

Competitive Advantage in Global Markets: The case of the salmon industry in Chile

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ABSTRACT

This study focuses on how companies operating in international food commodity markets can improve their long-term competitiveness and profitability upon financial pressure. Management can choose between generic strategies of either cost leadership or enhanced value adding by differentiation and innovative marketing strategies. The aim of the paper is to highlight key findings from a case study perspective. The research is set within the farmed salmon sector in the world's second largest producing country, Chile. Unexpectedly our findings show that executives preferred competitive strategy of cost reduction rather than differentiation. Based on previous research we recommend managers of individual firms and trade associations to play down commoditization and to pursue differentiation strategies with particular attention to emergent environmental attributes.

Key words: Competitive advantage in global markets, natural resources-based cluster, salmon industry, Chile.

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INTRODUCTION

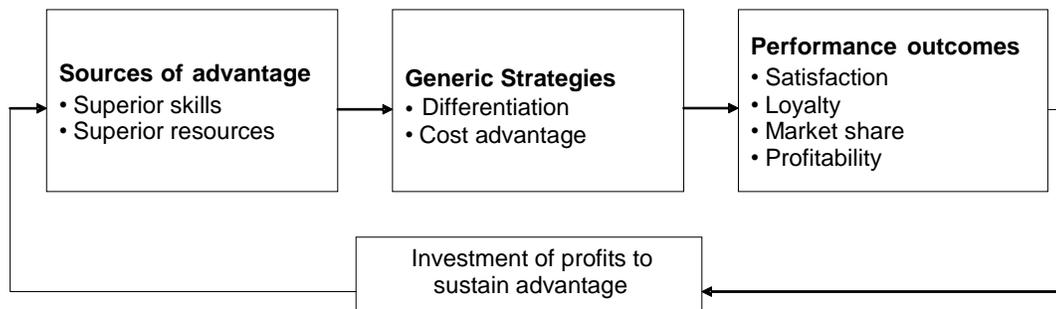
Competitive advantage can be achieved by generic strategies of either cost leadership or differentiation (Porter 1980; Kaleka 2002). Matthyssens and Vandembemt (2008) showed that companies strive to fight commoditization and refrain from price-based competitive advantage however dominant "industry recipe" and their own traditional marketing approaches may hinder this strategy. They argued that "non-price-based value creation paths require a sound degree of exploration to overcome these constraints" (p. 326). The context of their empirical study was the Dutch electro-technical industry. In order to further explore generic strategies for mature industries (Bush and Sinclair, 1992) this study is focusing on the Chilean salmon farming industry. Since the end of the 20th century this industry has rapidly evolved being a main player in global markets. However its competitiveness has diminished and should be studied (Bjørndal 2002; Perlman and Juarez-Rubio, 2010). The challenge for the salmon farming industry is the issue of how to enhance value creation through differentiation and innovative marketing strategies or alternatively though cost reduction. More specifically key question for this study is what might be the nature and extent of differentiation? After reviewing the literature we present a proposition related to the generic marketing strategies that companies can chose.

This study adopts a case study research approach (Eisenhardt, 1989; Yin, 1989), since a central purpose of the research is to generate findings that are rich and contextually grounded and yet sufficiently robust to be analytically generalizable (Yin, 1989). To gain insight regarding our industry the study makes use of multiple data sources; secondary published information and in-depth interviews with selected key informants –managers- of the industry. As showed in the results, it seems to appear that not many companies are willing to apply marketing differentiation strategies in this industry. Even more, it seems they prefer to keep their low cost-high volume competitive strategy.

THEORETICAL PERSPECTIVES

The study is underpinned by Day and Wensley's (1988) conceptual model of competitive advantage, presented in Figure 1. Briefly, the model postulates 'Sources of advantage' which refer to a situation where a firm has superior skills and/or resources relative to its competitors. Superior skills may be distinctive capabilities of personnel or systems and organisational structures that enable the firm to respond faster to changes in the marketplace. Superior resources are more tangible facets such as scale of manufacturing, geographical location, and/ or distribution coverage, which may enable the firm to exercise its capabilities.

Figure 1: Firm's Competitive Advantage (following Day and Wensley, 1988)

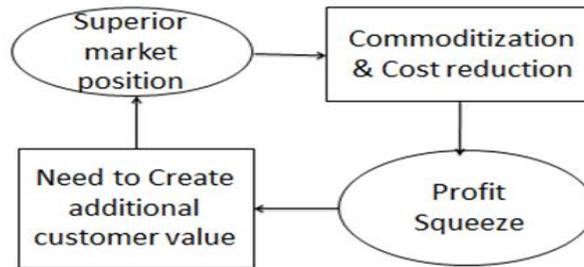


The ability to navigate through this challenging environment and the nuances of combining entrepreneurship and strategic management has become the focus of scholars in strategic management, entrepreneurship and economics (Kuratko and Audretsch, 2009). The positional advantages of superior customer value and/or lower costs relative to competitors are gained when unique skills and resources are utilised competently – and according to Day and Wensley – should result in above average performance outcomes such as customer satisfaction, hence loyalty, profitability and market share. A critical factor is that emphasised dimensions of differentiation must be identifiable and valued by customers to the extent that they are willing (and able) to pay a price premium for the benefits delivered; and that the premium exceeds the marginal costs of superior performance (Day and Wensley, 1988). To sustain the competitive advantage profits are re-invested in skills and resources. In light of the resource-based view (RBV) it is crucial that the deployed resources and capabilities are valuable, rare and costly to imitate for competitors (Barney, 1991; Peteraf, 1993; Hunt and Morgan, 1995). Following RBV the competence-based approach (e.g. Teece et al. 1997) offers a promising framework of sustaining competitive advantage in strategic management.

