadership focus. The traditional solely operational excellence focus seems to disappear, due to the high threat of disruption in that focus of connecting supply and demand in an efficient way.

Figure 6 Value strategy focus

Wholesaler value focus		
	Main value focus (current)	Main value focus (future)
Wholesaler (SME)	Customer intimacy	Product leadership
Wholesaler (large-sized)	Operational Excellence	Customer intimacy

Due to low overhead costs, SME wholesalers are flexible towards their customers. This group of wholesalers designs tailor-made solutions for customers through customer intimacy focus. Next to value creation with long-term customer relations, the SME wholesalers are attempting to distinguish through offering unique products. Because of the flexibility they can easily apply this product leadership method through trial-and-error. On the contrary, large-sized wholesalers are not that flexible due their high-transaction based logistics and processes. These wholesalers are still enhancing the operational excellence focus, but are moving slightly to customer intimacy through physical selling. Where the focus had been put on value creation through click-and-mortar solutions, the large-sized wholesaler see the importance of having the brick-and-mortar solutions as well, so they can approach the customer intimacy focus.

6.3. Limitations

This research contains limitations that should be considered in the interpretation of the outcomes. The results can be influenced by the researcher's bias, case choice and the selection of value strategies. The research had been conducted in the FMCG sector as the researcher is working in. Because the interviewees expect that the researcher already has specific knowledge and so they do not give any detailed information. Besides that, respondents could have hidden specific information regarding the strategic decisions, which will not be shared with external researchers. By choosing the interviewees, the researcher has gained information prior interviewing so this could have influenced the research results. Nevertheless, the interviewees were asked to treat the researcher as an independent research of the Erasmus University.

6.4. Evaluation

Before this research was executed, literature had shown that value propositions were one of the essential elements of a business model. Vertical integration has been applied in many industries for so many decades in order to contribute to improvement of these value propositions. The literature study didn't show how these value propositions were designed. This qualitative study contributed to value proposition design theory in a highly-competitive industry like the FMCG industry. The industry is characterized by a high number of competitors and price. The size of the company determines the value strategy focus. The purpose of this research was to also see if new business models are being constructed. Online order platforms gain relevance and are possible threats for traditional wholesalers. In that essence, new business models are not totally created, but will be renovated. Adjustments within in the business model will be made with existing parts of the business model.

In order to link the results and conclusions to a more profound and general determination, future research should be conducted at other high-competitive markets. The research results were only applied on the FMCG industry and so the conclusions lack overall determination. Also, the framework as in figure 6.1. could be tested in other high-competitive industries.

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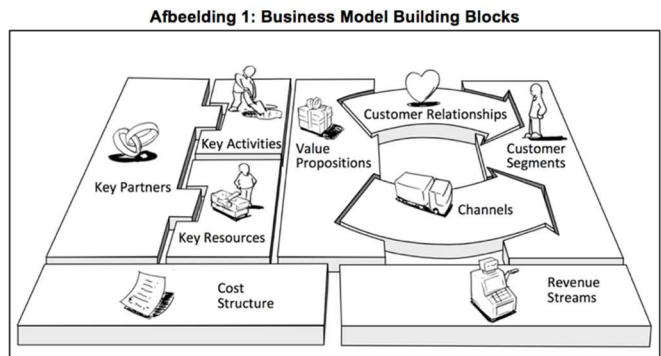
Appendices

Letter to interview participants

Business model innovation bij groothandels.

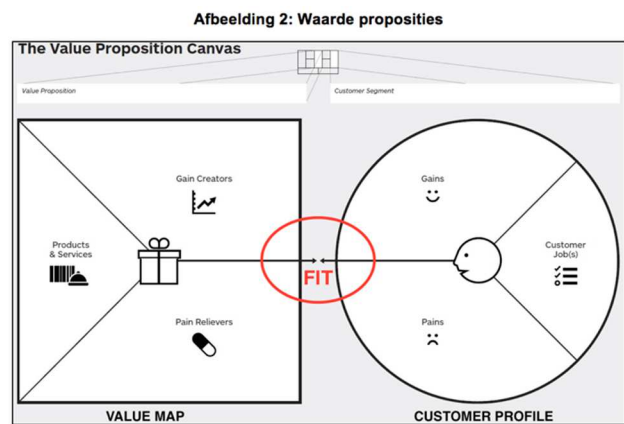
Mijn naam is Tim Kamp en in verband met het schrijven van mijn masterthesis voor de opleiding Bedrijfskunde aan de Rotterdam School of Management (Erasmus Universiteit), voer ik momenteel een onderzoek uit naar de innovatie van businessmodellen bij Fast Moving Consumer Goods (FMCG) groothandels in Nederland.

