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**DIFFERENTIATION STRATEGY POSSIBILITIES FOR NEW  
PRODUCT CATEGORY VENTURE**

**A known brand seeking to expand in familiar market**

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**ABSTRACT**

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<p>This thesis one combined with theory and research. It is conditioned by wishes and needs of the commissioner. Therefore, and likewise, it is a glimpse into how the relevant conditionings of this market work, in context of competition, clients and deals.</p> <p>As such, this thesis is foremost a market research, which forms most of the research. In the end, the need for the commissioner is to be able to consider different market entry strategies. To reach those aims, brief literature review is supporting the survey and the conclusions.</p> <p>The red line of the research in finding skilful strategies run through recognizing possibilities to differentiate in product level, service level and gaining behavioural advantage. This is due to nature of market, which falls into category of B2B, although end customers are mainly consumers.</p>		

<p><b>Key words</b> Market conditionings, differentiation, behavioural advantage, strategic marketing.</p>
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## ABSTRACT

## CONTENTS

<b>1 INTRODUCTION</b> .....	<b>1</b>
<b>2 COMMISSIONER</b> .....	<b>3</b>
<b>3 BASICS OF MARKETING AND BUSINESS STRATEGY</b> .....	<b>6</b>
3.1 Creating value.....	7
3.2 Gather, process, apply to the strategy.....	9
3.3 The 4 P's and the 4 C's.....	9
3.4 Porter's five forces.....	11
<b>4 DIFFERENTIATION STRATEGIES</b> .....	<b>15</b>
4.1 Differentiation in products.....	16
4.2 Services as differentiator.....	17
4.3 Behavioural differentiation.....	18
4.3.1 Conditioning the market.....	19
4.3.2 Conditioning the client.....	20
4.3.3 Conditioning the deal.....	23
<b>5 MARKET RESEARCH</b> .....	<b>25</b>
5.1 Market for Under Floor Heating systems in Finland.....	26
5.2 Competitors.....	26
5.2.1 Characteristics of competition.....	26
5.2.2 Competitor approaches to the market.....	28
5.2.3 Tools of building a market view.....	31
<b>6 SURVEY</b> .....	<b>37</b>
6.1 Methods.....	37
6.2 Implementation.....	39
6.3 Findings.....	39
6.3.1 Basics.....	40
6.3.2 Differentiation on products and services.....	42
6.3.3 Behavioural differentiation and cooperation.....	46
6.3.4 Dependencies between questions.....	50
<b>7 CONCLUSIONS</b> .....	<b>56</b>
<b>REFERENCES</b> .....	<b>64</b>

## FIGURES

FIGURE 1. Mexichem businesses. (Adapted from Mexichem.com, Mexichem annual report 2017).....	3
FIGURE 2. Wavin solution categories (Adapted from Wavin.com).....	3
FIGURE 3. Value dynamics process (Adapted from Cracking the Value Code, 2000. p.202).....	7
FIGURE 4. The B2B value elements (Adapted from Harvard Business Review, issue March-April 2018, p.76) .....	8
FIGURE 5. Marketing mix strategy (Adapted from The Portable MBA in entrepreneurship, 2010) ....	11
FIGURE 6. Porter’s five forces (Adapted from Porter 2018).....	14
FIGURE 7. Value matrix (Adapted from Armstrong & Kotler 2000).....	16
FIGURE 8. Building index in Finland. (Statistics Finland 2018).....	25
FIGURE 9. Brand sizes and positioning in UFH-Market by distribution channels .....	31
FIGURE 10. Market attractiveness .....	32
FIGURE 11. SWOT analysis of UFH market in Finland .....	33
FIGURE 12. SWOT analysis on Porter’s five forces in UFH market in Finland.....	34
FIGURE 13. Target market suitability for commissioner.....	35
FIGURE 14. Types of companies. ....	40
FIGURE 15. Annual purchases in under floor heating category .....	41
FIGURE 16. Types of contracts.....	41
FIGURE 17. Number of used suppliers. ....	42
FIGURE 18. Criteria in selecting the supplier.....	43
FIGURE 19. Differences in products.....	43
FIGURE 20. Room for innovations in products .....	44
FIGURE 21. Importance of supplier provided services.....	44
FIGURE 22. Differences in supplier provided services. ....	45
FIGURE 23. How supplier cooperation meets expectations .....	46
FIGURE 24. Room for improvement in supplier cooperation.....	47
FIGURE 25. Working closely with a supplier .....	47
FIGURE 26. Developing business together with supplier.....	48
FIGURE 27. Do suppliers understand respondents’ business?.....	48
FIGURE 28. Do suppliers show interest on their clients’ business? .....	49
FIGURE 29. Is there room in Finnish under floor heating market for new suppliers? .....	49
FIGURE 30. Graph describing the dependency.....	51

## TABLES

TABLE 1. Price variations for same product in different packaging lengths, VAT 0% .....	27
TABLE 2. Under Floor Heating brands operating in Finland and distribution channels .....	29
TABLE 3. Service comparison .....	30
TABLE 4. Example of competitors’ product portfolios and catalogue prices.....	30
TABLE 5. Competitive advantage analysis by brand.....	32
TABLE 6. Importance of supplier provided services .....	45
TABLE 7. Cross tabulation table.....	50
TABLE 8. Chi-Square tests. ....	50
TABLE 9. Correlations. ....	51
TABLE 10. Dependencies in ordinary scale.....	52
TABLE 11. Dependencies in nominal scale .....	54

## 1 INTRODUCTION

This thesis is partly a market research with suggestions of strategy choices to commissioner's needs according to findings, and partly a glimpse into relevant literature and theory. Theory part is gathered from well-known basics of marketing theories and is deepened by carefully selected views from business-to-business (B2B) marketing specialists. The red line through theory is to look at the conditionings of B2B through aspects of creating value, recognizing the common pitfalls in developed competition, relying deeply on strategic approach and what it means for a company to be truly market-driven both in inner activities as in relationships with clients. This kind of approach to the thesis work was in the author's opinion to bring the best out of the given task to research for answers that the commissioner was seeking for.

One of the main reasons for the author to collaborate with the commissioner is the common ground, which was established by the author being the commissioner's employee for almost seven years from 2005 to 2012, supported by few years more working at one of the commissioner's most important client within the wholesale business. Hence, there exists a fertile mutual understanding about the requirements of relevant existing market knowledge and the aims for this work as well. Commissioner is a domestic Finnish branch of the multinational corporation Wavin, which itself is nowadays part of the even larger company called Mexichem. The need for this present market research arises from a possibility for Wavin to launch a new product category in Finland, which has not been present before this date. This market is familiar to the commissioner due to their existing product portfolios and clients, who mostly would be the same with the new launch. The market is also heavily competed and diversely developed.

From the commissioner's side rose a few headline level needs for this research. From the author's side rose the applied view on relevant theory and therefore, rising from the theory, the rest of the research. To support these, especially the market research, there was a survey conducted to find out possible differentiation factors from the clients' points of view. The questionnaire was formed on the basis of relevant theory about strategic marketing and was distributed to clients' decision makers via Webropol online service. Contact information was gathered by the author of this thesis. The research questions that rose from theory and pre-existing market knowledge aimed to reach the understanding of the current service levels and behavioural aspects of the industry. The research questions were as follows: Is there a way to compete sustainably in a developed and highly competed market? What kind of strategies could be used and on what basis? What kind of positioning and differentiation would make success possible?

The study of firms operating in this market formed the basic picture of the market for under floor heating solutions in Finland. The market has been there for long time and keeps gaining popularity over other heat distribution solutions. Research revealed the market has wide competition and gave a picture about the means the firms are operating with. After this research a quantitative survey study was conducted to find out how the clients, in this survey three different types of contractors, saw the conditioning of this market. When the gathered data was analysed, this research brought clear indications in terms of the received answers. In addition, dependencies were found between the questions. Most important findings in terms of the survey research was the dependency between well-functioning delivery and contractors experiencing that suppliers meet expectations, which was backed up by other fulfilled service related expectations. In addition, there was a correlation between high purchases and lessened experienced differentiation in products and services. For the commissioner, the good news were eight out of ten responses welcomed the new suppliers to this market.

The outcome of this thesis and research was to outline the challenge of this market and suggest that with focus on cooperation and behavioural differentiation there exists a possible strategy. This thesis did not aim to research on all the possible angles and approaches to launch this product category venture – it did contemplate one commonly thought strategy and tested if there were reasons to choose it. The commissioner has now good support in making the decision about this choice.

## 2 COMMISSIONER

The commissioner for this thesis is three-fold. In the upmost level the commissioner is a company called Mexichem. Mexichem is a large company working in varieties of industries, providing materials and solutions. They have been in business more than 60 years and employed in 2017 more than 18 000 people and made sales of 5.6 billion US dollars. Operating in more than 100 countries, they have based their strategy on acquiring smaller companies which back the improvement of their supply chains. (Mexichem 2017.)

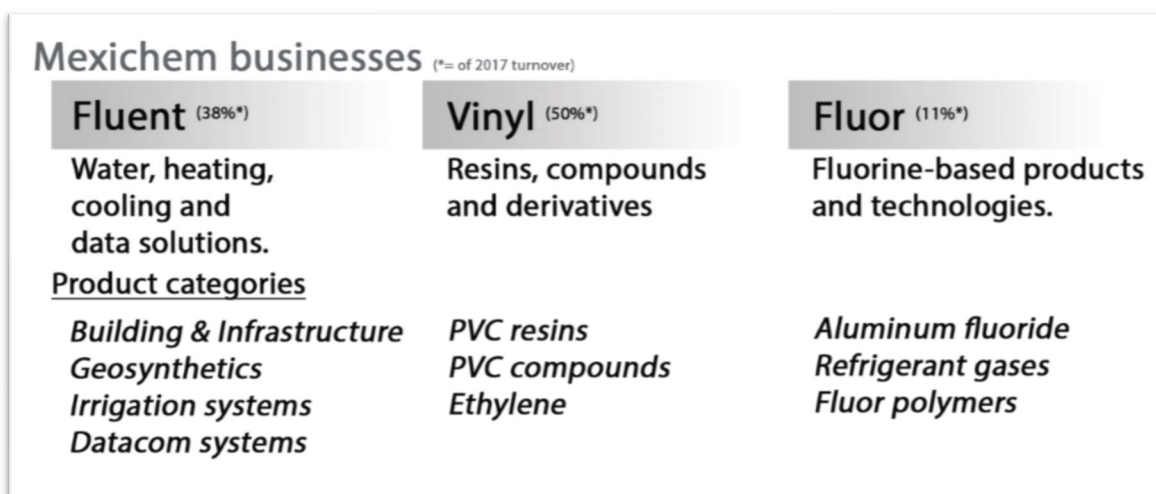


FIGURE 1. Mexichem businesses. (Adapted from Mexichem.com, Mexichem annual report 2017)

In the middle ladder of the commissioner is Wavin. Wavin belongs to Mexichem's Building & Infrastructure branch and is also a multinational company. Wavin was formed in 1955. It has produced plastic pipes ever since, and now the product portfolio is divided into above and below ground products. Wavin employs over 5500 people and the annual turnover is around 1.2 billion euros. (Wavin 2017.)

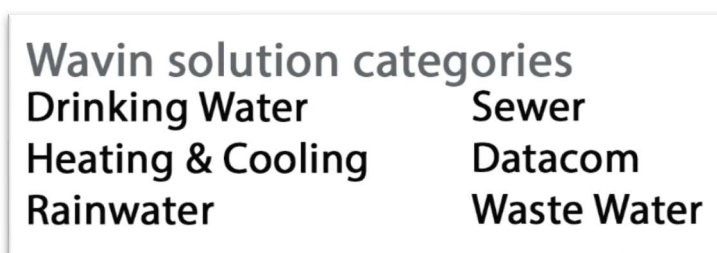


FIGURE 2. Wavin solution categories (Adapted from Wavin.com)

Wavin-Labko Oy was originally a Finnish company, who has been on business over 50 years. They originally produced plastic tanks and after acquisition by Wavin have diversified their product portfolio. (Wavin-Labko 2018). It is the Wavin-Labko organization, which works as the commissioner of this thesis.

Wavin-Labko Oy can be seen mainly production and sales-oriented organization. They have two factories in Finland, one in Kangasala and one in Joutsa. In these factories they produce plastic tanks ranging from 0,1m<sup>3</sup> to 80m<sup>3</sup>, materials being Polyethene (PE) and Composites (GRP). Their products consist from serving infrastructure building needs, and originally pioneered many of the original ideas of how to cleanse rain and process water that have mixed with hydrocarbons and sludge. After the acquisition by Wavin, their product portfolio has had additions in plastic pipes and storm water treatment solutions. (Wavin-Labko 2018.)

The business model of Wavin-Labko is strongly oriented toward wholesale business, which operates between multiple suppliers and site constructors. The wholesale business in Finland has two major advantages; their superior logistics from their central warehouses and the network of local shops. For a manufacturer producing such physically large products, the transportation costs are high to the point of those costs being significant factor in the price for a client. It is though not just the price, logistic aspects are also about reliability, effectiveness and the service level. Wholesale businesses have such a high frequency of deliveries, that it is for both the suppliers and the wholesale business more efficient and cheaper to store relevant products in the central warehouses and transport the products from the supplier's warehouse according to forecast. In this way the whole industry works more efficiently. There are also direct deliveries to client's working sites for some products, which are not suitable to wholesale warehouses due to their size. In these cases, it is a common procedure for a supplier to recycle the invoices through wholesalers and give them a small percentage fee for their convenience. From their half, the wholesale businesses share their market information about upcoming projects, actively asks requests for proposals and act as bankers on the behalf of both suppliers and their own customers, giving credit and taking the credit risk. (Äijö 2018.)

Within this kind of conditioning of the market suppliers such Wavin-Labko have sales organization that has both back-up sales team staying mostly at the offices dealing with ongoing everyday activities and team of Area Sales Managers who spend their time on the road meeting with customers. Whereas back-up sales tend to give technical support, build quotations and deal with day-to-day issues rising from both the clients and one's own organization, those responsible of given geographical areas focus on project management. (Äijö 2018.)



For the project management there are several different customer groups they need to take into consideration and recognize within each project respectively. Being in technical consultative sales, most common customer groups are developers, designers, officials, constructors, shopkeepers and wholesale organizations. Each of these groups may have one to several key decision makers one needs to be familiar and keep relationships with. Each group and each person have their needs to be recognized and promises made to satisfy those needs to be documented and delivered on time. (Äijö 2018.)

Business culture as such comes partly from the mother organizations, here namely from Wavin and Mexichem. Area Sales acts as a team and they have a strategic plan dictating regular meeting to follow up. Sales forecast are formed based on those meetings and combined with similar forecasts of wholesale orders and back-up sales forecasts. (Äijö 2018.)

Sales forecasts are delivered to production, which needs this information to adjust their activities in buying the raw materials and possible production of some products beforehand to deal with high season. Sales works tightly also with the marketing department, which is in this business culture mainly focusing on business development and supporting the everyday needs of promotion materials on all possible levels of sales activities. The activities in producing such materials are related to online presence, brochure updates and upcoming tradeshows. (Äijö 2018.)

Wavin-Labko has recently gone through some organizational changes due to Wavin's global leadership change. The aim of this change is to improve the efficiency and decision-making. These changes are seen to provide positive development in the turnover and profit. Focus on expanding the product portfolios and sales activities form a basis to sustainable profitability in the domestic market. In addition, the business idea evolves around environment technology and provides positively in the environmental context. The company has certified their environmental management system with ISO 14001 certificate and hence pay a lot of attention to energy and material consumption and recycling. In 2017 the company employed 54 people and managed an operating result of 390 000 Euros with the turnover of 15 million Euros. (Wavin-Labko annual report 2017.)

### 3 BASICS OF MARKETING AND BUSINESS STRATEGY

In midst of varieties of business functions, marketing focuses the most to the customers. Marketing is not just making marketing material such as brochures and advertisements. Marketing isn't just selling products and/or services. It should be a value chain management weaving sustainable win-win strategies among co-operations, whether towards suppliers, one's own organization or client's. (Armstrong & Kotler 2000). Business requires customers and meeting with their needs. To match, or even exceed those needs, company's offerings must have sufficient quality, right channel to reach customers, be promoted visibly and be priced in correct way. These aspects are in constant flux, so a company needs to be always alert. (Dibb, Simkin, Pride, Ferrell 1997.)

To be successful in serving markets, it can be argued one needs to be market-driven. Landmarks of such firms are that they are adjusting to outer conditions, able to read both the big picture and details of those outer conditions and are shaped organizationally to adjust. (Day 1999.) Companies who adapt the market-driven mindset to their business strategy, constantly check their offerings against competition, pursue in understanding the changes in customer's minds and check their marketing mix not to be outdated. (Jobber 1998.)

In contrast, factors obstructing being truly market-driven do exist even among the best. For first, a firm may focus so much to themselves, that they no longer read the market in a correct way. Symptoms of such obstacles express themselves as a lack of connecting with the market information and in addition there may be disruptions in the flow of that information, for example from sales people to other parts of the organization. A firm may also be too product oriented or too cost concern oriented. Other common issue may be that a firm acts too much on clients' wishes, lacking cohesive strategy and discipline to themselves. This could end up with chaotic information and not being able to see the actual customer needs. Thirdly, a firm can consider one's position so strong that they see themselves driving the market than the other way around. This symptom can express itself for example as the reluctance to change the current offerings. (Day 1999.)

Being a market-driven company means understanding the value of available market information. How good a company is to gather, categorize, analyse and conclude vital aspects, determines a lot of the success of such company. From this information, a business strategy is to be formed from. (Jobber 1998.) Comparing market-driven culture and self-centred culture, Day (1998) manages to outline several differences. Whereas former forms decisions from customers point of view, lets customers define quality

and value the ideas coming from clients the most, the latter would respectively value at any given moment the one who happens to buy, set quality standards from within and state that customers often are wrong. (Day 1998.)

### 3.1 Creating value

For a firm, at the core of creating value is a business plan. Business plan is means to use the assets of the firm to create value for customers by providing to their needs. Figure 3 shows there are many kinds of assets to be recognized: physical assets, financial assets and suppliers as asset. Even customers and organization of a firm can be assets. Life cycles of assets need to be recognized, because for example brick-and-mortar shop has faced being rendered obsolete in midst of online competition in some industries. Likewise, technology has gone through rapid change, employees are constantly changing assets and so are customer needs. And when the customer needs change enough, a business plan should follow. (Boulton & Libert & Samek 2000.)

