The Impact of the Euro

-A comparing study between Swedish and Finnish Fruit and Vegetable Wholesalers

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Abstract

The implementation of the European Economic and Monetary Union has made a significant impact on how business is conducted throughout Europe. It has affected both member and non-member countries in many ways.

This dissertation investigates the effect of the EMU on the Fruit and Vegetable wholesaler markets in Sweden and Finland. Five factors are used to make a comparison between the two markets. The factors are: Competition, Foreign Direct Investments, Euro-related costs, Trade and Supplier relations.

Semi-structured interviews with four Swedish and three Finnish companies were conducted. In the interviews, the companies were asked questions related to the five factors.

Our conclusion is that there is a difference between the two markets. However, the Euro affected each factor we examined differently. Generally, the differences were not that significant between the two markets. Nevertheless, some factors varied to a larger extent than others.

Keywords: Euro, Fruit and Vegetable Wholesalers, Competition, Foreign Direct Investments, Euro-related Costs, Trade, Supplier Relations

Foreword

Kristianstad, December 2005

This dissertation concludes our three and a half years of studies at Kristianstad University. During these years we have gained much knowledge and experience, which were applied to this dissertation.

We would like to specially thank our tutor Carl-Michael Unger for his support and encouragement during the writing of this dissertation. We would also like to thank our English teacher, Viveca Fjelkner, for her support and help with the English language.

Finally, we would also like to thank all the companies that participated in our interview. Without their assistance this dissertation would not been possible.

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Table of Contents

Appendices

List of Figures

Chapter 1

Introduction

The first chapter contains an introduction of the dissertation. In the introduction the background is presented, along with the purpose and the limitations. Finally, the research questions are stated and the outline is set.

1.1. Background

The European Union is one of the most extraordinary things that happened in Europe during the past decades. The unification of the countries in Europe has led to increased trade, prosperity and political stability. The latest step in the process of unification of the European countries is the Economic and Monetary Union (EMU). At first, there were many economists and politicians that doubted the very existence of such a union of these countries. This opinion was not only based on the past differences, but also on the dissimilarities of the economic and political structures in the various countries. Some economists also argued that adequate fiscal policy tools were necessary to prevent asymmetric shocks from undermining an economic union (Mundell, 1961). Despite that, the Maastricht treaty was signed by all member countries in 1991, where they all agreed to introduce a single currency on the 1st of January 1999. This was the start of the EMU. (Ådahl & Eklund, 2003)

The EMU was formed and many countries chose to join at the very beginning, even though there still were doubts and problems in certain areas. For these reasons some countries chose to stay out of the economic union e.g. Denmark, Great Britain and Sweden. Denmark and Great Britain negotiated a clause which meant that they were not forced to join the EMU. In 1999, when the currency exchange rates of the participating countries were locked to each other permanently, the Euro was officially launched. By the year 2002 the Euro was officially initiated as the member states (including Finland) converted their currency into Euro. Sweden voted no to the EMU on the 14th of September 2003 and is still not a full member of the monetary union. (Ådahl *et al.*, 2003)

Europe has been strongly affected by the implementation of the EMU in many aspects. One of the aspects is how companies deal with the changes in the national economy level. The European markets are becoming increasingly dynamic as the globalisation increases. There have been many studies conducted on the changes on this level, but research done on firm level has been scarce. This aspect is, for us, just as important as the national economy level. Firms in these countries are affected in both positive and negative ways. Thus, in our dissertation we will compare a non-EMU market with an EMU market and investigate what factors affect them the most. There were many different markets to investigate, but at the end the Fruit and Vegetable (F&V) market was chosen. This decision was based on the assumption that the market had a limited number of companies and that most of the products are imported from few countries e.g. the Netherlands and Spain.

There are many factors that can be of interest when comparing the two markets and the effects of the EMU. Is the Euro more of a problem than an advantage for companies? An argument for a membership in the EMU was that it will benefit the companies. But do companies really want intensified competition? It is without doubt the consumers that will profit from increased competition, and not the companies. The prices will automatically be lowered on goods, when companies try to get competitive advantages on the market. The only thing companies will benefit from is decreased transaction costs, as a single currency will abolish the exchange costs. Does the Euro make it easier for companies to change suppliers or is this business built on long-term relationships which cannot be changed in a second? A long-term relationship is something positive for companies and strengthens them. Are companies really prepared to sacrifice these relations, just to make some savings in transaction costs?

The factors that came to our attention regarding the comparison of the two markets were: Competition, Foreign Direct Investments (FDI), Euro-related costs, Trade and Supplier Relations. We found these factors when we read books treating the Swedish EMU election. The most influential books were "Därför Euron" (2003) and "Europa Ja, Euro Nej" (2003).

We chose these factors because we felt that, they together, show the most accurate picture of how the EMU affects companies. Under competition we have sub-factors including ability to compete and potential trade barriers. FDI involves mainly how the EMU has affected the future direct investment plans of the firms. We define Euro-related costs as all cost associated with the Euro, such as cost of capital, transaction costs and currency exchange costs. We chose to treat the five mentioned aspects but also to focus on the different problems experienced by the companies that we interviewed.

1.2. Purpose

The purpose of our dissertation is to examine if there are any differences between a non-EMU market compared to an EMU market. We will investigate the main differences, through the five identified factors, between the two countries; Finland and Sweden. We reasoned that the factors would give us the key facts needed to make this comparison.

Furthermore, we want to examine whether our findings can be used to draw conclusions about the overall value gained by Swedish companies in this market if Sweden joins the EMU. These conclusions will in turn increase our and the readers' knowledge about how F&V wholesalers are influenced by an EMU membership.

1.3. Limitations

We have limited our research to only include F&V wholesalers. The companies we interviewed are Swedish and Finnish firms that import their goods mainly from Spain and the Netherlands. Sweden was selected due to its EMU non-membership. Finland's similarities in its overall market structure and the proximity of it and Sweden made it the best choice.

Time limited our ability to conduct a more extensive survey. The depth of the interviews, number of markets and factors were affected by this limitation. Finally, this dissertation focuses solely on five identified factors: Competition, FDI, Euro-related costs, Trade and Supplier Relationships.

1.4. Research questions

- Are there any differences between an EMU and a non-EMU firm in the Fruit and Vegetable market concerning **Competition**?

- Are there any differences between an EMU and a non-EMU firm in the Fruit and Vegetable market concerning **Foreign Direct Investments**?

- Are there any differences between an EMU and a non-EMU firm in the Fruit and Vegetable market concerning **Euro-related costs**?

- Are there any differences between an EMU and a non-EMU firm in the Fruit and Vegetable market concerning **Trade**?

- Are there any differences between an EMU and a non-EMU firm in the Fruit and Vegetable market concerning **Supplier relations**?

1.5. Outline

The dissertation has the following outline:

Chapter 2:	The methodology is presented, together with the data collection and our scientific approach.
Chapter 3:	The theoretical framework is presented. First, we define and explain the different theories that can be linked to our dissertation. Second, we deepen our explanation in the parts where the interviewed companies experienced the greatest changes.
Chapter 4:	The empirical method is presented. We explain our research approach and discuss the interview questions. Finally, the validity and reliability of the interviews will be examined.
Chapter 5:	The results of the semi-structured interviews are presented.
Chapter 6:	The analyses and answers to our research questions are presented.
Chapter 7:	A summary of our dissertation is presented, along with reflections of our work and suggestions for further studies.

Chapter 2

Method

In the second chapter the choice of methodology is presented, together with our data collection methods and a literature review. At the end, our scientific approach is presented.

2.1. Choice of Methodology

The purpose of our dissertation was to examine the five identified factors of how the F&V market in a non-EMU market functions compared to one in an EMU market. We conducted a comparing study between F&V wholesalers from Finland, that have the Euro as the currency, and Sweden, that does not have the Euro as the main currency. Thus, our aim was to investigate any differences in Competition, FDI, Euro-related costs, Trade and Supplier relations for these wholesalers.

We used an inductive approach to our research. The inductive approach means building theory i.e. collection of data which will be concluded in a theory. This approach was taken because we investigated the differences between two markets. At the end, we wanted to create our own matrix about the differences we discovered. Contrary to building theory is testing theory i.e. a deductive approach. It is mainly based on empirical data, which means that one finds a theory of which hypotheses are deducted and then tested. (Saunders, Lewis & Thornhill, 2003)

2.2. Data Collection

Data collection plays an important role in the creditability of the dissertation. This is why we present detailed information about how and where we found our data.

2.2.1. Secondary Data

The definition of secondary data is "…data that have already been collected for some other purpose" (Saunders *et al.*, 2003). This kind of data, also called empirical data, forms the base of many studies as it is cheap and easy to gain access to. The problem that arises is that most of the time someone has made an interpretation of another source. In research it is imperative to closely review your data, so that it does not become misleading.

The first thing we did was to conduct a literature review to gain a better understanding about the firm level aspects of the EMU. Through this research we found the basic structure of what aspects to include in the interviews we were to conduct. We found general facts that helped us define theoretical areas of our dissertation.

2.2.2. Literature Review

The literature we found became extensive, as we tried to cover all the different aspects of our dissertation. Our research plan first involved searching for secondary data that would get us an overview of the factors we were about to investigate. Then, we searched for information that thoroughly described our different issues within each factor.