Enhanced competitive advantage requires that management identifies the combination of skills and resources that maximises leverage in terms of positional advantages and performance outcomes (Day and Wensley, 1988). It has been argued that management tend to evaluate advantage in two main ways: by customer-focused or competitor-centred

methods (Day and Wensley, 1988). Research has shown companies often favour one or the other whereas a balance of competitor and customer centred methods is recommended (Day and Nedungadi, 1994). According to Porter (1980) the purpose of a differentiation strategy is to achieve a monopoly-like situation in which the company's offering is protected against competition and at the same time induces customers to pay a price that provides the company with a profit. Matthyssens and Vandenbempt (2008) argued that the self-propelled 'transaction life cycle' is a dynamic process of commoditization in any industry sector. It erodes the competitive differentiation, squeezes prices along with profits and consequently deteriorates the financial position of the organization (see Figure 2).

Figure 2: Commoditization drives cost reduction and erodes competitive differentiation (following Matthyssens and Vandenbempt (2008, p. 317))



To succeed with value adding it is beneficial to adopt a differentiation strategy (Porter, 1980). According to Levitt (1980) any product or service can be differentiated. However differentiation strategies may provide advantages for only limited periods of time. Depending upon the uniqueness and attractiveness of the differentiation introduced competitors can be expected to copy new benefits (i.e., differentiation attributes), or introduce lower priced versions, thereby diluting any positional advantages gained (Rangan and Bowman, 1992). Moreover, as customers get used to additional benefits over time this may reduce their willingness to pay a premium (Rangan and Bowman, 1992). Thus attributes launched as additional benefits may simply become purchase prerequisites as a ratchet of incremental standards is driven forwards. From this it follows that the sustainability of advantages will depend on customer perceptions of the benefits as well as the imitability of the differentiating attributes/benefits incorporated.

Positional advantages

The strategy and marketing literature identifies a number of routes for companies to achieve positional advantages. Adopting the "trade-off" approach to value, Ulaga and Eggert (2006) referred to relationship value as a higher order construct formed by the two alternative dimensions of benefits and costs, suggesting that relationship benefits display

a stronger potential for differentiation than cost considerations. Berghman et al. (2006) argued that companies should build three types of competences: marketing practices for external knowledge absorption, general organizational competences and supply chain/network competences. Differentiation may be achieved beyond product features as of design and technology, through forms such as brand image (Backhaus et al. 2011), customer service and network positions (Matthyssens et al. 2009). Related to the salmon industry, such factors can be close producer and customer relationships, innovative ordering systems, environmental focus, organic-profile, branding, and online traceability. Product characteristics such as flesh colour, fat content, bone-free, fillet trimming and portion packaging give scope for differentiation. However, many of these efforts, to varying extents, have already been adopted but have so far apparently failed to stem the innate tendency towards a commodity market. This suggests the need for further exploration of whether there has been any deficiency in the adoption of such measures and/ or whether alternative instruments are required. We can identify innovative attempts by salmon companies for differentiation, such as: differentiation by compliance with regulations, and environmental marketing.

Compliance with food safety regulations usually implies costs; thus typically the common, cost minimising, approach is to simply satisfy regulatory requirements without incurring unnecessary costs. Surpassing these standards, and marketing product with lower levels of *polychlorinated biphenyls* (PCB), indicates that some firms perceive potential benefit from doing so. The nature of these benefits may be varied in type and extent. They may, for instance result from anticipated future tightening of regulations and thus early adoption could give an established lead, and reputation, once the new measures are enforced. It could also be that customers such as large retailers set their own regulations or standards which may be stricter than public regulations. By complying with customer specifications more stringent than those of public agencies, firms may gain an edge on competitors.

From a marketing standpoint it is also of interest to understand how firms might try to reap the assumed benefits of adopting beyond-compliance policies. For example, firms may face a dilemma in terms of how they should communicate such benefits. This is so because stating that a product is less toxic than competing products will probably attract attention to the unpleasant issue of toxic substances in food. As a producer of a product generally regarded as a healthy food such as salmon, communicating with consumers about toxic substances is potentially problematic. If firms are unable to pinpoint and substantiate the benefits of their product it will be hard to command the higher price needed to cover the extra costs involved (Backhaus et al. 2011). Within the relevant marketing literature there is little research that has addressed this issue. It should also be noted that most research on related food safety regulation has focused on consumer reactions (e.g., Henson, 1998). Little research has addressed the compliance strategies of food producer firms (for an exception see Prakash, 2001), and none appears to have been undertaken specifically within salmon. Thus, little is known about why some firms choose to exceed mandatory standards – and whether they benefit from doing so.