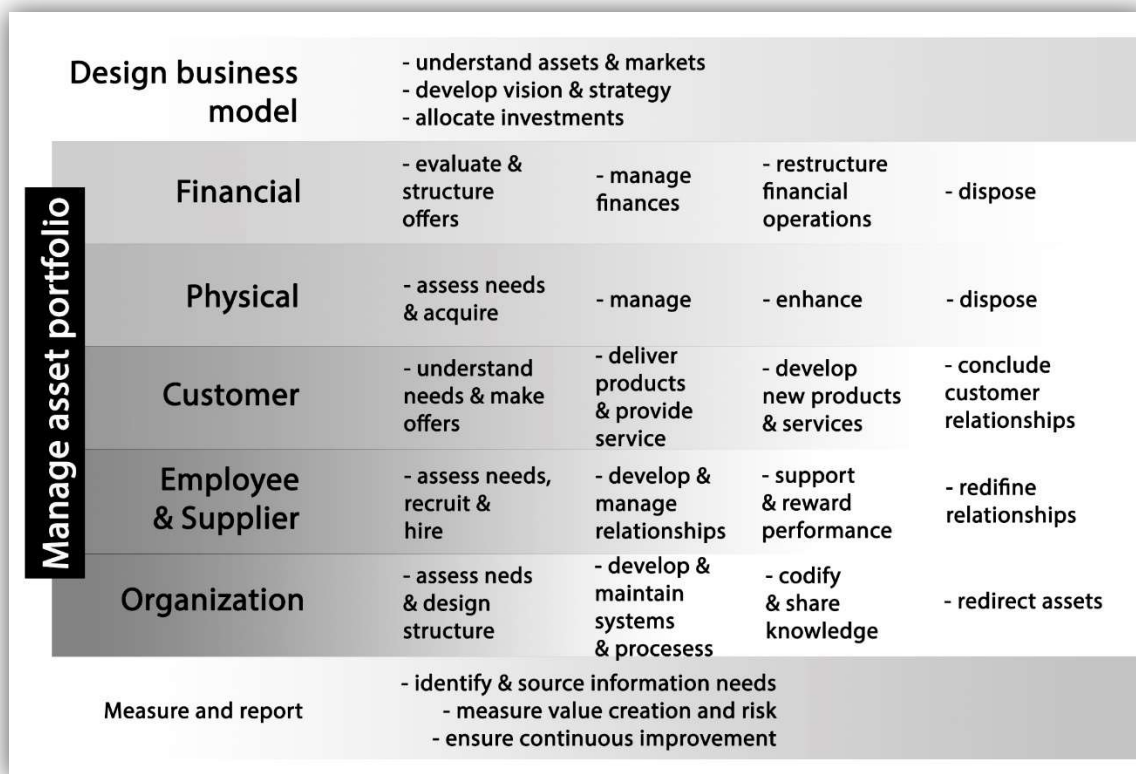


FIGURE 3. Value dynamics process (Adapted from Cracking the Value Code, 2000. p.202)

Business-to-business firms must pay much of their attention to measurable metrics to follow how the performance is developing over time. A whole department of procurement oversees such metrics, but B2B nowadays contains so much more providing to decision-making. To differentiate, one should focus on other aspects of business than on minimum pre-requisites of entering any given market. For reaching satisfying solutions to meet customer needs, a firm could research those elements providing value. It is notable that when researched, often a gap between firm's own view and client's view is found. To narrow the gap, there are clear steps to be taken. One should research the market and competitors, engage in communication with clients, pay attention to elements of value, be bold in trying new approaches and lastly analyse what has been done. (Almqvist & Cleghorn & Sherer 2018.)

Harvard Business Review published an article in their March-April 2018 issue presenting the B2B elements of value. Figure 4 contains a graphic presentation of the elements put in eleven categories of business aspects. The model itself was made by Bain & Company. The lower part of the pyramid deals with business necessities such as economic factors, performance factors and pre-requisites of entering the market. Middle part categorizes value elements relating to operational efficiency, strategic approach and cooperation. The upper parts deal with elements relating to personal issues, career and meaningfulness. (Almqvist et al. 2018.)

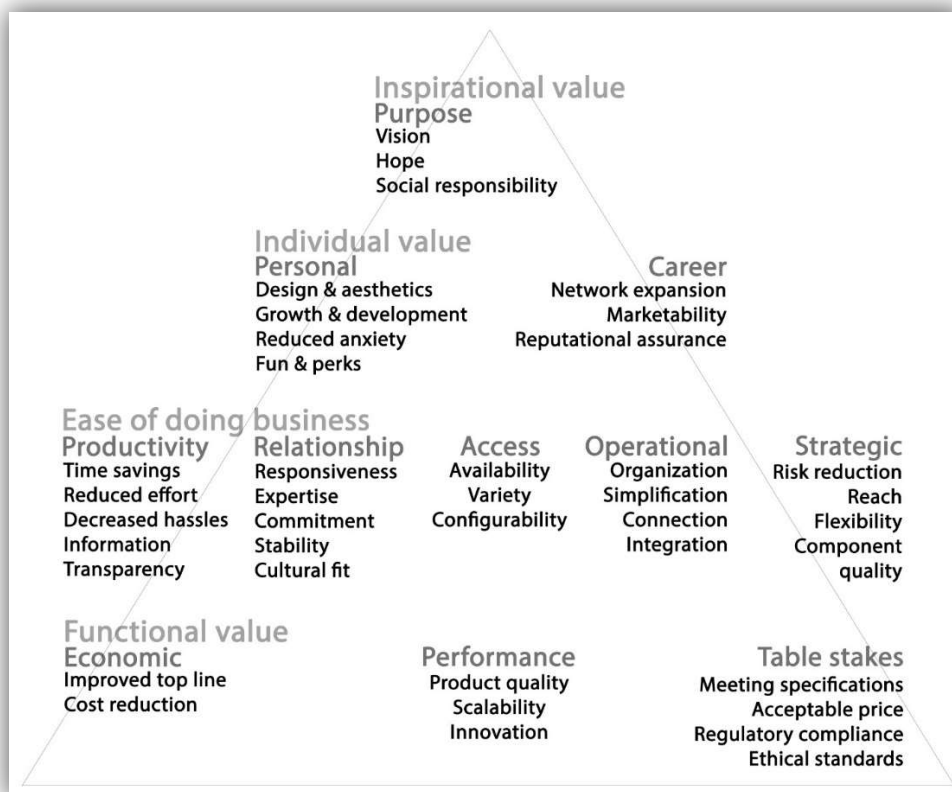


FIGURE 4. The B2B value elements (Adapted from Harvard Business Review, March-April 2018, 76)

### **3.2 Gather, process, apply to the strategy**

Customer Relationship Management (CRM) and software built to deal with customer information have been around since eighties. It has been argued that development of service markets has evolved to the point of relationship marketing. Age of internet has taken this even further, to mobile connectedness. These have become industry standards in many markets. CRM alone as a technological tool does not guarantee success. There is a need to recognize what CRM can bring as a strategy and how it acts as a managerial tool. Communicative exchange process is happening through relationship with customers and that information needs to be stored, analysed and taken to strategy. (Lindberg-Repo & Dube 2014.)

“The knowledge base of a market-driven organization is arguably its most valuable asset” (Day 1999, 102). Such knowledge base is the basis for organizational learning and provide to up to date strategy. When such approach is missing, there is a risk for collective amnesia. Major effort needs to be put in building a system where the data is sorted out, analysed and is easily retrieved. Day (1999) outlines the important points of information turning into knowledge in three. Firstly, one needs to consider the market structure – how is competition and segments changing. Secondly, how are the market responses to value creation and what drives those changes. Thirdly, one should consider economics – where does the profit come from and how to improve it. (Day 1999.)

Knowledge coming from CRM is not just for managers. For example, Sears did research on their business which revealed that improvements in employee attitudes brought improvements in customer satisfaction, which reflected in profits as well. The conclusion was that employees benefit strongly from being educated about how to reach customer satisfaction, which rises from understanding strategy and being able to make one’s own decisions through being competent (Day 1999).

In B2B, problems in dealing with the client knowledge tend to rise from lack of communication between departments. Bringing all departments in the company to look together at supply chain issues is needed to recognize the issues rising from each department prioritizing their own needs instead of working for common goals. The more each department optimizes their own processes, the problems in this sense occur more frequently. (Jespersen B.D. 2005.) This means that the whole organization, every department, should recognize the importance of marketing and be able to support that angle (Grönroos 2007).

### **3.3 The 4 P’s and the 4 C’s**

Four marketing components of product, place, promotion and price are commonly in marketing theory taken as so-called marketing mix (Dibb et. al. 1997). These are the aspects that are under businesses own

control, whereas market conditions such as economic forces, technological forces and political forces are beyond immediate reach (Armstrong & Kotler 2000). Jobber (1998) argues that marketing mix can be the basis for a competitive advantage. For a marketing mix to be successful, he states that it should be able to satisfy the customer needs, be in balance within itself and be possible for an organization to be implemented. (Jobber 1998.)

Product itself can be a physical product, augmented product, immaterial product or a service. Within a marketing mix, a product aspect is related to satisfying the customer needs. (Dibb et. al. 1997.) Augmented product relates to attributes connected to that product, for example a repair service (Bygrave & Zacharakis 2010). In B2B product is rather seen under concept of solution (Armstrong & Kotler 2000). Change is constant within products and services. Competition creates new products and develop new features to the older ones all the time. Under the category of product, for example fall the thinking of how products are named and what kind of package is relevant and appealing. (Jobber 1998.) Differentiation in products is often necessary at the beginning of a business venture. This means finding rather a different niche than the competition. (Bygrave et. al. 2010.) The big error made by businesses is aiming to be the best and competing in the same way as competition. Competitive advantage is about responding to customer needs with uncommon approach. (Magretta 2012.)

A place in marketing terminology means ways of distribution. To reach customers in an effective way, a company's offerings needs to be at the right place at the right time. Within a distribution aspect, attention is paid to a means of transportation, storages and volumes. (Dibb et. al. 1997.) In the B2B market place could be rather considered as convenience (Armstrong & Kotler, 2000). Within the place and the convenience is important to recognize the need to maintain good relationships to the involved parts of the network. They may be the best or only possible way to be present in reaching customers. (Jobber 1998.) To find the distribution channel bringing success may prove to be harder to find than starting to operate in it. There may be competition's offerings along one's own offerings in the same distribution channel and the preferences of the provider may vary from time to time. In Figure 5 is presented concepts of Intensive, Selective and Exclusive refer to distribution types which are respectively focused on bulk, being limited by some factor and being fully exclusive. (Bygrave et. al. 2010.)

Promotion means sharing information about a company's existence and its offerings. It is meant to act as a trigger provoking customer to acknowledge, pay interest and make them remember the company and the offerings. (Dibb et. al. 1997.) In B2B promotions is dealt as upper category concept of commu-

nication (Armstrong & Kotler, 2000). For the means to communicate about the offerings, the most common ways to do that are advertising, personal selling, promotions and public relations. For a business it is important to research to find the suitable ones or combinations to reach their audience. (Jobber 1998.) The push strategy presented in Figure 5 is to be proactive about one's offerings to the audience, whereas pull strategy is about creating demand. (Bygrave et. al. 2010.)

A price plays an important role in the marketing mix, since customers consider the value they are getting in purchase and measure that value through price they are paying (Dibb et. al. 1997). In B2B the price is dealt rather as the total cost of different factors in dealing with another company (Armstrong & Kotler 2000). Pricing is of utmost importance to any business, since it determines if the business can be profitable or not. The business needs to be as aware as possible of all the costs that have effect on the pricing. (Jobber 1998.) For B2B is common to have price discrimination, which means different prices to different customer groups. The price could be less for those who buy more and have been segmented accordingly. Penetration pricing in Figure 5 means an approach to market with low price aiming to gain high market share. Skimming pricing relates to aiming for high margins and smaller market share. (Bygrave et. al. 2010.)



FIGURE 5. Marketing mix strategy (Adapted from The Portable MBA in entrepreneurship, 2010)

### 3.4 Porter's five forces

Whereas effectiveness in markets is easier to replicate by the competition, a strategy to gain competitive advantage is far more difficult to mimic. By applying a strategy, one is focusing to chosen strengths and recognizing that some other aspects of doing business are considered not that important. In the strategic approach, chosen actions should support each other. (Porter 1996.) Day (1999) argues that there are commonly two types of approaches in forming a business strategy; one rather pro-active coming from top-down and another rather re-active bottom-up approach. Day continues to argue that both aspects should be recognized and somewhat in balance. (Day 1999.)

Throughout industrialized economies, firms have strived towards efficient activities. This approach should not be taken to be a strategic approach, not even the Operational Effectiveness. In the long run, OE tends to be on everyone's agenda and end up killing the profits, if it is applied without supporting strategic understanding. (Porter 1996.) "A company can outperform rivals only if it can establish a difference that it can preserve" (Porter 1996). Companies that consider themselves truly market-driven, are ready to act whenever a change presents itself, but hold on to their strategy in the long run. There should be a continuous research of the possible opportunities and actions should be wrapped around chosen value propositions. (Day 1999.)

Strategic approach should establish unique blend of chosen activities, which provide such value to the clients that it separates the offerings from the competition's offerings. An example of such strategically chosen approach is one firm's decision to focus on low-cost prices and another's decision to offer maximum quality no matter the cost. These strategies can rise from for example finding a group of customers who have had poor service previously, finding a new target group altogether, focusing on limited products or service offerings or finding a new way to access customers. To prevent the competition to take advantage of one's strategy's benefits by copying parts or all of it, the strategy should include so-called trade-offs. Trade-offs in business strategy means that some activities are not compatible with others and by doing such decisions in a unique way, it makes it difficult to follow for competition that aspire to reposition to gain equal benefits or those trying to keep their strategy and use other company's advantages as well. (Porter 1996.)

In a strategy based on creating value to the clients, it is important to strongly question the view and knowledge a company has about the market. Difficult questions should be pondered, rather than aiming for those soon ending up with relatable metrics. (Day 1999.) "Understanding the competitive forces, and



their underlying causes, reveals the roots of an industry's current profitability while providing a framework for anticipating and influencing competition (and profitability) over time" (Porter 1979). These forces can be divided to five categories.

The first force, threat of the new entry means new competition in the market. The newcomers to the market of certain industry tends to limit the profits in the long run. (Porter 2008.) Economy -wise this is even a wanted phenomenon to some extent, to shape the market from monopoly to oligopoly and even to ideal market. In monopoly the barriers of entry are the strongest. (Dransfield 2013.) Succeeding in their first steps to gain some market share is dependent on barriers on entry, set by the firms who have operated on that market for longer period of time (Porter 2008).

An example of the second force, supplier power, could be a company having strong foothold of market, producing large quantities and enjoying low costs per unit. Such benefits may occur from any part of the value chain. Buyers may rely on suppliers they are dealing with already or choose to change for other suppliers but there are also costs in switching. Some markets may also need heavy investments for production lines. Suppliers may have developed such advantages in certain industries that they have significant power. These powers may rise from their own strategies, which make it possible to them to charge high prices, vary quality or determine other costs. If the companies who deal with such suppliers are not able to raise their prices accordingly, the profitability will suffer. The more dependent the companies are from supplier, the more the supplier have power. Particularly when switching costs are high or there is no relevant substitute to their offerings. (Porter 2008.)

When a buyer is powerful, those companies enjoy benefits of dictating the market. It is usual for them to express their buyer power, the third force, to bargain prices, setting the levels of required quality and using their position in making suppliers to compete in maintaining the relationship with them. Such advantages may rise from buying in volumes, large number of suitable suppliers or from low switching costs to buy from another supplier. (Porter 2008.) Undifferentiated offerings tend to make powerful buyers price sensitive and using their leverage in negotiating. Also, if the procurement costs are high, the attention easily turns to price. (Magretta 2012.)

Threat of substitutes, the fourth force, means that something is provided by a different way, ending with similarly relevant offering. As an example of this, video-conferencing is a substitute to travel in some cases. What works as a substitute may depend on the eye of the beholder, but some end up being stand-

ards in general sense. This kind of threat is present when price-performance ratio within possible substitutes is reasonable and switching costs are low. Companies should be aware especially what happens in other industries to acknowledge the threat of substitutes. (Porter 2008.) To keep one's customers, it is recommendable to form a strategy to ensure keeping them. This could include such steps as recognizing what loyalty means, researching why customers might choose otherwise, selecting the most important customers, building barriers to keep competition from using same advantages, adapting the organization to market needs and monitoring the performance. (Day 1999.)

Fifth force is competitive rivalry. In evolved markets it is usual that competition is hard and complex. Tools the competition uses, are familiar ones, such as discounts and advertisement campaigns. Rivalry tends to be fierce when the competitors are of similar size, market size stays the same and everyone are fully committed to the business. Especially price competition is harmful to the industry since it ruins the profit levels, whereas competing in other offerings such as services or reliability improve value and should end up with higher profits. (Porter 2008.) Company brand is important factor in competitive rivalry. It connects the past success and future expectations. Brand image provides to sense of quality, positive associations and predictability. Figure 6 shows how the other four forces form the fifth force, competitive rivalry. (Day 1999.)