First, we searched for descriptive literature to build a foundation of a theoretical nature. It includes literature written by Ball, McCulloch & Frantz (2002) where they explain different kinds of restrictions between countries. These restrictions involve tariff barriers and non-tariff barriers. Furthermore, their differences are pointed out. Different ways to internationalise companies are discussed. The book written by Hill (2005), "International business: Competing in the global marketplace", gives an overview of business in general.

Second, literature that forms the base of our interviews was collected. In the book "Därför Euron" (2003), written by ten of the most influential economists in Sweden, the authors present arguments in favour of the EMU.

On the other hand, Lundgren (2003) states the negative aspects if Sweden joins the EMU. Other literature used was written by Lindqvist (2000) and Sverenius (2003). This helped us to divide our problem area into different categories and to determine the interview questions.

Finally, the need to develop certain areas in the dissertation made us search for more detailed information. Gummesson (2002) defines the role of relations in a business environment, as he describes the three classic relationships, e.g. two-part relationship, three-part relations and network relations. Hansen, Heinrich & Nielsen (1992) analyses the EC and what effects an implementation of the Euro will bring to member countries, in forms of transaction costs and exchange rate uncertainties.

2.2.3. Primary Data

Primary data is the collection of information for the purpose of this investigation. Since relevant secondary data was hard to find, we had to base our dissertation on mainly primary data. This suited us well because we did a comparing study of the F&V wholesalers in Sweden and Finland. In the dissertation we compared the wholesalers' situation and investigated how the Euro affected the two markets. The primary data was collected over phone through semi-structured interviews. We contacted 20 companies, both from Sweden and Finland, and asked if they wanted to participate in an interview. Four companies from each country agreed, and were sent a cover letter with general information about the interview topics. At the same time, a telephone meeting was scheduled. The data collection was simplified due to the cover letter, as the respondents could prepare their answers.

2.3. Scientific Approach

Our research philosophy is more interpretivistic than positivistic, although there are elements of both in our dissertation. A research is considered to be interpretivistic if the researcher considers the social reality too complex to be generalised. The positivistic research approach implies that the researcher is objective and thus can draw general conclusions about the social reality. We chose this mix because if you treat a problem solely from the interpretivistic point of view the dissertation is limited in certain ways, such as the lack of generalisability. The fact that we wanted to remain neutral within this subject made us use some elements of a positivistic approach. Thus, we chose to bring in some aspects from the positivistic side to balance the results of this study. (Saunders *et al.*, 2003)

Our dissertation is written as an explanatory study, defined as "Studies that establish casual relationships between variables…" (Saunders *et al.*, 2003, p 97). This means that we studied whether there is a correlation between different factors, e.g. the Euro and competition, on the F&V market.

As we examined a few wholesalers in detail, the use of qualitative data became natural. Qualitative data is when you study few sources more thoroughly to get as many aspects of the problem as possible. The answers are often expressed in words and are therefore difficult to standardise. The opposite is quantitative data - the use of many sources that can be standardised in numbers and diagrams. (Saunders *et al.*, 2003)

Chapter 3

Theoretical Framework

The third chapter starts with an introduction of our theoretical framework. Then it moves on to a deeper explanation of the applied theories within each factor.

3.1. Introduction

This chapter contains information about what theories are applied in the dissertation. First, a brief overview of the EMU with historical dates and facts are presented. Second, the chapter is divided into the five factors that we chose as our research questions. In every section of this chapter there is an overview of the specific areas that we investigated.

We emphasised facts and theories that affected the F&V market of the two countries. For example, in the competition part, the Five Forces Model only treats sub-factors that affected the Swedish and Finnish F&V markets' competitive situation.

3.2. The European Economic and Monetary Union

The EMU is a union based on integration and growth between 12 of the 25 countries in the EU. All the countries in "Western Europe" except Switzerland and Norway are part of the EU. Great Britain, Denmark and Sweden are members of the EU but do not take part in the EMU.

3.2.1. The history of the EMU

Today, the monetary union includes 12 of the European countries, and is the latest step in the unification process in Europe. This "new" market constitutes well over $6000 billion new goods and services, and this only in its first year of existence. Some people argued that this kind of area would not be possible to achieve because of national differences. Disregarding the scepticism of the opposition the development of the EMU continued. The euro was finally launched on the 1st of January 1999, and so far, it proved to be a success.

The end result of this union is still unknown as nothing alike it exists anywhere in the world. However, several of the factors that the EMU has affected can already be identified. New opportunities have arisen to both people and companies in Europe and worldwide. Trade is flourishing, finance is revolutionised and companies face new opportunities. On the other hand, there are also negative aspects of this union. The economic and monetary union puts pressure on the member countries to keep a certain level of inflation and interest rate. The member countries are limited in the ways they can control their currency and practice fiscal policies. From the company point of view, new threats have arisen in the form of increased competition, as visible trade barriers become non-existent. Companies have to adapt to this increase by improving the different value creating activities within the organization. (Chabot, 1999)

3.2.2. The size of the EMU

Today, the EMU area called Euroland, constitutes the second largest market in the world after the United States of America. Euroland has become an economic superpower in the world trade and global finance areas. Still, only 12 of the 25 EU countries are participating. However, as the new EU members in Eastern Europe are eager to join the EMU, the significance of Euroland will increase even further. (Chabot, 1999)

3.2.3. The purpose of the EMU

According to Odhner (1992) and Artis and Lee (1994) the economic effects of the European Economic and Monetary Union are many. Growth, price-development and full employment are the main macroeconomic effects that

were envisioned when the EMU was at its starting point. These effects were the driving force behind the creation of the EMU. They are the sum of several microeconomic effects. Increased market stability, trade, FDI and efficiency (by better competition) are, together with less transaction costs, the main factors that the EMU affect in the firm-level perspective. The EMU has also affected the perception of relationships among companies from different countries (http://www.eubusiness.com/emu/retail8.htm).
Thus, the positive side of the EMU is increased economic growth and employment because of better factors of production.

However, to take part of these positive effects, the member countries have to give up parts of their autonomy. Firstly, they lose their own currency, which has a certain amount of historical and sentimental value. Secondly, members of the EMU lose a number of tools that handle economic distortions e.g. the ability to make changes to the exchange rate. Thirdly, countries in the economic union also lose parts of their sovereignty and national identity. (Odhner, 1992)

The purpose of the European Economic and Monetary Union is to create a more effective European market through economic integration. The new legislations and decisions agreed to by all the members of the EMU have caused many changes in the environment that companies operate in. These changes have been both positive and negative. Whether they are more positive than negative depends on how the factors affects the companies and what kind of business the company is in, e.g. size, market and amount of exports/imports. (http://europa.eu.int)

3.3. Competition

After World War II, companies had to compete mainly on their own domestic market. After the introduction of the EU and the Euro, competition amongst the companies became tougher. The borders between the countries became transparent and new markets opened up for the companies. Four main factors contributed to the increased competition; the free flow of capital, the free flow of workers and the free flow of goods and services (Hill, 2002). The Euro has intensified the competition in the EU, and especially in the EMU. Dr. Willem F. Duisenberg, President of the European Central Bank, stated in a speech that "The Euro is a catalyst for integration and competition in the EMU" (http://www.ecb.int).

3.3.1. Five Forces Model

The intensity of competition has its base in the underlying economic structure of an industry and goes further than the present competition of firms. Michael Porter created a model called "the Five Forces Model" (*Figure 3.1.*) which explains competition on a market and determines the attractiveness of a market. According to Porter, the state of competition on, and the attractiveness of, a market depends on five fundamental competitive factors:

- **Threat of new entrants**

  This factor treats the accessibility of the market, e.g. how difficult it is to enter the market because of entry barriers. The entry barriers are not fixed, they are shifting barriers that delays new entrants. The threat of new entrants depends on a number of factors e.g. economies of scale, access to distribution channels and government regulations. If there is a need for economies of scale on a market, firms may hesitate to enter the market due to large capital investments. The access can be difficult to obtain, if the present relationships between buyer and supplier is long-term.

- **Bargaining powers of consumers**

  This factor treats the strength of the consumers. The consumers' bargaining power is strong if, for example, there are few buyers that purchase large volumes of goods and if it is easy for buyers to switch supplier. Another example is the threat of backward integration by the buyer, if prices or quality from suppliers are not satisfactory.

- **Threat of substitute products**

  This factor treats how easy it is for consumers to substitute the goods. It depends on the standard of the good and if the buyer is satisfied with it. The quality, relative price and performance, play an important role in the decision of buying or substituting goods. In our case, fruit can be a substitute for vitamin-pills and fruit juice.

- **Bargaining power of suppliers**

  This factor treats the strength of the suppliers in relation to the companies on the market. There are many factors that create strong a bargaining power for suppliers, such as high costs when changing suppliers, simplicity to find other buyers and if the customers are highly fragmented. Another thing that enhances the bargaining power of the supplier is if there is a possibility for them to forward integrate their operations. In our case, the suppliers will then go past the wholesalers and sell its goods directly to the retailers.

- **Rivalry among existing firms**

  Rivals are companies that try to reach the end customer with the same product. Rivalry is another word for competition. The intensity of rivalry between companies depends on the size of the firms and if there are any dominating firms on the market. Competition is more intense if there are many equal sized companies on the same market that use aggressive growth strategies. For rivals, price differentiation can be a competitive weapon to gain customers and this may lead to lower margins. An increase in competition is likely to push companies to perform better.