On the other hand, early precursors to environmental marketing have been noted through schemes based upon generic national quality marks such as Scottish Tartan Quality Mark. These have rested upon the proposition that adherence to nationally based production criteria, typically centred upon the quality of the environment in which the fish has been raised, renders some innate point of differentiation. The nationwide application of such schemes, coupled with the concentration of production in a small number of countries, and indeed emergent concentration of ownership raises questions about the comparative advantages that might be deliverable. Whilst some advantages have been identified in the case of some Scottish salmon, calibrated to meet the requirements of Label Rouge in France (Stirling Aquaculture, 2001), the scope for erosion of any differential is evident with the more recent inclusion of Norwegian salmon under the same mark. It remains debateable if Label Rouge will continue to serve as a discriminator within the market or simply become an expected standard component (Sogn-Grundvåg and Young, 2010).

More refined points of environmental differentiation have been adopted through organic status, and other emergent ecological variants (Aarseth et al., 2004). Within these there appear to be issues about the ability of consumers to discriminate between sometimes contradictory schemes, thereby introducing confusion rather than clear and concise lines of differentiation (Young, 2001). Wider questions exist about levels at which consumers can differentiate and the extent to which producers can afford to communicate the necessary information. More fundamentally there may be doubts about the willingness of consumers to enter into such complex debates about a simple food purchase, which remains relatively frequent, and of comparatively limited value in the wider household budget (Sogn-Grundvåg and Young, 2010).

In terms of resources, salmon presents a potentially significant advantage in the geographical limitations of its availability; a similar volume of tilapia, with an equally wide market, is produced in 85 countries (McAndrew, 2000). However this constraint on salmon supply has not prevented the creation of a commodity market; additional resources must be incorporated within the process to confer comparative advantage. This may require fundamental alterations to organisational structures (Gresov and Drazin 1997), or current practices such as generating and utilising market information so that new product development (NPD) and market orientation strategies can be emplaced. Superiority in new knowledge, skills and capabilities are needed if companies are to change from a low cost internal production orientation to a focus on value adding and differentiation strategy. Change is challenging, often resisted (Harris 2002) and seldom with cost-free resolution; discovering and exploiting new market opportunities is also problematic (Ottesen and Grønhaug 2006). Further challenges may be encountered in acquiring pertinent marketing capacity (Day 1994), especially in dynamic environments (Tece et al. 1997). Kaleka (2002) studied resources and capabilities driving competitive advantage in export markets as related to cost, service, and product advantage. The capability to build enduring relationships with customers was found essential in achieving all three types of export competitive advantage, while for the achievement of cost advantage in exporting the possession of physical resources was found merely moderately important.

Following the previous literature we present our proposition:

Competitive advantage in the salmon industry is likely to be pursued through differentiation strategies rather than through cost reduction.

CASE STUDY: THE SALMON FARMING INDUSTRY IN CHILE

Over the past thirty years aquaculture has become the fastest growing sector of the global food market. Farmed seafood products are projected to surpass supplies from traditional wild capture fisheries. About 60% of the world's salmon production is farmed. Salmon farming started on an experimental level in the 1960s but became an industry in Norway in the 1980s and in Chile in the 1990s. The major type of farmed salmonids is the Atlantic salmon with total world supply of 1.46 million tons in 2011. Growth in global supply of Atlantic salmon is estimated to be 119% in the period 2000-2012, varying between -2% and 13% annually with CAGR of 7%. Salmon consumption is considered to be healthy because of the fish's high content of protein and Omega-3 fatty acids. Within aquaculture, salmon is one of the most important species in terms of marketing trends (FAO, 2007; The Economist, 2003; Marine Harvest, 2012).

Salmon presents a particularly interesting case of marketing myopia not least because it is one of the few farmed species which can be grown only in a relatively small number of countries due to the required natural environmental conditions. Farming takes place in large nets in sheltered quiet waters such as fjords or bays, or in tanks on land. Most of the cultured salmon come (by order of market share) from Norway, Chile, Scotland and Canada. In 2007 Chile's share of worldwide salmon industry sales was 38.2%, rising from just 10% in 1990. In the same period Norway's share slipped from 51.5% to 39.7%. Salmon's limited production base however has a truly global market wherein international seafood consumers have demonstrated acceptance of the red-fleshed fish in an increasing variety of guises. In addition to more tangible variants on the products such as skinless, boneless fillets in a variety of different packs, chilled, frozen, smoked and otherwise delivered; more innovative offerings have focussed upon organic and other environmental credentials. This expanded range of products has raised important questions about the opportunities to break the mould of commoditisation and to focus more upon the addition of values.

