Strategy within E-commerce

The formation process

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Abstract

Today the e-commerce market has become a bigger part of both organizations’ and consumers’ everyday-life. Earlier established strategies within retail can’t be relied upon. The online-based organizations don’t act on the same conditions as traditional shops in terms of location, customer service and personal interaction to name a few. These are factors generally important to the traditional strategy formation within retail. E-commerce is an emerging market and to survive a well-formulated strategy formation is crucial in order to endure the environment. The aim of this research is to create an understanding of how strategy is formed in e-commerce organizations. In order to answer the research questions, a qualitative research, including a case study, have been performed. Empirical material has been conducted mainly through semi-structured interviews, with one of Sweden’s largest internet retailers, regarding their ink- and beauty supply segment. Whittington’s (2001) two perspectives; evolutionary and classical, have been used to get different viewpoints on the organization studied. We came to the conclusion that the key factors in strategy formation within e-commerce are experience in combination with available information about the environment they act within. When making recommendations for future studies, a suggestion has been made to examine the whole strategic process and review successful strategies as a consequence of well-analyzed formation. Finally, to examine the impact of maturity of organizations in relation to their strategic processes, would create an understanding of how the relationship between experience within the organization and the data accessible is constructed.

Keywords

Deliberate strategy, e-commerce, emergent strategy, strategy, strategy formation
Thanks
We as researchers would like to give a special thanks to the participants of our study, particularly to the respondents at Nordic E-commerce Group. Your contribution has been of the utter most importance for our analysis and in gaining an understanding of e-commerce within Sweden. We greatly appreciate your honesty, your sharing of experiences in interviews and willingness to meet with us. In addition, we would like to demonstrate our gratitude to our fellow students, supervisor and examiner that have provided us with valuable feedback, which in turn improved our research.

With much appreciation,

Amanda, Hannes & Sofie

Definitions

Deliberate strategy
A deliberate strategy is when the intended strategy is perfectly executed as planned, i.e. intended precisely as realized. A strategy would thus have to be accepted in advance, stated by organization leaders, accepted accordingly by the organization and to later be set in motion without interference by external factors. Deliberate strategies help to manage and to provide a path of direction. (Mintzberg et al., 1998)

E-commerce
Electronic commerce is abbreviated as e-commerce, which also is the term that will be used in this study. Per definition e-commerce is a sector involving businesses operating through the use of computers, telephones, fax machines, barcode readers, credit cards, automated teller machines or other electronic appliances, without the exchange of paper-based documents (Business Dictionary, 2016).
Emergent strategy
In its most pure form: when the external factors affect the strategy to such an extent that actions change direction, as organizations have to adapt to a new environment. In other words, it’s an unplanned strategy in order to meet surprising external changes, in form of opportunities or challenges. Emergent strategies develop at different levels of extreme, from the point where small actions have to differ in execution, to a full transformation of prioritization. (Mintzberg et al., 1998)

Intended- & unrealized strategy
The intended strategy is the one the organization hopes to implement and execute. These are most commonly detailed and can be visualized through a business plan (Mintzberg, 1978). The unrealized strategy is the part of the intended strategy that was neglected due to strategic drift (Mintzberg et al., 1998).

Realized strategy
When the deliberate- and emergent strategies merge, they result in what we refer to as realized strategy – the strategy that’s being actualized. (Mintzberg et al., 1998)

Strategic drift
The distance between the intended- and emergent strategy determines the size of the strategic drift. The further away from the original business plan, the more extensive the drift becomes (Mintzberg et al., 1998). For example: Google’s original business plan was an online search engine, now they’ve started to produce self-driven cars, hence a change of focus has definitely occurred - a strategic drift.

Strategic Excellence Positions (SEP’s)
When an organization is aware of customer needs and make sure to satisfy these with suitable capabilities, it’s said to have a strategic excellent position (SEP). When occupying such a position, the organization delivers above-average results over a longer period of time if compared to relevant competition. (Thompson, 2014)
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1. Introduction

This section of the study will start of by presenting the concepts of strategy and the emerging industry of e-commerce in Sweden. Furthermore, the necessity of the research is implied with regards to current related studies in Table 1, where our work is positioned within the context of the field. Finally, the purpose is stated together with the research questions, followed by a disposition.

1.1 Background

Strategy is traditionally defined as: “(...)the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals” (Chandler, 1962, p. 13, cited in Mintzberg, 1978). Strategy theory has traditionally relied on nouns such as, strategy, structure, strategic plans and/or strategy formulation. The traditional view allows orderly steps between the analytical formulation of strategy and the followed implementation (Whittington et al., 2006, p. 617). However, more and more industries have nowadays a more rapid change, which leaves less space for orderly steps for analysis, detachment and order (Whittington et al., 2006, p. 617). With the new market of dot-com companies emerging, an understanding of how strategies are formed within the e-commerce market is crucial (Porter, 2001, p. 64). Modern organizations find themselves in unknown waters that are in a continuous state of change, complicating the determination of long-term goals and allocation of resources (Löfberg, 2016). Therefore, we believe strategy formation to be different in already established markets, compared to emerging industries as other factors must be taken in consideration when strategy is formed.

Emerging industries have taken place in our society over the decades; one of the most rapidly growing industries is the e-commerce market. An emerging industry is defined as a new industry or transformed industry that due to: technological innovations, change in sociological factors or economic circumstances develop a new service or product, that’s linked to a presumed business opportunity (Mintzberg et al., 1998). Moreover, e-commerce belongs to an emerging industry that has expanded worldwide and contributed to a transformation in terms of how companies trade and consumers purchase products.
(Löfberg, 2016). On the e-commerce market almost everything can be purchased, both goods and services are available (Statista, 2016). The e-commerce market consists of several different types of segments such as: business-to-business (B2B), business-to-consumer (B2C) and consumer-to-consumer (C2C) (Statista, 2016). According to E-barometern (2015) e-commerce today is the most rapid emerging industry in Sweden that has come to life due to both technological innovations and changed consumer behavior. A total of 50.2 billion SEK were spent on online purchases in 2015 (E-barometern, 2015). Online sales in Sweden grew with 19% in 2015, and are expected to grow additionally 16% in 2016 (E-barometern, 2015).

Since it’s a fast growing market with profit potential, the market will attract more organizations, which in turn will result in higher competition (Durlauf & Blume, 2010, pp. 29-35). For this reason, a well-formulated strategy, to earn a competitive advantage will become imperative (Porter, 2001, p. 69). E-commerce News describes the current Swedish market as: “(...)Sweden has about 8.7 million internet users, which account for 94% of the total population. Almost three in four Swedish households with access to the internet have ordered something online in the last twelve months. Almost three in ten Swedes order something online at least once a month” (E-commerce News, 2016). The statement clearly confirms the adoption of the online usage within Sweden, in addition to indicating that this emerging market starts to attract a wider audience.

1.2 Problem statement

There’s a discussion regarding a new pattern of customer behavior bridging itself to organizations founded on “clicks instead of bricks” (Costa, 2001, p. 137) i.e. online-stores instead of physical stores. Hence, the interest lies in how strategy will be formed in these modern ventures. How organizations experiencing the new business environment adapt in terms of strategy. How the strategy formation may express itself differently in the circumstances of the e-commerce market.

As previously mentioned, the retail market is experiencing a shift towards a more online-based market as e-commerce is further adopted by the Swedish population (E-barometern,
What that entails in practice and in terms of characteristics vis-à-vis the classical businesses, should consequently be underlined. For starters, two challenges concerning e-commerce can be identified: customers can’t experience the products before purchasing them and the seller doesn’t get the opportunity to interact with its customers (E-barometern, 2015). However, e-commerce has several positive aspects compared to physical stores. Such as; the convenience aspect for customers who can purchase from home whenever, in addition to a broader range of products in stock at more favorable prices (DIBS, 2015). With these differences in mind, we’ve reason to believe that strategy in e-commerce is formed in a different manner than in the traditional store.

The theories regarding strategy within e-commerce and emerging markets (Porter, 2001; Chaffey 2011; Torres 2014; Amit & Zott, 2001; Doherty & Ellis-Chadwick, 2009) discuss in different ways how other factors are contributing to a slight difference in strategic formulation within these markets. Chaffey (2011, p. 7) points out that within the e-commerce market new opportunities and challenges arise every year, month and day. Therefore, the managers must scan and evaluate the environment more often compared to traditional retail stores. The organization has to increase their level of flexibility, which leads to e-commerce companies having to make decisions much more rapidly, leaving less room for traditional orderly steps and longer analytical processes. Theoretically, the strategy forming process will as a consequence differ since the process needs to be more flexible and not only build on a long-term vision. (Chaffey, 2011)

As previously discussed, there are plenty of researchers present in the field of strategy, as a consequence different opinions are inevitable. When conducting this research, we chose to keep our minds open and thereby decided to use a theoretical reference frame. In order to understand how strategy is formed within e-commerce, we’ve used Whittington's perspectives as the theoretical reference frame. Whittington introduced four perspectives: the classical, evolutionary, processual and systemic (Whittington, 2001, p. 39). The four perspectives give different views on organizations, their goals and the processes to reach their goals. The classical- and evolutionary perspective will be used in this study. The perspectives have been chosen since both of them focus on a single outcome, namely profit.
maximization. In contrast to the other two, that focus on plural outcomes. (Whittington, 2001, p. 39) The selected perspectives differ in paths for accomplishing profit maximization and will provide us with different views on the organization's process to reach their goal. The classical perspective provides a view where the analysis of internal resources is established as important, alongside a more deliberate strategy. The evolutionary perspective focuses on the organization's adaptability and cost efficiency in order to survive and maximize the profit in a changing environment. (Whittington, 2001)

1.3 Related studies

This study will focus on strategy formation within an emerging and evolving market. Strategy within such environments, where both competition and external factors vary more often than not, has previously been discussed and analyzed. Nelson and Winter (1982) originally introduced the topic, followed by later work conducted by Henderson and Mitchell (1997) and then Farjoun (2002). However, the field regarding the internet as an emerging market, is coming across as equally substantial.

Studies touching upon e-commerce together with strategy have been concluded, but not specifically concerning the formation of strategy within e-commerce ventures. At least not what we’ve recognized through the process of our thesis. Strategy and fully- or partially online-based companies have been made in different variations, the ones most closely related to our research, using similar keywords, are introduced in Table. 1 below.
Table 1: Related studies

<table>
<thead>
<tr>
<th>Article</th>
<th>Purpose</th>
<th>Conclusion</th>
<th>Methods</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Filson, D. (2004). The Impact of E-Commerce Strategies on Firm Value: Lessons from Amazon.com and Its Early Competitors. <em>Journal Of Business</em></td>
<td>Examines the impacts of different competitive strategies applied by Amazon and three of their early competitors; BarnesandNoble, CDNOW and N2K until exit or the end of 2001.</td>
<td>The conclusion states that organizations should focus on prominent portals, price competition is rejected as the main form of competition and no-price strategies such as product line expansion and service are the areas of the business that will establish value.</td>
<td>This article follows four competing firms over time by using an event study methodology. They examined several strategies and compared how the effectiveness of some strategies changed over time.</td>
</tr>
<tr>
<td>2. Torres, P, Lisboa, J, &amp; Yasin, M. (2014). E-commerce strategies and corporate performance: an empirical investigation. <em>Competitiveness Review</em></td>
<td>Provide a strategic context of the different views on strategy development and to investigate the different dimensions of the e-commerce strategy and their impact on organizational performance.</td>
<td>Differentiation factors have impact on corporate performance in the context of virtual markets. The dimensions present within e-commerce was marketing, innovation and efficiency.</td>
<td>A survey was conducted and sent to Portuguese e-commerce firms. Factorial analyses, followed by a cluster analysis were later on applied to define strategic groups and their effect on corporate performance.</td>
</tr>
<tr>
<td>3. Doherty, N, &amp; Ellis-Chadwick, F. (2009). Exploring the drivers, scope and perceived success of e-commerce strategies in the UK retail sector. <em>European Journal Of Marketing</em></td>
<td>Explore empirically the relationship between the scope of the current e-commerce strategies deployed by the market leading and most influential UK-based retailers, why they were adopted and when they are successful.</td>
<td>There’s a close relationship between the strategies and the strength of authority behind them. However, the level of success was concluded to be strongly related to the fit between the portfolio, support of online operations resources and capabilities.</td>
<td>Empirical findings and research strategy are quantitative; their primary data is gathered through a questionnaire survey. The sampling was done through post and gathered data from UK’s largest retailers.</td>
</tr>
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In the first mentioned article, *The Impact of E-Commerce Strategies on Firm Value: Lessons from Amazon.com and Its Early Competitors*, Filson (2014) has studied four online firms competing for the same customers over a specific period. The author analyzed the effectiveness of strategies during particular time periods and how the effectiveness changed. The contribution in terms of literature includes ways to compete on the online market or in new business environments, where little information is accessible (Filson, 2014). In other words, in situations where the impact of an organization’s strategy is
unknown. The theoretical framework is founded on the work of Henderson and Mitchell (1997), Ocasio (1997), Teece, Pisano, and Shuen (1997) and other studies regarding organizational strategy within new environments (Filson, 2014). The framework used is to a high extent related to the original theories on strategy within new environments that are previously mentioned in the first part of this section.

The second article is *E-commerce strategies and corporate performance: an empirical investigation*. The authors focus on corporate strategy development and on the overall corporate performance, not individual business-level strategy in different markets. Torres et al. (2014) uses surveys to explore linkages between traditional theories’ view upon business strategy with e-commerce strategy development processes. Furthermore, they evaluate the dimensions of strategies in online companies and analyze the effect they have on corporate performance (Torres et al., 2014). To clarify the value-creation process the researchers utilize theories within the subject presented by Amit and Zott (2001), in their article *Value creation in e-business*, involving the Schumpeterian innovation, strategic network theory, the resource-based view and transaction cost economics. The practical implications implied by Torres et al. (2014) include the theoretical contribution within investment in intellectual assets in addition to their main implications, which was methods sharpening the level of differentiation within e-commerce markets. In terms of strategy formation, the researchers discuss shortly that it entails value-creating and value-capturing in relation to innovation and customer orientation (Torres et al., 2014). In contrast to our research they do not analyze the specific process further; instead they combine previous theories to describe the essential factors to then primarily focus on the successfulness of the strategy.