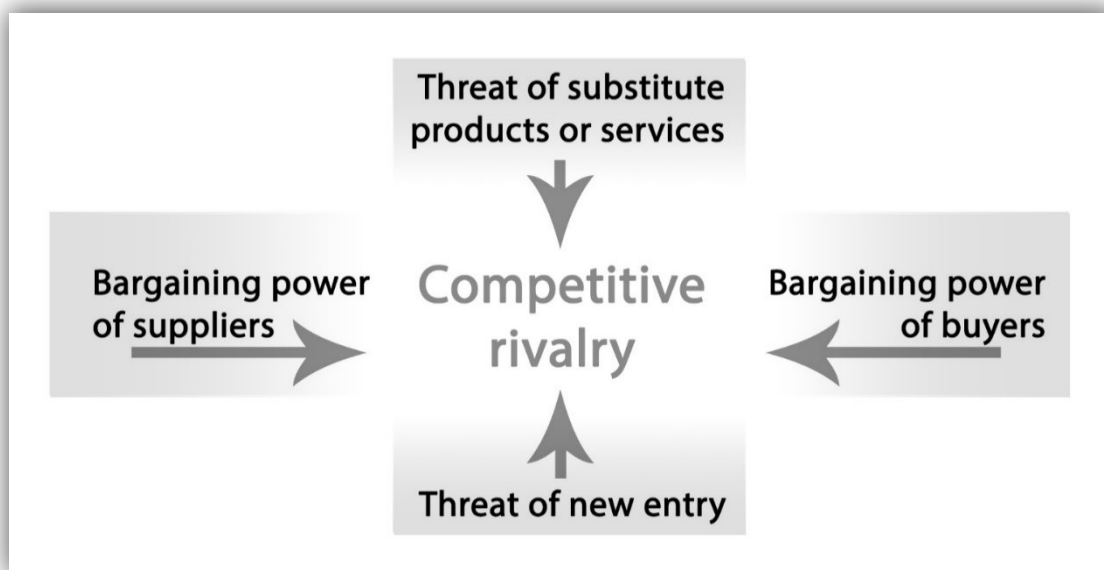


FIGURE 6. Porter's five forces (Adapted from Porter 2018)

## 4 DIFFERENTIATION STRATEGIES

The aim to make one's company to survive by a means of rather unique proposal than only by the means of price, is behind the theory of differentiation. Results of this strategy would be having higher price from the customer, gain higher sales volume or reap similar benefits in terms of customer loyalty. (Porter 1985.) In B2B there are different ways on differentiating from the competition. For manufacturing companies, the most elementary differentiating strategy comes through characteristics of the products themselves. On more advanced level differentiation is built on understanding the customer needs and on provided service on the products and services as products themselves. The ways services act as a response to customer needs effects the forming of a business strategy. Following this kind of strategy gives rise to such phenomena as taking into consideration the complexity of customer needs, customer centricity and innovativeness. Also, to be considered are concepts of market orientation, customer orientation and competitor orientation. (Gebauer & Gustafsson & Witell 2011.)

Companies may apply two kinds of basic mindsets on seeing themselves strategically. One is focusing on core competencies, those inner strengths that mirror what the company is about. The other view is of looking outside, what support could be found in other companies providing their expertise. Whereas the former can be a way to differ from competition in the market, the latter can be more effective in providing to clients' value chains. (Hagel & Brown 2005.)

Whereas specialization as in terms of core competencies may sound a stagnate approach in the long run, a company may sharpen their focus to be dynamic in their specialization. This means to research aspects of specialization, find factors that no longer differentiate the company in the competition and react in a way which provides success in the future. In terms of finding leverage from the outside of the company itself, outsourcing certain activities may provide competitive edge. The competition may realize the same possibilities, ending up to similar results and lessening the gap of differentiating. From that point rises also an important question about the business the company is in. (Hagel & Brown 2005.) "Companies must cultivate their own specializations to ensure that they continue to create differentiated value" (Hagel & Brown 2005, 79).

#### 4.1 Differentiation in products

If a product differentiation approach is applied, it must be built on such promises of quality and features, which a company is able to meet with. Customers cannot be misled to gain sustainable advantage. (Armstrong & Kotler 2000.) Typical approach to find differentiation possibilities within products is to see where the higher value proposition would come from. Such could be for example unique packaging. Sustainability of found differentiators and the ways of constantly being better should be considered as well. (Bacon & Pugh 2004.)

In Figure 7 Armstrong & Kotler (2000) outline of a value proposition matrix, where price form axis divided to three categories (more, the same, less) and benefits likewise to three. More for More -category means high priced luxury offerings, whereas in the opposite positive corner there is Less for Less -category, representing the choice for many who cannot afford to have the best but see the benefits of cheaper option. The negative differentiation results come from Less for More corner and neighbouring squares.

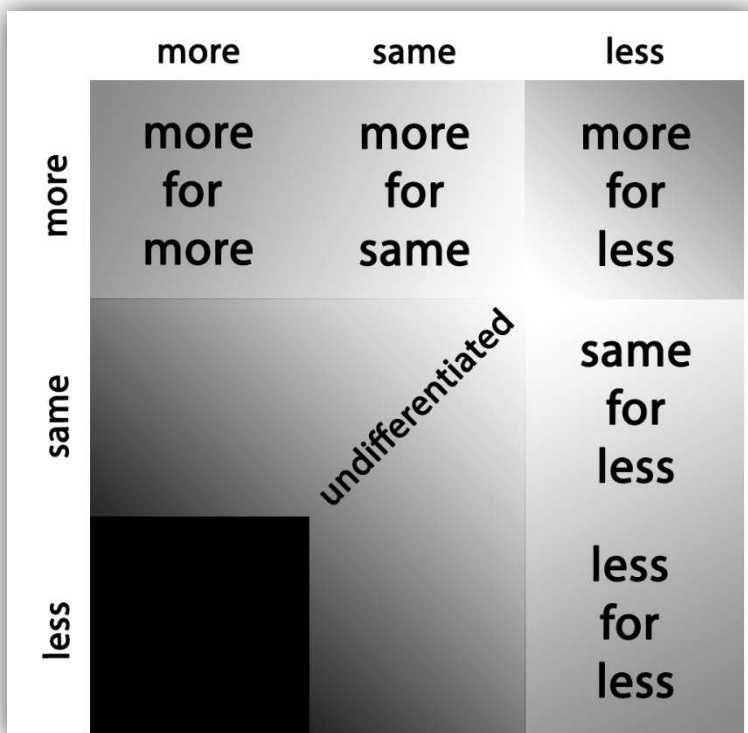


FIGURE 7. Value matrix (Adapted from Armstrong & Kotler 2000)

Characteristics of products are tangible aspects and hence the most likely starting point when representing the offerings of a company to clients. Nevertheless, it is rare these days that a company succeeds to differentiate by just listing their products qualities. Strong brand certainly provides to this approach. Whereas products tend to have limited lifecycles, brands are likely to outlive those cycles. (Pulkinen 2002.)

#### **4.2 Services as differentiator**

Differentiation can come from a provided service related to offered products or a service as a product itself. Service can offer something unique from competition, such as being fastest, easiest or tailored to customer needs. (Armstrong & Kotler 2000.) Service can also be a product, when the providing company aims to meet customer demands in detailed levels. In goods-oriented business marketing is very much sales oriented, whereas in service-oriented marketing connects deeply with clients' buying activities. The difference between goods and service-oriented business is clarified using terms outcome consumption with the former and process consumption with the latter. Within outcome consumption, production of goods and consumption of goods are apart from each other. Within process consumption, production of the service and consumption are integrated, which alternates the purpose or marketing efforts away from the gap between production and consumption, where it has been within the outcome consumption. (Grönroos 2007.)

The study made by Gebauer & Gustafsson & Witell (2009) suggested a positive linkage among the complexity of customer needs, customer centricity, innovativeness and business performance. Four hypotheses were made as the basis, stating the positive linkage among before-mentioned aspects. Four additional hypotheses were made afterwards to establish how adapting a service differentiation strategy affects the relationship between customer centricity and complexity of customer needs, and between innovativeness and complexity of customer needs. Results showed that service differentiation strategy ends up simplifying the complexity of customer needs, which be a good measure of success. (Gebauer et al. 2011.)

Salonen (2010) found in researching service strategies within two Finnish large exporting companies, that they felt cost-based competition with only products being not attractive strategic choice and adding services to their offerings presented a means to differentiate. Salonen concluded that adding services to the company's offerings should be done when the company's standing point is strong, and those services should rather add to the high level of products than cover for weaknesses. (Salonen 2010.) Being able to

form a successful service strategy and services indicates that the company has understood a client and their perspectives. In opposite, failing to understand customer needs will reflect in the provided service and can lead to the termination of relationship. A good service is about reading correctly the customer experience. To that end, the whole organization may have to adapt. (Lindberg-Repo & Dube 2014.)

### **4.3 Behavioural differentiation**

In business to business (B2B) field, a winning differentiation strategy is these days very much based on out-behaving your competition. This is so, because especially where professionals deal with each other, basic business factors, such as basic values and price, tend to come very much alike between competitors. (Bacon & Pugh 2004.) Porter calls this “competitive convergence”, meaning that the only thing separating competitors is price (Magretta 2012). In the article of Harvard Business Review (December 2013) Dawar argues that competitive advantages of a company that focuses in sourcing, production and logistics tend to diminish as competition catches up. Dawar argues further, that those competitive advantages that rise from being customer oriented, are accumulative.

It is common to address aloud that putting their clients first in their thoughts, speech and actions, is of highest importance. Yet many fail to do so. Importance of recognizing the possible gap between wishful thinking and actual actions, comes to play in seeing in what the image their customers have about the company is based on and the possible shortcomings it results to in forming a trustworthy partnership. (Bacon 2004.) “Your behaviour is the truest expression of your attitudes and beliefs. You are how you behave, and you behave how you are” (Bacon 2004). Backing one’s customers is about going the distance for them; pushing one’s own boundaries further in serving both in the time of need and day-to-day activities. This should run through one’s organization, from top to bottom. (Bacon & Pugh 2004.)

Bacon and Pugh divide behavioural advantage strategy in three main categories; the opening game, the middle game and the end game. The middle game, being most important due its dominance in decision making, given over two thirds value compared to opening game’s one fifth and end game’s bare one tenth, is again divided to three. Whereas the opening game is about conditioning the market, the middle game is about conditioning one’s client via starting the common pursuit in early middle game, adapting to common possibilities in mid-middle game and taking a strong standing place to win in the late middle game. The end game is about conditioning the deal. (Bacon & Pugh 2004.)

### 4.3.1 Conditioning the market

Conditioning the market is an activity that lasts as long as a company is willing to do business. Conditioning aims to form the picture customers have on one and to have that image acting as a benchmark to the whole industry. This is attained by constantly clarifying what is the purpose of the business and what lies in its core, actualizing distinguished value proposition, positioning against competition and succeeding to communicate with customers. Behavioural differentiation in conditioning the markets begins from realizing it is not something one can put on top of everything – it has to run deep and from the beginning. In business, values lie at the core. Company's values should be aligned with customers' values, as also with one's own employees. From that starting point it is possible to serve customers in an exceptional way. (Bacon & Pugh, 2004.)

A truly market-oriented company have understood, that sustainable competitive advantage is that customer's experience company's brand is above other choices. Customers form this opinion from their own preferences, and it may or not be based on rational logic. (Pulkkinen 2002.) A company should communicate its vision and mission in a strong way to provoke prospective customers to find out if one's offerings match their needs. (Bacon & Pugh 2004.) For long companies have relied to measuring customer satisfaction. Developed companies have realized this to be a narrow approach in reading into customers thoughts and rather aim to gather information on the whole experience and the emotions their offerings have provoked. (Wind & Main 1998.)

Recognizing the needed resources to reach success in business activities connect with behavioural differentiation. Employees form the core of the resources. Therefore, it is necessary to have a means to provide tools for employees to differentiate in their behaviour with clients. When they have understood the importance of their behaviour, it is important to encourage and reward them succeeding in it. A powerful differentiator can be the presence of the leaders of one's own organization when learning about clients' activities even at the lower levels of their organization and at their premises. This indicates extraordinary interest to the client's business. (Bacon & Pugh 2004.)

Client's behavioural expectations should be included in the market segmentation process. They have certainly gotten used to certain levels, but often there is room for improvements and clear indicators that no-one is living up to their standards. At the easiest, clients may be experiencing negative behavioural differentiation from competition and they openly tell about. (Bacon & Pugh 2004.)

A behavioural differentiation within products peaks at the idea of mass customization. It is an approach very difficult to compete without a possibility of similar offerings. In conditioning the market, branding can be highly effective differentiator and it applies to behavioural differentiation. It is important to realize that it is rather the execution of activities and fulfilling the made promises that builds the sustainable brand, than the image built with advertising and such. In terms of communicating about the company's offerings, traditional advertising efforts, as multiple they exist, tend to be used by everyone. Behavioural differentiation in this context could be found by going a bit further than anyone else goes, for example by investing heavily on collaborating in professional publications and presentations. (Bacon & Pugh 2004.)

### **4.3.2 Conditioning the client**

Among the goals for conditioning the customer are such aims as getting to know deeply one's customer, getting in to the meaningful and value adding communication and preferably ending to be the first-choice option in the time when the customer is facing issues. (Bacon & Pugh 2004.) For a market-driven company it is necessary to apply an open-minded approach to understand the market it operates on. Whenever there are a possible customer needs recognized by any department, they should be noted. Urgent call from client out of ordinary, smallest of complaints or any change in the industry or market should be heard. All the people within the organization need to have certainty their message is heard, and relevance is audited. Yet without an effective means dealing with relevant information, employees easily question the necessity and feel burdened by it. (Day 1999.)

In the beginning of conditioning the client, there are a few main goals to pursuit. It is necessary to position oneself as the one who is listening with care, recognizing key people and starting a relationship with them, and adapting one's offerings to the connected value in their minds. (Bacon & Pugh 2004.) To build the strategy to follow the actions of competitors, is to recognize the need to gather the information from all levels of every department. (Day 1999). This resonates in conditioning the client as behavioural differentiation, as Bacon & Pugh (2004) estimate that even 70% of deals are decided through understanding the customer.

Within the communication between two enterprises there is a need to reach a common understanding within factors that benefit both. The meeting point in the first place could be described as a shared



meaning. An example of this could be the ripeness of a fruit both to the seller and the buyer, on which agreement the mutual trust can develop. (Hagel & Brown 2005.) Day (1999) proposes four kinds of strategies in recognizing one's customers' latent needs; identifying issues, listening the story, observing and paying attention to economics. The first is related to getting straight information from clients about their issues, the second is about making questions to uncover what lies between the lines, third uses observing beside the researched activities and fourth reads into client's costs from another viewpoint. Important though with these approaches is to refrain from instant questions, and rather analyse later to come up with real findings.

Conditioning the client is about being really interested in the client and letting them know it. The point of conditioning is that even though no opportunity as such has emerged, one is doing the preparatory work, which turns client's decision making towards such supplier who already understands client's business and is willing and able to bring added value to their business. (Bacon & Pugh 2004). As a way to see how the process of understanding a business relationship is taking place, one could look the situation through the following points: who is leading the process or is there a need to have someone from outside to do that, are some of dealt issues of core functions to either party, how is the intensity of how these functions are managed and fourth, how are these issues measured. (Hagel & Brown 2005)

“True learning organizations are serious about continuous experimentation. This process of active, ongoing experimentation is where original insight into the market are developed.” (Day 1999.) This requires good leadership, since failures are certain to come, and it is important to learn from them, rather than putting blame on someone. But without taking such risks, the mind-set of constant learning can be lost. (Day 1999.) Hagel & Brown argue in their book *The Only Sustainable Edge* that Productive Friction is a necessary aspect of understanding one's negotiation partner and innovativeness between parties. The concept means that when two or more cultures collide, there will be collisions, friction. If dealt poorly, this friction will be an obstacle to collaboration, but if dealt skilfully, it can be the factor behind success. This friction becomes evident often when highly specialized people with lots of tacit knowledge meet. (Hagel & Brown 2005.)

When there is gathered information available, organization should make sense of it. A means to this is to sort it, categorize it and clarify the core meaning. In this helps to acknowledge the present mental models, the persistent views about the business and the markets. (Day 1999.) It is important also to see the difference between the actual view, which reflects in thoughts, speech and actions, and wishful thinking which often manifests as the self-deceiving image of where one imagines to already be, when it is

only in one's wishes. (Bacon 2004.) Likewise, a pitfall occurs when mental models remain in tacit level and the distance within real life situation and the tacit mental model compels to make unsustainable decisions (Day 1999).

To make the focused communication possible to emerge, one should pay attention in creating the right conditions for it. The more time one spends with clients, the more there is chance for meaningful mind sharing. With mind sharing, relationship deepens, and trust develops. If one's efforts in meeting clients actualizes only when a deal is in sight, it is easily interpreted short sighted. Smart companies connect also with client's networks and put it high on priority that face-to-face time brings always added value. (Bacon 2004.) Value adding communication often requires personification. Communication needs to go both ways and it needs to be reacted upon. To be a trusted person to a client means that one has reached a position to coach in pursuit to find solutions. (Day 1999.)

Of the tasks considering conditioning the client, major act belonging to recurrent processes, is to build the chemistry with the client. Chemistry evolves around lots of sensitive views about how one behaves along doing business. If summarized, among competition it is pre-requisite to be credible, which relates to professionalism and skills of one's industry. It is another question though, is one seen as trustworthy. The behaviour which leads to trust rises from being truly honest, going the extra mile in keeping promises, staying transparent and not leaking secrets. (Bacon & Pugh 2004.) One of the most important aspects in client relationship and yet very difficult to measure, is loyalty. If a client is truly loyal should not be read neither from the length of the relationship, nor from the frequency of meetings. More telling measure would be how far a client is ready to go in defending the supplier's offerings, recommend the company to others or pay higher price over the competition. (Day 1999.)

In conditioning the client there are also things to do that are more case sensitive. Not all opportunities are the right ones to pursue and it is important to be skilfully selective. Typically, a company's process of becoming aware of a prospective deal sets in motion some waves, in which the last wave in a form of sales people have at last some common ground with the client. This approach recognizes the customer needs very late and superficially. A company operating with behavioural differentiation have been consulting the client for a long time and is able to define the customer needs and guide it to favourable direction. Within those selected pursuits, it helps a lot if one's own benefits are aligned with the client's benefits. There is a need to check in detailed levels if the solution the company is offering matches with customer needs. Researching past deals and solutions might give insight on how to act now. At this point it is far more important to listen than to sell. Nevertheless, there is a need to constantly check if the

evolution of the deal and the solution are up-to-date against competition. It is often wiser to stop pursuing such a deal where competition is far ahead. (Bacon & Pugh 2004.)

One should also check systematically the status of client relationship, to support the decision to pursuit or not the deal. Questions, such as have there been mutual learning curve, is the transparency there and are there possibilities to deepen the relationship even more, are good indicators. One could also judge from the productive friction if the client seems to be in for the long run or just for short-term. (Hagel & Brown 2005.)