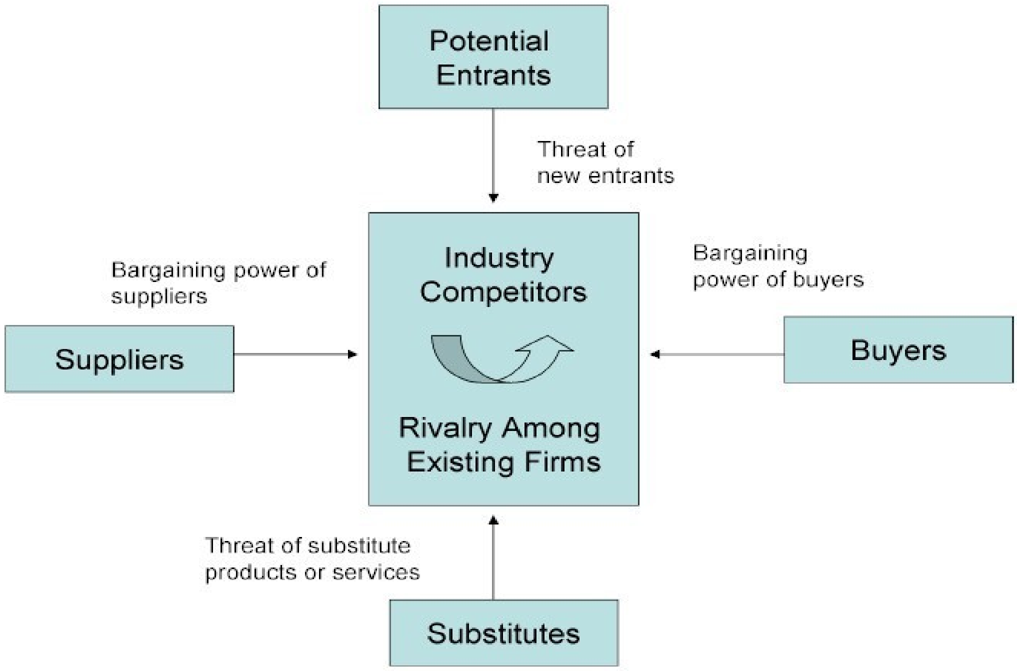

Figure 3.1. Michael E. Porter "Five Forces Model" (http://www.libraries.psu.edu)

The model helps to identify the sources of competition on a market. The five forces, when linked together, show the overall competition intensity on the market. The model assumes that companies try to achieve competitive advantages over each other. Today, this is not always the case, since strategic alliances and linked value chains are not counted for in the model. (http://www.quickmba.com; http://www.12manage.com; http://www.themanager.org)

3.4. Foreign Direct Investment

There are many ways to define Foreign Direct Investment (FDI), for example "One variable commonly used to measure where and how fast internationalisation is taking place…" (Ball *et al.*, 2002, p 14). Another definition is made by Popular Economics, "FDI is defined as a firm based in one country, the home country, owning 10 percent or more of the stock of a company located in a foreign country, the host country”. Thus, FDI measures the flow of capital into a country from foreign investors who wish to invest their capital there. Historically the United States of America and the United Kingdom have been the largest acquirers of foreign companies i.e. the countries with the highest outflow of FDI (Ball *et al.,* 2002).

The reasons for this kind of movement of capital are many. The main reasons for a company to conduct FDI are; the limited size of the host country, differences in tariff policies, variations in interest rates and decreasing transportation cost. Many people characterise FDI as large multinational enterprises moving their production to low cost countries. This is indeed happening to a certain extent. Nevertheless, much of the FDI is made because better location-specific advantages are available elsewhere than in the domestic market (Hill, 2005).

FDI does not only improve the competitiveness of a company but also both the host and the recipient country benefit from it. This is because FDI boots trade, development and consequently growth, in the two countries. (http://www.cipe.org)

The European Economic and Monetary Union provide companies with significantly less risk regarding production and investments. The need to acquire risk premiums lessens as the exchange rate risk is eliminated. This will in turn increase the amount of investments made between countries within the union. This factor is believed to be one that would improve efficiency and growth in the EMU. (Odhner, 1992)

From the company point of view FDI is a source for economies of scale and thus increased competitiveness for their company on the market. As the EMU increases competition, by removing entry barriers, the need to increase competitiveness becomes increasingly important. Many companies see FDI as one solution to counter this issue. (http://www.cipe.org)

3.5. Euro-related Costs

Euro-related Costs is a summarising phrase for costs that occur when dealing in the Euro. This factor contains many different costs such as currency exchange cost, access to capital and payment methods. A monetary union is of importance for microeconomic efficiency gains. A common currency reduces transaction costs and exchange rate uncertainty. It also affects the equalisation of interest rates in the union (Hansen, Heinrich & Nielsen, 1992).

Currency exchange cost is an important economic post for a company that trades with Euro-countries. It is especially important for importers that have to exchange their national currency daily. The pro-Euro supporters emphasised this argument in the Swedish election. They said that Small and Medium sized Enterprises (SMEs) would benefit greatly if Sweden joined the EMU (Jakobsson, 2003).

A monetary union eliminates foreign exchange transaction costs between member countries. The savings that the elimination brings can be divided into two parts, visible and invisible savings. The visible savings are obtained by the fact that firms do not have to pay foreign exchange commissions when trading with member country firms. The invisible savings are obtained in the accounting departments of firms, since a single currency eliminates recalculations of currencies and evaluation of amounts receivable. The volume of these saving depends on the amount of trade between companies. An implementation of a single currency improves the economic integration on a common market, since the abolishment of transaction costs lower frictions in the movement of goods and resources. (Hansen *et al.*, 1992)

Exchange rate uncertainty will also be reduced if a country decides to join a monetary union. The reduction will trigger the free movement of goods and resources. Producers are generally risk averse, so a decrease of exchange rate uncertainty will strengthen the incentives for engaging in transactions outside the home country. A company can insure itself against currency risks by buying options, but this can be costly. Costs of this type are lessened if a country joins a monetary union. (Hansen *et al.*, 1992)

The payment conditions vary from country to country. Terms of payment are likely to converge for countries with the Euro as their main currency. The SMEs are more dependent on trade credit than larger companies, therefore they are more affected by the long payment periods. (http://www.eubusiness.com)

3.6. Trade

Trade can be defined as exports and imports conducted by companies, individuals or the state from one country to another. This enables a good to be produced more effectively and sold cheaper as each country can focus on the skills they are specialised in. Many companies can then, for example, export their products to a much larger customer base than the local market.

Trade is one of the most important factors that increase globalisation, competition and efficiency. All these factors make it easier and cheaper for consumers to acquire goods that previously were too expensive or rare for people to purchase.

When the EU implemented new legislation the protective barriers each country had built up to protect its national market dissolved. The free flow of goods, people, currency and services between all the member countries changed the whole competitive environment for companies. (www.eubusiness.com/Euro/050908112051.4ap8fimt)

Although it became much easier to import and export goods between different EU countries there still remained fundamental problems. It was still hard for companies to determine the country to export to/import from as comparing prices between countries was time consuming and therefore

costly. One single currency made it easier to them as every tender the companies acquired was in the same currency.
(www.eubusiness.com/emu/easteurope_2.htm)

Trade was also limited as the exchange costs were high, mainly for companies trading with large amounts of goods and small margins. Risk-averse firms chose domestic trade over foreign if the risk is too high, for example because of high exchange rate volatility. As the common currency within the EMU eliminates the exchange rate volatility between countries in Euroland, the risk-averse firms become less hesitant to trade within this area. (Cohen, 1997)

3.6.1. Trade Barriers

Trade barriers are not allowed within the EMU because it is a common market (Hill, 2002). Nevertheless, there are different kinds of trade barriers and some are harder to find than others. Tariff barriers are defined by Ball *et al.* (2002) as "taxes levied on imported goods primarily for the purpose of raising their selling price in the importing nation's market to reduce competition for domestic producers". This kind of trade barrier is relatively easy to find as it is made up by a duty charged on imported/exported goods.

However, non-tariff barriers can be much harder to discover, since they can have many different shapes and forms. They are defined by Ball *et al.* (2002) as "all forms of discrimination against imports other than import duties". Clearly, this interpretation is very wide. A country can for example launch an advertisement campaign that stresses the inhabitants to buy domestic products instead of foreign, imported goods. Another example is documentation requirements which mean that the government of a country can increase the amount of documents needed for exporting goods to this country. This makes it more time consuming and bureaucratic for a company to sell its goods.

3.7. Supplier Relations

The implementation of the Euro will make it easier and cheaper for companies in the Euroland to work with non-domestic suppliers. The EMU creates one domestic market and this generates new opportunities for companies to join or create purchase alliances and new relations. (www.eubusiness.com/emu/retail8.htm)

3.7.1. Long-term vs. Short-term Relationships

Long-term relations have many benefits, e.g. transaction costs are reduced and that allows the two companies to become more efficient. However, this kind of relationship is based on trust and commitment which means that switching costs are increased. All the effort, time and capital that the companies have invested will be lost if they break up the current relationship. (Blumberg, 2001, p. 5)

If a company has much relation specific investments in a supplier relation, it has greater impediments to change supplier compared to a transaction oriented company. It has to weight the losses of the investments with the eventual benefits it can acquire from changing to another supplier. Therefore, the existing supplier can take advantage of this by raising prices and still retain the buyer. “The greatest part of switching costs…consists of dedicated assets and transaction specific investments that the supplier has made” (Nooteboom, Berger & Noorderhaven, 2000).