Finally, *Exploring the drivers, scope and perceived success of e-commerce strategies in the UK retail sector* analyzes to what extent strategies amongst the most dominating retailers can be considered successful and why they are adopted initially (Doherty & Ellis-Chadwick, 2009). The research’s practical implication is an objective comparison between the strategic drivers, scope and the level of success, generating new measures of such variables within online businesses. The discussion of strategy formation includes: the
adoption of an online strategy for physical retail, why they choose to extend their business to the virtual market and the strategic benefit of doing so compared to remaining simply offline (Doherty & Ellis-Chadwick, 2009).

The articles previously discussed have different variations of combining strategy and e-commerce; what makes the strategy successful, what factors lay behind the scope of them, how they influence corporate performance and to what extent e-commerce strategies remind us of traditional strategy theories. We believe there to be a shortage within the online formation process where the strategy outcome is not in focus. This study aims to generate a sense of understanding of what variables are included in such a process where the factors differ from the traditional physical business environment. Hence, extending the research of Leitner (2014) that too examines strategy formation in a longitudinal study (between 1995-2003), where 91 Austrian SMEs adopt emergent or deliberate strategies, but in a quantitative manner.

Leitner (2014) generates an explanation and a theoretical contribution in terms of performance related to the strategy formation approach, whilst we seek for underlying factors of why the formation process presents itself in a certain manner. Leitner (2014) attempts to answer the research question; “whether in more dynamic environments, companies have to use more formal strategies or whether they should just storm the castle?” (Leitner, 2014, p. 355) that’s closely connected to our study. However, we don’t seek to provide recommendations for organizations and the dynamic environment will be completely represented by the online market in our case. Thus, extending Leitner’s research and the theory within strategy formation, giving it more depth. Our study will contribute to bridging the theoretical gap between a quantitative and qualitative approach and extend the current research with similar purposes that uses related theories with the angle of an e-commerce perspective. The theoretical contribution of our research will be made under the topic of strategy formation solely, but generate more than one input. It will contribute to the understanding of how the formation of strategy changes over a longer period of time within maturing organizations. The further concentrated input will regard formation in new markets. With an evolving market as the e-commerce represents, where
the environment changes in a rapid manner, an extension of previous studies initiated by Nelson and Winter (1982) will be made within strategy in such ‘new’ environments. Furthermore, an indication of which variables plays a role in e-commerce ventures’ creation of strategy, in relation to their environment and organizational maturity.

Our study will in addition differ in several aspects, compared to earlier studies within e-commerce in terms of empirical data. 95 % of the Scandinavian population has internet access compared to southern Europe where 30-60 % have access, which can create different opportunities within the e-commerce market. Scandinavia’s online market grows more than the average European countries, which separates it from other markets that have been studied earlier (European B2C E-commerce Report, 2015), thus creating a different set of empirical findings. Therefore, we believe it to be appealing to investigate how e-commerce ventures form strategies and gain a competitive advantage on a highly attractive online market. More specifically, the Swedish one. In addition to developing an understanding of how leading e-commerce ventures shape strategy on the Swedish market, we believe this study will differ slightly since it’s examining a market where customers have a higher level of standard within modern technological infrastructure and with a more rapid growing market (European B2C E-commerce Report, 2015).

1.4 Research questions

RQ1. How does strategy formation evolve over time within an organization?

RQ2. How is the strategy forming process affected by the level of organizational maturity?

1.5 Purpose

To create an understanding of how strategy is formed in e-commerce organizations.
1.6 Disposition

1.6.1 Theory
The theoretical frame of reference is outlined and a table is presented that shows the relationship between the reference frame and the models used. The theory chapter is divided into two sections, based on the reference frame; the evolutionary perspective and the classical perspective. Under each section follows descriptions of all models related to the topics. Finally, the discussion of what the composition of chosen theories will imply for this study.

1.6.2 Methodological approach
The ontological basis and view on knowledge are discussed. Furthermore, the choice of used methods and empirical collection is presented. Finally, how the study is conducted, its trustworthiness and authenticity is introduced.

1.6.3 Empirical findings & Analysis
All empirical findings are presented following a chronological order. The theories, models and framework are used to analyze the material successively. The chapter is summarized with two graphs and a table that shows the development of the case company over time.

1.6.4 Discussion & Conclusion
The analysis is discussed and the dimensions of the organizational strategic formations are further debated. The research questions are answered and a summation of the final discussions is presented within our conclusion.

1.6.5 Future research & Implications
Implications of this study are presented and suggestions for future research are given.
2. Theory

In this section the theoretical reference frame will be introduced, consisting of Whittington’s four perspectives that are also displayed in Figure 1. After an in-depth description, complementary theories and models belonging to the chosen perspectives will be presented in the order displayed in Table 2. We start of with the evolutionary models, to then end with the classical models. Finally, a discussion will take place, arguing the implications the choice of theories will have on our research.

2.1 Theoretical frame of reference

As a theoretical frame in this study we have used two of Whittington’s four perspectives. They are the classical- and the evolutionary perspectives. The classical perspective is in the top left corner of Whittington’s model (see Figure 1) meaning that it’s a deliberate perspective with a single outcome orientation – profit maximization. The same singular goal goes for the evolutionary perspective, but it’s an emerging perspective and therefore is displayed at the right side - a process. We’ve chosen to use these two perspectives as means to understand what’s going on in our organization of choice. By using two perspectives we can see things from different angles. For example, what might sound completely irrational in a classical view can be perfectly rational in an evolutionary view.

This is also why we’ve chosen to evaluate strategy formation from both the deliberate side and the emergent side; to get both perspectives on the same occurrence.

A frame of reference is a set of inter-subjective values, conceptions and attitudes. It’s a way to make sense of what you see. Everyone has their own frame of reference and may experience the same situations very differently. For example, one person might say that his computer is ‘broken’ when it doesn’t work the way it usually does. His friend might say that the computer is working well, but that the software must be updated. The person who thinks it’s ‘broken’ isn’t wrong, because with his given knowledge of technology, that’s the best conclusion he could come to. But for his friend, who might be more experienced in the field of technology, it’s more rational to draw a different conclusion. (Tversky & Kahneman, 1981, pp. 453-458)
To be able to produce a multi-dimensional study we needed to include a theoretical frame of reference that’s not founded on our own personal thoughts. Otherwise, it would only have been our own preconceptions that filtered the empirical findings, which could lead to us potentially ignore valuable aspects. However, it has also been taken into consideration that the empirical data in itself can be influenced by another reference frame.

2.2 The four perspectives of strategy

Whittington (2001) introduces four perspectives of strategy and their different viewpoints. Each perspective and their general ideas will be presented below.

*Figure 1: Whittington’s four perspectives*

Source: (Whittington, 2001, p. 10)

2.2.1 The classical perspective of strategy

The classical perspective emerged in the 1960’s. According to the classical perspective each business must aim to maximize its return on capital. This is best done through rational long term planning. If profitability isn’t satisfactory, the business should be abandoned or liquidated. Whittington explains that the strategy formulation is close to what could be seen in the economics of 18th century Scotland, which implicates that the implementation process has militaristic ideals. This gives an idea of how rigid the classical perspective can be. (Whittington, 2001, pp. 11-15)
There are three key features of the classical approach: *the importance of keeping to rational analysis, to separate conception from execution and the commitment to maximize profits*. Alfred Sloan, former CEO of General Motors and a ‘pioneer’ in the classical perspective said that “(...)the strategic aim of a business is to earn a return on capital, and if in any particular case the return in the long run is not satisfactory, the deficiency should be corrected or the activity abandoned.” (Sloan, 1963, p. 49 cited in Whittington, 2001, p. 11)

An important keystone in the classical perspective is *homo economicus* – the rational economic man (Whittington, 2001, p. 14). It’s the conception that the consumer/customer is a perfectly rational, strictly calculative, utility maximizing individual that always seeks to reach maximum efficiency in consumption. Generalizing assumptions like these can be limitative in a changing environment (Whittington, 2001, pp. 14-15). The market isn’t necessarily perfectly rational at all times; consequently, the assumption of perfect rationality can hamper the understanding of the market. Whittington (2001, p. 15) clarifies this with an example of a hedge fund, which went bankrupt even though they had some of the best economist in the world as advisors. They predicted that the market was to respond rationally and were so sure that they took debt one hundred times their assets. But they were struck by the unpredictable; a financial crisis and they lost everything. Apparently they lacked what Business Week called ‘street smarts’. That’s the understanding of the irrationalities of the market environment. In summary, the classical approach has great confidence in the capacity of managers and their ability to carry out strategy through long term rational planning and militaristic discipline and obedience.

### 2.2.2 The evolutionary perspective of strategy

The evolutionary perspective appeared in the 1980’s. This approach doesn’t have the same confidence in managers as the classical perspective. According to the evolutionary perspective the environment changes too fast and thus can’t be predicted. Instead of trying to predict and analyze the future, this approach concentrates on a day-to-day business and keeps options open. To maximize the profit outcome, top management must adopt and find a perfect fit to the current environment. Managers direct their focus on the now and what can be done most efficiently today, rather than focusing on long-term strategies. The
mentality can be summarized as: the organization with the best performance in the short-term will be the surviving organization. The evolutionary approach relies on the market to secure profit maximization, rather than leaving it to the managers. (Whittington, 2001, pp. 17-20)

A central part of the evolutionary perspective is the competition. Only those organizations that are ‘fit’ enough will survive. It’s a Darwinian ideal. This is in complete contrast to the classical perspective. “(…)formal methods will not earn abnormally high profits for long. The formality makes them easy to copy. Going to business school is not a way to acquire immense wealth, because it’s too easy to get in.” (McCloskey, 1990, p. 128 cited in Whittington, 2001, p. 19) According to the evolutionary perspective it’s much more important to differentiate than to plan far ahead, that’s how organizations will survive in the competitive environment.

2.2.3 The processual perspective of strategy

The processual perspective was introduced in the 1970’s. The perspective focuses on human behavior and shares the evolutionaries skeptical perspective on rational strategy making. The processual perspective argues that markets are messy and confusing and that strategies emerge from its chaos. In other words, it emerges over time, step by step; the development is neither clear nor rational. Processualists believe that decisions aren’t made in alignment with the profit maximization theory, but rather within the lines of what’s considered most beneficial for the individuals in the organization at that given time. Meaning, that strategy might not work as an overall pointer for an organization, but rather as a way for individual leaders to steer their way through the chaos. Whittington (2001, pp. 21-26) provides an example of a group of soldiers who get lost in the Alps. They get stuck and are about to freeze to death when one of them finds a map. They make it out alive, but when in safety they realize that the map was actually of the Pyrenees. This shows that the map; the rational laid-out plan for the strategy, wasn’t as important as the belief in their leader. This is one of the most essential points of the processual perspective; that all the ‘rituals’ of strategy formation only act as a comforting routine; the ‘real’ strategy is actually formed along the way. (Whittington, 2001, pp. 21-26)
2.2.4 The systemic perspective of strategy

The systemic perspective is the most recently introduced as it emerged in the 1990’s. Systemic theorists believe in planning ahead with the businesses environment as the core of decision-making. According to systemic theorists the business is socially embedded in the environment they act within. Individuals’ economic behavior is connected to their social network, including families, geographical attributes, education and ethnicity. Therefore, the businesses have to adapt and differ depending on the social- and economic systems they act within. Hence, the strategy also has to change if the business plans to penetrate new markets and different countries. The focus for strategy formulation is the macro environment. (Whittington, 2001, pp. 26-37)

2.3 Perspectives & Theoretical models

The following table is intended to give a more comprehensive view of the theories that will be presented in the coming sections of this research chapter. Whittington’s four perspectives create suitable categories for analytical models within strategy as their approach generates the possibility to recognize characteristics otherwise more difficult to see with the naked eye. Table 2 represents the order in which the models will be presented where the evolutionary perspective will be introduced first.
Table 2: Theories coupled to perspectives

<table>
<thead>
<tr>
<th>Theory / Perspective</th>
<th>Classical</th>
<th>Evolutionary</th>
<th>Processual</th>
<th>Systemic</th>
</tr>
</thead>
</table>
| Characteristics of perspective | - Formal  
- Single outcome  
- Analytical | - Efficient  
- Survival  
- Darwinian | - Crafted  
- Plural  
- Learning | - Embedded  
- Local (rules)  
- Social |
| Transaction cost theory | X          |              |            |          |
| Population ecology of organizations |              | X            |            |          |
| Sigmoid Curve         |              | X            |            |          |
| SLEPT-analysis        | X           |              |            |          |
| Porter’s 5 Forces     | X           |              |            |          |
| SWOT-analysis         | X           |              |            | X        |

Source: Self-made table, constructed from Whittington ideas (2001, p. 39)

2.4 The evolutionary theories

2.4.1 Transaction cost theory

Transaction cost theory views companies and markets as different forms of organizations and coordinating economic transactions. The theory aims to explain why companies exist and why they choose to outsource processes to external actors in addition to why some grow or shrink in size (Coase, 1937, pp. 386-387). Coase (1937, pp. 401-403) means that a market is characterized by competition, which makes it possible for consumers to purchase goods and services from the highest quality to lowest possible price. Transaction cost theory focuses on the total cost of outsourcing production processes of services and products. The inclusion of all costs is recognized before making a decision and not just the market prices (Williamson, 1985, pp. 15-20). Williamson and Masten (1999, pp. 4-10) mean that a transaction cost appears every time a product or service has to change or develop.
The main reason to outsource activities to external actors is the firm's internal cost. It can be cost-effective for a company to outsource activities that aren’t aligned with their core competencies (Williamson, 1985, pp. 15-20). By doing so, the company can concentrate on what they do best and lower their costs. If a firm considers to buy or self-produce a service or product, they should take transaction cost into account. They can assume that economies of scale and scope can appear internal even though an investment is necessary (Williamson & Masten, 1999, p. 151). According to Coase (1937, p. 386) a firm chooses not to outsource if the transaction cost is higher than it would be for the company to self-manage the process. If a company outsources an important part of its business, they can be dependent on external actors, who further down the road can take advantage of that dependency. However, if a firm chooses to outsource some parts initially and build a long-term relationship with one or a few suppliers, to later outsource additional processes, instead of transferring the whole activity to an unknown supplier, that uncertain dependency could be avoided. By using this method the firm may succeed and still have control over the activities (Williamson, 1985, pp. 15-20).