One should be able to position the offered solution the same way as business is positioned in a market. This happens by combining one's own strategy and reacting to customers' needs as they evolve. To gain behavioural differentiation, there needs to be material advantage which here means more leverage in the client's decision making through relationships. Deeper communication between organizations can rise from sharing research, expressing flexibility, adjusting financing solutions and coming up with innovations. Basically, being a though partner rather than apply high pressure sales. (Bacon & Pugh 2004.)

Also, in the marketing process this is the time trying to get rid of competition. It is done in a fair play spirit by raising the bar in as many aspects as possible. Nevertheless, sometimes it is needed to recognize one's own and competition's strengths and weaknesses. From that analysis one may stress relevant factors to gain upper hand. At these times it is sensitive not to abuse the relationships with the client but form the necessary questions about the competitor's actions in a such way, that only concerns one's own activities. As an example, one could ask if one is at the right track, what should one focus next or what else one could do at this point. If all previous conditionings are falling into jigsaw, there is a risk becoming complacent. Even if there would emerge a deal where one has affected the decision making strongly, one needs to stay alert and walk the process through. Strategy should be seen through as meticulously as earlier. To stay in touch on how the client sees situation, one can ask how the client felt the applied differentiation strategies and if one is in unique position or not. (Bacon & Pugh 2004.)

### **4.3.3 Conditioning the deal**

Around the time of release of the Request for Proposal, most of the competitions interest arise and they seek to settle appointments with those making the decisions. After the RFP has been released, buyer's procedures might be such that most of the communication is cut down and some key decision makers may be out of reach totally. Those who enter into competition at this point have small portion of the

information and leverage on decision making of those who have been there for a longer period, aiming to build a partnership. Joining in the competition means nevertheless revealing one's current level of operations, also to the competition. (Bacon & Pugh 2004.)

Conditioning the deal is reading into those requirements that are found in the RFP. One needs to skilfully express the flexibility in admitting to those requirements and composing proposals. Employees who are writing the proposals should be aware how the deal have evolved. The whole process of writing the proposal should have started when one first heard of an emerging opportunity. Excellent proposals are written in a way it is understandable from client's point of view, they are transparent in what is being offered and highlight the benefits in a way that makes client question do the competition have such benefits available. (Bacon & Pugh 2004.)

## 5 MARKET RESEARCH

The commissioners' need for this thesis was to gain insights of Finnish market of under floor heating systems. To see if differentiation strategies are possible, a market research to find out the status of the market was necessary. The research was done from public information - that is to say, from all the marketing material available from those firms who operate already on that market.

It is not difficult to find brands that operate in the Under Floor Heating market in Finland. It is much harder to find reliable information on their market share. Nevertheless, a few years ago two of the big players in the market merged, namely Uponor and KWH. Their merger was so huge that the market officials made a formal research if they could allow it to go through. Those documents are public information and found online. It should represent valid view on the market, since it is decision making tool for authorities in Finland. This research was done from 2012 to 2013, so it is a bit outdated but gives a good picture nevertheless – when looked at building index in Finland, changes in the size of the market have dipped and returned to the levels of when the referred research was done. (Finnish Competition and Consumer Authority Report 2013.)

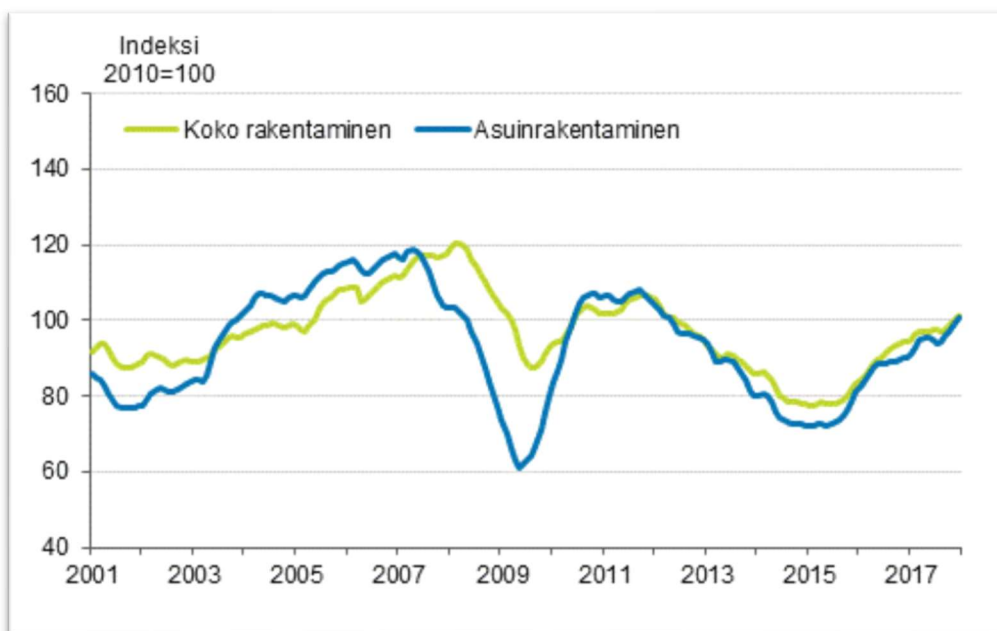


FIGURE 8. Building index in Finland. (Statistics Finland 2018)

## 5.1 Market for Under Floor Heating systems in Finland

In the report, Uponor estimated the water circulation based on the UFH market in Finland to be 30-40 million Euros. Of that they estimated 10 to 15 million Euros worth of sales go through wholesale and retail business. For project sales they estimated 20 to 30 million Euros. What is notable, is that it is impossible to say how much of the project sales invoices go through wholesale business, as it is a custom in HEVAC (Heating, Ventilation and Air Conditioning) business. (FCCA Report 2013) Market leader Uponor considers building industry rising in the coming years, since statistics on housing permits show growth of 10% in 2017. (Uponor Roadshow presentation 2017.) Also the turnover for building industry rose by 7,7% in the last quarter of year 2017, and the whole building for housing rose by 11,7%. (Stat.fi.)

Uponor and Rakentaja.fi collaborated in researching the heating system solutions in Finland. They found that over half of the respondents choose UFH as heat the distribution solution. It was for the respondents of utmost importance, that they can rely on the chosen brand's reliability in terms of history and foresight of brand sustaining itself and providing services long in the future. (Rakentaja.fi, 2018)

## 5.2 Competitors

Uponor, being the largest in the market, lists competitors as follows: Warmia, Kessele, Roth, Itula, AirWise, Rehau, LK and Danfoss. Of these, Rehau and Kessele have left the market in Finland already, AirWise operates now under name Primex. What is mentionable, Uponor states that the entry barriers to join this market are low in their opinion. As for the market shares, in the report it was estimated that Uponor (after merger) has 30 to 40% of the whole markets, Warmia 15 to 20% and Kessele 10 to 15%. (FCCA Report 2013.)

For the wholesale and retail sales, report estimates that Uponor has 40 to 50% market share and the largest competition would be Roth with 10 to 15% share. For project sales it was estimated that Uponor has 20 to 30%, Warmia 15 to 20% and Kessele 10 to 15%. (FCCA Report 2013.)

### 5.2.1 Characteristics of competition

For first, market is very price oriented. Online retail shops sell for example Uponor Comfort Pipe PLUS Q&E 20x2,0mm for the price of 2.03€ /m, including VAT 24% in special offer (they say normal price

is 3.1€/m). (Talo.com, accessed 20.3.2018). Price without VAT is then **1.64€/m**. The same price was found from netrauta.fi (Netrauta.fi, accessed 20.3.2018). Talotarvike.com had the price of 2.02€/m. (Talotarvike.com, accessed 20.3.2018) Talotuote.fi sold the same product for 1.93€/m including VAT 24%. (Talotuote.fi, accessed 20.3.2018). When asked from a wholesale shop, the price for exactly same product was **1,90€/m** without VAT, which is the highest price of this comparison. It is normal for the wholesale business to have different prices for different customers. In this case the price was for a common client so it can be suspected that a client fully focusing their acquisitions on one wholesaler and buying large volumes of same product group, will get a slightly better price than online retailers sell out theirs. Table 1 contains price examples of one specific UFH pipe in different packaging lengths and from various re-sellers. The prices come very close to each other.

TABLE 1. Price variations for same product in different packaging lengths, VAT 0%

Uponor Comfort Pipe Plus 20/20.0					
		60m	120m	240m	480m
Talotuote.fi		1,56	1,55	1,58	1,58
Talo.com		1,64	1,55	1,64	1,64
Netrauta.fi		1,64	1,55	1,64	1,64
Wholesaler catalogue		3,15	2,98	2,90	2,90
Wholesale price when asked		1,9	1,8	1,75	1,75

Reference: Respective websites of named companies

The ways of doing business, as described in the FCCA 2013 report, happen through a few strategies. One approach is via the wholesale business, relying on the wholesalers' salesforce and build the strategy to make it lucrative for the wholesale to promote one's products. For that one needs to have one's own products in wholesaler's central warehouse. Benefit from this approach is superior delivery services of the wholesale companies. The downside is that the wholesalers tend to take 2-5 suppliers and make them compete among themselves for the attention of the wholesaler. (Äijö 2018.)

Another option is to pay more attention to the contractors and focus the sales and marketing efforts to that target market. In comparison to the pure wholesale approach, this requires a lot more salesforce for the supplier itself to provide enough activity on serving customers. This option may support wholesale strategy by complementing it as a project sales strategy, still collaborating with the wholesale salesforce. There can be a flow of information about prospects and the wholesale can act as a banker for contractors, providing credit. In this scenario some of the products come from the wholesaler's central warehouse,

some from supplier's own warehouse. An important factor is that the invoices go through the wholesaler. In this model it is typical that there are yearly discounts (varying from 5 to 15%) and project discounts (0 to 5%), that suppliers give to the wholesale, which forms their profits with these products. It is rare that a wholesaler can add to prices given from the suppliers, yet it happens sometimes. The third option is to go without the wholesalers and be in touch with the contractors. The fourth option is to sell to retail shops. The fifth option is to sell direct to consumers, which is rarest within these products since requirements of professional skills and the contractors business model of taking at least a little profit from the products as well, not just from installing them. (Äijö 2018.)

### **5.2.2 Competitor approaches to the market**

Uponor states in their business presentation in 2006, that their aim in under floor heating systems is to be within top 2 operators. They saw themselves back then having the strongest position in new single-family houses, within the market share of 30%. With apartment houses, they saw the biggest potential yet having very small market share. (Uponor presentation 2006.) Uponor's focus now is in strengthening the brand, by unifying their offerings under one brand name. They still see themselves weak in apartment projects. (Uponor presentation 2017). Uponor is strongly present in the wholesaler's business and are active within project sales.

Warmia started in Finland 2003 and in a few years, they had taken the second largest market share. Then they estimated to have in western Finland a market share of 44% and in Turku area even 70%. (Turun Sanomat article 2005.) Those numbers are consisted with the FCCA report of 2013. Warmia acts with chosen constructors, who specialize in Warmia installations. Warmia acts as the main brand and sole traders act as its representors around Finland. In this way it does not have to deal with wholesalers and have built sufficient network to cover the markets geographically. The network acts as after sale service as well. (Warmia 2018.)

Other brands operating in the market have various approaches somewhere between these two extremities. The main characteristics of those approaches are choices of distribution channels and provided services. Geographical target segmenting plays some role for the smaller brands – they provide their offerings for rather limited, yet convenient geographical area. Table 2 explains some of the conditionings of the under-floor heating market in Finland. In the table there are listed the brands operating in this



market. On the first part are listed how UFH brands are present in four biggest HEVAC wholesale companies in Finland. The second part of the table explains which brands operate with which wholesale business in project sales. This means that at least some part of project, be it just sending the invoice, is done in cooperation with the wholesaler. Third part describes which brands operate in the online retail business. Table 2 gives a picture of the variety and size of the UFH market in Finland. There are several ways of distributing to the market and many brands operating.

TABLE 2. Under Floor Heating brands operating in Finland and distribution channels

Brands	Uponor	Wehofloor	Roth	Henco	Rauheat	Haka	LK	Itula	Purmo	Danfoss
<b>Wholesalers / UFH on stock</b>										
Onninen	x	x	x				x			
LVI-Dahl	x	x	x	x	x		x			x
Ahlsell	x	x	x							
Meltex						x				
<b>Wholesalers / project sales</b>										
Onninen	x	x	x				x	x	x	x
LVI-Dahl	x	x	x	x	x		x	x	x	x
Ahlsell	x	x	x					x	x	x
Meltex						x				
<b>Online retail</b>										
Taloon.com	x	x								
Netrauta.fi	x	x								
Talotarvike.com	x	x								
Talotuote.fi	x	x	x							

Reference: Respective webpages of each named company

Table 3 contains a service comparison between brands operating in the UFH market in Finland. Different brands offer different services and likewise the means of providing such services may vary. Uponor is the only one having an online design software for example. Some of the brands have a designer service operating under their own roof, some rely on guiding their clients to use general designers to provide the blueprints.

TABLE 3. Service comparison

**Services**

Brands	Uponor	Wehofloor	Roth	Henco	Rauheat
Designer service	Y	Y	Y	-	Y
Online design software	Y	-	-	-	-
Onsite maintenance	X	X	Z	Z	Z

Brands	LK Systems	Itula	Danfoss	Purmo	Warmia
Designer service	-	X	-	Y	X
Online design software	-	-	-	-	-
Onsite maintenance	Z	Z	Z	Z	Y

X = is done via service contractor network, Y = can be considered as company's own service, Z = is done/delegated via system seller/retailer. Reference: websites (Accessed 28.3.2018)

TABLE 4. Example of competitors' product portfolios and catalogue prices

Onninen product portfolio 2018							
Brands		Uponor		Wehofloor		Roth	
		€/VAT 0%		€/VAT 0%		€/VAT 0%	
<b>Pipes</b>	17mm	2,87	17mm	2,04	16mm	2,45	
	21mm	3,15	20mm	2,38	21mm	2,50	
<b>Manifolds</b>							
2-outlet	3/4"	249,00	3/4"	229,00	3/4"	139,00	
3-outlet	3/4"	299,00	3/4"	280,00	3/4"	195,00	
4-outlet	3/4"	331,00	3/4"	322,00	3/4"	256,00	
5-outlet	3/4"	380,00	3/4"	394,00	3/4"	302,00	
6-outlet	3/4"	410,00	3/4"	430,00	3/4"	349,00	
7-outlet	3/4"	459,00	3/4"	477,00	3/4"	403,00	
8-outlet	3/4"	512,00	3/4"	536,00	3/4"	452,00	
9-outlet	3/4"	558,00	3/4"	586,00	3/4"	511,00	
10-outlet	3/4"	590,00	3/4"	647,00	3/4"	562,00	
11-outlet	3/4"	640,00	3/4"	751,00	3/4"	608,00	
12-outlet	3/4"	669,00	3/4"	790,00	3/4"	664,00	
<b>Manifold cabinets</b>							
	2-6	407,00	max. 6	374,00	2-6	475,00	
	6-12	476,00	max. 12	488,00	2-10	531,00	
					2-15	760,00	

Reference: Onninen 2018

In table 4 is an example of the variety of possible products in one wholesaler catalogue. Onninen has these different brands' products in their central warehouse. Even though Onninen gives a list price to each item, it is a common approach to give certain discount percentage to the client. This percentage is under corporate secrecy and should be known only to the seller and that buyer. Hence, the prices are not comparable to each other as such.

### 5.2.3 Tools of building a market view

In this section author forms a picture of the researched market adapting the found information to commonly used tools. From these tools an overall view of the most significant market conditionings and brand competitive advantages are formed, leading to market attractiveness. This view gives some idea on what should be researched more deeply to find competitive edges and differentiation possibilities for a newcomer in this market.



FIGURE 9. Brand sizes and positioning in UFH-Market by distribution channels

In Figure 9 in each corner there is a different distribution channel. The bigger the name is on the figure, the bigger the brand is. The brands closeness or distance to the corner relates with the dependency to that distribution channel.

TABLE 5. Competitive advantage analysis by brand

Brands	Uponor	Wehofloor	Roth	Henco	Rauheat
Product	5/5	3/5	4/5	2/5	3/5
Price	3/5	5/5	4/5	5/5	5/5
Place	5/5	5/5	3/5	2/5	2/5
Promotion	5/5	3/5	2/5	2/5	2/5
Differentiation factor 1	service 5/5	price	price	price	price
Differentiation factor 2	behaviour 4/5		place		

Brands	LK Systems	Itula	Danfoss	Purmo	Warmia
Product	4/5	4/5	5/5	5/5	5/5
Price	4/5	4/5	3/5	4/5	3/5
Place	3/5	3/5	3/5	3/5	5/5
Promotion	3/5	3/5	3/5	3/5	5/5
Differentiation factor 1	concept 3/5	concept 3/5	quality 5/5	quality 4/5	service 5/5
Differentiation factor 2				concept 5/5	behaviour 5/5

According to authors findings from companies' and their networks websites, a gross estimation of different brands competitive advantages are represented in a Table 5. Scale is from 1 to 5 where 1 represents a low advantage and 5 high advantage in the named categories.