Short-term relationships are transaction oriented, as the customers do not want to invest anything unnecessary into the relationship as this would tie them to that particular supplier. This kind of relationship is recommended when the products consists of low value consumer goods. Customers in this kind of relationship prefer single transactions as they are more price oriented. This means that they always try to switch to the cheapest suppliers on the market. (http://www.taxgloss.com)

3.7.2. Switching costs

Switching costs are costs that can be associated with changing supplier. A consumer, in this case the wholesaler, has to pay a switching cost when a relation specific investment has been made, which has to be duplicated for a new supplier. The more a company invest in a relationship, the higher the switching cost.

There are different types of switching costs: search costs, learning costs, emotional cost, psychological costs, social costs and exit fees. Learning costs is the effort and expense required for learning how a new supplier conducts its business. Search costs are the costs associated with finding an alternative supplier. Exit fees include contracts that cannot be broken without paying fees. It would be a breach of contract. Emotional, psychological and social costs are often overlooked by both buyers and sellers as the pain of giving up a benefit considerably overweight the gaining the same benefit.
(http://en.wikipedia.org)

3.7.3. The three basic relationships

Relationships are interactions between parties, and found everywhere in society. The relationships explained are the interactions between companies, clients and competition.
There are three classic relationships; a two part relationship, three part relations and network relations.

The interaction between two parties is the most classical relationship and is called a two way relationship. The two integrated parts are usually suppliers and customers, but can also consist of companies, countries etc.

Competition is one of the fundaments for a well functioning market economy. This factor is important in a three part relation where the supplier and competitor fight over the customers.

Network relations are complex interactions between groups of companies. It can be seen as supply chains and channel management. These networks are complex and constitute the grounds for companies' business environment. (Gummesson, 2002)

Chapter 4

Empirical Method

In this chapter the empirical method is presented, e.g. the way we conducted our interviews. This chapter is divided into Research Strategy, Population, Questionnaire, Operationalisation, Response Rate, Analysis of the Material, Validity and Reliability.

4.1. Research Strategy

The purpose of this dissertation was to find observed signs of similarities and dissimilarities between F&V wholesalers in Sweden and Finland. We chose to focus on five factors when investigating the differences. These factors were: Competition, FDI, Euro-related costs, Trade and Supplier Relations. We also wanted to see if and how the Euro was connected to these differences.

Five factors were developed in order to answer our research questions. They were then tested in semi-structured telephone interviews. Semi-structured interviews are non-standardised which gave us the opportunity to have follow-up questions to every question. Another reason for choosing this strategy was the distance to the Swedish and Finnish wholesalers. It would not be possible for us to visit all respondents, and conduct face-to-face interviews.

To answer our research questions we needed two countries to compare. Sweden was the most obvious and natural choice. The country is not in the EMU, and information is easy accessed due to the fact that we live in the country. We used three steps to determine our target group for the interviews; what country to compare Sweden with, what lines of business to compare and from what region in each country.

First, we wanted a country to compare Sweden with. In order to make a comparison we searched for a country similar to Sweden. Finland was chosen because of the proximity, the similar market structure and the membership in the EMU. It was crucial to choose a country within the EMU due to our research questions.

Second, we had to choose a suitable market. We wanted a small market with the same import structures in both countries. After careful consideration we picked the F&V wholesaler market, because the companies import most of their goods from the Netherlands and Spain. We did not want to have too large companies in our research, because we assumed that they are not affected by the Euro in the same way as the smaller companies.

Finally, a region in each country was picked so that we could decide on which companies to contact. In Sweden, we knew that Helsingborg was the centre for fruit and vegetables import. Almost all imported fruits and vegetables arrive at the harbour in Helsingborg (Kolmodin, 2004). In Finland, we assumed that the goods arrived at the harbour in Helsinki. We did this assumption due to limited information access and the language barrier.

The Swedish companies we chose to interview were: Tuna-Carlssons Partiförsäljning AB, ETH Frukt & Grönt AB, Internova Frukt & Grönt AB and Saba Frukt & Grönt AB. The Finnish companies we chose to interview were: Kala ja Maatuote Heinonen Oy, Fresh Servant Oy, Meira Nova Oy and Satotukku Oy.

The companies are SMEs, but some of them can also be defined as micro enterprises, according to http://europa.eu.int/. Our sample group had between four and fifty employees, and it had between 3.5 million Euros and 30 million Euros in turnover.

The first thing we did after choosing companies was to contact them by phone. We aimed to interview the most suitable person in each company to answer our questions. In the companies it was either the CEO or the purchase manager. We reasoned that they were the persons that had the best insight in the company operations and environment. We asked them if they wanted to participate in a telephone interview concerning our research questions. If they were willing to participate, we booked a meeting and sent them an e-mail containing a cover letter. The letter stated our goals with the interview, and what subjects we were to focus on. The research population were both Swedish and Finnish, so we made one cover letter in Swedish and one in English. After approximately one week, the telephone interviews were conducted.

4.2. The Sample

The population of our interviews consisted of four Swedish and three Finnish companies. The reason for interviewing this amount of companies was that we conducted a semi-structured in-depth interview. The method was chosen so that we could get a better picture of problems that companies experience in this market. These problems were all placed in relation to the EMU.

The reason that we only conducted interviews with three Finnish companies instead of four, was that we were not able to reach the contact person at Meira Nova Oy. We did not have time to contact and interview another company, since the rejection came too close to the deadline of the dissertation.

In this dissertation we used a sampling method called purposive sampling. This technique “enables you to use your judgement to select cases that will best enable you to answer your research questions and to meet your objective” (Saunders *et al.*, 2003, p. 175). We chose this way of determining our population because the companies had to meet the three following requirements.

Firstly, the location of the company was limited in several ways such as country and region. The companies had to be Swedish or Finnish owned with their headquarters in respective country. This was important because these two countries were comprised in the study. The region was also important when we selected the companies. The importance of certain places in both countries where most of the imported goods arrive was significant. The largest and the most important companies are most likely to locate themselves in these places.

Secondly, where the goods are imported from was also important. To be able to conduct a correct comparison of the two markets as many variables as possible had to be similar. Thus, the companies that were interviewed had to import most of the goods from the same countries.

Finally, the size of the company was also important. Companies have to be of a certain size to be able to answer our questions about, for example, if the EMU has affected their investment plans or their transaction costs.

Because of the use of purposive sampling the possibilities for generalisation becomes limited. Despite that, we feel that our conclusions should be quite representative for this particular market. Two factors contributed to this; the few number of large companies operating on this market and the similarities in the ways that they act on their respective market.

4.3. The Interview Questions

Before conducting the interviews with the chosen population, we sent them a cover letter. The cover letter was written in both Swedish (appendix 1) and English (appendix 2). In the letter we had a further presentation of ourselves and the areas we wanted to discuss. Sending out the letter one week in advance helped them to prepare general facts about the subject.

We designed three different sets of interview questions, one for the Swedish wholesalers and two for the Finnish ones. The questionnaire was not definite; the questions in it were only guidelines for the interviews. The respondents did never see the actual questions since the interviews were concluded over phone. We wanted to be flexible and be able to ask follow-up questions depending on what the respondents answered to the key questions.

The Swedish questionnaire (appendix 3) was changed in a way that focused on the effects of the Swedish EMU refusal. We focused on the five areas of our research question and had a number of sub-questions within these areas. After every area we asked them what they felt was the greatest problem within it. At the end of the interview we asked them to state the most significant disadvantages and advantages of the Euro in their line of business. These two questions were asked to ensure that we covered all possible opinions in our areas. Everyone likes to discuss their specific problem, and that gave us a direction of what to focus on.

We made two sets of questions for the Finnish interview population. One was in English (appendix 4) and the other in Swedish (appendix 5). This was done because many Finnish people understand Swedish better than English, and would prefer Swedish questions instead of English ones. The questions in the Finnish question-set (appendix 4-5) were asked with a focus on what effects the EMU approval has had on the Finnish companies.

We considered many options of how to conduct the interviews and with what kind of approach. It had to be the most practical and have the highest response rate. We could have chosen a standardized questionnaire that was sent by e-mail, but that would not have given us an adequate response rate nor a deeper understanding about the areas as the semi-structured interviews gave. Face-to-face interviews could also have been used, but that would have been impractical due to the distance to Finland. It would have consumed too much of our time. The most suitable form in our case was a semi-structured interview over the phone. This form made us flexible since we could ask follow-up questions to subjects we wanted to evolve.

4.4. Analysis of the Interview Questions

Our questions were designed within the frames of the five factors; Competition, FDI, Euro-related costs, Trade and Supplier relations. We selected these factors because we thought that they were best suited to show the overall conditions of the F&V wholesaler market in the two countries. These factors showed us the similarities and dissimilarities between EMU wholesalers and non-EMU wholesalers.

We had to rephrase some of the questions to better suit the different circumstances in the two markets. The questions asked in an EMU country (Finland) could not be asked in a non-EMU country (Sweden). The same outline of the questions could therefore not be used. Despite that, we had to keep the questions asked in the two countries comparable to each other. Questions one to three are the same in all the interviews, but all the questions after that are altered depending on the companies' country of origin. After each section of factors we asked the respondents what they felt was the biggest issue. The Finnish respondents were asked what they felt was both the advantages and the drawbacks of being a part of the EMU. The Swedish respondents were asked what they experienced as the most positive and most negative thing of being outside the EMU.