According to the transaction cost theory, the option between internal or external production, should be based the most cost effective choice (Williamson, 1985, pp. 15-20). An organization will grow or downsize depending on the internal bureaucratic cost/costs of efficiency vis-à-vis the external transaction costs. If the external transaction costs are higher compared to the internal bureaucratic costs, the company will grow in relation to the market. This happens, as the company is able to perform the process more cost-effectively than the market could. On the contrary, if the internal bureaucratic costs are higher, compared to the external transactions costs, the company will shrink in size by outsourcing its processes. The company will stop to grow or shrink when the internal and external costs and margins are equal to one another. Williamson (1991, cited in Whittington, 2001 pp. 19-20) means that managers must concentrate on their costs, especially transaction costs, since cost efficiency is the best strategy. Furthermore, Williamson (1991, cited in Whittington, 2001 p. 19) points out that relative efficiency is the absolute competitive advantage for an organization.
2.4.2 The population ecology of organizations

Hannan and Freeman’s (1977) theory of organizational ecology uses insights from biology in order to describe the ‘ecology’ of organizations. How they emerge, grow and die. The basis of the theory is that the ‘best’ organizations are those that survive because they are favored by selection. They are ‘best’ in the sense that they are reliable and stable, but that can also make them less flexible. In fact, the ‘selected’ organizations can be too rigid and changing them could be really disruptive. It can even lead to the rate of firm mortality increasing. This means that the change in the organizational landscape is actually the replacement of firms. When the market changes, some organizations die and others that are better suited for the ‘new’ climate get selected instead. (Hannan & Freeman, 1977, p. 939-946)

There are different sorts of strategies for firms in a changeable environment. Their *niche width* will determine how they handle the risk of change. They can either be *specialists or generalists*. Specialists maximize the use of their markets and accept the risk of change, meanwhile generalists cover a wider range of the market. Meaning, that they are less sensitive to change. Hannan and Freeman’s (1977) study shows that specialist firms manage better in a stable environment than the generalists do. The opposite goes for generalists in a changing environment, but it’s not fully accurate to state that it’s always a given. The choice of strategy must be aligned with the interchangeability of the market. (Hannan & Freeman, 1977, p. 946-956)

The rate of mortality and founding depends of the number of organizations in the particular market; it’s about competition and legitimation. Competition will be of the most importance in a market with many actors; whilst legitimacy will be more crucial when there are few actors. The founding rate can increase when legitimation is high, but will then decrease when competition rises and vise-versa for the mortality rates. (Hannan & Freeman, 1977 p. 936-938)

The risk of firm mortality is also related to the age of the organization. When an organization is new, there’s a high risk of mortality, but it shrinks as the organization ages. When reaching adolescence, the rate is low initially, it has passed the first ‘test’ in its
‘childhood’ so to speak. However, when all initial resources are consumed, the mortality rate increases progressively again. When ‘growing old’, the risk of failure lies in the organization’s alignment with its market. It risks falling behind because of aged structures or due to inefficiency within the organization, also related to aging. (Hannan & Freeman, 1977, p. 936-938)

2.4.3 The sigmoid curve
For an organization to maintain its SEP, it continuously has to evaluate its environment (markets and customers) and understand its core competencies needed to fulfill the current purpose and mission of the firm. Even during times of success. Figure 2 below, pinpoints that strategic change should take place at point A, not as late as point B. The space between displays uncertainty, such as periods of rapid change in competition behavior, new technologies or difference in consumer preferences. The sigmoid curve proves the importance of redirecting the firm while experiencing success, as change takes time and if difference in preference for example, is realized too late, the state of SEP will be lost. Whittington’s (2001, pp. 16-21) evolutionary perspective very much concurs with Handy’s (1994, p. 51) sigmoid curve. They both argue that organizational suitability with regards to its environment, is the path to achieve a competitive advantage or sustain a level of success. Without an in-depth awareness and understanding of the organization’s environment, they may disregard factors affecting them in a negative manner, thus missing out on business opportunities. Handy (1994, pp. 50-54) claims, in a state of continuous development, where small adjustments are made and improvements generate positive changes for customers improves an organization’s environmental congruence. Hence, strategy formation is always an ongoing process and strategy is constantly to be evaluated in correlation to the environment’s status. (Handy, 1994, pp. 50-54)

Figure 2: The Sigmoid Curve

Source: (Handy 1994, p. 51)
2.5 The classical theories

2.5.1 SLEPT analysis

The SLEPT analysis is used to analyze the macro-environment to understand the external forces’ impact on the organization within e-commerce (Chaffey, 2011, p. 180). SLEPT includes five factors: social-, legal-, economical-, political- and technological factors. (S)ocial factors include the influence of consumer attitude to decide whether to use the internet for different activities. (L)egal- and ethical factors control which methods the company can use and which products that can be promoted and sold on the internet. (E)conomical factors could for example be fluctuation in the economy. Economical factors affect the spending patterns and international trade. (P)olitical factors entail decisions made by national governments and transnational organizations, that have a considerable role in determining and controlling the rules applying to the internet. (T)echnological factors create new opportunities in ways to promote and sell products through technological innovations. Each factor generates concerns that have to be considered by the management. It's important to review all factors but focus on those that are most crucial in the current environment. Managers constantly have to scan and analyze the environment to discover important changes. The most important factors are those who tend to affect an organizations competitiveness and service delivery. After scanning and monitoring the environment, the managers have to quickly respond to environmental changes to keep their competitiveness. (Chaffey, 2011, p. 180)

2.5.2 Porter’s Five Forces

A second external analysis is generally made. This regards the organization’s industry, not overall environment (Porter, 1980). All markets have different rules of competition and to gain competitive advantage an actor must be able to determine which are most alarming. Michael Porter (1980) constructed the Five Forces model that displays the forces determining industry profitability. Figure 3 below demonstrates the forces applied to the e-commerce industry. The specific forces will be presented individually.
Barriers to entry

Barriers imply obstacles to become a competitor in a specific industry. As a competitor within the industry high barriers are preferred as it decreases the chances of new rivals. How alarming the threat of new e-commerce entrants is depending on the market state and how great the barriers are for entry. When it comes to e-commerce, the barriers are fairly low compared to offline businesses as technology eliminates traditional barriers such as access to channels, sales force and physical store locations. However, to gain brand recognition or awareness of internet presence, marketing becomes more important, thus acting as somewhat of an entry barrier in terms of financial investment (Chaffey, 2011, p. 259).

Threat of substitute products or services

The risk of another product attracting your customers and diminishing your demand. The threat of substitutes is highly dependent on the product, but if there are many possible substitutes this can really weaken a competitor’s power. Substitutes can be more than a similar product; it can be anything that the customer chooses preferably to your offer. (Chaffey, 2011, p. 258) For example: Skype could be a substitute to a hotel stay, as the increase in online conference calls reduces the amount of business trips necessary within business. (Porter, 2001, p. 67)
**Bargaining power of buyers**

The level of influence the customer has over the organizations within the industry. As the e-commerce market expands, the power of traditional channels is shifted to the incumbents as additional intermediaries become obsolete when customers can be reached directly through the online platform. However, the end consumer possesses the most amount of power as switching costs are so low and for them a change of supplier is only a couple of clicks away. Consequently, strategy has never been more important. (Porter, 2001, pp. 67-68)

**Bargaining power of suppliers**

The level of influence the supplier has on the organization within the industry. The power of the suppliers of course depends on the nature of the product or service demanded, but also on the availability of suppliers. With numerous suppliers available, the organization is the one with leverage as they can choose from more than one supplier, resulting in a decreased supplier power and vice versa. Within e-commerce however, the market increase is resulting in increased volumes of competition downstream, which increases supplier power. Furthermore, the online market diminishes the need for additional intermediaries for suppliers, as they themselves can easily forward integrate and compete with incumbents, raising personal margins. Finally, as e-commerce leans towards standardized procurement, suppliers can serve a wider range of organizations with the same supply, thus increasing their power further. (Porter, 2001, p. 67) On the other hand, organizations with ‘long arms’, reaching a greater volume of customers can negotiate price per unit as it gives the supplier access to a broader customer segment and again decrease supplier power (Chaffey 2011, p. 258).

**Rivalry among incumbents**

To what extent the actions and decisions made by the organization’s competitors influence the organization’s business. The level of industry attractiveness is determined by the rivalry intensity. If the intensity is low, the industry is considered to be attractive. The other four forces determine the rivalry among incumbents. Initially, it was thought that information would improve customer behavior awareness within e-commerce, but instead customers can change supplier with a few clicks on the mouse and thus improving their
power as a buyer (Porter, 2001, p. 68). A company has to be proprietary in comparison to its competition to gain barriers to entry, but with the transparency of the internet, it’s hard to accomplish (Porter, 2001, p. 69). Brand recognition requires enormous investments in marketing and discounted offers, but the returns in loyalty are fairly low online (Chaffey, 2011, p. 259). To continue, there can be rivalry amongst firms wanting market share as well as gaining access to suppliers. This rivalry may further damage potential profits, since competing with others can result in lower margins, or increased marketing costs. Furthermore, with low entry barriers together with older- and newly introduced actors, one could expect a more intense rivalry with more partakers compared to other markets. (Porter, 2001, p. 70)

Operational effectiveness
To be able to remain competitive within e-commerce, especially with the high pressure on profitability as previously mentioned, organizations need to either find a strategic position or sustain a higher level of operational effectiveness (Porter, 2001, p. 70). The latter entails performing the same activities as the competitors, but in a more effective way; through more advanced technology, faster processes or at a lower cost. Thus, allowing the organization to maintain competitive prices on similar to identical products or services, but generating a higher level of profitability than other incumbents. However, with similar applications used across the internet sphere, similar operations emerge and the competition quickly adapts to ‘best-practice’ due to the open platform that is the internet. (Porter, 2001, p. 71)

Strategic position
As an organization achieves a strategic position it’s able to generate an above-average economic value, implicating a price premium. In order to reach such a position an organization must differentiate itself from its competitors. The differentiation is created through the chain of value creation, where the organization performs an action that creates an additional value to the customer. (Porter, 2001, p. 72) For example: A company with a defined, unique segment of products with personalized service attracting a specific consumer group, may be able to attain a price premium. As those customers value the defined segment together with the personalized service, they are willing to pay an above-
average price for that combination. However, the difficulty of sustaining that strategic position relative to competitors is the real challenge in the long run. (Porter, 2001, p. 71)

2.5.3 SWOT-analysis

The analysis tool used to determine strengths, weaknesses, opportunities and threats. An analysis used to evaluate potential opportunities and threats surrounding an organization, in relation to the strengths and weaknesses of the resources present within the organization. When reviewing an organization's strategy, it’s important to identify both the positive and negative aspects. Strengths and weaknesses are identified internally. For example, a strength could be that the organization has a large market share. A weakness could be high prices towards the customers or low margins. The external factors are divided as opportunities and threats, where an opportunity could for example be a new technical innovation and a threat might be that the biggest competitor launches a new product. (Thompson et al., 2014, p. 142). The SWOT-model is presented below in Figure 4.

![Figure 4: SWOT](image)

*Source: (Thompson et al., 2014, p. 142)*
2.6 Consequence of choice of theories

The theories we’ve been using are well known and reputable in the field of business research and especially strategy. As a result, we believe that the mix between our theoretical framework and the theories makes the study more nuanced. By using two perspectives with several different theories as subcategories, we formulate various different approaches and views. This way we had to examine our empirical findings over and over again through the different perspectives and theories. By demonstrating both the perspectives and their related theories we believe that we’ve provided our study with a second dimension. We’re aware that by only pursuing two out of four perspectives we’ve acknowledged certain characteristics within our organization of choice. On the contrary, we’ve disregarded other tendencies otherwise viewable. The reason for selecting the classical- and evolutionary perspective is that they correspond better with the empirical findings due to the chosen organization’s goals; profit maximization and survival.
3. Methodological approach

Research studies can have different approaches, which will be discussed in this chapter. All methods used will be presented and argued for. Our epistemological and ontological stands are stated. The studies trustworthiness, authenticity and empirical contribution are lastly examined as a consummation to this section.

3.1 Epistemology & Ontology

Our goal with this study is to gain an understanding of how strategy is formed within a particular market. We believe that can be best achieved through the interaction with people involved in that market, as an accessibility to the reality can reveal important underlying factors of the formation process not otherwise visible. To do so, we need to know what people think, do and what kind of problems that they are confronted with and how they deal with them. The seemingly rigid structure of a company needs to be examined from close range in order to understand the actual constructions that it consists of. The only way we see that’s possible, is by interacting with the people it’s constructed by. As a result, we will portray an interpretivist standpoint in our view of knowledge, which represents what we just described. (Bryman & Bell, 2015, pp. 26-32)

We believe that knowledge can be constructed in many different ways. In this study we try to gain an understanding through interaction with the participants in our case. We have open-ended research questions that require us to combine our own knowledge with the new knowledge we gain in order to reach an understanding. This means that the knowledge we obtain from the empirical findings is studied through theories and perspectives we already are familiar with. This way of interpreting the data is known as constructivism, which too determines the ontological basis that we portray. (Bryman & Bell, 2015, pp. 32-34)

We’ve chosen this approach because we consider that human experience as part of how people view their reality, meaning that it can differ between each individual. That’s why we, as previously mentioned, need to understand what they’ve experienced in order to understand how they act. For us to be able to gain such insight, we must use our own
preconception, our own theoretical framework and known theories. Consequently, that’s what we consider as most suitable for a study like the one at hand.

