HealthyGrowth

From niche to volume with integrity and trust

## FULL CASE STUDY REPORT

# Røros Dairy - Norway

**Gunn-Turid Kvam and Hilde Bjørkhaug**

**Centre for Rural Research**

**March 2015**

The authors acknowledge the financial support for this project provided by transnational funding bodies, being partners of the FP7 ERA-net project, CORE Organic II.

## Content



*Most local organic market chains have inherent problems in moving from niche to volume, and mainstream large-scale market chains have inherent difficulties in securing and advancing organic values. The project "Healthy Growth: from niche to volume with integrity and trust" investigated a range of successful mid-scale organic value chains in order to learn how they are able to combine volume and values, and to use this knowledge to support the further development of organic businesses, networks and initiatives. Research teams from ten European countries contributed with 20 case studies. More information and documentation can be found at: www.healthygrowth.eu*

## 1 Introduction

Røros Dairy is located in Røros, which is a town in a mountain region of the eastern parts of Southern Norway. Røros was historically a mining town and placed on UNESCO's World Heritage List. Beside traditional economic activities such as agriculture and forestry, tourism is an important activity for the town and the district.


Figure 1: Map of Norway and Røros

Røros Dairy is the only organic dairy in Norway, established in 2001. It has experienced a steady growth since established and has today 20 employees and a turnover of 45.5 mill NOK (5,5 mill EUR) in 2013. There have been periods of economic struggles, but today the dairy is profitable and perceived as one of the most successful organic firms and value chains in Norway. Their success in combining growth with organic and other product qualities is the reason why we selected the dairy and its value chain as a case in the Healthy Growth project.

## 2 Case-study approach – Materials and methods

The data collected is based on a variety of written materials and interviews. The public representation of Røros Dairy was deducted from the webpage of the enterprise and the facebook-page. The self-representation of Røros Dairy is based on ten semi-structured interviews conducted between March and September 2014 with people involved in the supply chain. It comprises two interviews with the general manager of the Dairy, seven interviewies with other actors of the chain and one with an actor from the financial support system.

## 3. Norway – The national context

Norway consists of about 5 million inhabitants and an area of 385 186 km2 . Just 3 per cent of the land surface is cultivated and only one-third of this land is suitable for arable farming and cultivating grain for human consumption. The remainder is used for pasture and fodder production (Statistics Norway 2012). In 2012 there were 44,700 farmers in Norway. The number is decreasing substantial every year, and since 1999 there has been a farm closure of 64 per cent (ibid). In a European context, Norwegian farms are small where the average farm size is 22.2 ha. The main agriculture productions are milk, meat, grain and vegetables (Debio 2013). In 2012, 1.8 per cent of the total workforce was employed in agriculture, and agriculture accounted for 0.3 per cent of the gross national product (Statistic Norway 2012). However, many rural communities have a high dependency on agriculture.

EU-regulations for organic production were established in 1991 and Norway adapted these in 1992. The organisation Debio got the responsibility for certification and inspections (Debio.no). Organic farming has grown from 1980 with about 20 farms until today where the number is 2590 (SLF 2013). The number peaked in 2009, with 2851 farms. Organic farms constitute 5.8 per cent of all farms in Norway. The average farm size for organic farmers is 19.4 ha, when the average for conventional is 22.2 ha. Organic land in use has grown from 18 000 ha in 2000 to 50 100 ha in 2012, i.e. that 5.1 per cent of land in use are organic in 2013 (ibid.). Just 27 per cent of organic meat was sold as organic in 2012, 38 per cent of milk, 72 per cent of eggs, chicken and turkey, and 100 per cent of grain (Statistics Norway 2013). Norway is on the bottom of the list compared to the other Nordic countries according to organic food production. Consumption of organic food is growing gradually but represented in 2012 only 1.2 per cent of turnover in the grocery trade, i.e. 1, 45 billion NOK (Bye and Løvberget 2013). However, sale has increased the last years from a turnover of 500 million NOK in 2006, i.e. a growth of about 290 percentages. Turnover includes both national production and imports. Measured in value, dairy products represent the largest group of organic products, which is of importance for Norwegian agriculture. Vegetables and potatoes represent the second largest group and the third is grain- and baker's products. Organic food for children have experienced a strong growth the last year, and represent 23 percent of total sale in 2012 (SLF 2013).The main marketing channels for organic products in Norway is the grocery trade (81 percentage). Other channels are sale from wholesale to hotel, restaurants and catering, box-schemes, Farmers Market and bakeries, which represents about 19 percentages (ibid.)

Norway hopes to reach 15 per cent organic agricultural production and 15 per cent organic consumption by the year 2020 (LMD 2009).The goal include 15 per cent agricultural land and that 15 per cent of the total husbandry should be organic. The main reason for Norwegian authorities to emphasis organic production and consumption is that organic agriculture emphasis environmental consideration more than the conventional agriculture and new knowledge and methods developed may benefit agriculture in general (ibid). Several policy instruments were developed to encourage growth in organic farming during the 90-ies and new ones have been established for reaching new and ambiguous goals (ibid). As already mentioned, status in 2012 are far below these goals both according to production, organic agricultural land in use and consumption. According to husbandry, only 0.9 per cent are organic in 2012, a number that has decreased the last years. The Norwegian Agricultural Authority has stipulated growth where results show that goals are far from being reached within 2020 (SLF 2013).

## 4. Overview of the case

**Main actor:** Røros Dairy

**Established:** 2001

**Legal form:** Ltd.

**Products:** a variety of products from organic milk processing

**Distributions channels:** Retail chains, Hotel, restaurant and catering, and specialty food shops all over the country

**Number of employees:** 21 (2014)

**Turnover 2013:** 45.5 mill NOK (5.5 mill EUR), 2014: 71.5 mill NOK

**Facebook Likes:** 6872 (12.11.2014)

**Twitter:** 841 followers (12.11.2014)

**Google Hits: 26600** (02.04.2015)

### 4.1 Presentation, basic facts and trajectory

The history of Røros Dairy started long time ago. Back in the late 1980s the liberalization of the world food trade, through the Uruguay Round of the GATT-negotiations, were perceived by many Norwegian farmers as a possible threat for the future development of Norwegian agriculture. In 1987, farmers from the region of Nord-Østerdal and Røros initiated a campaign against the national agricultural policy and later against the Common Agricultural Policy of EU. The campaign did not live up to the expected results of the campaign, and the farmers started to look for new strategies (Christie 1994).

A new strategy ended in establishing an alliance of producers and local NGOs concerned food-health-environment issues, which in turn led to the creation of a network of different local stakeholders in an organization called “Food from the Mountain Region”. This local socio-economic actor became a strategic alliance between primary producers, local food processors, local authorities, retailers and consumers (Amilien et al 2005). The major common issue for these stakeholder was the support for local food production, which is still of vital importance for employment in the numerous small communities of the region.

Many of the organic producers in the region converted to organic agriculture in the 1980s, when a very engaged person employed by the Regional Agricultural Advisory Organization, convinced them to convert. The group of organic farmers had been working with the idea of processing a local organic dairy product since the early 1980s.They hoped this innovation would enable them to sell their organic milk product as certified organic in food stores, and to prevent a closing down of the local dairy plot that was owned by TINE (Norways major dairy cooperative). It was important for farmers that the product distinguished from the organic milk “Dalsgården”, which was launched by TINE Norwegian dairies, in 1995. Therefore, they promoted milk from Røros as more genuinely local and “traditional” compared to Dalsgården milk, which was regarded as a more “generic” product (Amilien et al 2005).

The organic certified company Røros Dairy, is a private limited company. Founders were milk producers organized as a cooperative, Økomat Røros, TINE Norwegian Dairies, the Røros municipality and Innovation Norway. TINE, which was the former owner of the dairy, had made a decision to close down to reduce cost, but different stakeholders with local organic producers in lead wanted the dairy to convert to an organic dairy for the region. There was a long period of negotiation between TINE and the other stakeholders before the establishment of Røros Dairy. Røros dairy took over machines and equipment from TINE. When established they went on producing traditional products, such as “tjukkmelk” (thick sour milk), “skjørost” (quite similar to cottage cheese) and “songraut” (porridge), as well as organic light skimmed milk on license for TINE. In addition, they were free to produce other old and new local dairy specialties (Amilien et al 2005). Initially Røros Dairy distributed products through TINE’s distribution system and assortment, the first years mainly to the hotel, restaurant and catering (HoReCa) market in the region.


Figure 3: The tick sour milk qualified for PGI as the first one in Norway in 2004.

The organic producers and their cooperative, Økomat Røros established in 2000, were crucial for the establishment of the new dairy. Producer's money was decisive for TINE to agree on the contract to establish an organic dairy and producers paid 280 000 NOK to secure running the dairy. For the public innovation service - Innovation Norway- Røros Dairy was an interesting case for a new program established in 2001, The Value creation program for local food (VSP-food). Innovation Norway and VPS-food spend money to develop the dairy from the earlier TINE dairy, a total amount of 3.8 mill NOK (0,46 mill EUR) in three years. To invest this money they demanded that local actors invested one mill NOK in equity capital, where TINE contributed with 24.9 % and Økomat Røros and organic producers contributed with the rest. Røros municipality was very interested in continuing dairy production primarily to maintain jobs and contribute to activity in the region.