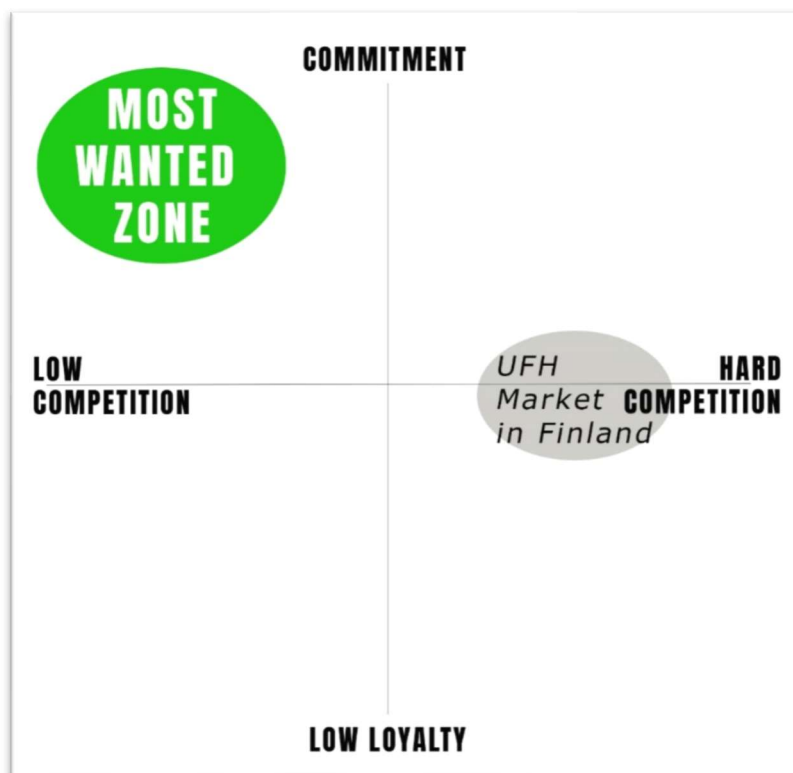


FIGURE 10. Market attractiveness

Within Figure 10 is described an analysis on overall market attractiveness in terms of customer loyalty versus strength of competition. Most attractive market is where low competition and high commitment exist simultaneously. According to the authors findings, the UFH market in Finland has characteristics of rather high competition and average loyalty.



FIGURE 11. SWOT analysis of UFH market in Finland

Figure 11 presents results of SWOT analysis of under floor heating market in Finland. Strengths contain good connectedness to heating sources and even heat distribution. Opportunities lay in competitions high focus on products and industry's default marketing concepts. Weaknesses of market are due to long tradition's influence in market and threats in market's high competition limiting the profits.

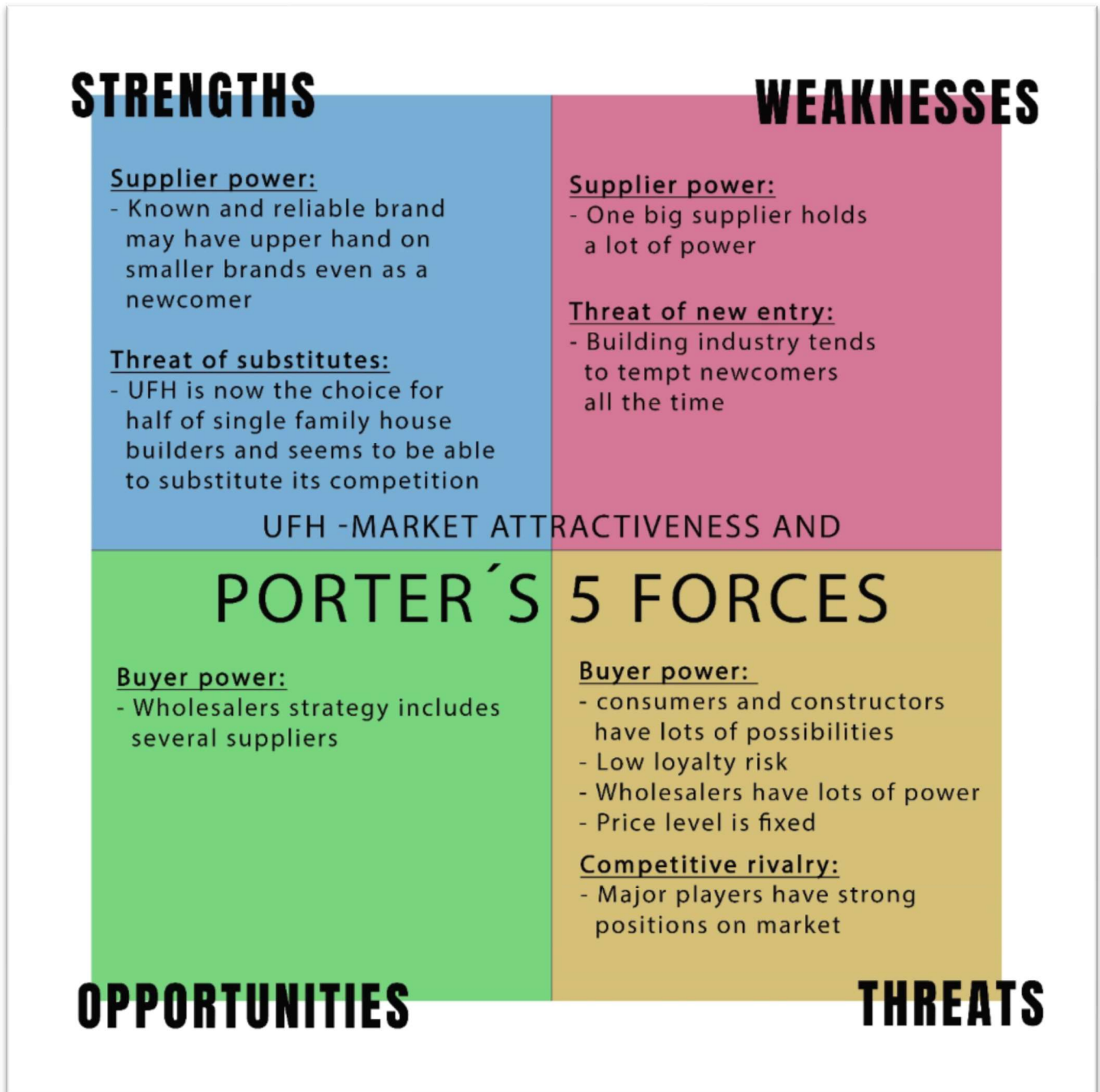


FIGURE 12. SWOT analysis on Porter's five forces in UFH market in Finland

Figure 12 presents SWOT analysis on Porter's five forces in the under floor heating market in Finland. This analysis turns the buyer power of wholesalers as advantage, since they want to keep several suppli-

ers and hence the doors to operate with them are open. Strengths include taking advantage of the commissioner's known brand in the industry and already well-established fame of heating solution at hand. Though one aspect of buyer power can be turned to advantage, other sides of it are clear threats. There are lots of brands operating in the market and consumers, contractors and wholesalers have lots of power. Clear weaknesses are that one brand is in the dominating position and the market attracts newcomers all the time.

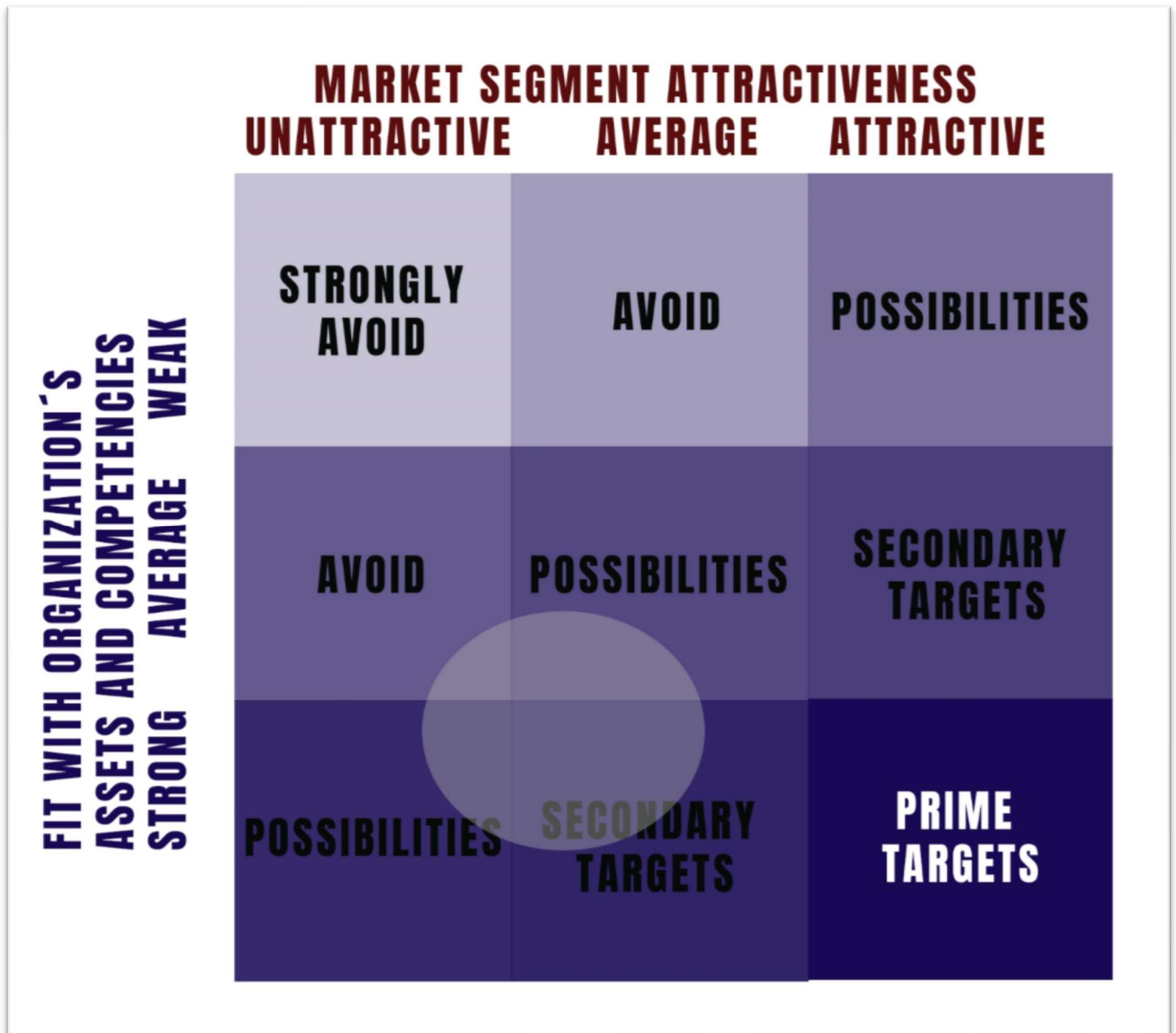


FIGURE 13. Target market suitability for commissioner

This view is formed from the market research done by author and via Figures 8 to 13, combined with the knowledge of the commissioner's organization. The organization from Wavin has all the needed elements for UFH, whereas Wavin-Labko has somewhat limited resources especially when compared to

competition's resources. Resources, both knowledge and man power -wise can be improved quite easily, but the market attractiveness is bigger issue and more difficult to be made more attractive. Hence, to pursue in building a strategy should focus on the latter, to find the most suitable market segment and competitive advantage.



## 6 SURVEY

A research was needed to see how the theory applies in practice in this line of industry. Survey was chosen as method due to the reasons of big body of clients and long geographical distances making it very difficult to interview them face-to-face. The survey was made as a quantitative research and aimed to find conditionings in the market. The questions reflect both the theory and the experience of the author. Another approach was what such survey would provide to the commissioner and hence they were consulted in selecting the questions.

Clients who were invited to participate in the survey were chosen randomly in three categories: HEVAC Retailers, HEVAC Contractors and Construction firms. These are the main types of companies who do purchases in under floor heating products. Other client groups commissioner deals with within do not do purchases, even though they affect the market a lot. This survey focused on those who do purchases and are in decision-making position in their organization.

### 6.1 Methods

In quantitative research the aim is to collect data that can be counted. This is the basic difference between the other type of research, the qualitative method, which is not meant to be analysed mathematically. The nature of questions in quantitative research would be referring to amount of results, whereas in qualitative research would aim to deal with quality aspects. The phenomena one seeks to research in quantitative way, may not seem to be, or be at all, in quantitative form. A researcher needs then come with a plan to convert the phenomena to collectable data to be able to analyse it. (Muijs 2004.)

Quantitative research relies strongly on statistics as a mathematic discipline and its aim is to have a scientific tool to understand human behaviour. To deliver a successful quantitative research, there are key phases recognized in doing so. For first, one needs to come up with relevant research question(s). Secondly, the researcher needs to identify variables. Thirdly, one needs to think through how the gathering of data is done. Fourth step is to test the method to ensure its functioning. Fifth step is to see if the statistics and research questions function together. In the sixth step one gathers data and in the seventh analyses the gathered data. In the eighth the data is tested via hypotheses and most likely ran through the industry standard IBM SPSS program. Then what is left is to analyse the results. (Martin & Bridgmon 2012.)

In statistics the key concepts are variables and scale of measurements. Variable is something that does not have an absolute way of interpretation – it is rather changing in relation to how it is used. Different scales of measurements are used depending on the research context. The usual scales of measure are ordinal, nominal, interval and ratio. Nominal scale means variable functioning in a way that it manifests either given possibility. Ordinal scale has rank scale ordering – for example from 1 to 5. Interval scale has numerical distances that are equal from variable to variable. Ratio scale deals follows the variable that have been measured, for example height. When being analysed, the normal approach is to look so-called central tendencies of the data. The most common central tendencies are mode, median and mean. Mode means the result taking place most often. Median is the value which is located in between the upper and the lower half. Mean is the sum of values divided by the number of scores. (Martin & Bridgmon 2012.)

When quantitative research data is analysed it is a common procedure to seek dependencies between those questions, which have been chosen to research the wanted phenomena. To do this, the hypothesis must be set. The steps in studying whether the hypothesis is correct has a natural order. For first one sets the hypothesis and immediately a counter hypothesis must be set too – this is called null hypothesis, meaning that no significant dependency is found. Then there needs to be set a risk level, for example .05 level, which means that if statistically the dependency test risk score is equal or less than .05, the null hypothesis is rejected. After this, a decision is made whether original hypothesis was correct or not. The issue in making that decision is about the correctness - one is relying on probability, not on absolute. (Martin & Bridgmon 2012.)

In terms of validity and reliability of quantitative research one needs to recognize that the idea was to measure something. Therefore, the natural questioning for the integrity of the research are if one was measuring the right thing and on the right scale. In addition, it is important to be able to use a sample of the population, rather than the whole population. Validity can be seen having three aspects in it. *Content validity* tells one how well one's methods meet the needs of the researched phenomena. *Criterion validity* relates to theoretical knowledge about the researched phenomena to forecast the possible variables. *Construct validity* looks into the conditionings of the researched phenomena to find out the needed depth and width to construct a successful research. Reliability in quantitative research is the absence of random and systematic error. To prevent random error is to collect more data and from a larger number of respondents. Systematic errors are problems in the method itself and difficult to detect especially if the bias tips to the same direction throughout the results. In quantitative research reliability is ensured by making sure the questions are easy to understand and answer. (Muijs 2004.)

## 6.2 Implementation

The survey was sent on three separate occasions (24.5.2018, 28.5.2018 and 2.6.2018) to the email -list gathered from online sources by the author. Altogether almost 700 emails were sent, and 32 responses gotten – everyone did not though answer to all questions. The number of invitations were as equal as possible to each group. The Webropol online survey tool provided the technical means as such. The survey was done in a way that maintained the anonymity of the respondents.

The aim was to get straight answers and to rely on researching if any correlations between answers could be found. In this way could be seen trends that participants might have been reluctant to answer. Among questions there were closed questions, multiple choice questions and few open questions to give the opportunity to clarify certain answers. The closed ended and multiple-choice questions were well answered but open-ended questions were seldom answered. The questionnaire can be found in Appendix 2.

## 6.3 Findings

Findings are categorised to three: basic circumstances of the respondents, differentiation in product and service level, and behavioural differentiation and cooperation. In this sense the findings correspond to the logic of the theory part of this thesis and provide to the aim of coming up with the strategies to approach the market. On basic level the fundamental elements of the respondents' business to establish solid and relevant ground for any findings are described. Differentiation in the product and service level describes the relevant issues of how the clients see these elements importance in their business. Behavioural differentiation and cooperation deals with the levels of business which are not that obvious in terms of conditioning.

In terms of reliability of the whole quantitative research, the number of respondents is a bit disappointing. The number is enough to draw conclusions, but to generalize on the basis of those conclusions is debatable. Then, the validity of this research is seen higher by the author – theory was applied thoroughly in forming the survey and results mirror the theory well, both strengthening each other.

### 6.3.1 Basics

Out of 31 responses 19 were construction firms, 10 HEVAC contractors and 1 HEVAC retailer. These kinds of companies represent the majority of firms operating in this market. The difference between the activity in responding can signal many things, but one of the easiest explanations is that the more one works at the desk and computer, the easier it is to participate in this kind of survey. One may speculate too that certain type of companies are so tied to certain suppliers that they would not take part in such survey. Only one HEVAC retailer does not give a valid picture of that category of firms, but the amount of responses in the other categories were adequate to draw some conclusions.

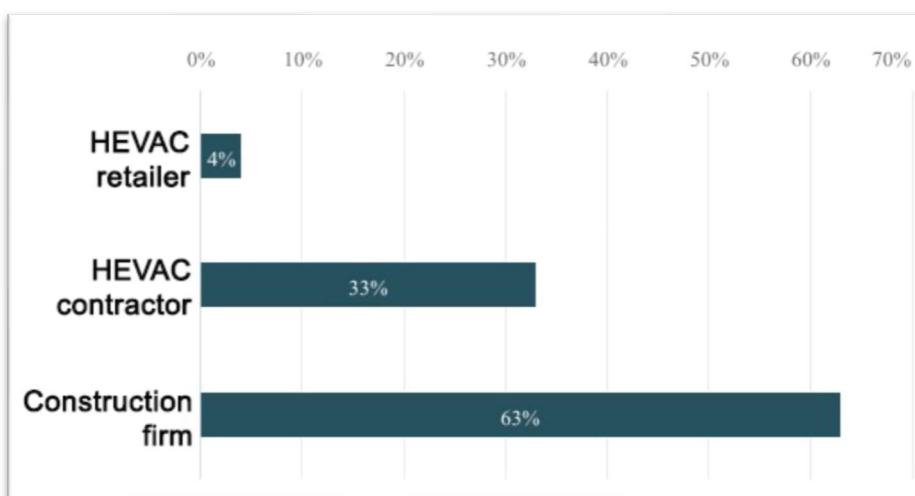


FIGURE 14. Types of companies.

When asked about the amount of their purchases, seven of the respondents noted their purchases being under ten thousand Euros per year. Categories 21 to 50 000€ and 51 to 100 000€ made together 55% of the companies. In both the two largest purchase categories there were two respondents in each.