Door de vele digitale ontwikkelingen worden traditionele supply chains (producent – groothandel – retail – consument) verkort en verstoord; de businessmodellen van groothandels in o.a. in de FMCG-sector worden hierbij op de proef gesteld. Een verdienmodel bestaat uit negen onderdelen, zoals aangegeven in afbeelding 1.



Source: Osterwalder & Pigneur (2010): Business Model Generation, pp 18-19.

Daarnaast is het van belang, dat groothandels relevant zijn en waarde leveren aan hun klant, nu en in de toekomst. Groothandels zullen duidelijke waarde proposities voor hun klanten moeten aannemen om zo op de wensen van deze klanten te kunnen inspelen: een duidelijke *fit* dient er bereikt te worden, zoals weergegeven in afbeelding 2.



Source: Osterwalder et al. (2014)

Mijn onderzoek zal zich voornamelijk richten op deze waarde proposities en hoe groothandels deze invullen om een significante rol in de toekomst te blijven spelen. Wetenschappelijk onderzoek m.b.t. dit onderwerp heeft voornamelijk plaatsgevonden bij retailers in de supply-chains; bij groothandels is vrijwel geen onderzoek uitgevoerd.

Tijdens dit onderzoek zal ik een bezoek brengen aan zeven groothandels en interview ik bij elke groothandel de persoon, die verantwoordelijk is voor de benadering van deze waarde proposities. Het doel van dit onderzoek is om de benadering van deze waarde proposities van de klant in kaart te brengen. Tijdens het interview zal ik u vragen naar de manier waarop de waarde proposities van de klant in kaart gebracht worden, hoe u deze benaderd heeft in het verleden en in de toekomst zal benaderen. De kernvragen zijn weergegeven op de volgende pagina.

Het onderzoek is onafhankelijk van aard, ondanks het feit dat ik zelf werkzaam ben bij een internationale foodservice groothandel. Mits akkoord van de ondervraagde, zou ik graag het interview op audio vast willen leggen. Het interview duurt ongeveer 60 minuten en wanneer het onderzoek is afgerond, zal de ondervraagde worden voorzien van een management samenvatting van de scriptie. De interviews zullen volledig anoniem verwerkt worden in de onderzoeksresultaten en zullen met niemand verder worden gedeeld.

Mocht u nog vragen hebben, dan kunt u met mij contact opnemen. Alvast bedankt voor uw medewerking!



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Onderzoeksvragen / Research questions

1. Bij businessmodel innovatie gaat het niet per se over nieuwe businessmodellen creëren, maar kunnen ook onderdelen van huidige businessmodellen aangepast worden. In hoeverre doet uw organisatie aan businessmodel innovatie en waarom doet uw organisatie dit? Heeft u voorbeelden?

In business model innovation, it's not only about creating new business models, but also adjusting parts of current business models. In what sense does your company apply business model innovation and why does your company do that? Could you give some examples?

2. Waarde proposities zijn van belang om als bedrijf in te kunnen spelen op de wensen en behoeften van de klant. Hoe analyseert u deze klantwensen en –behoeften? En hoe bepaalt u de waarde proposities, die uw bedrijf hiervoor aan kan nemen?

Value propositions are essential for companies to react to customer's demands and needs. How does your organization analyze these demands and needs? And how do you determine value propositions, that your organization can pursue?

3. In hoeverre vindt u uw huidige businessmodel vernieuwend ten opzichte van uw concurrentie? Hoe ervaart u de businessmodel vernieuwing van andere bedrijven?

To what extent do you think the current business model of your company is innovative, when comparing to your competition? What do you think of business model innovation at other companies?

4. Hoe zou u de huidige markt- en sectoromstandigheden omschrijven? Vergeleken met 10 jaar geleden, kunt u aangeven wat er in die tijd qua markt- en sectoromstandigheden is veranderd?

How would you describe the current market and sector conditions? Compared to 10 years ago, could you describe what has changed in the market and sector condition since then?

5. In verschillende andere sectoren heeft de digitalisering ervoor gezorgd, dat traditionele verdienmodellen volledig achterhaald blijken; bedrijven zoals Uber in de taxibranche en Airbnb in de verhuursector worden gezien als 'disruptors'. In hoeverre denkt u dat dit in de FMCG-sector ook zal gebeuren?

In different other sectors digitalization has led to the fact the traditional business models have been overtaken: companies like Uber in the taxi industry and Airbnb are seen as 'disruptors'. To what extent do you think that this will happen in the FMCG-sector?