When initiated in 2001 there were four employees, which were previously working in TINE. One of these was initially General Manager of the new established Røros Dairy, a position he also held in the former TINE dairy before closing down. In the start up the owners of the dairy were employees, Økomat Røros, one organic farmer and TINE.

Today about 35-40 organic milk producers in the region deliver about 3.5 mill liters organic milk to Røros Dairy via TINE system of milk collection and transport. The producers are still members of the big milk cooperative, TINE, which collect milk from farmers and deliver it to Røros Dairy. Additionally, the dairy receives about two mill liters of organic milk from nearby regions via TINE. This means that Røros Dairy pay TINE for milk delivered and not organic farmers, which TINE pay.

The initial product range mentioned above, resulted in a surplus of crème, and traditional butter and sour crème were the next products developed in 2002-2003, see picture 4 below. These products are qualified for the brand "Specialty", which is a Norwegian brand for distinctive products from Norway. Additionally, all own products wear the organic brand and the brand from Røros Food.


Figure 4: “Specialty” products, sour crème and butter

The sale of organic milk from TINE decreased and new products had to be developed. Tick sour milk with the taste of blueberry and raspberry were developed, but these products did not succeed very well. In 2010, the dairy contacted the grocery chain Coop about license production. Coop wanted to maintain its position in the organic market with their organic brand, Änglamark. For Røros Dairy this was a perfect solution, because they has a surplus of capacity and needed more cream. TINE was not that satisfied with this solution, because it meant that TINE had to find another actor to produce its organic milk. According to the General Manager of Røros Dairy, they did not have any other choice for further development and growth. This contract, established in 2010, was very important for growth of the dairy. Today (2014) Coop want to extend distribution to another of their shop concepts, Xtra, which probably will increase the demand and volume dramatically. The newest products developed are Røros milk, cream and yoghurt, introduced to the market in 2014. All products are products with cultural origin in the region, produced in the traditional way with traditional ingredients (handicraft production). Below we can see these products with the dairies new profile.


Figure 5: New packages and profile in 2014

About 50 % of the production of today is license production for Coop, where Røros Dairy are responsible for producing Coop's organic milk. Coop is the only subcontractor and the dairy is not interested in making new agreements on subcontracting in the future. They prefer to produce own products instead. Producing for Coop contributes with a lot of cream, which make it possible to produce more butter, sour crème, and other products based on cream which are important products for the dairy. Products such as organic milk for Coop, butter and sour cream, increase in volume, when tick sour milk and a variant of cottage cheese are more stable.

Røros Dairy used TINE's distribution system until 2013. TINE was then distributing their products all over the country, both to the HoReCa-market and to all the four grocery chains in Norway and to some specialty shops and farm shops. In 2013 the Competition Authority suggested TINE to stop this cooperation, because TINE and Røros Dairy were competitors in the milk market. Today products are distributed all over the country via multiple channels. ASKO, the biggest wholesaler in Norway, distribute to the HoReCa market all over the country and to the biggest retail chain NorgesGruppen. Eugen Johansen (see also the Kolonihagen case) is a wholesaler mainly for the HoReCa-market and is distributing local and specialty food in southern parts of Norway. The retail chains Rema 1000 and Coop have their own distribution systems. Servicegrossistene, is a local wholesaler mainly for local food. The dairy use TINE's distribution in very few cases where there is no other choice, and RørosFood is the local distribution and sale company for local food from Røros. Locally, Røros Dairy use their own transport to some customers because they believe it is important to maintain a good relationship with local customers. Some products are mainly sold in regional shops when others are sold all over the country. NorgesGruppen (Supermarket chain) sell the largest volume of Røros Dairy labeled products, but all the four retail chains are customers. HoReCa represent about 30 percent of sale.

The collaboration with Coop is a conscious choice, because Coop is a cooperative, it was the first retail chain selling their products from 2005, and the collaboration is based on common values. Coop has a goal to develop and market organic products, which the dairy perceive as important. When TINE distributed their products, the dairy controlled where products were sold. TINE as a distributor was very important initially. Today, when ASKO is the main distributor, the dairy is not able to control which customers buying products.

Product development is in many cases based on customers asking for products. Many customers have asked for organic yoghurt, and in 2014 the dairy introduced organic yoghurt to the market. Another example show that the dairy is conscious about market development. They are very satisfied with the agreement with Fjord1 ferries about using the product "tick sour milk" in the popular "sveler", a kind of a small pancake, used at all their ferries along the west coast. This agreement was important because "tick sour milk" has a low sale in this part of the country.

Røros Dairy tries to differentiate its product from mainstream organic by emphasizing values/attributes such as local and pure ingredients; traditional products based on rich culinary traditions and handicraft production methods that make the taste unique. Storytelling is part of the differentiation. The new established values are: *engagement, competent, trustworthy, efficient and rea*l. The vision is to be *"the frontier organic dairy in Norway in step with nature"*. These values and vision are important, and they represent a basis for decisions.

Røros Dairy is very important for the local community in terms of image. The dairy is known all over the country for its products. For tourism business in the Røros area the dairy is an important actor that make it possible to market traditional and local food. Today the Røros area is well known in Norway for its focus on local food where Røros Dairy is one of the most important contributors. When TINE closed down the factory in 2000, they had 11 employees. Today the dairy employs 20 persons. The dairy and Røros Meat established Local Food BA in 2002, as their sale and distribution company. This is today a member company for all local food firms in the Røros area, which has been important for the development of local food in the region. The dairy has been a spearhead for the development of local food in the region, and the close connection with local tourism firms have contributed to map Røros as a food region.

The organic producers organized in Økomat Røros, own 28.64 percentages of the shares in the dairy. Additionally, one producer own shares constituting 13.93 percentages. Producers have two representatives in the board of the dairy, and together with TINE (11.07 percentages) they own a majority of the shares. Besides, a new investor from 2007, Stratell AS own 23 % of shares, Ivestron AS, another investor and chair of board today (2014) own 14%, and former and current employees 9.36%. Totally, there are 3299 shares. The decision making power is mainly in the board. Today the board consist of: One representative for Økomat Røros, one representative for the employees, chair of board and investor

(Investron), a former director in TINE Norwegian Dairy's (which has followed the development of the dairy from it was established), Coop, and one local business actor.

Røros Dairy has gone through a formidable growth since established. In 2001, there were four employees and the goal was to increase the number to more than ten, which was the number employed by TINE when the dairy was closed down. Today (2014) the number of employees is 21. As Figure 6 show, there has been a huge growth in turnover, quite stable the first years, and so a very high growth the last years since the agreement with Coop in 2010. When looking at result before taxes, this shows another picture (Figure 6).

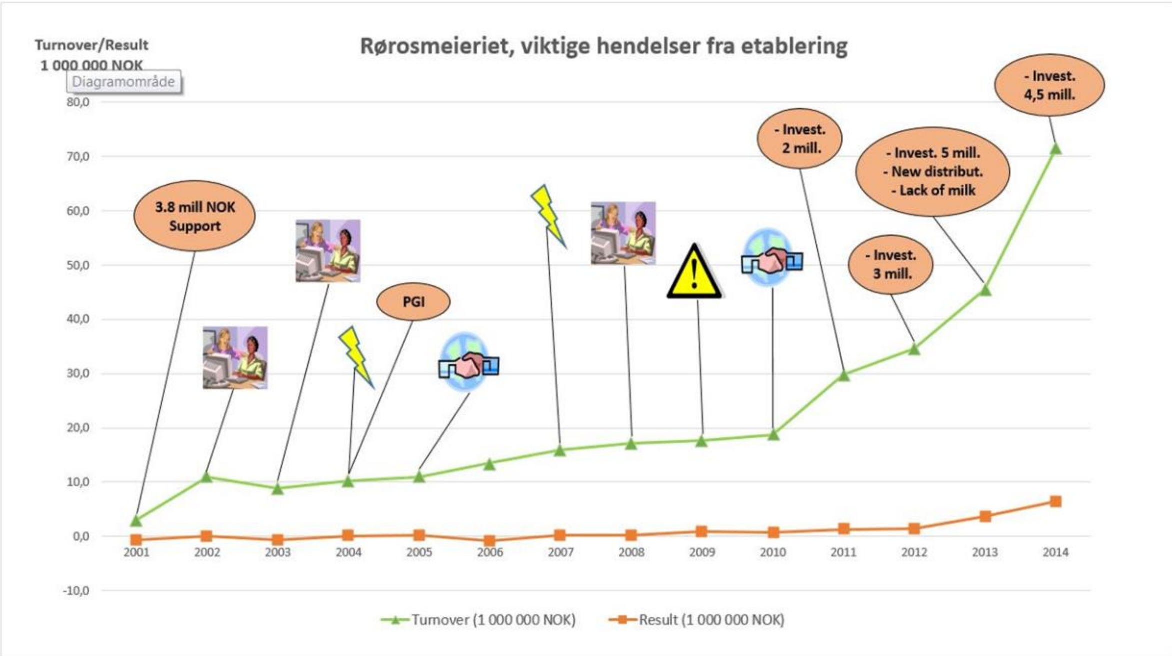


Figure 6: Important event in the development of Røros Dairy

The first years were a struggle with negative economic results and in 2004 and 2007; the financial situation was very bad. The arrangements of the first two emissions in 2004 and 2007 were because the company nearly got bankrupt. The last two ones in 2009 and 2013 were arranged because the dairy needed more capital for future investment. In the last two emission owners had preemptive and bought all shares. One of the organic producers that owned a big share then sold some shares to employees. His believe that shared ownership will increase employees' support to the dairy and their willingness to work. Today 12 employees own shares in the company (2014). The year 2013 was the first year owners got a small symbolic dividend.