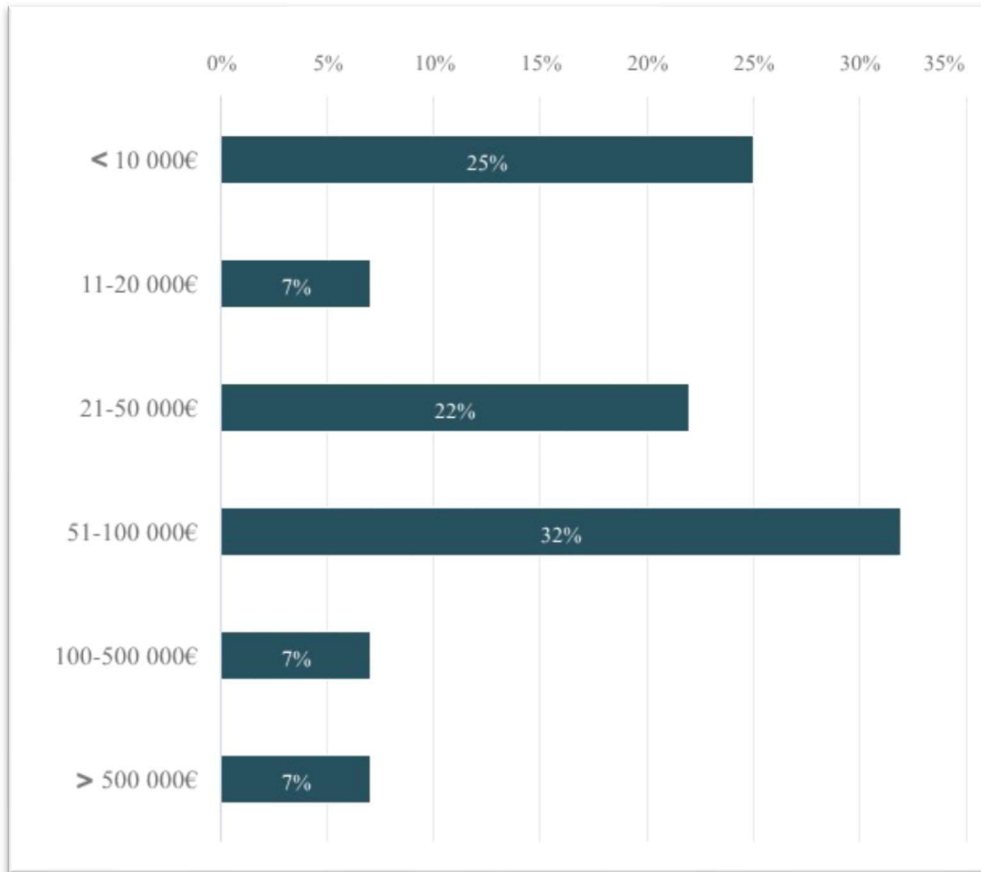


FIGURE 15. Annual purchases in under floor heating category

There were 47 replies in terms of the contract types; 7 responses of contracting single-family houses, 24 of contracting apartment blocks and 16 of contracting civil buildings. The chosen contract types are the three largest categories in this market. The amounts give decent picture of conditionings on all categories.

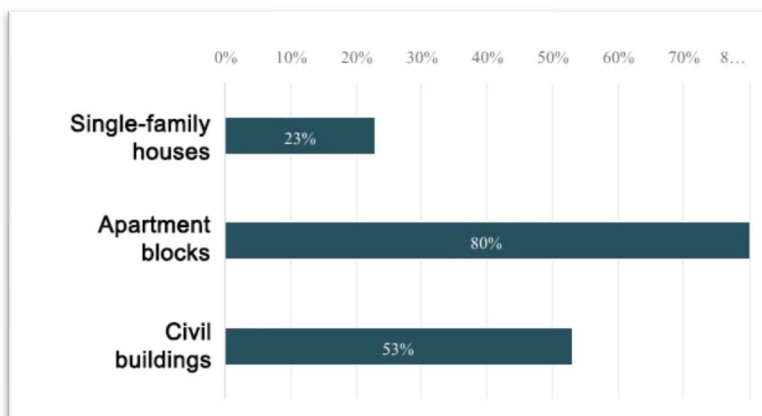


FIGURE 16. Types of contracts.

There were 29 responses to the question asking how many suppliers they are using for under floor heating systems. 4 responded using one supplier, 14 using two suppliers, 4 using three suppliers, and 7 using

four or more suppliers. The amount of answers in all categories give a good picture of the usage of suppliers.

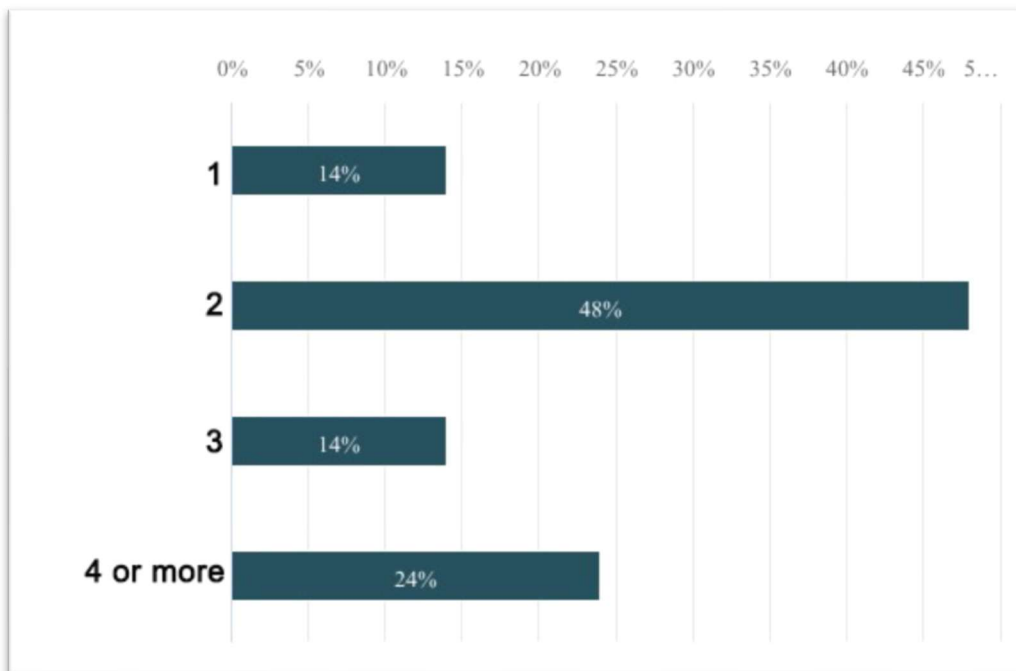


FIGURE 17. Number of used suppliers.

### 6.3.2 Differentiation on products and services

When asked about the importance of different criteria in selecting the supplier, the price factor dominated the answers. Half of the respondents acknowledged product and service to be the next important factor. Supplier behaviour and geographical location of a supplier played a smaller part in their answers.

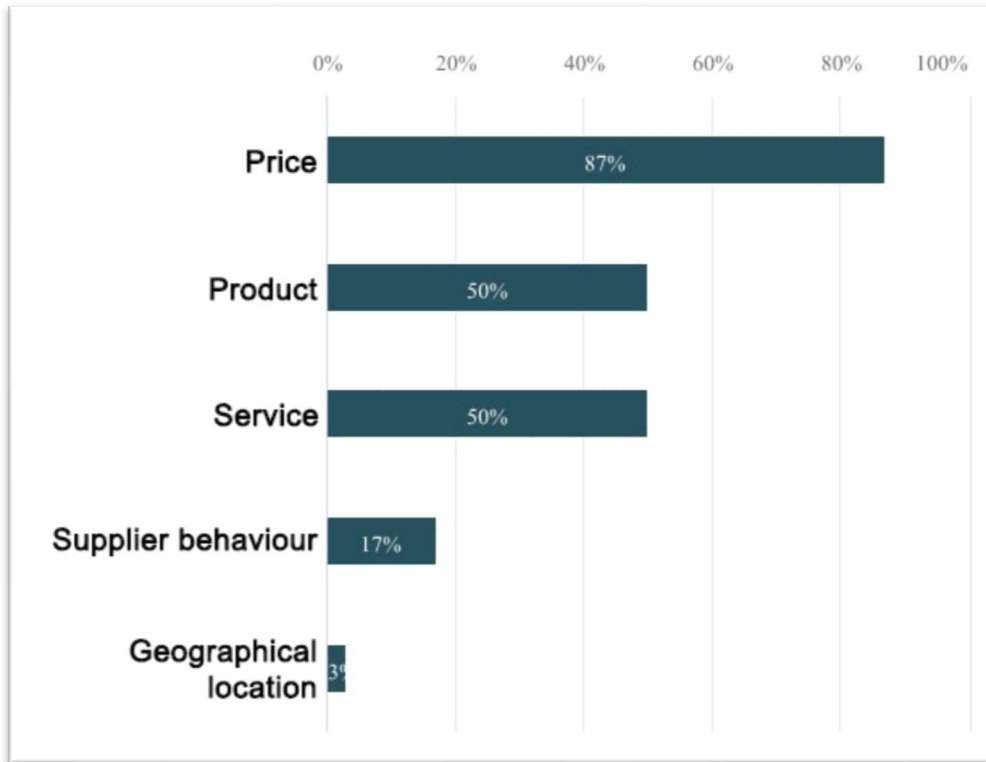


FIGURE 18. Criteria in selecting the supplier.

Respondents did not acknowledge big differences between different supplier products in under floor heating market in Finland. Nevertheless, they saw some small differences. The survey was not made to find out what those differences might be.

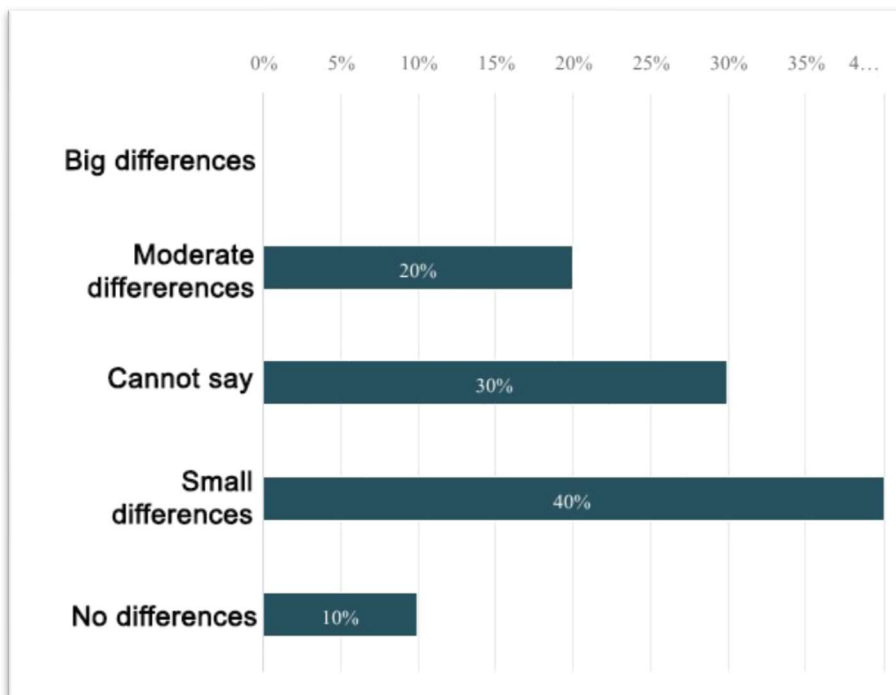


FIGURE 19. Differences in products

When asked about if the respondents saw room for innovations in under floor heating products, there was not lot room to improve in their opinion. Most of the respondents though could not answer to this question.

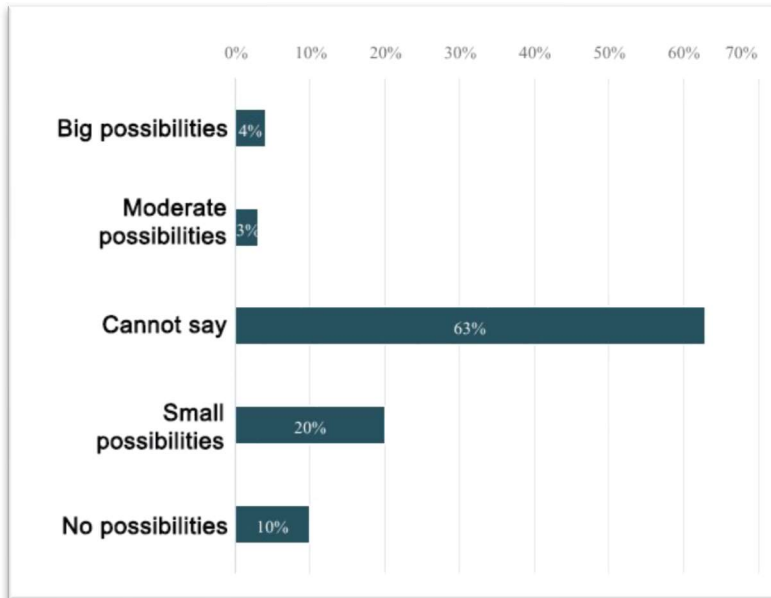


FIGURE 20. Room for innovations in products

Participants were asked to evaluate the importance of supplier provided services. The respondents valued three listed service highly and two in more mediocre importance. Delivery capacity was the most important, whereas technical support and designing were much appreciated as well. Installing and pre-assembly were important as well but clearly behind the other services.

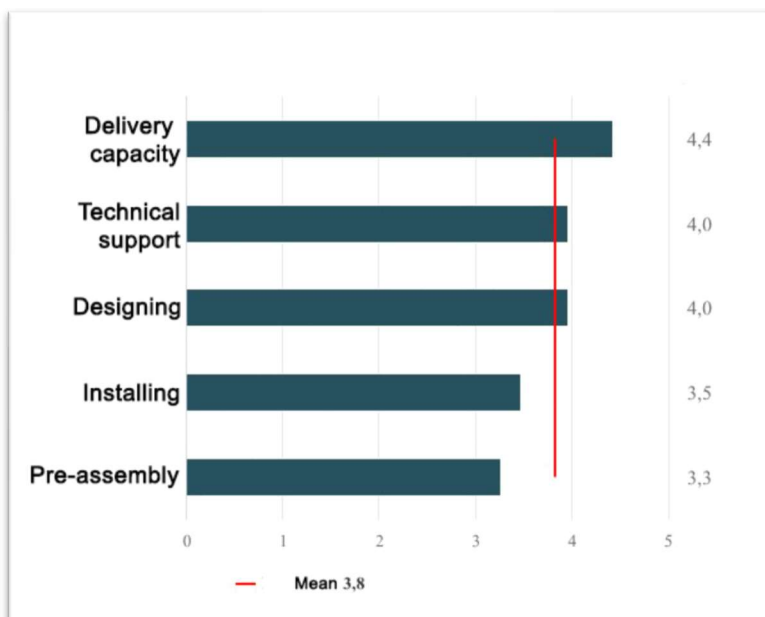


FIGURE 21. Importance of supplier provided services



TABLE 6. Importance of supplier provided services

	1	2	3	4	5	Total	Mean	Median
Delivery capacity	0	1	2	10	17	30	4,43	5
	0%	3,33%	6,67%	33,33%	56,67%			
Technical support	1	1	7	10	11	30	3,97	4
	3,33%	3,33%	23,34%	33,33%	36,67%			
Designing	3	0	2	15	10	30	3,97	4
	10%	0%	6,67%	50%	33,33%			
Installing	7	0	3	12	8	30	3,47	4
	23,33%	0%	10%	40%	26,67%			
Pre-assembly	3	4	8	12	3	30	3,27	3,5
	10%	13,33%	26,67%	40%	10%			
Total	14	6	22	59	49	150	3,82	4

When asked if the services in Finnish market differ from supplier to supplier, almost half of the participants found rather moderate differences, whereas quarter found small or non-existent differences.

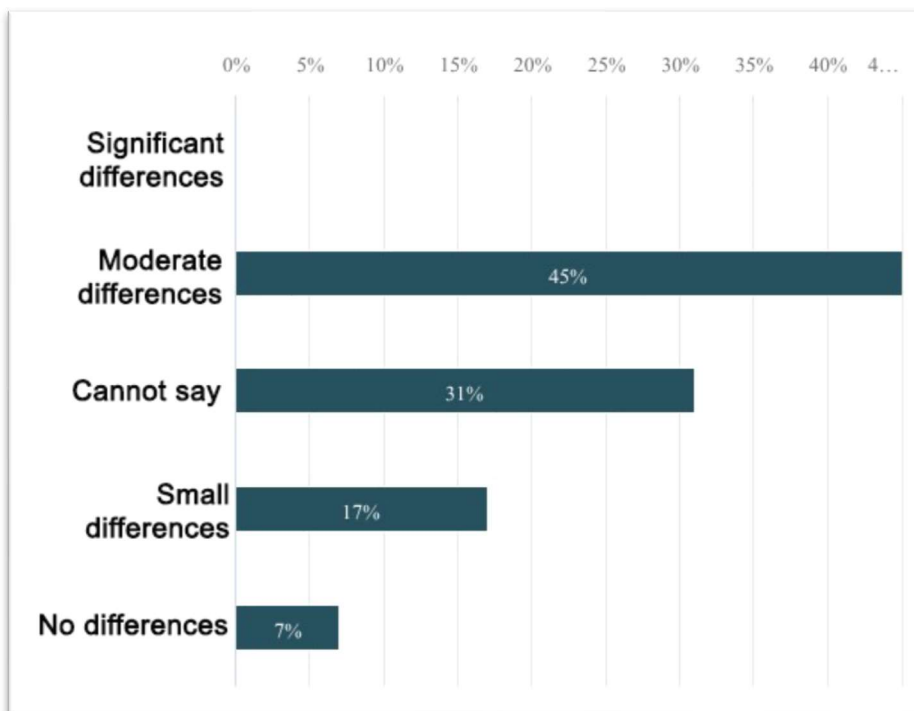


FIGURE 22. Differences in supplier provided services.

### 6.3.3 Behavioural differentiation and cooperation

When asked about if the participants were happy about the cooperation with their current suppliers, results showed mainly high satisfaction. Along with the question, cooperation was explained to be in this context such as communication, meetings, agreeing and keeping promises.