Questions one to three in our interview had a general direction. In this section questions concerning number of employees, turnover and trade figures were asked. These questions were asked to get general information about the interviewed companies. For our research these facts are important as they influence each of the interview answers.

Questions four to six are connected to the competition factor. Here we ask the companies about what impact the EMU has made on competition in their home market and other EMU country markets. A common prediction in the EMU debates was that a single European market would make competition greater between companies. We wanted to see if that was valid in the F&V wholesaler market. There are two main ways for competition to increase; inflow of foreign companies and lower margins for the existing companies. We are well aware that it can happen both ways, but it would be interesting to find out the proportion between the two.

Question seven is also connected to the competition factor, although it represents a different angle. We wanted to see if there was any discrimination against companies in and outside the EMU. It could be possible that EMU companies felt it complicated and costly to do business with a non-EMU company and vice versa.

Questions eight and nine are connected to the FDI factor. Here we wanted to investigate if the FDI plans change for the F&V wholesalers when joining the EMU e.g. if the Euro is a driving factor behind FDI in this market. The Euro may not be the only force behind FDI plans, as cost reductions, risk assessment, the size and the strategic intent of the company are also important. Despite many factors, we chose to focus on the Euro and risk assessment as driving factors for FDI. We chose these two factors because we thought that they were the most significantly related factors to the EMU and our dissertation.

Questions ten to twelve are connected to the Euro-related cost factor. This factor consists of many different costs, mainly transaction costs, access to capital and payment methods. An emphasis on transaction costs was chosen because a common currency eliminates currency exchange costs and short-term currency risks. Access to capital can also be important for companies. Companies in the EMU countries have a larger capital market to choose from and can therefore draw benefits from this.

Questions thirteen to fifteen are connected to Trade and Supplier relations. We wanted to see if and how the EMU has affected their amount of trade. Another question was if the respondents felt that their ability to compare prices has changed. With the last question we wanted to see if the relations with supplier had changed after the implementation of the Euro. The Euro may change the relations towards suppliers as it became easier for companies to compare prices between suppliers.

4.5. Response Rate

The sample group consisted of totally sixteen companies of which twelve were from Sweden and four from Finland. The first contact was made by a phone call where we presented ourselves and stated our purpose. If they agreed to participate, we asked for their e-mail address so that we could send them a cover letter where an introduction was given about the interview subjects.

When we phoned companies, asking for interviews, some did not want to participate. The response was often that they were very busy and did not have time to take part in an interview. Some of the reasons were that it was close to the end of the year and that employees were on holiday.

The reason behind the selection of twelve companies from Sweden but only four from Finland was that several Swedish companies refused to participate. Thus, we had to contact other companies that wished to take part. Furthermore, a few companies had to be removed from the sample, due to the fact that they did not fit into our selection criteria. These were the size of the company and what countries their main imports came from. Therefore, we had to contact a total of twelve companies in Sweden to be able to find four that suited our purpose. Thus the response rate got somewhat low, 33% on the Swedish market. In Finland this was not the case. The companies we contacted were all very positive and wanted to participate. Since all four companies we first contacted agreed to an interview, there was no need to contact other companies. But, when we were to conduct the last interview the contact person could not be reached. Therefore the response rate went from 100 per cent, to 75 per cent. Nevertheless, we feel that all of the companies we contacted were generally positive and helpful in whatever way they could.

4.6. Reliability

According to Easterby-Smith *et al.*, 2002:53 (cited by Saunders *et al.*, 2003, p. 101) reliability can be defined by asking three questions:

1. Will the measures yield the same results on other occasions?
2. Will similar observations be reached by other observers?
3. Is there transparency in how sense was made from the raw data?

First, the question whether other results may be yielded if the interviews had been made on different days of the week, month or year, will be answered. The answer is that this would be doubtful, as we had to conduct the interviews when the respondents were available. This meant that the interviews got spread out on different days and weeks depending on the availability of the contact person at each company.

Second, the question if similar observations could be reached by other observers arises. The fact that we wanted to know how the respondents felt about a certain subject could mean that other answers could be given at another time. "…non-standardised research methods are not necessarily intended to be repeatable since they reflect reality at the time they were collected, in a situation which may be subject to change" (Saunders *et al.*, 2003, p. 253).

Third, the question if our interpretation of the answers given by the interviewees is biased or misinterpreted arises. This could be a problem but as we recorded all interviews on tape, we could listen to it repeatedly and discuss the answers.

4.7. Validity

Validity can be defined as "whether the findings are really about what they appear to be about" (Saunders *et al.*, 2003, p. 101). One have to ask the question whether the findings really measure what they were aimed to measure. Our research is a comparing study of two markets, one in the EMU and one outside the EMU. Since we chose this direction in our research it was difficult to measure our findings. The factors that we chose to examine are not quantitative and cannot be measured in numbers. We used a descriptive approach where dissimilarities and similarities between the two markets are presented, and how the Euro affects the different factors we wanted to investigate.

The external validity is the extent to which the research findings are applicable to other research settings (Saunders *et al.*, 2003). It can also be called generalisability. In our case, the research findings can only be applicable to the F&V wholesaler market in Sweden and Finland.

Chapter 5

Empirical Results

In this chapter the results of our interviews are presented. First, the introduction shows general facts we acquired from the interviewed companies. Then, the results of the different subjects we focus on are described with a summary in italics after each. At the end, we present the facts that did not fit into our focus, but were important for the conclusion of this dissertation.

5.1. Introduction

The results of our interviews showed a number of differing factors that are presented in this chapter. At the beginning of each interview the companies were asked a number of general questions. We filtered out some companies before the interview, mainly because of their small size. Thus, the results of these questions show that all the selected companies fit our criteria of our target group. Our target group consisted of SMEs that import their goods from EMU countries. A significant number of companies imported mainly from Holland and Spain although a few also imported from other countries. The countries mentioned were Italy, Poland and Denmark. Trade was also done from other parts of the world for more exotic goods, bananas and lemons, e.g. South America and New Zealand.

The answers of the companies that imported goods from other countries than Holland and Spain were significantly similar to those of the other respondents. Thus we chose not to analyse their answers separately but to include them with the rest of the companies.

During the interviews we also asked where the centre of trade was located geographically in respective country. The Swedish companies answered that most goods within the F&V market arrive at the ports in Helsingborg and that they are distributed from there. Same question posed to the Finnish companies resulted in the information that most F&V goods arrive in Helsinki and Turku by boat. Some of the goods were then transported to Vantaa for further distribution to retailers in Finland.

We separated the results in Swedish and Finnish companies within each analysed subject. This made the comparison between the two countries simpler and easier to follow.

5.2. Competition

Competition has become an important factor many economists and company directors pay much attention to, ever since Adam Smith founded the free market theory. The existence of competition should, in this theory, provide the consumers with the best and cheapest goods/services in every market. To improve competition is one of the main goals of the European Economic Monetary Union.

5.2.1. Swedish companies

The interviewed companies in Sweden do not feel that the terms of competition have changed noticeably. One main reason was pointed out. Since they only sell their products on the Swedish market, they do not compete with companies from abroad that may have other terms of competition. Thus, every Swedish company has the same terms as before the EMU.

The largest competitors, according to one respondent, are the convenience good stores. Lidl, Axfood and the Bergendahls group are the main actors and use vertical integration within the companies. The respondent felt this limited the competitiveness on the market, since other wholesalers cannot sell goods to them. In the end, this is bad for the consumer as prices are too high. If they were allowed to sell goods to the retail-chains they could have supplied them with cheaper groceries.

Regarding the question whether the non-membership in the EMU has changed the ability to trade abroad the answer was that it had no, or very little, effect. All Swedish companies that do business abroad have to exchange currencies, just like before. The EMU does not affect this, as Sweden is not a part of this union.

All of the respondents implied that if Sweden joined the EMU, the goods could have been imported much cheaper and easier. The exchange cost would be abolished, but more importantly, the high currency exchange risk would decrease significantly. Since the European Market as a whole is not as volatile as a single country's economy, less risk would need to be taken. Thus, the need to keep a high liquidity, and as a consequence higher cost, in the company would lessen. The Swedish companies argue that this factor is the most costly for them regarding the non-membership in the EMU. It is an "opportunity loss". On the other hand, they point out that this cost does not affect their profits as it is the end customers that pay this cost.

5.2.2. Finnish companies

The EMU has made it easier for every wholesaler to handle imports, as there is only one currency. There is not much difference between buying tomatoes from Holland compared to a local seller. Thus trade has been simplified significantly as a direct result of the Euro.

Using the same currency as eleven other countries is a great advantage. It becomes easier to handle imports, when a company has the same currency as the country it imports from. Thus the companies no longer need costly expertise in this field. Therefore, the threat of new actors entering the F&V wholesaler market increases competition between the existing actors. Respondents argue that this increase in competition is good for all parties. It forces the wholesalers to perform better and become more efficient. Also, it provides better goods at a lower price for the end costumers.

The EMU has not affected the overall existence of trade barriers. The only "barrier" we identified was the need to have capital. In most cases the wholesaler took all the risks associated with the purchase that means that the companies have to have a high level of liquidity. This increases their trustworthiness amongst the suppliers and thus simplifies trade. Generally, the response was that companies outside of the EMU are not hesitant to do business with the companies in Euroland and vice versa.