Figure 6 shows that Innovation Norway (IN) contributed with 3.8 mill NOK for establishing the company in 2001. Later IN has supported the dairy with money in different areas. In 2013 the dairy got 1.5 mill NOK in support from IN for developing their profile.

According to Figure 6, there were changes in General Manager both in 2002 and in 2003. The first GM wanted to quit. The second GM was replaced because he did not handle the role in a proper way. Røros Dairy qualified for PGI for the product Tick sour milk in 2004. The dairy was the first company that qualified for this label in Norway and got a lot of attention because of this. A crisis occurred in 2004 because of lack of capital. This crisis was solved by an emission. In 2005, the first contract with the retail chain Coop was established. A new crises occurred in 2007, also because lack of capital. Challenges presented in 2007 according to GM at that time was: lack of qualified staff, lack of qualified board members, growth is expensive, framework conditions challenging and big actors is dominating the food chain. An investor saved the dairy from bankrupt in 2007. This person had a lot of experience from work in different boards and experience in economy and administration, and was very valuable for the dairy in a very critical situation. This investor demanded a new chair of board and a strategy process involving the board and employees. He recommended an external consultant to run the strategy process. The investor and the new chair of board realized the need of a new GM to handle growth, and a new person was hired at the end of 2008. Another important result of the process was that prices of products were increased. Earlier prices on products were the same as for TINE's conventional products, influenced by TINE's representative in the board. The financial crises in 2008 made the company decrease sale in retail, but the HoReCa market increased in this period. In 2010, the agreement with Coop on license production was initiated. The last years the dairy has invested a lot of money. In 2011, 2 mill NOK, they bought part of the building which they earlier hired. In 2012, 3 mill NOK in equipment, and in 2013, 2 mill NOK in equipment and 3 mil NOK in new profile.  This year, i.e. 2014, they bought the whole building (2.5 mill NOK), and equipment for 2 mill NOK. Last year, i.e. in 2013, they established new agreements for distribution of products, and for the first time they experienced lack of organic milk from the region.

The goal in 2014 is still to grow. Many stakeholders emphasis that growth is not/should not be important in itself. Their opinion is that lack of local milk makes it important to focus on the best utilization of the local recourses, and develop more premium products to increase value more than volume. The GM seems to be more oriented toward growth, and argue that growth is important to maintain the volume of organic milk production in Norway. He also emphasizes to increase value and thus price of the products and increase the production of distinctive products.[1]

Challenges connected to growth is according to the GM to manage changes internally. Lack of organic milk from the region is also a challenge. Today new farmers that want to convert to organic production inside the region will not receive support to convert, and they will not receive a premium price from TINE for the milk as established producers does. This is because TINE receives more organic milk than they are able to sell as organic at the national market. Therefore, The Agriculture Authority have decided not to support an increase in organic milk production. The board of the dairy and the GM are working politically to try to

[1] In a press release 12th of January Røros Dairy inform that the board has decided to buy the earlier TINE dairy at Tolga. They argue that they need to increase capacity to fill demands for products. The plan is to process the licensed production for Coop at the new location. Innovation Norway support the new investment with 2.5 mill NOK.

change this situation. The dairy by the GM hope that expected growth in turnover of 30-40% per year in the future will open up for growth in organic producers in the region, i.e. that authorities make a decision to support new farmers to convert. [2]

Another worry mentioned by Innovation Norway and the employee of the dairy according to growth is the change in agricultural policy in Norway with a new right wing coalition. Their goal is to support an increase of the size of farms, make them more efficient and increase productions. Organic producers in the Røros region are quite small and they have adapted production to the size of their farm and its resources. They are not part of the group that the new Minister of Agriculture want to support. The employee at the dairy mention that some farmers consider to close down and others to convert to conventional production. The number of organic farms delivering milk has been very stable according to GM, much more stable than for conventional farms in the region. Nevertheless, a few organic farmers have closed down the last years.

[2] Since our last interview, we are informed during a conference where the General Manager presented the the dairy, that the board have decided to offer new regional farmers a premium price if they convert to organic production.

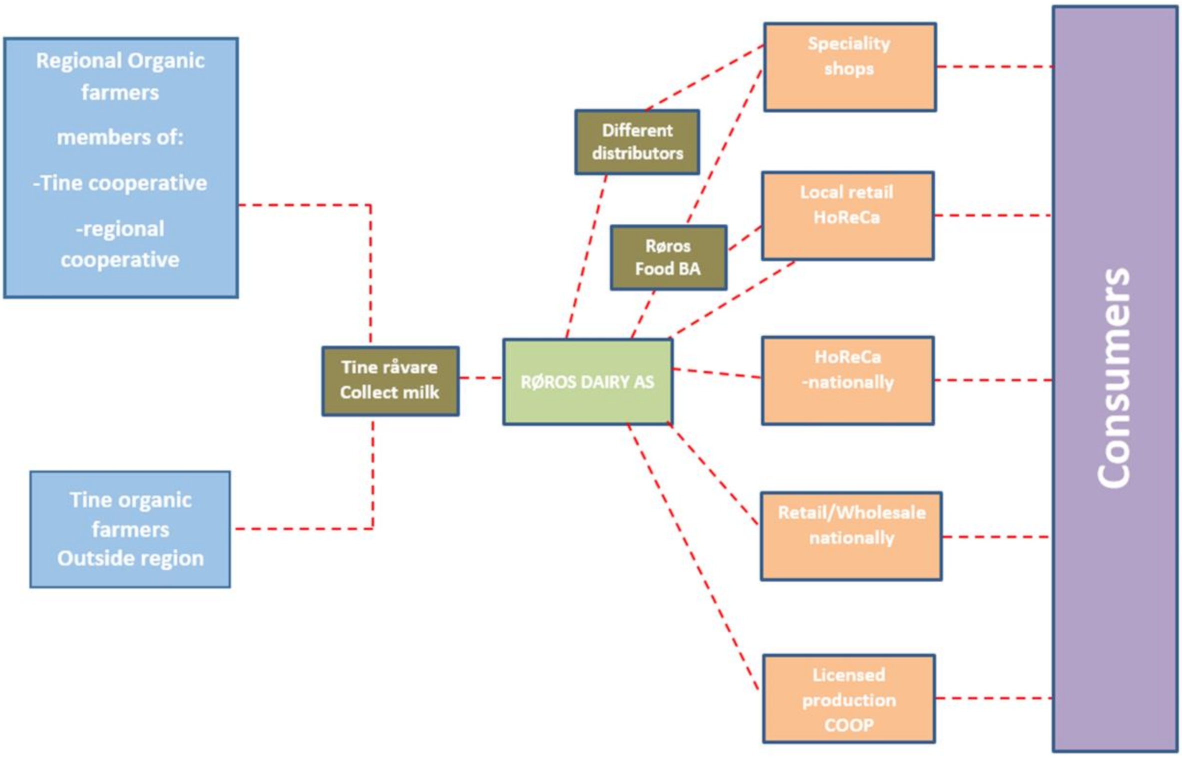


Figure 7: The value chain of Røros Dairy

The dairy receive milk from local organic producers and producers from nearby regions. All organic farmers are members of the cooperative TINE Norwegian Dairies. TINE Råvare, which is an own business unit regulating the milk market in Norway, collect the milk from farmers to the dairy. The dairy uses different actors for distributing their products to customers. For specialty shops nationally, they use small-specialized distributors. Regionally, they mainly use RørosFood, the local sale and distribution actor, and in a few cases they uses TINE Distribution. For local customers the dairy hire own transport. The retail chains have their own distribution. ASKO, which distribute for the biggest retail chain, NorgesGruppen, also distribute to the HoReCa- market. Røros Dairy distribute products to all the four retail chains in Norway. Only the chain Rema 1000, sell their product only regionally.

## 5. Analytical perspectives

### 5. 1 Organisation and governance

#### Modes of management and governance

According to the Chair of board from 2007 to 2013, there have been many discussions about how much *organic* quality should be emphasized in marketing products. He is convinced that an emphasis on just organic would not lead to the development of today, but suppose that the combination of organic and local traditional products is the key for the success. Other stakeholder agrees on this. Both the GM and other stakeholders told us that *the organic* quality has been more emphasized in their new profile. The reason for this is that demand for organic products increase and Norwegian consumers are more positive to organic products than earlier. Another reason why the dairy has not emphasized organic quality earlier, is controversies between organic and conventional agricultural production. If organic is emphasized it seems like conventional farming is not as good organic, at least conventional farmers think so.

There was conflict around the agreement with Coop on license production. Former chair of board mentioned in particular that he and the first investors were arguing about this agreement. The investor was afraid that this agreement would take the focus away from the dairies own products and brand, and thus cause damage on the dairy. The former Chairman, on the other hand, was convinced that this agreement was necessary for growth and profitability. Innovation Norway main office in Oslo, that had supported the dairy for many years, was skeptical to this agreement. According to the local adviser, she spent some time to convince them this was a good idea.

There have been discussions about growth. Many of the organic farmers were satisfied when all their organic milk was processed by the dairy. Other stakeholders claim that many of the farmers are idealistic, and do not realize the need for growth to develop and turn profitable.