Some authors (Sogn-Grundvåg and Young, 2010) suggest that the main benefits of enhanced value adding should include greater competitive advantage delivered through product differentiation in the global seafood market and thus more stable, or improved, profitability and income streams along the value chain. Wider benefits might also include increased export values, employment and attendant socioeconomic benefits in regions often with few alternative options available. Despite frequent calls (from politicians and some industry delegates) for enhanced value creation, the salmon sector has generally remained production-oriented with a business model dominated by lowering costs, producing commodity-type products and thus variable, spot-based prices for sales. This

effectively locks much of the industry into highly competitive markets wherein large price and profitability fluctuations prevail due to more or less unpredictable changes in supply and demand (Ottesen and Grønhaug, 2005).

Within the global industry trends, the Chilean industry has its own special characteristics like: lowers levels of production due to the *Infectious salmon anemia* (ISA) virus since 2008. Before firms used to produce about 390,000 tons a year of Atlantic Salmon and this was reduced to 130,000 tons in 2010. Since 2010 the Chilean salmon industry has been rebuilding its biomass after the depletion caused by the ISA crisis. In 2010/2011 the Chilean salmon industry showed a very good performance on fish harvested due to the low density of production however due to the increased density performance is expected to deteriorate after 2012. Export markets are essential for this industry, as 90% of the production goes to international markets, mainly to the USA, Asia and Latin America.

The salmon farming industry in Chile is oriented toward low cost and financial performance along with very low market orientation relatively to Norway and Scotland. In comparison to its main competitor the average price for Chilean salmon fillet in the last decade has been USD 6.88/kg and for the Norwegian whole salmon USD 4.59/kg (Marine Harvest, 2012) meaning about double the price for fillet. Bjørndal (2002) stated that since prices have declined as the markets have become saturated, cost efficiency has become a major imperative for international competitiveness. As the comparison between Chilean and Norwegian industries he found no reason to believe that Chile will improve its competitiveness compared to Norway. However Vergos et al. (2010) found that Norway, the leader of the fish farming of Atlantic salmon, suffered in the period 2002-2008 from over-capacity and excess production due to economies of scale.

Other important issue that arises in this industry is the lack of trust among participants firms (Felzensztein and Gimmon, 2007; Felzensztein et al., 2010). This fact, among others, including strong divergences of opinions of how the industry should face the future in terms of marketing and sustainable competitive advantage, have made some of the most important and large companies quit SalmonChile trade association during 2010. This situation gives the industry not so much worries about the ISA virus, but the lack of internal cohesion to face the future positioning of the Chilean industry in a very competitive global industry, where players like Scotland seems to be agreed about their future industry trend and joint marketing actions to approach their international consumers (Felzensztein, 2008).

METHODOLOGY

Data collection

We approached via emails eighteen of the larger firms operating in the Chilean salmon farming industry which consist of thirty five firms. Executives from eight firms were ready to participate in the survey providing a series of eight face-to-face in-depth interviews which were conducted during 2010. The interviews were audio taped and key analysis of the transcriptions of these discussions is shown in *appendix 1*. The sample

consisted of respondents at a senior level within the salmon sector. Typically these were CEOs and Marketing Directors, concerned with salmon product strategic development and planning. Commercial confidentiality precludes disclosure of the eight firms identified, but they were considered to have a significant role within the Chilean industry representing more than 70% of the share of farmed Atlantic salmon in terms of production and exports. This constitutes a representative case study for analysis and reflection of the key issues under study.

Sample characteristics

Unlike the situation in Scotland and in Norway, one of the significant features of the Chilean sector is that vertical integration is relatively common and takes place in a variety of different formats. In the more extensive backwards vertical integration cases organisations have ownership connections to fishmeal plants manufacturing fish feeds and indeed in some cases beyond this with fleets of fishing boats also concerned with the supply of the raw material for these plants. Table 1 represents our sample characteristics.

Table 1: Sample characteristics

	Type of Organisation	Size of firms, product innovation and vertical integration	Marketing Strategy and Internationalisation
C1	Diversified firm in agribusiness and aquiculture.	A 100% of vertical integration. Produce and commercialised Atlantic, Coho and Trout. frozen salmon portions as “value added products”, which account 90% of their production	Key export markets: Asia, USA. Price low cost focus.
C2	Production firm.	Fresh and frozen products	Price strategy –low cost focus. No product differentiation. Export to the USA and Asia, without branding.
C3	Subsidiary of a Norwegian group.	Fresh and frozen products.	Firm in commodity business. Focus in cost and to produce the cheapest Salmon per kg. Export to Asia.
C4	Chilean leading salmon firm. Listed in the stock exchange	Salmon producer. It also have Tilapia production in Costa Rica	Subsidiaries in Costa Rica, Panamá and Thailand. Export to the USA, Japan and BRIC emerging markets. Focus in sustainability and green products
C5	Commodity based company.	Fresh and frozen products.	Exports to Latin-America, USA and Asia. Price low cost focus
C6	Old fishing company that has more than 50 years	Atlantic Salmon. Frozen portions is the only value added products	Exports to Brazil. Pricelow cost focus

	existence, since 2006 diversified to the production of salmon.		
C7	Family business in fish production	Coho and Atlantic Salmon. Fresh and Frozen products	Export to the USA and Japan. Pricelow cost focus
C8	Fish company which diversified into the salmon business.	The firm “does not want to be a top value added company”, instead it stop it value added products in the filleting and portions business. They see themselves in the volume business.	90% of its production goes to export markets, mainly USA and Japan. Price -low cost focus

