Value creation in a reregulated market

- Divestments, firms, and dynamic processes

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Abstract

This thesis makes use of the unique reregulation of pharmaceutical monopoly in Sweden to critically examine intraindustry firm heterogeneity. It contributes to existing divestiture research as it studies the dynamism in between reconfigurations of value constellations and its effects on value creation of divested pharmacies. Because the findings showed that the predominant theory of intraindustry firm heterogeneity could not explain firm performance, the value constellation concept was applied as it captured the phenomena. A patterned finding informed how reconfigurations of value constellations in a reregulated market characterized by strict rules, regulations, and high competition did not generate additional value for firms on short term. My study unveils that value creation is hampered in situations where rules and regulations significantly affect firms’ ability to reconfigure their value constellations. The key practical implication is an alternative perspective on fundamental aspects of the reregulation and how policy-makers may impede firm performance and the intended creation of new value for not only firms but for society as a whole.

Keywords: Reconfiguration, value constellation, process research, divestiture, performance, reregulation, pharmacy
Glossary of terms

**Actor** - A firm, entity or in some cases individuals involved in value creation of a business. The term *actor* is used interchangeably with the newly formed pharmacies, i.e. Apotek Hjärtat, Kronans Apotek, Medstop and Vårdapoteket.

**Capabilities** - A firm’s capacities to shape, reshape, configure and reconfigure its asset base to respond to changing technologies and markets (Teece, Pisano, and Shuen, 1997)

**Divestiture** - Sale or disposal of a firm’s ownership and business portfolio

**Divestiture management** - The process of planning, executing, controlling and reporting divestiture activities

**Merger and Acquisition (M&A)** - A general term used for consolidation of two firms
   - *Merger* refers to when two firms consolidate to form a new entity
   - *Acquisition* refers to one firm’s purchase of another

**Parent** - A term commonly used to describe a subunit’s prior parent company after it has been divested

**Reconfigure** - To “unbundle,” “liquefy,” and/or “rebundle” resources to create new “densities” (Michel, Vargo, and Lusch, 2007, p.154)

**Role** - A firm’s “social self-awareness and [its] social action taken to accomplish related tasks in this state of mind” (Netz and Iveroth, 2011, p.35)

**Value constellation** - “…an organization’s particular setup of actors who perform social transactions to extract value from existing and emerging business” (Netz and Iveroth, 2011, p.31)
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1. Introduction

Six years ago the Swedish government decided to reregulate\(^1\) their pharmaceutical monopoly. This decision was subsequently followed by divestitures\(^2\). It was at that point in time portrayed as something very important to change. The rational for the reregulation was focused on improvements toward the patients and consumers of pharmaceutics. Furthermore, the Swedish government expected the reregulation to lead to increased accessibility of pharmaceutics, better service, better supply of services, as well as lowered costs of pharmaceutics\(^3\) (Riksrevisionen, 2012). Therefore, a large part of the governmentally owned pharmaceutical firm Apoteket AB was divested. A new constellation of four competitive firms evolved: Apotek Hjärtat, Kronans Droghandel, Medstop, and Vårdapoteket\(^4\). Also, retailers were allowed to sell some forms of prescription free medicines. Thus, not only did the regulation affect the pharmacies, but retailing as well. As a result, the retailing industry gained increased profits as they were able to take shares of pharmacies that previously were the only ones to sell such medicines. Several questions therefore arise. What happened? How did it go? How do we understand the processes? Was there any value creation? If so, why? Or why not? This thesis provides an answer.

Similarly to the reregulation in Sweden, the pharmaceutical market in Denmark during the 1980’s faced reforms and deregulations of its state-funded health care systems. Efficiency at that time remained of low priority because the state always allowed for a modest profit, irrespective of operational excellence. Pharmacies began, once the reform was implemented, to rationalize operations and cut staff. Surprisingly, neither the state nor the customers were ready for such change. Instead, regulatory barriers and political pitfalls were common encounters for innovative pharmacies, and customers tended to respond to innovations with forms of suspicion and resistance (Normann and Ramirez, 1993).

Predominant theory, however, suggests that divestitures in the context of deregulations and its processes are experienced differently and, as Noda and Collis (2001) argue, this heterogeneity explains performance of the firms’ establishment in the reregulated market (Noda and Collis, 2001). This thesis however shows that the reregulation phenomenon of pharmaceutical monopoly in Sweden is not captured by the predominant theory. Rather there is a need for theory development that captures not only heterogeneity but homogeneity across the constellations of actors that are trying to create new value in the formation of a reregulated market. How do firms create value in the context of governmental reregulation of monopoly?

By re-introducing the concept of value constellations (Netz & Iveroth, 2011; Normann & Ramirez, 1993), my thesis proposes an alternative perspective that begins to fill the theoretical gap of the failure of predominant theory. The reregulation of the government-controlled monopoly of the Swedish

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\(^1\) It is termed reregulation as opposed to deregulation in this context as examined documents and informants defined it as such. This is because the industry still is characterized by rules and regulations, rather than deregulated. The decision to reregulate and the ways in which the reregulation process was designed has had significant consequences on organizational value creation. The reregulation therefore plays a central part of this thesis.

\(^2\) Divestiture - although the range of definitions of it is far from homogenous (cf. Moncada, Tübke, Miége and Botella, 2010; Bowman and Singh, 1993), the definition used in this paper is, an organization’s “adjustments of its ownership and business portfolio via spin-off, equity carve-out, split-up, or unit sell-off” (Brauer, 2006, p.751), which can be executed as a government as well as business firm.

\(^3\) These four actors are hereafter called actors, or the four siblings which is a play on words derived from the work of Noda and Collis’s (2001) seven siblings they researched.
pharmaceutical market is in this sense a critical case to examine predominant theory. The divestiture of the state owned Apoteket AB furthermore allows delving deeper into the divestiture process due to offentlighetsprincipen⁴ and demands for transparency. It provides an opportunity to account for a firm’s initial experiences in the new business while being open to other important processual aspects. Indeed, process studies do according to Langley, Smallman, Tsoukas and Van de Ven (2013, p.1) “focus on how and why things emerge, develop, grow or terminate over time.” The aim of this thesis is therefore to map the divestiture process of Apoteket AB, explore the four siblings’ initial experiences since the reregulation in 2009 and compare their performance. The dynamism in between these dimensions is also analyzed to contribute theoretically.

The remaining part of this thesis is structured as follows. First, a literature review is presented elaborating on divestitures in governmental deregulations, and prior divestiture process research. Second, value constellation theory is presented, followed by multiple scenarios of how reconfigurations of value constellations are visualized. Third, research design is described, introduced by historical information about the Swedish reregulation of monopoly, followed by an elaboration on the scientific perspective applied, as well as method used. Fifth, an empirical presentation and analysis of findings is conducted. Sixth, a discussion and critical reflections are made, followed by this thesis’s limitations of research. Finally, the conclusion is presented.

⁴ Offentlighetsprincipen - an elemental principle where the public has the right to take part of public documents (Regeringskansliet, 2013)
2. Literature review

This chapter covers prior research valuable for both the understanding and explanation of fundamental parts of the study. It first elaborates on the framework by Noda and Collis (2001). This is followed by prior process research and its implications. Further elaboration of the research question is at the end presented to link the different concepts together.

2.1. Divestitures in governmental deregulation

Strategy-process research on the role of the state, divestitures, value creation, as well as processes is not new. However, researching combining all the dimensions is. It is a rather unexplored field of research. The study by Noda and Collis (2001) is therefore an exception. Their case study researches how “differences among the [researched firms] - in terms of strategic commitment to, and strategic positions in, the U.S. cellular telephone service business - were created, developed and sustained over time” (Noda and Collis, 2003, p.903). It further attempts at understanding the differences in organizational behavior and performance in the same deregulated industry. Their process framework (see Figure 1) describes the evolution of intraindustry firm heterogeneity through three determinants: a firm’s initial business experience, divergence-, and convergence forces.

Each organization’s initial business experience is, according to them, what causes firm heterogeneity among various firms in their respective industry. This is because “Firms’ varying local market experiences lead directly to their taking different subsequent strategic actions” (Noda and Collis, 2001, p.899). The initial experience itself is affected by a firm’s original endowments, and management choice. Divergence forces, on the other hand, stem from three different forms of positive feedback mechanisms: economic-, sociopolitical- and cognitive. Local learning within a firm also amplifies differences through the positive feedback mechanisms. Lastly, convergence forces are generated through strategic imitation by successful competitors. The convergence forces decrease firm heterogeneity, except for in situations where the market environment is characterized by factor market supply inelasticities, uncertainty, or firm rigidities that prevent them from operating as they naturally would. (Noda & Collis, 2001:899)

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3 Strategy-processes are composed of three main elements: the strategists, the issue, and the sequence of actions (Hutzschenreuter and Kleindienst, 2006:676).
Noda and Collis further emphasize possible limitations to their framework due to the study’s unique sample and context. The first limitation is termed organizational capabilities where intrinsic differences in initial endowments of organizations, especially organizational capabilities, may affect the applicability of the framework. This limitation was however not dealt with directly by them; as such abilities were controlled for in their sample. The second is learning from failing, which may have increased impact on intraindustry firm heterogeneity due to firms learning throughout longer periods of time where for example technological shifts occur. Such shifts offer firms that previously failed in establishing themselves on the market to act more aggressively on a shift in a market. They would in such sense learn from previous failures, and may in turn gain market shares. The third limitation is entrepreneurialism in which their findings may only be applicable to new business development activities of established firms. (Noda and Collis, 2001)

In sum, their case study sheds considerable light on both divestitures and processes. Their findings further highlight the importance of firms’ initial experiences and prior capabilities in newly formed markets, as well as how firm performance is influenced by a multitude of factors.

2.2. Prior divestiture process research

Current strategy-process research is characterized by a multitude of perspectives, frameworks and concepts that generate complexity (Hutzschenreuter and Kleindienst, 2006). Strategy processes are, according to Pettigrew (1997), unfolding in and shaped by organizational- and environmental contexts. Process studies deal with how and why things emerge, as well as how they develop, grow, or terminate over time. The definition used for this thesis as follows: “a sequence of individual and collective events, actions, and activities unfolding over time in context” (Pettigrew, 1997, p.338). Langley et al. (2013) argue for process studies paying attention to time and the “tensions and contradictions in driving patterns of change” (p. 1). Process studies display the ways in which interactions across multiple levels gives rise to change. Researchers involved in process questions are taken into a “conceptual terrain of events, episodes, activity, temporal ordering, fluidity, and change” (Langley et
Process studies are, however, somewhat complex, as there is substantial freedom for methodological and theoretical development (cf. Farjoun, 2002; Johnson, Melin, and Wittington, 2003; Hutzschenreuter and Kleindienst, 2006). Process research has nevertheless developed substantively since its origin, but the challenge still remains to conceptualize what a process really is.

The development of divestiture process research has been heavily affected by researchers’ difficulties in collecting information. This is mainly because divestiture processes are treated with secrecy and as sensitive material. Divestiture processes are, even within organizations, treated with caution as it may have an impact on its own operations. Insights into divestiture processes have, according to Brauer (2006) and Sewing (2010), almost solely been based on publicly available information from for example Compustat and Trinet. The few studies that researched the divestiture process have furthermore often relied on single- (Gopinath and Becker, 2000) or multiple- (Duhaine and Schwenk, 1985; Ghertman, 1988; Nees, 1981) comparative case studies (Brauer, 2006). The focus of previously mentioned studies has been on board involvement, corporate- and divisional managers, as well as employees, and their involvement in the divestiture decision-making process and how it affects its outcomes (Sewing, 2010). There is also a distinction made in between divestiture research; (i) divestiture process research (cf. Nees, 1981; Ghertman, 1988) and (ii) divestiture process research and the outcomes of it (cf. Johnson, Hoskisson and Hitt, 1993; Hitt, Hoskisson, Johnson and Moesel, 1996; Gopinath and Becker, 2000). In addition, academic generic models for divestiture processes are very rare. Only one such model was found during the entire study (cf. Gole and Hilger, 2008). The business world (e.g. Accenture, Deloitte, and PwC) is therefore in comparison more known to providing such insights. This implies that there is an absence of academic empirical research on divestiture processes.