Even if we have these standpoints and view on knowledge we’ve chosen to consider our respondent’s views. On the account, when analyzing the empirical material, we have chosen to use a frame of reference that’s well suited for the empirical findings, rather than our own standpoint. We believe that doing so will allow us to get an enhanced understanding of the respondents’ descriptions. If we had stood by our own viewpoints the theoretical framework would have looked different. For example, we would have used the systemic perspective instead of the classical or evolutionary perspective. But that would have limited us in our analysis since it would have been harder for us to see clear connections between the respondents’ narratives and our theories. We wanted to ‘level’ with the practitioners to get the most out of our analysis. For example, by looking at profit maximization rather than plural outcomes we were able to better understand the respondents’ way of action. We’ve chosen to meet the empirical data in its own setting.

3.2 Research method

Our research aims to generate an understanding of strategy formation. We believe that the formation process happens within organizations consisting of different individuals, representing different views and experiences. In order to understand this process, an approach that allows us to interpret situations based on what we know and what we can learn from the gathered empirical data is convenient. For this reason, we consider a qualitative approach to be the most suitable.

Qualitative research is often associated with words rather than numbers and its epistemological position is described as interpretivist. Qualitative research is about understanding the social world through the view of its participants. It’s also commonly described as constructionist in an ontological position. This means that social properties are results of human interactions. Reality isn’t portrayed as something that’s ‘out there’, it’s viewed as constructed between the social individuals. (Bryman & Bell, 2015, p. 392)
Qualitative research furthermore allows us to move back and forth between the different steps of the research process. This is crucial, considering the fact that we can’t know exactly what the gathered data will imply beforehand. (Bryman & Bell, 2015, p. 395) This is, in a way, a cornerstone when trying to understand something foreign and complex. Meaning that we’ve been able to collect data, review our theoretical work, collect more data and specify research question and so on. This cyclic way of conducting research helped us narrow down our research until the point where we felt that we’d reached empirical saturation. Implying that further collection of empirical data wouldn’t lead to a difference in terms of research outcome, proving the findings to be empirically confident. Only then could we claim that we’d reached a point of understanding. A quantitative method wouldn’t have generated the same insights, although explanations of particular actions might have been proven, it couldn’t have provided the same understanding of the strategic process. The way we view strategy formation as a process can’t be easily quantified and explained. As a result, in order to contribute to an understanding rather than explanation of actions, we chose to work with a qualitative methodological approach.

3.3 Research design

Case studies are detailed and thorough studies of a single case. They show the complexity and specific nature of a particular case. It can be for example a single organization, a single place, a person or a single event, but most commonly a place or an organization. In this approach, qualitative methods are often used, such as observations and unstructured or semi-structured interviews because these work well when doing a detailed and intense examination. (Bryman & Bell, 2015, pp. 67-68)

We chose to perform a case study of an organization for this thesis on Nordic E-commerce Group. The case will serve as leverage to fulfill our purpose i.e. a way to exemplify. We’ve been examining two of the organizations subsidiaries extensively. Through this case study we’ve been able to draw specific conclusions for our case. But also to some extent been able to gain a generalizable understanding of the context. By only reviewing one single case it’s impossible to say that the results are representative, but that doesn’t
necessarily mean that a wider understanding can’t be generated. (Bryman & Bell, 2015, pp. 68-69)

Our case study can be categorized as a combination of *instrumental case study* and *multiple case study*. It focuses on a single group as an instrument for understanding a general problem, but is divided into two ‘cases’, i.e. two subsidiaries. (Bryman & Bell, 2015, pp. 69-70) Our approach can be seen as longitudinal if categorized by *Yin’s five types of cases*. In other words, it aims to show how a situation has developed over time. (Yin, 2003, cited in Bryman & Bell, 2015, pp. 68-70) However, it’s not longitudinal in the sense that we’ve studied it over time, but the nature of our study requires us to collect data that’s spread over a longer time period. We’re looking into the formation of strategy and therefore we must also look into the past, to see how it has been formed over time and possibly changed as a process.

3.4 Research approach

When conducting research there are many different ways of explaining and understanding the empirical data collected. Since this is a case study we’ve decided to use an *abductive approach*, because abduction, in contrast to *induction* and *deduction*, includes *understanding*. (Alvesson & Sköldberg, 2009, p. 4) When committing a case study on a single case, we’ve been aware of the fact that the conclusions we drew may not have been perfectly generalizable. Differently put, applicable to a range of cases.

If induction was to be used we would have risked drawing general conclusions about the market that might not be legitimate. When using induction one draws conclusions based on what has been true in previous cases, but in a single case that’s not very reliable. The same goes for deduction, but the difference is that we would have drawn conclusions based on our own preconceptions, and not earlier observations as in the approach of induction. (Alvesson & Sköldberg, 2009, p. 5)

Induction and abduction share an empirical basis, but in contrast to induction, abduction and deduction also includes theoretical preconceptions. In abduction the empirical analysis
can be combined with theory in order to recognize new patterns that can generate an understanding. The research process shifts between theory and empirical facts, which means that they can be “...reinterpreted in the light of each other.” (Alvesson & Sköldberg, 2009, p. 4) In this way abduction is not as inflexible as induction and deduction, hence more suitable to our case study and perhaps closer to “...how research is actually carried out” (Alvesson & Sköldberg, 2009, p. 4).

3.5 Information evaluation

The theoretical reference frame is presented in chapter two and includes mostly textbooks and additional scientific articles connected to e-commerce and strategy. Firstly, scientific articles have been found through Linnaeus University’s library search platform One search. To optimize the search, the following words have been used in particular, often in combination with each other: e-commerce, strategy and formation. Critical thinking in the selection of literature has been considered and directed the choice of material. Critical thinking in terms of textbooks relevant to the subject written by well-known researchers in the field are used as theory, as well as articles published in reputable journals within the field. In order to find relevant and trustworthy research, only scientifically accepted articles have been used as references. A scientific research article reports results written by researchers for an academic audience. Before publication, the article has to be reviewed by independent experts in the subject, called a Peer review. A peer review is designed such as a scientific journal hires independent experts (referees) in the subject who reviews the quality of the scientific article before possible publication. The experts review method selection, data analysis and if the results are reasonable. Later on, the subject experts decide whether the article is accepted, rejected or revised. (University Library, Linnaeus University, 2016)

Parts from the empirical material consist of secondary data in form of reports from Ebarometern and DIBS, who are both associated with the e-commerce business in the matter of delivery- and payment services. We’ve acknowledged that their reports may be biased because of this, angled to their benefit. However, most of the information collected from
these reports consist of statistics regarding the market, which aligns with what has been said in the interviews by practitioners in the field.

Secondary data is data that have been collected by other researchers or organizations (Bryman & Bell, 2015, p. 319). The data we’ve used has not been collected for the same purpose as we’ve utilized it for, which has been taken into consideration when applying the data onto our research. Secondary data have been used in order to save time and to provide the opportunity for us to spend more time on our analysis, rather than collecting data. However, secondary data has a negative aspect in terms of the data quality, which can never be guaranteed (Bryman & Bell, 2015, p. 329).

3.6 Sample selection

We chose to limit this study to the company NECG operating in Scandinavia. Limitations have been made in sense of time and access to e-commerce companies. The results would most probably have varied if several companies had been studied since all organization differ and must take their own circumstances into account when they form strategy. NECG’s subsidiaries act on the online market, but also consist of physical stores; the study will solely focus on the e-commerce part of the business. Furthermore, NECG only acts within the beauty and office supply segment on the e-commerce market and no other segment will be studied. By studying different segments, we’re aware of the possibility of a difference in research outcome as segments may provide different business environments. NECG today consist of several subsidiaries but this study will focus on the two largest NordicFeel and NordicInk, one subsidiary in each segment. This selection is made since the subsidiaries strategies within the same segment are similar, with the belief that the result wouldn’t be that different if studying all subsidiaries. Interviews were limited to characters in top management positions involved with strategy formulation.

Regarding theory, we’ve limited us to a basis consisting of two out of the four perspectives that we’ve introduced in the theory chapter. This is because the models we’ve found most suitable to describe NECG’s strategy formation lay within the classical and the evolutionary perspective. Also, as mentioned earlier, it’s a matter of limitation due to time
and resources. But as far as we can see the systemic and processual perspectives wouldn’t bring any substantial advantage to the study. When reviewing all empirical material collected we couldn’t see any crucial connections between the topics brought up and the processual- and systemic perspectives. Although we’ve given a brief introduction to the systemic- and processual perspectives, we still have the opportunity to make comparisons between all four perspectives in the analysis. If we were to have used all four perspectives we might have been able to go deeper into the formation process and examined for example power structures, will power and other factors. But this would have also required us to get a deeper insight into NECG’s structure, which unfortunately was unachievable in this period.

3.7 Choice of company

The study is a case study where Nordic E-commerce Group AB (NECG) operating in Scandinavia has been analyzed. The company has been chosen since they successfully have entered mature online markets in different areas and even received several awards for their customers’ appreciation. NECG started in 1998 when e-commerce was a new market platform, the company along with the market has evolved and rapidly changed (Löfberg, 2016). The company was considered interesting to study, since both the company and the market has matured and grown over time. Moreover, the foreseeable future of e-commerce and NECG is unpredictable, but is looking bright. According to earlier reports the e-commerce market is predicted to grow 16% during 2016 (DIBS, 2015). NECG is one of the fastest growing companies within their market segments with total revenue of 297 million SEK in 2014 (ORBIS, 2016; NECG, 2016). The fact that the market is projected to grow in such a phase and the company in itself too, together with the convenience of its geographical location made it interesting to chose. Furthermore, just as the e-commerce sector as a whole, NECG have seen a rapid growth the most recent years and have more than doubled their turnover since 2012. All subsidiaries have online-based stores and work within two categories; the beauty sector and the office supply sector. (NECG, 2016)
3.8 Interviews

In order to collect data about NECG we conducted interviews with people in leading positions in the group. The interviews were semi-structured. The semi-structured interview differs from other types of interviews, since semi-structured gives more freedom to the interviewer, as well as to the respondent, compared to structured interviews (Bryman & Bell, 2015, pp. 480-481). Semi-structured interviews were the most beneficial for our study. We’ve chosen the semi-structured approach, because it allows the informants to express their views in their own terms and time. This way we can make sure we don’t miss anything of importance even if we only perform a single interview. Semi-structured interviews also give us the chance to come prepared, while still being able ask follow-up questions and change the order of the questions to be sure that all the most important questions will be brought up. An interview guide with important topics and questions makes the data more comparable, which in the end can lead to more reliable conclusions (Bryman & Bell, 2015, p. 486). In order to achieve detailed and in depth answers that reflect the respondents’ views on strategy, the majority of questions we’ve asked begins with how, why and if. Some topics in the interview guide were introduced in order to help us view the organization from chosen theories and perspectives. Furthermore, the interviews opened up and brought in new theories into the study.

Observations were not relevant in our study, since we were interested in how the strategy formation has emerged from the start until today. Observation would only give us the opportunity to observe the present. We wanted to achieve an understanding of how the specific company’s respective strategies had developed over time and therefore needed to ask open-ended questions. This in turn also left the possibility to ask follow-up questions if something interesting appeared during the interview. That’s furthermore the reason that surveys weren’t suitable over our chosen interviews, they simply don’t leave room for in-depth discussions.

3.8.1 Choice of respondents

When selecting characters of interest for our study we realized the importance of getting in contact with people that are involved in the formation of strategy, since that’s what the
research is focusing on. To collect relevant empirical material the CEO for the corporation NECG Henrik Löfberg was interviewed. Löfberg was interviewed to get an overview of the company and the subsidiaries. Furthermore, Löfberg was relevant to interview since he is one of the owners, has a seat in the board of directors and work in a top-management position. Löfberg is a key person when the strategy is discussed and formed.

Calle Johansson CEO, for the subsidiary NordicInk was interviewed for a more in-depth discussion about strategy. They act on different markets, with different levels of maturity. Also, the segments they act in have different maturity levels, which make it interesting to see if that affects how they form their strategy. Furthermore, to analyze if the whole organization identifies themselves with the intended strategy. By interviewing the subsidiaries, we could discover if they managed to follow the intended strategy on the constantly changing e-commerce market, or had to use an emergent strategy to meet external changes.

3.8.2 Conducting the interviews

We used an interview guide with specific topics, however we had open questions to collect as much material as possible in each category. Under every specific topic, several questions connected to the topic were constructed. In order to keep a relaxed and flexible interview we didn’t follow the interview guide strictly in a specific order. However, we followed the specific topics in the guide but sometimes the questions under each topic changed order.

The first interview was conducted April 15th with the CEO of NECG, Henrik Löfberg at their headquarter located in Växjö Sweden. The interview was recorded in agreement with Löfberg and lasted for approximately 60 minutes. We started off with a presentation of the study and its purpose. Then questions from the interview guide was brought up and discussed.

The second interview was a telephone interview conducted April 22nd with the CEO of NordicInk, Calle Johansson. The interview lasted for 40 minutes and was recorded in agreement with Johansson. A similar interview guide from the first interview was used.
However, the questions were adapted to the individual subsidiaries rather than more general questions about the corporation from the first interview.