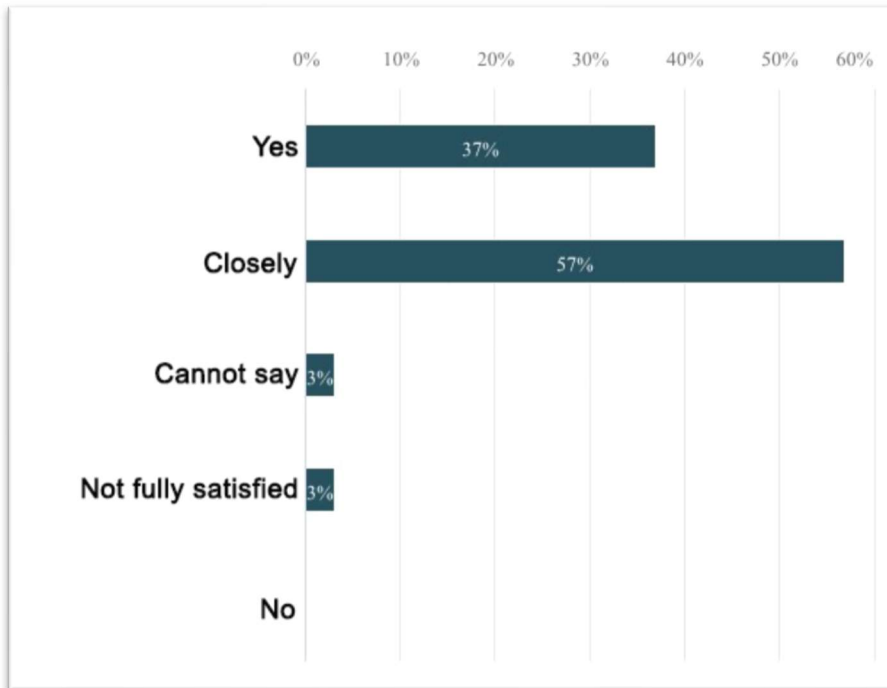


FIGURE 23. How supplier cooperation meets expectations

Surprisingly though when asked if participants felt there would be room for improvement in supplier cooperation, half responded to see moderate improvements possible. Quarter of the respondents felt there was room for small improvements.

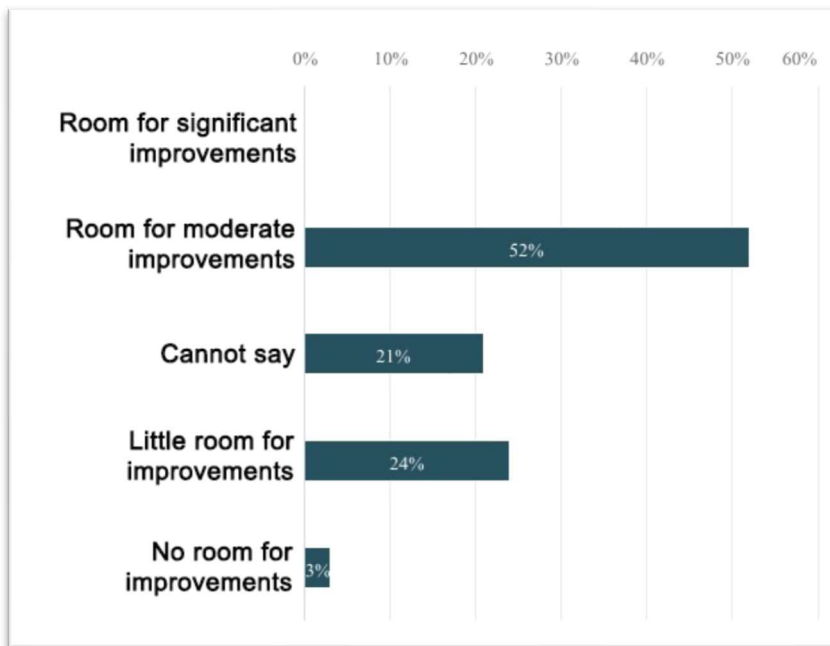


FIGURE 24. Room for improvement in supplier cooperation

When asked, 60 percent of the respondents felt that they were not closely working with any supplier. This might refer to conscious choice made by contractor not to rely too deeply on any sole supplier. On another hand, this might refer to lack of the such suppliers who could establish a relationship deep enough to be recognized as such.

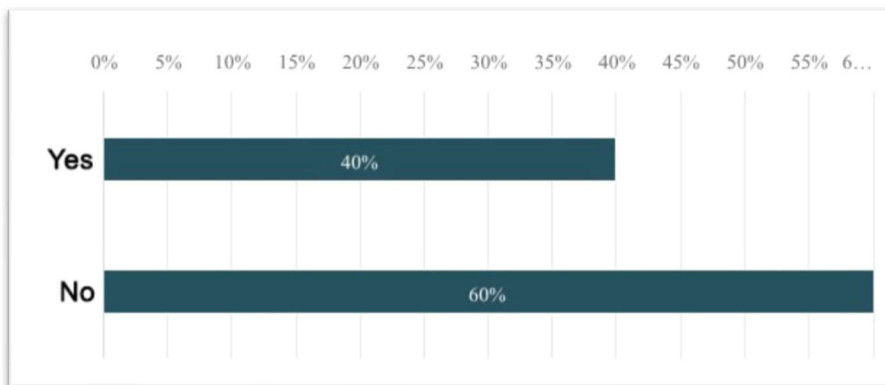


FIGURE 25. Working closely with a supplier

Even less companies stated developing their business with their supplier. This pair of questions (Working closely with a supplier and Developing business together with supplier) and answers gotten from respondents may be one of the most important findings of this survey research. There is a serious opportunity to aim for a relationship and to develop the business together.

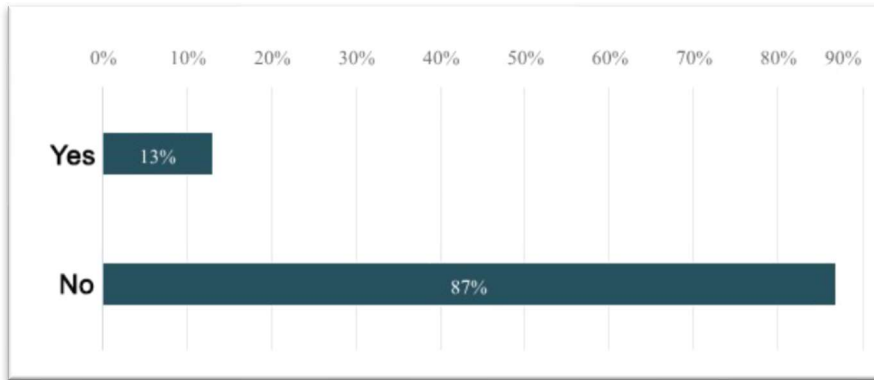


FIGURE 26. Developing business together with supplier

When asked how respondents thought their suppliers understand their business, most of the respondents thought it was on a good level. Yet almost one third could not respond to this question. This result relates to two previous questions and one could read opportunities in these answers.

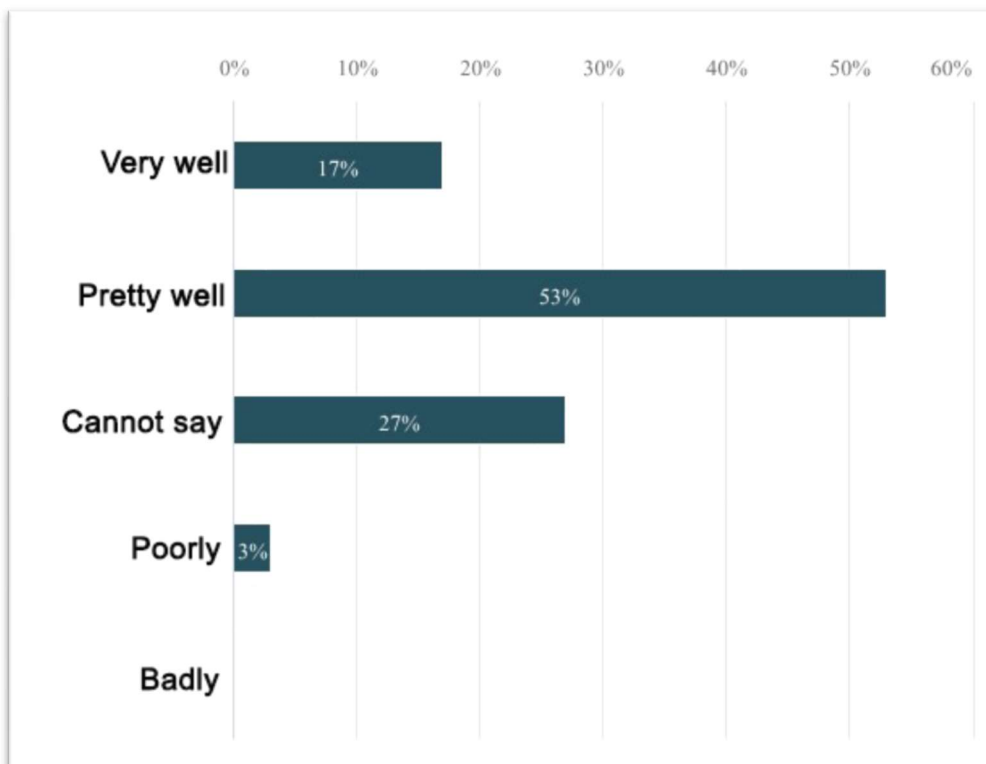


FIGURE 27. Do suppliers understand respondents' business?

When asked if the suppliers seem to show interest towards the respondents' business, answers varied more. Again, one third could not answer. Nevertheless, five answers in the categories representing lack

of interest from the supplier to the contractor's business indicate there are possibilities to perform in a better way.

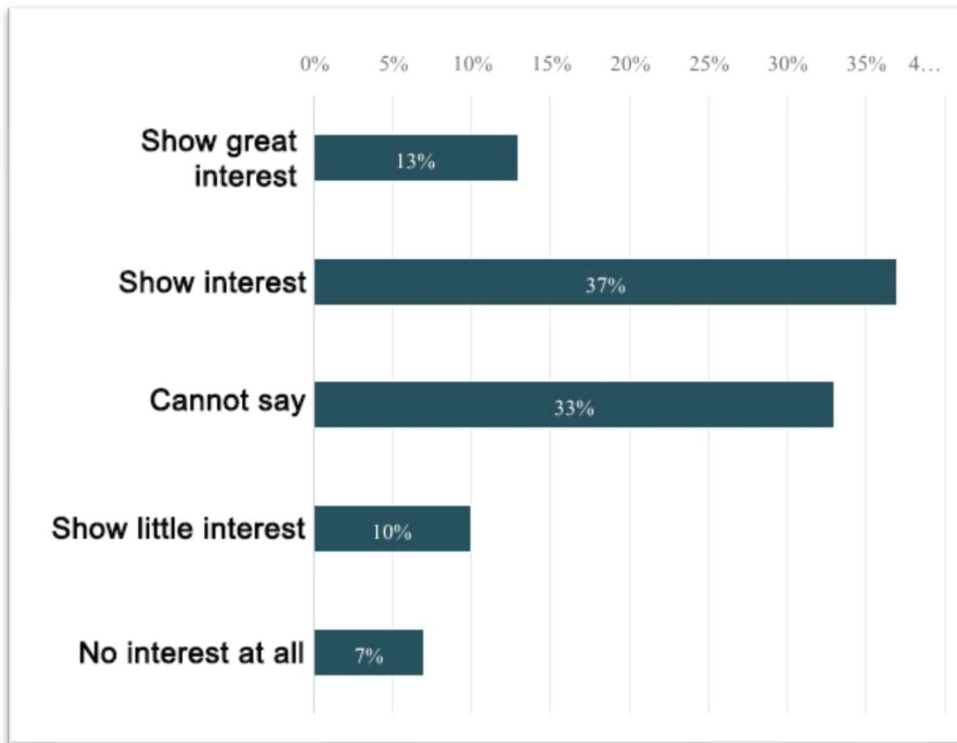


FIGURE 28. Do suppliers show interest on their clients' business?

What was encouraging for any newcomer supplier in this market is the result indicating there is room for new suppliers in the market. There might be several reasons for the respondents to have such a view, but nevertheless the message is positive.

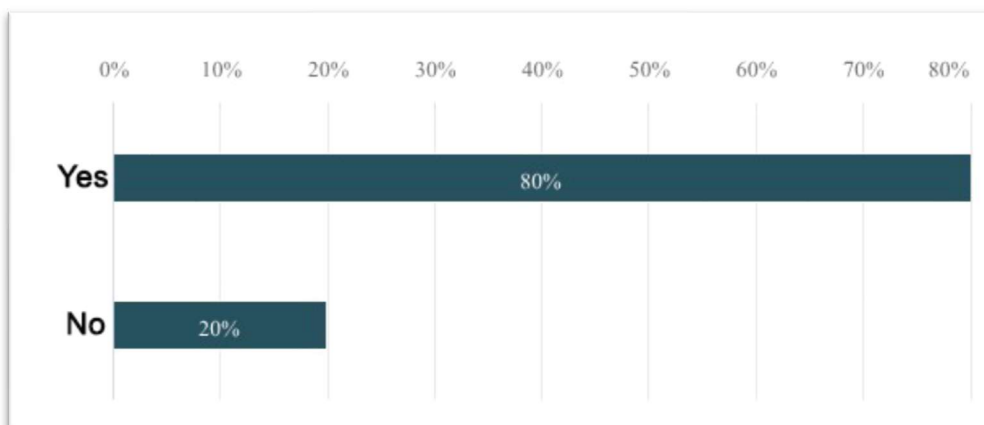


FIGURE 29. Is there room in Finnish under floor heating market for new suppliers?

### 6.3.4 Dependencies between questions

When analysing the data with IBM SPSS statistics analysis program many dependencies between questions by using Chi-Square test and Pearson's correlation co-efficient were found. This was as far it could go with questions on having both or either question on nominal scale. For questions measured in Ordinal scale, Spearman's co-efficient of rank correlation was also used, to find if there were linear dependencies between the questions. Four question-pairs had significant correlation in terms of Spearman co-efficient and those have been marked in results.

First, set up was null hypothesis and the opposite one:

H0: There is no dependency between questions H1: The opposite is true.

The risk level was set at 5 %. Result of the tests: Null hypotheses are rejected because the asymptotic significance (2-sided) is  $0.000 < 0.05$ . Strongest dependency was found for following pair of questions: 20<sup>th</sup>, does the cooperation with suppliers meet your expectations? and 19<sup>th</sup>, how would you evaluate your suppliers' level of services – specifically delivery? The analysis of these two questions goes as follows:

TABLE 7. Cross tabulation table.

Crosstab						
Count						
		Service level for current suppliers? Delivery				Total
		2	3	4	5	
Does cooperation with suppliers meet your expectations?	Yes	0	0	5	6	11
	Moderately	2	1	14	0	17
	I am not happy	0	0	1	0	1
Total		2	1	20	6	29

TABLE 8. Chi-Square tests.

Chi-Square Tests			
	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	13,399 <sup>a</sup>	6	,037
Likelihood Ratio	16,379	6	,012
Linear-by-Linear Association	4,962	1	,026
N of Valid Cases	29		

a. 10 cells (83,3%) have expected count less than 5. The minimum expected count is ,03.

TABLE 9. Correlations.

Correlations				
			Does cooperation with suppliers meet your expectations?	Service level for current suppliers? Delivery
Spearman's rho	Does cooperation with suppliers meet your expectations?	Correlation Coefficient	1,000	-,613**
		Sig. (2-tailed)	.	,000
		N	30	29
	Service level for current suppliers? Delivery	Correlation Coefficient	-,613**	1,000
		Sig. (2-tailed)	,000	.
		N	29	29

\*\* . Correlation is significant at the 0.01 level (2-tailed).

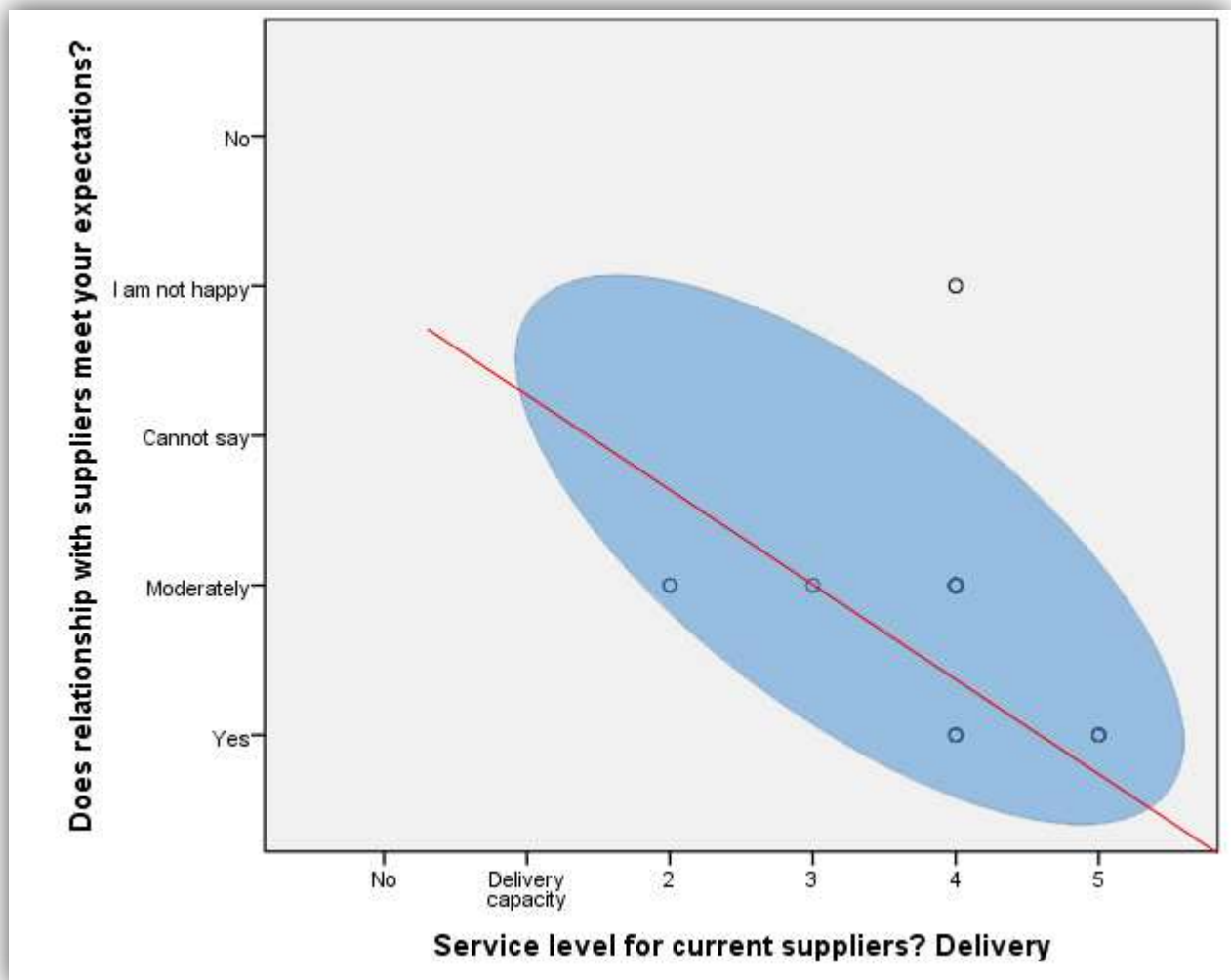


FIGURE 30. Graph describing the dependency

As the respondents' evaluation for the delivery service achieves higher points, the expectations of supplier relationship get fulfilled.