The last years there has been a conflict about ownership of the core company. The investor and Chair of board today (20141)wanted to sell the dairy and make fast money. This attitude mirror quite different values among owners, and in this case particular between one of the investors on the one hand and other owners on the other. Other owners have a more long-term view of the development and see the importance of local ownership to secure the organic farmers income and working force in the region. Økomat Røros were very conscious *that the «dairy develop in a sensible way and long term growth to secure our and the dairies' jobs».* Still Økomat Røros, one producer and TINE have the majority of shares, so the power balance inside board is not changed because of investors entrance.

According to selling the core company, the investor and chair of board today, realized that other board members were not interested in sale. This is thus not a case anymore. This conflict have made the members of board more conscious about new board members and the importance that they really *«burn for the region»*.

As a ltd. company from initiated, the decisions has been taken by the board of the core case, Røros Dairy. The board and the company have initiated strategy processes (2008 and 2013), where main stakeholders have joined, such as board members and employees. The GM has followed up strategies. In the beginning, there were just four employees and a GM 50 percent employed by the dairy. The board decided strategies to follow. Lack of competence both inside the company and among board members made management and governance difficult. The agreement with TINE about distribution and being part of their assortment made the business function from established. Innovation Norway participated in board meeting the first years as an observer. This was because of their huge investment in the dairy. According to stakeholders the input and advices from Innovation Norway was important for the development of the dairy.

Lack of competence both among board members and GM were criticized by stakeholders. The second GM were criticized because he did not know how to manage a company. He was a former diarist and very good in product development and production. The third GM did not have the right competence and personal skills to manage a growing company. She was very competent in sales and marketing, an area in where she had a lot of experience. In 2007 they needed a person that was able to make structures and systems to run a well-established and growing firm. The Former chair of board emphasize the importance of finding the right GM to fit different phases of a company's development.

The first years of was very turbulent for the dairy. From 2001 until 2003, there were three GM. The one started in 2003 went on until 2007, replaced by the GM of today. This chair also realized the need for more competence in dairy production. Another important change at that time was that an investor joined the board. As mentioned, he brought a lot of experience and competence both to the board and the management of the company and made the dairy more professional. Another important change was that two board members (new investor and new chair of board) struggled to convince the other members to increased prices on products with 20-30 percentage. Until 2007 the prices was on the same level as conventional dairy products, much influenced by TINE's representative in the board. The argument for a change was that with such prices, the dairy was not able to earn money. First; TINE was much more cost efficient than Røros Dairy because of size and second: traditional production methods were more costly than conventional once. Anyway, it was a struggle to make this change, also because quality production was newly established in Norway and there were little experience in this area. Some stakeholders did not believe people were willing to pay so much money for milk products. Because of the financial crises in 2008, it took some time until volume expanded. These changes mentioned above were part of a strategy process of the dairy lead by an external actor and initiated by the new investor. To make employees feel ownership to new strategies developed, they joined this process. To make the board more professional, also another local investor was invited to join the board in 2009.

**Agreements and modes of arrangements to secure long term strategic cooperation**

Farmers are members of TINE Norwegian dairy, and deliver all milk to TINE. As members of TINE the farmers are followed up according to quality demands and advices. TINE Råvare, responsible to deliver milk to Røros Dairy, and Røros Dairy have a formal contract on delivery of organic milk from TINE. Røros Dairy has no formal agreement with organic milk farmers in the region or outside on neither price nor volume. According to one of the producers, he think it *«would be a good idea if the dairy was more consious about the contact with farmers, and think they would get more inspired if the dairy was more active in giving information to all farmers delivering milk to the dairy»*. TINE as a cooperative is obliged to receive all milk produced from its members to a price decided every year by negotiations between farmer's organizations and the agriculture authorities.

Røros Dairy is member of Røros Food and they have a formal contract on distribution. The dairy also has a formal contract with Coop on license production that is renewed every half a year. This contract includes agreement on price and volume. For ordinary sale to the grocery chains, the dairy join the same kind of yearly negotiations as other food producers, negotiations that ends with a formal agreement on products to sell and prices. All wholesalers have a formal contract with the dairy. When it comes to HoReCa, the way of coordination differ. Some special customers, such as Kolonihagen in Oslo specialized on organic products in box schemes, restaurants and a bakery, prefer to buy direct from the dairy and have a close relationship. Other customers in this market make orders through ASKO, the biggest wholesaler in Norway, and do not have much contact with Røros Dairy. Local customers collect products from the dairy on their own or the dairy bring them products by hiring transport services locally. The relationship to local customers is based on trust. Some local customers have had/and have a special close relationship with the dairy and its management, such as Røros Hotel. There have been no conflicts with customers; they accept prices. The General Manager thinks TINE take too much paid for delivering milk to the dairy. They disagree on this, but there is not a conflict.

Individual producers of organic milk in the Røros region are informed about the development of the dairy in regular meetings in Økomat Røros. This has been a very active group of farmers with a lot of engagement and activities for example to increase quality of the milk and to influence the strategy of the dairy. The organic farmers do not always have the same opinion about what strategy to follow and there have been many internal discussions among producers. Some are "very" regional oriented and focus on farmers in the region and regional development, when others think growth beyond the region is a positive thing. Some farmers are "more" organic than others are. Nevertheless, when talking with other stakeholders, the producers group is always described as a group of farmers with "one" opinion. Conflicts among them have not been any main topic in the interviews with members of the group or other stakeholders.

The organic farmer's ownership, their involvement and agreement on strategies have been decisive for cooperation along the chain. The farmer's membership in TINE and TINE's agreement on delivering organic milk to the dairy has been decisive. Cooperation with Coop during many years, board memberships and the agreement with Coop on license production, have been decisive to secure strategic cooperation. Also close interaction with local actors and Røros Food have been decisive for cooperation along the chain.

Økomat Røros describe their relationship with TINE and Røros Dairy as very good. Røros Dairy describes its relationship with Økomat Røros as very good. The relationship with Røros Food has been very good the last years. Earlier the dairy did not use the services from Røros Food, but today they have become very professional and worth to use according to the General Manager. Røros Dairy also describe their relationship with customers as good. They have a very close relationship with some customers, in particular at Røros and in the region, such as Røros Hotel and its director Mikael Forselius. Forselius also emphasizes the good relationship with the dairy during many years, and their importance for the hotel's strategy in focusing on local food. The relationship to the person representing Innovation Norway at Røros is described as very good through many years. When the company experienced financial crises around 2007, the relationship to the local banks was bad. The bank perceived the project too risky. Today the dairy has a very good relationship with the bank. The dairy describes the relationship with its customers in general as good.

**Public policies and relationships with the civil society**

A new program for developing local food was just established (The value creating program for local food) and Røros Dairy was the first company that received support from this program in 2001. Innovation Norway, that followed up this program, was very close connected to the development of the dairy the first years and the dairy has received a lot of financial support from IN. The advisor from IN has also been an important discussion partner for the dairy and do still follow the development of the dairy by regular contact with different stakeholders, mainly GM Many stakeholders emphasis that this project was important for Innovation Norway.

The government support for organic agriculture has been important for establishing organic milk production in the region and nationally. Another governmental body mentioned, Matmerk, is responsible for geographic indications and support actors that want to qualify for such indications. As mentioned, the tick sour milk is qualified for PGI, and the dairy has just applied for qualification for the product "Skjørost" (a kind of cottage cheese). Matmerk also have developed their own brand, Specialty, where Røros Dairy have qualified two products, the sour cream and the butter. In particular, the qualification for PGI as the first product in Norway was valuable for the dairy according to attention from media.

The General Manager join a steering committee for organic frontier counties. The two counties in the middle of Norway, Nord - and Sør Trøndelag, receive some money from national authorities to develop organic milk production in the region. The reason is that these two counties are producing a large proportion of the organic milk in Norway and there are established good environments for organic milk production. The GM also join the Norwegian dairy technical association. Røros Dairy is member of Oikos, which is the national movement of organic producers and consumers and Norsk Gardsost, which is a national organization for producers of local cheese. The GM describe all networks as important networks and that they always gain new knowledge when in contact. Oikos is active on supporting the dairy in giving demos.

## 5.2 Business and management logics

Økomat Røros is today a cooperative, but is going to change to a Private limited company. There are no production in this company, they only own shares in other companies, such as Røros Dairy and Røros Meat. These companies again own shares in Røros Food, which is a cooperative. TINE and Coop are organized as cooperatives.

The vision of Røros Dairy is to be the frontier of Norwegian suppliers of organic dairy products, in step with nature. The goals are:

1. Grow. This is important for maintaining the organic production in Norway. They expect to grow 20 percent yearly from 2014 to 2018
2. Profitability (resultatgrad) 12.5 percent in 2018
3. Presence of employees on 97 %
4. Increase the amount of local milk
5. Stop/reduce use of fossil energy

The GM of the dairy give highest priority on point 2 and 3. One written strategy plan was established in 2008 because of a strategy process. A new one is just developed based on a new strategy process in 2012/2013. The dairy have join a group of companies from Røros that develop their strategic plans in cooperation with SINTEF, a research company located in Trondheim. The GM emphasize the very low sick leave rates from employees the last years, attendant rate 98/99 %. He emphasis good working conditions, such as trust based, responsibility, take off when they want, good communication, etc. He also mentioned that «*it is important to show that employees mean something, - then they perform*». Also the employee emphasis a good working condition.