We know from the literature review that there is a lack of generic divestiture processes to guide scholars in their research. We also know that prior experiences are important for value creation. A gap is however present as prior research has not paid attention to the phenomenon of intraindustry firm heterogeneity and context. Neither has prior research emphasized the terms on which divestitures are based, which in the context of reregulation in Sweden is of importance for the understanding of value creation.

Hierarchy is furthermore often mentioned within divestiture research due to the presence of actors holding superior roles in decision-making. It also seems as if this is the case with the government’s involvement in this thesis. There is in addition a local context in which firms operate that is argued to be of importance for local learning (Noda and Collis, 2001). Noda and Collis’s research also showed that firms that have favorable initial experiences are able to develop quicker, i.e. “success breeds success” (cf. Miller and Friesen, 1980; Amburgy and Miner, 1992; Ginsburg and Baum, 1994). Those that did not have favorable initial experiences faced difficulties in creating value. A similar logic seems to be applicable to this case because of the interplay among hierarchical levels. It is, however, presumed that the Swedish government holding a superior role will have an impact on its context. This also refers to the extent to which prior experiences may be expressed. This leaves us with the following research question:

*How do firms create value in the context of governmental reregulation of monopoly?*

Yet, because Noda and Collis do not address what process research emphasizes; the importance of acknowledging activities, relationships among actors, and the context in between relations of actors (cf. Pettigrew, 1997; Langley et al., 2013), there is reason to develop a framework that accounts for the importance of prior experiences while capturing the processual complexity of relational dynamics across and between hierarchies. Next, I re-introduce and suggest a framework that enables to do so.
3. Theoretical framework

A theoretical framework that addresses the importance of actors and relations in value creation in emergent contexts is the theory of value constellations. The theory offers an opportunity to build further on the limitations of prior research. In addition, there is a shortage of theories that address relations and actors who together create value in emerging contexts of deregulations of monopoly. The value constellation is an exception, since it addresses such dimensions, and therefore chosen as the theoretical framework for this thesis.

3.1. Value constellations

A value constellation is defined as “an organization’s particular setup of actors who perform social transactions to extract value from existing or emerging business” (Netz and Iveroth, 2011, p.31). A good example of this definition is provided by Normann and Ramirez (1993):

[Successful organization’s] focus of strategic analysis is not the company or even the industry but the value-creating system itself, within which different economic actors—suppliers, business partners, allies, customers—work together to co-produce value. Their key strategic task is the reconfiguration of roles and relationships among this constellation of actors in order to mobilise the creation of value in new forms and by new players. And their underlying strategic goal is to create an ever-improving fit between competencies and customers (Normann and Ramirez, 1993:1).

Normann and Ramirez (1993) argue for strategizing no longer being applied in the same sense as before as with the old industrial model; the value-chain (cf. Porter, 1980). A more radical form of value constellation is to configure different actors in new constellations to create a business that previously did not exist. Or a less radical configuration that changes the ways in which value is created. Such reconfiguration extends past the plain reallocation of existing businesses among actors; it also implies the creation of new activities among them to produce entirely new end-products - rather than more effective ways to produce traditional products (Normann, 2001). Value constellations are however not limited to a specific level of strategizing but rather includes actions that could occur at different levels rooted in managers, management groups, and organizations. The logic of value constellations are rooted in three typical characteristics:

First, the value constellation is in essence about innovation, as opposed to increasing effectiveness of production through outsourcing. Value constellation implies the creation of something that did not exist before, as well as the reinvention of markets and creation of new customers (Normann, 2001). A practical example of the first internal logic may be clarified through the Danish case. Herein innovation occurred through the creation of innovative products and services, as well as overall interest in improving the health of citizens through for example self-help books, pamphlets, anti-campaigns, which before was unexplored territory for pharmacies in Denmark.

Second, innovations are results of innovative configurations of previously unlinked resources underutilized by an actor. Assets and resources are therefore not complements to each other; they become complements through an idea that connects them. Normann (2001) further argues that assets surely may contribute to the development of ideas, but that it is obvious that ideas are what create value through the utilization of assets. This leads to the conclusion that assets should be valued based on their position in a value creating system, rather than them having an inherent value. It is further

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6 strategizing - refers to actors who at different levels undertake actions to create value
emphasized that such a perspective is the core of the knowledge-based economy (Normann, 2001). The second internal logic may in this case be seen as the attempt at which a Danish pharmaceutical actor to some extent resolved their lack of credibility. This was done through numerous progressive efforts at winning international acclaim. Acclaim was gained when they for example forged alliances with sister organizations, influenced the World Health Organization and its relation to pharmacies, and participated in a study about the pharmacist’s role in drug therapies. Credibility was due to this gained, which in turn led to their ability to reintroduce a prior campaign with success. The actor therefore created value through the utilization of previously unlinked resources.

Third, this type of system does to a large extent involve the element of “trade” among its transactions. Trade takes place through configurations of relationships among actors with complementary resources. A prime mover therefore makes actors richer because they make non-monetary resources available to others. The amount of value created by actors are however hard to estimate as transactions are often based on trade, rather than on hard cash. It is therefore unjustifiable to measure value through monetary gains or losses. Normann (2001) does in his concluding remarks state that systems preventing trade-based transactions and value constellations significantly impede effective value creation. IKEA is an excellent example of prime mover which redefined the roles of economic actors within furnishings. They redefined the roles within a broader value creating system than previously known (Michel et al., 2008).

IKEA is, due to this, associated with putting the concept of co-production (cf. Normann and Ramirez, 2003) to practice as their customers participate in the production and value constellation. Co-production involves the process of liberating underutilized resources and combining them effectively in a new constellation of actors. Such a perspective builds on the assumption that the values of assets are not based on their inherent abilities, but rather on its position. And its value at a given position in the constellation cannot be discovered before it has emerged with the help of an idea. The participation of consumers therefore dissolves the line between a service provider and its consumers, which makes the term “consumer” misleading in today’s economy (Normann, 2001). IKEA is in this sense an example that substantiates the meaning of co-production through customer participation. IKEA did in this sense redefine its value constellation by reconfiguring the relationships within the furniture business. This systematic redefinition of roles, relationships, and organizational practices lowered their prices of products by 25-50 % below of their competitors. IKEA thus made their customers realize that their role is not just to consume, it is to create. (Normann and Ramirez, 1993)

In sum, the concept of value constellations is arguably suitable to be applied to both deregulation processes of monopoly and businesses in different environments. It furthermore addresses the complexity of the divestiture process from a deregulation initiated by a government. This is because the concept of value constellation does not only address the creation of new relationships on the market but also the subsequent dynamics that they, as a private firm, become exposed to.

### 3.2. Reconfigurations of value constellations

Although the work of Normann and Ramirez offer scholars a valuable concept for value creation, there is an absence of representations to visualize reconfigurations in value constellations from a process perspective. Netz and Iveroth (2011) do however provide a partial solution to this issue. They propose three scenarios to explain how the value constellation is linked to strategic renewal, and how such a phenomenon plays out in the field. Netz and Iveroth (2011) argue for there being three types of scenarios that depict how a firm may undergo change through its value constellation (see Figure 2). A fundamental key assumption for the representations is that value constellations can change, as well as the fact that changes in a value constellation require managerial attention and action. It is also

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1 A prime mover: an innovator who creates a market through the usage of underutilized resources. They transform the resources into liquid assets as they are utilized in previously unused situations. (Normann, 2001:133)
noteworthy to state that maintaining current *roles*, as well as changing them may be successful for strategic renewal on long term, given the right circumstances (Netz and Iveroth, 2011). The scenarios are as follows.

- **1a. Maintenance**

*Incremental* in nature as roles are maintained within the value constellation. Roles may however be shaped or strengthened whereas still being stable. Such change may in turn lead to new business growth (i.e. renewal) and eventually to sustained income streams (Netz and Iveroth, 2011).

- **1b. Reconfiguration**

*Radical* in nature as previously set roles are fundamentally altered yet still consisting of the same actors as before. An actor’s role is therefore replaced rather than refreshed. An example of this is the implementation of internet banking where the role of a customer and bank is altered and able to perform large parts of what employees of a bank used to do before internet banking (cf. Netz and Iveroth, 2011).

- **1c. Extension**

*Extension* is similarly to reconfiguration *radical* in nature, a new role is however added into the value constellation in this scenario. It is furthermore deemed radical due to the new role affecting previously established social relationships of the firm. The value constellation is replaced rather than refreshed (Netz and Iveroth, 2011).

![Figure 2 Conceptual model of three renewal scenarios within the value constellation (Adapted from Netz and Iveroth, 2011:36)](image)

It was in the introduction of this subchapter stated that Netz and Iveroth (2011) only provided a *partial* solution to the absence of representations to reconfigurations of value constellations. This is because their scenarios are not comprehensive enough to capture the multitude of reconfigurations made by the four siblings of this thesis. It was also by the authors stated that the value constellation framework has been in dire need of further development to enable scholars to understand shifts in markets, such as in Sweden and elsewhere. This is because the concept holds considerably more importance than just being applied to specific processes. Development of Netz and Iveroth’s (2011) work was therefore conducted in order to capture the entire multitude of reconfigurations made by the firms. Further elaboration on this occurs in chapter five.

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8 *Role*: “[a firm’s] social self-awareness and social action taken to accomplish related tasks in this state of mind” (Netz and Iveroth, 2011, p.35)
4. Research design

4.1. Historical information about the deregulation of monopoly

Consistent with a process approach, a presentation of the context is provided. This is because context is central to process studies as argued by prior research. The presentation of context is divided into two sub-chapters: the pharmaceutical industry, and the divestiture process.

4.1.1. The pharmaceutical industry

Although the pharmaceutical market is reregulated it does not imply that the regulations have become lesser in extent, it is rather the opposite (cf. Sveriges Apoteksförening, 2010; Sveriges Apoteksförening, 2012). The pharmaceutical industry is, in comparison to other industries, entirely regulated. The industry has been, and still is, described to be relatively unstable, as it has not yet found its true shape, neither is it entirely consolidated. A market characterized by such volatility implies a constant change to the industry in many aspects. There is, in addition, still a need for firms to develop their physical stores, how customers are encountered, as well as their work procedures and methods.

Pharmacies do in addition play a valuable role in the prosperity of health-care. Counselling is a central part of it, which makes their employees one of its most valuable resources. A survey done by TNS SIFO found that employees’ competence and expertise were valued by customers, as well as the fact that customer satisfaction was rated very high. Customer satisfaction did in addition improve with the reregulations in terms of service, products- and services offered and opening hours. Such improvements do, therefore, serve as a strong indication for the reregulation being a success (Sveriges Apoteksförening, 2010).

Before the reregulation on the 1st of July 2009 there were about 920 pharmacies, which averages one pharmacy per 10 000 inhabitants. The Swedish density of pharmacies was, therefore, a lot lower than the European average. Most European countries have slightly less than one pharmacy per 4000 inhabitants. There has, however, been significant improvement in this area: today there is one pharmacy per 7 400 inhabitants (Sveriges Apoteksförening, 2013). There have also been improvements in terms of political goal attainment and improved pharmaceutical accessibility for customers.