RESULTS

Change and diversification

The critical impact of the ISA outbreak in some ways becomes more evident at the disaggregated level of the firm. In all interviews it was clearly reported that the dramatic change had been enforced upon their farming of Atlantic salmon. Commonly firms reported declines in production volume in the order of 50 to 90 per cent thus leaving some firms with only 10 per cent of the raw material from which to attempt to support their established cost infrastructure. Unsurprisingly this had proven impossible in all cases and demanded rapid and dramatic reconfiguration of resources if the business was to remain viable.

About the ISA virus and his consequences on the market, and more specifically in the diversification of products and the value added in them, a manager C4 affirm that: “*after the ISA problem we don’t have the funds to even analyse diversification but I think it makes sense if you want to build a world class conglomerate*”. A key issue in the interviews were to try and identify what the impact of this reduction in fish supplies was likely to mean in respect of decisions about differentiation of salmon products. Interestingly, a common and near universal response to emerge was a retreat from *adding value*. Exploration of why organisations were starting to move away from adding value at the very time when they had significantly less raw material upon which to build some profit generated an interesting observation. Most firms reported that they equated the addition of value with the addition of costs, and as a result a tendency to lower profits.

Respondents opined that they were unable to recoup the additional costs incurred in adding value through higher prices. Consequently they reported that it was more profitable for them to focus upon simpler less sophisticated products with minimal costs. This led many of the firms to be primarily focussed upon the production of whole fish and simple product derivatives. When we queried why they were not involved in the production of more added value products and extending beyond simple portions manager C1 replied, “*the way Chile grew in the past it meant that we had to go very deep into the chain value just to be able to put all the products in the market, but the market itself didn’t want all that product. So in the end they were buying because it was cheap but it*

was a very good sign that you shouldn't be growing at the rates that Scottish producers were...".

About diversification and value add products, managers assure that this one is very tied to what the client and the market want, for example, the manager of C8 states that *"We go to the seafood shows. We have presence in Boston and in Brussels every year and you look around, keeping your eyes open. Then we go to the production people and say to them why I want this value added in the product..."*. The manager C5 states *"When you do value added, you really need to hear what the customer needs and maybe try to do a bit something different. I think that's the way things can go right on value added"*. The manager C3 states that *"if the customer pay you the differentiation is important: That is the key"*.

On a different view, the manager C7 states, *"we are trying to do some differentiation of salmon, but I think these are a commodity"*. Nevertheless some managers think that the differentiation can be also in the internal procedures of the companies and also in the service to the client, for example the manager C2 assures that, *"the difference isn't the fish, the difference is in the operations in the sea and the production process..."*.

For some managers the value added of the product can relate directly to the country of origin, for example the manager of C3 affirms that, *"the only difference that I can see is the country which is the original product: Country of origin. So we can see the same fish, but Scottish fish is sold more expensive than Chilean, because it's Chilean..."*. The manager of C6 thinks that, *"The branding is necessary because I don't really see any difference in some products like Salmon..."*

Extension of the product range to incorporate more added value products would demand a lower volume of individual product lines, each likely to require a greater and more unique set of specifications. Scale economies would thus reduce and it was considered that any gain in value would be offset by the higher unit costs incurred in production and management of each of the lines. When the wider range of products, each with the particular requirements for individual customers, is considered a much more complex processing operation is required with attendant increases in costs. In an era of reduced raw material, it was thus considered rational, and more profitable, to focus upon production of a smaller range of more basic and standardised products. In effect these less-differentiated products -commodity products- can meet the requirements of a wider range of individuals; although it is perhaps less likely that they will be able to fully satisfy all the potential requirements of individual customers and clearly not those seeking a greater diversity of product specifications.

Respondents indicated that value addition was seen more as a tool for market expansion, a response which had been adopted as their production volume had risen. However at the current moment in time, and the foreseeable future, there appeared to be little scope for market expansion. Currently, the primary goal was stated by many to be regaining as large a part of the market as was possible and a need to focus upon retention of existing customers. In particular there was a lot of concern about the prospective loss of yet more

customers to competing Norwegian firms. This was especially relevant in the context of the US market where Chilean market share had been displaced by more recent imports from Norway. This was stated to be a key challenge for the resurgent Chilean sector and one to be met at the earliest opportunity. Regaining market share was liable to be critically dependent upon price competitiveness and so in turn a greater dependence upon more differentiated and added value products was unlikely to figure at least in the short run.