Røros Dairy follow a differentiation strategy; compete on quality not on price. TINE is the main competitor, but do not make a big effort to increase their organic productions. If the market for organic is growing substantially, the GM expect TINE to focus more on organic, and may thus become an important competitor. There are not many competitors at the Norwegian market on organic milk products. Organic milk products have not been imported, perhaps because the market for organic products has been very low. Norway do not import consume milk at all from other countries, but many quality cheeses from European countries. Røros Dairy does not produce any cheese yet. Products from Røros Dairy are quite special both in the way they are processed and according to taste. Today competition does not seem to be very strong and the GM is not very worried about competition. On the other hand, the dairy work to be more efficient, qualifying for a new PGI's and so one, so they prepare in a way for being more competitive.

The strategic partnership between Økomat Røros and Røros Dairy is important for both parties. For farmers it is important that their organic milk is processed and sold as organic, and for Røros Dairy this group of farmers is the basis for their regional production and products. The relationship with TINE Norwegian dairies is also important. Organic farmers are members of the cooperative TINE, and this membership is important to them and a safety for delivering milk. The agreement with TINE on buying organic milk is of importance for both parties. TINE get rid of their organic milk to a higher price than they can reach on their own, because they sell part of the milk as conventional milk. Røros Dairy need organic milk to produce, so they are very dependent on TINE Råvare.

The first years the agreement with TINE on license production was of big importance for Røros Dairy to reach a certain volume of production. Cooperation with TINE according to distribution was of big importance for the dairy the first years. Today TINE is more looked upon to be a business partner and not a strategic partner, according to the GM. Strategic partnerships in product development has been of big importance, i.e. mainly with customers such as Røros Hotel.

Cooperation with Coop was decisive for growth and gaining enough cream for their traditional products. Cobranding on licensed products and very much focus on Røros Dairy and Røros on the new developed package show that Coop appreciate the cooperation. Coop have different kind of shop concepts where some offer more and some less variety of food, some are known for being very cheap and so one. The Coop concept named "Obs!", which offer a huge variety of products, has its own desk in regional shops of products from Røros, and Coop Obs have weeks where they market products from Røros. Some times they arrange demos together (Coop Obs! and Røros Dairy). The retail chain NorgesGruppen's shop concept "Meny", where a variety and higher price products are sold, use products from Røros Dairy when suggesting (premium) menu's for weekends by their group of well-known cooks (kokkelauget). According to the GM, these actors (Coop, Røros Dairy and NorgesGruppen) «*strengthen each other*». Neither Coop nor Norgesgruppen are defined as business partners. Partnership with Røros Food has been important the last years because Røros Food has become more professional. ASKO, the main wholesaler for the HoReCa-market and for NorgesGruppen, has become more "green" the last years and the GM feel they have developed common values. ASKO is not defined as a business partner.

Branding and labelling are business instruments that help to secure product properties and qualities through the chain. Today Røros dairy use the Røros brand, the brand for PGI for one product, the Speciality brand for two products , the Organic brand for alle products, the Key hole brand, and its own brand. All products have their own brand and the organic brand. All products except production for Coop have the Røros brand. The Røros brand has a good image in Norway. The dairy focuses on an extensive use of demos in shops all over the country and is active at the bigger food festivals in Norway and other arrangements, such as music festivals were food offered is organic. Additionally the dairy is conscious about maintaining a close relationship with the "most important" customers, such as local shops and restaurants, and some others of big importance for marketing and/or because they have a good intention in the way they are working (sustainability). A new profile & design was introduced in 2014. Another strategy is cooperation with well-known cooks/restaurants/actors whom use products from Røros Dairy – this give the dairy good marketing in restaurants and in different media. The dairy is active on Facebook and Twitter and the homepage is updated regularly. According to the GM, "*all customers/consumers are taken seriously"*. Coops' organic strategy secures organic quality through the chain. NorgesGruppen strategy secures more the distinctive product qualities along the chain.

According to the pricing strategy along the chain, organic farmers gain less money for the milk from TINE today that earlier. Earlier they got 0.8 NOK more for organic milk, no they get 0.65 NOK more. This reduction is a result from TINE's challenge in selling organic milk as organic. Because a lot of their organic milk is sold as conventional milk, they do not want to encourage farmers to produce more organic milk. The organic farmers were very satisfied with the price they got for their organic milk initially. After reduction, they are not that satisfied any longer. On the other hand, the fact that Røros Dairy buy about 5 million liters of organic milk from TINE, means that TINE get paid for this organic milk, and TINE earn 0.65 NOK per liter, i.e. about 3.5 million NOK on selling to Røros Dairy. Røros Dairy is not satisfied with the price they pay TINE Råvare. TINE add a sum for collecting the organic milk, which the dairy think is too high. After regulated prices for products in 2007, the price strategy of Røros Dairy is to differentiate from standard product on price. The strategy is to operate with the same price for all customers. There are some adjustments for some small actors with fewer resources.

According to Coop's license production, Coop did not press prices, but accepted the price Røros Dairy demanded. Coop have sold their premium organic milk very cheap to get attention and increase sale. The retail chains accept the price from the dairy. The GM believes it is because the dairy still is very small.

Fair price has not been an issue in itself. Farmers are, as explained above, not dependent on prices on products. Organic milk farmers have the last year, as the other owners, got a small dividend on shares from the dairy. This may be seen as a fair distribution of profit. The GM believes all actors along the chain earn money. Employees gain a bonus if results are better than expected. He believes that organic food consumers are the best customer according to willingness to pay a higher price for products.

The price the organic farmers gain for their milk is part of the Norwegian agriculture policy system. The agriculture authorities and the farmer's organization's negotiate among others prices for agricultural products every year. In these negotiations, the price both on conventional and organic milk is decided. The milk cooperative TINE is the regulator in the milk market and is thus responsible for paying this negotiated price to all farmers delivering milk to the cooperative. This system give all farmers in Norway the same price for milk produced. The price negotiated for organic milk is higher than for the conventional milk, because it is more costly to produce. This system is based on a "fair price system" with equal prices for equal productions. This is a very substantial part of the Norwegian agriculture system, and has been so for many decades. According to interviews with organic farmers in the Røros region, they are satisfied with the milk price. They want to belong to the cooperative TINE, because they are then guaranteed delivery of the milk, they join a quality system and gain support from Tine's advisors. For many farmers the cooperative idea is very important, that the farmers stay together, cooperate and have the same rights. A "fair" price system is in this way fair compared to the price other farmers gain, but not necessarily fair compared to other actors in the value chain.

According to dependencies, organic farmers are dependent on TINE Norwegian Dairies for collecting their milk. Tine is not dependent on the farmers, because they gain enough organic milk from other sources. Røros Dairy is very dependent on organic farmers in the region. The business idea is based on regional and organic milk. The organic farmers are also dependent on the dairy for processing their milk and selling it as organic, but they gain the same price for the milk from Tine.

For Røros Dairy is TINE important and vice versa, but the relationship is more a business relationship.  Røros Hotel and the dairy are mutual important for each other. Røros Food and Røros Dairy are important for each other, perhaps Røros Food is more dependent on Røros Dairy than opposite. Røros Dairy contributes with a huge volume for Røros Food, which is important for turnover and income in Røros Food. Coop is very important for the dairy for volume sale and income, but the dairy is also important for Coop and their effort in offering organic products. For retail chains with premium concept Røros Dairy produce important products that are demanded from customers. The dairy is also important for the HoReCa-market, because they have demanded products. The HoReCa-market is important for the dairy in marketing their products. For organic shops and specialty shops products from Røros Dairy are important because there are not many products/producers in Norway of such products. These shops are important for the dairy because they market organic and specialty products.

The dairy, according to the GM, look at the contract with Coop as the most risky one. This contract was very important for the dairy for growth and earning money to develop the dairy. Coop first went to TINE and asked for licensed production of organic milk, but TINE's policy is to focus on own labels. Then Coop did not have any other choice for developing their own private labelled organic milk than Røros Dairy. The two actors are dependent on each other. On the other hand, the consequences for Røros Dairy is much higher if Coop decide to stop the licensed production than it is for Coop if Røros Dairy cancel the contract. This is because Coops part of the turnover is about 50 %, when Røros Dairy's part of Coops turnover is very low. Because TINE is the regulator of the milk market in Norway, they have to deliver organic milk to Røros Dairy and other competitors as part of this role. Organic and specialty shops are more dependent on Røros Dairy than he dairy of them, although they are important customers.

Retail, TINE, TINE Råvare, and mainly wholesalers (except Røros Food) are perceived to be business contacts. Common values are securing sustainable relationships. The GM experience that the dominant wholesaler for the biggest retail chain and most HoReCa customers, ASKO, has been more focused on organic products the last years, and they have changed a bit behavior according to that. They are still perceived as a business contact.

The values and strategy of the dairy decide whom to cooperate with, not to produce on license for all and everybody, and not all kind of products, i.e. just organic products and product that fit with their business idea. The chain actors located in Røros are based on the same chain logic. They want to develop the food region and they "owe each other success". Actors such as Kolonihagen (organic) are based on the same logics. Both Coop (organic and local) and ASKO emphasis green development (organic) and have developed a more similar logic as the dairy the last years.