Many pharmacies, however, especially individual entrepreneurs, have struggled with profitability. Low gross margins in combinations with large investments during the initial establishment did for most firms result in losses. Low profitability, therefore, prevailed during the first three years after the reregulation (Sveriges Apoteksförening, 2010-2013). The credit reporting agency Creditsafe also found that the researched pharmacies only had a profit margin of 1 % in 2011, whereas they had a profit margin of 14 % in 2010 (Creditsafe, 2013). 2012 was in comparison to previous years slightly better in terms of profitability. Most pharmacies did in 2013 also manage to gain some degree of profitability. The increase was mainly related to growth in sales of commodities. Sveriges Apoteksförening, therefore, concluded that the market then began to normalize for the bigger firms, whereas the smaller firms still had issues. This is because economies of scale are a necessity for sustainability in the pharmaceutical industry (Sveriges Apoteksförening, 2012-2013).

There has since the reregulation been a visible shift in focus from actors in terms of products and services offered. This is because competition in the market is high overall. The number of products
and services, as well as the development of new products and services, have increased and still are. Another explanation for such a market trend is because actors are not able to compete on price. (Sveriges Apoteksförening, 2012) Such a market environment therefore forces pharmacies to differentiate themselves from others.

The products offered by pharmacies can be divided into two different categories: those that are subsidized by the state and are included in “pharmaceutical benefits”, and those that are not part of pharmaceutical benefits. Tandvårds- and läkemedelsförmånsverket (TLV) is the authority that decides which medicines are subsidized, and which are not. They also set the purchase- and sales price for the products included in pharmaceutical benefits. The difference in between these two prices is what constitutes the gross margin that in turn determines the profits pharmacies make on their prescribed medicines. This implies that none of the pharmaceutical firms are able to affect its price, and therefore not their gross margin on such products.

Table 1 depicts the percentage of products sold by pharmacies, number of prescriptions prescribed, and how it has changed over time. It shows that about 80% of a pharmacy’s total revenues come from prescribed medicines. This implies that a large part of their total revenues is controlled by an actor outside of their control, meaning that there is little they can do to affect their gross margin on products overall. Total numbers of prescriptions prescribed does in addition not fluctuate much over time as it is relatively stable. There is due to this an inherent movement in the industry to increase sales of products not controlled by TLV.

<table>
<thead>
<tr>
<th>Type of product</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prescribed medicine (%)</td>
<td>~80</td>
<td>~80</td>
<td>~75</td>
<td>75,8</td>
</tr>
<tr>
<td>Non-prescribed medicine (%)</td>
<td>~10</td>
<td>~10</td>
<td>~10</td>
<td>10,8</td>
</tr>
<tr>
<td>Commodities (%)&lt;sup&gt;1&lt;/sup&gt;</td>
<td>~10</td>
<td>~10</td>
<td>~13</td>
<td>13,3</td>
</tr>
<tr>
<td>Other (%)&lt;sup&gt;2&lt;/sup&gt;</td>
<td>~0,5</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Revenues (billion)</td>
<td>33</td>
<td>33,5</td>
<td>33,4</td>
<td>35</td>
</tr>
<tr>
<td>Total number of prescriptions prescribed (million)</td>
<td>76</td>
<td>77</td>
<td>78&lt;sup&gt;3&lt;/sup&gt;</td>
<td>80&lt;sup&gt;4&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

Table 1 Revenues made from pharmaceutical products and number of prescribed prescriptions. (Sveriges Apoteksförening, 2010-2013).

<sup>1</sup> Commodities are products not labeled as medicine. It also includes pharmaceutical services or other services provided by a pharmacy
<sup>2</sup> Data missing for year 2011-2013
<sup>3</sup> Includes veterinary prescriptions and dosage-packages

Room for differentiation and specialization in the market is large. Surprisingly for the industry is that the shift in focus from prescribed medicines toward commodities has not been as forecasted by the state prior to the reregulation. (Sveriges Apoteksförening, 2012).

4.1.2. The divestiture process

Apoteket Omstrukturering AB (OAB) was formed in 2008 to divest parts of Apoteket AB. OAB’s task was to both lead and surveil the divestiture process of Apoteket AB, which included the sales process of the selected pharmacies. They were also appointed the task of creating a pharmaceutical industry characterized by diversity and well-functioning competition (Sveriges Apoteksförening, 2010). The goal of the state was not solely to raise the highest amount of cash, which is a common motive for divestitures conducted by privately owned organizations. The highest bidding organization was, therefore, not necessarily winning access to a specific cluster. There was at that time incentives to get organizations with specific characteristics suitable for attaining the goals of the reregulation. A bidder with a relatively lower bid might, due to such reasons, have gained access to a cluster. The bidding process was, therefore, not solely characterized by purely financial gains; there was also a pursuit of
achieving political goals set prior to the reregulation (cf. Depamhilis, 2010). This is because it was not just a means to raise cash. The importance of acknowledging this shows that when the government reregulated and divested, the motives for it varied in comparison to privately owned organizations.

OAB divided the pharmacies of Apoteket AB that were divested into eight different clusters. The clusters ranged from 10 to 199 pharmacies and had different sizes and geographic locations. After the breakup was sorted out, the bidding process followed (Sveriges Apoteksförening, 2010). The actual auctioning of pharmacies was closed and characterized by strict confidentiality throughout. None of the bidders, or potential bidders, knew who else was participating in the process. Once the auctioning was completed, the outcome was three venture capital companies (Apotek Hjärtat, Medstop, and Vårdapoteket) and one industrial owner (Kronans Apotek). The announcement of who the new owners were was declared in November-December 2009. The first takeovers of pharmacies took place in February 2010. This implied that the firms only had about three months to get everything in order, which was emphasized to be a relatively short period of time for execution of the takeover. The process was, however, argued to be clear, simple, and good once the divestiture process was initiated. This was because it was very structured and regulated that in turn led to a smooth process as everything from due diligence to databases covered all the matters of importance.

All pharmacies were, however, not alike, as they are divided into three main groups that are dependent on location:
- Emergency pharmacy (located near a hospital)
- Health care center pharmacy (located near a health care center)
- Commercial pharmacy (divided into three sub-categories)
  - Central (located in the heart of a city, irrespective of size of that city)
  - External (located in external trade area, with no homes in direct connection)
  - Estate (located commercially but not in the heart of a city)

Table 2 below provides us with an overview of what cluster was purchased by whom, as well as the types of pharmacies included within them, and its geographical location (see Appendix I: Cluster overview for further information).

<table>
<thead>
<tr>
<th>Cluster</th>
<th>Buyer</th>
<th>Commercial</th>
<th>Health care center</th>
<th>Emergency</th>
<th>Shop¹</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Apotek Hjärtat</td>
<td>126</td>
<td>60</td>
<td>7</td>
<td>6</td>
<td>National</td>
</tr>
<tr>
<td>2</td>
<td>Kronans Apotek</td>
<td>97</td>
<td>69</td>
<td>4</td>
<td>1</td>
<td>National</td>
</tr>
<tr>
<td>3</td>
<td>Medstop</td>
<td>19</td>
<td>1</td>
<td>-</td>
<td>1</td>
<td>Stockholm, Mälardalen</td>
</tr>
<tr>
<td>4</td>
<td>Medstop</td>
<td>20</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>Göteborg, Halland</td>
</tr>
<tr>
<td>5</td>
<td>Medstop</td>
<td>16</td>
<td>4</td>
<td>-</td>
<td>1</td>
<td>Skåne, Småland, Blekinge</td>
</tr>
<tr>
<td>6</td>
<td>Vårdapoteket</td>
<td>-</td>
<td>-</td>
<td>12</td>
<td>-</td>
<td>Middle of Sweden</td>
</tr>
<tr>
<td>7</td>
<td>Vårdapoteket</td>
<td>-</td>
<td>-</td>
<td>12</td>
<td>-</td>
<td>Southern Sweden</td>
</tr>
<tr>
<td>8</td>
<td>Apotek Hjärtat</td>
<td>10</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>Stockholm, Göteborg, Malmö</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>288</td>
<td>134</td>
<td>35</td>
<td>9</td>
<td></td>
</tr>
</tbody>
</table>

Table 2 Overview of the division of clusters (Riksrevisionen, 2012; Apoteket Omstruktureringsbolaget AB, 2009)

¹A smaller pharmacy specialized in sales of commodities and OTC (this type of pharmacy is not included in the categorization of pharmacies, neither is it specified by OAB).

Each actor furthermore took over all employees from their respective pharmacies, as well as its IT-infrastructure needed for its operations. This implies that they purchased fully operational units. The four siblings were, however, only allowed to utilize the IT-infrastructure previously provided by
Apoteket AB for a set period of time. The actors were therefore obliged to build their own IT-infrastructure, which would connect with the governments in order to enable business as usual. This lead to a high increase in costs during 2011 and it affected the overall profitability of the four siblings.

4.2. Scientific perspective

The adopted research philosophy for the study was interpretivism which, “respects the differences between people and the objects of the natural sciences and therefore requires the social scientist to grasp the subjective meaning of social action” (Bryman and Bell, 2011, p.17). Reasoning behind the adopted philosophy is due to the initial experiences of corporations descending from social action (cf. Noda and Collis, 2001). This case study research does in addition rely much on the researcher’s style and rigorous linking of alternative interpretations of data (cf. Yin, 2003). Case study research is furthermore commonly associated with interpretivism (cf. Weber, 2004).

The approach to the relationship between theory and research is primarily inductive as opposed to deductive. An inductive approach is furthermore deemed most suitable because the study seeks to extend further on the theory by Noda and Collis (2001). It is, however, primarily inductive, as it carries aspects of deduction in the sense that the strategy of iteration is applied (cf. Pettigrew, 1997).

The methodological suppositions were, in line with the components of research designs by Yin (2003) as follows: Firstly, the unit of analysis was specified to focus attention toward the matter of importance of the research question. As each case may be an individual, multiple individuals equal to multiple cases. This implied that this study is a multiple-case study as information about multiple individual cases (pharmaceutical firms) were collected and analyzed (cf. Yin, 2003). Case descriptions were then made based on the data collection types applied. The case descriptions were then analyzed in light of prior research and theoretical framework to interpret the findings. These findings do, in turn, enable the making of conclusions and discussion.

The qualitative approach was selected for the study. It also featured longitudinal data, which was a necessity to observe how processes unfold over time (cf. Langley et al. 2013)

4.3. Method

Thus, a case study research method was selected for the study. It was deemed most suitable as it provides researchers with an in-depth elucidation of cases (cf. Bryman and Bell, 2011) and focuses on a bounded situation. A common problem for case study research is that it cannot provide generalizable results, which arguably is quite devastating for a researcher in terms of their finding’s external validity (Bryman and Bell, 2011). Flyvbjerg (2006) does, however, successfully reject this argument. In his paper he examined five common misunderstandings about case study research. A quote is, therefore, presented in order to resolve the main issue about generalization from case studies:

“One can often generalize on the basis of a single case, and the case study may be central to scientific development via generalization as supplement or alternative to other methods. But formal generalization is overvalued as a source of scientific development, whereas “the force of example” is underestimated.” (Flyvbjerg, p. 228)

The key of research is that choice of method should be selected based on the problem that is studied, and the circumstances in which research is conducted (Flyvbjerg, 2006). Case study research as a research design is also portrayed as being less rigorous than quantitative, hypothetico-deductive methods. Campbell (1975) and others have, however, shown that such critique is fallacious as case
study research has a rigor of its own. It is different, but no less strict than the rigor of quantitative methods (Flyvbjerg, 2006). Additionally, the study by Noda and Collis (2001) was a case study. By adopting the same research design increases the possibilities of comparing results (cf. Yin, 2003). Case study as a research design is thus chosen due to its applicability to attain the aims and objectives of this study.