Low cost Strategy and Unique Selling Proposition (USP)

This resistance to the adoption of a greater focus upon adding value is obviously consistent with a revised emphasis upon Chile being a low cost producer. Traditionally Chile has commanded this position in particular because of the comparatively low cost of labour and as a result a *Unique Selling Proposition (USP)* in the international market has been established. Given the perceived past success of this strategy, many of the individuals interviewed justified their concern to re-establish this lowest-cost position. A view was proffered that they were in the business of producing salmon which really should just be seen as a commodity and that there was, currently at least, little to be gained from attempts to differentiate the product. One individual producer C9 was of the opinion that, *“It’s salmon, all around the world so it’s very difficult to try and make a big differential on the fish product”*.

About the Unique Selling Proposition (USP), the manager of C3 states that, *“We say that we are in the commodity business we produce a premium fish but our competitors here in Chile produce the same premium fish....”*. For other companies, the image and the brand is an important point that can help them to “open doors on the market”, in the case of the C5 the manager assures that, *“I think we need the brand. I’m not thinking about products just about Chilean salmon. As I was telling you about Latin America, is just one example of the markets that have grown a lot...”*.

The strategic emphasis upon low cost, seemingly to the exclusion of all else, is however potentially problematic. Not least because within Chile there have been some significant and recent rises in the cost of production. This was highlighted in the case of one producer who claimed to have been amongst the lowest cost producers of salmon at the sector’s peak. In 2007 they had been able to produce salmon for around USD1.50/ kg whereas currently their 2010 costs were significantly higher at USD2.50/kg. In part the 66% increase in the cost of production was attributed to the rise in fishmeal prices, which were thought liable to increase yet further with the loss of feed mill capacity from the earthquake in 2010. In addition it was also recognised that the recently imposed more stringent governmental regulations on the permissible biomass at each site, coupled with fallowing requirements would also further increase the cost of production. In turn this raises questions about how managers feel they might respond to the imposition of tighter regulations at the very time they are trying to regain market share through a strategy based on low production costs.

When probed about the potential to differentiate salmon output, it was generally felt that any efforts made were extremely unlikely to generate sufficient margin to recoup the

higher costs they would incur. An interesting example was that of one producer who had attempted organic salmon production. Additional costs had been incurred to meet the necessary organic standards in 2008. But when sold, a market willing to pay the necessary price premium could only be found for around 30 per cent of his organic production. The remaining 70 per cent of his organic production was not accepted at a higher price on the market and consequently had to be sold at the standard commodity price, like any undifferentiated salmon. Whilst it may be argued that this simply reflects some combination of an immature organic market, poor market intelligence and/ or excess production for an emergent niche. Whatever, the experiment sent a strong signal to the producer suggesting that it does not pay to attempt add value nor to differentiate. Whilst organic production may be regarded as a more extreme, and demanding form of differentiation, the experience seems to typify the more general strategic behaviour of salmon producers in Chile at present.

4.3 Sustainability, geographic expansion and market opportunities

Notwithstanding these concerns about the merits of differentiation, paradoxically, there was widespread recognition of the fact that the market itself was changing, and with particular regard to requirements for sustainability. Unlike the situation in Europe where there is a now longstanding acceptance of the need for sustainability and its central role within market communications, in Chile sustainability is seen as a relatively recent requirement. Although some of the more progressive producers claimed a longer history with sustainability, they too recognised that sustainability had now taken on a much wider and more central role in the mind-set of Chilean producers. Increasingly sustainability was recognised as something that they had to adhere to and had become an essential market requirement. It was thus felt that sustainability would need to figure more prominently within the sector's communication claims in future.

Regarding the forthcoming period, questions were asked about the firms' 3 to 5 years strategic planning period in order to try and ascertain their intended responses to the recent changes. This elicited a range of different responses which suggested there was some uncertainty and differences in interpretation of prevailing market and policy signals; in other cases strategic fog seemed to prevail precluding any precision of future positions. One of the critical reasons for this appeared to be rooted in the dilemma between recognition of the need for more sustainable production and the potentially countermanding drive for future growth. A number of firms felt that within the latter years of a 5 years plan they would return to a volume position formerly reached in 2007. Other organisations however forecast more modest targets of sustainable production albeit at a level higher than 2010 volumes.

Strategic responses to the more recent imposition of tighter controls on salmon production in Chile also included some potential expansion further south. Expansion into the eleventh and more southerly twelfth regions of the country incur significant issues regarding infrastructure capacity. Whilst it might be possible theoretically to improve the infrastructure provision of these regions this is liable to be at significant cost. Consequently, to maintain a low cost strategy it was likely that more southern locations would be confined to fish production and then subsequently transporting post-harvest fish

for processing at Puerto Montt. This raises a number of questions about the viability of expanded production further south and the limitations of its prospective contribution to any low cost strategy, or indeed one based on added value products.

In addition to production strategies, an important element is clearly the extent to which the Chilean sector might seek to alter target markets as a result of their change in output. Respondents emphasised that they still saw their strengths lying within the fresh and frozen sector and in particular as mentioned above, simpler, less sophisticated products within these forms. It was felt that the higher costs involved in transporting to the US market were liable to remain significant not least given the interim attack by Norwegian products. Nonetheless Chilean producers reported a desire to try and resume their market share within the US, whether this may be within the fresh or indeed the frozen sector.