There have been and still are discussions about the strategy of the dairy. Organic farmers are less focused on profit and growth, but more on utilizing regional resources in a sustainable way. The GM think growth is important for developing the dairy to a more solid company and an important actor for producing and delivering organic milk products in Norway. A majority of shareholders seems to support GMs view. This discussions around strategy and the situation that the producer organization, Økomat Røros may not be able to buy shares and keep majority in board may cause discussions and conflict in the future. Other stakeholders (Røros Hotel and RørosFood) are also a bit worried about/disagree in a growth strategy, and think emphasis should be more on developing high quality products based on regional organic milk to a premium price. They are afraid that the Røros Dairy brand will be diluted if organic milk is taken from other regions and an increasing part of their production is on license to Coop.

The reason why the growth rate was slow in the beginning was among others lack of capital and lack of competence. An agreement with Coop on license production made growth possible. A more professional leadership was needed in this growth phase (both in the board and internal in the dairy) and this change made the dairy more profitable. Regional actors are supportive and businesses are supporting each other. These effects may increase when many companies in the region, both related to food and tourism, but also other branches, have joined a common strategy process lead by external agencies. In a Norwegian context, this positive and supportive environment at Røros is unique.

## 5.3 Trade-off between quality differentiation, volume and economic performance

What differentiates products from Røros Dairy from mainstream organic products is that they are traditional products based on the local food culture; it is a handicraft production, where regional recipes are used. Products are local processed based on organic milk. The special taste on products is much emphasized by the dairy as the most important differentiator. For example, the dairy got the recipe from an old woman that used to make butter on the traditional way at her summer farm. Sour crème is matured over long time, it is extra fat, and it is not touched and thus very gentle handled for developing the special taste. The butter is based on the sour crème. The butter is dry salted, such as the old woman did, where a special salt is used. Old recipes also make the tick sour milk where a special plant from the mountain region is an important ingredient. All products are labelled with the organic label, the regional label (Food from Røros) and their own label (Røros Dairy) except the license production for Coop where the organic brand for Coops private label, the Røros Dairy label and the organic label is on the package. Two products are qualified for the Norwegian label "Specialty" (the tick sour crème and the butter), and one product is qualified for PGI (the tick sour milk). Organic farmers in the area are running traditional agriculture for the mountain region and produce organic milk based on EU standards. Storytelling is also an important part of differentiation.

Growth, and the demand for more organic milk than farmers in the region can produce, has started a discussion about how to secure an increased regional production of organic milk. All actors agree that the value *local and proximity,* i.e. the value of regional organic milk production, is very important for further development. Initially all products were based on regional milk and this has been an important quality of the dairy. Because of growth, the dairy now "import" 2 mill liters of milk from nearby regions. This has cause a change in labels on some products, from "organic milk from Røros" to "organic milk processed by Røros Dairy". There are discussions about what to do to increase regional organic production to secure that own products are based on regional milk and can be characterized as "local". Some stakeholder's emphasis that differentiation should be more emphasized in the future and that new distinct product should be developed to secure the perception of distinction. This is perceived as important because growth has made the products well known all over the country. The products are not special for just a few costumers any longer. In particular, the HoReCa-market and local restaurants expect new and special products based on milk from the region. This is also an important strategy for the dairy, to increase own quality production to reduce the dependency of Coop. In general, the GM and employee interviewed emphasis that growth has increased the more "objective" qualities on products and made them more stable and even.

There was arguing about balancing the concerns of quality differentiation and growth, for example in connection with the partnership with Coop. According to former chair of board, the company needed to grow to gain profitable, and it needed more cream to increase production of their main products. Therefore growth was looked to be more important than continuing to produce only products based on regional organic milk. Farmers were more skeptical to this growth strategy. The former chair of board tried to convince them that it was *"better to be small and part of something big, than being big and part of something small"*. The dairy is very conscious that milk from the region is used in their PGI product, the Tick sour milk. They are also very conscious that the labelling is correct and do not claim the milk is from Røros if it is not. This is according to the value "Trustworthy". The dairy is also very conscious that it has to develop new distinctive products for niche markets able to pay a high price, and thus to increase production and sale of their own products vs. Coop, to reduce risk and increase profitability. The dairy is also planning to increase regional organic production - working on/thinking of different strategies to reach that goal. One is to work with politicians to convince them to open up for increased organic milk production in the region. A new board member just retired from TINE will contribute into this process. Another strategy is to contact potential organic producers directly and offer them higher price for converting to organic milk production, which is a strategy now decided to follow.

Røros Food has had a very positive development last years. They replaced GM and changed strategy, and the result is a much more professional organisation members want to use. This has resulted in an increased sale volume and profitability. The situation for other partners is much the same. Not only because growth in Røros Dairy, but because of growth in organic and local food in general in Norway the last years.

The quality differentiation strategy has influenced the growth strategy in many ways. It has influenced what products to produce (organic, local connection, specialty food, etc.), whom to cooperate with (Coop, customers cooks), choice of board members, with local connection and interest in regional development, hired staff with dairy expertise, etc. There was a need to grow for reaching profitability. A minimum of turnover was necessary to cover fixed cost. According to stakeholders, a worry is to maintain the impression of quality differentiation when products are sold all over the country and to all retail chains. The fact that 50 % of the production is organic milk for Coop, the impression may be that the distinctiveness is diluted and they looks more like a conventional chain. Growth and economic performance is going well so far, but the worry is according to stakeholder's to maintain the impression of being a distinctive regional milk processor. The fact that an increasing part of the organic milk comes from other regions is perceived as a challenge. Some stakeholders emphasize the importance of developing new premium products and finding new use of established products to increase the differentiation and the turnover of own products. Some argue that growth should not be a main goal any longer, because it is possible to run the company profitable with the volume of today. Export for an exclusive market are suggested. It is better to increase value of products. GM argues that the part delivered to Coop should not increase, rather decrease. GM, former chair and director at Røros Hotel agree on this strategy. The GM is more focused on growth than the others are and mean that in itself it is important to secure growth in organic production and consumption in Norway.

Many stakeholders mentioned the challenge with lack of organic milk in the region. Because TINE is not able to sell all their organic milk as organic, they do not want members or farmers to increase production. Otherwise, they lose money. The Agricultural Authority (Landbruksdirektoratet) has decided that farmers in Norway do not gain any support to convert to organic production, neither the Røros region nor other places in the country. Røros Dairy and the board want to work politically to change this situation.

## 5.4 Communication of values and qualities among the members of the food chain

Farmers in Økomat Røros have no contact with farmers from outside the region delivering milk to the dairy. Neither have Røros Dairy any contact with these farmers. It was in 2013 Røros Dairy started to use organic milk from outside the region because lack of milk inside. Then they had to order organic milk from TINE from nearby regions where TINE is responsible for the quality of the milk and for paying farmers belonging to the cooperative. This means that Røros Dairy and the regional farmers have no direct contact with these farmers and they do not know these farmers and from whom the delivered milk is coming. According to the dairy, they have so far not perceived it as important to have contact with these farmers. One producer says that Røros Dairy has no comittment to these suppliers. One reason for lack of contact may be that the goal of the Dairy is to increase regional organic milk production, and this question has been the focus in dialogs with Økomat Røros. On the other hand, Røros Dairy have discussed with Økomat Røros if nearby organic milk producers could be included in Økomat Røros and their meetings, but so far this is not realized.

Farmers are organized in Økomat Røros and own shares in the dairy. Økomat Røros join board meeting 6-7 times a year and owner meetings 1-2 times a year. In owner meetings, they among others have discussed how to increase regional production, and strategies for this. Farmers interviewed perceive their communication with the dairy as very good. One of them are member of the board of Økomat Røros and have been in the committee to choose new board member of the dairy, and have thus a lot of contact with the administration of the dairy. The other one own a private share of the dairy, have been member of the board and chair of the board for some years and keep a close contact with the dairy. Not all farmers have so close contact with the dairy, some do not join the meeting in Økomat Røros and not all organic farmers are member of Økomat Røros. One farmers interviewed perceived it as «a good idea for the dairy to give more information to all organic producers delivering milk to the dairy, at least in the region, to get more inspired producers».

The dairy has contact with TINE Råvare twice a week to order organic milk (phone and mail). They have personal meetings 3-4 times a year about volume of deliveries, changes and prognoses, etc. The dairy describes the cooperation with TINE Råvare as a business relationship, which is regulated by a contract. TINE Norwegian dairies are a passive owner, and have today no representatives in the board. There is no regular contact between Røros Dairy and TINE.

Røros Food has contact with the dairy many times a week about ordering and sale by mail and phone. Røros Dairy is a major owner of Røros Food and join 5-6 board meetings a year. The relationship has developed to be a close one, trust-based and positive for both parties. The relationship developed when Røros Food changed GM and professionalized their functions for its members. Contract is stablished between Røros Food and the dairy according to membership and cooperation on sale and distribution.  Røros Dairy is more a supporter of Røros Food, where increased sale from the dairy give higher income to Røros Food. Røros Dairy are responsible for own marketing initiatives and Røros Food is not important for the dairy in this respect.

The dairy takes care are about local customer's by hiring transport for distribution. Often local customers collect products directly from the dairy. They have contact by mail or phone many times a week about deliveries. The dairy claims it is important with direct contact with local customers. The GM emphasis direct contact and dialog with local food chains many times a week to see what the chains are doing, follow pricing on products, and in general the development in local chains. The dairy is also very active in giving demos locally in cooperation with customers. They then have the possibility to talk to both customers and consumers, which they think is very important. The dairy arranges about 20 demos each month at a national level. Own people are hired for this activity and the NGO, and sometimes Oikos arrange demos for the dairy. The dairies employees have personal relationships with local customers, a trust-based relationship according to the GM. There are no formal contracts. Local customers are prioritized before other customers. "It is important to take care about customers that has supported us earlier". "We support each other", is according to many informants a motto for business actors at Røros, "we owe each other success". Nearly all interviewees at Røros mentioned these characteristics of actors from the region, and they appreciated this positive will from all actors to cooperate and help each other.