4.3.1. Data collection

Data collection for this study relied on the means available to fulfil the criteria for process- and divestiture process research (cf. Yin, 2003; Langley et al., 2013). These data collection sources were therefore chosen to be interviews, archival records and documents. It also employed retrospective-longitudinal data. Weaknesses and strengths of the different sources of evidence were in addition acknowledged throughout (cf. Yin, 2003) where emphasis was put on building on the strengths, while simultaneously mitigating their weaknesses. This was furthermore supported by relying on the two principles proposed by Yin (2003), which are used to increase the overall quality of a study. These principles imply the usage of “multiple sources of evidence [that converge] on the same set of facts or findings”, as well as the “chain of evidence” in which a link is present between questions asked, data collected and conclusion drawn (cf. Yin, 2003, p.83).

Interview

Interviews are portrayed to be of essential value to this type of research (cf. Yin, 2003). Characteristic for case study interviews, as opposed to other forms of research, is that they appear to be guided conversations rather than structured queries (Yin, 2003). Although the case study researcher pursuited a consistent line of inquiry, actual questions posed during interviews are most commonly fluid rather than rigid (Rubin and Rubin, 1995). An inquiring mind was therefore strived for during data collection. The “two jobs” of an interviewer were also carried out in which the (i) set line of inquiry stemming from the case study protocol was followed, as well as (ii) asking the questions in an unbiased manner (cf. Yin, 2003, p.89-90). The questions asked were open-ended, as respondents were asked about facts of a matter and opinions about events, as well as their own insights into certain occurrences, and base further inquiry on propositions made. The interviews were also in some instances focused (cf. Merton, Fiske and Kendall, 1990), as informants were interviewed only for a short period of time, e.g. an hour, and that specific questions derived from the case study protocol were asked. The setting for the interview was an individual in-depth interview to allow for discovery of shared understandings of a particular group, as well as provide rich, in-depth information about experiences of individuals (Dicicco-Bloom and Crabtree, 2006).

Recording devices were used during interviews when possible and granted. Such recordings allowed for capture of statements which may have held value or would otherwise have been lost. It was also a means to safeguard oneself as a researcher to present collected data in an inaccurate manner. This approach therefore strengthened the objectivity because data was possible to retrieve close at hand. Caution was, however, taken at all times to ensure that each interviewee was not uncomfortable in the presence of being recorded (cf. Yin, 2003)

See Appendix 2: Data collection protocol to see how the interview was structured, as well as the questions asked during the interviews.

Documents and archival records

Documents may in case study research play an explicit role as evidence. Documents used for the study took the form of written reports of events, internal records, formal studies or evaluations of the research subject, as well as newspaper articles. I tried to attain documents related to the studied subject (cf. Yin, 2003).

Archival records played an important role, as they provided overviews of the studied dimensions. These records came in the form of publicly available computer files, as well as databases for members. The archival records used for the study took the form of organizational records, maps and charts of
geographical characteristics, list of names and survey data (cf. Yin, 2003). Caution was, however, taken for both documents and archival records to ensure their accuracy and usefulness; this as they are written for an audience with a purpose different than that of this study.

See Appendix 3: Documents and archival records for the list of documents used\(^9\). All of the documents did in some way play a part in generating an understanding of the reregulation and its implications. Although they are not elaborated on in this thesis, or explicitly referred to, they were used as a means to triangulate and validate data for the writing of this thesis overall.

Sample

The entire population of actors stemming from Apoteket AB was Apotek Hjärtat, Kronans Droghandel, Medstop, Vårdapoteket and Apoteksgruppen. Such a small population would, therefore, allow for analysis of every case (cf. Saunders, Lewis, and Thornhill, 2009) Sampling was, however, in this case applied, as Apoteksgruppen was not an entirely privately held actor due to its continued collaboration with Apoteket AB; they are furthermore made up of individual entrepreneurs, whereas the other four firms are not. A purposive sampling technique was therefore applied to allow for analysis of homogenous cases that had the same form of restricted collaboration with Apoteket AB.

The size of the sample therefore became four in total. Further sampling was, however, required as this study used interviews. Purposive sampling was employed to get hold of the members who possessed the information needed to answer the research question. The individuals were therefore chosen based on their relevance and knowledge of the topic (cf. Denscombe, 2010). The individuals selected for the study were those who held the title of C-suite or higher management team. Initial access was negotiated through the firms’ official contact channels. Snowball sampling (cf. Saunders et al., 2009) was after the first interview applied whereas still considering the proposed individuals’ relevance and knowledge. A total of four in the study held the title of C-suite, whereas two were B-level (See Appendix 4: Interviewee data for additional information).

4.3.2. Data analysis

Data analysis does in case study research imply the process of examining, categorizing, tabulating, testing and recombining quantitative and qualitative data, which are used to address propositions made. It is difficult to analyze case study evidence, as strategies and techniques to do so are not well defined. Neither are they developed, which makes analysis the most difficult thing in case study research. Much therefore depends on the researcher’s style of rigorous linking, as well as the presentation of evidence and evaluation of alternative interpretations. There are, however, various tools and manipulative techniques that may aid a researcher when doing the analysis of collected evidence. Case study research should, irrespective of previous elaboration, strive to have one general analytic strategy, which defines priorities for what to analyze and why (Yin, 2003).

The analytic strategy chosen for this study was case descriptions in addition to manipulations (cf. Miles and Huberman, 1994), as manipulations in themselves are not sufficient to analyze collected evidence (Yin, 2003). Such a strategy also aided in the selecting which tools were useful, and which was not. The adoption of a strategy also helped in “treating gathered evidence fairly, producing compelling analytic conclusions, and rule out alternative interpretations” (Yin, 2003, p.111). It also made the usage of manipulations more efficient and effective.

Because of case descriptions and manipulations being chosen to analyze data implied that suitable ways to represent it would take the form of matrixes of data, flowcharts, and similar graphics. An element of narrative was also applied, which is common for case studies (cf. Flyvbjerg, 2006). Eisenhardt and Graebner (2007) do however argue for it being infeasible to present a relatively complete and unbroken narrative for each case that has been researched. The challenge therefore lay in

\(^9\) Appendix 3 does not present the documents that were explicitly referred to in the text. Those documents are shown in References.
coping with the trade-off between a rich story and well-grounded theory. Summary tables and other forms of aids that summarize case evidence were therefore used to complement the narratives in such a trade-off (cf. Eisenhardt and Graebner, 2007).

Analysis of how profitability was measured follows below. There is currently no set agreement of what existing definition is the “best” criterion to evaluate firm performance (Barney, 1997). Current definitions do in addition only capture its meaning partially (Bruggeman, 2004) as organizational performance is a part of the multidimensional performance concept, which makes it hard to define (Verweire and Van den Berghe, 2004). The performance measure used for the study to evaluate firm profitability was nonetheless the EBITDA-margin (Earnings before interest, taxes, depreciation, and amortization). Further elaboration is conducted in section 5.2.2. Profitability.

4.3.3. Criteria for judging quality

Triangulation of data, which is the “combination of methodologies in the study of the same phenomenon” (Denzin, 1978, p.291), was used for this thesis to deal with uncertainty of sources. It was furthermore a means to increase the overall quality of the paper. The usage of triangulation here builds on the meaning of Denzin (1978) in which triangulation is a vehicle for cross validation of different sources, which in my case were interviews and documents, to provide a more certain portrayal of the studied phenomenon (Jick, 1979). This is because a study that utilizes different kinds of data on the same phenomenon enables for better accuracy of judgements made (Jick, 1979; Yin, 2003).

The usage of multiple sources of data here rests on the basic assumption of triangulation; “that the weakness in each single method will be compensated by the counter-balancing strengths of another” (Jick, 1979, p.604). Archival records and documents were therefore used extensively during the start of the thesis because of the width and complexity of the studied phenomena. Such sources were fruitful in enabling sense-making of the deregulation and its implications on the industry and this very thesis as well. Interviews were subsequently conducted to allow for a deeper understanding of the things documents could not, i.e. personal and firm specific interpretations of the studied phenomena. Statements made from analysis of interviews could in turn be supported and validated by documents to provide a certain portrayal of the phenomena, as well as the other way around. Thus, a rather holistic and contextual understanding was aimed for. The effects of such an approach led to sources complementing each other when cross-checking for internal consistency, as well as testing the degree of external validity. Triangulation therefore played a prominent role in allowing for confident interpretations (Jick, 1979; Yin, 2003).

Although Jick (1979) argues for there being a few ways in maximizing the credibility of findings, usage of triangulation more than often rely on a researcher’s interpretations of the situation (cf. Yin, 2003). A general analytic strategy and manipulations were therefore applied to enable for a more structured and less arbitrary way to interpret data. The usage of triangulation, an analytic strategy and manipulations also led to only the first interview being transcribed, because of the comprehensiveness of documents. The remaining five interviews were instead based on extensive notes. Value of empirics collected during interviews, as well as the documents analyzed was in this sense based on their relevance to confirm, contradict or build further on prior theory. The manipulations and case descriptions made throughout therefore played an invaluable role in enabling rigorous linking of alternative interpretations of data. Validity of sources were therefore in line with Yin (2003) and Weiss’s (1968, p.349) that it was based on the judgement of the researcher’s “capacity to organize materials within a plausible framework.”

4.3.4. Research ethics

Research ethics relates to questions about how “we formulate and clarify our research topic, design our research and gain access, collect data, process and store our data, analyze data and write up our
research findings in a moral and responsible way.” (Saunders et al., 2009, p.184) This implies that researchers have to design their research in such a way that it is both methodologically sound and morally defensible to those who are involved. (Saunders et al., 2009) The deontological philosophical standpoint was therefore chosen for the study, as it argues for the ends served by research can never justify the usage of unethical research.

The study furthermore acknowledged general ethical issues, in line with Saunders et al. (2009 p. 185-186) that arose across the different stages of the study. Main concerns were directed to ensure privacy of participants, agreements made regarding anonymity, as well as consent both before data collection and after presentation of data. The presentations of findings are therefore not related to a specific interviewee in the thesis. It instead draws on both individual and collective statements from them, but never directly connected to a specific interviewee. This in turn led to not having paragraphs referenced to interviewees. Presentations of quotes are also very limited because many of those involved were hesitant to the usage of it or did not want to be directly quoted. Each interviewee then had the thesis sent to them before examination to ensure that degree of anonymity was accepted, and that the content of the thesis reflected the phenomenon of what was researched. None of the replies led to any changes in the thesis.

Additional measures and information related to the study’s research ethics are shown in Appendix 5: Informed consent forms.
5. Empirical presentation, analysis and findings

The predetermined themes changed during the writing of this thesis. Initially, there was a presumption that the Swedish pharmaceutical market could be an opportunity to build further on the findings of Noda and Collis (2001). Because they emphasized the reason for intraindustry firm heterogeneity being based on a firm’s initial experience, as well as the convergence and divergence forces. This was however not the case in this thesis, as the four siblings, in relation to the market environment in which they operated, was very different from that of Noda and Collis’s. The actors’ initial experiences could not explain the complexity in gaining profitability, or lack thereof. Noda and Collis’s additional limitations to the framework were therefore analyzed; organizational capabilities, learning from failing, and entrepreneurialism. (cf. Noda and Collis, 2001) The limitations could not explain the outcomes either because the four siblings were very similar to one another and learned from their mistakes in similar ways; neither was entrepreneurialism applicable. The theory of value constellations (cf. Normann and Ramirez, 1993) was therefore applied to enable a theoretical explanation of the phenomena. The themes of the findings were therefore divided as follows. First, post-reregulation establishment of pharmacies are presented. Second, case descriptions of the four siblings are made which are followed by representations of reconfigurations in their value constellations from 2010 to 2013. Profitability figures are thereafter calculated and presented. Last, concluding remarks derived from the themes are presented.