### 3.9 Ethical awareness

Ethical issues can arise in almost all research studies and is a discussed point since some research methods can affect people (Bryman & Bell, 2015, p. 6). The four main ethical issues are whether or not harm comes to participants, informed consent, invasion of privacy and deception (Bryman & Bell, 2015, p. 134). The company and respondents, which have been chosen to collect empirical data from semi-structured interviews, have been fully informed about the purpose of the study. Furthermore, what their participation would contribute to before accepting participation. They were happy to collaborate and no direct or indirect harm has come to participants. The respondents were given information about the researchers and our background. Before the interviews, a verbal acceptance to the recording was collected. In order to not intrude on the respondents' personal lives, only questions concerning the company were discussed. We understood and respected that all questions weren’t answered. If questions arose they didn't want to answer we changed subject and discussed the next topic in the interview guide. This was done in order not to invade on their privacy. However, there’s always differences in individuals’ perception in what’s ethically accepted and not (Bryman & Bell, 2015, p. 130). Since, individuals have different views and opinions considering ethics.

### 3.10 Analysis of empirical material

The interviews have been transcribed in order to not lose important information and to avoid misconceptions. Furthermore, we have kept our research purpose in mind and used theories to understand the process of strategy forming in our case organization. All three researchers have reviewed the material. It has been done in an unstructured manner going back and forth between theory and empirical findings. We started off with an idea of what theories we would use, but after beginning to collect empirical data we want back to change some of the theories. It wasn’t until the end that some of the theories became apparent to us. The conclusion wasn’t recognizable either until we had actually analyzed the material or reached the discussion. All three of us have been involved in discussing
each section of the empirical findings as well as all the theories used. As mentioned earlier we choose our theoretical framework based on what we already knew and what we learned from the empirical data to be able to make the analysis as deep as possible. This way, the theories that we’ve been using for each perspective have been suitable for the empirical data giving us a good insight into the strategy formation at NECG. With this said we want to pinpoint that theories weren’t picked out in order to simplify the data. They have been used because they give the best understanding of the material, because they have been created with the purpose of understanding strategy from a viewpoint that is similar to what we have found in our empirical material.

3.11 Assessment of study quality

Within a qualitative research, the concepts trustworthiness and authenticity are used to evaluate the quality (Bryman & Bell, 2015, p. 400). With regards to this study, the two concepts will be discussed below.

3.11.1 Trustworthiness

Trustworthiness consists of four criteria; credibility, transferability, dependability and confirmability. Credibility focuses on different descriptions of the social reality, which must be stated as clearly as possible. We’ve chosen a constructionist position that claims the reality or aspects of reality are socially constructed, by human interaction and collective action (Bryman & Bell 2015, p. 32). Therefore, there may be many different descriptions of the social reality. What it comes down to is that the description made by the researchers determines the credibility and acceptance in the eyes of the reader (Bryman & Bell, 2015, p. 401). In order to improve the studies trustworthiness, we’ve given the respondents the opportunity to confirm that we’ve perceived their reality correctly, i.e. respondent validation.

Transferability includes whether the results can be transferred to a different environment or not (Bryman & Bell, 2015, p. 402). The study only focuses on one case, a company that acts within two different market segments, which makes it difficult for us to achieve transferability. We’re aware that the results can’t be applied to the whole population. Moreover, to enhance the level of transferability we try to provide rich descriptions of the
data, so that the readers themselves can determine if the results can be transferable to a different environment or not (Bryman & Bell, 2015, p. 402).

In order to achieve dependability a record and full statement of all the phases during the research process should be outlined (Bryman & Bell, 2015, p. 403). To achieve higher dependability, we’ve accurately accounted for our used methods, and argued why these methods are used. Additionally, have we argued for the selected company and the respondents who contributed with part of the empirical data. We’ve thoroughly explained the theory and concepts used in the study.

To achieve confirmability, the researchers have to act in good faith. The researcher can't let personal values and theoretical orientations affect the performance or the conclusion (Bryman & Bell 2015, p. 403). To obtain a higher level of confirmability we’ve taken the respondents' experiences into account and not angled their opinions.

3.11.2 Authenticity

In addition to the trustworthiness criteria, there is authenticity criteria that includes; \textit{fairness, ontological authenticity, educative authenticity, catalytic authenticity and tactical authenticity} (Bryman & Bell, 2015, p. 403). Fairness implies whether the research gave a fair reflection of the views and beliefs of the studied respondents. Fairness is the criteria we can apply to our study. To assure that we’ve given a fair picture, we’ve given the respondents the opportunity to confirm that we understood the respondent’s reality correctly. The other mentioned criteria aren’t relevant for our study since our purpose is to understand and not give recommendations or advice.
3.12 Empirical contribution

The study focuses on e-commerce together with the process of strategy formation, which is our most significant contribution to the field. The empirical data includes details about strategy formation within a new organization that started out in a relatively undiscussed geographical area – Sweden. In addition, the studied market is in an emerging state. The Swedish online market has not been given that much attention from the academic community, even though the online market is growing at a rapid pace. The empirical material derives from mostly primary sources, actors that have been involved since the market started to evolve and the chosen organization was established. It provides insight into how the organization has evolved over time and changed their process of strategy formation parallel to the changing environment.
4. Empirical findings & Analysis

This chapter introduces the e-commerce market and the positive and negative aspects within e-commerce. Furthermore, the company used for empirical findings in this case study, is provided in order to understand their development over time and strategy formation processes. An analysis will be provided after each time period successively.

4.1 E-commerce

During 2015, the e-commerce market continued to develop strongly in Sweden, the online market grew 19% and had revenue of 50.1 billion SEK (E-barometern, 2015). In 2015, e-commerce represented 6.9% of the total retail sales, when food retail is excluded the percent is even higher, approximately 12% (E-barometern, 2015). According to E-barometern (2015), retailers can't ignore the digital influence on purchases. It will become crucial for retailers to form a well-thought-out e-commerce strategy in order not to lose market shares. E-barometern (2015) points out, that the technological development is speeding up and will influence customer behavior and additionally the retail sector in general. In other words, e-commerce differs from the traditional physical stores and has both positive and negative aspects compared to the physical stores.

4.1.1 Positive aspects of e-commerce businesses

Companies whom are active on the e-commerce market receive positive aspects compared to physical stores. E-commerce companies don't have stores, they often only have storage and office facilities and therefore can lower their facility costs. This can lead to a lower need of employees, since employees don't have to be located in many different stores. E-commerce companies have the opportunity to provide a wider range of products when they don't have to consider a store's capacity, only their storage space. A wider range of products can attract more customers to visit a website. A website is easier to access for customers and is available anywhere where the customer has internet access. Therefore, e-commerce companies can reach a broader customer segment since they aren't bound to a single location. Furthermore, it's easier and faster to start an e-commerce business compared to a physical store, since the barriers to entry are lower. (E-barometern, 2015)
4.1.2 Negative aspects of e-commerce businesses

According to E-barometern (2015), customers demand an increase of service relating to the online markets, which create challenges for the companies to satisfy those demands. Customers expect free shipping but also fast delivery, around three business days are accepted in the Scandinavian countries (E-barometern, 2015). Customers can’t inspect the product before a purchase and therefore expect easy returns if the product doesn’t match their expectations. E-barometern’s (2015) survey showed that one of the main reason to why people shop online is because of the lower prices, which creates challenges for the companies to keep costs down and still make a profit. Mentioned negative aspects are demands from customers that the e-commerce businesses must take in consideration to gain a competitive advantage and create a high value for their customers. (E-barometern, 2015) The e-commerce market represents an environment that’s constantly changing where the companies present must be flexible and able to make fast decisions which is stressful for the organizations (Hitt et al., 2015).

4.2 Key characters in the history of NECG

The following timeline will contain a few key people that are introduced below to get a greater understanding for the company and the key characters discussed. Markus Thomasson will be the starting point of this story. In 1998 he came up with the idea to sell ink and toner online when partaking in a high school initiative called Ung företagssamhet (UF). This initiative is to inspire Swedish high school students to be creative while giving them the opportunity to make a business plan and hopefully inspire some to pursue the entrepreneurial path. Thomasson proudly ended up being awarded with prizes for both best UF company within its region and the environmental award within UF that following year. Thomasson figured he must be up to something worth proceeding as an actual business. In 2000, he ended up starting an e-commerce business, which he would run on his spare time. He decided to register the company with the suitable name PrintIt AB. (NECG, 2016)

Plenty of changes have been made since the day Thomasson registered PrintIt in 2000. For starters, Thomasson is today only a member of the board and doesn’t work actively in the company. The small start-up that was PrintIt 18 years ago today belongs to a multinational
corporation that goes under the name Nordic E-commerce Group. Now, printer and toner only acts as one of two segments as they’ve chosen to focus on the cosmetics market, in addition to their original business model. The CEO of NECG is now a man called Henrik Löfberg and has been so since a couple of years back.

Another key character that has surfaced since 2000 is Calle Johansson. He’s the CEO of two subsidiaries belonging to NECG today: NordicInk and Patroner.se. Johansson came to join the organization in 2004 and now has the greatest responsibility for their ink- and toner segment. On top of being CEO for the two subsidiaries, Johansson acts as a board member within NECG, giving him an important voice within the corporation as for his segment individually.

4.3 The story of NECG

The history of the corporation NECG has its starting point in 2004, when Thomasson came in contact with the people of a consulting company, named JS solution DATA AB. Calle Johansson, the current head of ink and toners of NECG, owned the consulting company that was hired to streamline Thomasson’s business. In other words, make it more effective technologically speaking. During that period, the people of JS solution DATA AB and PrintIt realized that they collaborated well and saw the potential to develop their businesses together, which would benefit both parties respectively. What came to happen was an acquisition of PrintIt, made by JS solution DATA AB in the year 2006. At that point PrintIt had reached an annual turnover of 8 million SEK and reached 32,000 customers per year. Between 2006 and 2010 the businesses were more or less run on the owners’ spare time. During that period, in 2008 more specifically, JS solution DATA AB merged with another company that focused on perfumes online called Parfymshopen. In 2011 the organization changed name to Nordic E-commerce Group together with the investment made by MVI Equity AB at 20 % and had at that point already two subsidiaries; today known as NordicFeel and NordicInk, which to this date still are part of the corporation. Since 2011 they’ve expanded into markets such as Finland, Norway and Denmark, thus continue to grow accordingly. Moreover, new acquisitions have been made to increase
their market share within their current sectors, adding two new units to their portfolio just last year: BeautyPlanet.se and Patroner.se. (NECG, 2016)

NECG’s most established subsidiary is NordicFeel, representing the majority (75%) of the corporation’s turnover with 222 million SEK in 2014 with presence in all the previously mentioned markets (ORBIS, 2016). Its main focus lies within personal beauty care, such as cosmetics, perfumes and hair care, having a range of more than 13,000 products. Presently, they are recognized as one of the largest Swedish online stores within their field. (NECG, 2016; NordicFeel, 2016)

Moreover, NordicInk represents NECG’s most accomplished office supply SBU with more than 300,000 customers and generating 72 million SEK in turnover 2014. During the last two years, they’ve seen a promising growth by 33% even though it’s a highly competitive market (ORBIS, 2016). Their 3,000 products are mainly low-priced and primarily ink and toner, complementary to private- and office used printers (NECG, 2016; NordicInk, 2016).

4.3.1 The initial stages (1998-2006)

As previously mentioned a whole lot has happened since the starting point of 1998. So, let’s rewind to the beginning. PrintIt was launched in 1998 when the e-commerce market was in its early stages. Meaning, there were no stated e-commerce strategies to rely upon at the time. According to Löfberg (2016), from 1998 until 2011, the strategy was discussed “by the coffee machine”. Johansson (2016) agreed and filled in that neither board meetings nor budgets existed and there were no set roles within the company. Many of the decisions were taken over a cup of coffee. According to Johansson (2016), they were just a couple of entrepreneurs that ran companies on their spare time and just “went with the flow” (Johansson, 2016). During the early days the strategy was a low price approach, in order to make the customer choose them over their competitors or the traditional retail stores. Each partner had a computer science background and therefore aimed towards automating NordicInk as much as possible in terms of processes. This way they could run the company with as few people as possible and keep costs low. With few administrative costs, they could offer low prices for the products but still make a profit, as their margins were better than the other actors. In order to win market shares with low prices, they constantly studied
their competitors and tried to develop more effective solutions. For example, when competitors had two employees for a task, they programmed a system that did the same job automatically, with no dependency of personnel (Löfberg, 2016). Thus, keeping costs low.

However, they met some troubles from the major players in the ink segment such as, HP and Canon. In early 2000, HP and Canon didn't want their products to be sold online. Being the largest suppliers of printers and compatible toners at the time the access to suppliers became limited. However, NordicInk managed to work around these problems and luckily enough HP and Canon changed their mind when the online segment grew bigger. Moreover, in the beginning phase when Thomasson acted single handedly he struggled with the high shipping costs, which affected a great fraction of NordicInk’s profit margin. The Swedish mail service didn't want to negotiate on shipping prices with Thomasson, “he was too insignificant to do so” (Löfberg, 2016). But Thomasson didn’t give up without a fight. Instead, he studied the specific ‘post rounds’ made by the local mailmen and filled the entire area’s mailboxes to the brim with packages on a daily basis. It didn’t take long until the mail company solved the mystery of the stocked mailboxes and came to the conclusion that they had to negotiate after all. This was not a guy that would take no for an answer. Throughout this stubbornness Thomasson managed to get attention from the postal service, which resulted in an increased profit margin that would make it possible for NordicInk to continue its operations (Löfberg, 2016).