In addition to the recapture of markets, Chileans also reported interest in new targets, especially within Latin America. In particular Brazil, the most populous and wealthiest of the continent is favourably placed and will confer greatest comparative geographical advantage upon Chile of all salmon producing countries. *“Before Brazil they didn’t buy small portions of fish, they were buying only big fish for the sushi and after the ISA the supermarkets realised that it’s a very good business for them to sell fresh head-on”* (Company C4).

In comparison to Norway, Chilean producers are able to reach the Brazilian market at comparatively low cost. The growing number of wealthy middle class within a total population in excess of 190 million is especially attractive; in many ways representing a parallel to the emergent options identified within India and China. Discussions with the Norwegian Seafood Export Council confirmed this to be a very important market and there was some evidence to suggest that Chilean producers had begun to target this by attempting to reach the sushi market. This is an area that needs to be investigated in more detail but seems likely to figure in future strategic responses.

In addition to Brazil, there are other prospective target markets within Latin America. For example, Chile’s neighbour, Argentina, similarly presents a number of options with its increasingly wealthy middle class notwithstanding some of the periodic disputes that occur between the two countries. Chile also retains some interest in the Japanese market and to a lesser extent Europe where it encounters more resilient competition that it is less favourably placed to respond to. Superimposed upon these geographical advantages the Chilean sector has longstanding market-based experience in most of the international markets and as such is potentially well placed to resume positions within these market segments.

With respect to markets, manager C5 states, *“We don’t have a strong presence in different markets and I think we need that as a country to be able to locate a Chilean brand on the different markets. You have the price of Norwegian salmon and Chilean salmon and usually Norway is higher. It can be 10 per cent higher just because it’s Norwegian...”* In general, the interviewed companies export about 90% of their production, in the case of the C2 manager says *“we process the fish and we send it for*

our sales office in United States, Japan or Brazil. We have two of the biggest customers in Brazil and Mexico”.

Related to relationship marketing in export markets, it is important to highlight that in most cases this relation is direct, for example the manager of C4 states, *“We have an office in Miami, we have a team of five people there. We also have sales reps in Europe and another one in Japan seeing what are the market trends, what are the needs of the customers and we try for sure to serve their needs”*. In addition he concluded *“we have excellent relationships with our customers. I mean we tend to have two or three customers by country, but very large ones and ones that we identified that we could have strong relationships”*.

Research conducted by Salmon of the Americas states that USA citizens believed that 95 per cent of the salmon they consumed was coming from Canada and the other 5 per cent from Norway. However, the reality was different as 75 per cent was Chilean salmon, 2 per cent was Norwegian and the other was Canadian. As C4 manager says *“SalmonChile should be a brand. That means if you belong to SalmonChile customers should pay more for that because they know that you have low densities that you use less antibiotics, that you pay fair wages and if you don't comply with this you are out of SalmonChile”*.

CONCLUSIONS

This study contributes to the literature by exploring generic strategies related to global business marketing of a resource-based industry. It expands the exploration of commoditization and applies it to the natural resource industry of salmon farming, while focusing on emerging market in Latin America, which has been underexplored. Practitioners and trade associations may learn on empirical considerations of international business-to-business marketing strategies of the second global leader operating in the salmon industry.

In regard to our research question: what might be the nature and extent of differentiation? The results of this study tend to support cost reduction rather than differentiation as a generic strategy for competitive advantage in the industry under study. Most of the managers reported to prefer cost reduction as their firms' competitive advantage. Therefore the results of this study do not support the proposition: *Competitive advantage in the salmon industry is likely to be pursued through differentiation strategies*. This unexpected result may be explained simply since cost reduction is easier and less risky to attain in comparison to differentiation strategies. Also a study of the Canadian wood products industry (Lefaix-Durand et al., 2009) found that suppliers providing differentiation through superior benefits think that they are less competitive with respect to cost reduction strategies. Commoditization and cost reduction are sustained by dominant industry recipe along with the companies' own traditional marketing approaches (Matthyssens and Vandembemt, 2008).

Our study underlines the resilience of the Chilean sector to its recent episodes of significant dynamic change. There have been major structural adjustments within the Chilean sector, not least through the reduction in activities and in some cases the near complete withdrawal of activities of some of the transnational operators. The current point in time is seen as being quite critical, one where there is an opportunity to establish a position which hitherto they had been unable to attain in large part because of the presence of transnational operations with superior corporate resources. Given the fact that Chilean production target large markets, economics of scale and cost reduction strategy is in line with previous research in Norway and Chile that show increasing returns to scale (Perlman and Juarez-Rubio, 2010).

Interviewees' responses varied in the extent of their firms' expected growth, but there was consistency in the pursuit of growth-based strategies. None of the interviewees were of the opinion that Chile would continue to decline, none were of the opinion that Chile would remain static at the current level. All thought that at one point or other there would be some resurgence in the importance of Chilean salmon on the international market.