5.1. Post-reregulation establishment of pharmacies

Aapoteket AB divested, as previously known, large parts of their pharmacies to other actors in 2009. The actors where however not operational before early 2010 when they gained access to their pharmacies. There has since then been a significant increase in pharmacies overall in the market. The initial establishment and increase in the number of pharmacies are depicted in Table 3. This table does however not present other actors in the industry, as they are relatively small in comparison to those researched, neither were they part of Aapoteket AB’s divestiture process. It is nevertheless noteworthy to state that there have been about 25-30 actors throughout the years.

<table>
<thead>
<tr>
<th>Actor</th>
<th>Before the reregulation</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Aapoteket AB)</td>
<td>929</td>
<td>345</td>
<td>365</td>
<td>375</td>
<td>372</td>
</tr>
<tr>
<td>Apotek Hjärtat</td>
<td>256</td>
<td>270</td>
<td>277</td>
<td>306</td>
<td></td>
</tr>
<tr>
<td>Kronans Apotek</td>
<td>189</td>
<td>209</td>
<td>219</td>
<td>300</td>
<td></td>
</tr>
<tr>
<td>Medstop¹</td>
<td>63</td>
<td>64</td>
<td>65</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Vårdapoteket²</td>
<td>24</td>
<td>24</td>
<td>27</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Total³</td>
<td>929</td>
<td>1 122</td>
<td>1 242</td>
<td>1 274</td>
<td>1 303</td>
</tr>
</tbody>
</table>

Table 3 Number of pharmacies owned by the actors (Sveriges Apoteksförening, 2013)

¹ Medstop was purchased by Kronans Apotek 2013
² Vårdapoteket was purchased by Apotek Hjärtat 2013
³ Includes the total amount of pharmacies in the whole Swedish market
The total increase in pharmacies in the industry each respective year is in addition 202, 121, 32, and 29 (Sveriges Apoteksförening, 2013). There has furthermore within all of Sweden’s regions been an increase in pharmacies. It is however possible to conclude that most of the new pharmacies occurred within counties with larger cities. Such a development simply comes down to the fact that there are more people living there. Surprisingly for the relative increase in pharmacies since the reregulation is that the numbers of visiting customers have not increased at the same pace. There has in this sense been a delay in customers’ willingness to visit pharmacies (Sveriges Apoteksförening, 2011).

There was nonetheless a race to establish new pharmacies during the two first years in the reregulation market. The reasoning for such actions was because there was an interest in gaining access to the best locations. This pursuit of profitable locations did in turn lead to most of the newly established pharmacies occurring early on. This pursuit was also shared by many of the different actors in the industry. The increase in established pharmacies did however decline after 2012. An interviewee also forecasted that the increase in pharmacies would be around 30 each year, unless there is a change of circumstances. Sveriges Apoteksförening (2012) also stated that the establishment of pharmacies will stabilize unless there is a change in the gross margin.

2013 turned out to be an interesting year in terms of merger and acquisitions. Such large scale changes in the market had not been allowed prior to 2013. It was due to the agreement with the Swedish government which implied that no actor was to sell or close any pharmacy bought from Apoteket AB within three years. When that agreement expired three years later, on the 1st of March 2013, (Apotek Hjärtat, 2013) it meant that actors were allowed to sell their pharmacies. Apotek Hjärtat purchased Vårdatapoteket and Kronans Apotek, Medstop. It was also during this time that Kronans Droghandel became Kronans Apotek (Sveriges Apoteksförening, 2013).

### 5.2. The four siblings

This part elaborates further on the similarities and differences of the four siblings. Visualization thereafter follows of their individual changes in value constellations that were derived from Appendix 6: Extended case descriptions. Profitability measures are then presented and analyzed in light of the value constellation theory. Concluding remarks are presented last.

There are both similarities and differences among the four siblings, as shown in Table 4, as well in previous elaboration in 4.1. Historical information about the reregulation of monopoly. The main initial difference was here based on purchased type of pharmaceutical clusters, as well as their size and geographical range. It was also clear that each actor to a large extent kept pursuing their initial strategy. Apotek Hjärtat and Kronans Apotek were initially very focused on aggressive expansion, whereas Medstop and Vårdatapoteket were more cautious to do so. Medstop focused on controlled expansion of their clusters. Vårdatapoteket, on the other hand, had an increased focus on establishing additional deals with hospitals, rather than on expanding through outpatient pharmacies.

Commonly for all of the pharmacies was the initial build-up period in 2010. Each of them was in that sense very similar to the other, as they all took over pharmacies directly from the same actor; Apoteket AB. They were also aware of the market environment and their abilities to generate additional profits, i.e. by expanding their own range of products and services that were not affected by regulations in the same way as the prescribed medicines. Each actor tried very early on to differentiate themselves from one another while simultaneously not changing too quickly to lose the trust of customers, which is the key to pharmaceutical sustainability. Customers have nonetheless witnessed a shift in both products and services offered by pharmacies. Today’s pharmacies offer a variety of products such as make-up, health-oriented products, rehab tools, etc. Customers have also been offered the ability to become more involved in aiding themselves through for example different self-check kits, E-trade, online-services, and customer loyalty programs. There have in this sense been attempts to generate additional...
revenues through new and perhaps innovative changes in pharmacies value constellations to make up for their inability to generate additional revenues of prescription based medicine.

<table>
<thead>
<tr>
<th>First CEO</th>
<th>Apotek Hjärtat</th>
<th>Kronans Apotek</th>
<th>Medstop</th>
<th>Vårdapoteket</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tony Rydberg</td>
<td>2010-01-30</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Date of admittance</td>
<td>2009</td>
<td>1907</td>
<td>2009</td>
<td>2009</td>
</tr>
<tr>
<td>Controlled by</td>
<td>Altor III GP Ltd.</td>
<td>Oriola-KD</td>
<td>Segulah IV, L.P.</td>
<td>Invized AB PriveQ Investment</td>
</tr>
<tr>
<td>Note</td>
<td>Invests in Nordic businesses with a long-term investment perspective</td>
<td>Joint-venture ownership. Oriola-KD (80%), KF (20%)</td>
<td>International administrator of a variety of businesses</td>
<td>Total amount of stocks owned: Invized AB PriveQ Investment (42%)</td>
</tr>
<tr>
<td>Mission</td>
<td>To offer every customer a better health and improved well-being based on committed employees</td>
<td>Become the leading pharmaceutical actor in the Swedish pharmaceutical industry</td>
<td>Cherish existing employee competence to grow the business</td>
<td>Conduct business in the pharmaceutical industry through emergency-oriented outpatient pharmacies</td>
</tr>
<tr>
<td>Initial strategy</td>
<td>Aggressive expansion</td>
<td>Aggressive expansion</td>
<td>Moderate and cautious expansion</td>
<td>Low expansion - expand through procurement of deals with hospitals</td>
</tr>
<tr>
<td>Geographical/market focus</td>
<td>National, mainly outpatient pharmacies</td>
<td>National, mainly outpatient pharmacies</td>
<td>Outpatient pharmacies in big cities</td>
<td>Hospitals and health centers</td>
</tr>
<tr>
<td>Initial amount of employees</td>
<td>1500</td>
<td>931</td>
<td>660</td>
<td>231</td>
</tr>
</tbody>
</table>

Table 4 Initial case descriptions of the four siblings

1Full-time equivalents

5.2.1. Value constellations

Further elaboration on the four siblings’ individual changes in value constellations occur below. The value constellations are, in accordance to the definition of Pettigrew (1993), processes as they show sequences of both individual and collective events, actions and activities that unfold over time in context. The representations furthermore pay careful attention to time, as well as the tensions and contradictions in driving patterns of change (cf. Langley et al., 2013). It does, however, not pay any attention to the reason for reconfiguration or its impact on value creation. The following figures therefore only provide a visualization of reconfigurations having taken place. A brief description of what each value constellations represents is also provided below each figure to shed some light on the reconfigurations made. It is however noteworthy to state the following notes and assumptions for the representations.

- Maintenance occurred in some way every year for each actor, meaning that the maintenance symbol is present in each value constellation.
- The representations did not account for the implementation of IT-infrastructure, as all of the actors changed it, neither was maintenance or reconfiguration of it shown throughout the years.

Further information regarding each actor’s case description may be traced back through Appendix 6:

Extended case descriptions

25
Although representations may look the same, actual underlying change behind the visualization of a scenario may be different.

In addition, new scenarios generated from data were encountered during the study. The scenarios are therefore described and given a symbol to account for multitude of reconfigurations made by the four siblings. Data generated the following scenarios:

<table>
<thead>
<tr>
<th>Description</th>
<th>Example</th>
<th>Symbol</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simultaneous maintenance and reconfiguration</td>
<td>Cost-reductions ((\text{maintenance})) and consolidation of the business ((\text{reconfiguration}))</td>
<td>![Symbol]</td>
</tr>
<tr>
<td>Removal of a previously established extension</td>
<td>Termination of a co-operation with an actor ((\text{removal of } \text{extension}))</td>
<td>![Symbol]</td>
</tr>
<tr>
<td>Static relationship toward an actor</td>
<td>The Swedish government’s rules and regulations ((\text{static}))</td>
<td>![Symbol]</td>
</tr>
<tr>
<td>Divestiture</td>
<td>A divestiture of an entire actor ((\text{dissolution}))</td>
<td>![Symbol]</td>
</tr>
</tbody>
</table>

Table 5 Additional reconfiguration scenarios

A brief analysis of all representations shows that each actor reconfigured their value constellations in different ways. There was, as previously mentioned, an initial build-up period in which increased emphasis was put on setting up the businesses through physical modification of stores and on establishing units, routines etc. There was also a focus on streamlining operations and on cost-cutting measures to counter the surprisingly competitive pharmaceutical market environment. Additional measures were taken to establish collaborations with other actors regarding warehousing and distribution to cut costs even more. Consolidations, fusions of subsidiaries and firms within each pharmaceutical actor were also common. Such measures were often taken in order to simplify the structure of their corporation and to pave the way for future structural changes.

Figure 3 depicts the value constellation of Apotek Hjärtat for the period of 2010 to 2013. During their first three years they had a relatively aggressive expansion strategy while they simultaneously developed a customer loyalty program, and simplified and streamlined operations. Such reconfigurations are shown in the first three years of the figure, whereas they in 2013 integrated E-trade, acquired Vårdapoteket, and fully integrated a storage and distribution channel.
Kronans Apotek, similarly to Apotek Hjärtat, had a relatively aggressive expansion strategy. They focused on internal consolidation of the business early on, as is depicted in the first two years of the figure. Kronans Apotek also focused on cost-reductions and maintenance of both internal and external operations throughout. 2012 was in comparison to the other researched years, and actors, different in terms of reconfigurations made. They ended a formal co-operation with KF, as shown by the removal of extension, and transferred their central storage responsibility to Oriola AB. Kronans Apotek acquired Medstop in 2014 and also made further internal consolidations and reorganizations.