When NordicInk first was launched they were, according to Löfberg (2016), fairly lonely in the Swedish toner- and ink online market. NordicInk differed from the traditional stores, which were their main competitors at the time. They differed in terms of price and their 24/7 accessibility online, which were contributors to a competitive advantage at that time. However, in 2001 their current primary competitor InkClub established themselves quickly and a couple of years later, numerous competitors started to emerge on the online toner market. Even though NordicInk had low prices and high accessibility, it was no longer enough to compete. InkClub managed to gain more market share than NordicInk much due to their new owners in 2001, which invested heavily in marketing, while they still managed to offer low prices and a wide range of products. NordicInk who had no financial backers,
but acted through own funds, quickly fell behind and InkClub became the market leader. (Johansson, 2016) This situation really had an impact on NordicInk and NECG as a whole. Johansson (2016) underlined their disappointment and almost revengeful mentality at the time. They figured that now when they had more segments to compete with, they wouldn’t “chicken out” Johansson (2016) but rather invest all possible means in marketing within cosmetics. They wouldn’t have this happen to them again.

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NordicInk started out early in the e-commerce market, with limited resources and no clear structure. Looking at Hannan and Freeman’s (1977) theory of ecology of organizations this stage can be described as their childhood. Their first steps into the world, but it was an unexplored world that they entered and therefore they lacked guidance in their first years. They didn’t know what had to be done in order to be one of the selected firms, in the words of organization ecology (Hannan & Freeman, 1977). Their niche width wasn’t fully used, at the time they were only focused on ink and toner, which according to Hannan and Freeman’s (1977) theory made them specialists. When being a specialist firm it’s essential to maximize the use of the particular market since you can’t spread your risk as much as a generalist. The problem was that NordicInk hadn’t been able to reach the whole market yet, and therefore their potential depended on a small position on a single market. This wasn’t enough, so when InkClub entered the market with a strong marketing campaign they quickly became market leaders as specialists in the field.

The good thing was that although they weren’t leading the market they learned a lesson, a sort of guidance that brought them to the next stage of the aging process in the theory of organization ecology. This can be referred to as the adolescence and when reaching this stage you have passed the initial risk of childhood mortality and most likely learned a lesson or two, just as NordicInk had done. At this time the company was still run on the entrepreneurs’, free time and the strategy still wasn’t outspoken or concrete. But what we can see is that even though they might not have been aware of it, the strategy formation process had already begun. For example, they were already working with a low-cost approach. They used their own skills to develop programs that could automate processes
that would have otherwise required them to employ more people. Just as in the transaction cost theory they weighed the cost of hiring external resources versus the cost of developing their own systems, then they chose the most cost-efficient alternative. It seems that in this stage a sort of trial and error approach formed the company’s strategy. As mentioned by Löfberg (2016), Thomasson was very stubborn and worked around the issues with the postal service. “If one thing doesn’t work, you simply try another” as Löfberg (2016) stated. When considering this kind of approach, it wasn’t very surprising that most decisions were made over a cup of coffee on a day-to-day basis.

With or without intention their experiences helped them form a strategy that corresponded well with what’s described by the sigmoid curve. The curve is displayed in Figure 2 (p. 19) and shows point A and B and an area of uncertainty in between the two points. In order to be aligned with your environment strategic changes need to be made at point A, if made too late (point B), the firm will have fallen behind the market. We believe that with the flexible approach that NordicInk had at this time, they were able to keep up with the market. By not having rigid structures holding them back they realized that changes had to be made at point A. Another way of viewing it’s by looking at the ecology of populations. They managed to become a selected firm because of their adaption to the environment, so that when there were changes in the environment they quickly adapted to the new situation, and became selected in favor of those who weren’t as adaptable. At the time tough the competitors weren’t so many, but by forming this adaptability early on, they’ve been able to ‘stay alive’ even when more competitors entered the market. If they hadn’t, perhaps newer firms would have been selected in favor of NECG.

If examined through the five forces, one could see that what occurred during this period, it initially was a rather low rivalry amongst the online incumbents within the toner/ink segment. Resulting in a higher industry attractiveness (Porter, 2001). NordicInk focused on keeping costs low, thus concentrating on operational efficiency to gain a competitive advantage. What later on happened was that the suppliers, HP and Canon, exerted their power by opposing the distributing of their products online. However, they eventually changed their minds as the online distribution grew further to not miss out. The same
power switch took place with the local delivery services, that initially didn’t want to collaborate, which then was resolved through creative thinking from Thomasson (Löfberg, 2016). Both solutions again improved the circumstances and possibilities for obtaining better margins and industry attractiveness. Finally, when InkClub entered and accelerated their marketing, the competitive landscape became more aggressive and InkClub managed to increase the barriers to entry, by improving their brand recognition and financial capital in the terms of Porter (2001, pp. 63-78).

As mentioned, NordicInk wasn’t very rigid in its structure in the early years. This contributed to their flexibility and adaptability to the environment. Their strategy seems to be formed more by experience and a trial and error approach rather than deep analysis. The ideas presented in the theories of the classical perspective are much more analytical than what NordicInk was at that time, even though their actions can be presented through them. But even if the theories aren’t applicable to their strategy formation fully in their first years, there are still parts that are very comparable.

NordicInk has for example had a singular focus of outcome. Since the beginning they’ve had focus on profit maximization. So, even if formal structures might have occurred first later on they still shared the classical perspectives aim for profit. Beginning in a market that’s so newly founded as the e-commerce market, there’s also a limit to how deep an analysis can be, or at least a limit to how much can be achieved through it, because of the availability of information. If they had been able to get enough information and actually used it they might have acted differently. For example, if they had predicted the impact that InkClub’s move would have on the market, they might have been able to make counter moves. But on the other hand that might have stolen focus from cost-efficiency that later on has helped them survive and develop. Speculations like these can be made in all directions, but the bottom line is that we believe they made it through the first years because they let their strategy be formed along with their development. It was processual rather than predetermined and that helped them meet the challenges they faced as they struck them. In this way NordicInk, to begin with had a more evolutionary rather than classical approach to strategy. Looking at Whittington’s (2001, p. 10) matrix of his
perspectives we can see that the classical and the evolutionary perspectives both share the same outcome, which is profit maximization. The major difference is that the evolutionary perspective isn’t deliberate like the classical, it’s instead emergent. This means that it’s a process that develops over time and not a predetermined strategy.

4.3.2 Further expansion (2007-2010)

In 2007 another important milestone in NECG’s history took place. A third company called Parfymshopen was integrated with JS solution DATA AB. Parfymshopen was owned by one of Thomasson’s childhood friends (Johansson, 2016). It was also an online-based company but focused on perfumes, which was to be the starting point of the current NECG’s cosmetic segment. Parfymshopen was in need of help with their administrative departments such as customer service and delivery, which JS solution DATA AB could help out with. Parfymshopen and JS solution DATA AB decided that a new name was in order at the time of the partnership and was from there on called NordicFeel (Johansson, 2016). Together they would share administrative aspects of the business, such as: financial department, logistical processes, customer service in addition to technical solutions online, which would come to be a great solution for everyone involved (Johansson, 2016).

In 2007, strategy was still discussed by “the coffee machine” (Löfberg, 2016), neither board meetings nor budgets existed. According to Löfberg (2016), everyone within the company worked as a tight unit. Founders, owners and the board worked together with no real definition in terms of organizational positions.

According to Johansson (2016) NECG learned their lesson from back in 2001, when InkClub within a few years became market leader within the ink- and toner online segment. They were not to accept history repeating itself! As a consequence, an outlined strategy was formed. NECG were to focus all means towards marketing to gain a head start from its competitors within the cosmetics online segment. The marketing effort was made to gain customer recognition and to gain advantage against future competitors, in matters of customer base. The aggressive marketing initiative, combined with the low price strategy paid off and the company grew rapidly in sales. (Johansson, 2016)
In 2008 new competitors with similar low-price strategies entered the market. As a counteraction NordicFeel decided to invest in a wider range of products to attract customers (Johansson, 2016). Now they would speak to customers searching for cosmetics in general, instead of simply perfume. Johansson (2016) stated “it was a natural decision to expand our business by investing in a wider range of products”. The shareholders realized that the target customer bought makeup- and hair products more often than a new perfume. Hence, by broadening their supply they could increase customers’ shopping frequency on their site.

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Strategy was discussed and formed during more informal circumstances, with goals such as survival on the market and to maximize profit. NECG constantly tried to develop and adapt to the changing environment, which is accurate from the evolutionary perspective’s viewpoint. According to the transaction cost theory the option that’s the most cost effective should be chosen (Williamson, 1985). By merging JS solution DATA AB and Parfymshopen, they were able to share transaction costs. This would benefit both the companies’ results due to a cost-effective solution. By centralizing the core competencies, the companies managed to decrease the amount of decision-making for each company and avoided multiple sets of processes in all organizations respectively, thus decreasing the overall bureaucratic costs. When they used their core competencies and did what they do best, they achieved cost effectiveness according to transaction cost theory, which also is considered to be the ultimate competitive advantage (Williamson, 1991, p 87, cited in Whittington, 2001, p 19). It could consequently be assumed that one aspect in the strategy formation was to gain a cost-effective advantage at this point, speaking for an emergent strategy. The two companies were relatively new to the market and had not yet reached a stable and reliable stage. They were still flexible and not bounded to a long-term strategy. NECG were willing and aware that they had to change and adapt to the market, which according to Hannan and Freeman (1977), reduced NECG’s risk of mortality.

NECG and the environment they operated within were in constant change, which affected the strategy formation. According to Hannan and Freeman (1977), companies can choose
to become specialists or generalists. In this time period, NECG developed NordicFeel and introduced beauty supplies as a complement to their perfume selection (Johansson, 2016). This introduction was made when more competitors entered the market, since their target customer more often purchased beauty supplies than perfume (Johansson, 2016). NECG could’ve been seen as specialists since perfume and beauty supplies both are included in health and beauty. However, they could’ve been seen as generalists in terms of that they were expanding the range of products. The wider range of products was introduced in order to make customers return more often to their web page and thus spread the risk. According to the sigmoid curve, the changed strategy was made at the right time. This was because NECG had achieved success in the perfume segment already, then evaluated the environment and could then through a wider line retain its SEP (Thompson, 2014). NECG’s extended supply still fell within one of their core competencies, i.e. small packages that can easily be delivered by mail (Löfberg, 2016), which is an important factor according to the sigmoid curve (Handy, 1994). Furthermore, NECG took the strategic decision to invest heavily in marketing. This formation could be seen as an adaption to the market. The e-commerce market was relatively new and therefore, to gain recognition was crucial in order to survive on the market.

At this time, the beauty segment and NECG weren't mature yet online. According to the evolutionary perspective, NECG acted in a suitable way to achieve their goal to maximize profits. The strategy formation was made in a flexible manner and seen as a process and adaption to the market. The market influenced the formation and not deep analysis by top management. Since strategy was discussed in an informal way without meetings and long discussions amongst top management they could easily reform the strategy and make fast decisions. By being a flexible organization, NECG succeeded to form a strategy that was able to adapt to the environment they operated within. They expanded the product range and survived the environmental change when the rivalry got more intense. The reform to introduce more product was made in order to make the customers return more often. A higher return rate would most likely result in more profit, which aligned with the profit maximization goal. Their adaptability in strategy formation meant that they survived their
childhood phase and reached the adolescence, which also increased the ability to survive on the market over time.

From a classical perspective, there is a lack of a top-down approach and a formal approach. They had indefinite roles and no set tasks within the company. Strategy formation was discussed spontaneously without formal meetings and budgets. The merge of JS solution DATA AB and Parfymshopen didn’t seem to be based on a deeper analysis or part of the strategy. Rather, that it was suitable in the moment and the opportunity to share administrative costs, thus to attain a higher margin on their products. According to Porter (2001), the merge could be seen as an action to achieve operational effectiveness. After the merge, NECG was able to perform the same activities as the competitors, but in a more effective way. More advanced technology and shared cost lead to higher profit margins. Compared to earlier when "they just went with the flow" (Johansson, 2016), NECG had begun to analyze the environment a bit more, however not yet fully. For example, after the setback with InkClub in the ink segment, they analyzed the perfume market and realized what internal aspects in their strategy formation they needed. The setback may have opened up their eyes for the importance of external analysis before they formed the strategy.

NECG didn’t intentionally use analysis tools such as SWOT (Thompson, 2014) and Porter's Five Forces (Porter, 1980) to analyze the environment, but there were influences from both models in the formation process. NECG realized that their internal strength was to systematize services, which was a huge advantage. They could form a strategy based on low prices for the customer and still maximize their profit since their internal costs were low. It may have been one of the reasons for why a formation of a low-price strategy was suitable in order to reach profit maximization. Furthermore, NECG was aware that the internet was relatively new and was hard to foresee the customers’ attitude to purchase these kinds of products online. Moreover, NECG saw the opportunity to get a head start on the market because they were relatively few competitors according to Löfberg (2016). They learned from past events and analyzed InkClub's success in 2001. InkClub succeeded to attract customers to purchase online and grew which was an effect of their aggressive
marketing in 2001 (Löfberg, 2016). This lead to NECG copying InkClub’s strategy formation and invested heavily in marketing to reach out to customers and gain market shares (Johansson, 2016). Viewing this action from the Porter’s five forces model, one could see that NECG increased the levels of entry for potential competition, by improving their strategic position (Porter, 2001). At this time the competitors could rapidly increase, which according to Porter (2001) is a result of industry attractiveness and can be assumed to be accurate since the e-commerce scene increased by approximately 20 % during this period (Statistia, 2016). The online rivalry was not high, but the physical stores had a significantly higher share of the market (Johansson, 2016). This increased the rivalry among incumbents, in the language of the five forces (Porter, 2001), within the overall cosmetics industry. The formation of a low-price strategy attracted customers and NECG won market shares (Johansson, 2016). During this time period, NordicFeel almost doubled their turnover (ORBIS, 2016) compared to the e-commerce market that grew between 8-13 % (Statista, 2016). According to Porter (2001) NordicFeel gained more strategic position and market shares.

At this time, both the market and NECG matured and a more classical influence appeared, compared to the previous time period. However, some aspects of the classical perspective were not yet fulfilled. The intended strategy was shaped through informal discussions with no set or formal roles (Löfberg, 2016), which is not accurate from a classical perspective’s point of view. From a classical perspective, the strategy was formed based on; analysis of past actions by competitors, the ability to low administrative cost with the help of a merger and the goal of achieving profit maximization. This led to a formation of a low-cost strategy.