The Swedish respondents do not feel that the Euro has affected their competitive situation, since they mainly act on the Swedish market. The situation is exactly the same as it was before the Euro was implemented in the European countries. On the other hand, the Finnish companies feel that the Euro has intensified the competitive situation. The companies feel that the increased competition is good, since it forces the firms to become more efficient.

5.3. Foreign Direct investments

Foreign Direct Investments, in the form of vertical integration, is becoming a more popular way of expanding businesses. Many markets across Europe are consolidating as the different actors purchase or merge with each other. This leads to increased efficiency and economies of scale as larger companies can take advantage of their position. Therefore, the costs of these companies go down and the end consumer can buy their products cheaper.

On the other hand many people argue that this consolidation in fact decreases competition and leads to companies abusing this leading position. This can happen in the form of monopolies or oligopolies where the companies can charge an unreasonably high price for a good.

5.3.1. Swedish companies

The Swedish companies did not have any existing FDI in any countries. The reason for this, they argued, was that the company was too small to make it feasible. In the long run some have had considerations, mostly on a theoretical level, about acquiring or merging with suppliers.

5.3.2. Finnish companies

In Finland the responses were also similar to the ones we acquired in Sweden. The companies felt that they were not large enough to be able to invest such a large sum of capital into one relation. Although, one interviewed company answered that there were a few Swedish companies that owned Finnish firms and vice versa. This is because many of the F&V goods that are imported to Finland go through Sweden. One respondent mentioned that a Swedish company invested in Finland when the country joined the EMU. After a short period of time, that company discovered how high the competition was and pulled out from the Finnish market.

None of the interviewed companies had FDI. They argued that the companies were not large enough to make it feasible. Some companies said that it had crossed their minds, but it is still on a theoretical level.

5.4. Euro-related costs

From a company's point of view, the EMU was said to reduce different costs. The arguments were that, e.g. currency exchange costs and short-term currency risks would decrease due to only one currency in Europe.

5.4.1. Swedish companies

The companies answered that transaction costs have decreased, mainly because of two things. First, it drastically lessened as transactions between countries became cheaper with new routines. Second, the companies only need to change to one currency instead of many when buying from abroad. These two factors together save much money for importing firms.

Some of them also said that there is something psychological with the Euro. The respondents argued that their personnel are not used to the more valuable currency. For example, if they consider buying a good for two Euros, it may seem cheap as they compare the two Euros with two Swedish kronor. Therefore, it is easy to buy goods at a higher price than what they would normally pay. It is easy to underestimate the value of the Euro.

The small companies buy currency on few occasions and then have it in reserve. The larger companies buy currency every day. Therefore, the small companies have a greater uncertainty in the overall calculations. Thus, they have to calculate with greater margins to insure themselves against short-term currency risks. However, this risk is moved over to their customers as the wholesalers raise the prices on their goods.

It is expensive for Swedish companies to do business with EMU companies due to fees that the banks charge. Therefore, companies are searching for solutions to lower these expenses. Also foreign companies, for example from the Netherlands, have to pay fees when doing business with Swedish firms. However, Dutch exporters are beginning to use Swedish banks when dealing with Swedish companies to lower their expenses.

One respondent thought of implementing this concept in Holland. It would be beneficial to be able to pay the invoice in Holland in order to reduce expenses.

One company said that it has plans of changing some of its liquid assets into Euro. This would be the first step to only have its accounting in Euro. Although, it points out that the F&V market is a conservative business so this change can take several years.

All of the Swedish respondents said that the payment methods have been simplified after the implementation of the Euro across Europe. They mainly use the banks supplier-payment-methods and pay to an IBAN number when doing business with foreign companies. The exchange costs are lower because all the companies they buy from have the same currency. Before the EMU was implemented, the Swedish companies had many currency accounts. Now, they only pay their suppliers in Euro, and therefore only have one currency account for all the Euro countries.

The way Swedish companies' pay their suppliers have improved as the payment methods have become more simple and less paperwork is required. The problems with liquidity lessened as the currency risks got lower. The European market, as a whole, is not as volatile as each country's market.

5.4.2. Finnish companies

The companies said that there have been no significant changes in transaction costs. The only reduced cost was the currency exchange cost. Although, this cost has never been a great expense since it is only a few per cent of their total expense. The lower exchange costs together with the minimal currency risks are the most positive things that came with the Euro. It makes it much easier to do business abroad.

They have not noticed any changes in access to capital, since the Finnish financial market is extremely competitive and the interest rates are amongst the lowest in Europe. The respondents point out, that they in the future might search for more lucrative options in other countries.

The EMU membership made it much easier for Finnish companies to pay invoices. They use a thirty-day credit method, which they stated as a simple technique when doing business abroad.

The Swedish respondents felt that the transaction costs became lower when the Euro was implemented. They felt that it is much easier now, when the countries they import from have the same currency, since the companies only have one currency account instead of many. The Finnish companies felt that the Euro has not had a significant impact on their transaction costs, since it is only a few per cent of their total cost.

5.5. Trade

To increase trade is a main goal behind the EU, and the EMU is intended to take this one step further. The main factor behind this increase would be the price transparency which enables companies to compare prices in different countries.

5.5.1. Swedish companies

The Swedish respondents said that the EMU has not affected sales in any way. The smaller companies that were interviewed did not think that the EMU has affected their trade because they act mainly on the Swedish market.

Most of the interviewed companies said that there has always been a close cooperation with Holland and the Dutch suppliers. This is why they do not think the Euro has influenced this business. The impact of the EMU is, according to them, larger on other industries where relationships are not that strong.

The respondents are instead focusing on opportunities that arise in the Baltic States and the new members of the EU. A major problem with the East-European states is that they have not had time to adapt to the quality demands that have to be fulfilled. The companies feel an uncertainty when doing business with Baltic companies since the Swedish companies prefer quality to price.

The respondents feel that it became easier to compare prices, e.g. price transparency. They think it is easier to haggle with a Spanish supplier and an Italian supplier now compared to before. The EMU has led to increased transparency for the importers, because it affects their negotiation situation. It has become easier to compare prices, because now there is only one currency to consider instead of many different currencies.

Another important thing, according to the respondents, is the practicality of having all offers in one currency. This widened their options when choosing goods from different EMU countries. On the other hand, before the Euro existed the Swedish companies imported nearly everything from Holland and this is still the case today and yet they think it is an advantage. Nowadays it is easier to import from other countries than Holland.

They mentioned that profits are not affected by an increase of import prices as the consumers pay the price of the goods. However, they felt that it is easier to work on a market where prices are going up rather than down.

In general, the companies think that prices on goods would be lower if Sweden had the same currency as the exporting countries.

5.5.2. Finnish companies

Most of the wholesalers said that sales have gone up, but they do not believe it is solely because of the EMU.

One company said that its sales increase was influenced by the EMU. It stated that its overall strategy, especially the sales strategy, has changed. Currently, it sells more goods to the stores and fewer goods to smaller wholesalers. EMU has made the company change its strategy. The company felt that the EMU turned out to be something better than expected.

All of the companies both sell to and buy goods from Sweden, and when opportunity comes also from other countries. However, it is not because of the EU or the EMU since these sales arise through old contacts and relations. It all depends on the supply level in the EU. They also mentioned that if they buy goods from Swedish companies the prices are in Euro.

The respondents said that the Euro has made it easier for small wholesalers to trade with other companies in the EMU. Today, the Dutch suppliers have the transportation cost included in the total price and this makes it, according to the respondents, easier for small wholesalers.
It is easier to compare prices on the overall market, but when they buy goods they do not care in what currency it is. The availability of goods determines who you buy from. It is the same thing as in many other businesses, the price and supply rules from where they buy the goods.

As the Euro made it easier for them to compare prices, it opened up other markets within the EMU. The suppliers' prices have gone down and the quality on goods has gone up. Before the Euro, the goods were mostly imported from the Netherlands. Today they import more goods from Spain and Italy.

Another aspect that the companies mentioned was the psychological effect of the Euro. At the beginning people did not understand the value of one Euro, not even five cents. Customers demanded too much discount, so they had to teach the salespeople how valuable the Euro is. The respondents said that this learning process is still an ongoing project. At the same time they noticed that neither the consumers could value the new currency. A high price could be perceived as cheap due to the Euros' power.

All of the respondents felt that the Euro has made it easier for them to compare prices. It is more practical to have all offers in one currency. For the Finnish companies the Euro has widened their market, and they have started to trade with more firms in more countries. The downside of the Euro, according to the respondents, is the strength of the Euro compared to the old currency. Sales personnel need to be educated in this area.

5.6. Supplier relations

Relationships are becoming more and more important in today's business. It does not matter what business the company is in, relations are a requisite for businesses to function. For some companies, trust plays a greater role than the short-term economic profit.

5.6.1. Swedish companies

The Swedish wholesalers answered differently on the question, if the Euro has affected their relations with suppliers. One respondent said that the EMU affected their relations with the suppliers in a positive way. It simplified the relations and made them more transparent, thus they became stronger.

The rest of the companies stated that the EMU refusal has not changed the relations with the suppliers. One respondent said that the suppliers do not care whom they sell to, as they just want to make money. Two companies did not think the relations have changed at all. According to them it was due to the strong ties and long-term relations as the businesses are inherited over generations.

On the other hand, the respondents felt that the suppliers' competitive situation became tougher because more actors entered the market. This situation occurred because of the simplicity of entering the market after the entry barriers had diminished.