Medstop remained, as previously mentioned, more cautious about expansion as they instead cherished what they had. Maintenance was therefore prevalent during their first two years of operation, and one such measure was cost reduction. 2012 was slightly different as they initiated procurement collaboration with Apoteksgruppen, DocMorris, and Vårdapoteket. Medstop also made internal consolidations and liquidated Medstop AG in 2012. In 2013 they were divested and purchased by Kronans Apotek, as shown by the dissolution in the figure.

Vårdapoteket’s strategic commitments were due to their pharmaceutical characteristics, i.e. emergency pharmacies, different from the other siblings. They expanded by establishing procurement deals with
hospitals rather than by expanding aggressively through commercial and health care centers. In 2011 Vårdapoteket implemented a distribution channel through E-trade, and introduced pre-order and subscription services. In 2012 they focused on internal development, optimization of processes and working methods. They also initiated procurement collaboration with Medstop, Apoteksgruppen, and DocMorris. Vårdapoteket was in 2013 eventually acquired by Apotek Hjärtat.

The presented value constellations do however not provide us with an overview of its implications on value creation, which is at the heart of value constellation theory. A profitability measure was therefore selected and calculated in order to provide us with an overview on the firms’ fluctuations in value creation throughout the researched years.

### 5.2.2. Profitability

The performance measure used to compare the four siblings’ profitability was the EBITDA-margin. It is a measure of a firm’s operating profitability. The EBITDA-margin offers investors a clean view of a firm’s core profitability because the measure excludes depreciation and amortization. It is furthermore of value for investors aiming to compare firms with large amount of fixed assets, or recently acquired large amounts of intangible assets (such as companies who recently purchased a brand, company, or made a large acquisition). It is also a good measure for comparing companies both within and across industries (Investorwords, n.d.). The EBITDA-margin was furthermore by an interviewed CFO suggested to be a suitable profitability measure for this specific study. The EBITDA-margin has also been used in TLV’s report as a profitability measure for pharmacies (cf. TLV, 2012). Performance is in this sense defined as a financial measure (cf. Bruggeman, 2004; Verweire and Van den Bergh, 2004; Barney, 1997). The formula for calculating it is shown below, followed by the EBITDA-margins of the four siblings.

$$\text{EBITDA-margin} = \frac{\text{EBITDA}}{\text{Total revenues}}$$

<table>
<thead>
<tr>
<th>(Kkr)</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Apotek Hjärtat</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBITDA</td>
<td>33 300</td>
<td>251 000</td>
<td>320 000</td>
<td>387 469</td>
</tr>
<tr>
<td>Total revenues</td>
<td>6 772 441</td>
<td>7 174 496</td>
<td>7 026 147</td>
<td>8 266 399</td>
</tr>
<tr>
<td>EBITDA-margin (%)</td>
<td>0,49</td>
<td>3,50</td>
<td>4,55</td>
<td>4,69</td>
</tr>
<tr>
<td><strong>Kronans Apotek</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBITDA</td>
<td>-31 840</td>
<td>-115 100</td>
<td>-71 998</td>
<td>-271 573</td>
</tr>
<tr>
<td>Total revenues</td>
<td>4 442 757</td>
<td>4 365 925</td>
<td>4 570 489</td>
<td>6 880 659</td>
</tr>
<tr>
<td>EBITDA-margin (%)</td>
<td>-0,72</td>
<td>-2,26</td>
<td>-1,58</td>
<td>-3,95</td>
</tr>
<tr>
<td><strong>Vårdapoteket</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBITDA</td>
<td>14 021</td>
<td>26 910</td>
<td>23 847</td>
<td>-</td>
</tr>
<tr>
<td>Total revenues</td>
<td>1 165 034</td>
<td>1 811 003</td>
<td>1 998 273</td>
<td>-</td>
</tr>
<tr>
<td>EBITDA-margin (%)</td>
<td>1,20</td>
<td>1,49</td>
<td>1,19</td>
<td>-</td>
</tr>
<tr>
<td><strong>Medstop</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBITDA</td>
<td>53 664</td>
<td>10 546</td>
<td>38 767</td>
<td>-</td>
</tr>
<tr>
<td>Total revenues</td>
<td>1 850 611</td>
<td>2 521 379</td>
<td>2 264 588</td>
<td>-</td>
</tr>
<tr>
<td>EBITDA-margin (%)</td>
<td>2,9</td>
<td>0,42</td>
<td>1,71</td>
<td>-</td>
</tr>
<tr>
<td><strong>Average EBITDA-margin (%)</strong></td>
<td>0,97</td>
<td>0,79</td>
<td>1,47</td>
<td>0,37</td>
</tr>
</tbody>
</table>

*Table 6 EBITDA-margin of the four siblings (2010-2013) (Annual reports)*
The EBITDA-margins are for all of the actors, except for Apotek Hjärtat, relatively low. Kronans Apotek has, throughout all researched years, had negative values, whereas Vårdapoteket and Medstop have done slightly better, yet worse than Apotek Hjärtat. These calculations in themselves, however, do not present us with much information about how to interpret the results. Comparison to other pharmacies and types of pharmacies are therefore made to shed light on the four siblings calculated values. The first comparison is by Klonowski (2015:206), where the comparative values were derived from eight specialty pharmacies. Their EBITDA-margins span from 1.1 % - 8.6 %, where the average is 4.6 %. The second is a report by Bourne Partners (2011), in which their six researched specialty pharmacies had an average EBITDA-margin of 5.1 %, whereas the more diversified pharmacies had an average of 6.2 %.

Although the researched pharmacies are located in other countries and may differ in products and services, the core - pharmaceutics - remains the same. This implies that the average EBITDA-margins of the four siblings (0.37 - 1.47) in relation to that of Klonowski (2015) and Bourne Partners (2011) is very low. The only exception is Apotek Hjärtat, which is closest to the other pharmaceutical averages. The reasons as to why may be explained by a press release from their CEO. In it he states that the positive results in 2012 were directly correlated to their improvements in the way they operated (Apotek Hjärtat, 2012). TLV (2012) stated, irrespective of the results presented above, that pharmacies overall had a relatively even profitability before the reregulation in 2009. This is no longer the case. Profitability has since then also declined. A report by Socialdepartementet estimated that the average profitability of pharmacies had declined from about 4 % to approximately 2 % between 2008 and 2011 (TLV, 2012). This was said to be because of the rapid increase in established pharmacies, as can be seen in Table 3, which shows that there has been an increase in 374 (40 %) pharmacies since the re-regulation. This correlation between profitability and pharmaceutical establishment was also shared by the interviewees of the study. One of them also mentioned that it was not anticipated that the establishment of pharmacies would be so dramatic. It was in this sense a big surprise for the actors, as the increase in pharmacies occurred quicker than expected. This implies that profitability has been an issue before and still is.

5.2.3. Concluding remarks

Previously mentioned themes in this chapter emphasize multiple things that, when combined, come down to one conclusion: reconfigurations in pharmaceutical value constellations do not lead to increased value for the actor on a short term perspective. This is because of the government’s rules and regulations, especially the set gross margins and the increase in pharmacies. Additional factors influencing the ways in which value may be generated are also affected by its industry characteristics: economies of scale, and the trust in pharmacies. I.e. pharmaceutical firms need economies of scale to become profitable, as well as the fact that pharmacies cannot redefine what a pharmacy is without facing the risk of losing the trust of consumers.

The researched pharmacies have due to market characteristics and environment reconfigured their firms accordingly in attempts to become profitable. It is however, as previously shown, quite difficult given the circumstances. This powerful yet suitable statement from one of the interviewees describes how pharmacies compete:

“...cannibalizing on each other.”

It was also emphasized that positive profitability makes a business sustainable, more able to endure market fluctuations, and better prepared for long term investments. This is however not the case for most, since they struggle with profitability. The following quote therefore fits in summarizing the Swedish pharmaceutical industry:

“When medicines are controlled and regulated, it forces us to invest in cross-segment merchandising-- how we position ourselves in the market to increase our market
share...It is not feasible to solely rely on medicines; you have to have something else that is profitable.”

It does however have to be acknowledged that there is room for cost-cutting measures and productivity increases to boost the ratio of profitability versus cost. As well as the fact that investments take time before you can see its full effect. Then one may wonder what long term effects such actions may have in the industry later on. Further acknowledgement also has to be directed toward how it was during the era of monopoly. Today’s pharmaceutical actors operate on different terms in relation to Apoteket AB (when monopoly was still present), and they still are. I.e. operational success criteria for privately owned pharmacies are different from that of Apoteket AB due to it being both funded and owned by the government.
6. Discussion and critical reflection

This thesis shows that privately owned pharmacies’ reconfigurations of their value constellations within the context of governmental reregulation of monopoly do not improve firms’ value-creation in a short term perspective. It is the Swedish government’s rules and regulations that restrict pharmacies from becoming profitable, as well as the rapid establishment of new pharmacies that increases industry competition. Value is in this sense was only created for consumers, whereas the pharmacies themselves were left out. The study also shows that firms’ initial experiences, as well as organizational capabilities, learning from failing and entrepreneurialism (cf. Noda and Collis, 2001) are not able to explain intraindustry firm heterogeneity when rules and regulations substantially affects an industry’s strategic maneuverability.

The findings of the study therefore answer the research question: How do firms create value in the context of governmental reregulation of monopoly? In addition, the study extends beyond the research question, as the case findings provide insights to elaborate on prior theory while critically rejecting predominant explanations. Because the findings of the study are analyzed and guided by predominant theory and research methodology, they make the study’s results greatly entwined, which in turn lead to cross-fertilization in between them.

Although this study cannot be defined as a form of divestiture process research, it still bears relevance to the field of research on divestitures, because the divestiture process was studied, as well as emphasized as one of multiple factors affecting the value-creation process. The initial focus on divestiture process research was during the writing of this paper altered due to the change of theoretical framework. It was therefore directed toward a study characterized by strategy-process research. It was furthermore a necessity, as it in turn led to the possibility of making a better theoretical contribution. This was mainly related to the fact that initial presumptions were falsified with to the surprisingly unique and interesting interplay among market environment, its actors, and the governmental rules and regulations (cf. Burawoy, 1998).

The study’s coupling of theory and its findings contribute both theoretical and practical knowledge. It contributes theoretically to the field of research on divestitures as it maps the divestiture steps of Apoteket AB, as well as how the divested units’ financial performance changed over time (cf. Woo, Willard and Daellenbach, 1992; Duhaime and Grant, 1984; Ravenscraft and Scherer, 1987). This paper also adds to the research of Noda and Collis (2001), as it critically confronts their framework. It adds to their research, as their framework could not explain intraindustry firm heterogeneity in a setting such as the Swedish governmental reregulation of monopoly. Further research, such as this, was also wished for and stated in their conclusion (cf. Noda and Collis, 2001:922). The reason as to why it adds to their research is because the setting in which this case study was conducted was similar in some aspects, yet different on fundamental parts. The differences among the two were that the Swedish pharmaceutics industry had entirely different market characteristics, especially due to the involvement of the state. Neither was there a technological shift within the industry that pharmacies could capitalize on. The pharmaceutical industry was in that sense very different from Noda and Collis’s (2001) research on the cellular telephone service business. This is because a redefinition of what a pharmacy is, is not likely to occur - at least not in the near future.

Industries characterized by such stable market conditions, in which the ability to capitalize on market shifts is not present, or very rare, restricts the ways in which actors can reconfigure their value constellations even more. This implies that actors in such industries face difficulties in creating new
value (cf. Noda and Collis, 2001). Such circumstances further fortify the actors’ prior evolutionary path. This reasoning is based on Noda and Collis’s (2001) argumentation in which choices and actions in subsequent periods constrain or open up possible future actions (Collis, 1991; Ghemawat, 1991). Path dependence as a concept is thus, arguably, increasingly prevalent in stable industries as an actor’s history matters (Arthur, 1990; Dosi, Teece, and Winter, 1992).