Since 2013 Røros Dairy had to find new distributors for their products, because of rules about competition. Today many wholesalers are used to distribute products. All wholesalers have formal contracts with the dairy. There is usually contact between the dairy and wholesalers many times a week about deliveries, by phone or mail. Beside there are meetings once or twice a year about the situation or eventually changes. ASKO is the biggest wholesaler distributing to both the biggest retail chain, NorgesGruppen, and to the HoReCa-market in Norway. The last year ASKO has increased its environmental concerned and Røros Dairy feel the wholesaler's values have been more similar to Røros Dairy's values. After ASKO took over the distribution, there has been less contact with some HoReCa-customers, because they have to contact ASKO for ordering. There is still some direct contact between the dairy and HoReCa-customers about new offerings, marketing initiatives. Customers contact the dairy if they do not get deliveries ordered. Earlier all ordering went through Røros Dairy. Some HoReCa-customers still prefer to keep direct contact with the dairy because they think this contact is important for own activity and customers.

Specialty shops all over the country order products from the dairy. Some of these customers want a close relationship with the dairy and prefer direct distribution. Some of these customers are perceived as important for the dairy because they are profiled in media, mainly newspapers and TV. Then they refer to Røros Dairy when they use their products. The GM calls them “spearhead customers” or ambassadors. Such customers are important for marketing products and in some cases the dairy offer better conditions for such customers. The dairy has close contact with some of these customers, and contact many days a week by mail or phone. In some cases, they also discuss products and product development with some of these customers. Examples mentioned of such customers are Kolonihagen, which include an organic box-scheme, restaurants and bakery in the Oslo-area. Other examples are Maemo, an organic gourmet restaurant in Oslo with two stars in the Michelins guide, Røros hotel, its director who is a well-known cook in Norway, which has joined TV-programs about regional food and has written cook books about local food. Rica Nidelven Hotel in Trondheim, which has a lot of attention because of their efforts in offering local and organic breakfast to its guests, is also a good example. The hotel has won the price for best breakfast offered by hotels in Norway the last ten years. These actors recommend products they use, at TV, in newspapers and for example, food magazines, and Røros Dairy has a lot of positive attention and sale because of such customers.

Retail chains arrange one main meetings a year about price and deliveries. Relationship with retail chains is regulated by contracts. They communicate many times a week about ordering and deliveries, by phone or mail. When it comes to Coop and the license production, this is regulated by a contract that last for half a year. Price is decided, but there is no commitment made about volume. There are personal meetings twice a year about this production, the development, etc. and contact by phone or mail many times a week about deliveries.

Communication with consumers via social media, FB (6872 likes 12.11.2014) and Twitter (841 followers 12.11.2014), is perceived as very important and this communication has grown much the last years. Røros Dairy give a lot of information of FB and Twitter about new products, new profile, new customers, new equipment etc. They also inform readers about development in organic agriculture, news about organic agriculture from the government and research, but also give recipes on using their products and information about their customers. For example when their customer St. Olavs hospital won the organic food price this year (2014), it was published at Twitter and FB. When Gordon Ramsey, the famous TV-chef from England visited Norway and brag from his visit to a restaurant using products from Røros Dairy, this was referred to in social media. When a local producer started to use the dairies product in ice cream, this was published. Future arrangements are published, visitors at the dairy and meetings for example with the Minister of Agriculture and Food but also other kind of meetings. Customers ask all kinds of questions; about products, about organic production, about processing. Most consumers recommend their products and brag very much of their products. Complaints are taken very serious, and the dairy gives new products if consumers are not satisfied. Well known cooks use products from the dairy and refer to the dairy, and in particular when using products in TV-programs, this is very good marketing for the dairy. Sometimes the dairy advertising in special journals. The employment of a new marketing manager the last year is an investment in market communication and this person is responsible for market communication in general. The dairy has not spent much money on marketing until now. Other chain actors, Matmerk (the administrtor of PGI and owner of the label Specialty) and media have market their products very well. This is a very innovative way to communicate values, through others with more money and/or a close contact or access to consumers.  Another example of creative communication of values is the way Coop and Røros Dairy cooperate on the new packages of organic milk produced on license for Coop. The Røros Dairy brand is central on the package and the text gives information about Røros Dairy. Demos in shops are another way to communicate values, and this is done on a regular basis with different partners. In local specialty/organic shops and local retail shops, there are often cooperation between the dairy and the customer on demos. Oikos, the national organic organization, have resources to support Røros Dairy in joining demos. Røros Dairy also cooperate with other specialty firms in Norway on demos and following up sale in retail shops. They perceive this cooperation as very important, because demos and sale follow up is very important in retail, but very costly. Customers have to gain information about the products; otherwise, they do not buy products to a higher price. According to the question about which form of communication the interviewee prefer, they found this question a bit strange. It seems like the way to communicate with different actors was quite standardized, where mail and phone was the way to handle ordering - in particular with the more conventional actors. Where more overall questions had to be discussed with these chain actors, there were arranged formal meetings. On the other hand, there are obvious differences between chain actors. Local customers are perceived to be more important to maintain a good relationship to than others are. GM emphasis a personal relationship with these customers and own transport to secure this contact on daily basis. Some customer's emphasis a closer and direct relationship to Røros Dairy, such as Kolonihagen and some specialty shops. These customers prefer direct distribution solutions to secure a direct and close relationship.

There are feedback loops installed for consumers to channel appreciation or critique. This may be done by e-mail, phone, Twitter and Face Book. Most used are FB and Twitter, and through web pages. There are mainly positive comments on FB and Twitter. Additionally they join some fairs and some food festivals where it is possible to give feedback face-to face.

## 5.5 Quality dimension of primary production and mediation through the chain

Farmers emphasize organic qualities, in particular environmental care and animal welfare, but farmers also mentioned health aspects. Some farmers are following more strict demands than the regulation for Organic, but this varies among farmers.  The two farmers interviewed were very idealistic and focused very much on low resource use in their production and a production adapted to the size and resources of their farms. They also emphasized organic qualities, benefits according to health, and concerns about environment and climate emission. To support these qualities farmers follow the demands for organic production, where some farmers go beyond these demands. One farmer interviewed developed own feed for his cows and are "more" organic than demanded in that way. The organic farmers also believe that the variety of feed is higher in the mountain region than in the lowland, and thus the quality of the milk are different in the mountain region. Økomat Røros emphasize to increase the quality of the milk to produce the best raw material to the dairy.  The farmers joining Økomat Røros arrange regular meetings for learning and discussing and one annual meeting. They have brought in competence from different external actors in these processes. Milk quality has been emphasized, i.e. to secure this quality. They have discussions about growth and the farmers group have been concerned about too fast growth, and tried to reduce the speed and secure a long-term and safe growth where jobs are secured. The last years the discussion has been focused on increasing milk volume from the region and how Økomat Røros can influence this. Økomat Røros have a very close contact with the administration of the dairy, in particular the actors that join the board of the producer group. Based on Christie (2010), the group of organic farmers in the Røros region has been decisive for the development of local food in the region, as already mentioned in the introduction. The organic farmers were very motivated and developed a very good both social and academically environment in the group. They worked for common values and goals. This resulted in many farmers converted to organic production in the region, and more than 10 percentage of the total organic milk production in Norway was produced in the region. Many of the farmers were very enthusiastic, worked a lot to establish this environment, and developed it to a food region. The group of farmers had many meetings for information exchange, for increasing competence on organic production and milk quality. They also work to convince more farmers to convert. They have got project financed to increase competence among farmers. The group has regular meeting to discuss common challenges and the situation in the Røros Dairy and Røros Meat. It is an active group of enthusiastic farmers that has been forced to reduce their idealism and adapt to economic realities, and thus compromise in many questions according to development of the dairy (Christie 2010).

Økomat Røros perceive the quality of their milk as their responsibility in cooperation with Tine. TINE Norwegian dairies make quality measuring of the milk twice a month and are thus responsible for the quality delivered to Røros Dairy. The processor use milk from the Røros region in the most typical products from the region, and have to use this milk in the PGI product. For license production, they use milk from nearby regions.

On the milk package from the dairy, it says, “the milk are extra tasty, it is low pasteurized and homogenized”. “The dairy produce products of high quality based on rich food traditions from the area and with good dairy competence”. The backside of the package say, «where the grass grow slowly, the taste of the milk will be extra tasty”. Further, «in organic agriculture grass and herbs gain high nutrition value and are excellent feed for the cow. The milk is handled very gentle and this altogether give an extra tasty product with high quality». The gentle way the dairy handle the milk is a way to support the quality of the milk, i.e. milk used are always low pasteurized and some products are based on milk that are not homogenized.

Organic quality is included in the price of the products, and regional production and processing and unique taste. Until now, the dairy has reached the price they have suggested for the products. The retail chain Coop has own shelves for local products and one of their premium concept, Obs, have some places shelves specific for products from Røros in regional shops. The new developed packing for license production for Coop have the logo for both Røros Dairy and Coop, and pictures from Røros. In some shops Coop have sold organic milk cheaper than conventional milk to ensure that consumers get aware of the products.