5.6.2. Finnish companies

The respondents felt that the EMU strengthened their relations with the old suppliers. Some of the companies said that they focus on having long-term relations with their suppliers. However, these long-term relations could create a problem for them. They felt that the suppliers could raise their prices unconditionally since the Finnish wholesalers have proved to be loyal.

They said that the main issue is to find the right good at the right price and then get the logistics to work. When they buy goods abroad, a single currency makes it easier to make decisions. One company said that the logistics is very important in this market, and that it is crucial for them to find reliable and long-term contacts. Most of the companies are currently using Finnish logistic companies, but when they are buying large amounts of goods an alternative transportation solution could be included. In the long run, they argued, it is more efficient and cheap to use domestic transportation firms.

The Euro has strengthened some of the Swedish companies' relationships with suppliers. They argue that having a foreign relation has become both simpler and stronger. The Finnish also feel that the relationships became stronger, but they pointed out that it is the price in relation to quality that decides whom they trade with.

5.7. General comments about the EMU

Here we bring forward general comments the participants had about the EMU, which had no direct relation with five factors. Furthermore, the respondents' opinions about the EMU are presented. These comments are nevertheless important for the conclusion of this dissertation.

5.7.1. Swedish companies

The EU had a larger impact on import companies than the EMU. When the EU was implemented, import companies took advantage of the free flow of capital, workers, goods and services. This made it much easier for those companies to do business. The Euro has just simplified the imports from abroad, but as one company states "It is the export companies that prosper the most from the EMU and not us, the importers".

The Swedish wholesalers had different opinions whether Sweden should join the EMU or not. Half of the respondents said that they did not want Sweden to join, because of their current market situation and that they personally were against an EMU membership.

The other half wanted Sweden to join the EMU. They did not think it was positive to be outside the EMU, since it influenced business in a negative way. Even though other industries are more influenced by the Euro, the EMU still brings benefits to the F&V business. But, it will take a long time to adapt to the benefits that the Euro brings, because it is a conservative business.

5.7.2. Finnish companies

In general all the Finnish wholesalers thought the EMU is a good development. It brought more advantages than disadvantages to the F&V market. No exchange costs and easier to compare prices are great advantages in a business where margins are small.

A negative aspect of the Euro is that the clients and salespersons do not understand the value of the Euro. The psychological value of the Euro is troubling. It is easier to pay five cents more than to give away a five cents' discount.

The Swedish companies state that the implementation of the EU made a greater impact on them than the EMU did. Half of the Swedish respondents were positive to the EMU. The Finnish companies said that the Euro brought more advantages than disadvantages to their market, so they are generally satisfied with the EMU.

Chapter 6

Empirical Analysis

This chapter analyses our findings and answers our research questions. First an overview of the dissertation is presented with a cause- and effect-pyramid. Second, the answer to each research question is answered and analysed separately. Finally, a summary of our findings from our research questions is presented in italics after each factor.

6.1. Introduction

This chapter presents the analysis of and answers to our research questions. The answers are divided into the five different factors we identified as microeconomic effects of the EMU e.g. Competition, FDI, Euro-related costs, Trade and Supplier relations. It is also shown how these factors relate to the EMU with the macroeconomic effects as intermediates. The microeconomic factors, in turn, affect how the companies operate on their market. Finally, the way companies' act affects the end costumer. This correlation is shown in figure 6.1. below.

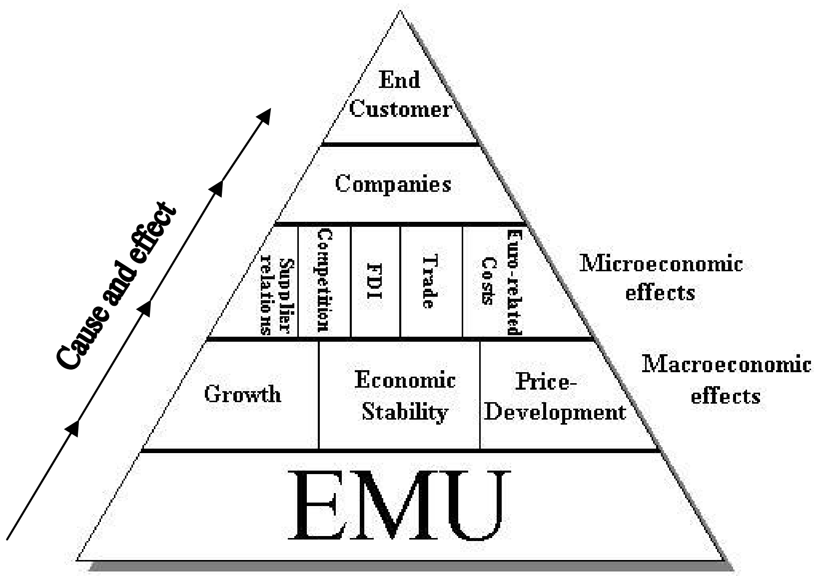

Figure 6.1. The EMU cause- and effect-pyramid
(Mathias Liedholm & Adam Vajda)

As stated before, this dissertation focuses solely on the microeconomic factors, but to help understand the correlation of them and the EMU related background had to be presented. This limitation had to be made because otherwise the subject would have been too large to handle due to the time limitation.

The results of our interviews show that these five factors were indeed affected by the EMU, although differently in a non-EMU and an EMU country. However, some factors were affected more than others depending on a number of circumstances e.g. market, amount of import/export, number of competitors, entry barriers etc. These circumstances will be further analysed under each factor in this chapter.

6.2. Comparing the two countries

Within this part of the chapter the comparison between F&V wholesalers in Sweden and Finland will be concluded and analysed. The major differences that the companies mentioned will be brought up and summarised at the end of each respective factor. This is done to make the dissertations conclusions easier to follow and understand.

The theoretical framework will, together with our interview results, form the base of our comparison. The models and theories we brought up under the theoretical framework will be implemented in the comparison to support its validity and reliability.

6.2.1. Competition

Competition is a factor that affects companies operating environment. The EU ignited a change in this environment, when it allowed free flow of workers, capital, goods and services (the Four Freedoms) between the member states. The EMU further enhanced this change, as having a single currency increase the level of integration between member countries. But how much has the competition in the F&V market changed if one compares an EMU country with a non-EMU country? Or put in another way:

Are there any differences between an EMU and a non-EMU firm in the Fruit and Vegetable market concerning ***Competition****?*

In our interviews, the companies in the two countries answered similarly about the changes in competition on their respective markets. The Swedish companies felt that the EMU had very little or no effect on their competitive situation. The largest threat to the Swedish wholesalers on the Swedish market, related to Porter's Five Forces Model, is the bargaining power of the buyers. There is always a large threat of them backward integrating with the suppliers and thus "leapfrog" the wholesalers. Some examples of this have already happened, mainly amongst convenience goods stores, for example Lidl. These companies have implemented vertical integration in their business to reduce margin costs. This fact limits the competition on the market, as the wholesalers cannot sell goods to these stores. Some Swedish companies felt that the EU made a larger impact on them compared to the EMU, due to the four freedoms.

Naturally, in Finland, the EMU has made a much larger impact on competition on the F&V market, due to their membership in the union. The Finnish wholesalers said that there has not been an increase of foreign companies from the EMU on the Finnish market, e.g. the threat of foreign potential entrants is low. Instead, they argue that there has been an increase in the small local wholesalers sector, which before the implementation of the Euro was not able to import F&V themselves. The Euro has made it easier for these small firms to import goods themselves, instead of buying goods from larger Finnish wholesalers. The small firms do not need expertise help, as they did before, when importing from other EMU countries. This fact has increased the rivalry amongst existing firms in Finland.

In conclusion, competition on the Swedish market has been affected very little by the implementation of the Euro. The effect the Euro brought was an increase in foreign convenience goods stores that import their fruit and vegetables themselves. Competition affected the Finnish F&V market to a larger extent, since Finland is part of the EMU. There has not been an increase in foreign wholesalers. However, the competition has intensified due to the fact that the Euro made it easier for small Finnish local firms to import themselves.

6.2.2. Foreign Direct Investment

The economists argued that the investment climate would improve significantly because much of the risks associated with investments between countries would be abolished if a county entered the EMU. This will boost the overall amount of investment flows between the EMU member countries and more companies will merge or expand their business to different countries. The question is whether this is the case in our chosen market? Or put in another way:

Are there any differences between an EMU and a non-EMU firm in the Fruit and Vegetable market concerning ***Foreign Direct Investments****?*

None of the companies we interviewed, neither in Finland nor Sweden, had any FDI. This made it hard for us to conduct a comparison and examine if there was a difference in the investment climate on this particular market. We can therefore not state exactly what the positive and negative sides with the EMU are concerning FDI on the F&V market.

The sole difference we could find was that there had been some Swedish activity on the Finnish market. The Swedish companies may want to invest in a country that is part of the EMU to reduce their margin costs. The reason for choosing the Finnish market could be that most of the fruits and vegetables imported to Finland have to come through Sweden. Thus there already exist relations between Sweden and Finland that makes further cooperation and eventual merger/acquisition simpler.

The conclusion that can be drawn is that the EMU did not affect Finland to the extent that FDI became something profitable enough to conduct. Even if the conditions of doing FDI has increased and many companies have increased their amount of FDI, this has not happened in the F&V wholesaler market. Thus, there is no clear difference in the level of FDI conducted between Sweden and Finland.