This study also adds to the research on value constellations, since the findings show that changes in value constellations do not lead to additional value for organizations operating in industries with rules and regulations that significantly restrict firms’ abilities to generate value (cf. Normann and Ramirez, 1993). This study therefore adds to their limitations of the concept. My findings provided, similarly to their Danish case, empirical data gathered from a context in which a government plays a dominant part in the design of the market. Although this study’s findings argue for the concept’s limitations, the findings in themselves support the comprehensiveness of the value constellation theory, i.e. its applicability to more than just specific cases.

Additional development on the scenarios by Netz and Iveroth (2011) was made to capture the entire multitude of reconfigurations made by the researched firms. It is nonetheless of importance to highlight that their scenarios proved invaluable to the study, regardless of its shortcomings. This study therefore offers additional scenarios to add to the concept’s comprehensiveness, which further highlight its importance to processes such as these (cf. Netz and Iveroth, 2011). Representations in themselves, however, are limited in two ways. First, representations do not necessarily contain all reconfigurations in value constellations as collected information may not be exhaustive. Information may therefore be missing to make fully accurate representations. Second, the representation in itself is a tool to simplify reality. It does therefore not reflect its true comprehensiveness, neither the reason for change nor its immediate impact on value creation. The representations do nevertheless provide both reader and writer with the ability to follow reconfigurations made in value constellations.

It also contributes practical knowledge to the pharmaceutical industry overall, as it provides a retrospective perspective on fundamental aspects of the reregulation and its implications on firm performance. This is to a large extent based on the reasoning that the study is not just descriptive, it rather analyzes the dynamics in between researched variables, which in turn leads to explanatory findings and conclusions. It may also in some instances act as a part of a base for future decision-making. This study does in addition, due to the findings, argue for change of the industry being a necessity if there are incentives from the state to allow privately owned pharmacies to be profitable. The withdrawal of allowing retailers to sell paracetamol in the form of pills from the 1st of November 2015 (Läkemedelsverket, 2015) is a first step into that direction. The set gross margin is still an issue, and so are the rules and regulations on how pharmacies are allowed to operate. This therefore raises the question of what long term impact it could have on pharmaceutical actors if they are not able to have sufficient profitability to be sustainable to respond to for example market fluctuations and change in customer demand. One may wonder if any actor could have done anything differently. One possible way to bypass the restricted ability to gain profitability would be to substantially increase the amount of sold commodities versus prescribed medicines. Such action would however involve high risk of losing the trust of customers, who are the key to pharmaceutical sustainability. The four siblings therefore reconfigured their value constellations accordingly to make the best out of a complex situation. This implies that it is hard to see any actor reconfiguring value constellations any differently than they did.

The societal consequences of this study is that it entails the complexity of the pharmaceutical industry in Sweden, as well as the difficulties actors have in creating value for their organizations and the interplay between the two. It furthermore offers society a study of academic nature that analyzes possible correlations through a theoretical framework and prior academic research. It is therefore different than documents provided by the government, NGO’s and other organizations involved in study of the pharmaceutical industry. It may therefore have a positive impact on society and the researched actors, as it raises awareness about the industry from a different point of view.
7. Limitations of research

Possible limitations to the study may be based on the fact that not all of the actors included in the study were interviewed\(^1\). This may in turn have led to presentations or analysis of data that may not have been perfectly exhaustive in the first place. As well as the fact that information and data used from secondary data are produced for a purpose different from that of for example researchers (cf. Yin, 2003). Such a limitation was however accounted for to the extent possible through triangulation of data from different sources to validate its trustworthiness and usefulness (Jick, 1979). An additional limitation to the study was that it did not account for what extent independent reconfigurations of value constellations directly affected value creation. Correlations between the two were only possible to identify in cases where it was explicitly mentioned - which were quite limited. This in turn led to the study’s inability to specify what reconfigurations of value constellations may have had impact on value creation, and conversely those that did not. This is mainly related to Apotek Hjärtat’s relatively positive EBITDA-margins and Kronans Apotek’s relatively negative EBITDA-margins. A lower management perspective (cf. Hutzschreutner and Kleindienst, 2006) may therefore have been useful to specify as to why this was the case.

8. Conclusion

The findings of this study shed light on the unique reregulation of monopoly in the Swedish pharmaceutical industry. It has shown that reconfigurations of value constellations in an industry characterized by strict rules, regulations, and high competition do not generate additional value on short term. The study has furthermore briefly mapped the divestiture process of Apoteket AB, explored the pharmaceutical actors’ initial experiences and compared their performance through calculation of the EBITDA-margin. The key finding, in addition to aforementioned conclusion about reconfigurations of value constellations, is that it contributes theoretically because of the nature of the study, as well as the uniqueness and characteristics of the researched industry. This is because it studies firms’ initial experiences, and the three limitations of the framework by Noda and Collis (2001): organizational capabilities, learning from failing and entrepreneurialism from a process study point of view, which has not been conducted in prior research.

The studied dynamism in between the different dimensions of the study showed that the framework of Noda and Collis (2001), as well as their limitations, could not explain intraindustry firm heterogeneity due to the static role of the government and its effect on value creation. This study therefore applied the theory of value constellations to build further on prior research and lay the foundation for thematic analysis. The findings of this study also builds further on the statement that value creation is hampered in situations where systems preventing trade-based transactions are present (cf. Normann and Ramirez, 1993). This study adds to it arguing for value creation also being hampered in situations where rules and regulations affect firm’s ability to reconfigure their value constellations. It furthermore builds on the scenarios of Netz and Iveroth (2011) by providing additional scenarios to explain the multitude of possible reconfigurations of value constellations, which the concept has been in dire need of.

This study, however, raises additional questions, which may be answered by further research. Although case study research is a suitable method for developing theory (cf. Flyvbjerg, 2006) it would be of value to its generalizability to test it on a larger scale, as well as through other methodologies, for example quantitatively, to measure performance from another point of view. Further research on a

\(^1\) Multiple attempts to gain access were however made, yet without success as they were too busy restructuring their organization.
low-level management perspective (cf. Johnson, Melin and Wittington, 2003) would contribute as well as opposed to a higher management (cf. Hutzensreuter and Kleindienst, 2006) perspective that was used for this study. Although the reregulation of monopoly of the pharmaceutical industry was unique in a sense that the governmentally owned actor still remained in the market does not imply that reregulations and deregulations for that matter is unique to Sweden alone. Further testing of the findings in this study may be applied to countries such as Denmark, Norway and Iceland. These countries have also changed the ways in which pharmacies operate.
References


Appendix 1: Cluster overview

<table>
<thead>
<tr>
<th>Cluster</th>
<th>Number of pharmacies</th>
<th>Total revenues FY06</th>
<th>Total revenues FY07</th>
<th>Total revenues FY08</th>
<th>CAGR 06-08</th>
<th>Gross profit FY06</th>
<th>Gross profit FY07</th>
<th>Gross profit FY08</th>
<th>CAGR 06-08</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>199</td>
<td>5,292</td>
<td>5,477</td>
<td>5,783</td>
<td>4.5 %</td>
<td>1,107</td>
<td>1,156</td>
<td>1,258</td>
<td>6.6 %</td>
</tr>
<tr>
<td>2</td>
<td>171</td>
<td>3,984</td>
<td>4,209</td>
<td>4,399</td>
<td>5.1 %</td>
<td>831</td>
<td>881</td>
<td>947</td>
<td>6.8 %</td>
</tr>
<tr>
<td>3</td>
<td>21</td>
<td>932</td>
<td>997</td>
<td>1,042</td>
<td>5.7 %</td>
<td>197</td>
<td>212</td>
<td>228</td>
<td>7.6 %</td>
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<td>4</td>
<td>20</td>
<td>1,089</td>
<td>1,089</td>
<td>1,125</td>
<td>1.7 %</td>
<td>228</td>
<td>230</td>
<td>246</td>
<td>3.9 %</td>
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<tr>
<td>5</td>
<td>21</td>
<td>851</td>
<td>893</td>
<td>945</td>
<td>5.4 %</td>
<td>180</td>
<td>189</td>
<td>205</td>
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<td>6</td>
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<td>653</td>
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<td>660</td>
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<td>728</td>
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<td>3.5 %</td>
<td>104</td>
<td>108</td>
<td>113</td>
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<tr>
<td>8</td>
<td>10</td>
<td>1,162</td>
<td>1,244</td>
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<td>246</td>
<td>263</td>
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<td>Total</td>
<td>466</td>
<td>14,669</td>
<td>15,281</td>
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<td>2,994</td>
<td>3,140</td>
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Table 7 Total revenues of all clusters FY06-08 and CAGR (SEKm) (Apoteket Omstruktureringsbolaget AB, 2009)

<table>
<thead>
<tr>
<th>Cluster</th>
<th>Number of pharmacies</th>
<th>Total store area (m²)</th>
<th>Average store area (m²)</th>
<th>Average revenue/pharmacy</th>
<th>Number of employees¹</th>
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<tr>
<td>1</td>
<td>199</td>
<td>47,249</td>
<td>249</td>
<td>30.4</td>
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<tr>
<td>3</td>
<td>21</td>
<td>6,520</td>
<td>310</td>
<td>49.6</td>
<td>211</td>
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<tr>
<td>4</td>
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<td>431</td>
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<td>121</td>
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<td>8</td>
<td>10</td>
<td>5,641</td>
<td>564</td>
<td>130.8</td>
<td>270</td>
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<tr>
<td>Total</td>
<td>466</td>
<td>117,334</td>
<td>-</td>
<td>-</td>
<td>3,322</td>
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<tr>
<td>Average</td>
<td>-</td>
<td>324.7</td>
<td>~57.1</td>
<td>~57.1</td>
<td>-</td>
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</table>

Table 8 Cluster overview: comparative figures FY08 (SEKm) (Apoteket Omstruktureringsbolaget AB, 2009)

¹Full-time equivalents

¹² Compound Annual Growth Rate
Appendix 2: Data Collection Protocol

English version

General
1. How would you describe the pharmaceutical market environment?

Divestiture process
2. How would you describe the divestiture process of Apoteket AB from your perspective?

3. What were the different steps of the divestiture process of Apoteket AB from your perspective?

4. Did you inherit or take over any systems, processes, models, employees and/or other from Apoteket AB?
   a. If yes: what was inherited?

Initial experience
5. How was your initial experience as a new actor on the pharmaceutical market?
   a. How was that experience affected by the divestiture process of Apoteket AB?

6. Have you carried out any risk assessments in order to identify opportunities and threats in the pharmaceutical market?
   a. If yes: how did that impact your view of the pharmaceutical market initially?
   b. If no: why?

Strategic commitment
7. What major divestments and acquisitions has your firm conducted since 2009?
   a. What was the reasoning behind such decisions?

8. How would you describe your strategic initiatives and commitments when you were newly formed on the pharmaceutical market?
   a. What was the reasoning behind such strategic initiatives and commitments?

9. How did your strategic commitments of your organization affect your market positioning?
   a. Did the strategic commitments change over time?
      i. If yes: how?
      ii. If no: why?
   b. Did the strategic initiatives of the other pharmaceutic actors affect your own market positioning during that period of time?
      i. If yes: how?
      ii. If no: why?
Learning
10. Could you describe any lessons learned about the pharmaceutical market occur during the first year of operations?
   a. How has such lessons learned affected strategic decision-making that followed?