4.3.3 The corporation is formed

In 2011 the shareholders involved in both NordicInk and NordicFeel, decided to take their organizations to another level. Giving the companies a real chance by working full-time, it would no longer be a project for their spare time. As a consequence, NECG was established. It would be and still is the mother company for both of the initial companies. In that process, the organizational structure was to become more formal. Johansson (2016) said that “earlier we had disregarded protocols, a defined strategy or worked with proper
budgets. We pretty much just did what we considered necessary at a given time." Through the incorporating process additional shareholders were introduced, a board was created and external personnel was brought in where they lacked certain skills. Since then, they’ve developed routines and defined roles (Johansson, 2016). Nowadays, NECG has a clear top-down approach with the owners in the top followed by the board of directors, managers and then finally co-workers at the bottom. Once a year owners, the board of directors and top management meet to execute comprehensive analyses, including: “SWOT-analysis, internal- and external analysis and customer surveys” (Löfberg, 2016). They decide upon the long-term visions, goals and strategy for the upcoming year is formed. After these meetings, they’ve something to fall back on for the following year. The CEO underlines: “However, the environment may change rapidly on the e-commerce market and to maintain the same strategy that was set, thus remain inflexible in those situations, would give competitors a chance to gain market share.” (Löfberg, 2016)

In our interview Löfberg (2016) further explained that depending on the position one may have within the company, viewpoints might differ; an owner's vision may extend over a five to a ten-year period, while the board of directors are more focused on the execution today. The board of directors’ main focus is to determine how to reach the main goals set by the owners, in a purely practical manner. Löfberg (2016) pointed out that long-term strategies are essentially impossible to pursue fully when you act within the e-commerce market, since the environment changes so rapidly. Therefore, as Löfberg (2016) stated, “the possibility to change the strategic focus is always necessary”. The factors that may affect the outlined strategy, which was decided on the last board meeting, may be that suppliers disappear or appear, opportunities shows up that can't be missed and consumer trends can change strategy especially on the business-level. Due to the changes within the environment, the business-level strategy has experienced a slight shift in both sections; toner/ink and beauty. Johansson (2016) explained that since the market for toner and ink has stagnated amongst consumers, who are not printing as much anymore, they’ve shifted towards a B2B-oriented strategy. “We believe that there is more market share to be gained, and that this market can be continuously profitable in the coming 20 years.” (Löfberg, 2016) Johansson (2016) believe they will gain market share through acquiring
other businesses in the field and from the physical stores. He even said that he thinks in a few years the whole market will consist of a few major companies. However, the number of competitors has been relatively stable the past two years, Johansson (2016) stated his belief “with the market becoming saturated the potential lies within acquisition”.

The cosmetic market has grown by 48.9% from 2011 until 2015 and 18.33 billion SEK was spent on beauty product in just last year alone (Statista, 2016). According to Johansson (2016), the market on the beauty side still has huge potential and there are large market shares to gain. “Market shares can be obtained from both physical stores and other online stores” (Johansson, 2016). Johansson (2016) pointed out that there’s still money to be made which makes the competition more intense. In 2011, they had around ten competitors, which have increased to over 30 today. However, well known physical stores such as LYKO and Åhlens have started to establish online stores as a compliment to their physical stores, which are big threats. LYKO and Åhlens, among other competitors, have similar low-price strategies and are successful with it. To meet the increased rivalry NordicFeel has invested in a wider range of products to match customer demands and improved customer services to hopefully make customers more loyal. NordicFeel work with information in form of personal emails to customers, but admit that they still have some areas to work on. Furthermore, in 2015 they acquired the company BeautyPlanet that was owned by InkClub, NECG’s number one competitor on the ink market. Löfberg (2016) underlined “it was an amazing feeling to sign the papers for the acquisition, from our biggest competitors on the ink side”. Löfberg (2016) described it as a real victory and an "in-your-face-feeling". Their effort has paid off, NordicInk and NordicFeel have won the online store of the year, five years in a row and according to Löfberg (2016) do they’ve the markets most satisfied customers. Moreover, NordicFeel has increased their revenue with 61.5% between 2008 until 2014 (ORBIS, 2015) and Löfberg (2016) pointed out that NordicFeel has further increased revenue in 2015 as well.

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Since 2011 the organization has gained more formality. Positions within the corporation and subsidiaries respectively have been more defined. Bureaucracy automatically is a
result of such a change. Löfberg (2016) concurred that the organization now is managed through a top-down approach, where visions and strategy is outlined on the higher levels, to later be applied onto lower levels within the business. When examined through the evolutionary perspective, the organization still shows characteristics of adaptability, but not to the same extent as previously demonstrated. Since 2011, the process of strategy formation occurs once a year, on a set basis (Löfberg, 2016) with regards to all subsidiaries. Owners express what they want and the board of directors handle the execution details with respects to the analysis that occur during the same occasion. Demonstrating the fact that the same level of adaptability as in the initial stages becomes less sustainable. Williamson (1991, cited in Whittington, 2001 p. 19-20) talks about the costs of bureaucracy within his theories regarding transaction costs theory. He underlines that companies where the costs bureaucracy increases in relation to the external transaction costs, the company either starts to downsize or stop to grow in the same phase. When the internal bureaucratic costs equal the external transaction costs they will cease to grow in size (Williamson, 1985, pp. 15-20).

By adding a board of directors and more sections within the company when the corporation was formed in 2011, it can be assumed that the bureaucratic tendencies would increase as a result. From a tight group taking quick decisions “by the coffee machine” (Löfberg, 2016) to forming a board that are to form an intended strategy on a yearly basis would probably prolong the processes of such decisions. The result of decreasing efficiency in the form of administrative processes, in this case strategy formation, is increased transaction costs according to (Williamson, 1985, pp. 15-20). Consequently, examining the current process of strategy formation with transaction costs in mind, the process has become less responsive and efficient, thus increasing transactions costs. Furthermore, Williamson (1991, cited in Whittington, 2001, p. 19) by deteriorating the relative efficiency, the absolute competitive advantage for an organization is lost accordingly. As the corporation is involved in all subsidiaries’ strategic outline, they are all equally ‘affected’ in that sense. However, as Johansson (2016) underlines, the intended strategy may be formed at top level but business-level strategy is still formed on a more day-to-day basis, thus shaping more emergent and adaptive strategies on lower levels.
In terms of population ecology of organizations, NECG’s current strategy is more generalistic. With a wider range of products (Löfberg, 2016) in focus during the final years, NECG changed their original collection of solely perfumes within their beauty segment into a selection of everything from shampoos to makeup, which they realized were more frequent in orders per consumer (Johansson, 2016). By categorizing the subsidiaries as more generalistic in their strategic approach, they are assumed to withstand a more changing environment better than one focusing on a more niche product line according to Hannan and Freeman (1977). Not in every case, depending on environmental suitability (Hannan & Freeman, 1977). Out of the two examined subsidiaries NordicFeel has the broadest range of products as of today. NordicFeel has 12,000 products, whilst NordicInk has 3,000 in stock. In other words, being the most generalist of the two in the words of Hannan and Freeman (1977). Although both subsidiaries are still specialists.

From the more classical theories perspective, other characteristics surfaces that should be considered to understand the strategy formation process. When determining the SLEPT-factors with regards to NECG, one may see various aspects that may affect the strategic formulation. With a continuous growth in the disposable income per capita since the corporation was formed of 8.7%, we can also see that the consumers are starting to prefer to shop online with an annual growth at about 13-14% (Statistia, 2016). A combination of an increase in income and sociological trends benefits the e-commerce market and companies such as NECG’s subsidiaries.

Löfberg (2016) doesn’t mention the economical factors in that sense, just the difference between their two segments. Where printer and toner don’t vary in sales per se, there’s a rather even flow of their deliveries during the year within this segment. The demand for printer and toner isn’t seasonal nor related to the economical cycle. On the contrary, the beauty segment tends to vary, especially during Christmas time, when the website experiences a growing number in visitors and orders (Löfberg, 2016).

The environmental factor that has changed NordicInk the most is the sociological, they’ve now seen a rather profound decline in personal printers and that the “paperless society” (Löfberg, 2016) will continue to spread. Instead, they are now focusing on B2B and have
changed their business-level strategy accordingly. Löfberg (2016) explains that the difference between handling a B2B-customer and a private consumer goes from start to finish; how to attract the customer, volumes, deliveries etc., calling for changes in their original business plan. Johansson (2016) agrees with the fact that this is how NordicInk will focus from now on and that B2B is where market shares still can be collected to maintain profitability for the next 20 years to come.

The overall sociological factor affecting e-commerce is the growth in online appearance of consumers, as previously mentioned. Löfberg (2016 and Johansson (2016) too underlines the possibilities of obtaining the customers from the physical stores, as they withhold the advantage of possessing a larger range of products by not being that dependent on store size. Löfberg (2016) pinpoints the advantages of e-commerce in that sense, “if I were to search for a toner today in the city I wouldn’t even know where to begin.” In other words, the customers of Sweden are becoming more ‘modern’ in the sense of ways to shop. They appear to prefer the convenience that e-commerce provides, with the greater range of products and lower prices as E-barometern (2015) mentions in their report.

Moreover, what this comes down to in terms of strategic planning processes is rather tangible for this period. NECG and its strategy formation has as previously been further traditional with a more in-depth analysis as an outcome, with both internal- and external analyses included (Löfberg, 2016). Compared to the previous process, before the corporation was constructed, when they did what was considered “necessary” at the time and “went with the flow” (Johansson, 2016). By conducting more serious analyses, the organization has recognized sociological factors, allowing them to continue to be aligned with their environment. However, it’s difficult to establish the alternative outcome, if the subsidiaries would have continued to ‘stroll along’, if for example NordicInk would have recognized the sociological changes occurring with the ‘paperless-society’.

To continue, what can be stated is the fact that both of the business-level strategies have changed since the incorporation was established and more in-depth analyses has taken place. Since 2011 NordicInk has switched focus to B2B and NordicFeel has broadened
their product line as a ways to compete. During the last five years, both subsidiaries have received awards for best online-services from the customer’s perspective, which too can be assumed to be a change of focus. In addition, strategies are now settled on a one-year basis, to be a sort of guideline “to fall back on” (Löfberg, 2016), which could be determined as a more classical approach within strategy.

When reviewing the final years of NordicInk and NordicFeel the strategic planning has gone from a more decentralized way with a shortage in structure, to a more organized process. Now, since the corporation was formed, the strategic planning is centralized and performed by top-management, owners and the board of directors (Löfberg, 2016). Whittington (2001, p. 11) states the classical perspective to be recognizable through three characteristics; the importance of keeping to rational analysis, to separate conception from execution and the commitment to maximize profits. The subsidiaries have always been committed to maintain its level of profitability (Löfberg, 2016), but the second feature; separating conception from execution, has not. What Whittington (2001) implies by that’s that gathering knowledge, creating visions and planning should be centralized, not left to employees and coworkers at lower levels. Hence, division and definition of tasks are more clearly stated in that sense. It appears as if, the outcome of the incorporation and maturity of the organizations, a centralization of strategic planning has occurred. Löfberg (2016) too agrees with the more defined positions in his interview. In that sense, steps towards a more classical approach have been taken, where the formation of strategy has become more of a deliberate process.

If this period is to be examined through the five forces of Porter (1980) then one could recognize the high pressure amongst incumbents, Johansson (2016) explains that he believes the future will only present a few competitors within the field of ink and toner, as a whole. Consequently, those who survive that environmental change will be the ones acquiring other businesses. Last year NECG already made such a move within both their fields, as they acquired BeautyPlanet and Patroner.se, hence decreasing rivalry intensity amongst the incumbents. This, according to Porter (2001), increases industry attractiveness and thus decreases the power of the buyers, since they now got fewer options to choose
from. Furthermore, what already has been discussed, but not in the terms of the five forces, is customer service, NECG’s new key focus. If examined, one could see that NECG is trying to reach a more strategic position, where service is, according to Löfberg (2016), now a way to make the customers more faithful to their site compared to others.

4.3.4 The future

Löfberg and Johansson (2016) agreed on that they’ve a bright future if they keep their good work up and focus on what they do best. They both highlight the importance of flexibility in an unpredictable market. As mentioned earlier, NordicInk was overtaken by InkClub, which Löfberg (2016) argued was because they dared to be more aggressive. Johansson (2016) concurred this in his interview “by being too careful and restrictive, important market share can be lost”. In 2008 NordicFeel were successful in using the very same strategy that NordicInk was once beaten by. Therefore, that’s also one of the lessons that NECG will make use of in the future. NECG will continue reaching for first place within both segments and gain more market shares on the ink- and the beauty market respectively. NECG’s vision portrays a strong e-retailer within all segments they act. They strive to have the most satisfied customers and employees. Löfberg (2016) stated that customers and employees are important factors for driving future growth. NECG as an organization will also strive towards obtaining a good profitability in order to grow even more, without external financiers. It is clear that nowadays NECG aims for more outcomes than just profit maximization. As mentioned they value employee satisfaction, customer relations and their internal development goals.

Löfberg (2016) and Johansson (2016) both acknowledged that e-commerce is a global phenomenon, which makes the competition enormous. Right now it’s not a major problem though, because most online retailers act within their region, because the shipping is both cheaper and faster. If a consumer chooses to order from abroad he or she has to expect longer delivery time and possibly pay for the shipping, which might eliminate the possible difference in price. Both Löfberg (2016) and Johansson (2016) still recognized this as a problem though. Even if it’s not a problem at the moment, it can very well be in the future. The market is constantly changing and the internationalization is rapid. In a few years the conditions could be very different. Johansson (2016) said that “(...)Amazon is the kind that
scare a lot of e-retailers”. Furthermore, he also added that he believes Amazon’s selection to be so extensive that it perhaps hampers the customer’s experience, especially if the customer was particularly searching for toner or ink. Finally, Johansson (2016) underlined his belief that many customers will hopefully and probably appreciate NordicInk’s expertise in their field and will turn to them to make their purchase easier.