Finally, the overall impression remains of a universal underlying acceptance of Chile as being a lower cost producer. Firms are clearly very focused upon the need to retain an emphasis upon the on-going need for reductions in the costs of production. This is also seen as the key to realising their position of attaining a high, if not the highest, profit potential in the international market for salmon.

Implications and Limitations

Practitioners may learn on empirical considerations of international marketing strategies in this competitive industry, which is the second global leader. Following previous research (e.g. Bush and Sinclair 1992; Berghman et al. 2006; Ulaga and Eggert 2006; Matthyssens and Vandenbempt 2008; Lefaix-Durand et al., 2009; Matthyssens et al. 2009) managers in the salmon farming industry may be advised to pursue differentiation strategies rather than cost reduction albeit the foreseen difficulties and the entailed risks. An overall cost leadership strategy is not sufficient in a mature industry and customer-oriented strategies are needed more than production-oriented strategies (Bush and Sinclair, 1992). The need to develop and reconfigure permanently firms' competence endowment is even stronger in turbulent environments (Teece et al. 1997). Matthyssens and Vandenbempt (2008) argued that the ability to shift core strategy of competitive advantage requires experimentation and unlearning. The latter is defined as the "process by which firms eliminate old logics and make room for new ones...cast aside established routines in order to replace them with ones that ultimately result in superior value to their customers (Sinkula 2002, p. 253). Clustered firms are recommended to benefit from differentiation strategies with particular attention to emergent environmental attributes. Chilean firms should invest more and promote their branding in B2B markets (Backhaus et al. 2011) in order to enhance sustainable competitive advantage. While companies change from an orientation of low cost production to a focus on added value and differentiation strategies, their challenge is to build necessary capabilities of new knowledge and skills yielding competitive advantage.

The major limitation of this study is its qualitative nature. Following this, further quantitative study of extended sample is needed to validate our findings that competitive advantage is pursued through cost reduction in the salmon farming industry. Future research may evaluate the contribution of branding to competitive advantage in this industry. Further comparative studies of natural resource based clusters in developed economies like Norway, Scotland, New Zealand and Australia; and others Latin American emerging economies like Costa Rica (e.g. in the case of Tilapia) may complement the scope of this study.

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Appendix 1: Interview results - key issues for differentiation strategies

Key issue	C1	C2	C3	C4	C5	C6	C7	C8
<i>Differentiation Strategies and new product development (NPD)</i>	Would like to do more value added products, but it depends on the profitability of it. 90% of "value added products": frozen salmon portions and fresh salmon to USA and Brazil.	Not in the business of differentiation. Produce fresh and frozen products, whole fish, headed and gutted for Brazil market. Fresh fillet, trimmed E or trim C escalope for United States	Do not care about branding or value added products. Only about cheapest cost of production.	Value added products: smoked, fillet, fresh, frozen and sashimi. Diversified firm and NPD in Tilapia, Costa Rica. Sustainably and good practices are important.	Not in the business of value added products, because too far away from international customers.	Frozen portions are the only value added products. Not doing more value added because of the cost is too high and the margins are low	Value added products have been less profitable compared to the commodity salmon. Fresh salmon for USA. Frozen salmon for Japan and Europe	Does not want to be a top value added company. Only fillet salmon and portions. They see themselves in the volume business.
<i>Attitudes toward competitors in international markets</i>	Customers are paying the premium for Norwegian salmon now.	The Head Quarters in Norway is supplying the US market. In the US we do not have big competitors. We do not have a differentiation strategy as a Chilean subsidiary. We are low-cost subsidiary.	Scotland and Norway they have plenty of money. They have strong brands. Norway is all around doing a good marketing for the fish.	Chile needs to clean the image as a salmon producing country. The producers need to improve the image at both the local and international markets. This international marketing strategy should be coordinated by the trade association.	Norwegian salmon is like a brand. They have done a very good job in spending money in international marketing campaigns.	Scottish salmon has a good reputation and it is mainly because international marketing campaigns.	Norwegian salmon is sold to the USA in a very fair price, that's the example we must follow.	Scotland has a nice marketing strategy for the market in EU. In Norway the government promote the business and they have an international marketing. Chile does not have international marketing efforts.
<i>Approach to international marketing strategies.</i>	Direct export.	Sales offices in USA (Miami), Japan, Brazil and Mexico. Large customers (supermarkets) in Brazil and Mexico. Information from sales manager in USA related to clients.	Focus in the food services: supermarkets and restaurants in Japan, USA, Latin-America and Asia.	Face to face contact with customers in Germany and France. The USA market is changing (new consumers, trends and power of supermarkets). Interest is sustainability and green products. Sales office in the USA and sales representatives in other key markets.	Direct communication with international customers in Latin-America, USA, Asia, Canada, Europe, Korea, Taiwan, China, Japan, Ukraine, Moldova.	Brazil is the most important market. Commercial Manager based in Santiago. Customers are retailers and the food service. They appreciate fresh products.	NPD with customers: retailers and food service sector. Miami sales office because of new trends in the market. Active in the Boston and Brussels trade fairs. Sales managers in Europe & Japan.	Active in trade fairs in Boston and Brussels. Part of the international business forum.