11. How was your organization’s knowledge about conducting divestitures and acquisitions during the first year of operations?
   a. How has your organization’s knowledge about conducting divestitures and acquisitions developed since then?

12. Has the knowledge about conducting divestitures and acquisitions affected strategic decision-making?
   a. If yes: how?
   b. If no: why?

Performance
13. What amount of non-prescribed and prescribed medicine has your organization sold each year since you were first established?
   a. What do you think has had an impact on your organization’s amount sold?

14. Did your initial experiences in the pharmaceutical market affect your short- and long term financial performance in some way?
   a. If yes: how?
   b. If no: why?

15. Did the divestiture process of Apoteket AB affect your short- and long term financial performance in the pharmaceutical market in some way?
   a. If yes: how?
   b. If no: why?

Swedish version

Generellt
1. Hur skulle du beskriva apoteksmarknaden?

Avyttringsprocess
2. Hur skulle du beskriva avyttringsprocess av Apoteket AB från ditt perspektiv?

3. Vilka var de olika stegen i avyttringsprocessen av Apoteket AB från ditt perspektiv?

4. Ärvde ni några system, processer, modeller, anställda och/eller annat från Apoteket AB?
   a. Om ja: vad ärvdes?

Initial upplevelse
5. Hur var er initiala upplevelse som ny aktör på apoteksmarknaden?
   a. Hur påverkades denna upplevelse av avyttringsprocessen av Apoteket AB?

6. Har riskanalyser genomförts för att identifiera möjligheter och hot i apoteksmarknaden?
a. Om ja: hur påverkade det er syn på apoteksmarknaden initialt?
b. Om nej: varför?

**Strategiska åtaganden**

7. Vilka större avyttringar och förvärv har er organisation genomfört sedan 2009?
   a. Vad var tanken bakom sådana beslut?

8. Hur skulle du beskriva era strategiska initiativ och åtaganden när ni var nyetablerade på apoteksmarknaden?
   a. Vad var tanken bakom sådana strategiska initiativ och åtaganden?

9. Hur påverkade era strategiska åtaganden er marknadspositionering?
   a. Ändrades era strategiska åtaganden med tiden?
      i. Om ja: hur?
      ii. Om nej: varför?
   b. Påverkade andra apoteksaktörers strategiska åtaganden egen marknadspositionering?
      i. Om ja: hur?
      ii. Om nej: varför?

**Lärande**

10. Skulle du kunna beskriva några lärdomar om apoteksmarknaden under ert första år som verksam aktör?
    a. Hur har sådana lärdomar påverkat ert strategiska beslutsfattande på sikt?

11. Hur skulle du bedöma er organisatoriska kunskap om att genomföra avyttringar och förvärv under ert första år som verksam aktör?
    a. Hur har denna organisatoriska kunskap om att genomföra avyttringar och förvärv utvecklats sedan dess?

12. Har kunskapen om att genomföra avyttringar och förvärv påverkat ert strategiska beslutsfattande?
    a. Om ja: hur?
    b. Om nej: varför?

**Resultat/Prestation**

13. Hur stor andel icke-receptbelagda och receptbelagda läkemedel har ni sålt respektive år sedan ni etablerats?
    a. Vad tror du har påverkat andelen sålda icke-receptbelagda och receptbelagda läkemedel i er organisation?

14. Påverkade er initiala upplevelse i apoteksmarknaden er organisations kortsiktiga- och långsiktiga finansiella resultat på något sätt?
    a. Om ja: hur?
    b. Om nej: varför?

15. Påverkade Apoteket AB:s avyttrningsprocess er organisations kortsiktiga- och långsiktiga finansiella resultat på något sätt?
    a. Om ja: hur?
    b. Om nej: varför?
Appendix 3: Documents and archival records

Annual reports used for the four siblings representations of value constellations


Miscellaneous


Statskontoret [a] (2012). *En omreglerad apoteksmarknad: delrapport 2*


TLV [a] (2014). *Apoteksmarknadens lönsamhet: internationella och nationella jämförelser med noterade apoteksföretag och annan detaljhandel.*


Appendix 4: Interviewee data

<table>
<thead>
<tr>
<th>Designation</th>
<th>Interviewee</th>
<th>Position</th>
<th>Length of interview</th>
<th>Date of interview</th>
<th>Setting</th>
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<td>1</td>
<td>C-suite</td>
<td>1 h</td>
<td>2015-03-26</td>
<td>Face to face</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>B-level</td>
<td>40 min</td>
<td>2015-04-29</td>
<td>Face to face</td>
</tr>
<tr>
<td>Pharmacy 2</td>
<td>3</td>
<td>C-suite</td>
<td>1 h</td>
<td>2015-04-17</td>
<td>Face to face</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>B-level</td>
<td>50 min</td>
<td>2015-04-16</td>
<td>Telephone</td>
</tr>
<tr>
<td>Other 1</td>
<td>5</td>
<td>C-suite</td>
<td>40 min</td>
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<td>Telephone</td>
</tr>
<tr>
<td>Anonymous</td>
<td>6</td>
<td>C-suite</td>
<td>30 min</td>
<td>2015-04-16</td>
<td>Face to face</td>
</tr>
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</table>

Table 9 Interviewee data
Appendix 5: Informed consent forms

Introductory Letter

*Till VD med ledningsgrupp och styrelse.*

Hej!

Mitt namn är Richard Hartgers och jag skriver i denna stund min masteruppsats (30hp) i management vid Stockholms Universitet. Tidigare har jag avslutat ett kandidatprogram i företagsekonomi. Det är med anledning av uppsatsarbetet jag nu kontaktar er.

I uppsatsarbetet undersöker jag avyttringsprocessen av nuvarande Apoteket AB som genomfördes 2009 och hur den nya apoteksmarknaden formerades. Särskilt studerar jag beslut om avyttringar som sedermera gjorts i den nya marknadens utveckling, och hur företagens erfarenhet kan ha påverkat ert framtidiga beslutstagande.


En intervju tar ca 1 timme och om det är möjligt så skulle jag gärna intervjua dig som VD, och någon från din styrelse respektive ledningsgrupp. Personer som väljer att delta ges givetvis möjligheten att behandlas med full anonymitet. Möjlighet ges även att bekräfta med er vad som skrivs innan det publiceras för utomstående. Detta för att ge er möjlighet att påpeka vad som får nämnas, samt vad som anses kunna vara känsligt och måste tas bort/skrivas om.


För er innebär studiens resultat en möjlighet att få en teoretisk och praktisk inblick om hur avregleringen av apoteksmarknaden i samspe med dess avyttringar/förråd kan ha påverkat er som aktör. Dess resultat kan även användas i lärande syfte och som framtidiga beslutsunderlag.

För min del ger det mig möjligheten att genomföra en studie som skulle betyda slutet på min långa studieperiod. Skulle ni då ge ert samtycke till att tänka er att ställa upp på intervju gör det mig oerhört tacksam.

Ser fram emot att höra av er så snart som möjligt för vidare dialog.

Med vänliga hälsningar,

Richard Hartgers
Tel: 0766 50 26 91
E-mail: riha0242@student.su.se
CONSENT FORM

Title of research project:
Reconfigurations of value constellations and its effects on value creation in the context of governmental reregulation of monopoly

Name and position of researcher:
Richard Hartgers, Final year master’s student at Stockholm Business School, Stockholm University.

1. I confirm that I have read and understood the information sheet for the above study and have had the opportunity to ask questions.

2. I understand that my participation is voluntary and that I am free to withdraw at any time without giving a reason.

3. I agree to take part in the study

4. I agree to the interview being audio recorded.

5. I agree to the use of anonymized quotes in the thesis.

Name of participant: Date: Signature:

Richard Hartgers (researcher) Date: Signature:
Appendix 6: Extended case descriptions

Descriptive notes:
Low expansion: 1-5
Moderate expansion: 6-15
Aggressive expansion: 16-

*Internal development* is change not directly visible by the end-customer
*External development* is directly visible by the end-customer

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<th>2012</th>
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<td>Moderate expansion</td>
<td>Moderate expansion</td>
<td>Aggressive expansion</td>
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<tr>
<td></td>
<td>Established 52 pharmacies</td>
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<td>Initiated acquisition of Vårdapoteket</td>
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<td>Implementation of IT-systems</td>
<td>Conversion of current share holder loan into stocks</td>
<td>Education in quality for 80 % of the employees</td>
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<td>Employee- and quality-routines</td>
<td>Simplify and streamline operations</td>
<td>Continuous efforts of improving operations and increasing efficiency</td>
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<td>Competence development</td>
<td>Development of wholly owned storage and distribution channel</td>
<td>Semi-integration and continued development of wholly owned storage and distribution channel</td>
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<td>Rebuilding of stores to fit store concept</td>
<td>Rebuilding of stores</td>
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<td>Customer loyalty program</td>
<td>Investments in existing pharmacies</td>
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<td><strong>Industry changes and feeling</strong></td>
<td>Reduced profits due to market shares of non-prescribed medicine being sold by grocery stores</td>
<td>Average price of medicine was reduced by 3,6 %</td>
<td>Improved growth in sales of non-prescribed medicine and commodities</td>
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<td>Strategic focus</td>
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<td>2011</td>
<td>2012</td>
<td>2013</td>
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<td>----------------------</td>
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<td>End of formal co-</td>
<td>Acquisition of Medstop</td>
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<td>and/or implementation</td>
<td>contacts, warehousing,</td>
<td>systems</td>
<td>operation with KF(30th of</td>
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<td>and distribution</td>
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<td>and integration</td>
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<td>Kronans Droghandel Apotek</td>
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<td>Tuning of IT-systems</td>
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<td>and feeling</td>
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<td>Heavy competition</td>
<td>Reduced profits due to</td>
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<td>High pace of establishment</td>
<td>high cost of the IT-</td>
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<td>Reduced profits due to</td>
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<td>market shares of non-</td>
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Table 11 Case description: Kronans Apotek
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<td><strong>Cost-reduction commitments</strong></td>
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<td>Implementation of IT-systems</td>
<td>Implementation of IT-systems</td>
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<td></td>
<td>Conversion of current share holder loan into stocks</td>
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<td>Plan to Liquidate Medstop AG</td>
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<td><strong>Industry changes and feeling</strong></td>
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<td>Reduced profits due to market shares of non-prescribed medicine being sold by grocery stores</td>
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<td></td>
<td>Heavy competition</td>
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<td>Many geographical location heavily over-established</td>
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<td>Stagnated revenues</td>
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*Table 12 Case description: Medstop*
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<td>Low expansion</td>
<td>Low expansion</td>
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</tr>
<tr>
<td>Internal development and/or implementation of:</td>
<td>Set-up support functions</td>
<td>Implementation of IT-systems</td>
<td>Initiate procurement-collaboration with Apoteksgruppen, DocMorris and Medstop for a common wholesaler and logistics</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Develop systems and establish business units for future growth</td>
<td>New way of handling net-prices of medicine and services for county council</td>
<td>Optimization of processes and working methods</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Consolidate operations</td>
<td></td>
<td>Continuous internal development</td>
<td></td>
</tr>
<tr>
<td>External development and implementation of:</td>
<td>Rebuilding of stores to fit store concept</td>
<td>Customer-loyalty program</td>
<td>-</td>
<td></td>
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<tr>
<td></td>
<td>Distribution through E-trade, pre-order, and subscription-services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry changes and feeling</td>
<td>Managed to retain sales despite increased competition</td>
<td>Reduced profits due to market shares of non-prescribed medicine being sold by grocery stores</td>
<td>People are increasingly more inclined to invest in health and well-being</td>
<td></td>
</tr>
</tbody>
</table>

Table 13 Case description: Vårdatoteket