The retail chain NorgesGruppen and their premium concept, Meny, promote products from the dairy when they suggest them as ingredients in specific meals, advertised in newspapers. Meny, is well known for selling quality products and regional quality products. Their well-known chefs or chefs responsible for their fresh ware dishes, recommend specific premium products for dinner in weekends or for special occasions. Usually products are mentioned by name and where it comes from, in advertisements in newspapers and in Meny's specific advertising magazines. Products from the dairy are presented as premium products.

The license production for Coop is part of the chains strategy to grow in own premium labels for organic products. The largest retailer chain NorgesGruppen have established a strategy on premium products in their premium chains, were products from Røros Dairy are represented. Rema 1000 is just distributing products from Røros Dairy regionally. The GM is a bit disappointed about this chain selling their products only regionally. Røros Dairy sell its products for the same price to all customers. The price includes premium production and cover cost and give profitability. The product have a higher price than conventional products.

Earlier the focus has been on tradition food, local and proximity and less on organic. Today organic qualities are also emphasized. One stakeholder thinks that the combination of organic and traditional products has been the key to success. Organic farmers are satisfied with the renewed focus on organic. As mentioned earlier, there have been discussions on what qualities to mediate. One former member of board was afraid that cooperation with Coop would make the dairies brand less interesting for other customers, and dilute the brand. There have also been discussions about a stronger emphasis on organic quality.

Røros Dairy has not produced specific incitements for their farmers besides a small dividend in 2013. The farmer's goal was that the dairy received their organic milk and processed it in the region. As mentioned earlier, a challenge in Norway is that only a small part of organic milk is processed and sale as organic. The organic farmers have a close relationship to the dairy and feel it as their responsibility to keep a high quality of the milk in cooperation with TINE. The fact that the organic milk producers gain a higher price for the milk than conventional producers is important for running organic production. Then it is possible to earn money on the production. From the dairy, there are discussions about differentiating products even more than today. One example mentioned is to use milk from one specific farm with old cow races. There might be more focus on increasing differentiation in the future.

## 5.6 Resilience

The financial crises in 2008 affected the dairy in the way that demand from retail decreased. The HoReCa-market increased during this period. People in Norway expected a crisis to appear and therefore they focused on cut the costs, but the crises did not hit Norway very hard compared to other countries.

It seems like changes in the dairy since it was established were more of the gradual type. The dairy grew gradually, and needs for a new and more competent management and increased financial resources was a result of gradual growth. Other changes also appeared more gradually, such as new contracts with Coop and the need to change the distribution system in 2013. The need for more competence, a more professional management and capital where the drivers behind changes. The board in cooperation with the GM. has managed the changes.

The organic producers get information from the dairy on meetings in the board and owner meetings. They are proud and satisfied with the development that all their milk is processed. At the same time, they are conscious that they have to be focus on quality and to support the dairy in the process of increasing organic milk production in the region.

All actors interviewed belive demand for organic products will increase in the future. Demand has increased the past years, and customers are in general more conserned about animal welfare, environmental issues and local food. Interviewees believe that sustainability depends on the number of farmers producing organic milk in the future, number of organic farmers regionally and ability to recruiting new farmers. Lack of organic milk from the region is a challenge. Today new farmers that want to convert to organic production inside the region will not receive support to convert, and they will not receive a premium price from TINE for the milk. This is because TINE receives more organic milk than they are able to sell as organic nationally. Therefore, The Agriculture Authority decided not to support an increase in production. The board of the dairy and the GM are working politically to try to change this situation. The dairy by the GM hope that growth in turnover of 30-40 % per year will open up for growth in organic producers in the region, i.e. that authorities make a decision to allow regional farmers to convert. Keeping a stable or increased number of organic farmers in the region is also of importance for social sustainability among organic farmers in the region.

Another worry mentioned by Innovation Norway and the employee of the dairy according to growth is the change in agricultural policy in Norway with a new right wing coalition. The government's goal is to support an increase of the size of farms, make them more efficient and increase productions. Organic producers in the Røros region are quite small and they have adapted production to the size of their farm. They are not part of the group that the new Minister of Agriculture want to support. The employee at the dairy mention that some farmers consider to close down and others to convert to conventional production. The number of organic farms delivering milk has been very stable according to the GM, much more stable than for conventional farms. Nevertheless, a few organic farmers have closed down the last years. Some interviewee also mention the ability to develop new distinct products as important for the sustainability of the dairy and to increase own quality processing at the expense of the license production for Coop.

According to the GM, in 5-20 years the value chain will experience an increase in turnover, increase in demand for organic and distinctive products. Other stakeholders believe that the dairy will grow in turnover because of increase in demands. They are very conscious that local actors own the dairy. The strategy of the dairy is to be less dependent on Coop, and to develop more local specialties for local and specialty customers. Nobody has mentioned any change of partners, it seems that sale to retail chains is important to uphold a wanted volume of sales.

The largest obstacles to growth has been financing growth. Competence, both inside the core case and inside the board was an obstacle to growth. The GM has been replaced/changed many times. They were hired because the board though it was the right person. As the former chair say, the GM hired in 2003 was very valuable according to needs at that time. She has background in marketing and the main need was to develop new customers for the dairies products. This GM was more of the entrepreneurial type of persons and when the business grows, there was a need of a GM with different competencies and qualifications. When TINE dairy was closed in the municipality of Os, the GM of TINE dairy was hired as GM in Røros Dairy at the end of 2008. He had the qualifications to run a grown up company, and to establish administrative routines, adapt the organization for growth, etc. Compare to the former GM, he is a diarist and that was perceived as important. At this time, only one diarist was left at Røros and they needed more such competence. When TINE shut down, it was easy to recruit people with needed competence. According to the GM there has been no problem to recruit people to the dairy the last years.

Røros Dairy was one of the first specialty food firms developed in Norway and the first one of some size. Therefore there were in general little competence on growth in such firms and which strategies to follow. According to the former chair of board, a company of the size of Røros Dairy needs a competent board. Therefore, new board members were picked consciously to complement the other members according to competence. The regional affiliation was also important, and mainly regional actors join the board. The organic farmer organization, Økomat Røros have been reluctant to growth. This organization has been more focused on securing employees and regional development than further growth. The demand for organic food in Norway has been relatively low. This situation seems to change, and demand is growing.

The dairy is very dependent on Coop (50 % of turnover), and today a stop in this contract would be very unfortunate for Røros Dairy. They need this contract to keep a volume of production that make the dairy profitable. On the other hand, there are no sign that Coop want to end this contract, because it is also important for them to cooperate with Røros Dairy. The changes in board and including investors in the board, make future decisions even more complicated. The investor and chair of board wanted to sell the company. He has different opinion according to strategy than other shareholders. Norwegian economy is very vulnerable to a decrease in oil prices, and if the situation of today last for some years this may hurt the demand for specialty and organic food.

## 6. Future orientation

The organic sector is growing in Norway, and stakeholders are very conscious about this and the possibilities for Røros Dairy. The dairy focus on organic and specialty products, where tradition, handicraft production and taste have been more emphasized than organic. If the products were only organic, they would not succeed according to stakeholders. They emphasis the combination of organic and a special (better/another) taste. Økomat Røros, the farmer organization is very conscious that growth is not a goal in itself. The organic farmers are reluctant to grow, and argues to reduce growth ambitions also inside the board. The GM want to grow and think this is important for organic production in Norway. Some stakeholders emphasize that growth is not a goal in itself. They argued that it is more important to increase value of the production than to grow. Both Coop and Røros Food as close partners have ambitions to grow in the market.

The dairy has employed a new marketing manager, a new profile is developed and the dairy want to emphasize sale and communication with customers and consumers. There are plans to increase focus on value of production and to develop products that are more distinctive. The dairy and the board are also discussing how to increase the number of organic farmers in the region, and stakeholders perceive this as an important activity in the future.

There were different perceptions about the new profile. The former chair of board did not agree on the new design of packages because the Røros brand was reduced and the package was very different from the former and not easy to recognize.
According to increase the number of organic farmers in the region, some stakeholders suggest a more active recruitment of farmers. The dairy and board discuss how to work on this question.

## 7. Verification of results

Some interviewee have given feedback on the case study report when others have not. All actors cited in the report have received the report on e-mail for a check of content. Despite a lot of actors are interviewed as a basis for this report, some actors along the value chain are just briefly studied, such as customers.

### References

Amilien, V., Torjusen, H., Vittersø, G. (2005). From local food to terroir product? – Some views about tjukkmjølk, the traditional thick sour milk from Røros, Norway. Anthropology og Food, issue 04, may 2005.

Bye, A.S. and Løvberget, A.I. (2013). Interessa for økologisk mat aukar. Samfunnsspeilet 2/2013.

Christie, H. (1994). Mat miljø utvikling. Landbruksforlaget, Oslo, Norway.

Christie, H. (2010). Sammen om matglede. Fjellheimen forlag, Røros, Norway

Debio (2013). Statistikk 2012. Debio.

Landbruks- og Matdepartementet (2009). Økonomisk, agronomisk – økologisk. Handlingsplan for å nå målet om 15 pst. økologisk produksjon og forbruk i 2020.

SLF - Statens landbruksforvaltning (2013). Produksjon og omsetning av økologiske landbruksvarer. Rapport -nr.12/2013.

Statistics Norway (2012). ssb.no.

Statistics Norway (2013). ssb.no.