6.2.3. Euro-related Cost

In the EMU discussions, the reduction of costs were emphasised as an incentive for a country to join the EMU. We wanted to see if any changes in the company costs have occurred for our chosen market. The research question is:

Are there any differences between an EMU and a non-EMU firm in the Fruit and Vegetable market concerning ***Euro-related costs****?*

The Swedish companies state that the transaction costs have decreased when the Euro was implemented in Europe. There were two main reasons for that. First, transactions became cheaper with new routines as payment methods became simpler. Second, the companies only need to handle one currency instead of many. In Finland the companies had a different opinion. The companies argued that the transaction costs had never been a large post in their costs. Thus, the decrease of this cost does not affect the company total costs significantly.

The short-term currency risk is a problem for most of these companies, both in Sweden and Finland, because they only buy currency on a few occasions. The companies experience the reduction of the risks associated with currency exchange as the most positive change the EMU brought within the Euro-related cost factor.

The conclusion drawn from this factor is that the Euro-related costs have decreased in both countries. However, the costs have decreased more in Finland than in Sweden. The main difference we identified was the currency exchange costs. The Finnish companies do not have to make any kind of currency exchange whereas the Swedish companies still have to exchange Kronor to Euro.

6.2.4. Trade

Many arguments point out that the EMU will increase cross-country trade and thus enhance growth, economic stability and price development. Trade will be increased because there will be a simplification of the rules of conduct. This will make it profitable for smaller companies to import/export goods abroad. To examine whether this is true we asked the following question:

*Are there any differences between an EMU and a non-EMU firm in the Fruit and Vegetable market concerning **Trade**?*

One of the main factors that affect trade is the possibility of comparing prices simpler than before i.e. price transparency. The fact that all prices within Euroland are in the same currency, extensive comparisons of prices can be done without any complex calculations.

However, this ability to easier compare prices within Euroland is also available for non-EMU countries. The fact that the Swedish companies do not have their own currency in Euro does not imply that they cannot take advantage of the price transparency throughout Europe.

The sole difference between EMU and non-EMU companies in the F&V market is that the non-EMU company still has to exchange currency. But since the exchange rate risk has lessened significantly because of a more stable Euro, these costs are marginal.

A negative thing the Finnish companies mentioned was the difficulties adopting the Euro due to the psychological effects. The value of the Euro compared to the Finnish Mark was described as hard to cope with in the beginning. These findings are summarised by the price accordion model (Figure 6.2). The model explains that the differences in Finnish Marks are greater than in Euro, because of the difference in strength of the two currencies.

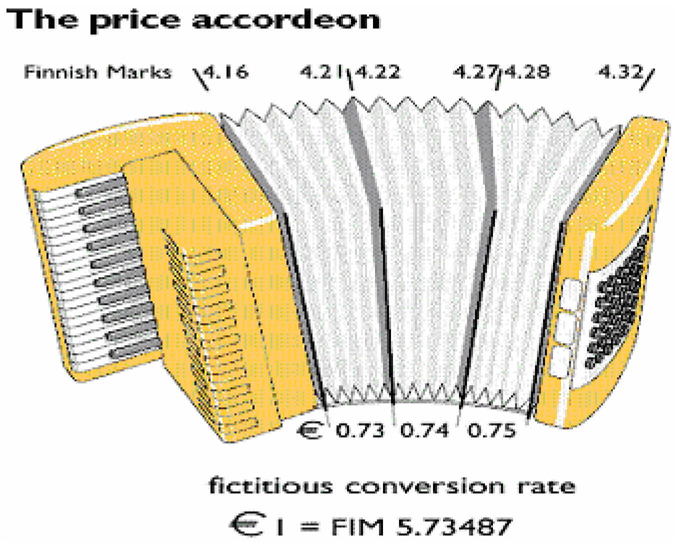

Figure 6.2. The Price Accordeon Model
(http://www.eubusiness.com/emu/retail8.htm)

The conclusion that can be made is that there has been an increase in trade, but not any significant difference between the two countries. The EMU has presented companies with many advantages regarding trade. However, non-member countries, such as Sweden, can nevertheless take advantage of them to a certain extent. The Euro has affected Finland negatively because of the psychological effects. However, this psychological factor only affects them in the short run.

6.2.5. Supplier Relations

Relationships are important for every company, in every market. We created this research question since we wanted to see what impact the EMU has made on relationships on the F&V market:

Are there any differences between an EMU and a non-EMU firm in the Fruit and Vegetable market concerning ***Supplier relations****?*

The answers we got under the supplier relation factor varied depending on the strategy of the company we interviewed. If the company was focused on long-term relations the EMU affected them positively. On the other hand, if the company put greater focus on price, the relationship comes second.

Generally, more companies in Finland focused on long-term relations instead of focusing on price. However, they point out that even though they did not choose to change supplier, it has become easier to do so if it becomes necessary. The problem that they had invested much relation specific investment in the relation kept them from switching to a more efficient supplier. Their switching costs are larger than the advantages they would gain when switching supplier.

In both countries the price transparency has made the wholesalers stronger in the negotiating situation. They can always threaten the supplier with changing to a cheaper one. The negotiation situation has become simpler, and thus used to an increased extent than before. This has affected the transaction oriented companies the most, as they can easily change supplier because they are not tied down.

Since the F&V market is not high-technological, they do not need to share information to the same degree as a high-technological market like computer software. Therefore, the most common and beneficial relationship is the three-part relationship. This is because the F&V wholesalers do not need to share information and they are not adding any value to their product.

In conclusion, the EMU did not affect relationships to an increased extent in a member country compared to a non-member country. Both Swedish and Finnish companies use the three-part relationship, thus the EMU did not affect this. The EMU has affected transactional oriented companies more than relationship oriented ones. The fact that it has become easier to compare prices, i.e. price transparency, made it easier for them to change supplier.

Chapter 7

Conclusion

This chapter consists of a summary of the dissertation, where the results are included. Methodological criticisms and suggestions for improvements are discussed. Finally, further research is also discussed.

7.1. Summary of the Dissertation

The EU is one of the most extraordinary things that happened in Europe during the past decades. It created the four freedoms which made it easier for companies to operate within the European Union. The latest step in the process of unification of the European countries is the EMU. This step was more influenced by political arguments than economic ones. Of course, the companies were said to gain great advantages if their country joined the EMU as it would be easier to compare prices and transaction costs would be lower. But are those really strong incentives from a company's point of view for joining the EMU?

Our research was a comparing study between the Swedish and Finnish wholesalers, as we wanted to investigate if the Euro has made any difference. An emphasis was made on the five factors: Competition, FDI, Euro-related costs, Trade and Supplier relations. We created five research questions where we explained that we wanted to look at the differences between the two markets within the five factors.

In order to make the comparison and to see potential difference we chose to conduct semi-structured interviews with both Swedish and Finnish Fruit and Vegetable wholesalers. Our sample of companies had to trade with the Netherlands and Spain, and they also had to be either small or medium sized companies.

The results in our interviews showed both similarities and dissimilarities, depending on the type of factor. The competition factor shows the most significant changes and the two factors, FDI and supplier relations show the least significant ones.

7.2. Methodological Criticism

In order to answer our research questions, we conducted semi-structured interviews by phone. It would be preferred to instead conduct face-to-face interviews, so the interviews would have been more of a discussion. To get a more exact picture of how the companies are influenced by the EMU, there would have been a need to interview both the purchasing department and the CEO. The questions may not have been asked to the right person and therefore our results may have been inadequate.

The fact that one Finnish company had to be removed from the sample could have been handled better by us. We could not reach the company in question and thus not get any answers. We should have had a back-up company on each market, in case any problems would arise.

Our interviews found that import companies are not influenced to the same extent as the export companies. To make our dissertation even more interesting, the focus should rather have been on companies that export domestic grown fruit and vegetables. They are more sensitive to the changes that the EMU effects.

To make a better comparison of the F&V market in Sweden and Finland, a bigger sample would be needed, preferably all the F&V wholesalers on the two markets. That would have allowed us to draw more reliable conclusions about the differences between the two.

Time limited the extent of our theoretical framework. We used an inductive approach which implied us to conduct the interviews first. The contact with the companies and the analysis of their answers took more of our time than estimated. If we had more time we could have extended our theories, thus deepening the answers to our research questions.

If we had greater previous knowledge about the market when we wrote the interview questions, the answers would have been more specific. We did not have time to conduct test questions with a company in order for us to see if the questions were as relevant as possible.

7.3. Practical Implications

This dissertation can be applicable for people interested in how the EMU affects an import market regarding the five investigated factors: competition, FDI, Euro-related costs, Trade and Supplier relations.

It can also function as a guideline for SMEs in the import business determining the pros and cons of joining the EMU. The question whether Sweden should join the EMU will arise and the way companies are affected is important to consider when deciding on how to vote. We have learned that approximately 99 per cent of the companies on the Swedish market are constituted by SMEs. Thus, the effect of the EMU has a large impact on society as a whole.

7.4. Further Research

Further research regarding our subject can be made. Here are some suggestions about further research.

- A larger sample group would increase the reliability and generalisability of the dissertation. It would show a more fair view of how the EMU affected the factors we chose to investigate. This kind of research would see if our findings were accurate.

- A research with the same structure as ours can be made. The research will in this case include more factors, or possibly all existing factors, to cover all aspects of the Euro.

- A research with only one factor, e.g. competition, can be done. This will bring more depth to the factors as one can concentrate more on theory.

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