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Löfberg (2016) points out that international giants such as Amazon in the future could become a major threat if they manage to get the same delivery opportunities as NECG. Amazon is today generalists and covers many areas compared to NECG who are specialists in the segments they operate in, which can be a factor affecting the future formation of their strategy to gain a competitive advantage. According to the sigmoid curve, companies shall focus on their core competencies, when the strategy is formed. NECG has several core competencies today, which they need to continue to focus on and consider when forming their future strategy. Moreover, NECG has according to Hannan & Freeman survived its "childhood phase", but in the future NECG risks "growing old". Johansson (2016) points out that the ink market is mature, but he thinks it will be a profitable market for another 20 years. It can be a potential future challenge, and in order to survive then, the future strategy formation must align with the market.

From a classical perspective NECG shall retain their top-down approach and set up long-term goals based on deep analysis. In the future, NECG will have more information about the internal and external environment since the market and the company will have had time to mature. NECG will be able to make analysis based on past events and patterns on the market they’ve experienced over time. There are several threats such as increased customer demand, lower entry barriers to the market, which opens up for international giants and constant technology development. Moreover, NECG future goals are not only profit maximization but also customer and employee satisfaction. Therefore, a deeper analysis of the external and internal forces will become crucial in the strategy formation in order to achieve profit maximization.
**Graph 1:** The timeline of NordicFeel in numbers

![NordicFeel Turnover Timeline](image1)

*Source: Self-made graph, data from ORBIS (2016)*

**Graph 2:** The timeline of NordicInk in numbers

![NordicInk Turnover Timeline](image2)

*Source: Self-made graph, data from ORBIS (2016)*
Table 3: A summation of empirical findings

<table>
<thead>
<tr>
<th>Year</th>
<th>1998-2008</th>
<th>2009-2010</th>
<th>2011</th>
<th>2012-2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic</td>
<td>No clear</td>
<td>Strategy is discussed more deeply in organized settings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management</td>
<td>strategy, decisions made on a day-to-day basis in the coffee room</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organizational</td>
<td>Founders and entrepreneurs had no defined roles, no budgets or board meetings</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Structure</td>
<td>NECG was established, New part-owners More structured roles and organized board, A top-down approach is settled, External competencies are brought in where needed</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>E-commerce</td>
<td>20</td>
<td>8-13</td>
<td>11</td>
<td>14</td>
<td>16</td>
</tr>
<tr>
<td>market growth (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cosmetics retail</td>
<td>7</td>
<td>2-12</td>
<td>13</td>
<td></td>
<td></td>
</tr>
<tr>
<td>market growth (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of competitors cosmetic e-market (units)</td>
<td>1-3</td>
<td>8-10</td>
<td>25-30</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ink- and toner</td>
<td>0</td>
<td>-5</td>
<td>4-7</td>
<td>0,1</td>
<td></td>
</tr>
<tr>
<td>market leader growth (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of competitors ink and toner e-market</td>
<td>“Very few”</td>
<td>10-15</td>
<td>“Decrement currently”</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Self made table, data (ORBIS, 2016; Löfberg, 2016; Statistia, 2016; Johanxson, 2016)
5. Discussion & Conclusion

5.1 The initial stages

It seems as if the process of strategy formation was accidental in the first years of NordicInk. In an emerging market, as the e-commerce market was at the time, there was a shortage of experience in strategic outcome in the field. Meaning, the actors present in the environment did not know how customers or competitors would react to a certain strategic approach, as the ‘rules’ of the competitive game were not set. In the case of NordicInk, it appears as if strategy was formed when an obstacle occurred. There and then, the few people representing the company at the time created a solution to the problem at hand - quickly and informally. In the early days, Thomasson was by himself for several years and formation was as a consequence not needed as such. When acquired by JS Solution DATA AB, NordicInk in 2006 was still run on the entrepreneurs’ spare time, but consisted of further involved actors. This did not result in a difference in strategy, which was still focused on cost-efficiency, but the strategic decisions were now discussed amongst several owners instead of just an outcome of one person’s thoughts. With regards to the process in itself, the formation of strategy would be affected by these factors. By including multiple actors in a decision making process, representing various competencies, as they did at the time, the dialogue in between them is suddenly a factor.

5.2 Further expansion

At this time another organization had been included in the soon to be NECG, which today is known as NordicFeel. The formation process was still informal, even though additional actors were included in the decisions made. When InkClub overtook market shares and established a brand-recognition through their marketing-plan, NECG realized that such an approach had a greater impact than what they could have expected. The market had become more mature which meant that there was now more information available to base strategic decisions on. The formation process was now more built upon experiences and outer references. This lead to NECG using the same approach as InkClub when they launched NordicFeel, so we think it’s fair to assume that at this stage NECG’s strategy formation was greatly impacted by what they had learned from previous experiences.
The formation process has also developed and become more long-term, meaning that they’ve begun to speak of visions and future goals. However, long-term strategies are not yet developed in a formal manner, it’s simply a vision that stretches further. Strategy is still discussed on a day-to-day basis as conveniently as possible and actions are planned accordingly. So even if the strategy itself has developed it isn’t outspoken or settled. The strategy might have been intended, but the way to reach their goals weren’t too concrete.

5.3 The corporation is formed

During this period and up until today, NECG has an established board of directors, formal strategic meetings once a year and defined positions within the corporation. Since the board, especially, was founded, more experienced characters have been included in the process of forming strategic planning. Consequently, the occurrence have been more strict and traditional, with various analyzes taking place. The overall strategy is now stretching over a one-year period but the business-level strategy is still rather flexible in relation to its environment. With regards to previous periods, one could now recognize that only a selected group of top-management is involved in the process of planning the actions of the business. On the contrary, employees at lower levels are only to perform those actions, not plan. By separating business- and corporate level strategies, the difference in formation is more tangible. The formation process has been divided into corporate-level and business-level. The board of NECG forms the overall strategy, meanwhile some decisions are made on a business-level in order to adapt to each respective market. The corporate strategy is more formal and as mentioned, set once a year, which makes it more long-term and less flexible. The business-level formation is still more adaptable in order to align with the market changes. In this way they are able to both have an overall visionary strategy but still stay flexible for potential shifts in trends, preferences and the market as a whole. They’ve reached a stage where strategy is formed beforehand but still adaptable along the way. This helps them both to plan long-term but still be prepared for sudden changes. The strategy is formed both before and along the way. By analyzing their internal- and external factors, thus acknowledging their strengths and weaknesses in relation to its environment, the formation process has become more extensive. The strategy-outline discussion doesn’t simply involve what products to sell or how today’s obstacles can be overcome, but far
more factors. Currently, their strategy includes customer service, delivery methods, warehousing, marketing and further expansion into different markets, which is far more advanced than during previous periods. With this in mind, it’s not so strange that the formation process has to be more formally conducted, as an alignment between the different sections, in terms of strategy, is far more efficient.

5.4 The future

We don't aim to predict the future, since it's difficult to forecast how NECG and the market will develop in the future. We can only draw conclusions by looking at patterns form the past. From an evolutionary perspective, we can assume that the market will constantly change and those who adopt the best till survive in the long run. From an evolutionary perspective NECG has to focus on the changes in the environment and adapt to the changes. The organization will need to see their strategy formation as a process that emerges over time. NECG are aware that they operate in a changing environment and therefore open-minded to change their deliberate strategy in order to survive.

5.5 Strategy formation over time

Our purpose was to create an understanding of how strategy is formed in e-commerce organizations. In order to reach our purpose, we created two research questions: How does strategy formation evolve over time within the organization? and How is the strategy forming process affected by the level of organizational maturity? Our research has implied that NECG’s strategy has evolved over time in the way that it has gone from an emerging, to a more deliberate state and that their outcomes have shifted from singular to more plural. They started out in the end of the 90’s, with a Darwinian approach to later on move towards a more analytical and formal organization. However, the organization isn’t set in it’s deliberate state today, they are aware that intended strategies can be unsustainable in an emerging market. Therefore, they are still positioned close to the middle, between deliberate and emerging. NECG has established a more rigid organization but is still flexible. This is demonstrated in Figure 5 below.
Previous experience within the field of strategy was established before the online market got a foothold, however with a difference in factors to reflect upon before taking strategic decisions, these strategic theories were not fully applicable. The factors surround the difference in customer interaction and geographical location to name a few, which were important to traditional retail. As a consequence, the ‘old’ strategies were not fully able to act as answers within the market; it was not foreseeable how the market would receive a strategic action. As the online-market has evolved over the past 20 years the understanding of effects of strategic actions has started to develop. In other words, the market has established some kind of data of previous occurrences, compared to when NECG began their journey. At that time, the rules of the ‘game’ were still not settled.

What’s acknowledgeable in our empirical findings and analysis is that the formation process relies upon experience in two aspects. Experience amongst the partakers of strategic decision and the availability of data and experience within the market itself. The further matured the market, the more references are accessible to the organizations acting within it, demonstrating which actions that create a positive return. When examining the experience within the strategic group, the process matures or changes direction if the actors are more experienced too. In the case of NECG, a board of directors was created by introducing more ‘qualified’ members. As a result, the formation quickly changed to a

Figure 5: NECG and Whittington’s perspectives

Source: Whittington, 2001. p. 10 (The plotted years have been added)
more formal and classical process. The result of more accessible data and experience of strategic formation created further effective strategies with a dual-outcome. The effectiveness is apparent when reviewing the turnover of both NordicInk and NordicFeel as they grow faster than both the online market, competitors and their specific segments respectively. As of today, the formation of strategy is a process founded on experience in both factors just mention and not just a hunch anymore. Hence, a product of experience within the field and within the organization.

In the initial stages of NECG, they learned how to overcome obstacles of the day and went with 'the flow'. As they grew and the market matured, they could take more long-term strategic decisions, as the future was less of a gamble. For example, now they have an idea of how the markets will develop over a longer period of time, who are their primary competitors today and what the customers prefer. Differently stated, a better understanding of the factors shaping their markets.

Our case study has given us the understanding that there are several different factors affecting strategy formation; such as the actions of competitors, customer preferences and availability of resources. However, the most significant factor that we’ve recognized is the level of experience, the availability of data within the market and the level of strategic experience within the decision-making group. As a consequence, the way the strategic formation process has changed over time and will continue to do so depends on how extensive the experience is at that given time.
6. Future research & Implications

In our study we looked strictly at the formation process and therefore ignored the actual strategy and whether or not it was successful. We also omitted out two of Whittington’s perspectives that otherwise could have given the research even broader insights. The empirical findings could also have been further extensive and perhaps complemented with observations. With that said, future research proposals include a focus on the entire strategy process where the implementation is included and where the success of the strategy is evaluated with the level of experience in mind. To continue, research concerning organizations that entered the e-commerce market at a later time, when the market had reached a higher level of maturity would be an interesting extension. By conducting such studies, our research can be utilized to evaluate if the level of maturity within the organization, in contrast to the maturity of the market and if that affects the formation process separately or as a consequence of one another.
References


Appendices

Appendix 1

*Interview guide, Henrik Löfberg, CEO Nordic E-commerce group AB*

2016-04-15

1. Please tell us about the NECG

2. Strategy
   - What is strategy to you?
   - When do you discuss strategy?
   - Who discusses strategy and when? (board of directors, the whole corporation or do you recruit consultants?)
   - What is most central in your strategy? Goals and visions?
   - Does the strategy differ between the companies?
   - Is there a difference in the strategy between the Scandinavian countries?
   - In what terms has your strategy developed over time?
   - Do you have a long-term and a short-term strategy?

3. The e-commerce market
   - Why did you choose to establish your business on the e-commerce market?
   - Are there any positive and negative aspects with the e-commerce market? (What are the challenges with e-commerce compared to the physical store?)
   - Have you Experienced any barriers to enter the online market?
   - How do you respond to customer demands?

4. Competitors and general about the market
   - Who do you see as your biggest competitors?
   - How do you differentiate your companies against the competitors?
   - Have the competitors increased or decreased on the ink market as well as the beauty market?
   - Why did you choose the ink and beauty segment? Is the choice linked to product simplicity (few changes, not size-based as clothing and the customer knows before what they need / want)
   - Do you differentiate the various companies that are similar to each other? Beautyplanet from NordicFeel? NordicInk versus Patroner.se?
5. **The company internal**
   - Do you have exclusive rights to any brands? Do you have any own brand?
   - How does your supply chain look like? Special contracts with suppliers, exclusivity?
   - Do you have more than one supplier each product?
   - About the corporation group, why was companies sold and merged over the years?
   - In what dimension do the companies sell B2B versus B2C?

6. **Future prospects**
   - What is the vision for each subsidiary and NECG as one unit?
   - What do you see as your biggest threats and opportunities within the next five years?
   - If there is any, how does the company prepare for threats and opportunities?

7. **Is there something you want to add?**
Appendix 2

Interview guide, Calle Johansson, CEO NordicInk
2016-04-22

1. Please tell us about NordicInk and the company’s history
   • Is there any specific happenings or critical times?
   • What happened between 1998 until 2011, before the corporation was founded?

2. Strategy
   • How do you work with strategy formation?
   • When is strategy discussed?
   • Who discuss and make decision about the strategy in NordicInk?
   • Does the strategy differ from the indented strategy? If so, how and why?
   • How has the strategy developed over time?
   • How and where does decisions about changes in the short-term strategy take place?
   • Can the subsidiary freely take decisions about strategic changes?

3. The e-commerce market
   • Has the market changed since you started in 1998? If so, how?

4. Competitors
   • How does it look with competitors today compared to earlier on?

5. The company
   • How do you create value both internal in the company and external to your customers?

6. Future prospect
   • How does the future look for the companies?

7. Is there something you want to add?