Here is a summary for dependencies in questions in ordinary scale and the authors conclusions of those correlations and most interesting findings. The results are presented in pairs of questions.

TABLE 10. Dependencies in ordinary scale

<p><b>5<sup>th</sup>, how big are the annual purchases in UFH category?</b></p> <p><b>10<sup>th</sup>, do under floor warming products in Finnish market differ within different manufacturers?</b></p> <p><b><u>Conclusion:</u> (*Significant correlation)</b></p> <p>Big purchases lessen how a product matters</p>
<p><b>5<sup>th</sup>, how big are the annual purchases in UFH category?</b></p> <p><b>25<sup>th</sup>, do suppliers show real interest for your business?</b></p> <p><b><u>Conclusion:</u></b></p> <p>Middle sized purchases correlate with suppliers being interested in their business</p> <p>Big buyers feel suppliers are not interested at all</p>
<p><b>5<sup>th</sup>, how big are the annual purchases in UFH category?</b></p> <p><b>17<sup>th</sup>, do services related to under floor warming differ in Finnish market?</b></p> <p><b><u>Conclusion:</u> (*Significant correlation)</b></p> <p>Big purchases correlate with less differentiating services.</p> <p>Companies purchasing intermediate amounts find differentiated services.</p>
<p><b>20<sup>th</sup>, does the cooperation with suppliers meet your expectations?</b></p> <p><b>19<sup>th</sup>, how would you evaluate your suppliers' level of services: delivery?</b></p> <p><b><u>Conclusion:</u> (*Significant correlation)</b></p> <p>Good delivery levels provide to cooperation seen favourably.</p>
<p><b>20<sup>th</sup>, does the cooperation with suppliers meet your expectations?</b></p> <p><b>19<sup>th</sup>, how would you evaluate your suppliers' level of services: installing?</b></p> <p><b><u>Conclusion:</u></b></p> <p>Good installing service correlates with expected supplier cooperation</p>
<p><b>25<sup>th</sup>, do suppliers show real interest for your business?</b></p> <p><b>16<sup>th</sup>, how would you estimate the importance of supplier provided services: delivery?</b></p> <p><b><u>Conclusion:</u> (*Significant correlation)</b></p> <p>Good delivery service is a sign of supplier interest for company's business.</p>



**25<sup>th</sup>, do suppliers show real interest for your business?**

**16<sup>th</sup>, how would you estimate the importance of supplier provided services: technical support?**

**Conclusion:**

Good technical support is a sign of supplier interest for company's business.

**25<sup>th</sup>, do suppliers show real interest for your business?**

**19<sup>th</sup>, how would you evaluate your suppliers' level of services: technical support?**

**Conclusion:**

Good technical support is a proof supplier takes interest to their clients' business.

**10<sup>th</sup>, do under floor warming products in Finnish market differ within different manufacturers?**

**16<sup>th</sup>, How would you estimate the importance of supplier provided services: designing?**

**Conclusion:**

Good designing service leads to lessened product differentiation.

**10<sup>th</sup>, do under floor warming products in Finnish market differ within different manufacturers?**

**19<sup>th</sup>, how would you evaluate your suppliers' level of services: technical support?**

**Conclusion:**

Good technical support leads to lessened product differentiation.

**10<sup>th</sup>, do under floor warming products in Finnish market differ within different manufacturers?**

**19<sup>th</sup>, how would you evaluate your suppliers' level of services: pre-assembly?**

**Conclusion:**

Good pre-assembly service leads to lessened product differentiation.

**21<sup>st</sup>, do you feel there is room for improvement in supplier cooperation?**

**16<sup>th</sup>, how would you estimate the importance of services that suppliers provide: technical support?**

**Conclusion:**

Good technical support deepens the relationship to open even larger opportunities.

**21<sup>st</sup>, do you feel there is room for improvement in supplier cooperation**

**16<sup>th</sup>, how would you estimate the importance of services that suppliers provide: designing?**

**Conclusion:**

Good designing support deepens the relationship to open even larger opportunities.

**21<sup>st</sup>, do you feel there is room for improvement in supplier cooperation**

**19<sup>th</sup>, How would you evaluate your suppliers' level of services: technical support?**

**Conclusion:**

Good service in tech support rises clients' expectations even more.

To draw some conclusions, there were found results that are in line with the theory by Bacon & Pugh mentioned in the theory part of this thesis: in developed market differentiation possibilities in prices and services lessen. In addition, it was evident that customers value delivery success very much. Other additional support activities, such as designing and pre-assembly, were seen positively. Also notable were the results pointing out that the deeper the relationship and the provided activities are, the more the expectations from client's side are. This could be read to point out the need to always strive to go one step further and keep evolving – the risk of stagnating is real.

Here is a summary of the dependencies of questions in nominal scale and authors conclusions of those correlations. These dependencies are secondary to the results presented in Table 10 but provide similar view.

TABLE 11. Dependencies in nominal scale

<p><b>23<sup>rd</sup>, do you develop your business together with supplier?</b></p> <p><b>9<sup>th</sup>, what are the most important criteria of your chosen suppliers: product?</b></p> <p><b><u>Conclusion:</u></b></p> <p>When you get past the product approach, one has possibility to deepen the relationship.</p>
<p><b>23<sup>rd</sup>, do you develop your business together with supplier?</b></p> <p><b>16<sup>th</sup>, how would you estimate the importance of supplier provided services: delivery?</b></p> <p><b><u>Conclusion:</u></b></p> <p>If one isn't working closely, delivery trustworthy is very important.</p>
<p><b>23<sup>rd</sup>, do you develop your business together with supplier?</b></p> <p><b>19<sup>th</sup> how you would evaluate your suppliers' level of services: delivery?</b></p> <p><b><u>Conclusion:</u></b></p> <p>If one isn't working closely, delivery trustworthy is very important.</p>
<p><b>19<sup>th</sup>, how would you evaluate your suppliers' level of services: pre-assembly?</b></p> <p><b>26<sup>th</sup>, is there room for new suppliers in market?</b></p> <p><b><u>Conclusion:</u></b></p> <p>Even when you are quite happy with your suppliers' pre-assembly service, one hopes to have more choices to choose from.</p>

**19<sup>th</sup>, how would you evaluate your suppliers' level of services: Installing?**

**26<sup>th</sup>, is there room for new suppliers in market?**

**Conclusion:**

Even when you are quite happy with your suppliers installing service, one hopes to have more choices to choose from.

**19<sup>th</sup>, how would you evaluate your suppliers' level of services: designing?**

**26<sup>th</sup>, is there room for new suppliers in market?**

**Conclusion:**

Even when you are quite happy with your suppliers designing service, one hopes to have more choices to choose from.

**6<sup>th</sup>, does your company contract: apartment blocks?**

**16<sup>th</sup>, how would you estimate the importance of supplier provided services: designing?**

**Conclusion:**

Design service is important for those who contract apartment blocks.

**6<sup>th</sup>, does your company contract single-family houses?**

**9<sup>th</sup>, what are the most important criteria of your chosen suppliers: product?**

**Conclusion:**

Product is moderately important for those contracting single-family houses.

**14<sup>th</sup>, do the products related in under floor heating meet your expectations: match well and match fairly?**

**6<sup>th</sup>, does your company contract: apartment blocks?**

**Conclusion:**

Those who contract apartment blocks are very happy about products.

## 7 CONCLUSIONS

The results in terms of straight answers from survey were rather predictable. Clients appreciate competitive price as the foremost factor in their purchases and value functioning delivery highly. This makes sense, as clients sell their services further to their clients and must be price competitive themselves. If they pay more than market price for their products, they must compensate the contract price in some other way or make smaller profit than their competition. The importance of functioning delivery affects the clients' cost effectiveness strongly since their work may get delayed due to late shipments.

Out of 21 companies who stated been making purchases in under floor heating products in last year, 16 stated also installing such systems. This means that some firms operate in a way, that they seek to take responsibility over the whole contract and make purchases over their sub-contractors. This also means that some contractors provide only installing, at least in some of the contracts they operate. Although they are not purchasing in those contracts, they may still have some say in which supplier is selected by the main contractor. 25 firms stated using two or more suppliers and 13 using different suppliers for different kinds of contracts. 25 respondents saw room for new suppliers in the market. This is encouraging message for a company who aspires to get foothold in a new market.

Along with the theory, yet maybe a bit surprisingly to the common thought, clients saw little differences between the products in the market and likewise rather small room for innovations in product level. This signals about developed market, where products are seen similar after their individual evolution towards market conditions and customer needs. In services differences were seen more clearly. In addition, services had high expectations and the current suppliers' received high evaluation from the clients. This is a signal of market conditionings, where the suppliers have understood the customer needs and have adapted their offerings accordingly. When regarding the choice whether it is an entertaining idea to enter such market, this gives one some idea about the necessary variety and level of needed offerings to establish a competitive venture. As such, this thesis works as an effort to benchmark the market.

Respondents saw more possibilities in developing the services than products. This was backed up by some of the dependencies between the questions. It seems that after the expectations of the adequate level of services is reached, there is an unsaid expectancy of further development of the services and cooperation. This goes along the theory and makes sense, since the groundwork is done. Once approved by clients' and basics are functioning, there is an opportunity to innovate tailor-made solutions. The question is, do suppliers take it further, really listen their clients' deeper needs and seek to adapt along?

Or do they settle, knowingly or unknowingly, to certain acceptable level of business and rely on the market standard procedures, such as sales activity and haggling with the price? When looking for the dependencies that rose from the questions, they pointed toward a few main tendencies which rectify the views that when expectation levels in products and services are fulfilled, clients feel the suppliers take interest in their business. The possibilities for newcomers are in aiming for one step further: to cooperate with clients in more deeper way and seek to develop both their own and clients' business at the same time.

Both the theory and survey results point out to direction that the way to differentiate in this given market is to put focus on behavioural approach and cooperation. This requires though that there exist pre-requisite operations on a required level. Although services were seen important and having some room to improve, in terms of differentiation strategy services cannot function as differentiator – one can only compete to be the best, which does not bring strategic advantage. If one were to invent a totally new product or service, that would be powerful differentiator – until competition would follow.

At the beginning, when one starts to develop cooperation activities, it is rather a must to apply the end goal aspects all along the project. In this way one pays attention to the client needs all the way and gains trust, which is necessary to get to the deeper levels of the relationship. It is worthwhile to ponder why suppliers have not taken advantage yet in applying seeking deeper cooperation with their clients, or have they failed in trying to do so? It is also a possibility that such contractors, who may be working closely with suppliers, have not been reached, or they have felt not appropriate to take part in such research. There was at least one supplier though, Warmia, who has applied somewhat this kind of differentiation strategy by establishing their own network of contractors. Activities of Uponor are close call as well, in another sense. Survey results may give a valid glimpse into reasoning, since 80% of respondents welcomed new suppliers to the market. It could tell that contractors want to keep their options open, most likely motivated by best price. Then again, such view for any company is rather short sighted, since the price of a product or a delivery (often paired with the price of a product) is only a part of the total cost, although easily measurable factor. That then suggests coming up with other measurable factors in cooperation and suitable, innovative ways of measuring. This requires that clients open their cost structures to suppliers, to see what there is to be done in cooperation to narrow the costs down.

For supplier the costs of providing services and cooperation limit the profits from products – or they tend to give pressure to the rise of prices. This surely is the reason for contractors to look for the best

price, since products and services do not differentiate that much and higher price has connotations including something extra. Some decide to pay for that extra, some avoid it strongly, as seemed to be the case for majority in this survey. The message a client sends by selecting competitor's offerings cannot be clearer in terms of their recognized needs and wants. The price is to match with the offering and on top of that, selection is conditioned by the need of keeping doors open to several suppliers to ensure the flexibility in projects in the future. To gain competitive advantage in this kind of scenario, is to aim to operate with adequate products and services, aiming for the cooperation reducing mutual costs and to accept that the client is to operate with competition from time to time. This still leaves possible the wanted status of being the primary supplier.

To form a market strategy, one needs to ask which customers we serve and how? In this case one would choose those clients to which one could be the primary supplier and who are ready to open to such level of transparency in terms of their business operations, that efficient cooperation is truly possible. To achieve this, supplier needs to operate on similar level of transparency themselves. Because such transparency needs certain matching values, the groundwork for this kind of strategic approach to reach behavioural differentiation as competitive advantage starts from there. If the corporate values match or can be adapted accordingly, one needs to make strategy into relevant actions, develop convincing tools to measure cooperation efforts with clients and listen deeply to adapt along the way to recognize and reach ways to satisfy customer needs.

When thinking about the basics of marketing theory, differentiation strategy relying on behaviour and cooperation is well protected from the most common threats. Yes, one needs to take the product and distribution to the benchmark level and pay attention to have the right price. Yet already promotion activities are largely accomplished by the cooperation activity, not to speak of such competitive advantage being very difficult to mimic. Also, at the same time supplier power grows strongly, buyer power is turned to one's advantage by increasing the loyalty having client committed in transparent cooperation. Threats of substitutes and new entries are reduced in a skilful manner when a client loyalty is accomplished.

The recommendations for the commissioner are as follows. If the differentiation strategy is chosen, a research to find the right clients should be done. To connect with these clients, the concept should be well prepared, yet having flexibility to adapt to customer needs. One should behave in a truly customer-oriented manner and with transparency, to receive transparency from clients. From this basis cooperation firms can start to operate to find a recipe to successful and sustainable venture. In marketing terms, one

would be on a path in finding strategic partners. Firms being able act as such, are most likely rather large than small. Construction firms represent these qualities the most. For smaller clients, some other strategy works better.

In this thesis, the aim was to find out is there possible differentiation strategies for the commissioner to apply in trying to launch venture in new product category in somewhat familiar market. Approach was to research this in three categories; on product, service and behavioural/cooperation levels. It was established both on theoretical and practical level, that in this B2B market it is not worth to put long run focus to differentiate in product and service levels. The focus should be in behavioural aspects and cooperation. For a company, who seeks to expand to a new product category within familiar markets, it is fruitful situation to develop and apply such strategy from the beginning of the operation. There are few things to remind oneself though. Depending on the building type, consumer may or may not have a say in which supplier's solution is to be chosen. Even though a supplier deals with business clients, on product differentiation attention should be within consumer context. Another mentionable point is, that differentiation strategy is just one option among other strategy options. A company may choose to use another option, aspiring for example for the price leadership or the best quality.

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## APPENDIX 1

Hei,

Pyydän Teitä osallistumaan kyselytutkimukseeni, joka pyrkii selvittämään lattialämmitysmarkkinoiden tilannetta Suomessa. Kyselytutkimus on osa päättötyötäni Centria-ammattikorkeakoulussa. Olette päätyneet tämän viestin vastaanottajaksi keräämäni ja laatimani listan perusteella, joka tulee asianmukaisesti tuhotuksi tämän tutkimuksen jälkeen. Kysely on anonyymi: siinä ei kysytä henkilötietojanne eikä vastaajaa pysty yksilöimään. Kyselyn tekemiseen kuluu n. 5-10min.

Olisin kiitollinen, jos voisitte käyttää tähän pienen hetken aikaanne!

Kysely löytyy osoitteesta: <https://link.webpolsurveys.com/S/0FB4D9724F4FD35C>

Kiittäen ja ystävällisin terveisin,  
Anton Lehikoinen / Centria AMK

## APPENDIX 2

## Questionnaire:

Does your company install under floor warming systems?

Are you in decision-making position in your organization?

Have you purchased under floor warming systems in past year?

Amount of annual purchases? 0-10k€, 11-20k€, 21-50k€, 51-100k€, 101-500k€, > 500k€

Do you contract single-family houses, apartment houses and/or service buildings?

How many suppliers do you use in under floor heating solutions? 1,2,3,4 or more

Do you use different suppliers in different contract types?

What are the most important criteria of your chosen suppliers? Price / Prod / Serv. / Beh. / Geogr.

Do under floor warming products in Finnish market differ within different manufacturers? 1-5 scale

Do you feel there is room for innovations in product level? 1-5 scale

Do the products related in under floor heating meet your expectations? 1-5 scale

Do services related to under floor warming differ in Finnish market? 1-5 scale

Do you feel there is room for innovations in service level? 1-5 scale

Do the services related in under floor heating meet your expectations? 1-5 scale

Does the cooperation of suppliers meet your expectations? 1-5 scale

Do you feel there is room for improvement in supplier cooperation? 1-5 scale

Do you work closely with any supplier?

Do you develop your business together with supplier?

Do suppliers understand enough of your business?

Do suppliers show real interest for your business?

Is there room for new suppliers in market?

Do you use wholesale as a channel to purchase UFH products?

Do you use retailers to purchase UFH products?

Would you like to purchase UFH products straight from the supplier?

Would you rather buy UFH solutions than products?

Do you expect UFH market to be growing in next ten years?

Do you feel the role of eCommerce be sufficient in UFH markets?

Free space to send message.